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The following is a reprint of a statement by Lieutenant General Philip C. Gast, Director, Defense Security Assistance Agency, before the Subcommittee on International Security and Scientific Affairs, House Foreign Affairs Committee, on 21 February 1984, in support of the FY 1984 Supplemental for Central America and the FY 1985 Security Assistance Program.

### Introduction

Thank you, Mr. Chairman.

Secretary Schneider has just provided the Committee a detailed and comprehensive review of the President's request for an FY 1984 Supplemental for Central America and the FY 1985 program for security assistance. We, in the Defense Department, support these requests. I will concentrate my remarks on what defense believes are the major strategic objectives underlying the program recommendations. Then, I will discuss, in some detail, some of the legislative initiatives that are being proposed by the administration to improve the management of the security assistance program.

On 9 February, Secretary Weinberger presented to the full committee a comprehensive summary of the role of security assistance in furthering US foreign policy and defense objectives around the world. The secretary noted that the security assistance and arms sales programs are "the overseas counterparts of our own defense efforts and represent no less an investment in US national security than the programs for the Department of Defense." These programs reap high returns in security and good will, yet they are not a drain on the US taxpayer.

### Strategic Rationales

In order to better understand how we program country funds, let me review the principal strategic rationales behind our request. I should mention first that our programs are not based on some altruistic motive or made in a vacuum. Rather, they are developed with careful consideration of country military requirements and with US strategic and foreign policy goals in mind.

To illustrate the point, our programs are designed to:

1. Provide assistance to those countries which have agreed to retain US bases on their territory. These agreements not only give the United States an ability to project power far from our shores, they also enhance our ability to operate with the armed forces of other countries.

Last year, we signed base agreements with Portugal, Spain, Greece and Philippines and we have an important agreement

with Turkey that did not come up for renewal. The mutual defense cooperation epitomized by these base agreements is reflected in the security assistance we provide to these countries.

2. We also have arrangements with a number of other countries to permit our military use of their air or port facilities. These arrangements enable us to sustain operations abroad and help improve our power projection capabilities. Arrangements with Oman, Somalia and Kenya exemplify the benefits we derive from our international assistance programs.

3. Our security assistance programs also are intended to assist friendly countries threatened by Soviet, Warsaw Pact or Soviet-supported forces. Many of these countries have turned to the United States -- or to other western nations -- to cope with threats to their independence and sovereignty. Major recipients in this category include Pakistan, Korea, Turkey, El Salvador, Honduras and several others.

4. Our assistance, in general, helps countries make better use of their own resources in deterring regional threats to their stability or coping with internal threats that may be inspired or supported by outside forces. Typically, the threats require efforts exceeding their ability or resources, especially as they attempt to make parallel progress in economic growth and social development. Some of these countries include Sudan, Morocco and the Caribbean nations.

5. In addition to these defense and security-related motives for security assistance, our programs also support major foreign policy goals such as the pursuit of peace in the Middle East. This objective is so important that we continue to recommend the largest country assistance levels for Israel and Egypt.

Security assistance on its own, of course, cannot bring about peace or remove the origins of regional instability or even hold back threats from Soviet or Soviet-supported forces. It can, however, shape conditions in such a way that diplomatic and political efforts can take place.

6. Security assistance and arms sales also bring modest domestic benefits to the US economy. Though not a major reason for our overseas programs, these programs do add an indirect support to our total defense planning effort.

For example, we estimate that Foreign Military Sales have saved the military services some \$3 billion between FY 1978 and 1982, primarily from economies of scale and various recouplements of sunk costs. We estimate that more than half a million jobs are sustained by the FMS program alone and that over the past three years the program has brought some \$30 billion into the US Treasury.

## Program Development

The proposals in the supplemental for Central America and the FY 1985 annual request are the result of extensive preparation and careful thought. So, too, are the legislative initiatives we are proposing. The annual security assistance recommendations take more than nine months of sustained effort and involve several government agencies both here in Washington and in the field. Our proposals for legislative change result from years of experience in administering the program and adapting to changes over time as circumstances shift. Hence, our country proposals do not contain unnecessary extras and are tailored to known country requirements; our legislative initiatives build upon our proposals from the past two years when we did not get authorization bills.

The most important factor shaping the President's security assistance request is our judgment on how best a specific program furthers US foreign policy and security interests. Contrary to some beliefs, most foreign leaders do not make exorbitant requests or unreasonable demands on the United States. Most are sensitive to their ability to absorb new equipments or defense articles and almost all are aware of their abilities to repay the loans we provide. Some countries, though, have security interests which are so paramount and national security issues so pressing, or have choices that are so limited that they opt for the high interest loans and stiff repayment terms we offer. Very few countries outside the developed nations and a few affluent developing countries have sufficient resources of their own and must look to us -- or others -- to assist them in meeting their military and security requirements.

### The FY 1984 Supplemental for Central America

The President has submitted a supplemental request for Central America. This request parallels closely the recommendations of the National Bipartisan Commission on Central America and we believe that additional resources are essential if established governments are to develop their ability to counter terrorism, subversion and aggression in the region.

The security assistance proposals represent a small portion of the overall request since most of the funds being sought for Central America will be for economic assistance. This would continue our practice in the past when our economic assistance levels surpassed those for military assistance. Needless to say, security and economic development complement one another. The latter can best take place in an environment free from violence, terror and turmoil. On the other hand, security without real progress in economic, political or social development would be equally unrewarding to the United States and to the people in Central America. In El Salvador, we have made our concerns for human rights and political reforms very clear and feel confident that the human rights record there will continue to improve. It is not in our interest or in the interest of the people of the regional to resolve their issues at the

point of a gun or to have totalitarian governments substitute for reform already underway.

The FY 1984 supplemental request includes Military Assistance Program (MAP) funds for El Salvador (\$178.9M), Honduras (\$37.5M), Costa Rica (\$7.85M), Panama (\$10M) and the Regional Military Training Center (\$25M) totalling \$259.05 million. More than half the request is for El Salvador because the situation there is most serious.

We agree with the Bipartisan Commission that the threat to the United States from Central America is real and that we ought to act quickly and decisively to cope with the crisis in the region. If we delay much longer, the morale of the Salvadoran forces will be undermined, the delivery of critical ammunition and equipment will be stretched out even further, the image of the fighting capacity of the armed forces will be weakened and the stalemate in the civil war may well be perpetuated for some time.

#### The FY 1985 Request

In his earlier testimony, Secretary Weinberger expressed his appreciation to the Congress for its support of the Administration security assistance requests over the past few years. I share that gratitude and believe that the United States is far more secure because of these actions. Last November, the Congress approved funding levels close to those requested by the President and left most of those funds without earmarkings. This helped assure our friends abroad that they could count on the United States to assist them.

The FY 1985 security assistance request continues previous year progress with no major country increases, apart from those we are requesting for Central America. The major new initiative in this year's request is the proposal to shift FMS credit financing from "off-budget" to "on-budget." This would give us greater flexibility in charging lower interest rates to countries beleaguered with US debt payments, while helping them to meet their military requirements. The on-budget proposal would result in an FMS credit program composed of:

- Credits let at Treasury market rates for some countries (\$1987M);
- Low interest concessional loans (\$539M); and
- Grants for forgiven credits for Israel and Egypt (\$2575M).
- There are additional funds in the grant MAP (\$925M) and IMET training accounts (\$61M).

The proposal, if enacted, would require a shift of some \$4.3 billion in budget authority over the FY 1984 request; however, the

estimated outlay impact in FY 1985 would be closer to \$1.6 billion. The total military assistance request for FY 1985 equals \$6.4 billion, if the request for peacekeeping organizations (\$49M) and for replenishing the guaranty reserve fund (\$274M) are added in; without the latter two, the FY 1985 request is actually less than the FY 1984 CRA total.

The on-budget initiative therefore provides us the needed flexibility to adjust Security Assistance Programs to the economic needs and abilities of recipient nations through a mix of grants, concessional loans and near market rate financing. It is a step in the direction of easing the debt-servicing requirements of countries which will be repaying past and present FMS loans.

I should also note that the FY 1985 Foreign Aid request would retain the same 60:40 ratio of economic to military assistance as in the past few years. This relative balance between economic (\$9.4B) and military (\$6.4B) assistance is appropriate and we, in DoD, support this division in the overall foreign aid request.

Before discussing our package of legislative initiatives for FY 1985, I want to say a word about the Special Defense Acquisition Fund (SDAF) and the Guaranty Reserve Fund (GRF).

Last year, the appropriations committees added some \$225 million in obligational authority to the SDAF, bringing the total authority through FY 1984 to \$475 million. The SDAF is now capitalized at about \$600 million and the authorized ceiling is at \$900 million for FY 1985. We are asking for an increment of \$325 million in obligational authority. None of these funds come from the US taxpayer; they are made available to the SDAF account from receipts collected from prior FMS sales. Previously obligated funds have been used to procure high demand items and these items will soon be available for sale to foreign countries. These items have been documented in both the annual procurement plans and annual report to the Congress on the SDAF.

We have requested \$274 million to replenish the Guaranty Reserve Fund which has been drawn down to cover country re-schedulings and late payments. This request is being submitted to ensure the fund does not fall to an unacceptably low level.

### Legislative Initiatives

Now, I'd like to discuss some of the changes in legislation being proposed in the FY 1985 bill. Most of the initiatives have been submitted in the past but, because there were no bills, we failed to get final action. We have worked closely with the Department of State on these initiatives and are submitting only those changes we feel necessary for improving the conduct of security assistance.

I want to personally express my appreciation to this committee for its favorable report on the set of initiatives submitted last year

and hope that it will give an equally favorable report this year. Let me mention a few of the initiatives being proposed.

One proposal seeks to eliminate the inequities in the variable pricing structure for sales of foreign training. In place of the multi-tier pricing system which now exists, this proposal would substitute a single price for all FMS training. Enactment would mean we would have only two pricing systems for foreign training -- one for FMS and one for IMET. It would require all countries to pay the same FMS price for identical training they purchase from the United States. It would correct what we believe has been excessive changes to selected countries and restore the principle that a purchasing country should pay only those additional costs to the United States of providing services.

Another proposal would amend Section 515 of the Foreign Assistance Act to increase the number of Security Assistance Organizations (SAOs) abroad authorized more than six uniformed personnel. Based on discussions with the Congress last year, we revised the list of countries and reduced the number of additional personnel we are requesting. Specifically, we are requesting this authority for eight countries: Tunisia, Lebanon, Yemen, Pakistan, Sudan, Honduras, El Salvador and Venezuela. There are now 12 countries where we have more than six authorized military personnel in the SAO; in FY 1977, there were 33 SAOs with this authority. We are requesting this authority only for those countries with the most urgent program management requirements. Program implementation needs abroad have grown in each of these countries and this proposed change would merely adjust overseas manpower levels to changing in-country program requirements. Worldwide, our overseas combined personnel strength -- civilian, military and local -- would only increase by eleven, or a fraction of one percent.

We are also seeking authority for reciprocal one-for-one military exchanges between our senior and intermediate education schools and equivalent schools in other countries. The benefits of the program are easy to cite. It increases the exchange of US and foreign military doctrine, strategy and tactics, broadens the types of military contacts and augments the military experiences of our senior and intermediate level officers. As it now stands, we cannot reciprocate when other governments offer senior level training on a tuition-free basis. This proposal was reported out favorably by both the House and the Senate Committees last year. It would add no new costs to the US Government.

There are other legislative proposals designed to improve the administration of the Security Assistance Program. One proposed change would resolve the many conflicting provisions in the Arms Export Control Act (AECA) on the calculation of the administrative surcharge we add to foreign military sales to cover the cost to the US Government of managing the program. We believe we should recoup only those costs incurred for the benefit of the Foreign Purchasing Governments. This issue is very important to the

integrity of the FMS program and we believe that the Administration's proposal for full cost recovery is sound and necessary.

Another legislative change seeks authority to authorize the use of FMS administrative funds for representational purposes. These funds, if approved, would augment MAP appropriated funds and would mean that our representatives overseas would not have to use their own resources to meet the social obligations inherent in their professional duties. We estimate that between 30% and 40% of the costs of representational functions are paid from personal funds. This proposal would not require any additional budget outlays since it would be funded from FMS proceeds. Our representational funds have been declining in recent years while costs have risen, requirements have increased and the visibility of our Security Assistance Programs have grown. It is unfair to require our overseas personnel to use their own funds when representing the US Government. Approval would be a big morale booster to our representatives in the field and would signal that their services are appreciated and valued.

One of the initiatives being submitted was proposed last year by representative Studts. It would permit the use of International Military Education and Training (IMET) funds for foreign training in maritime skills in the United States. It would also exempt such training from the prohibitions against law enforcement training in Section 660 of the Foreign Assistance Act.

Finally, I want to draw your attention to one new initiative in the FY 1985 package. This would extend the repayment terms for Portugal and Philippines for loans offered to them at Treasury market rates. We are also resubmitting a similar request from last year for Korea. We would add these three countries to the states now authorized the ten-year grace, twenty-year repayment on principal terms. Extended terms would ease the burden of repaying future FMS loans in the near term and defer them to a time when they will be better able to meet their obligations.

### Conclusion

Mr. Chairman, let me conclude by saying that we derive many tangible and intangible benefits from our Security Assistance Program. Secretary Schneider and I have touched on a number of these. The major contribution of security assistance from a defense perspective is that it enables other countries to cooperate with the US in developing working and viable collective security arrangements, in sharing the collective burden of defense and in furthering our mutual security interests. These programs are low cost investments in US security and, to a lesser degree, in the US economy. Short of stationing US forces abroad, the security assistance programs provide the most visible assurance of continued US readiness to stand by our friends and allies.

I know that 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 1984 and FY 1985. We have worked closely with the Department of State in developing the supplemental request and in formulating the FY 1985 annual recommendations. This also includes the legislative proposals to improve program management.

This concludes my statement. I would be pleased to respond to any questions you may have.

Thank you.