

GAO

Fact Sheet for the Chairman,
Subcommittee on National Security
Economics, Joint Economic Committee,
Congress of the United States

December 1988

**SECURITY
ASSISTANCE**

**Update of Programs
and Related Activities**





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-207575

December 28, 1988

The Honorable William Proxmire
Chairman, Subcommittee on National
Security Economics
Joint Economic Committee
Congress of the United States

Dear Mr. Chairman:

Your letter dated August 2, 1988, requested that we update our prior reports, prepared at your request, on the status of U.S. military and security assistance and related programs and activities. Our most recent report, U.S. Security and Military Assistance: Programs and Related Activities--An Update (GAO/NSIAD-85-158, Sept. 30, 1985), provided information on the annual costs of these programs during fiscal years 1982 through 1985. This report provides similar information for fiscal years 1985 through 1988.

Appendix I contains information on the five major programs identified as security assistance in the administration's annual budget proposal. These programs are (1) the Foreign Military Sales Financing Program, (2) the Military Assistance Program, (3) International Military Education and Training, (4) Peacekeeping Operations, and (5) the Economic Support Fund. Appendix I also describes the amounts of Foreign Military Sales credits forgiven, below market rate loans, the status of the Guaranty Reserve Fund, loan rescheduling, and Foreign Military Sales debt reform initiatives.

Appendix II includes information on security and military assistance-related activities. Specific programs and activities discussed are the Special Defense Acquisition Fund, leases of military equipment to foreign governments, sales and transfers of excess defense articles, stockpiling of defense articles for foreign governments, construction costs for overseas bases, and the antiterrorism assistance

program. We are also including information on humanitarian and civic assistance activities provided by the Department of Defense, the funding of combined exercises, exercise-related construction projects outside the United States, and public security forces training in Honduras and El Salvador. Appendix II also contains information on the Department of Defense's costs to manage its overseas security assistance organizations.

This report also includes information on the Foreign Military Sales cash program, financial incentives and management techniques used to facilitate the sale of military equipment (see app. III), activities that help develop foreign economies and defense industries (see app. IV), and the top 25 companies supplying military equipment and services through Foreign Military Sales and commercial licenses (see app. V). Appendix VI lists those programs and activities described in our report that appear in the President's budget proposal. GAO has issued a number of reports on programs discussed in this report, such as the Economic Support Fund, coproduction, and controls exercised over commercial munitions licensing procedures (see "Related GAO Products" for a complete list of these reports).

OBJECTIVES, SCOPE, AND METHODOLOGY

In gathering the 1985-88 information, we noted that the agencies had changed some of the data we presented in our 1985 report. In one instance, the agency had changed the reporting format. Agencies update their data routinely as more accurate and complete data becomes available. We discussed these changes with agency officials and incorporated the revised data. We used actual fiscal year 1988 data when available. In other instances we used estimated data based on agency reports.

We obtained information from the Departments of State, Defense, and the Agency for International Development. As was the case in our prior report, we did not fully verify the accuracy of the agencies' data. Most of the statistical tables were compiled as of the late 1970s, which was the time period agreed to in your initial request. Where statistical information was readily available, we included such data from prior fiscal years.

As requested by your office, we did not obtain comments on this report. We did, however, discuss the information with agency officials and incorporated their comments as appropriate. We conducted our review between August and November 1988 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from its issue date. At that time we will send copies to interested congressional committees, the Secretaries of State and Defense, and the Agency for International Development. Copies will be made available to other interested parties on request.

This report was prepared under the direction of Joseph E. Kelley, Associate Director. Other major contributors are listed in appendix VII.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan". The signature is written in dark ink and is positioned above the typed name.

Frank C. Conahan
Assistant Comptroller General

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ABBREVIATIONS

AEW&C	Aircraft Early Warning and Control
AID	Agency for International Development
CENTO	Central Treaty Organization
CPD	Congressional Presentation Document
DAO	Defense Attache Office
DOD	Department of Defense
DSAA	Defense Security Assistance Agency
ESF	Economic Support Fund
FAA	Foreign Assistance Act
FFB	Federal Financing Bank
FMS	Foreign Military Sales
GAO	General Accounting Office
GRF	Guaranty Reserve Fund
ICAO	International Civil Aviation Organization
IMET	International Military Education and Training Program
IMF	International Monetary Fund
JCS	Joint Chiefs of Staff
JUSMAAG	Joint U.S. Military Assistance Advisory Group
JUSMAG	Joint U.S. Military Assistance Group/Joint U.S. Military Advisory Group
JUSMMAT	Joint U.S. Military Mission for Aid to Turkey
KUSLO	Kenya-U.S. Liaison Office

LIBMISH	U.S. Military Mission, Liberia
LOA	Letter of Offer and Acceptance
MAAG	Military Assistance Advisory Group
MAP	Military Assistance Program
MFO	Multinational Force and Observers
MILGP	Military Group
MOU	Memorandum of Understanding
MUSLO	Morocco-U.S. Liaison Office
NAMFI	NATO Missile Firing Installation
NAMMA	NATO Multi-Role Combat Aircraft
NAMSA	NATO Maintenance and Supply Agency
NAPMO	NATO Airborne Early Warning and Control Program Management Office
NATO	North Atlantic Treaty Organization
NICSMA	NATO Integrated Communications System Management Agency
OAS	Organization of American States
ODC	Office of Defense Cooperation
ODRP	Office of Defense Representative, Pakistan
OMC	Office of Military Cooperation
OMC	Office of Munitions Control
PKO	Peacekeeping Operations
ROCAP	Regional Office for Central America and Panama
SAAC	Security Assistance Accounting Center
SACLANT	Supreme Allied Commander, Atlantic
SAO	Security Assistance Organization
SDAF	Special Defense Acquisition Fund
SHAPE	Supreme Headquarters, U.S. Allies, Europe
UN	United Nations
USLOK	U.S. Military Liaison Office, Kuwait
USLOT	U.S. Liaison Office, Tunisia
USMDAO	U.S. Mutual Defense Assistance Office
USMLO	U.S. Military Liaison Office
USMIM	U.S. Military Training Mission
ZAMISH	U.S. Military Mission, Zaire

SECURITY ASSISTANCE PROGRAMS

The United States provides military aid and other related assistance, broadly termed "security assistance" to eligible foreign countries through five major programs. The Congress appropriates funds enabling foreign nations to purchase defense articles, training, and other defense-related services through the Foreign Military Sales (FMS) Financing Program, the Military Assistance Program (MAP), and the International Military Education and Training Program (IMET). The Peacekeeping Operations Program (PKO) authorizes U.S. assistance, primarily personnel and logistics support, to international organizations and countries that further U.S. national security interests. The Economic Support Fund (ESF) provides economic assistance to promote political stability and enhance the security and independence of allied and friendly nations.

The FMS Financing Program is authorized under the Arms Export Control Act (22 U.S.C. section 2751 et seq.). The other four programs are authorized by the Foreign Assistance Act of 1961, as amended (22 U.S.C. section 2151 et seq.).

Annually, the executive branch submits to the Congress its proposed security assistance budget request for authorization. The Department of State and the Department of Defense (DOD) prepare the Congressional Presentation Document (CPD), which accompanies the administration's budget proposal. The CPD provides detailed projections and descriptions to support specific program requests. This appendix briefly describes each major security assistance program included in the CPD and details annual allocations by country. This appendix also discusses forgiven and below market rate loans, the status of the Guaranty Reserve Fund (GRF), and FMS debt reform.

FMS FINANCING PROGRAM

Sections 23 and 24 of the Arms Export Control Act authorize the President to help friendly foreign governments and international organizations finance the purchase of defense articles and services. Over its history, the FMS Financing Program has provided assistance through two types of loans--direct and guaranteed. Under direct loans, DOD financed the procurement of defense articles out of funds that were specifically appropriated for that purpose and thus were "on-budget." Guaranteed loans, on the other hand, did not require full appropriations and were primarily "off-budget." These loans have been financed through the Department of the Treasury's Federal Financing Bank (FFB), which obtained funds through borrowing. These loans have been backed by the Guaranty Reserve Fund, a special reserve established by the Congress for that purpose.

Direct loans were used until the mid-1970s. Beginning in 1975, guaranteed loans became the predominant type of loan, with the exception of continued direct loans to Egypt and Israel and a small direct loan to the Sudan in fiscal year 1982. Because guaranteed loans were financed with funds borrowed by the Treasury at the high rates of interest prevailing during the period of borrowing activity, the United States was required to charge recipients high market interest rates. In the global recession of the early 1980s, repayment of FMS loans with higher interest rates exacerbated developing countries' debt service problems.

In fiscal year 1985, there was a major change in the types of military aid provided. The bulk of aid shifted to below market rate loans and the increased use of forgiven direct loans, and no further use was made of guaranteed loans.

Table I.1 shows the amounts of funds appropriated for the FMS financing program from fiscal years 1950 through 1988.

Table I.1: Foreign Military Sales Financing Program

Region/ country	Fiscal year					
	1950 to 1984	1985	1986	1987	1988	1950 to 1988
------(thousands)-----						
Total	<u>\$39,557,040</u>	<u>\$4,939,500</u>	<u>\$4,946,830</u>	<u>\$4,053,441</u>	<u>\$4,049,000</u>	<u>\$57,545,811</u>
Payment waived	8,240,000	2,575,000	2,966,700	3,100,000	3,286,000	20,167,700
DOD direct	3,490,419	2,364,500	1,980,130	953,441	763,000	9,551,490
DOD guaranty	27,826,621	0	0	0	0	27,826,621
East Asia and Pacific	<u>\$3,958,388</u>	<u>\$376,500</u>	<u>\$278,200</u>	0	<u>\$27,500</u>	<u>\$4,640,588</u>
DOD direct	451,588	376,500	278,200	0	27,500	1,133,788
DOD guaranty	3,506,800	0	0	0	0	3,506,800
Australia	115,586	0	0	0	0	115,586
DOD direct	115,586	0	0	0	0	115,586
Indonesia	296,700	32,500 ^a	19,140 ^b	0	4,000 ^c	352,340
DOD direct	3,500	32,500	19,140	0	4,000	59,140
DOD guaranty	293,200	0	0	0	0	293,200
Japan	34,722	0	0	0	0	34,722
DOD direct	34,722	0	0	0	0	34,722
Korea (Seoul)	1,955,883	230,000	162,690	0	0	2,348,573
DOD direct	61,700	230,000	162,690	0	0	454,390
DOD guaranty	1,894,183	0	0	0	0	1,894,183

(cont.)

Region/ country	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Malaysia	\$176,910	\$4,000	\$1,484	0	0	\$182,394
DOD direct	38,071	4,000	1,484	0	0	43,555
DOD guaranty	138,838	0	0	0	0	138,838
New Zealand	1,492	0	0	0	0	1,492
DOD direct	1,492	0	0	0	0	1,492
Philippines	344,100	15,000 ^a	14,355 ^b	0	0	373,455
DOD direct	8,600	15,000	14,355	0	0	37,955
DOD guaranty	335,500	0	0	0	0	335,500
Singapore	17,221	0	0	0	0	17,221
DOD guaranty	17,221	0	0	0	0	17,221
Taiwan	547,726	0	0	0	0	547,726
DOD direct	187,866	0	0	0	0	187,866
DOD guaranty	359,860	0	0	0	0	359,860
Thailand	467,999	95,000	80,531 ^b	0	\$23,500 ^c	667,030
DOD direct	0	95,000	80,531	0	23,500	199,031
DOD guaranty	467,999	0	0	0	0	467,999
Near East and South Asia	<u>\$27,254,171</u>	<u>\$3,088,000</u>	<u>\$3,395,006</u>	<u>\$3,424,500</u>	<u>\$3,372,000</u>	<u>\$40,533,677</u>
Payment waived	8,190,000	2,575,000	2,966,700	3,100,000	3,130,000	19,961,700
DOD direct	2,082,649	513,000	428,306	324,500	242,000	3,590,455
DOD guaranty	16,981,522	0	0	0	0	16,981,522
Egypt	5,640,000	1,175,000	1,244,100	1,300,000	1,300,000	10,659,100
Payment waived (direct loan)	1,090,000	1,175,000	1,244,100	1,300,000	1,300,000	6,109,100
DOD guaranty	4,550,000	0	0	0	0	4,550,000
India	27,310	0	0	0	0	27,310
DOD direct	27,310	0	0	0	0	27,310
Iran	496,407	0	0	0	0	496,407
DOD direct	175,705	0	0	0	0	175,705
DOD guaranty	320,701	0	0	0	0	320,701
Israel	18,304,244	1,400,000	1,722,600	1,800,000	1,800,000	25,026,844
Payment waived (direct loan)	7,100,000	1,400,000	1,722,600	1,800,000	1,800,000	13,822,600
DOD direct	1,667,103	0	0	0	0	1,667,103
DOD guaranty	9,537,142	0	0	0	0	9,537,142
Jordan	706,340	90,000 ^a	81,345 ^b	0	0	877,685
DOD direct	55,703	90,000	81,345	0	0	227,048
DOD guaranty	650,637	0	0	0	0	650,637

(cont.)

Region/ country	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Lebanon	\$243,668	0	0	0	0	\$243,668
DOD direct	9,168	0	0	0	0	9,168
DOD guaranty	234,500	0	0	0	0	234,500
Morocco	436,580	\$8,000 ^a	\$957 ^b	\$12,000 ^d	\$12,000 ^c	469,537
DOD direct	68,830	8,000	957	12,000	12,000	101,787
DOD guaranty	367,750	0	0	0	0	367,750
Oman	150,000	40,000	9,140	0	0	199,140
DOD direct	0	40,000	9,140	0	0	49,140
DOD guaranty	150,000	0	0	0	0	150,000
Pakistan	567,633	325,000	311,025	312,500 ^d	260,000	1,776,158
Payment waived (direct loan)	0	0	0	0	30,000	30,000
DOD direct	5,786	325,000	311,025	312,500	230,000 ^c	1,184,311
DOD guaranty	561,847	0	0	0	0	561,847
Saudi Arabia	254,167	0	0	0	0	254,167
DOD direct	65,222	0	0	0	0	65,222
DOD guaranty	188,945	0	0	0	0	188,945
Sri Lanka	2,308	0	0	0	0	2,308
DOD direct	308	0	0	0	0	308
DOD guaranty	2,000	0	0	0	0	2,000
Tunisia	411,514	50,000 ^a	25,839 ^b	0	0	487,353
DOD direct	7,514	50,000	25,839	0	0	83,353
DOD guaranty	404,000	0	0	0	0	404,000
Yemen (Sanaa)	14,000	0	0	0	0	14,000
DOD guaranty	14,000	0	0	0	0	14,000
Europe and Canada	<u>\$6,467,549</u>	<u>\$1,440,000</u>	<u>\$1,265,968</u>	<u>\$625,941</u>	<u>\$649,500</u>	<u>\$10,448,958</u>
Payment waived	0	0	0	0	156,000	156,000
DOD direct	388,549	1,440,000	1,265,968	625,941	493,500	4,213,958
DOD guaranty	6,079,000	0	0	0	0	6,079,000
Austria	15,713	0	0	0	0	15,713
DOD direct	15,713	0	0	0	0	15,713
Belgium	7,793	0	0	0	0	7,793
DOD direct	7,793	0	0	0	0	7,793
France	80,392	0	0	0	0	80,392
DOD direct	80,392	0	0	0	0	80,392

(cont.)

Region/ country	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Greece	\$2,234,100	\$500,000 ^a	\$430,650 ^b	\$343,000 ^d	\$313,000 ^c	\$3,820,750
DOD direct	158,500	500,000	430,650	343,000	313,000	1,745,150
DOD guaranty	2,075,600	0	0	0	0	2,075,600
Italy	292	0	0	0	0	292
DOD direct	292	0	0	0	0	292
Netherlands	2,200	0	0	0	0	2,200
DOD direct	2,200	0	0	0	0	2,200
Portugal	142,500	55,000	43,065 ^b	0	2,500 ^c	243,065
DOD direct	0	55,000	43,065	0	2,500	100,565
DOD guaranty	142,500	0	0	0	0	142,500
Spain	1,527,300	400,000	382,800	105,000 ^d	0	2,415,100
DOD direct	2,300	400,000	382,800	105,000	0	890,100
DOD guaranty	1,525,000	0	0	0	0	1,525,000
Turkey	2,455,871	485,000 ^a	409,453 ^b	177,941 ^d	334,000	3,862,265
Payment waived (direct loan)	0	0	0	0	156,000	156,000
DOD direct	119,971	485,000	409,453	177,941	178,000 ^c	1,370,365
DOD guaranty	2,335,900	0	0	0	0	2,335,900
Yugoslavia	1,388	0	0	0	0	1,388
DOD direct	1,388	0	0	0	0	1,388
Africa	<u>\$638,791</u>	<u>\$10,000</u>	<u>0</u>	<u>\$3,000</u>	<u>0</u>	<u>\$651,791</u>
Payment waived	50,000	0	0	0	0	50,000
DOD direct	134,734	10,000	0	3,000	0	147,734
DOD guaranty	454,056	0	0	0	0	454,056
Botswana	13,000	5,000 ^a	0	0	0	18,000
DOD direct	0	5,000	0	0	0	5,000
DOD guaranty	13,000	0	0	0	0	13,000
Cameroon	21,400	5,000 ^a	0	0	0	26,400
DOD direct	0	5,000	0	0	0	5,000
DOD guaranty	21,400	0	0	0	0	21,400
Ethiopia	36,000	0	0	0	0	36,000
DOD direct	36,000	0	0	0	0	36,000
Gabon	15,200	0	0	0	0	15,200
DOD direct	2,000	0	0	0	0	2,000
DOD guaranty	13,200	0	0	0	0	13,200

(cont.)

Region/ country	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Kenya	\$155,000	0	0	\$3,000 ^d	0	\$158,000
DOD direct	0	0	0	3,000	0	3,000
DOD guaranty	155,000	0	0	0	0	155,000
Liberia	28,921	0	0	0	0	28,921
DOD direct	4,851	0	0	0	0	4,851
DOD guaranty	24,070	0	0	0	0	24,070
Mali	48	0	0	0	0	48
DOD direct	48	0	0	0	0	48
Niger	5,500	0	0	0	0	5,500
DOD guaranty	5,500	0	0	0	0	5,500
Nigeria	335	0	0	0	0	335
DOD direct	335	0	0	0	0	335
Rwanda	1,500	0	0	0	0	1,500
DOD guaranty	1,500	0	0	0	0	1,500
Senegal	8,000	0	0	0	0	8,000
DOD guaranty	8,000	0	0	0	0	8,000
Somalia	60,000	0	0	0	0	60,000
DOD guaranty	60,000	0	0	0	0	60,000
Sudan	161,327	0	0	0	0	161,327
Payment waived (direct loan)	50,000	0	0	0	0	50,000
DOD guaranty	111,327	0	0	0	0	111,327
Zaire	132,559	0	0	0	0	132,559
DOD direct	91,500	0	0	0	0	91,500
DOD guaranty	41,059	0	0	0	0	41,059
American Republics	<u>\$1,215,032</u>	<u>\$25,000</u>	<u>\$7,656</u>	0	0	<u>\$1,247,688</u>
DOD direct	409,789	25,000	7,656	0	0	442,445
DOD guaranty	805,243	0	0	0	0	805,243
Argentina	175,879	0	0	0	0	175,879
DOD direct	63,240	0	0	0	0	63,240
DOD guaranty	112,639	0	0	0	0	112,639
Bolivia	23,000	0	0	0	0	23,000
DOD direct	8,000	0	0	0	0	8,000
DOD guaranty	15,000	0	0	0	0	15,000

(cont.)

Region/ country	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Brazil	\$264,617	0	0	0	0	\$264,617
DOD direct	111,303	0	0	0	0	111,303
DOD guaranty	153,315	0	0	0	0	153,315
Chile	62,524	0	0	0	0	62,524
DOD direct	58,490	0	0	0	0	58,490
DOD guaranty	4,034	0	0	0	0	4,034
Colombia	139,823	0	0	0	0	139,823
DOD direct	22,223	0	0	0	0	22,223
DOD guaranty	117,600	0	0	0	0	117,600
Costa Rica	5,000	0	0	0	0	5,000
DOD guaranty	5,000	0	0	0	0	5,000
Dominican Republic	20,698	\$3,000 ^a	0	0	0	23,698
DOD direct	500	3,000	0	0	0	3,500
DOD guaranty	20,198	0	0	0	0	20,198
Ecuador	57,136	4,000 ^a	\$3,828 ^b	0	0	64,964
DOD direct	638	4,000	3,828	0	0	8,466
DOD guaranty	56,498	0	0	0	0	56,498
El Salvador	100,573	10,000 ^a	0	0	0	110,573
DOD direct	3,373	10,000	0	0	0	13,373
DOD guaranty	97,200	0	0	0	0	97,200
Guatemala	10,719	0	0	0	0	10,719
DOD direct	9,327	0	0	0	0	9,327
DOD guaranty	1,391	0	0	0	0	1,391
Haiti	2,100	0	0	0	0	2,100
DOD guaranty	2,100	0	0	0	0	2,100
Honduras	52,430	0	0	0	0	52,430
DOD direct	3,000	0	0	0	0	3,000
DOD guaranty	49,430	0	0	0	0	49,430
Jamaica	2,587	0	0	0	0	2,587
DOD guaranty	2,587	0	0	0	0	2,587
Mexico	4,298	0	0	0	0	4,298
DOD direct	4,298	0	0	0	0	4,298
Nicaragua	8,000	0	0	0	0	8,000
DOD guaranty	8,000	0	0	0	0	8,000

(cont.)

Region/ country	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Panama	\$18,500	0	\$3,828 ^b	0	0	\$22,328
DOD direct	0	0	3,828	0	0	3,828
DOD guaranty	18,500	0	0	0	0	18,500
Paraguay	707	0	0	0	0	707
DOD direct	318	0	0	0	0	318
DOD guaranty	389	0	0	0	0	389
Peru	123,540	\$8,000 ^a	0	0	0	131,540
DOD direct	20,978	8,000	0	0	0	28,978
DOD guaranty	102,562	0	0	0	0	102,562
Uruguay	18,349	0	0	0	0	18,349
DOD direct	8,349	0	0	0	0	8,349
DOD guaranty	10,000	0	0	0	0	10,000
Venezuela	124,551	0	0	0	0	124,551
DOD direct	95,751	0	0	0	0	95,751
DOD guaranty	28,800	0	0	0	0	28,800
International organizations	<u>\$23,110</u>	0	0	0	0	<u>\$23,110</u>
DOD direct	23,110	0	0	0	0	23,110

Note: Totals may not add due to rounding.

^aIncludes direct loans at below market interest rates. Of the \$4.9 billion appropriated in fiscal year 1985, \$653.5 million was at below market rates.

^bIncludes direct loans at below market interest rates. Of the \$4.9 billion appropriated in fiscal year 1986, \$877 million was at below market rates.

^cIncludes direct loans at below market interest rates. Of the \$4.0 billion appropriated in fiscal year 1988, \$763 million was at below market rates.

^dIncludes direct loans at below market rates. Of the \$4.1 billion appropriated in fiscal year 1987, \$953 million was at below market rates.

Source: DOD.

Forgiven Loans

Generally, the FMS Financing Program requires repayment by the recipient foreign governments for loans received. Increasingly, however, the largest recipients of FMS loans have had their loan repayments forgiven. In effect, these loans are grants. From fiscal year 1974 until fiscal year 1984, Israel, Egypt, and the

Sudan had portions of their repayments forgiven. In our 1985 report we noted that Israel and Egypt had about 40 percent of their loans, totaling \$8.4 billion, forgiven between fiscal years 1982 and 1984.

Since fiscal year 1985, all FMS loans to Israel and Egypt have been forgiven. As table I.2 shows, Israel has received about \$6.7 billion and Egypt about \$5 billion in forgiven loans during fiscal years 1985 through 1988. In fiscal year 1988, the Congress authorized partial forgiven loans for Pakistan and Turkey. In fiscal year 1989, the FMS financing program will be on a grant--rather than forgiven loan--basis or a repayable loan basis.

Table I.2: Forgiven FMS Loans

Country	Fiscal year				
	1985	1986	1987	1988	1985-88
	----- (millions) -----				
Egypt					
Total FMS loans	\$1,175	\$1,244	\$1,300	\$1,300	\$5,019
Amount forgiven	1,175	1,244	1,300	1,300	5,019
Israel					
Total FMS loans	1,400	1,723	1,800	1,800	6,723
Amount forgiven	1,400	1,723	1,800	1,800	6,723
Turkey					
Total FMS loans	485	409	178	334	1,406
Amount forgiven	0	0	0	156	156
Pakistan					
Total FMS loans	325	311	313	260	1,209
Amount forgiven	0	0	0	30	30

Below Market Rate Loans

Below market rate loans have been a significant part of the FMS financing program from fiscal years 1985 through 1988. This type of concessional assistance differs from forgiven loans in that foreign countries with below market rate loans are required to pay back the full amount of their loans. As table I.3 shows, although the number of countries receiving these loans has declined somewhat since 1985--reflecting a shrinking security assistance budget and increasing congressional earmarking¹--the percentage of below market rate loans steadily increased, reaching 100 percent in

¹"Earmarking" refers to actions taken by the Congress in an authorization or appropriation act, whereby funds are specifically set aside for a program or account.

fiscal year 1987. During fiscal years 1987 and 1988, all non-forgiven loans were at below market rates of interest. Countries receiving such loans in fiscal year 1988 were Morocco, Pakistan, Greece, Portugal, Turkey, Indonesia, and Thailand.

Table I.3: Below Market Rate FMS Loans

<u>Fiscal Year</u>	<u>Number of countries</u>	<u>Below market rate total</u> ----- (millions) -----	<u>Total FMS loans (excluding forgiven)</u> -----	<u>Percentage of total</u>
1985	13	\$653.5	\$2,364.5	28
1986	11	877.2	1,980.1	44
1987	6	953.4	953.4	100
1988	7	763.0	763.0	100

Guaranty Reserve Fund

The Guaranty Reserve Fund (GRF) was created by the Congress in 1980 to guarantee FMS loans extended by the Federal Financing Bank (FFB) and commercial lending institutions. Before 1980, funds used to guarantee loans were maintained in reserve in the MAP account or in the FMS credit appropriations account.

GRF disbursements are made to a lender only when a loan payment is missed by the borrower. The Defense Security Assistance Agency (DSAA), as guarantor, makes payment to the FFB and attempts to collect the missed payment. When the foreign government makes the late payment, it is redeposited to the Fund. This procedure causes the Fund to rise or fall depending on the frequency and/or timing of missed payments, reschedulings, and payment recoveries. The Fiscal Year 1988 Continuing Appropriations Resolution (P.L. 100-202) expanded the GRF's role to include payments to guaranteed private lenders of funds used to refinance FMS debt.

When borrowers miss a payment, the amount due equals the overdue installment of principal and interest, plus a penalty, or late fee. Borrowers who have elected to reschedule their loans must do so on a multilateral basis through the Paris Club² process. Such reschedulings have had a long term adverse effect on the Fund's cash balance because arrearages owed were being recovered in reduced installments over longer periods. In August 1987, the FFB and DSAA arranged to lessen the impact of Paris Club reschedulings. The FFB agreed to accept various countries' payments under the revised repayment schedule.

²Debtor and creditor nations negotiate the rescheduling of official debts in a multilateral environment called the Paris Club.

According to DSAA, the GRF had no cash resources as of September 30, 1987. The cash balance of \$249 million showing at that time (see table I.4) consisted of \$111 million reserved for Egyptian reschedulings, \$117 million incorrectly credited to the Fund by FFB, and \$21 million disbursed to the FFB that had not been recorded as of September 30, 1987. On September 30, 1988, the Fund's cash balance was eliminated to pay the FFB \$401 million toward interest and principal on the rescheduled loans. The balance owed FFB was liquidated on October 3, 1988.

Table I.4: Guaranty Reserve Fund

<u>As of the end of fiscal year</u>	<u>Cash balance of funds^a</u> ----- (millions) -----	<u>Cumulative contingent liability</u> -----	<u>Percent</u>
1977	\$389	\$3,894	10.0
1978	548	5,478	10.0
1979	1,065	10,643	10.0
1980	1,170 ^b	12,093	9.6
1981	1,060	13,233	8.0
1982	919	15,662	5.9
1983	800	18,871	4.2
1984	552	22,556	2.4
1985	271	21,828	1.2
1986	16	20,868	^c
1987	249	20,281	1.2 ^d
1988 ^e	0	18,922	0.0

^aBefore 1980, the Fund's cash balance was maintained at 10 percent (25 percent prior to July 1974) of its authorized loans through annual appropriations. In December 1980, the Congress eliminated the 10-percent requirement.

^bThis figure reflects the balance of the fund after all outlays as of December 16, 1980. After December 1980, new appropriations were authorized as follows: fiscal year 1985, \$109 million; fiscal year 1988, \$532 million.

^cLess than 1 percent.

^dAs a practical matter, the cash balance of funds totaling \$249 million was overstated. The amount was either reserved for rescheduling, incorrectly credited to the Fund, or disbursed but not recorded as of September 30, 1987.

^eEstimated.

Source: DSAA.

Defaults and Reschedulings

Since the mid-1970s through fiscal year 1987, the U.S. government has made almost \$4.6 billion in payments to the FFB due to nonpayment on scheduled guaranteed loans. Of this amount, foreign governments have repaid the GRF about \$3 billion, leaving a balance due the fund of about \$1.6 billion as of September 30, 1987. Table I.5 shows the year-end outstanding balances for DSAA payments made on behalf of foreign governments that have failed to make payments on their guaranteed loans when due.

Table I.5: Amounts Foreign Governments Owe the Guaranty Reserve Fund

<u>Country</u>	<u>Fiscal year-end outstanding balances</u>		
	<u>1985</u>	<u>1986</u>	<u>1987</u>
	----- (thousands) -----		
Bolivia	\$354	\$362	\$60
Botswana	613	0	0
Cameroon	0	626	642
Colombia	2,060	48	228
Dominican Republic	2,421	3,997	5,493
Ecuador	11,229	12,108	13,972
Egypt	451,238	525,231	537,168
El Salvador	11,931	12,874	15,394
Gabon	0	638	1,184
Greece	2,527	0	0
Haiti	0	28	86
Honduras	541	76	2,191
Jamaica	303	655	1,116
Jordan	72,852	62,281	80,925
Kenya	1,211	618	2,292
Liberia	9,773	10,811	10,387
Morocco	116,500	141,400	149,951
Nicaragua	389	389	389
Niger	1,408	2,271	2,826
Oman	11	0	0
Panama	0	625	1,663
Peru	19,521	15,765	13,069
Philippines	33,671	55,522	84,402
Senegal	5,576	6,490	6,995
Somalia	11,723	21,427	25,731
Spain	0	73	0
Sudan	53,338	55,288	55,232
Turkey	347,259	479,925	540,107
Zaire	7,684	10,553	14,113
Others	0	0	<u>11,505</u>
Total	<u>\$1,164,133</u>	<u>\$1,420,081</u>	<u>\$1,577,121</u>

Source: DSAA.

Overdue Loans

DSAA is required to report quarterly to the Department of the Treasury on the status of loan repayments. As of September 30, 1988, 29 countries were in arrears on FMS loans totaling \$768 million, of which more than \$468 million was more than 90 days past due. Table I.6 shows the status of overdue guaranty and direct loans as September 30, 1988.

Table I.6: Overdue Guaranty and Direct Loans
(as of September 30, 1988)

<u>Country</u>	<u>Due and Unpaid</u> (thousands)
Bolivia	\$671
Botswana	128
Cameroon	993
Colombia	242
Dominican Republic	3,431
Ecuador	593
Egypt	181,744
El Salvador	18,903
Ethiopia	5,561
Gabon	4,285
Haiti	63
Honduras	8,990
Jamaica	344
Jordan	80,339
Kenya	2,166
Liberia	5,669
Morocco	30,275
Nicaragua	389
Niger	335
Panama	4,502
Peru	6,224
Philippines	1
Portugal	^a
Senegal	317
Somalia	2,395
Sri Lanka	3
Sudan	22,224
Turkey	375,779
Zaire	<u>11,480</u>
Total	<u>\$768,046</u>

Note: A country's arrearage status is dynamic: it can change daily.

^aLess than \$500.

Source: DSAA.

Few countries have remained in default in excess of 12 months. The Foreign Assistance and Related Appropriations Act, 1976--and subsequent acts--contained a legislative restriction (known as the Brooke Amendment) terminating assistance to a foreign government in default of any foreign assistance loans for longer than 1 calendar year. As of September 30, 1988, Ethiopia, Nicaragua, Liberia, Panama, and Peru were under the sanction.

Rescheduled Loans

The United States reschedules a debt if the debtor nation is in imminent danger of default and accepts an International Monetary Fund (IMF) arrangement for economic reform. In exchange for IMF assistance, the country agrees to take specific actions to stabilize the country's economy to meet its debt obligations as they are rescheduled. From 1978 through September 30, 1988, \$2.6 billion of U.S. government-backed loans were rescheduled, as shown in table I.7.

Table I.7: Rescheduled Direct and Guaranteed Loans (as of September 30, 1988)

Country	Fiscal year					Total	Repayments ^a	Rescheduled balance due
	1978 to 1985	1986	1987	1988				
	----- (thousands) -----							
Bolivia	0	0	\$1,026	0	\$1,026	\$974	\$52	
Dominican Rep.	0	\$2,455	0	0	2,455	142	2,313	
Ecuador	\$6,579	6,847	0	\$7,401	20,827	4,214	16,613	
Egypt	0	0	0	1,431,159	1,431,159	0	1,431,159	
Gabon	0	0	0	1,184	1,184	0	1,184	
Jamaica	551	0	0	1,021	1,572	88	1,484	
Liberia	10,004	0	0	0	10,004	2,013	7,991	
Morocco	83,330	75,258	0	51,570	210,158	43,099	167,059	
Niger	1,583	876	0	642	3,101	204	2,897	
Panama	0	561	0	0	561	0	561	
Peru	19,367	0	0	0	19,367	10,867	8,500	
Philippines	60,356	0	0	46,124	106,480	7,206	99,274	
Senegal	6,395	0	1,578	965	8,938	1,737	7,201	
Somalia	14,335	0	0	26,332	40,667	536	40,131	
Sudan	46,278	0	0	0	46,278	1,849	44,429	
Turkey	568,715	0	0	0	568,715	293,433	275,282	
Zaire	<u>95,023</u>	<u>23,506</u>	<u>20,047</u>	<u>25,342</u>	<u>163,918</u>	<u>37,725</u>	<u>126,193</u>	
Total	<u>\$912,516</u>	<u>\$109,503</u>	<u>\$22,651</u>	<u>\$1,591,740</u>	<u>\$2,636,410</u>	<u>\$404,087</u>	<u>\$2,232,323</u>	

^aRepayments include cash payments and rescheduling of previously rescheduled loans.

Source: DSAA.

FMS DEBT REFORM

Efforts are currently under way to ease the debt burden of FMS loan recipients. The Fiscal Year 1988 Continuing Resolution allows countries to prepay FMS loans by refinancing the loans in the private sector at lower interest rates. The Congress identified three eligibility requirements, which are (1) loan advances bearing interest rates of 10 percent or higher; (2) loan advances maturing after September 30, 1989; and (3) loan advances as of December 22, 1987. The U.S. government guarantees 90 percent of the private loans.

Based on our current review of the debt reform program, we estimate that 32 countries are eligible to refinance about \$14 billion in debt. Israel, Tunisia, and Turkey have refinanced some or all of their eligible FMS loans in the private sector. Several other countries have expressed interest in participating in the program, including Jordan, Pakistan, Honduras, and Morocco.

The legislation also gives the President the authority to reduce interest rates on guaranteed loans to 10 percent. Up to \$270 million was appropriated beginning in fiscal year 1988 to fund the program. These funds are available, however, only if requested by the President. According to a DSAA official, the administration has not requested these funds because the use of these funds would reduce amounts available for other security assistance programs.

Responsibility for the refinancing program is divided among the Departments of Defense, State, and the Treasury. All three agencies are responsible for reviewing countries' applications for refinancing.

MILITARY ASSISTANCE PROGRAM

The Foreign Assistance Act of 1961, as amended, authorizes the President to furnish military assistance to any friendly country or international organization that will strengthen U.S. security and promote world peace. Prior to fiscal year 1982, defense articles and services were provided as grant aid to eligible countries through the Military Assistance Program, which was administered under procedures entirely different from those used for FMS. For example, defense articles provided under the grant program were governed by DOD regulations concerning pricing, delivery, inventorying, and disposal procedures. The United States retained "reversionary rights" to MAP grant aid defense articles, that is the right to reclaim the equipment.

Effective with the fiscal year 1982 military assistance appropriation, section 503(a)(3) of the Foreign Assistance Act authorized the merger of MAP funds with country trust fund deposits to finance FMS purchases. Procurements financed with merged funds

are not subject to the same procedures and regulations applicable to the grant aid program. For example, reversionary title rights do not accrue to the United States on any article sold under FMS procedures, including those wholly or partially financed with merged funds. Unlike FMS loan funds, merged funds can not be used to fund direct commercial contracts.

Table I.8 shows allocations under the MAP grant aid program for fiscal years 1950-84. The total does not agree with our 1985 report because that report combined merged funds with the grant aid program funds. MAP merger country allocations are shown in table I.9.

Table 1.8: Military Assistance Program (fiscal years 1950 to 1984)

<u>Region/country</u>	<u>Amount</u> (thousands)
Total	<u>\$54,586,650</u>
East Asia and Pacific	<u>\$28,997,223</u>
Burma	72,134
Indochina	708,977
Indonesia	192,200
Japan	810,276
Kampuchea	1,177,163
Korea (Seoul)	5,471,719
Laos	1,460,076
Philippines	607,069
Taiwan	2,554,637
Thailand	1,169,122
Vietnam	14,773,851
Near East and South Asia	<u>\$2,167,214</u>
Afghanistan	2
India	90,256
Iran	766,733
Iraq	45,208
Jordan	489,908
Lebanon	13,585
Libya	12,624
Morocco	29,600
Nepal	1,678
Pakistan	650,281
Saudi Arabia	23,868
Sri Lanka	3,167
Tunisia	40,304

(cont.)

<u>Region/country</u>	<u>Amount</u> (thousands)
Europe and Canada	<u>\$18,837,216</u>
Austria	96,310
Belgium	1,203,784
Denmark	587,274
France	4,045,066
Germany	884,774
Greece	1,673,651
Italy	2,243,742
Luxembourg	7,753
Netherlands	1,178,056
Norway	862,177
Portugal	523,530
Spain	689,975
Turkey	3,138,701
United Kingdom	1,012,855
Yugoslavia	689,570
Africa	<u>\$243,817</u>
Benin	55
Burkina Faso	57
Cameroon	239
Chad	23,779
Ethiopia	182,948
Guinea	810
Ivory Coast	54
Liberia	6,281
Mali	1,865
Niger	52
Senegal	2,646
Sudan	1,723
Zaire	23,308
American Republics	<u>\$737,526</u>
Argentina	34,020
Bolivia	32,424
Brazil	207,163
Chile	80,468
Colombia	83,162
Costa Rica	930
Cuba	8,552
Dominican Republic	21,549
Ecuador	31,994
El Salvador	74,474
Guatemala	16,247
Haiti	2,427

(cont.)

<u>Region/country</u>	<u>Amount</u> (thousands)
Honduras	\$5,918
Jamaica	1,053
Mexico	7
Nicaragua	7,668
Panama	4,392
Paraguay	9,325
Peru	74,952
Uruguay	40,770
Venezuela	33
International organizations	<u>\$1,601,449</u>
General costs	<u>\$2,002,204</u>

Notes: Totals may not add due to rounding.

Does not include MAP merger program funds for fiscal years 1982 to 1984.

Source: Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts.

Table I.9: MAP Merger Program

<u>Region/ country</u>	<u>Fiscal year</u>					<u>1982 to 1988</u>
	<u>1982 to 1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	
	------(thousands)-----					
Worldwide	<u>\$1,098,774</u>	<u>\$758,062</u>	<u>\$751,591</u>	<u>\$905,775</u>	<u>\$664,484</u>	<u>\$4,178,686</u>
East Asia and Pacific	<u>\$23,500</u>	<u>\$30,000</u>	<u>\$93,352</u>	<u>\$160,000</u>	<u>\$145,000</u>	<u>\$451,852</u>
Fiji	0	0	287	0	0	287
Indonesia	0	0	0	10,000	0	10,000
Philippines	0	25,000	88,280	100,000	125,000	338,280
Thailand	23,500	5,000	4,785	50,000	20,000	103,285
Near East and South Asia	<u>\$92,750</u>	<u>\$60,000</u>	<u>\$73,689</u>	<u>\$105,441</u>	<u>\$94,500</u>	<u>\$426,380</u>
Jordan	0	0	0	39,941	26,500	66,441
Morocco	55,000	40,000	33,495	32,000	40,000	200,495
Tunisia	31,750	15,000	38,280	32,500	27,000	144,530
Yemen (Sanaa)	6,000	5,000	1,914	1,000	1,000	14,914
Europe and Canada	<u>\$373,000</u>	<u>\$285,300</u>	<u>\$272,745</u>	<u>\$392,059</u>	<u>\$266,000</u>	<u>\$1,589,104</u>
Finland	0	300	0	0	0	300
Greece	0	0	0	0	30,000	30,000
Portugal	76,000	70,000	66,990	80,000	80,000	372,990
Turkey	297,000	215,000	205,755	312,059	156,000	1,185,814

(cont.)

Region/ country	Fiscal year					
	1982 to 1984	1985	1986	1987	1988	1982 to 1988
	----- (thousands) -----					
Africa	<u>\$231,975</u>	<u>\$147,550</u>	<u>\$93,656</u>	<u>\$46,875</u>	<u>\$25,140</u>	<u>\$545,196</u>
Botswana	2,000	4,000	3,650	1,800	0	11,450
Cameroon	0	0	0	500	0	500
Central African Republic	0	0	0	500	0	500
Chad	2,000	5,000	5,742	9,000	5,500	27,242
Djibouti	3,475	2,500	1,914	1,229	1,000	10,118
Equatorial Guinea	0	0	957	242	0	1,199
Gambia	0	0	0	250	0	250
Ghana	0	0	300	125	0	425
Guinea	1,500	3,000	1,914	1,000	0	7,414
Guinea-Bissau	0	0	300	116	0	\$416
Ivory Coast	0	1,000	0	0	0	1,000
Kenya	30,500	20,000	19,140	7,899	5,000	82,539
Liberia	23,000	12,000	4,785	1,000	0	40,785
Madagascar	0	2,050	1,435	500	0	3,985
Malawi	0	1,500	957	500	500	3,457
Mali	0	0	700	0	0	700
Mauritania	0	0	750	370	0	1,120
Niger	3,000	6,000	4,228	2,700	1,000	16,928
Rwanda	0	0	750	0	0	750
Senegal	2,000	4,450	3,270	2,294	750	12,764
Sierra Leone	0	750	885	308	0	1,943
Somalia	62,000	33,000	19,140	7,500	5,500	127,140
Sudan	88,000	45,000	16,140	5,000	0	154,140
Togo	0	300	0	0	0	300
Zaire	14,500	7,000	6,699	4,042	3,000	35,241
Africa Civic Action Program ^a	0	0	0	0	2,890	2,890
American Republics	<u>\$77,549</u>	<u>\$235,212</u>	<u>\$218,149</u>	<u>\$201,400</u>	<u>\$133,844</u>	<u>\$1,166,154</u>
Antigua and Barbuda	1,010	445	1,813	600	195	4,063
Barbados	375	0	1,097	550	80	2,102
Belize	500	500	479	500	250	2,229
Bolivia	0	3,000	1,435	1,000	0	5,435
Colombia	0	0	4,207	4,500	3,044	11,751
Costa Rica	13,500	11,000	2,393	1,500	0	28,393
Dominica	1,432	420	336	900	130	3,218
Dominican Republic	4,150	5,000	3,828	2,500	550	16,028
Ecuador	0	2,000	0	4,000	0	6,000
El Salvador	218,750	124,750	120,367	110,000	80,000	653,867
Grenada	3,750	2,514	546	825	130	7,765
Guatemala	0	0	5,000	5,000	9,000	19,000
Haiti	300	300	1,664	1,000	0	3,264
Honduras	115,000	66,300	60,114	60,000	40,000	341,414
Jamaica	7,250	7,360	7,656	3,000	0	25,266
Panama	8,000	10,000	3,828	2,900	0	24,728

(cont.)

Region/ country	Fiscal year					1982 to 1988
	1982 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
St. Christopher- Nevis	\$1,800	\$862	\$408	\$750	0	\$3,820
St. Kitts	0	0	0	0	\$170	170
St. Lucia	1,033	420	341	725	130	2,649
St. Vincent and Grenadines	699	341	2,637	650	165	4,492
Uruguay	0	0	0	500	0	500

Note: Totals may not add due to rounding.

^aAfrica Civic Action includes funds to 14 African nations.

PRESIDENTIAL DRAWDOWN AUTHORITY

In addition to the regular MAP appropriation, the President has the authority to provide additional grant military assistance in an emergency. Section 506 of the Foreign Assistance Act of 1961, as amended, permits the President to provide DOD equipment and the services of DOD personnel to a foreign government or international organization. Known as the "drawdown" authority, it has an annual statutory ceiling of \$75 million.

The Fiscal Year 1988 Continuing Resolution stated that all defense articles and services provided under the drawdown authority had to be furnished to the recipient country within 120 days of notification to the Congress. If the defense articles have not been delivered or services and training have not been initiated within the specified time, a new notification is required. The new notification must include an explanation for the delay.

Since the authority's enactment in 1961 through October 31, 1988, 19 drawdowns have been authorized, as shown in table I.10.

Table I.10: Presidential Drawdown Determinations

<u>Country</u>	<u>Date</u>	<u>Drawdown</u> (millions)
India	Jan. 1963	\$55.0
MAP/Vietnam	May 1965	75.0
MAP/Vietnam	Oct. 1965	300.0
Cambodia	Dec. 1973	200.0
Cambodia	May 1974	50.0
Cambodia	Jan. 1975	75.0
Thailand	July 1980	1.1
Liberia	Dec. 1980	1.0
El Salvador	Jan. 1981	5.0

(cont.)

<u>Country</u>	<u>Date</u>	<u>Drawdown</u> (millions)
El Salvador	Mar. 1981	\$20.0
El Salvador	Feb. 1982	55.0
Chad	July 1983	10.0
Chad	Aug. 1983	15.0
Chad	Mar. 1986	10.0
Honduras	Mar. 1986	20.0
Philippines	Sept. 1986	10.0
Chad	Dec. 1986	15.0
Chad	Mar. 1987	10.0
Jamaica	Oct. 1988	<u>10.0</u>
Total		<u>\$937.1</u>

Note: The drawdown to India was authorized but not used.

Section 506 Drawdown Reimbursement

Since the program's inception, various methods have been used to reimburse the military services for drawdowns. Section 506(c) of the Foreign Assistance Act states that funds are authorized to be appropriated to the President to reimburse the applicable appropriation, fund, or account for defense articles, services, and military training.

With one exception, all drawdowns during the 1960s and 1970s were reimbursed by earmarking MAP appropriations. Since fiscal year 1982, however, the Congress has appropriated \$7.1 million to reimburse the military services for drawdowns to Thailand, Liberia, and El Salvador. Cumulative unreimbursed drawdowns currently total about \$175 million. Because MAP appropriations have not been earmarked to reimburse drawdowns, the military services have replenished stocks through regular DOD appropriations as funds permitted. According to a DSAA official, the DOD budget has thus been used to supplement the security assistance budget through drawdowns.

The Fiscal Year 1988 Continuing Resolution appropriated \$10 million to be used either for reimbursement for defense articles, services, and training provided to the Philippines or for MAP general costs. In February 1988, the Secretary of Defense directed that the appropriation be used for MAP general costs, permitting full funding of overseas security assistance organizations.

INTERNATIONAL MILITARY EDUCATION AND TRAINING PROGRAM

The International Military Education and Training (IMET) program, authorized by the Foreign Assistance Act of 1961, as amended, provides instruction and training in military skills and U.S. military doctrine to foreign military and related civilian personnel on a grant basis. This training and education complement

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various national security and foreign policy objectives, improved readiness, standardization of weapons, and better to key military personnel and policymakers in foreign countries. IMET's objectives are to (1) improve professional performance; (2) foster indigenous training capabilities in the foreign countries; (3) promote rapport among U.S. and foreign armed forces; (4) promote a better understanding of the United States, its culture, and its political system; and (5) increase the awareness of issues involving internationally recognized human rights.

The U.S. military departments offer courses in the United States and abroad, including professional military education at colleges, technical and maintenance training, and flight training. In fiscal year 1988 DOD trained over 6,000 foreign personnel from 99 countries under the IMET program.

Table I.11 shows the amounts of funds allocated for the IMET program from fiscal years 1950 through 1988.

Table I.11: International Military Education and Training

<u>Region/country</u>	<u>Fiscal year</u>				
	<u>1950 to</u> <u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
	------(thousands)-----				
Worldwide	<u>\$2,142,245</u>	<u>\$54,693</u>	<u>\$51,440</u>	<u>\$55,975</u>	<u>\$47,400</u>
East Asia and Pacific	<u>\$841,603</u>	<u>\$9,668</u>	<u>\$9,618</u>	<u>\$10,557</u>	<u>\$9,602</u>
Burma	4,751	226	260	301	247
Fiji	130	103	83	78	0
Indochina	598	0	0	0	0
Indonesia	37,907	1,705	1,859	2,070	1,794
Japan	44,589	0	0	0	0
Kampuchea	14,603	0	0	0	0
Korea (Seoul)	163,112	1,955	1,814	1,996	1,659
Laos	42,814	0	0	0	0
Malaysia	6,262	969	894	1,032	923
Papua New Guinea	98	54	40	72	50
Philippines	39,328	2,205	2,371	2,550	2,650
Singapore	152	50	47	46	50
Solomon Islands	26	29	8	25	30
Taiwan	103,156	0	0	0	0
Thailand	81,904	2,326	2,204	2,329	2,150
Tonga	30	47	38	57	49
Vietnam	302,142	0	0	0	0
Near East and South Asia	<u>\$193,390</u>	<u>\$10,195</u>	<u>\$9,761</u>	<u>\$10,950</u>	<u>\$8,910</u>
Afghanistan	5,615	0	0	0	0

Region/country	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Algeria	0	\$55	\$39	\$130	\$105	\$329
Bangladesh	\$1,371	336	269	296	302	2,574
Egypt	7,681	1,402	1,672	1,816	1,530	14,101
India	6,942	295	307	202	261	8,007
Iran	67,442	0	0	0	0	67,442
Iraq	1,487	0	0	0	0	1,487
Jordan	16,010	1,828	1,752	1,977	1,741	23,308
Lebanon	5,833	668	460	493	385	7,839
Libya	2,795	0	0	0	0	2,795
Maldives	38	23	31	36	29	157
Morocco	20,069	1,408	1,487	1,558	995	25,517
Nepal	830	122	87	105	105	1,249
Oman	300	128	41	39	104	612
Pakistan	26,667	973	916	1,124	824	30,504
Saudi Arabia	12,456	0	0	0	0	12,456
Sri Lanka	688	148	158	160	161	1,315
Syria	56	0	0	0	0	56
Tunisia	10,929	1,518	1,447	1,594	1,306	16,794
Yemen (Sanaa)	6,185	1,292	1,095	1,420	1,062	11,054
Europe and Canada	<u>\$590,071</u>	<u>\$10,749</u>	<u>\$9,170</u>	<u>\$10,494</u>	<u>\$9,951</u>	<u>\$630,435</u>
Austria	1,602	45	68	54	25	1,794
Belgium	33,889	0	0	0	0	33,889
Denmark	30,451	0	0	0	0	30,451
Finland	429	30	51	67	53	630
France	107,987	0	0	0	0	107,987
Germany (Bonn)	16,173	0	0	0	0	16,173
Greece	52,401	1,374	1,246	1,244	1,121	57,386
Iceland	79	22	27	41	23	192
Ireland	0	0	0	2	0	2
Italy	46,566	0	0	0	0	46,566
Luxembourg	494	0	30	0	26	550
Netherlands	39,100	0	0	0	0	39,100
Norway	31,652	0	0	0	0	31,652
Portugal	29,099	2,992	2,229	2,534	2,600	39,454
Spain	50,758	2,879	2,351	2,987	2,530	61,505
Turkey	123,107	3,306	3,111	3,498	3,500	136,522
United Kingdom	21,624	0	0	0	0	21,624
Yugoslavia	4,661	101	57	65	73	4,957
Africa	<u>\$70,601</u>	<u>\$10,241</u>	<u>\$9,376</u>	<u>\$9,220</u>	<u>\$8,265</u>	<u>\$107,703</u>
Benin	27	46	60	88	69	290
Botswana	605	286	313	356	347	1,907
Burkina Faso	531	17	36	80	54	718
Burundi	207	146	135	147	130	765
Cameroon	327	132	220	300	274	1,253
Cape Verde	53	55	45	25	68	246

(cont.)

<u>Region/country</u>	<u>Fiscal year</u>					<u>1950 to</u> <u>1988</u>
	<u>1950 to</u> <u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	
	----- (thousands) -----					
Central African						
Republic	\$183	\$102	\$117	\$181	\$150	\$733
Chad	279	279	317	551	248	1,674
Comoros	0	0	27	24	27	78
Congo	89	0	0	2	0	91
Djibouti	276	117	107	163	147	810
Equatorial						
Guinea	138	80	37	86	80	421
Ethiopia	22,701	0	0	0	0	22,701
Gabon	366	138	151	144	146	945
Gambia	0	60	54	60	56	230
Ghana	2,251	279	212	233	175	3,150
Guinea	227	113	163	199	150	852
Guinea-Bissau	40	4	0	46	47	137
Ivory Coast	368	137	114	169	153	941
Kenya	6,911	1,685	1,516	1,051	1,022	12,185
Lesotho	0	0	0	50	60	110
Liberia	6,725	1,161	834	398	195	9,313
Madagascar	67	55	77	73	64	336
Malawi	438	195	187	174	197	1,191
Mali	1,626	146	149	161	147	2,229
Mauritania	186	61	60	91	93	491
Niger	951	204	224	251	269	1,899
Nigeria	1,507	0	94	96	98	1,795
Rwanda	154	67	75	102	64	462
Sao Tome and						
Principe	0	0	53	42	56	151
Senegal	1,867	537	481	516	456	3,857
Seychelles	0	17	19	26	16	78
Sierra Leone	93	60	59	67	72	351
Somalia	2,328	1,096	1,091	677	989	6,181
Sudan	6,040	1,386	877	990	738	10,031
Swaziland	50	50	42	66	52	260
Tanzania	0	0	0	0	23	23
Togo	201	37	51	73	62	424
Uganda	211	6	0	103	94	414
Zaire	12,284	1,285	1,186	1,190	1,000	16,945
Zimbabwe	317	201	192	168	177	1,055
American Republics	<u>\$224,046</u>	<u>\$8,588</u>	<u>\$8,201</u>	<u>\$9,050</u>	<u>\$8,437</u>	<u>\$258,322</u>
Antigua and						
Barbuda	44	45	42	40	49	220
Argentina	12,796	0	0	0	37	12,833
Bahamas	0	44	42	56	72	214
Barbados	231	69	69	74	96	539
Belize	118	98	72	97	67	452
Bolivia	14,346	348	141	196	400	15,431
Brazil	16,353	0	0	0	44	16,397

(cont.)

Region/country	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	------(thousands)-----					
Colombia	\$17,433	\$788	\$998	\$1,465	\$1,246	\$21,930
Costa Rica	1,235	230	215	218	236	2,134
Cuba	2,023	0	0	0	0	2,023
Dominica	66	44	46	52	46	254
Dominican Republic	12,759	705	686	832	685	15,667
Ecuador	14,787	677	669	537	682	17,352
El Salvador	21,071	1,474	1,440	1,455	1,448	26,888
Grenada	60	63	75	79	76	353
Guatemala	7,502	451	357	494	477	9,281
Guyana	39	0	0	0	0	39
Haiti	2,739	388	232	275	0	3,634
Honduras	12,354	1,095	1,050	1,197	1,172	16,868
Jamaica	504	280	287	330	305	1,706
Mexico	3,178	216	190	241	226	4,051
Nicaragua	11,582	0	0	0	0	11,582
Panama	6,628	570	516	591	0	8,305
Paraguay	6,802	97	100	125	148	7,272
Peru	21,583	526	555	147	421	23,232
St. Christ-Nevis	32	26	32	55	64	209
St. Lucia	66	48	48	37	22	221
St. Vincent and Grenadines	76	51	51	52	51	281
Suriname	52	42	34	0	0	128
Trinidad-Tobago	0	39	50	72	64	225
Uruguay	6,762	81	104	197	168	7,312
Venezuela	13,984	94	99	137	135	14,449
International organizations	<u>\$278</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$278</u>
General costs	<u>\$222,252</u>	<u>\$5,252</u>	<u>\$5,314</u>	<u>\$5,705</u>	<u>\$2,235</u>	<u>\$240,758</u>

Notes: Totals may not add due to rounding.

The total for fiscal years 1950 to 1984 does not agree with the total in our earlier report because DSAA has changed the reporting format for this program.

Sources: Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts.
DSAA.

PEACEKEEPING OPERATIONS PROGRAM

The Peacekeeping Operations Program is authorized by the Foreign Assistance Act of 1961, as amended. This act authorizes assistance to friendly countries and international organizations for peacekeeping operations that further U.S. national security interests. Historically, the program has included U.S.

contributions to the Caribbean Peacekeeping Forces, the Chad Peacekeeping Operation, the Multinational Force and Observers (MFO), the Sinai Support Mission, and the United Nations (U.N.) Forces in Cyprus. However, since fiscal year 1986, the program has included only the MFO and the U.N. Forces in Cyprus.

Multinational Force and Observers

In August 1981, the MFO was established to supervise implementation of the provisions of the Treaty of Peace between Israel and Egypt. The United States, Egypt, and Israel have agreed to share equally the expenses of the MFO.

The United States contributes an 800-man infantry battalion, plus logistics support (comprising approximately 350 personnel), a number of officers for the Force Commander's staff, and a group of civilian observers. Fiji and Colombia also contribute battalions, and Uruguay, Australia, France, the United Kingdom, Italy, New Zealand, and the Netherlands provide specialized units. The MFO's Director General has requested that, beginning in October 1988, the United States, Colombia, and Fiji reduce each of their infantry battalions by 100 personnel.

The trend has been for the expenditures for the MFO program to be lower than expected. Surplus funds or carryovers have been used to reduce assessments for the following year. For example, carryovers and interest income from fiscal years 1984 and 1985 reduced the U.S. expenditures for fiscal year 1986 by \$11.7 million. In fiscal year 1986, the remaining unallocated balance of \$5.6 million was returned to the Treasury, as required by law.

U.N. Forces in Cyprus

The U.S. contribution to the U.N. Forces in Cyprus helps support about 2,122 military and civilian personnel stationed in Cyprus. Six Western European countries and Canada provide troops; Australia and Sweden provide civilian police.

The U.S. contribution for each fiscal year 1982 through 1985 was \$9 million. Since then, the trend has been towards lower contributions--in fiscal year 1986, the amount was \$8.6 million; in fiscal year 1987, it was \$7.3 million; and it is estimated at \$7.3 million in fiscal year 1988.

Table I.12 shows PKO expenditures from fiscal years 1979 to 1988.

Table I.12: Peacekeeping Operations

Operation/ country	Fiscal year					
	1979 to 1984	1985	1986	1987	1979 to 1987	1988 (estimate)
	------(thousands)-----					
Total	<u>\$319,328</u>	<u>\$44,000</u>	<u>\$32,538</u>	<u>\$31,689</u>	<u>\$427,555</u>	<u>\$31,689</u>
Caribbean Peacekeeping Force	15,000	7,000	0	0	22,000	0
Chad Peacekeeping Operation	6,700	0	0	0	6,700	0
Multinational Force and Observers	189,300	28,000	23,925	24,377	265,602	24,377
Sinai Support Mission	47,628	0	0	0	47,628	0
Spain	7,000	0	0	0	7,000	0
U.N. Forces in Cyprus	53,700	9,000	8,613	7,312	78,625	7,312

Source: Congressional Presentation for Security Assistance Programs.

ECONOMIC SUPPORT FUND PROGRAM

ESF is authorized by the Foreign Assistance Act of 1961, as amended. ESF, administered by the Agency for International Development (AID) under the general policy direction of the Department of State, represents the largest component of U.S. foreign economic assistance. It is designed to promote economic or political stability in areas where the United States has special security interests.

Funds are made available on a loan or grant basis and can be used for a variety of purposes, such as (1) supporting balance of payments, (2) financing infrastructure and other capital projects, and (3) supporting development projects that benefit the poor. Although a substantial amount of ESF goes for balance of payments support, it also provides for programs aimed at health, education, agriculture, and family planning needs. The Foreign Assistance Act prohibits the use of ESF for military or paramilitary purposes.

For fiscal year 1988, the Congress appropriated \$3.19 billion for ESF. About 63 percent of the funds was earmarked for Israel and Egypt. The entire ESF account for Israel, earmarked as a grant of \$1.2 billion, was authorized as a direct cash transfer. Some of the other earmarked amounts were for the Philippines, Pakistan, Morocco, Cyprus, Ireland, El Salvador, Honduras, and Guatemala.

Elements of the fiscal year 1988 program include (1) encouraging continued progress toward permanent peace and stability in the Middle East, (2) helping to address the needs of displaced persons and refugees in El Salvador and Cambodia, and (3) supporting the administration of justice and human rights in Latin America and the Caribbean.

Table I.13 shows the amounts of funds obligated for ESF from fiscal years 1977 to 1988.

Table I.13: Economic Support Fund Program

Region/ country	Fiscal year					
	1977 to 1984	1985	1986	1987	1977 to 1987	1988 (estimate)
	------(thousands)-----					
Total	<u>\$19,191,401</u>	<u>\$5,247,384</u>	<u>\$4,912,997</u>	<u>\$3,912,251</u>	<u>\$33,264,033</u>	<u>\$3,266,829^a</u>
East Asia and Pacific						
Philippines	200,000	140,000	300,000	235,000	875,000	189,000
Thailand	23,915	8,000	5,000	5,000	41,915	5,000
Fiji	0	0	957	0	957	0
South Pacific	<u>0</u>	<u>0</u>	<u>957</u>	<u>1,750</u>	<u>2,707</u>	<u>10,000</u>
Total	<u>\$223,915</u>	<u>\$148,000</u>	<u>\$306,914</u>	<u>\$241,750</u>	<u>\$920,579</u>	<u>\$204,000</u>
Near East and South Asia						
Afghanistan	0	543	18,308	12,104	30,955	22,500
Asia/Near East						
Regional ^b	44,564	18,202	26,166	14,555	103,487	7,000
Bahrain	400	0	0	0	400	0
Cambodian						
Resistance	0	0	3,350	3,350	6,700	3,500
Egypt	6,352,999	1,065,000	1,068,434	819,558	9,305,991	820,000
Israel	6,355,000	1,950,000	1,898,400	1,200,000	11,403,400	1,200,000
Jordan	390,000	100,000	95,022	111,000	696,022	18,000
Lebanon	68,825	18,775	15,901	12,564	116,065	0
Middle East						
Special						
Requirements						
Fund	39,150	0	0	0	39,150	0
Morocco	7,000	15,000	16,484	10,000	48,484	20,000
Oman	50,000	20,000	19,556	14,982	104,538	13,000
Pakistan	525,000	200,000	239,250	250,500	1,214,750	220,000

(cont.)

Region/ country	Fiscal year					
	1977 to 1984	1985	1986	1987	1977 to 1987	1988 (estimate)
	------(thousands)-----					
Program Support & Private Voluntary Organizations	\$6,951	0	0	0	\$6,951	0
Sinai Support Mission	11,686	0	0	0	11,686	0
Syria	260,000	0	0	0	260,000	0
Tunisia	<u>11,500</u>	<u>\$20,000</u>	<u>\$22,624</u>	<u>\$16,787</u>	<u>70,911</u>	<u>\$10,000</u>
Total	<u>\$14,123,075</u>	<u>\$3,407,520</u>	<u>\$3,423,495</u>	<u>\$2,465,400</u>	<u>\$23,419,490</u>	<u>\$2,334,000</u>
Europe and Canada						
Cyprus	121,500	15,000	14,355	15,000	165,855	15,000
Ireland	0	0	50,000	35,000	85,000	35,000
Italy	10,000	0	0	0	10,000	0
Malta	19,000	0	0	0	19,000	0
Poland	5,000	0	4,000	1,000	10,000	1,000
Portugal	510,000	80,000	76,487	64,799	731,286	32,000
Spain	77,000	12,000	11,484	5,000	105,484	3,000
Turkey	1,171,500	175,000	119,625	100,000	1,566,125	32,000
Yugoslavia	<u>10,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>0</u>
Total	<u>\$1,924,000</u>	<u>\$282,000</u>	<u>\$275,951</u>	<u>\$220,799</u>	<u>\$2,702,750</u>	<u>\$118,000</u>
Africa						
Africa Regional	0	0	977	0	977	0
Botswana	81,814	10,000	10,459	5,471	107,744	0
Cameroon	0	0	0	9,000	9,000	0
Chad	5,822	5,000	9,519	5,000	25,341	10,000
Djibouti	8,986	3,500	2,950	2,033	17,469	3,415
Gambia	0	0	0	6,000	6,000	0
Guinea	0	0	10,000	0	10,000	0
Kenya	81,714	25,000	14,442	15,000	136,156	10,000
Lesotho	5,345	0	0	0	5,345	0
Liberia	144,200	43,000	28,203	15,000	230,403	11,000
Madagascar	0	3,000	2,844	1,000	6,844	0
Malawi	0	15,000	0	0	15,000	0
Mali	0	18,000	0	0	18,000	0
Mauritius	8,000	7,000	1,914	1,000	17,914	0
Mozambique	7,000	13,000	9,570	10,000	39,570	0
Niger	10,000	5,000	4,373	2,000	21,373	0
Rwanda	0	12,000	0	0	12,000	0
Sahel Regional	0	0	678	0	678	0
Senegal	15,000	15,000	27,484	12,000	69,484	10,000
Seychelles	6,000	2,000	1,914	2,375	12,289	3,000

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Region/ country	Fiscal year				
	1977 to 1984	1985	1986	1987	1977 to 1987
	------(thousands)-----				
Somalia	\$81,000	\$30,000	\$22,011	\$17,125	\$150,136
South Africa Republic	0	0	4,972	3,054	8,026
Southern African Regional Requirements Fund	125,329	18,924	28,475	24,037	196,765
Sudan	392,250	114,000	10,000	0	516,250
Swaziland	12,666	0	11	140	12,817
Tanzania	0	0	0	12,000	12,000
Togo	0	0	7,850	0	7,850
Uganda	3,000	0	0	0	3,000
Zaire	44,999	10,415	24,527	10,000	89,941
Zambia	171,380	40,000	17,000	12,607	240,987
Zimbabwe	<u>222,896</u>	<u>28,000</u>	<u>5,000</u>	<u>0</u>	<u>255,896</u>
Total	<u>\$1,427,401</u>	<u>\$417,839</u>	<u>\$245,173</u>	<u>\$164,842</u>	<u>\$2,255,255</u>
American Republics					
Belize	10,000	14,000	1,914	5,395	31,309
Bolivia	0	0	7,177	7,500	14,677
Caribbean Regional ^c	89,820	31,128	25,575	21,775	168,298
Central American Regional Program	900	97,993	42,231	2,518	143,642
Costa Rica	307,000	160,000	120,582	142,466	730,048
Dominican Republic	83,000	95,000	40,000	165	218,165
Ecuador	0	4,414	20,216	19,334	43,964
El Salvador	429,234	285,000	177,045	281,497	1,172,776
Grenada	46,967	0	0	0	46,967
Guatemala	10,000	12,500	47,850	115,020	185,370
Haiti	16,096	5,000	21,321	35,960	78,377
Honduras	132,800	147,500	61,248	131,786	473,334
Jamaica	256,823	81,000	58,000	24,925	420,748
LAC Regional	17,000	1,490	8,043	7,374	33,907
Nicaragua	70,799	0	0	0	70,799
Panama	0	50,000	5,742	0	55,742
Peru	0	0	7,000	5,333	12,333
Regional Office for Central America and Panama (ROCAP) ^d	0	0	1,200	5,260	6,460
Suriname	500	0	0	0	500
Uruguay	<u>0</u>	<u>0</u>	<u>14,355</u>	<u>12,152</u>	<u>26,507</u>
Total	<u>\$1,470,939</u>	<u>\$985,025</u>	<u>\$659,499</u>	<u>\$818,460</u>	<u>\$3,933,923</u>

Region/ country	Fiscal year					
	1977 to 1984	1985	1986	1987	1977 to 1987	1988 (estimate)
	----- (thousands) -----					
Interregional organizations						
American schools and hospitals	0	\$6,000	0	0	\$6,000	0
Institute for Democracy	\$150	0	0	0	150	0
Interregional Program Support	521	0	0	0	521	0
Oceanographic Research	2,700	1,000	\$1,435	\$1,000	6,135	0
Office of Foreign Disaster Assistance	0	0	530	0	530	0
U.N. Forces in Cyprus	<u>\$18,700</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>18,700</u>	<u>0</u>
Total	<u>\$22,071</u>	<u>\$7,000</u>	<u>\$1,965</u>	<u>\$1,000</u>	<u>\$32,036</u>	<u>0</u>
Other deobligated/ reobligated authority	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,500</u>
Other unobligated balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

^aThis estimate represents obligations for the ESF program and includes funds "carried over" from fiscal year 1987.

^bReferred to as "Middle East Regional Cooperation" in our 1985 report.

^cReferred to as "Eastern Caribbean" in our 1985 report.

^dUntil fiscal year 1986, the Regional Office for Central America and Panama (ROCAP) was reported jointly with the Central American Regional Program.

Source: Agency for International Development's Congressional Presentation.

SECURITY AND MILITARY ASSISTANCE-
RELATED PROGRAMS

Security and military assistance-related programs include procuring equipment through the special defense acquisition fund, leasing military equipment, selling Navy ships, transferring and/or selling excess defense articles, supporting antiterrorism training, and funding overseas security assistance organizations. Other activities described in this appendix are humanitarian and civic assistance programs provided by DOD, joint exercise and other regional security programs, exercise-related construction, and public security forces training in Honduras and El Salvador.

Some of the programs require congressional authorizations and appropriations on an annual basis. Others require congressional review and oversight only. For example, leasing military equipment and transferring and/or selling excess defense articles do not require appropriated funds. On the other hand, the Congress has appropriated funds for humanitarian and civic assistance, exercise-related construction, and joint exercises and also requires DOD to provide advance notifications or annual activity reports.

SPECIAL DEFENSE ACQUISITION FUND

The Special Defense Acquisition Fund (SDAF), authorized by the Arms Export Control Act, is a revolving fund established in fiscal year 1982. SDAF was initially authorized to accumulate up to \$900 million, capitalized with collections received from nonrecurring research, development, production, and asset use charges. Currently, its capitalization limit is \$1.07 billion. This limit applies to the total amount in the fund, including the value of defense articles held or on order by the SDAF. The SDAF is now fully operational and sustains itself from sales receipts.

SDAF is intended to finance the purchase of high-demand defense articles and services in anticipation of foreign countries' requirements. It is designed to enhance the U.S. government's ability to meet urgent foreign needs for military equipment while minimizing the adverse impact on U.S. forces' readiness. If foreign demands are successfully forecasted, SDAF enables DOD to meet emergency requirements from its own inventory rather than withdrawing equipment from the military services' stocks.

DSAA manages the SDAF. The fund's annual procurement plan is developed by DSAA in conjunction with the Department of State, the military departments, and the Joint Chiefs of Staff (JCS). Following the decision to procure an item using SDAF resources, DSAA authorizes the military department to initiate procurement.

The Congress has set an annual limit on the SDAF's obligational authority, that is, the amount of funds it can use to contract for

military equipment in any given fiscal year. During fiscal years 1985 to 1988, the obligation authority totaled about \$1.2 billion.

Table II.1 shows SDAF's cumulative procurements and sales as of September 30, 1988.

Table II.1: Special Defense Acquisition Fund Procurement and Sales (as of September 30, 1988)

Item	Quantity	Value	Quantity	Value
	<u>purchased</u>	<u>purchased^a</u>	<u>sold</u>	<u>sold</u>
	----- (thousands) -----			
Trucks, 5 ton	91	\$6,383	51	\$3,577
Trucks, 2.5 ton	675	30,404	21	19,504
TOW missiles	12,730	130,817	5,729	58,871
Torpedoes	350	71,892	100	18,000
STINGER missiles	3,211	164,573	1,356	69,497
Standard missiles	601	5,205	601	5,205
Chaff rounds	3,000	3,013	3,000	3,013
Rifles	10,000	4,829	1,484	715
Radios	17,139	51,601	9,964	29,991
Tactical radars	2	17,627	2	17,627
Counterbattery radars	24	123,128	13	66,694
PHALANX close-in weapon	16	59,066	11	40,659
Night sights	170	9,421	68	3,768
81-mm mortars	200	2,254	120	1,352
Multiple Launch Rocket System	154	1,502	92	4,901
MAVERICK missile	120	6,000	120	6,000
Tanks, M60A3, and other support	547	7,367	54	77,367
Machine guns	4,384	19,564	2,425	10,910
M198 howitzers	137	57,009	125	52,016
M113 A2 armored personnel carriers	75	12,517	75	12,517
Jeeps	621	10,062	460	7,453
HARPOON missiles and support	32	34,032	32	29,067
Aircraft gun pods	20	7,637	0	0
Grenade launchers	5,000	2,750	1,950	1,073
Hand grenades	150,000	918	6,579	39
Laser designators	20	2,709	4	541
Individual soldier support ^b	c	51,263	c	c
COPPERHEAD 155-mm ammunition	300	10,661	170	6,041

(cont.)

<u>Item</u>	<u>Quantity purchased</u>	<u>Value purchased^a</u>	<u>Quantity sold</u>	<u>Value sold</u>
	----- (thousands) -----			
Communication security equipment	c	\$63,624	c	\$43,759
Bombs	150	6,000	150	6,000
Missile fuzes and guidance control units, AIM-9P4	c	31,314	c	15,030
SIDEWINDER missiles				
AIM-9M	1,500	74,085	475	23,460
SPARROW missiles				
AIM/RIM-7M	850	115,532	180	24,465
81-mm mortar ammunition	c	8,063	c	6,131
Small caliber ammunition, 40-mm and less	c	49,419	c	20,155
Howitzer ammunition	c	81,050	c	54,911
Tank ammunition	c	<u>17,439</u>	c	<u>6,044</u>
 Total		 <u>\$1,470,730</u>		 <u>\$766,353</u>

^aValues include spares and ancillary parts that may not be sold in equal amounts with end items.

^b"Individual soldier support" is made up of funds invested with the Defense Logistics Agency.

^cDenotes multiple groupings of items, generic categories of ammunition, or large quantities of ammunition rounds.

Source: DSAA.

LEASES OF EQUIPMENT

In addition to selling military equipment or providing grant funding, the United States may lease equipment to foreign countries and international organizations as authorized by chapter 6 of the Arms Export Control Act. The Secretary of Defense has delegated responsibility for the administration of leases to the Director of DSAA.

The International Security and Development Cooperation Act of 1981 stated that, generally, U.S. government equipment would no longer be leased on a rent-free or nominal-rent basis. This requirement does not apply to leases involving cooperative research or development, military exercises, communications or electronics interface projects, or any defense article that has passed three-quarters of its normal service life.

From January 1, 1977, to September 30, 1988, the United States entered into lease arrangements for military equipment having a total property value of about \$716 million. Table II.2 includes a list of the value of leases made each year.

Table II.2: Value of Property Leases

<u>Calendar year</u>	<u>Value of property leased rent-free</u>	<u>Value of property leased rent-payable</u>	<u>Total value of property leased</u>
1977 to 1984	\$107,027,874	\$264,885,195	\$371,913,069
1985	3,470,325	67,427,442	70,897,767 ^a
1986	6,984,933	13,260,915	20,245,848
1987	1,942,173	1,596,444	3,538,617
1988 (to 9/30/88)	<u>91,989,572</u>	<u>157,170,239</u>	<u>249,159,811^b</u>
Total	<u>\$211,414,877</u>	<u>\$504,340,235</u>	<u>\$715,755,112</u>

^aIncludes \$63 million for I-Hawk leases to Denmark.

^bIncludes \$107 million for ship leases to Pakistan, \$2 million for I-Hawk leases to Norway, and \$39 million for I-Hawk leases to Denmark.

Source: DSAA.

SALE OF U.S. NAVY SHIPS TO FOREIGN GOVERNMENTS

Since World War II, the ship transfer program has been part of the security assistance program. Ships that are less than 20 years old or displace more than 3,000 tons may not be transferred unless the Chief of Naval Operations certifies that they are nonessential to the United States and the Congress enacts a law authorizing their transfer. Other naval vessels may be transferred only after (1) congressional committees have been notified and 30 continuous legislative days have passed without congressional objection and (2) the Chief of Naval Operations certifies that the ship is not essential to U.S. defense.

The program's purpose is to strengthen the navies of small friendly countries and increase their self-reliance. Navy regulations state that a ship's sale price is supposed to be based on the scrap or fair value, whichever is higher. The foreign government will normally pay all costs incidental to the sale, such as logistical support, fuel, and training.

In our previous update we reported that no ships had been sold under this program since 1983. According to a Navy official, two patrol craft, valued at about \$127,000, were sold to Egypt between fiscal years 1985 and 1988. As of November 1988, however, these craft had not been transferred.

EXCESS DEFENSE ARTICLES

Defense articles no longer needed by DOD, referred to collectively as "excess defense articles," are either sold to eligible countries under the FMS program or transferred on a no-cost basis under the provisions of section 516 of the Foreign Assistance Act of 1961, as amended. The term "excess" does not apply to articles provided previously under MAP grants and no longer used for the original purpose.

Excess defense articles are made available to eligible countries for purchase under FMS procedures. The price of the equipment to be sold is its market value as military hardware or its fair value, whichever is higher. The fair value price is based on the condition of the items as described in DOD 7290.3-M, the Foreign Military Sales Financial Management Manual: fair value rates range from a high of 50 percent of the original acquisition value for unused equipment to a low of 5 percent for unserviceable equipment in need of major repairs. This price range applies to defense articles that are not intended to be replaced.

Section 31(d) of the Arms Export Control Act limits the annual sale of excess articles to foreign governments. The current limit, applicable to fiscal year 1988, is \$250 million. The ceiling excludes the value of ships and their on-board stores and supplies transferred in accordance with law.

Table II.3 lists the defense articles sold under the program.

Table II.3: Excess Defense Articles Sold Under FMS

	Fiscal year											
	Total 1977 to 1984		1985		1986		1987		1988		Total 1977 to 1988	
	Acquisition value	Sales value	Acquisition value	Sales value	Acquisition value	Sales value	Acquisition value	Sales value	Acquisition value	Sales value	Acquisition value	Sales value
----- (thousands) -----												
Total	<u>\$293,742</u>	<u>\$51,993</u>	<u>\$18,391</u>	<u>\$4,691</u>	<u>\$3,377</u>	<u>\$665</u>	<u>\$12,222</u>	<u>\$1,874</u>	<u>\$10,151</u>	<u>\$1,384</u>	<u>\$337,883</u>	<u>\$60,607</u>
East Asia and Pacific												
Australia	17,284	1,609	38	12	0	0	0	0	0	0	17,322	1,621
Indonesia	2,099	164	0	0	0	0	0	0	0	0	2,099	164
Japan	1,000	175	0	0	0	0	7	3	27	2	1,034	180
Korea	31,853	4,768	434	152	0	0	490	111	825	412	33,602	5,443
New Zealand	9	0	0	0	0	0	0	0	0	0	9	0
Philippines	44,556	5,948	143	50	2,117	447	171	39	969	122	47,956	6,606
Singapore	45,851	12,373	0	0	0	0	0	0	0	0	45,851	12,373
Taiwan	61,649	9,812	11,218	2,980	962	171	81	38	1,637	114	75,547	13,115
Thailand	<u>7,038</u>	<u>2,859</u>	<u>1,395</u>	<u>346</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11</u>	<u>2</u>	<u>8,444</u>	<u>3,207</u>
Total	<u>\$211,539</u>	<u>\$37,708</u>	<u>\$13,228</u>	<u>\$3,540</u>	<u>\$3,079</u>	<u>\$618</u>	<u>\$749</u>	<u>\$191</u>	<u>\$3,469</u>	<u>\$652</u>	<u>\$231,864</u>	<u>\$42,709</u>
Near East and South Asia												
Iran	1,000	50	0	0	0	0	0	0	0	0	1,000	50
Israel	13,741	985	901	306	0	0	0	0	40	18	14,682	1,309
Jordan	340	188	0	0	0	0	0	0	0	0	340	188
Morocco	51	3	0	0	0	0	0	0	0	0	51	3
Pakistan	479	47	29	10	0	0	0	0	7	3	515	60
Tunisia	<u>631</u>	<u>15</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>631</u>	<u>15</u>
Total	<u>\$16,242</u>	<u>\$1,288</u>	<u>\$930</u>	<u>\$316</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$47</u>	<u>\$21</u>	<u>\$17,219</u>	<u>\$1,625</u>
Europe and Canada												
Austria	0	0	0	0	0	0	0	0	5,206	266	5,206	266
Belgium	709	173	0	0	0	0	0	0	0	0	709	173
Canada	2,066	259	1,755	115	0	0	0	0	0	0	3,821	374
Denmark	75	4	0	0	0	0	0	0	0	0	75	4
France	4	2	0	0	0	0	0	0	0	0	4	2

(cont.)

	Fiscal year											
	Total 1977 to 1984		1985		1986		1987		1988		Total 1977 to 1988	
	Acquisition value	Sales value	Acquisition value	Sales value	Acquisition value	Sales value	Acquisition value	Sales value	Acquisition value	Sales value	Acquisition value	Sales value
----- (thousands) -----												
Germany	\$1,744	\$299	\$1	^a	0	0	\$10,512	\$1,592	0	0	\$12,257	\$1,891
Greece	8,488	1,509	0	0	\$14	\$5	35	2	0	0	8,537	1,516
Iceland	1,446	48	24	1	0	0	0	0	0	0	1,470	49
Italy	397	180	0	0	0	0	0	0	0	0	397	180
Luxembourg	90	5	0	0	0	0	0	0	0	0	90	5
Netherlands	46	13	0	0	0	0	0	0	0	0	46	13
Norway	5	2	0	0	0	0	0	0	0	0	5	2
Portugal	54	8	0	0	0	0	0	0	0	0	54	8
Spain	1,310	188	0	0	0	0	0	0	0	0	1,310	188
Switzerland	6	0	0	0	0	0	0	0	0	0	6	0
Turkey	11,067	1,320	1,350	508	0	0	0	0	0	0	12,417	1,828
United Kingdom	117	6	0	0	0	0	0	0	\$423	\$23	540	29
Yugoslavia	338	32	0	0	0	0	0	0	0	0	338	32
Total	\$27,962	\$4,048	\$3,130	\$624	\$14	\$5	\$10,547	\$1,594	\$5,629	\$289	\$47,282	\$6,560
Africa												
Ethiopia	31	4	0	0	0	0	0	0	0	0	31	4
Zaire	1,068	534	0	0	0	0	0	0	0	0	1,068	534
Total	\$1,099	\$538	0	0	0	0	0	0	0	0	\$1,099	\$538
American Republics												
Argentina	13,142	1,697	0	0	0	0	92	45	0	0	13,234	1,742
Bolivia	^a	^a	0	0	0	0	0	0	0	0	^a	^a
Colombia	4,774	1,230	0	0	0	0	0	0	0	0	4,774	1,230
Costa Rica	21	1	0	0	0	0	0	0	7	2	28	3
Dominican Republic	0	0	130	20	0	0	201	11	0	0	331	31
El Salvador	13	3	0	0	0	0	0	0	0	0	13	3
Guatemala	334	155	0	0	0	0	0	0	0	0	334	155
Haiti	2,426	151	0	0	0	0	0	0	0	0	2,426	151
Honduras	5,287	1,200	0	0	0	0	0	0	0	0	5,287	1,200
Jamaica	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	2,708	412	0	0	0	0	0	0	0	0	2,708	412
Nicaragua	229	80	0	0	0	0	0	0	0	0	229	80
Panama	649	79	199	21	256	27	159	9	0	0	1,263	136
Paraguay	1,207	257	0	0	0	0	0	0	0	0	1,207	257
Peru	4,064	2,391	0	0	0	0	0	0	0	0	4,064	2,391
Uruguay	1,553	435	0	0	0	0	0	0	0	0	1,553	435
Venezuela	242	184	0	0	0	0	0	0	0	0	242	184
Total	\$36,649	\$8,275	\$329	\$41	\$256	\$27	\$452	\$65	\$7	\$2	\$37,693	\$8,410
International organizations	\$451	\$136	\$774	\$170	\$28	\$15	\$474	\$24	\$999	\$420	\$2,726	\$765

^aDenotes less than \$500.

Sources: Congressional Presentation for Security Assistance Programs, DSAA.

Transfers of Excess Defense Articles

The National Defense Authorization Act for Fiscal Year 1987 (P.L. 99-661) authorized the transfer, on a no-cost basis, of excess defense articles to selected North Atlantic Treaty Organization (NATO) allies on the southern flank during fiscal years 1987 to 1988. Recipient countries are charged for certain services related to the transfer, such as packing, crating, transportation, and refurbishment. Eligible countries are Greece, Portugal, and Turkey.

The Fiscal Year 1988 Continuing Resolution extended the program through fiscal year 1989 and authorized transfers to major non-NATO allies bordering NATO's southern flank that are eligible for security assistance. Under the current U.S. definition, Egypt and Israel are eligible for excess equipment. Transfers of excess defense articles may be made only if they will not have an adverse impact on U.S. readiness.

According to DSAA, as of November 1988, Greece, Turkey, and Portugal have accepted offers of excess equipment totaling about \$155 million. The types of equipment transferred include aircraft, ships, tanks, trucks, small arms, and artillery. Neither Egypt nor Israel has received any equipment under the program.

STOCKPILING OF DEFENSE ARTICLES FOR FOREIGN COUNTRIES

Section 514(b) of the Foreign Assistance Act of 1961, as amended, sets an annual ceiling on the value of additions to stockpiles of defense articles located abroad that may be set aside, earmarked, reserved, or otherwise intended for use as war reserve stocks for allied or foreign countries (other than for NATO). Prior to fiscal year 1988, the Republic of Korea was the only non-NATO country in which the United States was permitted to maintain stockpiles for foreign use. The Fiscal Year 1988 Continuing Resolution authorized the stockpiling of war reserves in Thailand.

The defense articles in these stockpiles remain U.S. military service-owned stocks. As the term "war reserve" implies, these stocks are intended for use only in emergencies. During fiscal years 1985 to 1988, \$849 million in additional stocks were approved by the Congress. According to DOD officials, the authority to increase the stockpiles does not represent new appropriations authority but rather allows DOD to transfer existing U.S. defense articles up to the value authorized. Table II.4 shows the cumulative value of the war reserve stocks for non-NATO allies since fiscal year 1977.

Table II.4: Value of Authorized Annual Additions to War Reserve Stocks for Non-NATO Allies

<u>Fiscal year</u>	<u>Amount</u> (thousands)
1977	\$125,000
1978	270,000
1979	90,000
1980	95,000
1981	85,000
1982	130,000
1983	125,000
1984	125,000
1985	248,000
1986	360,000
1987	125,000
1988	<u>116,000^a</u>
Total	<u>\$1,894,000</u>

^aTen million dollars was set aside for Thailand, and \$106 million was set aside for the Republic of Korea.

Source: Congressional Presentation Document for Security Assistance Programs, Fiscal Year 1989.

OVERSEAS SECURITY ASSISTANCE MANAGEMENT

Section 515 of the Foreign Assistance Act authorizes the President to assign U.S. military personnel to foreign countries to (1) provide equipment and services case management, (2) monitor programs, (3) evaluate and plan the host government's military capabilities and requirements, and (4) promote rationalization, standardization and interoperability, and other defense cooperation measures. The act states that the number of military personnel assigned security assistance functions may not exceed six per country unless specifically authorized by the Congress following a Presidential determination.

These personnel, who comprise the Security Assistance Organization (SAO), serve under the Chief of the U.S. Diplomatic Mission.¹ SAO staff are to perform security assistance program administration and management activities as prescribed by DSAA.

¹The generic term "SAO" encompasses all DOD elements, regardless of actual title, located in a foreign country with assigned responsibilities for carrying out security assistance management functions under section 515 of the Foreign Assistance Act.

In fiscal year 1987, 1,062 overseas security assistance positions--596 U.S. military, 131 U.S. civilian, and 335 civilian local nationals--were authorized in 73 countries. The Republic of Korea had the highest authorization level--134--while five nations each had 1 authorized position. In most countries, SAO functions were administered primarily by separate organizations dedicated solely to the security assistance mission and by defense attache offices. In other countries, the U.S. embassies manage the programs.

Table II.5 shows the costs to run the SAOs, including a prorated amount to reimburse the State Department for such support as communications, motor pool, office space, accounting and financial services, and diplomatic pouch services. Other overseas management costs included in the table are military pay and benefits, civilian pay and some benefits, and travel. The SAOs are financed from the MAP general cost appropriated funds account and from funds generated by FMS sales made under sections 21, 22, and 29 of the Arms Export Control Act.

Table II.5: Overseas Military Program Management Funding

Program/ country	SAO Organization	Fiscal year					
		1978 to 1984	1985	1986	1987	1978 to 1987	1988 (estimate)
------(thousands)-----							
FMS Program		\$217,461	\$31,295	\$33,742	\$34,368	\$316,866	\$35,250
Military Assistance Program		<u>115,038</u>	<u>40,957</u>	<u>40,010</u>	<u>37,000</u>	<u>233,005</u>	<u>31,500</u>
Total		<u>\$332,499</u>	<u>\$72,252</u>	<u>\$73,752</u>	<u>\$71,368</u>	<u>\$549,871</u>	<u>\$66,750</u>
East Asia and Pacific							
Australia ^a	DAO	636	155	224	223	1,238	227
Burma ^a	DAO	39	16	17	12	84	20
China	DAO	0	0	5	9	14	12
Fiji	CINCPAC	2	2	4	5	13	7
Indonesia	MDAP	11,940	2,218	2,260	2,043	18,461	1,491
Japan	USMDAO	7,984	1,408	1,810	1,868	13,070	1,553
Korea	JUSMAG	54,379	10,017	8,873	7,086	80,355	5,576
Malaysia ^a	DAO	732	330	414	388	1,864	399
New Zealand	DAO	12	4	2	4	22	5
Philippines	JUSMAG	12,731	3,280	3,307	3,494	22,812	3,270
Singapore ^a	DAO	429	87	88	115	719	182
Taiwan	b	32	0	0	0	932	0
Thailand	JUSMAG	<u>17,172</u>	<u>4,388</u>	<u>4,240</u>	<u>3,597</u>	<u>29,397</u>	<u>3,389</u>
Total		<u>\$106,988</u>	<u>\$21,905</u>	<u>\$21,244</u>	<u>\$18,844</u>	<u>168,981</u>	<u>\$16,131</u>

(cont.)

Program/ country	SAO Organization	Fiscal year					1978 to 1987	1988 (estimate)
		1978 to 1984	1985	1986	1987	1987		
----- (thousands) -----								
Near East and								
South Asia								
Afghanistan	b	\$5	0	0	0	0	0	
Algeria ^a	DAO	2	\$26	\$302	\$366	\$696	\$167	
Bahrain	SAO	0	162	267	597	1,026	591	
Bangladesh ^a	DAO	45	21	16	16	98	20	
Egypt	OMC	14,522	4,435	4,669	4,436	28,062	4,796	
India	ODC	1,604	316	321	333	2,574	353	
Iran	b	419	0	0	0	419	0	
Israel ^a	DAO	10	3	3	4	20	4	
Jordan	MAP	7,345	1,501	1,513	1,622	11,981	1,583	
Kuwait	USLOK	954	144	266	173	1,537	340	
Lebanon	OMC	2,146	662	400	407	3,615	424	
Morocco	MUSLO	7,578	1,730	1,564	1,200	12,072	1,181	
Nepal ^a	DAO	27	10	11	14	62	13	
Oman	OMC	1,491	571	588	488	3,138	507	
Pakistan	ODRP	4,518	1,321	1,520	1,632	8,991	1,666	
Qatar ^a	DAO	0	0	4	8	12	9	
Saudi Arabia	USMTM	4,154	975	865	825	6,819	871	
Sri Lanka ^a	DAO	61	17	13	12	103	19	
Tunisia	USLOT	4,157	817	930	946	6,850	1,011	
United Arab Emirates	USLO	2,801	1,051	910	819	5,581	764	
Yemen	OMC	<u>6,473</u>	<u>1,745</u>	<u>1,650</u>	<u>1,040</u>	<u>10,908</u>	<u>990</u>	
Total		<u>\$58,312</u>	<u>\$15,507</u>	<u>\$15,812</u>	<u>\$14,938</u>	<u>104,569</u>	<u>\$15,309</u>	
Europe and Canada								
Austria ^a	DAO	778	135	140	171	1,224	176	
Belgium	ODC	4,200	722	807	805	6,534	819	
Canada ^a	DAO	195	74	79	71	419	78	
Denmark	ODC	2,598	361	422	351	3,732	294	
Finland ^a	DAO	12	3	3	3	21	3	
France	ODC	3,900	603	686	656	5,845	486	
Germany	ODC	6,922	1,108	1,254	1,248	10,532	1,068	
Greece	JUSMAG	13,380	2,052	2,070	2,069	19,571	1,942	
Ireland ^a	DAO	0	1	2	2	5	3	
Italy	ODC	4,266	855	861	803	6,785	448	
Netherlands	ODC	2,699	462	542	593	4,296	491	
Norway	ODC	2,071	378	408	360	3,217	340	
Portugal	MAAG	6,362	1,311	1,320	1,354	10,347	1,268	
Spain	JUSMAAG	10,445	2,077	1,785	2,050	16,357	1,844	

(cont.)

Program/ country	SAO Organization	Fiscal year					
		1978 to 1984	1985	1986	1987	1978 to 1987	1988 (estimate)
----- (thousands) -----							
Sweden ^a	DAO	0	\$1	\$3	\$2	\$6	\$3
Switzerland ^a	DAO	\$24	4	4	3	35	3
Turkey	JUSMMAT	28,408	4,900	5,231	4,804	43,343	4,836
United Kingdom ^a	DAO	983	163	200	199	1,545	257
Yugoslavia ^a	DAO	<u>730</u>	<u>153</u>	<u>181</u>	<u>159</u>	<u>1,223</u>	<u>147</u>
Total		<u>\$87,973</u>	<u>\$15,363</u>	<u>\$15,998</u>	<u>\$15,703</u>	<u>\$135,037</u>	<u>\$14,506</u>
Africa							
Botswana	OMC	0	60	160	185	405	213
Cameroon ^a	DAO	3	3	0	156	162	160
Chad ^a	DAO	82	64	8	196	350	176
Congo ^a	DAO	2	3	3	3	11	3
Djibouti	USLODJ	0	35	240	225	500	337
Ghana ^a	DAO	85	18	18	15	136	11
Ivory Coast ^a	DAO	17	4	3	6	30	6
Kenya	KUSLO	2,205	556	625	597	3,983	642
Liberia	LIBMISH	5,427	1,162	1,260	1,290	9,139	924
Madagascar ^a	DAO	0	11	10	8	29	15
Malawi ^a	DAO	3	4	3	6	16	12
Mozambique ^a	DAO	0	0	5	3	8	5
Niger	OMC	0	52	0	184	236	320
Nigeria ^a	DAO	2,574	328	611	205	3,718	203
Senegal ^a	DAO	163	93	133	158	547	165
Somalia	OMC	2,801	1,594	1,553	1,326	7,274	1,268
Sudan	OMC	4,943	1,728	1,460	1,367	9,498	1,478
Zaire	ZAMISH	7,120	1,275	1,190	1,201	10,786	893
Zimbabwe ^a	DAO	<u>3</u>	<u>4</u>	<u>4</u>	<u>2</u>	<u>13</u>	<u>4</u>
Total		<u>\$25,428</u>	<u>\$6,994</u>	<u>\$7,286</u>	<u>\$7,133</u>	<u>\$46,841</u>	<u>\$6,835</u>
American Republics							
Argentina	MILGP	5,058	530	500	562	6,650	567
Bahamas	Embassy	0	5	18	9	32	10
Barbados ^c	USMLO	712	386	579	480	2,157	475
Belize	USMLO	237	175	139	195	746	162
Bolivia	MILGP	1,911	500	483	604	3,498	498
Brazil	USMLO	5,214	804	822	813	7,653	653
Chile	b	859	0	0	0	859	0

(cont.)

Program/ country	SAO Organization	Fiscal year					
		1978 to 1984	1985	1986	1987	1978 to 1987	1988
------(thousands)-----							
Colombia	MILGP	\$4,834	\$836	\$915	\$996	\$7,581	\$1,034
Costa Rica	ODC	1,365	390	540	619	2,914	582
Dominican Republic	MAAG	2,441	509	577	509	4,036	492
Ecuador	MILGP	2,419	697	669	712	4,497	733
El Salvador	MILGP	4,285	1,723	2,085	2,754	10,847	2,347
Guatemala	MILGP	2,187	401	365	395	3,348	411
Haiti	MLO	412	152	121	269	954	218
Honduras	MILGP	3,844	1,474	1,813	1,937	9,068	1,970
Jamaica	USMLO	561	268	293	281	1,403	303
Mexico ^a	DAO	650	283	260	250	1,443	269
Nicaragua	b	1,246	0	0	0	1,246	0
Panama	MILGP	2,946	698	720	771	5,135	769
Paraguay	ODC	2,659	405	435	387	3,886	480
Peru	MAAG	2,761	811	671	848	5,091	708
Suriname ^a	DAO	0	0	3	0	3	0
Trinidad & Tobago	Embassy	0	0	4	1	5	2
Uruguay	ODC	2,737	480	484	515	4,216	459
Venezuela	MILGP	<u>4,460</u>	<u>956</u>	<u>916</u>	<u>843</u>	<u>7,175</u>	<u>827</u>
Total		<u>\$53,798</u>	<u>\$12,483</u>	<u>\$13,412</u>	<u>\$14,750</u>	<u>\$94,443</u>	<u>\$13,969</u>

Legend

DAO = Defense Attache Office
 JUSMAAG = Joint U.S. Military Assistance Advisory Group
 JUSMAG = Joint U.S. Military Assistance Group/Joint U.S. Military Advisory Group
 JUSMMAT = Joint U.S. Military Mission for Aid to Turkey
 KUSLO = Kenya-U.S. Liaison Office
 LIBMISH = U.S. Military Mission, Liberia
 MAAG = Military Assistance Advisory Group
 MILGP = Military Group
 MUSLO = Morocco-U.S. Liaison Office
 ODC = Office of Defense Cooperation
 ODRP = Office of Defense Representative, Pakistan
 OMC = Office of Military Cooperation
 USLOK = U.S. Military Liaison Office, Kuwait
 USLOT = U.S. Liaison Office, Tunisia
 USMDAO = U.S. Mutual Defense Assistance Office
 USMLO = U.S. Military Liaison Office
 USMTM = U.S. Military Training Mission
 ZAMISH = U.S. Military Mission, Zaire

^aIn these countries security assistance management is performed by DAO personnel or SAO personnel assigned to the DAO specifically to carry out security assistance functions.

^bNo security assistance organization at the present time.

^cManages programs for Eastern Caribbean countries.

CONSTRUCTION COSTS FOR
OVERSEAS BASES

The United States develops and maintains foreign military bases. The trend in base construction overseas has been for the host country to own the real property and all improvements made by the U.S. government to that property. Once the United States completes construction of a base or makes other real property improvements, the foreign government normally takes title to them, and the United States has access to the property in accordance with a signed agreement. In some instances, the United States has exclusive base rights, while in others the base is shared with the host country's armed forces. The U.S. government retains title to equipment, materials, and relocatable structures that are not incorporated into the real property.

In situations in which the United States, for whatever reason, withdraws from a base it occupies, generally all real property improvements made by the United States revert to the host country. In some countries, notably Germany and Japan, the United States would receive compensation for improvements or new construction. However, compensation could be reduced by the amount required to restore host country-provided facilities returned by U.S. forces. Many agreements call for the United States to use contractors in the host country to build the facilities.

Table II.6 shows DOD's military construction appropriations for overseas military facilities from fiscal years 1977 to 1988.

Table II.6: Military Construction Appropriations for U.S. Overseas Facilities

Country/ region	Fiscal year				
	1977 to 1985	1986	1987	1988	1977 to 1988
	(thousands)				
Total	<u>\$6,652,268</u>	<u>\$1,338,083</u>	<u>\$1,055,281</u>	<u>\$1,487,318</u>	<u>\$10,532,950</u>
Antigua	0	2,410	0	3,250	5,660
Australia	5,520	2,690	4,480	0	12,690
Bahamas	0	0	3,730	0	3,730
Bahrain	1,400	0	2,550	0	3,950
Belgium	4,410	37,840	2,460	9,950	54,660
Bermuda	9,890	0	0	3,150	13,040
Canada	700	700	0	400	1,800
Cuba (Guan- tanamo Bay)	36,360	21,910	0	2,687	60,957 (cont.)

Country/ region	Fiscal year				
	1977 to 1985	1986	1987	1988	1977 to 1988
	----- (thousands) -----				
Denmark	\$4,900	0	0	0	\$4,900
Diego Garcia	547,272	\$47,980	0	\$19,600	614,852
Egypt	247,390	0	0	0	247,390
Germany	2,193,414	562,140	\$436,255	481,046	3,672,855
Greece	18,220	910	0	2,140	21,270
Greenland	27,410	15,850	14,650	3,000	60,910
Guam	117,826	38,152	16,628	56,470	229,076
Honduras	8,000	0	4,300	4,150	16,450
Iceland	173,530	21,780	43,682	38,237	277,229
Italy	280,165	21,380	17,900	99,210	418,655
Japan	217,231	51,115	37,275	67,470	373,091
Johnston Island	68,650	0	0	4,100	72,750
Kenya	83,301	0	0	0	83,301
Korea	737,678	175,120	167,030	149,010	1,228,838
Kwajalein	26,164	14,600	36,940	84,125	161,829
Luxembourg	0	0	0	15,500	15,500
Mariana Islands	33,000	0	5,200	0	38,200
Morocco	5,050	3,100	25,400	0	33,550
Netherlands	33,823	35,180	44,600	71,140	184,743
New Zealand	1,250	0	0	0	1,250
Norway	1,500	0	0	0	1,500
Oman	169,730	0	0	16,595	186,325
Panama	45,046	5,480	0	55,090	105,616
Philippines	193,273	82,110	70,810	118,130	464,323
Portugal	94,225	19,650	6,750	5,300	125,925
Puerto Rico	56,642	32,753	20,368	14,848	124,611
Samoa, American	2,000	0	0	0	2,000
Scotland	340	0	2,250	770	3,360
Seychelles	550	0	0	0	550
Somalia	24,000	0	0	0	24,000
Spain	86,722	6,750	4,600	0	98,072
Turkey	134,036	25,140	18,930	34,736	212,842
United Kingdom	461,892	85,968	30,150	69,630	647,640
Virgin Islands	4,019	0	0	7,884	11,903
Wake Island	15,849	0	0	0	15,849
Total	\$6,172,378	\$1,310,708	\$1,016,938	\$1,437,618	\$9,937,642
Region					
Classified	218,267	27,375	34,390	49,700	329,732
Europe	22,223	0	0	0	22,223
Pacific	1,250	0	0	0	1,250
Southwest Asia	105,000	0	0	0	105,000
Various	133,150	0	3,953	0	137,103
Total	\$479,890	\$27,375	\$38,343	\$49,700	\$595,308

Source: DOD Budget, Construction Programs (C-1) exhibit, January 1987.

NATO Infrastructure Program

The NATO Infrastructure Program is the alliance's commonly funded military construction program designed to provide essential operational facilities and equipment in support of its military forces. Infrastructure projects are paid for by NATO member nations based on an agreed-upon cost-sharing arrangement and within a total program fund ceiling. Cost-sharing percentages and the funding ceiling are negotiated periodically. Table II.7 shows the cost-sharing percentages for 1985 to 1990.

Table II.7: NATO Infrastructure Cost-Sharing Percentages

<u>Member nation</u>	<u>Percentages</u>
United States	27.82
Germany	26.76
France	13.34 ^a
United Kingdom	12.18
Italy	8.07
Canada	6.43
Netherlands	5.19
Belgium	4.59
Denmark	3.77
Norway	3.17
Turkey	0.81
Greece	0.79
Luxembourg	0.22
Portugal	0.20
Iceland	0.00 ^b
Spain	0.00 ^b

^aFrance participates only in the warning installations category since its withdrawal from the allied military structure in 1967. With France's participation, all the remaining cost shares are adjusted on a pro rata basis.

^bIceland and Spain have no military forces assigned to NATO and do not participate in the Infrastructure Program.

Increments of the total program are proposed on a calendar year basis by NATO military commanders and are approved by ambassadors to NATO. Program decisions--such as the funding ceiling, the cost-sharing percentages, and the projects to be constructed--require the unanimous consent of the participating nations.

According to a DOD official, the actual amounts required and appropriated for this program are subject to the currency fluctuations of the dollar on the foreign exchange market. The amounts appropriated to fund the U.S. share of the NATO Infrastructure Program from fiscal years 1977 to 1988 appear in table II.8.

Table II.8: U.S. Appropriations for NATO Infrastructure

<u>Fiscal year</u>	<u>Appropriated amount</u> (thousands)
1977 to 1984	\$1,486,200
1985	107,200
1986	9,510
1987	232,000
1988	<u>373,000</u>
Total	<u>\$2,207,910</u>

ANTITERRORISM ASSISTANCE PROGRAM

The Antiterrorism Assistance Program was authorized by the Congress in 1983. The program provides U.S.-sponsored training of foreign civilian personnel to protect airports, harbors, U.S. missions, and individuals against terrorist attacks. The Department of State's Bureau of Diplomatic Security is responsible for managing and developing antiterrorism assistance programs.

As of September 30, 1987, 46 countries had participated in the program through various training courses and executive seminars. All training must take place in the United States, but brief consultations and seminars are allowed overseas. Since the program began in 1984, about 5,800 foreign security officials have participated in the program. Countries participating for the first time during fiscal year 1987 were Barbados, Ivory Coast, Cyprus, Guatemala, Jordan, Netherlands, Norway, and Sri Lanka. Training-related equipment, including radios and metal detectors, was provided to nine countries during fiscal year 1987 at a cost of \$1.1 million.

Funding for the program during fiscal years 1984 to 1988 appears in table II.9.

Table II.9: Antiterrorism Assistance Funding

<u>Program activity</u>	<u>Fiscal year</u>				
	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988^a</u>
	----- (thousands) -----				
Executive seminars	\$774	\$877	\$567	\$343	\$350
Program design	8	152	58	67	162
Training and related follow-up activities	0	2,935	7,991	8,156	8,278
Equipment	0	700	1,021	1,126	800
Program management	<u>189</u>	<u>336</u>	<u>200</u>	<u>148</u>	<u>250</u>
Total	<u>\$971</u>	<u>\$5,000</u>	<u>\$9,837</u>	<u>\$9,840</u>	<u>\$9,840</u>

^aEstimated.

DOD-SPONSORED ASSISTANCE PROGRAMS
THAT SUPPORT AUTHORIZED MILITARY
OPERATIONS AND EXERCISES

The National Defense Authorization Act for Fiscal Year 1987 authorized DOD to (1) conduct humanitarian and civic assistance activities in conjunction with authorized military operations; (2) pay certain expenses of developing countries' participation in military exercises with U.S. forces; and (3) pay certain personal expenses of foreign personnel attending U.S.-sponsored regional conferences and seminars. The legislation requires that these programs must promote U.S. security interests.

Humanitarian Assistance

According to the legislation, humanitarian and civic assistance activities include (1) providing medical, dental, and veterinary care in rural areas, (2) drilling wells and constructing basic sanitation facilities, (3) constructing rudimentary transportation systems, and (4) constructing and repairing public facilities. These activities must also promote the specific operational readiness skills of the armed forces who participate in the activities. Humanitarian and civic assistance must complement social and economic assistance provided by other U.S. departments or agencies. Individuals, groups, or organizations engaged in military or paramilitary activities are prohibited from obtaining assistance.

Not more than \$16.4 million can be obligated or expended for this program during fiscal years 1987 to 1991. During fiscal year 1987, eight countries received humanitarian and civic assistance at a cost of about \$571,000. Programs for individual countries ranged from about \$6,300 in St. Lucia to repair a public facility to about \$210,000 in Honduras for medical care and repair of public facilities in several different projects. Fiscal year 1988 data was unavailable at the time of our review.

Other Humanitarian Assistance

The DOD Appropriations Act, 1985 (P.L. 98-473) authorized DOD to use operations and maintenance funds to conduct humanitarian and civic assistance activities "incidental" to overseas exercises directed or coordinated by the Joint Chiefs of Staff. This authority has been extended annually by the Congress. During fiscal years 1985 to 1987, DOD reported expenditures of about \$2.9 million for these programs. The largest program was a JCS-coordinated exercise in the Western Pacific where a Navy hospital ship provided medical and dental care to 66,000 people in the Philippines, Fiji, Papua New Guinea, and the Solomon Islands. Other countries receiving humanitarian assistance during this period include Honduras, Ecuador, Panama, Bolivia, and Peru.

Payment of Developing Countries' Expenses in Combined Exercises

DOD is authorized to pay certain incremental expenses of developing nations that participate in bilateral or multilateral military exercises with U.S. forces. These expenses include rations, fuel, training ammunition, and transportation. Up to \$13.4 million can be obligated or expended during fiscal years 1987 to 1991 to pay these costs.

During fiscal year 1987, DOD reported expenditures of about \$1.3 million. Seventeen countries participated in the program, and costs for individual countries ranged from \$164.00 for Egypt to \$290,000 for Jordan. Fiscal year 1988 data was unavailable at the time of our review.

Personal Expenses of Foreign Defense Personnel

DOD is allowed to fund certain personal expenses of developing nations' defense officials attending bilateral or regional conferences or seminars. These expenses include travel, subsistence, and similar personal expenses. Up to \$800,000 can be obligated or expended in each of the fiscal years 1987 to 1989.

Fifteen countries participated in the program in fiscal year 1987 at a cost of about \$294,000. Primary recipients were the Philippines (\$80,000); Thailand (\$67,000); Malaysia (\$35,000); Indonesia (\$23,000); and Bangladesh (\$17,000). In one program, officers from Thailand were sent to Ft. Bragg to attend seminars involving special operations skills. The officers were also sent to Washington, D.C., to discuss command and control procedures. Fiscal year 1988 data was unavailable at the time of our review.

EXERCISE-RELATED CONSTRUCTION

In fiscal year 1987, the Congress directed the Department of the Army to set aside \$5 million in unspecified minor military construction funds for exercise-related construction projects outside the United States. About \$3.5 million was allocated to fund these projects, primarily in Central America. Some of the projects included constructing engineer base camps, upgrading landing strips, and constructing rudimentary roads.

In fiscal year 1988, the Congress directed that the Army set aside \$3 million; the Air Force, \$2 million; and the Navy, \$1 million in unspecified minor military construction funds for exercise-related construction outside the United States. During fiscal year 1988, the military services funded construction projects in several countries, including Honduras, Thailand, Korea, Zaire, Morocco, and the Philippines.

Exercise-related construction funds are to be expended on all enduring improvements and structures in support of exercises directed or coordinated by the JCS. The funds are not permitted to be used to upgrade temporary facilities or "low maintenance" usable facilities where there is a continuous U.S. presence in support of exercises. The military services are responsible for (1) notifying the Congress in advance of planned exercise-related construction and (2) maintaining fiscal accountability for the funds.

For fiscal year 1989, the Congress directed DOD to identify exercise-related construction as a budget line item to avoid funding such construction with limited unspecified military construction funds.

PUBLIC SECURITY FORCES TRAINING
IN EL SALVADOR AND HONDURAS

Section 660 of the Foreign Assistance Act, with certain exceptions, prohibits the use of security assistance funds to train or equip foreign countries' law enforcement forces. The International Security and Development Cooperation Act of 1985 authorized an exemption for El Salvador and Honduras during fiscal years 1986 and 1987. These countries were allowed to procure DOD-furnished police training, equipment, and logistical support financed with military assistance grants. The exemption was not extended beyond fiscal year 1987.

In El Salvador, \$17 million was authorized, and items procured included 262 vehicles; 950 radios; 1,135 pistols/shotguns; and 500 sets of riot control equipment. As of October 1988, about one-third of the equipment had been delivered, with final deliveries scheduled for October 1989. In Honduras, \$2.8 million was authorized for the program. Major funding areas were for training (\$150,000) and equipment (\$2.7 million). All riot control gear has been delivered, and the final delivery of weapons, vehicles, and communications equipment is projected for January 1989.

FINANCIAL ARRANGEMENTS AND MANAGEMENT ISSUES IN
THE SALE OF MILITARY EQUIPMENT

Besides the various loan and military assistance grants used to help foreign nations purchase FMS items and services (as detailed in app. I), sales are also made on a cash basis. Various financial management policies, practices, and arrangements have been established to implement FMS sales, including waivers of nonrecurring recoupment charges and asset use charges, "cash-flow" financing of selected programs, and dependable undertaking financing.

FOREIGN MILITARY SALES
CASH PROGRAM

In addition to sales financed with FMS credits or grants, a country may buy U.S. military equipment and services under FMS sales agreements with its own cash. FMS cash transactions, authorized by the Arms Export Control Act, enable eligible foreign governments to purchase defense articles, services, and training from the U.S. government. Normally, the foreign government signs a sales agreement, known as a "Letter of Offer and Acceptance" (LOA), with the U.S. government. The agreement includes sales and delivery terms of the items or services. The purchasing country pays all the costs associated with the sale. DOD can provide the items or services from DOD stocks in accordance with section 21 of the Arms Export Control Act or procure the items from private firms in accordance with section 22 of the act.

Table III.1 identifies cash sales from fiscal years 1950 to 1988. It also lists some credit purchases when the terms of the sale involved both cash and credit.

Table III.1: FMS Cash Program

Country/ organization	Fiscal year					
	1950 to 1984	1985	1986	1987	1988	1950 to 1988
	(thousands)					
Total	\$129,544,100	\$9,592,312	\$4,566,327	\$4,708,860	\$8,411,015	\$156,822,614
Algeria	79	37	1,572	1,813	0	3,501
Antigua & Barbuda	0	0	4	0	0	4
Argentina	146,701	5,937	316	2,431	5,347	160,732
Australia	6,948,237	228,194	128,302	215,749	296,273	7,816,755
Austria	323,680	15,674	10,263	2,052	5,783	357,452
Bahrain	147,301	207,102	107,488	394,624	20,624	877,139
Bangladesh	30	1,341	16	0	263	1,650
Barbados	16	0	0	0	0	16
Belgium	317,349	3,825	3,778	5,092	3,743	333,787
Belize	0	0	71	0	0	71
Benin	0	0	0	0	0	0
Bolivia	2,241	4	0	12	7,830	10,087

(cont.)

Country/ organization	Fiscal year					1950 to 1988
	1950 to 1984	1985	1986	1987	1988	
	(thousands)					
Brazil	\$222,021	\$17,652	\$5,224	\$16,870	\$126,754	\$388,521
Brunei	267	0	84	0	57	408
Burma	10,608	52	348	0	0	11,008
Cameroon	3	0	4,571	6	4,571	9,151
Canada	2,583,239	368,061	132,469	161,581	137,243	3,382,593
Chad	0	0	0	0	5,481	5,481
Chile	173,851	0	673	694	744	175,962
China	631	831	36,037	550,751	13,816	602,066
Colombia	53,841	31	3,867	814	6,112	64,665
Costa Rica	1,254	0	0	0	0	1,254
Cuba	4,510	0	0	0	0	4,510
Denmark	421,140	49,776	21,551	27,751	51,948	572,166
Dominican Republic	2,925	692	221	221	0	4,059
Ecuador	823,883	815	3,374	847	853	829,772
Egypt	1,262,536	28,917	53,985	47,570	54,267	1,447,275
El Salvador	13,555	419	0	251	8,542	22,767
Ethiopia	78,174	0	0	0	0	78,174
Fiji	1,551	47	0	0	0	1,598
Finland	8,340	16	4,232	148	2,365	15,101
France	911,818	92,471	38,176	17,919	40,709	1,101,093
Gabon	2,239	0	0	0	0	2,239
Germany	8,442,162	1,454,342	587,502	387,791	398,116	11,269,913
Ghana	680	0	0	0	0	680
Grenada	0	0	6	0	0	6
Greece	1,280,407	52,273	34,422	44,599	43,529	1,455,230
Guatemala	34,060	1,539	1,712	1,886	68	39,265
Haiti	1,149	4,230	33	136	0	5,548
Honduras	16,843	0	3,950	1,202	1,469	23,464
Iceland	543	1	0	0	0	544
India	244,121	11	268	0	1	244,401
Indochina	8,542	0	0	0	0	8,542
Indonesia	165,362	3,690	4,252	3,701	1,268	178,273
Iran	11,040,669	0	0	0	0	11,040,669
Iraq	13,152	0	0	0	0	13,152
Ireland	834	8	0	38	11	891
Israel	661,739	43,347	32,964	22,200	1,421,800	2,182,050
Italy	1,230,205	171,548	40,866	52,422	24,373	1,519,414
Jamaica	162	0	0	0	0	162
Japan	3,227,985	322,174	248,044	319,856	754,337	4,872,396
Jordan	1,090,715	26,305	17,509	26,307	28,868	1,189,704
Kenya	24,571	2,685	1,696	1,000	7,093	37,045
Korea	2,301,835	123,455	181,262	170,487	165,376	2,942,415
Kuwait	1,223,158	112,495	135,655	64,928	1,703,766	3,240,002
Lebanon	378,359	7,487	1,473	0	0	387,319
Liberia	3,177	0	0	554	0	3,731
Libya	29,594	0	0	0	0	29,594
Luxembourg	5,188	17	1,099	1,033	334	7,671

(cont.)

Country/ organization	Fiscal year					
	1950 to 1984	1985	1986	1987	1988	1990 to 1988
	----- (thousands) -----					
Madagascar	\$1	0	0	0	0	\$1
Malaysia	58,903	\$4,331	\$3,344	\$1,353	\$5,822	73,753
Mali	89	0	0	0	0	89
Mexico	132,022	4,969	4,986	20,974	4,525	167,476
Morocco	810,809	0	19,376	13,500	10,217	853,902
Nepal	74	0	0	0	0	74
Netherlands	1,984,071	97,998	120,516	360,128	362,077	2,924,790
New Zealand	231,790	15,696	23,357	16,898	18,034	305,775
Nicaragua	4,951	0	0	0	0	4,951
Niger	8	0	0	0	0	8
Nigeria	100,706	5,022	1,015	1,990	2,803	111,536
Norway	639,194	24,218	166,478	35,237	59,503	924,630
Oman	137,645	1,090	167	626	6,343	145,871
Pakistan	1,190,752	73,718	64,502	36,280	40,206	1,405,458
Panama	7,093	538	180	68	0	7,879
Papua New Guinea	143	187	0	0	0	330
Paraguay	2,692	0	0	0	0	2,692
Peru	143,653	360	5,542	3,658	4,424	157,637
Philippines	396,988	4,883	16,467	9,256	8,821	436,415
Portugal	93,410	6,130	3,708	3,108	8,550	114,906
Qatar	1,906	293	635	1,385	263	4,482
Rwanda	747	0	0	0	0	747
Saudi Arabia	44,504,370	3,761,438	583,095	294,679	1,641,478	50,785,060
Saudi Arabian Air National Guard	2,730,808	14	0	0	0	2,730,822
Senegal	12	0	0	0	0	12
Singapore	827,187	322,571	37,329	10,399	14,116	1,211,602
Somalia	4,122	100	0	600	0	4,822
South Africa	3,149	0	0	0	0	3,149
Spain	951,069	127,548	189,226	55,036	69,579	1,392,458
Sri Lanka	4	0	0	0	0	4
Sudan	458,270	3,520	916	1,104	0	463,810
Suriname	1	0	0	0	0	1
Sweden	234,588	12,229	1,830	81,078	73,485	403,210
Switzerland	1,199,708	8,278	10,718	31,613	9,713	1,260,030
Syria	1	0	0	0	0	1
Taiwan	4,679,783	713,190	638,143	460,780	179,959	6,671,855
Thailand	1,093,303	406,303	85,185	97,208	139,046	1,821,045
Trinidad-Tobago	195	0	0	8	8	211
Tunisia	179,538	3,499	13,567	5,062	9,801	211,467
Turkey	512,165	92,823	294,629	110,577	770	1,010,964
United Arab Emirates	703,708	77,695	3,279	90,778	31,943	907,403
United Kingdom	3,592,103	209,341	227,601	163,665	221,802	4,414,512
Uruguay	15,378	118	1,090	601	637	17,824
Venezuela	812,503	3,195	41,188	13,185	63,141	933,212

(cont.)

Country/ organization	Fiscal year					
	1950 to 1984	1985	1986	1987	1988	1950 to 1988
	(thousands)					
Vietnam	\$1,167	0	0	0	0	1,167
Yemen	316,895	\$10,464	\$1,568	\$5,079	\$351	\$334,357
Yugoslavia	146,418	97	0	2	0	146,517
Zaire	37,457	0	1,914	0	2,535	41,906
Total	\$114,828,781	\$9,339,357	\$4,410,886	\$4,471,251	\$8,333,686	\$141,383,961
CENTO	5	0	0	0	0	5
F-16 Conversion Program						
Belgium	2,584,778	3,441	5,791	30,295	16,404	2,640,709
Denmark	868,726	158,388	0	14,493	0	1,041,607
Iran	2,346	0	0	0	0	2,346
Netherlands	1,648,054	5,088	0	28,445	0	1,681,587
Norway	1,301,146	9,090	26,302	19,219	0	1,355,757
ICAO	5	0	0	0	0	5
NAMFI	23,107	0	0	0	0	23,107
NAMMA	1,164	84	35	0	615	1,898
NAMSA-F-104	3,553	53	2,213	0	0	5,819
NAMSA-GENERAL	704,383	17,618	21,927	28,518	17,688	790,134
NAMSA-HAWK	101,687	4,984	8,903	8,237	8,552	132,363
NAMSA-NNTC	24,933	2,627	0	0	0	27,560
NAMSA-WEAPONS	0	0	6,949	1,247	2,232	10,428
NAPMO	420,591	0	33,683	0	250	454,524
NATO	214,203	1,093	1,488	961	1,251	218,996
NATO AEW&C	0	0	0	39,400	0	39,400
NATO AEW&C Ground Environment Interface	13	0	0	0	0	13
NATO AEW&C Operations and Support	100,939	38,638	30,555	57,582	18,607	246,321
NATO Head- quarters	458	0	155	1	1	615
NATO Sea Sparrow	217,697	2,767	5,711	1,833	4,870	232,878
NICSMA	694	5,498	985	2,822	121	10,120
OAS	4,070	0	0	0	0	4,070
SACLANT	8	44	62	46	2	162
SHAPE	18,868	3,542	10,682	4,510	6,736	44,338
United Kingdom, Trident/Polaris Program	6,473,885	0	0	0	0	6,473,885
United Nations	0	0	0	0	0	0
Total	\$14,715,319	\$252,955	\$155,441	\$237,609	\$77,329	\$15,438,653

Legend

AEW&C = Aircraft Early Warning and Control
CENTO = Central Treaty Organization
ICAO = International Civil Aviation Organization
NAMFI = NATO Missile Firing Installation
NAMMA = NATO Multi-Role Combat Aircraft
NAMSA = NATO Maintenance and Supply Agency
NAPMO = NATO Airborne Early Warning and Control Program Management Office
NATO = North Atlantic Treaty Organization
NICSMA = NATO Integrated Communications System Management Agency
OAS = Organization of American States
SACLANT = Supreme Allied Commander, Atlantic
SHAPE = Supreme Headquarters, U.S. Allies, Europe

Note: The total for fiscal year 1950 to 1984 does not agree with the total in our earlier report because DSAA has updated the figures with more accurate and complete data.

^aDenotes amounts less than \$500.

Source: DSAA.

FMS WAIVERS

The Arms Export Control Act requires DOD to charge buyers of major defense equipment¹ a proportionate share of the nonrecurring research, development, production, and asset use costs. DOD's policy is to recover a fair share (pro rata) of these costs from foreign customers.

It is also DOD's policy to assess a nonrecurring charge for the transfer and use of technical data packages to be used to manufacture or produce items for non-U.S. government use. These charges are normally referred to as "royalty fees." For major defense items manufactured from technical data packages, the country will be charged the approved nonrecurring charge instead of a royalty fee. For nonmajor defense equipment, however, royalty fees are based on the item's current DOD inventory price as follows--5 percent for in-country use and 8 percent for items sold to third countries. DOD policy does not preclude any foreign country from receiving a royalty fee waiver.

Section 21(e)(2) of the Arms Export Control Act authorizes the President to reduce or waive the charges for recoupment of nonrecurring costs and asset use when the sale significantly advances the U.S. government's interest in NATO standardization or standardization with the Armed Forces of Japan, Australia, or New Zealand. This authority has been delegated to the Director of DSAA. In addition, section 27 of the Arms Export Control Act authorizes the President to reduce or waive the charges for cooperative development projects under which NATO and certain other designated countries agree to share with the United States the cost of research, development, testing, and evaluation.

Value of Waivers Issued
Since Fiscal Year 1977

Approximately \$2.7 billion in charges and fees had been waived for nonrecurring research and development charges and U.S.-owned technical data package royalty fees between fiscal year 1977 and June 30, 1988. The number and value of waivers approved vary from year to year depending on the type, quantity, and cost of the equipment purchased by foreign countries.

¹A U.S. defense article is considered to be an item of major defense equipment when the U.S. government has incurred either a nonrecurring research and development cost for the item greater than \$50 million or the item has a total production cost greater than \$200 million. Nonmajor defense equipment is equipment or components that are not identified as major defense equipment.

Tables III.2 and III.3 identify the countries and estimated value of royalty fees on technical data packages and the waived charges for nonrecurring research and development costs.

Table III.2: Estimated Values of Waived Royalty Fees for Technical Data Packages

Country	Fiscal year					
	1977 to 1984	1985	1986	1987	1977 to 1987	1988 to June 30, 1988
	----- (thousands) -----					
Canada	\$4,485	0	0	\$13	\$4,498	0
Denmark	1	0	0	0	1	0
Egypt	1,772	0	0	0	1,772	0
Germany	4,750	0	0	0	4,750	0
Greece	1,836	0	0	0	1,836	0
Italy	191	0	0	0	191	0
Korea	3,232	\$2,194	\$8,788	17,943	32,157	\$1,842
Pakistan	11	0	170	0	181	0
Portugal	0	0	0	54	54	0
Spain	63	0	0	0	63	0
Turkey	171	0	901	74,393	75,465	0
Total	<u>\$16,512</u>	<u>\$2,194</u>	<u>\$9,859</u>	<u>\$92,403</u>	<u>\$120,968</u>	<u>\$1,842</u>

Table III.3: Estimated Values of Waived Charges for Nonrecurring Research and Development Costs

Country/ international organization	Fiscal year					
	1977 to 1984	1985	1986	1987	1977 to 1987	1988 to June 30, 1988
	----- (thousands) -----					
Australia	\$55,901	\$362	0	\$19,839	\$76,102	\$11,946
Belgium	28,607	716	0	0	29,323	0
Canada	75,363	0	0	0	75,363	0
Denmark	2,341	0	0	0	2,341	0
Egypt	3,600	0	0	0	3,600	0
France	24,997	0	0	145,320	170,317	0
Germany	63,471	130,883	\$20,059	2,000	216,413	0
Greece	6,498	0	0	0	6,498	0
Italy	13,265	0	0	0	13,265	0
Luxembourg	12	0	0	0	12	0
Netherlands	54,112	0	3,296	8,244	65,652	5,799
New Zealand	30	0	0	0	30	0
Norway	16,651	0	1,184	232	18,067	0
Portugal	535	0	4,750	383	5,668	878
Spain	42,173	588	0	0	42,761	11,043
Turkey	28,750	137,001	11,790	837	178,378	92,475
United Kingdom	773,887	0	0	249,253	1,023,140	0

(cont.)

Country/ international organization	Fiscal year					
	1977 to 1984	1985	1986	1987	1977 to 1987	1988 to June 30, 1988
	------(thousands)-----					
International organization						
NATO (Con- sortium)	\$495,212	\$6,519	0	0	\$501,731	0
European Par- ticipating Governments (F-16) ^a	<u>14,900</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,900</u>	<u>0</u>
Total	<u>\$1,700,305</u>	<u>\$276,069</u>	<u>\$41,079</u>	<u>\$426,108</u>	<u>\$2,443,561</u>	<u>\$122,141</u>

Note: Does not include waivers under \$500.

^aRefers to intermediate shop sets. European Participating Government F-16 aircraft waivers are included in figures for each recipient country.

CASH-FLOW FINANCING

Under the normal credit program authorized for most FMS customers, orders must not exceed available credit. Under the so-called "cash-flow" method of financing, more orders can be placed sooner than would ordinarily be possible under a normal credit system, thereby stretching the recipient country's buying power.

The cash-flow financing system works as follows. When a weapon system is purchased, a LOA is signed by the buyer, detailing the equipment delivery and payment schedule. While the total cost of the item may be hundreds of millions of dollars, not all the money will be paid in the first years after the LOA is signed. Major systems have long lead times before delivery, and payments will be spread out over this period. Under normal FMS financing procedures with most countries, the United States requires that the buyer reserve, or set aside, the full costs of the item when the order is placed. If an item costs \$100 million, for example, FMS credits of that amount must be set aside when the LOA is signed. Under the cash-flow system, however, only the amount of money required to meet the current fiscal year's cash requirement and to cover potential termination liability is set aside. That same \$100 million item, for example, may only require that \$50 million be set aside the first year. As a result, the remaining \$50 million is available to place orders for additional equipment up to the limit of the country's cash requirement during that year. Section 25(a)(5)(B) of the Arms Export Control Act requires that the Congress be notified when cash-flow financing for any country exceeds \$100 million in a fiscal year.

According to a DSAA official, the decision to authorize cash-flow financing is based on economic, political, and national security considerations. Israel's FMS program is fully financed by cash-flow procedures as is virtually all of Egypt's program. DOD has selectively approved cash-flow financing for Portugal and Turkey. Cash-flow financing for Portugal relates primarily to support for the Portuguese frigate program and efforts to modernize its army. Turkey's arrangement is related to the purchase of F-16 aircraft. Table III.4 shows existing cash-flow financing obligations, as of October 1988, resulting from signed LOAs and commercial contracts.

Table III.4: DOD Forecast of Cash-Flow Financing Obligations

Country	Fiscal year					1989
	1989	1990	1991	1992	1993	to 1993
	----- (thousands) -----					
Egypt	\$771,200	\$696,200	\$533,800	\$159,100	\$34,800	\$2,195,100
Israel	950,000	990,000	688,000	614,000	388,000	3,630,000
Portugal	80,700	36,300	17,200	2,000	0	136,200
Turkey	<u>370,100</u>	<u>342,600</u>	<u>288,500</u>	<u>250,000</u>	<u>250,000</u>	<u>1,501,200</u>
Total	<u>\$2,172,000</u>	<u>\$2,065,100</u>	<u>\$1,527,500</u>	<u>\$1,025,100</u>	<u>\$672,800</u>	<u>\$7,462,500</u>

DEPENDABLE UNDERTAKINGS

Section 22 of the Arms Export Control Act requires "dependable undertakings" in the cash sale of defense equipment to eligible foreign governments and international organizations. Dependable undertakings, which are generally used with new procurement contracts, require the foreign government or international organization to make periodic specified payments at required times. The U.S. government collects the cash in advance and makes payments to the contractor on behalf of the foreign country. This policy contrasts with policies involving sales from DOD stock, which require the full costs of the equipment to be paid in advance.

According to a DSAA official, a critical element to dependable undertakings is DOD's determination that the buyer will have the economic resources to fulfill its commitment. When such a determination is made, it is implied that the foreign country will be able to make its payments on schedule.

As of October 1988, 80 countries and 1 international organization were authorized direct arrangements for dependable undertakings. Tables III.5 and III.6 list the countries eligible for dependable undertakings and the extent of this program since 1977.

Table III.5: Countries and International Organizations
Authorized Dependable Undertakings as of October 1988

<u>Region/ country</u>	<u>Region/ country</u>
Africa	East Asia and Pacific
Algeria	Australia
Botswana	Brunei
Cameroon	Indonesia
Kenya	Japan
Liberia	Korea
Morocco	Malaysia
Nigeria	New Zealand
Sudan	Peoples Republic of China
Tunisia	Philippines
	Singapore
	Taiwan
	Thailand
Europe and Canada	American Republics
Austria	Argentina
Belgium	Bahamas
Canada	Barbados
Denmark	Brazil
France	Colombia
Federal Republic of Germany	Costa Rica
Greece	Dominica
Iceland	Dominican Republic
Ireland	Ecuador
Italy	El Salvador
Luxembourg	Guatemala
Malta	Haiti
Netherlands	Honduras
Norway	Jamaica
Portugal	Mexico
Spain	Panama
Sweden	Peru
Switzerland	St. Lucia
Turkey	St. Vincent
United Kingdom	Suriname
Yugoslavia	Trinidad and Tobago
	Uruguay
	Venezuela

<u>Region/ country</u>	<u>Region/ country</u>
Near East and South Asia	
Bahrain	
Bangladesh	
Egypt	International
India	organizations
Israel	
Jordan	NATO and its agencies
Kuwait	
Lebanon	
Nepal	
Pakistan	
Oman	
Qatar	
Saudi Arabia	
The United Arab Emirates	
Yemen Arab Republic	

Source: DSAA.

Table III.6: Dependable Undertakings

<u>Country/ program</u>	Fiscal year					1977 to 1988
	1977 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Total	<u>\$40,484,570</u>	<u>\$7,634,285</u>	<u>\$3,560,254</u>	<u>\$4,163,219</u>	<u>\$10,041,296</u>	<u>\$65,883,624</u>
Algeria	73	0	1,526	1,456	0	3,055
Argentina	18,270	5,340	92	2,286	4,706	30,694
Australia	4,891,317	215,173	116,335	199,154	278,914	5,700,893
Austria	207,153	14,394	5,647	1,164	5,060	233,418
Bahrain	10,966	191,754	9,240	373,128	8,282	593,370
Bangladesh	26	1,255	15	0	36	1,332
Belgium	66,301	2,089	2,433	4,418	3,040	78,281
Belize	0	0	60	0	0	60
Bolivia	91	0	0	12	7,194	7,297
Brazil	65,675	15,795	4,053	15,418	121,116	222,057
Brunei	97	0	0	0	0	97
Burma	3,502	0	318	0	0	3,820
Cameroon	3	0	3,620	0	0	3,623
Canada	904,380	233,649	84,240	146,973	126,053	1,495,295
Chad	0	0	0	0	277	277
Chile	131	0	0	632	688	1,451
China	2	10	33,561	532,269	2,561	568,403
Colombia	21,660	29	2,944	737	5,677	31,047

(cont.)

Country/ program	Fiscal year					1977 to 1988
	1977 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Denmark	\$122,079	\$30,900	\$14,239	\$25,833	\$48,683	\$241,734
Dominican Republic	294	60	202	205	0	761
Ecuador	734,210	763	3,202	788	594	739,557
El Salvador	2,820	0	0	40	2,514	5,374
Egypt	976,690	18,708	47,637	36,906	37,583	1,117,524
Ethiopia	5	0	0	0	0	5
Fiji	1,078	23	0	0	0	1,101
Finland	7,962	13	4,082	111	14	12,182
France	440,512	70,341	23,164	13,624	29,436	577,077
Gabon	2,053	0	0	0	0	2,053
Germany	1,525,156	1,284,250	413,773	360,192	377,183	3,960,554
Ghana	39	0	0	0	0	39
Greece	692,114	48,354	31,310	40,978	40,317	853,073
Guatemala	9,874	1,457	1,506	1,328	60	14,225
Haiti ^a		4,121	0	0	0	4,121
Honduras	4,310	0	2,366	1,020	1,237	8,933
Iceland	38	0	0	0	0	38
India	5,076	10	250	0	1	5,337
Indonesia	52,192	3,283	4,008	3,456	1,179	64,118
Iran	1,335,421	0	0	0	0	1,335,421
Ireland	79	0	0	31	10	120
Israel	221,147	39,748	29,887	20,524	32,948	344,254
Italy	441,609	165,652	37,536	45,979	22,649	713,425
Jamaica	4	0	0	0	0	4
Japan	2,546,984	293,405	224,858	286,975	712,600	4,064,822
Jordan	186,391	13,015	9,700	20,953	22,893	252,952
Kenya	14,799	2,231	1,395	797	5,933	25,155
Korea	1,578,072	114,147	169,079	152,223	147,096	2,160,617
Kuwait	133,285	75,815	21,946	53,233	1,759,570	2,043,849
Lebanon	176,432	7,464	1,381	0	0	185,277
Liberia	17	0	0	157	0	174
Luxembourg	1,244	0	956	916	301	3,417
Malaysia	23,732	3,714	2,749	1,156	5,356	36,707
Mexico	99,522	4,801	4,677	19,961	4,662	133,623
Morocco	262,923	0	17,900	12,378	9,086	302,287
Netherlands	707,078	42,318	108,498	340,551	357,426	1,555,871
New Zealand	83,386	14,447	21,532	15,024	15,650	150,039
Nicaragua	261	0	0	0	0	261
Nigeria	35,371	919	0	971	0	37,261
Norway	216,761	9,009	129,606	30,418	55,021	440,815
Oman	36,487	548	0	137	5,536	42,708
Pakistan	801,145	60,777	59,070	26,332	36,733	984,057
Panama	1,498	481	169	35	0	2,183
Papua New Guinea	85	0	0	0	0	85

(cont.)

Country/ program	Fiscal year					1977 to 1988
	1977 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
Paraguay	\$252	0	0	0	0	\$252
Peru	29,332	\$305	\$3,395	\$1,509	\$3,889	38,430
Philippines	264,796	3,771	13,588	7,620	7,278	297,053
Portugal	31,331	5,489	3,328	2,925	7,820	50,893
Qatar	274	0	0	1,345	0	1,619
Saudi Arabia	8,640,557	2,621,663	347,415	121,653	4,893,164	16,624,452
Saudi Arabian National Guard	967,155	0	0	0	0	967,155
Singapore	731,365	308,883	32,308	9,464	13,113	1,095,133
Somalia	485	0	0	490	0	975
Spain	254,230	95,120	178,282	50,534	64,460	642,626
Sudan	7,348	2,834	750	900	0	11,832
Suriname	1	0	0	0	0	1
Sweden	134,368	10,893	1,213	75,295	68,069	289,838
Switzerland	628,986	6,985	7,737	17,957	8,299	669,964
Taiwan	3,288,258	670,491	610,612	441,369	165,386	5,176,116
Thailand	643,353	379,449	66,462	73,974	127,041	1,290,279
Tunisia	65,950	3,203	12,538	3,689	9,049	94,429
Turkey	322,027	73,504	280,997	98,338	697	775,563
United Arab Emirates	637,753	49,812	0	87,177	55,608	830,350
United Kingdom	1,719,095	188,121	188,478	139,839	188,590	2,424,123
Uruguay	3,762	0	1,013	408	495	5,678
Venezuela	567,376	2,647	36,633	9,871	58,777	675,304
Yemen (Sanaa)	29,459	9,456	691	4,056	341	44,003
Yugoslavia	69,025	95	0	2	0	69,122
Zaire	11,123	0	1,517	0	2,035	14,675
Total	\$38,717,543	\$7,422,983	\$3,437,719	\$3,939,294	\$9,969,986	\$63,487,525
F-16 Conversion Program						
Belgium	910,114	0	5,300	28,601	15,206	959,221
Denmark	0	153,641	0	13,812	0	167,453
Iran	2,300	0	0	0	0	2,300
Netherlands	0	4,911	0	27,199	0	32,110
Norway	0	7,949	25,536	18,330	0	51,815
NAMFI	26	0	0	0	0	26
NAMMA	253	0	0	0	648	901
NAMSA-F-104	2,075	0	2,026	0	0	4,101
NAMSA-GENERAL	163,565	12,608	14,835	27,048	16,383	234,439
NAMSA-HAWK	32,810	4,223	4,194	7,445	7,813	56,485
NAMSA-NNTC	8,826	0	0	0	0	8,826
NAMSA-Weapons	0	0	5,619	1,126	2,000	8,745
NAPMO	412,110	0	33,162	0	250	445,522

(cont.)

Country/ program	Fiscal year					1977 to 1988
	1977 to 1984	1985	1986	1987	1988	
	----- (thousands) -----					
NATO	\$10,822	0	\$150	\$144	\$1,214	\$12,330
NATO AEW&C	0	0	0	39,400	0	39,400
NATO AEW&C Ground Environment Interfact	13	0	0	0	0	13
NATO AEW&C Operations and Support	27,002	\$25,315	20,519	54,690	17,804	145,330
NATO Head- quarters	9	0	150	0	0	159
NATO SEA SPARROW	192,722	2,627	5,412	1,723	4,575	207,059
NICSMA	25	28	^a	308	15	376
OAS	2,176	0	0	^a	0	2,176
SHAPE	2,179	0	5,630	4,099	5,400	17,308
Supreme Allied Commander, Atlantic	0	0	2	0	2	4
Total	<u>\$1,767,027</u>	<u>\$211,302</u>	<u>\$122,535</u>	<u>\$223,925</u>	<u>\$71,310</u>	<u>\$2,396,099</u>

Legend

AEW&C = Aircraft Early Warning and Control
 NAMFI = NATO Missile Firing Installation
 NAMMA = NATO Multi-Role Combat Aircraft
 NAMSAs = NATO Maintenance and Supply Agency
 NAPMO = NATO Airborne Early Warning and Control Program
 Management Office
 NATO = North Atlantic Treaty Organization
 NICSMA = NATO Integrated Communications System Management
 Agency
 OAS = Organization of American States
 SHAPE = Supreme Headquarters, U.S. Allies, Europe

Note: The total for fiscal years 1977 to 1984 does not agree with the total in our earlier report because DSAA has updated the figures with more accurate and complete data.

^aDenotes amounts less than \$500.

Source: DSAA.

ACTIVITIES THAT DEVELOP FOREIGN NATIONS'
ECONOMIES AND DEFENSE INDUSTRIES

This appendix covers programs and activities that increase U.S. sales of military hardware and support the defense industrial capabilities and economies of foreign countries. Specifically, this appendix addresses licensed coproduction of military items by a foreign producer under U.S. government auspices, cooperative programs, offset arrangements, and the use of FMS loans to purchase foreign products. These activities are not usually defined as "direct assistance" even though they help develop foreign countries' defense research, development, and production capabilities and promote economic development.

COPRODUCTION UNDER U.S. GOVERNMENT AUSPICES

The United States is involved in coproduction arrangements with various industrialized and developing nations. Historically, coproduction programs, which range from programs for conventional ammunition to sophisticated missile systems and aircraft, enable foreign countries to acquire the "know-how" to produce or assemble all or part of fielded U.S. weapon systems and equipment. Coproduction is designed to improve friendly nations' military readiness and promote the standardization of military equipment.

The coproduction programs identified in this section include projects under the aegis of the U.S. government, implemented either by government-to-government agreements or through U.S. government licensing arrangements. It includes projects that have resulted from Memoranda of Understanding (MOU) or LOAs. It does not include projects that have been proposed by U.S. industry for commercial reasons or projects in which the U.S. government is involved only to the extent of providing approvals required under section 38 of the Arms Export Control Act and the International Traffic in Arms Regulation, which generally identify licensing requirements and penalties for noncompliance with application procedures.

Table IV.1 depicts DSAA's estimated values for coproduction arrangements between the United States and foreign governments since fiscal year 1977.

Table IV.1: Estimated Values of Coproduction Arrangements

Country	Fiscal year					1977 to 1988
	1977 to 1984	1985	1986	1987	1988	
	----- (millions) -----					
Australia	\$2,806.0	0	0	0	0	\$2,806.0
Austria	198.0	0	0	0	0	198.0
Belgium	66.0	0	0	0	0	66.0
Germany	4,283.0	\$25.3	0	\$0.4	0	4308.7
Greece	198.9	0	0	0	0	198.9
Israel	14.3	0	0	0	0	14.3
Italy	71.3	0	0	0	0	71.3
Japan	7,745.0	0	\$3,660.0	25.0	\$15.0	11,445.0
Korea	905.0	0	0	0	a	905.0
Netherlands	149.7	0	0	0	0	149.7
Philippines	4.6	0	0	0	0	4.6
Singapore	3.6	0	0	0	0	3.6
Spain	578.0	0	0	0	0	578.0
Switzerland	993.1	0	0	0	a	1248.1
Taiwan	667.4	0	0	0	0	667.4
Turkey ^b	0.3	0	0	0	a	0.3
United Kingdom	<u>1,550.0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,550.0</u>
Total	<u>\$20,234.2</u>	<u>\$280.3</u>	<u>\$3,660.0</u>	<u>\$25.4</u>	<u>\$15.0</u>	<u>\$24,219.9</u>

^aThe estimated values of the fiscal year 1988 agreements with Korea, Switzerland, and Turkey have not been confirmed since implementation is in process.

^bIn our 1985 report we stated that one coproduction agreement with Turkey, valued at \$10.1 million, had been arranged during fiscal year 1985. According to DOD officials, this arrangement was never implemented.

COOPERATIVE PROJECTS

One of the components of DOD's relationship with its allies, within the area of defense cooperation, involves NATO cooperative projects. These projects are authorized by section 115 of the International Security and Development Cooperation Act of 1985 and section 1102 of the DOD Authorization Act of 1986. The original legislative authority for these cooperative projects applied only to NATO member nations. The National Defense Authorization Act for Fiscal Year 1987 extended the scope of the cooperative projects to specific non-NATO friendly foreign nations. Current authorized non-NATO countries eligible to participate in cooperative projects with the United States are Australia, the Republic of Korea, Japan, Israel, and Egypt.

The concept of cooperative armaments development is not new. According to DOD officials, the United States and various allies have entered into such projects since the 1950s. Some of the earlier programs include the NATO Seasparrow Point Defense Missile System (1968) and the Rolling Airframe Missile (mid-1970s). An MOU for cooperative Rolling Airframe Missile production between the United States and Germany was concluded in 1987.

Cooperative projects are undertaken to improve readiness and further the objectives of standardization, rationalization, and interoperability of allied and friendly nations' armed forces. These programs are designed to minimize the overall costs of weapons systems by involving one or more of the participants in sharing with the United States the costs of research, development, testing, evaluation, or joint production of certain defense articles. Cooperative projects are intended to fulfill joint requirements and are not a substitute for FMS.

The DOD Authorization Act of 1986 allocated funds specifically to support NATO cooperative research and development programs. The section of the act that addresses the need for increased cooperation among the allies--and authorized funds--is commonly referred to as the "Nunn Amendment." These funds are available only for new cooperative programs and only support initial program development. The military services, which sponsor the programs, are responsible for 100-percent funding in the out-years.

During fiscal years 1986 through 1988, \$395 million was appropriated to initiate cooperative research and development projects under the "Nunn Amendment." As of September 1988, 18 projects with MOUs were under way. These projects include the Modular Standoff Weapon System (the United States, the United Kingdom, Germany, Spain, and Italy); the Hawk Mobility Enhancement (the United States and the Netherlands); and the Combat Vehicle Command and Control System (the United States and Germany). Section 27 of the Arms Export Control Act states that each cooperative project participant will contribute its equitable share to the program and receive equitable benefits. DOD officials said that cost-sharing arrangements are negotiated on a project-to-project basis and vary depending on each country's anticipated production and other economic and political considerations. For example, the allies are committed to providing 65 percent of the total program costs of a 155-mm artillery project. For another program, however, the United States will contribute 47 percent to a seven-nation project for an anti-air warfare system. DOD officials said that this represents an equitable plan for the project, allowing the United States to ensure that its requirements are met by the system. This share also equates to estimated U.S. benefits from the program.

OFFSETS

Generally, the term "offsets" refers to trade arrangements made as conditions of foreign military sales. Essentially these arrangements are intended to reduce the impact of costly weapons purchases on the buyer's balance of payments or to provide the buyer with other advantages. Offsets are usually classified as either "direct"--related to the weapon system being bought--or "indirect"--related to other products and services. Coproduction and licensed production are considered the major forms of direct offsets. Indirect offsets include investing in the foreign country making the weapons purchase and/or purchasing and marketing goods and services unrelated to the weapon systems being acquired.

It is DOD policy not to enter into government-to-government offset arrangements because of the inherent difficulties in negotiating and implementing such arrangements. Further, any foreign government requesting offsets should be informed that the responsibility for negotiating offset arrangements resides with the U.S. contractor involved.

Countries enter into offset arrangements to (1) improve their balance-of-payments positions, (2) obtain technology and manufacturing know-how, (3) support domestic employment, and (4) create or expand defense industries.

Many countries have economic policies or legislation seeking or requiring offsets on military purchases. For example, the Republic of Korea requires a minimum of 50-percent offsets for imports over \$1 million with a minimum of 20 percent being direct offsets with technology transfer. Australia requires a minimum of 30-percent offsets. The Israeli government has a policy of requesting U.S. suppliers to offset or "buy back" from Israel goods or services equal to 25 percent of Israeli purchases in excess of \$1 million.

There have been various estimates of the costs of offsets and their impact on the U.S. economy. According to a 1983 coproduction study, DOD estimated that about \$30 billion in potential arms sales during the period 1983 to 1988 would involve coproduction and other offsets. In 1984, the Defense Production Act of 1950 was amended, requiring that the administration study and report annually on the impact of offsets associated with military export sales. The Office of Management and Budget, on behalf of an interagency committee, submitted the first report in February 1986.

The report noted that for the study period, 1980 to 1984, military export sales totaled over \$22 billion and offsets were about \$12 billion. Most of the offsets occurred in three product areas--aircraft, engines, and electronics. Of the \$12 billion identified, about 74 percent of the offsets were with five countries--Canada, Spain, Israel, Australia, and Turkey.

Examples of offsets negotiated by U.S. industry since the early 1980s include the sale of F-18 aircraft to Spain, Patriot missile systems to Germany and the Netherlands, and AWACS to the United Kingdom and France in 1987. In the F-18 sale to Spain, the U.S. contractor agreed to market Spanish exports, promote tourism, and provide for other indirect offsets, totaling about \$1.3 billion. As part of the sale of Patriot missile systems to Germany, the U.S. contractor agreed to provide German industry with \$500 million in offsets. In the case of the sale of Patriot missiles to the Netherlands, the U.S. contractor and the U.S. government have agreed to offsets equaling the purchase price of the weapon system--\$305 million. In 1987, U.S. industry sales of AWACS to the United Kingdom and France involved offsets equaling 130 percent of the contracts' value.

Some of the countries requesting and receiving offsets, such as Egypt, Greece, Indonesia, Israel, Spain, Pakistan, and Turkey, are also FMS credit or grant recipients. Allowing offsets in transactions financed with FMS assistance, however, could have adverse immediate and long-term impacts on the U.S. industrial base and employment. DOD's policy is that no FMS loan funds will be authorized or disbursed to pay for mandatory offsets. According to DOD officials, since June 1984 FMS credits have not been authorized to finance direct offsets--except in the case of Israel.

For fiscal year 1984, for example, Israel was allowed to take "directed offsets" on up to 15 percent of the total value of Israeli commercial purchases using FMS credits. In September 1987, in connection with Israel's decision to cancel the LAVI fighter project, mandatory offsets were extended through fiscal year 1989.

PURCHASING FOREIGN PRODUCTS WITH FMS LOAN FUNDS

Using FMS funds to procure defense items and services outside the United States is not authorized unless a determination to permit offshore procurement is issued under section 42(c) of the Arms Export Control Act. The Director of DSAA must make a determination, in conjunction with the Departments of State and the Treasury, that the procurement of defense articles and services outside the United States will not result in adverse effects on the U.S. economy or its industrial mobilization base. Before a determination is required, DOD may allow up to 49 percent foreign content in weapon sales financed by FMS credits.

According to DSAA, 48 determinations have been made under section 42(c) between July 1, 1985, and September 30, 1988. The estimated value of the 48 determinations is about \$1 billion in FMS funds. The determinations are shown in table IV.2.

Table IV.2: Determinations Issued for Offshore Procurement
(July 1, 1985, to September 30, 1988)

<u>Country</u>	<u>Purchase</u>	<u>Value</u> (thousands)	<u>Year</u>
Total	48 Determinations	<u>\$1,006,812</u>	
Chad	C130 spares	200	1985
El Salvador	Helicopter spares	1,000	1985
Israel	Alternate mission equipment for F-16s	35,600	1985
El Salvador	LAW rocket	4,600	1985
Israel	PT6-41A engine spare parts for C12D aircraft	3,000	1986
Costa Rica	Construction	550	1986
Sierra Leone	Vehicle and construction equipment spares	80	1986
Malawi	Construction	480	1986
Honduras	Aircraft parts	5,000	1986
Honduras	Construction material and services	7,500	1986
Panama	Canadian Bell 212 helicopter engines	500	1986
Mauritania	Construction material	100	1986
El Salvador	Recoilless rifle ammunition	3,000	1986
El Salvador	Training aircraft spares	350	1986
El Salvador	Construction	11,600	1986
Djibouti	POL and spare parts	30	1987
Gambia	Construction material	30	1987
Guatemala	Pharmaceuticals	50	1987
Grenada	Construction material and services	\$100	1987
Honduras	Construction material and services	100	1987
Senegal	Construction material and services	1,350	1987
Senegal	Construction material and services	400	1987
Rwanda	Construction material and services	400	1987
El Salvador	2,500 radios	590	1987
El Salvador	Construction material and services	4,600	1987
El Salvador	Forklifts	100	1987
El Salvador	Construction material and services	2,000	1987
El Salvador	1,000 radios	250	1987

(cont.)

<u>Country</u>	<u>Purchase</u>	<u>Value</u> (thousands)	<u>Year</u>
Israel	Procurement in Israel in fiscal years 1988 and 1989	\$800,000	1987
Israel	Cobra laser night attack system	40,000	1987
Israel	JP4 fuel in fiscal years 1988 and 1989	60,000	1988
Philippines	M113 overhaul/repair	900	1988
Philippines	Cl30 maintenance	1,000	1988
Philippines	Construction	800	1988
Philippines	Fuel	2,600	1988
Philippines	90-mm ammunition	2,400	1988
Kenya	Construction and fuels	350	1988
Antigua and Barbuda	Fuel and food supplies	40	1988
Barbados	Fuel and food supplies	60	1988
Philippines	Fatigue uniforms	10,100	1988
St. Vincent and Grenadines	Construction of military facilities	150	1988
Somalia	Communications parts	800	1988
El Salvador ^a	5,460 light antitank weapons	1,985	1988
Portugal ^a	885 light antitank weapons	307	1988
Mauritania	Construction materials, tools, repair parts	250	1988
Central African Republic	Construction materials	100	1988
Madagascar	Construction materials	200	1988
El Salvador	Construction materials and services	1,080	1988
Honduras	Construction materials	130	1988

^aAccording to DSAA, the waivers for El Salvador and Portugal were processed as one determination.

Source: DSAA.

COMMERCIAL EXPORTS AND
TOP MILITARY EQUIPMENT MANUFACTURERS

This appendix lists the commercial exports licensed under the Arms Export Control Act during fiscal years 1985 to 1988. It also lists the top 25 contractors providing military equipment, training, and other defense-related services through FMS and commercial channels.

Section 38 of the act authorizes the President to (1) control the import and export of defense items and services, (2) identify them as such, and (3) promulgate regulations for their import and export. Commercial exports of military equipment are regulated by a U.S. government licensing process prescribed in the International Traffic in Arms Regulation. The Department of State's Office of Munitions Control (OMC) licenses the commercial sales. All applications for export licenses are reviewed to determine whether applicable legal, policy, security, regulatory, and procedural requirements have been satisfied. Generally, OMC examines the licenses to see whether the application involves items not licensed before or not previously licensed to a particular country or region, whether it is politically sensitive or includes sensitive technology, and whether the U.S. export applicant is eligible for a license.

An approved license is generally valid for 2 years up to the limits on quantity and value specified on the license. U.S. Customs officials hold the license until the export is completed. They validate each shipment, maintain records of unshipped balances, and return to OMC the shippers' export declaration for each shipment. When the license expires or the approved export is completed, Customs returns the license to OMC. These returned licenses allow OMC to compare actual exports to the quantities authorized. OMC data shows that the numbers of actual exports are significantly less than authorized licensed quantities.

Table V.1 lists commercial exports licensed under the Arms Export Control Act.

Table V.1: Commercial Exports Licensed Under the Arms Export Control Act

Region/ country	Fiscal year					
	1950 to 1984	1985	1986	1987	1950 to 1987	1988 (estimate)
	----- (thousands) -----					
Total	<u>\$22,145,628</u>	<u>\$5,646,131</u>	<u>\$3,714,952</u>	<u>\$2,186,650</u>	<u>\$33,693,360</u>	<u>\$11,583,677</u>
East Asia and Pacific						
Australia	423,868	497,496	418,636	63,316	1,403,315	444,414
Brunei	7,057	2,124	1,819	1,731	12,729	12,621
Burma	14,668	1,051	1,350	637	17,706	2,353
Canton & Enderbury Is.	4	2	0	0	6	0
China	26,365	46,303	54,020	14,576	141,264	70,585
Democratic Peoples Republic of Korea	0	0	0	0	0	1
Fiji	350	257	12	1	620	37
French Polynesia	371	17	9	5	404	79
Hong Kong	127,088	16,959	12,407	1,219	157,672	35,549
Indonesia	109,482	33,285	15,108	7,964	165,839	29,942
Japan	2,712,796	708,118	606,635	342,103	4,369,653	1,220,102
Kampuchea	5	0	0	0	5	0
Kiribati (Gilbert Islands)	2	0	0	3,394	3,396	0
Korea	579,218	210,674	156,562	126,287	1,072,740	622,429
Laos	4	0	0	0	4	0
Macao	192	10	2	100	305	41
Malaysia	299,290	119,681	41,078	20,142	480,190	39,700
Nauru	218	19	0	0	236	0
New Caledonia	3,242	9	0	7	3,258	15
New Zealand	65,900	35,524	19,862	4,582	125,870	67,625
Niue	0	0	0	0	0	35
Norfolk Island	^a	0	0	0	^a	0
Papua New Guinea	564	1	229	20	814	45
Philippines	64,402	11,566	2,224	4,862	83,055	21,630
Pitcairn	^a	0	0	0	^a	0
Singapore	207,781	66,963	89,035	28,073	391,852	218,236
Solomon Islands	107	^a	0	0	107	0
Taiwan	635,419	54,463	228,400	210,000	1,128,282	200,000

(cont.)

Region/ country	Fiscal year					
	1950 to 1984	1985	1986	1987	1950 to 1987	1988 (estimate)
----- (thousands) -----						
Thailand	\$137,167	\$23,360	\$11,106	\$11,784	\$183,418	\$167,467
Tonga	0	0	4	0	4	3
Trust Territory of Pacific Islands	125	368	480	^a	973	235
Tuvalu	9	0	0	0	9	0
Vanuatu (New Hebrides)	10	0	0	0	9	0
Vietnam	66	0	0	0	66	0
Western Samoa	<u>117</u>	<u>0</u>	<u>0</u>	<u>^a</u>	<u>117</u>	<u>^a</u>
Total	<u>\$5,415,888</u>	<u>\$1,828,250</u>	<u>\$1,658,978</u>	<u>\$840,804</u>	<u>\$9,743,920</u>	<u>\$3,153,144</u>
Near East and South Asia						
Afghanistan	597	^a	0	0	597	0
Algeria	166,816	10,499	18,832	370	196,517	7,101
Bahrain	8,747	928	1,852	1,227	12,753	2,674
Bangladesh	3,654	1,114	257	259	5,284	13,312
Bhutan	3	0	0	4	7	1
Egypt	207,655	151,882	71,051	22,250	452,839	386,790
India	86,644	18,615	27,414	24,878	157,551	82,446
Iran	670,767	0	0	0	670,767	0
Iraq	254	120	1,178	0	1,552	0
Israel	2,356,071	599,930	290,847	136,360	3,383,208	1,582,703
Jordan	208,096	19,460	23,247	13,409	264,211	87,402
Kuwait	83,285	4,617	13,455	1,437	102,793	4,677
Lebanon	17,173	2,079	914	113	20,279	695
Libya	31,317	0	0	0	31,318	0
Maldives	29	0	0	2	34	1
Morocco	97,773	12,986	4,912	1,169	116,840	12,088
Nepal	132	3	6	1	143	4
Oman	19,194	5,623	3,960	5,150	33,927	10,352
Pakistan	117,923	21,935	54,145	15,404	209,406	68,009
Qatar	13,332	1,678	597	427	16,033	636
Saudi Arabia	1,177,590	307,996	91,992	108,563	1,686,142	263,909
Sri Lanka	477	1,324	412	1,717	3,931	1,294
Syria	1,397	132	0	0	1,529	0
Tunisia	54,358	43,130	2,345	1,469	101,302	4,295
United Arab Emirates	31,578	28,501	26,157	5,141	91,377	120,585

(cont.)

Region/ country	Fiscal year					
	1950 to 1984	1985	1986	1987	1950 to 1987	1988 (estimate)
	----- (thousands) -----					
Yemen (Aden)	\$15	0	0	0	\$15	0
Yemen (Sanaa)	<u>1,096</u>	<u>\$1,322</u>	<u>\$14</u>	<u>\$24</u>	<u>2,456</u>	<u>\$37</u>
Total	<u>\$5,355,977</u>	<u>\$1,233,874</u>	<u>\$633,586</u>	<u>\$339,373</u>	<u>\$7,562,810</u>	<u>\$2,649,011</u>
Europe and Canada						
Andorra	2	3	30	7	42	15
Austria	35,536	4,061	1,799	941	42,336	27,553
Belgium	641,004	217,791	135,250	42,422	1,036,467	209,858
Bulgaria	1	0	0	0	1	7
Canada	1,792,593	42,023	47,400	5,294	1,887,309	404,914
Cyprus	433	44	679	35	1,191	421
Denmark	133,113	37,523	18,306	23,624	212,565	81,276
Faroe Islands	0	0	0	0	0	1
Finland	37,023	9,283	5,519	2,145	53,969	11,992
France	465,362	70,948	52,515	37,740	626,564	390,793
Germany	2,033,219	647,651	180,048	89,181	2,950,099	627,917
Gibraltar	34	0	0	0	34	0
Greece	363,266	68,850	30,445	5,689	468,249	552,455
Greenland	28	0	0	0	29	0
Iceland	820	184	73	5	1,082	35
Ireland	10,635	10,244	6,445	322	27,646	768
Italy	1,121,454	188,230	131,371	45,971	1,487,025	377,690
Liechtenstein	85	0	0	a	85	0
Luxembourg	25,879	2,334	4,199	2,757	35,168	3,678
Malta	204	0	0	5	209	9
Monaco	59	13	5	11	88	28
Netherlands	495,259	68,491	52,178	94,165	710,093	246,654
Norway	213,738	76,051	50,610	59,368	399,767	176,504
Portugal	40,848	4,219	3,417	6,277	54,761	49,392
Romania	4,850	285	16	a	5,152	8
San Marino	5	3	0	0	8	960
Spain	482,835	47,654	34,315	13,708	578,512	168,346
St. Pierre & Miquelon	2	0	0	0	2	0
Svalbard & Jan Mayen	96	69	226	685	1,077	1,653
Sweden	386,001	74,631	43,264	19,247	523,142	102,156
Switzerland	202,357	152,424	62,567	15,652	432,999	119,238
Turkey	96,426	33,415	9,148	12,839	151,828	120,591

(cont.)

Region/ country	Fiscal year					
	1950 to 1984	1985	1986	1987	1950 to 1987	1988 (estimate)
------(thousands)-----						
Union of Soviet Socialist Republics	\$10	0	0	\$11	\$21	\$4
United Kingdom	1,341,524	\$376,293	\$259,488	149,031	2,126,338	1,262,786
Yugoslavia	38,186	5,011	6,827	12,051	62,073	30,702
Total	<u>\$9,962,877</u>	<u>\$2,137,728</u>	<u>\$1,136,140</u>	<u>\$639,183</u>	<u>\$13,875,929</u>	<u>\$4,968,404</u>
Africa						
Angola	81	0	0	0	82	0
Benin	1	0	0	0	1	0
Botswana	481	22	81	16	600	8,885
Burkina (Upper Volta)	74	0	0	0	74	6
Burundi	255	91	0	0	346	1
Cameroon	34,427	539	1,449	183	36,598	2,711
Central African Republic	57	10	17	7	91	10
Chad	95	222	291	0	608	34
Congo	6	0	0	0	6	0
Djibouti	11	0	^a	0	12	1
Equatorial Guinea	^a	0	0	0	^a	0
Ethiopia	3,857	0	0	0	3,856	0
Gabon	3,577	446	188	86	4,297	515
Gambia	291	9	7	1	308	77
Ghana	679	20	0	6	705	239
Guinea	9	45	0	4	58	39
Guinea-Bissau	33	0	0	0	33	0
Ivory Coast	732	15	353	59	1,158	159
Kenya	8,856	100	407	6,863	16,226	3,652
Lesotho	127	0	0	0	127	0
Liberia	2,525	136	0	1	2,662	17
Madagascar	574	0	0	0	574	1
Malawi	10	0	0	0	10	1
Mali	30	0	0	3	34	1
Mauritania	208	21	0	0	229	0
Mauritius	160	7	0	2	168	1
Mozambique	450	38	26	2	516	11
Niger	231	133	45	0	408	1,136
Nigeria	142,001	4,980	36,723	1,581	185,285	13,280

(cont.)

Region/ country	Fiscal year					
	1950 to 1984	1985	1986	1987	1950 to 1987	1988 (estimate)
------(thousands)-----						
Reunion	\$5	0	0	0	\$5	0
Rwanda	9	0	\$1	0	10	0
Senegal	563	\$8	7	\$2	580	\$5
Seychelles	40	2	0	^a	42	0
Sierra Leone	57	3	0	0	59	50
Somalia	6,052	59	3	177	6,290	166
South Africa	36,969	1,612	148	0	38,729	10,863
St. Helena	^a	0	0	0	^a	0
Sudan	16,875	2,368	29,261	120	48,625	1,128
Swaziland	113	0	0	0	113	0
Tanzania	3,142	112	9	54	3,317	152
Togo	118	0	0	66	184	498
Uganda	501	0	0	0	500	200
Western Sahara	0	0	0	0	0	636
Zaire	5,843	0	29	51	5,923	276
Zambia	1,534	69	49	50	1,702	125
Zimbabwe	740	189	126	259	1,313	560
Total	\$272,399	\$11,254	\$69,220	\$9,593	\$362,464	\$45,436
American Republics						
Anguilla	0	0	308	0	308	1
Antigua & Barbuda	74	2	1	^a	77	9
Argentina	110,713	20,554	8,146	5,746	145,159	23,709
Bahamas	574	103	5,091	141	5,909	157
Barbados	153	85	11	351	603	187
Belize	537	16	181	17	752	79
Bermuda	1,494	196	190	17	1,895	46
Bolivia	5,044	144	374	162	5,722	1,288
Brazil	141,468	26,459	18,956	20,859	207,742	75,132
British Virgin Islands	74	1	4	2	80	112
Cayman Islands	412	20	1	108	540	50
Chile	8,771	1,104	1,117	1,060	12,052	4,805
Colombia	45,286	10,666	13,035	1,396	70,383	8,289
Costa Rica	1,777	9,386	119	294	11,576	300
Dominica	23	11	1	2	36	2
Dominican Republic	5,706	264	127	327	6,424	880
Ecuador	37,478	4,835	2,671	14,810	59,793	12,910
El Salvador	8,285	2,361	1,563	321	12,531	1,300

(cont.)

Region/ country	Fiscal year					
	1950 to 1984	1985	1986	1987	1950 to 1987	1988 (estimate)
	------(thousands)-----					
Falkland Island	^a	\$5	0	0	\$5	0
French Guiana	\$21,928	29,268	\$21,550	\$168	72,915	\$127,350
Grenada	23	0	19	15	57	9
Guadeloupe	125	0	0	0	127	3
Guatemala	5,887	282	81	266	6,516	611
Guyana	1,293	180	171	1	1,646	103
Haiti	3,674	3,226	3	20	6,923	21
Honduras	10,659	1,532	1,265	876	14,332	3,911
Jamaica	1,827	280	207	429	2,743	530
Martinique	17	0	0	^a	17	2
Mexico	31,475	15,496	22,341	207,531	276,844	55,045
Montserrat	8	0	1	0	10	0
Netherlands						
Antilles	1,537	634	5	92	2,267	52
Nicaragua	4,299	1	4	2	4,307	2
Panama	43,680	847	687	412	45,627	8,753
Paraguay	3,193	60	83	35	3,371	8,793
Peru	55,326	7,919	2,206	3,211	68,663	16,887
St. Christopher- Nevis	2	0	^a	0	3	0
St. Lucia	27	2	4	3	36	925
St. Vincent & Grenadines	7	^a	4	0	10	1
Suriname	118	6	0	0	124	0
Trinidad & Tobago	2,801	350	183	493	3,827	1,900
Turks & Caicos	58	0	0	0	58	3
Uruguay	3,118	355	147	457	4,077	627
Venezuela	<u>109,388</u>	<u>86,898</u>	<u>10,810</u>	<u>31,648</u>	<u>238,743</u>	<u>143,159</u>
Total	<u>\$668,343</u>	<u>\$223,549</u>	<u>\$111,668</u>	<u>\$291,273</u>	<u>\$1,294,831</u>	<u>\$497,943</u>
International organizations	<u>470,146</u>	<u>211,475</u>	<u>105,360</u>	<u>66,423</u>	<u>853,405</u>	<u>269,739</u>

Notes: The total for fiscal years 1950 to 1984 does not agree with the total in our earlier report because the Department of State has updated figures for fiscal years 1982 to 1984 with more accurate and complete data.

^aDenotes amounts less than \$500.

Sources: DOD's Foreign Military Sales, Foreign Military Construction Sales and Military Assistance Facts, as of September 30, 1987.

Congressional Presentation for Security Assistance Programs, Fiscal Year 1989.

TOP 25 CONTRACTORS SUPPLYING
MILITARY EQUIPMENT UNDER
COMMERCIAL EXPORT SALES

Tables V.2 through V.5 show the top 25 contractors during fiscal years 1985 to 1988 exporting military equipment under commercial licenses issued by the Department of State. The lists were developed from OMC's data base of Yearly Export Reports. The dollar amounts indicate the totals represented in the contractors' license applications and do not necessarily reflect actual exports.

Table V.2: Top 25 Contractors Supplying Military Equipment Under Commercial Export Sales for Fiscal Year 1988

<u>1988</u> <u>rank</u>	<u>Contractor</u>	<u>Total contract amount</u> (thousands)
1	General Dynamics Corporation	\$2,171,740
2	United Technologies Corporation	1,452,208
3	Westinghouse Electric Corporation	937,570
4	General Electric Company	919,696
5	Litton Industries, Inc.	817,014
6	McDonnell Douglas Corporation	796,363
7	Raytheon Company	729,321
8	Lockheed Corporation	466,877
9	Honeywell, Inc.	406,276
10	The Singer Company	380,652
11	Texas Instruments, Inc.	374,066
12	Textron, Inc.	356,043
13	Loral Corporation	333,280
14	Allied-Signal, Inc.	318,986
15	Emerson Electric Company	310,650
16	Harsco Corporation	310,645
17	Northrop Corporation	270,107
18	Teledyne, Inc.	248,960
19	Ford Motor Company	201,608
20	Rockwell International Corporation	178,839
21	International Business Machines	169,693
22	ITT Corporation	164,061
23	The Boeing Company	153,804
24	Grumman Corporation	151,564
25	The LTV Corporation	<u>146,200</u>
	Total	<u>\$12,766,223</u>

Table V.3: Top 25 Contractors Supplying Military Equipment Under Commercial Export Sales for Fiscal Year 1987

<u>1987</u> <u>rank</u>	<u>Contractor</u>	<u>Total contract amount</u> (thousands)
1	The Boeing Company	\$1,585,396
2	United Technologies Corporation	1,118,134
3	Litton Industries, Inc.	778,683
4	McDonnell Douglas Corporation	737,817
5	Westinghouse Electric Corporation	655,252
6	General Electric Company	653,696
7	General Dynamics Corporation	645,408
8	FMC Corporation	529,881
9	Textron, Inc.	460,188
10	Teledyne, Inc.	401,885
11	Ford Motor Company	365,284
12	Texas Instruments, Inc.	357,709
13	ITT Corporation	334,109
14	The Singer Company	333,991
15	Raytheon Corporation	322,183
16	Honeywell, Inc.	249,023
17	Northrop Corporation	245,865
18	Lockheed Corporation	221,973
19	Martin Marietta Corporation	164,458
20	Emerson Electric Company	126,048
21	Loral Corporation	116,361
22	GTE Corporation	102,211
23	International Business Machines	96,081
24	Rockwell International Corporation	94,109
25	Harsco Corporation	<u>84,097</u>
	Total	<u>\$10,779,842</u>

Table V.4: Top 25 Contractors Supplying Military Equipment Under Commercial Export Sales for 1986

<u>1986</u> <u>rank</u>	<u>Contractor</u>	<u>Total contract amount</u> (thousands)
1	General Dynamics Corporation	\$1,918,299
2	McDonnell Douglas Corporation	1,633,375
3	United Technologies Corporation	1,006,880
4	Litton Industries, Inc.	885,934
5	General Electric Company	786,272
6	Raytheon Company	708,773
7	Westinghouse Electric Corporation	705,331
8	Allied-Signal, Inc.	334,283
9	Ford Motor Company	324,482
		(cont.)

<u>1986</u> <u>rank</u>	<u>Contractor</u>	<u>Total contract amount</u> (thousands)
10	Loral Corporation	\$303,077
11	Honeywell, Inc.	301,417
12	Northrop Corporation	264,956
13	Texas Instruments, Inc.	260,465
14	Teledyne, Inc.	187,618
15	The Singer Company	169,371
16	Lockheed Corporation	168,935
17	ITT Corporation	148,622
18	Textron, Inc.	128,679
19	Grumman Corporation	103,324
20	Rockwell International Corporation	97,518
21	Tracor, Inc.	86,731
22	Harsco Corporation	85,732
23	Martin Marietta Corporation	83,348
24	International Business Machines	82,461
25	Harris Corporation	<u>78,692</u>
Total		<u>\$10,854,575</u>

Table V.5: Top 25 Contractors Supplying Military Equipment Under Commercial Export Sales for Fiscal Year 1985

<u>1985</u> <u>rank</u>	<u>Contractor</u>	<u>Total contract amount</u> (thousands)
1	General Dynamics Corporation	\$2,350,703
2	United Technologies Corporation	647,487
3	Litton Industries, Inc.	608,031
4	McDonnell Douglas Corporation	434,942
5	Northrop Corporation	416,252
6	Lockheed Corporation	332,705
7	Texas Instruments, Inc.	327,586
8	Honeywell, Inc.	238,635
9	Ford Motor Company	232,067
10	General Electric Company	215,953
11	Raytheon Corporation	213,019
12	Teledyne, Inc.	197,549
13	ITT Corporation	197,135
14	Westinghouse Electric Corporation	154,213
15	Harsco Corporation	140,145
16	Textron, Inc.	131,650
17	TRW, Inc.	114,249
18	Loral Corporation	113,612
19	Grumman Corporation	113,103
20	The Boeing Company	110,605
21	The Singer Company	108,003
		(cont.)

<u>1985</u> <u>rank</u>	<u>Contractor</u>	<u>Total contract amount</u> (thousands)
22	International Business Machines	\$100,180
23	Rockwell International Corporation	90,848
24	Martin Marietta Corporation	77,416
25	GTE Corporation	<u>72,108</u>
Total		<u>\$7,738,196</u>

TOP 25 CONTRACTORS SUPPLYING
MILITARY EQUIPMENT/SERVICES UNDER
FMS

Tables V.6 through V.8 show the top 25 contractors during fiscal years 1985 to 1987 providing military equipment, supplies, construction, or services under FMS agreements. The tables show the amounts of actual contract awards and modifications during those years. The lists show parent companies but not their subsidiaries and divisions. For example, the General Electric Company, which is the parent company of RCA, is listed, while RCA is not. In some instances, amounts for certain companies may not include all the subsidiaries and divisions because this data was not readily available from DOD's data base of Individual Contracting Action Reports Over \$25,000.

Table V.6: Top 25 FMS Contractors for Fiscal Year 1987

<u>1987</u> <u>rank</u>	<u>Contractor</u>	<u>Contract amount</u> (thousands)
1	McDonnell Douglas Corporation	\$659,026
2	General Dynamics Corporation	611,088
3	Grumman Corporation	508,983
4	General Electric Company	343,709
5	Raytheon Company	326,596
6	United Technologies Corporation	226,128
7	Lockheed Corporation	197,100
8	General Motors Corporation	190,927
9	UNISYS Corporation	176,196
10	Westinghouse Electric Corporation	122,646
11	The Boeing Company	107,301
12	Litton Industries, Inc.	97,213
13	Texas Instruments, Inc.	74,745
14	FMC Corporation	48,780
15	MDTT, Inc.	48,082
16	Textron, Inc.	46,519
17	Rockwell International Corporation	46,042
18	Honeywell, Inc.	41,316

(cont.)

<u>1987</u> <u>rank</u>	<u>Contractor</u>	<u>Contract amount</u> (thousands)
19	Northrop Corporation	\$36,946
20	Saudi Maintenance Company, Siyanco	35,121
21	International Business Machines	27,137
22	Allied-Signal, Inc.	24,543
23	Cubic Corporation	21,713
24	Clabir Corporation	21,419
25	The LTV Corporation	<u>20,998</u>
Total		<u>\$4,060,274</u>

Table V.7: Top 25 FMS Contractors for Fiscal Year 1986

<u>1986</u> <u>rank</u>	<u>Contractor</u>	<u>Contract amount</u> (thousands)
1	General Dynamics Corporation	\$1,369,582
2	General Electric Company	630,320
3	Raytheon Company	601,928
4	McDonnell Douglas Corporation	573,652
5	Texas Instruments, Inc.	217,867
6	United Technologies Corporation	213,681
7	The Boeing Company	205,741
8	Westinghouse Electric Corporation	203,567
9	General Motors Corporation	202,098
10	Grumman Corporation	125,197
11	Ford Motor Company	105,194
12	Northrop Corporation	104,042
13	Honeywell, Inc.	91,293
14	Vinnell Corporation	81,381
15	Burroughs Corporation	81,105
16	Textron, Inc.	80,785
17	Allied-Signal, Inc.	73,798
18	Lockheed Corporation	66,229
19	Hospital Corporation of America	61,600
20	Harsco	52,764
21	Science Applications International Corporation	48,488
22	International Business Machines	43,224
23	Saudi Maintenance Company, Siyanco	42,549
24	Lear Siegler, Inc.	41,597
25	Litton Industries, Inc.	<u>41,587</u>
Total		<u>\$5,359,269</u>

Table V.8: Top 25 FMS Contractors for Fiscal Year 1985

<u>1985 rank</u>	<u>Contractor</u>	<u>Contract amount (thousands)</u>
1	McDonnell Douglas Corporation	\$1,621,478
2	The Boeing Company	1,289,889
3	General Dynamics Corporation	1,231,294
4	General Electric Company	503,088
5	United Technologies Corporation	299,745
6	Northrop Corporation	297,019
7	Lockheed Corporation	293,836
8	Raytheon Company	234,598
9	Sam Whan Corporation	182,815
10	Grumman Corporation	182,315
11	Hospital Corporation of America	133,987
12	You One Construction Company, Ltd.	128,291
13	Teledyne, Inc.	122,311
14	Ford Motor Company	100,795
15	Howard Hughes Medical Institute	92,660
16	General Motors Corporation	86,917
17	Westinghouse Electric Corporation	82,721
18	Sperry Corporation	73,967
19	Rockwell International Corporation	70,696
20	Science Applications International Corporation	53,832
21	CFM International, Inc.	50,887
22	Litton Industries, Inc.	46,245
23	LTV Aerospace and Defense Company	45,026
24	Honeywell, Inc.	37,543
25	FMC Corporation	<u>36,672</u>
	Total	<u>\$7,298,627</u>

PROGRAMS AND ACTIVITIES IN
THE PRESIDENT'S BUDGET PROPOSAL

The Budget of the United States Government presents an annual overview of the President's budget proposals. Security assistance programs and related activities included in our report are shown in table VI.1 as they appear in the fiscal year 1989 budget request by agency and budget function.

Table VI.1: Security Assistance and Related Programs by Agency and Budget Function

<u>Program</u>	<u>Agency</u>	<u>Budget function</u>
FMS Credits	Funds Appropriated to the President	152 ^a
ESF	Funds Appropriated to the President	152
MAP	Funds Appropriated to the President	152
IMET	Funds Appropriated to the President	152
PKO	Funds Appropriated to the President	152
GRF	Funds Appropriated to the President	152
SDAF ^b	Funds Appropriated to the President	155 ^a
FMS Trust Fund	Funds Appropriated to the President	155
Cooperative Projects	DOD--Procurement	051 ^c
Humanitarian Assistance ^d	DOD--Operations and Maintenance ^e	051
Exercise-Related Construction	DOD--Military Construction ^f	051
NATO Infrastructure	DOD--Military Construction	051

^aThe 152 and 155 budget functions are subsets of the 150 function, International Affairs.

^bNo funds requested, as this program does not receive appropriations. The Congress does, however, provide obligational authority (see app. II).

^cThe 051 budget function is a subset of 050, National Defense.

^dIncludes humanitarian and civic assistance activities that are JCS- and DOD-sponsored. It also includes combined exercise funds and payment of the personal expenses of foreign officials attending conferences and seminars (see app. II).

^eDoes not appear as a line item but is contained in each military service's operations and maintenance account under "support to other nations."

^fDoes not appear as a line item but is contained in each military service's minor military construction account.

MAJOR CONTRIBUTORS TO THIS REPORT

NATIONAL SECURITY AND INTERNATIONAL
AFFAIRS DIVISION, WASHINGTON, D.C.

Joseph E. Kelley, Associate Director, (202) 275-4128
Stewart L. Tomlinson, Group Director
Glen Levis, Evaluator-in-Charge
Cecilia F. Owens, Evaluator
Wanda R. Beasley, Secretary

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