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# The Numbers Game

By

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From June to February of each year, personnel in the DSAA Operations Directorate, the Plans Directorate, and the Office of the Comptroller are involved in three different actions involving projections of future sales activity. These are the Foreign Military Sales (FMS) projections, the Javits Report, and the Classified Annex to the *Congressional Presentation Document* (CPD). Since there has been confusion about the purposes that each of these actions serves, and how, if at all, they relate to each other, this article will outline each of the projections and their use.

## FMS PROJECTIONS

The development of FMS projections begins late each June with a memo from the Comptroller to the Operations Directorate requesting a projection, including weapon system level detail, of FMS levels for each country for the next two fiscal years (e.g., FY 93 and 94 for the projections requested in June 1992), plus a total FMS sales projection for the four fiscal years beyond that. When developed these projections serve two purposes:

- the country numbers for the first two fiscal years are published in a table in the *Congressional Presentation Document for Security Assistance* (CPD).
- the numbers, along with the weapon system details are also provided to the Comptroller/Program Budget Division (PBD). The FMS sales projections for the first two years become part of the President's Budget submission for the FMS trust fund. They are used by PBD to estimate total FMS trust fund obligations, collections, expenditures, and net outlays; they are also used in estimating potential administrative fee collection, which in turn determines the size of the annual administrative budget.

The FMS projections are developed by the Operations Management Division (OPS-MGT) based upon inputs provided by OPS regional divisions. Remembering that these are projections, the total is usually rounded to the nearest billion dollars. OPS-MGT often will discuss the probability of various weapon sales with the regional divisions and will drop the least probable sales from the estimates in order to provide a total number as conservative as realistically possible. The OPS estimates are then reviewed by the DSAA Deputy Director before being provided to the Comptroller. The total numbers, i.e., the annual total worldwide sales estimate, is used in an unclassified matter to produce estimates for the unclassified OMB Budget Preparation System. The country-by-country estimates are CONFIDENTIAL until declassified upon release of the CPD, while the weapons level estimates remain CONFIDENTIAL because release could reveal the foreign countries' military plans.

An attempt is made to keep the projections conservative to avoid unnecessary speculation or concern over certain sales before it is definite that those sales will actually happen.

The country FMS projections are updated on a quarterly basis and included in the quarterly Section 36(a) report required by the AECA.

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## THE JAVITS REPORT

Section 25(a)(1) of the AECA is commonly referred to as the Javits Report, so named for its original sponsor, former Senator Jacob K. Javits, R-NY. Section 25(a)(1) requires the President to submit each year "an Arms Sales Proposal covering all sales and licensed commercial exports under this Act of major weapons or weapons-related defense equipment for \$7 million or more, or of any other weapons or weapons-related defense equipment for \$25 million or more, which are considered eligible for approval, during the current calendar year, together with an indication of which sales and licensed commercial exports are deemed most likely actually to result in the issuance of a letter of offer or of an export license during such year."

It is of particular importance to note that the Javits [Report] is a calendar year (CY) report, not a fiscal year report.

The Secretary of State actually submits the Javits report to Congress, but the bulk of the input to the report is provided by DSAA. Development of this report begins in October of each year with a message from DSAA to the SAOs requesting that they project sales which meet the dollar thresholds contained in the law. The OPS regional divisions review the SAO inputs (due around Thanksgiving) and provide a refined input to OPS-MGT. The regional divisions also indicate which of the projected sales listed are most likely to result in an LOA. OPS-MGT scrubs the inputs from the regions and compiles a draft Javits report [Part I (FMS) and Part II (Commercial)]. They check the input for realism and internal consistence across countries and develop Part III (a description of each weapons system or sale included in the report). This draft (after an additional review by the regional divisions and the DSAA Comptroller) is sent to the Joint Staff, ISA, ISP, OUSD (S&R) (for Eastern Europe), and OUSD(A) (usually around the New Year) for review and comment. After comments are considered, the draft is submitted to the State Department (PM/DRSA) early in January. State conducts its own review of the report for foreign policy considerations and after sending a final draft for comment to DSAA, provides the report to the required Congressional committees.

For the CY 93 Javits Report, the Military Departments requested a formal role in the development of the report. DSAA accommodated this request by scheduling time for the MILDEPs to provide a separate input based on review of SAO inputs prior to the regional divisions' input. The MILDEPs also were allowed to comment on the draft report at the same time it was sent to ISA, ISP, etc. As for all the other players in the Javits process, the MILDEPs found that the main constraint on the ability to participate effectively was the required quick turnaround of information.

The concerned Congressional committees usually request briefings from senior State and DSAA officials on the report. The Congressional interest in the information in the report and the requirement for the report developed during the period of large mid-East arms sales in the early 1980s. Congress decided it would be good to have an advance picture of what major sales they would be asked to review during the coming year. If the Javits Report identified any sales that members of Congress considered clearly unacceptable, it might be possible to either change or avert those sales by consultation with the Legislative Branch rather than a formal, public confrontation.

Unlike FMS estimates, the Javits is not constrained by an imperative to be conservative in estimating future sales. In fact, informing Congress for future years of sales that might, but may well not happen in a given year, is one function the report serves. On the other hand, especially during State's final preparation of the report, potential sales may be dropped from the DSAA

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draft if State believes a sale is unlikely to materialize and could cause controversy on the Hill or if leaked to the press.

## CLASSIFIED ANNEX

Section 522 of the FY 93 Foreign Operations Appropriations Act (P.L. 102-391) provides in part:

That the President shall not enter into any commitment of funds appropriated for the purposes of section 23 of the Arms Export Control Act for the provision of major defense equipment, other than conventional ammunition, or other major defense items defined to be aircraft, ships, missiles, or combat vehicles, not previously justified to Congress or 20 per centum in excess of the quantities justified to Congress unless the Committees on Appropriations are notified fifteen days in advance of such commitment.

Previous appropriations acts have for several years included this provision or one similar to it. Rather than justifying a commitment of Foreign Military Financing (FMF) funds each time a commitment is made, it was decided to justify a coming year's FMF spending for all countries at once. The annual CPD was the obvious repository for such a baseline justification. However, since a country's plans for spending its FMF can reveal much about a country's future order of combat, such a justification must be classified, thus the classified annex to the CPD. Changes in the use of FMF above the thresholds contained in Section 522, P.L. 102-391, must be notified to Congress by a Program Content Notification.

The Classified Annex includes a page for each country which receives FMF or has a positive uncommitted balance in its FMF account. The page is divided into three parts which show the amount of FMF the country will spend on cash flow programs (if any) initiated in a previous year, FMS to be spent as sustainment and maintenance of equipment previously acquired, and new programs to be funded, in whole or in part, with FMF. Note that the Classified Annex covers fiscal years, not calendar years.

The Classified Annex development process begins in October with a message to SAOs in countries with FMF funding in the CPD. The SAO responses are staffed with the regional division which provide draft inputs to OPS-MGT. OPS-MGT compiles these inputs, checking each for consistency and numerical accuracy. For cash flow countries, the cash flow financing shown in the Classified Annex must match that shown in DSAA/Comptroller's cash flow reports. OPS-MGT staffs the Annex with DSAA Comptroller, DSAA Plans, and the State Department. DSAA then submits the Annex to the appropriate committees, usually within a few weeks after the unclassified CPD is submitted. After an informal 15-day waiting period (the same as for Program Content Notifications) it becomes the new baseline for the purposes of Section 522. DSAA usually provides a briefing for interested Congressional staffers.

The imperative in developing the Classified Annex is to provide the most accurate possible projection of how FMF will be used during the coming year, particularly for MDE or MDE-like items. This will minimize the number of Program Content Notifications required during the year, speeding the countersignature process for FMF financed LOAs or commercial contracts. The total numbers shown for each country in the Classified Annex are predetermined, so the question of whether to make a conservative estimate or not never arises.

## COMPARISON

From these descriptions it can be seen that these three exercises each serve different purposes. FMS projections are used to estimate the financial activity of the FMS trust fund, such

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as total obligations and disbursements by military departments, to implement FMS orders, and to estimate the level of collections to finance the sales and DoD's costs of executing the FMS program. The projection covers all countries and all sales and is done on a *fiscal* year basis.

The Javits reports answers a specific Congressional requirement and hopefully eases the path for Section 36(b), AECA reports during the coming *calendar* year. It only covers sales exceeding certain thresholds, but does so for all countries and for both FMS and commercial sales.

The Classified Annex provides a baseline for the FMF program for the *fiscal* year. It therefore only includes those countries which have or will receive FMF. It only covers FMS and commercial sales financed in whole or part by FMF. The requirements is to accurately predict FMF use in order to avoid Program Content Notifications.

For the beleaguered country desk officer the fact that these three exercises are really so different is likely to be of little consolation. They all involve tight turnarounds and seemingly incessant queries from OPS-MGT. It would be well to remember the following. First, Yes, a lot of the information for your country is likely to be applicable to all the exercises. Compare your inputs to the exercises to see that they are consistent (remembering, however, the different imperatives and the effect of on-going developments). Second, work off last year's final edition. That way you are more likely to have your input match the format and style that is required, and it is highly likely that some of the information for last year's input may still be valid (especially for the second year of the FMS projections and Classified Annex) if you or your predecessor did a good job of gazing into the crystal ball.

#### ABOUT THE AUTHOR

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