
SECURITY ASSISTANCE PROGRAMS FOR FY 1986

By

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[The following is a formal statement of Under Secretary Schneider presented to the Subcommittee on Arms Control, International Security, and Science of the House Foreign Affairs Committee on 28 February 1985.]

INTRODUCTION

Mr. Chairman, Members of the Committee, I am pleased to appear before you today to discuss the Administration's proposed FY 1986 security assistance program. As Secretary Schultz indicated to you last week in his overview of the entire program, foreign assistance is a prudent investment abroad. It assists us in the effective implementation of our foreign policy objectives, promotes global economic and political freedom, and reflects the humanitarian concerns of the American people. Foreign assistance is also one of the most cost-effective means at our disposal for enhancing our national security.

A year ago I testified before you on the three most difficult but vitally important issues facing our security assistance program at that time: The Soviet and Cuban backed insurgency in Central America, the acute tensions in the Middle East, and the critical and growing debt burdens of many developing countries. There have been, and will be, no easy, quick solutions to these problems, but I can assure you today that we have made progress in each of these critical areas.

First, looking at the area closest to home, there is definite and sustained progress toward democracy and stable political processes in Central America and, indeed, throughout the hemisphere, notwithstanding the continuing efforts of Soviet and Cuban-backed insurgents to undermine the political and economic fabric of Central American governments. El Salvador now has a democratically-elected government whose legitimacy is recognized by its own populace and by the world's democratic community. There has been a sharp decline in political violence in that country and a growing acceptance of democratic institutions. Bolstering these positive political developments, the Salvadoran military has demonstrated an increasing professionalism and ability to work within the guidelines established by President Duarte; there has also been a turnaround in their ability to conduct counterinsurgency operations.

Elsewhere in Central America progress has been equally impressive. In neighboring Honduras, new Presidential elections are scheduled for later this

year. Panama and Belize have both recently held democratic elections. Constituent Assembly elections in Guatemala eight months ago were widely accepted as honest and open. Costa Rica maintains its strong democratic traditions. U.S. economic and security assistance has been, and will continue to be, vital for the continuation of this progress in the region, especially in the face of Nicaragua's Soviet and Cuban backed destabilization efforts.

Second, there have also been modest positive developments in our quest for peace in the Middle East. The Israeli offer last September to negotiate with Jordan without preconditions and the recently initiated phased withdrawal of Israel's armed forces from Lebanon have helped create an atmosphere more conducive to progress toward negotiations. Likewise, the resumption of diplomatic relations between Jordan and Egypt--two Arab states which support a peaceful settlement--is a promising development. We have also been following the Jordan-PLO dialogue and believe that if an agreement promotes negotiations between Jordan and Israel, it would be a positive step.

U.S. security assistance has not been the only contributing factor in these two vital areas of the world. It has, however, played an important role. Because the Administration and Congress, working together, have been able to increase the levels of our security assistance during the past few years, we now have on-going effective programs that are beginning to show clear signs of success. We are unquestionably on the right track; we must continue to press the advantages already gained; we must not let up now.

Third, last year I also described to you the critical debt service burden facing many countries around the world. Although much remains to be done, we believe the worst of the debt crisis is behind us. For example, in Latin America, where fully half of the LDC debt problem is concentrated, there has been a significant improvement in the region's current account deficit and economic growth has returned to the region as a whole. Though much of the credit must go to the difficult adjustment efforts undertaken by many of these countries, the U.S.-led worldwide economic recovery clearly has been a major benefit in spurring this turn-around.

The positive Congressional response to the FY 1985 Administration request to place Foreign Military Sales (FMS) financing on budget has made possible the initiation of a modest, but much-needed concessional FMS financing program. Along with increases in MAP grants, concessional FMS lending is an important U.S. effort to help security partners who often face either more debt or heightened military vulnerability. This flexibility has permitted us to tailor comprehensive security assistance programs which take into account the economic circumstances of needy friends and allies.

Even under the best of economic and budgetary circumstances, however, there are limits to the amount of financial assistance which the United States can or should provide to our friends and allies. This year, as the President has made clear, we must deal with the structural deficit in the federal budget in order to maintain a healthy U.S. financial system and continued non-inflationary economic growth. At the same time, we must not abdicate our global responsibilities. The Fiscal Year 1986 International Affairs request that we have proposed balances the need for budgetary restraint with our foreign policy and national defense imperatives. Security assistance plays a key role in the pursuit of these objectives and, as I will demonstrate later in

my testimony, we have prepared a proposal that represents the minimum level of resources necessary to meet our foreign policy/national security needs.

FY 1986 PROGRAMS AND THEIR VALUE

Security assistance contributes directly to the security of the United States and at the same time lowers defense costs. It:

- enables our friends and allies to obtain military equipment and training to defend their independence and territorial integrity, permitting them in some cases to undertake responsibilities which otherwise we ourselves might have to assume.
- furnishes tangible evidence of our support for the independence and territorial integrity of our friends and allies, thus deterring possible aggression and promoting regional stability.
- contributes to the broad cooperative relationships which permit the presence of U.S. facilities or access by U.S. forces to host country facilities in time of threat to mutual interests, thereby reducing the cost of U.S. defense.
- provides a means of demonstrating U.S. constancy and willingness to stay the course in support of nations whose survival constitutes a basic purpose of our foreign policy.
- helps alleviate the economic and social distress that breeds domestic violence and invites external subversion--particularly important for countries whose necessary military expenditures would otherwise impose severe strains on their economies.
- and also provides to the U.S. and foreign buyer the benefits of consolidated planning and economies of scale.

The FY 1986 security assistance program was carefully developed through an extensive interagency process which thoroughly reviewed each program. We first identified and assigned relative priorities to our key strategic objectives and coordinated them with foreign policy and defense planning. Then we designed a security assistance program and integrated it with development assistance priorities. The FY 1986 program has been crafted in accordance with the Administration's extraordinary effort to restrict budget growth. At the same time, each recipient country has been provided with the specific mix of program resources which we believe will best meet its needs.

As a result of this process, for FY 1986 we are requesting \$9.5 billion in security assistance--\$6.7 billion in military assistance programs and \$2.8 billion in Economic Support Fund (ESF) assistance. This ESF request level, of course, does not contain an amount for Israel. Once this amount is included, the ESF level will, as the Secretary has testified before me, undoubtedly exceed the ESF level appropriated in the FY 1985 Continuing Resolution.

Military Assistance Programs. The \$860 million increase in Foreign Military Sales (FMS) credits and grant military assistance over the levels in the FY 1985 Continuing Resolution can largely be accounted for by increased levels for only four countries: Egypt, Israel, the Philippines, and Turkey. All four are friends with whom we have close security cooperation. The latter two countries are base rights countries whose armed forces are in dire need of modernization or improvement.

For our largest security assistance program--the Foreign Military Sales (FMS) credit program--we are requesting \$5.7 billion for programs in 27 countries. These programs enable eligible countries to purchase U.S. equipment, spare parts and training. With the exception of a few country programs which were raised in limited amounts, virtually all of the increase in the FMS financing program level over FY 1985 is for Egypt and Israel: an increase of \$125 million (to \$1.3 billion) for Egypt, and of \$400 million (to \$1.8 billion) for Israel. The \$3.1 billion request for these two countries is almost 55 percent of the total FMS credit package. Twelve percent of the FMS program, or \$651 million, is to be devoted to concessional financing for 15 countries. \$1.9 billion, or almost 34 percent of the total FMS program, will be in the form of Treasury rate financing for 16 individual country programs.

In the Military Assistance Program (MAP), we are requesting \$949 million in MAP for 36 country and regional programs. This is a 15 percent increase over the FY 1985 CR level and represents a continuing effort to provide more grant assistance to the poorer countries. Providing grant funding for defense articles and services, MAP is vital to financially-strapped countries which otherwise either would have to forego providing for their defense or would have to divert scarce resources from economic development needs.

We consider the \$65.7 million requested for the International Military Education and Training (IMET) program to be one of the most important, albeit one of the smallest parts of our security assistance budget. These grants not only provide needed professional military training, but they also represent a low-cost method of providing a valuable channel of communication and influence with an important sector of a country's leadership, especially in the Third World, exposing trainees to such U.S. values as respect for democracy and observance of human rights.

Economic Support Fund. The ESF program at \$2.8 billion reflects the continuing U.S. concern for the economic problems faced by our friends and allies. This form of economic, rather than military, assistance is provided on a grant or loan basis to countries selected for their special political and security interest to the U.S. It comprises approximately 30 percent of the total FY 1986 security assistance program. As I noted earlier, a request for Israel has not yet been included in our FY 1986 ESF program. We have been carrying on a dialogue with Israel through a joint U.S.-Israeli Economic Development Group which is reviewing recent Israeli economic policy and development plans, and the role of U.S. assistance in support of that policy. We will submit an ESF request to Congress once we have completed our analysis of the Israeli economic program and assistance requirements for FY 1985 and FY 1986.

Finally, our FY 1986 proposal includes \$37 million for Peacekeeping Operations (PKO) funding. This will support multilateral activities in the Sinai and Cyprus.

WORLDWIDE PROGRAMS

Within the overall security assistance program, the largest single component--41 percent--is devoted to Israel and Egypt to support Middle East stability and peace. When an ESF request is made for Israel, this percentage of the total will increase and the percentage for other country groupings will decrease correspondingly. Base rights countries--Spain, Portugal, Greece, Turkey, and the Philippines--account for 24 percent. These seven countries receive almost two-thirds of all security assistance. Military access and front-line states are provided 16 percent, while the strategically and politically important countries in Central America and the Caribbean account for another 11 percent. We have little choice but to provide those countries with the level of resources that are either required by treaty or are necessary to help insure their (and our) security. As a result, only seven percent of the total FY 1986 security assistance request is left for all other country and regional programs (over 75). The only real flexibility we have is in this final area and even here we are limited by resources (only \$654 million) and the damage to our interests that the elimination of some of these small programs might bring about.

Egypt and Israel. One of our highest priorities continues to be to bring a just and enduring end to the conflict and turmoil which has disturbed the Middle East for so long. Our assistance plays a crucial role. For that reason, the principal recipients of our worldwide request remain Israel and Egypt.

We believe that Israel must maintain confidence in its security if it is to take risks for peace. As a result of a bilateral review of Israeli defense requirements, we have increased the level of forgiven FMS financing substantially from \$1.4 billion in FY 1985 to \$1.8 billion in FY 1986. In a similar fashion the FY 1986 forgiven FMS financing program for Egypt has been increased to \$1.3 billion to give it credible deterrence against Soviet armed radical states opposed to the Camp David accords and the Egyptian-Israeli peace treaty.

In FY 1986 we plan to provide the same level of ESF support to Egypt as that appropriated by Congress for FY 1985. As I indicated earlier, an ESF request for Israel will be made at a later date.

Base Rights Countries. Countries which provide the U.S. with the right to utilize territory to maintain bases are critical to the forward projection of our global defense posture. Security assistance for those countries at the requested levels is essential to sustain confidence in the best efforts pledges which underpin all U.S. base agreements. Security assistance in FY 1986 totals \$2.3 billion for the five base rights countries.

Greece and Turkey are essential to the continued viability of the southern flank of NATO. In addition to controlling Soviet naval access to the Mediterranean, Turkey is strategically positioned along the flank of the

USSR's Transcaucasus region, where the Soviets have substantially increased their forces.

At \$785 million, the FY 1986 MAP and FMS financing request for Turkey is \$85 million higher than the amount allocated under the FY 1985 CR. Although a more significant increase could be justified on programmatic grounds, the amount requested is the minimum necessary to assist Turkey to meet its NATO commitments through force modernization, including the purchase of F-16 aircraft. Furthermore, we are proposing that a larger portion of the Turkey program be on a concessional basis to avoid undercutting that country's stringent economic stabilization program that has helped turn the country's economy around. While we are proposing an increase in military assistance, improvements in Turkey's economic performance have allowed us to lower our ESF request to \$150 million.

We continue to pursue vigorously progress on Cyprus. The Government of Turkey has accepted and supported the [United Nations] Secretary General's initiative. This initiative offers the best available prospect for success. We must not undermine it by considering punitive conditions on assistance to Turkey which can only stiffen the resistance of those who oppose compromise.

Our request for Greece is identical to last year's. Greece is a traditional friend and democratic ally with whom we have strong common interests even though we disagree on several important issues. U.S. security assistance for Greece assists in its armed forces' modernization to meet both Greek and NATO defense needs, and helps to ensure continued use of four U.S. military facilities and a number of smaller installations.

Our security assistance program plays an important role in helping Spain to consolidate its new democratic institutions and meet NATO modernization standards. The FY 1986 request for this country, which permits U.S. use of Spanish military facilities, is the same as we are providing in FY 1985.

Portugal is a reliable NATO ally which provides the U.S. with access to the strategic Lajes Air Base facilities. The modest increase in the FY 1986 request over the FY 1985 program level for Portugal results primarily from an increase in FMS financing and will enable Portugal to begin participation in a NATO frigate program.

In the Philippines, security assistance supports a vital defense relationship. The basic framework for our request is the Presidential "best efforts" commitment made in connection with the five-year review of our Military Base Agreement in 1983. Our security assistance program of \$197 million for the Philippines seeks to alleviate the Philippines' most critical economic crisis since World War II and to counter the growing armed insurgency by the Communist Party's military arm. It will also support the revitalization of democratic institutions and long-term economic growth. The ESF request is for \$95 million while the military assistance request has been increased to account for the FY 1985 shift of much of the FMS request to ESF. An improvement in the grant and concessional nature of our request reflects our concern for the deteriorating Philippine economy.

Military Access/Front-Line States. A number of U.S. security assistance recipients, such as Korea and Thailand, face hostile Soviet or Soviet-backed states across their borders. Others permit the U.S. to use storage facilities or provide refueling arrangements which are important to the execution of U.S. military exercises and enable us to move troops to trouble spots at critical moments. I will comment on a few of these key allies.

Within this grouping of countries, we have valuable treaty allies such as Korea where almost 40,000 U.S. troops are located. Our military assistance to this country is virtually at the same level as in FY 1985.

Thailand, another front-line state, faces Soviet-supported Vietnamese aggression in Cambodia from military forces larger and better equipped than its own. Our program is designed to provide the Thais with a credible deterrent force to deal with Vietnamese incursions, such as the one that recently occurred, and to help them cope with the economic costs of the refugee displacements that have resulted from the fighting in Cambodia.

Other key friends, such as Sudan, face serious security threats from Libyan adventurism. Pakistan, also in this grouping, is a vital participant in international efforts to resolve the crisis created by the Soviet invasion of Afghanistan. Our assistance package to Pakistan is part of a six-year program to help that country to improve its defense capabilities and economic performance. The small overall increase to \$576.2 million in our security assistance program with Pakistan is almost entirely in the ESF account and partially reflects a decline in our requested levels of development assistance.

On the Arabian Peninsula, Oman is the only country where we have a formal access agreement which provides access to U.S. military forces in peacetime and contingencies, and allows the U.S. to preposition military materiel at several locations. Oman is a strong supporter of Camp David and the President's September 1982 initiative. It is key to preserving our access to the Gulf.

Central America and the Caribbean. As I indicated earlier, progress is being made in Central America on both the political and military fronts. The momentum is clearly with our friends in the region. I am encouraged and confident that our security assistance funding has been a key factor in these positive developments. The appropriation by Congress of adequate FY 1985 security assistance and an increased level for FY 1984 through a supplemental for Central America has gone a long way toward implementation of the recommendation of the National Bipartisan Commission on Central America for "greater continuity and predictability" in our aid to that beleaguered area. Nevertheless, the guerrillas in El Salvador remain a serious threat and must be dealt with, Nicaragua still threatens to destabilize the entire region, and economic problems remain.

Our FY 1986 request for Central America is essentially one of continuity to sustain and further the progress made in implementing the National Bipartisan Commission's recommendations. For FY 1986, over 70 percent, or \$601 million, of the security assistance requested for Central America is in the form of ESF. This assistance will continue our support for the resolution of the economic crisis plaguing the area. (There is also an additional \$379 million in development and food aid proposed for the area.) To enable our

economic assistance to be effective, we plan to devote \$254 million in military assistance to safeguard the further development of democracy and economic growth against anti-democratic forces.

As in FY 1985, El Salvador is to be the largest recipient of security assistance in Central America. The proposed \$132.6 million in military assistance represents only a small increase over the enacted FY 1985 level and will help provide the security necessary to sustain critical economic, social, and political programs. Our ESF request of \$210 million is crucial to the maintenance of economic stability in the face of continued destabilization efforts by the insurgents. It will enable the Salvadoran Government to procure commodities, including equipment to restore and maintain internal communication, marketing and distribution links, and to assist displaced families.

Neighboring Honduras has serious financial difficulties exacerbated by its proximity to the area's trouble spots. The use of \$80 million in ESF to fulfill a need for fast-disbursing, non-project assistance will be negotiated within the context of a U.S.-Honduran economic working group. Grant MAP totaling \$87 million is to be applied to the critically needed Honduran program of selective modernization and expansion of its armed forces.

Costa Rica, an historically secure democracy, nevertheless faces security challenges and considerable economic stress. \$2.5 million in MAP grants is to be largely dedicated to the maintenance of previously provided equipment. An ESF program of \$150 million is planned for Costa Rica to assist in stabilizing the economy and establishing the export-led recovery.

For Guatemala our total security assistance request of \$35.3 million--\$10.3 million in military assistance, and \$25 million in ESF--is less than our request for FY 1985, although more than the amount allocated from FY 1985 appropriations. Guatemala is preparing for Presidential elections this year. Our program is designed to encourage further movement toward democracy, and to assist the Government of Guatemala to redirect resources to solve socio-economic problems and overcome local insurgency. It would be counter-productive if this assistance were to be again restricted, as in the FY 1985 Continuing Resolution.

Lesser amounts of military assistance are requested for Belize, Panama, the Panama Canal Area Military Schools, and for the U.S. Army School of the Americas at its Ft. Benning, Georgia transitional training facility.

The Caribbean area still faces severe economic problems which we are now attempting to address with ESF levels that are substantially higher than those for military assistance. Nevertheless, the island nations of the Eastern Caribbean have small or no regular defense forces and require modest amounts of U.S. military assistance to enhance their capabilities and give them the capacity to protect themselves. An adequate amount of economic and security assistance to this area is essential if we are to maintain stability in the region and avoid future Grenada's.

All Other Country and Regional Programs. After security assistance has been provided to Israel and Egypt, base rights countries, Central America and the Caribbean, and military access/front-line states, only about 7 percent (or \$654 million) is left for more than 75 country and regional programs

scattered around the globe. While many of the nations in the "all other" category are provided only small IMET programs, others have much more pressing security needs which must be addressed even though they do not fall into the four priority categories that I have just discussed.

Peru, for example, is struggling against the brutal Maoist "Sendero Luminoso" insurgency, as well as drug traffickers. We plan to assist Peru in dealing more effectively with its threats to internal stability while encouraging efforts at arms supply diversification.

We have also requested a new FY 1986 ESF initiative for three Andean democracies--Ecuador, Peru, and Bolivia. The negative effects of almost hemispheric wide economic difficulties have hit these smaller democratic countries especially hard. Their economic problems have been compounded by major damage from the "El Nino" climatic disaster of two years ago. Political stress, especially in Peru, has resulted from terrorism and narcotics trafficking. We are proposing \$70 million in ESF for these three countries to help alleviate some of their more pressing problems.

Africa also represents critical security interests to the U.S., and a number of African programs fall within this "all other" grouping. Africa is important for its vital mineral resources, U.S. investment, and its proximity to our interests in Southwest Asia. In East and Southern Africa, the destabilizing influence of the Soviets must be countered. Our strategic objectives continue to include the pursuit of peaceful settlement in Namibia, a change in South Africa's system of apartheid, and the withdrawal of Cuban troops from Angola.

Africa today faces the most critical test in its history--the continuing economic crisis compounded by drought. Our ESF programs in Africa, in conjunction with other forms of economic assistance, are designed to help spur economic development in the face of famine and economic stagnation. An important element of our African ESF request is the \$75 million for the African Economic Policy Reform Program. We believe this program can continue to stimulate the visible trend in many African countries toward free market economies and away from statist economic approaches.

For FY 1986, modest MAP and IMET programs are proposed for Burma. One of the world's poorest nations, Burma is struggling against an insurgency which is heavily supported by illicit narcotics production and trafficking. We believe the small program we are proposing can contribute to strengthening U.S. and Burmese relations and to their dealing more effectively with this internal security problem.

I have highlighted only a few of the small but important security assistance programs in this "all other" category. There are, of course, many more for which time will not permit a full discussion. Suffice it to say, however, that any reductions in our program will fall heavily in this small area of flexibility. In some cases, entire country programs will be in jeopardy.

FY 1986 LEGISLATIVE PROPOSALS

For several years this Committee has considered favorably a number of proposed changes to the Foreign Assistance Act (FAA) of 1961, as amended, and to the Arms Export Control Act (AECA) which would materially increase the effective management of the security assistance program. (And, thanks to your personal leadership, Mr. Chairman, the House passed an authorization bill last year.) The lack of an enacted authorization bill during this period, however, has precluded their ultimate implementation. For FY 1986 we plan to resubmit most of last year's initiatives in addition to several new ones. . . .

New Proposals. First, we are proposing that the procedures governing the Special Defense Acquisition Fund (SDAF) be streamlined. SDAF has now operated with success for three years, but we need some refinements in the law. In the foreign assistance appropriations legislation we have requested authority to obligate SDAF funds over a three-year period. We are also proposing certain modifications to the existing legislation governing the SDAF. One such modification would permit the fund to be used to acquire defense articles and services in anticipation of their transfer to the Department of Defense to replace items transferred from DOD inventory to foreign countries. This would assist in maintaining the readiness of the U.S. services while facilitating the transfer of less advanced systems in the inventory of DOD to foreign countries. The other legislative change would allow the fund to be used to keep on continuous order such defense articles and services as are assigned by DOD for integrated management by the Defense Logistics Agency in anticipation of the transfer of similar defense articles and services for foreign countries.

Another proposal would amend section 24 of the AECA to authorize and make available funds to pay claims based on defaults and reschedulings of outstanding FMS loans. A long-term mechanism for maintaining the integrity of the Guarantee Reserve Fund (GRF), this proposal for a Guarantee Reserve will treat the GR as most of the federal government's guarantee reserve programs are already treated, which is to put it on a permanent authorization basis and fund it as necessary. It will eliminate the need for yearly authorization and appropriation. We believe that this is a more practical and efficient way to handle this fund.

In addition, we propose to amend the AECA to waive contract administration charges on a reciprocal basis with NATO allies as we already do for quality assurance, inspection, and contract audit defense services.

Also in the NATO context and at the request of the House Foreign Affairs Committee, we are requesting authorization to continue the implementation of the Patriot agreement (Cooperative Agreements on Air Defense in Central Europe) which is authorized for FY 1985 in the DOD Authorization Act.

We are also seeking to conform the calculation of the costs of training using MAP funds to the calculations of costs of IMET by excluding the costs of salaries of members of the U.S. services from the pricing.

Because the provision of training is so important for increasing professional skills and exposing foreign nationals to U.S. values, including human rights, we have included another training initiative this year. This proposal would permit training from development, ESF, MAP, and IMET funds, notwithstanding certain general or country-specific prohibitions on the provision of assistance that would otherwise be applicable. The training programs would be relatively modest in size and the allocation of funds for such programs will remain subject to all Congressional oversight requirements. Further, the human rights provisions of the FAA (sections 116 and 502B) and the prohibition against police training (section 660) would continue to apply.

Because of certain country-specific and other restrictions, some countries have not been able to obtain items necessary for the safe operation of previously supplied U.S. origin equipment. For example, Chile has F-5 and A-37 aircraft purchased from the United States a decade or more ago. Items such as ejection seat cartridges for these aircraft are manufactured only in United States arsenals. If they are not replaced when worn out, the operation of the aircraft becomes very hazardous. Should the U.S. be in the position of denying such equipment needed to avert life-threatening situations? We think not. We are therefore proposing an amendment which would permit the sale and licensing of such equipment which is essential to the safe operation of previously-supplied equipment.

Another proposal would permit the transfer of defense articles and defense services on the U.S. Munitions List under the Anti-Terrorism Assistance (ATA) program when appropriate and necessary to deal with actual or potential terrorist incidents. In addition it would repeal the sunset provision on the ATA in order to provide a permanent authorization for the program.

We have also added Thailand to the list of countries which would be eligible to repay FMS Treasury rate loans at extended repayment terms of not more than 30 years (i.e., 20 years following a grace period of 10 years on principal). Although the Thai economy remains relatively strong and open, Thailand's external debt has continued to grow rapidly and its balance of payments position has become more strained.

Proposals Resubmitted. A number of proposals are resubmissions from FY 1985. Modifications have been made in a few of these.

We are again proposing a new section 23 of the AECA which otherwise authorizes the provision of FMS credits. The entire FMS financing program was placed on-budget for FY 1985. We are able to implement a concessional loan program under current authorities. As last year, the proposed amendments would reflect more clearly and accurately the changed nature of the FMS financing program and allow the program to be managed more efficiently.

The Administration's FY 1985 proposal to help strengthen judicial systems in Central America and the Caribbean by authorizing the training and support of law enforcement agencies under carefully defined conditions has been resubmitted and expanded slightly to cover programs throughout Latin America and the Caribbean. Economic assistance funds, including ESF, could be used for such projects.

Other proposals that we are again requesting for FY 1986 include:

- The addition of El Salvador, Honduras, Pakistan, Sudan, Tunisia and Venezuela to the list of countries authorized to have more than six U.S. military personnel assigned in country to security assistance programs.
- A waiver of the return of old MAP equipment proceeds.
- Reciprocal provision, without charge, of catalogue data and services to NATO countries.
- Authority for the President, with a Presidential determination, to remove prohibitions against assistance to certain countries, most particularly the People's Republic of China, contained in section 620(f). This year's proposal is identical to the provision passed in H.R. 5119 last year.
- Streamlining of reprogramming requirements.
- Permitting no-cost exchange training on a one-to-one basis.
- \$25 million in emergency PKO drawdown authority.
- An increase in penalties for violations of the AECA.
- Authorization of maritime law enforcement assistance.

Other Provisions. We are also proposing to amend the FAA to establish a ceiling of \$360 million in FY 1986 on the aggregate value of additions made to overseas stockpiles of defense articles in FY 1986, i.e., in Korea's stockpiles.

CONCLUSIONS

In 1981 this Administration pledged to rebuild the leadership role of the United States in world affairs. We moved to formulate a coherent, consistent foreign policy in which the entire range of assistance programs--bilateral and multilateral, economic and military--are used effectively to further U.S. political, economic and humanitarian interests and to enhance our security and the security of our friends around the world. We have made considerable progress in the last four years and I am convinced more than ever that the programs we have implemented are effective. We are moving in the right direction.

Mr. Chairman, U.S. strategic interests and commitments have dictated a set of priorities which we have attempted to implement--leaving few resources and very little flexibility to fulfill the needs of other friends and allies. The FY 1986 program I have presented to you today represents the minimum funding essential to meet national security objectives and conduct a coherent and responsible foreign policy. Let us continue to move forward with a program that we know works. I hope that Congress will give the FY 1986 security assistance program its full support.

STRATEGIC OBJECTIVES AND LEGISLATIVE INITIATIVES
IN THE
FY 1986 SECURITY ASSISTANCE PROGRAM PROPOSAL

By

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[The following is a formal statement by Lieutenant General Gast before the Subcommittee on Arms Control, International Security, and Science of the House Foreign Affairs Committee on 28 February 1985, in support of the FY 1986 Security Assistance Program.]

INTRODUCTION

Thank you Mr. Chairman.

Secretary Schneider has just presented to the Committee a comprehensive review of the Administration's request for the FY 1986 Security Assistance Program. We in the Defense Department fully support this request and believe it represents a balanced economic and military approach to achieving our national goals. I will review these goals, that is, what defense believes are the major strategic objectives underlying the Security Assistance Program recommendations. In addition, I will focus on the legislative initiatives that are being proposed by the Administration this year to allow us to better manage the Security Assistance Program and the funds authorized by the Congress.

In his State of the Union Address, the President made the point that, "Dollar-for-dollar, security assistance contributes as much to global security as our own defense budget." And last week Secretary Weinberger supported the President's statement in detail by providing to the full committee a comprehensive summary of the role of security assistance in furthering U.S. foreign and defense policy objectives around the world. As the Secretary stated, these assistance programs yield many tangible and intangible benefits to the U.S. at comparatively little cost to the American taxpayer.

STRATEGIC OBJECTIVES

Security assistance contributes to our foreign policy and defense objectives in a number of ways, some obvious and some less so. Our programs are developed from a hierarchy of strategic considerations. First come U.S. global strategic objectives. From these, we derive strategic objectives appropriate to each region in which we have major interests. These regional objectives are weighed together with the country-specific threats and military

requirements in order to plan, with the country, the actual details of each country's assistance package.

At the same time, our programs accomplish the second objective of assisting friendly countries in their national development by encouraging self-reliance and promoting self-sufficiency through better self-defense. We provide critical military skills training and the key technologies that help friendly countries make better use of their own limited resources in deterring regional threats to their stability or coping with internal threats that may be inspired or supported by outside forces. Our supplements to these in-country efforts make the difference between real defense self-sufficiency and destabilizing weakness. Hence, our programs help to significantly reduce the likelihood that United States forces will be called upon to intervene on the behalf of friendly or allied countries, a major benefit in and of itself. Coincidentally, the reduced likelihood of having to intervene with U.S. forces means we can afford to direct our attention to the most pressing international security issues with less concern for being spread too thin in the Third World.

There are two more ways in which security assistance supports U.S. foreign policy and global strategy. One is that security assistance contributes to increases in U.S. ability to project power and deploy forces rapidly and responsively whenever strategic regions or key allies are threatened. By providing assistance to those countries which have agreed to retain U.S. bases on their territory and grant access to military facilities, we not only improve our capability to project forces far from our shores but we are better able to sustain those forces through the use of air and port facilities. Furthermore, we gain the additional force multiplication that comes through increased standardization and interoperability.

In addition to enhancing power projection, security assistance has become an increasingly important inducement in promoting peaceful solutions to longstanding and potentially explosive disputes, most notably in the Middle East.

Without security assistance, we would not be able to implement regional strategies involving friendly countries and allies. Further, as you review our program, I urge you to keep in mind that our country funding proposals tend to support several different strategic goals simultaneously, because regional strategies inevitably intersect and overlap. Clearly, security assistance is instrumental in shaping our foreign policy and is making a direct contribution to our national defense at remarkably low cost.

CRITICAL COUNTRIES

Secretary Schneider has reviewed, region by region, the programs we propose in this budget request. I would like to address what we believe are the most critical country program requests for FY 1986 and why we hold these priorities.

El Salvador. In little more than one year, the Salvadoran Armed Forces have demonstrated remarkable improvements in professionalism and morale, the political situation has stabilized, the sharp decline of the economy has slowed,

and the incidence of civil violence has been reduced. These results have been encouraging and are attributable, in part, to the election of President Duarte and to the security assistance funding approved for the past two fiscal years. President Duarte has done much to restore confidence in the government and institutions of El Salvador, and it is clear that your decision to support Duarte was correct. The past funding levels have provided the necessary training, equipment, and motivation for the armed forces. The levels the Congress approved for both FY 1984 and FY 1985 contributed greatly toward meeting the need for the "greater continuity and predictability" called for in the National Bipartisan Commission Report on Central America.

Continued military assistance at the proposed \$132.6 million for FY 1986 is necessary to sustain current operations and to preserve and expand the security shield so that economic growth and democratic practices can take hold. The high priority military funding areas will continue to be training, sustainability (ammunition, supplies, spares), communications, infrastructure, night sight devices, fire support, and tactical mobility.

Turkey. Another high priority is the continuation of our support for the modernization of the Turkish Armed Forces. Turkey's critical strategic location places it at the nexus of our security interests in NATO, the Middle East, and Southwest Asia. The funds we are requesting are urgently needed to help remedy the growing obsolescence of its military equipment and to help meet its agreed-to NATO force goals on the Southeast Flank. Existing plans have identified well over \$1.0 billion in critical funding needs for Turkish Armed Forces modernization. But we are only requesting \$785 million in FMS credits and MAP grants for FY 1986 to hold down the overall funding request.

The Congress has recognized Turkey's key role in NATO and the critical nature of its military requirements by providing significant and increasing security assistance funding. Together we have achieved some momentum toward helping Turkey begin to upgrade its Korean War vintage tanks, modernize its navy, and begin a modern fighter aircraft program. We need to continue to support this momentum as well as to provide the stability needed to preserve the democratic political process in Turkey.

Israel and Egypt. The pursuit of peace in the Middle East is still one of the highest priorities. Our continuing military assistance programs with Israel and Egypt reflect this endeavor. Their strong sense of security is the foundation for any progress in the peace process. We have close dialogues with both countries concerning the threats to their existence and the modernization needs of their forces.

We are recommending increases in both the Israeli and Egyptian credit programs to \$1.8 billion and \$1.3 billion, respectively, and all on forgiven terms. The Israeli level has been worked out with the Government of Israel after lengthy discussions, and that government has agreed to these levels. A separate economic package for Israel will be sent to the Congress as soon as the final details are worked out. The level we propose for Egypt supports the multi-year program we have been planning with the Egyptians, a program that includes only limited modernization.

The proposed FMS credits for Israel and Egypt constitute nearly 55% of the entire FY 1986 program. We do not believe that increases for these two countries ought to be made at the expense of other recipient countries which have programs that are smaller, but have equivalent strategic importance.

Asian Allies. There are two other critical countries facing menacing security threats--Thailand and the Philippines. Thailand confronts an imminent threat from Vietnamese forces building up on its border and is in bad need of funds to modernize its forces to hold off this threat. The Philippines face a growing insurgency and a deteriorating economy and is plagued by spreading violence. Resource and leadership problems in the armed forces have thwarted progress against the military aspects of the insurgency. However, recent government initiatives in the areas of military, political, and economic reform show promise in restoring democratic institutions, renewing the economy, and reducing violence.

We believe that the Armed Forces of the Philippines benefit from a solid cadre of legal, professional officers capable of correcting internal problems and aggressively pursuing a successful counterinsurgency strategy. The time has come to signal our support for the encouraging and positive efforts undertaken thus far. We all are anxious to see constructive change in the Philippines and we all know that it is incumbent on us to act in our own interests so that the Philippines will be encouraged to resolve its serious problems. Our FY 1986 security assistance request represents our best opportunity to foster constructive change. Not only should it help ease the financial burden on the Philippine economy, but it also should provide an incentive for the implementation of military restructuring and support the counterinsurgency effort that has begun.

THE FY 1986 REQUEST

The FY 1986 security assistance request continues previous year programs with no major country increases, apart from Israel and Egypt. We have requested that the FY 1986 security assistance request be on-budget again. This allows the U.S. to tailor the country programs to military requirements and economic needs through a mix of treasury rate loans, concessional credits, and/or MAP grants. The provision of concessional loans and grants is one important way in which we continue to address U.S. foreign policy objectives while taking into consideration the Third World debt problem and the global economic growth rates.

Although FMS/MAP financing is focused on Israel and Egypt and, to a lesser degree, on our allies in the southern tier of NATO, we believe that the FY 1986 request represents a judicious mix of military and economic financing of all programs. Country by country, our programs are well balanced between military and economic aid, with most of the less-prosperous countries receiving a much higher proportion of economic than military assistance, especially in Latin America and Africa. Those countries which have all or mostly military financing, such as Spain, Greece, Korea and Thailand, are more prosperous, but nonetheless, of high strategic importance. Their loans are mostly at near-market interest rates.

PROGRAM CONTINUITY

Internationally, our Security Assistance Program has been one of the most important policy vehicles for generating constructive change. The close cooperation between the executive and legislative branches and the support of this Committee and the Congress as a whole has contributed significantly to improving the program. But now it is time to step back, review the details of legislation, and determine how to promote more effective and efficient management of the program. We want to work closely with you in refining the details of improved program management.

PROGRAM PLANNING AND MANAGEMENT

In the broadest sense, our security assistance planning supports basic U.S. foreign policy goals by taking into account the well-known interdependence between physical and economic security. Political stability is as threatened by economic instability as it is by externally inspired political destabilization. When political stability is threatened, democratic institutions and values are also threatened. Consequently, security assistance planning places as much emphasis on the balance between economic and military assistance and the impact of future debt burdens as it does on the effect of force structure modernization in deterring threats. Moreover, we use the meticulousness of the planning process and the experience of our security assistance staffs to ensure that our country proposals do not contain unnecessary extras and are tailored to fulfill thoroughly-reviewed country requirements.

In the course of pursuing our objectives in our relationships with countries with whom we have security assistance programs, especially those where we provide financing, we work diligently with the countries to ensure that they buy what they need, that it can be effectively operated and maintained within their resources and skills, that it contributes significantly to their defense, and makes a contribution to coalition defense where possible. Our embassies, security assistance offices, unified command staffs, and Washington agencies are all deeply engaged in this process. We work with countries to ensure they recognize the need for balanced programs appropriate to the threats they face, programs that include the training and logistics support they need to make and keep their forces effective. Our experience has shown that most countries do not make exorbitant requests or unreasonable demands on the U.S. They are sensitive to their ability to absorb new equipment. Almost all are aware of their financial limitations.

Considerable planning is devoted to integrating security assistance with economic development and other programs by tailoring appropriate levels to specific country requirements. We have made great strides in reducing the future repayment burdens of the poorer countries. Our military financing assistance is only a small portion of the total debt burdens for most of these countries except perhaps Israel and Egypt. We often conduct periodic program reviews, meeting alternatively in the country and in the U.S. We have increased and intensified these planning efforts with critical countries over the last two or three years, and believe that the financing programs we have presented in the FY 1986 budget request are firmly grounded in sensible military programs.

Great care has been taken to integrate economic, developmental and military assistance in developing the overall country program requests. We find that most countries utilize their military assistance financing primarily to support existing systems, for operation and maintenance requirements, infrastructure improvements or for training, with very limited modernization of equipment. Funding for improved military housing, for uniforms or other personal gear, or for training, may do much to professionalize a national military force. In other cases, our financing is intended to contribute to infrastructure improvement through civic action programs such as those in Africa.

LEGISLATIVE INITIATIVES

Now I would like to discuss some of the changes in legislation being proposed in the FY 1986 bill. A number of these initiatives have been submitted in the past, but because there were no authorization acts, we failed to get final action. The last authorization act was in 1981, but we need new authorizing legislation to streamline security assistance management and to take useful measures to strengthen our training bonds with other countries.

I want to personally express my appreciation to this committee for completing action on, and to the House of Representatives for passing, an authorization bill last year. Let me call attention to the initiatives being resubmitted as well as our new initiatives. The initiatives have been broken into general categories such as training and better program management.

TRAINING

There are several training proposals in the legislation. We have resubmitted our initiative for reciprocal one-for-one military exchanges between our senior and intermediate military schools and equivalent schools in other countries. Professional Military Education (PME) exchanges enable U.S. officers to gain experience and knowledge of differing environments, while building relationships with future foreign leaders. Likewise, senior foreign officers coming to the U.S. benefit from their exposure to U.S. military education and to our future leadership. However, as it stands now, we cannot reciprocate the free tuition offered by other governments. The exchanges would require no financial charges, new costs, or appropriations since they would be conducted on a one-for-one reimbursement-in-kind basis.

Another legislative change seeks authority to permit training in maritime skills. Originally introduced by the Congress itself, this proposal would permit the Coast Guard to provide a more comprehensive training program and facilitate coordination with various maritime-related units within other countries. For example, maritime law enforcement for offshore fisheries surveillance is fundamental to the West African coastal surveillance initiative. It would allow the use of grant monies to provide education and training in maritime search and rescue, operations and maintenance of NAVAIDs, port security, at-sea law enforcement, international law, and general maritime skills.

The legislative initiative to exempt military salaries from MAP-funded FMS training and services costs would permit countries to stretch their dollars and train more students. By providing MAP to any country, a political and economic determination of need has already been established. Charging U.S. military salaries to the MAP recipient appears inconsistent with the determination of need. This initiative not only assists grant aid countries in getting the most for their MAP training money, it also reduces the cost of some services such as Mobile Training and Technical Assistance Teams, and it contributes to the process of streamlining the multiple tiers of training prices while stretching the worth of security assistance dollars.

Another proposal focuses on reprogramming notices to Congress for the IMET program. Raising the threshold for congressional notification to \$25 thousand would eliminate numerous time-consuming notifications for accounting and costing adjustments; permit prompt response and reprogramming execution of small, yet politically sensitive training programs; and permit more efficient use of funds by allowing discretionary reallocation of year-end savings when Congress is in recess. The initiative only reduces the number of notifications now required solely for program increases of less than \$25 thousand; it still retains new country program notifications of any amount.

The final training proposal I want to talk about is an exemption of IMET from those types of assistance prohibited by the Symington-Glenn provisions. Denying foreign recipients' eligibility for the relatively small but highly effective IMET program stifles efforts to establish close military-to-military ties. Our proposed exemption of IMET would allow the provision of IMET grant aid training--consistent with international human rights and excluding police training--in order to maintain military-to-military dialogues.

We feel that this package of training initiatives, together with our request for an increase in IMET, serves to cement our relationship with countries where our primary military assistance is training.

MANAGEMENT

All of our proposals are aimed at making the operation of the Security Assistance Program more effective and efficient. The initiatives grouped within the management category are often designed to promote a more efficient and effective program by eliminating or minimizing, at least, the elaborate and sometimes unnecessary procedures involved in implementing the program.

One proposal would amend Section 515 of the Foreign Assistance Act (FAA) to increase the number of Security Assistance Organizations (SAOs) abroad [which are] authorized more than six uniformed personnel. There are currently 12 countries, under law, where we have more than six authorized military personnel in the SAO vice more than 30 a few years ago. We are requesting this authority for Tunisia, Pakistan, Sudan, Honduras, El Salvador and Venezuela. In adding these six countries, we have already increased total military personnel strength by a total of 21 in five of the six, following the appropriate interim 30-day notification to Congress. One more is proposed for Sudan. Our request is only for those countries with the most urgent program management requirements due to expanding FMS programs and the host government's need to assimilate U.S. equipment and support

functions. Worldwide, our overseas military strength in SAOs decreases by ten from FY 1985 or nearly two percent, and this decrease comes after the minor increases discussed above.

Concomitantly, we are resubmitting our initiative for authorization to use FMS administrative funds to augment MAP funds for representational activities. Despite rising costs and the increased visibility of our security assistance programs, representational funds have been declining in real terms. The levels have been held constant for the past few years and the amount provided does not cover the expenses incurred by our people abroad. Since this proposal would be funded from the FMS surcharge proceeds, it would not require budget outlays.

Another proposal designed to improve the administration of the Security Assistance Program concerns recovering only the full costs of FMS operations which excludes the fixed base operating costs. We do not want to charge to FMS customers [those] costs which would be incurred whether an FMS program exists or not. If the changes are not made, the administrative surcharge will have to be raised. The impact of any increases would almost certainly be more costly to the U.S. taxpayer and would affect primarily just a few countries that are already paying a significant share of FMS administrative expenses. This issue is very important to the integrity of the FMS program and we believe it is sound and necessary. We have worked out the language on this with your committee and wish to see it reflected in the permanent legislation.

The provision to waive MAP proceeds would relieve recipient countries and ourselves of an unnecessary administrative burden. Currently, countries possessing obsolete MAP grant defense articles of little value, have difficulty getting rid of it because of the elaborate procedures required to send the proceeds of the sale back to the U.S. This practice is neither militarily or financially cost effective. Since equipment is seldom, if ever, sold and few proceeds have been paid to the U.S. Government, the waiver of the requirement in selected cases will not result in any significant loss to the U.S. Treasury. Of course, all legal and policy controls applicable to third country transfers would continue to apply to any sales of this equipment.

Increasing the criminal penalties for AECA violations contributes to our desire for better program management through increased discipline and control. We believe that present penalties are too low to function as effective and viable deterrents.

Likewise, our proposal to incorporate more appropriate language in the AECA on the direct and concessional loan program enhances management by eliminating the requirement for presidential certification that reduced interest rates for loans are to the benefit of the United States. The proposed rewrite would authorize the President to provide concessional loans, at his discretion, with repayment periods of up to 12 years at an interest rate of no less than five percent per year. It would also provide for an interest rate on direct loans at the current treasury rate at the time of advancement. We can implement the concessional loan program under current law without the above rewrite, but this would eliminate an unnecessary certification process.

The proposed legislative initiative to eliminate the Guarantee Reserve Fund (GRF) was designed to correct some of the inefficiencies in current procedures. As you know, the GRF was established to enable the USG to satisfy its obligations under various FMS loan agreements to make payments to the Federal Financing Bank (FFB) and other leading institutions when borrowers defaulted or loans were rescheduled. If current patterns persist, we project that payments out of the GRF will continue to exceed collections credited; therefore, we propose to eliminate the current GRF and to transfer any balance existing at the end of FY 1985 to a new account to be called the Guarantee Reserve (GR). The new account will employ a modified revolving mechanism, but when a required payment exceeds available balances, the GR will be authorized to draw upon a permanent indefinite appropriation. Permanent indefinite appropriation means that no specific sum is appropriated, the appropriation is not constrained by any time limit, and once Congress approves the appropriation, no further approval action is required on an annual basis. In its totality, the concept means that the authority will exist to obligate and expend U.S. government funds in the amount necessary to cover payments out of the GR. This proposed change ensures that appropriated funds will always be available and that the amount drawn upon will be the exact amount required. This approach will smooth the cash flow problems that are likely in FY 1987 and beyond and avoid the possibility of the GR being unable to fulfill its legal obligation to pay defaulted and rescheduled guaranteed loans.

Our final legislative proposal in the management category focuses on the Special Defense Acquisition Fund (SDAF).

SPECIAL DEFENSE ACQUISITION FUND (SDAF)

The Congress has supported SDAF since it began in 1981. We now have some experience with the program. It has had the benefit of a General Accounting Office review. We adopted most of their suggestions while the report was still in draft. We believe the program is running smoothly and effectively and is serving the purposes the Administration and Congress had in mind in setting up the fund.

While exploring the practical boundaries of SDAF operations, we made some informal proposals for use of the SDAF that did not receive an enthusiastic response in Congress. In each instance, we accepted committee or staff restraints on use of the fund, even though no specific legislation was passed. We have clearly demonstrated that we want to work with the Congress as the SDAF develops into an even better instrument of foreign and defense policy. As is the case for any of our proposals, we would be happy to brief any member or the staff on the development of the SDAF and our rationales for the specific proposals we are making for the improvement of the program.

In the final GAO report there were several recommendations for changes to the existing legislation. We have selected part of them--not all--because we believe that development of the program should be evolutionary. We believe our selected proposals deserve your understanding and support.

As you probably are aware, we are seeking to increase the SDAF capitalization level from \$900 million to \$1.5 billion. An increase was suggested by the Armed Services Committees last year. The increase we propose moves us just over halfway to the \$2.8 billion capitalization level we had justified in our original proposal in 1981. We need the increase in capitalization to support the \$345 million program we are proposing for Fiscal Year 1986. If the capitalization level is not increased, we would have to severely limit purchases in FY 1986 because much of the capital we have now is still tied up in the pipeline.

We are also seeking, in the Appropriations Bill language, authority to spend SDAF obligation authority over a three-year period rather than in just the year granted. We have been having some difficulties with the one-year limit on obligation authority; high priority SDAF buys have had to be postponed or foregone because the clock ran out and we could not synchronize our SDAF efforts with the military department procurement cycles for some items. Three-year obligation authority is consistent with the GAO's recommendations.

Another legislative initiative is "procurement for payback." This was also one of the GAO's recommendations. The GAO report said, "Allow SDAF to purchase equipment not approved for release to foreign countries. This would allow foreign needs to be met by withdrawing releasable equipment from military service stocks and replenishing those stocks with the advanced nonreleasable versions procured by SDAF."

We are doing something like "procurement for payback" today for normal Foreign Military Sales, but we do not release the older item from service stocks until the new item is delivered. This legislation would enable us to release the older item earlier by funding its replacement in U.S. stocks with SDAF.

"Procurement for payback" would only be used as an exception. We would most likely limit it to missile systems like AIM-9M, TOW-II, and Stinger, where the older model is similar to the newer model in cost and capabilities. We understand the concern that we might be tempted to sell an item that is more sophisticated, more "high tech" than is necessary. However, the Defense Department is very protective of its technology, as you know. Nonetheless, when we do not have the "lower tech" item in production and find it in our national interest to provide a military capability to one of our friends or allies in an emergency, we are caught in the same dilemma we had before SDAF. We either take it out of U.S. forces' inventory and cause an adverse readiness impact, or we sell the "high tech" item from production, even though it may be more than the country really needs and more than we really want to sell. This "procurement-for-payback" provision would guard against that eventuality. All sales will still be governed by the Arms Export Control Act.

The final SDAF legislative proposal focuses on solving the problem of permitting the Defense Logistics Agency to use SDAF to meet unplanned foreign needs. DLA has responsibility for over 2.4 million of the 4.6 million different consumables and repair parts in the overall defense supply system. Foreign customers are known users of about 2.1 million of the DLA-managed items. Today, the law precludes use of SDAF by DLA because DLA works on

a stock fund basis. Demands and sales are forecast based on historical demand and sales data. When a foreign customer's unplanned demands cannot be taken into account, DLA's purchasing patterns are distorted and this can have a very serious real-world impact on U.S. force readiness. We need only about \$50 million from SDAF to provide to DLA on a one-time basis. We believe this is a prudent measure to take, but we need legislative authority to do so.

To conclude on the subject of SDAF, we believe the operation of SDAF in its first three years has been consistent with congressional intent in legislating the program. The program is beginning to bear fruit in forestalling diversions which would affect the readiness of U.S. forces and in responding to urgent needs of friends and allies. We have provided Congress with full information on SDAF, and have fully complied with informal Congressional suggestions where some felt we were exceeding the Congressional intent. The proposals we are making this year are, with one exception, minor and are meant to improve the management of the program without changing it fundamentally. The changes are supported by the GAO report. The exceptional change we are proposing is to increase capitalization from \$900 million to \$1.5 billion, still a fraction of overall Foreign Military Sales we make each year. We urge your support of these measures, both those which are the responsibility of this committee and those which will later be referred by other committees to a full vote of the House.

NATO

Two of the three legislative initiatives we have submitted involving NATO seek to provide additional services on a no-charge, reciprocal basis when such services are also provided free of charge to the United States. The services we want considered are additional contract administration services and cataloging and codification services. The proposed legislation on these changes would, on one hand, specifically include a service on the list of services provided to NATO allies free of charge that is inherent to contract management, and on the other hand, expand the President's authority to provide additional services. Both initiatives would continue the practice of granting special consideration to NATO countries across a spectrum of arms cooperation and related issues.

Another initiative directed at NATO would provide the Secretary of Defense authority to implement the Patriot Air Defense Agreement over the life of the program. At the direction of the Chairman of the Committee on Foreign Affairs, the agreement is to be incorporated into the annual Foreign Assistance authorization because it involves the transfer of defense articles and services and the waiving of administrative and other charges required for arms transfers under the Arms Export and Control Act.

COUNTRY RELATIONS

We have other initiatives we have grouped under country relations because they deal with very specific aspects of our program with specific countries. Included are removing China from the category of countries prohibited from receiving assistance; [this should help] to further the normalization of

relations and encourage cooperation between the U.S. and PRC; eliminating a life-threatening situation to the Chilean military by supplying safety-of-flight items not obtainable from any other source; and offering ten-year grace, twenty-year repayment on principal terms to Thailand and the Philippines to help ease the burden of repaying future FMS loans.

OTHER INITIATIVES

Of the remaining initiatives, the first would permit the President to authorize the drawdown of commodities and services from the inventory and resources of any U.S. government agency for Peacekeeping Operations. The aggregate value would not exceed \$25 million in a fiscal year.

The second initiative seeks authority to increase the ceiling for the War Reserve Stocks for Allies (WRSA) to \$360 million. WRSA stocks are stockpiled only in the Republic of Korea (ROK) and complement war reserve materiel procured by the ROK from indigenous and U.S. sources as permitted by ROK budgetary resources. Congress approved \$125 million for FY 1984 and \$248 million for FY 1985, but FY 1984 had expired before congressional action, and we could not utilize the \$125 million authority. The value of the stocks which we had intended to shift in FY 1984 is reflected in large part in the FY 1986 request.

And the last initiative addresses the vitally important anti-terrorism program. It seeks to repeal Sections 573 and 577 of the Foreign Assistance Act. These sections, respectively, prohibit provision of U.S. Munitions List items in support of anti-terrorism and terminate the program at the end of FY 1985. The growing trend of international terrorism mandates a continuation of this small, but vital, program. The program should be placed on permanent footing, subject to the normal congressional authorization and appropriation process.

CONCLUDING REMARKS

Mr. Chairman, let me conclude by saying that our Security Assistance Program is a low cost investment in national security and, in addition, a benefit to the national economy. It helps the U.S. retain critical overseas bases and obtain access to overseas facilities. The contributions of security assistance enable friends and allies to better cooperate with the United States in developing vital collective security arrangements, in sharing the collective burden of defense, and in furthering our mutual security interests. In this regard, security assistance significantly reduces the likelihood that United States forces will be called upon to intervene on the behalf of our friends.

I know I reflect the views of the Secretary of Defense when I urge the committee to give favorable consideration to the Administration's security assistance proposals for FY 1986 and the proposed legislative changes to improve our ability to implement the program you authorize.