U.S. ASSISTANCE TO THE STATE OF ISRAEL

REPORT BY THE COMPTROLLER GENERAL OF THE UNITED STATES

The following excerpts from the Comptroller General Report, GAO/ID-83-51, June 24, 1983 are published for the information of the security assistance community. Seven asterisks represent material deleted by GAO.

D I G E S T

The United States has furnished assistance to Israel since 1948. . . .

-- Aid levels have increased significantly since 1973 and in fiscal year 1982 exceeded $2 billion (Foreign Military Sales (FMS) and Economic Support Fund (ESF)). . . .

-- Following the 1979 Camp David Accords, Israel remained the largest recipient of U.S. economic and military security assistance and Egypt became the second largest.

The size of this program, along with its interaction with military assistance and arms sales to other countries in the important Middle East region, led GAO to review the security assistance and related programs for Israel. The review covered justifications for assistance, its use, and its contributions to U.S. and Israeli interests and objectives. This is one of a continuing series of GAO reviews of assistance programs and security commitments with recipient countries.

The U.S. commitment to Israel has a long history dating back to President Truman's recognition of Israel on May 14, 1948. This commitment is predicated upon shared cultural, religious, moral and political values. The commitment is not couched in terms of any specific agreement such as a mutual security pact and the United States has followed a policy of step-by-step diplomacy in seeking to resolve various issues. . . .

Spiraling Arms Transfers to the Middle East

The major objectives of U.S. assistance to Israel include demonstrating U.S. political support for an ally and providing for the defense of Israel. . . . At the same time, however, the United States has a variety of interests in assisting Arab states in the Middle East and arms transfers to these Arab states are increasing as well. . . .

As arms transfers to Arab states increase Israeli officials believe that they must contend with the possibility of fighting nations which have acquired additional and improved equipment. As a result, perceptions of Israel's arms

needs increase and this contributes to a spiraling arms transfer effect in the Middle East.

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Precedent Setting Features of the Israeli Program

Besides the size of the program, Israel has asked the United States for, and has already received to some degree, assistance under liberalized financing methods. Were these liberalized terms not provided, additional assistance may have been requested.

GAO takes no position on the level or terms of assistance to Israel but believes the precedents being set by the liberalized financing methods should be continually considered against the possibility that other recipient countries will ask for similar concessions. Examples of granted liberalized financing techniques follow:

-- Israel was the first beneficiary of the cash flow method of financing which allows a country to set aside only the amount of money needed to meet the current year's cash requirement for multi-year production contracts rather than the full amount. Egypt was subsequently authorized use of the cash flow method. This has allowed the countries to stretch buying power and place more orders than the available loans authorized in a given year. It appears to GAO that this implies a commitment for the Congress to approve large financing programs in future years to ensure that signed contracts are honored. . . .

-- Israel has been forgiven (allowed write off) a substantial portion of the FMS loan program ($750 million of $1.7 billion for fiscal year 1983). Now other countries have received the same benefit (Egypt and Sudan). Israel has also requested and received the forgiven portions of the FMS loans before drawing down the interest-bearing repayable, part of the loans. This defers interest expenses for the Israeli Government. . . .

-- Israel will receive an ESF grant totalling $785 million in fiscal year 1983, making it the largest program recipient. Funds are provided to Israel as a cash transfer, not tied to development projects as is the case for many other countries. . . .

-- Israel receives trade offset arrangements from U.S. firms when it makes FMS purchases. Offsets are commitments by U.S. firms to purchase a specified amount of Israeli goods or services. Such arrangements are common under commercial arms sales but unusual under FMS in that the administration believes these funds were intended by the Arms Export Control Act, for purchase of materials and services in the United States. . . .

-- Israel, more than any other FMS recipient country, has been provided with a higher level of military technologies having export potential. Although the United States retains legal control over

export of these items to third countries, this could have an adverse impact on the U.S. economy and can affect U.S. ability to control proliferation of these technologies. . . .

Israel has also asked for additional concessions to assist in further stretching its assistance. For example:

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-- Israel requested in 1982 that ESF funds be disbursed in a single payment at the beginning of the year. This could cost the U.S. Government in excess of $40 million in interest annually when compared to the usual quarterly disbursement of ESF funds. This is currently done only for Turkey, as part of an understanding with other donors. Israel was advised that the United States preferred to continue with quarterly disbursement and did not renew this request in fiscal year 1983. . . .

Financing Israel's Increasing Requirements

Even though large amounts of the FMS loans for Israel have been forgiven, there remains a large loan element. Debt servicing of these loans is of concern to Israel and the amounts owed will increase in the near future. In fiscal year 1983 Israel will repay the United States about $887 million for interest and principal on outstanding FMS loans. Israeli military debt repayments will rise from a projected $906 million in 1984 to about $1.1 billion in 1992. . . .

The United States and Israel are faced with the necessity of financing the increasing requirements for new purchases as well as the repayments of outstanding loans. . . .

Some Questions Facing the United States

GAO believes the trends toward increasing assistance requirements, greater relaxation of restrictions on the use of FMS funds, competition with U.S. production, and setting of precedents that others may seek to emulate will continue as long as Israel feels militarily threatened by its neighbors in the region. It is clear that the ultimate solution to Israel's security depends on a negotiated settlement with its Arab neighbors.

Overall, the United States is faced with questions regarding the assistance program for Israel, along with other countries, that are not easily resolved. Among these are:

1. What is the impact of U.S. programs and policies on the spiraling Middle East Arms escalation?
2. To what extent do concessions to Israel make it difficult to resist other recipients which might ask for similar concessions and what are the potential impacts and increased costs to the United States?
3. To what extent might Israel ask for increased U.S. assistance levels and concessions to be able to repay mounting debt-servicing requirements to the United States?

Agency Comments

The Departments of State, Defense, and the Treasury, the Central Intelligence Agency and the Agency for International Development (AID) have provided comments on this report which have been incorporated where appropriate. Defense, Treasury and AID concurred with the general thrust of the report. The Department of State positively noted the comprehensive nature of the report. Most of the agencies comments dealt with updating information and clarifications.

The Department of State, AID and GAO agree that Israeli debt is rising, but there are different opinions as to its implications. State Department foresees no development of a severe debt situation and AID reported cause for optimism regarding Israel's balance of payments prospects. GAO noted the rising FMS repayment demands may lead to more pressures to increase assistance.

The Department of State noted that this review portrayed the arms growth in the region as the outgrowth of the Arab-Israeli dispute. GAO concurs in that, if taken alone, this report highlights the Arab-Israeli focus of the regional arms race. The multiplicity of facts that affect arms transfers are presented by various recent GAO reports on the subject area. Nonetheless, the Arab-Israeli dispute remains a major element of the growth of arms transfers to the region.

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The following is a reprint of GIST (July 1983) -- a quick reference aid on U.S. foreign relations published by the Bureau of Public Affairs, Department of State:

EL SALVADOR: CERTIFICATION PROCESS

Background: In passing the 1981 International Security and Development Cooperation Act, Congress found that "peaceful and democratic development in Central America is in the interest of the US" and that "substantial assistance to El Salvador is necessary to help alleviate suffering and promote economic recovery within a peaceful and democratic process." The act makes provision of military aid to El Salvador in fiscal years 1982 and 1983 contingent upon the President's certification, at 180-day intervals, that the Salvadoran Government is:

- "Making a concerted and significant effort to comply with internationally recognized human rights;"
- "Achieving substantial control over . . . its own armed forces;"
- "Making continued progress in implementing essential economic and political reforms, including the land reform program;" and
- "Committed to the holding of elections at an early date."

In addition, amendments to the act require a report on progress in bringing to justice the murderers of several US citizens.

On July 20, 1983, the Secretary of State, to whom the President delegated authority for making the certification, sent to Congress the fourth certification report. In his transmittal letter the Secretary noted that "the statutory criteria for certification are met," but " . . . the record falls short of the broad and sustained progress which both the Congress and the Administration believe is necessary for the evolution of a just and democratic society in El Salvador. . . . The evolution of democracy is a long and difficult process, especially when there are concerted efforts to defeat it. . . . Our disappointment over the pace of change should not obscure the fact that change is occurring."

US Policy: The US encourages a process of reconciliation, based on emerging democratic institutions and economic reform, while supporting El Salvador's efforts to defend itself against externally supported guerrillas. President Reagan stressed this policy, including strong support for human rights, during his 1982 visit to Central America, in his April 27, 1983 address to the joint session of Congress, and in his July 18, 1983 speech to the International Longshoremen's Association. During FY 1982, US economic aid was $189 million and security assistance $82 million.

July 1983 Certification: During the past six months, the democratic process in El Salvador has begun to overcome the major historical handicaps of underdevelopment, misrule by military and economic elites, and more recently, communist-supported insurgency. Progress toward ending violence

against civilians and controlling all elements of the armed forces has been less evident. The Salvadoran Government is intensifying steps to increase respect for human rights and end abuses by elements of the armed forces and, in particular, the security forces, but its ability to control these institutions is not yet complete. Progress in the cases of murdered American citizens also has been disappointing.

Human Rights and the Armed Forces: The number of press-reported civilian deaths attributed to political violence rose from 160 per month during the last half of 1982 to 177 per month during the first half of 1983. This compares to more than 300 per month in late 1981 and early 1982. Civilian disappearances reported in the press were at about the same level since the last certification, though far below previous levels. The Constituent Assembly unanimously passed, and then extended beyond its July 16, 1983 termination date, an amnesty program under which more than 500 of the approximately 730 prisoners held under Decree 507 were freed. The Human Rights Commission became fully operational and expanded its activities. Government orders emphasize proper conduct toward noncombatants and prisoners and stress that human rights violations would be investigated and punished. However, the Salvadoran Government failed to accompany its positive efforts with a clear program to identify and punish those responsible for abuses that still take place. Bitter civil strife and breakdown of the criminal justice system have exacerbated this problem. El Salvador has now begun, with US assistance, a major judicial reform designed to address many longstanding systemic problems.

Agrarian Reform: El Salvador's agrarian reform -- one of the most comprehensive ever attempted in Latin America -- is continuing to advance. The titling process has accelerated, and restoration of those evicted illegally has been increased. Including family members, more than 500,000 Salvadorans -- 18% of the rural population -- have either directly or as members of cooperatives become the owner/operators of the land they once worked for someone else.

Political Reform: During the past six months, El Salvador made progress in strengthening democratic institutions. The Constituent Assembly has become the primary forum for political decision and debate and has completed a draft of a new national constitution. Formal debate on it is scheduled to begin soon in the Assembly, which has continued to function as a legislative body until a new one can be elected under the new constitution. Another important milestone should be reached this year -- direct election of a constitutional president. Political parties are already selecting candidates, debating platforms, and attempting to build support.

Cases of US Citizens: The Salvadoran Government is making good faith efforts to bring to justice those responsible for the deaths of US citizens but has been hampered by adverse court rulings. The prosecution of security force personnel accused of murdering four US churchwomen in December 1980 continues slowly. There has been no progress in the case against Lt. Lopez Sibrian for involvement in the January 1981 murder of two US labor consultants, but the case against two accused National Guardsmen has been brought to trial. Two cases, the death of John Sullivan and the disappearance of Patricia Cuellar, are still being investigated. Three members of the

Salvadoran Army are under detention for the murder of Michael Kline, and the case is before the courts. The Salvadoran Government is pursuing all leads in the murder of Lt. Commander Albert A. Schaufelberger by the Popular Liberation Forces, a faction of the FDR/FMLN guerrilla movement in El Salvador.