

NSC review completed

U.S. National Security Strategy

PART III
Military Component

Section F
Security Assistance

TOP SECRETEXECUTIVE SUMMARY

Security assistance is a critical instrument for achieving national security objectives such as power projection, deterrence and political influence. While the Administration has taken several initiatives to make the program more effective, further work needs to be done. The paper discusses the following problems:

-- The FY 82 supplemental and FY 83 program will need high level Executive Branch support if they are to survive on the Hill.

-- Resources in real terms and as a percent of the defense budget have been declining for two decades. Although the Administration has begun to turn the situation around, the outlook for sustaining real future increases is uncertain. Further, we lack adequate grant and concessional aid to meet the security requirements of the poorer countries.

-- We need to be able to use more extensively multi-year commitments to permit long range planning and to enhance predictability. The Administration has this right and should defend it vigorously before Congress.

-- Long lead times, rising prices and the lack of export versions of high technology items are undercutting the effectiveness of our programs. We need to take foreign country requirements into account in US defense procurement and production planning.

-- In order to accomplish the above, we need to move carefully toward more extensive combined planning with host governments; recognizing there are political sensitivities involved.

-- Finally, the legislation governing security assistance is flawed: it is too inflexible and provides for too much congressional micro-management. While extensive changes may not be attainable in this election year, we can begin interagency work promptly and explore with Congress possibilities for change in FY 84.

Five issues are identified and tentative recommendations proposed as follows:

1) FY 82 Supplemental and FY 83 Program - Should we initiate a top priority administration drive to win congressional approval for our FY 83 program and other related congressional initiatives as part of our overall budget strategy with Congress. Tentative Recommendation: We should do so and promptly agree on an appropriate legislative strategy involving Presidential commitment.

2) Resources - Should we plan for steady real growth in the security assistance program over the next five years? Tentative Recommendation: We need sustained real growth over the next five years to meet our strategic objectives and more grant and concessional aid for the poorer countries.

TOP SECRET

RDS 4/21/02

3) Multi-Year Commitments - Should we make more extensive use of various forms of multi-year commitments? Tentative Recommendation: Multi-year commitments should be more widely used to permit longer range planning and greater predictability in programming.

4) Procurement - Can we extend our anticipation of and planning for Foreign Military Sales? Tentative Recommendation: we should press for prompt operability for SDAF; take foreign sales more explicitly into account in planning procurement; and develop export versions of weapons that incorporate high technology aspects.

5) Legislation - Should we undertake an effort to rewrite or substantially revise the Arms Export Control Act and the Foreign Assistance Act? Tentative Recommendation: Security assistance legislation should be revised or rewritten to remove outdated or inflexible provisions. We could begin an interagency review promptly, with a view to exploring possible changes with Congress after the election.

End of Summary

TOP SECRET

SECURITY ASSISTANCE

This paper discusses the role of security assistance* in US foreign and defense policy and identifies issues for further consideration.

Security assistance is a critical element in supporting this Administration's national security objectives. It is designed to extend US influence abroad, to help deter conflict, and if deterrence fails, to enable friends and allies to defend themselves. Security assistance provides US forces with access to bases and overflight and other rights enabling coordinated operations of US and friendly forces. Security assistance also strengthens the US economy and the defense production base.

It should be clear from the above that security assistance is one of the hardest currencies circulating in the international security community and it must be emphasized that the Soviet Union fully appreciates this fact. The USSR has demonstrated a capacity and flexibility in the arms transfer business that in many important respects exceeds our own. This is particularly marked in their ability to offer quick delivery and concessional financing.

By contrast the US security assistance program is not able to meet satisfactorily the ambitious set of objectives set forth above. There are several reasons:

- resources are inadequate and often of the wrong kind;
- the annual budget cycle constrains both long-range defense planning with aid recipients and coherent FMS procurement planning by the Defense Department;
- procurement lead times, high cost and potential technology compromise have seriously reduced the responsiveness of the security assistance program; and
- legislative restrictions in the various acts covering security assistance reduce Executive Branch ability to react appropriately to emergencies or unforeseen events. Congressional earmarking, advance notification, and other oversight and control provisions make it very difficult to get the best possible return out of the security assistance resources Congress makes available.

Fulfillment of the global and regional objectives set forth in earlier sections of this study -- including support of

*Security assistance consists of Foreign Military Sales credits (FMS), grant military assistance (MAP), International Military Education and Training (IMET), Economic Support Funds (ESF) and Peacekeeping Operations (PKO).

key Southwest Asian states, maintenance of existing alliance relationships, strengthening our friends in the Caribbean and Southeast Asia -- depend in part on the availability of security assistance resources. Security assistance is an essential complement to our own force structure in meeting our security objectives abroad.

Resources

Security assistance is and will remain a critical element of our foreign and defense policy and, as such, will require significant budget resources for the indefinite future. While eight countries* account for over 85 percent of the 1982 Foreign Military Sales (FMS) credit program new and important recipients continue to appear -- the states of Central America and the Caribbean being a recent case in point. The marginal return for the dollars spent on small programs can be extremely high. This is particularly true of the International Military Education and Training (IMET) program, but applies equally to the modest FMS programs that now exist in Latin America and Africa. In the large programs such as Korea and Turkey, security assistance becomes a potent force multiplier -- an important characteristic where the US has explicit security commitments. In the small programs, the resources usually buy basic transportation, communications, and other military capabilities for dealing with low-level external threats and internal security problems.

During the 1950s, the security assistance budget ranged from 5-10 percent the size of the defense budget, and was provided primarily as outright grants. In recent years, our assistance has increased from \$4.3 billion in FY 1980, when it equalled 1 percent of the US defense budget (an all-time low) to \$7.5 billion in FY 1982, but it is still only about 1.5 percent the size the defense budget. One direct effect of this decline in purchasing power is that, except for Egypt and Israel, no country program is large enough to cover the purchase of modern fighter aircraft, something that a number of countries, like Turkey, desperately need.

We have begun to turn the situation around by raising resource levels to meet urgent requirements. The FY 1983 budget calls for an increase of \$1.2 billion or 16 percent over FY 1982 appropriations, which itself represents a significant increase over its predecessor. However, the political climate for sustaining needed increases this year and in the future is uncertain. The FY 1983 request will be a major test for the Administration; positive results will help to establish a firm foundation for the program for the next several years.

Beyond the issue of levels, there is a need for a better mix of assistance:

* Israel 37%; Egypt 23%; Turkey 9%; Greece 7%; Korea 4%; Spain 3%; Tunisia 2.%; Sudan 2%.

TOP SECRET

- a higher proportion of grant aid to FMS credits;
- of the FMS credits, authorization for a certain portion at 3 percent interest instead of market rates now running about 14 percent (currently we have no authority to offer concessional interest);
- revised costing rules for FMS-financed training and increased use of the IMET program because of their high returns for each dollar spent.
- maintenance of significant levels of Economic Support Funds (ESF), which provide balance of payments support for countries devoting significant resources to defense. (Seventy percent of the current funds are absorbed by Egypt, Israel, and Turkey, leaving very little for other worthy recipients.)

Our assistance programs are not meeting the needs of the 1980s. In FY 1982, grants fell to 50 percent of the total program, and most of this was for ESF, little grant money was available for FMS programs. Needs for increased security assistance rarely arise in prosperous countries; however, the requirement for increased concessional aid, grant aid, economic assistance, and IMET grows as our support is required in a large number of economically weak countries.

Multi-year Commitments

We also need the ability to make more extensive use of multi-year commitments to permit longer-range planning and predictability in our programs for the benefit both of the US and recipient countries. Multi-year commitments assist the US in planning procurement, thus helping to keep production lines going and unit costs down. Foreign security assistance recipients are also better able to manage the acquisition of expensive and complex weapons systems, rationalize force planning, and develop a sense of confidence in US support.

Currently we have three types of multi-year commitments in security assistance programs:

- formal Executive Branch commitments over a specified period as part of formal base agreements (e.g. Spain, Philippines, Portugal);
- an Executive Branch "best effort" commitment (e.g. Zimbabwe and Pakistan); and
- "cash flow" arrangements with Israel and Egypt, which presume outyear funding at levels no less than those of the current year.

TOP SECRET

All of these multi-year commitments nonetheless depend on annual appropriations by Congress. It is unlikely in the future any more than in the past that Congress will compromise its budgetary flexibility by guaranteeing funding levels in outyears. Thus, we do not see multi-year commitments as a legislative issue but rather a determination by the Administration to exercise its right to make such "commitments" in the interest of conducting a more rational foreign policy and to defend that right vigorously on the Hill.

Procurement and Security Assistance

Because of budgetary uncertainties and legal restrictions, neither the military services nor the Defense Department systematically take foreign requirements into account in terms of sizing the production base or planning production runs. Thus, to meet urgent security assistance commitments, our own forces must often absorb unplanned diversions. We do not take full advantage of the fact that security assistance procurement could provide smoother production runs, an expanded industrial base, shorter leadtimes, and reduced costs for us. Security assistance procurement also enables us to maintain a production base for current systems that are being replaced, while the new production capability is coming on line. We must develop an approach to US defense procurement and production planning that prudently takes into account likely requests by foreign governments. For example:

-- we can demonstrate that a certain percentage of our production capacity for specific systems historically serves security assistance requirements; thus we should plan on it from the beginning.

-- where sensitive technologies are involved that we do not want to release worldwide, we should plan from the outset to provide export versions of new equipment.

-- where a current model is being replaced we should examine the opportunities offered by co-production/co-assembly arrangements abroad. These arrangements offer an alternative to selling front-line equipment and provide a fall back for ourselves. To make this work, we would have to be willing to permit the use of FMS credits to buy equipment produced abroad and be prepared to defend this decision on the Hill.

The Special Defense Acquisition Fund

The purpose of the newly-established Special Defense Acquisition Fund (SDAF) is to allow the Defense Department to buy defense articles in anticipation of eventual foreign sales. The SDAF, operating as a revolving fund, will enhance the President's ability to fulfill urgent requirements quickly. It will reduce procurement leadtimes both for delivery of

TOP SECRET

equipment to foreign customers and paybacks to US forces when equipment is diverted from production or withdrawn from stocks. The SDAF can be used to smooth production rates or extend the production line of older equipment still in demand (e.g. the M-60 tank).

The SDAF account has been established, but we are limited to a capitalization level of \$600 million by the end of FY 1983. Moreover, we do not yet have authority to spend. We are seeking such authority and an increase in the size of the fund to \$900 million. Both deserve and will need strong support from White House and Cabinet officials.

Although consideration has been given to a higher capitalization target, a \$900 million level gained through three consecutive years would allow a test of SDAF effectiveness. Since most production cycles run in the two- to three-year time frame, money from the sale of SDAF procured items would begin returning to the fund in the third year of operation. This could permit planning for procurement in the fourth year without new capitalization. However, the potential need to procure an intermediate fighter aircraft in addition to high-cost air munitions and Army equipment demand a minimum capitalization level of \$900 million if we are not to continue the pattern of diverting equipment intended for our own forces.

The major example of an emergency diversion was when US war reserve stocks in Europe were decimated in order to rush tanks and other items to Israel during the 1973 war. This pattern has continued: Since 1978, almost seven battalions of tanks have been diverted or withdrawn from the Army. Similarly, the tactical aircraft equivalent of 1.5 fighter wings has been diverted or withdrawn from the Air Force. Diverted equipment is, of course, paid back, although this may take as long as three years.

Combined Planning

Our ability to improve production planning and to use the SDAF efficiently will depend heavily on our ability to forecast both demand and resources over a three- to five-year period. This in turn suggests a requirement for far more extensive combined planning with major recipients of security assistance and also with those countries rich enough to finance purchases by themselves.

We have successfully conducted such combined planning for several years with Korea and Jordan, and we are beginning it with Saudi Arabia, Tunisia, and Morocco. There are others we will need to engage in this effort. Such planning may require expansion of security assistance organizations overseas and broader authorities for them.

Success will be gradual, since few third-world countries have strong planning capabilities, and estimating future resource

TOP SECRET

availabilities will be difficult. Moreover, there are certain liabilities involved. Combined planning carries with it implications of commitments that may be impossible to fulfill. In addition, such planning must invariably touch on sensitive systems and technologies (e.g. advanced aircraft, precision guided munitions) that could raise serious Congressional reactions, whether or not the systems were ever sold. The US will have to accept security risks in providing available threat analyses to foreign countries. In addition, we will have to make available comparative performance, cost and other data on specific systems, even though we might not ultimately be willing to sell all such systems to the country in question. A genuine joint planning activity will require comparative data if countries are to make rational decisions. We are developing procedures to accomplish this end.

Finally, it should be noted that countries may for political or other reasons be reluctant to engage in complete planning. In any event, combined planning will serve little purpose if we cannot respond decisively when country decisions are made and formal requests put forward. This brings us back to the weaknesses of the current production base, delivery lead times, and resource limitations. All of these must be improved in tandem if we are to fulfill the ultimate goal of putting needed equipment in the hands of friends and allies in a timely way.

Legislation

There are a number of flaws in the legislation governing security assistance. For example, by its nature, a portion of security assistance should be available to respond to emergencies. Heretofore, Congress has balked at appropriating any significant sum of unallocated money for this purpose, although it has provided limited emergency drawdown authority under strict Congressional control. We should be prepared to make an energetic effort to persuade Congress to provide such contingency funds.

The analysis and input that goes into the formulation of the budget is well over two years old before any money is actually disbursed and at least twice that before materiel is actually delivered. Moreover, the budget is formulated and presented to Congress on a country basis, that is, each country is allocated a certain level of assistance and that level is defended in the hearing process. Once that budget is passed, it is extremely cumbersome to reprogram resources from one country to another as priorities change. And it is virtually impossible when Congress earmarks funds, as it does in the case of Israel and Egypt.

TOP SECRET

While Congress is unlikely to give up earmarking, we should try to get relief from rigid reprogramming procedures, easing of conditions for emergency drawdowns, and a reduction of Congressional micro-management of the arms transfer process. We should also try to get rid of burdensome and largely meaningless reporting requirements, country specific conditions (e.g. Angola), restrictions on police training, differing methods of computing costs for cash and grant training, and similar outdated or inappropriate provisions of law. It should be noted that the Congressional veto authority over arms sales, which is one of the most intrusive aspects of Congressional oversight, may be settled by the Supreme Court in a related legislative veto case later this year. It is not something, however, that we are likely to be able on our own to negotiate out of the legislation.

Very few of these changes are attainable this year because of the 1982 election. However, late this fall, prior to the reconvening of Congress in January 1983, it should be feasible to begin to explore with the appropriate Congressional staffs a proposal to revise extensively, rationalize, or conceivably even rewrite both the Arms Export Control Act and the Foreign Assistance Act of 1961.

Issues

1. FY 1982 Supplemental and FY 1983 Program -- Should we initiate a top priority Administration drive to win Congressional approval for our FY 1983 program and other security assistance related legislation as an integral part of the overall budget strategy. Success would enable us to meet top priority strategic objectives and establish a firm foundation for the program for the next several years. Failure, on the other hand, would set back the Administration's efforts to strengthen American security interests and could have disastrous international ramifications.

2. Resources -- Should we plan for steady real growth in the security assistance program over the next five years? The importance of security assistance to our foreign and defense policies suggests not only that real growth will be essential if we are to meet our national security objectives, but that the rate of growth perhaps should be indexed to that of the defense budget.

3. Multi-year Commitments -- Should we make more extensive use of various forms of multi-year commitments (formal Executive Branch commitment, best-effort, cash flow)? Even with the vulnerabilities associated with commitments that depend on annual Congressional appropriations, such commitments do have the virtue of establishing the reliability of the US and of allowing more rational force planning, procurement, and program management for both the US and the aid recipient.

4. Procurement -- Should we improve our security assistance planning activities and extend combined planning activities to

TOP SECRET

~~TOP SECRET~~

-8-

more countries? Such planning could improve estimates of future resources and equipment demands, and consequently our own procurement planning, including the integration of foreign military sales into US service procurements. Such planning would also serve to nudge countries toward greater compatibility and cooperation with US forces.

5. Legislation -- Should we undertake a major effort to rewrite and rationalize the Arms Export Control Act and the Foreign Assistance Act? The present legislation is technically complex and confusing and contains restrictions, prohibitions, and procedures that work not only against the objectives of security assistance but also seriously complicate the management of the program. Early 1983 would be an appropriate time to submit any major revision or rewrite to the Congress.

TOP SECRET