
The following is a reprint of a statement by William Schneider, Jr., Under Secretary of State for Security Assistance, Science and Technology before the Subcommittee on International Security and Scientific Affairs, House Foreign Affairs Committee, on 21 February 1984.

Introduction

Mr. Chairman, members of the Committee, Secretary Shultz has provided an overview of the President's proposed FY 1984 Supplemental Budget Request and FY 1985 Foreign Assistance Budget. He highlighted the balances we have struck between security and economic assistance. Peter McPherson has provided details on the economic assistance portion of the foreign assistance budget. I am here today to provide a more comprehensive description of the security assistance component.

There are three difficult, vitally important issues facing our security assistance program this year:

First, in our own hemisphere Soviet and Cuban-backed insurgents continue to exploit decades old social and economic tensions. Their efforts to undermine the governments of Central America jeopardize the democratic and economic reforms being made by every one of our aid partners in Central America. The battle in El Salvador against outrageous acts by both the left and the extreme right is far from over, but the trend is clearly toward pluralistic, democratic institutions. US assistance is critical to continuation of this trend, not only in El Salvador, but elsewhere in Central American countries. The National Bipartisan Commission on Central America has described the strategic importance of this region and recommended significant increases of both economic and security assistance. Both are essential if either is to succeed. The Administration concurs in the importance the Commission placed on the region and in the Commission's recommendations. Even though appropriations for other worldwide programs were cut below requested FY 1984 request levels, we are limiting our request for supplemental FY 1984 security assistance to Central America where the need is greatest and timeliness most critical. In addition, we propose significant increases for Central America in FY 1985, particularly in economic assistance. The ratio of economic to military assistance for Central America in FY 1985 will be over four to one.

Second, recent events in the Middle East, an area that has received the largest proportion of our security assistance over much of the past decade, make clear that tensions remain acute. The crisis in the region is a clear threat to US and Western interests. While the costs to the United States already are high, we cannot waiver in our efforts to promote a broader peace in the region. It is far less costly to continue to support our friends in

their efforts to thwart terrorism and exported revolution than to try to untangle the wreckage that comes with war. Our decision to provide all military assistance for Israel and Egypt on a grant basis in FY 1985 reflects our determination that the costs of military preparedness and vigilance to these countries not come at the expense of their economic well-being.

Third, a less visible, but equally serious, crisis looms in the growing debt burdens of many developing countries. The Commission on Security and Economic Assistance focused on this problem. It noted that many countries borrowed heavily for development. They assumed mistakenly rising world prices for their commodity exports in the 1970's. Thus, now they face dangerously high debt levels. The increased economic assistance that we are proposing is not, on its own, sufficient. Many of these countries, including such important security assistance partners as Turkey, Sudan, Morocco and Tunisia, face a Hobson's choice: either military preparedness at the cost of more debt and economic insecurity or fiscal conservatism with its price of heightened military vulnerability. Either alternative threatens US interests.

The Carlucci Commission recommended, therefore, that more of our security assistance be offered at concessional terms. The Administration is proposing that all FMS loans be placed on-budget in FY 1985 which will allow us to offer concessional terms when appropriate. This step is also one recommended by many in Congress. It will enable us to tailor terms of assistance to the individual requirements of recipients. Because concessional loans are more "valuable" than market rate loans, military assistance levels will actually decline by \$177 million in FY 1985 from the FY 1984 request. For many countries, particularly in Africa and Central America, the economic need is so great that we propose all-grant programs.

Value/Purpose of Security Assistance

The Administration is requesting \$15.8 billion for foreign assistance of which \$9.8 billion is security assistance, both military and economic.

Security assistance provides direct benefits to the United States:

-- The United States cannot afford to maintain a force structure and capabilities to defend the free world alone. We must depend upon allies to deter local and regional threats to our common interests. At a minimum, this gives the United States time to consider and prepare an appropriate response to aggression. It is important to realize that our military programs only provide the equipment and training; economic assistance often is needed to ensure the growth of stable domestic political and economic institutions necessary to make this strength credible.

-- We factor the capabilities of our allies into our planning and procurement, resulting in economies for both our allies and for us. I estimated last year that it would cost \$60,000 to equip and maintain one US soldier in Turkey, should that be necessary; it costs only \$9,000 for one Turkish soldier. Thus, security assistance is cost effective in manpower terms. Because the military assistance programs are managed by DoD in conjunction with US procurement, both the United States and the foreign buyer reap the benefits of consolidated planning and economies of production -- thus lowering US defense costs.

-- Since almost all military assistance is spent on US manufactured items, there is a direct benefit in jobs for American workers.

-- Finally, security assistance also provides direct strategic benefits to the United States. Some of our largest assistance programs help countries which have aggressive neighbors to maintain a credible deterrent. Our security assistance programs to Israel and Egypt are two good examples. Israel shares a common border with a hostile, Soviet-supported regime in Syria, while Egypt must contend with, and defend itself against, the expansionist designs of its Libyan neighbor. Other large programs go to countries, such as Portugal and the Philippines, with which we have concluded vital base rights, transit and access agreements for our own armed forces. These arrangements are critical to our defense posture worldwide. Over 47% of the military assistance requested in 1985 is for countries in these two categories.

FY 1984 Supplemental

In the aggregate, the Continuing Resolution level is roughly comparable to the Administration's FY 1984 request. Nevertheless, because the Continuing Resolution added significant amounts above the original budget request for Israel and Egypt, the cuts suffered in other areas of the world are obscured. Rather than seek to restore these cuts, however, the Administration has decided to seek FY 1984 supplemental security assistance only for Central America. This emergency request, totalling \$659.1 million, is needed to begin implementing the recommendations of the Bipartisan Commission.

The Kissinger Commission report concluded that "Central America's present suffering is to an important degree the product of internal conditions." The roots of Central America's troubles lie in social inequity, unrepresentative politics, weak legal institutions, disrespect for human rights, and other problems of societies in urgent need of reform. These problems have been compounded by the international economic shocks of the past several years.

As a result, over 60 percent of the total supplemental Central American assistance request of \$659.1 million is for economic assistance; \$290.5 million of this is Economic Support Fund (ESF) assistance. This amount will be used to help reverse the sharp decline in GDP, per capita consumption, and employment, and to finance

crucial imports of raw materials and spare parts. Local currency generated by ESF will fund credit programs for the private sector and projects in housing, health, education and agricultural development. At the same time, I know there are concerns about absorption and accountability. Our non-project assistance will be conditioned on implementation of reforms crucial to the effectiveness of our assistance, and to the establishment of policies which will ensure sustainable economic growth.

The 12 Democrats, independents, and Republicans on the Bipartisan Commission agreed that the acute crisis in Central America endangers fundamental security interests of the United States. The Bipartisan Commission warned that without enhanced security, economic assistance and diplomatic efforts will be undermined. We are therefore requesting \$259 million in supplemental Military Assistance Program (MAP) grants for FY 1984.

Almost 69 percent, or \$178 million, of this supplemental MAP is proposed for El Salvador where leftist insurgents are attempting to prevent the emergence of democratic government and destroy the economic infrastructure. Urging increased levels of military aid to El Salvador, the Bipartisan Commission stressed that "the worst possible policy for El Salvador is to provide just enough aid to keep the war going, but too little to wage it successfully." Supplemental MAP grants would be used to expand the size, proficiency and mobility of the Salvadoran Armed Forces. In order to achieve this capability, these funds will be expended to purchase training and such key equipment as artillery, patrol boats, and communication and radar equipment, and ammunition. El Salvador also plans to acquire fixed wing and rotary aircraft for observation and transport purposes. MAP grants will also provide a vitally needed military medevac capability.

Neighboring Honduras suffers a deteriorating economy. To complement the IMF agreement with Honduras, and to help cushion the economic adjustments Honduras is making, we will be providing \$72.5 million in ESF assistance. Honduras also faces an incipient insurgency movement and is rightly concerned about the massive military build-up in neighboring Nicaragua. We are requesting that Honduras receive \$37.5 million or about 14 percent of the MAP supplemental request to counter this threat. These funds would provide needed training and equipment and allow for an expansion of the Honduras ground force by one infantry battalion.

Twenty-five million dollars would be destined for the Regional Military Training Center (RMTTC), established in Honduras in 1983. One of the most important aspects of our Central American military assistance programs is training. The RMTTC is a valuable low-cost way to provide larger-scale training to Honduran and Salvadoran troops, and possibly other forces from the region, in a realistic environment. The construction of more permanent facilities would improve the administrative and operational efficiency of the training center.

Lesser amounts of supplemental MAP would be provided to Costa Rica and Panama.

These supplemental funds are critical to further the development of democracy, restore peace, and improve living conditions in Central America.

FY 1985 Request

As the Bipartisan Commission noted, Central American problems will not be overcome overnight, and in FY 1985 we will expand our economic effort in Central America. Military assistance relative to economic aid will decline, assuming the supplemental passes, and the ratio of economic to military aid will be more than 4-1.

On-Budget Financing. In addition to the importance of Central America in the FY 1985 request, a major new departure this year for the US military assistance program is our proposal to bring the entire Foreign Military Sales (FMS) financing program on-budget.

The Carlucci Commission found that the external debt of several countries important to US interests has grown to the point where they are in danger of defaulting on repayment of loans. The Commission also noted that, for a few countries, US foreign assistance loans represent a substantial portion of their foreign debts. Increasingly, developing countries in need of security assistance face legally mandated cut-off of aid because of their payment arrearages. Congress has repeatedly expressed concern about the mounting debt problems of many developing countries. Placing FMS on-budget will make concessional rate loans possible and allow us to design a comprehensive security assistance program which reflects the reality of a country's financial situation. Such a step is a logical outgrowth of our three year effort to improve the complementarity of economic and military assistance.

It should be emphasized that the United States also derives substantial benefits from placing FMS on-budget. On-budget financing, enables us to provide a program of greater economic value to the recipient while at the same time reducing overall military assistance levels in the US budget. In fact, FY 85 country totals are over \$450 million dollars less than those proposed in FY 84.

Economic need and the ability of a country to repay will be the primary criteria in determining who receives concessional FMS interest rates just as it is in determining who receives grant military assistance. We now plan to provide these concessional loans at a five percent interest rate, to be reviewed at the time funds are allocated.

The Security Assistance Programs. Military assistance in FY 1985 totals \$6.359 billion. Budget authority and outlays obviously will rise from FY 1984 -- due to the shift of FMS on-budget -- but overall, military assistance will fall.

Our Economic Support Fund request totals \$3.438 billion, a \$250 million increase over FY 1984. This is almost entirely related to additional requirements for Central America.

There are five security assistance programs for which the Administration is requesting funding in FY 1985. The largest of the five programs is the FMS financing program which facilitates the purchase of US military equipment, spare parts and training. The total FMS direct credit request for FY 1985 is \$5.1 billion for 26 countries. Thirty-nine percent, or \$1.99 billion, would be provided at the Treasury rate of interest to ten countries. Another \$538.5 million or 11 percent, would be provided to 16 countries at concessional interest rates. Those countries we are proposing to receive concessional rates include Turkey, El Salvador, Jordan, the Philippines and Morocco.

Another significant new element is that all FMS financing to Israel and Egypt would be forgiven. Israel would receive 27 percent, or \$1.4 billion, of the total FMS financing request. Egypt, the second largest recipient after Israel, would receive 23 percent, or \$1.175 billion. (See Chart A.) For over a decade these two programs have received the largest single share of our FMS financing program. The need is no less great in FY 1985. Yet in both countries debt payments are a major economic constraint, consuming more than \$0.35 of each \$1.00 in export earnings. FMS financing payments are a significant fraction of that sum. By shifting to all grant programs, we slow the spiraling increase in FMS repayments and can actually reduce program size without affecting its integrity.

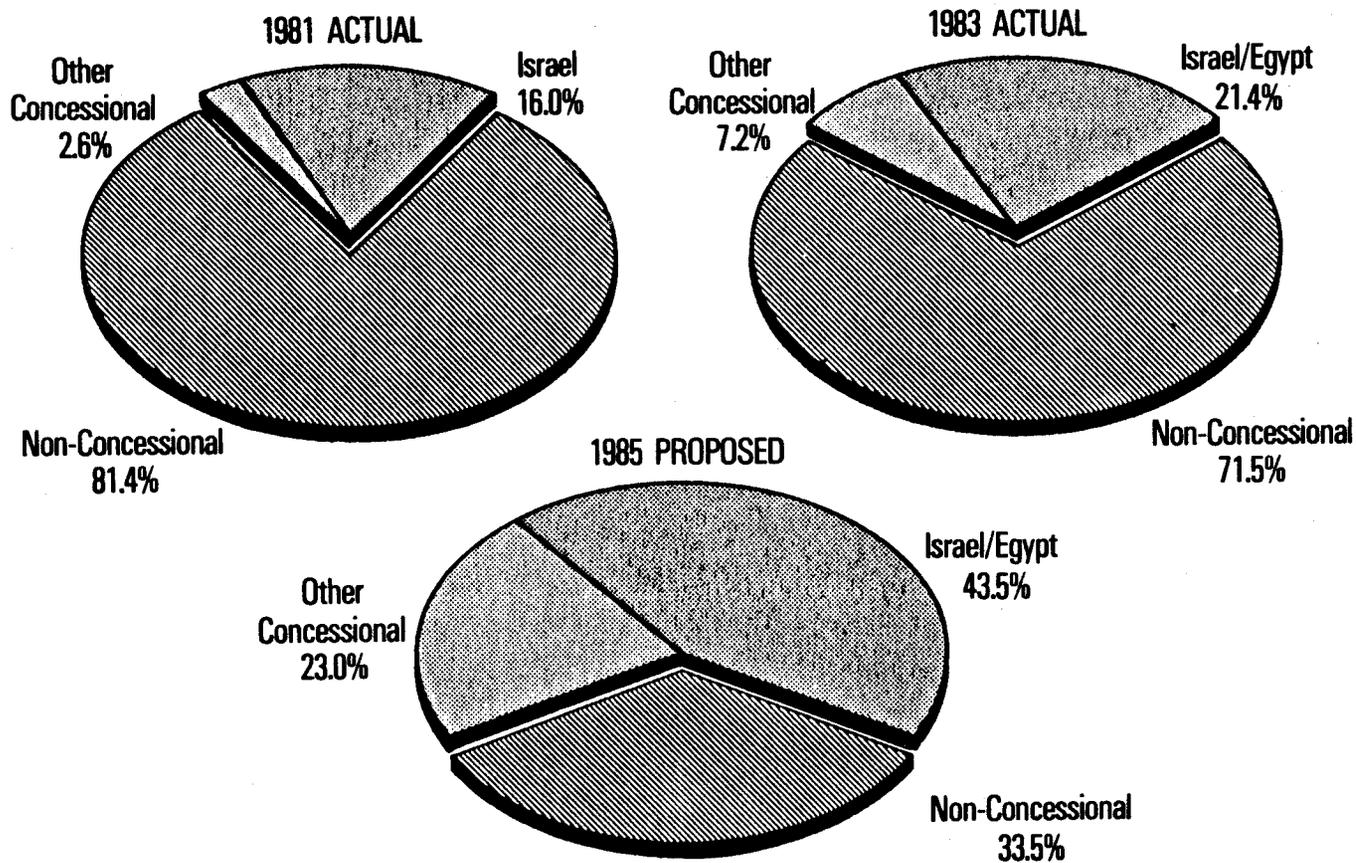
Another major security assistance program is the Economic Support Fund (ESF) which comprises approximately 35 percent, or \$3.44 billion, of our total program for FY 1985. ESF provides loans or grants to promote political and economic stability in countries of special economic, political or security interest to the United States.

The Military Assistance Program (MAP) provides grant funding for purchases of defense articles and services. We are requesting \$924.5 million for countries which are truly needy but would find it difficult to repay.

International Military Education and Training (IMET) provides grant funds for professional military training. At \$60.9 million IMET represents less than one percent -- only a small fraction of our FY 1985 request. Nevertheless, it is one of our most cost-effective programs.

The small Peacekeeping Operation (PKO) account provides support for multilateral peacekeeping activities in the Sinai, Cyprus, and Grenada. We are requesting \$49 million for the PKO for FY 1985.

CHART A: MILITARY ASSISTANCE CONCESSIONALITY



Regional Programs

Chart B indicates that overall our military assistance is focused primarily on countries of major strategic importance to the United States such as Israel, Egypt, and Pakistan. It also centers, however, in countries with which we have security agreements necessary to ensure our ability to move forces overseas when needed, such as Korea and the Philippines. The following is a description, region by region, of our security assistance objectives and the programs that we have proposed for FY 1985.

Central America. As recommended by the Bipartisan Commission, an increased level of resources for Central America needs to be provided predictably, beginning immediately and extending over the next five years, to support a balanced and mutually reinforcing mix of economic, political, diplomatic and security activities to be pursued simultaneously. We support this comprehensive approach to the promotion of democratization, economic growth, human development and security in Central America. We are therefore proposing a multi-year commitment for non-military assistance programs beginning in FY 1985 to build upon the proposed FY 1984 supplemental.

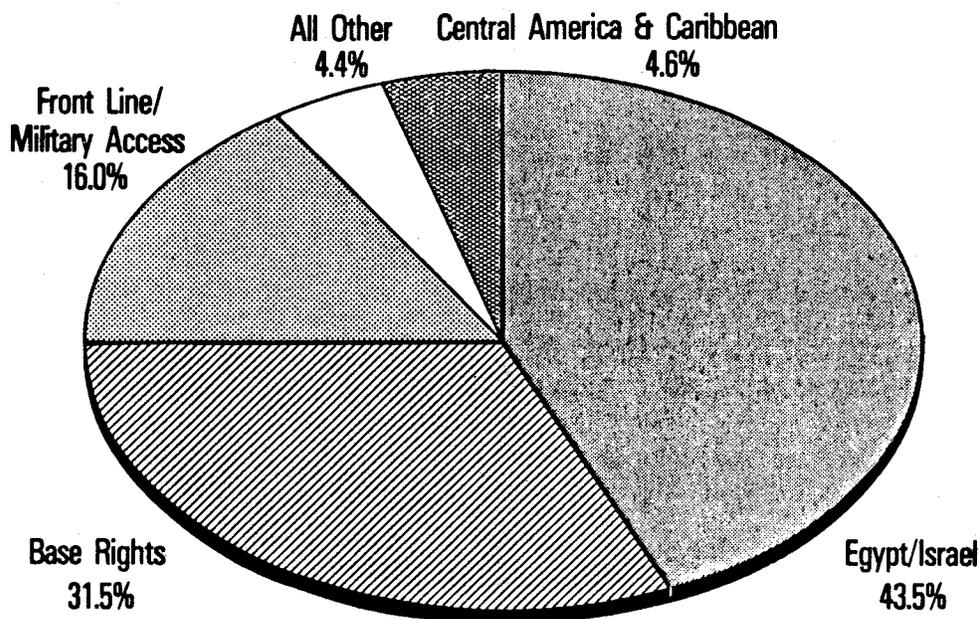
The provision of military assistance also needs to be predictable and responsive to urgent needs. We are not requesting multi-year military assistance. Nevertheless, in order to provide a shield to protect political, economic and social development in Central America, the only major increase proposed for our worldwide security assistance funding levels for FY 1985 is for Central America.

Over 70 percent of proposed FY 1985 security assistance for Central America is ESF assistance in order to address the severe economic crisis which I have already outlined and which has been so cogently described by the Bipartisan Commission. We plan to devote 25 percent, or \$222 million, to MAP grants to help support democratic forces in Central America. Another \$30 million in FMS concessional credits is planned along with \$3.9 million in IMET.

Following the recommendations of the Kissinger Commission, the largest amount of FY 1985 Central American military assistance, or \$132.5 million, is proposed for El Salvador. In addition to IMET, MAP funds would be used to purchase badly needed training and equipment. We propose \$210 million in ESF to provide the foreign exchange necessary for the importation of raw materials and intermediate goods by industry and business.

Honduras would receive 28 percent, or \$61.3 million, of MAP funds proposed for Central America in order to continue the implementation of the Honduran program of selective modernization and expansion of its armed forces. Seventy-five million dollars in ESF would provide fast-disbursing, non-project assistance indispensable to the stabilization of the economy and the resumption of economic growth.

CHART B
MILITARY ASSISTANCE BY CATEGORY
1985 PROPOSED



Additionally, we propose \$160 million in ESF for Costa Rica and \$20 million for Panama for balance of payments support. We are proposing lesser amounts of military assistance for the Regional Military Training Center in Honduras, and for Belize, Costa Rica and Panama. We also propose \$10 million in FMS concessional credits, \$300 thousand in IMET and \$35 million in ESF for Guatemala. Disbursal of these funds would be contingent on continued progress in returning to elected democratic processes and improved human rights performance.

Near East. One of our highest priorities continues to be the furtherance of the Middle East Peace process. There are no quick and easy solutions for achieving peace and stability in this volatile region.

Our security assistance funds play a crucial role in the quest for peace. Egypt and Israel, the principal participants in the peace process, remain the two largest single recipients of our proposed FY 1985 security assistance. US assistance is aimed at ensuring their security and economic well-being as they continue to play their respective roles in the pursuit of the goals foreseen at Camp David. Because our proposal to forgive all FMS loans provides greater financial value than the mix of past years, funding levels for Israel and Egypt can decrease without harming program quality. There is general agreement that the new levels and terms will achieve our common goals. Israel and Egypt would also receive

\$850 million and \$750 million, respectively, in ESF assistance to assist in strengthening their economies.

Clearly, peace in the Middle East cannot be achieved in the face of continuing unresolved conflict in Lebanon. We have reached a critical point. We have been training and equipping the Lebanese Army so that it can become an effective instrument in the Lebanese Government's struggle to regain sovereignty over its territory and to restore stability. The future of our program there is unclear, and our modest FY 1985 request is contingent on improvement in the situation. We seek \$15 million in FMS financing at Treasury rates, \$20 million in ESF and \$800 thousand in IMET.

Jordan is also an important factor for stability in the Middle East. Our proposed FY 1985 program is designed to help Jordan meet the threat from its potentially aggressive neighbor, Syria. Syria's military strength has increased substantially as a result of infusions of Soviet military aid. The requested \$117 million in security assistance is intended to help modernize Jordan's armed forces, to bolster its out-numbered and out-gunned air and ground forces, and to support economic development activities. Of that total we are proposing \$95 million in FMS financing at both concessional and Treasury rates, \$2 million in IMET and \$20 million in ESF assistance.

We are also requesting \$35 million to help carry out the highly important Peacekeeping Operations (PKO) of the Multinational Force and Observers in the Sinai.

North Africa/Indian Ocean. The Persian Gulf constitutes a major source of energy for the free world. This region is simultaneously threatened by Soviet encroachment through Afghanistan, Libyan subversion in Northern Africa, and by radical forces from within. Through our security assistance, we help to improve the security of these countries and to facilitate negotiation of military access and transit rights for US forces necessary to protect these crucial oil supplies in times of crisis.

Our security assistance program for Pakistan is a tangible demonstration of US support for Pakistan's firm stand as it faces the continuing Afghan crisis and Soviet efforts to weaken Pakistan's resolve. Additional US security assistance is directed to Oman, strategically situated on the Gulf of Hormuz, to improve its defense forces, and to the Yemen Arab Republic with its strategic location on the Bab El-Mandeb Straits and the Southwest border of Saudi Arabia. Yemen is threatened by a Marxist-led insurgency supported by South Yemen and Libya.

Kenya and Somalia, located along the Indian Ocean littoral, are important to US security interests on the Horn of Africa, but these two countries have large debt burdens. Thus, we propose all grant assistance designed to help them to develop defense capabilities, while avoiding undue burdens to their fragile economies.

In the same region, Sudan on the Red Sea, and Morocco and Tunisia in North Africa face threats of subversion or aggression derived from or supported by Libya's Mu'ammarr Qadhafi. US security assistance helps these countries in their efforts to maintain stability in the face of these threats. For several of these countries, grant ESF is a major component in support of their IMF standby programs without which the programs could not proceed.

Europe and NATO. Europe's southern flank is a critical part of NATO, vital to hopes for peace and security in neighboring regions. Greece and Turkey lag behind other NATO countries in military strength, and their armed forces are in urgent need of modernization. A new agreement for continued use by the United States of military facilities in Greece was signed last year. This agreement and our security assistance provide the basis for maintenance of our bilateral defense cooperation with Greece in support of NATO objectives.

Military assistance proposed for Turkey will help to upgrade defense capabilities, and to meet security needs and NATO modernization and force goals. The proposed level is critical to permit continuation of the effort to modernize major equipment lines, in particular the F-16 fighter aircraft purchased last year. Turkish armed forces continue to suffer from serious equipment obsolescence, and would have difficulty confronting a Warsaw Pact threat. We are also proposing ESF assistance for Turkey. Although Turkey's economy is continuing its recovery from near bankruptcy, the speed of that recovery has slowed in the past year.

Portugal, a charter member of NATO, is a strategically important and reliable ally. US rights for the use of critical Portuguese facilities in the Azores were extended under a new Mutual Defense Agreement signed in December of 1983. The objectives of the security assistance program for Portugal are to support the continuing consolidation of its democratic institutions, to help Portugal modernize its military and to assist as it confronts continuing economic problems.

A NATO ally since July 1982, Spain provides the United States with access to vital air and naval facilities. Our security assistance underlines our support for Spain's progress in reinforcing democratic institutions and helps Spanish Armed Forces meet NATO modernization standards.

In addition to ESF assistance to Cyprus to continue the scholarship program initiated in FY 1981, we are also proposing to continue our support of the United Nations forces in Cyprus.

Asian Security. Past investments in the economies and security of our East Asian and Pacific friends have resulted in stability and economic growth in much of the area. But the picture is not entirely bright and some countries of great strategic importance to the United States, the Philippines for example, are suffering from a slowing of economic growth and burdensome external debts. The

vitality and progress of others are threatened by the heavy military buildup of the Soviet Union, North Korea and Vietnam.

Our security assistance helps to protect the frontline states of Korea and Thailand. It sustains our treaty relationships with Korea, the Philippines and Thailand. Security assistance also facilitates continued use of military bases and facilities in the Philippines.

For FY 1985 we plan to allocate some 92 percent of our East Asia/Pacific regional security assistance to Korea, the Philippines and Thailand to enhance the strategic posture of the United States and threatened friends.

Africa. As in FY 1984, the security assistance programs that we are proposing for Africa are all grant. Much of Africa faces a continuing economic crisis, compounded by drought. For this reason, we plan to devote \$391.5 million in ESF to 15 programs in Sub-Saharan Africa. The Administration is also initiating in FY 1985 an Economic Policy Initiative for Africa, which is a special, five-year program utilizing development assistance funds to provide special assistance to a few African nations undertaking extensive economic reforms to promote production and free market pricing.

The prolonged economic crisis in Africa can magnify or precipitate security problems. The Soviet Union and its proxies continue to exploit regional conflicts to advance their position in the area. Libya has twice invaded Chad. In Southern Africa, there are continuing conflicts which we and our allies are attempting to resolve through negotiations.

Other Security Interests. The Eastern Caribbean area is also of strategic importance to the United States. These islands are hard-pressed to meet the challenge of independence at a time when they face the worst economic recession the area has experienced since the 1930s. As illustrated by recent events in Grenada, these small states confront both internal and external security challenges. The Cuban presence on Grenada has been removed through the efforts of the Organization of Eastern Caribbean States, Barbados, Jamaica and the United States. However, continued peacekeeping operations assistance to the Caribbean Peace Force (CPF) is required. Additional assistance, primarily economic, is needed throughout the Caribbean area to assist in creating an environment of political and economic stability and growth. We are requesting \$5 million for the CPF, as well as \$20 million in ESF, \$5 million in MAP, and \$300 thousand in IMET for the Eastern Caribbean.

Other areas of the Caribbean and South America are also included in the FY 1985 request. Many of those countries have long-term economic problems and, as hemispheric neighbors, are important to US security interests. They need to upgrade antiquated defense establishments to deal with real security concerns. The major proposed recipients are the Dominican Republic and Jamaica.

FY 1985 Legislative Proposals

For fiscal year 1985 we are proposing only a few new legislative proposals, together with certain proposals not acted upon over the last two years. We have attempted to limit the number and scope of legislative proposals to those most important to the effective operation and administration of the programs. We believe that those which we have proposed are significant and urge their adoption. I trust that the Committee will consider favorably, as it did last year, those proposed changes that seek to improve the management and execution of the security assistance program.

New Proposals. First, we have proposed a new Section 23 of the Arms Export Control Act (AECA), which authorizes the provision of FMS direct credits. The President's FY 1985 budget proposes that direct credits for selected countries be provided at a concessional rate of interest. Both aspects of this proposal can be implemented under current authorities once Congress appropriates the funding requested. The suggested amendments, however, would adjust these authorities to reflect more clearly and accurately the changed nature of the FMS direct program and allow the program to be managed more efficiently.

We also proposed to amend the AECA to encourage IMET training in maritime search and rescue, the operation and maintenance of aids to navigation, port security, at-sea law enforcement, international maritime law, and general maritime skills and to exempt such training from the general prohibition on law enforcement training. This grows out of an initiative of the committee last year.

Another proposal would add Korea in FY 1984 and 85, and Portugal and the Philippines in FY 1985 to the countries which are now authorized extended repayment terms of ten years grace and twenty years repayment of principal on FMS guaranteed loans. Countries would be authorized such terms only on direct Treasury rate credits in FY 1985, not on credits provided at a concessional interest rate.

Proposals Resubmitted. We regard the proposal to eliminate the multi-tier price structure on the sale of foreign military training to be particularly important. We would substitute a single price for all FMS-sold training. Such action would reduce confusion, be more equitable, and reduce overall administrative costs.

Several other proposals which we are resubmitting this year would improve the management of our security assistance. In the late 1970's a long overdue reduction in the number of overseas military personnel took place, responding to lessened needs. Now, however, many programs have grown in size and importance. We are requesting specific statutory authorization to increase the number of overseas military personnel by adding eight new countries to the 12 currently authorized by statute to have more than

six uniformed US personnel. These include Pakistan, Tunisia, Yemen, Lebanon, Sudan, El Salvador, Honduras and Venezuela.

Current law requires that countries that sell or dispose of US equipment granted directly by the United States under the MAP program return the proceeds to the United States. As a result, countries maintain obsolete equipment in their inventory, spending scarce resources on costly repairs. We are proposing to add a waiver authority that would allow the President, on a country-by-country basis, to permit countries to keep the proceeds of sales when it is in the US national interest to do so. All applicable legal and policy controls on third country transfers would continue to apply to any sales of this equipment.

Other proposals we are once again requesting for FY 1985 include:

- Reciprocal provision, without charge, of catalog data and services to NATO.
- Removal of certain prohibitions against assistance to China.
- Streamlining of reprogramming requirements.
- Proportional application of earmarks.
- Permitting reciprocal no-cost exchange training on a one-to-one basis.

Other Provisions. We are also requesting \$274 million for FY 1985 in order to maintain adequate reserves in the Guaranty Reserve Fund against defaults and rescheduling of outstanding loans guaranteed pursuant to AECA provisions. This will enable the fund to maintain fiscal integrity.

Another proposal seeks to amend the Foreign Assistance Act of 1961 to establish a ceiling of \$248 million in FY 1985 on the aggregate value of additions made in FY 1985 to overseas stockpiles of defense articles. We are also requesting a supplemental authorization to permit stockpile additions of \$125 million in FY 1984. These defense articles are those other than in NATO countries which are designated as war reserve stocks for allied or other foreign forces.

Conclusions

Today I have touched on the highlights of our FY 1985 security assistance program and related legislation that will permit the more effective and efficient management of these programs. Mr. Chairman, the Administration has attempted to implement recommendations which you and other members of the Carlucci Commission made with regard to security assistance.

We believe that a better mix of economic and military assistance has been achieved in the overall foreign aid program proposals for this year, while permitting us to reduce the security assistance portion to a lower level than would have been the case under previous practice. This has been facilitated by the decision to place FMS financing on-budget and extend FMS concessional loans to needy countries.

The Administration has also responded to the concerns of the Kissinger Commission about security and economic needs in Central America. We hope that Congress will give both the 1984 supplemental and the proposed 1985 program full support.