

U.S. ARMS SALES AND MILITARY ASSISTANCE PROGRAMS

By

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Thank you for the opportunity to talk to you today. We at the Defense Security Assistance Agency (DSAA) look forward to this conference: it's a good opportunity to share views on the salient issues of security assistance and foreign military sales. My boss, Lieutenant General Brown, wanted to be here himself today, but he is travelling with Secretary Carlucci in the Middle East.

In preparing for today's talk, I reviewed some of the themes that we have stressed recently when presenting our military assistance program, including sales. We have been talking about military assistance financing programs as an investment in national security. Others have cited it as the principal instrument for addressing low intensity conflict, especially in the developing world. The Secretary of Defense has emphasized that the United States is a global power with global concerns in an interdependent world. As such, we face many threats to our interests, some indirect and subtle, and others overt and brutal. We also face many opportunities as a nation to further the causes of political freedom and economic development, which thrive best in peace.

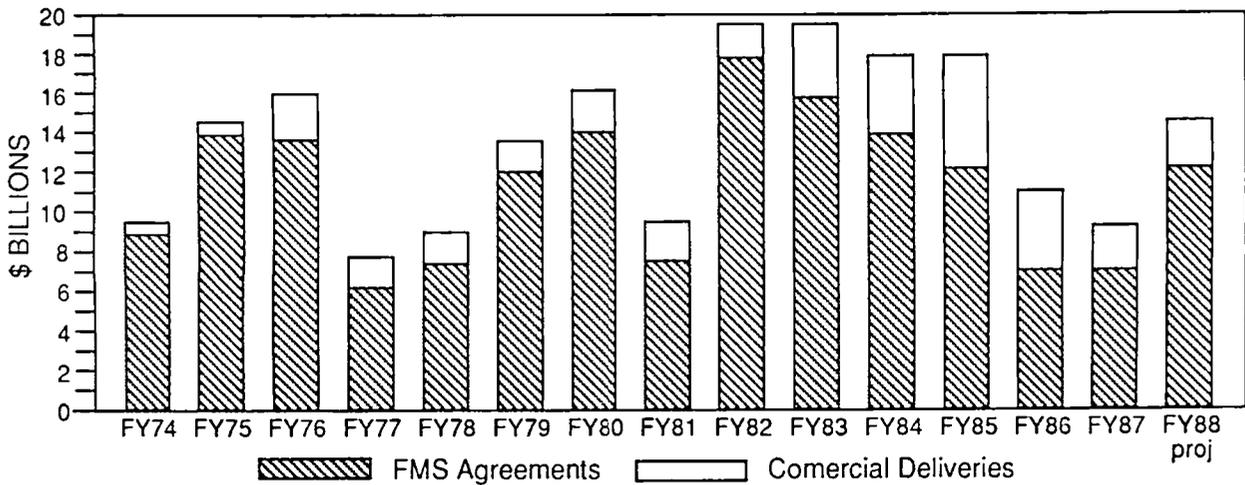
The United States has never stood alone but has always pursued a coalition strategy to defend our interests and objectives and those of our friends and allies upon which our own depend. Military assistance supports our coalition efforts. The most obvious examples of this last theme are the most traditional . . . the nations of the NATO Alliance, some of which are still major recipients of military assistance, and others of which, having entered the era of cooperative arrangements, still are counted among our largest cash purchasers of military equipment. The less obvious examples of our security partners may be in the developing world or may stand among the newly developed countries. These are harder for Americans to accept and understand, but they often provide U.S. forces with access to military facilities or other forms of cooperation toward mutual objectives.

Emerging from the 1970's and rhetorical attacks on the provision of destabilizing weapons to the Third World, we have been reticent about discussing the economic or trade benefits of foreign military sales. Both Secretaries Weinberger and Carlucci, however, have reminded people that defense sales mean jobs in the U.S. The basic position then is not that the U.S. sells for economic reasons but that if a sale either does not harm our national security, broadly defined to include the need for regional stability, perhaps we need be reminded that there is no good reason to forego the economic benefits of such a sale. The assumption is that legitimate governments have the right to self defense and that we want to help or facilitate our friends and allies in their execution of this right.

With this context in mind, I would like to discuss the status of military assistance and arms sales in the context of our national security objectives, but with emphasis on the nature and size of the sales trends.

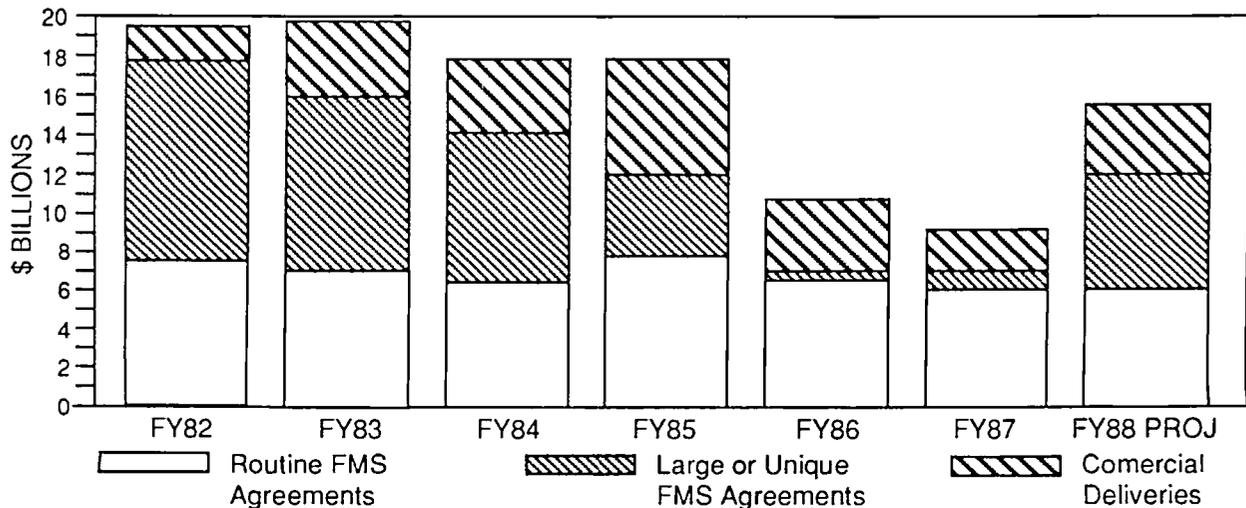
I would like to start off today by updating you on the status of sales and security assistance funding and legislation. Then, I would like to focus in on some key sales issues for the future.

FIGURE 1
U.S. Military Sales



This past fiscal year was a relatively healthy one for sales. After bottoming out at \$7 billion in FY 1986 and FY 1987, FMS Sales rebounded to over \$12 billion in FY 1988, as shown in Figure 1. Commercial deliveries have varied between \$2 billion and almost \$6 billion over the last six years. I do not have any data on FY 1988 commercial deliveries yet, so I have just projected a six-year average here of about \$3 billion. Since the State Department, rather than DSAA, tracks commercial data, I am not as conversant with commercial sales as I am with FMS. So, I will focus on the FMS side of the business.

FIGURE 2
U.S. Military Sales Agreements

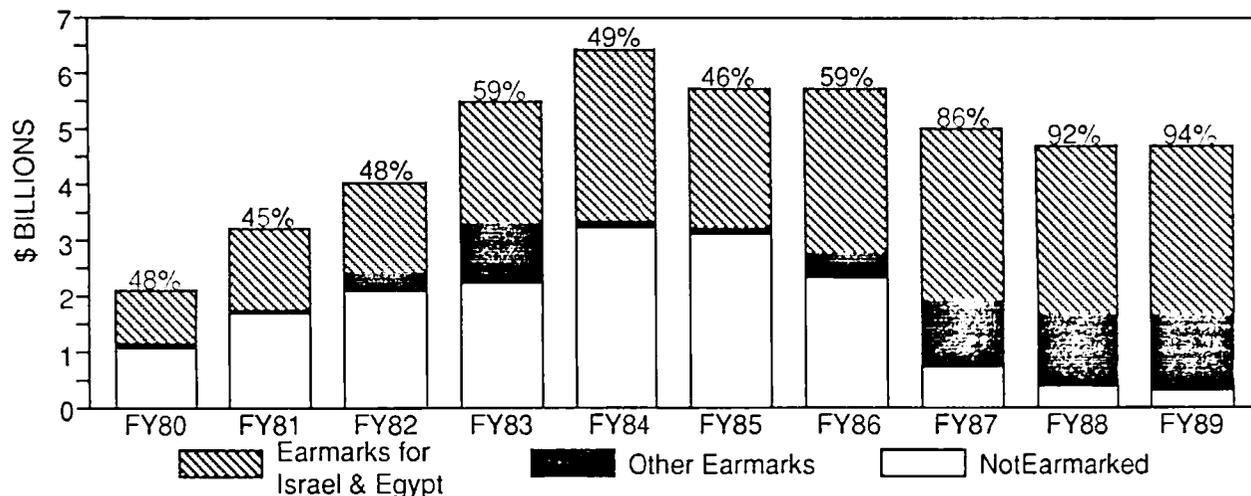


The interesting thing about the variability of FMS sales levels from year to year is that it involves just a handful of major sales cases. As shown on Figure 2, there is a solid annual sales base of about \$6 billion. This base primarily represents thousands of small cases for spares and support items, but also includes numerous missile sales. It would be an extraordinary year indeed for FMS sales to fall below the \$6 billion threshold.

There were approximately 3,500 sales cases in FY 1988, but only 6 cases constitute what we refer to as large or unique sales. That's over \$6 billion. These 6 cases are Kuwaiti F-18s, Saudi F-15s and UH-60s, Israeli and Egyptian F-16s, and Japanese Aegis. These few cases alone are responsible for the sales rebound in FY 1988. In contrast, there were only 4 large or unique sales cases representing less than \$1.5 billion in the sales nadir years of FY 1986 and FY 1987.

This year should be another relatively favorable one for sales. We already have over \$5 billion of contracts pending acceptance. These include Bradley fighting vehicles for the Saudis, M1 tanks for the Egyptians, F-16s for Pakistan, and F-15s for Israel. There are some other big sales out there which could be signed up this year or next, including a Swiss F-18 purchase and several other armor and AEW cases. Overall, the near-term outlook for sales is pretty good, especially given some of the obstacles we have encountered in security assistance funding and legislation.

FIGURE 3
FMSCR/MAP Earmarked by Congress



FMS credit and MAP funding continued its decline, albeit much less steeply, in FY 1989. Funding was off \$10 million. At the same time, the percentage of that funding that was earmarked for a few countries increased. Earmarking last year was a then unprecedented 92 percent; for FY 1989, it was up to 93.5 percent. As usual, Israel, Egypt, Pakistan, Turkey, and Greece were earmarked. The Philippines, Morocco, and Guatemala were earmarked for the second year in a row. Other earmarked countries include Tunisia, Kenya, and the drug-problem countries of South America and the Caribbean. Because of this increased earmarking in the context of a smaller overall budget, some important middle tier countries could suffer severe funding reductions.

Future prospects for military assistance funding are not encouraging. Most discretionary federal spending will continue to be constrained by pressures for deficit reduction. Any additional funds that become available for foreign assistance will likely go to the economic assistance accounts. That is what happened this year, reflecting the fact that military assistance, except for a few countries, is just not very popular on the hill. A growing perception of a declining Soviet threat--given *glasnost*, *perestroika*, and the Soviet pull-out from Afghanistan, as well as movement toward conflict resolution in Southwest Africa and Southeast Asia--will also force us to be somewhat more sophisticated in arguing for the needed levels of military assistance funding. In fact, any increase for the overall military assistance budget would require innovative approaches.

FIGURE 4 Fair Pricing

FY 89 PROPOSAL

- WAIVE OR ELIMINATE MOST ADD-ON CHARGES TO SALES THAT RECOUP FIXED OR SUNK DOD COSTS
- STRETCH BUYING POWER OF GRANT FINANCING BY 6 PERCENT
- STRETCH BUYING POWER OF OTHER FINANCING BY 3 PERCENT

FY 89 OUTCOME

- SUPPORTED BY SENATE, BUT BLOCKED BY HOUSE
- INSTEAD, PRICE BREAKS ENHANCED ONLY FOR ISRAELI AND EGYPTIAN F-16 PURCHASES
- ALSO, MILITARY SALARIES EXCLUDED FROM DEFENSE SERVICES CASES PAID WITH NON-REPAYABLE FMS CREDITS

FUTURE

- CONSIDER MODIFIED PROPOSAL FOR FY 90

Facing these realities, the Administration launched a major initiative last year to mitigate the damage inflicted by falling military assistance funding levels. This initiative would have also enhanced the international competitiveness of the U.S. defense industry. I am referring to the Fair Pricing initiative. Fair Pricing would have waived or eliminated most add-on charges to foreign military sales that are intended to recoup fixed or sunk DOD costs; in other words, costs that DOD would incur even if the security assistance/FMS program did not exist. These charges include asset use, and, in many cases, charges for contract administration and non-recurring research, development, and production costs. Fair pricing would also have reduced substantially the administrative costs charged to FMS, and might have enabled a reduction in the current 3 percent across-the-board administrative surcharge. It was estimated that Fair Pricing would stretch the buying power of the grant financing we provide countries by 6 percent and of other financing, by which I mean repayable FMS loans and country cash, by 3 percent on the average.

Fair Pricing was not enacted in FY 1989. It was part of the Senate's version of the FY 1989 Appropriations Bill, but foundered on opposition in the House. Instead, Fair Pricing-type concessions were enacted only for Israeli and Egyptian F-16 purchases. Also enacted was a relatively minor fair pricing provision that would exclude U.S. military salaries from the price of defense services cases wholly paid for with nonrepayable FMS credits.

That is not the last word on Fair Pricing, however. We intend to go at it again, though perhaps with some modifications, which we hope will help to garner more support. It is an important initiative that we need to support the objectives of our foreign military assistance and sales programs.

RESTRICTIONS

The tendency toward greater congressional scrutiny of military assistance and sales has also continued. Since DSAA last addressed this conference, Congress has substantially extended the range of activities subject to prior congressional review. The Administration must now justify by item of major defense equipment how U.S. military assistance funding will be spent, and notify Congress when countries deviate from that plan. The Administration must now also notify Congress prior to offering for sale any ground-to-air or air-to-ground missile, regardless of case value, rather than only those cases whose value equals or exceeds \$14 million. The Administration must further notify the Congress prior to transferring any military aircraft to Central America. Consequently, more Congressional challenges to sales, and hence more delays and greater uncertainty, can be expected.

There has also been a move toward blanket and *a priori* restriction on certain types of sales. Legislation was enacted last December that prohibits the sale of depleted uranium anti-armor rounds to any nation that is not a NATO or major non-NATO ally. A further exception for Pakistan was made just recently. Since the depleted uranium round is the standard anti-armor round of U.S. tanks, this prohibition presents a complication for U.S. sales of tanks and tank ammunition to U.S. friends and allies. Another case is Stinger, which is unavailable to Persian Gulf States, with a limited exception for Bahrain.

Blanket and *a priori* sales restrictions render defense sales a less flexible instrument of U.S. National Security Policy. Defense sales should be evaluated on a case-by-case basis in the context of prevailing international realities.

Thus, to an important extent, the domestic context for Foreign Military Sales has become even more challenging. Yet, some signs are encouraging. We enjoyed a major success in getting the Kuwaiti F-18 sale through the Congress that included avoiding an amendment to ban all Maverick sales to Kuwait. Earlier, notifications of Bradley fighting vehicles for Saudi Arabia and fighters for the UAE and Bahrain passed through the Congressional process without a hitch. I believe that these sales succeeded to an important extent because our escort operation in the Persian Gulf highlighted the existence of very real security threats to countries in that region that are important to the U.S. It remains to be seen if the greater appreciation in the Congress for the contribution of defense sales to the security of that region will continue or even grow.

I also think that the announcement of the big Saudi Agreement with the British to purchase high performance aircraft and other systems was an important boost to the Kuwaiti sale. That announcement drove home to many people the implications of foregoing defense sales to friendly states. Even if you ignore the important national security factors, in this era of large trade deficits, a sale as large as the Saudi-UK deal is not something that people can ignore. Perhaps, a greater appreciation for the economic implications of defense sales in the current U.S. trade context can help transcend some strongly and widely-held misconceptions about defense sales, and particularly sales to friendly states in the Middle East.

The trade issue is bound to become a bigger factor in the consideration of U.S. defense sales. DOD, industry, and a few others have long pointed out the substantial economic benefits of Foreign Military Sales, including jobs, the health of the U.S. Defense Industrial Base, economies of scales for U.S. forces procurement, and, of course, the trade deficit. But perhaps only now, with the much enhanced focus on trade matters, will the audience be attentive.

This naturally raises the issue of official promotion of U.S. defense sales abroad. Up to now, defense sales have been considered something that we do not promote. It has appeared sometimes almost as though they were a necessary evil pursued only in response to a request from another country and only when we identify a specific, positive national security objective--beyond economic considerations--associated with the sale. If we choose to view foreign arms sales in the trade context, one could conclude that arms sales should be promoted simply to bolster foreign trade and associated jobs in the U.S. Such an approach, however, might be too simple and could generate unhelpful and unnecessary opposition.

Military sales have unique political and, one might say, emotional overtones that are associated with no other kind of trade. The record of the law and the sentiment in Congress, and even in public opinion polls, all point to the fact that arms sales are very sensitive and should be approached with the greatest circumspection.

So where does this leave us? The answer is: not far from our traditional position. We do not need to promote sales; we simply need to avoid impeding them, to avoid unnecessary restrictions, unnecessary charges, unnecessary complications in the bureaucracy. The abiding assumption remains that we will not sell when the sale would be destabilizing; we will not sell when a sale might be against U.S. foreign policy interests; and we will not sell when the technology transfer implications argue against it. That said, a greater emphasis on the economic benefits of foreign sales when explaining sales to the Congress and the U.S. public may now be more helpful in overcoming attitudes that currently stand in the way of the U.S. making sales that meet the above criteria.

I should note, however, that trade can also cut the other way. We may encounter increasing conflict between concern in Congress over trade matters, especially our trade deficits with Japan and Korea, and those and other countries' growing preference to develop and produce their own systems with U.S. help.

If there is a bottom line, I believe it is that military assistance and sales will continue to be under great scrutiny and that the long-standing misconceptions and taboos that affect the business will persist, but other, more positive aspects of the business are emerging. We need to nurture these positive trends carefully and consistently and not undercut them by forgetting why people worry about arms sales in the first place. Only by a circumspect approach to the trade issue with a constant concern for national security, can we preserve military assistance as an important support for national security objectives and make an investment in national security an investment in the U.S. economy as well.

ABOUT THE AUTHOR

Dr. Michael W. S. Ryan came to the Department of Defense in 1979. Prior to becoming Chief of the Program Analysis Division in the Defense Security Assistance Agency, he served as a political-military analyst specializing in the Middle East. He pursued research in Egypt as a Fulbright Fellow and as a fellow of the American Research Center in Egypt. Dr. Ryan received a B.A. degree from St. Johns College in Annapolis and a Ph.D. from Harvard University.