

DOCUMENT RESUME

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Foreign Military Sales: A Potential Drain on the U.S. Defense Posture (Unclassified Digest). LCD-76-455. July 25, 1977.

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Military Preparedness Plans (800); International Economic and Military Programs (600); Facilities and Material Management (700).

Contact: Logistics and Communications Div.

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Organization Concerned: Arms Control and Disarmament Agency; Department of Defense; Department of the Treasury; Department of State.

Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services; Congress.

Records of the United States Arms Control and Disarmament Agency indicate that the United States has dominated the world arms market since 1965 and now controls it by almost 50%. This domination is attributable to the high technology embodied in the weapon systems sold; the ability to provide follow-on support through the systems' life cycle; and, in some cases, a political preference on the part of some countries for buying from the United States rather than from other nations. Findings/Conclusions: Many of the problems affecting the management of the foreign military sales process can be solved at the Department of Defense. Recommendations: The Secretary of Defense should require: inclusion, in all cases, of detailed impact statements in the foreign military sales decisionmaking process so that relevant information is not omitted inadvertently; a supply support agreement or other mechanism to be a part of any sale when it is feasible so that the Department of Defense can program and fund future support without affecting U.S. defense capabilities adversely; and development of a forecasting mechanism to identify the probable quantities of future critical support items for U.S. and foreign sales customers, including long leadtime items used on more than one weapon system. Such a mechanism will require a system that will couple existing data on sales and deliveries by country, weapon system, quantities, and delivery dates with current assets. (SC)

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FOREIGN MILITARY SALES--
A POTENTIAL DRAIN ON
THE U.S. DEFENSE POSTURE
Departments of Defense and State

D I G E S T

Sales of military equipment by the United States to foreign buyers have increased from \$952 million in 1970 to \$8.7 billion in 1976.

Continued congressional concern over the impact of such sales on the U.S. defense posture prompted GAO to review effects of certain weapon systems' sales on U.S. Forces and to examine the considerations given to these effects on the decisionmaking process.

Records of the United States Arms Control and Disarmament Agency indicate that the United States has dominated the world arms market since 1965 and now controls it by almost 50 percent. This domination is attributable to the high technology embodied in the weapon systems sold; the ability to provide follow-on support through systems' life cycles; and, in some cases, a political preference on the part of some countries for buying from the United States rather than from other nations.

Foreign military sales include some of the most advanced weapons and support systems in the U.S. inventory and represent a large percentage of new weapons or equipment. For example, in fiscal year 1975 about 50 percent of the Army's procurement activities were for the support of foreign sales. Similarly, the chief customers have changed from primarily North Atlantic Treaty Organization countries and other allies to Middle East countries not allied with the United States--Iran, Israel, and Saudi Arabia. These countries accounted for over half of the \$8.7 billion foreign sales in 1976.

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Foreign military sales are intricately woven throughout the U.S. political, economic, and defense fabric, which makes management of these sales complex and assessment of their effects difficult. However, reasonable assessments from Defense indicate that the armament management and decisionmaking process has, on occasion, allowed foreign deliveries to affect U.S. defense capabilities adversely. GAO believes that, even though some sales are made from a purely political standpoint, there are opportunities to improve the management process for satisfying these and other foreign sales so as to minimize the impact on the U.S. defense posture.

What follows is intended to highlight some of the ways in which foreign sales have had an impact, and may continue to have an impact, on the U.S. defense posture. However, none of the examples, by themselves, create insurmountable problems, and they should not be considered out of context. But when the examples are considered together, their cumulative effect demonstrates how foreign sales aggravate the already difficult task of managing the U.S. defense posture in a peacetime environment. Moreover, the examples provide a valuable insight into the need for improvements today in order to avert potentially greater management complexities in the future.

The report identifies problems that affect the management of the foreign military sales process and attempts to place the potential long-range effects of the sales in perspective. For example:

--Foreign sales agreements provide for future support. At the beginning of fiscal year 1976, undelivered orders totaled about \$24 billion. As more deliveries of such systems are made, problems encountered with production limitations and competing demands for key components will be magnified. (Sec p. 34.)

--Over 45 percent of support requirements for sales of major end-items from 1970 to 1975 have not been programmed. Unless these requirements are definitized and planned for in advance, the United States may not be able to satisfy future foreign support requirements without affecting the U.S. readiness. (See pp. 33 and 34.)

--Management information systems for foreign military sales have data of individual sales satisfied from present production, but the systems do not identify future support requirements for U.S. and foreign customers. (See p. 18.)

--Inadequate consideration has been given to the cumulative effect of foreign military sales on weapon systems with common components. Sales thus made affect not only the system being delivered but also other systems. (See p. 29.)

Many of the problems can be solved at the Department of Defense. The Secretary of Defense should require:

--Inclusion, in all cases, of detailed impact statements in the foreign military sales decisionmaking process so that relevant information is not omitted inadvertently. (See pp. 19 and 20.)

--A supply support agreement or other mechanism to be a part of any sale when it is feasible, so that the Department of Defense can program and fund future support without affecting U.S. defense capabilities adversely. (See p. 38.)

--Development of a forecasting mechanism to identify the probable quantities of future critical support items for U.S. and foreign sales customers, including long leadtime items used on more than one weapon system. Such a mechanism will require a system that will couple existing data on sales and deliveries by country, weapon system, quantities, and delivery dates, with current assets. (See pp. 38 and 39.)

AGENCY COMMENTS

The Department of Defense concurred in GAO's recommendations. It said that it had issued instructions informing the military services of the procedures to be followed when submitting impact statements. The instructions, however, do not specify the criteria to be considered. (See p. 20.)

Explicit criteria should be given to the three services to facilitate the preparation of complete and consistent impact statements.

The Department of Defense said that agreements for supply and support would be made a part of any foreign military sale for major weapons when it was feasible to do so. It did not, however, cite any instructions issued or planned that would emphasize to negotiators that every effort should be made to include such agreements as part of all foreign military sales for major weapon systems. Specific instructions emphasizing this policy are imperative.

The Department of Defense noted that forecasting future foreign military sales for major system requirements was being done by tracking inventories, production, training, and foreign demand on 60 major weapon systems to the extent that the requirements of foreign governments are known to them or to the Department of State. However, the system does not address future support requirements. (See p. 39.)

Defense's system on the 60 major systems is a step in the right direction, but it should be expanded to provide for forecasting requirements in future critical support for those items, whether in the hands of U.S. Forces or foreign customers. Although Defense noted that it planned to issue a directive that would require the services to maintain information on past, present, and forecasted sales of major weapon systems, GAO's

review of the proposed directive disclosed that it did not address the maintenance of such data specifically.

The Department of State had no objection to GAO's recommendations. However, it noted that many foreign military sales that had caused major effects on U.S. capabilities in recent years were the result of political, rather than management, decisions.