

Prime Minister



MO 24/4

Here is the extra information you asked for as background to Mr Heseltine's proposal that our charges for the military training of foreign and commonwealth students should generally be at the level provided by the present "extra cost" formula (see para 5 of his original minute at A for a summary of his proposals).

PRIME MINISTER

The Treasury are broadly content with Mr Heseltine's proposals. So too are DTI. We have had no other comments.

Agree Mr Heseltine's proposals? WJ
23/4

In his letter of 10th August your Private Secretary asked for a definition of the terms "extra costs" and "full costs" used in my minute of 29th July and also for a comparison of our charges with those of other countries which provide similar training.

Costs

2. The Ministry of Defence's extra cost formula embraces all items directly related to the instruction of students, including the personnel costs of the instructors and their direct support staff and the costs of consumption items such as stores and certain utilities. It does not include any costs which cannot be directly attributed, such as the running of the training establishment or the capital investment in it.

3. The assessment of full cost is intended, in accordance with the rules of Government Accounting, to recover all costs involved so that the activity will result in no long term profit and no long term loss to HMG as a whole. In the context of training charges, all indirect costs are added to the direct costs reflected in the extra cost formula. These indirect costs include unit overheads - staff (cleaners, porters, groundsmen etc) engaged in support of the unit in which the training takes place; office support; rent and contribution in lieu of rates; maintenance stores; equipment support - as well as costs incurred beyond the unit such as, for example, the cost of staff



engaged in costing courses, setting prices, and preparing invoices. Finally, notional charges are included, such as depreciation and interest on capital.

Other Countries

4. It is difficult to obtain hard information about individual training courses even in the USA where the greatest amount of information is published. Reliable comparison of prices is also difficult. Apparently similar courses vary in syllabus, length and quality. As an example the only detailed information we have relates to US courses. It derives from the EURO/NATO Training Financial Sub Group. We have examined some 30 apparently similar US/UK courses. Of these 19 were found to be too different in length or content to admit worthwhile comparison. Details of the remaining 11 are at Annex A. Even here differences in course length are marked, the UK course length being greater in 4 cases, the US in 7. At price per week in 1981/82 (UK concessionary prices: US NATO prices) 5 UK courses were more expensive than their apparent US counterparts and 6 were cheaper. But the differences, in either direction, are in almost every case so large as to raise doubts as to whether like is really being compared with like. Because of these difficulties comparisons between countries have to be made in general terms and the following is a summary of information available about training and charging practices in other countries which are known to train significant numbers of foreign students.

The USA

5. The United States trains about 14,000 foreign students a year (about one foreigner for every 140 US Servicemen). They operate a system of three price levels, from Foreign Military Sales (FMS) charges, effectively full cost as defined in paragraph 3 above,



through the lower FMS/NATO charge, applied to NATO, Japan, Australia and New Zealand, to the lowest FMS/International Military Education and training charge, which is applied to some sixty Grant Aid countries. A fourth level, which is an internal accounting figure rather than a proper charge, is applied to training provided under the Foreign Assistance Act. All these costs and the designated nations are approved by Congress.

6. By comparison, in 1982 the UK trained 4,600 foreign students (about one foreigner for every 70 UK Servicemen). In the five years from 1977 - 1982 students from 59 countries benefited from free or subsidised training under the UKMTAS or, recently, from the Defence Policy Fund.

France

7. France trains annually some 3,500 foreign students from about 70 countries. Just over half of these come from Francophone Africa; the remainder from North Africa; Middle East; Europe, and the Americas. The price charged depends on the country of origin of the students. The basic training costs of students from developing countries are generally borne entirely by the French Government, even when these costs are very high (eg pilot training). Some of the richer (Arab) developing countries may, in some circumstances, be asked to meet some of the cost. With developed countries the French try to make reciprocal arrangements. Costs carried by the French Government are borne by the Foreign Ministry or the Ministry of Co-operation and Development.

USSR

8. The USSR provides military training to about 8,000 foreign students annually (about 1 for each 450 Russian Servicemen) and the non-Soviet Warsaw Pact to about another 2,000. It is believed that the USSR generally seeks payment in hard currency but we do not know



how much. India and probably also Afghanistan pay in soft currency, Communist client states - Cuba and Vietnam - probably make no financial payment.

9. The information we have thus suggests that the countries who are major providers of training seek to achieve a number of objectives in their arrangements, for example to gain influence as well as to secure revenue. All appear to give different levels of concession to certain favoured customers but also to provide training on repayment.

A handwritten signature in blue ink, appearing to be "M. J. H.", is located to the left of the typed text.

Ministry of Defence
22nd September 1983

COMPARISON OF US/UK "NATO" PRICES

FOR GROUND TRAINING

COURSE	LENGTH-WEEKS		£ PRICE PER WEEK		£ PRICE PER COURSE	
	USA	UK	USA	UK	USA	UK
a. UK more expensive than US						
INITIAL SUPPLY OFFICER	9	15.9	87	290	783	4611
F&C OFFICERS BASIC SUPPLY	4.6	12	183	85	842	1020
INTERNATIONAL PRINCIPAL WARFARE OFFICER	30.4	25.4	184	786	5594	19964
SEAMAN DIVER	17.2	15	322	455	5538	6825
b. US more expensive than UK						
INTERNATIONAL SUB-LT	30.4	14	215	56	6536	784
INTERNATIONAL GENERAL SIGNALS	6	15	231	58	1386	870
SENIOR ENGINEERING MANAGEMENT	68	46	217	315	14756	14490
BASIC COMMS - ELECTRONICS	26	20	263	315	6838	6300
O/SEAS AIRCRAFT TECHNICIAN	11	25	232	100	2552	2500
ADV PRACTICAL FIRE FIGHTING	0.8	0.4	283	48	226	96
LEADING SEAMAN DIVER	25.2	16	404	363	10181	5808

NOTE 1. Prices are those ruling in 1981/2

NOTE 2. US prices converted from dollars at exchange rate of 1.8 US\$/£.

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27 SEP 1983