

FY 1988 Legislative Initiatives for Security Assistance

By

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[The following has been extracted from a statement by General Gast presented in congressional testimony before the Arms Control Subcommittee of the House Foreign Affairs Committee on March 3, 1987.]

LEGISLATIVE PROPOSALS

Our authority and guidance for the Security Assistance Program--the Foreign Assistance Act and the Arms Export Control Act--constitute a solid body of law which governs the implementation of security assistance programs. With the cooperation of the Congress, we have been able to obtain amendments which have led to improvements in the conduct of foreign policy.

Two major revisions of the authorizing legislation have been made during this Administration, in 1981 and 1985. Important changes in 1981 included the creation of the Special Defense Acquisition Fund (SDAF) and clarification of the legislation governing overseas assistance and sales program management. The emergency drawdown authority under Section 506(a) of the FAA was increased [from \$50 million] to \$75 million. Changes to legislation in 1985, covering proposals accumulated over the previous four years, provided more opportunities for the training of foreign military personnel, permitted increased NATO cooperation in weapons development and procurement, removed some country and program restrictions, and facilitated program administration and efficiency. All these provisions have been put to good use. We have improved the efficiency of the program, improved our relations with countries, and, I believe, satisfied the trust of Congress.

Throughout the period, there were significant improvements in the terms of funding of security assistance programs. For the most part, these have been legislated in the annual appropriations bills. These have also helped the program and our relations with countries, though as we have said earlier, the overall funding has suffered a steep and dangerous decline over the last two fiscal years.

This year, we once again surveyed the operations of our programs to see where we needed more or revised authority to execute the programs consistent with the overall goals of the Administration and the Congress. This year the Administration is submitting proposals which we feel are necessary improvements and to which we ask you to give serious and favorable consideration. These fall into [two] major categories as discussed below.

LEGISLATIVE PROPOSALS FOR IMPROVEMENTS TO COUNTRY DEFENSES AND TO DEFENSE RELATIONS

The first proposal I want to discuss is the war reserve stocks for Thailand. It adds Thailand to NATO and Korea as places where we would have authority to establish stockpiles for possible use by the armed forces of either the U.S. or the country. Following consultations with Congressional staff, we signed an agreement with Thailand on January 9 of this year to establish such a stockpile, subject to this required change in the law. Over a five-year period we would place \$50 million of our stocks there, providing the Thais match it with purchases of stocks

themselves. This is a prudent and modest step which ensures that there are adequate stocks in Thailand to provide for additional deterrence and for use in case of an emergency.

The second proposal is the extension of the waiver provisions for Pakistan [which are contained in Section 620E(d), Foreign Assistance Act (FAA), and which allow U.S. assistance to be provided to Pakistan per a Presidential determination, notwithstanding the prohibitions on such assistance in Section 669, FAA, regarding countries involved in the transfer of nuclear enrichment equipment, materials, or technology. Congress granted this waiver for Pakistan in 1981 (P.L. 97-113), but specified the waiver authority would only extend to September 30, 1987]. The Department of Defense remains urgently concerned with the security of Pakistan, especially since the Soviet Union remains in Afghanistan in force and the war continues there. We also value highly our relationship with Pakistan. It is absolutely vital that the waiver is extended to enable the U.S. to continue support to Pakistan over the next six years [i.e., until September 30, 1993].

On police training, we are aware how controversial this has been in the past. However, we are gratified that Congress has provided us additional flexibility to train police over the last two years. Coupled with the provisions for the administration of justice and other limitations, we believe we can administer this training in a way which fully observes human rights. Therefore, we are asking for an extension of the authority [to provide such training] to all democratically elected governments, not just those with longstanding democratic systems. The proposal retains current provisions including the sending of notices to Congress. This provision becomes especially important in the Andean countries whose governments employ civilian law enforcement as well as the military together to combat narcotics traffic.

We should extend the IMET Program to Argentina and Brazil, countries which as you know have made great strides in restoring democracy over the last several years. [Under present law, IMET funding is precluded by Sections 669 and 670, FAA, for both countries because of their unsafeguarded nuclear activities.] We need to complement these strides by enhancing our historic military-to-military relations. The U.S. would of course remain sensitive about human rights.

Finally in this category of improving our defense relations with countries, I would like you to consider extending the list of safety-of-flight items [which may be sold to] . . . Chile. [Arms sales to Chile are prohibited under the 1981 provisions of Sec. 726, P.L. 97-113, although in 1985, limited sales of safety-of-flight equipment were authorized by Sec. 715, P.L. 99-83.] We gained limited authority to do this in 1985, but we find that it is still not safe for Chilean pilots to operate their aircraft. We are willing to provide for the record the complete list of items, as we know them now, needed to make these aircraft safely operative and to help their pilots avoid life-threatening situations.

LEGISLATIVE PROPOSALS: FINANCIAL MANAGEMENT

Turning to the next category, there are a number of sensible ways we can improve financial management and assure the most defense from available resources. These improvements would have practically no budgetary cost to the United States.

The first of these is our proposal to convert uncommitted FMS credits for the Philippines to grants. A proposal along these lines was passed by the Senate Appropriations Committee last year, but did not survive the conference, perhaps because it was cast too broadly. The amount involved is about \$29 million in credits already appropriated for the Philippines. The Philippines cannot prudently take these credits now, even at concessional [interest] rates, in view of their current debt burden. Yet they need the funds--as they did when they were appropriated--in order to continue improvements in their forces. Given our worldwide needs, we were not able to allocate enough from FY 1987 funds to the Philippines given our attempt to meet Gramm-Rudman-

Hollings targets. This proposal, together with the FY 1987 supplemental request for \$50 million, would make up much of the deficiency in our current funding for the Philippines defense effort.

We are seeking permanent authority for the NATO Southern Region Amendment [Section 1101, P.L. 99-661]. This amendment enables us to provide excess or prospectively excess equipment at no cost to NATO allies which receive assistance and which participate in the integrated military structure of the alliance. This amendment was sponsored by the Armed Services Committees, and as a result was limited to FY 1987 and FY 1988. We are responding to the authorization committee's requests to enable permanent legislation. Each of the countries' armed forces equipment is becoming obsolete at an alarming rate and must receive any assistance we can provide to make a meaningful contribution to deterrence and the war-fighting capability of the alliance. This proposal is not a substitute for increased budget authority to enable the procurement of new equipment so vitally required to meet the growing need for a modern military capability. It is supplementary, and the amounts of excess equipment we can provide are limited, but it is nevertheless an important element of our effort to strengthen NATO's southern flank.

The proposal to exclude military salaries from FMS forgiven credit training cases would bring this category of assistance into line with a similar provision for MAP [Section 503(a)(3), FAA]. Israel and Egypt are the only current recipients of forgiven credits. We appreciate Congressional support for the like provision under MAP, and believe it is entirely logical to extend it to other grant aid recipients, Israel and Egypt.

Another improvement required is the establishment of fair and reasonable interest rates. As countries draw down loans now, Section 23 [of the Arms Export Control Act] requires that the interest rate be set at the time of signing the loan rather than upon drawdown. We do not believe this is in the interest of either the U.S. or the credit recipient. For example, loans in FY 1985 had interest rates of from 10.25 percent to 11.5 percent. Current rates are as low as seven percent. Countries see the circumstances as arbitrary and without justification. They have been understandably reluctant to draw down these loans at this time with such a wide difference, especially since all are experiencing debt problems of some degree. Conversely, if rates had gone up rather than down since 1985, the current provision of law would have worked to the detriment of the U.S. taxpayer. We urge the Congress to adopt this proposal in order to assure that neither the U.S. nor the recipient suffers losses due to provisions of the current statute.

We are also asking for legislative authority to retroactively waive collection of the four percent penalty payments on overdue loans. This proposal is in part a response to the Senate Appropriations Committee which stated "that it is contrary to the national security interests of the United States to charge penalty interest on these loans." The penalty was established by the Administration, not the Congress, with the thought it would encourage countries to make timely repayments. But countries which have financial difficulty have not responded. Brooke Amendment sanctions are much more compelling for these purposes. Aside from penalties which Egypt has accrued, we do not believe there is more than \$5 to \$10 million in accrued penalties. Waiving the penalties would have no appreciable effect on any planned budgetary stream of receipts.

Finally we have requested a technical amendment to the portion of the AECA [Section 21] which deals with sales from DOD inventories. We infrequently have programs for sales of certain items from our inventory, wherein readiness considerations will not allow us to ship the items until they are replaced by a similar but improved model. The funds paid by the country are actually used to procure the replacement item, with periodic disbursements made over the life of the procurement cycle--usually two or three years--in accordance with normal DOD disbursing procedures. The statute as currently written requires the purchasing country to make the entire payment the day it signs the sales agreement. The proposed revision would require the country to make the payment only at those times when we actually need them to pay contractors for the replacement item. This proposal would bring Section 21, AECA, into consistency with Section 22, which covers sales

directly from production. It would correct a situation in which we collect funds before they are needed--and place these funds in a non-interest bearing account and deprive the purchaser of their use.

In order to further ensure that no U.S. funds are used to fund arms export deals which may be fraudulent or otherwise questionable, we have proposed changes in Section 38 of the AECA, which regulates the import and export of arms under the licensing procedures. The proposed amendment would provide that no contract may be approved for funding between a foreign government and a person convicted or debarred for a violation of the AECA, Section 38 [or Section 39 which covers sales agents], or of any of the implementing rules and regulations. The ineligibility would last for one year from the conviction or debarment.

GAO RECOMMENDATIONS

At the full committee hearing at which the Secretary of Defense testified, a member cited a number of GAO recommendations which would generate putative savings in the Security Assistance Program. We have been unable to identify the GAO report from which these recommendations were taken, but we can address the recommendations themselves, as we understand them.

The first recommendation was to restore the full cost of training, with a putative increase in receipts of \$100 million. This is entirely inappropriate. Much of the increase would have been in the IMET Program which is a fixed appropriation. The U.S. would not realize more receipts; we would simply take in fewer students. Likewise, for sales of training, we would simply take in fewer students if the cost went up. It would create hard feelings among friends and allies leading to diminishing returns. Moreover, much of the sales of training are financed by fixed appropriations. The countries could buy less training within the fixed amount, but the U.S. would not likely realize increased receipts. Congress in 1985 restored the four-tier price structure, following a year in which a single price for the sale of training prevailed. We need stability in pricing. The development of new pricing structures is not only unwarranted, but would be counterproductive.

It is also said that GAO recommended raising the administrative surcharge to five percent, thus to realize an additional \$200 million in receipts. Most countries have difficulty accepting the surcharge we have now. Certainly, if the surcharge were raised, we would expect FMS sales to further decline--possibly going to Third Country suppliers--and the law of diminishing returns would apply. In our view, we would not create more income but rather would suffer a decline in sales with a corresponding detrimental effect on the U.S. taxpayer. The AECA states the surcharge is to cover the cost of administering the program, and we do not project that it should be raised in order to do so.

Another idea was to eliminate the increase in SDAF [Special Defense Acquisition Fund] capitalization which the Congress passed last year (\$70 million) or liquidate SDAF (\$1070 million). Congress passed the \$70 million increase in capitalization last year and it has been deposited to the SDAF account. Congress also wisely rejected a proposal to reduce SDAF to the \$500 million level. The SDAF, established by Congress in 1981, has served us well by avoiding diversions which would reduce the readiness of U.S. forces, and by satisfying urgent needs of allies and friends. It also has served security assistance recipients well by reducing delivery lead times during a period of declining budgets. It also should be noted that any transfers from SDAF to the treasury would not accrue to the 150 Account.

Finally, it is said that GAO recommends reducing *uncommitted* balances, presumably loans and MAP grants not yet drawn down by countries or obligated against cases. This proposal seems to be based on the presumption that Congress appropriated money not required by countries or that countries have no planned use of the funds. Part of the problem is that countries do not know how much assistance they will receive and thus cannot commit funds until the Administration allocates

them. Given that time is required for countries to program decisions and lay out sound procurement plans, some funds indeed are not quickly committed. But we know of no instances where the recipient countries' requirements are by any means less than allocations, nor do we know of anywhere that they lack plans for commitment of them. Sources possible for these uncommitted balances are already obligated to the countries, either in loan agreements or through transfer of MAP funds to the trust fund. We have no ways to deobligate these funds.

Low Intensity Conflict

[The following has been extracted from President Reagan's *National Security Strategy of the United States*, January 1987, pp. 32-34. This new document reflects the Administration's effort to articulate the essential objectives and elements of U.S. foreign and defense policy, and the national security strategy which guides those policies and serves to advance U.S. interests throughout the world. The discussion of Low Intensity Conflict (LIC) below reflects the growing attention which defense planners and policy makers have been giving to this subject in recent years. Of special interest is the statement that, "The principal military instrument in Low Intensity Conflict . . . is security assistance." For additional information, see the U.S. Army Command and General Staff College Field Circular (FC) 100-20, *Low Intensity Conflict*, 16 July 1986.]

Conflict in the Third World can pose serious threats to U.S. security interests. Low Intensity Conflicts, which take place at levels below conventional war but above the routine, peaceful competition among states, can be particularly troublesome. They often involve a protracted struggle of competing principles and ideologies. Low Intensity Conflicts may be waged by a combination of means, including the use of political, economic, informational, and military instruments. They are often localized, but can have significant regional and global security implications.

Major causes of Low Intensity Conflict are instability and lack of political and economic development in the Third World (though Low Intensity Conflict can occur in areas outside the Third World as well). These conditions provide fertile ground for unrest and for groups and nations wishing to exploit unrest for their own purposes. The resulting conflicts are of concern to the United States when they assault U.S. national interests and the security, values, or political foundations of the United States, our friends, and allies. Low Intensity Conflict can gradually isolate the United States, its allies, and major trading partners from the Third World and from each other. This isolation can be manifest in economic, political, and military terms.

Specifically, Low Intensity Conflict can lead to:

- Interruption of Western access to vital resources.
- Gradual loss of U.S. military basing and access rights.
- Expanded threats to key sea lines of communication.
- Gradual shifting of allies and trading partners away from the United States into positions of accommodation with hostile interests.
- Expanded opportunities for Soviet political and military gains.

An effective U.S. response to this form of warfare requires the national will to sustain long-term commitments. The United States has addressed the manifestations of Low Intensity Conflict through a tough counter-terrorism policy; support for democratic resistance movements; and political, economic, and military assistance to developing nations to help them prevent or combat low intensity challenges.

U.S. policy for dealing with Low Intensity Conflict situations may be summarized as follows: *When it is in the U.S. interest to do so*, the United States:

- Will take measures to strengthen friendly nations facing internal or external threats to their independence and stability by systematically employing, in coordination with friends and allies, the full range of political, economic, informational, and military

instruments of power. Where possible, action will be taken before instability leads to violence.

- Will work to ameliorate the underlying causes of instability and conflict in the Third World by pursuing foreign assistance, trade, and investment programs that promote economic development and the growth of democratic social and political orders.
- May support selected resistance movements acting in opposition to regimes working against U.S. interests. Such support will be coordinated with friends and allies and may contain political, informational, economic, and military elements.
- Will take steps to discourage Soviet and other state-sponsored adventurism, and increase the costs to those who use proxies or terrorists and subversive forces to exploit instability in the Third World.

The Low Intensity Conflict strategies that support these policies must coordinate the use of a variety of policy instruments among U.S. Government agencies and internationally. Responses may draw on economic, political, and informational tools, as well as military assistance.

Economic Policy and Low Intensity Conflict. U.S. policy for Low Intensity Conflict recognizes that long-term political and economic development will reduce the underlying causes of instability of the Third World, help undermine the attractiveness of totalitarian regimes, and eventually lead to conditions favorable to U.S. and Western interests. Therefore, we will encourage expansion of free trade, the development of private enterprise, and the expansion and independence of local economies. U.S. development assistance and economic aid programs facilitate these policies. In addition, we will encourage private investment in the Third World when that investment supports balanced economic growth.

Informational Policy and Low Intensity Conflict. Low Intensity Conflict is a political struggle in which ideas may be as important as arms. We hold significant advantages over our adversaries in this area. In contrast to our adversaries, we have an open political system that thrives on communication and truth. We must ensure, however, that accurate information concerning American ideals and objectives is available throughout the Third World; and that the resources needed to accomplish this are available.

Political Instruments and Low Intensity Conflict. We recognize that other nations may not necessarily develop along democratic lines identical to ours. Nevertheless, we seek to encourage the development of political systems that protect the rights of the individual and provide for representative government, free institutions, and an environment in which human dignity can flourish. We do this partially by example, and by defending our own ideals when they are challenged. We can also promote development of humane social orders by helping eliminate security threats and the underlying economic causes of unrest and instability.

Military Instruments in Low Intensity Conflict. The fundamental tenet of U.S. strategy for dealing with Low Intensity Conflict directed against our friends and allies is that military institutions in threatened states must become able to provide security for their citizens and governments. U.S. Low Intensity Conflict policy, therefore, recognizes that indirect--rather than direct--applications of U.S. military power are the most appropriate and cost effective ways to achieve national goals. The principal military instrument in Low Intensity Conflict, therefore, is security assistance.

The primary role for U.S. armed forces in Low Intensity Conflict is to support and facilitate the security assistance program. The military services must also stand ready to provide more direct forms of military assistance when called upon. Usually, this assistance will consist of technical

training and logistical support. The services and the Unified Commands must also be prepared for the effective execution of contingency and peacekeeping operations when such operations are required to protect national interests. U.S. combat forces will be introduced into Low Intensity Conflict situations only as a last resort and when vital national interests cannot otherwise be adequately protected.

Narcotics Trafficking and Low Intensity Conflict. Narcotics trafficking can breed violence, fuel instability, and threaten governing institutions wherever it is found. The vast revenues produced by illegal narcotics sales, and concomitant use of international financial networks to launder the proceeds of these transactions, can promote the type of instability that becomes a breeding ground for Low Intensity Conflict. For these reasons, our policies for dealing with drug trafficking provide important support for our efforts to deal with Low Intensity Conflict.

Terrorism and Low Intensity Conflict. Under some circumstances, terrorism can be an important aspect of Low Intensity Conflict. This Administration has taken significant steps to define and implement policies to counter international terrorism. These policies focus on deterring, pre-empting, and effectively reacting to international terrorist incidents. Low Intensity Conflict policy goes beyond this, however, and deals with the broader problem of supporting groups and governments against which terrorism is being used as a subversive weapon.

We must realize that Low Intensity Conflicts are frequently protracted struggles. In addition, most of the instruments of power that we can bring to bear on them work indirectly and over a long period of time. Therefore, we must be patient in such struggles. It is important that we prevail, but especially important that we recognize that we often cannot do so easily or quickly. On the other hand, we do hold important advantages. We represent a model of political and economic development that promises freedom from political domination and economic privation. If we can protect our own security and maintain an environment of reasonable stability and open trade and communication throughout the Third World, political, economic, and social forces will eventually work to our advantage.