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Directorate of
Intelligence

CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1999

Peru-USSR: Implications of the Military Relationship

A Research Paper

This paper was prepared by . . .
Office of African and Latin American Analysis. It
was coordinated with the Directorate of Operations
and the National Intelligence Council. Comments and
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ALA 82-10174
December 1982

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Peru-USSR: Implications of the Military Relationship

Key Judgments

*Information available
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In the early 1970s, Peru, frustrated in its efforts to purchase modern US military equipment, turned to the USSR as its primary arms supplier. Lima demanded increasingly sophisticated weapons because of its long-standing rivalry with Chile and Ecuador, and its perceived need to match or outclass neighboring military forces. We believe that Moscow, by getting established in this new market, hoped in the long run to gain some leverage on Peru's foreign and domestic policies, and to earn foreign exchange. The Soviets probably also hoped that their arms-supply relationship with Peru would create opportunities for expanding military sales to other South American countries.

Lima—and to a lesser degree Moscow—appear to have achieved some of their aims through this continuing relationship. Peru's Soviet hardware has made its armored and air forces superior to those of its neighbors. Furthermore, Peruvian officers [] are generally satisfied with the quality of the equipment and believe it to be cost-effective, despite their frequent complaints about persistent difficulties in getting service and spare parts from the USSR. Moscow's gains include the sale of approximately \$1.2 billion worth of hardware and technical assistance, exposure of thousands of Peruvian military personnel to Soviet training, the presence of Soviet advisers and technicians in Peru, and a virtually captive market for spare parts and maintenance services.

We judge that the diplomatic, political, and economic impact of the Soviet military aid has been relatively small. Moscow has had little success influencing Lima's behavior in the diplomatic arena. Peruvian armed forces personnel trained in the USSR have not shown significant pro-Soviet leanings, Soviet advisers in Peru to our knowledge have no clout outside the military, and the advisers have drawn criticism from the Peruvian military for their reluctance to share technical expertise. We also believe that Soviet influence resulting from intelligence liaison has been limited. Regionally, Moscow has been unable to capitalize on its Peruvian connection to induce other South American military establishments to purchase weapons from the USSR.

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We believe the heavy Peruvian commitment in both money and training, as well as the attractive financing that Moscow offers to arms clients, point toward a continued Peru-USSR military relationship—including purchases of new Soviet-made equipment—over at least the next several years. Nonetheless, Lima's recently reported decisions to buy fighter aircraft from France and armored vehicles from the United States—while simultaneously continuing to order additional weapons from Moscow—in our view reflect the Peruvians' pragmatism toward their relationship with the Soviets. On balance, we judge that recent developments have prompted a shift away from nearly exclusive reliance on Soviet military assistance and have at least somewhat increased opportunities for Western military sales. We believe that Lima, desiring the best available weapons but constrained by finances and anxious to avoid depending too heavily on any one foreign nation for military assistance, will play potential sellers off against one another in the newly competitive environment.

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Peru-USSR: Implications of the Military Relationship

Introduction

The arms supplier-client relationship between the Soviet Union and Peru is 10 years old. This presents an appropriate benchmark to assess the depth of the military links between the two countries and the spillover effect in other areas. In addition, partly because of the pro-West civilian administration in Peru since 1980 and partly because of the increasingly obvious limitations of an almost exclusive military relationship with Moscow, greater—but still circumscribed—opportunities are now emerging for Western military sales to Peru.

This study identifies the motives that led to the Peru-USSR military connection and examines the benefits to both parties. The study also treats, from the Peruvian perspective, the perceived strengths and weaknesses of Lima's arms commitment to Moscow and projects the potential for, and the constraints on, Western military sales in the next few years.

The Relationship in Historical Perspective

During the 1970s Peru received major military assistance from the USSR, which largely supplanted the Peruvian armed forces' former reliance on US aid. While Peru has remained generally pro-Western in both its domestic and foreign policies, the Peruvian-Soviet military link—involving weapons sales, training, and advice—has become institutionalized.

The Shift Toward Moscow

Lima's turn toward Moscow for military assistance in our estimation resulted both from restrictive US arms-sales policy and the Peruvian military's increasingly radical nationalism. Under these influences, Peru's military rulers, feeling excessively dependent on an unreliable arms supplier and threatened by longstanding rivalries with neighboring Andean countries, sought to diversify their sources of foreign military equipment and training.

Even before the 1968 coup, which brought leftist Army officers to power, the US refusal to approve a sale of relatively advanced F-5A interceptor aircraft to the Peruvian Air Force had prompted the purchase of the French Mirage 5. Under the revolutionary military government of 1968-75, seizure of US fishing boats inside Peru's claimed 200-nautical-mile territorial limit led to a cutoff of US arms sales, and Lima's expropriation of foreign-owned enterprises further strained relations between the two countries.

Peru's shift to non-US military suppliers—initially West European countries and later the USSR—in our view reflected pragmatic as well as ideological considerations. Peru began buying from the Soviets in 1973 at least partly because Moscow offered quick delivery of relatively sophisticated weapons at low prices and on easy payment terms. As the only Soviet military client in South America, Peru demonstrated its determination to circumvent US-imposed limits and pursue an independent foreign policy. Concurrent Peruvian diplomatic moves, such as exchanging ambassadors with Soviet Bloc nations and joining the Nonaligned Movement, underscored Lima's resolve to change direction.

The more centrist military regime that took over in 1975, partly because of inefficiencies and failures in domestic revolutionary programs, moderated Peru's international stance but nonetheless accepted greatly increased military aid from Moscow. The civilian government elected in 1980, while continuing the Soviet military connection, has generally reaffirmed Peru's pro-Western orientation. In the UN, for example, despite Soviet attempts to garner support, Peru in both 1981 and 1982 voted in favor of General Assembly resolutions condemning Soviet intervention in Afghanistan. In 1982, Lima's UN representative voted to reject the credentials of the Soviet-backed regime in Kampuchea.

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Soviet Assistance

Peru's turn toward Moscow resulted, between 1973 and 1980, in the purchase of a wide variety of Soviet-manufactured equipment, which now comprises much of Peru's inventory of major air and land weapons. Purchases from the USSR included: fighter-bomber and transport aircraft; troop-carrying helicopters; medium tanks; air defense and field artillery; surface-to-air, air-to-surface, and antitank missiles; other combat and combat support vehicles; and related electronic and support equipment. Only the more anti-Communist Navy fended off Soviet sales efforts and chose to rely on older US and European-supplied ships while ordering new submarines from West Germany and frigates from Italy. The Army and Air Force have acquired some Western-made items since 1973, including French tanks, US and West German armored personnel carriers, and US artillery pieces, but these purchases represent a small fraction of total procurement expenditures.

Procurement of Soviet weapons has made Peru dependent on the USSR for training, maintenance, and spare parts. We believe that most of the Peruvian military personnel trained in the USSR have studied technical subjects related to use or maintenance of newly acquired Soviet hardware and that small numbers of Peruvians have taken intelligence training provided in Moscow by the Soviet security service (KGB). According to [redacted], five Peruvian intelligence officers spent a month training in the USSR in mid-1982 and five more were scheduled to follow later in the year. Soviet military advisers also have provided technical training and support in Peru since the mid-1970s, according to [redacted].

The US Intelligence Community estimates that some 2,000 to 3,000 Peruvian military and intelligence personnel have trained in the USSR since the mid-1970s. [redacted]

However, the annual number of trainees in the USSR has declined sharply from hundreds in the late 1970s to only a few dozen in recent months.

**Table 1
Major Soviet Weapons and Equipment in Peruvian Inventory ***

	Model/Type	
Aircraft	SU-22 fighter-bomber	49
	AN-26 short-range transport	16
	MI-8 medium-lift helicopter	29
	MI-6 heavy-lift helicopter	6
Missiles	SA-3 surface-to-air (launcher)	30
	SA-7 surface-to-air	270
	AS-7 air-to-surface	NA
	AS-9 air-to-surface	18
	AA-2 air-to-air	NA
	AT-3 antitank (launcher)	99
Tanks	T-55 medium tank	300
Artillery	M-46 130-mm field gun	36
	D-30 122-mm howitzer	36
	BM-21 122-mm self-propelled rocket launcher	12
	ZSU-23-4 23-mm self-propelled anti-aircraft gun	40

* Does not include other armored vehicles, utility vehicles, smaller weapons, radars, and other equipment.

The Peruvians' need for continuing technical assistance has resulted in approximately 150 Soviet military advisers and technicians being stationed in Peru, according to [redacted] raising the total of Soviet diplomatic, economic, and military representatives to about 350. Neither government publicly acknowledges the presence of the military assistance personnel, who mainly perform supply and maintenance functions, according to [redacted] and are not known to be assigned to planning staffs or combat units. According to [redacted] the advisers are on permanent assignment to perform major, periodic maintenance on aircraft, tanks, missiles, and artillery, and to provide instruction on operating the equipment. By contrast, the Soviet technicians, according to [redacted] generally come to Peru temporarily, to resolve specific problems or install new equipment.

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In recent years, Peruvians have assumed many of the instructional duties previously performed by Soviet advisers, and training in the USSR has been limited to specialized personnel. Last year, for example, a [redacted] that the number of Soviets assigned to an Air Force missile group had been reduced from 12 to four because they were providing only occasional technical assistance while Peruvians were setting up their own program of instruction in missile operations and maintenance. According to [redacted] 16 pilots and 40 mechanics were scheduled to go to the Soviet Union late this year for training and familiarization courses on the Mi-25 attack helicopter, expected to enter the Peruvian inventory in 1983.

Motives and Interests

Although Peru and the USSR have divergent interests, international alignments, and political and economic systems, each government perceives benefits from military and intelligence cooperation.

Peru: Regional and Domestic Security

The Peruvians have sought increasingly sophisticated weapons, according to [redacted]

mainly for defense against their traditional, neighboring adversaries, but also to help suppress a domestic insurgency and to satisfy a politically influential military establishment.

External Threats. Above all, [redacted]

indicate that Peru aspires to strengthen its military forces and increase their mobility enough to fight a successful two-front war, if necessary, with Chile and Ecuador. As a result, the Peruvian military now nearly equals in manpower and weaponry the combined forces of both these countries. Furthermore, according to [redacted]

the Air Force aims to stay well ahead of both the Chileans and the Ecuadoreans in aircraft technology.

We believe that Peru's [redacted] decision to buy 26 new Mirage 2000 interceptors from France was motivated partly by its neighbors' recent purchases of sophisticated fighter planes. We also judge [redacted]

**Table 2
Military Balance: Peru-Chile-Ecuador**

	Peru	Chile	Ecuador
Army personnel	75,000	53,000	27,600
Navy personnel	21,000	20,800	3,800
Air Force personnel	40,000	15,300	4,200
Tanks	466	270	195
Other armored vehicles	475	561	120
Field artillery	419	290	96
Naval combatants (including missile patrol boats)	22	13	14
Submarines	10	2	2
Combat aircraft (including combat-capable trainers)	150	148	63
Helicopters	69	57	23

that future potential military sales to the region—for instance, of main battle tanks to Chile—could have similar repercussions in Lima.

Although Peruvian military planners worry most about Chile and Ecuador, we believe that any major military modernization in other neighboring countries would also fuel anxieties in Lima. Colombia, for example, is shopping for air defense weapons and fighter aircraft.

[redacted] might view such acquisitions as a threat to Peru's thinly patrolled jungle border with Colombia, the scene of past territorial disputes.

Internal Conflict. While Peru's perceived need for military hardware relates mainly to external defense, growing official concern over domestic terrorism and the Army's increasingly active role in combating the insurgents could prompt or lend urgency to additional procurement. [redacted] reports that Army contingency plans call for search-and-destroy operations by airmobile infantry units. In our view, [redacted]



Rationale for Rearmament

Lima views Santiago as the chief potential adversary, even though we and the US Embassy believe that there is only a low risk of an unprovoked attack by Chile, most of whose military strength is deployed against Argentina. Peru's fear stems from Chile's conquest of territory in southern Peru and occupation of Lima a century ago. This habitual anxiety is today heightened by a perceived threat from the well-trained and -equipped Chilean armored and air forces.

Concern over the security of its northern border, in the isolated Amazon region, has also given impetus to Peru's military buildup. The region has been the focus of a long-smoldering territorial dispute with Ecuador, which erupted in full-scale military hostilities four decades ago and a briefer conflict last year. Despite clear overall superiority of its forces, Lima believes—with some justification—that tactical air superiority, as well as helicopters to deploy and support troops, are needed to guarantee its contro.

Chile and Ecuador have aggravated concerns in Lima by acquiring new weapons equaling or surpassing the capability of those in the Peruvian arsenal. [] notes that over the past several years Chile—mainly preparing for possible clashes with Argentina following an increase of tension in

1978—has purchased major military equipment, including tanks and fighter aircraft. By last year Chile had received some 25 to 30 French AMX-30 main battle tanks, which are more modern and capable—though less numerous—than Peru's Soviet-built T-55s. []

Ecuador, [] is also strengthening its defenses following its setback in the 1981 border clash with Peru. The Ecuadorean military recently took delivery of 12 Israeli Kfir fighters, roughly equivalent in performance to Peru's aging French-built Mirage 5 interceptors. A recent acquisition of integrated air defense radars will further enhance Ecuadorean capabilities against the Peruvian Air Force.

such operations would require the armed forces to maintain and perhaps expand their largely Soviet-made inventory of helicopters

The government also reportedly has authorized acquisitions of new materiel for Peru's under-equipped police forces which, despite having primary responsibility for suppressing terrorism, have had little success in this mission. []

[] officer in the Civil Guard—the largest police force—said his service had received a \$30 million emergency allocation for armored vehicles, small arms, munitions, and other equipment.

Political and Economic Realities. Because of Peru's foreign currency shortage and fiscal deficit, financing will be the most serious constraint on arms purchases in the near future. []

[] Early this year, the Army commander is [] reported to have said that the Army's program to renew and update its equipment was lagging far behind schedule because of the government's economic problems. We believe that these problems and the austerity program designed to deal with them will continue for at least the next year or two.



[] added, however, that, despite the perilous economic conditions, President Belaunde would not stop the military from ordering new hardware. We judge that Belaunde—whose previous administration in 1968 became one of eight ousted from office this century by military coup—has acceded to procurement requests by top officers mainly to forestall discontent in the armed forces. Belaunde, we estimate, would rather hold back other categories of spending to sustain the arms budget than risk having the military reenter the political arena.

The officially estimated defense budget for 1982 []—about \$903 million—represents a slight increase over the 1981 allocation. Moreover, the Air Force's reported choice of the Mirage 2000s—the highest priced fighter planes available to the Peruvians—was said [] to cost a total of \$680 million for 26 aircraft, including armaments. These actions indicate to us that civilian economic decisionmakers will allow the military at least some expensive procurement, provided that this can be financed over many years.

USSR: A South American Opening

We believe that in Peru, as elsewhere in South America, the USSR hopes—through diplomacy, trade, and aid—to gain respectability, backing for its international policies, and economic benefits.

Military Aid as a Source of Influence. Moscow, in our judgment, regards the well-developed military link with Peru as the strongest element in their bilateral relations and intends to preserve it. The likelihood of the Soviets' attaining significant influence on Peruvian foreign and domestic policies, on the other hand, has diminished since 1975—when the military government began to loosen its ties with Communist countries—and even more since the election of President Belaunde in 1980. []

[] who was citing recent comments by a [] in Peru, the USSR believes that the United States now has the strategic initiative in Peru and may succeed in pressing Lima to reduce Soviet military assistance and adopt more pro-US policies in international forums.

We believe, however, that the institutionalized Peru-USSR relationship has enough momentum to survive these changes. In our judgment, Lima's continuing need to keep open the supply line from Moscow and service a large military debt to the USSR still gives the Soviets some leverage on Peru's procurement policies. []

In addition to ensuring continuation of the Peruvian military relationship, the Soviets, we believe, hope to use Peru as an example for establishing military assistance ties to other countries in the region, although so far this goal has eluded them. []

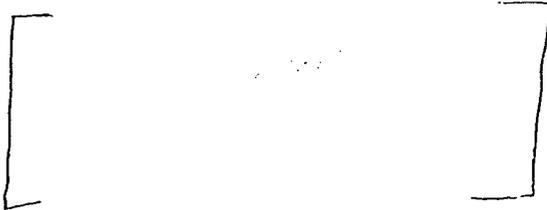
[] the Bolivian Air Force, which was described as eager to buy new fighter aircraft, had sent representatives to Peru for a showing of a Soviet-model fighter. To promote such military sales, Moscow was said by []

[] last year to be considering the installation in Peru of a regional service center for Soviet equipment, making it more attractive to potential buyers.

During the Falklands conflict this year, a Soviet official in Lima was reported [] to have speculated that his government might be trying to arrange indirect military assistance to Argentina through Peru, whereby Soviet equipment in the Peruvian inventory would be sent to Argentina and the USSR would send additional supplies and



weapons to Peru [] some Soviet-made items were transferred from Peru to Argentina.



believe is still outstanding [] several months ago [] Moscow had cut off spare parts to the Air Force—albeit only temporarily—after being notified that Peru would be unable to meet a payment on its debt to the USSR. He added that the Soviets had not responded to a Peruvian request for debt rescheduling, whereas twice before—in 1978 and 1981—they had agreed to postpone repayments on the principal

We doubt, however, that Peru's decision to transfer weaponry resulted in any significant part from Soviet prompting. During the Falklands hostilities, Peru supplied Argentina with various arms and equipment, mostly of Western origin, including fighter aircraft; the Soviet-made munitions included in this aid did not represent a large share of the overall support. Furthermore [] Lima asked for and received tens of millions of dollars in cash for the support it provided, suggesting that Peru was motivated by financial gain—as well as regional solidarity—to undertake unilateral action

Benefits and Drawbacks: The Peruvian Perspective

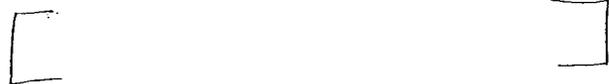
We believe that the Army and Air Force have compelling practical reasons for maintaining their connection with the USSR. Overall, Soviet military aid has created a favorable impression in Lima that will help Moscow make additional military sales. Peruvian officers generally believe that their Soviet-made hardware gives good value for the price and access to at least some advanced technology that the West may be unwilling to sell. These perceived advantages more than offset negative impressions stemming from problems with spare parts and maintenance and Peruvian suspicions about the activities of Soviet personnel in Peru.

In Search of Economic Gain. Economic considerations appear to be a secondary—though still significant—concern to Moscow. The USSR has continued to offer Peru concessionary financing on new arms sales to preserve the military-assistance relationship. Last year, for example, when the Peruvians were considering a purchase of fighter interceptors from several alternate suppliers including the United States. []

Cost-Effective Weapons
While most weapons in the Peruvian inventory do not represent the latest Soviet technology—with a few exceptions, such as the AS-9 air-to-surface missiles—delivered last year—we [] judge that Peru's military leadership nonetheless finds them to be cost effective relative to comparable Western weapons. For example, last year []

[]
Nonetheless, we judge that Moscow, in addition to seeking local and regional influence, hopes that foreign currency earned from arms sales to Peru and other established military clients will in the long run help to offset declining revenues from nonmilitary exports. Moscow has shown signs of impatience at Peru's difficulties in paying off its previously contracted \$1.2 billion debt to the Soviets, most of which we

[] that Peru's T-55 tanks—of early 1950s design—were excellent equipment, that they had cost one-fourth as much as a US model, and that the Soviet credit terms were generous.



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Problems With Maintenance and Spare Parts

We note that Peruvian officers who work directly with Soviet equipment are concerned about quality and maintenance and sometimes draw unfavorable comparisons with Western-manufactured equipment. For example [] have indicated that Soviet aircraft and radars show far more corrosion than similar models supplied by the West; the problem reportedly caused the grounding of some fighter planes.

The most persistent maintenance problem in both the Air Force and the Army, [] has been limited availability of spare parts, which the Peruvians consequently are trying to buy elsewhere or produce locally. The Air Force's complement of SU-22 fighters, according [] consumes 120 tires per month.

and replacements reportedly take up to three years to arrive from the USSR. As a result, the Air Force is said to be seeking alternate suppliers. Last year, a

[] that the Army had begun manufacturing parts for its T-55 tanks, to become less dependent on Moscow.

The requirement to send components back to the USSR for major mechanical maintenance—a costly and time-consuming procedure—has led the Peruvians to seek advanced technical training and complex tools from Moscow to service the equipment locally [] told a [] two years ago that periodic overhauls of jet-fighter engines in the USSR cost Peru \$500,000 each, and servicing an engine of a transport plane or helicopter cost \$250,000. Including overseas shipment, the job normally took one year, requiring the Air Force to keep many spare engines on hand.

Because of these problems, Peruvians [] have negotiated a transfer-of-technology agreement with the USSR more than two years ago, which provided for training of Peruvian technicians in maintenance of SU-22 fighter engines and the eventual manufacture of related tools, special equipment, and

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spare parts in Peru. [] indicates that the Air Force maintenance depot, under Soviet advisers' guidance, is scheduled to have an SU-22 engine-maintenance facility operational by the end of this year. "

We believe that the Peruvians may have made technical aid a precondition for further arms procurement from the USSR, mainly because they suspect the Soviets of deliberately restricting the supply of parts and thus trying to influence Peru's politics and diplomacy []

Continuing Access to New Weapons Systems

Despite the Peruvians' misgivings, they have reason to keep open their channels to Moscow, where they know they can buy advanced weapons that might not be available from alternate suppliers. According []

[] the Air Force already has agreed to purchase 14 Soviet Mi-25 attack helicopters—an export version of the Mi-24—which are among the world's most potent rotary-wing gunships and the first aircraft of this type acquired by any South American country. Delivery of the Mi-25s, reportedly scheduled for 1983 and 1984, will both significantly expand Peru's tactical ground attack capability and demonstrate Lima's continuing interest in Moscow as a weapons supplier. Moreover, the Army, []

[] wants to replace its statically deployed SA-3 antiaircraft missiles with the mobile SA-6 system

The Peruvians also appear interested in replacing Soviet-supplied items lost in accidents or in combat and, in some cases, augmenting substantially the stock of weapons acquired from Moscow. Peru recently bought five new Mi-8 troop-transport helicopters which [] have arrived in the country. Moreover, []

[] 150 new T-55 tanks were scheduled for delivery to the Army this year; a concurrent report appeared in a leading European journal on military affairs. Although we have not confirmed this acquisition, it would be a reasonable step because, [] Peru needs more tanks to equip a newly formed armored division, roughly equivalent to a US brigade. The reported number of T-55s would approximately satisfy this requirement

The Navy, which until now has refused to do business with Moscow, could at some point use the Soviet procurement option as a bargaining chip in talks with Western suppliers. Recently a []

[] reportedly said that the Soviets were pressing the Navy to buy 12 missile ships, at low cost and on easy terms, and that a purchase by the Navy of Soviet equipment was possible.

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Impact of Soviet Training

The willingness of Peruvian military officers to continue their connection with Moscow may have been enhanced by Soviet training, although technical rather than political reasons are dominant. Despite the political indoctrination included in the longer Soviet training courses, we believe that the Peruvian military establishment remains basically conservative and nationalistic [] two years ago [] officers advocating radical domestic policies had been purged from the military as it retrenched its earlier revolutionary programs. Some officers who trained in the USSR have said that they felt imprisoned during their stay there, formed no friendships, and were eager to return home. Nonetheless, we judge that even politically conservative personnel who have become skilled in using or maintaining Soviet-made equipment may prefer to continue buying from Moscow rather than adapt their skills to Western hardware. Furthermore, while the current military leadership has had little firsthand exposure to Soviet instruction,

Peruvians with such experience will assume influential posts by the late 1980s and probably will advocate continuing assistance from the USSR

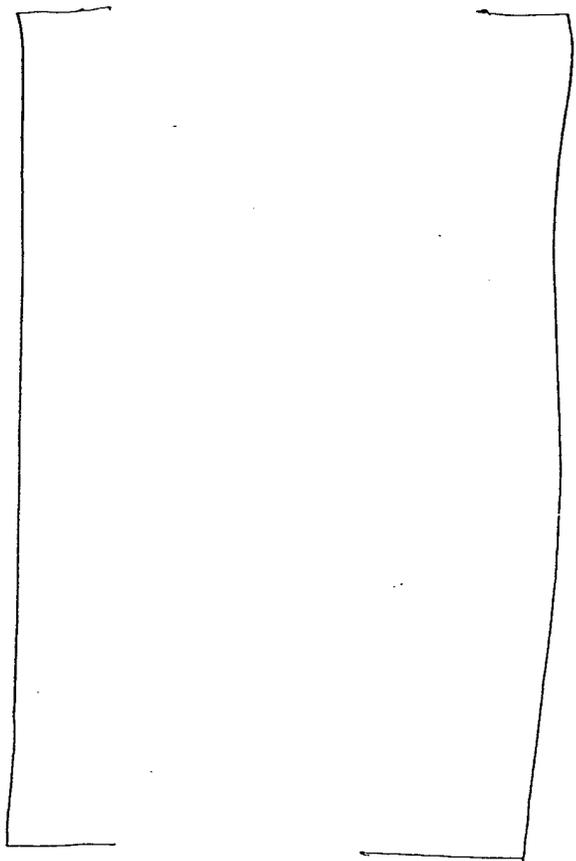
Peruvian military attitudes toward the Soviet presence in Peru vary [] but most officers consider it necessary as long as Lima relies on Soviet-made hardware. In contrast to the frequently noted problems with replacements and factory service, []

[] Soviet technicians in Peru would not let equipment fail and appeared to be striving to establish a good reputation. On the other hand, []

[] Peruvian officers resent what they believe is the advisers' reluctance to transfer their technical expertise to Peruvians.

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Concern Over Clandestine Operations
Senior Peruvian officials, civilian as well as military, suspect Soviet personnel in Peru of covert intelligence collection or supporting terrorists []



United States, although in our judgment this trend is likely to benefit European suppliers at least as much as US firms. The Air Force's reported decision to buy French Mirage 2000 interceptors indicates some movement away from nearly exclusive dependence on Soviet equipment, but it also implies that the United States is unlikely to resume its former role as Peru's principal military supplier.

Political and Diplomatic Climate
President Belaunde, according [] has clearly expressed to armed forces leaders his preference for closer ties with the United States, and we believe this will affect military sales. Although Peruvian armed forces commanders make military procurement decisions and strongly influence budgeting and appropriations, civilian officials allocate the government's limited foreign exchange holdings. Moreover [] Israeli military successes in Lebanon impressed Peruvian military leaders with the advantages of high-technology weapons, many of them US built. On balance, we judge that recent developments have prompted a shift away from nearly exclusive reliance on Soviet military assistance and have at least somewhat increased opportunities for Western military sales

This shift, albeit modest, appears to be reflected in the attitudes of several high-ranking officers. []

[] furthermore, [] has reported that the minister of defense will be replaced by an officer whom we consider less stridently nationalistic and more likely to strengthen military links to the United States

Opportunities for the West

The recent performance of US-made weapons in the Middle East, the superiority of modern Western technology demonstrated in the Falklands, and the current political climate in Lima appear to have increased Peruvian Air Force and Army willingness to procure equipment from the West, including the

There are also at least a few signs of thawing attitudes toward the United States in the Air Force. An officer [] has become much



friendlier to Embassy personnel this year. The present Air Force commander [] is scheduled to retain his post until next year, but the officer in line to succeed him—[]

[] more likely to procure US aircraft and thus reduce Air Force dependence on the USSR.

A European Breakthrough

Peru's biggest new weapons transaction—[] purchase of Mirage 2000 fighter aircraft from France—in our view confirms the expanded opportunity for Western suppliers. The purchase also illustrates how Peruvian procurement priorities are likely to determine future choices of military contractors.

According to [] once it became apparent that the United States would not sell Peru the Air Force's first choice of a new interceptor—the F-16A—the Peruvians' list of alternatives included the French Mirage 2000, the US F-16/79, and—though at a much lower priority—the Soviet MIG-23. The reported decision this year to buy the Mirage strongly suggests that Peruvian leaders rated performance and advanced technology above other factors. According to [] the Peruvians picked the Mirage 2000 primarily because of its advanced turbofan jet engine, newer and more capable than the power plant in the F-16/79.

Political sensitivities of Peruvian leaders also played a key role in the choice of the Mirage 2000 as an alternative to the unavailable F-16A. Washington's failure to respond to Peru's request for price and availability data on the F-16A—thereby signaling unwillingness to permit export of the aircraft to Peru—[] handicapped further US efforts to compete for the fighter sale. A subsequent offer of the F-16/79, []

[] prompted at least some Peruvian officials to disparage it as a second-rate airplane, contributing to its rejection in favor of the Mirage. Another factor probably working against the F-16/79 was Washington's widely publicized decision to sell the more advanced F-16A to Venezuela.

In our view, financing was another important variable favoring the French plane over the US candidate. According to []

[] Somewhat inferior performance and Peruvian expectations of less reliable logistic support eliminated the MIG-23 from consideration. [] Immediate availability and total price—the Mirage's weak points—apparently ranked lowest among the criteria of selection.

A Substantial Shopping List

While the United States thus has lost the interceptor contract, some other large Peruvian military sales could go to US firms. The [] reported recently that the US manufacturer of the CH-47 heavy-lift helicopter had been asked to submit a bid on a Peruvian Army contract for six of these aircraft. Possible Air Force acquisitions from US companies include transport and tanker aircraft, helicopters, and air defense radars []

[] also has noted that the Peruvians are interested in buying 263 US-made M113 armored personnel carriers, to augment their force of 150 and—we judge—to support the numerous Soviet and French tanks in the inventory. Financing may prove an obstacle in this case, however, illustrating what we view as US suppliers' biggest handicap. [] has reported that, although negotiations for the sale have been completed, it is likely to be reduced by more than half because of banks' reluctance to risk the full amount of a requested long-term loan even at a premium interest rate.

European and other non-Communist suppliers also have promising opportunities in Peru, aside from the lucrative Mirage sale. According to [] a group of Italian companies has submitted a \$300



Table 3
Peru's Choice of New Interceptor Aircraft:
Major Considerations

Aircraft	Performance	Political Suitability*	Financing	Logistic Support	Availability*	Price
Mirage 2000 (France)	Best	Best	Intermediate	Intermediate	Worst	Worst
MIG-23 (USSR)	Worst	Intermediate	Best	Worst	Best	Best
F-16/79 (US)	Intermediate	Worst	Worst	Best	Intermediate	Intermediate

* To Peruvian Air Force leaders directly involved in the decision.
 [] delivery of Mirage 2000 to Peru probably will not occur until 1986, slightly later than a US projection of initial delivery of F-16/79s.

million bid to modernize destroyers recently acquired from the Netherlands. [] Indicates that a South Korean firm has been asked to bid on a \$400 million contract to build a Peruvian naval base—a contract for which Japanese and Canadian businessmen may compete.

European manufacturers are also assisting Peru in taking first steps toward the establishment of a domestic arms industry—a long-term goal probably suggested to the Peruvians by the successful examples of Brazil, Argentina, and Chile. An Italian firm has agreed to coproduce advanced trainer aircraft with a Peruvian Government enterprise at a plant near Lima, for sale to the military and for export. The recent launching of a missile frigate, part of a joint project with another Italian company, indicates significant Peruvian progress in using foreign assistance to develop domestic production of sophisticated weapons.

Constraints on Peru's Options

The primary obstacles to any major Peruvian shift to Western-made equipment are the combined factors of financing and feasibility. According to [] Moscow is almost certain to offer more attractive financing for new weapons purchases to the

fiscally strapped government in Lima than US or Western suppliers could. To afford major procurement contracts, Peru—currently under an IMF restriction on new medium-term government borrowing—almost certainly will be forced to seek long-term loans. [] reports that the \$275-325 million authorized to be externally financed in the 1982 military budget must carry a greater than 10-year maturity for 85 percent of the principal.

[] has noted that US manufacturers will find it difficult or impossible to arrange such lenient financing. Although some European firms appear able to provide the legally stipulated repayment period, we doubt that they can match Soviet terms. An Italian firm reportedly has offered 20 military transport aircraft to the Peruvian Air Force.

[] also noted, however, that the USSR was offering similar aircraft. []

The Air Force favors the Italian plane. [] but we believe that the Peruvians will also seriously consider the Soviet offer.

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Other practical considerations will also inhibit Peru from rapidly shifting to non-Soviet suppliers. Diversifying sources of large items such as aircraft or tanks in our view would complicate Peruvian military logistics, already judged by the [redacted] as deficient. In addition, diversification would require retraining of personnel and might introduce the problem of lack of operational compatibility—for example, between radios manufactured in different countries—that could impair Peruvian forces' capabilities.

Furthermore, Peru's Soviet-made equipment inventory requires a continuing supply of parts and service, more readily available from Moscow than elsewhere. The example of Egypt, which broke its military supply and advisory relationship with the USSR a decade ago, in our opinion has shown that sophisticated Soviet military hardware can be maintained with help from non-Soviet sources only with difficulty and at increased cost.

Outlook and Implications for the United States

On balance, we judge that significant Soviet military assistance to Peru will continue at least over the medium term and that this aid probably will include major acquisitions such as new tanks or helicopters. We believe that the existing Peruvian investment in training and logistics for Soviet-made equipment will predispose the Air Force and Army to procure more hardware from Moscow. In addition, Peru will almost certainly want to keep the supply line open for parts and services related to equipment already purchased, which in our view will probably remain in service for at least another decade.

Although the Soviets may want to raise prices and tighten up financial terms on future military contracts, we believe that their desire to maintain the arms-supply relationship with Peru will lead them to continue to offer concessionary financing, which even at increased prices—will in many instances enable Moscow to underbid Western suppliers. In addition, we judge that the Soviets will more readily agree to loan extensions—in our view likely to be

required by Peru's economic difficulties—if the Peruvians concurrently place new orders with Moscow. The pro-Western civilian leadership can be expected to exert some restraining influence on the military's buying from the Soviets but is likely to go along with its higher priority procurement requests—from whatever supplier—to assure armed forces loyalty to the government.

We believe that Western countries do have improved prospects in the Peruvian military market, although there is little chance that the USSR will be displaced as Lima's major source of military assistance. Argentina's defeat in the Falklands, according to [redacted] has convinced Peruvian officers of their need for sophisticated equipment. The reported choice of Mirage 2000 interceptors indicates to us that, in at least some cases of future arms procurement, Lima may seek the most advanced technology—generally recognized to be the strongest attraction of Western equipment—even if this means passing up the lowest price, quickest delivery, or best financing, which the Soviets usually can offer.

Furthermore, according to [redacted] the embargo on arms exports to Buenos Aires by leading Western suppliers during the Falklands conflict is likely to motivate Peru to diversify foreign military suppliers as a hedge against possible supply cutoffs. Coproduction of armaments in Peru and related transfers of technology might offer additional long-term business opportunities to Western firms—because such arrangements could help offset the high cost of financing arms procurement from the West compared with the USSR. The interest of the Peruvian Army's commanding general in sending more personnel to US military schools further reflects Lima's movement toward diversifying its military relationship.

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We doubt that over the next two to three years the USSR will succeed in using its military-assistance relationship with Peru as a means of penetrating other South American arms markets. Even if Moscow tries to promote the maintenance facilities being installed in Peru as a regional service center for Soviet-made weapons, neighboring states like Chile or Ecuador would see little point in depending on services to be performed within the national borders of a military rival. While Soviet arms transfers to Peru might spur these other Andean countries to compensate by increasing purchases of foreign weaponry, we judge that they would prefer to buy from traditional Western military suppliers. Other military establishments in the region also are strongly pro-West. Barring dramatic internal changes, we estimate that for the period under examination they will be likely to make only selective weapons purchases—if any—from Moscow.

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