
SECURITY ASSISTANCE LEGISLATION AND POLICY

Security Assistance and International Armaments Cooperation

By

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SECURITY ASSISTANCE

a. Objectives

Supporting friends and allies throughout the world is a cornerstone of our national strategy. To this end, we provide our friends and allies with economic and military assistance to ensure their independent political and economic development. The Department of Defense is primarily concerned with military assistance, but security assistance in its broadest definition includes both military and economic aid.

Military assistance supports some of the most basic and enduring elements of our national strategy: collective security and forward defense. Military assistance enhances our allies' ability to deter and combat aggression without the direct involvement of U.S. forces. In addition, security assistance promotes the interoperability of U.S. and allied forces, thereby increasing their effectiveness. Security assistance also forms a vital part of the cooperative arrangements through which our forces gain access to critical military facilities throughout the world, a fundamental prerequisite for forward defense against aggression.

In today's international environment, we and our allies confront a host of challenges below the threshold of conventional war. The challenge of low-intensity conflict includes terrorism, subversion, and armed insurgency. Security assistance provides the principal policy instrument for assisting nations engaged in low-intensity conflict. A balanced package of economic and military assistance is necessary to deter or defeat security threats while overcoming the economic and social problems that breed instability.

b. The Components of Military Assistance

Our military assistance program comprises four main components.

- The Foreign Military Financing Program (FMFP) provides direct credits or grants to countries for the purchase of U.S. military goods and services, either through bilateral agreements between our governments, or through direct purchases from U.S. companies.

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- The Military Assistance Program (MAP) is grant funding that assists allies and friends in financing government-to-government procurement of defense articles and services to help strengthen their self-defense capabilities. Without FMFP or MAP grant aid, many countries would have to divert scarce domestic resources from economic development to meet their defense needs.
 - International Military Education and Training (IMET) is a grant aid, low-cost program that brings foreign military personnel to the United States for military education and training. Though it represents only a modest portion of our security assistance programs, IMET yields significant benefits. In addition to improving the proficiency of allied and friendly military leaders, IMET provides a channel of communications and influence with military establishments worldwide. In this way, IMET provides an avenue for the transmission of professional military values. Respect for democratic institutions and human rights is thus promoted.
 - We also support the defense needs of friends and allies through cash sales of military goods and services, known as Foreign Military Sales (FMS). By assisting friendly nations to defend themselves, our FMS program helps to realize substantial political, military, and economic benefits.

c. Accomplishments of the Last Eight Years.

Over the last eight years, despite our inability to achieve stable funding levels because of reduced appropriations, security assistance has registered some notable successes. In a number of conflicts throughout the world, our security assistance programs have helped to protect vital U.S. interests by helping friends deter and combat aggression. We have also made substantial gains in improving the ability of some key NATO allies, such as Turkey, Greece, and Portugal, to help carry their share of the collective defense burden. In addition, we also have improved the program itself, making it a more efficient and responsive foreign policy tool. For example:

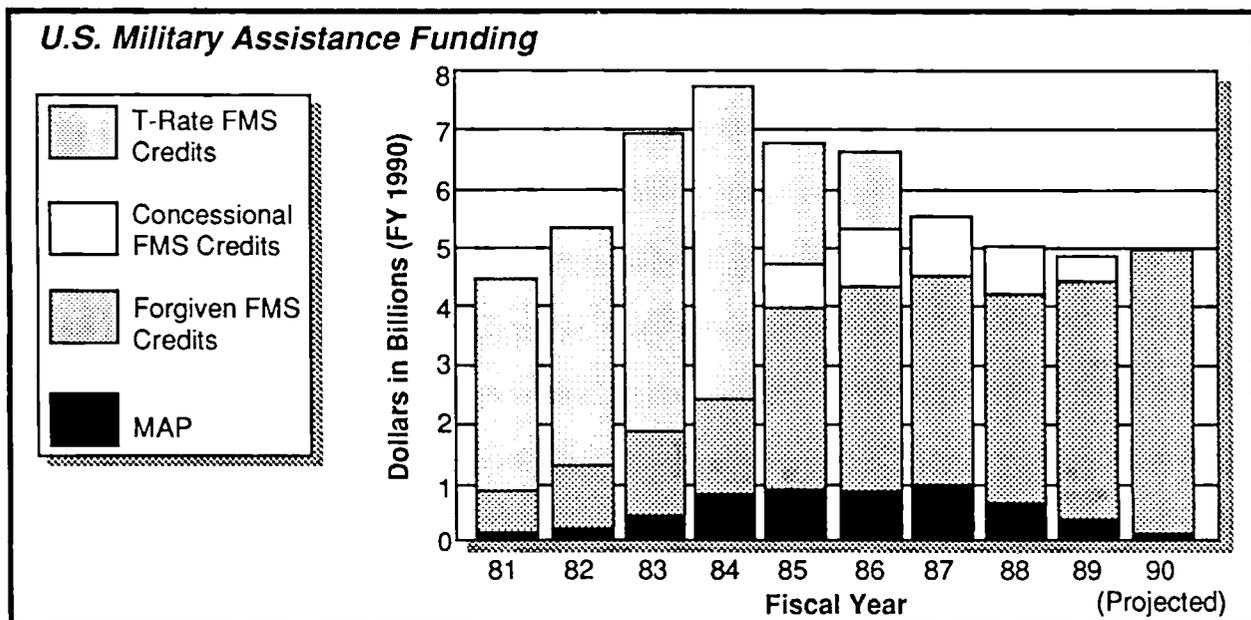
- In El Salvador, we have helped the armed forces achieve a large measure of success against a communist-led insurgency. Although the war is not over, the democratically elected government has prevented the insurgents from gaining by force what they could not achieve through the ballot box. Our assistance has provided the democratic government with the "breathing room" necessary to undertake difficult economic and political reforms, and put that country on the path toward long-term political stability.
- In the Persian Gulf, U.S. military assistance and foreign military sales to moderate Gulf states have helped to contain the Iran-Iraq War by assisting friendly nations in resisting Iranian intimidation and aggression.
- In Chad, French and U.S. assistance has enabled the Chadian armed forces to win major victories over invading Libyan forces. Although Libya occupied almost half of Chad in 1986, its presence has been reduced to a narrow strip along Chad's northern border.
- In Israel, continued military assistance has enabled the Israeli Defense Force to maintain the capability to defend itself against any likely combination of adversaries.
- In the Philippines, U.S. military aid has assisted the democratically elected Aquino government in combatting a widespread communist insurgency. In addition, our fulfillment of previous aid agreements assisted us in concluding a successful review of the Military Bases Agreement.

We have also made our security assistance programs themselves more efficient and responsive. Working with Congress, we have enacted some much needed changes in law, and implemented management improvements to make the program a more useful instrument of U.S. foreign policy. Examples include:

- **Concessional Funding:** Over the past eight years, the President has requested--and the Congress has revised--security assistance to provide concessional and grant funding only. This was done in response to concerns about the debt burdens of our allies, and to stretch constrained resources to maximum advantage. Since 1981, we have provided a gradually smaller proportion of assistance in the form of repayable loans. The President's FY 1990 budget requests grant aid only.
- **Special Defense Acquisition Fund (SDAF):** In 1982, the SDAF was created to enhance our ability to meet urgent foreign needs for military equipment, while minimizing adverse effects on the readiness of U.S. forces. SDAF is a revolving fund that finances the acquisition of defense items in anticipation of authorized Foreign Military Sales. By reducing the time necessary to deliver defense equipment, we can respond more quickly when unforeseen needs arise without drawing on stocks of equipment for U.S. forces. In addition, SDAF procurements--over \$1.5 billion to date--yield substantial benefits to U.S. defense production in the form of lower item costs through more efficient production rates.
- **Refinancing:** Beginning in FY 1988, and under congressional authority, we have offered countries with outstanding FMS loans at interest rates exceeding 10 percent the opportunity to refinance these loans to take advantage of lower interest rates currently prevailing in capital markets. In this way, we hope to reduce the debt burden which was incurred using the previous market rate of interest credit program.

d. Trends

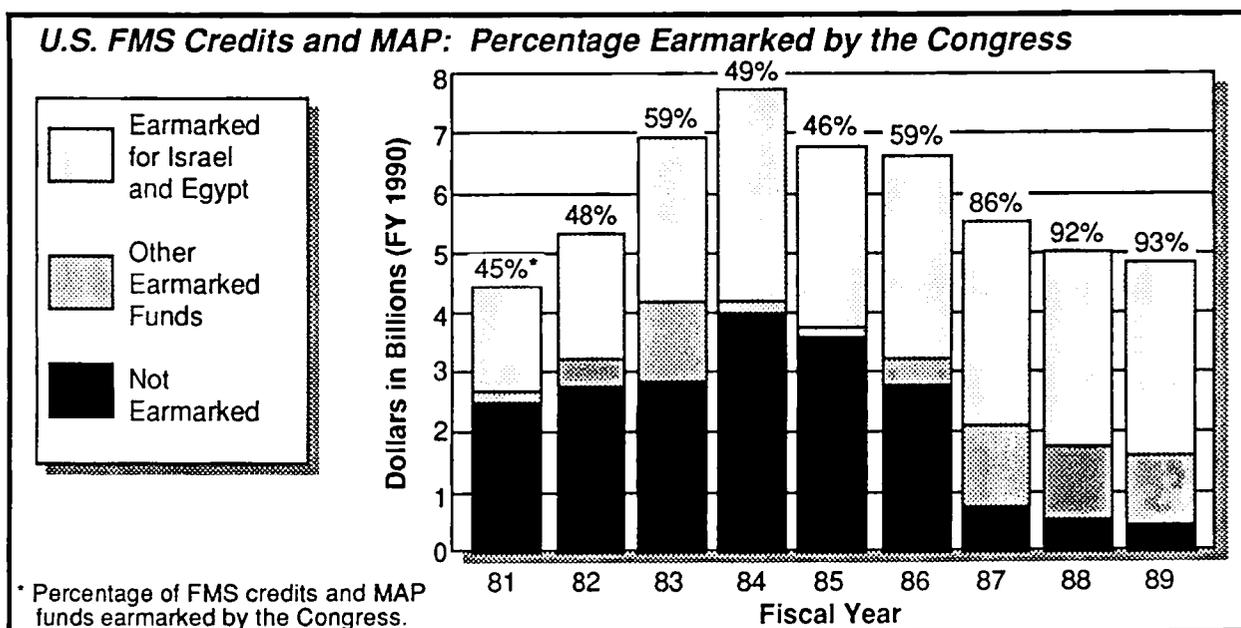
TABLE 1



(1) Funding Reductions

Despite the great benefits and modest cost of security assistance, it is a favorite target during budget cuts. Military assistance typically represents about one-half of one percent of the federal budget. Yet the Congress has cut consistently even this amount. The past several years, in particular, have seen this trend worsen with the President's security assistance request cut by 20 percent in FY 1986, 21 percent in FY 1987, and 18 percent in FY 1988. (See Table 1.)

TABLE 2

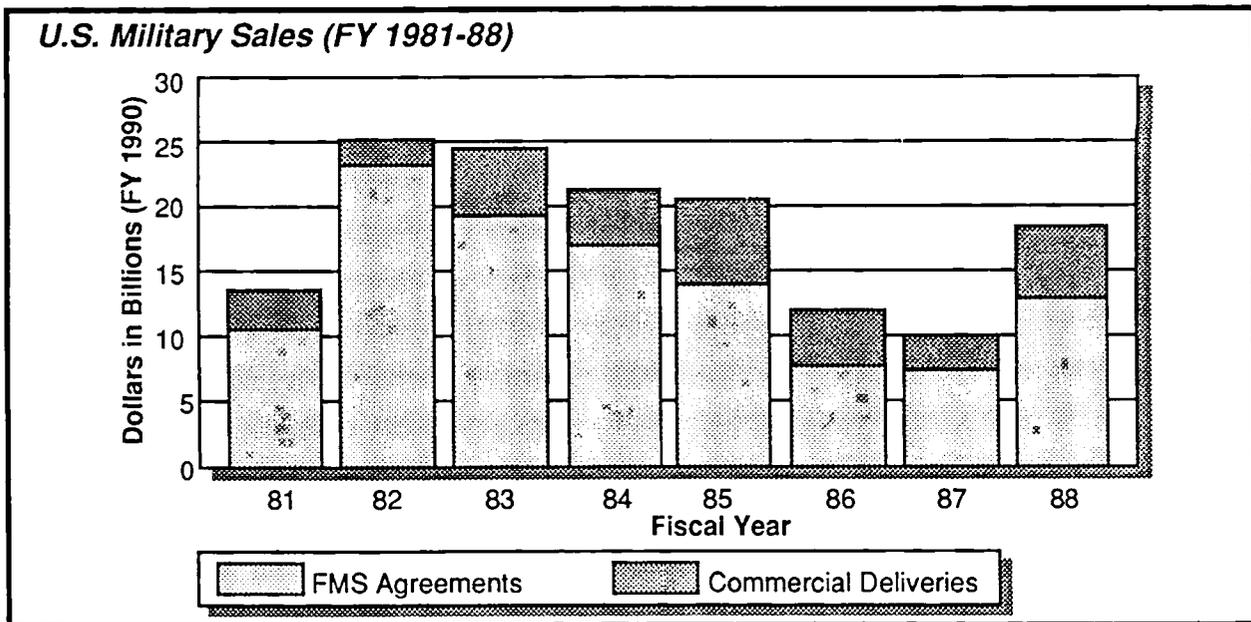


Coupled with these deep cuts has been an increasing tendency on the Congress's part to earmark funds for particular countries, often above the levels requested for those countries. (See Table 2.) In recent years, the proportion of security assistance resources earmarked by the Congress has jumped from under 50 percent in FY 1987 to over 90 percent. For FY 1989, 93.5 percent of funding has been earmarked for just 14 countries. This combination of earmarks, coupled with reductions in overall funding levels, insulates some countries' programs while necessitating crippling cuts in our remaining programs. As a result, we have been forced in many cases to eliminate whole programs, thereby greatly reducing U.S. access and influence. This pervasive earmarking robs the security assistance program of the flexibility needed to respond to events in a fast-changing world, and threatens to undo the hard-won gains we have made.

(2) Trends in Arms Sales, 1981-1988

Another disturbing trend since 1982 is the decline in U.S. sales of military equipment (See Table 3). This decline is due in large part to political constraints that limit our ability to meet the legitimate requests of friends and allies, rather than to a decline in demand for U.S. defense goods. From 1983 to 1987, sales by the United States declined from \$15.7 billion to \$7 billion. Fortunately, this trend appears to have bottomed out with expected FY 1988 sales of \$12 billion. Lost sales threaten the substantial benefits, both economic and political, that accrue to the United States as the supplier of choice for the defense needs of friends and allies.

TABLE 3



These losses in arms sales hurt us in three ways. Economically, lost sales cost us jobs, investment opportunities, and economies of scale. Politically, we risk eroding foreign government's incentives to cooperate with us, while eroding military-to-military relations as friendly nations look for more reliable security partners. Militarily, we lose opportunities for increased interoperability and defense cooperation in strategic areas. The recent decision of Saudi Arabia to turn to another supplier for the purchase of aircraft when the United States would not meet its request provides just one illustration of this phenomenon. While the initial loss is estimated to be \$3 billion, the full effect of this switch by Riyadh may ultimately be ten times greater over the next decade.

(3) Impact on Objectives

Security assistance exists to facilitate the pursuit of our national security objectives. It is a low-cost investment in both our defense and foreign policies. By failing to invest, we risk incurring much higher costs in the long-term. Failure to help our allies deter and combat aggression calls into question the reliability of the United States as a security partner, while reducing our allies' effectiveness in sharing the burden of collective security. Without adequate assistance, there is great risk that we will lose regional influence around the world, and that regional conflicts could expand, necessitating the direct involvement of U.S. forces.

Other risks of the continued underfunding of security assistance include:

- Decreasing our ability to assist in the pursuit of regional stability in the Middle East. America's influence in this key region will be greatly eroded if we cannot provide sufficient assistance to ensure the ability of Israel, Egypt, and other moderate Arab states to deter aggression.
- Failing to help Greece, Portugal, and Turkey meet NATO force modernization goals.
- Foregoing the opportunity to assist countries confronted by illicit and often violent drug trafficking, and narcotics-related corruption.

- Jeopardizing our access to critical military facilities throughout the world. The additional cost of trying to defend our interests without these bases would be far more costly than the security assistance we devote to ensuring their availability.
- Wasting prior investment by terminating assistance needed to complete modernization programs now under way, while existing programs receive funds insufficient to even maintain equipment on hand.

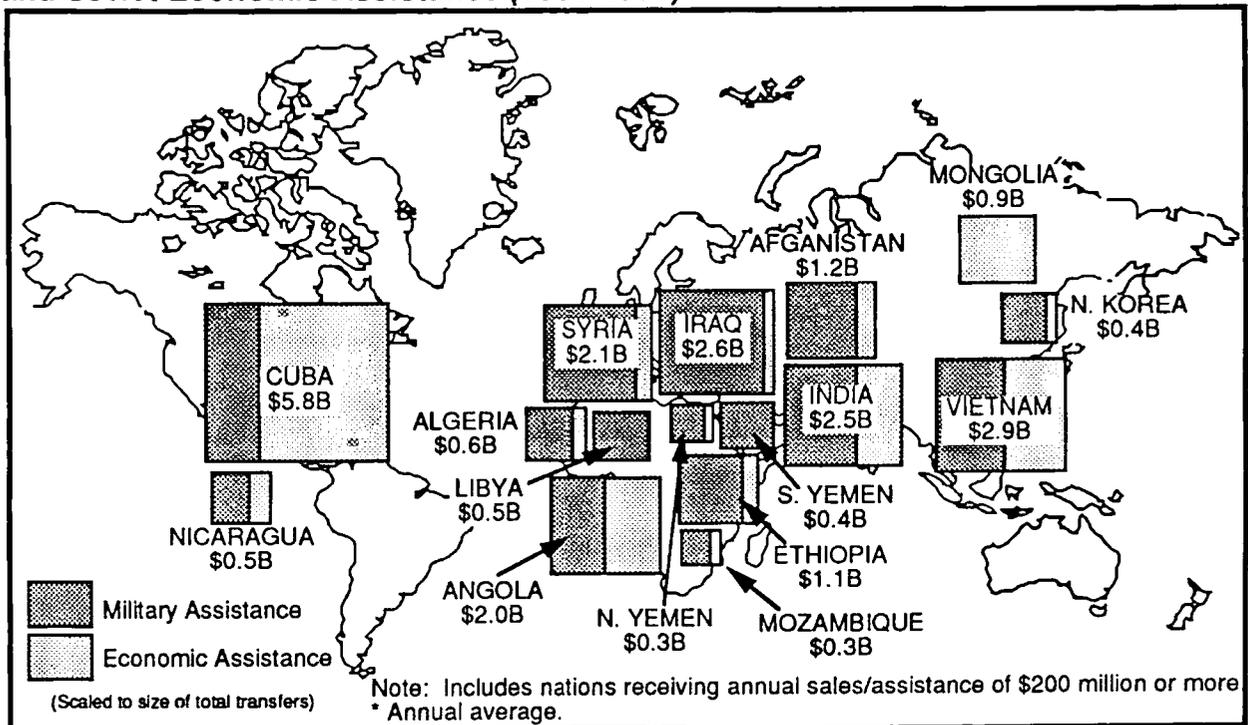
(4) A Comparison: The Soviet Security Assistance Effort.

Gorbachev's increased willingness to settle Third World conflicts through negotiations has not yet had a significant impact on the flow of Soviet arms to the Third World. Indeed, Moscow continues to show an appreciation for the political leverage which arms transfers confer. Soviet arms deliveries to lesser-developed countries (LDCs) rose in real terms in 1987 for the first time in five years, reaching almost \$19 billion. We estimate 1988 deliveries will approximate the 1987 levels. Moscow's arms transfer program employs highly concessionary financial terms. Over 40 percent are made as outright grants. In addition, the Soviets provide low-interest loans for many arms purchases, accept some payments in soft currency or commodities, and have shown flexibility in renegotiating payment schedules.

Soviet arms deliveries go primarily to radical states, such as Libya and Syria, and to Marxist and communist nations fighting insurgencies, such as Afghanistan, Angola, and Cambodia. (See Table 4.) Soviet-bloc shipments of military goods to Nicaragua in 1988, for example, remained at about \$500 million, despite the decline in fighting there. Moscow also announced that it would turn over a billion dollars in facilities and equipment to Afghan forces during the withdrawal of Soviet forces, and they reserved the right to continue arming the Kabul government.

TABLE 4

Soviet Military Sales and Assistance, and Soviet Economic Assistance (1981-1988)*



Arms transfers also remain a key in Soviet efforts to strengthen ties with other nations. In 1988, India received large amounts of Soviet arms, including a Charlie-class nuclear-powered submarine on lease, and a TU-142 Bear long-range naval reconnaissance aircraft, while North Korea received MiG-29 Fulcrum fighters and other major Soviet weapon systems. Moscow also offered to sell the MiG-29 to Jordan, which buys most of its arms from Western nations.

(5) The FY 1990 Budget Request

For FY 1990, we are requesting the bare minimum level of resources necessary to protect the successes of the past eight years. The budget request submitted to the Congress reflects rigorous analysis and considered judgements as to foreign policy and security objectives. Coupled with our continuing efforts to improve the effectiveness of scarce resources through management improvements and careful planning with our allies, security assistance will continue to be the most cost-effective means of securing critical national security objectives.

INTERNATIONAL ARMAMENTS COOPERATION

a. Purpose and Objectives.

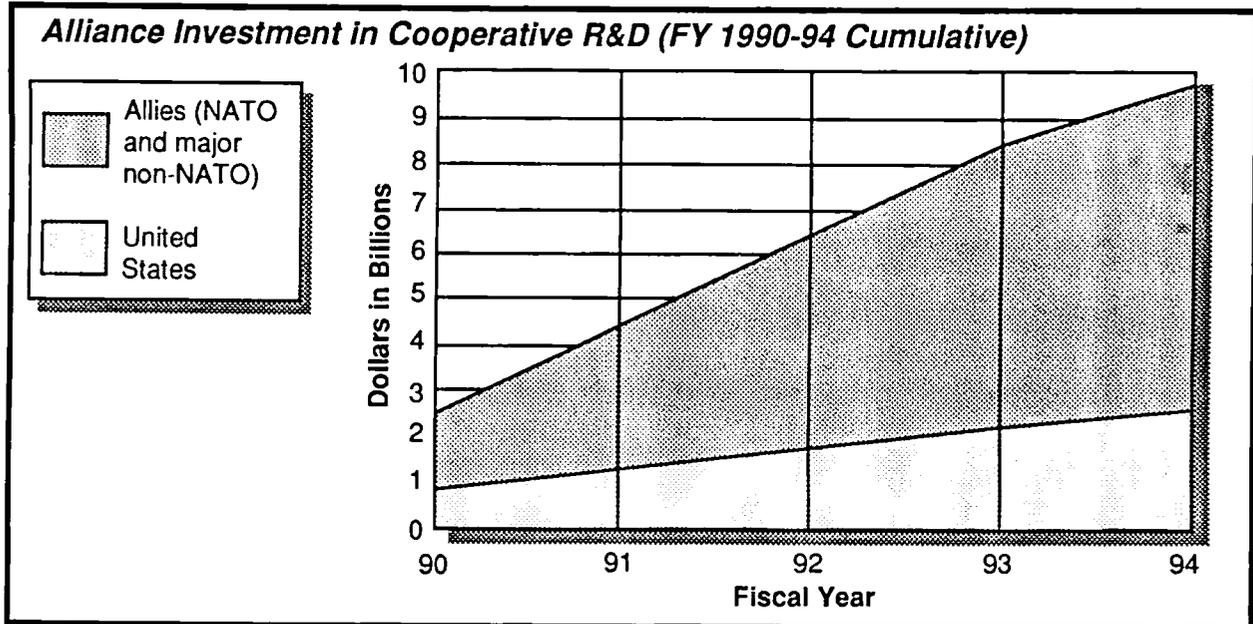
Since our national security needs cannot readily be met with U.S. resources alone, we cooperate with allies and friends in acquiring military equipment. By reducing the number of separate national weapons programs, this cooperation reduces needless duplication of research and development efforts and prudently shares the best available technology among allies. It promotes commonality and interoperability among friendly forces, and provides incentives for our allies to invest in force modernization and burdensharing. Finally, it achieves urgently needed economies of scale throughout the acquisition and logistics cycles.

International cooperative acquisition programs seek to focus alliance resources effectively, in order to yield significant gains in our combined conventional defense posture. International programs directly engage U.S. defense industry in cooperative efforts with allied industry, sharing technology as required to achieve the goals of each acquisition program. These cooperative efforts have access to the combined strength of the alliance industrial base.

b. Resources and the Industrial Base.

Driven by resource limitations and a commitment to a strong conventional defense, the United States and its allies have pursued armaments cooperation as an effective means of correcting key conventional force deficiencies. To increase the affordability of research, development, production, and logistics programs, we are steadily increasing investment in acquisition efforts where development costs and resources are shared with allies. Consequently, we have established a goal to increase our investment in cooperative programs from the current 3 percent of RDT&E resources to 25 percent by the year 2000. Experience shows that this investment of U.S. resources has exceptional leverage, with allied contributions on average more than doubling the U.S. resources during the development phase. This ratio continues to hold for projects already identified as potential cooperative efforts in the next five years, as shown in Table 5. Allied resource contributions, however, cannot be the sole measure of cooperative programs' effectiveness. International industrial teaming arrangements involving U.S. and allied industry provide opportunities to bolster U.S. industrial competitiveness. Given current fiscal realities, it is imperative that we optimize the combined strengths of our industrial and technological base to keep it robust and fully capable. Within this context, international research, development, production, and logistics programs present opportunities for a positive, active approach, with U.S. industry gaining access to new markets abroad. This can be effective at both the prime and sub-tier contractor levels.

TABLE 5



c. Regional Emphasis.

Since the military needs and industrial capabilities of allies vary considerably in scale and sophistication, we are organized to support regional variations in armaments cooperation. This has been recognized by Congressional earmarking of a portion of cooperative research and development funds for programs with non-NATO allies. Even among the NATO members, however, wide variations in capabilities suggest some tailoring in type and structure of cooperative programs.

d. Accomplishments of the Last Eight Years.

The Department, with Congressional support, has made armaments cooperation an increasing part of defense systems acquisition. For example:

- We have instituted Defense Acquisition Board (DAB) procedures that make rigorous consideration of international cooperative opportunities a part of all U.S. acquisition decisions.
- Congress has provided funding specifically for cooperative research, development, and testing efforts with NATO and major non-NATO allies, thereby providing a significant incentive for increased armaments cooperation. Since the enactment of the NATO Cooperative Research and Development Program (the Nunn Initiative) in 1985, we and our allies have greatly expanded armaments cooperation. International agreements have been reached in the 17 cooperative projects shown in Table 6, with many more in negotiation. Each of these projects involves the United States and one or more other nations sharing the cost of system development to redress a significant deficiency in our collective conventional defense posture.
- To provide in-country liaison in support of our armaments cooperation activities, 46 manpower positions have been established in Offices of Defense Cooperation (ODCs). These are located in national capitals in Europe, Japan, and Korea. They provide a visible symbol to our allies of the U.S. commitment to cooperation.

TABLE 6

Nunn Amendment Projects with Signed Memoranda of Understanding

Nunn Amendment Projects with Signed MOUs	Participants													
	United States	Canada	United Kingdom	France	Germany	Belgium	Netherlands	Denmark	Norway	Greece	Spain	Italy	Portugal	Turkey
Ada Project Support Environments	X	X	X	X	X		X	X	X			X		
155 Autonomous Precision Guided Munition	X	X		X	X		X				X	X		X
Modular Standoff Weapon	X		X		X						X	X		
Multifunctional Info Distribution System	X	X	X	X	X				X		X	X		
NATO Identification System	X		X	X	X							X		
Airborne Radar Demonstration System	X		X	X										
Adv. Short Takeoff/Vertical Landing Tech	X		X											
Enhanced Fighter Maneuverability Aircraft	X				X									
NATO Frigate Replacement — 1990s	X	X	X	X	X		X				X	X		
Post 2000 Tactical Area Communications	X	X	X	X			X					X		
Hawk Mobility Enhancement	X						X							
NATO Anti-Air Warfare System	X	X	X		X		X				X			
Battlefield Info Collection and Exploitation	X		X											
Agile Falcon/F-16 Upgrade	X					X	X	X	X					
LINK-11 Improvements	X	X	X	X	X		X				X	X		
Surface Ship Torpedo Defense	X		X											
RPV Multimission Optronic Stabilized Payload	X (Israel)													

- To consolidate the progress made and ensure a coherent and effective future for armaments cooperation, we are completing the first Armaments Cooperation Master Plan. The plan outlines the DOD strategy for international cooperative research, development, production, and logistics programs, and provides guidance to the Services for the coordination and initiation of future efforts.
- NATO is improving the management of armaments cooperation through a NATO Conventional Armaments Planning System (CAPS). CAPS provides the framework for developing armaments plans in response to NATO long-term force planning guidelines. NATO member nations began a two-year trial of CAPS in 1988. We strongly support this initiative and believe that CAPS will provide a much improved framework for harmonizing requirements and setting priorities that respond to the needs of the NATO Military Authorities.

e. Conclusion.

We are continuing on a path to expand greatly our cooperation with allies in research, development, production, and logistics programs. It is essential that these programs be selected and our negotiating positions structured with full consideration of our defense industrial base requirements as well as the resource advantages for alliance conventional defense.

TECHNOLOGY SECURITY

a. A Successful Program.

We have made major progress in technology security during the past eight years, as the Defense Department's efforts, in coordination with the efforts of other executive departments and agencies, are paying off dramatically for the United States and for our allies. In the 1970s, U.S. and allied government policy allowed the Soviet Union to acquire large amounts of advanced Western technology, and to reduce our lead in several key areas of military technology. Vigorous Western technological development, coupled with the technology security policies of the Reagan Administration, have succeeded in reversing that trend. In particular, we have denied the Soviets significant access to state-of-the-art computer technology, microelectronics manufacturing facilities, and machine tool controller technology. We have also protected a multitude of items with critical military uses, including sonars and photo reconnaissance equipment. As a result, our lead times in numerous critical technology areas have increased again. The United States now leads the Soviet Union by anywhere from seven to twelve years in computer-operated machine tools, minicomputers, mainframes, supercomputers, software, and flexible manufacturing systems. These advances have been bolstered by improvements in the defense capabilities of our allies in Europe and Asia. All this has strengthened our collective military security.

b. Key Accomplishments of the Past Eight Years.

In 1985 DOD formed the Defense Technology Security Administration (DTSA), merging previously disbursed staff elements and providing a focal point of administering the DOD Technology Security Program. DTSA has ensured coherent and efficient implementation of Defense Department technology security policy concerning the international transfer of defense-related technology, goods, services, and munitions.

Due in large part to substantial enhancement of DTSA's automation capabilities, we have accelerated our review of export license applications--a process that typically averaged 90 days in 1981, but only 10 days in 1987--while greatly improving the level of technical and policy analysis in these reviews. This dramatic improvement, occurring when the number of applications reviewed by DOD rose from less than 10,000 per year to approximately 30,000, has helped U.S. industry respond more rapidly to export opportunities.

Finally, during the past eight years we assisted in countering intense Soviet efforts to gain Western technology through international fora and organizations. The Defense Department has also vigilantly monitored the efforts of the Soviet Union and its surrogates to acquire Western technology in the context of bilateral science and technology agreements with the United States.

c. Today's Changing Environment and Tomorrow's Challenges.

(1) Strengthening COCOM

The Reagan Administration has made the strengthening of COCOM a key element of its technology security policy. COCOM is the Coordinating Committee for Multilateral Export Controls, established in Paris in 1950 to coordinate Western efforts to control the export of technology critical to our national security and that of our allies. It now includes all members of NATO, except Iceland, plus Japan. The United States has worked with our fellow COCOM members to update the control lists to include technologies that now are critical to advanced military systems.

COCOM also has been taking account of the spread of high technology beyond the United States, Japan, and Western Europe. COMCOM initiated "Third Country Cooperation," directed toward non-COCOM industrialized nations that are part of the worldwide technological revolution being generated by COCOM member nations. COCOM's Third Country Cooperation builds on strategic trade arrangements between members and non-members that permit legitimate trade in sensitive and advanced products, while minimizing the risk of theft or diversion. Ten neutral European and Asian nations have established or improved their export control programs.

Western nations have become acutely aware that sales like those made by Toshiba-Kongsberg have serious implications for our collective security. They indicate that the Soviet Union has the capability, and the intention, to obtain high technology illegally, even from well-known corporations. In the wake of these illegal sales, the United States and our allies, particularly Norway and Japan, have moved to strengthen Western technology security. We encourage all COCOM members to recognize that they have wide differences in their enforcement of controls and in prosecution of violations.

For example, the United States assigns several hundred officials to review license applications and to enforce export control regulations; the U.S. Export Administration Act of 1985 punishes violations of these regulations with prison terms of up to ten years. Furthermore, the Department of Defense, which has the greatest stake in the success of national security export controls, plays a vigorous role in U.S. government policymaking. By contrast, some COCOM governments have assigned relatively few officials to export licensing. Others have treated illegal exports of strategic technology lightly, and some have no criminal penalties for violators. Some governments have even denied their defense ministries a meaningful role in export control decisions.

One key result of our effort was a Senior Political Meeting of COCOM held in France in January 1988. This meeting recognized the importance of effective enforcement. All members agreed to harmonize and reinforce the effectiveness of national enforcement systems and export controls to stop illegal diversions and to strengthen cooperation with non-COCOM countries to protect Western high technology. These measures are having positive results, and are enhancing overall cooperation in the area of technology security.

(2) Negotiations and Contacts with the Soviets

Despite the progress noted above, some people contend that improvements in East-West relations are making technology security superfluous, even harmful. Chairman Gorbachev and other Soviet leaders seek Western technology as part of their drive for a "restructuring" (*perestroika*) of the stagnant Soviet economy. They have intensified their attacks on COCOM and on export controls. Some Western business circles are pressing for decontrol and licensing reductions, and some European political leaders support this theme, arguing that strategic trade controls are not compatible with an increase in East-West trade. They see the modernization of the Soviet economy as leading to a more peaceful world.

There is no compelling evidence, however, that modernization of the Soviet economy would lessen significantly the political power of the Soviet military or the level of Soviet military spending. Under Gorbachev, defense continues to enjoy the preferred treatment in funding established by Brezhnev. In 1987, for example, the Soviet Union spent 15 to 17 percent of its gross national product on the military, compared to 6.2 percent in the United States.

Furthermore, the Soviet military seems to have good reason to support Gorbachev and *perestroika*, at least for the present. Military leaders believe that the Soviet economy must undergo major reforms to create the broad scientific and technical base needed to develop the most modern military technologies. In this regard, the Soviet General Staff shares many of the same long-term

interests as Gorbachev's economic reformers. The Soviet military needs advanced Western technologies as much as Soviet civilian economic reformers. For example, in the late 1970s and early 1980s, military journals noted that the Soviet Union's failure to invest sufficiently in machine-building was hurting the defense sector. Gorbachev subsequently made machine-building one of the highest priorities in the current, 12th Five-Year Plan (1986-1990).

The Soviet government intends to acquire, legally or illegally, those technologies that they believe are necessary to support their military programs. Indeed, the Soviets consider certain technologies, including sensors, computers, microelectronics, telecommunications, and munitions, as central to rapid future improvements in conventional force capabilities. Moscow also has mounted efforts to acquire automated production and control systems, such as computer-assisted design and computer-assisted manufacturing. These systems are critical to Soviet machine tool industry modernization.

Thus, the United States and our allies must continue to guard our technology even as we negotiate arms reductions and work toward a lessening of political tension with the Soviet Union. We must remain alert to Soviet attempts to exploit changes in the political climate. For example, Soviet economic ministries are pressing for "joint ventures" with American, European, and Japanese firms, including many that produce sensitive technologies. While many joint ventures are desirable in terms of revenues generated for U.S. firms, we must continue our efforts to ensure that the Soviet Union does not gain access to controlled technologies through such ventures. Our efforts to strengthen COCOM provide the groundwork for such actions.

d. Conclusion

The Reagan Administration set a solid course in technology security. If we maintain this course our nation will be measurably stronger and safer. Moreover, the Defense Technology Security Program has proven itself highly cost-effective. It saves money for the taxpayer because it lowers the cost of deterring the threats to our security. It saves money for American exporters by reducing the time needed to process license applications. If the United States and its allies can preserve our strategic technological edge, we gain great leverage in our national security policies.