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REPORT ON EXAMINATION
OF
SPECIAL DEFENSE FINANCING PROGRAM
FOR FRANCE
INTERNATIONAL COOPERATION ADMINISTRATION
DEPARTMENT OF STATE

JUNE 30, 1957

BY
THE COMPTROLLER GENERAL OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

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Mr. James H. Smith, Jr., Director
International Cooperation Administration

Dear Mr. Smith:

Herewith is our report on the examination of the Special Defense Financing Program for France authorized in section 102 of the Mutual Security Act of 1951, as amended (67 Stat. 153). This program has been administered by the International Cooperation Administration of the Department of State and its predecessor, the Foreign Operations Administration.

Our examination disclosed that this program was used to finance the production of certain military equipment in quantities which exceeded the requirements of French NATO forces under the criteria established by the United States Department of Defense for the military assistance program to France. The amount of the excess is estimated to be at least 21 million dollars. While we recognize the special purpose and nature of the program, and are aware of the broad legislative authorization providing funds to be made available on such terms and conditions as the President may specify, it seems reasonable and logical that the French military equipment requirements would have been determined in the light of established criteria used by the Department of Defense.

As previously communicated to you, copies of this report are being sent today to interested congressional committees and to the Secretary of Defense.

Sincerely yours,

Comptroller General
of the United States

Enclosure

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REPORT ON EXAMINATION

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INTRODUCTION

As part of our continuing audit of selected activities of the Mutual Security Program, we have examined certain matters of administration relative to the Special Defense Financing Program for France, authorized in section 102 of the Mutual Security Act of 1951, as amended (67 Stat. 153).

Our examination included reviews and discussions in Washington, D.C., and in Paris, France, (1) at the International Cooperation Administration (ICA) of the Department of State, which is the agency responsible for the administration of the program, and (2) with officials of the Department of Defense, in view of the military nature of the items financed under the program. Our review in France consisted of visits to the ICA Mission (Mission) and the Military Advisory Assistance Group (MAAG).

Legislative authority

Section 102 of the Mutual Security Act of 1951, as amended in 1953, authorized the sum of 100 million dollars for the manufacture in France of artillery, ammunition, and semiautomatic weapons required by French forces for the defense of the North Atlantic

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area. The Mutual Security Appropriation Act, 1954 (67 Stat. 479), made available 85 million dollars for this program.

The funds were intended to support the French military effort at a level considered desirable for the defense of the North Atlantic Treaty Organization (NATO) but which France would not be able to finance from its own resources.

Memorandum of Understanding

To implement the special 85 million dollar aid program, France and the United States executed a Memorandum of Understanding dated June 28, 1954, setting forth the terms and conditions of financing by the United States. Annex A to this Memorandum contained the description and quantities of the specific military end items which France would procure and for which the United States, upon the presentation of French expenditure vouchers, would reimburse the French Government. The latter affirmed that all items in Annex A were required in the quantities indicated for the support of French NATO forces. The United States retained the right to enter into consultations with France for the deletion of any items in Annex A which appear to be of diminished importance for the equipment of French NATO forces.

Status of program

The program was slow in getting under way, and the French Government did not request reimbursements under this program until fiscal year 1956. At June 30, 1957, ICA expenditures totaled 76.5 million dollars, leaving an unliquidated balance of 8.5 million dollars. This unexpended balance represents 10 percent of

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the total program funds which ICA is withholding pending determination that there has been no duplication in equipment requirements as presented by the French Government with respect to forces operating in North Africa.

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OBSERVATIONS AND FINDINGS

ICA finances equipment in quantities exceeding those eligible under Under States military assistance criteria

The special defense financing program was used to finance the production of certain military equipment in quantities which exceeded the requirements of French NATO forces under the criteria established by the Department of Defense for the military assistance program to France. The total amount of excesses that has been or is being procured cannot be determined precisely, but it is estimated that France has been granted for its NATO-committed forces under the special program at least 21 million dollars more of certain equipment than would have been granted if the criteria under the military assistance program had been used. In other words, French forces have been equipped in excess of the standards applied by the Department of Defense to the military forces of France and other countries receiving military assistance, even though other equipment deficiencies exist in these countries and appropriations are being sought each year to fill these deficiencies.

The three executive agencies responsible for the conception of the special defense financing program, ICA and the Departments of Defense and State, have advised that it was intended as a separate and distinct economic aid program and that it was not to be administered in the same manner as the military assistance program. The agencies contend that the 85 million dollar program served to provide needed equipment to NATO forces in the sense that it made possible the achievement of a larger French defense effort than

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otherwise might have been possible. It enabled France to meet its NATO obligations more effectively, particularly during a period when total French resources were under heavy pressure because of the war in Indochina.

The executive agencies further advise that the utilization of criteria applied by the Department of Defense in assessing the requirements of French NATO forces would not have been consistent with the politico-military purposes of this special aid program.

We recognize the special purpose and nature of the program and are aware of the broad legislative authorization providing funds to be made available on such terms and conditions as the President may specify.

However, the fact that the legislative authorization links the program specifically to the equipment requirements of French forces for the defense of NATO brings the program into close relationship with the military program. Administration officials, in testimony before congressional committees considering the authorizing and appropriating legislation, stated that the program had been worked out by United States and French officials at a recent NATO meeting and covered the production of urgently needed military equipment. Therefore it seems reasonable and logical that the French military equipment requirements would have been determined in the light of established criteria used by the United States Department of Defense. We believe it appropriate to report this situation, together with the position taken by the executive agencies, for the information of interested congressional committees.

Insufficient coordination between executive agencies
in initial determination of reimbursable items

The Memorandum of Understanding was executed without an opinion from the Department of Defense as to the equipment requirements of France. As the Department needed an extensive study of requirements, stocks on hand, and other factors, the Foreign Operations Administration (FOA), predecessor of ICA, proceeded without requesting such a requirement study by Defense and decided to rely on the French certifications of requirements.

In January 1956, we expressed our concern to ICA and Defense officials as to the need for a coordinated review of the items listed in Annex A. Subsequently, we observed that the two agencies took coordinated action in screening the equipment requirements presented by the French Government in support of its reimbursement requests.

The executive agencies, in their comments on our report, take the position that in both the negotiation and administration of the program coordination was and continues to be satisfactory to the agencies concerned.

These matters are discussed in further detail in succeeding sections of this report.

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DISCUSSION

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Background of program

The special 85 million dollar program was designed to assist the French military effort by financing a designated part of the French military budget for calendar year 1954. The United States Government agreed to reimburse France for specified items of artillery, ammunition, and semiautomatic weapons contracted for by the French Government and intended for use by French forces in the defense of NATO.

The executive agencies, in their comments to us on the nature and purpose of the program, take the position that the special defense financing program was part of a United States economic assistance program in 1954 with the objective of supporting the French Government's efforts to meet its obligations both in Indochina and in NATO. The program proposed by the United States was 500 million dollars, of which 400 million dollars was attributed to the French effort in Indochina and 100 million dollars (subsequently reduced to 85 million dollars) was attributed to the French NATO effort. The agencies state that, while the allocation between Indochina and NATO was arbitrary, it served to emphasize United States interest in sustaining the French military position in both areas. From the outset, the program was to provide financial assistance and meet broad politico-military objectives. The objectives of the program also included the maintenance and utilization of a military production base in France, but the program was conceived and intended to remain entirely separate in form, purpose, and administration from the military assistance program for France.

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While we recognize the special nature and purpose of the 85 million dollar program, we believe that it is closely related to the military phase of the mutual security program and, as presented to the Congress, goes beyond the scope of an economic aid program.

The program's relationship to military aid derives from the provision in the legislative authorization that the funds be used for financing certain military end items required by French forces in the defense of NATO. This objective coincides with military assistance administered by the Department of Defense which supplies the member nations of NATO with military material from United States sources or through offshore procurement in amounts determined by the United States to be beyond the capacity of these nations to furnish from their own resources. The Department of Defense has developed programing and screening procedures designed to ascertain the military assistance needs of each country. The procedures include criteria for determining the equipment requirements of forces and the application thereto of assets from all sources, recipient country production, and undelivered items already programed under military assistance. We believe it reasonable and logical to apply these same standards to a program which undertakes to finance a part of the domestic military production of a NATO country.

Following are pertinent excerpts from the testimony of Administration witnesses before the congressional committees considering the authorization and appropriation for the special defense

financing program. These excerpts, in our opinion, show that the program went beyond the nature of economic assistance and was intended specifically to satisfy equipment needs of the French forces.

Statement of Honorable Harold E. Stassen, Director for Mutual Security, before the Senate Committee on Foreign Relations (hearings on the Mutual Security Act of 1953, p. 13):

*** \$100 million (amount requested) is intended for the manufacture in France of artillery, ammunition, and semiautomatic weapons which are required by, and are to be delivered to, French forces assigned to the North Atlantic Treaty Organization
*** I am convinced, however, that the amounts recommended are the very minimum which the United States should provide, and these amounts are directly related to the essential objectives of our country as well as theirs ***."

Testimony of Mr. Stassen before the Senate Committee on Appropriations in response to query by Chairman Bridges relative to "Lisbon-type aid"¹ (hearings on Mutual Security Appropriation, 1954, p. 590):

*** We do not propose any, and we will not have any in this program *** I do say that, knowing the needs of France now, we present very directly and specifically to you what we intend to do ***."

Statement submitted for the record by Mr. Stassen, referring to cut in program from 100 million dollars to 85 million dollars by the House Committee on Appropriations (hearings before Senate Committee on Appropriations, p.845):

*** The House Committee gave no reasons whatsoever for these cuts, and I am at a complete loss to understand them. Both of these programs (Britain and France) were carefully worked out by Secretaries Dulles, Wilson, and Humphrey and myself with our counterparts in the French and British Governments during the course of the recent NATO meeting. They both cover the production of urgently needed military equipment *** and were carefully considered in relation to the minimum requirements of those countries."

¹"Lisbon-type aid" refers to a special program of the United States which was to assist France in meeting its NATO targets set in the Lisbon NATO conference of February 1952.

The executive agencies point out that the presentation of the program to Congress in 1953 did not indicate in any manner that the French defense financing program be governed by the criteria applicable to the military assistance program. Rather, the presentation clearly related the French mutual defense financing to the broader objectives of (1) making dollars available to France in order to deal with her balance of payments problems and (2) assisting France in solving the problem of the budget (hearings of the Senate Committee on Foreign Relations, pp. 228-229). We submit that these objectives are not necessarily distinguishing characteristics and that the same objectives are met by that part of military assistance carried out through the offshore procurement program.

Insufficient initial coordination with Department of Defense

During the negotiations leading to the signature of the Memorandum of June 28, 1954, the United States had no discussions with the French representatives as to detailed programing criteria. We are informed, however, that it was made clear to the French Government that the equipment financed by the United States had to be utilized in satisfaction of requirements of the French forces committed to NATO. The United States retained the right to check and verify the validity of these requirements and, if appropriate, seek refunds.

Prior to execution of the Memorandum of Understanding, FOA requested an opinion from the Department of Defense as to whether the equipment to be listed in Annex A was required for the support of French NATO forces in the quantities ordered. FOA requested

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this opinion from the Office of Military Assistance (OMA) in the Department of Defense and also informed OMA that it preferred to have the review made by MAAG/France. In reply, OMA stated that it could express an opinion as to whether the material was of the type required for the support of French NATO forces but could not comment as to the quantities ordered without an extensive study of the total requirements, stocks on hand, and other factors. FOA then proceeded without requesting such a requirements study by Defense and decided to rely on the French certification of requirements in executing the Memorandum of Understanding. However, FOA program officials informed OMA in June 1954 that it was their intention to seek technical assistance from the Department of Defense on questions that might arise in connection with the French certification of requirements. We were informed that OMA preferred to have such questions taken up at the Washington level rather than with the MAAG in France. Accordingly, at the time of our initial inquiries in January 1956, more than 18 months after the execution of the Memorandum of Understanding, officials at the ICA Mission stated that the MAAG, while informed of the details of the program, had never been requested to screen the individual items or to give the ICA Mission an opinion as to requirements.

The executive agencies responsible for the program have stated that, in their opinion, coordination in the negotiation and administration of the program was, and continues to be, satisfactory. Advance agreement between FOA and Defense on the precise methods of carrying out the program, and the precise items or quantities of military production, was not considered essential.

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While coordination was established subsequently, we believe, for the reasons stated in the preceding paragraph, that more effective initial coordination should have taken place between FOA and Defense. With such coordination, the procedures established for the military assistance program would have been brought into focus and the question of whether those procedures should be applied to the special defense financing program could have been considered at the inception of the program.

Subsequent determination of equipment requirements

In January 1956, we called the attention of ICA and Defense officials in France to the possibility that France was obtaining items under the special defense financing program which were in excess of the criteria established by the Department of Defense for the military assistance program for France. We pointed out that the Mission had not reviewed the items in Annex A to determine appropriate criteria for application to this program. We recommended that the Mission determine such criteria giving due regard to the criteria used in the military assistance program to assure a uniform United States position with respect to military end-item programs. It appeared logical that the facilities of the MAAG as part of the country team would be used to determine these criteria which would then be the basis for negotiations with France under the provisions of paragraph six of the Memorandum. This paragraph gives the United States the right to enter into consultation with France for the deletion of any items in Annex A which "**** appear to be of diminished importance for the equipment of the French forces placed under the command of the North Atlantic Treaty Organization ***."

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In March 1956, the Mission requested the French Government to provide detailed calculations justifying requirements for a list of representative items valued at approximately 41 million dollars. The basis for the certifications regarding these items, including French assumptions concerning its NATO forces, was also requested. The French calculations showed deficiencies for all the items except two. MAAG/France examined the French calculations and stated that, on the basis of the French assumptions, the results were accurate.

However, the French assumptions differed materially from the criteria employed by the MAAG in the development of its military assistance program. Such differences in criteria related to number of divisions, table of organization, usage rate of ammunition, and calculation of available assets. For example, in calculating available assets, the French took into consideration only those items delivered under past military assistance programs and French production financed under the special aid program, whereas the MAAG considered all programmed items, including undelivered items. Unlike the MAAG, the French authorities also excluded all assets locally produced and assets furnished by the United States under programs other than direct military assistance, for example, the Lisbon program.

The financing of .30 caliber rifles--of which the special defense financing program included some 54,000 units--is a notable example illustrating the difference between requirements computed by the MAAG and the French Government. In January 1956, the MAAG computed requirements of French NATO forces under the military

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assistance program as 243,000 units and, giving effect to available assets allocated to these forces, arrived at an excess of 40,000 rifles. France computed its requirements as 340,144 rifles. Since this requirement exceeded total deliveries under the military assistance program, no excess was found to exist and the item was considered eligible under the 85 million dollar program.

Other examples of equipment being financed under the special defense financing program, for which MAAG computations at the time of our review showed excesses already in existence, were .30 caliber machine guns, .30 caliber automatic rifles, and 4.2-inch mortars.

On June 20, 1956, the State Department concurred, in general, with the position taken by the Mission with respect to the acceptability of the French calculations of requirements and assets for French NATO forces.

Pursuant to a second request of the ICA Mission, the French submitted, in November 1956, detailed calculations justifying requirements for additional items under the special defense financing program totaling approximately 33 million dollars. It is our understanding that the assumptions and criteria used by France were the same as those followed in the first calculations, except that for certain ammunition items the French calculations took into consideration all assets, including those produced in France and those furnished under the various United States assistance programs. ICA has generally accepted the requirements as calculated by the French, but has taken steps to withhold 10 percent of the total program, or 8.5 million dollars, pending a determination that there has been no duplication in the justification for equipment requirements for French NATO forces operating in Africa.

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France has agreed to make monetary refunds should future accountings show such duplication.

Application of the military assistance criteria to the determination of French requirements for this program would result in considerable excess equipment; although the total amount of excesses cannot be determined precisely, it is estimated at some 21 million dollars or more.

The executive agencies have communicated to us their position that, inasmuch as in their opinion the special defense financing program was not intended to be a form of military assistance, the question of conformity with the criteria of the military assistance program should not be considered overriding. Had the intent of the program been to correct only equipment deficiencies of French forces, it would have been proposed and implemented as part of the military assistance program.

The paramount issue is the desirability of applying a uniform United States policy in satisfying the equipment requirements of French NATO forces. We believe that this objective would have been accomplished if, in administering the special defense financing program, ICA had adopted the criteria employed by the Department of Defense. It appears to us that such application would have been consistent with the purposes of this program which is closely related to the military end-item program of the Department of Defense.