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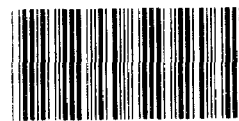
Testimony

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U.S.-KOREA M-16 RIFLE COPRODUCTION PROGRAM

Statement of
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Before the
Subcommittee on Investigations
Committee on Armed Services
House of Representatives



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Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss our report on South Korea's coproduction of the U.S. M-16 rifle.¹ A key aspect of our work related to Korea's compliance with certain provisions in its Memorandum of Understanding (MOU) with the United States regarding the M-16 program. We also examined how the U.S. government monitored the program to ensure compliance with the MOU.

The MOU, which was signed by the U.S. and Korean governments in 1971, serves as the umbrella agreement and generally defines program parameters and objectives. Among other things, the MOU authorized a specific quantity of rifles and spare parts to be produced in Korea and prohibited third-party transfers and sales of the rifles and parts produced without prior U.S. government consent. It also authorized the use of Foreign Military Sales credits (eventually \$52 million) to establish the Korean M-16 plant. The technology and know-how to actually produce the M-16 rifles were transferred under commercial licensing arrangements between the U.S. firm, Colt Industries, and the Korean Ministry of National Defense.

We found that Korea exceeded the production quantities authorized in the MOU and its amendments. Korea also entered into M-16 sales agreements with third parties without obtaining the required U.S. government permission. The details concerning these two matters

¹U.S.-Korea Coproduction: A Review of the M-16 Rifle Program (GAO/NSIAD-88-117, Apr. 11, 1988).

are, for the most part, classified and we can cover them further in a closed session. Therefore, I would like to focus my remarks in the open session on how the U.S. government--basically the Departments of Defense (DOD) and State--generally managed or monitored this program to ensure compliance with the MOU provisions.

DOD directives and guidance dealing with coproduction programs authorize certain organizations, such as the Defense Security Assistance Agency (DSAA), to negotiate and conclude coproduction agreements. But the directives are ambiguous as to which organizations are responsible for managing the programs to ensure compliance with the MOUs. In a very general way, they assign "necessary" managerial and reporting responsibilities to the military departments. But there is little DOD guidance to the military services on just what kinds of monitoring or management activities are expected or required in implementing the programs. Both DSAA and Army personnel advised us that when a coproduction MOU is implemented by a commercial licensed production arrangement between the U.S. producer and the foreign government or producer--as in this program--generally the U.S. company manages the program.

Under the M-16 MOU, a liaison officer was assigned to "monitor and coordinate" the program. This function was first served by the Joint U.S. Military Assistance Group (JUSMAG) in Korea and later, beginning in 1978, by the U.S. Army Armament, Munitions and Chemical Command at Rock Island, Illinois. In the absence of more

specific management or monitoring guidance or requirements from DOD, the M-16 rifle coproduction program was managed largely to ensure that South Korea could successfully produce the rifle for its own requirements, as specified in the MOU.

Our review showed the program was very successful in that respect. But once Korean M-16 production was fully underway and no further technical or logistical support was required, the DOD monitoring and oversight of the program became very limited. The U.S. Army liaison officer for the program relied on production and other information from Colt and the JUSMAG in Korea. However, for production data, Colt and the JUSMAG relied on the figures provided voluntarily by the Korean government. Although both the MOU and the commercial agreements provided for access to facilities and records, neither the U.S. government nor Colt verified the Korean figures.

During the early phases of the program, some activity reports were written by the JUSMAG on the M-16 program, but there was no indication that these reports were forwarded to Defense, State, or the U.S. Army. In addition, the last two amendments to the MOU were not forwarded to DOD's General Counsel, as required by DOD directive. DOD's involvement in the program at this point was limited to responding to Korean requests to amend the MOU and maintaining the required coproduction status reports.

In 1982, the Korean government turned over the ownership and operation of the M-16 plant in Korea to Daewoo Precision Industries. By late 1982 and early 1983, problems had developed between Colt and Korea over commercial issues--specifically royalty payments. The commercial agreements were mutually terminated in early 1983. During this time, DOD, State, the JUSMAG, and the U.S. Embassy assisted Colt in attempts to resolve the royalty dispute outside formal legal channels, until 1984 when litigation began.

Although the commercial agreements were terminated, the MOU remained in effect, and there were strong indications that Korea intended to continue producing M-16 rifles and spare parts. Even though this was the case, once the issue entered into litigation, U.S. government monitoring of the program nearly ceased. For example, JUSMAG M-16 program activity reports were no longer prepared on a regular basis, the Army liaison officer was no longer assigned, the Army coproduction status reports were no longer updated, and the Army categorized the program as "suspended or in a close-out phase."

Korea had significantly exceeded the authorized production limits by the end of 1982 and continued producing M-16 rifles and/or parts at least through 1986. Recently, we obtained additional information indicating Korean M-16 parts production through 1987. Although the MOU has not been legally terminated and its restrictions remain applicable to the program, Defense and State

apparently have seen no need to press the issue of noncompliance with the MOU production limits with the Korean government.

This case indicates a need for improved DOD oversight and establishment of procedures for ensuring and enforcing the protection of U.S. interests as set forth in the agreement. As you know, we are looking at this matter on a broader basis at your request. We are examining whether the problems we identified in the M-16 program in Korea exist in programs with other countries. This includes a review of DOD's program oversight, and the remedies employed and their effectiveness in cases of noncompliance with agreement provisions restricting third-country sales.

This review was performed in Washington, D.C., at the U.S. Pacific Command, and at the JUSMAG and the U.S. Embassy in Seoul, South Korea. We reviewed files and spoke with officials both currently and formerly at the Departments of State and Defense, the U.S. Embassy, Seoul, and Colt Industries. However, the Korean government would not permit us access to the Korean production facilities or program records and would not meet with us to discuss the program. The Ministry of National Defense, Defense Industries Bureau, did respond in writing to our questions concerning the program.

This concludes my statement. I would be happy to answer any questions.