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REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



Foreign Military Sales A Growing Concern

Departments of State and Defense

Attempts to place into perspective the key issues related to areas of concern in the foreign military sales program are described in this report.

It includes a summary of recent GAO reviews which identified opportunities for management improvement of foreign military assistance and sales activities.

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WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

The increased congressional and public attention focused on the dramatic growth in the volume of the U.S. foreign military sales program led us to review and attempt to place into perspective a number of arms-transfer issues related to areas of concern in the foreign military sales program.

This report is an overview of the major issues surrounding the program's operation and growth and is not a complete detailed study of the foreign military sales area. We have not addressed the matters of bribes, kick-backs and commissions which transcends foreign military sales. However, we believe this report may be helpful to Members of Congress as a concise summary of security assistance program issues. The report also includes a summary of opportunities for management improvement which we identified in recent reviews of foreign military assistance and sales activities.

We discussed this report with officials in the Departments of State and Defense but did not request written comments. However, State and Defense did provide us with preliminary comments that were considered in the final preparation of this report.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of the report to the Director, Office of Management and Budget, and the Secretaries of State and Defense.

James G. Stoen

Comptroller General
of the United States

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ABBREVIATIONS

ACDA Arms Control and Disarmament Agency
DSAA Defense Security Assistance Agency
Eximbank Export-Import Bank of the United States
FMS foreign military sales
GAO General Accounting Office
NATO North Atlantic Treaty Organization

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FOREIGN MILITARY SALES--
A GROWING CONCERN
Departments of State and Defense

D I G E S T

Increasing congressional and public attention has been focused on the dramatic increases in the volume of U.S. foreign military sales. This rapid growth--from \$1 billion in fiscal year 1967 to almost \$10 billion in 1975--has sparked considerable controversy over the programs' operation and direction.

Foreign military sales arrangements cover many items, including not only equipment but training and various support requirements. In 1975 cumulative undelivered sale orders totaled about \$24 billion.

Moral and political arguments appear to dominate the debate over the U.S. role in international arms trade.

At the time of GAO's review, the Congress was considering major legislation to increase congressional oversight of U.S. arms sales abroad.

Until recently, Europe and Asia were the major focus of U.S. arms sales with more than 70 percent of U.S. arms exports going to nations bordering the Soviet Union and China. The U.S. now finds its biggest customers in the Middle East--Iran, Saudi Arabia, and Israel. In 1975 the Middle East countries placed more than \$5.2 billion in military sales orders.

Since 1955 the Defense Department has extended to 52 countries more than \$3.4 billion in direct credit and has guaranteed more than \$2.4 billion in loans for military purchases. The Export-Import Bank of the United States has provided more than \$2.6 billion in direct credit and guarantees since 1963.

This report identifies foreign military sales issues. It attempts to place into

perspective key concerns relating to important areas of debate in the foreign military sales program. Issues discussed include:

- Closely controlled foreign military sales as an important foreign policy tool to reduce U.S. arms costs and stimulate the U.S. economy through increased exports. (See pp. 12 and 15.)
- International consensus on types of arms controls which might be adopted or on the need for controls. Proposed methods include (1) registration of international arms transfer by U.N. or other international agencies, (2) arrangements among supplier countries to restrict shipment of arms to certain areas, and (3) arrangements among recipient countries to limit imports of armaments. (See p. 17.)
- Effects on U.S. balance of payments, employment, and regional impact of arms production. (See pp. 19, 21, and 22.)
- Coproduction programs and licensing arrangements used to expand U.S. allies' military technical know-how and production capabilities. (See p. 22.)
- Offset procurements whereby arms-selling countries agree to place offsetting orders in the purchasing country to fill selected military procurement requirements. (See p. 24.)
- Economic impact of transfer to foreign manufacturers of U.S. technology. (See p. 25.)
- Extent U.S. military capabilities and force readiness suffer from increased sales of major U.S. weapons systems. (See p. 27.)
- Implications of providing logistical support for defense articles sold to foreign countries. (See p. 28.)
- Recovery of full cost of military goods and services sold to foreign countries. (See p. 29.)

--Congressional attempts to obtain increased oversight of foreign military sales. (See p. 31.)

GAO, in reviewing Defense activities, has identified opportunities for improving the foreign military assistance and sales program. (See app. I.)

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CHAPTER 1

INTRODUCTION

Over the past decade, increased congressional and public attention has been focused on the rather dramatic increases in the volume of the U.S. foreign military sales (FMS) program--from \$1 billion in fiscal year 1967 to almost \$10 billion in 1975. This rapid growth, due partly to a reduction in military assistance, has sparked considerable controversy over the program's operation and direction. Although the executive branch has continuously given the Congress details of the program's operation and explanations of its growth, concern and dissatisfaction over many issues continue.

Moral and political arguments appear to dominate the debate over the U.S. role in international arms trade. Members of Congress are concerned that rapid growth of U.S. arms transfers abroad has taken place without adequate consideration being given to the potentially destabilizing effects of such transfers. Among these expressed concerns are the potential effects on the stimulation of regional arms races; encouragement of certain countries' tendencies to place too much emphasis on military considerations at the expense of social-humanitarian concerns; and identification of the United States with regimes which, for one reason or another, appear to adopt extreme repressive practices.

BACKGROUND OF FMS

The United States has provided billions of dollars in military assistance to friendly foreign countries since the end of World War II on the premise that the security and economic well-being of friendly countries is essential to U.S. security. This principle was inherent in the Marshall plan and Truman doctrine. Collective security was also the cornerstone of the Nixon doctrine enunciated in late 1969 which proclaimed that:

"We shall furnish military and economic assistance when requested and as appropriate. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense."

The Congress, over the years, has enacted more than 30 pieces of military assistance legislation to achieve these goals. The Mutual Defense Assistance Act of 1949, Mutual Security Act of 1951, Mutual Security Act of 1954,

Foreign Assistance Act of 1961, and Foreign Military Sales Act of 1968 are legislative milestones representing increased congressional concern. Section 51(a) of the Foreign Assistance Act of 1974 further amplifies congressional concern over arms transfers, stating in part that:

"It is the sense of Congress that the recent growth in international transfers of conventional arms to developing nations - (1) is a cause for grave concern for the United States and other nations in that in particular areas of the world it increases the danger of potential violence among nations, and diverts scarce world resources from more peaceful uses; and (2) could be controlled progressively through negotiations and agreements among suppliers and recipient nations."

The Foreign Military Sales Act of 1968 consolidated and revised provisions of the Foreign Assistance Act on reimbursable military exports and consolidated all legislation dealing with military sales by the U.S. Government. Such consolidation was necessary to provide both the administrative mechanism and the general legislative authority to meet the growing demands of the expanding FMS program.

The principal objective of the act is to:

"* * * facilitate the common defense by entering into international arrangements with friendly countries which further the objective of applying agreed resources of each country to programs and projects of cooperative exchange of data, research, development, production, procurement, and logistics support to achieve specific national defense requirements and objectives of mutual concern."

To this end, the act authorizes the U.S. Government to sell defense articles and services to friendly countries that are able to pay to equip their military forces without undue burden to their economies in furthering the security objectives of the United States and consistent with the objectives of the United Nations. The FMS program is therefore an important instrument of U.S. foreign policy. There are other important benefits which accrue to the United States.

--Closer relations, cooperation, and partnership with other nations is engendered.

--Standardization of equipment and training is increased, research and development costs can be shared, unit costs to the U.S. military services are reduced, and forward material support is facilitated, and U.S. military production bases are kept active.

--U.S. employment is increased and the U.S. balance of payments is aided.

The Foreign Military Sales Act, however, places certain constraints on the program, such as:

--Military sales are approved only when they are consistent with U.S. foreign policy.

--The sales should strengthen U.S. security and promote world peace.

--The purchasing country can only transfer purchased items with U.S. consent.

--All sales are in U.S. dollars.

--Consideration is given to proper balance among sales, grant military assistance, and economic assistance.

--The United States will evaluate the sales in light of social and economic development programs and existing or incipient arms races.

--The Government's role in sales will be reduced as soon as and to the maximum extent practicable and such transactions returned to commercial channels.

--Sales will be made only for internal security, legitimate self-defense, or regional or collective arrangements consistent with the U.N. Charter or requested by the United Nations to maintain or restore international peace and security.

Military export sales are divided into FMS and commercial sales. FMS are government-to-government sales.

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Within the executive branch, numerous departments and agencies (e.g., National Security Council, Agency for International Development, and Departments of Commerce, Treasury) have varied responsibilities concerning the program. However, aside from the President, final determination, the principal responsibilities established by the legislation were assigned to the Secretaries of State and Defense.

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The Secretary of State is responsible for supervising and directing military export sales, including determining whether there will be a sale and the amount thereof. He insures that sales are integrated with other U.S. international activities and are consistent with U.S. foreign policy. The FMS program has been a useful and highly effective instrument of foreign policy for the State Department. For example, the State Department has used it as a means to obtain a more flexible response from Israel in the Middle East negotiations.

The Defense Department views the FMS program primarily as an effective tool of foreign policy and complementary to its defense role and national security mission. FMS also supports the military goal of collective security, provides the United States with a first line of defense outside its immediate territory, and enhances U.S. ability to respond to perceived threats. The Secretary of Defense is responsible for determining military and item requirements; procuring military equipment to permit integration with U.S. military programs; supervising foreign military personnel training; and establishing priorities in procuring, delivering, and allocating military equipment. The Assistant Secretary of Defense, International Security Affairs, acts for the Secretary of Defense and is his principal representative and spokesman on FMS matters. The Defense Security Assistance Agency (DSAA) is responsible for directing and supervising program administration and implementation. Approved FMS orders are implemented by the military departments.

The increased emphasis on sales of military hardware and services in the act reflects the ability of more countries to purchase some, if not all, of their defense requirements. With most of the world's nations lacking defense industries of their own, military equipment and related services must be obtained from the more industrialized nations on a cash, credit, or grant basis. According to the State Department, if such sources were to dry up for one reason or another, few nations would judge themselves capable of insuring international order or of maintaining the integrity of their territories.

SIZE OF FMS PROGRAM

A very basic and dramatic shift in the composition of the U.S. military assistance grant-aid program and sales orders has occurred since 1962. In 1962 the military assistance grant-aid program was about \$100 million more than government-to-government military sales orders; however, by 1969 sales orders were more than three times larger than the military assistance grant-aid program. Since the

implementation of the Foreign Military Sales Act, sales orders have continued to grow, as table 1 shows. During 1974, sales orders increased almost 150 percent over those of 1973. In 1975 orders fell 12 percent from 1974 levels but were still about eight times the average sales of the late 1960s. The proposed fiscal year 1976 sales orders of over \$8.1 billion show that this trend is leveling off. Sales order projections for fiscal year 1977 reflect a downward trend to \$6.9 billion.

Table 1

Comparison of FMS Orders with
Military Assistance Grant-Aid Program
(unadjusted for inflation and
armament sophistication factors)

<u>Fiscal</u> <u>year</u>	<u>Total government-</u> <u>to-government</u> <u>sales orders</u>	<u>Military</u> <u>assistance</u> <u>grant-aid</u> <u>program</u>
	(000 omitted)	
1966	\$ 1,627,136	\$970,602
1967	978,742	875,724
1968	798,558	596,270
1969	1,551,231	453,046
1970	952,593	381,743
1971	1,656,818	755,011
1972	3,261,192	545,882
1973	4,368,437	590,168
1974	10,808,926	784,902
1975	9,510,727	584,118
1976	a/8,206,700	a/422,800

a/Proposed.

Source: Department of Defense.

In the early 1950s, the United States and the United Kingdom were the dominant suppliers of major weapons systems. From 1964 to 1973, nine nations accounted for about 97 percent of world military exports--United States, 51 percent; Soviet Union, 27 percent; United Kingdom, France, and China, 10 percent; and Czechoslovakia, Poland, Canada, and West Germany, 8.5 percent. However, according to the Stockholm International Peace Research Institute Yearbook for 1975, the Soviet Union from 1950-1974 was "the largest supplier of weapons to the third world" outstripping the United States by 12 percent; in 1974 this margin was increased to

50 percent. Soviet arms were directed at a few countries with Syria receiving over 50 percent of the arms during 1974. These trends all point toward the growth in size and complexity of the international military trade.

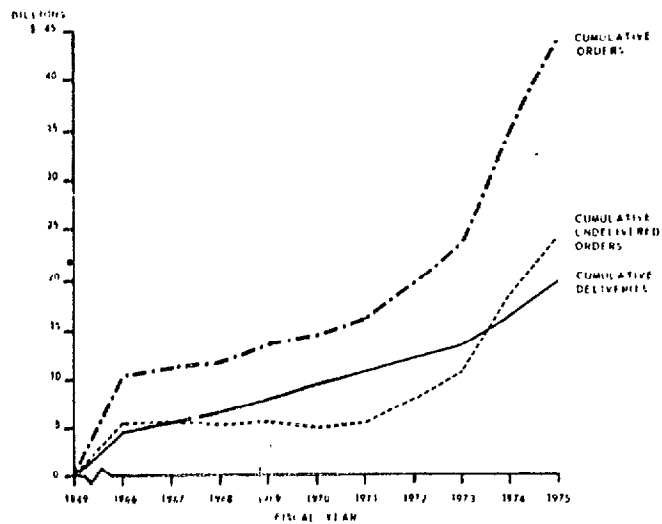
Size of undelivered FMS orders

Although cumulative sales orders have grown dramatically since 1971, cumulative deliveries have not kept pace. The result is that cumulative sales orders in the pipeline, that is, undelivered orders, have increased greatly since 1971.

From 1966 to 1971 undelivered orders averaged \$5.3 billion, whereas the pipeline had grown in 1972 to \$7 billion, in 1973 to \$10 billion, in 1974 to \$18 billion, and in 1975 to \$24 billion. In short undelivered orders in 1975 amounted to over four times the amount of undelivered orders in 1971. Since 1974 undelivered orders actually exceeded deliveries. The large amount of undelivered orders

is due to the increasing number of orders being processed and the nature of the items ordered, such as sophisticated aircraft, artillery, and tanks. As a result, deliveries are made 3 to 5 years after orders are placed.

GROWTH TRENDS OF FOREIGN MILITARY SALES ORDERS, DELIVERIES, AND UNDELIVERED ORDERS SINCE FISCAL YEAR 1969



FOCUS OF PROGRAM BY REGION AND COUNTRY

Until recently, Europe and Asia were the major focus of U.S. arms sales with more than 70 percent of U.S. arms exports going to nations bordering the Soviet Union, its allies, and China.

An historical perspective of FMS orders by country is provided in appendix II. The United States now finds its biggest customers in the Middle East--Iran, Saudi Arabia, and Israel. Of the \$9.5 billion in FMS orders placed in 1975, more than \$5.2 billion were with Mideast countries--with \$2.6 billion from Iran, \$1.4 billion from Saudi Arabia, and \$0.9 billion from Israel. (See table 2.)

Table 2

FMS To Top 10 Countries in 1975

<u>Countries</u>	<u>Orders</u>	<u>Deliveries</u>
	(000 omitted)	
Iran	\$2,567,903	\$944,650
Saudi Arabia	1,373,862	316,070
Israel	a/868,650	686,533
Belgium	b/737,937	5,569
The Netherlands	b/686,387	29,552
Norway	b/458,931	23,150
Kuwait	370,496	7,563
Denmark	b/367,742	25,337
Morocco	294,876	2,725

a/Excludes \$100 million of nonreimbursable financing pursuant to sec. 31(b) of the Foreign Military Sales Act, as amended by Public Law 93-559.

b/Includes \$2.1 billion for F-16 aircraft for which memoranda of understanding have been signed but letters of offer not yet finalized.

Source: Department of Defense.

If the pattern of the past decade continues, most of the increased sales of arms will be to third-world nations because:

--East-West tensions have ebbed in Central Europe, the areas of real potential conflict have shifted to the third world.

--Since World War II, the creation of 75 new nations has meant the formation of a comparable number of new armies, all interested in buying the latest military equipment.

--Improved economic conditions in some third-world nations have directly contributed to increased sales.

Nowhere is the increase in sales more apparent than in the Persian Gulf, where nations are buying defense articles and services, as table 3 illustrates.

Table 3
U.S. Military Arms Sales Orders
in the Persian Gulf

<u>Fiscal</u> <u>year</u>	<u>Iran</u>	<u>Saudi</u> <u>Arabia</u>	<u>Kuwait</u>	<u>Oman</u>
	----- (millions) -----			
1972	\$ 524	\$ 337	\$(a)	\$ -
1973	2,114	626	(a)	-
1974	3,917	2,539	30	-
1975	2,568	1,374	370	1.6

a/Less than \$55,000.

Source: Department of Defense.

There are, however, limitations on the absorptive capacity of third-world nations and these limitations will undoubtedly affect future purchases of these nations that have already procured large amounts of defense equipment which will be delivered during the next 3 to 5 years.

Other third-world nations with valuable and scarce natural resources will also enter the sales market. It is also evident that many nations want not only the equipment but also the follow-on support and assistance which, when linked with technology and production line skills, could lead to indigenous arms industries. This could make them independent of the numerous U.S. services--training programs, maintenance support, and spare parts--that are provided in the total U.S. sales package. For example, what is probably the world's largest helicopter-training facility has been constructed in central Iran. It is staffed with U.S. personnel who, with their families, form a colony of 5,000.

SCOPE AND DIRECTION OF FMS PROGRAM

The FMS program not only extends to equipment sales but includes training and various support requirements and services.

In the competitive world of FMS, some military items are considered more desirable than others. Table 4 shows the sales of selected major U.S. items in the last 3 years and points up a significant level of sales and sophistication of the equipment. Of greater concern is the destination of this equipment, the greatest concentration of deliveries was to the Middle East. In the past 2 years, Iran alone has ordered more than \$6.5 billion in U.S. arms.

Table 4

Major U.S. Items Ordered Under FMS

<u>Item</u>	<u>Fiscal year</u>		
	<u>1973</u>	<u>1974</u>	<u>1975</u>
A-4 aircraft	50	82	61
F-5 aircraft	117	59	72
Submarines	10	17	4
Destroyers	17	31	13
Armored personnel carriers	539	3,458	735
Tanks	-	1,177	21
Hawk missiles	1,490	100	31
TOW missiles	12,868	3,780	4,724

Source: Department of Defense.

FOREIGN MILITARY CREDIT SALES

Since 1955 the Defense Department has extended to 52 countries more than \$3.4 billion in direct credit and has guaranteed more than \$2.4 billion in loans for military purchases from the United States. The Export-Import Bank of the United States (Eximbank) has provided more than \$2.6 billion in direct credit and guarantees since 1963.

A major purpose of providing foreign military credit assistance is to help economically less developed countries make the transition from grant aid to sales. It has long been the position of the Congress that the United States should help friendly nations acquire a greater degree of self-sufficiency. To this end, many believe that credit assistance is necessary if grant aid is to be completely phased out as many Congressmen desire.

Sections 23 and 24 of the Foreign Military Sales Act authorize the President to finance procurements of defense articles and defense services or to guarantee private financing for friendly foreign countries and international organizations. The President is also charged with establishing standards and criteria for credit and guarantee transactions in accordance with U.S. foreign, national security, and financial policies.

Three basic types of credit assistance are available from U.S. resources to support credit sales.

- Private guaranteed credit. Financing is arranged between nongovernment U.S. lenders and foreign purchasers, with the U.S. Government guaranteeing repayment of the loan to the lender. The Government charges a fee for this service of one-quarter of 1 percent. To cover possible nonpayment to U.S. lenders, the Foreign Military Sales Act requires the Government to establish a cash reserve of 10 percent of the amount of all guaranteed loans.
- Eximbank credit. Covers credit financing of defense articles and services to developed countries only. Section 32 of the act specifically prohibits the Bank from using its resources for military sales to less developed countries.
- FMS direct credit. The Government directly finances the procurement of defense articles for credit sales, under authority and with funds appropriated annually by the Congress. There is no legal prohibition against using these funds for credit to developed countries. However, Government policy confines this type of credit financing to eligible economically less developed countries. Interest is charged at a rate equivalent to the current average interest rate on the last day of the month preceding financing that the Government pays on outstanding marketable obligations of comparable maturity, unless the President certifies to the Congress that the national interest requires a lesser rate of interest.

Congressional concern over possible excesses in credit financing has resulted in the following restrictions on foreign military credit sales.

1. Regional ceilings of credit sales have been established for African countries, South Korea, and India.

2. No funds authorized under the act shall be used to guarantee, extend credit, or participate in an extension of credit for any sale of sophisticated weapons systems, such as missile systems and jet aircraft for military purposes, to any underdeveloped country other than Greece, Turkey, Iran, Israel, the Republic of China, the Philippines, and Korea--unless the President finds that such financing is important to U.S. national security and reports such determination to the Congress within 30 days.
3. An annual ceiling is imposed by the Congress on all credits and guarantees extended under the act.

According to the State and Defense Departments' guidelines, each credit or guarantee transaction is reviewed according to the purchasing country's financial condition and need for credit, U.S. economic or military assistance programs in the country and region, and other proposed arms purchases by the country. Further, the suitability of the items desired by the armed forces of the purchasing country is also considered, especially the level of weapons sophistication and the principal source of credit financing. The Arms Control and Disarmament Agency (ACDA) also reviews the propriety of the transfer from an arms control standpoint.

SCOPE OF REVIEW

This report attempts to focus on the major FMS issues and summarizes our recent reports on the military assistance grant-aid and sales programs.

We visited Taiwan, the Philippines, Indonesia, and Australia during August and September 1975 and held discussions with U.S. and host-government officials involved with the FMS program and with U.S. technical representatives and Defense contractors. We reviewed military sales records, reports, and files in each country visited. We also held discussions with State and Defense officials in Washington, D.C., and military officials at the unified command in Hawaii.

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CHAPTER 2

MAJOR ARMS TRANSFER CONCERNS

ARMS SALES DECISIONMAKERS

The fundamental reason for security assistance and military sales, according to a recent Department of State announcement, is the growing realization that the United States cannot isolate itself from the mainstream of major forces and events abroad.

The State Department contends that, in developing and implementing policy, the U.S. Government has developed in recent years a structured review process that operates within the framework of the Foreign Assistance and Foreign Military Sales Acts.

The normal review channel for military equipment transfers involving appropriated funds is the Security Assistance Program Review Committee chaired by the Under Secretary of State for Security Assistance and consisting of representatives from State, Defense, Treasury, Office of Management and Budget, National Security Council, Agency for International Development, and Arms Control and Disarmament Agency. This Committee annually reviews both the level and the content of each country's program.

The review procedures vary depending on type of case. According to the State Department, all major cases must be approved by senior State officials. Within State, cases are reviewed by the regional bureaus involved and by the Bureau of Politico-Military Affairs. Very important cases may involve the President or the Secretary of State in making decisions.

Although the Departments of State and Defense review pending requests and make detailed consultations, the Defense Department does not make policy on whether there shall be an FMS program in a particular country or on program size and content.

Policy considerations

According to the State Department, a military supply relationship with a foreign country involves various considerations. The basic issue is to make the best possible systematic judgment for total U.S. interests, just as other U.S. international political judgments are made. According to State, security relationships are an element of foreign policy and are neither more nor less subject to uncertainties than any other tool of policy. Like any other tool, it could

theoretically be dispensed with but, in an age when the United States needs to utilize its capabilities to the maximum, it would be pointless to forgo using any tool that, when wisely used, promises substantial benefit at an acceptable cost and risk.

Political considerations of FMS the State Department assesses include:

- What role the country plays in its surroundings, what interests it has in common with the United States, and where U.S. interests diverge.
- Whether the transactions will do more to further U.S. objectives on balance than other economic or political measures.
- The position of influence the sales might help to support, including the potential restraint that can be applied in conflict situations.
- Whether a particular sale will set a precedent which could lead to further requests for arms or for similar requests from other countries.
- The current internal stability of the recipient country, its capacity to maintain the stability, and its attitude toward human rights.
- The possible adverse impact on U.S. relations with a friendly government of not making the sale.
- The options available to the recipient country. Will a refusal result in the country's turning to other sources of supply? What sources? What will be the political, military, and economic implications of this? If a country has options that it will unhesitatingly employ, would our refusal to sell mean the forfeiting of opportunities to develop or maintain parallel interests and objectives?

Economic considerations to be assessed are:

- Whether the proposed sale is consistent with the recipient country's development goals or with the U.S. economic assistance program, if there is one.
- Whether the sale might strain the country's ability to manage its debt obligation or entail operations and maintenance costs that might make excessive claims on future budgets.

--The economic benefits to the United States from the sale or coproduction of arms, especially to the oil-rich States. As significant as these benefits may be, however, they remain secondary and certainly would never decide an issue.

Finally, military aspects to be considered are:

- The threat the military capability is supposed to counter or deter, U.S. agreement on the nature of the threat, and relation to U.S. security. During a period when the United States and some other major powers are transferring some security responsibilities, the State Department believes an understanding of the security concerns of smaller countries is needed. Their concerns may seem exaggerated to the United States but are very real to them.
- How the proposed transfer affects the regional military balance, regional military tensions, or the military buildup plans of another country.
- Whether the recipient country is capable of absorbing and using the arms effectively.
- What other military interests--for example, U.S. overflight rights or access to facilities--would be supported by the transaction.
- The impact on U.S. readiness. Since the Arab-Israeli War of October 1973, the United States has had to assess the impact of sales on the readiness posture of its own forces.
- Whether a substantial physical dependence on U.S. sources of supply could enable the United States to better control conflict under some circumstances.

In contrast, a December 19, 1975, report to the House Committee on International Relations submitted by Congressman Pierre S. du Pont on a special study mission during May 1975 to examine U.S. arms sales to Persian Gulf countries stated that the United States lacks a cohesive sales policy and that the arms sales policy is a "non-policy"--an ad hoc response to individual arms requests rather than a well-formulated plan designed to protect U.S. security interests. In view of the more than \$5 billion in arms sales to these countries in fiscal year 1975, this study recommended that:

"The United States, in determining its arms sales policy, should impose self-restraint in * * * the overall level of U.S. arms sales, the percentage of each national defense market the United States enjoys, the sophistication of the weaponry the United States is prepared to sell."

GOVERNMENT-TO-GOVERNMENT VERSUS INDUSTRY-
TO-FOREIGN-GOVERNMENT SALES

Current issues

Military export sales are either FMS or commercial sales. FMS are government-to-government transactions. For these sales, the Defense Department either sells equipment directly from its own stocks or purchases equipment from U.S. firms for subsequent sale to foreign buyers. For commercial sales, the U.S. firm sells directly to the foreign buyer.

Advocates of a closely controlled FMS program argue that such sales are an important foreign policy tool which reduces U.S. arms costs and stimulates the U.S. economy through increased exports. Therefore, these advocates argue that it may be desirable to retain a central government role in military sales instead of leaving the active sales role with commercial firms controlled primarily through the export licensing mechanism.

On the other hand, there are some who state that the rapidly expanding FMS program requires U.S. military logistical support capabilities. Using FMS for items not in the U.S. military inventory will increase future logistical support problems. However, some type of restriction over what will be sold and supported under FMS may be necessary.

The Defense Department preference is to use commercial channels as much as possible. Nevertheless, according to the Defense Department, some two-thirds to three-fourths of all U.S. military exports actually pass through government-to-government channels for one or more of the following reasons:

1. Major weapons systems involve substantial amounts of Government-furnished equipment. Since the U.S. Government is not authorized to sell military equipment to private parties, such equipment can only be sold to foreign governments or international organizations. This Government-furnished equipment likewise cannot be sold to U.S. prime manufacturers for incorporation in weapons systems and sale to foreign buyers. The Defense Department's practice, therefore, is to use the FMS channel.

2. For some special situations, the U.S. Government wishes to exercise the control that it believes is more easily achieved with the FMS channel.
3. Classified equipment, which must in any event be delivered through government channels, is often easier to sell through the government channel.
4. Sales made under supply support arrangements and similar logistics sales arrangements are handled through the FMS channel as the only practicable way of permitting the armed forces of friends and allies to "buy into" the U.S. logistics system and to obtain support under the same procedure as U.S. units.

The Foreign Military Sales Act, as amended, requires the Government to reduce its sales, credit sales, and guarantees and services as soon as possible and to the maximum extent practicable. The stated policy preference of both the executive and the legislative branches is for commercial sales. The U.S. Government's role in international arms sales is one important domestic issue currently being debated. During our review, the Congress was considering revising the act not only to remove the language restricting the Government's role but also to specifically preclude commercial sales of \$25 million or more of major defense equipment.

Published military guidelines include provisions, in conformity with the Foreign Military Sales Act, which encourage foreign countries to purchase from U.S. commercial sources rather than from the Department of Defense whenever practicable.

The military departments, however, have made limited progress in carrying out congressional desires in this area. Efforts to force foreign buyers to purchase from commercial sources might cause them to look to third countries for more of their needs and would likely result in reduced U.S. arms sales. For example, military officials in Australia and Indonesia said they would probably turn to third countries in many instances. In view of the intensive efforts being made by German, French, and British arms dealers, it seems likely that a reduced FMS program would reduce U.S. arms sales without a corresponding reduction in overall arms purchases.

Foreign customers' views

The foreign military officials we talked with during our August to September 1975 visits in Taiwan, the Philippines, Indonesia, and Australia expressed strong preferences for

FMS because they believed the Department of Defense umbrella resulted in lower prices, better follow-on support, more control over contractor performance, and simplified administrative procedures.

Larger FMS customers, such as Australia and Taiwan, have established procurement missions in Washington, D.C. Officials from these countries acknowledged that, although missions have some experience in making commercial purchases, they are used primarily to facilitate FMS dealings. Neither Indonesia nor the Philippines have a procurement mission in the United States and have no plans to establish one. They believe their volume of purchases was not adequate to warrant opening procurement missions.

A recurring comment by U.S. and foreign officials in each of these four countries, especially Indonesia, was the lack of procurement expertise needed to deal directly with U.S. commercial sources. These officials generally believe that if the decision to shift to commercial sales is to be effectively carried out, many U.S. allies will need more assistance in making the transition than is now available.

INTERNATIONAL CONTROL OF ARMS SALES

Many proposals for restraining international traffic in conventional arms on a regional or worldwide basis have been made since World War II. These proposals have envisaged the use of one or more of three general methods (1) registration of international arms transfers by the United Nations or some other international agency, (2) arrangements among supplier countries to restrict shipments of arms to certain areas, and (3) arrangements among recipient countries to limit imports of armaments.

There is, however, no international consensus on the types of controls which might be adopted or even on the need for controls. Conventional arms do not present the same threats to mankind as those posed by nuclear weapons, so they do not generate an overriding mutual interest in avoiding or controlling their use. Also, neither suppliers nor recipients want to forgo the perceived utility of such weapons in the daily promotion of their own particular national objectives. Control is further complicated by the proliferation of supply sources and the growing economic importance of arms exports for supplier countries. As a result, according to the State Department, no one country can control the arms flow to any significant degree. At the U.N. General Assembly in 1971 and 1972 and at the April 1975 Conference of the Committee on Disarmament in Geneva, the United States urged all governments to focus greater attention on this issue. However, according to the State Department:

- Developing countries do not want controls on the conventional arms they see as essential to their security.
- Suppliers see arms exports as beneficial to their economic and political interests.
- U.S. denial of conventional arms transfers can cost a good deal in good will, confidence, and security influence.

The mushrooming traffic in U.S. arms sales caused more than 100 Members of Congress to write a joint letter to Secretary of State Kissinger in late 1975 complaining that "the intense competition between the U.S. and Western European countries * * * is clearly out of hand." In response to this and other congressional concern, the Secretary of State is launching a full-scale study on possible U.S. initiatives to limit exports in conventional arms sales, particularly to Persian Gulf nations, by international agreement. In replying to the Congressmen, Secretary Kissinger was not optimistic about prospects for a limitation agreement. He stated that the:

"U.S. has repeatedly urged consideration of the problem at the Conference of the Committee on Disarmament in Geneva in April 1975. I regret to report that other members of the CCD have so far shown very little interest."

Role of the Arms Control and Disarmament Agency

ACDA was established by the Congress in 1961 to provide the President, the Secretary of State, and the Congress with recommendations on the scope and direction of the U.S. commitment to minimize the threat of war through reduction and control of arms. ACDA officials have stated that the agency is part of the Government process of formulating and implementing U.S. arms supply policies. ACDA seeks to consider fully the extent to which a proposed arms transfer might (1) contribute to an arms race, (2) increase the possibility of outbreak or escalation of conflict, or (3) prejudice the development of bilateral or multilateral arms control arrangements.

ACDA is a member of the Security Assistance Program Review Committee, which advises the Secretary of State on annual programs and multiyear plans for military assistance program grant aid and FMS credit sales. It is regularly consulted on applications for commercial export licenses that have potential arms control interest and in certain cases it

has also been consulted on proposed FMS cash sales. It is engaged in discussions with the Departments of State and Defense to improve existing consultation procedures. According to ACDA officials, mechanical recipes or bureaucratic rule-making won't work by themselves--the factors of the decision-making process and the larger dimensions of the arms control problem must be understood so that a constructive contribution to the process itself can be made.

On November 29, 1975, Public Law 94-141 was enacted to strengthen ACDA's role in national policymaking. The legislation requires that the ACDA director's opinion be considered pursuant to issuing licenses for export of military goods under commercial sales. The legislation further requires that any Government agency proposing a substantial weapons program provide ACDA with information on the scope and purpose. ACDA will then make recommendations to the National Security Council and other relevant agencies and, on request, advise congressional committees.

BALANCE OF PAYMENTS

Balance of payments is one economic concern raised in addressing the pros and cons of the arms sales program. The April 1975 Survey of Current Business analyzed the effect of military transactions on the 1974 U.S. balance of payments. It stated that transfers under U.S. military agency sales contracts were a record \$3 billion in 1974, compared with \$2.4 billion in 1973. (See table 5.) Almost 97 percent of the 1974 figure represented the transfer of goods and services under the FMS program.

During the past 10 years, the dollar value and geographic pattern of the program have changed dramatically. In 1965 military transfers totaled \$0.8 billion, with more than 60 percent going to Western European countries. By 1971 the value of these transfers amounted to \$1.9 billion, as other countries increased their participation in the FMS program. After a sharp decline in 1972, military transfers doubled to \$2.4 billion in 1973 and reached \$3 billion in 1974. Western Europe's purchases, however, dropped to 34 percent, while Middle Eastern purchases rose to 50 percent, due partly to increased Israeli purchases associated with the Middle East conflict in 1973. Also several Middle Eastern petroleum-producing countries used part of their large dollar earnings to increase purchases of U.S. military equipment and there was a shift from grant aid to purchases under military sales programs by several countries.

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Table 5
Transfers Under U.S. Military Agency Sales Contracts, by Major Country

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
	----- (millions) -----									
Total	\$830	\$829	\$1,150	\$1,392	\$1,512	\$1,478	\$1,912	\$1,154	\$2,154	\$2,966
Western Europe	516	549	781	775	860	596	928	457	585	925
North Atlantic Treaty Organization (NATO) Europe:	479	526	738	748	803	544	880	398	536	954
Belgium/Luxembourg	15	13	9	9	8	10	11	7	5	8
Denmark/Greenland	4	8	8	11	11	9	10	11	11	20
France	70	26	30	32	18	8	9	5	4	7
Germany	253	302	341	231	292	194	589	211	117	445
Greece	6	1	4	7	12	21	32	23	44	101
Italy	52	50	32	69	68	49	55	35	2	32
Netherlands	7	17	15	22	9	10	11	15	20	14
Norway	5	19	22	33	53	29	16	15	16	15
Turkey	1	1	2	1	(b)	4	2	4	10	103
United Kingdom	56	78	238	187	230	175	112	55	69	76
Other NATO (note c)	10	11	37	46	42	35	33	17	17	33
Other and unallocated	37	23	43	27	57	52	48	59	49	41
Canada	50	40	52	39	45	35	75	37	71	74
Latin American Republics and Other Western Hemisphere	31	22	27	63	29	41	36	54	63	82
Australia, New Zealand, and South Africa	96	67	132	179	103	168	51	59	107	70
Other countries:	127	151	158	136	475	638	822	547	1,416	1,745
Iran	31	64	34	86	184	125	259	140	317	604
Israel	16	4	8	53	121	301	343	220	895	641
Japan	31	24	38	31	18	25	42	41	47	48
Jordan	11	18	11	22	47	35	18	5	19	9
Saudi Arabia	15	16	17	57	22	14	25	55	115	235
Taiwan	1	2	9	13	17	62	57	55	65	86
Other and unallocated	27	23	41	74	66	76	78	31	47	122

a/Preliminary.

b/Less than \$500,000.

c/Includes Ireland, Portugal/Azores, and transfers to the NATO agencies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, from information made available by operating agencies.

Inflation also contributed to the higher dollar level of deliveries, as the price of military hardware rose significantly over the past few years. Moreover, the nature of these goods and services has changed. Technological developments in electronic warfare, especially during the Vietnam War and in the aftermath of the Middle East conflict, produced a wide array of new missile guidance systems, sophisticated aircraft components, and other weapons systems that the United States made available for sale to some foreign governments. The availability of these systems attracted many buyers and also resulted in the sale of associated hardware. For example, many countries chose to purchase new, fully equipped aircraft rather than to install modern electronic equipment on their older planes.

For the sale of about 350 General Dynamics Corporation F-16 fighter aircraft to 4 NATO nations under a joint production agreement concluded in June 1975, we made estimates of the "first-order" balance-of-payments effects of the agreement and of the entire F-16 program assuming additional sales of 425 U.S.-produced aircraft to third countries. First-order effects are a simple tabulation of the value of trade in F-16 aircraft without tracing the effects through the economy.

The planned General Dynamics production schedule is such that the United States will be a net exporter of F-16s for the foreseeable future and the agreement with the four NATO nations is estimated to result in net exports worth \$1.25 billion through 1983. The estimates were made in constant 1975 dollars. To obtain the balance-of-payments impact of the entire F-16 program, estimated third-country sales of 425 additional U.S.-produced planes were added to give a net export of about \$4.1 billion.

EMPLOYMENT

with unemployment at 8.5 percent in 1975, the effect of FMS upon U.S. employment becomes a matter of concern. In an article "Foreign Arms Sales: 2 Sides To The Coin," published in the January 1976 issue of "Army" magazine, the former Chief of International Logistics at the Army Missile Command observed that the exact relationship of FMS to U.S. unemployment is difficult to establish since many workers' jobs are only partially dependent upon foreign sales. Former Secretary of Defense James R. Schlesinger estimated that 100 jobs in American industry are sustained for each million dollars in FMS.

The article further states that the aerospace industry is particularly sensitive to armaments sales. From June 1973 to June 1974, there was only a 1,000 employee reduction in aerospace industry employment despite a general recession in the U.S. economy. Had it not been for the production of aircraft and missiles for foreign buyers, employment would no doubt have been substantially reduced.

For example, Northrop Aircraft Corporation employment was up 10 percent during 1973, with the F-5E International fighter accounting for part of the increase. Bell Helicopter Company employment also rose during 1973, with much of the increase in engineering and technical personnel due to developing and producing troop carrier helicopters for Iran and its purchases of other helicopters.

The impact of the F-16 production on U.S. and European employment is difficult to estimate because of the large number and diversity of subcontractors and because the program is still in its early stages. Each subcontractor will have a different rate of labor force use, which means that the employment effects will be only roughly proportional to the value of each subcontract.

General Dynamics estimates the total employment increase at the peak of F-16 production in the early 1980s will be about 65,000 for the United States and 20,000 for European countries. Employment in its Ft. Worth plant will reach 12,000 in the early 1980s, according to this estimate.

REGIONAL IMPACT

Arms production for FMS is dispersed throughout the United States, but is concentrated at relatively few production sites within each region of the country. For example, virtually all production of the F-16 aircraft in the southwest region (35 percent of total production) will take place in or near Ft. Worth and Dallas.

Major income and employment effects will be concentrated in regions where F-16 aircraft and related production occurs. Secondary effects occur when the newly employed workers purchase goods and services, some produced locally and others purchased from other regions. By this mechanism, the local effects are spread across the Nation, diminishing in intensity in some rough proportion to distance from the sites of F-16 production and varying according to established patterns of interregional trade.

COPRODUCTION AND LICENSING ARRANGEMENTS

Many U.S. allies have placed increased importance on expanding their military technical know-how and production capabilities, thus reducing dependence on third countries for their military needs. Coproduction programs and licensing arrangements is one way to achieve this.

From 1960 through July 1975, 33 coproduction agreements valued at \$9.8 billion were signed. Agreements valued at \$2.1 billion are being considered. These agreements involve the production of such diversified defense items as armored personnel carriers, howitzers, tanks, rifles, machine guns, ammunition, helicopters, anti-tank rockets, aircraft, and vessels.

We also identified 387 industry-to-industry licensing arrangements, 71 percent of which cover the production of

aircraft parts. Other military items being produced in foreign countries under licensing arrangements with U.S. firms include aircraft, missiles, ammunition, armor, radar, sonar, gyroscopes, and electrical parts.

Coproduction and licensing arrangements contain clauses which restrict third-country transfer of U.S. defense items. However, as in the case of direct sales of defense articles, no formal procedures or mechanisms exist to insure that transfers to third countries are not made without the prior approval of the President. According to Defense and State officials, U.S. Military Assistance Advisory Groups, defense missions, and intelligence agencies do monitor end item use and disposition to a degree. Controls over the disposition of military items produced under license in foreign countries is one of the concerns in this type of arrangement. Also, changing political conditions sometimes make it necessary to amend license provisions.

Restrictions on third-country transfers in subsection 3(a) of the Foreign Military Sales Act are not applicable to sales of U.S. Government defense services, which include the sale of defense information used for furnishing military assistance. One consequence of the lack of statutory coverage of sales of defense information in the third-country transfer restrictions of subsection 3(a) is that the United States has no statutory control over third-country transfers of the defense articles produced by the purchasing country using such defense information. However, the Defense Department does place restrictions in the conditions of the basic sales agreement.

Moreover, there is a large difference between the restrictions on third-country transfers of defense articles contained in the Foreign Military Sales Act and restrictions on commercial sales included in the International Traffic in Arms Regulations (22 C.F.R. 121 et seq.). Under the provisions of the Foreign Military Sales Act, the President cannot consent to the transfer unless the United States itself would transfer the defense article to the country. No such restraint exists on the granting of U.S. approval to a transfer under the Arms Regulations.

Several studies have been made on the impact of arms sales on U.S. employment. However, these studies focus on reduced defense expenditures, not specifically on the employment impact of coproduction and licensing arrangements.

If the assumption were made that foreign countries would buy directly from the United States were no coproduction alternative available, coproduction and licensing arrangements

could result in a loss to U.S. labor. Conversely if no sales of an item would be made were it not to be coproduced, coproduction would have a positive effect because part of the item would be produced in the United States.

If licensing agreements are considered as an extension of U.S. production capabilities, they could also be considered beneficial to the U.S. economy, since the U.S. firms would be realizing license and royalty fees which contribute to the profit margin of the firms, the U.S. tax base, and the balance of payments.

The following additional observations are made as a result of a 1975 GAO survey on FMS in Taiwan, the Philippines, Australia, and Indonesia.

- The programs often provide a questionable return in assisting countries to develop incountry production capabilities. Complex programs are more aptly described as co-assembly rather than coproduction operations. For example, incountry production goals for the F-5E aircraft and T-53 engine in Taiwan were only 20 and 14 percent, respectively.
- Most coproduction programs will continue to rely on the defense contractor in the foreseeable future for extensive technical assistance, especially quality control.
- Questionable controls over modifications to coproduced articles may result in eventual supportability problems.
- Defense contractors contacted prefer direct sales over coproduction arrangements but have given in to foreign customer demands.

OFFSET ARRANGEMENTS

Offset procurements refer to quid pro quo arrangements whereby the arms-selling country agrees to place offsetting orders in the purchasing country to fill selected military procurement requirements. Such arrangements are more desirable for selling countries that have strong balance-of-payments positions. Selling countries with balance-of-payments deficits are either unable or reluctant to follow such practices. In the past, the United States has entered into offset arrangements with five countries.

In an April 1973 memorandum of understanding, the Department of Defense agreed to establish the basis for

associated offset arrangements on U.S. major weapons systems and defense equipment purchased by Australia. The following principles and understandings were among those agreed on.

- The U.S. Department of Defense will commit itself to a combined U.S. industry and Defense offset objective of no more than 25 percent of the value of major Australian orders.
- The U.S. Department of Defense and the Australian Department of Defense will look to those U.S. firms benefiting substantially from an Australian order to carry the initial and primary burden of offset implementation.
- In the event that U.S. firms and subcontractors are unable to completely fulfill their offset objectives, the Department of Defense will first offer Government-furnished equipment to Australian industry as bid opportunities and, second, if the equipment turns out to be unsuitable for either partner, select other items of defense equipment and supplies which appear to be competitively obtainable from Australian sources.
- U.S. Department of Defense procurement from Australian sources will normally be competitive and subject to two basic conditions: (1) that the items of procurement fully satisfy U.S. Department of Defense requirements for performance, quality, and delivery and (2) that they cost no more than would comparable U.S. items or other foreign items eligible for award.

A June 1975 sale of eight P-3C aircraft for \$113 million was the first major Australian purchase after the offset arrangement was signed. To complete the sale, Lockheed Aircraft Corporation agreed to a 30-percent offset undertaking.

Australia is currently making plans to purchase 2 patrol frigates at an estimated cost of \$300 million and 8 to 12 transport aircraft at a cost of up to \$90 million. Its French Mirage fighter aircraft will also need to be replaced within a few years, and this is expected to cost \$500 million. Offset arrangements will be important in each of these sales.

TECHNOLOGY TRANSFERS

Technology, like the traditional economic factors of production of land, labor, and capital, is a valuable economic resource. One of the mechanisms by which technical progress has contributed to U.S. economic growth is through its effect on international trade. An important portion of U.S. exports is in products of high and rapidly advancing technology.

Only a few studies have been performed in the technology transfer area. This situation is unfortunate, particularly when compared with the demand for information by policymakers facing questions about processing international technology transfers.

It is difficult to generalize on the subject of technology transfers since any approach to the subject should include a study of selected examples of technologies that have been developed and transferred. Further, it appears desirable that any study consider the impact attributable to technology transfer on the U.S. economy and the national security.

A December 1974 report prepared for the National Aeronautics and Space Administration deals with the impact on the U.S. economy attributable to the transfer of the technologies of numerical control, semiconductor devices, and fracture mechanics. While several indicators (balance of payments, employment, etc.) could be used to measure impact only one was considered in the study. The indicator selected was national income, which is the total value of the nation's final products less indirect business taxes and transfers. As such, it provides the most direct indication of the overall impact.

A general conclusion of the case studies was that there had been no absolute harm associated with the transfers examined. In the cases of semiconductors and numerical controlled machinery, the study showed that both industries continued to advance technically and have remained ahead of foreign competitors. Further, quantitative evidence suggested that the effect of transfer is to enlarge the world market, with the result that U.S. manufacturers sell more. The study found that fracture mechanics is theoretical and (being more recent) left inadequate "tracks" to make any judgment on the economic impact.

From a national security standpoint, Defense Department officials conclude that the transfer of significant technology is principally that involved in the design, development, production, and operation of military and military-supporting industrial equipment. According to Defense officials, it is, moreover, the technology of the laboratory and the know-how born of experience rather than the knowledge arrived at by theorizing.

According to Defense officials, to estimate the potential impact of an export of technology is much more difficult than to assess the importance of exporting a finished product. Where a piece of hardware is concerned, the U.S. Government usually has a fair chance of determining that it went to its intended destination. Should diversion be detected, the value

can be reduced by shutting off follow-on spares and refusing to ship similar equipment. The damage to U.S. security tends to be limited if only because machines and equipment have a finite utility and a finite useful life. This is not so with technology. The United States cannot be assured of the uses to which its end products will be put; the United States cannot recall them, nor are they necessarily wasting assets.

A further complication is the fact that the transfer of technology takes place in many ways and that the amount of significant information which can be transferred varies in each case. At one end of the scale is simple visual inspection of, or access to, an item of hardware. At the other end is the transfer of a partial or complete production facility. Between these extremes are other means, such as oral communications, descriptive documents, engineering and manufacturing drawings, training of personnel, technical and management assistance, specialized tooling, and test equipment.

According to Defense officials, any country with the know-how, the resources, and the will to do so can, over time, acquire any weapon or military capability it chooses. There is little the United States can do to prevent this, and to make such an attempt would be wholly unrealistic. However, the United States can, through export controls, retard the attainment of military capabilities by hostile countries which would be detrimental to U.S. security. Thus delay is the measure of success. So viewed, U.S. security trade controls can be highly effective, particularly in production capabilities.

U.S. FORCE READINESS

One question frequently asked in the Congress is to what extent have our military capabilities and force readiness suffered as a result of increased sales of major U.S. weapons systems. Defense Department testimony before a subcommittee of the Senate Committee on Appropriations in April 1975 pointed out that there had been some adverse impact on U.S. Force readiness as a result of equipment drawdowns to assist friendly foreign nations. It was also stressed that meeting foreign requirements from current assets of U.S. units, or from assets being produced to equip those units, is not Defense's normal way of doing business. Further, equipment is diverted from U.S. requirements only when such action is determined to be in the best interests of the United States in coping with an unusual situation. Defense officials also stated that "Most sales are from production arranged specifically for the foreign buyer, and this production helps rather than hurts the equipping of U.S. Forces."

In a recent classified report to the Congress, we pointed out that accelerated emergency support to South Vietnam and Israel over the past several years adversely affected overall U.S. readiness because (1) equipment was taken from active forces, (2) prepositioned and depot stocks were reduced below desired levels, and (3) equipment in the possession of, or earmarked for delivery to, Reserve components was diverted or withdrawn and transferred to these countries. Actions to alleviate shortages of critical items are underway, but it will be a long time before certain items can be replaced, including Army main battle tanks and armored personnel carriers, Air Force F-4 fighter aircraft, air munitions, electronic counter-measure equipment, and Navy A-4 fighter aircraft.

A May 19, 1975, report of the Senate Committee on Armed Services stated that:

"The Committee is concerned about the serious drain on the inventories of U.S. Forces caused by the transfer of major equipments to other nations through the Foreign Military Sales program since these transfers obviously reduce the combat readiness of our forces to some degree and delay planned force modernization."

The report also mentioned that the Army has estimated that its equipment shortfalls from foreign sales will not be made up until the end of fiscal year 1978.

Strengthened congressional oversight of U.S. Armed Forces readiness appears likely considering current interest and proposals that would require the President to report formally to the Congress on the impact of large FMS on U.S. Force readiness.

FOLLOW-ON SUPPORT

The United States is committed, as a matter of policy, to provide logistical support for defense articles furnished to foreign countries under FMS. The length of these commitments depends on various factors, including foreign relations, program plans, contractual agreements, and Defense's ability to continue support.

United States commitments to support major defense articles through their normal expected life is accomplished through Defense's international logistics system. The follow-on logistical support over the life of an item can represent a major portion of the total cost and is sometimes the principal expense. The range of logistical support and services is extremely broad and may consist of any logistical service mutually agreed upon.

The military departments are responsible for providing the required support or for assuring that the support will be available from other sources. To implement Defense policy, each military department has developed its own programs and procedures. As FMS have increased, the demand on the logistical systems have intensified.

Department of Defense interest in available logistical support normally continues until the recipient country takes action to cause the support to be discontinued or it is no longer in the U.S. interest to provide it. When Defense decides to terminate support, the customer is offered either an extension of the support period or a life-of-type buy with termination of normal support occurring as of the originally specified termination date. If the customer refuses the life-of-type buy, advice on potential commercial sources will be provided so that direct country-to-industry arrangements can be made for support. This advice constitutes termination of any further U.S. obligation to provide support for the item.

It appears from our reviews of logistical support provided to foreign countries that Defense does provide an adequate support program. However, Defense has identified and is evaluating some basic management problems associated with the program.

An important issue related to logistical support provided to foreign countries is the direct impact it has on U.S. Forces. There are indications that the number of equipment items for some weapons systems belonging to foreign countries may eventually equal and exceed those in the U.S. Forces. The Department of Defense could then be obligated to commit a larger share of its resources to support these items, which could reduce both manpower and material resources available to U.S. Forces.

RECOVERING COSTS OF SALES

An issue that has received much attention over the years is whether the U.S. Government is recovering the full cost of its involvement in FMS transactions. The Foreign Military Sales Act mandates that the U.S. Government recover "not less than the value thereof" for military goods and services sold to others. The quantum jumps experienced in U.S. FMS activity over recent years have understandably heightened interest in cost recovery. Legislation pending at the time of our review may change the standards for cost recovery.

Over the years, considerable audit attention has focused on the adequacy of such cost recoupments and a number of GAO reports have been issued to the Congress.

Defense is responsible for administering the FMS program, including pricing articles and services. The Secretary of Defense has long recognized his responsibility under the Foreign Military Sales Act to recover all costs associated with military sales. Specific pricing guidelines have been established and improved over the years for charging all direct and indirect costs to the purchaser--personal services; defense articles issued from stock and from new procurement; packing, handling, crating, transportation, etc.; administrative charges; training of foreign nationals; and certain other costs associated with FMS.

Exceptions to these pricing policies can be granted by the Assistant Secretary of Defense (Comptroller) when such price deviation is deemed to be in the best interest of the United States.

According to Defense officials, he has granted two exceptions on FMS transactions in the last 18 months. One exception resulted in the recovery of more costs and the other in less costs than those required by existing pricing directives. On the latter case, Defense officials hastened to point out that fair value was recovered.

Defense policy for recovering nonrecurring costs is to insure that foreign government purchasers pay a fair share of the nonrecurring costs not otherwise recovered by Defense from the contractor. The Director of the Defense Security Assistance Agency is charged with determining the amount of non-recurring (e.g., research and development) recoupment charges to be applied to each FMS case.

Defense policy further provides that the Director of DSAA may waive the nonrecurring costs surcharge for selected sales when such action is considered in the best interests of the United States.

Cost elements included in pricing

Over the years, Defense and GAO have disagreed about which cost elements should be properly included in FMS pricing so as to recover all costs associated with the sale of defense articles and services. Since the Foreign Military Sales Act does not define "value" in terms of which costs comprise an item's value, Defense has decided which cost elements comprise the full costs of FMS items. We have taken exception to Defense's decision to exclude certain costs in its FMS pricing.

From November 1969 to December 1975, we issued 10 reports to the Congress and 1 report to the Secretary of Defense dealing with inadequate recovery by Defense of all costs associated with articles and services. The reports criticized

Defense for failing to include certain cost elements in the price of sales cases.

Major disagreement centered on (1) contract administration costs, (2) Government-owned asset costs, (3) transportation costs, (4) foreign nationals training costs, and (5) non-recurring research and development and production costs.

Discussions as to which costs should be included in FMS pricing and how they might most appropriately be accounted for has contributed to Defense refining its pricing policies and should be continued. We believe that a continuing dialogue will best serve to insure the effective implementation of the legislative requirement that the U.S. Government recover "not less than the value thereof" for military goods and services sold to others.

LEGISLATION TO CONTROL GROWING ARMS SALES

To obtain greater oversight over FMS, the Congress passed section 45(a)(5) of the Foreign Assistance Act of 1974 to require the President to notify the Congress of proposed sales of defense articles or services exceeding \$25 million. The section gave the Congress 20 calendar days in which to disapprove the proposed sale and, if it took no action, the sale was authorized.

Moreover, legislation pending in both Houses of Congress at the time of our review would require that current controls over Government sales be made applicable to commercial sales and would require, with some exceptions, that sales of major defense equipment of \$25 million or more be made on a government-to-government basis. To insure that the public is promptly and adequately informed in this critical area, the bills require that government-to-government sales contracts and all required executive branch reports on arms sales be unclassified to the fullest extent consistent with U.S. security.

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OPPORTUNITIES IDENTIFIED BY GAO FOR
IMPROVING THE MILITARY ASSISTANCE
GRANT-AID AND SALES PROGRAMS

REIMBURSEMENT FOR FOREIGN MILITARY
 STUDENT TRAINING. Report to Secretary
 of Defense. December 1, 1975,
 FGMSD-76-21.

During fiscal year 1975 the Air Force did not recover from foreign governments at least \$5.7 million in costs incurred in training foreign students primarily because the Air Force:

- Did not charge foreign governments at current tuition rates.
- Used erroneous tuition rates in billing foreign governments.
- Did not include aircraft depreciation costs in tuition rates used in billings to foreign governments.

Substantial costs will not be recovered for courses conducted in fiscal year 1976 unless prompt action is taken to insure that current tuition rates are used in billing foreign governments. GAO recommended that the Secretary of the Air Force identify and recover amounts undercharged foreign governments.

EQUIPMENT SHORTAGES: A RESULT OF
 EMERGENCY SUPPORT OF U.S. ALLIES.
 Report to the Congress. November 19,
 1975, LCD-75-426.

The readiness position of the United States has been adversely affected by the accelerated emergency support to South Vietnam and Israel over the past several years because:

- Equipment was taken from active forces.
- Equipment stocks in U.S. depots and prepositioned in Europe were reduced below desired levels.
- Equipment in the possession of, or earmarked for delivery to, Reserve components was diverted or withdrawn and transferred to these countries.

GAO recommended that the Secretary of Defense improve Defense's logistics management structure to manage emergency logistics support to allies and improve contingency planning for emergency logistics support to allies. Plans should include at least

- an inventory of major weapons systems in the country's armed services,
- the quantity and serviceable number of equipment items in inventory,
- the level of inventory stocks normally maintained to support the equipment,
- loss rates projected to occur under various combat conditions, and
- the maintenance capability and expertise within the ally's military services.

GAO also recommended that the Secretary

- establish criteria to limit the extent of degradation that will be accepted by U.S. Forces in support of contingency plans for allies, particularly for items in an existing critical stock position at the time of the emergency and
- apprise appropriate congressional committees of the Department of Defense's contingency plans including the effect such potential support could have on U.S. Forces (both Active and Reserve components).

ASSESSMENT OF OVERSEAS ADVISORY EFFORTS
OF THE U.S. SECURITY ASSISTANCE PROGRAM. (note a)
Report to the Congress. October 31, 1975,
ID-76-1.

The United States reportedly spent \$70 million in 1974 for military advisory assistance to 49 countries under the Security Assistance Program. GAO believes the advisory groups' activities were principally to facilitate the \$8 billion FMS Program and to meet political objectives.

a/A classified staff study has been prepared which includes classified information not in the report and a complete presentation of our observations and discussions in each country visited.

Consideration should be given to eliminating advisory groups that have outlived their usefulness in administering grant military assistance. Cost of groups, whose prime activities are facilitating sales, should be recovered through the sales program. Improved reporting of cost and staffing of all advisory effort is needed if the Congress is to have effective oversight over the Security Assistance Program.

USE AND FUTURE AVAILABILITY OF EXCESS DEFENSE ARTICLES IN THE MILITARY ASSISTANCE PROGRAM. Report to the House Committee on International Relations. September 12, 1975, ID-76-8.

Using excess defense articles in the Military Assistance Program has declined from a peak of about \$408 million at acquisition cost in fiscal year 1970 to about \$85 million in 1974 despite an available long supply inventory of about \$12 billion at June 30, 1974.

A reduction or termination of grant military aid creates no specific problem for Defense in disposing of excess defense items. Since 1969 less than 2 percent of the total availability of excess defense items has been used to satisfy Military Assistance Program requirements. Alternatively, Defense could sell the excesses to foreign countries, scrap them, or retain them in inventory for possible future use.

NEED TO REEXAMINE SOME SUPPORT COSTS WHICH THE U.S. PROVIDES TO NATO. Report to the Congress. August 25, 1975, ID-75-72.

The United States incurs several costs not specifically identified to the Congress as NATO related, including the national costs of international and representational staffing, direct NATO support, and military assistance to some NATO nations.

GAO recommended that these costs be reduced or eliminated through more equitable distribution of international staff positions, sharing of support and military assistance costs, and consolidation of duplicative activities.

BEST DOCUMENT AVAILABLE

EXCESS DEFENSE ARTICLE VALUATION AND TRANSFERS OF WAR RESERVE MATERIALS TO ALLIES. Report to Senator Edward M. Kennedy. June 10, 1975, ID-75-69.

This report reviews the validity and reasonableness of Defense's assessment of the value of excess defense articles transferred to foreign countries. A December 1973 amendment to the Foreign Assistance Act changed the meaning of value for such articles from not less than 33-1/3 percent of the acquisition cost to "actual value." This vastly increased the amount of excess defense articles provided without charge to Foreign Assistance Act appropriations.

The Foreign Assistance Act was amended again in December 1974 and reinstated the provision, as GAO had recommended, that value shall not be less than 33-1/3 percent of the acquisition cost. This change and the implementing action taken by Defense will resolve the problem of valuation identified in GAO's earlier reports.

GAO recommended that the Secretary of Defense arrange for the Army to be reimbursed with Military Assistance Program funds for all nonexcess items transferred to Thailand in fiscal year 1974.

THE UNITED STATES SHOULD RECOVER FULL COSTS OF REIMBURSABLE SATELLITE LAUNCHES. Report to the Congress. May 6, 1975, LCD-74-107.

Defense and NASA [National Aeronautics and Space Administration] are providing satellite launches on a reimbursable basis for other governments, international organizations, and commercial corporations.

GAO found that procedures used to identify and allocate costs of six launches did not result in recovery of the full costs of these programs. NASA's estimates for two European Space Research Organization launches would have been increased by about \$1.9 million, and Defense and NASA's billings for two United Kingdom and two NATO launches would have been increased by about \$13.5 million, if computed on a full cost basis.

GAO recommended that NASA and Defense:

--In agreements for all future launches, adopt and enforce a policy of recovering full costs in the absence of fully documented evidence, to justify a discount.

- Require that cost estimates and billings for reimbursable launches be reviewed by internal auditors to insure they are in accord with agency policy and procedures and Government laws and regulations.

THE CONGRESS NEEDS MORE INFORMATION ON STOCKPILING PROGRAMS FOR ALLIES. Report to the House and Senate Committees on Appropriations. April 21, 1975, ID-75-57.

Responsible congressional committees have not been given complete information about the extent and purpose of the program to stockpile war reserve materials for other countries. Probably this has occurred because the allied war reserve program was buried in the total Defense procurement program, with no separate budget identification of its own.

Committees were told that allied war reserve stocks would not be segregated or designated specifically for the allies. However, ammunition was held in separate accounts as allied war reserve assets. About 12 percent of all allied ammunition requirements were items for which the United States had little or no requirements. Not all allied assets were available for use by U.S. Forces because some items being stockpiled were not standard U.S. Forces items.

AIRLIFT OPERATIONS OF THE MILITARY AIRLIFT COMMAND DURING THE 1973 MIDDLE EAST WAR. Report to the Congress. April 16, 1975, LCD-75-204.

Although the performance of the U.S. airlift to Israel during the 1973 Middle East war was successful, the Military Airlift Command learned a number of lessons. These included a need for

- in-flight aircraft-refueling capability,
- a logistics contingency plan for Middle East operations,
- improved management of airlift resources, and
- improved command and control elements and communications.

GAO recommended that the Secretary of Defense establish a contingency operation plan for the Middle East that would provide for overall logistic support, including strategic airlift to support U.S. interests in that area.

Also, the Secretary of the Air Force should bill the Government of Israel for all costs--funded and unfunded--of the airlift services provided, including depreciation on a basis consistent with the methods established by the Airlift Service Industrial Fund and industry practices.

Among matters the Congress may wish to consider is the increased strategic airlift capacity available from improving the current operational readiness posture of the C-5 aircraft.

PILOT AND NAVIGATOR TRAINING RATES.

Report to the House Committee on Appropriations.
April 11, 1975, FPCD-75-151.

The services are not recovering all costs associated with pilot training under the Foreign Military Sales Act. In addition, the military services use different methods in developing reimbursement rates, resulting in a wide variance in the reimbursements for training foreign pilots. Navy prices are based on average costs incurred, while Air Force prices consider only variable costs. As a result, the Navy charges \$282,000 for undergraduate jet pilot training while the Air Force charges only \$81,000.

Flight training is the most costly training the services provide. In reviewing the Defense Appropriation request for fiscal year 1976, the Committee may wish to pursue further with the services the following matters.

1. Should the Air Force pilot training rate be further reduced in view of the surplus of trained pilots?
2. Should the Air Force retain its trained pilots and navigators, thereby permitting reductions in current and further training rates?
3. Should Marine Corps end-strength be reduced in line with training rate reductions?
4. Should the services use the same methodology in computing charges for training foreign pilots?

BEST DOCUMENT AVAILABLE

MILITARY ASSISTANCE AND SALES TO THE PERSIAN GULF STATES. Report to the House Subcommittee on the Near East and South Asia. December 31, 1974, ID-75-37.

Sales agreements under the Foreign Military Sales program to the Persian Gulf States from fiscal years 1967 through 1974 totaled \$8.5 billion. This classified report addresses U.S. military programs and third-country military assistance in the Persian Gulf.

ISSUES RELATED TO U.S. MILITARY SALES AND ASSISTANCE TO IRAN. Report to the Congress (unclassified digest of a classified report). October 21, 1974, P-75-ID-15.

Iran agreed to purchase more arms from the United States in 1974 than did the rest of the entire world combined in any other preceding year.

Despite the law requiring recovery of all costs to the maximum extent possible, the United States is conducting these sales at considerable cost.

Even though GAO found no firm contradictions with the requirement of the Foreign Military Sales Act, it questions the impact of such sales on the arms race, the extent and character of the military requirement, and the legitimate self-defense needs of the purchasing country. The Congress does not receive timely information on the volume and make-up of cash sales or on the nature of the military capability they provide.

GAO suggested that Congress may want to require the executive branch to periodically furnish information on the volume and nature of major cash sales that could materially increase the military capability of the purchasing nation.

RECOVERY OF COSTS ON GOVERNMENT-OWNED PLANT AND EQUIPMENT. Report to the Secretary of Defense. October 7, 1974, FGMS-75-5.

GAO reiterated its previous recommendations to Defense and also recommended that Defense initiate a study to determine the feasibility of charging a fair share of the cost of Government-owned equipment used rent-free by contractors in producing equipment for non-Federal customers.

In reply, the Assistant Secretary of Defense (Comptroller) stated that the problems indicated the need for additional study of FMS pricing procedures. Defense made a study and recommended that a 4-percent "asset use charge" be applied to all FMS cases requiring the use of Government facilities and equipment. The charge was to be applied as a percentage of funded (direct) costs. It was also recommended that provisions should be made for a waiver of the asset use charge or an upward/downward adjustment of the standard rate when deemed in best interest of the U.S. Government.

These recommendations were implemented in June 1975. Revised instructions provided that an "asset use charge" of 4 percent to cover the costs of depreciation, attrition, and imputed interest on investment be applied to all FMS cases which require the use of Defense assets located in other than Government-owned, contractor-operated facilities.

REIMBURSEMENTS FROM FOREIGN GOVERNMENTS FOR MILITARY PERSONNEL SERVICES PROVIDED UNDER THE FOREIGN MILITARY SALES ACT. Report to Representative Les Aspin. August 16, 1974, ID-75-6.

Air Force personnel services reimbursed in connection with military sales programs during fiscal years 1973 and 1974 totaled \$28.8 million and involved an estimated 2,865 man-years. Twenty-six countries are involved, with Iran and Germany making up more than half the total dollars. Most services performed were for pilot training.

In contrast to procedures followed by the Air Force in crediting moneys received to its military personnel appropriation account, the Army deposits reimbursements for similar services into the miscellaneous receipts account of the U.S. Treasury. At the time of our review, efforts were underway to resolve this inconsistency by requiring each military service to follow Air Force procedure.

DEPARTMENT OF DEFENSE STOCKPILING OF WAR RESERVE MATERIALS FOR USE BY UNITED STATES ALLIES. Report to the Senate Committee on Foreign Relations. July 17, 1974, P-74-ID-68.

This study reports on stockpiling of war reserve materials by Defense for possible future use by Asian allies. The review concentrated on the program's scope, Defense's

statutory authority for stockpiling these materials, and authority under which they could be turned over to allied forces.

Defense allocated \$23 million of its reserve assets to total allied requirements for fiscal year 1973 and \$494 million for fiscal year 1974. For fiscal year 1975, \$529 million of the procurement request has been proposed for allied requirements.

The President and Defense at present have statutory authority to transfer reserve materials to allies if needed. Authority to transfer U.S. defense stocks applies to any defense item in the inventory, whether planned for future use by allies or U.S. Forces.

SECURITY ASSISTANCE TO KOREA:
ACCOMPLISHMENTS AND CONSTRAINTS.
Report to the Congress. B-164264,
July 1, 1974.

In recent years, Korea has been one of the largest recipients of U.S. military assistance, most of it for a 5-year, \$1.5 billion modernization program. In June 1974 we reported to the Congress on the effectiveness of this assistance.

Studies had indicated that Korea was financially capable of assuming the cost of operating and maintaining U.S.-provided equipment. We recommended that the Secretaries of State and Defense develop a plan for Korea to assume all operation and maintenance costs and identify a transition period for converting equipment transfers from grant aid to sales. We also made certain proposals for congressional consideration in future authorization and appropriation hearings.

HOW SHIP TRANSFERS TO OTHER COUNTRIES
ARE FINANCED. Report to the Congress.
June 25, 1974, P-74-ID-49.

During the past 25 years, the United States has given away, loaned, sold, or otherwise transferred 3,900 ships of various descriptions to 56 countries. About 2,600 of these are still held by 49 countries.

Public Law 92-270 requires all expenses--including those involved in outfitting, repairing, and logistically supporting loaned ships--to be paid by the recipient country or

from military assistance program funds. However, Defense excludes repairs and overhauls from its definition of costs associated with such transfers.

Military Assistance Program documents submitted to the Congress contain little or no identifiable information on ship loans and leases. As a result, nonreimbursed costs for ship transfers constitute "hidden" military assistance costs not apparent to congressional committees.

STATUS OF EMERGENCY SECURITY ASSISTANCE TO ISRAEL. Report to Representatives Runnels, Leggett, and Dickinson. B-180356, May 20, 1974.

As a result of the 1973 Arab-Israeli War, the Emergency Security Assistance Act of 1973 was passed to provide Israel with \$2.2 billion in assistance to maintain a balance of power in the Middle East.

In a classified report, we presented the status of the funding and equipment deliveries under this act and of other U.S. assistance provided to Israel.

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In addition to the above reports, during 1975 GAO observed a number of areas warranting improvement in the military assistance and sales program area.

- No formal procedures or mechanisms exist to insure that third-country transfers of U.S. defense items are not made without prior approval of the President.
- There is a lack of statutory coverage on sales of defense services which include the sale of defense information. The United States has no statutory control over third-country transfers of defense articles produced by the purchasing country using such defense information. There is no restraint on granting U.S. approval to third-country transfers under Mutual Security Act regulations.
- Defense policies and procedures seem to provide an adequate international logistics support program in security assistance to foreign countries; however, there are some basic management problems. Defense is evaluating the situation and would like to standardize operations and more precisely define procedures.

--The F-16 aircraft multinational agreements with NATO countries appeared to be legally sound, and they will have a positive impact on the U.S. economy.

--Military Assistance Advisory Groups in some foreign countries did not perform sufficient in-depth end-item inspections to disclose unauthorized transfer of grant military aid equipment. Plans should be developed, on a country-by-country basis, for eventual disposition of grant defense articles. In addition, the United States has sold \$29 billion worth of defense articles to foreign countries. No formal procedures exist to detect their transfer to third countries without prior U.S. Government approval. Applicable legislation does not require end-use inspection of defense articles sold to foreign countries.

During 1975 we reviewed the legality of the \$77 million contract that Defense awarded to the Vinnell Corporation in California to train Saudi Arabian infantry and one artillery battalion of the Saudi Arabian national guard. We concluded that the prohibitions on police training in section 660 of the Foreign Assistance Act of 1961, as amended, was not applicable to the contract.

FY 1950-	FY 1975	FY 1974	FY 1973	FY 1972	FY 1971	FY 1970	FY 1969	FY 1968	FY 1967	FY 1966	FY 1965	Worldwide
8 513 602	1 627 136	576 742	798 558	1 551 231	952 593	1 556 818	1 556 593	952 593	1 551 231	952 593	1 556 818	8 513 602
50 319	7 231	6 509	14 859	3 923	10 923	12 808	15 932	16 481	8 618	14 100	1 267 361	161 762
595 728	47 161	110 109	32 462	33 414	54 050	58 820	117 164	26 469	33 419	6 967	1 267 361	1 267 361
41 961	2 167	2 497	6 041	1 107	1 324	3 775	2 398	2 528	4 040	6 967	74 814	74 814
85 261	6 310	15 412	2 203	9 754	4 345	3 023	4 667	5 52	6 230	10 712	737 937	737 937
769	132	5	17	3	44	5	137	2 044	2 044	2 044	2 044	2 044
42 502	223	26 451	4 265	11 413	2 458	17 845	33 801	16 766	69 059	27 025	252 207	252 207
1 558	91	45	92	7	86	273	119	244	119	35	2 660	2 660
704 950	70 163	21 631	18 279	16 067	53 135	28 783	37 755	107 621	107 621	1 250 623	1 250 623	1 250 623
18 314	1 058	4 996	1 675	7 569	2 889	6 260	14 975	75 104	29 034	163 485	163 485	163 485
3 211	4 996	14 360	4 043	34 967	63 494	76 736	201 868	95 573	123 146	741 753	741 753	741 753
10 331	496	98	56	141	158	2 168	5 397	1 197	1 090	12 095	12 095	12 095
902	902	-	-	-	34	-	-	-	-	259	1 194	1 194
4 510	-	-	-	-	-	-	-	-	-	4 510	4 510	4 510
39 281	7 341	8 866	9 407	6 496	15 907	13 398	11 126	22 196	367 742	411 416	411 416	411 416
1 609	307	1	1	31	16	16	97	31	3	2 078	2 078	2 078
2 553	11	114	1 410	20	315	4	4	14 822	19 473	19 473	19 473	19 473
358	-	-	-	-	-	-	-	-	-	358	358	358
895	35	15	514	6	11	10	407	2 272	2 272	2 272	2 272	2 272
663	30	12	4	7	6	10	7 447	29 195	36 196	36 196	36 196	36 196
292 381	9 043	6 552	7 281	3 405	5 995	7 545	8 994	22 621	4 565	374 614	374 614	374 614
165 857	190 121	142 838	589 994	240 642	177 235	946 247	214 910	225 151	291 693	5 751 491	5 751 491	5 751 491
473	7 352	15 319	11 194	29 211	24 635	180 401	57 789	449 995	196 575	977 454	977 454	977 454
1 424	546	101	317	464	7 953	2 226	3 646	1 115	429	18 414	18 414	18 414
1 023	4	6	59	-	27	5 461	291	84	292	7 570	7 570	7 570
54 152	363	1 988	1 574	2 094	436	46	46	7 939	7 939	71 826	71 826	71 826
8 542	1	1	24	18	18	148	148	48 514	48 514	8 542	8 542	8 542
70 142	207 809	144 373	70 369	239 392	113 197	397 956	523 957	3 917 121	2 567 302	10 366 773	10 366 773	10 366 773
12 702	87	361	-	1	12	252	197	16	21	13 152	13 152	13 152
66 979	72 134	9 294	77 496	311 726	44 923	414 744	406 078	2 437 310	869 650	4 901 539	4 901 539	4 901 539
232 516	36 935	20 500	101 169	36 299	36 881	79 383	64 513	48 643	46 219	726 436	726 436	726 436
1	1	3	3	8	9	3	7	42	71	147	147	147
136 260	16 623	10 132	51 882	21 262	11 081	48 788	51 715	29 647	29 583	455 546	455 546	455 546
41 899	1 627	28 282	33 363	13 324	16 282	19 540	6 116	61 550	29 583	240 384	240 384	240 384
266	-	-	1 504	-	-	-	-	-	-	-	-	-
332	-	-	3 401	-	-	8 756	1 597	113 171	218 626	327 962	327 962	327 962
1 226	67	2 235	48	55	187	193	1 315	5 210	9 777	19 576	19 576	19 576

FOREIGN MILITARY SALES ORDERS
VALUE IN THOUSANDS OF DOLLARS

FOREIGN MILITARY SALES ORDERS (Continued)
VALUE IN THOUSANDS OF DOLLARS

	FY 1950- FY 1965	FY 1966	FY 1967	FY 1968	FY 1969	FY 1970	FY 1971	FY 1972	FY 1973	FY 1974	FY 1975	FY 1950- FY 1975
Libya	739	541	15 524	2 389	1 674	5 282	632	2 687	133	12	-	29 613
Luxembourg	1 282	457	88	1	113	101	85	24	638	21	25	2 834
Malaysia	47	563	509	1 608	1 323	1 837	98	40 103	1 429	1 425	4 218	53 164
Mali	-	-	-	-	84	5	-	48	-	-	148	285
Mexico	10 466	101	802	96	399	12	437	175	893	411	153	13 944
Morocco	60	6 040	697	9 671	7 431	2 439	2 278	7 557	2 462	8 584	294 876	342 595
Nepal	-	-	-	-	-	-	11	-	60	2	-	73
Netherlands	61 144	24 027	25 038	6 404	4 529	7 560	7 662	29 226	35 538	18 207	686 387 ^{a/}	905 723
New Zealand	37 670	5 341	9 439	11 988	29 850	5 387	7 681	3 631	3 335	5 049	4 156	123 528
Nicaragua	2 042	5	87	103	2	82	674	92	134	385	571	4 177
Niger	-	-	-	-	-	-	-	-	-	8	-	8
Nigeria	335	5	10	-	2	-	-	2 409	696	4 350	4 470	12 276
Norway	33 260	12 913	38 355	56 878	24 107	9 620	25 976	21 229	13 394	51 451	458 931 ^{a/}	746 114
Oman	-	-	-	-	-	-	-	-	-	-	1 613	1 613
Pakistan	34 650	1 147	5 571	14 939	22 062	4 434	22 490	140	22 057	12 674	37 408	177 571
Panama	13	-	-	-	3	14	5	6	1 618	1 878	258	3 799
Paraguay	376	-	-	1	-	-	-	-	27	12	37	454
Peru	25 089	2 664	3 338	1 220	980	2 200	1 511	900	24 811	46 939	23 539	133 300
Philippines	4 509	137	439	237	454	843	1 107	468	703	5 593	31 356	45 844
Portugal	5 648	115	496	774	500	1 065	996	3 049	560	2 183	2 456	17 843
Saudi Arabia	2 140 494	8 652	49 324	4 645	4 213	44 878	95 954	337 263	625 895	2 539 408	1 373 862	7 224 588
Senegal	-	-	1	841	196	2 472	1 958	5 909	7 639	12 658	1 480	33 154
Singapore	-	56	1	1	4	1	1	2	-	-	-	3 149
South Africa	3 082	-	-	-	-	-	-	-	-	-	-	-
Spain	33 816	22 716	122 941	8 707	12 612	25 918	110 527	24 145	60 851	150 255	52 581	625 078
Sri Lanka	3	-	-	-	1	-	-	-	-	-	-	4
Sweden	28 465	449	72	8 010	106	265	885	1 496	2 921	6 974	691	50 089
Switzerland	47 472	1 344	602	24 950	19 577	4 435	479	11 296	2 915	9 366	49 212	171 648
Syria	-	-	-	-	-	-	-	-	-	-	-	1
Thailand	1 231	1	10	10	3 829	21 146	48	16 978	1 907	20 511	11 422	77 094
Trinidad/Tobago	-	-	-	-	-	85	-	-	-	-	-	85
Tunisia	2 825	-	-	-	-	-	-	-	2 169	737	453	6 240
Turkey	551	604	922	139	2 036	2 524	1 167	5 093	212 784	17 788	68 984	312 812
United Kingdom	709 271	849 551	43 541	16 206	15 975	63 755	45 759	124 765	110 274	48 667	30 497	2 050 516
Uruguay	2 305	56	300	30	26	241	1 631	1 543	1 555	1 206	8 208	17 099
Venezuela	81 183	11 657	9 763	1 138	1 166	777	1 643	43 496	24 124	4 884	33 540	213 389
Vietnam	5	-	-	-	2	-	-	2	1 155	4	-	1 167
Yemen	-	-	-	-	-	-	-	-	-	2 634	372	3 006
Yugoslavia	10 510	105	323	214	212	41	12	104	1 218	6	257	13 121
Zaire	-	1 142	166	206	-	54	16 000	286	755	1 510	1 337	21 564
International Organizations	147 339	16 985	19 058	15 391	9 235	39 410	17 777	39 259	88 020	18 159	30 695	441 329

NOTE: Totals may not add due to rounding.

*Less than \$500.

a/ FY 1975 includes \$2.1 billion for F-16 aircraft (Belgium \$706.6 million, Denmark \$353.3 million, Netherlands \$671.3 million and Norway \$438.6 million) for which memoranda of understanding have been signed but letters of offer have not yet been finalized.

b/ Includes \$1.5 billion for which payment was waived pursuant to the FY 1974 Emergency Security Assistance Legislation.

c/ Excludes \$100 million of non-reimbursable financing pursuant to Section 31(b) of the Foreign Military Sales Act, as amended by P.L. 93-559 (Foreign Assistance Act of 1974, December 30, 1974).

Source: Department of Defense

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APPENDIX II

APPENDIX II

SCHEDULE OF COPRODUCTION AGREEMENTS

MARCH 1960 THROUGH JULY 1975

Service administering agreements and countries involved	Item	Total agreement value	Expected U.S. value	Date of agreement
		(millions)		
Army:				
Germany	UH-1D helicopters	\$ 228.4	\$ 96.6	May 30, 1965
Italy	M113APC family	157.0	48.5	Feb. 12, 1963
	M60A1 Tanks	67.0	42.0	Oct. 3, 1964
	M109 SP howitzer	30.2	23.2	Feb. 1, 1958
	ARGUS 10 radar system	25.0	6.0	May 13, 1974
Japan	HAWK missile system	230.1	96.8	Oct. 13, 1967
	NIKE HERCULES missile system	189.4	74.7	Oct. 13, 1967
	ADCCS	33.1	12.7	Oct. 13, 1967
The Netherlands	M109 SP howitzer	18.1	14.7	May 3, 1960
Norway	M109 SP howitzer	16.3	12.2	Dec. 30, 1966
Republic of China	General purpose vehicles	122.2	80.4	July 13, 1966
	UH-1H helicopter	43.8	39.4	Aug. 13, 1969
	M14 Rifle M60 Gun			
	7.62 Ammo	12.3	10.1	June 23, 1967
Korea	M16 Rifle	72.6	42.0	Apr. 22, 1971
	Ammunition	80.4	43.9	Jan. 6, 1972
	AN/PRC-77 radio	21.2	16.0	Aug. 14, 1973
NATO	HAWK missile system	658.0	140.8	Mar. 1960
	HELIP	1,049.0	734.0	July 11, 1968
	M-72-LAW	31.4	10.9	Jan. 20, 1964
The Philippines	M-16 Rifle	29.4	2.8	May 17, 1974
Turkey	2.75 Rocket	1.5	.5	May 29, 1972
Iran	M-47 Retro	53.0	43.0	June 16, 1970
		<u>3,167.4</u>	<u>1,616.2</u>	
Air Force:				
Italy	F-104S aircraft	641.0	115.0	Dec. 10, 1965
Japan	F-4 aircraft	700.0	345.0	Apr. 4, 1969
Republic of China	F-5E aircraft	229.6	219.8	Feb. 9, 1973
NATO	F-104G aircraft	<u>1,500.0</u>	<u>145.0</u>	Dec. 17, 1960
		<u>3,070.6</u>	<u>824.6</u>	
Navy:				
Germany	CH-53G helicopters	312.3	176.6	June 27, 1968
England	F-4 aircraft	700.0	610.0	Feb. 9, 1965
Italy	SIDEWINDER missile system	20.0	10.0	Apr. 1, 1974
NATO	SEASPARROW missile system	39.7	37.0	June 1968
	SIDEWINDER missile system	36.0	16.0	-
Spain	DEP Ships	<u>300.0</u>	<u>125.0</u>	Nov. 1964
		<u>1,408.0</u>	<u>965.6</u>	
F-16 Program (note a)		<u>2,116.0</u>	-	
Total		<u>\$9,762.0</u>	<u>\$3,406.4</u>	

The F-16 coproduction program had not, as of August 15, 1975, been assigned to a specific service.

Source: GAO Report "Coproduction Programs and Licensing Arrangements in Foreign Countries" (ID-76-23, December 2, 1975.)

PRINCIPAL OFFICIALS
RESPONSIBLE FOR ACTIVITIES
DISCUSSED IN THIS REPORT

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF STATE

SECRETARY OF STATE:

Henry A. Kissinger	Sept. 1973	Present
William P. Rogers	Jan. 1969	Sept. 1973

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Donald H. Rumsfeld	Nov. 1975	Present
James R. Schlesinger	July 1973	Nov. 1975
William P. Clements (acting)	May 1973	June 1973
Elliot L. Richardson	Jan. 1973	May 1973
Melvin R. Laird	Jan. 1969	Jan. 1973

ASSISTANT SECRETARY OF DEFENSE

(International Security Affairs):

Amos A. Jordan (acting)	Dec. 1975	Present
Robert Ellsworth	June 1974	Dec. 1975
Amos A. Jordan	Jan. 1974	May 1974
Robert C. Hill	May 1973	Jan. 1974
Lawrence S. Eagleburger (acting)	Jan. 1973	Apr. 1973
Dr. G. Warren Nutter	Mar. 1969	Jan. 1973

BEST DOCUMENT AVAILABLE