The true cost of fuelling conflict

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The United States Department of Defense (DOD) is widely reported to be the single largest consumer of petroleum in the world, spending billions of dollars on fuel every year. While the DOD provides Congress with yearly budget estimates, ongoing conflicts in the Middle East along with a volatile crude oil market have resulted in wide discrepancies between budgeted and actual fuel costs.

New research from Concordia University in Montreal shows that while this perpetual overspending could have serious consequences for the DOD, improvements to planning, budgeting and financing practices could help lessen the risks. This is something both the U.S. and Canadian governments could do well to keep in mind, with federal elections fast approaching and strife in the Middle East showing few signs of abating anytime soon.

In a paper recently published in the journal *Public Budgeting & Finance*, Concordia engineering professor Ketra Schmitt and her colleagues show that, between 2000 and 2011, the annual fuel expenditures of the DOD were between one and nine billion dollars higher than initially forecast.

"We can generally attribute this increase to escalating prices," says Schmitt, a member of Concordia's Centre for Engineering and Society. "On average, changes in fuel expenditures account for 80 per cent of the variance between budget estimates and actual spending."

The amount of petrol consumed is also an important factor. Using more than was budgeted for accounted for approximately 20 per cent of the over-spending, with variance greatest during the early stages of the wars in Afghanistan and Iraq—times at which activities such as flying hours, days at sea and tank miles inevitably increased.

Underestimating resource requirements at the beginning of an unexpected, large military operation may be unavoidable. However, the DOD failed to accurately budget for the more predictable fuel (as well as other) costs of ongoing wartime operations—paying for them instead with emergency funds.

"The failure to accurately forecast the cost and properly budget for fuel requirements during periods of long-term conflict expose the DOD to excessive price risks and budget shortfalls," says Schmitt. "As fuel expenses rise on the order of billions of dollars, governments inevitably make tough trade-offs, sometimes taking away resources from other programs in order to ensure military operations are adequately fueled."

What's the solution? The study explores several proposed approaches for better forecasting fuel prices and managing consumption. For example, it suggests the DOD could engage in fixed price contracts to increase budget stability.

"It's kind of like getting a fixed rather than variable interest rate for your mortgage. Depending on the market you may be better or worse off, but at least you know what the price will be," Schmitt says.

This research shows that, ultimately, the government needs to stop its policy of paying for ongoing wartime operations with emergency funds, which are exempt from spending caps.

"Whether it's justified as a wartime necessity or because of unpredictable prices, reliance on emergency funds impairs the ability of the government and the public to adequately evaluate the costs of different choices," says Shannon Lloyd, who led the study.

More information: *Public Budgeting & Finance*, onlinelibrary.wiley.com/doi/10 … /pbaf.v35.1/issuetoc

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