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# THE FUTURE OF SECURITY ASSISTANCE

By

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## INTRODUCTION

Thank you for inviting me to be your speaker this evening. I'm glad I got the chance to talk to you before USASAC left town--I heard that General Lightner [Commander, USASAC] was trying to move his outfit to Hawaii. Or was that Fort Belvoir?

Seriously, folks, what I would like to talk to you about tonight is the *future* of security assistance. I would like to approach this topic from two angles: *first*, in terms of the external environment or how the world outside of the security assistance community will view and affect us; and *second*, in terms of the internal environment, within the security assistance community itself.

## EXTERNAL ENVIRONMENT

Congress is one of the most important elements of the external environment. Because of the concern with the budget deficit, I can't say that I see a whole lot in that quarter that is encouraging for security assistance.

Once again, Congress has cut military assistance funding. Combined FMS Credit and MAP funding for FY 1989 is \$4.74 billion, a reduction of \$10 million from FY 1988. That reduction is only part of the bad news about funding. Another big part was an increase in the percentage of funding that was earmarked for specific country programs. Last year, an unprecedented 92 percent of the combined FMS Credit and MAP budget was earmarked for only 8 countries. As a result, we had to zero out funding to 15 countries that had received funding in FY 1987, and we had to fund many others well below their sustainment requirements.

This year, earmarking is 93.5 percent, a one and half point increase over FY 1988. As a result, some highly important programs, such as Thailand and Jordan, will have to take some very large funding reductions if we are to keep other key programs, such as those in El Salvador and Honduras, at their barely adequate FY 1988 levels. Serious consideration is being given to a number of options, including breaking earmarks, to preserve key programs.

IMET did not suffer a funding reduction in FY 1989, but neither did it recover any of the large loss of funding it suffered in FY 1988. Furthermore, new legislation requires 18 IMET countries whose per capita GNP exceeds \$2,349 to pick up the travel and living allowances of their IMET students, which is roughly half of the total costs of IMET training. The original draft legislation would have cut out those countries altogether, but we were able to persuade the Congressional staff to accept this compromise.

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For the foreseeable future, I don't think that we can realistically expect any significant funding increases for military assistance in its current context. The pressure to reduce the deficit will keep funding tight for almost all discretionary spending programs. Any increases in foreign assistance funding that do occur will tend to go to the economic accounts, as has happened over the past several years. Military assistance, except for a few country programs, is just not very popular with the Congress.

Another factor that will have a depressing effect on military assistance funding is the growing perception of a declining Soviet threat. *Perestroika* and *glasnost*, the INF Treaty, the Soviet pull-out from Afghanistan, and enhanced prospects for an end to Soviet- or Cuban-supported conflicts in Southwest Africa and Southeast Asia all lend themselves to a view that the world is a less dangerous place. So why spend much on military assistance, especially when overall federal spending is so tight?

I fear that not enough people will stop to think how military assistance programs have made an important contribution to promoting peace, nor how dangerous a place the world remains. Nor do enough people appreciate how cost-effective an adequately-funded military assistance program is at providing security when compared to some forms of regular defense spending. It will be a challenge for all of us to impress successfully upon Congress and the U.S. public the continued importance of a viable worldwide military assistance effort.

If we are going to get increased resources for military assistance, it will have to be done in an innovative manner. Less innovative, but nevertheless important, is for all of us to continue to assail earmarks that are preventing an allocation of scarce resources that would best serve the national security interests of the United States. The advent of a new Administration and Congress creates new opportunities to pursue such ambitious courses.

Things appear to be a bit brighter in the area of sales. FMS sales bottomed out in FY 1986 and FY 1987 at \$7 billion and increased substantially this past year to 12 billion dollars. We have found that there is a solid base of sales of about \$6 billion a year, constituting routine sales of support items, spares, ammunition, and missiles. Army cases constitute an important part of our business, and especially of our solid base. Over the period FY 1983-FY 1988, Army cases represented 42 percent of the total number of FMS cases and 23 percent of total case values.

Only a handful of cases, usually major aircraft sales, make the difference between a big sales year and a bad one. For example, in FY 1988, just four cases--Saudi F-15s, Israeli and Egyptian F-16s, and Kuwaiti F-18s--represented almost \$5 billion of sales. In contrast, in the low sales years of FY86-87, there were only 4 comparable major sales cases, totalling less than \$1.5 billion.

Looking beyond FY 1988, we have some big FMS cases lined up, including Egyptian M1A1s. FMS sales over the next couple of years should be around \$10 billion, possibly more.

We still face a number of problems for sales in the external environment. It will continue to be difficult to make major system sales to Arab states, but whether it will be as difficult as in the past is open to some question. On the one hand, things have gotten worse. Within the last year, Congress has banned all sales of STINGERS to the Persian Gulf, with a limited exception for Bahrain. Congress has also imposed new prior notification requirements on all sales of ground-to-air and air-to-ground missiles and associated launchers, regardless of case value.

On the other hand, there have been some successes. Chief among these was getting the Kuwait F-18 sale through Congress. We also got the Saudi Bradley Fighting Vehicle LOA through the Congressional review process, as well as fighters for Bahrain and the UAE. It remains to be seen whether our recent escort operation in the Persian Gulf has changed attitudes in

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Congress about the need to support our friends in the region, or if the end of the Iran-Iraq War will lead to a reemergence of the earlier trend of increasing resistance to such sales.

We may also encounter increasing conflict between concern in Congress over trade matters, especially our trade deficits with Japan and Korea, and those two countries' growing preference for codevelopment ventures in lieu of straight system sales. Unsuccessful efforts in Congress to tie the sale of AEGIS to Japan to a Japanese purchase of American destroyers is an indication of the problems that we could run into in this regard.

Another issue to consider is how the closer economic integration of the European Community scheduled for 1992 could affect our defense sales and armaments cooperation with our European allies. Many industries are undertaking or are at least considering establishing or expanding operations within Europe to try to get around these potentially increased barriers.

On the one hand, the trend toward a greater Europeanization of these countries' defense trade has been going on for some time, and U.S. industry and government are adapting to it. On the other hand, the defense market, unlike many civilian markets, has always been a highly-politicized and managed one. Countries maintain national defense industries and make procurement decisions often based more on political and national security considerations than on economic ones. This is not likely to change significantly just because of 1992. The bottom line is that the United States can continue to sell successfully to the European market as long as it continues to offer items of superior quality at competitive prices.

## INTERNAL ENVIRONMENT

Those are some of the things we face in the external environment. Let's now look to the challenges we face in the internal environment, and what we can do about them.

Our biggest challenge is to make FMS a more responsive system. Some big strides toward alleviating these problems were made a few years ago through FMS Streamlining, but the system is still not responsive enough. The Streamlining effort should not be considered over with; there must be a continuing effort to increase the efficiency of the system. I am strongly committed to this.

Though FMS is a DOD program, it has never been clear who is in charge. The lines are blurred between those who make policy, those who implement policy, and those who take responsibility for one or the other or both. What military assistance needs is centralized policymaking and decentralized execution, and better, more modern ways of integrating the two.

I know that General Lightner, for one, is committed to making the FMS system more efficient, and is working on ways to accomplish it. As I understand it, one approach he is working on is to pass more of the responsibility for managing systems cases over to the Army's Major Subordinate Commands. This accords well with the need to decentralize execution, and I support the approach.

There are several things DSAA is working on now to improve the process. The first concerns automation. About three years ago, I approached the then Director, DSAA, on this. I told him that someone had to take charge of integrating the information systems of the various parts of the military assistance community. All the military departments are spending money developing systems and no one is making sure that they are compatible. So, inevitably, they won't be. Now as the current Director of DSAA, I have arranged the purchase of open architecture hardware and have set up a planning group to map how we are going to enter the next century. This is a painful process with profound management implications, but we are determined to follow it through.

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The planning group has already finished a study of the functions DSAA performs. The next step is determining where we push data and from where we pull it. Soon we hope to have more information available than ever before. This disturbs some people but others recognize that if the community plans it together, a good management information system should help us to cope with the changing times.

Another thing we are looking into is fixed pricing for LOAs. Fixed pricing would simplify the system, and assist country planning. There are many obstacles to fixed pricing. I have assigned a task force in DSAA to come up with phased solutions to this problem. This task force will report to me soon on this issue, and then I expect them to begin discussions outside of DSAA.

A third major effort of ours is the Fair Pricing initiative, and this relates directly to another issue important to all of us--namely, the financial health of the Administration Fund.

Fair Pricing is an effort to eliminate most add-on charges to FMS cases that are designed to recoup fixed or sunk DOD charges--in other words, charges that DOD would incur even if FMS did not exist. Our primary reason for pursuing Fair Pricing was to provide desperately-needed relief to our friends and allies whose military assistance has been severely squeezed over the past several years. It is estimated that Fair Pricing would increase the buying power of grant assistance by 6 percent on average.

Another thing that Fair Pricing would have done is reduce many of the administrative costs for which FMS is liable. It might even have allowed us to reduce the administrative surcharge while making the Administrative Fund whole. However, Congress was not ready to approve our concept in toto. They did legislate significant price breaks for the recent F-16 purchases of Israel and Egypt. Having won the easy part of the battle, we intend to go right back to the front with our eyes set on possibilities in the next legislative year.

As we calculate, under current rules, the Administrative Fund can be counted on to remain above a safety margin only through FY 1990. The OSD Comptroller, calculating the situation by a different means, figures the Fund to be in a somewhat worse condition. Clearly, something has to be done, and done soon.

Without Fair Pricing, we may have to increase the administrative surcharge within the upcoming year to stay afloat. Another alternative would be to put a further squeeze on the Services' budgets. What I therefore believe we must do is to seek again legislative changes to reduce the costs that are charged to FMS. I refer here to a somewhat more modest form of Fair Pricing whose administrative costs provisions would serve only to avoid an increase in the administrative surcharge, rather than enable a reduction in it.

We would also seek most of the other provisions of Fair Pricing, such as waiving non-recurring costs for cases financed with grant aid, to further stretch scarce military assistance resources. Such an initiative would have a smaller budgetary impact on the DOD budget than would have this past year's Fair Pricing provisions. This may be our last change to avoid more drastic actions.

## CONCLUSION

As you can see, we face many challenges in the future in both the external and internal environment. Some we have relatively little influence over, while others we can do much about, but in all areas we must try our hardest to secure outcomes that best serve the national security objectives for which military assistance and FMS exist. I think I have given you some food for thought.