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BY THE COMPTROLLER GENERAL

**Report To The Chairman,
Senate Committee On
Foreign Relations
OF THE UNITED STATES**

**Forging A New Defense Relationship
With Egypt**

Since its peace treaty with Israel , Egypt has become one of the largest recipients of U.S. military aid and an important U.S. security partner in the Middle East. The growing American presence in Egypt includes military trainers and study teams, joint tactical exercises, Navy port visits, and participation in the new Sinai peacekeeping force.

This report, an unclassified version of a previously issued report, discusses this growing defense cooperation and outlines its various aspects. GAO recommends a number of actions that would enhance the relationship and provide better congressional oversight of the evolving issues.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

E-200308

February 1, 1982

The Honorable Charles H. Percy
Chairman, Committee on Foreign
Relations
United States Senate

Dear Mr. Chairman:

This is an unclassified version of our issued report, "Forging A New Defense Relationship With Egypt," C-ID-82-1, dated January 8, 1982. We have deleted one chapter because it was almost entirely classified. Other security deletions are indicated as they occur throughout the report.

We are sending copies of this report to the Office of Management and Budget, the Secretaries of State and Defense, and other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton J. Forster".

Acting Comptroller General
of the United States

D I G E S T

The United States and Egypt, after three decades of cool relations, entered the 1980s with a new and expanding defense relationship. Egypt has established itself as a valuable strategic asset to the United States in seeking Middle East peace and in protecting U.S. interests in the Persian Gulf region.

Egypt is the second-largest recipient of U.S. military aid, slated for Foreign Military Sales (FMS) financing in fiscal year 1982 totaling \$900 million. In the past 3 years, it has received over \$2 billion in U.S. military aid. Besides this security assistance program, the United States has established numerous other ties with Egypt.

Using U.S. credit, Egypt has ordered some of the most modern and sophisticated equipment in the U.S. arsenal, including F-4 and F-16 fighter aircraft, M-60A3 tanks, Improved Hawk air defense batteries, TOW anti-tank missiles, and armored personnel carriers. Egypt is using this equipment to replace aging Soviet equipment, obtained in the 1960s and 1970s when Egypt was a client of the Soviet Union. All these developments in the U.S.-Egyptian relationship and the attendant congressional interest that surrounds them, led GAO to review progress in military cooperation and areas in which the relationship can be enhanced.

The Chairman of the Senate Committee on Foreign Relations requested on August 13, 1981, that GAO address its report on this subject to him. GAO believes this report will be useful to the Congress in considering future programs for Egypt.

A draft of this report was with the Departments of State and Defense for comment when President Sadat of Egypt was assassinated in October 1981. GAO has no way of knowing the effect of his death on the matters discussed in the report.

POLITICAL REASONS, NOT MILITARY
VALUE, DICTATE AIRCRAFT PURCHASES

Although the FMS program has gone a long way toward assisting Egypt, some of the equipment acquired with U.S. credit has served more of a political purpose than a military one. For example, Egypt is having technical difficulty with its F-4s, and is able to keep only about Deleted of them flyable. Many officials believe Egypt would have been better able to operate and maintain a less-sophisticated aircraft. Egypt apparently wanted the F-4, however, because Israel flew them successfully in the 1973 war and they would be symbolic of the U.S.-Egyptian relationship. Also, F-4s could be delivered quickly from U.S. stocks.

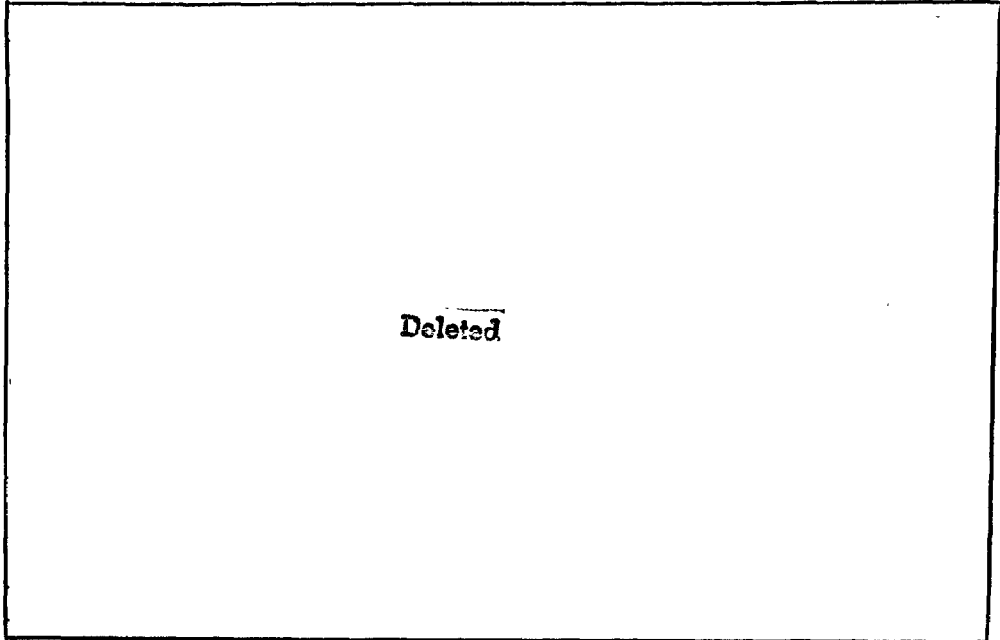
In another case, Egypt bought CH-47 helicopters originally intended for Iran after an Italian company building the helicopters under license appealed to the United States to find another customer when the United States urged a boycott of Iran. Because Egypt had at one time indicated an interest in this model helicopter, the United States contacted Egypt and Egypt agreed to the purchase.

While this transaction saved Egypt some money and provided Egypt some additional military loans from Italy, it also severely strained Egypt's ability to operate and support yet another large procurement program. This is especially troublesome for an item of equipment that was not considered a top military priority by Egypt. (See p. 12.)

"CASH FLOW" FINANCING
LIMITS CONGRESSIONAL PREROGATIVES

The executive branch has authorized Egypt to purchase equipment costing more than \$3.5 billion even though only \$2.05 billion in loan guarantees has been allocated for Egypt. The additional purchases have been made under a so-called "cash flow" system, whereby Egypt depends on future U.S. authorizations to pay bills that come due in future years. Israel also has this "cash flow" authorization. Under the normal credit system authorized for most

U.S. customers (sales credits under section 23 and loan guarantees under section 24 of the Arms Export Control Act), orders must not exceed the amount of authorized credit. The executive branch made this exception for Egypt to increase the buying power of the security assistance program to better meet Egypt's needs. However, it implies a strong commitment by the United States to provide large amounts of credit in future years, limiting, in GAO's view, the prerogatives of the Congress in authorizing the U.S. security assistance program. (See p. 17.)



Egyptian military facilities could be valuable in a Middle East crisis, [redacted] Deleted [redacted] For internal political reasons, Egypt is not prepared to permit a permanent U.S. military base and is reluctant to sign a written agreement governing U.S. access which might suggest a permanent base arrangement. Without a formal agreement, the Congress has been unwilling to commit funds required for needed construction improvements to Egyptian facilities for U.S. use. State and Defense officials are attempting to reach a compromise that will satisfy both Egypt and the Congress. (See p. 27.)

OTHER ASPECTS OF THE U.S.-
EGYPTIAN DEFENSE RELATIONSHIP

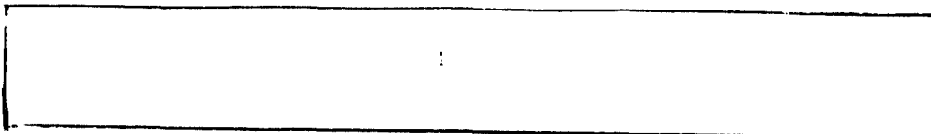
Besides these issues, there are numerous other aspects of U.S.-Egyptian defense cooperation:

- Almost 200 U.S. Navy warships have visited Egyptian ports since 1975, providing shore leave for an estimated 79,000 U.S. sailors. (See p. 32.)
- About 2,000 U.S. servicemen were deployed to Egypt in 1980--and twice that number in 1981--for joint exercises with Egyptian army and air force units. These exercises represented the first U.S. military combat force deployments to the Middle East in 20 years. (See p. 29.)
- The United States has maintained a post in the Sinai manned by civilian volunteers to monitor compliance with cease-fire and peace agreements since the 1973 war. With the Israeli withdrawal from the Sinai in April 1982, the U.S. role will change to an actual military peacekeeping force patrolling the border as a part of a multinational force. The United States will supply an infantry battalion and support units totaling 1,200 personnel. (See p. 33.)

RECOMMENDATIONS TO AGENCIES

GAO recommends that the Secretaries of State and Defense

- establish a joint consultative group with Egypt to study procurement priorities and help ensure that Egypt has the capability and resources to effectively use and maintain the equipment;
- fully disclose to the Congress the details and implications of the "cash flow" financing authorization given to Egypt and Israel so it can assess the desirability of continuing such a commitment; and



RECOMMENDATION TO
THE CONGRESS

GAO also recommends that the Congress enact legislation requiring the executive branch to provide advance notification for "cash flow" financing commitments to be given to allied countries. This would help ensure adequate oversight and control.

AGENCY COMMENTS

GAO's draft report contained a proposal that the Congress consider legislation to require specific authorization of "cash flow" financing for countries selected. This would help ensure full consideration of the implications of this system. In commenting on the draft, Defense argued that the same objective could be achieved through a notification process, in which the executive branch would notify the appropriate congressional committees before a country is authorized to use cash flow financing. This notification process would allow the executive branch to retain more flexibility and still ensure that the Congress is fully informed. GAO has reconsidered the proposal contained in the draft and believes a system of prior notification to the Congress would provide adequate congressional oversight of this important foreign policy decision. Defense generally concurred with the remainder of the report, noting that a joint U.S.-Egyptian Military Coordinating Committee is now being established and will address some of the issues raised in this report.

The State Department did not provide comments in time to be included in this report.

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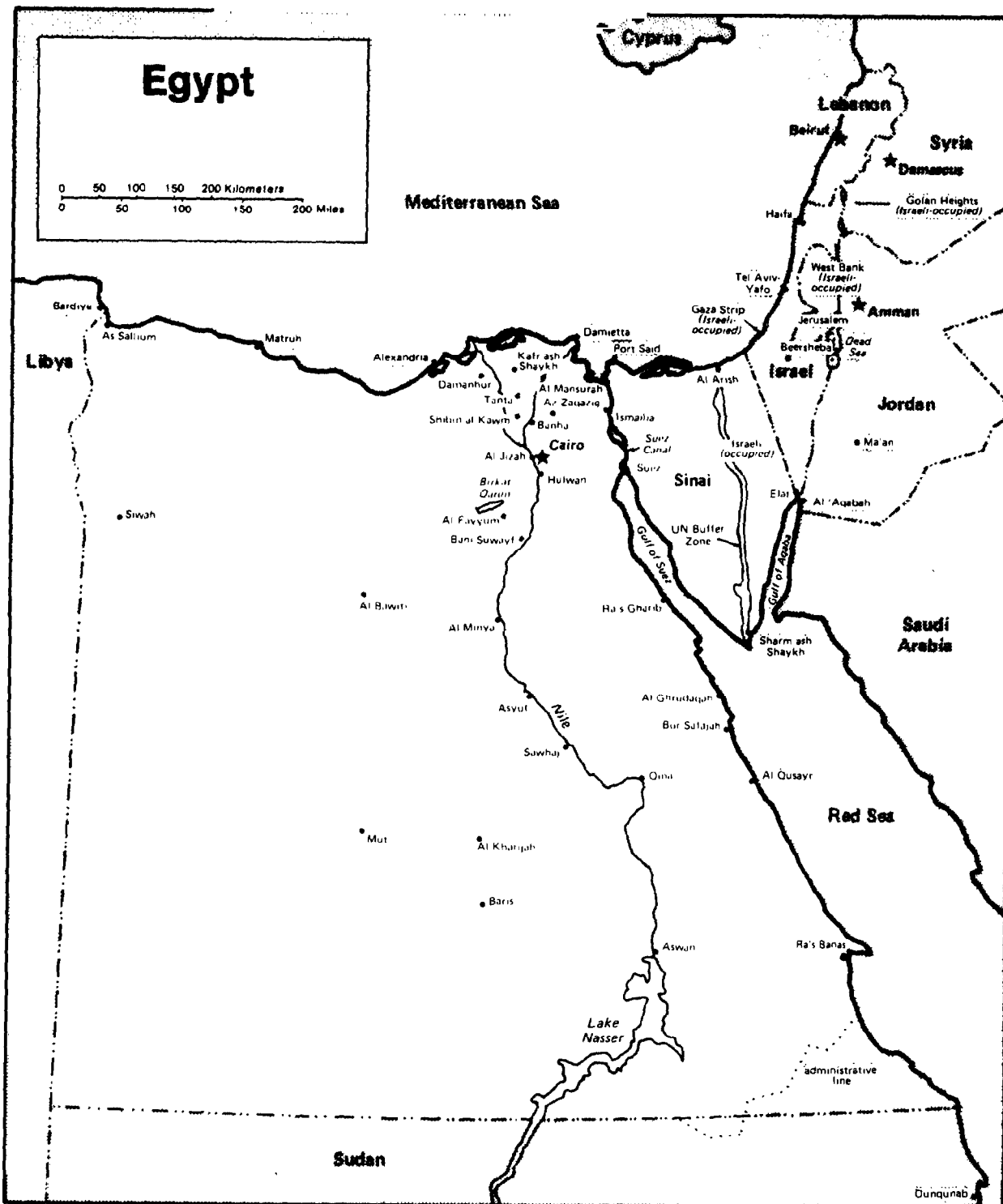
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ABBREVIATIONS

AID	Agency for International Development
AOI	Arab Organization for Industrialization
DOD	Department of Defense
ESF	Economic Support Funds
FMS	Foreign Military Sales
GAO	General Accounting Office
LOA	Letter of Offer and Acceptance



CHAPTER 1

INTRODUCTION

When President Anwar Sadat of Egypt flew to Jerusalem in November 1977 to meet with the Israeli Prime Minister, he ushered in a new era in Middle East politics and opened the door for a greatly expanded relationship with the United States. From that first historic meeting, Egypt has followed a course--through the Camp David meetings and agreement in 1978, the Egypt/Israel peace treaty in March 1979, and step-by-step implementation of the treaty in 1980 and 1981--which has produced expanding and deepening military and political bonds. Egypt had severed diplomatic relations with the United States from 1967 to 1974 and had never been a large U.S. arms customer. Now Egypt receives U.S. credits for arms purchases that make it the second largest U.S. military aid recipient in the world--second only to Israel. U.S. warships call regularly at Egyptian ports and transit the Suez Canal to and from the Indian Ocean. U.S. soldiers and aircraft were deployed to Egypt for exercises and trained side-by-side with Egyptian units in 1980.

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This turnaround in U.S.-Egyptian relations offers countless possibilities for the United States and also poses problems for U.S. military and political planners trying to balance U.S. interests in the precarious Middle East area. Because of the unique nature of this balancing act, we undertook this review of the status of U.S.-Egyptian military cooperation. The Chairman of the Senate Committee on Foreign Relations, in a letter dated August 13, 1981, requested that we report to the Committee on our findings.

U.S.-EGYPTIAN RELATIONS

Since the end of World War II, U.S. relations with Egypt have been closely linked to U.S. interests in Israel and the desire to achieve a solution to the Arab-Israeli conflict. Following the 1956 Suez Crisis, when Egypt was invaded by Israeli, French, and British forces, President Nasser turned toward the Soviet Union for arms and training. The United States provided economic aid but little military aid to Egypt, and when the 1967 war began with a devastating Israeli attack and quick occupation of the Sinai, Egypt accused the United States of complicity and broke off diplomatic relations. For almost 7 years, there was virtually no U.S. influence in Egypt--military, economic, or political. There was also no real peace in the Middle East, despite U.S. and United Nations efforts to find a settlement.

In October 1973 Egypt and Syria launched surprise attacks against Israeli forces initiating the so-called Yom Kippur or Ramadan War. The United States responded with massive military support for Israel, and followed up with an ambitious effort to end the fighting. After a cease-fire and the Sinai I interim agreement in 1974, Secretary of State Kissinger began his famous "shuttle diplomacy," which eventually yielded agreements to disengage Israeli and Egyptian forces in the Sinai and return at least part of the Sinai to Egypt. These Sinai I and II agreements, in 1974 and 1975, were to be the basis for a step-by-step settlement of the Middle East issues, and the United States sought to further these efforts by moving closer to the Egyptian Government. Diplomatic relations were restored in 1974. U.S. economic aid began pouring into Egypt, and in 1976 the United States even sold Egypt six C-130 military cargo planes for cash, the first significant U.S. military sale to Egypt. By 1977 the United States was providing about \$900 million a year in economic aid and the Carter administration had agreed to a cash sale of another fourteen C-130s.

It took President Sadat's dramatic trip to Jerusalem, however, to revive the sputtering peace talks and open the door for a greater U.S. role. Following a series of meetings between Sadat and Israeli Prime Minister Begin, President Carter called for a summit meeting at Camp David. There an agreement was hammered out, calling for a peace treaty between Israel and Egypt; return of the Sinai to Egypt; Egyptian recognition of Israeli sovereignty; normal relations between the two long-time enemies; and talks on Palestinian autonomy.

The United States, for its part, would provide massive economic and military aid to both Israel and Egypt. Egypt would for the first time be eligible for Foreign Military Sales (FMS) credit to buy U.S. equipment--\$1.5 billion was promised over a 3-year period. Egypt would also receive supplemental economic aid of \$100 million each year for 3 years. The United States also agreed to numerous other provisions which gave it a continuing role in the implementation of the peace treaty, which was signed in Washington in March 1979. Egypt was heavily criticized for entering into the treaty by Arab countries, some of which had provided considerable aid to Egypt in the past. As a result, Egypt has been forced to rely very heavily on U.S. economic and military aid to modernize its armed forces and revitalize its economy.

U.S. AID TO EGYPT

In the past 7 years (1975-1981), the United States has provided about \$8.7 billion in loans and grants to Egypt. About \$2.05 billion of this has been military credits, consisting of loan guarantees under section 24 of the Arms Export Control Act. The table on page three details this flow of aid.

The military aid has consisted of loans at Treasury Department interest rates, with 10-year grace periods and 20 years to repay the principal. Egypt has used the credits to buy a wide variety of military equipment from the United States, including aircraft, tanks, armored personnel carriers, air defense systems, and large amounts of ammunition, support equipment, and spare parts. Some of the equipment is pictured on pages 6 and 7.

U.S. ECONOMIC AND MILITARY ASSISTANCE TO EGYPT
FISCAL YEARS 1975 TO 1981 (\$ U.S. MILLIONS)

<u>Year</u>	<u>Economic Assistance</u> (Obligations)		<u>PL-480</u> <u>Aid</u> (note a)	<u>Total</u> <u>Economic</u> <u>Aid</u>	<u>Military Assistance</u> (Allocations)		<u>Grand</u> <u>Total</u>
	<u>GRANTS</u>	<u>LOANS</u>	<u>LOANS</u>		<u>FMS CREDITS</u>	<u>IMET</u> (note b)	
1975	\$ 66.8	\$ 194.3	\$ 110.7	\$ 371.8	\$ -	\$ -	\$ 371.8
1976	215.6	579.0	191.6	986.2	-	-	986.2
1977	99.2	600.0	208.5	907.7	-	-	907.7
1978	133.3	617.4	192.2	942.9	-	.2	943.1
1979	585.0	250.0	253.1	1088.1	1500.0	.4	2588.5
1980	585.0	280.0	301.4	1166.4		1.0	1167.4
1981	780.0	70.0	313.0	1163.0	550.0	.85	1713.85
TOTAL	<u>\$2464.9</u>	<u>\$2590.7</u>	<u>\$1570.5</u>	<u>\$6626.1</u>	<u>\$2050.0</u>	<u>\$2.45</u>	<u>\$8678.55</u>

SOURCE: Department of State

a/PL-480 is the so-called "Food For Peace" Program, providing low-interest loans for imports of U.S. farm products.

b/International Military Education and Training Program.

EGYPT AFTER SADAT

President Anwar Sadat of Egypt was assassinated October 6, 1981, while a draft of this report was being reviewed by the Departments of State and Defense. All our field work, of course, had been completed much earlier and we have no way of knowing the effect of the change in Egyptian leadership on the matters discussed in this report. Official statements from the new Government of Egypt stress the intention to maintain foreign policy initiatives, including the peace treaty with Israel and relations with the United States. State and Defense officials were unable to speculate on what turns future relations with Egypt might take, but they said every effort would be made to continue the growing relationship with Egypt. They stressed the importance of Egypt to U.S. Middle East policy.

OBJECTIVES, SCOPE, AND METHODOLOGY

This report represents a "snapshot" of U.S. military relations with Egypt in the middle of 1981. As with any snapshot, especially one of a rapidly evolving and expanding subject, specific details can be out of date before there is even time to record them. We believe the observations and analysis in this report are useful, however, because of two factors. First, many of the items cited as issues now will not be resolved overnight and will be the subject of continuing discussion and decisionmaking for years. This report highlights those issues and outlines the key factors involved in resolving them. Secondly, a report of this type will provide a base line for reviews to come later as U.S. relations with Egypt mature or deteriorate. Observations at this particular point in time should be useful to reviewers coming later by providing a perspective.

Our objectives in undertaking this work were to assess the current state of U.S.-Egyptian relations in military affairs and to review the effectiveness with which the United States has managed this relationship. We wanted to outline the progress achieved between the two countries in the past few years and to summarize some of the problems that inevitably accompany such a new and rapidly growing program. We looked at four main aspects of U.S. military relations:

- A security assistance program which provides loans enabling Egypt to buy billions of dollars in U.S. military equipment.
- The desire of the United States to use Egyptian military facilities to support potential military action in the Persian Gulf Region.

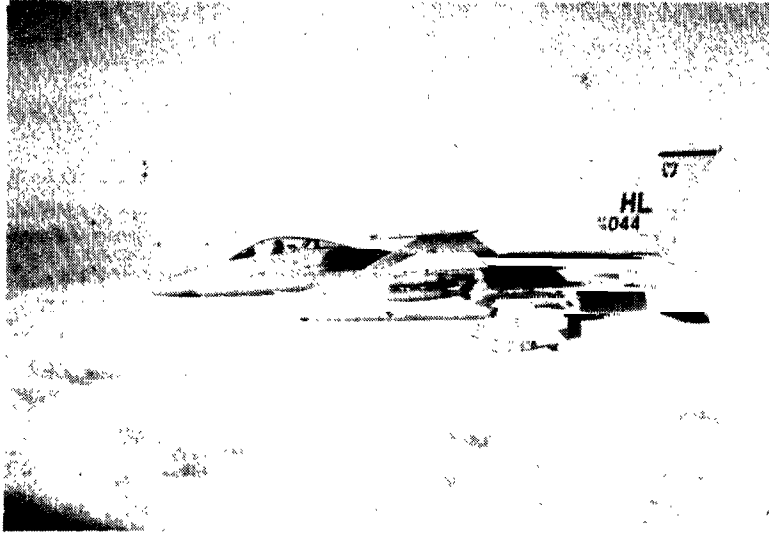
--The past operation and future potential of the U.S. peacekeeping role in the Sinai.

We limited our review to military relations, thus leaving out a huge economic assistance program run by the Agency for International Development (AID) in Egypt. We concentrated on the military aspect of the relationship because this had not been highlighted in our previous reports and was sufficiently large and complex to warrant separate treatment. In addition, we have already reviewed aspects of the economic assistance program and more work will be done on this program in the future. Our most recent report on the Egyptian aid program 1/ cited numerous problems in Egypt's agricultural development.

Our work was done at the Departments of State and Defense in Washington, D.C., and in Cairo, Egypt, during January to July 1981. We interviewed agency officials responsible for Egyptian programs and reviewed reports and documents prepared for the program. We discussed progress and problems in the military relationship with U.S. officials in headquarters positions as well as in the U.S. Embassy in Egypt. We contacted Defense officials from International Security Affairs, the Defense Security Assistance Agency, and Air Force and Army security assistance offices. In Egypt we met with political and economic officers, defense attaches, and officials from the U.S. Agency for International Development and the Office of Military Cooperation.

We were unable to meet with Egyptian Ministry of Defense officials. However, we obtained considerable information on the Egyptian view of the military relationship with the United States from U.S. Embassy sources.

1/"U.S. Assistance To Egyptian Agriculture: Slow Progress After Five Years" (ID-81-19, Mar. 16, 1981).



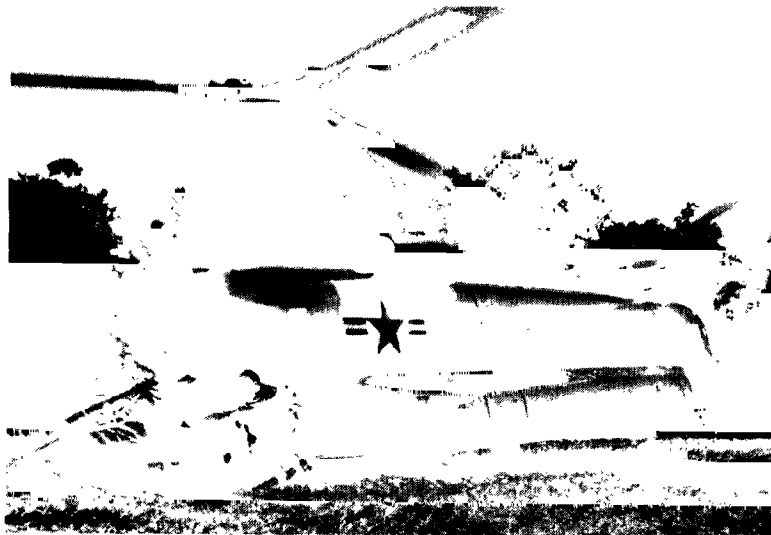
F-16 FIGHTER

PHOTO BY U.S. AIR FORCE



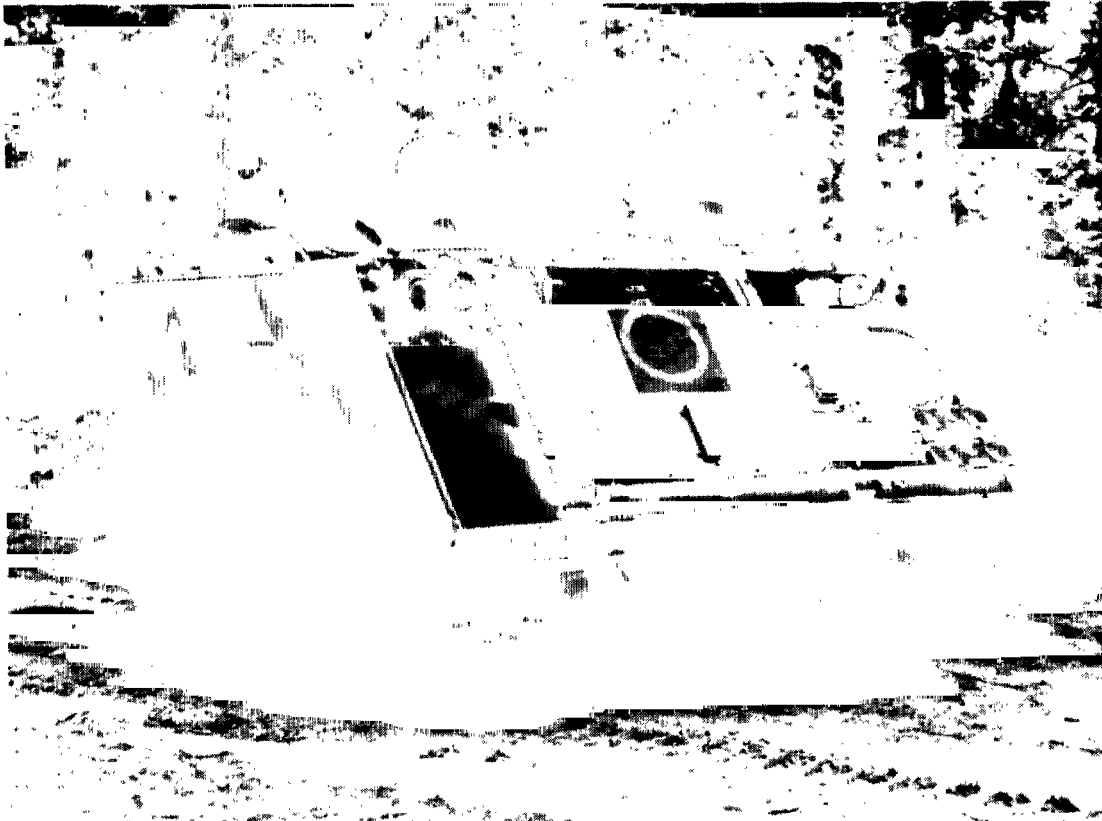
F-4 FIGHTER

PHOTO BY U. S. AIR FORCE



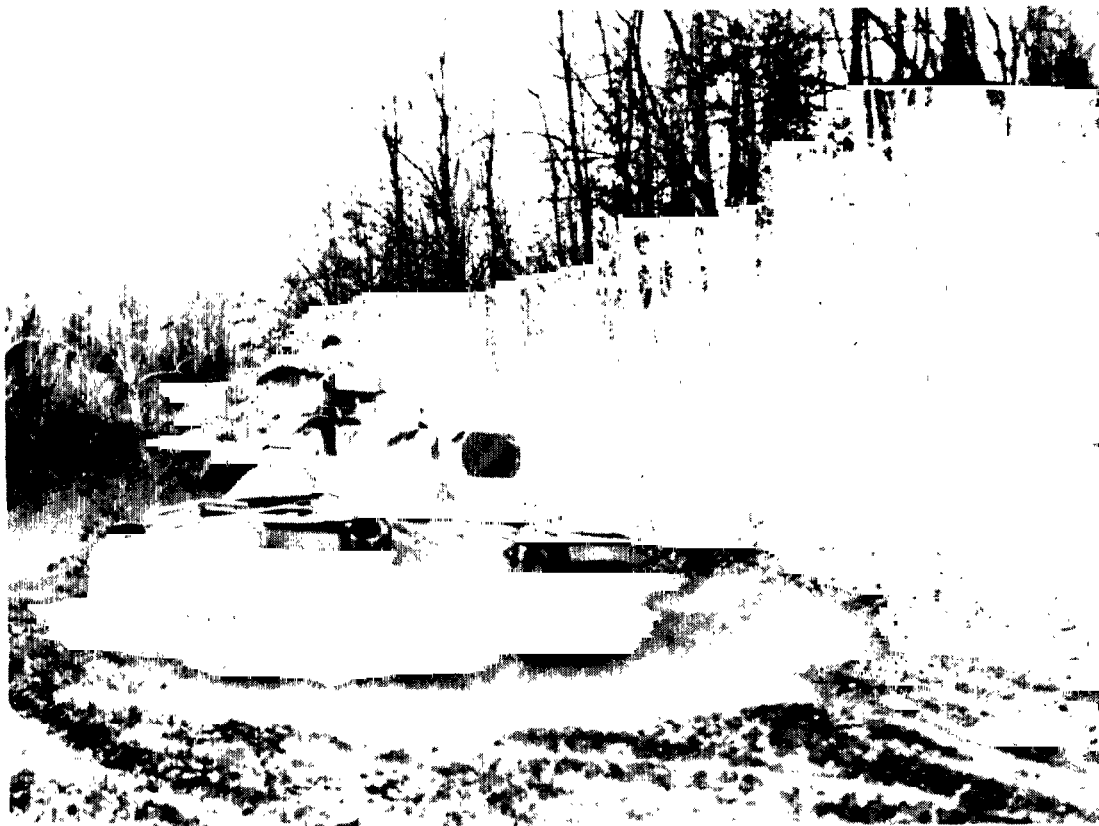
CH-47 HELICOPTER

PHOTO BY BOEING AIRCRAFT



M113 PERSONNEL CARRIER

PHOTO BY U.S. ARMY



M60 TANK

PHOTO BY U.S. ARMY

CHAPTER 2

U.S. SECURITY ASSISTANCE TO EGYPT:

A HUGE PROGRAM MUST BE CAREFULLY MANAGED

Egypt receives more U.S. military aid than any country but Israel, and has ordered U.S. arms valued at over \$3 billion since 1979. The U.S. security assistance program is providing Egypt with some of the most sophisticated weapons available, modernizing the Egyptian armed forces and replacing Soviet military equipment. At the same time, however, the size of the program, the enormous needs perceived by Egypt, and the newness of the U.S.-Egyptian relationship have created problems which U.S. policymakers are struggling to minimize and overcome. Although Egypt has complained that U.S. aid is not enough to meet its needs, some program funds have been spent on equipment that was justified more on political grounds than on sound military reasons. Moreover, to help overcome these Egyptian concerns about the size of the aid program, the United States has allowed Egypt to place orders for military equipment which exceed the credits available to it under the Foreign Assistance Act. In addition, Egypt's desire to receive U.S. assistance in building up its domestic arms industry has so far been frustrated.

DIMENSIONS OF U.S. MILITARY AID TO EGYPT ARE IMPRESSIVE

From 1950 to 1975, the United States provided a total of only \$373,000 to Egypt in military equipment through cash sales. For 7 years of that period, the United States did not even have diplomatic relations with Egypt. In 1976 a military supply relationship began to emerge as Egypt purchased C-130 cargo aircraft, along with training, spare parts, and advisors, for cash. Then in 1979, after the Egypt-Israel peace treaty was signed, U.S. credit became available for FMS; initially the United States agreed to provide \$1.5 billion under the terms of agreements accompanying the peace treaty. This was augmented by an additional \$550 million in fiscal year 1981 and a proposed \$900 million in fiscal 1982. Egypt quickly jumped to near the top of the list of U.S. arms aid recipients. Egypt and Israel will receive between them over one-half the total FMS credits authorized for fiscal year 1982. Egypt has already surpassed such long-term U.S. recipients as Spain, Morocco, and all of Latin America in total assistance received.

Egypt has used its U.S. credit to buy two squadrons each of F-4 and F-16 fighter aircraft, enough M-60A3 tanks for an armored division, M-113 armored personnel carriers sufficient for about four divisions, twelve Improved Hawk air defense batteries, fifteen CH-47C medium lift helicopters, and various other equipment. The table below summarizes these major purchases.

EGYPTIAN FMS PROGRAM

(Orders Placed Through July 1981)

<u>Description</u>	<u>Total</u>	<u>Quantity</u> Estimated Onhand July 1981	<u>Program Cost</u> (U.S. \$ Millions)
Aircraft:			
F-4	35	35	\$ 505.0
F-16	40	-	975.0
CH-47C	15	15	80.0
Armored Vehicles:			
M-60A3	311	64	507.9
M-113	1214	150	207.2
Air Defense:			
I-HAWK	12	-	660.7
Other	-	-	<u>557.3</u>
Total Program Cost			<u>\$3493.1</u>

Source: Defense Security Assistance Agency.

The above table shows that Egypt has already placed orders totaling almost \$3.5 billion even though U.S. credits available through fiscal year 1981 total only \$2.05 billion. Under ordinary FMS financing procedures, the recipient country would be limited to the amount of authorized credits. Egypt, however, has been given authority to use "cash flow" financing, which allows orders to be placed on the likelihood of future U.S. credit authorizations. This system is discussed in detail on pages 17 to 20.

As of July 1981, Egypt has received all the F-4s and CH-47 helicopters, about sixty M-60s and one hundred and fifty M-113s. F-16s will begin arriving in [Deleted] with [Deleted] aircraft that month and [Deleted] thereafter. The air defense batteries are scheduled for deliveries starting in the [Deleted] [Deleted]

Egypt recently submitted a list of additional equipment it will be seeking in the near future. The list includes such things as additional tanks, personnel carriers, and F-16s, [Deleted]

[Deleted] As of July 1981, none of these additional sales had been formalized and U.S. officials were not sure whether they represented a final Egyptian position.

U.S. ASSISTANCE UNLIKELY
TO MEET ALL EGYPTIAN NEEDS

Why, after signing a peace treaty with its most likely foe, does Egypt require such great amounts of military weaponry? U.S. officials point to Egypt's aging Soviet equipment, its isolation from Arab support because of the peace treaty with Israel, and its perceived threat from neighboring states, especially Libya. These factors, and the U.S. desire to support the now pro-Western Egyptian regime, are cited as justification for the outpouring of U.S. aid. Nevertheless, U.S. officials told us that the U.S. program can never fully meet the perceived needs of the Egyptian armed forces because of the high cost of replacing worn-out military equipment at current prices.

Egypt, with armed forces totaling 367,000 personnel, has the largest military force in the Arab world. The International Institute for Strategic Studies estimated in 1980 that Egypt had about 1,700 tanks, 2,750 personnel carriers, and 360 fighter aircraft. Except for newly ordered U.S. equipment and small amounts of equipment from European countries, virtually the entire inventory of Egyptian war machinery consists of Soviet equipment, some dating back 10 years or more. Egypt expelled Soviet advisors in 1972 and the last major shipments of Soviet equipment arrived in Egypt in 1974. Since that time the equipment has aged badly and Egypt had difficulty finding and acquiring spare parts to keep it running. Egypt must acquire new weapons systems to replace this Soviet equipment or face a serious decline in its ability to field an effective fighting force.

Funds to purchase military equipment might have been available from Egypt's Arab allies such as Saudi Arabia and Kuwait, except for the Arab's rejection of the Egypt-Israeli peace treaty. Wealthy Arab countries have withdrawn official aid to Egypt for both military and economic development. One

victim of this action was a proposed Egyptian purchase of fifty F-5 aircraft from the United States using Saudi financing. The deal had been close to completion when Egypt signed the peace treaty. Also stymied were Egypt's efforts to enhance its domestic arms industry through the Arab Organization for Industrialization (AOI). Under this organization, Egyptian factories would use Arab capital to enter coproduction and licensed manufacturing arrangements with Western companies to provide a military industrial base in the Arab world. The Arab partners pulled out of AOI after the Camp David agreements. Without Arab funds, and with its own foreign exchange earnings and gross domestic product much too small to finance large-scale military purchases, Egypt has turned to the United States for the bulk of its defense needs.

Despite peace with Israel, Egypt still sees formidable threats which require a strong military. Foremost among these perceived threats is Libya, Egypt's neighbor to the west. Egyptian and Libyan leaders have made no secret of their dislike for one another, and shots were exchanged along the border in 1977. When Libya moved troops into Chad earlier this year, Egypt feared that this was the first step toward the Sudan, Egypt's southern neighbor with whom Egypt has a mutual security treaty. Libya has a huge arsenal of modern Soviet equipment, and Egypt considers Libya a depot for the Soviet Union and its allies, with the possibility of pilots and troops provided by Soviet allies moving in to use the equipment. Egypt also sees a Soviet threat to the Arabian Peninsula states and has offered Egyptian military assistance to friendly Gulf states confronted by Soviet aggression. To do this, Egypt would like a modern, well-equipped army and air force.

The problem that Egypt and the United States face in modernizing Egypt's armed forces is that new, sophisticated weapons systems are extremely costly. Egypt's forty F-16s, for example, with spares and support equipment, will cost about \$1 billion. M-60A3 tanks now cost about \$2 million each. A single Deleted aircraft costs over \$25 million, and the cost is rising constantly. U.S. officials concede that the United States would never be able to provide enough loans to meet all the needs perceived by Egypt. The stated U.S. aim of the security assistance program is to assist Egypt in maintaining a reasonably equipped military force which will enable Egyptian leadership to fulfill its responsibility to provide for the nation's security. The United States has neither the desire nor the capability, according to U.S. officials we spoke with, to build Egypt into a Middle East "policeman."

EQUIPMENT PROVIDED FOR POLITICAL
REASONS CAUSING MAINTENANCE
AND OPERATIONAL PROBLEMS

Some of the equipment purchased by Egypt under the FMS program served political needs--theirs and ours. Items such as F-4s and CH-47 helicopters were purchased more for political reasons than for military value. Because of the sophistication of the equipment and the speed with which it was introduced, these programs are difficult to implement and are experiencing maintenance and operational problems. These types of programs use valuable resources and contribute little to the success of the U.S. security assistance program in Egypt.

Many Defense and State Department officials we spoke with agreed that the F-4 was not a good aircraft for Egypt to have. It is very complex, difficult to maintain, and has thousands of spare parts. For 1980, Air Force statistics show that F-4s required an average of 30 maintenance hours for every flying hour; the U.S. Air Force was able to keep about 65 percent of its F-4s flyable on the average. By contrast the F-5 aircraft is much simpler to operate and maintain, with a maintenance-to-flying ratio of only 15 to 1. Even the newer, more sophisticated F-16 aircraft require only about 18 hours of maintenance per flying hour, and the U.S. Air Force kept almost 75 percent of them flyable during 1980.

Since Egypt received the full complement of thirty-five F-4s by April 1980, it has had an average of about ~~50~~ ⁴⁰ percent operational rate. Moreover, the Egyptian air force has flown only about ~~50~~ ⁴⁰ percent of the F-4 training sorties it had scheduled; ~~sorties~~ were canceled because of bad weather, command decisions, and because of maintenance and supply problems. Lack of an effective supply system to order and track spare parts and lack of properly trained maintenance personnel to repair broken aircraft have plagued the F-4 program from its start. Many of the problems stem from the speed with which the program was implemented. Egypt received its first F-4s within 1 month of signing the Letter of Offer and Acceptance (LOA). The remaining aircraft were delivered within another 6 months. There was no time to train pilots and mechanics or to provide the facilities and logistics system required for smooth operation of two F-4 squadrons.

U.S. officials pointed out that the F-4s were a valuable symbol to Egypt because this was the type of aircraft used so successfully by the Israelis in the 1973 war. For Egypt to have these planes showed Egypt's equal status with Israel. Reportedly, the agreement on the F-4s was made directly between President Carter and President Sadat and was an important factor in the final peace agreement. By providing these aircraft quickly, the United States showed its commitment to Egypt, and Egypt was able to show off the aircraft in its October 1979 military parade.

CH-47 medium lift cargo helicopters appeared on the original list of equipment desires by Egypt after the Camp David agreements, but it was not listed as a top priority and disappeared from subsequent lists. However, when the United States placed an embargo on Iran after the hostages were taken, an Italian firm manufacturing and selling CH-47s to Iran under license from the U.S. contractor held up shipment of the helicopters in support of the U.S. position. The firm appealed to the United States, however, to help it find another customer because of the financial burden on the firm. U.S. officials noted that Egypt had at one time expressed an interest in such helicopters and obtained Egyptian agreement to purchase 15 helicopters from the Italian company. Officials pointed out that the prices of the helicopters were lower than Egypt could obtain placing a new order and Italy was willing to give Egypt credit for about one-half the purchase price. U.S. FMS credits would be used for the remainder of the costs. The total cost of the package was \$160 million; the U.S. share was \$80 million. U.S. officials justified the use of FMS credits for this foreign purchase because about half the value of the helicopter could be traced to U.S. components built in America by U.S. firms.

When agreement was reached on the CH-47s in late 1980 several helicopters were already built and the rest would be completed by May 1981. The Italian firm, therefore, wanted to deliver them and receive payment as soon as possible. Egypt, however, needed a base and new facilities to house the helicopters; trained pilots and maintenance mechanics to fly and repair them; and a supply system to provide spare parts. These things would take months to prepare. The CH-47s were delivered in June 1981, even though Egypt was not ready to use them effectively. U.S. Army technicians available in Egypt to help implement the program estimated that the new facilities would not be ready until Deleted. These officials expected problems similar to the F-4 program in supply and maintenance. U.S. officials we spoke with feared that if the program did not progress well and the helicopters do not achieve high levels of readiness, the United States could be blamed by Egypt for pushing them into the program. These officials emphasized that the purchase was Egypt's decision; the U.S. role was to point out the availability of the helicopters and the financial advantages of Egyptian purchase.

Whether the program eventually succeeds or not, it is taking away valuable resources and attention from the other new equipment systems being introduced into Egypt, such as F-16s and air defense batteries. The more new programs Egypt must support, the more its infrastructure and trained manpower resources will be stretched. The CH-47 program served a relatively low-priority military need and seems to us to be an unnecessary complication in an already complex military supply relationship between the United States and Egypt.

U.S. officials in Egypt see the army, not the air force, as the politically dominant force in the Egyptian military. The hundreds of millions of dollars that have been spent on these questionable aircraft programs have taken away resources that may have had more of the desired political impact if they were used for the army. When the sophisticated aircraft become maintenance problems and only a ~~Deleted~~ percentage can be kept operational, the United States can lose much of the political value originally attached to the aircraft sale.

Egypt's recent interest in

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It would be yet another new, different program being introduced into Egypt and would present severe challenges to Egypt's maintenance capabilities. The main reason for Egypt's wanting

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No formal request had been made by Egypt as of July 1981, and the United States had not prepared a Letter of Offer. In response to our draft report in October 1981, DOD said Egypt has withdrawn its request for

One reason for the emergence of these political FMS sales is the lack of an effective joint military consultative mechanism between the DOD officials in Egypt and the Egyptian Ministry of Defense. Egyptian equipment desires are transmitted by high level Egyptian officials in meetings with high level U.S. officials in Cairo and Washington. Egyptian and U.S. delegations visit each others' capitals from time to time to discuss Egypt's needs and the levels of U.S. aid, but there is no regular consultative body involving U.S. Office of Military Cooperation officials in procurement planning meetings with the Egyptians. We believe the U.S. relationship with Egypt may be maturing enough by now that such a body should be considered. It could go far toward solidifying the relationship and focusing Egypt's equipment procurement program on the key military needs.

EGYPTIAN UNHAPPINESS WITH PROGRAM CAUSING SOME U.S. CONCERN

Egyptian Government officials have made clear their displeasure with certain aspects of the U.S. security assistance program, especially the level and terms of assistance being provided, the slow deliveries of most of the equipment, and the high price the United States charges for its military equipment. U.S. State Department and Embassy officials are growing increasingly concerned that dissatisfaction with the progress of the program in these areas could sour the growing U.S.-Egyptian relationship. State and Defense are making special efforts to try to accommodate some of the Egyptian concerns.

Level and terms of U.S. loans

Egypt compares its FMS loan treatment to that of Israel and notes that Israel receives substantially more aid each year and on better terms. In 1981, for example, Israel received FMS loans of \$1.4 billion compared to Egypt's \$550 million. While interest rates and repayment schedules were the same for the two countries, Israel received forgiveness of \$500 million of the loans; that is, it only had to pay interest and repay the principal on \$900 million. Egyptian officials have said on several occasions that they expect equality of treatment with Israel--not necessarily the same terms, but something more closely reflecting an equal partnership with the United States.

Egypt believes also that the interest rates charged by the U.S. program are exorbitant and oppressive for a relatively poor country like Egypt. Under the terms of the loan agreement, Egypt pays the same interest rate that the U.S. Treasury pays to borrow money. The rate is applied as the loan funds are drawn down, so the actual interest rate is a composite of the various percentages applied. In May 1981, Egypt had drawn down about \$1.2 billion and the average interest rate was 11.5 percent. New drawdowns at that time, however, were at an interest rate of over 13 percent. The loans have a 10-year grace period during which only interest is paid; the principal is then repaid over a 20-year period. At these high interest rates, Egypt will pay the equivalent of the full amount of the loan in interest payments before the grace period expires.

U.S. officials pointed out that several actions have been taken to help meet some of these Egyptian concerns. First, it is unlikely that Egypt could ever expect to receive absolute equality with Israel (a U.S. long-time ally which has a special relationship with the United States). However, both Israel and Egypt have received substantial increases in their security assistance programs for 1982 and U.S. officials expect aid to Egypt to remain at least as high for the next few years. Secondly, the 30-year repayment terms on the Egyptian loans are considerably more lenient than the normal terms for other countries, which require repayment within 12 years. Finally, the administration proposed that the FMS package in 1982 include \$400 million in direct loans at low interest rates, perhaps as low as percent. The Congress has changed that approach, however, and the bills approved by the House Foreign Affairs and Senate Foreign Relations Committees included a combination of grants and full-interest loans totaling \$900 million for Egypt.

One further effort made by the United States to improve Egypt's buying power was to use "cash flow" financing for Egypt. This is described further on pages 17 to 20.

Slow equipment deliveries

More than 2 years after the peace treaty, Egyptian military forces have very little U.S. equipment in their inventories. Two squadrons of F-4 aircraft were delivered in 1979 and early 1980, but Egypt has little else to show for the U.S. program as of mid-1981. About sixty M-60 tanks were on hand along with 160 armored personnel carriers, ~~Deleted~~ TOW missiles, and fifteen CH-47 helicopters. Egyptian military officials have complained that deliveries are too slow and that Egypt needs the equipment much faster. They compare this slow rate of delivery to their experience with the Soviets, who could deliver large amounts of equipment much faster. They also cite the U.S. resupply of Israel during the 1973 war with large quantities of armored equipment in a very short time.

U.S. officials believe that Egypt's expectations were unreasonably high at the start of the program and that Egyptian officials did not fully understand the U.S. FMS system. The United States does not maintain a large inventory or stockpile of equipment for foreign customers. Orders such as those placed by Egypt must ordinarily take their place in line for production. On rare occasions equipment can be taken from U.S. stocks or speeded up by bumping other customers to a lower priority. The United States has done both these things for Egypt on selected items in an effort to at least partially accommodate Egypt's desires. The F-4 aircraft were provided from active U.S. Air Force units, and TOW missiles are being taken from U.S. Army stocks. Many tanks and thirty of Egypt's forty F-16s will be expedited by giving Egypt a production priority on equipment originally destined for U.S. units. This will delay deployment of this equipment with U.S. forces. We did not review the readiness implications of these equipment diversions, but our prior report ^{1/} concluded that the Air Force was able to minimize the impact of losing the F-4s from its inventory.

U.S. pricing policy

Egyptians have been surprised at the high cost of U.S. military equipment compared to Soviet prices, and have complained about U.S. pricing policy and practices. In one case, for example, Egypt found that it could purchase TOW launchers from a commercial vendor for only \$67,000 each when the Army had quoted a price of \$103,000 each under an FMS case. U.S. military officials in Egypt could not explain the large price difference to the Egyptians. In another case the price of a radar unit increased \$70 million within just a few months after the LOA was signed.

^{1/}"Foreign Military Sales To Egypt and Israel As A Result of Mideast Peace Treaty--Impact On U.S. Readiness Minimized" (C-LCD-80-7), Aug. 1, 1980).

Egyptian officials also cited a case of the United States charging Egypt to train U.S. personnel who would in turn train Egyptians. Egypt could understand paying to train Egyptians, but why should it pay to train Americans?

U.S. officials believe these types of incidents are embarrassing to the United States and serve to complicate the relationship with Egypt. Many U.S. pricing policies, these officials contend, are not appropriate for a poor country like Egypt. It is fine to charge every last dollar to contracts with oil-rich cash customers, but where the United States is trying to develop a deeper relationship with a poor but very important country, officials contend they should have more flexibility.

SPECIAL FINANCING METHOD
LIMITS CONGRESSIONAL PREROGATIVES

Under the so-called "cash flow" method of financing Egypt's FMS program, the United States has allowed Egypt to order \$3.5 billion of military equipment since 1979, even though only \$2.05 billion in credits has been allocated for Egypt. This financing method stretches Egypt's buying power and allows it to place more orders sooner to expedite delivery and minimize cost. However, it appears to us to commit the Congress to large financing programs in future years to ensure that signed contracts are honored.

Here is how this cash flow system works compared to the normal full funding FMS program. When a weapon system is purchased, an LOA is signed by the buyer spelling out the equipment deliveries and the payment schedule. While the total cost of an item may be hundreds of millions of dollars, not all the money will be paid in the first year after the contract is signed. Major systems have a long lead time before delivery, usually several years, and payments will be spread out over this time period. Under normal FMS financing procedures with most countries, the United States requires that the buyer reserve, or set aside, the full cost of the item when the order is placed. This means that if an item costs \$100 million, FMS credits of \$100 million must be set aside when the LOA is signed. Under the cash flow system authorized for Egypt, however, Egypt sets aside only the amount of money needed to meet the current fiscal year's cash requirement. That same \$100 million item, for example, may only require \$50 million the first year. So Egypt can set aside only \$50 million and the other \$50 million is available to place additional orders up to the limit of its cash requirement during that year.

The table below shows how this has allowed Egypt to place orders totaling about

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percent in excess of credit so far authorized for Egypt.

ESTIMATED EGYPTIAN PROGRESS PAYMENTS

USING CASH FLOW FINANCING

Payments due
(FMS loans not yet authorized)

<u>Item</u>	<u>Total program cost</u>	<u>1979-1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Aircraft:	----- (millions) -----				
F-4	\$ 505.0	\$ 385.7			
F-16	975.0	196.2			
CH-47C	80.0	75.0			
Armored vehicles:					
M-60A3	507.9	396.8		Deleted	
M-113	207.2	160.2			
Air defense:					
I-HAWK	660.7	335.5			
Other:	<u>557.3</u>	<u>289.3</u>			
TOTAL	<u>\$3,493.1</u>	<u>\$1,838.7</u>	a/		

a/This \$1.8 billion is the estimated cash requirement for the Egyptian program through fiscal year 1981. \$2.05 billion has been allocated for Egypt, leaving a balance of about \$210 million available for later years.

Source: Defense Security Assistance Agency.

The table also illustrates how this system results in obligations for future years. Egypt needs financing of

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in 1982 and 1983, respectively, just to meet obligations coming due in those years on orders already placed. The only likely source of that funding is the U.S. FMS credit program. If the Congress does not authorize enough financing in those years, Egypt nevertheless would remain legally committed to make the necessary payments. Although Egypt might be able to meet these obligations on a short-term basis from its foreign exchange receipts or from other funding sources, a significant drain would be placed on the Egyptian economy. More importantly, from the political vantage point, it would undermine U.S. credibility and commitment to the Middle East peace process. This could severely limit the flexibility of the Congress in authorizing future FMS credit programs.

State and Defense officials explain that the Egyptians clearly understand that this system does not represent a commitment by the United States to provide specified sums of money in future years, but it would be difficult for Egypt to interpret it any other way. State has allowed Egypt to obligate funds in future years up to the level of \$1.5 billion above current funding; that is, Egypt can obligate a total of \$3.55 billion through fiscal year 1981 in anticipation of future funding. Realistically, the United States would not be likely to reduce funding to Egypt in the foreseeable future anyway. However, by authorizing this cash flow system, the United States permitted Egypt to buy much more equipment in the first 3 years of the program than would ordinarily be possible and it has made a deeper commitment for future support than a normal FMS program would.

State and Defense officials told us this financing system is also used for Israel with an even more open-ended authorization that does not have a total dollar ceiling. Officials said they did not see any violation of law or lessening of congressional prerogatives under the system. Each year, the Congress must still decide whether to authorize and appropriate credits for Egypt. One official said that the administration believed that it had virtually no choice but to authorize the cash flow system. It was the only way Egypt could make a meaningful dent in its military needs. Without cash flow, Egypt could have purchased, through the end of fiscal 1981, the F-4s (\$500 million), F-16s (\$1 billion), air defense batteries (\$600 million), and nothing else. Those three programs alone would have used up all available credits. No money would be available until next year for tanks, personnel carriers, missiles, and other urgent Egyptian needs.

State Department officials contend that they need flexibility in deciding which countries will qualify for cash flow authorization. The decision undergoes thorough consideration within the executive branch, and State officials believe further review by the Congress could delay implementation unnecessarily.

We believe the Congress needs to be aware of the full implications of this cash flow system and should be fully informed about the costs and benefits to the United States. It appears to us that up to now, very little information has been made available to the Congress on this aspect of the Egyptian and Israeli programs.

AID TO ARMS INDUSTRY NOT MEETING EGYPTIAN EXPECTATIONS

As part of the peace agreement between Egypt and Israel, the United States agreed to assist the Egyptian arms industry through sharing of technical data and coproduction arrangements. After more than 2 years of talks and studies, however, little has been accomplished toward strengthening or modernizing Egypt's arms manufacturing capability. A Memorandum of Understanding has been signed and surveys and feasibility studies have been conducted, but no actual manufacturing has come of it as of summer 1981. Financial problems are causing much of the delay, and Egypt's attempt to use Economic Support Fund (ESF) money for some of its defense plants has been turned down.

Egyptian arms industry

Egypt's arms industry was founded in 1948 to guarantee Egypt some degree of self-sufficiency in the face of Western-imposed arms restrictions and to provide a source of hard currency. Although limited to small arms production during the 1950s, in the 1960s output had expanded with Egypt's growing closeness to the Soviet Union to include Soviet-designed machine guns, mortars, recoilless weapons, rockets and launchers, large caliber ammunition, plus an Egyptian-designed armored vehicle.

Egypt's most ambitious undertaking was the Arab Organization for Industrialization (AOI) founded in April 1975 in cooperation with Saudi Arabia, Qatar, and the United Arab Emirates. The AOI was a commercial venture intended to provide indigenous weapons production, both for Arab consumption and ultimately for the Third World market. At the same time, AOI would build an Arab manpower base with modern technical and managerial skills, Egypt's initial capital contributions were two factories for airframe and engine production and two for missile/ordnance and armored vehicle production. The other countries were to provide capital investment. AOI failed, however, when, in reaction to the Egyptian-Israeli peace accords, the other Arab countries withdrew in May 1979.

The Egyptians have tried to support the AOI on their own but the plants are operating at only about 30 percent of capacity even though employment remains at about 90 percent of full capacity levels.

In addition to the AOI factories, the Egyptian Ministry of Military Production maintains some 15 plants of its own. These produce military items ranging from small arms and pyrotechnics to diesel engines. The Ministry plants, organizationally separate from the AOI and under the control of the Ministry of Defense, suffer from the same problems of underproduction and overemployment. Efforts to upgrade and utilize fully the military production industry, largely idle in recent years, have been complicated by the fact that some 40 percent of the work of these state-owned factories involves domestic nonmilitary products. The Egyptians often have both military and civilian production under one roof. The military or civilian quotient can go up or down depending on the situation and the immediate needs.

U.S. assistance has produced studies but little else

As part of the Camp David talks, the United States has agreed to help Egypt develop its domestic arms industry. Talks between Egyptian and U.S. officials during 1979 culminated in a Memorandum of Understanding signed in October of that year, spelling out four major objectives to be achieved with the program:

- Using the existing defense industrial capability to provide a more readily available source of spare parts for defense items.
- Extending the service life of some Soviet equipment in the Egyptian military inventory.
- Conserving Egypt's hard currency and foreign exchange.
- Enabling Egypt to meet its own defense needs economically.

In an Annex to the Memorandum of Understanding, the two governments listed 23 projects that were identified as potential candidates for U.S. defense production assistance. They ranged from production of simple ammunition and bombs to coproduction of armored personnel carriers. In addition, the list included several projects aimed at providing U.S. assistance to keep aging Soviet tanks and missiles operable. These refurbishment projects would be much cheaper than providing new U.S. equipment and would provide relatively quick improvements in Egypt's military capabilities compared to the long lead times on new items.

As of May 1981, the United States and Egypt had entered into 21 LOAs for projects under this program. Most of these efforts, however, have been feasibility studies of Egypt's technical and financial ability to participate in these manufacturing projects. Some progress has been made in upgrading the Soviet equipment, but virtually no new jobs had been created in Egypt and no new manufacturing was underway.

The major reason for the slow progress in the program, according to U.S. officials, is a lack of money for investment in new machine tools and raw materials. Without Arab backing, Egypt lacks the resources to enter into costly new projects on its own. U.S. FMS credits would be available for these projects, but Egypt has been reluctant to use them. U.S. officials believe there is a debate within the Egyptian military establishment over the best use of those credits. Some officials believe they are more useful buying end items of equipment than buying manufacturing capability which will not produce weapons for several years. Experience with some of the AOI production items indicate that the equipment built in Egypt could cost more and be lower quality than what Egypt could purchase from the United States.

Some Egyptian officials, however, have criticized U.S. performance in this production assistance program blaming the lengthy U.S. studies and the very high production costs inevitably estimated for the project. One of these officials said the United States should be doing more to minimize the costs and come up with viable projects that make economic sense. This conflict between U.S. and Egyptian officials over the program has been somewhat exacerbated in 1981 because the Department of Defense had not filled the post of Deputy Under Secretary for Research and Engineering and officials in that branch were reluctant to meet with Egyptians and make program decisions until someone was appointed. One meeting scheduled for May was postponed until later in the year because of this.

Economic support funds not authorized
for civilian production in military plants

State officials believe it makes political and economic sense for the United States to authorize use of Economic Support Funds (ESF) to aid the Ministry of Military Production's civilian production, as requested by Egypt. However, the General Counsel of AID, which manages these funds, has ruled that providing funds for such purposes would be illegal, because it would represent a primarily military use of economic development funds. Some State officials question this legal opinion and are still pursuing possible use of these funds.

During a visit to the United States in October 1980, the Egyptian Minister of Military Production expressed an interest in obtaining ESF assistance for civilian production activities in facilities under the Ministry's control. He said at that time that only civilian production would be aided with these funds, even though military items are made in the same plants.

The U.S. Ambassador to Egypt strongly supported this type of aid to Egyptian industry, arguing that it would provide substantial benefits to the Egyptian economy and would also have a favorable impact upon the attitude of the Egyptian military toward the benefits of cooperation with the United States.

AID's preliminary opinion at that time was that plants under the Ministry were primarily aimed at military production and ESF could not be used for an activity whose principal purpose was military in nature. In January 1981, AID's formal legal opinion confirmed this, specifically barring the use of ESF for the Ministry of Military Production. Section 531 of the Foreign Assistance Act provides that: "Amounts appropriated to carry out this chapter shall be available for economic programs only, and may not be used for military or paramilitary purposes." In his opinion, the AID General Counsel concluded that this provision prohibited the use of ESF funds for the Ministry of Military Production as constituting a military or paramilitary purpose prohibited by the section.

State Department officials in Cairo and in Washington told us that they continue to question the AID decision. They believe ESF assistance could be legally provided, and there would be considerable political advantage to doing so.

CONCLUSIONS AND RECOMMENDATIONS

The United States has made considerable progress in a short time toward establishing an effective military supply relationship with Egypt. Egypt is receiving major weapons systems--including some of the most modern and sophisticated in the U.S. arsenal--in significant numbers. By ~~Deleted~~ Egypt will be flying at least 75 modern U.S. fighter aircraft and will field an army equipped with hundreds of U.S. tanks and armored vehicles.

Any program of this size which has grown so quickly can expect some "growing pains," and the Egyptian security assistance program is not without its problems. We have outlined Egypt's unhappiness with the slow delivery and high prices of U.S. equipment and the lack of progress in the production assistance program. These types of problems, however, appear to us to be

mainly due to Egypt's high expectations at the start of the relationship and Egypt's lack of understanding of the U.S. foreign military sales system. With proper emphasis and management by security assistance personnel, these concerns should be overcome.

The political nature of some of the equipment sales to Egypt, however, is cause for continuing concern. It appears to us that the relationship between the United States and Egypt should have progressed far enough by now to foster more joint consultation and planning for Egypt's defense procurements. There is a need for a formal body consisting of U.S. and Egyptian officials to meet regularly to discuss Egypt's needs and the best way for the FMS program to meet them. Egypt should be encouraged to concentrate its program on the most rational, effective military programs aimed at specific military development objectives.

We believe the authorization for Egypt to use so-called "cash flow" financing deserves closer congressional scrutiny. There are clearly some sound political and economic reasons for the administration's desire to allow Egypt to make long-term purchases and financial commitments. However, this approach presents a significant departure from the normal FMS financing procedures, and allows Egypt to purchase greater amounts of military hardware--amounts

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percent in excess of what a normal program would permit. It also implies a much stronger commitment of continued U.S. financing in future years than the normal FMS credit program does. It could limit the Congress' prerogatives in reviewing and authorizing credit levels. Much more information must be provided to the Congress on this issue--involving both Egypt and Israel--for it to carefully weigh the implications of this system.

Recommendations

We recommend that the Secretaries of State and Defense establish a joint consultative group with Egypt which would develop Egypt's defense procurement program using FMS credits. Such a group would aim at eliminating or minimizing weapons purchases serving mainly political purposes to more effectively use available credits and to increase the operability and maintainability of U.S. equipment purchased for Egypt's armed forces.

We also recommend that the Secretaries fully disclose to the Congress the rationale and the implications of the "cash flow" authorization being given to Egypt and Israel for the FMS credit program.

Recommendation to
the Congress

We recommend further that the Congress amend the Arms Export Control Act to require advance notification by the executive branch when "cash flow" financing is to be authorized for selected countries. This would help ensure full disclosure and consideration of this significant foreign policy decision. Proposed legislation is included in appendix II.

AGENCY COMMENTS

DOD generally concurred in our presentation of the current status of the security assistance in Egypt. The State Department did not provide official comments in time to be included in this report. The main issues raised by DOD in response to our draft concerned the F-4 and CH-47 programs and the use of "cash flow" financing in Egypt. DOD stressed the importance of the "cash flow" authorization for Egypt, and emphasized that Israel also has this authorization. In Israel, moreover, there is no overall dollar limit on the Israeli credit purchases, making it a more liberal program than that approved for Egypt. DOD believes both the F-4s and CH-47s serve important Egyptian military needs. Most of the implementation problems have been due to the speed with which the programs were introduced, and the problems were not unexpected. There have been encouraging signs that the Egyptian Air Force is improving the operation and maintenance of the F-4s, and 14 of the 15 CH-47s flew for the October 1981 military parade. DOD agreed that more defense consultation with Egypt is needed. The United States and Egypt are now establishing a so-called Military Coordinating Committee to meet regularly on issues involving security assistance and other military matters.

Our draft report contained a proposal that the Congress consider legislation to require specific authorization of "cash flow" financing for countries selected. Defense argued that the same objective could be achieved through a notification process, in which the executive branch would notify the appropriate congressional committees before a country is authorized to use "cash flow" financing. We have reconsidered our proposal and we believe a system of prior notification to the Congress is more practical and such a system would provide adequate congressional oversight of this important foreign policy decision.

CHAPTER 3

CONTROLLING THE LEVEL OF U.S. MILITARY PRESENCE IN EGYPT

The large U.S. security assistance program in Egypt requires a sizable U.S. military contingent to administer the programs and provide technical assistance. U.S. soldiers and sailors are also coming to Egypt in increasing numbers for joint exercises and naval port visits. In addition, the United States is interested in securing access to some Egyptian facilities for use in Mideast contingencies, necessitating a peacetime military presence in Egypt, a presence which State Department officials believe must be carefully controlled and minimized to enhance our relationship with Egypt.

LARGE STAFF NEEDED TO MANAGE SECURITY ASSISTANCE PROGRAM

The Embassy in Cairo is one of the largest U.S. Embassies in the world. Although the post is dominated by the State Department and the AID Mission, the Office of Military Cooperation--which administers the security assistance program--also has a big share of the authorized positions in Egypt, as shown in the table below:

<u>Organizations</u>	<u>Authorized U.S. positions (Apr. 1981)</u>
State	65
AID	120
Office of Military Cooperation	27
Others	<u>75</u>
Total	<u>287</u>

Until 1981, the Office of Military Cooperation was limited to a permanent military staff of only six officers. In 1981, the staff authorization was increased to a total of 27 Americans, 19 of them military. Not all positions have been filled yet and the office is using staff on 6-month assignments to fill gaps. This is only the tip of the iceberg, however, in measuring the U.S. personnel in Egypt to help administer the security assistance program. U.S. technical assistance field teams, mobile training teams, and a variety of other groups are in Egypt working with Egyptian forces on specific weapon systems and programs. U.S. Embassy officials estimated that as many as 240 American servicemen were in Egypt in May 1981 in support of the security assistance program. The Air Force maintains a technical assistance field team for the F-4 program alone totaling almost 100 military

personnel. The Army has training teams in Egypt for the M-60 and M-113 programs (about 15 personnel), as well as small groups working on logistics problems, air defense surveys, quality assurance, and language training. Survey teams studying facilities requirements, production assistance feasibility, and other issues have visited Egypt for periods of one week or more.

This presence will grow as more new equipment is introduced into Egypt. The F-16 program, for example, will require 21 Air Force personnel as well as over 100 civilian contractor employees for a period of several years. Many of these contractor personnel will bring their families with them, further increasing the official American presence in Egypt. I-Hawk air defense batteries to be introduced into Egypt starting in 1982 will also require substantial U.S. military support in the operation and maintenance of the system.

The U.S. Ambassador and other Embassy officials in Egypt have expressed their concern about the increasing American presence and have emphasized the need to keep that official presence to a minimum. They fear that too high an American profile in Egypt will lead to problems and become an irritant in U.S.-Egyptian relations. DOD officials told us they agree with the State Department on this point. However, they point out that the size and sophistication of the security assistance program will continue to require large numbers of U.S. technicians to make the equipment systems work. DOD does not want to jeopardize the success of a program for lack of a few more American trainers or advisors.

U.S. USE OF EGYPTIAN FACILITIES:
ACCESS POSSIBLE BUT WRITTEN
AGREEMENT UNLIKELY

As the United States acts to increase its presence and capabilities in the Persian Gulf region to defend its vital interests there, military planners have looked increasingly to Egypt. Its size and location make it desirable for many U.S. military activities that might be needed in case of a Mideast contingency. Egypt has numerous air bases and naval ports, many of which are located long distances from civilian population centers. Most of these bases would be well out of range of enemy tactical fighters and bombers coming from the Persian Gulf area. At the same time, they would be close enough for U.S. tactical airlift and sealift to use as a staging area, where personnel and supplies are brought into the region, then sent forward as needed into actual battle areas.

To be of maximum use in a contingency, selected Egyptian bases would need to be improved and made ready in peacetime. Equipment, ammunition, fuel, and other supplies would need to be stored there in advance. This requires construction of new or enlarged facilities to accommodate the material and the men who would be coming

through the facilities to use it. U.S. survey teams have reviewed available Egyptian facilities and have identified various construction requirements at key locations. The most important of these, and the one on which much attention has focused, is at Ras Banas in southern Egypt on the Red Sea coast. The base currently consists of a small airstrip and harbor area. The United States would like to upgrade Ras Banas to be a major staging area for U.S. troops and equipment entering the Middle East.

President Sadat and other Egyptian officials said publicly on many occasions that Egypt would make facilities available to the United States for use in a crisis. If effective use required construction and preparation in peacetime, along with a small U.S. caretaker force at the facilities, then Egypt would accept it. Egyptian officials make a clear distinction, however, between this offer of facilities utilization and an offer of permanent bases. Egypt is very sensitive to foreign military bases on its soil. Its recent experience with the Soviet Union maintaining large numbers of military troops in Egypt and closing off parts of bases to Egyptian access make Egyptian officials cautious about foreign military forces.

This concern about avoiding foreign bases in Egypt has prompted Egyptian officials to back away from any written agreement governing U.S. access to facilities. They fear that such an agreement would be interpreted in Egypt as the granting of military bases. President Sadat argued that he would be hurt politically by opposition parties who would use a formal written agreement as a sign of Egypt's being subordinated to the United States. Egyptian officials believe that a written agreement would not be any firmer a guarantee of U.S. access than the oral commitment of the Egyptian President, and many U.S. officials agree with this.

Historically, the United States has almost always insisted on a written agreement before entering into facilities arrangements with foreign countries. This helps protect U.S. interests and leaves a clear record of access arrangements. In the 1981 Military Construction Authorization Act (P.L. 96-418, Oct. 10, 1980), the Congress prohibited spending any construction funds in the Middle East without written agreements governing the use of the facilities. In three other Indian Ocean countries, the United States has secured written agreements covering use of air and naval facilities, and construction funds are programmed for those locations. Defense has also asked for funds to build facilities in Egypt in fiscal 1982. Over \$100 million is requested for Ras Banas construction improvements in 1982, with a total cost for that facility estimated as high as

~~Secret~~

over several years.

In lieu of a formal access agreement, U.S. officials have proposed an exchange of letters between the two countries

regarding the bases. This approach was rejected by Egypt because it could be construed as a written agreement; many international agreements are handled through exchanges of letters. Instead, Egypt indicated interest in providing a single letter from President Sadat putting in writing what he had already stated orally. In August 1981, President Sadat personally wrote such a letter detailing the Egyptian offer.

Our recent report on the status of U.S. basing strategy in the Persian Gulf region 1/

~~Deleted~~

U.S. FIGHTING FORCES HAVE VISITED EGYPT FOR JOINT EXERCISES

During 1980 almost 2,000 American soldiers and airmen were deployed to Egypt for joint maneuvers and exercises with Egyptian forces. Although these operations were limited in scope, they represented the first presence of U.S. combat forces in the Middle East in two decades and symbolized the growing relationship between Egypt and the United States. Officials from both countries considered the exercises completely successful, demonstrating that the United States can deploy combat forces into the region and withdraw them after completing their mission, and also showing U.S. willingness to deal with Egypt as an equal partner.

Operation "Proud Phantom"

Under the code name "Proud Phantom," the United States deployed a squadron of F-4E fighter aircraft to Cairo West air base in Egypt. The squadron, from Moody Air Force Base in Georgia, arrived in July 1980 and stayed approximately 90 days. The deployment involved about 500 operations, maintenance, and support personnel. The stated objective of this exercise was to demonstrate U.S. ability to deploy forces and equipment into the region and to determine what would be required for successful operations there. In addition, deploying F-4s, the same type of aircraft which Egypt had purchased from the United States, would give a boost to the Egyptian program by allowing U.S. and Egyptian crews to work side-by-side.

For the deployment, the Air Force sent ~~aircraft~~ aircraft to Egypt using ~~air~~ air refuelings requiring ~~jet~~ tankers. In addition, twenty-seven C-5A missions and twelve C-141 flights carrying a total of 373 passengers and over 1,900 tons of cargo were used to fully

1/"U.S. Facilities Access Initiatives In Support of Southwest Asia Contingencies: Achievements And Future Challenges" (Sept. 14, 1981, C-ID-81-8).

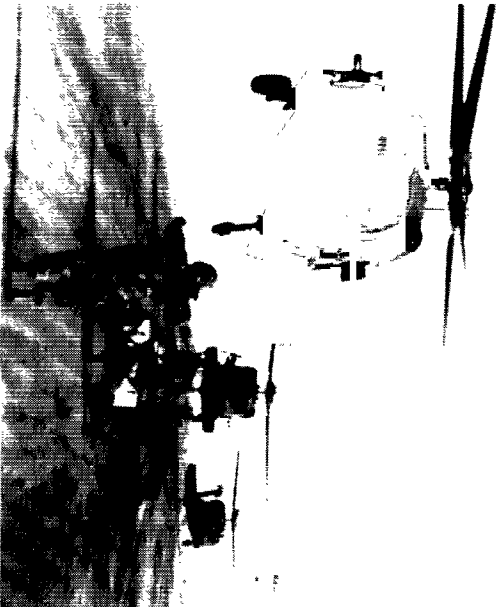
deploy. Two additional C-141 flights each week were conducted during the 3 months of the deployment. Because of the austere conditions at Cairo West air base, the Air Force deployed portable facilities which were assembled in Egypt. Units called "Harvest Bare" were used, consisting of climate-controlled air-transportable personnel shelters for up to 600 troops, in addition to work areas, maintenance shops, dining facilities, warehouses, and an aircraft hangar. Crews working double shifts were able to construct the "Harvest Bare" facilities and have them ready for use in just 19 days, instead of the estimated 25 days usually required. Without these facilities, Cairo West would not have been capable of supporting the U.S. personnel and aircraft along with the Egyptian forces already there.

During the deployment, U.S. crews trained on Egyptian ranges and shared maintenance and operational techniques with the Egyptian air force personnel. The U.S. crews maintained a very high operational rate, keeping almost all the F-4s in the air every day. U.S. officials believed this helped show the Egyptians that the F-4s could be maintained satisfactorily even with the harsh conditions and limited facilities at Cairo West. The U.S. Air Force also gained some valuable experience operating out of an austere base in conditions similar to what it would have to face in a Mideast contingency.

"Bright Star 81"

In November 1980, the newly formed Rapid Deployment Joint Task Force conducted its first exercise outside the continental United States. This operation, code named "Bright Star 81," was conducted as a joint exercise with Egyptian army forces in the desert west of Cairo. About 1,400 U.S. personnel were deployed to Egypt for the maneuvers, which lasted about 3 weeks. While the exercise was primarily geared to ground troops, the U.S. Air Force also sent a squadron of eight A-7 aircraft to provide ground support. Deployment of all personnel, equipment, and cargo required seventy-seven C-141 and twelve C-5A missions into Egypt. The largest equipment items shipped to Egypt were helicopters and jeeps; no armored tanks or vehicles were used.

All U.S. operations were coordinated with the Egyptian forces and involved substantial tactical interoperability and weapons exchange between the two forces. U.S. forces were able to learn numerous lessons from their Egyptian counterparts because of the Egyptians' experience and familiarity with desert operations. Most officials--both U.S. and Egyptian--believed that the U.S. forces gained more from "Bright Star 81" than Egypt did. Many of the lessons learned in Egypt could not have been foreseen based on exercises in the United States. The Army is studying changes in its tactics, equipment, and logistics requirements based on the lessons of "Bright Star."



PHOTOS COURTESY OF U.S. ARMY

Exercises well-received; future
similar operations possible

U.S. military and diplomatic officials in Egypt were pleased with the results of the U.S. deployments to Egypt in 1980 and told us that there have been no negative reactions in the Egyptian press or among government officials. The Public Affairs Officer at the Embassy told us that the exercises were handled in a low-key fashion that attracted little attention among most Egyptians. One of the keys to successful completion of the exercises was the removal of all U.S. equipment and facilities from the exercises and the return of all U.S. troops. This helped drive home the point that the United States was not seeking permanent military presence or bases in Egypt.

Because of the success of these operations, other similar exercises may be possible in the future, and military and State Department officials were weighing the advantages and possible drawbacks of more U.S. exercises with Egyptian forces. One problem is the expense of even these relatively small-scale operations--"Bright Star" was estimated to cost the United States \$25 million. Another concern is the Embassy's desire to avoid overloading Egypt with a U.S. presence and U.S. requirements. This could have destabilizing effects among Egypt's opposition political parties, who want to avoid foreign dominance.

Despite these concerns, a new exercise, called "Bright Star 82," was held in Egypt in November 1981. It was similar to "Bright Star 81" but involved twice as many American and Egyptian soldiers. In addition, units from Oman and Sudan were included and the United States also used B-52 bombers deployed from the United States as part of the exercise. DOD said planning for this exercise began before the assassination of President Sadat.

NAVY PORT CALLS IN EGYPT
ALSO INCREASE U.S. MILITARY PRESENCE

A growing aspect of the U.S. presence in Egypt is the use of Egyptian ports for port calls and shore leave for U.S. Navy ships. Since 1975, the Navy has made almost 200 visits to Egyptian ports, mainly Alexandria, Port Said, and Port Suez. In 1980, 44 visits were made, up from only 25 in 1975. U.S. Navy officials estimated that about 400 sailors take shore leave during an average port call, although no statistics are maintained. Based on this estimated average, over 79,000 sailors have visited Egypt since 1975, with about 17,600 in 1980 alone. Sailors on leave generally stay in the port city, but many take tours to Cairo or to other famous tourist areas in Egypt.

U.S. Embassy officials have monitored Navy port visits and have seen no harmful effects from them. There have been no incidents involving bad publicity for the United States, and the Egyptian port cities seem to welcome the U.S. sailors.

The Soviet Union maintained a ship repair facility at Alexandria and the harbor was sometimes crowded with Soviet ships. The United States is proceeding cautiously to avoid such a high profile. Alexandria and other Egyptian ports could be valuable for Navy operations in the Mediterranean Sea.

UNITED STATES PLAYING MAJOR ROLE IN SINAI PEACE

Since 1976, the United States has maintained an outpost of civilian observers in the Sinai desert monitoring and verifying Egyptian and Israeli troop emplacements in compliance with agreements ending the 1973 war. 1/ The Sinai Field Mission has been highly successful and has earned the respect of both Egypt and Israel. Under the terms of the 1979 Treaty of Peace between Egypt and Israel, the Field Mission is scheduled to be phased out of existence by April 25, 1982, when Israeli forces will withdraw from the Sinai. The civilian Mission will be replaced by military units from the United States and other countries acceptable to both Egypt and Israel under the terms of the 1981 Protocol on the establishment of a Multinational Force and Observers. The United States will supply an infantry battalion and support units totaling about 1,200 personnel.

The transition from a purely civilian surveillance operation to a military peacekeeping force with a small detachment of civilian observers represents a significant shift in the U.S. role in the Sinai and brings with it new concerns, ranging from the cost-sharing arrangements for the force to the physical security measures. 2/

PRIVILEGES AND IMMUNITIES AGREEMENT NEGOTIATED

Despite the significant numbers of U.S. military personnel stationed in Egypt for long- or short-term assignments, the United States and Egypt until July 1981 did not have a formal agreement covering the legal status of these personnel. With most countries where U.S. forces are stationed, the United States has a so-called Status of Forces Agreement. The Department of Defense wanted a similar agreement with Egypt, but the Department of State was reluctant because such an agreement might imply a permanent U.S. military presence in Egypt.

1/Details on the establishment of this peacekeeping mission are presented in our report entitled, "An Evaluation of the U.S. Early Warning System in the Sinai" (ID-77-11, June 6, 1977).

2/These matters for congressional consideration were highlighted in our recent report to the Chairman of the Senate Committee on Foreign Relations, "U.S. Role in Sinai Important to Mideast Peace" (ID-81-62).

To remedy this situation and avoid possible problems in the future, State suggested a privileges and immunities agreement. The United States and Egypt negotiated such an agreement spelling out the privileges and immunities to be accorded U.S. military personnel when they are in Egypt, completing the agreement in July 1981. It covers both the security assistance program staff--that is, long-term advisors and trainers--and the operational personnel such as troops involved in joint exercises. According to Embassy officials, the text is very liberal and broad in scope and avoids any implication of a permanent U.S. presence. It should adequately protect the interests of the United States.

CHARLES H. PERCY, ILL., CHAIRMAN

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 COMMITTEE ON FOREIGN RELATIONS
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August 13, 1981

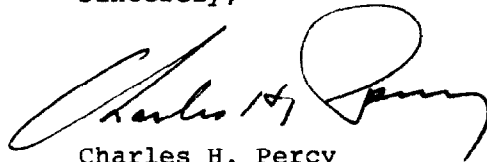
Mr. Milton J. Socolar
 Acting Comptroller General
 of the United States
 General Accounting Office
 441 G Street, N.W.
 Room 7000B
 Washington, D.C. 20548

Dear Mr. Socolar:

I understand that your International Division staff is in the process of reviewing defense cooperation between the United States and Egypt, with special emphasis on the U.S. security assistance program. The Senate Foreign Relations Committee has a continuing interest in the success of this program, and a GAO report prepared for the Committee on this subject would be useful in our analysis of the progress achieved and problems encountered.

We will be using the analysis and information in the report as part of our continuing oversight of the Egyptian security assistance program. If we can receive the report by November 1981, it will be useful in the next budget cycle.

Sincerely,



Charles H. Percy
 Chairman

CHP:gem

Proposed Amendment To Arms Export Control Act

Section 25(a) of the Arms Export Control Act should be amended to read:

"(2) an estimate of the amount of credits and guaranties expected to be extended to each country under sections 23 and 24 of this Act, including for each country where the total value of sales expected to be made will exceed the unexpended amount of credits or guarantees available by \$100 million or more

- (A) an estimate of the excess amount,
- (B) a description of administrative ceilings and controls to be applied, and
- (C) a description of the means by which it is proposed that the excess amount will be financed and what financial resources are otherwise available to that country."

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