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International Conference on

**Cooperative Security
and Defense Assistance**

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Washington, D.C.
June 18-19, 1981

AMERICAN DEFENSE PREPAREDNESS ASSOCIATION
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PROCEEDINGS OF THE
INTERNATIONAL CONFERENCE ON
COOPERATIVE SECURITY AND DEFENSE ASSISTANCE

Program Chairman:

The Honorable Barry J. Shillito, Former Assistant
Secretary of Defense and now Chairman, Teledyne-
International and Chairman of the ADPA International
Affairs Division

Washington Hilton Hotel
Washington, DC

June 18-19, 1981

Final

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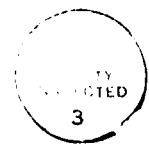
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INTERNATIONAL CONFERENCE ON
COOPERATIVE SECURITY AND DEFENSE ASSISTANCE

THE SIXTH ANNUAL EXECUTIVE SEMINAR

ON

INTERNATIONAL SECURITY AFFAIRS

SESSION I

SETTING THE STAGE

Mr. Barry Shillito

Welcome to the ADPA's Sixth Annual Executive Conference on International Security Affairs. I am Barry Shillito; I believe this is the fourth annual conference that I've had the privilege of chairing. I sincerely hope that this particular conference is going to be worthwhile. I think we have an outstanding agenda and before we get started, I'd like to express my appreciation to General Miley, General Ragano, Captain Jackson from the ADPA staff for pulling this conference together. This was a particularly awkward conference to pull together in many ways, because as some of you know, these are normally held the latter part of the year and with the change in administration in the United States, it necessitated that this particular conference be slipped and, of course, in the process of trying to slip such a thing, you run into problems - such things as a Paris air show and a few other things that a number of us are quite familiar with. But they have done an outstanding job and we express our sincere appreciation.

In addition to our historical emphasis on cooperative national security, this conference is going to be just a little bit unique in that we are going to emphasize export perspectives and world trade. Our keynote speaker, Ambassador Okawara, is going to address us at 3:00 p.m. today, rather than as our initial speaker. So we will be starting off immediately with our panel.

I'm sure that the Ambassador is going to concentrate heavily on world trade and I'd therefore like to spend just a few moments commenting on allied international security affairs and the overall preparedness situation in our mutual interest. This subject appears particularly timely now, in view of the changes that have taken place in various administrations, and particularly the administration here in the United States. We are at a significant point in international defense cooperative efforts. Perhaps this

might even be thought of as a watershed, as several new allied administrations have assumed leaderships of their foreign policies. Now, this is not to say that one should anticipate dramatic shifts in a previously-stated policy. Generally, however, we should expect at least some lessening in the comparative strength of the Warsaw Pact countries versus the West, if nothing else as a result of the attention and support to defense related national security issues.

We have probably all concluded that greater allied cooperation is essential. There also appears to be developing a greater awareness on the part of our governments that we must more effectively work together in the interest of our mutual well-being and possibly even our survival.

Last year at this conference, in my opening comments I said that the luxury of continued delay in order to discuss concepts as to how we should work together were no longer possible, that it was time for action. Since last year, it appears that less emphasis may be given to some of the things that were so heavily emphasized last year and in immediately preceding years, i.e., families of weapons and co-production and so forth. It would also appear that a few - only a few - significant multilateral preparedness improvements are developing or appear to be developing. Some believe that a degree of progress has been made, but few of the fundamental working relationship problems that have surfaced and have been discussed in our past conferences have been resolved. The major positive change since last year is a greater awareness on the part of the free world nations relative to the growing threat or the growing crisis. Hopefully, this increased awareness will cause us to more effectively use our combined economic strength to better counter the threat. We all agree that allied cooperation in the interest of our collective national security is theoretically sound. Many believe that this is our only economic alternative. Possibly, most of us are still frustrated and concerned as regards our inability to cooperate economically. Many of us don't believe that individually and/or collectively we are moving fast enough to offset the power of a potential enemy that many of us have known for decades, based on that enemy's history and pronouncements, is desirous of destroying our way of life.

As we consider cooperative security and world trade, it is timely for us to be candid in our assessments. Most of us are impressed with the awareness of the problem and the candor reflected by the Reagan administration, but a few matters of interest - possibly warranting discussion - tend to come to mind. Many in the U. S., for example, believe that the U. S. is trying to reinforce a NATO Europe and a Japan that are not committed to reinforcing themselves. Another issue is that many senior allied industrialists have looked at our past government political pronouncements relative to cooperative efforts, but see few results. Hopes were raised that could not be fulfilled in the minds of many

of us. In spite of government pronouncements, we have not developed an allied industry working relationship or relationships from such pronouncements. Most of the few effective efforts to date appear to have resulted from sound company-to-company associations or relationships, rather than government pronouncements. As we know, the acquisition environment in each of the NATO countries and Japan is significantly different from each other and significantly different from that of the United States. There appears to be comparatively little that allied governments are willing to do to resolve these fundamental working relationship differences. Our allied planning, operational scenarios, etc., and budgeting continued to take place independently. In many ways, cooperation in this arena would appear to be much more fundamental than such things as cooperation in the RSI arena - in fact, the two tie together, the one being more essential than the other.

Our historical unilateral U.S. policy of arms restraint has possibly been a major obstacle to NATO RSI and, in many instances, has weakened and/or alienated our potential friends with no offsetting affect on our potential enemies. It is satisfying to note that within the United States, this has changed.

In a recent report of the U. S. Comptroller General to the Congress, it was stated that the United States has a conflict between its desire for increased NATO collaboration to standardize weapons and the need to maintain control over weapon systems made from U. S. technology. This report, titled, "No Easy Choice - NATO Collaboration and the U. S. Arms Export Control Issue," warrants your reading. It went on to say that the conflict is a real one. It is a product of the importance of exports to major European producers, different foreign policies in arms sales exporting patterns, the inability of some European producers to compete with the United States, and the impact of new methods in collaboration. A key point of the report which relates to the discussions of this conference is that for all major producers, exports fill both foreign policy and economic goals. Arms exports are reflections, not only of foreign policy but also are beneficial to our economies.

I noted in the Aviation Week of late April, an article by a Doctor Stollman, as I recall, of England, who made the comment that to compete with U. S. producers in the United States was virtually impossible. He went on in some detail saying that it was totally out of the question. I think that's somewhat the attitude of many of our countries working across the acquisition policy lines of each.

These and other examples of conflict, as spelled out in the GAO report, should not be cause for further delays while we attempt to ameliorate our conceptual differences. The incoming U. S. administration deserves, as I said, a great deal of credit for making a number of changes, including the modification of

the May 1977 "leprosy" letter. This, in itself, of course, should allow an improved U. S. industry working relationship with our non-NATO, non-Japanese allies. A number of things, I think, are pushing us in the right direction, as regard the United States, but as far as the problems that we're faced with relative to our acquisition systems, these things are far from resolved.

I would conclude by stating that theoretically, allied hardware cooperation is sound. In fact, in many instances, it is vital. Lacking the required structure, the working relationships required to develop the optimum effectiveness of our combined national security resources, appear almost insurmountable, however. In many ways, therefore, it would appear that we should be well advised to push forward with our individual national options as rapidly as possible, but in parallel, develop the available incentives to cause us to improve our working relationships in the interest of interoperability, planning, budgeting, operational scenarios, etc. We could develop methods to maximize the benefits of our collective R&D, for example, and work towards ensuring minimum constraints and allowing our allied industries to work with each other in attempting to minimize the divergence of our national and collective capabilities. In fact, much of our present framework may be sufficiently adequate to allow our respective governments to get on with more important issues and to allow our industries to work together with minimal constraints from our governments. Above all else, we have to move forward rapidly.

If we agree with the logic of moving forward individually and in parallel collectively to the greatest practicable degree, and if we agree that our current, our present different economic, government, industrial environments appear to make it difficult for us to work together collectively in complete harmony, even though we have had a degree of progress, one then wonders if there isn't something that might be developed at a governmental level above the arenas in which we have been working. In other words, while we're pushing our individual and collective efforts as is presently the case, should we not also be attempting to develop a common allied planning, budgeting, requirements acquisition, etc., system. This is nothing new. In other words, the structure to do this.

Interestingly, after preparing my notes for introducing this particular conference, I talked to Doctor Tom Callahan of the Center for Strategic and International Studies at Georgetown, and as many of you recall, he was quite a helpful individual in last year's conference, and Tom mentioned that he had presented a paper on June 4th at West Point titled, "The Structural Disarmament of the West - Our Most Critical Defense Industrial Challenge." This paper emphasizes that the allies must change the structure of our interrelationships for our common defense - in fact, for our survival, and that our inability to provide collectively for the defense of the West must be accounted as a collective political failure, as

there are no lack of resources in the West, comparatively, as related to the Pact countries. The trend lines resulting from the West's inability to get its national security house in order, vis-a-vis the USSR and its allies, as we all must admit, are all most disturbing and show no signs of changing. The only thing that appears to be changing is this increased awareness of the problem.

While you may not agree completely with Tom's thoughtful paper, I urge that you read it. He is convinced that such a change is essential - in fact, vital. We have made copies of that paper available for you.

We will now ask our first panel to come forward. I mentioned that Ambassador Okawara is going to be with us later today and if our panel members will come up, Dr. DeLauer and Mr. Barnes, and the others, we'll move along with session II.

I apologize to the panelists that in the interest of time, I'm going to make the introductions very brief. We'd like as much in the way of time as possible to handle the questions and answers. We will entertain questions from the floor, but we prefer or would suggest that you write your questions out.

I'd like to introduce first our recently nominated and sworn in Under Secretary of Defense for Research and Engineering, as of May 7th. He has taken on a significant task, as many of us know, in the Department of Defense. I can assure you that it is significant, having had a piece of those responsibilities, the Acquisition and Communications portion of it many years ago. He is a scientist, an engineer, an industrialist, a scientific author. Interestingly enough, in the minds of some people he might even be thought of as a bureaucrat, having spent 15 years in government, prior to 22 years with TRW; he had the major operation as an industrialist with TRW for 22 years....senior vice president, board member on many boards, many recognitions. And in addition, he has something else that I think qualifies him rather uniquely for this job. We happen to belong to an organization, among other things that do a few unique things in the process of their annual get-togethers, and one of the things they do is play blind golf. I don't know how many of you know too much about blind golf, but one person wears a blindfold and another person takes the individual with the blindfold on and leads him up to the golf ball and tells him where it is and to swing, and so forth, and you compete - you bet in the process of doing this. Well, our speaker is an outstanding blind golfer and so I think that being able to hit the ball blindfolded uniquely qualifies a person for this particular job. And with that I'd like to introduce Doctor Richard DeLauer.

Dr. Richard D. DeLauer

Thanks, Barry. You're just a sore loser. You know, he has never lost a golf game except when they put the blindfold on him, and he's been trying to win that one ever since.

That particular characteristic really qualifies me - the part of the job that has to do with international cooperation because it really is going blindfolded most of the time. While we hit it often, we're not always sure that we're hitting in the right direction.

First, I'd like to welcome our international peers. We have been talking to each other for the last three or four months and Bill Perry much before that.

I'm not going to spend a lot of time this morning. I will get an opportunity to talk to many of you tomorrow at noon time, so I'll keep my remarks brief so we can get on with the question and answer part of the program. You'll really like to hear what the Europeans have to say about this problem. I'm not going to reiterate the threat - we all know it. We know that with the present administration, the emphasis is on readiness and modernization. As a consequence, we're after many pieces of hardware and we need them pretty soon. We also are well aware of the fact that over the last eight or nine years, our industrial base - not the primes, but the base that really supports them in this country - has diminished. People have gotten disillusioned with the instability in defense contracting, on-again-off-again, and the supplier, the man who really makes the pieces that go into the system, over the years has been not interested in working with us. We're trying to turn that around. On the other hand, we don't have a lot of time. It's more imperative now that we look to the whole alliance as an industrial base and try to make the best we can out of all our capabilities. It may be more expensive in some cases, and we have to defend that...it's hard to. In many cases, people will accuse us of exporting jobs. We have to meet that challenge. And we have to get with it.

My predecessor's major thrust was to get the concept accepted and I think he has. The fact that RSI, regardless of everybody's points of view in regard to what each word means, was a good rallying point for the alliance in cooperating and arms development and production. He really got a lot of MOUs in shape. We have more MOUs than we can use, so we're not going to be peddling any more MOUs - we're going to try to make them work. I'm not telling these gentlemen up here anything they don't know from me already, because we've had two major international meetings this year already and have another coming up in the Fall. So they know where I come from. I think the thrust has to be to make the MOUs operative and get some results. Depending upon who you talk to,

some people say that that isn't even a beginning, an MOU. That from then on, it really becomes hard work. There's no question that in many areas we've been moving at the speed of a glacier and we have to do something about that.

Our thrust in the present group of people who are trying to manage affairs in the Pentagon is that we feel that it ought to be on an industry-to-industry basis; that we urge the industries to get together, work out the best deal that you can; our job will be to help expedite the process, particularly in exporting technology. It's not going to be easy. There are more players in the technology business in this administration than in the past. People have strong views in regard to what should and shouldn't be exported. There was legislation a year ago which called for some really strict identification of what are critical technologies and the implementation of that directive, as Congress has mandated on the Defense Department and the rest of the Government, has been an almost unworkable list of items, and we're trying to make some sense out of that and have a broader policy on it. We're just working it - we don't have all the answers, and as a matter of fact, I think everybody in the room can probably pick up an example of how we're not doing our job. I had a telephone call at 7:30 this morning from Bill Pickering, an old friend from JPL who has been working an image processing system for the PRC, and he say, "Why don't you guys get going and give us some indication of where that thing should be." The best I can find out, it hasn't even showed up at the Defense Department, so that's again part of the problem.

So with that, I'll sit down. The thing to get your questions on, it's company-to-company we're emphasizing. We're going to try to help you export the technology that should be exported. I've had discussions with every one of the gentlemen here about how we can protect that technology from going any further than the direction we want it and how far we want to go in that direction. We're working that part of the problem, of controlling the technology in the Alliance, and so that's our program in a nutshell. With that, Barry, why don't we hear from someone else.

Mr. Shillito

I have a hunch there will be a number of questions for Dick as we go along here this morning.

Our speaker from the U.K., in lieu of David Cardwell, will be Mr. James Barnes, who most of us have known for a long time. Jim is the Deputy Chief Scientific Advisor, Ministry of Defense, U.K. He has historically been a recognized, outstanding scientist, engineer; he has been involved in scientific and technical roles related to the British Embassy here in Washington on several occasions; he has had extensive research experience, particularly as regard engines and aeronautical engines; and he has played a very

major role in many of these conferences in the past. So we are indeed delighted to have back again as our next speaker, Mr. James F. Barnes.

Mr. James F. Barnes

Mr. Chairman, it's a pleasure to be back. It seems a long time since the last meeting at the end of January, 1980, but all the same, it's nice to be back in Washington at such a time of the year.

Most of the members of the panel in this session have been associated most closely with achieving cooperative security by collaboration on research and development, and production of defense equipment. Most of what I've got to say will be on this theme. But I think it's appropriate to say a few words first on the wider aspects of cooperative security.

I think for citizens of almost all of the countries represented in this international conference, cooperative security has been sought and achieved within the framework of the North Atlantic Alliance. Without that Alliance, there could be no effective defense of the United Kingdom, that's for certain. And the same, I think, is true of many countries in Western Europe. But alone among the European members, the U.S. contributes the collective requirements of the Alliance in four different ways. We make an independent contribution to the strategic nuclear forces of NATO, major contributions to the land and the air forces of the Alliance in the central region of Germany, and to the naval and maritime airforces in the English Channel and the eastern Atlantic. And, of course, we contribute to the protection of our own home base.

Each of these contributions will continue and defense expenditure within the United Kingdom will continue to rise with the objective of achieving an average increase of 3 percent per annum, as agreed by NATO in 1977.

The first important requirement for achieving cooperative security by members of the North Atlantic Alliance is to maintain an accurate and up-to-date perception of the military capabilities of the Warsaw Pact. Relentless application of manpower and technology to developing and introducing new equipment by the Soviet Union over the last 10 years has raised Warsaw Pact capabilities. It has, therefore, increased the problems faced by the designers of our own equipment. Not surprisingly, new equipment to meet the challenge posed by the Warsaw Pact has been more complex and, hence, more expensive than the equipment it replaced. There is a well established trend in this, but rising costs have now reached a stage where if I may paraphrase Bill Perry's remarks at last year's conference on defense cooperation, even the United States has to consider international cooperation as a means of sharing the cost of developing weapons and equipment and, in some instances, as a means

of reducing unit costs during production by ensuring a bigger demand in the longer run.

Now, all of the five countries represented on this panel, the United States, Federal Republic of Germany, France, Italy, and the U.K., have in one way or another cooperated, but usually up to now in bilateral armaments development production arrangements, but in one or two instances, trilaterally. There are possibilities which might lead in the future to four or more countries participating in development and production, but I have to say that all of these are in their early stages.

All of what I just said has been in the context of the North Atlantic Alliance, but there is no fundamental reason why it should not be extended to include other friendly countries within the free world. Japan is, of course, an obvious example, and the United Kingdom has for some years cooperated in a modest way with Japan on aero-engine development. But I think in widening the scope of cooperation on armaments development and production, we should take care to build on the successes that have been achieved within the nations of the North Atlantic Alliance and to make full use of the experience that we've gained.

In planning this conference, ADPA has rightly recognized that for many countries the only way of achieving collective security is for them to purchase off the shelf defense equipment, and I am pleased to see that various facets of this will be addressed in subsequent sessions of this conference. But it is worth emphasizing here that cooperative development and production programs should, right from their start, take full account of the prospects for sales ultimately to non-participating countries. The earlier this is worked out and agreed upon, the better. If there are legal obstacles to armaments exports existing in one partner country in the beginning of a program, then they are unlikely to have been removed in time for sales to be agreed to other countries.

So much for generalities. We all know why we have to cooperate in armaments development and production, and most of us have got experience in overcoming the problem and seeing programs through to successful completion.

Moving now to a narrower standpoint, that of the U.K., how do we see the prospects in specific areas and what problems remain to be overcome? First, a few facts and figures.

In 1981-82, over 5,300,000 pounds - that's between \$10 and \$11 billion, will be spent on equipment for the British armed forces. That is 44 percent of our annual defense budget for 1981-82. If past experience is any guide, about three-quarters of this money will be spent on national contracts placed with British industry. The British share of collaborative projects would take about 15 percent, and the remaining 10 percent will be spent on contracts for equipment placed overseas, principally the United States, but not all of it.

Expenditure by the U.K. on defense equipment supports 220,000 jobs directly in British defense industry, and about the same number indirectly in industry as a whole. Naturally, we want to foster this industrial base. Some parts of it, notably parts of the defense electronics industry, have good records in exporting equipment to the United States. Overseas sales of almost all categories of conventional armaments and equipment represent a quarter of our national output and the prospective value in 1981-82 is over \$3 billion.

All this is important to us in the U.K., and I submit, to you as members of ADPA, because without adequate economic strength achieved partly from exports of defense equipment, allies cannot be as effective as they should be in countering the threat posed by the Warsaw Pact.

Let me turn now to the 15 percent I mentioned earlier, the expenditure on equipments spent on collaborative projects. The British Government is determined to play a leading role encouraging cooperation of this kind, and I think in the years to come it is quite possible that that percentage will rise above 15, and we shall continue to explore with all our partners in the North Atlantic Alliance and try to identify collaborative prospects for future generations of equipment. Since I addressed this conference in January 1980, perhaps the most important step forward was the signing of the agreement in August 1980, by the Federal Republic of Germany, France, the United States, and Britain on air-to-air guided missiles. It may still only be an MOU, but it is a step forward. Under the terms of it, the next generation of short-range missiles will be developed in Europe and work has already started. The next generation of medium-range missiles will be developed, and that's well on the way, in the United States. European partners and the United States will have the right, if they wish, to produce both types of missiles, when necessary, under license.

This is just the first part of what constitutes a series of families of weapons, at least I hope it's only the first part. But I think, as I said, it's an important step forward and I hope that before long that anti-tank guided missiles will be the next member of the series.

Families of weapons is not the only way in which we can cooperate. There's another way. It is for allied nations to agree together on the nature of the enemy threat and to draw up a detailed specification for the equipment to counter it. And individual nations could then make their own arrangements, either alone or in partnership with others, to develop and produce the equipment to that common specification. A good example, which shows some promise of success within the Alliance, is the STANAG, the Standardization Agreement, on a common identification system. Existing equipment, even IFF Mk-12, is no longer adequate to ensure satisfactory identification of friendly aircraft within the central region of Europe under

wartime conditions, when there would be heavy jamming by the Warsaw Pact forces. And while the technical details of the preferred successor have, in large measure, been agreed, there are still some unresolved issues and the whole question of the transition plan to cover the period when both the existing and the next generation of IFF have to be interruptible remains to be addressed in detail.

So it is too early to claim this project as a successful example of this kind of cooperation, but still, progress is being made. I think, so far as problems are concerned, it is worth remembering that there are three basic conditions that have to be fulfilled before any kind of program of international cooperation for a new and advanced generation of equipment can proceed to a successful conclusion. The first - and it may be obvious, but it's often forgotten - the armed forces themselves have to agree on the type of equipment and when it's required to enter service. Second, and this is very relevant to what Dr. DeLauer was saying, industries of the countries participating in the program have to see the mutual advantage from cooperation as distinct from attempting to go it alone. Third, there has to be agreement between governments on a whole host of issues, such as R&D levies, intellectual property rights, and the conditions under which the equipment might be exported to other countries. And if any one of these three fails, then the program stops.

Before I conclude, there are a few further points I would like to make about the relations between European nations on the one hand and the United States on the other. The economy, the defense industrial base, and the armed forces of the United States are all vast, when compared with those of any single Western European nation. But in the context of NATO, the total European contribution to the allied forces is significant, and this was acknowledged in August 1980 by the then Secretary of State, Mr. Muskie. And in similar fashion, the defense industries of Western Europe have much to offer, and I think this is recognized by the Department of Defense because without that recognition we would not have made as much progress as we have. And apart from the families of weapons concept, there has been a waiving of certain "Buy American" restrictions - they've already been mentioned - to enable certain Western European countries to bid for United States defense contracts or to participate in dual production arrangements. But I hope you won't think me ungenerous if I touch a few areas in the United States where there are still barriers and sources of difficulty.

In particular, number one is Congress, which can and does overrule the administration's arrangements for overseas purchases, even where those plans are well established in just the same way as it has the right to do for domestic purchases. We recognize that.

Second, the United States armed services, where there are still some pockets of reluctance to undertake foreign purchases. We shall continue to work on that.

Thirdly, there are detailed rules within the United States attaching to domestic projects, and they are often deemed to apply to collaborative arrangements negotiated between the United States and foreign governments. And I think the only thing we can do there is to keep working at it, again.

In conclusion, Mr. Chairman, these ADPA international conferences have always been valuable opportunities for us to meet and to examine those areas where we have been successful in the past, to explore those where we hope to be equally or more successful in the future, and to try to find ways and means of making the process of achieving cooperative security easier and more straightforward. I hope that my opening remarks will help to achieve these objectives.

Mr. Shillito

Thank you very much, Jim.

Our speaker panelist from the Federal Republic of Germany is Mr. Hanspeter Schwalber, Counselor, Defense Research and Engineering for the FRG's Embassy. Mr. Schwalber has been known by many of us for a number of years as an outstanding researcher, scientist, an individual with extensive project management experience, an authority in the field of project management in the FRG, and he has been a stalwart in the Embassy here in the Research Engineering arena for about the last 2-1/2 to 3 years. We're delighted to have Mr. Schwalber as our next panelist.

Mr. Hanspeter Schwalber

Ladies and gentlemen, it is an honor and pleasure for me to participate as a member on this panel and to have the opportunity to speak to you.

I should like to emphasize that my presence here instead of the German Armaments Director is no indication whatsoever for lack of interest on Herr Eberhard's part in your international conference. His absence is due to a number of previous commitments in the national field, which could not be rescheduled. Herr Eberhard has expressed to Dr. DeLauer the willingness of the German Ministry of Defense to contribute to the ADPA conferences whenever such a contribution is desired and possible.

Some of the items which I am going to comment on have already been mentioned by Dr. DeLauer and Mr. Barnes; however, I believe that I should round off the picture by presenting some German views on the items which this conference is going to deal with.

Cooperative security and defense assistance cover a broad field. They reach from the classical concept of armaments cooperation between equal partners with comparable capabilities all the

way to military aid in the form of material and services or equipment aid for countries, the support of which would be in the interest of my country, in the interest of the Alliance, or in the interest of the entire free world.

I should like to start with some words on armaments cooperation. In a time of increasing budget constraints, it has become more and more necessary to invest the funds for defense as cost effectively as possible and to concentrate them in such a way that a credible and effective defense capability can be created and maintained for a politically acceptable price. Hence, the purpose of armament cooperation must be to coordinate expenditures for development and procurement within the Alliance and to avoid duplication of work; to support the political, military and economic cohesion within the Alliance; and to maintain and improve the effectivity of the Alliance in order to be able to cope with the existing threat.

In order to achieve these three goals, it is obvious that the adaptation becomes an indispensable prerequisite. The terms commonly used in this context are standardization and interoperability. Under today's conditions, the following options are available to realize standardization and interoperability. It is dual production, bilateral or multilateral MOUs, and family of weapons concept. Please let me briefly comment on these three terms.

Dual production has the obvious advantage that a weapon system must not be purchased from a country where it has been developed, but can be manufactured by the customer country. This possibility of cooperation is of particular benefit to those countries which lack extensive development capacities, although they are required for obvious reasons, testing of the necessary maintenance capacities to establish and maintain a potent defense industry. In this context, the political motivation is also of great significance. It is less difficult for the parliaments involved to appropriate funds for defense if these funds remain within the country and support jobs at home. The cost reducing and standardizing advantages of a program within the scope of a bilateral or multilateral MOU are also obvious and I don't believe that I should elaborate at this point. The key, however, to the success of these programs is mutual information with regard to both the requirements towards a system, as well as the technical documentation.

The family of weapons concept, once it is materialized, is tailored to meet the requirements for standardization with all advantages inherent therein. In order for this concept to function, however, it will be necessary to adapt the military requirements with mutual consent on the anticipated threat, as well as to adapt the introduction schedules.

The difficulties in cooperation are certainly not facilitated by the fact that administration, industry, and parliaments in our

countries must support armaments cooperation in order to make it practicable. When considering armaments cooperation, our parliamentarians afford strong considerations to their constituencies and this argument, in my opinion, is the more true the shorter the term of a representative; that is, the more often he will have to run for his office. The risk is that for reasons which can certainly be understood, the interest in the solution of national problems will give place to local interests.

Assuming that our administrations favorably support armaments cooperation, let's take a look now at the industrial side. The problems in this field are varied. I shall not claim, for myself, to be able to cover even a small percentage of them. Just let me touch the subject with a short remark. There has to be give and take. Timid insistence upon technical and financial points will not promote collaboration. I firmly believe that the industry must play a decisive role in any form of armaments cooperation. I also believe to know the difficulties which your and our industries experience in stepping up this cooperation. I think I am familiar with the problem connected with the terms "competition" and "technology transfer." In my view, we would misjudge reality if we would consider competition the only decisive factor in the armaments game.

Once again, my previous statement is applicable. The economic situation in our countries does not allow us to contract major and technologically important shares to other countries without national participation. I would like to quote: "Standardization cannot constitute an end in itself. It must be tied into the strategic position of the other parties to the Alliance prepared to standardize." On the other hand, I would consider it wrong to play down international armaments cooperation as just a nice support of the economies and defense industries involved.

Understanding the necessity for closer cooperation in the armament field, the United States and the majority of NATO countries have signed bilateral MOUs. The purpose of these MOUs is to pave the way to cooperation for the industries involved and to provide for the possibility for our corporations to compete in the other country for defense contracts. Legal provisions interfering with the implementation of the MOU, such as the Buy American Act, the cost accounting standards for German contractors, certain industrial security regulations and so on, are gradually being removed. Undoubtedly, the bilateral MOUs are supported by the upper levels of the DOD, although there appears to be quite some lack of knowledge or maybe an unwillingness to know on the subordinate level.

With reference to a host of existing regulations, the possibilities of cooperation are often very much restricted. It appears to me that a learning process will have to set in. I believe that the mutual information meetings for industry and administrative personnel in Cologne, Washington, and Munich have been a good start towards this end.

I should like to make some brief remarks on the important aspect of foreign military sales and military aid programs. The German Weapons Control Act generally permits the sale of weapons and the export of technological know-how only to areas where there is no tension. Under the policy of the German Federal Government, this means that export, in principle, is permitted only to NATO countries and some few other nations. The same applies to the military aid program, which is primarily tailored to the interests of the Alliance and to national security interests. This last statement also applies to equipment aid programs for some particularly needy countries of the Third World, where it would be in our interest that these countries are not depending upon aid from other sides, thereby being placed into the hands of other political systems. For these military aid and equipment programs, too, we are seeking coordination with our partners in the Alliance. The support, for instance, for a NATO country by a partner constitutes at the same time a strengthening of the overall alliance system.

Please let me summarize. From my comments, you have been able to derive that we are convinced of the necessity for cooperation. The advantages for the Alliance and the interests of the free world must not be overlooked. However, we must also not overlook national and commercial which interfere with an effective cooperation in the sense depicted by me and which fail to realize that without cooperation, we will soon be faced with a greater difficulty even in the industrial sector. A lot of educational work is to be done and objections on the part of individual groups or interests must be removed.

The industries in our countries play a very significant role in this context. I would appreciate it if I would have your support in working toward this goal which is of such great importance to all of us. Thank you very much.

Mr. Shillito

Thank you very much, Mr. Schwalber.

Our next panelist and speaker has been the General Delegate for Armaments, France, since 1977. He has enjoyed the total exposure to the RSI issue in great detail and been involved in it in details over a period of time, probably longer than any of our panel members. He is a scientist, an engineer, he has extensive technical, manufacturing, and acquisition experience, particularly as regard armaments and communications equipment, and he has played a major role in surfacing the issues, the problems, and in resolving the problems as regard a number of things that we in industry have been faced with over the past several years in the RSI arena. We are delighted to have as our next speaker General Jean Francois Martre from France.

General Jean Francois Martre

Mr. Chairman, ladies and gentlemen. First, I want to thank ADPA for inviting me again to participate in the discussion on cooperation between the United States and Europe in the field of armaments.

It is indeed one of the most important problems for the future of our countries and the possibility of exchanging ideas on this subject is highly desirable. ADPA seems to me to be an important forum, particularly adapted to this type of action.

At the January, 1980, conference, I explained to you the spirit in which France participates to this cooperation with the Atlantic Alliance countries. While insisting on maintaining its national independence, France is firmly decided to continue to seek a balanced cooperation with our allies in order to improve the efficient use of the financial resources invested by the various countries in the armament programs.

In this respect, the new French Defense Secretary, Mr. Charles has made the statement the day before yesterday that, "Cooperation with friendly nations is a solution which is approved by the French Government and by myself, for it saves money, both in development and production, and enables us to apply the best techniques and the best technologies known by France and her partners. However, cooperation requires the sufficient consensus about needs, specifications, and time schedules. This cooperation policy will be postured because it is a willful policy." This is a statement of our defense Secretary. It is very clear and requires no more explanation.

Concerning the implementation of these principles, I share the views which have been expressed here by my colleagues before me, and it would not be useful to repeat it. Today I would like to point out to you the progress which, in my opinion, has been made since our previous discussion in January, 1980, in this common report made by France and the United States in order to reach a larger cooperation, in spite of all the difficulties encountered in this endeavor. Indeed, we must overcome all the reservations of our many partners, harmonize military specifications and time schedules, prepare cooperation and industrial sharing agendas, and finally, coordinate through administrative and budgeting procedures of different countries. Agreements must also be achieved on transfer of technologies developed in our cooperative programs. French regulations on this subject are especially strict and these transfers are carefully watched. Decisions have been made recently to extend the control of exports and new measures of this type are being studied.

An important step has been taken to open more widely the cooperation process with the signature of a Memorandum of Understanding on mutual armament purchases. As you know, the United States and

France have signed this agreement in 1978, but only last year the terms of its implementing document had been specified. The implementation of this agreement allows the systematic organization of the relationship between our two countries and therefore, an increased level of exchanges. Within the framework of this agreement, regular meetings are planned between government representatives of our two countries to elaborate programs and discuss problems that could result from common programs or equipment purchases. Of course, one cannot expect dramatic results to occur overnight, but we can note with satisfaction that the development process of such cooperation has been launched and should bring about a significant increase of our exchanges in the coming years. Encouraging prospects exist already. First, the re-engining of . . . of the United States and French air forces with FM-56 engines resulting from the cooperation between General Electric and . . . should bring about several hundred millions of dollars of exchanges between our two countries if these programs are implemented. Other important matters are also in progress or are scheduled for the near future. France, itself, is at present about to purchase a sea-to-air missile system to equip its anti-aircraft. We also look to the possibility of adopting early warning aircraft and we are studying what the American industry has to offer to satisfy this need.

Finally, I shall mention the interest shown by American officials in several types of French equipments, especially the Alpha jet as a training aircraft for the United States Navy and our light armor vehicle for the U. S. Marine Corps.

All these demonstrate the possibility of developing exchanges and shows that we can overcome the obstacles to such cooperation for the development and mass production of equipments. The increase of actions depends mainly upon the government officials who prepare and implement programs. In this field, I can assure you that between the officials of our two countries, United States and France, and in general with those of Europe, there is a fine spirit of cooperation based on the certitude of a common interest and on a vast experience of joint endeavor.

I think that our future success depends also largely on our companies - on their inventiveness and their capacity to create and produce flexible and effective structures of cooperation. In this field, I can assure you that in all the common action that I have experienced and in those now in progress, the industry representatives on both sides of the Atlantic Ocean, whatever their legal status, have, in general, manifested a great deal of dynamism associated with a remarkable realism and efficiency. I want to take this opportunity to thank them and to assure them of my confidence so we can together build a brighter future. Thank you.

Mr. Shillito

Thank you, General.

Our next panelist is the Secretary General of Defense, Ministry of Defense, Italy. He has had an extensive military background, having been an armored division commander, artillery commander, he has been deeply involved in the acquisition process with his government. He has had extensive research and development experience in his country and is recognized also as an authority in the logistics arena. We are indeed delighted and honored to have as our next speaker General Giuseppe Piovano.

General Giuseppe Piovano

Good morning, ladies and gentlemen. First of all, thank you for the possibility given to me to explain the deposition of an allied country, which is not as large as yours and which is 10,000 miles from you in the middle of the very hot Mediterranean waters. I will shortly point out the following items. The Italian position regarding our security within the NATO frame. In what way do Italians try to carry out such a cooperation presently, as well as in the future. Which difficulties are we faced with and some particular points.

Let me now begin with the first item. There are three firm points in the Italian policy concerning security. First, national security is to be seen in the wider framework of international security within the NATO Alliance. Second, the balance of powers between NATO and the Warsaw Pact is the essential starting point to carry out a dialogue on detente, the environment of equal trust. Third, the final theoretical aim of disarmament has to be pursued cautiously by establishing a certain balance of power at lower and lower levels. Italy firmly believes that in order to achieve security, it is necessary to pursue a defense policy mainly based on the availability of a credible military instrument. In this context, it is quite evident that our country cannot rely only on its own industry, but on the other hand, must not be exclusively dependent on foreign industry. The best compromise solution is to activate an intensive industrial cooperation with other countries pursuing the same ideas of freedom and peace to which we aspire. In this way, it is possible to achieve two important goals. First, to acquire more competitive armaments because of their higher technology; secondly, reduce the research and development costs with a better utilization of available economic resources. In order to create a credible military instrument, Italy has developed, through 1975-77, three promotional laws as an impact . . . to compensate the insufficient appropriation for modernizing and renewing our armed forces with a commitment of more than \$3 thousand million dollars in a seven-year period. Between 1975 and 1980, Italy invested \$8,700,000 from national budget and promotional laws to purchase equipment in foreign countries. \$700,000 has been spent abroad in America and Canada.

Naturally, these programs stimulated and still continue to stimulate numerous and qualified national industrial activity with undeniable positive consequences of social and economic nature and technological advantages.

As I already said, main emphasis is laid on cooperational activity with other NATO countries. This cooperation allows to us the following advantages: a larger scale production and, consequently, a unit cost reduction. Secondly, sharing among other partners of the research and development cost, which, in this case, will have a lesser impact on our expenditure for national procurement. Thirdly, the advantage of extending the industrial activities due to a greater production volume and keeping the technological level up to date, as well as the industrial competitiveness, and finally, giving the Italian armed forces the availability of more modern equipment at acceptable cost that would be impossible to get only on a national basis.

As a confirmation of the above, as you know, I think, Italy is present as a member in all main international organizations in the NATO agencies and the European agencies. As far as bilateral agreements are concerned, Italy has signed MOUs with many countries, such as America, United Kingdom, Canada, and Spain. The force made by Italy in the field of cooperation has achieved the realization of important and qualified programs, well known within NATO areas - the FA-70, SP-70, the Tornado missiles. Furthermore, we are now engaging in European co-production of artillery and missile munitions.

The Italian MOD is also actively committed to participate in the research and development and mutual production of a new generation equipment, such as anti-tank weapon systems, anti-tank helicopter, like the A-129, and the seeking replacement anti-submarine helicopter, EH-109, and so on.

In our view, the cooperation, however, is not to be considered as a panacea, in other words, as the only solution without any failures. Different conditions of each country negatively affect cooperation's condition and results. First of all, smaller countries are sometimes compared to a higher and very costly standardization level, having to acquire common equipment. On the other hand, those countries who are not able to undertake commitments in all various fields are obliged to narrow their areas of interest. Secondly, there are different operational requirements; this applies mainly to Italy in respect to Central Europe's countries. Another handicap is due to different levels of development of the industries of the countries. Production capabilities are sometimes wider than the potential market. We must, for example, export more than 70 percent of our production, also, to Arabian countries and not NATO countries for economic and strategic reasons. Secondly, a reduced labor mobility and the existence of a group of national industries with remarkable tradition in autonomy and self-support cannot be ignored. Thirdly, as far as Italy is concerned,

I must emphasize the long-term span for contractual finalization which cause sometimes a national level delay in the allocational funds, resulting in the financial exporter of the industry in the postponement of the problems. At the international level, difficulties in finding partners who would agree to accept these delays and national financial constraints.

Finally, I cannot ignore the present social and economical situation in my country, which could sometimes suggest national solutions in the armament fields instead of cooperation programs, even if those are better.

These are the main reasons for which cooperation with other countries does not always follow a balanced pattern, according to a real two-way street. For instance, in 1980, the commercial exchange with the United States shows an imbalance of approximately 160 billion lira against Italy. Some good results have been achieved through meetings of the committee for bilateral MOU. In our view, the present situation can be better improved through first acquiring, if and when possible, Italian products or our locating work through dual production problems. Secondly, facilitating the production of Italian industry in foreign countries by bits. Thirdly, approving a production under licence of material to be sold in third countries. These actions are absolutely vital for us now.

I conclude, Italy has reached, it is true, a rather high level as a recipient of foreign technology. I personally think that according to our technological level and our industrial capability, it is now possible to attain different levels of cooperation. Of course, we are still obliged to import technology in some specific areas, such as missiles, but we have the capability of exporting technology in other areas, for example, helicopters, small weapons, and so on. In conclusion, it is our opinion that we must try to figure out the cooperation areas in order to carry on a real concrete common effort both in defense and economic development, and taking into consideration the particular situation of the smaller countries. Thank you.

Mr. Shillito

Thank you very much, General.

Please get your questions in now. We have quite a few already. Our pattern will be as follows. We will ask the question and I will suggest that any or all panel members join in with any suggestion, comment, that they might have as regard the specific question.

We have several questions tied to the PRC, and I will attempt to weave these together. They are addressed to Dr. DeLauer, but they are broader than just the United States. Question #1: What arrangements have been made or will be made with NATO countries

and other friendly countries with regard to the supplying of arms and technology to the PRC? To what extent is the export control policy for computers and critical technology being relaxed for the PRC? What is the policy for the USSR and the Warsaw Pact countries? I'm not sure that this last question is clear, but Dick, why don't you start off on that as regard PRC and I think it has been made pretty clear in the press in many ways, but why don't you cover that? Our other panelists might want to chip in, also, on that particular question.

Dr. DeLauer

Had this meeting been held two days ago, that question would not have showed up. I'm not going to answer any question on PRC. That's still in Foggy Bottom, and before it gets out of Foggy Bottom, it has to go to the fourth floor before it gets down to me on the third floor. So we'll skip that one, Barry.

Mr. Shillito

That's what I meant by blind golf. I'd like to ask the other panelists to comment as regard their country's relationship with the PRC, the export of munitions items to the PRC. Jim?

Mr. Barnes

Thank you, Barry. The interest of the People's Republic of China increased significantly in the late 1970's. We had numerous visits and numerous invitations to go and visit with them. But there's not a lot to show for it and I think the general answer that I would give on armaments is that there is nothing firm arranged at all, and on other equipments, such as computers, our position is no different from what it has been for very many years. The whole process would go through COCOM, because without that, we could never satisfy our allies in the Alliance that what we were doing was right. So, really, our position is not significantly different from what it has always been, particularly in respect to computers, and I am not aware of any deal at all of any significance on the armaments side.

Mr. Shillito

Mr. Schwalber, do you have any comments as regard relationships with the PRC?

Mr. Schwalber

No, no new comments. Just that we are adhering to the COCOM.

Mr. Shillito

Genera: Martre?

General Martre

As you know, France has a very good relationship with the People's Republic of China because France has been one of the first nations which recognized the government of the PRC. For several years, we have had discussions with China about weapons and we have been authorized by the French government to discuss some orders concerning defensive weapons only and some of these orders have been achieved, but many others are in discussion, because the capability of the Chinese to purchase weapons seems to be weak.

Mr. Shillito

General Piovano?

General Piovano

Thank you, I have no comment on this point.

Mr. Shillito

Thank you. The COCOM agreement was mentioned twice in the responses and, of course, that came up extensively last year and I think many people in American industry feel that there is a significant difference in the way our various countries comply with or do not comply with the COCOM agreement. I'll not say any more about that, I don't know that it warrants anything additional on the part of any of us.

The next question is applied to our European panelists. What sort of help does your government give to your industry when it competes with U. S. industry for U. S. contracts? Do you subsidize your industry in any way as regard their bids so that they could be more price competitive? Would you start with that, General Martre?

General Martre

In the field of purchasing armaments, the procurement of armaments for the French armies, the principle is there are no subsidies for the companies, French or other companies. We have the same principles of other Western countries, that is to say, when we need to have specific equipment for our armies, we set up programs for the development and production of these weapons. We order contracts from the companies for the development, and very frequently on a competition basis, and then we finance the production. But we have no special subsidies for our industry because the purchase of armaments is on a commercial basis in our country.

Mr. Barnes

I think General Martre has described very well the way in which we would do it. No direct subsidy at all, maximum of encouragement

for them to make use of what technology they have generated and what capability they have generated as a result of the research and development programs that the Ministry of Defense has paid for.

General Piovano

Essentially, we don't feel we have a problem of competition with American industry. What we do is we look at the United States and seek in the United States to purchase the armament materials that we need and that we don't find we are capable or economically capable of obtaining within our own industry. Or we try to obtain this materail by entering in co-production with the United States or obtaining a license to produce in Italy something that the United States has. Therefore, a true problem of competition with American industry on the part of our own industry, when it comes to armaments, does not really exist.

Mr. Schwalber

We do not subsidize.

Mr. Shillito

Dr. DeLauer, CBS suggested last night that U. S. weapons systems were too complicated and that greater numbers of simpler systems would be more effective. Do you have any comments on this?

Dr. DeLauer

I saw that program last night and it was significant - they kept showing you all those shots of that F-18 going off the carrier and not one of them crashed. On the other hand, they showed you an awful lot of Regulus missiles and old Matadors that all those tests were done when I was a child. And so, the program really was a non sequitur. To get to the point about the complicated sophistication of our existing systems, I think people are focusing on the wrong issue. I think the issue is not whether they are sophisticated in a mission sense or whether the equipment works or not. One of the most complicated and sophisticated sets of electronics are contained in the Fleet Ballistic Missiles and the Land Based Ballistic Missiles, and they work like a charm. They have mean time between failures, particularly in the Minute Man System that are in years. It's a benign environment, but still, years is a long time. The issue really is how well are we making the equipment, and that the particular weapon system that they were complaining about, it turns out that almost every one of the subsystems of that particular airplane has exceeded from an MTBF standpoint the original procurement specs.

Mr. Shillito

Talking about the subsidization of industry, back to that for a moment, during the Paris air show there was a rather extensive

economic seminar that was held, and it dealt with financing exports, among other things. This question is directed to our European panelists, our Allied panelists, pardon me. It deals with that subject. I'm not sure that these gentlemen can cover the subject adequately, but we will try. What are your nations' intents with respect to so-called predatory credit terms made available through subsidized government financing - recognizing as was spelled out in the economic seminar in Europe that the financial costs that we have inflicted on our U. S. exporters is significantly higher than is the case with allied exporters? Mr. Barnes, will you comment on that?

Mr. Barnes

I have nothing to say.

General Martre

It is a very important question. In France it is generally considered that it is easier to sell armaments than civilian products. I think it is a mistake, but it is the idea of our people of the Ministry of Finance. Therefore, they consider that it is necessary to have very favorable conditions of credit for selling civilian products and for military products it is not necessary to have good conditions, and they are very severe when one country asks for credit for armament purchases. Therefore, when we compare our system of credit for military exports, the system for credit for civilian exports in France, and when we compare the American system of credit for military export, our deep feeling is that it is largely more favorable, and our civilian system is more favorable than our military system. In fact, we have many difficulties with our Finance authorities for having special guarantees of credit for military export and a very small part of our military exports are done on the basis of credit. The more important part is done on the basis of cash payment.

General Piovano

The possibilities of financing sales of our private industry for military equipment or armaments to foreign countries are always being reduced constantly. This is due to two reasons - one, to the present economic status of the Italian economy and of the Italian Government affairs, and secondly to the political orientation of the Government. In other words, if our industry is able to sell abroad, it is strictly because of its competitiveness and certainly not for assistance from the Government.

Mr. Shillito

Thank you very much. On the outside looking in, I think there might be the inclination on the part of a number of us to turn that financing question around a little bit and maybe criticize our own U. S. Government in some ways for not recognizing the issue and maybe doing a little bit more about it relative to U. S. financing as regard exports. But that's just one person's opinion, because we don't seem, in this country, to recognize the issue, in my mind.

To our various panelists, I guess including myself, goes this question. "Mr. Shillito mentioned a number of items or steps forward in international cooperation since the last conference. What are these?" Apparently, I didn't make myself too clear, because I said very specifically that it would appear that there have been few significant multilateral preparedness improvements, other than a portion of the framework, since the last conference. And the second part says, "I would like Dr. DeLauer and others to comment on how European companies can compete in the U. S. defense arena when they are frequently denied access to the information, the personnel and knowledge, and to even enter into the essential competition. And in pursuing business for European companies in the U. S., I find that I spend an inordinate amount of time in educating U. S. procurement personnel as to the existence of the international MOUs. I'd like this explained, if possible. Why has less than 40 percent of the contracting officers and procurement personnel ever heard of these international MOUs. Why hasn't this filtered down through the system?"

Dr. DeLauer

I think that point was mentioned by one of the speakers, that they felt that while there has been policy reclamations of cooperation, when you get down to the firing line, the people involved in the actual procurement seem to never have heard of it. That's our fault. We just haven't made our desires well known enough to the procurement aspect. We have been trying to take some steps in the right direction on the major systems. You might remember Bill Perry insisted that in the major systems that are going to the DSARC process, the issue of RSI is addressed at every step of OSD review and that the services are supposed to make their plans for that particular program clear, exactly what they're going to do. That still doesn't solve the problem of getting it down to the contracting officer. It's a big problem we have. I'm not denying that, but all we can do is assure you that we're going to keep trying to do it. It's going to be a tough job, because we have a whole lot of things to get down to the contracting people. Many of you who read the Carlucci initiative recognize what that means from an institutional standpoint. It's a different way of doing business and we have to get it down to the people who are doing business every day. That's our job and if we fail we ought

to get kicked out, so we're trying to make it happen. All I can do is try. Some of these things are why religion was invented. This is one of them - have faith.

Mr. Shillito

Mr. Schwalber, the Jaguar/Tornado would have been significantly cheaper if each had been built in one country, one country only, except for the obvious subsystems, such as the power plants, the radar, etc. Don't production lines in more than one country dramatically increase the cost?

Mr. Schwalber

I don't want to address the Jaguar program. It is a British/French program. The Tornado program, and one could talk about philosophies now for hours, I doubt that the development costs would have been cheaper if it would have been developed in one country. There is still the old formula - the square root of the number of participants divided by the participants - and that is approximately the share each country has to contribute to production. I still think that it is advantageous for us to have international programs because in Europe, just to name one sector, we are usually not talking about the production numbers you are talking about here in the United States, and as all of you know, the so-called learning curve is greatly influenced by the production numbers, and in Europe, one of the main goals of these international programs, apart from the philosophy of supporting the Alliance, the achievement of production numbers is an important goal.

Mr. Shillito

I think back to one of our British colleagues a few years ago, talking about joint programs involving two countries, he made the comment that one of the nice things about the two-country joint programs is that each country only has to pay 75 percent of the cost.

Mr. Barnes

On the Jaguar program, I think it was important to note two points. The first was that this was one of the earliest examples of the setting up of a joint company on which the French took the lead for the air frame, and the setting up of a joint company on which Rolls Royce took the lead for the engine. And in production, the principle was followed that either partner in each of those joint companies should have the ability to build the complete unit. There were slight variations on this, but basically the reason behind it was that ultimately, each company would want to retain the ability to service or produce spare parts, as far as he could, for the aircraft owned by its own air force. In the

case of the Tornado, it was a slightly different arrangement - again, three participants. There was sharing out of individual units, but I think it's right to say that each country retained the ability to undertake the assembly. And the reason for that was so that the servicing and production of spare parts, and so on, could be undertaken on behalf of each national air force. It isn't the question just of first cost being addressed here. It is an attempt to make sure that each country can safeguard its position on through-life costs and service support.

General Piovano

I wouldn't like to leave my German and English colleagues all alone on this Tornado question. Just a few days ago, a parliamentary commission in Italy posed the same question to me that was posed now on the Tornado. I can confirm that the Italian evaluation of the Tornado made both at the beginning, before it all started, and at this time, when it is already in production, is very positive. There are at least ten points that I could make that would confirm that the collaboration of the Germans and the British on the Tornado has been very valid. Limiting myself to the aspects that concern Italy, which, by the way, one never knows whether it is the smallest of the big or the biggest of the small, the advantages to our industry for having made a study with the British and the Germans on the Tornado have been very great. There was a technological jump of about five years. Moreover, we would never have been able by ourselves, to develop a program of this kind because of our own requirements.

General Martre

As far as the Jaguar program is concerned, as you know, Jaguar is a program which has been developed together with Britain and France, my feeling is that the Jaguar program is a good example of success of a program in cooperation. Some others had less success, but Jaguar is, in my mind, successful. I think that in the development costs, we have spent probably more with two countries than with one country alone, but we have divided the cost per two. And in production, it seems that the production cost has been lower than on the basis of a one-country program because we have shared the production with the British and we have had a higher rate of production. We have, for the purpose of determining the interest of cooperation, had analysis of this example of cooperation and our conclusion is that in the Jaguar program, our saving of money compared to a program based on one nation is about 10 percent, coming from share on development and also on a less production unit price.

Mr. Shillito

Mr. Barnes, you mentioned three essential ingredients for successful international cooperation. Is there a particular sequence of these that you think must occur? In other words,

which must come first pragmatically, as you see it? You might touch on the three essential elements again.

Mr. Barnes

The first one I mentioned was the fact that the armed forces have to agree on the type of equipment needed and when it is required to enter service. And this, in itself, has to stem from an agreed perception of the threat, particularly if it is equipment for the Alliance, so I listed this one first and it probably has to come first. The second and third were these - the second one was the industries of the countries participating had to see mutual benefit from combining together, rather than trying to go it alone. The third one was that there should be an inter-government agreement on various issues, intellectual property rights, and the conditions under which equipment might be sold to third countries. I find it very difficult to put an order between these. I think probably they have to come together more or less in parallel. So, really, summarizing, perception of what is needed and when (I think that does come first), then inter-company perception that they can do better together than separately, and agreement between governments that they will work together to overcome the obstacles that might exist on these other issues. So number one, and then two and three together.

Mr. Shillito

This next question ties to step number two - industry participation and benefits, as recognized in order to accomplish the type cooperation that we're talking about here. The question says, "Much discussion, lip service, etc., has been given to industry-to-industry cooperation to achieve such things as RSI. Why is industry left out of the formulation process as regard MOUs and other government-to-government agreements and understandings? What is proposed to bring industries into the process at an early and significant stage for ultimate effectiveness in order to tie into Mr. Barnes' step number two?"

Mr. Barnes

The short answer is as far as we are concerned in the U.K., industry is not left out. There is concentration. Usually it has to be done at high level and, in the first instance, informally, but before the Ministry of Defense signs any kind of MOU, such as the one on air-to-air weapons, they would satisfy themselves and in fact the industry itself would take an initiative to make sure that its points were fully taken account of. The problem in that sense I don't think arises. We do take steps to make sure that industry is aware of what is going on and they, themselves, never lose an opportunity to make sure that their interests are safeguarded.

Mr. Shillito

Would anyone else like to comment on the subject of industry involvement in the upstream process? General Martre?

General Martre

I think that it is necessary that companies will be in the process as early as possible and my experience is that very often they are linked and in the process before the governmental agencies because on one side of the Atlantic Ocean and on the other side, people of the companies know very well what are the tendencies of the technology progress and what will be the future in the development of the new weapons system, and they are able to give ideas to their government agencies and when they are discussing these issues with their agencies, they are also able to discuss these issues between companies on both sides of the ocean.

Dr. DeLauer

I would think that that question is more leveled at us than anybody else. I think that there is no question that this has been a problem and it's not a new issue. That was highlighted as one of the problems in the Defense Science Board study of 1978 that we felt that many of these negotiations were being carried on by the bureaucracy and not by what would be considered collaborative approaches in regard to American industry. Since I was on the other side at that time, I agreed with them and I haven't had anything change my mind. I think that there is a problem in regard to how we would do it and how would we do it within our present framework of acquisition policy. Say I want to go over and have a joint group to interact on an MOU, how do I pick the industry rep without having the telephone ring off the hook in the office. We're trying to think about that. We made a suggestion at the time that that task force met that perhaps some of the elder statesmen, people who have retired from industry - we've done that in one or two cases in regard to some of the civilian programs. We had people participate in the negotiations as members of the industry. I think maybe this is something we could do, and maybe we could handle it that way, but I think it's an essential part of the process. Certainly, our friends use it and I think they use it to their advantage. One, they get a commitment out of the industry that they are part of the process and therefore they're going to help to be part of the solution. We get a mail slot operation. If the industry doesn't like it, they sit there and fire darts at us. So let's get them in on the process and how we're going to do that is something that our people are trying to work on right now.

Mr. Shillito

That's a good suggestive thought. A somewhat related point, Dr. DeLauer, if you emphasize industry-to-industry agreements in

in the FMS process, how do you plan to recover the nonrecurring costs?

Dr. DeLauer

I ought to have Colonel . . . sitting right up there tell you all about this. He has a job about how we're going to price FMS. I came in and found that he had an almost impossible task. I went on my first trip to NATO and had those tough Dutch traders, who I've been dealing with on the commercial side in the oil business until I got this job, won \$100 million back because the Canadians didn't have to pay R&D recruitment on the F-18 - they got stuck with it on the F-16. So they didn't take the point of view that what's past is past and what's in the future is the future, but that was the answer we gave them. And then when they didn't like that, we told them our lawyers wouldn't let it, and they didn't think that was very good, either. But we do have to get some stability. I'm not saying that you're going to have absolute uniformity, because many things enter into these FMS sales, but we ought to have at least a little better rationale on why one deal is one way and another deal is another, and we are in the process of trying to provide that rationalization right now.

Mr. Shillito

Thank you. General Poivano, to what extent has inflation changed the schedule originally foreseen for the promotional laws; which service in Italy - army, navy, air force - has the hardest problem staying on your total schedules?

General Piovano

The promotional law, as it is known, involves between three and four thousand billion lira over a period of five years. These are funds that were given as a result of the rigidity of our budget and that were sorely needed. The promotional laws started in 1976. The first to use them was the Navy, the second was the Air Force, the third the Army, and the reason for the difference in timing is because the programs were not all coming up at the same time. Therefore, it is quite difficult to be able to give an amount as to how much inflation has played on these promotional laws, but I can say that the Navy has been put in a position to complete almost entirely its program, slightly less for the Air Force, whereas the Army is still in the middle of its program. This means, with reference to the Army, we will either have a surplus or we will have to renounce a certain part of the special laws. In summary I must say that the cost for armaments in Italy during the past few years has not only doubled but almost tripled.

Mr. Shillito

A related inflation question to Dr. DeLauer is the 8.7 inflation rate projected within the DOD. Do you consider this to be realistic and if it's not, or if it gets on track, what do you have in the way of thoughts as to how you're going to offset this?

Dr. DeLauer

There's no question that on selected programs - selected weapons systems or selected areas of development - that the cost growth in our program has been higher than any published, supported, directed GNP deflator that existed in the previous administration and is being forecasted for the present administration. There are some strong evidence that the Department of Defense as a whole, if you include all the elements of cost, pretty much matches what the general economy portrays, but it's when you start getting into the development and acquisition of a particular hardware item that we find that we have a higher cost growth than would be suggested by some number that was just mentioned. So one of the initiatives that was given in the Carlucci initiatives, and then the guidance that was given in the Defense Guidance by the Secretary for the 1983 program is that the services were required to price their programs at what would be the most probable cost, notwithstanding a particular inflation number for the out years. And then it will be the problem of Jack Borstein and a few other people on the financial side of the DOD as a whole to see how these things set with the overall budget. But there is no question we're not going to price programs at unrealistically ridiculous numbers and then find that no sooner has the year passed than we're behind and therefore either we have to change the quantity or we have to go back for more resources. We're going to try to really assess the real costs of the programs and have those included in the budget, and when we run out we'll have to cut some programs. That's when all the screaming is going to start, when we start cutting out the programs.

Mr. Shillito

A point was made and I would suggest this to our panel members, and I apologize myself, that we attempt to spell out some of the acronyms that we find ourselves using; i.e., MOU is a memo of understanding, RSI is rationalization, standardization, interoperability, and we'll try to keep that in mind if we can. And so I immediately get a card with all kinds of acronyms on it. This is directed also to Dr. DeLauer and ties to the economic picture. The GATT multilateral trade negotiations (that stands for the General Arms Tax and Tarriff) oblige the participating nations to open some 40 billion U. S. Government procurements of goods and services to international competition. The U. S. is committed to approximately 17 billion U. S. dollars, two-thirds of the U. S. commitment has been designated as DOD procurement.

How in your view will this affect international armaments cooperation, particularly the memos of understanding now in force with the NATO members? International armament cooperation must make provision for the exchange and/or transfer of technical data. Without such data exchange mechanisms, cooperation will collapse. The international traffic and arms regulations, the ITAR, and revisions thereto which are now in the draft stage appear to discourage the flow of the required technical information. Would you comment as to the degree to which the ITARs inhibit cooperation and whether exemption provisions will appear on the revised ITARs. This would tie in, of course, to our U. S. MOUs. So we have the discussion as regard the \$40 billion, the \$17 billion which would be tied to military competition, and would you care to comment on that, Dick?

Dr. DeLauer

That's a two-hour speech.

Mr. Shillito

It was almost a two-hour question.

Dr. DeLauer

To answer it will take forever. Let me see if I can be cryptic. I think the fact that the GATT exists ought to, in principle, make it easier if people will support it. On the other hand, look to the far, far West and you know what's been happening in that area in regard to trade. There is no question that people will use each one of these treaties or agreements to support or not support their particular problem. There are conflicting pressures within the United States Government. You have the Ambassador for Trade - he wants to have as much trade as possible. State Department has a point of view in regard to how it supports their objectives. The Commerce Department has theirs, and we, the Defense Department, have ours. I'd like to really stay within my own level of incompetence and say that what we're interested in is broadening the industrial base, like I said in my opening statement, trying to facilitate that by having the technology transferred to support that activity, and conversely, we're not going to let technology get out of the system that we want it to be in. We're not going to let it get in the hands of the Soviets, and so consequently, in that direction, particularly where ITAR is involved, we're going to be very tough. In the cases where it's going to help the Alliance, where we can get the equipment sooner, we're going to be very aggressive in having that technology transferred. And that's the job I've got, but I haven't got the complete job. So that question ought to be asked some other people other than me. I can give you only my part of the answer.

Mr. Shillito

Thank you very much. This question is directed to all panelists, and it deals with multilateral materials research. I am not sure as to the reason for the question, but I have heard comments that this happens to be a field that the Pact countries appear to be well out, maybe even in front of the Allied countries in some arenas. The question is what steps are being taken to conduct multilateral materials research? Can you provide a specific example, and indicate any possible results that might have been obtained to date. Would you care to try that, General Martre? Mr. Barnes?

Mr. Barnes

There have been a number of collaborative arrangements that have existed for a very long time, since World War II, between the U.K. and the United States and other commonwealth countries, Australia and New Zealand, Canada, which have addressed the whole host of problems on defense research and related matters including new materials, stronger materials, lighter materials, cheaper materials. It's an area where I think progress is made on an ad hoc basis. Somebody had the bright idea, makes some progress, and then needs help in evaluating how that particular new material will stand up to service environments. So I think it is a longstanding problem. There's been longstanding action within the five countries that I mentioned. Equally, within Europe between Germany, France, United Kingdom, there are also research programs and some of these do include research on new materials. The only other comment I would make is that of course the research can very often go ahead well, but it's the next stage, the evolution of an industrial process for making the materials, where sometimes the progress can be slower and is often restricted to one country or another. But apart from these general remarks, there's nothing much more I can say.

General Martre

On this question, in my knowledge, there are many links between companies in the United States and in Europe on specific materials and advance materials, but in my knowledge there is no structural multilateral cooperation which has been set up in the past and we think that it would be perhaps useful to have such a structural cooperation. We have made some proposals in this area, but we have not yet an agreement of all the countries and we have to think to this important problem.

General Piovano

My feelings are pretty much like General Martre's. If by research is meant the research activity not connected with armaments, with a single armament, there is no common activity at the Government level in Italy, whereas there is a tie-in between industries of different countries.

Mr. Shillito

Mr. Barnes, after so many years of operation, why has there been so little success on the part of the SPANAG issuing group? Could so much lack of interoperability be the result of purposeful national efforts to protect national industries by producing unique products so as to lock in markets?

Mr. Barnes

I think it depends on what we are talking about in respect to the SPANAG (Standardization Agreement). In the case of the one that I mentioned, I think there has been no attempt to pursue different perceptions of what it is that has to be done in the way of meeting the threat, and I think they're talking here of the identification, Friend or Foe. But it is certainly true to say that although certain technological solutions were agreed, it was only after a long and very painstaking process of looking at various alternatives. And it is still true to say, as I explained in my notes, the transition plan has got to be worked through. The present Mk-10, Mk-12 IFFs have to be interruptible with any new system, and any new system has got to be judged in relation to what it is going to cost, both to develop and produce and to fit. And all of this does take time. So I don't think there is a general answer to the question as put, that the STANAG issuing group has made little progress. As far as I am concerned, I am encouraged by the example I just quoted. We still have a long way to go, a lot of difficulties to overcome. I think it behooves all of us to try to push this concept of the STANAG as hard as we can, because it does represent one way in which we could meet the common threat, but at least reserve unto ourselves a national position as to how we are going to actually produce the equipment, either purely nationally or in collaboration with one or two other countries.

Mr. Shillito

Thank you very much. Anyone else care to comment on the STANAG?

Mr. Schwalber, how applicable are the cost schedule control system concepts, which many of us in the United States think of as DOD 7002, to the project financial management situation or picture in Germany? What similar types of project management concepts do you apply in Germany?

Mr. Schwalber

It is certainly true and right to say that your cost schedule planning and control systems are applied across the board in a lot of programs. The question is, do we have similar systems or can we adopt your systems. I would say, the adoption would be a case by case basis. For example, going back to the Tornado

program, a lot of us Germans started the MRCA program. A lot of us Germans were still influenced by a program which we called then USFRG Missile Program. And that was managed in accordance with your famous 375 documents, but we tried, together with our British and Italian colleagues, to adopt a system similar to that, to the MRCA program. We succeeded in the adoption. I'm not quite sure whether we succeeded with the implementation of it. So it is on a case-by-case basis. We try not to spend too much money on a lot of management procedures. I don't know whether the answer is satisfactory for you. We try to come up with management systems which are in the order of the programs which we need to manage.

Mr. Shillito

This is directed to our entire panel, and this is almost the same as a question I think I recall last year or the year before. The major investment in weapons development in the 1980's for conventional forces may be for a new generation of tactical combat aircraft. Do the speakers have any interest in transatlantic cooperation for such a project? Are there possibilities for cooperation of either such an aircraft, a family of aircraft, a single or whole aircraft, or major subsystem? How do we approach this major area in some kind of family of weapons way as we move into the 1980's?

Mr. Schwalber

I would never exclude that there is a possibility for a transatlantic cooperation in the tactical aircraft field. As far as we in Germany are concerned, we are in the situation that we are still performing studies on the need of such an aircraft, the primary role - if you want to build an aircraft for too many roles, you end up, as we all know, with a very complicated and expensive aircraft. So we are trying first to define the operational role which then defines the basic layout of the aircraft, the performance and so forth. But the answer to the question is, no, I would not exclude the possibility for a transatlantic cooperation.

Mr. Barnes

I wouldn't exclude the possibility, either. Aircraft are exceedingly expensive and the more we can do to see a common requirement and produce a common piece of hardware, the better.

Dr. DeLauer

The next generation of tactical aircraft is going to have to follow the next generation of bomber. I think the distance between them is going to be a little long. I think it's one we're just going to defer.

General Martre

It is a very interesting and very important problem. Yesterday when I arrived and after I had been greeted by your charming hostess, I was given the report of Mr. Callahan. Reading last night this very interesting report, I have seen that there was a famous law. I understand that this law, there is a curve of the increase of the military budget in the United States and there is also a curve of the unit price of fighting aircraft. The law is that these two curves intersect in the year 2054. That is to say that in this year, the whole military budget will be able to buy one fighter aircraft which will be divided between the Air Force and Navy, that is to say, 3-1/2 days a week for the Air Force and the other days for the Navy. It is a very drastic conclusion but I think it is not a very true law. But I think there is something true in this and I think it is a concern to know what will be the unit cost of the next aircraft. In France, we think that we will be able to develop and produce certain aircraft in the year 1995 and the huge problem that we have is to define an aircraft, the cost of which is sufficiently low to be affordable by our budget.

General Piovano

The situation in Italy for the study of a new tactical aircraft is as follows. Number one, the existence in the next few years of a certain number of Tornados. Therefore, the necessity of coming up with an aircraft that can be less sophisticated and will complement the Tornado, especially shorter range. Number two, the necessity to urgently have the use of this aircraft and therefore to try to utilize what we have already in order to shorten the time period, and not to be involved in long-range studies. Third, the characteristic differences of the milieu in which our nation operates, not only with reference to the northeast of Italy, which is on the eastern side, but also the southern part of Italy, which is in the Mediterranean. And fourth, the realization on the part of our industry whether it is possible for our industry to realize an aircraft of this kind by itself. This has led us to decide to go in for a study, a national-level study, with a friendly country, a country, however, that is not a member of NATO.

Mr. Shillito

Very good. I'd like to have just one brief response, particularly from our non-U.S. NATO allied countries relative to a number of questions here dealing with the subject of extensive U.S. studies that have gone on as regard U. S. defense industry and U. S. defense industry's inadequacies, if you will, or deficiencies, to meet an emergency, and what is being done as regard non-U.S. allied countries and studies relative to their defense industry's readiness problems. Are such studies going on, and what are your concerns regarding your industrial readiness?

Mr. Barnes

There is no specific study, as such. The whole question of industrial strategy and how it should evolve is one that is continuously under review, but I repeat, there is no specific study on industrial readiness.

General Martre

The problem, as I understand it, is if our industries in Europe and especially in France are able to increase very quickly their production. In fact, the production process is very heavy in the armament industry and our studies show that it is very difficult to have a quick response of the industrial process, but we think that with sufficient over-capabilities of the line of production, it is possible to increase production in two months, but it depends on the quality of the equipment.

General Piovano

We are as much aware as everybody of the existence of this problem, and we are doing the best we can to try to achieve a certain national independence on all basic equipment, even though we realize that this flies in the face of the standardization and the cooperation end of matters.

Mr. Schwalber

We know about the discussions which are going on here in this administration on the Hill. In Germany, we don't have a special study going on, but we are continuously monitoring the situation of our industry and I think, especially in Germany, that is one of the main reasons that we are looking for at least interoperability. Let me limit this further to interoperability in ammunition, because we think it is very important that we have, from the very beginning, supply which enables us to keep our Army fighting.

Mr. Shillito

Thank you very much.

First of all, I want to thank our panelists for an outstanding discussion this morning. And second, a matter of logistics - lunch will be 12 o'clock in the East Ballroom. And third, I'd like to invite our panelists from this morning to sit at one of the reserved tables in front of the area where we'll be having lunch, and we will reconvene here as the schedule indicates at 1:30. Thank you very much.

LUNCHEON

(Due to technical difficulties, the introduction of the luncheon speaker, Mr. Robert H. Mitchell, was not recorded.)

Mr. Robert H. Mitchell

My general topic today is going to be international cooperation. Those of you who have heard me speak in the past know that I prefer not to speak from the written page. However, today I am going to deviate from that practice and use a prepared text. I expect that quite a few people will be irritated at me before I finish and I want to have a record of what I've said.

This talk began a few weeks ago. I was sent by our Board Chairman, John Dixon, to participate in the U. S. and German Industry symposium in Munich on April 9th of this year. Some four U. S. associations, plus B.D.I., the German Industrial Association, worked on the arrangements. I attended as one of the ADPA nominees. When I returned, I wrote a pretty scathing report on the symposium to our Chairman. He sent it, along with a hot note to Hank Miley, so I was invited to speak at this luncheon.

I really don't pretend to be an expert in international cooperation. I don't even know one. I have been involved in various sorts of international coordination, cooperation, international grievance, and technical assistance. Some of this has been outstandingly successful for our company and for the U. S. Government. Some of it has been both frustrating and expensive. While you here at this conference are essentially discussing the how to, why to of international cooperation, I'm going to be looking at the much darker underside of the picture, the "how can we possibly" underside of the picture. I will cover just a few of the problems of the American military supplier in getting into so-called international cooperation - while I'm talking about the American supplier, I have heard the same complaints from a number of suppliers from other countries, so I think you could apply the same thing all across the board.

To us in America, our greatest problem has been the generally vacillating, uncertain, and frequently antibusiness attitude of the U. S. Government. As a part of this, I cite the relative lack of support or worse by our government in international agreements. There are many fine devoted people, both military and civilian, in the Government. There are a great many others, of course, just as we have them in industry. But the official and semi-official attitudes of the U. S. Government have not encouraged even-handed treatment of U. S. military suppliers vis-a-vis non-U. S. suppliers. One of the first encouraging things I've seen along this line for some time is a Reagan administration announcement that they were revoking the leprosy

letter and were actively encouraging the embassies to work with us. Jim Buckley's speech to AIE at Williamsburg last month should have been music to a lot of our battered ears. I am not referring solely to the State and Defense Departments. The lack of cooperation, or worse, spreads through a lot of departments.

A few years ago, at the height of a Tong Sung Park affair I was in charge of our . . . Division. We negotiated an agreement with Korea to assist them in building PRC-77 radios. This was a full-up effort. Participation by the U. S. and the Korean Governments, participation by our embassy and the MAG. We worked with the Korean company, Oriental Precision Company, and the Korean Government people. We trained OPC and ROK people in our plant. We helped them set up their plant. We kept people in Korea for a training period there. We supplied all the parts initially, then helped them select suitable parts in Korea, then helped train some of the Korean suppliers so they could furnish MIL-SPEC components. It was a highly successful effort and was praised by the U. S. and Korean officials as the finest example they had seen of co-production effort. We made a profit; the U. S. lived up to its promise of helping the Koreans; and the Koreans built a lot of very fine radios. After that, we got other co-production contracts with other countries and it was a real success story. But, remember I mentioned Tong Sung Park. About that time, his alleged activities hit the papers. We, along with a lot of other U. S. companies, received questionnaires from various U. S. agencies and we listed our foreign agents on some of these - and of course we had an agent in Korea. In fact, we had two of them, two of the most respected men in the country. We had been sought out by Tong Sung Park and had turned him down as our agent. I had taken the precaution of specifying that all commission payments would be made through an American bank so that the IRS could trace them. The commission payments were going to be over a million dollars and IRS likes to see where that money goes. To our surprise, we became the target of an investigation by the SEC. We were prominently and scurrilously mentioned in papers from Washington to Los Angeles. I read about our alleged infamy in the China Post and the Starts and Stripes in Taiwan, and then the next week in the International Herald Tribune in Germany. We defended ourselves for a year. The upshot was that no wrongdoing was found, but I signed a consent decree that said I recognized the jurisdiction of the court. We went through the same thing with a special committee of our Board. After two years of that and two years of legal expenses that approximated the agents' commission, the conclusion was not that any wrongdoing had been done, but essentially that "I should have known that the agents might have been passing money along to Korean Government officials." Note those words - should have known, and might have. Those would be thrown out of any court in the country. What would have happened had I been a military supplier from one of our allies? You all know that several of our allies have no laws prohibiting bribery outside of the

country. I'm not advocating bribery. Did you also know that some of their government officials not only sanction but participate in the bribery? Do you know what the response is when this is reported to the U. S. officials? Believe me, it isn't even-handed.

Let me cite you a case. Recently, in a Mid-East country, they needed a communications system for their intelligence service. Three companies bid; our company, one from one of our European allies, and one from Japan. E-Systems had, according to the technical people, the only technically qualified bid. I was asked to come over for the final wrap-up, as this was about a \$90 million bid, a lot of money for us. In addition, we had two engineers and a marketing man there. The Japanese came in with their usual strong delegation and were accompanied by their Ambassador and several of his staff. And I can only applaud the countries who use their diplomatic people to assist their businesses and their own economies. The Europeans came in with a dozen people, headed by their subsidiary president and their Ambassador and staff. Our Ambassador was not in the country and the Charge d'Affaires refused to see me because of the leprosy letter. So, after a couple of go-arounds, it was between the Europeans and us. The European system would not do the job requested, but their government ordered the company to reduce their price below ours. How did they pay for it? I don't know. The Ambassador then went to see the Chief of the Armed Forces. I don't know all that was offered, but I know that the Ambassador offered to provide the Chief's three children with an education in his country, lodging, etc., and, since the children did not speak the particular European language, the Ambassador said that his country would provide a governess and tutor for a year in order to prepare the children for their schooling. We were advised that the technical people had sided with us, but that we were to go home. I reported this to the military attache, tried to see the Charge d' again, and was told that any fuss over something minor like this would jeopardize our relations with two friendly countries. Even-handed? Not in the eyes of this taxpayer.

Another example of uneven-handedness. A few years ago we received word that a non-U. S. company had been selling U. S. designed radios built in the European plant to two of the Arab nations most hostile to us. We could not get an export license. Further, they had licensed those countries to produce the radios and were assisting the countries with co-production programs. Needless to say, the European company was not licensed by the U. S. to produce the radio. We discussed this with the people in the U. S. Government and they told us this was complete nonsense, that our European ally would not permit anything like this. Then we heard that the offending company, together with a very large company from the same country, was offering to sell 90,000 of those radios to the Red Chinese. We went to ask how

European companies could do it when we couldn't. A moderately senior U. S. official, the highest we could get to listen to us, told us that he was tired of our stories (what he really meant was lies), but that if we could bring him proof of our stories he would cut off the European companies through actions by their government. So I went to the European country, got copies of the contracts with the two unfriendly Arab nations, and got a copy of the letter offer for 90,000 radios to Red China. I brought a copy back to Washington, turned it over to our Washington office, who turned it over to the U. S. Government. What happened? Nothing much - a brief flurry of comment in the papers, a protest note to the friendly government, a rejection of the protest note, and then word from Europe that the larger company had an investigation going as to how the industrial espionage had been perpetrated, and that prosecutions were promised.

What does all this have to do with international cooperation? What I've been trying to say is that a lot of it is dreadfully one-sided, at least from a military supplier's point of view.

Let's get down to recent history, MOU-type history. A couple of years ago we started hearing about RSI - rationalization, standardization, and interoperability - and it all sounded great, despite the fact that even our shoe and hat sizes differ from the Europeans. Then we started getting rumors about the U. S. Defense market being open to our European allies. Then we heard about various memorandums of understanding that had been reached between Secretary Brown and various Ministers of Defense of our European allies. In addition, we heard there were various annexes and classified annexes to the MOUs that we couldn't see. I've brought along a copy of the MOU between the U. S. and Germany, and I've chosen a German MOU, partly because I attended the meeting in Munich in April, but more importantly, we have several excellent longstanding contracts with the Germans, we get along well with them, and within the limits of their laws, have been extremely even-handed with us. So I can use their MOU without criticizing them.

Before I go further, let me ask a couple of questions to the audience. I'd like to restrict my questions to suppliers only. First, how many of you know that we have MOUs with several countries intended to "facilitate the mutual flow of defense procurement through the provision of opportunities to compete for procurements of defense equipment and services, as well as through the co-production of defense equipment and defense R&D cooperation." Could I see the hands of those who know that we have such agreements? Thank you. The reason I asked this, a Chairman of the Board of two companies that I talked to two months ago asked me to get the MOU stopped before it was signed, and, of course, it had been signed two years ago. Second, how many of you read one of the MOUs? Third, how many of you read the classified annexes

to the MOUs for one or more countries? I won't ask how many of you think that this affects your businesses. I will read a few of the key phrases from the German MOU. Even those of you who have read them might want a little refresher.

Let's start with Article 1, paragraph 1.8, "The detailed implementing procedures to be agreed, will, consistent with and to the extent permitted by national laws and regulations, incorporate the following: a) offers or proposals will be evaluated without applying price differentials under buy-national laws and regulations; b) full consideration will be given to all qualified industrial and/or governmental resources in each others' countries; c) offers or proposals will be required to satisfy requirements of the purchasing party for performance, quality, delivery, and cost." Then article 1.9, "Competitive contracting procedures shall normally be used in acquiring items of conventional defense equipment developed or produced in each others' country for use by either country's defense establishment."

This, or virtually identical language is in each of the MOUs I've seen. Recently, one of our divisions was asked to bid on an airborne system for one of those countries, which had signed an MOU quite similar to the German one - a couple of words changed. Initially, I refused to let them bid because I did not believe the politicians in the European country would let the system be done in a foreign nation. Eventually, after meeting with the procurement, technical, and operating people in the country, I permitted the division to bid; on a system that came in at about \$75 million, we were, one, the low bidder - in fact, we were the only bidder to come in under the country's budget by some \$15 million. Second, we were the only technically qualified bidder. Third, we were the only bidder who promised to deliver on the desired schedule and I offered to put up a performance bond on schedule. So what happened? Of course we were chosen by the procurement people, based on the recommendations of the technical and operational people. Then it went to the political level and their Ministry and you know what happened. A political decision was made to go with a local company. The procurement official, who should have signed off for the procurement, refused to comply with the political decision, so they moved him aside and his boss of the bureau signed it. We wasted almost half a million dollars on the bid effort.

The system is overdue and it's not working. We understand that the program is vastly over-budgeted. We have been approached informally to see whether we would render assistance in solving the problem. We will, for money. Oh yes, the senior military attache in the country knew all about this and he hoped that we would not embarrass the host country. I don't know what would have happened if we hadn't had the protection of the MOU.

Let's shift and go back to Germany. Specifically, let's discuss the April 9th symposium. I attended the symposium in hopes there might be some meaningful discussion of the MOU and that my experience in the international negotiation, joint ventures, co-production, and so forth, might be beneficial. I was sadly mistaken. I did learn a good bit in a negative fashion.

Virtually all of the U. S. attendees were marketers stationed in Europe, and most of the German attendees were German marketers. I thought the symposium was poorly run and disorganized. Most of the Americans based in Europe did not receive any of the agenda information. Fortunately, ADPA had given me the complete agenda information in advance, so I was moderately prepared. However, when it came time for us to split into sub-groups, the only sub-group information was printed in German. Fortunately, I read enough of it so that I was able to find the right hall. The morning session was kicked off by Dr. Glazer of the FRG Ministry of Defense and here I will quote directly from my report to Mr. Dixon. "Dr. Glazer presented the MOD budget for next year. He has a 41 billion deutsche mark budget for 1981 and has already committed 42 billion deutsche mark. So he told us there was no business for the U. S. companies in Germany in the foreseeable future. He mentioned cutting equipment requirements to meet the budget and emphasized their plans for modernization and lifetime extension of existing programs. Dr. Glazer made quite a point of what he considered to be the gross imbalance in U.S. and German military trade. He stated that Germany bought 900 million dollars worth of military equipment from the U. S. last year while Germany sold only 90 million to the U. S." There are many sides to this. One of the senior American peddlers in Europe pointed out at lunch that this was almost in direct proportion to the two military budgets and seemed more than equitable. Others point this out as how we are raping the Europeans. "Dr. Glazer completed his speech by stating that he and his Chief of Complaints would be around until about 3:00 p.m., when they had to rush back to Bonn and they would listen to any complaints from U. S. personnel about unfair treatment between the close of the morning session and the 3:00 p.m. deadline. We broke for lunch at about 1:30 and I never saw them again. By contrast, Colonel Ronald Carlsburg did a great job over there. The Director for International Acquisitions and U. S. DOD, who kicked off the American presentation, advised German industry that he and several members of his team would be in Germany for several days and would be glad to meet with any German company to help them with U. S. business. Colonel Carlsburg and his team did an excellent job of laying out the U. S. defense budget for the meeting. In fact, I cannot remember ever seeing such a detailed presentation of the budget in a U. S. meeting. Two points stood out in the U. S. presentation. First, Colonel Carlsburg and his team stressed that the present management in DOD has every intention of supporting the existing MOU on mutual arms sales between FRG and the USA. They mentioned Deputy Secretary Carlucci as an ardent backer of the program. A couple of members of the U. S. team stressed the big increases expected in DOD budgets and stated that U. S.

industry would be unable to handle the business, thus leaving room for the German companies." You know, I didn't authorize those guys to speak for me. The wrap-ups to the morning session were delivered by Herr Bloom for the Germans and Walt Edgington for the U. S. Bloom, who said he was an engineer from Messerschmitt gave quite a talk on the German need for U. S. business. And one of his statements was truly startling. I was listening to the English translation on the phones, but the man next to me said I had taken a correct quote. This is it. "The German companies are not allowed to fire employees like the U. S. companies can, so the U. S. DOD and U. S. companies should cooperate in providing the Germans with export markets for peaceful progress in Germany."

Walt Edgington, Vice President of Government Relations, GTE, made a good wrap-up for the U. S. side. However, in view of the U. S. team's earlier pronouncements, the Germans appeared convinced that all they had to do was send over order books and they would all be rich. One of the marketeers said at the end of the day, "once again, the U. S. bureaucrats are raping U. S. industry and the U. S. taxpayer."

That's the end of my report to Mr. Dixon. I don't believe that the U. S. bureaucrats are deliberately raping the U. S. industry or the U. S. taxpayer. I think that most of the people in DOD are working hard to carry out whatever the directives from higher echelons may be at the time. And, of course, some of them work so zealously at enforcing the U. S. side of international agreements that the eventual result is the rape of the U. S. industry and the U. S. taxpayer.

My plea is for even-handed treatment with the rest of the world. People in the Government can write tons of MOUs. They can enter into reams of international agreements. They can fill halls with international cooperation meetings. But unless referees make both sides play by the same rules, international cooperation means stretch out and relax. However, despite the lack of support or even the hindrance from our Government, I, my people, and a lot of other U. S. suppliers will continue to attempt to compete on the basis of having the best product and the best price. Sometimes the good guys win.

Ladies and gentlemen, I made a condensed version of this talk four weeks ago to a much smaller audience in Washington by a command request, and a fairly senior DOD official took considerable umbrage and stated that he would like to see me fired. I reminded him of two things. First, I have a contract, and second, fired vice presidents frequently wind up as Assistant Secretaries. Thank you for your time.

Mr. Shillito

Thank you very much, Bob.

I made a comment today that on the other side of the coin, I had read an article from the Aviation Week, April 27th edition, by a Dr. Stephen Howell, England, and he said many of the same things, only through the eyes of our British allies talking about the problems in doing business with selling to the United States. He starts out by saying the barriers to the small foreign companies trying to win U. S. defense contracts under the Memos of Understanding are impossible - the security problems, obtaining RFDs, submitting unsolicited proposals, soliciting business, the distance, the small business set-asides if they're small business, and all these things. This is really not a question, but all I'm saying is that his comments are surprisingly similar in some ways, so far as the problems that he sees from where he sits. Are there any questions for Bob?

(Question unintelligible)

Mr. Mitchell

I really didn't have to ask how many companies had similar treatment because I've been getting a great many instructions from my compatriots on what I should have said today. I see several people in the audience today who have made comments on this subject and it's fairly wide. I do agree with Barry that other companies in other countries are having the same problem. In fact, my greatest criticism of the German meeting, which I didn't put in, was that only the major German companies were invited. The small companies were not invited. The small companies don't know how to do international business. We are over in Germany frequently seeking out competent smaller companies. We have lined up with several of them. We're working with a small company in England right now on some of our security business. They have the best equipment in the world and we want to use it. They don't know how to crack the U. S. market and I'd a lot rather buy their equipment and put it in my system for a lot more money and help them and help me.

(Question unintelligible)

Mr. Mitchell

The question is about the foreign . . . practice act and under the old law there were a couple of pretty questionable provisions. The new bill that is up before the Senate, I understand - I was briefed on it thoroughly by our lawyer before he let me get out of town with a paper in my hand - gets rid of the bookkeeping requirements and gets rid of the nonsense of "should have known." I believe that law will pass. I don't believe in international bribery or any other kind. I still want to compete

on the basis of my product. But I don't want to get into another situation like I was in on the Korean thing, where the very things that I did to prove that we were doing things right was cited as evidence that we must have been crooked, we were trying to cover up, we were doing things so right. I do hope this new bill passes.

Mr. Schwalber

I hate to say this, to comment on this certainly subjective speech. One thing is certainly wrong, what you said last when you said that our smaller companies were not invited to the presentation in Munich. To the best of my knowledge, they had been invited; that some did not participate was perhaps because So this was not right and I just hope that the things which you said elsewhere in your speech are based on better information than the one which you used for small business companies. Thank you.

Mr. Shillito

As I understand it, there were 15 to 20 small business companies in the one panel at that particular session.

SESSION III
EXPORT PERSPECTIVES AND THE
OUTLOOK FOR WORLD TRADE

Mr. Shillito

Our next panel covering the export perspectives and the outlook for world trade is an industry panel and I'll introduce the Chairman of that panel and he'll take it from there.

Our panel Chairman, the Honorable Armistead Selden, is President of the American League for Exports and Security Assistance. He has been in that job since early this year, an individual with extensive background as an attorney, a diplomat, a legislator, an internationalist in every sense of the word. His organization probably had as much to do with changing the thinking on the leprous letter that's been discussed several times today as any one entity that any of us have been associated with. Armi is a former ambassador to New Zealand, Fiji, Tonga, Western Samoa, former Deputy Assistant Secretary of Defense, ISA, former member of Congress involved in foreign affairs, and inter-American affairs. He is an individual that thoroughly understands the issues that are going to be discussed by this panel. Armi, it's your's sir.

Mr. Armistead I. Selden

Thank you, Barry, for your very kind and generous introduction and let me tell you that I was very pleased that I could accept your invitation and that of the American Defense Preparedness Association to join my three distinguished colleagues as members of this panel.

We at the American League for Exports and Security Assistance have great respect for and admiration of the important work that is being done by our sister organizations, such as the ADPA. We find that their efforts often complement our own in many important respects, and that by cooperating and working together on the issues on which we are in accord, we can certainly all be much more effective.

My distinguished colleagues on the panel, whom I will introduce in the order of their appearance, and I have been asked to discuss export perspectives and the outlook for world trade. During our remarks, I have been asked to request that you please jot down your questions and someone will pick them up, so that we can attempt to answer as many as possible.

As most of you are keenly aware, those of you in industry particularly, the United States is still the only major industrialized country without a positive export policy. Our share

of world exports has been declining steadily while that of our major competitors, Japan and Germany, has continued to rise. Over the past decade, the United States has become more dependent on trade with the rest of the world, but less able to compete in it. While we now export twice as much of our national output of goods as we did in 1970, and one in seven American manufacturing jobs depend on exports, our share of total world exports has fallen sharply since 1970. West Germany has displaced the United States as the number one exporter of manufactured goods and Japan is the top exporter of manufactured goods to the less developed countries.

A major reason for this, I feel, has been the anti-export policies of our own government, which inhibit and discourage exports through laws, licensing procedures, regulations and other disincentives. Because of our superiority in technology that our nation has retained since the end of World War II, American political leadership, both in the Executive and the Congress, have over the years often subordinated exports to political goals. They have apparently felt that the United States should not confer the benefit of its trade upon countries that reject United States values. Likewise, they seem to believe that the United States can reward or punish countries by withholding trade or foreign aid or even investments, and over the years, the deliberate or incidental restraint of exports has increased as Congresses and Administrations have sought to achieve other national purposes by restricting American exports.

Today we restrict or even prohibit exports to some countries whose human rights performances are not considered up to our standards. We restrict non-strategic exports to countries with which we have foreign policy or political disagreements. We place standards of conduct on our businessmen which are matched by no other country in the world. We tax our citizens living abroad. We apply our own anti-trust laws to U. S. businesses overseas. We have three inconsistent anti-boycott programs administered by four different departments. We under-finance and handicap our export-import bank and its competitive export financing activities. We place arbitrary limits and restrictions on the exports of defense articles and services, and then we classify many items of no great military utility, such as trucks and boats and radios and cargo aircraft and others, as defense articles. We have cumbersome, arbitrary, and lengthy export licensing procedures. An executive order requires federal agencies to establish procedures whereby environmental considerations will be incorporated into decisionmaking concerning export-import bank financing and other trade matters, even though the transaction does not affect the United States environment.

Also, there are many other laws whose primary aim is domestic, but those laws may place United States firms at a substantial cost disadvantage in international competition.

In Europe and Japan, on the other hand, governments have tried to spur exports and motivate exporters, either directly or indirectly. In the United States, as I have implied in earlier remarks, the Executive and Congress often have been unable to resist the temptation to impose our moral and political values on someone else, and the weapon closest at hand is often economic sanctions. Yet evidence mounts daily that America alone can no longer influence the behavior of other nations by economic retaliation. Our preeminent position in the world economy has eroded. Our once substantial lead in technology has been overtaken in a number of significant areas. We are no longer self-sufficient in natural resources and although the United States does continue to exert strong leadership in the international economy, its ability unilaterally to influence the economy has unquestionably diminished. Our policy of restricting exports has met with few positive results, while in a number of situations, the results have been negative. In many cases, countries denied U. S. goods can easily find them elsewhere. Moreover, as the United States acquires a reputation as an unreliable exporter, other countries take steps in their own self-interest to assure their supplies from other sources. Thus, by voluntarily eroding export markets, America's overseas economic and political powers weaken. In the short run, the U. S. trade balance, \$32 billion in deficits last year and \$160 billion in cumulated deficits over the past five years, suffers....and the value of the dollar drops. This undermines confidence abroad in America's economic vitality and in the long run, the U. S. competitive position deteriorates from a willful sacrifice of our markets.

Paradoxically, the more the United States seeks to use trade leverage to achieve political results, the more it may weaken its economic and its political leverage.

I'm sure you're familiar with the figures from the Congressional Budget Office. It is estimated that every billion dollars of exports creates 40 to 50,000 jobs, and every one million jobs creates in taxes, corporate and individual, \$22 billion to the United States Treasury. Now, assuming the Budget Office estimate is correct, if the United States increased its ratio of exports to gross national product by 1 or 2 percentage points, we could eliminate our trade deficit, gainfully employ another 1.6 million people, and go a long way towards balancing our domestic budget.

Now, let me make it clear that in the past, each of the restrictions on U. S. exports that I have mentioned was adopted by the Congress and the Executive to satisfy particular constituencies. Unfortunately, the export community has not heretofore been seen as an important explicit constituency. This, however, I think is beginning to change. For example, the organization that I represent was specifically set up in 1977 by a number of forward looking companies and labor unions to serve as a political constituency of the export industry and to encourage at the very highest levels of government, the formulation and the implementation of a positive export policy consistent with national economic

and foreign policy goals and objectives. This association, which Barry mentioned earlier, The American League for Exports and Security Assistance, often referred to as ALESA, addresses national policy issues on behalf of its members and, we believe, to the benefit of all exporters, members and non-members alike. It actively communicates the views and the needs of American industry and labor, and works to encourage favorable legislation and policies. ALESA devotes its full efforts to ensure favorable treatment for exports in areas such as export-import bank legislation, the Export Administration Act, multilateral trade negotiations, security assistance legislation, the Foreign Corrupt Practices Act, and various tax measures, such as DISK, section 911, capital gains, investment credits, and corporate income tax reductions.

Now, more often than not during ALESA's first years, when I was not with them, but which was early in the Carter administration, many key administration officials seemed to believe that the encouragement of exports was of little or no political or economic importance, and that trade could be subordinated to other U. S. policies such as the encouragement of human rights and restraint in the sale of arms. Admittedly, there were a few encouraging signs during the early portion of the Carter administration, but unfortunately, those signs were of short duration and the Carter administration's brief attention to a U. S. national export policy simply faded away. Large sales were denied on human rights considerations. An arbitrary annual ceiling on arms sales forced most of our allies to seek other sources for their legitimate defense needs. Unwieldy and complex licensing procedures were not simplified. Restrictions on co-production agreements inhibited defense cooperation with our NATO allies, and the President recommended to Congress that DISK legislation, one of the few incentives to U. S. exporters, be repealed.

At the same time, however, a realization was beginning to grow in the Congress that exports were becoming increasingly important to the American economy and that the encouragement of exports should become a vital national priority. An export caucus was formed in both houses of the Congress. A trade reorganization bill and a liberalized export administration act were passed with little or no administration support. Export-import bank financing was increased, and a national export policy act was introduced in 1980, although no specific action was taken on this comprehensive measure. With a change of administrations in January, the export picture, we believe, has begun to brighten on the Executive as well as on the Legislative side, and as a consequence, I am quite confident that significant opportunities for increased American exports are going to take place during the next 3-1/2 years. As a matter of fact, the current administration has already begun to review U. S. export policy with a view towards helping American exporters. Bill Brock, U. S. Trade Representative, stated recently, and I quote, "We have, for a variety of reasons of our own, made it difficult for American companies to compete overseas." And then

he went on and stressed that the Reagan administration wants to put U. S. exporters on a more equal competitive footing with foreign countries. The new administration is already undertaking initiatives to implement that policy. One of its first moves was to act on a recommendation, made by ALESA and I'm sure by other organizations in Washington, to revoke the so-called "leprosy cable," which had been issued by the Carter administration and which precluded U. S. Embassies abroad from assisting U. S. corporations in the sale of defense articles and defense services. In revoking these instructions, the State Department said, and I'll quote, "Government and industry cooperation can be facilitated by the way in which U. S. personnel provide services to industry." In sending security assistance legislation to the Hill this year, the administration also followed industry's suggestions in recommending the removal of a number of restrictions on the sale of defense services and articles overseas. Changes were also recommended by the new administration, designed to simplify the sale and the transfer of defense articles and services to our NATO allies, and these changes, if enacted, should enhance defense cooperation.

Furthermore, the administration already has testified in favor of changes to the Foreign Corrupt Practices Act and is supporting measures to reduce taxes on Americans working overseas and to relax banking and antitrust laws to encourage the formation of export trading companies.

I feel that these actions represent a very good start, but they're not going to be finalized overnight and they're not going to be finalized automatically. In many cases, the predisposition of the bureaucracy and of some members of Congress, in regard to U. S. trade, will remain. In addition, the efforts of our competitors in the world marketplace is not going to slacken or abate. Also, the administration itself can be shortsighted about certain aspects of our export requirements, as its initial stance on export-import bank financing indicates.

So the story isn't ended and the battle isn't won. The American export community must continue to make its voice heard in order to encourage at the highest levels of the government the formulation and the implementation of a positive export policy consistent, of course, with national economic and foreign policy goals and objectives. This is the challenge that faces my organization, as well as other groups and individuals directly affected by the export of American goods and services. The American export community must be seen as a strong political constituency in its own right and our government must be made fully aware that in order to keep this nation's economy strong, American exports not only should be encouraged but disincentives to those exports should be removed.

Now, I would like, if I may, to introduce our first panelist, who is Jack G. Real, a graduate of Michigan Technological University with a degree in mechanical engineering and, incidentally, a

few years ago he was given an honorary doctorate from that university. In 1939, Jack Real was employed by Lockheed California company, where he participated in the design and the development and the test phases of almost all aircraft types produced by Lockheed. In 1965, he was promoted to the position of Vice President, where his responsibilities included compound helicopter research and all other rotary wing programs. Prior to his move to the Hughes organization, Mr. Real served as Senior Vice President at the Summer Corporation. In 1971, he joined the Hughes Corporation and eight years later was named President and Chief Executive Officer of Hughes Helicopter. At the same time, he also assumed the responsibilities of Program Manager of the Army Advanced Attack Helicopter Program. So it gives me a great deal of pleasure to present as our next panelist, Mr. Jack Real.

Mr. Jack G. Real

Mr. Chairman, ladies and gentlemen. After listening to Mr. Selden's remarks, I should remind all of you that in the foreign trade, it is a very vital concern to Hughes Helicopters. Last year, over 30 percent of our sales came from foreign markets. Also, I estimate that we lost over \$30 million of foreign sales due to restrictive government practices. I don't know about all of you big swingers in the house, but when we lose \$30 million of sales it hurts right down to our toes.

Our foreign business pace includes both commercial and defense products. As a result, we have been confronted by government throughout the scope of our various lines, both defense and commercial. Our primary concern to our business is the support of government in foreign sales. As participants in the world market, it is imperative that we maintain our competitive position. Throughout the world today, government and industry have formed partnerships to turn the competitive tide. Without this support, U. S. manufacturers are at a distinct disadvantage.

Decisions and policies of previous administrations have had a long run affect on U. S. industry. From the commercial viewpoint, as Mr. Selden pointed out, human rights issues have led to inconsistent applications and boycotts. Once markets are banned to competition, it may take years to regain these lost markets. The defense industry suffers an even longer recovery cycle. Defense procurement generally have longer periods of performance. In turn, once a weapon system has been placed into that country's inventory, and supply lines are filled, subsequent procurements will tend towards maintaining commonality.

As you can see, short run policy discussions lead to long run impacts on the export marketplace. State Department policy had previously stressed a neutral, even adverse relationship with the defense industry. Embassies were instructed to avoid supporting defense contractors in foreign countries. As a result, foreign

competitors gained a competitive advantage, further eroding our U. S. export market. The good news is, that policy has recently been rescinded. The bad news is that many of these neglected markets may never be regained.

In the foreign marketplace, not only do we compete with foreign manufacturers, but also their governments. Many foreign governments subsidize their industries through various methods; low down payments, extended credit terms, low interest rates, co-production and offset arrangements are typical inducements offered to customers. Without this kind of support extended to U. S. industries, it will be increasingly difficult to operate. The business environment of our foreign competitors creates additional problems. Not only are they unencumbered by environmental regulation costs, they have tax advantages, government subsidies, import restrictions, and the benefit of currency devaluation against our dollar. Once again, the advantage goes to foreign business.

Fortunately, the outlook for the U. S. export market is improving today. Less emphasis is being placed on applying U. S. standards of morality through human rights issues. This shift in position will reopen trade. Hopefully, this will enable us to regain some of the markets that we previously lost. Recently, the leprosy policy was rescinded. Once again, the defense industry will receive the same support as commercial suppliers from our embassies abroad. This shift in policy will give our good friends in the nations of the world confidence that the U. S. Government is supporting their internal defense efforts.

New policies relating to arms transfer will improve our ability to market abroad, raising the direct sales ceiling from \$7 million to \$14 million on strategic weapons and from \$50 million to \$100 million on non-strategic items will reduce the number of FMS sales. This will reduce the time required to finalize the sales of these products. Although this will not improve our competitive position, it will enable U. S. industry to compete.

I also propose that some additional steps be taken to improve our ability to market in the foreign nations. First, I would like to see the Government take a more active role in emphasizing foreign trade tax incentives. Reductions in foreign trade regulations and easing of licensing procedures should be given immediate government attention. The export-import bank should be supported. Developing nations are in need of low-cost loans for expansion. In turn, economic expansions increase the market for exported goods.

Finally, I support the Foreign Assistance Act. Through this process, long lead time items could be purchased in advance of the need, reducing time required to deliver products to our foreign customers.

In summary, events of the recent past have significantly improved our ability to compete in the foreign marketplace. But Government must continue its efforts to remove the artificial barriers inhibiting foreign trade.

Thank you.

Mr. Selden

Thank you very much, Jack.

Before I introduce the next panelist, I'd like to remind you if you have questions - we hope we've answered some of your questions, but certainly not all of them - if you have some questions, jot them down so they can get them up to us and we won't delay the procedures.

Our second panelist is Joseph F. Caligiuri, a Senior Vice President of Litton Industries and Group Executive for the company's Advanced Electronic Systems Group. Mr. Caligiuri is a graduate of Ohio State University and holds B.S. and M.S. degrees in electrical engineering. He joined Litton in 1969 as Vice President in Charge of Engineering at the Guidance and Control Systems Division, and was named President of the Division two years later. He was promoted to a Corporate Vice President in 1974 and to his present responsibilities in 1977. His extensive career in the field of inertial navigation and control systems includes directing guidance and controls development and production of advanced systems for foreign and domestic military aircraft and missiles, the Naval Ship Control systems for electronic spacecraft systems, and for other airborne and shipboard applications. It is my pleasure to present our second panelist, Mr. Joseph F. Caligiuri.

Joseph F. Caligiuri

Good afternoon. One can address our subject of export perspectives from either of two approaches: a general, overall view or a more specific viewpoint of what's good about our policy, what's bad, what is being done, and what needs to be done. I think that Ambassador Selden and Jack Real have utilized the combined approach and left nothing for the rest of us to talk about.

In Ambassador Selden's remarks, I think you noted that he identified (and I counted 10) specific disincentives imposed on U. S. business, which I would just like to quickly repeat for you. He talked about the imposition of U. S. human rights standards around the world, restriction on strategic exports, unparalleled standards of conduct for business, taxation on U. S. citizens abroad, application of U. S. antitrust laws, inconsistent anti-boycott laws, arbitrary limits on defense articles and services which include many non-military items, cumbersome export procedures,

restrictions on XM financing, and environmental concerns. That's quite a millstone around our neck, isn't it? In the area of my greatest familiarity, foreign military sales, the laws and policies ostensibly adopted by the Government to authorize those sales have actually had the opposite effect - to restrict the sales of arms overseas. They have been viewed by the Congresses and the administrations as a means of arms control, rather than arms sales and these two branches of our Government have increased their regulation and involvement in these sales.

Allow me to take one of the more severe disincentives and show how it is reflective of the overall problem, which is a lack of a positive export policy. Export procedures - the export procedures have themselves been one of the largest impediments, whether for arms under ITAR, International Traffic and Arms Regulation, or for commercial products at Commerce, the operative word has been control - and over-control. Most of us are familiar with extensive control exercised under the ITAR, where some of the items being controlled are not always munitions or defense items. However, at Commerce you would expect an expeditious process favoring export. But such is not the case. The General Accounting Office in recent testimony before the Senate Banking International Finance and Monetary Policy Subcommittee stated that much of the system is simply a paper process which overly burdens U.S. exporters. The GAO went on to conclude that by being more selective, the system can better protect national security while lessening the burden on U. S. exporters. For example, no exports to NATO countries have been denied in recent times. In 1979, over 22,000 applications for COCOM were submitted to the Commerce Department. Not a single case was denied. Even the U. S. Government, with the exception of the Department of Justice, wants to eliminate the requirement for export license for NATO. That would eliminate the unnecessary paperwork that we all must process.

U. S. control procedures currently result in the restriction of third-country transfers, often of items commercially available from other countries. Such restrictions would seem particularly inappropriate. In my company recently, we lost a competition where the technology was equal, we were lower in price, but the purchaser was unwilling to agree to have the requirement of subsequent transfer subject to U. S. approval. Again, as noted by the Ambassador, the U. S. is acquiring a reputation as an unreliable exporter. Look at the classic example of Argentina. Many companies sold goods to Argentina before the embargo imposed by our Congress. With that embargo, the same companies were not allowed to supply spare parts or repair the equipment that they sold. As a result, the reliability of the U. S. companies and, as a matter of fact, the U. S. Government as a supplier, has been called into question. While Congressional concerns with human rights may change with the political climate, either here or abroad, the reliability of U. S. suppliers takes many, many years to establish. A positive export policy must provide for a confidence of buyers in their source of supply and support.

I think we've heard some encouraging words here this morning. I think that the attention that this new administration and the Congress are giving to the needs for change and for formulation of an effective export policy is quite encouraging. Again, the Ambassador touched upon briefly some of these actions being considered, such as the reform of the tax laws, the reform of the Foreign Corrupt Practices Act, and the possibility of export trading companies.

Let me just give you a few more figures in terms of what the tax law has done to U. S. business. In the case of the Kingdom of Saudi Arabia, which is the world's largest single market for construction and other contracted services, U. S. firms are losing ground rapidly in that nation. Nine percent of all construction contracts used to go to U. S. companies in 1975. Our share dropped to 6 percent in 1978, and to 3 percent in 1979. Even the civil and military construction contracts let by the U. S. Army Corps of Engineers on behalf of the Saudis are going substantially to foreign firms. U. S. share of such work plummeted from 35 percent in 1975 to 5 percent in 1978 to 2 percent in 1979. Taxes are forcing U. S. firms to replace Americans with English-speaking partners. We're just basically losing out because of that tax policy. A study was conducted where they looked at projected costs using, say, American staffs and comparable British staffs. The American costs were twice that of the British; 75 percent of that difference was the result of taxing American foreign income. And there are all kinds of side effects. If you look at the number of people working in American companies overseas, more and more are non-Americans. U. S. citizens employed in the Kingdom declined from 65 percent in 1976 to 35 percent in 1979.

So we're losing on all accounts. This was being recognized somewhat by the former administration, where his export counsel stated, "The U. S. currently lacks a coherent trade policy compatible to those of other major trading companies." Current U. S. foreign economic policy is a complex mixture - some would say jumble - of old and new laws and rules adopted at various times, independent of each other, with objectives that sometimes conflict and which, in some cases, were adopted to meet powerful domestic pressures without concern for their effect on U. S. trade. This new administration has shown its willingness to address this problem, but I'm sure they recognize, as we do, that it will be a long, tough road.

I would hope in these deliberations that some of the following things are taken into consideration. In the case of FMS, a new national policy should be adopted that defines the objectives of foreign arms sales and the circumstances under which they should be pursued. Then changes should be made in the FMS process to improve its ability to achieve U. S. national and international objectives. We have to improve on the coordination of policies

and legislation that affect these sales. The purpose should be to incentivize and to facilitate FMS once the decision has been made to approve export. Let's make the decision on the front end and then let's remove the constraints when we've decided that we can export and get the job done.

Finally, it needs to be recognized that U. S. businesses are not competing in every case against just foreign businesses, but partnerships of foreign industry and government, and even foreign governments themselves, at times. The U. S. Government's role needs to be clearly understood in those circumstances. I think history has shown that trade promotes interchange, understanding, and accommodation and that means for everyone. But I am encouraged by the dialogue that's taking place and I hope that the results will be as resounding as the rhetoric is. Thank you.

Mr. Selden

Thank you, Joe, very much.

Our third panelist, Robert McClellan, is Vice President for Government Affairs for FMC Corporation. Born and raised in Nebraska, Mr. McClellan has a B.S. degree in engineering with honors from California State University, San Jose. Also, he has done graduate work at Santa Clara University and at Stanford University School of Business. In 1949, Mr. McClellan joined the Export Department of FMC as a Sales Engineer and 10 years later, after progressing through various positions related to FMC's international activities, became Vice President of the International Division. From April 1969 until August 1971, Robert McClellan served as United States Assistant Secretary of Commerce for Domestic and International Business, and in that capacity he was responsible for the development and the implementation of a wide range of business policies and for the operation of the Department's Bureau of International and Domestic Commerce. Mr. McClellan continues to be very active in international business and government-related groups, and during the 1980 Presidential campaign and the transition period, he served on the Reagan foreign policy advisory committee. Needless to say, ladies and gentlemen, I am delighted to be in the company of such a distinguished group and I take great pleasure in presenting Mr. McClellan to you.

Robert McClellan

Thank you very much, and good afternoon, ladies and gentlemen. I came to Washington 10 years ago because I was concerned personally about the many problems that I felt our country and our government was facing on this matter of international economic development in general and exports specifically. I have to tell you that when I stand before you today I can say to you that we haven't made much progress. I think we're gaining on it, but believe me, this is a long, slow, hard process of orienting the national attitude, the national policy in concert with the experience and interest of American industry in this world of foreign

policy, trying to make it all fit together, and accomplish the objectives of international achievement generally, and specifically international economic achievements for the United States in discharging its leadership role, both economically and in security terms in the world we live in.

I thought what I might do as a contribution to this panel, hopefully, was just make a few comments on my participation in the Reagan Foreign Policy Advisory Group, where I worked for Dick Allen and Bill Mittendorf and some of the people who were concerned with that. I was privileged to chair the working group that wrote the basic paper - we called it the Blueprint for an International Economic Policy. I'd like to share with you some of the things we ticked off there which, incidentally, is just a reflection of what you've heard from the other members of our panel and our panel chairman previously, really, because we were not inventing anything that most of you don't know very well, but we were trying to articulate it and bring it into a policy perspective with the hope that it would have some value to the Reagan administration as they address these problems during their four, hopefully eight years and maybe beyond that.

I might say, though, that I'm a pinch-hitter on this panel, and before I comment on the international aspect, I do want to bring you the greetings of Phil Devirian, who was supposed to be here instead of me. Phil is well known to many of you and he has been a great activist in the ADPA. He is sorry he can't be here today. He would have been, had it been physically possible. He has had a little physical problem and thank goodness it has turned out now to not be all that serious today, but was enough to cause the doctors to tell him that he could not be traveling and so Phil couldn't make it and I'm here and I apologize for his absence, and am delighted that I can be here to represent him. I might add that FMC is very much involved in international business. We do about a third of our business outside the United States. We actually did business last year in 160 countries; not much in some, but at least we had a presence there. We have been enjoying a growth rate in international business a little over 20 percent a year compounding over the last 10 years, which brought us to a little over a billion dollars total last year. We have 17 foreign subsidiaries. We are very heavy exporters. We export regularly around 50 percent of our foreign business and out of that, a very respectable share is in the defense area. So we do have a great concern about ADPA activities and national policy with regard to exports generally and certainly with regard to military exports.

Now, to just touch on this work we did during the campaign period and the early stages of the take-over of the new administration. Our working group put together a paper that tried to design a policy concept that would be of help to President Reagan in his foreign policy and international policy people as they

assumed responsibility for running the Government. We said that the general goals of U. S. foreign and economic policy had to be first to revitalize U. S. industry and improve our competitive position; secondly, to establish parity in our trade relationships with other countries; and thirdly to seek and preserve and encourage a free market system, domestically and internationally. Kind of motherhood and apple pie.

To accomplish those basic objectives - and I'm highlighting this for you, obviously - we said that first of all there has to be a presidential and, indeed, an administration commitment to export expansion. Back of that commitment to export expansion, we said there are some fundamentals that have to be in place, things you know well. First of all, taxation policy has to recognize the importance of exports. We said that this should be restored to full deferment on incremental export growth. This 50/50, later 25 percent deal that we put into place, which I was involved in when I was in government 10 years ago, and during the subsequent years was borne out by political tagging and hauling and pulling and it's unfortunate that we don't have a responsible tax policy with regard to exports that permits the American corporation to be competitive in international marketplaces. Secondly we said that we have to get a financial structure to support it. That's an area, of course, of great concern to all of us in the export business and one where the administration has chosen to not take a positive or pro-active posture in view of the fact that they're willing to make the XM bank the sacrificial lamb on the altar of a basic economic policy. You can argue with that, but I would argue that we don't have to ruin the XM bank in this process, but on the other hand, our view is you go along with the President and his total package, support it. Secretary Baldrige has made it clear that either the other countries with whom we're competing on export financing terms will either come into agreement so we have a balanced program or he and Bill Brock are going back to Mr. Stockman with a very determined policy of getting a highly competitive export policy. And I think they'll do that and I think they're entitled to some time to follow their tactical approach to it. I would support them and I hope you would, too. Incidentally, just as a little fill-in on that, we said we ought to rename that the Export Development Bank of the United States.

Certainly there is a great deal of need for overhaul of the antitrust laws. You know that as well as I do. We wanted to redo the Webb-Pomerine Act. Some attention is being given to that. We followed that by this whole question of export controls that has been addressed before by panelists here and limiting export controls for foreign policy goals that aren't linked to national security, and get rid of all this extra paper shuffling that simply constipates the export process.

We said that we had to have a complete reform of the Federal regulatory activities impacting exports. There's a long, long

laundry list you can develop on that. We went on to say that the multilateral versus unilateral regulatory approach had to be revised and that we need to conduct international negotiations with our major competitor to reach agreement on these international codes on such things as the improper payments, air boycotts, international standards for hazardous products, harmonization with the policies so that we wouldn't be hamstrung by these unilateral incentives. And certainly we said there's a great deal of need for improvement of export promotion. This movement that Under Secretary Buckley has taken on the leprosy letter is a good indication of what can be done to become pro-active instead of counter-export and re-active posture.

We laid this all before the campaign group, transition teams, and so forth, and my position at this point in time is that I think it has been well received. Certainly Secretary Baldrige and Ambassador Brock have indicated strong support for a very pro-active international economic policy and a strong export posture. However, it is very difficult in this society - I can assure you from my own experience, albeit a little rusty from 10 years ago - but I know that Armi and the rest of the gentlemen here would agree with me that in this society it is one thing for us as businessmen to sit here and talk about export promotion and it's a very different thing to go out and sell it to the people of the United States, many of whom still don't really appreciate the importance of it to our national economy and who don't understand the fact that we do, in this competitive world, have to adopt policies that permit us to be active in the foreign marketplace, rather than undertaking national policy legislation, if you please, that is appealing to the domestic political scene. And we certainly have been doing that - the Foreign Corrupt Practices Act is certainly a great example of where we have undertaken national policy to fit domestic politics, but which are not real in terms of the marketplace that we live in and compete in, as you all well know.

And so in order to implement a pro-active export policy, one that we would all agree incorporates the elements of a positive approach, the fact of the matter is that you have a political job to do. And we will be successful in this to the extent that we politicize our interests and our efforts and you have to do this, as I see it, through congressional recognition of the problem they are willing to accept your political approach because if you don't have Congress doing that, you can't keep the pressure on the Executive, and if you don't keep the pressure on the Executive, they will put the international economic policy issues down the priority list in deference to the domestic policy. Therefore, we have to politicize it and do that through the Congress and then put the pressure on the administration. Pressure, if you please, in the case of Baldrige and Brock, and I'm sure many of the other leaders in the administration, by our doing that we will make it possible for them to accomplish the things that they are

setting out to do in this matter of international economic management.

Finally, I'd like to make a point which is that you want to be careful in this thing, as I see it, and that is that there is a tendency on the part of the government servant, when he sees a problem he wants to create a program to respond to that problem. The program always involves more appropriations and involves more people, it involves doing something. It seems to me that by and large in this matter of international economic activity for U.S. companies, we don't want more programs. We want policy. We want effective policy that permits the American international business concern to do its thing well. So we don't need more programs, spending more government funds. We need a legislative program that says we will have a responsible tax policy - we will have a responsible policy on antitrust, etc., etc., etc. So let's talk policy, not programs. Thank you very much.

Mr. Selden

Thank you very much, Bob.

We have gathered together quite a few questions here and I will try to pick a few for us to move along on.

The first question is to the panel. To what extent will the legislative restrictions on foreign military sales imposed after the holding of hearings? Should not U. S. companies and defense associations seek to put the case more strongly before Congress, in the addition to the Executive Branch. And finally - and someone from ADPA will want to answer this, I'm sure - Does ADPA testify before the Congress? I can comment on this, I think, not from the standpoint of ADPA, but certainly from the standpoint of my association. There are some members of my association who do business with the Government who prefer not to testify. Consequently, ALESA does testify on these different subjects. I testified before the House Foreign Affairs Committee, which incidentally, I served on for 14 years, in connection with security assistance legislation, and I testified also before the Senate Foreign Relations Committee. But prior to doing that, we brought in representatives from all of our companies and we had meetings with Under Secretary Rasish, with Jim Buckley, and with Bill Brock, and we presented our views to them before those bills went up to the Congress. I might say that whether we had any influence or not, I don't know, but many of the recommendations we made were included in the legislation. And we went ahead and testified and a number of the things that we recommended and which other groups recommended were included in the legislation and some of them are still in there. For example, we recommended repeal of the legislative veto on commercial sales and we recommended the abolishment of the ceiling. That went in in the bill, but what I thought was lack of real push on the part of the administration, they eliminated this in the House subcommittee and the full

committee held up the recommendation to the subcommittee. The Senate did not take up the veto. But the Senate did remove the ceiling in their mark-up of the bill and that bill, which is going to come up probably late this month, will have it in there on the floor. So I think those recommendations to the Executive Branch and then to the Congress have been helpful. We may not end up removing the legislative veto, but I think there's a good chance of removing the ceiling on commercial sales. We went in and recommended raising the reporting thresholds throughout the law for proposed FMS sales from \$7 million to \$14 million in major defense equipment and from \$25 to \$50 million in other defense articles and services. That is in the bill, both on the House and the Senate side. We recommended a review and enlarged availability of FMS credits. That has run into some difficulty in the House, but I think that when it comes out of the House and the Senate in the conference, there will be substantial availability of FMS credits. We also recommended and pushed the repeal of the legislative embargo on sales to Argentina and Chile. Chile was not recommended by the Administration, but they did recommend the repeal of the embargo on Argentina. The House committee repealed it, but they put on some limitations, some of which we think are bad. The Senate did the same thing and we're making an effort in the Senate to get certainly Section C of those limitations removed. So I think it's important that you do go before the administration, you do go before the Congress, you make your views known, and you make every effort to point out the other side of these issues because you can be sure that the other side is advocating their point of view.

Would you gentlemen like to comment on this? Does ADPA testify before the committees? Barry, can you tell me that?

Mr. Shillito

The answer is yes.

Mr. Selden

This question is for Joe Caligiuri. At what point should the U. S. Government restrict sales of our advanced weapons systems, such as F-14 aircraft and missiles to Iran?

Mr. Caligiuri

Obviously, that's a very difficult question and I don't suppose that American industry should be making those kinds of policy decisions. I do believe that we ought to supply, however, weapons systems to our friends that we believe are in the best interests of the free world, and then I think we need to support those friendly countries.

Mr. McClellan

I would agree with what Joe said. I think it would be foolish of the U. S. Government to undertake arms sales of any type to Iran, given the chaotic state of its government at this point in time.

Mr. Real

We export armed helicopters to several countries of the world, but we wouldn't do it without the State Department's approval. We wouldn't even have the first conversation without that approval.

Mr. Selden

Well, I don't think you can, under the law.

It's controlled pretty well, commercial sales, even without any Congressional veto or without any ceiling. You have to get the go-ahead before you can even start, as I understand it.

Here's one for any of the panel members. Which offset requirement causes your company the greatest concern? What actions have you taken to reduce the limitations? Please comment on the direction you see offset concepts going in NATO and the third world market?

Mr. McClellan

I'd like to give a response for FMC. I guess you start out with any offset agreement as a pain in the neck. You'd prefer not to have it. It's much easier to do business when all you have to do is produce and deliver your product and get paid for it. But in the real world that we're all living in, offsets are present and you have to deal with them. It's just a question of how well you can negotiate your arrangements up front. We're involved in a program in Belgium on armored personnel carriers where we've got offset obligations that we've accepted and undertaken and we're discharging them very well thus far and certainly will continue to. But it's clear, I'm sure, to all of you who are doing business on military equipment in Europe that all the European countries have undertaken this as a policy and they're going to capture some of the labor content, of economic content of any weapon system they're buying. Therefore, it is a real world; therefore, you negotiate the best arrangement you can get, it seems to me, and then finally, clearly to the extent that we discharge those undertakings responsibly, the better it will be for all of us in negotiating tighter deals.

Mr. Caligiuri

I think the big thing is hopefully you have flexibility in doing this. If some arbitrary constraints or preconceived ideas are set forth and then you try to work to those, sometimes you

have great difficulty. You get an opportunity to review the capabilities of the countries that you're dealing with and you can work some mutually advantageous exchanges. As was indicated, it is a difficult problem, but it's nice to have as much flexibility as you can so that you can match your capabilities with the capabilities of companies in the particular countries, so that you can take maximum advantage of what they can do and what you can offer up in exchange.

Mr. Selden

A question to the panel. Many of our international competitors have a unique alliance of management, government, and labor in their pursuit of export trade. What can and should be the contribution of labor in increasing exports and helping develop a better U. S. export policy?

Mr. McClellan

Certainly there's a great opportunity for American industry to communicate with its labor organizations to obtain their support on export trade. I think we've seen a real change in this in the last few years. I came into government, as I mentioned before, about 10 years ago at the time that the CIO-AFL Industrial Council had decided that they were against multi-nationals on the basis that they were exporting jobs by creating industry overseas to export back to the United States. Some of you know that Liz Jagger, who was an economist in the AFL-CIO staff at that time was very outspoken on this and I think she made a mistake. She took on Caterpillar Tractor Company and they were able to demonstrate that what they were doing was good for America and wasn't hurting it. But in any event, there was a great hue and cry against border plants in Mexico and the exporting of our technology to Japan and so forth. Along with that there was this abomination called the Burke-Hartke legislation that came out of Congress, which could never be enacted as a piece of legislation, even if it had had anything of value in it, which, in my opinion, it did not. It was really counter to our country's international and domestic economic interests. What happened, though, was that we went through a lull, a gap over this past decade of confusion on just what was a reasonable policy with regard to international involvement. I see us coming out of the doldrums. I see us moving ahead now where we recognize that exports are critical to our domestic welfare, they are critical to our jobs. We've been able to get that message through. The experience we've had in our company is that while occasionally the leadership, union leadership, may be, in our judgement, somewhat misguided on their attitudes on international involvement of the company, when we go to the members, the rank and file on our shop floors or around the country, we find great support. I can tell you that when we were fighting for DISK, fighting for our lives in 1975, and the AFL-CIO was dead set against it, we went to rank and file members in our company and we got overwhelming support for it. I think it is

important as managers that we attempt to communicate with the rank and file to get their support, and if we get their support, we'll get their leadership's support.

Mr. Selden

I might point out that in the American League for Exports and Security Assistance we have 32 corporate members and 4 international labor unions. We're finding that our views on many, many of these issues tie together and we are able to support those issues with the support of management and labor, which I think is a very encouraging situation.

Joe, here's one for you. It says, how do you trade off security advantages of transferring technology versus the loss of U. S. commercial advantages as a result?

Mr. Caligiuri

When we transfer technology overseas, we try to do it on the basis of sound business exchange. I think the biggest problem that we have when we transfer technology is the worry that when that technology appears in third world marketplaces, the folks overseas that we've transferred that technology to will be encouraged to deal in those third world markets and we will not. We're not at all reluctant to transfer technology; we've done it. We have companies, we have a company in Canada and two in Europe that we have transferred our technology to, which are part of Litton Industries, of course, and then we have some where we have licensed and we like to do it on a sound business basis. If it makes sense, we'll do it; if it doesn't, we don't. The thing, as I say, the worry is that if that should appear in third world markets and we're not permitted to have the same advantage as the folks that we gave that technology to, then it bothers us.

Mr. Real

We don't have any concern, but the thing that we're exporting at the moment, or discussing exporting, is our gun systems. We believe that the technology is there. To us, it's a way to make a sale. You have to do it.

Mr. McClellan

Our position is that technology is a dynamic, it's not static. Our technology and our security position is a matter of continuing to create new, better improved technology. We can share technology around the world and still be the winner if we do that.

Mr. Selden

We're getting to the bottom of these questions. If anyone has any others, maybe we can get to them. This question is for all the panel members, and the subject is the unfavorable tax position

of U. S. employees overseas. What are your individual assessments of what relief will be legislated and when?

Mr. McClellan

If there's a position to be given on this, Armi, you probably know better than I do. I understand that the present proposal the administration has accepted is that they would relieve everything at \$50,000 and under on income and they would eliminate all housing benefits and something else. It's a complicated package and I'm sorry that I can't specify it exactly. But it's a big step forward from where we've been.

Mr. Selden

That's my understanding. I've heard different figures on the amount - anywhere between \$50,000 and \$75,000, but I think that the administration is proposing or will propose a package of that nature and I'm of the opinion that there's a good possibility of it passing.

Here's a question for me. It says, you mention that there are three conflicting sets of boycott regulations administered by four agencies. Most people are familiar with Treasury and Commerce regulations. What regulations are in the last set and which other agencies are involved?

Let me see if I can clarify that. There are two separate anti-boycott statutes that are now in effect. The anti-boycott amendments to the Export Administration Act that was passed in 1977, and the Ribikoff Amendment to the Tax Reform Act of 1976. These two statutes impose some different prohibitions, contain different exceptions, authorize different sanctions, and are enforced by different departments. The Sherman Antitrust Act has also been applied to boycott-related activities in the consent decree entered by the court, although the prohibitions set forth in the consent decree differ in some respects from those in the anti-boycott statute statutes. While considerable efforts have been devoted to harmonizing the regulations implementing these two statutes, they are different in critical respects. As a result, behavior that is permissible under the detailed EAA amendments and regulations may be restricted under the Tax Code and vice versa. It's a confusing situation and I think it certainly needs some legislative clarification.

The final question says, what is the current status of Presidential Directive 13? As I understand it, there hasn't been any refutation of this per se, but it seems to be obvious from the directives that are now beginning to go out from this administration that they are no longer following Presidential Directive 13 and whether or not they are repudiated by another directive is uncertain. Certainly some of the things that were contained in it

are being gradually taken out with other rulings and directives. Do any of you have any comment on that?

That seems to be all of the questions that have come up. Let me thank all of you for your very kind attention and thank the three members of this panel who joined me up here for the time and effort that they have put into it.

Thank you very much.

Mr. Shillito

Thank you very much, panel members, for a truly outstanding panel.

Let me make a comment. I've had a couple of people from U. S. industry hit me since Bob Mitchell's speech at lunch and that may have triggered them a little bit. In the very beginning, I made the comment that we expect to have a lot of candor in this discussion. This doesn't mean that we're all going to agree with each other, and Bob expressed his opinion, I think pretty candidly, without question, and this doesn't reflect many U. S. industry positions nor the ADPA's position, but at the same time, they were Bob's position. I think that such candor will surface issues that will benefit all of us, even though we may not see eye to eye. I hope you accept these things that way and we operate accordingly, because this is the only way we're going to bring some of these things to a head.

SESSION IV

PARLIAMENTARY RESPONSIBILITY FOR COOPERATIVE
SECURITY AND PROMOTION OF WORLD TRADEMr. Shillito

This conference is a little bit unique from past ADPA conferences in that we're emphasizing, in addition to cooperative national security, export perspectives in world trade. We're most fortunate to have as a speaker next, a keynoter, the Japanese Ambassador to the United States, a gentleman who comes from a country that survived the past round of oil price increases with minimal damage and has largely overcome the big fear of large-scale inflation. In fact, the last I heard when I was in Japan not long ago, the inflation rate was running around 5 percent in consumer price increases. He is a gentleman who understands the international trade environment thoroughly. Ambassador Okawara has been a Japanese diplomat for almost 40 years. He has had several tours in the past in the United States. Interestingly, at one time when Ambassador Selden was in New Zealand as our Ambassador, he was at that time in Australia, as I recall. They had an overlapping tour. He is an economist, he is an expert in the international trade arena, as I say, and this was driven home to me quite thoroughly just about a year ago in Los Angeles when we had an international trade conference in L.A., and he was our keynoter at that particular conference. It is with a great deal of pleasure that I now introduce the Japanese Ambassador to the United States, Ambassador Okawara.

Ambassador Yoshio Okawara

Thank you, Mr. Shillito, for your very kind introduction for me.

You mentioned that we met in June in Los Angeles, when I attended a meeting of Teledyne Company there, and it is a great honor for me to have been invited to address this distinguished gathering of the International Conference on Cooperative Security and Defense Assistance, sponsored by the American Defense Preparedness Association. Certainly, Mr. Shillito induced and encouraged me to come here to meet with you and to discuss very important subject of defense. As a matter of fact, I just came back from New York, attending the 18th session of the U. S.-Japan Businessmen's Conference on Wednesday. There was a briefing by a group of American professors. One of the professors from Columbia University named Jerry Curtis briefed our businessmen, both from the United States and Japan, saying that in the past the largest problem area between the United States and Japan was trade relations and economics. Many times economic questions spilled over into other

areas, such as political and even defense questions. In his view, in the 1980's, defense questions would become such an important subject of discussion in relationships between our two nations that he suspected that defense issues would spill over on other questions like trade relations and economic relations. I do not necessarily agree with his observations, but I do agree with him that defense issues will take a very important place in our relationship in the coming years. Therefore, today I would like to focus my remarks on outlining the Japanese perspective on the increasingly important security relationship that is evolving between my country and the United States.

Security and defense issues are certain to be major subjects for discussion between our two countries for some time to come. These discussions will increasingly focus on how best the two nations can carry out their international responsibilities and advance their own security and that of the world in light of their respective resources and political realities. These discussions are taking place against a background of the determination on the part of the United States and the . . . to continue to play an active role for ensuring peace and security of the whole world. This steadfast posture of the United States, including its willingness to take on the burden of defending the Persian Gulf, which is so vitally important to the security of the West as a whole, is indeed laudable and will continue to be an important factor in stimulating the thinking in Japan on what it should do for its own security.

At the same time, I am well aware that increasing attention is paid in the Congress and elsewhere in the United States to the question of what the allies are doing to contribute to their own security and to that of the West as a whole. It is in this context that I consider it highly important to present, as accurate a picture as possible of Japan's political, psychological, and fiscal realities concerning this matter. The basic issue before our two countries has been defined succinctly, I believe, by the Japan-United States economic relations group, or the so-called "wise-men's group" led by the former Deputy Secretary of State and former Ambassador to Japan Ingersoll, and the former Minister of State for External Economic Affairs and Ambassador to the United States, Mr. Shiba. I quote from the group's report, "The new U. S.-Japan partnership should contribute to international security in the broadest terms for the benefit of both countries. The provision of security requires the use of the barest kind of resources, political, economic, military, and even cultural. It is not necessary that Japan and the United States use the same mix of resources in carrying out their respective role in the new and comprehensive partnership. Clearly, each country's role needs to be backed by its respective society at large, and it is a political fact of life that some societies find it more difficult to provide one kind of resource than another. The important point is not that the contribution to overall international security by the

United States and Japan need to be identical, but that they be complimentary in nature and more equitable. Japan and the United States should consider the most efficient means of dividing their international responsibilities in accordance with their respective capabilities."

Let me take this other point of departure and give you some of my own thoughts on the current state of Japan-U.S. security relationship and the Japanese public perception of defense and security issues. I wish, first of all, to state my firm belief that a partnership between our two countries which now has developed the trade of \$5.1 billion will be further expanded and enriched, benefiting from the reservoir of good will that exists on both sides of the Pacific. Our security relationship, which forms an increasingly important component of this valuable partnership, will from time to time present us with some problems, but there is no reason to doubt that we will be able to manage these problems as long as we each approach them with care and understanding of the position of the other, as we have done over the decades.

For the purpose of helping you understand the policy stance of Japan on this matter, I would like next to touch on what I regard as a significant discernible trend in Japan's public perception. Firstly, there is a growing awareness in Japan that what is at stake is not simply its bilateral relationship with the United States, but the whole question of how Japan, as one of the industrialized democracies, and U. S. allies, can and should discharge its responsibilities in meeting the challenges to the western world. This question was posed starkly with the hostage-taking in Iran and Soviet military intervention into Afghanistan. The Japanese leadership responded to these challenges with political courage, calling for certain sacrifices on the part of the Japanese people. Japan joined in the economic sanction against Iran, boycotted the Moscow Olympics, and was second to none in scrupulously implementing the economic measures against the Soviet Union. At the same time, these events served to stimulate the discussion in Japan on a wide range of issues, political, economic, and military, which have a bearing on the security of the West in the broad sense of the term.

As a part of the effort to broaden the national consensus on these issues, it was decided at the end of last year by my government to hold meetings of Cabinet Ministers' concerned to discuss comprehensive security, and four such meetings have been held to examine such diverse topics as the situation in the Middle East, the 26th Communist Party Congress of the Soviet Union, the economic revitalization of the programs of the United States, and the situation in Poland.

Secondly, with respect to defense and security per se, there is an ongoing process in Japan of the positive reappraisal of the Japan-U.S. Security Treaty and the Self-Defense Forces against the background of an upsurge in the debate about defense and

security issues. This has come about as a result of a variety of domestic as well as international developments over the 1970s, of which an important element was a maturing of the Japanese economy, now second in the world only after the United States, and the growing recognition by the Japanese people of the increased responsibility Japan must be prepared to accept in the international community.

More recently, the traumatic events from the hostage-taking in Iran and the Soviet military intervention in Afghanistan to the outbreak of the Iraq and Iran war have greatly sharpened the Japanese perception of the increasingly challenging nature of the international security environment. Coupled with this has been the growing national concern over the Soviet Union's military build-up in our part of the world, especially on our northern territories. Reflecting such concern, there have been active debates in the past year or so in the Japanese Diet and mass media about our defense spending and our basic defense policies, the future course of Japan-U.S. security relationship, etc.

So the stage has been gradually set for substantive and fruitful dialogue on security issues between Japan and the United States and the meetings between Prime Minister Suzuki and President Reagan early in May in Washington were an important landmark in reaffirming our common perception on the important issues confronting the international community today and setting forth the framework for future efforts and discussions.

Following the summit meeting between Prime Minister Suzuki and President Reagan, in which they agreed to look forward to the continuing discussion on this matter, I participated last week in Honolulu in the working-level discussion on defense issues between our two governments. At the end of this month, Mr. Omura, State Minister in Charge of Defense Agency, will be in Washington to meet with his counterpart, Defense Secretary Weinberger. While the dialogues between our two countries like this have been going on, the recent events in the security relationship between Japan and the United States, namely the collision between an American nuclear submarine and a Japanese maritime vessel, the controversy in Japan about some parts of the joint communique between the Prime Minister and the President, the statement by former Ambassador Reichauer about the issue of introduction of nuclear weapons in Japan, etc., have received intense media coverage in Japan and also, to some extent, here in the United States. I do not intend to go into each of these here, but would like to address myself to some of the basic points about Japan's defense policies which the sharpened media focus has brought into light.

The first point I will stress is that changes in the Japanese public's perception about defense and security issues should neither be underestimated nor overestimated. They should not be underestimated because they represent genuine changes in public attitudes on defense and security in Japan. A poll taken in 1972

indicated that only about 40 percent of the public approved of our basic policy of maintaining both a security treaty with the United States and the Self-Defense Forces. Today, similar polls indicate that about 60 percent of the public support this policy of which about one-third are in favor of some strengthening of the Self-Defense Forces. Thus, there has been a pretty remarkable change over time on this matter.

It is also a fact that Japan defense spending was increased steadily in the decade of the 1970s at the annual average rate of about 7 percent in real terms, the highest of all United States allies. There has also been a very substantial increase in our contribution to alleviate the financial burden of the United Forces in Japan, namely from \$580 million in fiscal '77, to \$1 billion in fiscal '81.

I also stressed that these changes should not be overestimated because they are still very far from allowing spectacular increases in our defense capabilities. Japan remains constitutionally committed to a purely self-defense mission for its defense forces. Among the Japanese people, there persists an aversion to warfare based on the painful memories of destruction and deprivation in World War II. The intense public reaction to the statement by former Ambassador Reichauer testifies to the very strong feeling against nuclear weapons, often described as nuclear allergy, on the part of the Japanese people. There continues to be a strong inhibition against restoring Japan's military power, reinforced by the recognition that none of Japan's neighbors would tolerate a re-armed Japan.

The second point I would make is that many Japanese who are increasingly convinced of the need for steady expansion of the country's defense capabilities have considerable reservations about the pace of such expansion on constitutional, political, and fiscal grounds. They also feel that the problem of improving Japan's defense capabilities is something they should think about and work out for themselves, and not something they would do at the behest of the United States or any other country. The Japanese Government is faced with an unprecedented challenge to its fiscal policies and urgent need to restore health to its government finance, which is dependent for 26.5 percent of its expenditures on deficit financing in the form of national bonds.

Against this severe background, the fiscal '81 defense budget reflects a shift of government priorities in favor of defense spending, which was increased by 7.61 percent to \$11.11 billion, whereas general expenditures rose only by 4.3 percent. This was achieved despite intense political pressure in the Diet and elsewhere to give a higher increased rate to social welfare, as had been the case in the past. In the fiscal '82 budget-making process, which will begin this summer, it has been decided that defense spending will be again accorded priority treatment, where most other government expenditures will be held down to zero increase

in principal. Within the defense budget, emphasis has been placed on procurement of front line equipment which will expand 13 percent in real terms in fiscal '81, and we will include such sophisticated U. S. weapons as P3Cs and E2Cs. We are well aware that such efforts on our part will not rapidly close the gap between the present capabilities of the Self-Defense Forces and what is desired as a credible self-defense capability. But we are addressing ourselves seriously to the task of closing such a gap and are trying to move ahead as fast as we can while nurturing the national consensus which supports such efforts.

The third point I would make is that Japan attaches high importance to non-military contribution to international peace and security, especially to economic aid to developing countries as a means of ensuring political as well as economic security. Japan's official developmental assistance more than doubled in the last three years to \$3.3 billion in 1980, and we have set a new target to more than double the aggregate official development aid in the next five years over the previous five-year period. Further, we have been taking particular care to strengthen our aid to those areas which are important to the maintenance of peace and stability of the world. Thus, in the three-year period of 1978 to 1980, Japan's aid commitments to Pakistan totaled \$367 million, those to Egypt exceeded \$227 million, to Turkey \$101 million, with another \$543 million to Thailand.

As you have gathered from my remarks, Japan's defense and security policy for the coming decade is still in the making. Whatever positive and encouraging trend there may be now needs to be nurtured and developed carefully further. At the same time, our cooperative relationship with the United States will continue to be of utmost importance to us as we try to chart the future of our defense and security policy. We have embarked on the course of meaningful and substantive dialogue with the United States where we will be discussing the specifics of our defense capabilities. For our effort in this regard to be successful, we will continue to need understanding and cooperation of the United States.

I hope that what I have told you today will be of some value in helping you have a better appreciation and understanding of the Japanese perspective on the issues of defense and security. Thank you very much.

Mr. Shillito

Thank you very much, Mr. Ambassador. We thank you very much for being with us and you have made a major contribution to this seminar.

Our Session IV deals with the parliamentary responsibility for cooperative security and promotion of world trade. I'm going to introduce our panel Chairman and I'll let him take over the

operations of this particular session. Our panel chairman, as you've noted from our program, is the Honorable Richard Ichord. Mr. Ichord comes to us with a truly outstanding background, as most of us who have spent any time in Washington realize and appreciate. He is an accountant, an attorney, an educator, at one time he was the youngest Speaker of the House of Missouri, U. S. Congressman for over 20 years. He is now a partner in a leading Washington consulting firm and also a practicing attorney. He has had extensive House committee assignments, including Chairman of the R&D Subcommittee of the House Armed Services Committee, along with many others. We are indeed honored, Dick, to have you take over the Chairmanship of this outstanding panel.

Mr. Richard H. Ichord

Thank you, Barry, members of the distinguished panel, members of the Conference. I appreciate, Barry, the very kind introduction. It contrasts most pleasantly with one that I received some time ago while speaking to a group of ladies. Most of the members of the panel are close observers of the American political scene and we have pending for constitutional adoption, ratification among the states of our Union a constitutional amendment which purports to give women more rights than they now have under the 14th Amendment to the Constitution of the United States. I was speaking to this group immediately after I had voted against an extension in time for the states to ratify the Amendment, the first time that has happened in the history of our United States. The lady who was to introduce me got up and said, "Now we come to the serious part of the meeting - an address by Congressman Ichord. Some have heard him before; some have not; those who have not will be glad to hear him at this time." But I do appreciate the very kind introduction.

The American Defense Preparedness Association and the members of this conference are indeed honored to have with us several very distinguished members of the North Atlantic Assembly who are not only leading members of their country's parliaments, but are recognized in both Europe and North America as experts on the subject of defense and cooperative security. Unfortunately, the time for this session has been contracted, due to a necessary change in schedule. It was my intention, Mr. Chairman, to exercise the prerogatives of the chair and invoke the five-minute rule, which prevails in the House of Congress, but I understand that you have already exercised your prerogatives and given them ten minutes; therefore, they shall speak about what they want to speak for anything they want to speak about, and then be restricted to five minutes.

In view of the extraordinary expertise of the members of our panel and the breadth of the subjects we have to cover, parliamentary responsibility for cooperative security and promotion of world trade, those are indeed very broad subjects, I would hope that we would restrict our questions and our discussions to NATO

problems and to defense trade as a part of the promotion of world trade. And I would state to the members of the conference that questions cards will be distributed to you while I think I am speaking, so if you will have your questions ready, we will begin the discussion after I have introduced the members of our distinguished panel and given them the opportunity to address you.

First, as an effort to set a tenor for this meeting, a tone for this meeting, let me say that the invasion of Afghanistan presents new and extremely serious challenges to NATO. The Soviet movement into Afghanistan was not only the first time that Soviet troops have been used in direct and open fashion outside the sphere of direct Soviet influence, it was the first projection of ever-increasing Soviet military power southward and adjacent to the Persian Gulf, a region which is of vital importance to the West, to the NATO Alliance, undoubtedly more important to the European members of NATO than to Canada and the United States because of Europe's greater dependence, greater reliance on Middle East oil. Since Afghanistan, it has been generally recognized that western security can be endangered by actions and events outside NATO's boundaries, as well as inside. In the United States, the Congress has the constitutionally-mandated responsibility to raise taxes and provide for the national defense. There are, of course, differences in the way our constitutional system functions from your parliamentary systems, but in both systems the elected representatives are invariably representative of the people. They mirror, if you wish, their constituencies. Hopefully, they never go so far as to follow the admonition of the late colorful politician from Boston, and incidentally, elected to Congress (I don't know whether he ever took office) from a jail cell in Boston, Mayor Jim Curley, who said, "There go the people. I am their leader. I must follow them." Hopefully, both the Congress and the Parliaments never go to that extreme.

Well, the Reagan administration has steadfastly demonstrated and continues to demonstrate its resolve to restore the balance of military power by increasing our defense expenditures here in the United States, and doing so at a time when social and other domestic spending are being cut in order to meet our fiscal responsibilities as a nation and once again balance the budget. The Congress has supported and will undoubtedly continue to support President Reagan in his defense initiatives. It will do so because Congress, that mirror of the people, feels the pressure of the people. It has the strong support of the people of the United States. It is my personal belief, however, that the parliaments of NATO in their efforts to build a stronger defense, will lack such strong support from their constituencies. Unfortunately, I submit, the unrelenting build-up of the Warsaw Pact forces, the invasion of Afghanistan, the numerous and dangerous regional conflicts around the world, the crisis in Poland, and other events have not moved their constituencies as they have moved the American people. The impact that such events have had upon the American people will enable the

western world to improve its defenses but at the same time, I submit, we must candidly recognize that the failure of such events to have a similar impact on Europeans could very well lead to serious strains and divisions in our relationships.

It is now generally recognized that NATO can no longer be oblivious to what happens in the Persian Gulf. It is further recognized that the United States is better equipped to counter the threats in the Gulf region than anyone else. But will its 15 percent increase in defense spending and its new attitude toward defense permit it to meet its new obligations in the Gulf and its old obligations to NATO? Will not the relative military position of NATO vis-a-vis the Warsaw Pact Forces continue to decline unless NATO parliaments are politically able to increase their defense efforts? I don't like to speak in terms of percentages, whether 3 percent, 5 percent, or 7 percent. Percentages, to me, are not the real issue. All nations should be making those efforts to meet our individual and collective responsibility in defending western nations and western civilization. Percentages don't mean anything if you're going to be like the story we tell down in the section of the country that I come from, the Ozark Central Region of the United States, about the government procurement officer who was going out on a weekend fishing trip. He stopped at a little country store and asked the old gentleman behind the counter, "What are they biting on this week?" And the old gentleman behind the counter replied that worms were the thing. He said, "How much are the worms?" And the old gentleman replied, "All you want for a dollar." The government procurement officer said, "Hey, that's a great deal - I'll take two dollars worth." I've seen defense money in the United States during my time in Congress spent almost as badly. I hope that you experts have not had the same frustrating experience as I have had in your own countries.

We have those problems to face. In addition, I could mention the very serious differences we have in theater nuclear forces. I could mention that horrible, repulsive subject that I have repeatedly for the last six years accused my nation and NATO of trying to wish away and completely ignoring - and I'm talking about the very overwhelming chemical warfare capability of the Soviet Union. It has been my experience that I find NATO, a great part of NATO, afraid to talk about the subject.

I hope I have accomplished my point setting the tone for this meeting. We have differences. We have to talk about them with candor. We have to talk about them with frankness. We've got to recognize our different perspectives. We've got to recognize the problems that each of our nations have if NATO is to continue as an effective alliance.

With those remarks, let me proceed to introduce our distinguished panel. Chairman of the Subcommittee, first the Honorable Per Hysing-Dahl, a member of the Parliament in Norway, member of the Conservative Party, a bomber pilot during the second world war, businessman, a ship owner, Chairman of this subcommittee and a gentleman who has made a great contribution to the NATO Alliance, I give you Mr. Per Hysing-Dahl of Norway.

Mr. Per Hysing-Dahl

Mr. Chairman, ladies and gentlemen. First of all, Mr. Chairman, thank you for the kind introduction. And then on behalf of the North Atlantic Assembly Subcommittee on Defense Appropriations, represented here by seven members, may I heartily thank the ADPA for inviting us to come here and to take part in this very interesting conference.

Having listened to Ambassador Selden and to you, Mr. Chairman, just now I reflected that when I left home after an extremely busy finishing session in Parliament, I wished that I could do more listening than talking. But you will have to bear with me for a few minutes by way of an introduction.

In 1972, two members of the North Atlantic Assembly Military Committee, Mr. . . . of the Republic of Germany and Mr. Phillip Goodhart of the United Kingdom, issued a report under the heading, The EURO Group, An Experiment in European Defense Cooperation. As a result of this study, the Military Committee established a subcommittee to study the problems facing European member countries in achieving a greater degree of cooperation in the field of development, production, procurement of armaments. In pursuit of these objectives, the subcommittee visited and were briefed by the Ministries of Defense and military staffs of the European member countries and the international staff at NATO. The committee also studied a number of cooperative projects, such as the . . . combat aircraft, the F-104 replacement, later the F-16 consortium, the NATO frigates, and so on. It has more recently studied such projects as AWACS . . . battle tank, etc.

In 1974, it was decided to enlarge the focus of the subcommittee to include the North American perspective, and parliamentarians from the United States and Canada joined the committee. It has since concentrated on studying the problems inhibiting alliance cooperation in armaments production and on projects specifically relevant to this subject. It has also aimed to develop and sustain a regular dialogue with the United States Congress. Since 1975, the subcommittee has had meetings with the Senate and House Armed Services Committees regularly once a year in Washington. These meetings and discussions have been particularly valuable as they have contributed to a great understanding among parliamentarians on both sides of the Atlantic, understanding of the complex questions of interoperability and standardization of the armaments and equipment for allied forces and rationalization in the use of our combined resources.

The problems of transatlantic armaments trade is in focus. The intercontinental two-way street, as it pertains to research, development, production, procurement, and standardization of military equipment has over the years been a major part of the studies of the subcommittee. To improve an abundance of armaments trade between the United States and Europe is imperative for our collective security. The primary objective of our work is to achieve improved combat effectiveness of Alliance forces by stressing the need for interoperability and standardization in the acquisition and use of military equipment.

The second objective is to further the overall strength of the Alliance, recognizing that strength means more than military force alone. Thus, we must endeavor to promote and maintain a technically advanced industrial productive and economically viable defense industry on both sides of the Atlantic, and to reduce the harmful duplication of resources. We must put traffic on the two-way street.

We have had interesting remarks on this subject this morning and I am sure that my colleagues will add to this question of how to put traffic on the two-way street. Our contribution as parliamentarians to the realization of these objectives is to impress on Alliance authorities to make progress and at the same time to work within our national parliaments towards these objectives. Defense cooperation demonstrates the inherent strengths and weaknesses of NATO as an organization. It's ability to coordinate the defense planning process among member nations is considerably constrained and therefore, action by informed members of parliaments on our individual governments is one method of trying to reduce or overcome this particular obstacle.

The subcommittee is one way of maintaining this ongoing process. The North Atlantic Assembly provides the international framework for this.

Defense cooperation in its broadest sense is obviously the responsibility of individual parliaments and no parliament in our democracies would or could relinquish that responsibility. On the other hand, our parliaments are also jointly responsible for the collective defense system in the West, which is the basis of our security.

One may well say that progress in many sectors of the . . . cooperation has been disappointingly slow and that the main factor in obtaining better research is political will and administrative and government levels reflecting the will of parliaments and basically reflecting public opinion. In theory, it is logical and may appear easy. In practice, progress is slow, or perhaps should we rather say relatively slow. On the background, our divisions shared by us with such manners of our esteemed friend, Tom Calahan over many years, and against a background of regular challenges confronting us from the Warsaw Pact, it may well be a

question of time, as our Chairman, Mr. Shillito, said this morning.

During its activities, the subcommittee has met with many leaders of industry in the member countries and has had the opportunity to ascertain industrial views in achieving greater Alliance cooperation. We are fully aware of the decisive part that industry and our technology plays in the security of the Alliance. The work being done by international groups within the North Atlantic Assembly provides the basis for mutual contracts and understanding, and is of great importance for further progress.

I have now expended by time, Mr. Chairman. Will you allow me, since I came all the way from Norway, to go on for two minutes?

Progress has been made, in my opinion. Political steps have been taken on both sides of the Atlantic to provide vehicles for cooperation. I mention briefly the NATO Long-Term Defense Plan, the European Program Group, which seeks to coordinate the efforts of the European nations in this field and to work actively with the United States and Canada on this subject. In the United States, several legislative and organizational steps have been taken to strengthen the focus on NATO and to improve cooperation. A memorandum of understanding, which we talked about this morning, and which has been signed by a number of European member countries, is an important move in the right direction, in my view. And I will refer you to Dr. William Perry's concept of a triad of cooperative action. The triad includes memorandum of understanding in the . . . , fuel production in NATO countries, and the families of weapons.

Mr. Chairman, the question may well be asked, why is this area even more important now than it was when the subcommittee started its work. Cooperation is always sensible. The subcommittee started when member countries by and large enjoyed a buoyant economy, which has now changed to depression. Defense resources are under pressure and becoming scarce. Inflation is particularly serious in defense created items. These conditions, combined with a steadily increasing threat from the Soviet Union, makes defense cooperation more vital than it has been before.

Mr. Chairman, may I end these general comments by referring to what Mr. Shillito said this morning and to agree with him that the next four or five years ahead of us are crucial. But to add that we should not despair. The strength of NATO lies in the fact that it is a voluntary organization between sovereign states and free men and women. We, on the political side, are in the forefront in this cumbersome but irreplaceable method of democracy, and we have to have behind us public opinion. This is, above all, our responsibility.

Thank you.

Mr. Ichord

Thank you, Mr. Hysing-Dahl. I forgot to tell you, sir, we do have a rule and I will invoke that. You can revise and extend, but seriously speaking, I would never dare to restrict any of you gentlemen in your time. You are such experts and we do not often have the opportunity to hear from you; I will not restrict you in your presentations.

The next gentleman I think should be known as Mr. NATO himself, because he's been around NATO as long as I can remember. He is Chairman of the Military Committee. Mr. Hysing-Dahl is Chairman of the Subcommittee, but the Honorable Patrick Wall is Chairman of the National Atlantic Assembly Military Committee. Member of the House of Commons, of course; member of the majority party, the Conservative Party; has a distinguished career in the military; served with the Royal Marines. I could go on and on with his many, many accomplishments, but he was first elected to the House of Commons in 1954, 27 years in the House of Commons. It is my pleasure to introduce to you the Honorable Patrick Wall.

Mr. Patrick Wall

Thank you, Mr. Chairman. As you say, I've been a member of the North Atlantic Assembly for some 10 years, and the great joy about the North Atlantic Assembly is you don't speak on behalf of your government nor on behalf of your country. You say what you like to say, you say what you think. And that's quite a change, as you know, in political terms.

I believe that NATO is suffering from a very severe crisis of misunderstanding. The Americans feel that Europe is going neutral, and the Europeans feel that the Americans have changed from milk white doves to fairly tough hawks in a period of a few months, or shall we say a year. I think there is truth in both these statements - some truth in both these statements. And I want to start off by reminding you, as I would like to remind American audiences that taking NATO's forces in Europe, 90 percent of those military forces are European. Seventy-five percent of the Air Forces are European. Ninety percent of the in-place forces in the Eastern Atlantic Naval Forces are European. Europeans have a standing army of over a million men, an air force of 2,500 combat planes, and provide something like 300 major warships. Therefore, I would suggest Europe is pulling its weight - but - and quite clearly, there is a but. And that but, I think, becomes more serious because of the situation in the USSR. In my view, the USSR is eroding from within. I won't follow that up, but I think probably a lot of people in the audience would agree with me, and that, of course, increases the danger. Where the dictatorship is crumbling, it becomes its most dangerous, particularly when it has a new leadership of younger men, which is bound to happen in the next few years.

Europe is on the front line and any war in Europe will obviously be fought over Western Germany, France, my own country, and the low countries. Therefore, Europe believes, perhaps more than you do, in detente, and believes that questions of arms control must be pursued at the same time as rearmament. You all know that. I won't elaborate.

I would also say that Europe is facing an economic recession as you are. Most of the European countries, certainly my own, are cutting social security in order to spend more on defense. So are you. But there's one way where we differ. The cost of arms is becoming so astronomical that so much depends on your production run; whereas Europe produces 10, you produce 100. When Europe produces 100, you produce 1,000. And I noticed, Mr. Chairman, during the previous debates in which we heard the inabilities of the government in this country to look after its industry, and I might say I've heard the same story in my own country, we heard no reference at all to the biggest asset you've got, and that is your enormous home market. Now, of course, you may say, "what about the EEC?" Well, in years to come, maybe we will have a more united market and be able to equal you. But at the moment, European cooperation, as such, is not satisfactory - bilateral, tri-lateral, but not across Europe as it should be. Even so, we managed to complete Tornado at a cheaper cost than your F-18, but still far too expensive.

There is a feeling in Europe that United States industry would like to see the European industries become their subcontractors. And this, I would say, would be very detrimental to the Alliance, because I think you will all agree with me that still some of the best ideas in certain fields come from the Europeans.

I turn, therefore, to procurement. I am told by people who know better than I do, that the balance between the United States and Europe is something like 20 to 30:1 in arms procurement. As far as my own country is concerned, it's 3:1, both those figures, of course, in favor of the United States. And now I turn to speak with a British hat on and not a North Atlantic Assembly hat, merely because I know what's happening in my own country much better than any others. In any case, you've got some very experienced delegates who are going to follow me up.

In Britain last year, we spent 5.25 percent more on defense expenditure. In other words, 2-1/4 percent more than the NATO promise of 3 percent. Because of this, we may well have to cut back next year. Therefore, the two-way street becomes absolutely essential. We must sell more to America and you will hear that from every European. If the balance is, as I say, 3:1, it is quite obvious that with a small production run as we have in Europe compared to your large production runs, We have got to sell to you.

Now I would just mention two examples. First, you can see off-the-shelf purchases. Sometimes they're not so good, and I would suggest . . . We bought that really off the shelf instead of producing it ourselves. I would suggest that we would have got it much cheaper and therefore be able to have many more systems. They have already been cut back by about 50 percent. A good one, perhaps is the . . . , which you bought off the shelf and now, between us, we've developed the AV8-B, and I hope a future supersonic lesson in partnership. That I believe is what we should be doing in the future.

Britain has bought, or is going to buy from you, TRIDENT missiles at the cost of about \$1,500 million - with no offset, and I emphasize that - with no offset. I would therefore think that you've got to think seriously of purchasing some British equipment which might be of use to your RDF. I mention three. Firstly, Rapier, which is 12 tons in weight compared to 30 tons of other equipment. Already, you've bought Rapier for the defense of your airfields in Britain. I believe it could be very useful to your RDF.

Scorpion, a light tank, and again, Sea Wolf, the only anti-missile missile in existence, now in a lightweight capacity, weighing about 6-1/4 tons at a cost of about \$30 million for twin automatically alerted launchers and the fire control system with a Dutch radar. I'll just mention those three, that is, three possibilities. You don't want to buy anything that you can do better obviously, but I believe in some of these cases, you will find our equipment is as good as anything you can do, and in any case, you probably haven't got it yet.

But I think the most important issue, and I think I carry you with me, Mr. Chairman, on this one, is joint production. One of the big advantages of joint production is that governments can't very well cancel it. And of course we have examples: the F-16, a joint production on the other side of the Atlantic; MLRS, and possibly in the future, Copperhead.

But there is one I want to put before you, because I think it illustrates what NATO could do, and that is torpedos, because we need a lot of torpedos between us in the NATO navies. At issue at the moment is that America has two torpedos, the Mk-46 with a neotip device to make it more modern, and the heavyweight, the 48, with an add cap device which doesn't yet exist. Britain has two torpedos, the Stingray light torpedo, which does exist, and the 7425, which exists a bit more than your add cap design, put it that way.

This seems to me, Mr. Chairman, to be supremely ridiculous. Two major naval powers in NATO, each producing two torpedos. Why can't we get together? I believe the Stingray guidance system - and go have a look at it if you don't believe me - is in advance of

anything you've got. Your AOWT, which is 5 to 6 years off, will be better because it is 5 to 6 years more modern. But there's nothing in existence today that can beat Stingray's guidance. Equally, your propulsion system is much better than ours. Why can't we get together? Why can't we produce a NATO torpedo with one side specializing in guidance, the other side specializing in propulsion? I think if we did that, we would have a standard torpedo which could be used by all NATO members.

In conclusion, Mr. Chairman, I would like to sum up by saying that I really believe today the two-way street is vital to the future of the allies. But I believe the best answer is joint development and production, starting from the beginning, starting from a research and development stage, not having two prototypes competing against each other when national prestige and national honor is involved and there's always a victor and a vanquished, and the vanquished doesn't like it. I've been to these conferences before and we've talked a lot, but action, as Mr. Hysing-Dahl says, there's been some action but not nearly enough. Because I believe the international situation is very grim, I believe we've got to move much more quickly than we have in the past. Congress is always very helpful. As Mr. Hysing-Dahl says, we've met seven years running and we cooperate very well. It all seems to us that that's fine, until the industrial complex gets going on the Congressmen, who, poor chaps, are elected every two years. I'm glad I'm not elected every two years. And so the industrial complex has a great deal of weight and the things that we thought were going to happen don't happen. And that's why I'm very glad to be able to say that to the representatives of the industrial complex who are in this room today.

I seriously believe that we've got to take more action on the front of standardization on a two-way street if the Alliance is to survive. And that's a pretty serious thing to say. There is, of course, I believe, a long term answer and I'll leave it at this. The next war will be fought by NATO with an integrated staff, completely international. Why can't NATO, if we're going to fight the war, decide on what weapon system it wants? Why can't NATO have an international staff to say the projects it needs to fight that war? Then the nations of the world can get on to build them, either jointly in a consortia, individually, bilaterally, or trilaterally. Of course, the difficulty is you have to give up a certain amount, a small degree of sovereignty, and nobody wants to do that. But I believe that to surrender that small degree of sovereignty, in the long term would be of immense advantage to every one of us because it would make NATO very much stronger than it is today. Thank you.

Mr. Ichord

Thank you, Mr. Wall, for bringing up the very knotty problems of RSI, Rationalization, Standardization, and Interoperability, which most of the members of the conference, I am sure, are familiar with.

In introducing the next gentleman, I could not help, Mr. Wall, recalling a meeting that I had last year when I headed up a Congressional delegation to Australia, New Zealand, and Singapore. I had the opportunity of having a conference with a man whom I consider one of the wisest, if not the wisest leaders in the free world Li Kwan U of Singapore. I think you have to agree with me, because you know what's happened in Singapore - just 15 square miles of territory, practically no resources except people, perhaps a geographical location and that's about it - a negative inflation rate for 1979. He said some very disturbing things to me, particularly about my own country. He said the developing world is increasingly viewing the United States of America as a paper tiger and perception in the business of world leadership is very important. Sometimes more important than reality. If we are to avoid the 1980s being the decade of the Soviet Union, rather than that of the United States of America, we should reverse this trend. But I asked Li Kwan U to what he attributed his success, both as a leader and as a nation, and he said, "Mr. Congressman, all of we people in government were educated in the U.K., and we studied the English very carefully. We learned all of their mistakes and we resolved that we would take advantage of all of the good things and we would never make the mistakes which they did." I say that because my next speaker, a member of Parliament from Germany since 1965, member of Mr. Wall's military committee of the North Atlantic Assembly. His special expertise is in the field of Air Force appropriations. He is pretty much an American, and perhaps he has learned the mistakes that we have made in this country, educated at Stanford, California, and the University of Hamburg in Germany. He is in a position to learn about the mistakes that we've made because he is an economist and a marketing research analyst in his private profession. It is my privilege to introduce to you Mr. Peter Petersen from the nation of Germany.

Mr. Peter Petersen

Mr. Chairman, ladies and gentlemen. I am very happy to be here, not alone from Germany. I have a colleague with me, Mr. Horn, who is the Deputy Chairman of our Armed Services Committee, but Mr. Chairman, in spite of being two, I am not going to double my speaking time.

You gave us a great introduction at the beginning, telling us Europeans to get on the ball and to follow your shining example in this country, and it reminded me of a story of the great old Chancellor of Germany, Konrad Adenauer, who once had an audience with the Pope, and he was allotted half an hour and after an hour and a half, the Monsignor went in to remind the Holy Father that the time was up and he overheard how Adenauer was praising the Catholic Church, until finally rather exhaustedly, the Pope said, "But Mr. Chancellor, I am already a Catholic." Mr. Chairman, we are already converted.

In the few minutes which I have, I just jotted down a few critical points which I think together we have to address. I thank the ADPA for that. It is good and it is right and it is necessary. to have people here who represent the taxpayers - that's us. One gentleman this morning on this platform, who is in the Executive Branch, in a tone which I wasn't all that happy about said, "All these elected officials, all they think about is their next election in two years." Of course, and that's the whole point of democracy. The reeducation program of the American Forces after the war (I was 18 then - I'm a victim of your reeducation) told us so, and we do have to get the support of our people. No democratic government can go very much further. Then your people are ready to follow you. Of course, there are subjects in politics which are more popular than bombs and tanks, as the long time politician knows.

There is fear in Europe, ladies and gentlemen. There is deep-seated anxiety because our people know that we will not survive a next war, no matter who wins that war. And therefore, in the political discussions we had up and down the country, and my friend Horn could tell you about it. He has to fly back tomorrow because there is a vicious battle going on. People say, "Let's throw away all these weapons." Some of them say, "Let's trust in God rather than tanks and let's be nicer to the Russians and then they'll be nicer to us, too." We know this is dangerous, but we have to cope with it, we have to fight this battle, and we have to win this battle. We are not interested in who is winning the next war, because we will be dead in Europe. I beg my American friends to understand this, because we have to deal with this. Also for this reason, arms cooperation is so important. It is imperative, not only but also for financial reasons. I believe we have wasted billions because each country on both sides of the Atlantic invented the same things, more or less, for a colossal amount of R&D money and I support my Chairman, Mr. Wall, when he pointed out that we need to get together earlier so we don't waste all that money by everyone inventing the wheel and the product at the end is a little smaller or a little bigger, but it would do the job for all of us.

Politically, we suggest in our countries to our industries that they should specialize, that they should not compete with the whole width of the American capabilities - that's impossible. They should specialize and do better and be competitive in selected areas. Now we have proven that that is possible. If you think of light helicopters, if you think of the ROLAND which is being built in this country, when you think of the . . . jet, which is offered as a trainer for the Navy, or the Hawk from Britain. But I'm not a salesman. Or the AWACS, where much of the interior things are developed in my country. Or the Rapier, which Mr. Wall has already mentioned. But then things become difficult. They become difficult because your procurement system is totally incomprehensible for the average European. We have talked for years about cooperation, all these different - what is it called - RIS or RSI - alphabet soup is another thing which confuses us. We don't know who makes the

decisions in this country...the practical decisions. The President and the Secretary of Defense and the Congressmen - they are all for a two-way street, but I have never figured out who finally says, this we will do and this we will not do. You have the Pentagon and then you have three forces and this is a mystery to us. I just put this before you because I might yet find an American who could explain this to me.

And then, of course, there is the industrial interest which has been very convincingly put forward here in these days, sometimes in ways which, to be frank, I personally did not like. You see, if the Europeans come up with a suggestion, then of course the American firm which is working in the same field sees a danger of a competitor, and then the battle ensues so there are conflicting interests. It was said this morning by a gentleman over lunch that the Americans often feel in Europe that they are not being a fair chance. We have heard that story many times by European firms who visit us and try to make us intervene on their behalf. You see, we have never had a "Buy German" Act. Eight percent of the sum total which we have spent in buying equipment in America, eight percent of that sum, the Americans have spent in buying things in my country in the military field. I don't complain, I just want to put things a little bit in perspective, especially in connection with the very interesting and I think controversial talk we heard over lunch.

Therefore, we are glad about the MOUs and we are glad that your government waived and waived the Buy American Act, as far as military procurements are concerned. Arms cooperation is a terribly important aspect of our Alliance, as well. It is one of the things that hold us together, and after all, I don't think any of us in Europe forget for a minute that we would not have free elections in my part of the world but for the American presence, but for the Alliance, and for the cohesion which we have found in these many years, in spite of many crises which seem to recur regularly. I have great hope for the future. Mr. Wall has pointed out the dangers inherent in a crumbling empire which we can witness before our eyes. That's a dangerous period. And yet, the fact that communism is bankrupt, spiritually, economically, industrially, and in every way bankrupt - the only communists you can find you find in the free world, not in communist countries. I go to communist countries because after all, a very important part of my own country is under communist domination and I have never yet found a convinced communist, they don't believe all that nonsense that they talk themselves about. They have completely lost their youth and look at Poland.

So I have great hope, because freedom, I believe, is winning. If we have the courage, the determination to rearticulate what freedom is really about and learn again that freedom and license are not identical.

Mr. Ichord

Thank you, Peter. Your're like Li Kwan U. I think you have learned our mistakes very well. If I had an hour and a half, I

would tell you how things work in the defense procurement process, but I will not take that time at this particular time in the proceedings.

To our fourth speaker, the Honorable Joep de Boer of The Netherlands, member of the Second Chamber of the States General, the Netherlands' Parliament, a man with a distinguished military career, member of the Dutch underground armed forces in World War II, he had a very distinguished career in the Dutch Navy. First elected to the Parliament in 1977, and a long-time member of the North Atlantic Assembly. We are indeed honored to have with us Mr. Joep de Boer.

Mr. Joep de Boer

Thank you, Richard. Ladies and gentlemen, as to the first election in 1977, this means that we had another election this year and I was reelected but the thing that I wanted to point out to the Chairman is that in the course of this election campaign, having 27 parties competing for Parliament in The Netherlands, sometimes you had fora which were much larger than this one and sometimes you were allotted only two minutes to explain our views about national security. So I would say you were being very generous giving us five minutes. Even then, I may have to exceed.

After the very powerful speech of Mr. Petersen, I will try to do it in a more sober note, but I would like first to present the credentials - not of myself, but of my country - to you as a NATO partner. I may point out that The Netherlands ranks among the highest in NATO in percentage of national income or in dollars per head which we spent for defense, and I would say in dollars per square meter we definitely exceed everybody else. The same applies for manpower, irrespective of the way you wish to look at it - the percentage of the total population, the length of the recruitment period, and again the number of armed men per square meter.

This is all nice, but more important is what we do with these figures and I would say to you that this translates in a force which by 1984, which I think is a very important date, not only because it is the end of the present 10-year program of The Netherlands Government for Defense, but also because I think 1984 is the date Orwell mentioned and it is also a date which is very close to 1985, a book written by a British general about nuclear war in Europe. So keeping that period in mind, I think most important is what kind of forces you are going to dispose of by that time, and by that time The Netherlands alone will dispose of some 30 major warships, all of them modern, some 250 modern fixed wing aircraft, and some 1,000 modern tanks. I would say this compares favorably to the United States. One thing, these are the same figures which we have been maintaining over the past 20 years, which is a different thing from the situation in the United States, where figures have gone down.

Another thing I would say, which also counts for armed forces is the professional efficiency and I would say by all accounts, many NATO exercises which the armed forces are taking part in, The Netherlands are counted among the best. All these forces are already assigned to NATO or earmarked for assignment in case the balloon goes up.

You may ask why I am telling you all this. And I said it in order to create my credibility. There's another problem which is being related to The Netherlands, and that is the so-called problem of the so-called neutralism, and I would say everything which is being discussed in this forum actually would become really worthless if this was true, because if we were in Europe going neutral, this would pull the rug completely from under the Alliance and we would be nowhere.

I would say over the past few years, this speculation on both sides of the Atlantic about this neutralism is based upon the problem that people don't know what significance to attach to the ongoing debate in my country and some other European countries over defense matters, particularly concerning the role of the nuclear weaponry. It is on that basis that quite a few observers have jumped to the conclusion that my country and some other European countries, and maybe the majority of Europe, is going to go neutral. Let me assure you that these observers are wrong.

I would like to point out one thing. There is a very great difference between the stance taken by certain action groups within my country and the same for other countries as well, some of them very vociferous, but still only groups, and the stance taken by, in my country, the four major political parties representing the vast majority of the population. None of these parties wish to do away with either NATO or with Netherlands participation in NATO's nuclear posture. The second thing I wish to point out is that the very recent election, which I have mentioned, has proved this to be true to such an extent that exactly the one major party which had most reservations about Netherlands' participation in the NATO nuclear posture, the Social Democratic Party, lost nine out of fifth-three seats in a Parliament of 150, and thereby ceased to be the largest party in Parliament, having to hand that flag to my party, which is the Christian Democratic Party. The third thing I'd like to point out is that this does not mean that there are not widespread feelings in my country of people being ill at ease with the fact that increasingly within the Alliance the emphasis for defense seems to shift to nuclear weaponry and specifically to nuclear weaponry for selective use.

If the elections in the Netherlands have proven one thing it is the dominance of these feelings and, I'm inclined to say, the same goes for France, where also they have had recent elections, but you have seen that there is no gain for extreme left, but you might say center of left is the dominant course of action.

Now, why is it that we in Holland and other people in Europe, as well, are feeling so ill at ease about present nuclear developments in the Alliance? And may I add, at the same time, why is this feeling so definitely not an indication of neutralistic tendencies. I would say it is rather an indication of the reverse. This is all to do with the signification of the Alliance, which the Alliance has in our views for Europe, and which we in The Netherlands, at least, are sometimes afraid it might be lost out of perspective over here. Simply put, it is like this. The reason why Western Europe had to turn to the United States for help in 1949, and that is equally true in 1981, is that Western Europe simply lacks the physical weight to be able to absorb the impact of the sledge hammer blows the Soviet Union might be able to level at us and survive such blows. So we turn to the United States. But while turning to the United States for protection, this also meant in 1949, as well as in 1981, that we are seeking refuge behind a nuclear wall which is protecting the United States, as well. In doing so, we also recognize that it would not be right for Europeans to let Americans alone bear the brunt of that deterrence and the risks which go with it, nor of the burden of the collective defense. European sharing of risks and sharing of burdens, therefore, is of the order and that applies to the whole of Europe as well as for my country specifically.

So there is no case, in our opinion, and this is the opinion of the large majority of The Netherlands population, of either neutralism or nuclear neutralism. On the other hand, in our views, it would be extremely advisable for Americans not to forget what they recognized in 1949 and which is still true, that a free and from the Soviet Union an independent Europe is really essential for the safety of the United States itself; Europe cannot go it alone, but it cannot stand another war, as Mr. Petersen has pointed out and I would say the last applies in 1981 even more than in 1949; In fact, Western Europe, for those reasons, is the worst possible proving ground for the viability of our NATO defense posture in case deterrents would ever fail, and this of necessity should have consequences for the actual defense posture to be maintained in Western Europe itself.

We sometimes have the feeling that the opposite actually is true, because if there is one area in the whole world which is really overladen and ready with weapons and arms of all types, conventional as well as nuclear, it is Western Europe. It is our awareness of sitting right on top of the most powerful nuclear and conventional powder keg which exists in the whole world and our gradually increasing uncertainty that this fact may not be sufficiently recognized over here and somewhere else in the Alliance, maybe, as well, which makes us in The Netherlands at least slightly reluctant to say yes to further additions and/or improvements in NATO's nuclear posture. That is to say, at least until the whole problem of NATO's nuclear posture has been looked into very carefully, trying to define what is really necessary for

maintaining a credible NATO European deterrent and defense posture without actually inviting absolute disaster in case the deterrent should ever fail.

In the meantime, Mr. Chairman, however, we do remain fully committed to the Alliance and the extent to which we are committed I explained in the beginning. We will continue to do so and to fully shoulder the burdens which you have assumed in the past, including our participation in NATO's nuclear armament. Mr. Chairman, not recognizing the Duech position or, may I even say, general European reservations regarding certain nuclear proposals for what they really are, therefore not only is unjust to The Netherlands but I would say it even unnecessarily detracts from the perception from within NATO as a strong and viable Alliance, which is the most elementary condition for that Alliance to continue as a success story it really is. Thank you very much.

Mr. Ichord

Thank you, Mr. de Boer. I should have introduced to this audience, although not a member of this panel, he is a member of the North Atlantic Assembly, Mr. Petersen mentioned him as a member of the Social Democratic Party. Mr. Petersen is a member of the CDU. He is a scholar, a teacher, first elected to the Parliament in 1969, Mr. Erwin Horn. Would you please stand? It's an honor to have you with us, sir. Welcome to the United States.

The next speaker is a gentleman who is a member of the House of Commons of the Labor Party. He has had a distinguished career in the Royal Navy. By profession, he is a professor, scholar, and a lecturer. He was first elected to the House of Commons in 1963. It's a please to introduce to you Mr. Patrick Duffy of the U.K.

Mr. Patrick Duffy

Chairman, ladies, and gentlemen. I thought I could most usefully contribute to our proceedings by briefly relating the form that the current defense review in London is taking to our own purpose today. For some of you must surely have noticed that though this review is proceeding on the customary grounds of rationalization and cost effectiveness, it is, nevertheless, giving rise to quite unprecedented speculation. For it isn't only a slimming down that is being concentrated, so it is rumored, but a surgery. And on the most dramatic scale. The options are playing from Britain's Army presence in Germany, yes, the Army of the Rhine, and that really means the British Army. I recall, and I was in the Ministry of Defense at the time, how fortunate I was as Navy Minister that I didn't have to leave England when the Queen reviewed the Navy. I didn't have to go further than Spit Head, but my Army colleague, the Army Minister, had to go to Germany. Not that that was a penalty, Peter, I assure you, and Erwin, but it did strike some of us as a bit unusual that in order that the

Queen could see her soldiers on review, not to mention their tanks, she had to go to Germany. And there is some suggestion at the moment that the future of that military presence is under review. Alternatively, the future form of Britain's air defense system is rumored as a candidate for the most serious contraction, but the most favored candidate is the future form of the Royal Navy. Some of you might have noticed in last Friday's Times an article by Admiral Stan Turner, who like many people, especially my colleague, Patrick Wall, not to mention myself, are distinctly uneasy at the moment that the Government and the present Secretary of State may be compelled to even consider whether or not Britain in the future should have a surface fleet. Can you imagine Britain without a Navy? I suspect this is one policy departure in London that would unite both sides of the House. It was significant in the recent defense debate we had that it was a labor contributor, no less than a former Prime Minister, Jim Callahan, who asked the Secretary of State and the Conservative Secretary of State and a former Army officer, so one who you might have expected to be truly free of this reminder, but nevertheless, Jim Callahan asked him in all seriousness if he knew what he was doing, if he knew what he might be doing to the morale of the Royal Navy. I mention all that by way of illustrating just how far the speculation is running at the moment in London about the form that this present defense review is taking. I believe the Cabinet may have taken decisions today, and so we may know soon the outcome. And it may very well be that the outcome will not be as dramatic as many of us have feared. But that doesn't mean that neither Patrick nor myself believe that certain very serious options have not been considered. And perhaps on the scale that speculation suggests. Certainly any reading of the press in Britain, and I'm thinking not merely now of the Times, but I'm thinking of the right wing press like the Daily Telegraph, have allowed their imaginations to run pretty freely in that direction in recent weeks. Now, how has this come about?

Well, if I can draw on my own experience in the Navy Department, let me tell you that although the proportion of the British defense budget devoted to equipment has risen in recent years, and we heard from Dr. Barnes this morning, that it now constitutes 45 percent. The effect of this in increasing the size and capability of United Kingdom forces has been largely offset by a continuing rise in the procurement costs of new weapons. Indeed, over the last two decades, the steep rise in the cost of the new generation of weapon equipment has been the dominant factor affecting the size and the shape of United Kingdom forces, particularly those of the Royal Navy. Allowing for inflation, the cost per ton of warships, for example, has risen during this period by a factor of from 10 to 15. In other words, what I am saying, ladies and gentlemen, is that the cost of a frigate at the beginning of the decade before last was around 4 or 5 million pounds, or if you wish, around \$10 million. When I was in office, I couldn't get one under \$200 million. And now we can't get one under \$260 or \$270 million.

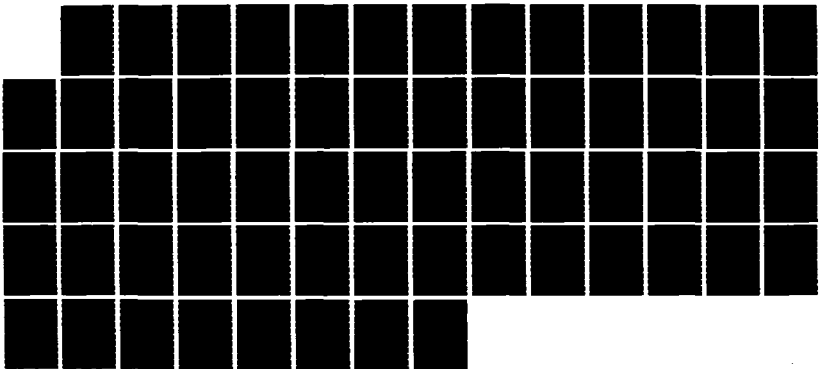
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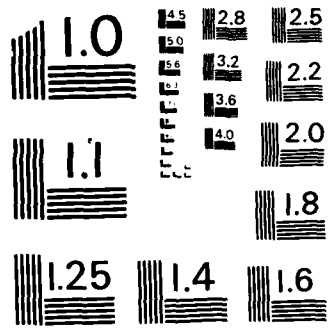
PROCEEDINGS OF THE INTERNATIONAL CONFERENCE ON
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How do you cope with escalations in costs of that order? And the increase can't merely be set at the door of inflation. It's also a function, to an important degree, of the increasing complexity of the operational environment and consequently the need for improved performance. In other words, quality, or as we say, and I often used to say to my Admirals, I don't want a Rolls Royce job. I just don't want, in other words, top quality. I want more. I got less. Thus, an explosion in defense technology has brought with it an explosion of costs and this, in turn, if I may illustrate in relation to say the conduct of antisubmarine warfare in the Atlantic has posed a whole new set of questions. The dynamics of both have now thrown the continuing resource allocation problem in London into the sharpest and the most critical light today.

There has always been some debate, of course, over the relative importance of optional systems, with the object of achieving the right mix in the light of the changing nature of the threat. The danger that now confronts us, if I may continue to draw upon the United Kingdom's assigned maritime role within the Alliance, for example, is that one, the emergent mix, and the rumors are that our Secretary of State is looking very closely at merely . . . submarines under the water and maritime patrol aircraft over the water and both Patrick and I have the greatest confidence in both as weapon systems, in fact, may I say on behalf of both of us, we believe that none can be bettered anywhere as individual weapon systems. But what worries us is that the emergent mix, especially if it narrows to those options, under budgetary pressures, will reflect more and more that particular constraint rather than strategic need and therefore appropriate response, not to mention assigned responsibility. And secondly, we fear that the emergent mix consequently will reflect such a narrowing of the options as to take us further and further away from a balance and an interdependent contribution. And thirdly, we are nervous that such a development in conventional weaponry and now I speak for myself, may have the effect of lowering the nuclear threshold as a direct consequence of a high risk strategy in the North Atlantic in relation to reinforcement and supply. That makes me nervous because of what Peter Petersen had to say about the growing self-assertiveness in his own country and what Joep de Boer had to say about a similar mood that he described as neutralism, because I will also say in conclusion that there is also a growing mood in my own country, and especially on my side of the House of Commons, that is similar to both moods.

Well, the question then of resource allocation, as well as of overall Alliance strategy, must be seen ever more clearly then as interrelated issues as budgetary restraints intensify. That has come across very strongly from all of my colleagues so far in this section of our syllabus. And they can only be reconciled, I suggest, on the basis of the increased application of that division of task principle right across the Alliance, rather than merely in relation,

say, to policy in the Gulf. But that, in turn, can only be done within the context of a more active policy of defense cooperation than the Alliance has been able to achieve so far. For the track record to date must surely move all of us to the most profound pessimism. The two-way street, argued Per Hysing-Dahl, needs some traffic. Offset, argued Patrick Wall, must in everybody's interest become a reality. Meanwhile, Peter Petersen reminded us of that growing self-assertiveness not to put too fine a point on it, that is evident now in certain parts of West Europe. Joep de Boer, though reassuring, nevertheless did use the word neutralism in relation to that same mood. And I have already told you that a great number of people in my party now in Britain seem to be in the grip of that same mood and I cannot say yet what the outcome will be for the future policy making of my own party. Certainly there is a growing interest in my party in unilateralism and even on the part of some in the renunciation of all nuclear weaponry and not merely by Britain, but by any of its allies in Britain, and there's an even smaller group within my own party who are flirting with ideas of leaving NATO.

Well, to conclude, we obviously need to harness technology now in such a way as to retain the present capabilities while making the systems smaller, simpler, more reliable, and less costly. But when we recall, those of us who saw the further CBS installment last night and the references to the F-18, the Hornet, can have little confidence that we're going to put that particular trend into reverse. And thirdly, we need also to pursue defense policy on the basis of balanced priorities rather than a couple of . . . choices. And how successful we shall be to a very large degree will depend as much upon the wisdom and the perception and the restraint of parliamentarians as upon the skill of scientists and engineers and industrialists who translate those requirements into hardware.

When I recall, Mr. Chairman, the recent record of the Alliance in the field of defense cooperation by both parliamentarians and industrialists, and especially by both in this country, not to mention the insularity betrayed by some speakers today and the quite astonishing complacency by one speaker in particular, I am not optimistic that we are going to succeed.

Mr. Ichord

Thank you, Mr. Duffy. I have received several questions but I might remind you that if you do have a question, you might prepare it and send it forward for the question and answer period which will follow after the next speaker.

Our last, but not least speaker, is our friend and neighbor from the north, Mr. John M. Forrestall of the nation of Canada. Member of the House of Commons since 1965, a businessman and a journalist by profession, and a member of the Progressive Conservative Party and I would note that Mr. Forrestall has made several

studies of the problems and of the capabilities of the NATO forces. It is a great honor to introduce to you Mr. John M. Forrestall, member of Parliament from Canada.

Mr. J. Michael Forrestall

Mr. Chairman, don't be alarmed by the notes I've brought. I'm so cold that if it hadn't have been for Patrick Duffy's last remarks, I might have frozen in my place.

I'm here as the wind-up to this because my role within this - I'm an ex-officio member, although I've been a member of the sub-committee since its inception in 1972, I've been a member of the Assembly generally since 1965 and prior to that in another capacity, but my role is really that of arbitrator. I have the lovable task of being the Rapporteur of the full military committee of the Assembly. And as such, and particularly in the absence of the United States Congressmen and United States Senators from international gatherings, not to mention American gatherings, on a regular basis, it is often up to me as a Canadian to try and make the peace, to try and keep the peace. I didn't have that experience, of course, in Venice, because for the first time in the last 10 or 15 years, outside of the Continental United States, there were 17 or 18 members of the United States Congress, both House and Senate side well represented, together with their wives. We had a very good meeting in the Venice. I think it had something to do with the city and the canals.

I want to make probably two or three points, and I think you will have noticed the difference in the panels today, the difference in the tone of the discussion and the appreciation that each of us as an interest group carries to this type of conference and this type of discussion. It is perhaps important to me as a Rapporteur to remind you gentlemen of three things. The first thing that what you have heard from elected representatives from a number of European parliaments is very true. They are concerned about the economies of scale. The second point I would make is that you must be aware and you must not overlook the optical problem that you people have in the defense industrial sales business. That is that young people all over the Western world, not only within the constraints of NATO boundaries, but all over the Western world and to a significantly emerging degree in the developing world - youth rejecting totally the hypocrisy of many of our positions, simply because we do not sell, we do not take the time to point out the importance of at once ensuring modernization, and I'll use T&F because it is a good example and a very topical one in Europe, the necessity to get on with that while at the same time recognizing the importance to the young people of this world of your new President and his administration preparing itself well and ably for its next round of conversations with the Soviets. That's very important. It is incumbent upon you in the United States to listen to the European point of view, to take it into consideration, not to reject it out of hand. It is also incumbent, as my

colleagues have heard me say many times, for them as European parliamentarians to be very, very much aware - the same arguments that they put forward - of the growing difficulties of finding in the domestic economy the monies to support the continued belief on the part of the citizens of the United States of America that they must maintain their responsibilities in world leadership and armaments and all it takes generally.

The third point that I think that I gather from today, Mr. Chairman, that perhaps is equally important, and it refers in a large degree to the second point, is that unless we do do this, I am afraid that I'm not all that optimistic either. I'm not pessimistic about the capacity of our Alliance to remain strong. I'm not pessimistic about our capacity to resolve problems, to overcome the difficulties that exist. I'm not pessimistic, in fact, that we can't do much more to further the ends of coproduction and cooperation and sharing and so on. For example, I say to my Dutch friend, don't complain to the Americans because we got offsets on the F-18 and you didn't. You're trying to sell them something and we're not. It is the perception among the young people in Canada and here in your own country, as well, but certainly to a growing degree throughout the rest of the Western world as we know it, of what I said at the outset, of the hypocrisy that we are displaying.

I say finally in this context to you, because you couldn't help but detect a note of optimism and re-encouragement of U. S. industrialists with the general philosophies and policies being developed by President Reagan with respect to your capacity to expand once again your off-shore sales, to regain and recapture the perhaps deserved level that your technology demonstrates and has demonstrated for so many years in the Western world.

Mr. Chairman, from my own point of view, ooming as I do from the North and having made those one or two very brief points, I would like to offer one suggestion that you people can be helpful with respect to. You have noted that we are reasonable people, all of us. Our Chairman is a most reasonable man. So is Mr. Wall, so is Mr. Duffy. As a lecturer, he gets a little hot under the collar and you'll forgive him if he is agitated because something may very well have happened to agitate him in the United Kingdom today. But help us in the sense of a point made by Senator Pell in Venice, which I thought was very important and one that even we tend to overlook. That is while our deliberations are sensible and reasonable, and while we do go out of our way to try and understand better the difficulties that are faced here in North America and conversely in Europe, that we do, in fact, produce from our deliberations and our conventions reasonably useful suggestions to the North Atlantic Council. All that is really required of the Council is to receive and comment upon the recommendations of your elected people who are members of the Assembly. It seems to me that it would be very useful, Mr. Chairman, if in

fact the North Atlantic Council was in fact required to act every once in a while upon some of the recommendations put forward by the Assembly.

On that, I think, and because of the lateness of the hour, and there's only so much that that part of the body can really absorb, perhaps we could have some questions and as I indicated, if I leave it's because I have to take a taxi to Baltimore to satisfy my own Whip, not to mention the voters in Dartmouth-Halifax East. Thank you, Mr. Chairman, on behalf of all of us for having had us here. As in the past, we have enjoyed it. There is no question but what we take away from here a sense of optimism. I talk about this pessimism/optimism - you certainly have left myself and I'm sure all of my colleagues in the Assembly and on the Subcommittee with a sense of optimism about the direction, new directions, that your country is taking. We support you. I don't think there's any doubt that we thank you. We wouldn't be here if it wasn't for you.

Mr. Ichord

Thank you, Mr. Forrestall, thank you, gentlemen. You have honored us, you have enlightened us.

As Mr. Forrestall has said, the hour is growing late. I have several questions and I think they are going to be very, very interesting. This question came from the audience. It is one that I intended to ask, whether it came from the audience or not. It concerns a matter over which I have agonized for at least many, many days and hours, I guess years. That is the chemical warfare threat. So if you will excuse me for prefacing the question that came from the audience by these remarks. Gentlemen, I have passed this question around. It is my understanding they have elected Mr. Forrestall to answer it. Any member of the panel can comment in addition, because it is a multifaceted question. Gentlemen, we continue to ignore the threat of Soviet chemical warfare capability, even though they have approximately 100,000 troops dedicated to such warfare and are training regularly in a realistic environment. At the same time, we are slowly but surely disarming ourselves through the failure to upgrade our own stockpiles and the necessary destruction of existing stockpiles. The questions are these. Does NATO truly have a realistic, operational, war-fighting capability when it refuses to respond to this threat? Mr. Petersen, may I state that I was very much concerned when you stated, and perhaps it was a failure of communication, "our people will not survive the next war, if there is a next war." Where I come from in the United States, if you carry that to its extreme, you are a gone gosling before you start because it implies that there can be nothing short of a nuclear war or perhaps a chemical war. Another question, continuing with the chemical warfare. Haven't we really lowered the threshold of nuclear warfare if we do not maintain an adequate deterrent in chemical warfare? Question three, is there any

chance of openly basing . . . in Europe in sufficient numbers to counter the threat? What should NATO do about this threat? Is it sufficient to provide protection to military forces only? Should we have an offensive capability within NATO? Should we take steps to protect civil installations such as docks and airports? Mr. Forrestall, I turn that over to you with the other members free to answer if they so desire.

Mr. Forrestall

I'll preface my response to you by indicating to you that the response implicit in the questions is recognized. It is important that it is recognized by the Assembly and I am sure by the Council. There is no question that this matter is under very active consideration by the Council. The views of the various member states with respect to it are not known publicly yet. To try and parallel the work that's going on there, the North Atlantic Assembly started about five or six months ago bringing together the first useful public literature to try and analyze that literature and prepare a position paper which will be presented to the General Assembly of the North Atlantic Assembly when it meets later this fall in Europe.

Specifically, because the paper will be mine, I'll not duck the questions. I will say that the intent of the paper at this time is to provide a document which will then vent or provide a public platform for a much broader discussion. Without repeating the questions, I've jotted down the answers as you went through them and I've forgotten the questions. The answer to the first one, and certainly the author of the question probably will be aware, but the first response is "No" and then there are two yeses in a row, two "I don't know's" and the last two are "yes."

Let me try to deal with them in the reverse order. Yes, there is a general belief that we do not, at this point in time, have any effective countermeasures. In connection with that, it took us 15 years to separate in the minds of most people the difference between binary and biological chemical warfare, and now that I've learned to call it jam, I don't want to go back to jelly. I apologize. I can't remember the sequence of the questions. With the respect to the civil side, yes, there is need because of the deployment perception that we have of the intent of the Soviets to deploy the binary weapons, yes, there will be and has been a fair amount of work done on the need to do that and how you go about doing it. The protection of ports and critical civil installations, civil installations that are critical to resupply, critical to any response, the answer to that was yes. Going back towards the beginning, the questions 5 and 4, I don't know the answers to them at this point in time and I think it would be very premature. We might find ourselves in a position of making public utterances that were at variance with the policies that have not yet been fully developed by the appropriate level of authorities in our various countries.

Mr. Ichord

Thank you, Mr. Forrestall. Mr. Petersen desires to comment.

Mr. Petersen

I'd just like to add one sentence, Mr. Chairman. For political reasons, I would suggest that we do not publicly discuss this question yet. We, of course, have to think it through and we need to work like Mr. Forrestall does, we need to think through these questions and these problems and try to find answers. But at the moment, politically, we have enough on our plate - this goes for the Germans, for the Dutch, for the Italians, with the implementation of the T&F decision and once we get that over the bridge, under the bridge, then I would suggest we address ourselves to the next politically, emotionally, psychologically very hot potato.

Mr. Duffy

I know my colleagues won't mind my offering a minority view because I very often do so. I know we can't match the threat in the forecast period. I would rather we sought agreement on possession as well as use, and we sought that agreement a good deal more vigorously than we sought agreement on SALT II.

(Due to technical difficulties, the remainder of the question and answer period was not recorded.)

June 19, 1981

Breakfast Meeting

Mr. Shillito

I trust that everyone dressed warmly today. It probably will work out so that we'll be taking a number of our clothes off as the day goes along here, vis-a-vis yesterday.

I made the comment yesterday that Dick DeLauer was an excellent blind golfer and our speaker today, I can assure you, having played a great deal of golf with this gentleman, both he and I need all the eyes we can get. Our speaker, interestingly, is an author. A lot has been written by him on sea power, particularly as regard the strategy and the strategic use of sea power. He is a renowned naval aviator. He is an internationalist in every sense of the word. Former Commander in Chief of our Pacific Fleet, the Commander of the Naval Allied Command, the U. S. Unified Atlantic Command and the U. S. Atlantic Fleet, former Chief of Naval Operations, Chairman of the Joint Chiefs, having retired in 1974. He is now on several boards of director, as I recall - last week-end we were talking about this and he's on five major boards and, of course, many public service responsibilities. He is an individual that understands the international environment as well as any single person that we might find ourselves listening to. We are indeed honored this morning to have as our speaker Admiral Tom Moorer.

Admiral T. H. Moorer

Thank you very much, Barry.

What I'm going to talk about I think affects people in industry very much and I don't think enough attention is being given to it. That's a tough problem because it relates both to foreign policy and to industry production, and that has to do with the availability of resources as they relate to the political situation in the world at large.

Before I get into the resources in detail, let me just go around the world a minute to show you what has happened. In the first place, so far as the United States - and that means the Western world, to a large degree - the fact is that we have lost access to bases and overflight rights to a very serious degree. Our base availability has been reduced from about 130 down to something like 32 or 33. We did a study on this at Georgetown University, and that has happened in the last decade. When one looks, for instance, at the Western Pacific, you see the Russians today are in Cameron Bay, which is perhaps the finest naval base

in the Pacific, and they are already operating nuclear submarines there. They have two or three objectives in mind: one, they want to sit astride the oil supply line to Japan; they are in the process of trying to completely surround China. As you know, they have 45 divisions on the border and they are moving up the ocean route. Then one takes a look at the situation in Europe, where we have significant difficulties trying to work out agreements as to the location of nuclear weapons and as to the overall build-up of defenses. There has always been, I think, a misunderstanding about what NATO is all about, because although it is generally recognized as a military operation, it is, in fact, a political arrangement; in the first place, the first thing that was done when we formed NATO was to draw a line which defined the southern limits, namely the Tropic of Cancer, and that was done primarily as a reminder or at least an action towards Portugal, who was operating further south in Angola and Mozambique. But that certainly didn't make any sense in the ocean, because who can draw a line in the ocean? I never could get the NATO authorities to tell me who was responsible if the Russian submarines went south of the Tropic of Cancer and knocked off a ship before they got into the NATO area. We haven't gotten an answer to that yet. I guess it's the United States.

Secondly, I'd point out to you during the Yom Kippur War in 1973, not one NATO nation, except Portugal, permitted the United States to use their air fields for the supplies that we were giving to Israel. What I'm saying is that in Europe, their foreign policy and their energy policy are essentially the same thing, because whereas we might be able to survive if the oil supply was cut off from the Middle East, Western Europe would collapse if it weren't for access to the oil in the Middle East. There again, we have a problem trying to get the Europeans to assist or do more in Europe if we, in fact, are going to be expected to protect the flow of oil from the Middle East.

Another thing that I think is not generally recognized, at least in my experience with the systems analysts, if you'll pardon the expression, in the Pentagon is that they don't recognize the fact that a NATO war is a World War III. Most people think that if we have a NATO war and we concentrated in NATO - that's exactly what Carter did - that that solves the problem. The facts are that a NATO war by definition is a war with Russia and a war with Russia includes the Pacific Ocean, because the Soviets have 108 submarines and a very large number of aircraft and, of course, we have two states, Hawaii and Alaska, that are separated from the Continental United States that have to be supplied and protected. So these ideas that the budgeteers are all bringing up about swing, strategy, and so forth, are total nonsense. It's just a means of suggesting that we have plenty of forces and now we don't have to get anymore. But I guarantee you that the Russians are not going to send all the airmen and soldiers and sailors on leave if we get to fighting in Western

Europe, so that's another problem we have, in my opinion. I have expressed this to the President and to others, because it's impossible for the United States to shift forces, although that has been in the contingency plans ever since NATO was formed. Of course, those plans weren't necessarily made by military people. They were made by Field Marshalls who never heard gunfire.

The next place I want to move to is South Africa. In the first place, it should be clear to everyone that the world is shifting from a world of surplus to a world of shortage. The first manifestation of that is oil. But there are many other critical materials which we must have, primarily chrome and cobalt, manganese and what have you. Every jet engine, depending on its size, takes about 1,000 pounds or so of chrome and I've seen a study that shows that if we were cut off from the supply of chrome, in five years we would not have adequate spare parts for the commercial airlines that are flying in the United States today. But no one seems to worry too much about it. On the negative side, the Congress has set aside millions of acres of land that might produce either cobalt or chrome, Federal lands, 64 percent of which is legally denied any kind of mining operation to be conducted inside and the other 36 percent, it takes on an average of three years to get permission to do any mining in these particular areas.

In South Africa, we have a combination of domestic political problems and the failure to recognize the strategic position of South Africa, which sits right on the line of the flow of oil from the Middle East. Some 16 million barrels a day come out of the Hormuz Straits. In Zaire, for instance, a few years ago the Soviets bought up all the cobalt and then, using Cuban troops, they invaded that area and the price of cobalt shot up from \$6.45 to \$50.00. In other words, the Soviets are definitely using this shortage of resources for political purposes. In the United States, we have a stockpile of sorts, but I have observed every administration for the last four, selling off part of the strategic stockpile to allegedly stabilize prices, when in fact, what they were trying to do was get some ready cash. In my capacity as Chairman of the Joint Chiefs of Staff, I always opposed the sale of these critical materials. As you all know, there are three parts of our ability to fight a sustained war. One is the war reserves, two is the industrial base and the capability to expand the industrial base, and three, of course, is the strategic stockpile. We even have analysts who suggest that perhaps we will plan for a short war. I hear that all the time. Of course, they never talked to the Russians about this. There again, if you have a short war, you don't have to have a stockpile so you can run the budget down.

Turning to the Middle East, these critical materials, the first manifestation of this shortage is of course oil. The Soviets again have recognized that. They have gone into Ethiopia, they

have gone into Afghanistan, they support Syria, and they are standing by waiting for Iran to fall apart when Khoumeni dies. There you will have them all around with their arms completely around the Middle East oil. One important aspect of the Middle East oil that I never see in the papers, people talk in terms of the war reserves. No one ever brings up the subject of how much it costs to get this oil out of the ground. I'm not talking about the OPEC price, which is purely an artificial thing. I'm talking about the cost of getting the oil out of the ground and the facts are that the oil from Kuwait comes out of the ground for less than \$1.00 and the oil from Saudi Arabia is just a little over a dollar a barrel, whereas the oil in the north slope of Alaska, in the North Sea, and in Mexico or anyplace else where people point as being a major reserve of availability, the cost is very, very high. I think the Russians recognize that if they can get into an economic war with us, which they are already, if they can get access to oil which is very cheap to produce, that gives them a very significant advantage in the world markets.

I think that today you find the Soviets with one major problem - Poland, which in my view is the most difficult problem they have faced since World War II, and they simply will not be able to permit the trend in Poland to continue to conclusion because if they do, they'll have a very dangerous feedback into East Germany, Czechoslovakia, Rumania, Bulgaria and so forth. They are, fortunately for us, faced with a very difficult problem. At the same time, in my view, at least, the recent action by Begin to attack Iraq in the provocative way that he did, has many negative results; namely, this is going to permit the Soviets to come back in. One thing, to give the devil his due, if some of you think he's a devil, that Kissinger accomplished was to get the Soviets out of Egypt. That was his basic objective during the so-called Yom Kippur War in 1973, and the United States succeeded in doing that. Subsequent to that time, the Soviets have not been too active. As a matter of fact, even in Iraq, they were breaking away because the Soviets refused to supply Iraq for the Iraq-Iranian War. Now, with this action by Begin, you're going to see much more activity on the part of the Soviets in the Middle East, much to their pleasure. You're going to see Mr. Sadat in a very difficult position at home, so far as local politics is concerned, because he has taken the lead and stuck his neck out trying to reach some kind of accomodation in the turmoil in the Middle East. Any doubts that the Saudis had are going to be expanded as to just where we are going. I think when you add to that the fundamental precedent that Begin has established, to the effect that if a weapon development in any country can be imagined as a threat to you, you are justified in making a strike. I think one of the funniest cartoons I've seen on the subject was in one of the papers last Friday when it showed Mr. Roosevelt sitting in the Oval Office with his cigarette holder, calmly talking on the phone and a fellow from Pearl Harbor was saying,

"Oh, there's no problem at all, Mr. President. We had just a little small preemptive strike out here." If that's the way we're going to look at preemptive action, maybe we'd better get busy and make some preemptive attacks ourselves.

But in all seriousness, I think it's a very serious situation and so far as the availability of resources is concerned, the Western World - and I include the industrial nations and this means Europe, Japan, and the United States - you have to recognize two things. In the first place, these materials in their raw state are very bulky and heavy, and the only way you can get them to the factories is to take them by ship. The same thing goes for the way you distribute the manufactured product, in most cases. Air lift is wonderful and it is a major requirement in any kind of emergency or critical shortage of spare parts or to evacuate the wounded and so on, but I think you should know that when we were supplying Israel with supplies, it took seven tons of jet fuel for every ton of supplies we put down in Tel Aviv to take the airplane over there and get it back. If we start flying into the Middle East, it will take about nine tons. People would ask, "What's the problem - Saudi Arabia has plenty of oil." But that oil is generally refined in Rotterdam or Trinidad or Port Arthur, Texas, or Eagle Point, Pennsylvania. You can't put black oil in jet planes, and there's a limited amount of refining capacity over there, particularly now that the Iraqis have blown up the Abadan refinery in Iran. That's a problem that must be taken into consideration, in my view. Of course, the business of logistics supply in that area is the major problem, so far as I'm concerned. Barry Shillito has been involved in that all his life, but I don't think the politicians on the Hill, and I'm afraid I'd have to say the same thing about the Pentagon people, seriously consider this overall logistics supply, although I am happy to see significant action being taken now by the Reagan Administration to build up a stockpile and to take a look at the war reserves and to study the industrial base. I would suggest that any of you who have any ideas as to expanding the capabilities to manufacture military equipment would find now a ready ear, because I feel that it's true that the industrial capacity, or at least the ability to expand in an emergency, is very restricted these days. At one time we had a major capability. As a matter of fact, you'd have bottlenecks. For instance, forgings for landing gear - I don't care how many engines you have, but I'm pretty well convinced that if we tried to surge forward and significantly expand the production of aircraft, the forgings for the landing gear would probably hold up the whole program. Those are the kinds of things that we ought to expand and I'm sure there are many other small critical items like that involved in manufacturing that will be examined and we should do something about it. Here again, I believe that you gentlemen in industry have a responsibility to at least point out to the Government those areas where we might make improvements.

In summary, populations are exploding. People are demanding more; they want a TV, they want a radio, they want an automobile. All these things consume those materials which are progressively getting into short supply. For that reason, it is my opinion that the Soviets understand this thoroughly. The expansion of their Navy is all related to this. The Russians do not want to destroy us. What they want to do is defeat us through this process, and consequently, in my opinion, I don't expect the Russians to come pell mell through the middle of Western Europe. What I expect them to do is to generate these confrontations, which are original in nature, and which will be designed from the long range point of view in either acquiring material for themselves or denying (and this is probably the key objective) to the United States. I am suggesting to your gentlemen that one thing that the Preparedness Association can do is to work on your congressmen, work on people in government, and hopefully encourage them to prepare for a situation where we would need these materials in a hurry and provide them through stockpiling and other means that can be taken now.

Mr. Shillito

Admiral Moorer has offered to take a few questions. He has to leave rather early, but do we have any questions for him?

Admiral Moorer

I would preface that by saying that I find myself in a very wonderful position these days. I'm not trying to get promoted. I'm not trying to get elected. And I'm not trying to get appointed, so ask me any question you like about any subject.

Mr. Shillito

I'll ask you one. Our Parliamentarians yesterday made a point that I thought was fascinating. The point was that communism is eroding from within. In fact, the comment was made that the only real communists are in the free Western World right now. And that with the erosion from within, this tends to cause the Soviet Union and the Pact countries to become potentially much more dangerous as far as the things that they might do, and it might lead in a direction a little different than the conclusion you came to as to how the Pact countries might move toward the West.

Admiral Moorer

Well, I think that the real problem, so far as the Soviets are concerned - and don't forget that their whole effort worldwide is financed by and controlled from the Soviet hierarchy - most of the people who are running the show were all in World War II, they all established an image of leadership and so on, so what concerns me immensely is what will happen when they are all replaced essentially at the same time. That's just around

the corner. Whoever comes in in the next group is going to have to establish their images, both within and outside of Russia. In order to do that, I fear that they will be sorely tempted to do something spectacular in an effort to unite the country, on one hand domestically, and on the other hand to establish their reputations and positions on a world-wide basis. I think it is wishful thinking to say that they are crumbling from within. In fact, I think it's very dangerous thinking. Let's wait until we see some real reductions in the money they are spending for armaments. Let's see when we see a stoppage of their expansionism and their moves into places like South Yemen and Afghanistan and Mozambique and Angola and even Cuba, and the action they're taking in Nicaragua. For instance, the newspapers in this town keep saying that nothing's going to happen in El Salvador - we ought to get out of it - the Russians don't have anything to do with it. I can tell you one thin. I was in Newfoundland the other day and two . . . aircraft came in in formation, essentially, and I found out from the operations people where they were going. Where were they going? Nicaragua. In other words, what I'm telling you is that very few of the supplies are coming from Cuba - they're coming from Moscow to Nicaragua - direct. So, Barry, I think it would be nice if they crumbled from within, but I'll believe it when I see it. I think it would be a very dangerous assumption to use as a guidance for what we do in the future.

Mr. Shillito

I think what their point was that the crumbling of communism from within potentially causes it to become much more dangerous in the direction that you're talking about.

Admiral Moorer

I think the crumbling from within is related to the fact that they're about to lose the old group and the new group is going to be faced with a divisive position within their system, which would encourage them to take those actions. I think we are closer together than I thought from your original comment.

Question

What are your thoughts on Secretary Haig's actions in the PRC?

Admiral Moorer

I think it's more political than military. The idea of working with the Chinese - I am not a fan of the Chinese communists. As you know, during the Viet Nam war, Mr. Johnson said, "We seek no wider war." He was trying to prevent the Chinese from coming into North Viet Nam. In fact, the hand wringers in the State Department were always saying, "Here they come." Well, they're not

going anywhere. One thing that the Chinese do not have is mobility and if anyone in this room is inclined to pick a fight with China, the only way you can do it is go to China. Nevertheless, I mentioned the fact that the Russians are trying to surround the Chinese by sea now, and I think that if this can cause the Soviets to expend more of their resources or to divide their resources between Western Europe and China and the world at large, it might have some beneficial political effect. At the same time, Mr. Reagan has made it quite clear that this does not change in any way our policy towards Taiwan. I hope not.

(Question is unintelligible)

Admiral Moorer

In the first place, I am not qualified to comment by direct view, but knowing CBS, I can write the script for you without ever looking at the show. In any event, I think that in the first place, we do have serious problems, primarily with the volunteer force. Eventually, and the sooner the better, we have to go to the draft because in a democracy, it's mandatory that you have a military force that is a cross section of society. The break-up of this very strong, solid group of officers and enlisted men we had in the service began with McNamara - well, it began, I think, to a degree, when Lyndon Johnson gave college deferments which said, in effect, "if you're rich enough to go to school, you don't have to fight for your country." Then the next thing that happened was that McNamara came out with his "Project 100,000" or whatever it was, where we were to deliberately go around the country and select the biggest idiots we could find and put them in uniform. Again, the military services are not agencies of social reform. The next thing, because of the college deferment, primarily, and because the students were throwing computers out of the second story of the science building around the country, Nixon was prevailed upon to go for the volunteer force. He has now said that he made a mistake, which is true. I went to many meetings on this. This volunteer idea was led by Milton Friedman on the grounds that if you took a man and forced him into service and he made less money than he could if he worked for industry, then that was a discriminatory tax, and you should make up the difference. But they forgot the 10-year people and the sergeants and the chiefs and so on, and they paid the 17 year olds who had never seen so much money - the first thing they did was get a car, then they got a wife, then they got a baby and didn't know what to do with any of them. Then they were going to solve that by bringing in women. Well, Clater and Brown and the whole crowd were promoting this because that was the only way we could fill up the gap with people who could read and write. Then, women are much wiser than men - I have always thought that and I've had it proven to me many times. What happens is that today the women pass all the exams quite easily. Then you have a 250 pound private or seaman who can't pass the exam, then you have a 105 pound sergeant or petty officer, so

she orders the 250 pound guy to empty the garbage can and he says, "To hell with you." In other words, I'm afraid that even the Congress and the Pentagon can't change the certain qualifications or characteristics that the women have as opposed to men, so that doesn't help any. Last year the Army had 55,000 women and 8,000 of them got pregnant; 3,000 resigned, 3,000 had abortions, and 2,000 had their babies. That's wonderful - I'm all for motherhood, but the point is that while all this is going on, someone else has to do their work.

So I think that the leadership that you're talking about stems from the fact that the commanders have been faced by political actions with impossible solutions. For instance, Patsy Schroder, who I've had several discussions with, out at Fort Meade they were raising hell because they put the 18 year old boys and girls in the same barracks and the boys were pinching the girls as they went up the steps. She said it was because the generals weren't exercising leadership. You find me a general who can put a stop to that and I'll put him in command of the whole Army.

But I think we have a problem. We've always tried to exploit technology in order to reduce the manpower requirement. And the instant you make that decision, you immediately create a demand for very high-quality manpower, and we don't have it. That's the fundamental problem and we have to do something about it.

Question

Do you think that the export of technology to the USSR contributes to their military build-up?

Admiral Moorer

I sure do. I think it's a disaster, the things that we have done. Take a look at the trucks in Afghanistan, and we built them a turn-key truck factory which they have used not only to build trucks but to build personnel carriers and things like that. The Soviets do not have the know-how, but they are fast getting it. The most extreme example relating to your question had to do with the manufacturing process of the ball bearings that go in ICBMs. The argument is always that we might as well sell it to them because they've demonstrated the firing of ICBM. There are two parts to the technology that you gentlemen are certainly aware of. One is the invention or the concept of how you're going to perform a certain function, and then equally important is how do you mass produce this? We gave the Russians the technique for manufacturing in large quantities the ball bearings to guide ICBMs. I think we should put a major stoppage to that business of exporting technology to the Russians, because what we're doing is financing their R&D budget.

Question

Admiral, in connection with your comments on the air strike in Iraq, would you care to speculate on the recommendation that the Chairman of the Joint Chiefs would make to the President of the United States in the hypothetical situation that Castro could develop the atomic bomb in Cuba?

Admiral Moorer

We've already been through that little exercise once and I would hope that we would duplicate what we did before. I think it's unfortunate, however, that the Russians backed down so quickly because had we invaded Cuba, we wouldn't have the problems we have today.

Question

Admiral, in your distinguished career, is there any decision that you've made that you'd like to have a second crack at?

Admiral Moorer

I suspect there are several. That kind of question pits on one side deliberation. And many of the decisions you make in the military organization, particularly when you have a war on, are time-sensitive and you have to make them in 5 minutes. I expect I've made plenty, although I don't recall any major decision that I would reverse. I think perhaps I should have been more aggressive in trying to get some sense into the rules of engagement that were imposed on the military organization during the Viet Nam war, although I was told no at least 100 times. Of course, no military man in his right mind would have fought that war like we fought it. It gives me nightmares because I was mixed up in it for my 10 most productive years. I was in command during the Tonkin Gulf incident and I was in command when we got the POWs back. So maybe I could have raised more hell about that, I don't know. Let me put it this way. I didn't make any major mistakes in my decisions.

Mr. Shillito

Thank you very much, Admiral Moorer, for a truly outstanding breakfast get-together.

SESSION V

FUTURE TRENDS IN SECURITY ASSISTANCE

Mr. Shillito

I should make one announcement. We should recognize Colonel Prignan from the Belgian DOD, who is the official representative of the National Armament Director of Belgium. We appreciate very much your being with us. Thank you, sir.

I'm going to introduce our Session V Chairman in the discussion of the future trends in security assistance, and then I'll let Mr. Augustine take over from there.

Our Chairman for this session is the Vice President of Operations for Martin-Marietta. Norm Augustine is a scientist of renown. He has had extensive research experience, extensive industrial experience. Interestingly and uniquely, he has had responsibilities in the Office of the Secretary of Defense for both tactical and strategic programs at various times. He has been in the past Assistant Secretary of the Army for Research and Engineering and Under Secretary of the Army. He of course, as is the case with so many of our participants in this program, has undertaken extensive public service commitments and, as most of us know at this point, in addition to everything else, he is also the Chairman of our U. S. Defense Science Board. Norm, we're honored and pleased to have you heading up this outstanding session. Now, tell us where we're going.

Mr. Norman Augustine

Thank you, Barry. I think we have an interesting morning planned for us all and its success will depend not only on those of us up here but very much on you, because I'm hoping we'll have time for some good contentious, provocative questions later on. The harder ones, the better. Please write them on the cards for us.

As I was sitting here having a cup of coffee a few minutes ago, I happened to remark that I was glad I'm not the person who has to follow Admiral Moorer on the podium - and here I am. After that marvelous kick-off this morning, it's going to be a challenge to us.

As you were told yesterday, Congressman Solarz was unable to be with us this morning, and so what we plan to do is move right ahead with our other speakers and that will permit a little more time at the end for questions.

In the last day you have heard a fair amount about the ongoing activities in the world in the area of world trade and armaments. You have heard comments on the parliamentary responsibilities within the various nations for the control of world trade in armaments. Our duty this morning is to talk a little bit about where we go from here. In that respect, there have been many who have criticized our policies in the U. S. in past years in the area of security assistance and at this time we have an opportunity to take somewhat a fresh start, as we do every 4 or 8 years.

No one can question that the security assistance program is important; that it is. The U. S., like all the other nations in the free world, needs strong allies for none of us alone, I think it's safe to say, can carry out the task that we face. The U. S., for example, has about 5 percent of the world's population and, of course, a declining portion of the world industrial base and financial strength. Few would deny that security assistance tends to build rather strong ties among the nations involved in many cases - certainly not undamagible ties, but I can think of few ways that one country can be more closely bound to another than for one of those countries to be providing the military logistics for the other country. We're talking about big dollars in this area. The balance of payment aspects are important; jobs are important. But I would hasten to say, and I say this even with a person who has spent most of his life in industry, that we can never confuse, in my judgment, the selling of armaments, of guns and tanks and airplanes and ships, with the selling of watches, soap, wheat, or cars. By and large, this must be an instrument of national policy. It's not a commercial endeavor and it's in that perspective that I'd like to address some of my very brief remarks to introduce the session.

It's a difficult topic. In fact, as I thought back of my 10 years in the Pentagon, I would say it's one of the three toughest topics I ever came to deal with, for a whole variety of reasons that relate not only to political aspects but technical and managerial, as well.

Before we talk about where we're going, which is what our speakers will do, or where we should be going, I'd like to set the stage with a few comments about where we've been. Many of you will remember back to the early 60's when there was somewhat of a resurgence in this particular field, led to a considerable degree by Secretary McNamara's emphasis then on joint development programs with the thought that our inability to standardize with our allies was due to the fact that we waited until we both had a tank developed and then we couldn't agree on which one to use - and I use the tank just as an example. The thought was in the administration at that time that perhaps if we began earlier in the process, at the beginning of development, and developed things jointly with major government participation, that would be

a way to resolve the problems that had been encountered prior to that time. Most of those programs, as you look back on them, were plagued with problems of changing requirements as the developments went on over a prolonged period of time. They were plagued with the delays involved in making international management decisions at very high levels. And I would have to say, as objectively as I can, that most of those programs, certainly many of them, were failures. In the late 60's, we became as a nation preoccupied with Southeast Asia with enormous amounts of security assistance there, obviously to an ongoing conflict which is a very different sort of security assistance, and also during that time period the Middle East wars of 1967 and 1973, in particular, major parts of our stocks were drawn down and provided to the Israelis.

In the early 1970's, we saw a true boom, if there is such a thing, in the area of security assistance where Secretary Kissinger used the provision of military equipment to other nations as a major instrument of national policy and, in fact, those of us in the Pentagon used to sit in somewhat great fear to see what would show up when he would return from another one of his trips around the world. At that time, the U. S. Army was buying more for our allies, more equipment for our allies, than for ourselves. At that time, the U. S. Air Force was providing logistics for more aircraft for our allies than it was providing for itself. It was truly a huge operation. Also during that time, you will recall that we saw a change from grant aid, which had been the predominant approach to security assistance prior to that, to foreign military sales, whereby foreign countries contracted with our government and our government acted as an intermediary. That was partly due to the fact, I believe, that many of our allies, particularly those in the Persian Gulf area, were frankly suspicious of U. S. industry, suspicious, I think, not only, perhaps, of our integrity, but they were also concerned about how we did business and they wanted the government to act as their agent. So there was a great deal of FMS at that time.

I think there were also some important victories for security assistance. Some of them were rather widely unnoticed. I think of one during those years when Portugal was in some trouble of swinging far to the left. Just a few days before the election, you may recall that the U. S. provided something like 6 M-48 tanks and I believe we had them airlifted there to get them there prior to the election. And they were very visibly unloaded at the airport. It was widely publicized in Portugal. It helped a great deal in strengthening the hand of the Portugese Army in pointing out that the U. S. was with them during those days, and I think those 6 tanks, believe it or not, may have had a significant outcome in the direction of Portugal today.

The late 70's saw a major switch in our policy that we are all intimately familiar with. We saw PD-13, we saw the so-called Leprosy Letters, emphasis on human rights in the security assistance

area, and overall downgrading or downplaying of security assistance as an instrument of international policy. There were some things done at the more technical level, if you will, that I think were important. For example, efforts toward interoperability with our NATO allies. Today you can visit air fields in Europe and find where our allies can cross service U. S. aircraft and vice versa, and that's a very significant thing. You can find that most of the ships now in the NATO forces can be refueled with the same fittings on hoses at the ports. Things like that that seem trivial nonetheless are terribly important, and there has been progress made, although that kind of progress doesn't usually make the headlines.

There's the emphasis on the family of weapons that we saw which turns out to be an extremely difficult undertaking and it will be interesting to see how Dick DeLauer handles that issue, having helped somewhat put together at least some of the comments that he and his DSB panel provided to Bill Perry when Bill was trying to impelment the family of weapons.

In the 1980's, we're told that there will be a reemphasis on the matter of security assistance. We will see it put on a more businesslike basis, perhaps a less altruistic basis, and certainly with emphasis on direct sales, commercial businesslike arrangements between firms in the various countries with less interference with the Government in the implementation aspect, but still a strong role in the policy area.

There are many as yet unanswered questions and in my mind, many of the questions are almost unanswerable. A few examples that occur are it's very much to our advantage, I believe, to have strong allies, which would suggest to me that you'd like to see to it that your allies have the very best equipment available. That's not without hazards. Among your more advanced allies, providing the best equipment available may often put you in a position where you see the technology you've provided them coming back at you. In some cases, there is perhaps an increased danger of leakage of that technology directly into the Soviet Union, and that concerns a great number of people who are worried about the technology transfer aspect in that respect. We've also seen that equipment we can provide to allies can later be used against us when those allies cease to be the same. So the question of how you provide the best possible equipment to allies without creating a technology problem is one that a lot of people have struggled with for a lot of years and as far as I know, we don't yet have a very satisfactory answer.

There's the question, as we place more emphasis on commercial endeavors, of joint activities between companies in various countries. Who is it that will say to what third countries the products of those joint endeavors can be sold? Certainly, the U. S. firm is

not very eager to have its ability to sell coupled to whether the French or British or German government approves that kind of sale, nor are the European allies very eager to have the U. S. have that sort of veto power. And yet, if we are to work together that kind of issue needs to be resolved.

There's the question of how do we save money, which was, I think, one of Bill Perry's major objectives in the security assistance area, how do we save money by standardizing among our allies so that instead of each of us developing a tank or an airplane, we can use the same one and in fact, we can draw off the same production line and gain from the learning curve in that regard. That raises a different kind of problem. Is the U. S. prepared to have its source of major military equipment exist in our allies' countries in a form that could be turned on or off at the will of other governments? The U. S. is a nation, unlike many of our allies, which has a world-wide responsibility, not strictly responsibilities to NATO but elsewhere in the world, and to have our logistics tail tied down in that way is a worrisome affair. On the other hand, if you don't have some joint production, you lose the benefits that we've been seeking. One difficulty to U. S. firms in this market is the one where there is a much closer relationship, in fact, often a legal close relationship between foreign governments and their companies that doesn't exist in this country and so perhaps we operate at a handicap.

There are problems at the plumbing level, if you will, the mundane problems that are very tough to grapple with. Problems like pricing, when because of an emergency items intended for U. S. services are pulled off the production lines and provided to an ally, and the U. S. service then has to buy a replacement for that item, but the item that the U. S. service gets is the one at the end of the line two years later. Does the U. S. tax payer pay for the inflation and the increase in cost to that later item or do you charge the country that is provided the earlier item a higher price than the then going price? What do you do in the case where you're shifting models and the new model is the only one that's available that costs even more? What do you do when you provide your allies with equipment that has been overhauled and some would say it's in mint condition; on the other hand, we all know that an overhaul item is generally not the same as a brand new item. There's the role of multinational firms that is of growing importance and what one does in the area of technology transfer and controlling technology transfer among multinationals. And finally there's a question that is, I think, just beginning to emerge - what's our policy toward China in this area? I had the interesting experience some months ago of visiting aircraft and missile plants in China. They play an important role - the Chinese military ties down 47 divisions, Russian divisions, along that border. That's very significant indeed. At the same time, I didn't see anything that led me to believe that China is in any kind of shape financially to do very much in the armaments area.

The one thing that seems clear to me is that you will see things grow in the next few years in the security assistance area. We've seen just in the last year a 30 percent increase in the security assistance program, measured in dollars. We're seeing FMS sales financing increase from about \$3 billion to 35 countries to \$4 billion to 38 countries, just going from fiscal year '81 to '82.

Those are some of the issues that we've seen in the past. Some still remain with us. Those are issues, among others, that our panel will deal with this morning and they'll welcome your questions at the end of the session.

For our opening speaker, we are fortunate to have a person who will have a very key role in the years ahead in laying down policies in the area of security assistance. I'm talking about the gentleman who is the Assistant Secretary for Trade Administration at the U. S. Department of Commerce. Your program and mine points out that he is Assistant Secretary Designate, and I'm happy to report that he is no longer the Designate; he now is the Assistant Secretary. I remember Bob Herman pointing out to me that with all the intrigue that's gone on in this area, a better title for most of these people would be Assistant Secretary Suspect. In any event, Larry Brady was nominated by President Reagan on March 3rd to become the Assistant Secretary for Trade Administration. He'll be dealing with policy with respect to export controls and the implementation of the Export Administration Act and the enforcement of the Act's anti-boycott provisions. He'll be responsible for the Commerce Department's investigations of anti-dumping, implementation of the steel trigger price mechanism, and administration of the Statutory Import, Foreign Trade Zones, and Industrial Mobilization programs. He sought the Republican nomination for U. S. Senate from New Hampshire in the last election. He's been Acting Director and Deputy Director of the Commerce Department's Office of Export Administration. He was a senior staff member of the White House Council of International Economic Policy and Special Advisor for Congressional Relations. He has been senior International Economist in the Office of International Trade at the Department of State. He has been Legislative Aide to the late Senator Everett Dirksen and Minority Counsel of the Senate Judiciary Committee on the Separation of Powers. He served as Legislative Aide to the Secretary of the Minority, U. S. Senate, and he holds a B.A. degree in Politics and Economics from Catholic University. I think you'll agree with me that we're fortunate to have Larry Brady with us this morning and I hope you'll help me welcome him.

Mr. Lawrence J. Brady

Thank you. I think what I'd like to do is not to follow Admiral Moorer, because I don't think anybody can. But I'd like to try to pick up a little bit where he left off, because I do think that he raised some major issues which we are now trying to

address in the first few months of the Reagan Administration. What I'd like to do is to discuss an area that is related, obviously, to security assistance but not directly to the subject of security assistance itself. I'd like to deal with where I believe the Reagan Administration policy regarding technology transfer may come out in the next three or four weeks, and what I think are the concerns, the assumptions, the fundamental elements leading into that policy

The charge that is given the Federal Government, the Executive Branch under the Export Administration Act, is to balance the role of the commercial interest, American companies, Western companies, in dealing with the Communist Bloc on the one hand and protecting the national security of the United States on the other. That's a balancing effect that I think many in this room would agree has perhaps not been balanced in the last 10 years. The President, while campaigning for the Presidency in the last couple of years, was very, very clear in saying that he was not happy with what had happened over the 10-year period as far as the transfer of technology to the Soviet Union was concerned, and the impact that technology was having on the Soviet military. As a matter of fact, when I got in trouble with the Department of Commerce a few years ago for having disagreed with some of the Carter appointees as they were testifying before the House Armed Services Committee, as a matter of fact, before Congressman Ichord, then Governor Reagan came to my defense, actually, over a period of 12 to 15 months. I was grateful for that and I'm not sure at that point it did me any good with the Carter people.

We have done more than begin to take a look at this problem. Early on, the Secretary of Commerce decided that the entire area of export controls was a morass, it wasn't working right, it was characterized in the Carter Administration by a policy of ad hoc-ism, by a policy of shooting from the hip, whereby you'd deny a computer while Sharansky was on trial, licence it after he's in prison. That doesn't make much sense. So Secretary Baldrige insisted that the committee system that works for the Cabinet, namely the Cabinet Counsel System and the Cabinet Counsel of Commerce and Trade consider the subject of East-West economic relations and specifically the subject of strategic trade controls. There were a couple of decisions made in those meetings: one was to establish a series of inter-agency groups chaired by the Department of State, which would consider and conduct a fundamental review of the East-West relationship, particularly the economic aspects of that relationship and where strategic controls fit in; in addition to that, a decision was made that the machinery governing the decision-making apparatus would be reinvigorated - in other words, that the Department of Commerce would again take the lead in the Advisory Committee on Export Policy, which had been dormant at some level for over five years, so that the level which I chaired at the Assistant Secretary level has had a couple of meetings. We are beginning to escalate the issues to get decisions on them, to overcome the paralysis that has characterized the export control process for the last couple of years. I believe we now have a structure, a

mechanism by which after the get the broad policy direction from the President in the next few weeks, we will be able to implement that policy in a consistent structured fashion.

Where are we going to go on the policy? Let me take a couple of steps back and say that I think it's appropriate that we take a look at the 10-year period, 1970 to 1980. It's appropriate because there's a new administration that philosophically has a different bent than the previous one. It's also appropriate because of the realization that's come over this country and Western Europe as to what the Soviet intentions really are. It's appropriate because the Soviets' intentions have been manifested in the last year or so in a manner which some of us did not want to acknowledge. So we are taking a look at that 10-year period. We see a policy beginning in the early 1970's which one can characterize, I guess, as the Nixon-Kissinger policy, which was that we would export high technology products to the Soviet Union and to Eastern Europe on the basis that it would achieve an interdependence and we would exert, as a result of that, a degree of political leverage over their behavior. Now, the Kissinger thesis was further that if they did misbehave - internationally, politically - we would withdraw that trade. Now that never came to pass when the Soviets did start misbehaving in the mid-1970's in areas like Ethiopia, Iraq, Syria, Cuba, Yemen, Iran - I could go on - Africa, Angola. Nothing was done. We continued trading.

I would ask, also, whether there has been any interdependence established between the Soviet Union and the West in that 10-year period. What I'm saying in very blunt terms, which I probably wouldn't have said before confirmation last week, is that 10-year policy was, I believe, bankrupt. We can argue why it was bankrupt. We can say it's because we didn't deliver or we didn't do things right, we didn't use the club portion of that policy, and all that may have some relevance. But nevertheless, it didn't work. I would argue that in dealing with any communist country, with any totalitarian state, history is very clear in dictating that that kind of a state strives for autarchy, it does not strive for interdependence.

Therefore, on that basis, on the basis of what's happened, on the basis that most of the intelligence agencies in this Government and, I think, the Department of Defense, acknowledge and are deeply concerned over the fact that the flow of high technology over that 10-year period has in effect helped the Soviets immensely in their military-industrial complex.

Now, why is that? Did we export the **wrong things**? Or did we allow too much to go? Fred Bucie has been saying for four or five years that the resources of this government are not addressed to the right things, and I tend to agree with him. We get, in the export control system, about 75,000 license applications per year, of which 10 to 15 percent are for the communist world. A handful of them are denied, some are downgraded, but only a handful are

denied. They are denied, or returned approved, after a long waiting period, 16 or 12 or 18 months in some cases. I think we have to ask ourselves the question, if you accept (and we have to accept the fact that we go through this massive amount of paperwork and few are denied), are we in fact looking at the right things or are we approving some of the things we shouldn't be approving, or maybe it's a little bit of both. There's going to be a General Accounting Office review of the Export Control System initiated by Senator Garne, which is going to be fairly critical of the system. In a way, I wish it would come out fairly soon so that I'm not put on the defensive with it - I can say it was all their fault. I think there are going to be some very legitimate criticisms in that report, namely that some high technology cases have escaped us. And they are also going to agree with Fred Bucie that the resources of this government are not devoted to the right thing. We may be concerned about a microprocessor, but I question whether or not we should pay as much attention to a Singer sewing machine or to the game, Speak and Spell, or to a chess game that has the microprocessor in it as to a production line or a piece of key-stone equipment or technology, or, for that matter, the flow of visitors from Eastern Europe that are continuing in this country, which are a threat as far as the flow of technology and know-how is concerned. I think it's time to take the resources of this government and to redirect them to the high technology area, and I believe that's what we're aiming to do.

We have under review at the moment three options papers for the President. One is on the Soviet general control area, the direction he wants this government to take. Second is on the oil and gas production and manufacturing equipment, controls that were imposed by President Carter for foreign policy reasons in 1978. The third is the . . . pipeline issue and what, if anything, the United States can do about it, because I think you will find a substantial amount of concern throughout this government over the construction of that pipeline and what it means in terms of the vulnerabilities on Western Europe.

Before I leave the so-called interdependence or dependence or whatever it is that was established in the 1970's, I would only make one last point. We don't use the term leverage too much anymore because I'm not sure, as a result of that 10-year period, who got leverage over whom. I think a case can be made that there are being created serious vulnerabilities in Western Europe, vulnerabilities created by the fact that the Soviet market becomes more and more important to Western Europe as a market, and that will be further aggravated in huge proportions if the pipeline is completed.

I believe the Soviets have a very clear policy in the area of trade and it is to make the Soviet market a market upon which Western Europe has to depend. By doing that, they further Finlandize Western Europe, which is obviously a long-standing goal of the Soviet Union. I draw the analogy, for instance, and it is something that the Admiral mentioned a few minutes ago, between Western European policy on the Middle East and the very strong positions they take, and their 70 percent-plus dependence on Arab oil. I would raise a question as to whether, if the Soviet market becomes more and more dependent to them, whether their political sphere of action will not be further and further constrained. I think the other side of Soviet policy is that, as the Admiral mentioned, there are areas in this world that are vitally important in terms of the industrial west, in terms of critical materials, strategic minerals and materials. It is my view that the Soviets have a two-track policy: one, to make Western Europe dependent upon the Soviet Union for a market; secondly, to strangle the West in those areas where the strategic minerals upon which we depend - and in that respect, I'd like to read you a quote which someone phoned in to me yesterday, by Chairman Brezhnev when he was in Prague in 1972. He was speaking to the President of Somalia and he said the following: "Our aim is to gain control of the two great treasure houses on which the West depends - the energy treasure house of the Persian Gulf and the mineral treasure house of Central and South Africa." I think their policy is clear. The problem we have is how to react to that policy.

That is what we have underway now. It may be that there is a band of commodities at the top of the COCOM list that we don't want exported to the Soviet Union. It may be that there is a significant band at the lower end of that list where we can eliminate from control, because from the priority standpoint, they truly are not important. They are a diversion of our resources and a diversion of our attention. I think there is a significant basis upon which to look at the technology controls, the process know-how area and to say we want to make sure we do not convey to the Soviet Union the ability, the manufacturing and production know-how to manufacture the products that we have under control. And that's the bottom line. In two to four or five weeks, I believe we'll have a clearer idea of where this administration is going to go in that area, but I think there is also a fairly decent feeling at this point that the trend is going to be to try to tighten, certainly in the technology area, to make certain that we do not have to continue spending money for our defense budget to make up for what we've lost, either through what we've sold the Soviet Union or through what they've stolen in the West.

Mr. Augustine

Thank you very much. We'll turn now to our second speaker, who, as you know from your program is Les Brown. He is a U. S. Foreign Service Officer and he is currently serving as Deputy Director of

the Bureau of Political and Military Affairs. He is responsible for security assistance and nonproliferation matters. He previously was the principal deputy to the Assistant Secretary for Oceans, International Environmental and Scientific Affairs, and prior to that served as Senior Special Assistant to the Under Secretary for Security Assistance, Science and Technology. He joined the Department of State as an intelligence research analyst some years ago and was shortly thereafter detailed to the Institute for Defense Analyses, where he conducted studies in his field. He returned the following year to join the Bureau of Political and Military Affairs, where he was head of the Office of International Security Planning. He has been a research associate at the International Institute for Strategic Studies in London and during that period of time he was the author of an Adelphi paper which was entitled, "American Security Policy in Asia." He has an undergraduate degree from Harvard University and he served with the United States Air Force in Germany. It is our privilege this morning to have you with us, Les.

Mr. Leslie H. Brown

I am delighted to be here this morning. Let me start off by saying that I have addressed ADPA and others over the last few weeks and have started my remarks by noting that we expected momentarily the issuance by the White House of new arms transfer policy. Let me make another prediction that by this time next year, the White House will surely have issued the policy.

The fact is, we don't really need it at this point, because it has been described in some detail by Senator Buckley in Williamsburg and by various others in the Department, and I am sure in the Defense Department, but I think as an introduction to the question of whether security assistance, it is important to understand that the philosophical underpinnings of the way this administration looks at arms transfer is really quite different from what it has been over the last four years. Certainly, as Under Secretary Buckley said in Williamsburg, the administration tends to take a very positive approach toward arms transfers, as they are a useful and very sharp tool of American foreign policy. They are not a religious matter, which they have tended to be over the last few years. Our whole approach rests on the proposition that arms transfers can and should be used to enhance our security and foreign policy interests and to strengthen our own and allied defense capabilities.

In contrast, certainly, to the fairly restrictive policies of the last administration, we do not intend to foreclose on any potential transfers by arbitrary lists of prohibitions, ceilings, and the like. Rather, we tend to approach requests for arms sales or for security assistance, for that matter, on a case-by-case basis, judging them on their own merits. There are a series of questions, clearly, that one must ask - the impact of a transfer on regional stability, the impact of a transfer on our own

inventories, production base, the impact of a transfer on a country's ability to absorb and use whatever equipment it is in question. But I think all of these are questions that one would ask oneself under any circumstances.

It is also certainly a philosophical point worth underscoring that it is our view that we have a common interest - that is, the Government and industry - to work together if our arms transfer policy is to succeed in promoting, otherwise enhancing our national interest. This does not mean that sales or transfers are going to be unrestricted, or that we can base our transfer policy on purely a free enterprise economic consideration. Arms are a somewhat unique commodity in the market and there will be instances in which certain transfers will have to be turned down for political or other reasons.

But having said all this, I think that all of you have detected already a certain change in the way we look at your activities and the way that we look at the world, and our ability and interest in seeing that friends and allies have the wherewithall to defend themselves.

I should also say that while arms restraint was very much a feature of the previous arms transfer policies of the United States Government, we have not abandoned that as a concept. I think the only difference is that we do not intend to pursue it unilaterally. That was perhaps one of the weaknesses of the approach of the late 70's. It was quite clear that the rest of the world, those who sell and produce arms, did not look on the question of arms restraint as being a particularly productive one, and certainly were not prepared themselves, unilaterally, to impose restraints on themselves. Well, we are not going to, either.

Let me turn now to the real question on the agenda, which is the future of security assistance. This is where I spend most of my time, where Ernie Graves clearly spends all of his time. I think the first thing I would have to say is that when this administration took office in January, there were two fairly disturbing trends that were quite evident. First was that the requirements for security assistance have really jumped dramatically. This is partly a consequence of recent events, such as the Soviet invasion of Afghanistan. There is concern among American friends that they are under a threat, they are vulnerable. Most of them are poor, not all, but I don't think we need to concern ourselves so much with the oil-rich countries as we do with the Sudans, the Somalias, the Kenyas, those who really don't have much by way of resources to devote to their own defense. Therefore, if we are to see them with the confidence that they can pose some kind of a deterrent to the sort of either insurgent or perhaps more overt kind of threat, then clearly we're going to have to do something about it.

The need has gone up and it's gone up very dramatically and it was reflected in the budget amendment that the Reagan Administration presented to the Congress, with a \$900 million increase over the Carter budget, which itself had represented a fairly major increase over the 1981 budget.

The second disturbing trend is the fact that we simply are not getting, so far at least, out of the Congress the kind of funding that it is going to take to meet minimum needs. We're in the process now, are about to put together or start to put together, the FY 83 budget estimates. My own "back of the envelope" guess is that looking at the commitments that we have made, either explicitly or implicitly, over the last 100 plus days of the new administration, that we are talking a potential increase in the '83 request over '82 of somewhere between or somewhat over a billion and a half dollars in various forms of security assistance. I have the gravest doubts that the Congressional mood at the moment, which is, after all, to cut domestic programs, is going to look with any great enthusiasm on this kind of increase.

What do we do about it? Well, we could make the classic arguments that security assistance is an extension of our defense planning, which, in fact, it is; what our allies can do for themselves is something we presumably do not have to do for them; most of our security assistance, after all, is in the form of repayable loans; it is not a give-away program in that sense - some of it is, but a great portion of it is a fairly straightforward, commercial, government-guaranteed loan. We must somehow convince the Congress that this is a good investment in our future and a good investment in the future of countries that we care about and who are important to us; that we must look at security assistance as somehow an extension of our defense budget programming, planning, in our national security operation planning taken as a whole.

We must also convince the Congress that not only do we need full funding, but that we must have a degree of flexibility that has increasingly been denied us over the years. The country restrictions that have marked the last few years, mostly on human rights grounds, the Humphrey-Kennedy Amendment applying to Argentina and Chile, the Clark Amendment applying to Angola, things of that sort really no longer have a place, it seems to me, in American foreign policy.

Secondly, quite clearly we are going to need the flexibility to meet unexpected emergencies. We have already had two this year in El Salvador and Liberia, which caused us agonizing reprogramming problems, and one can anticipate, over the next 18 months, that there will be others where fast disbursing aid to meet an immediate emergency is going to be simply essential. So we are asking Congress for what they consider to be slush funds, which

we consider to be more politely called contingency funds, that avoid this problem of robbing Peter to pay Paul. We've had at least a partial recognition in one of the houses of Congress, that there is some merit to this argument. We keep reminding them that if we abuse these contingency funds, we know we'll lose them and that they ought at least to give us a chance to see if we can't use them wisely, defend them before the Congress when we do use them, and try to convince them that we are not knaves and fools. I don't know what Ernie's view is on the likelihood that we are going to get these contingency funds, but we consider it to be exceedingly important.

A third area that we would like to see instituted and which has become somewhat skewed around by the Congress is this question of concessional credits. We asked for a sum in the FMS account which we called direct credits, which would have allowed us to extend these credits at very low rates of interest and with very relaxed repayment terms. Largely for outlay reasons, that is because the Congress was trying to keep the outlay figures within their budget resolution, our direct credit proposal was changed to a sort of direct grant proposition, that is, some portion of what we hoped to have as concessional credits could be offered as either forgiven FMS, in the Israeli model, or alternatively as a sort of renewed grant program. The advantage to the Congress in this was they didn't have to appropriate as much money or would not have to appropriate as much money as they would to fund the direct credits, which would have required a full appropriation for the total amount of the credits involved.

I'm not quite sure how this is going to come out, but again, we consider it exceedingly important when you look at countries like Pakistan, Turkey, Egypt, countries that are extraordinarily important to us for strategic reasons, for security reasons, and whose financial resources really are stretched to the absolute limit. It's clear that we have to get into some kind of concessional finance. The needs of the Turkish army, the needs of the Egyptians are really infinite. We can't hope to fulfill all of their requirements and we certainly can't expect them to pay 14 percent interest to buy this equipment themselves. We've got to give them some help. Again, I'm not sure how the Congress will come out on it, but to us it is extremely important and if we miss on the direct credits this year, we will accept whatever grant they give us and we'll go back next year and try again.

Another area that quite clearly requires attention is one that General Graves himself has spent a good deal of time defending upon on the Hill. It is the question of the delivery delivery times. The waiting time now, the queue, for some pretty standard equipment, like tows, tanks, aircraft, stretches out into the distant future. Probably I will not be around to see the delivery on some of the contracts that we sign today. It is causing us a terrible problem. Ernie's solution to this is this Special

Defense Acquisition Fund, which I consider a very creative approach to the problem, and that is, it would allow the Defense Department to purchase long lead for items that we know are going to be in high demand; that we can absolutely guarantee that people are going to want in something less than 42 months or 36 months, or whatever the standard delivery times are. The proposal put forward by the Defense Department was one that would have provided a self-sustaining revolving fund, using R&D recoupments as the kind of capital base, which over time would have given us hundreds of millions of dollars available to buy those critical items that are the pacing items on these items of equipment that are in very high demand. I'm not sure what the legislative status of that is - Ernie has been following it more closely than I - but at least it has not been rejected out of hand. I think probably what the Congress will do is try to put a lid on how much the Defense Department will be allowed to spend in this exercise, and I might add it is not an inventory acquisition fund. We do not actually expect to have warehouses full of equipment waiting for buyers to come to the window. Rather, it is simply to try to reduce lead times from the three to four years to something more reasonable, and I think it is perhaps one of the most creative and interesting new initiatives that I've seen come along in a long time. I spent the last week in Pakistan with Senator Buckley and I could tell you this question of lead times is absolutely wrenching the Pakistanis in five directions at once. They cannot understand why it takes 42 months to deliver an airplane, when they face 85,000 Soviets right on their border and are looking at an imminent threat that they see as a matter of months, not as a matter of years.

So the question of how we can compress these lead times, how we can be more responsive, I don't think we'll ever be able to meet the kind of Soviet instantaneous reaction which they have demonstrated over and over again, but I do think we ought to be able to do better than we do.

I don't think I really need to say much more than that. These are the major problems at the moment that beset us, with the funding issue being front and center in a budget year that clearly is difficult for every Congressman and Senator to come to grips with, being asked to cut constituency benefits while at the same time voting large sums in what has to be described, I guess, as foreign aid. That's a tough proposition in itself. On the other hand, we are talking simply very basic here. We're talking national security. We're talking collective security, security of friends and allies, access to the Persian Gulf and its oil. We're talking regional stability, we're talking all the things that we have striven over 40 years to maintain. It allows us, somehow, to function and to prosper. I consider security assistance an absolutely essential central element to the successful pursuit of these objectives, and I hope you can help convince the Congress that it is, as well. Thank you.

Mr. Augustine

Our next speaker this morning typifies the type of individual who has a great deal of military wartime experience and also impeccable academic and managerial credentials, a type of individual, incidentally, which our nation has the good fortune of having a number of in the military and an asset that is not widely recognized in the media in this country as they describe our military. I'm talking, of course, about Lieutenant General Ernest Graves. Ernie attended West Point. He holds a Ph.D. in physics from M.I.T. and he attended the Harvard Business School. On the other side of the ledger, he has commanded a combat engineer platoon in Europe during World War II, an engineer construction battalion in Korea, and an engineer group in the Mekong Delta in Viet Nam. He devoted a substantial portion of his career in the nuclear energy business, both the development of military and peacetime capabilities. His last job in that area was as Director of Military Applications for the AEC and URDA. He has served as Executive to the Secretary of the Army, as Deputy Director of Military Construction in the Office of the Chief of Engineers, and he has served as the Deputy Chief of the Corps of Engineers. He became the Director of the Defense Security Assistance Agency about 3 years ago, now, and of course in that position, he is responsible for administering and managing the overall activities by the Department of Defense in the Security Assistance area. Ernie, we're pleased to have you with us this morning.

Lieutenant General Ernest Graves

Thanks, Norm. All that education and experience really didn't prepare me for the security assistance program.

When it comes to the future of security assistance, I have to say without qualification that it's going to be big and active. At the same time, my perspective of this is that although the change in policy from the Carter Administration to the Reagan Administration is really 180 degrees, that the underlying challenges aren't that different today from what they were a year ago. This is a very big and complex business, as you who are in it know. There is tremendous competition in this business and I want to discuss that at greater length. There are tremendous resource constraints in this business, and we are dealing with the transfer of extremely complex systems, from our own very advanced society to societies that have much less exposure to modern things than we have. As I will mention later, our weapon systems are designed to fit in with the American way of life and there are some fundamental differences between the way that we function and the way some of our client people we supply operate.

To talk about the difference in approach, I want to go back in time and just step quickly over some of the points that Norm

mentioned at the outset. Of course, at the end of World War II, we undertook the biggest security assistance program that we've ever had aimed at rebuilding the military capabilities of our allies in Europe to confront the Soviet Union. The grant programs of the 50's proceeded in 1980 dollars at the rate of approximately \$16 billion a year, which means that the United States was providing by grant assistance more arms to our allies than we are selling today. That rebuilding period also profited from something that we don't have today, which was huge excess stocks left over from World War II. After the Korean War, there was another rebuilding period and you can look at the details there, but at that time the levels were a small fraction in constant dollars of the effort that we undertook in the 50's. I might say, however, again we benefited from very large excess stocks from the Korean War.

It is an interesting characteristic - the people that received those stocks in those days think there still must be similar stocks around and that we can overcome the block obsolescence, they feel, because they're still using those weapons by providing them the current generation. We have to keep reminding them that we left those stocks in Viet Nam.

The Reagan Administration, it seems to me, has said that we are in another rebuilding period, as far as our defense is concerned, and they have said that security assistance is an integral part of that rebuilding process. Let me make this contrast with the view that I believe was brought initially to this problem by the Carter Administration. I think at the beginning of the Carter Administration, on the part of many of the policy makers, there was a view that security assistance had minimal military utility - that it was largely a political program. They didn't deny, at least in their own minds, the political utility of it, but they didn't see it as an extension of our defense program. That led to the policies with which you are very familiar. Now I think we are back to a view that we've had in the past which is that it does have very important military utility, that is, the United States cannot confront the Soviet Union alone, that we must strengthen our allies and we must rebuild a system of collective security. And that brings us to the heart of one of the difficult problems in this business and that is, how do we assure that these very large supplies of arms in fact are doing the best we can within available resources to build up the strength of key allies. Not only as quids for our relations with these countries, for access to facilities and so forth, but in fact to provide secure forward areas from which we may operate if we have to project power into these areas. This immediately suggests the types of systems that would probably be of greatest use in these areas. The cutting edge, probably, of any military operation in many of these areas will have to be provided by U. S. forces. But of course, we're going to have to

have secure bases from which to operate. It's not true in every case that the countries with whom we're working see their own defense needs as we do. They may have a selection of weapons on their priority list that is quite different from ours, when we're talking about military utility. We have to reassemble the process by which we do decent, forward planning. Les was describing the concept for a special defense acquisition fund which would let us buy lead time and he mentioned a point which I feel confident of, and that is at any level of money that we're likely to capitalize this fund it will be easy to select weapons systems that we can sell. Very easy. But that's a different problem from trying to direct the demand for weapons toward those that are really going to enhance our collective security posture the most. I'll be blunt about this. I'm not sure that our most advanced aircraft, given their costs, are necessarily the most desirable weapons to sell to all these countries. If you only have so many dollars to spend, you have to worry about whether you're putting them into the aggregate set of weapons systems that is going to provide the most defense to the free world. I see within the Defense Department today a strong sense that we need to get into this, but of course, a realistic recognition of the fact that we are not going to dictate this thing, but we do want to induce foreign governments to think about their defense in a rational fashion.

What I've been talking about is a system of forward planning, a system that looks at U. S. strategic needs and U. S. plans and U. S. force development, and tries to relate this to the force development of our allies and friends. You who have been in this business will remember that we did this in times past, and that as the system progressed, it became more and more bureaucratic and the documents became thicker and thicker and more and more useless. So we're not trying to go back to the period when we had a magnificent system that produced a perfect plan which was usually at least three years out of date when it was printed. But we are trying to reestablish within Defense and in the inter-agency arena a system that will plan ahead and hopefully will direct our security assistance efforts toward fulfilling such a plan.

That in itself shows you how complicated this business can be. Let me move into another area, which has been mentioned already, and that is the transfer of sensitive technology and of classified material. I will be honest with you. During the days of the Carter policy of restraint, the various, somewhat arbitrary rules represented a first line of defense and we often never got to the issue of whether a particular system could or should be transferred to another country because for policy reasons we didn't want to do it. Now that we move to an era where we recognize how important security assistance is as a tool of collective security, we get much more pinned on the dilemma of whether we

want, in fact, to take some of our most advanced systems and put them all over the world where we vastly increase the chances that their technology will be compromised. So I think the people who are examining this have moved from the second line to the front line in the present era and they're going to be busy. These are tough questions. It's not that we don't trust our allied and friendly nations, it's just that we think about Iran and realize that we live in a very dynamic world.

Les has already talked to you about the resource problem and I had that on my list to mention, but I don't think I can add much to what he said except to make a single point - that in the end, the volume of arms sales is being restrained, was during the last days of the Carter Administration, and is today by the availability of money. Interestingly enough, I think the volume of sales this year will probably be less than it was last year. It was about \$15 billion and I don't think we're going to make that this year. That's partly an accident of timing on major sales, but it's also a clear indication that you have to find the dough before you can buy, and a lot of money is going into oil and things like that in this time.

Let me just end up by commenting on the issue of price, which Norm raised in his opening remarks. The Arms Export Control Act is very clear on this subject. It says that if an item is to be replaced, it will be sold for the cost of replacing it less a correction for any diminution in the utility of the item being sold. I don't foresee that being changed for one very simple reason - if we're in the midst of building up our own armed forces, I cannot believe that those committees of Congress with oversight over that process will allow a system which in practice would subsidize our sales to foreign governments out of our own defense budget. And of course, if you divert an item to a foreign government and don't collect, through the security assistance process, the replacement price, that's what's going on. That doesn't mean we're not going to have to make these diversions and I would just say in concluding that another complex dimension of this whole thing is going to be the integration of our own build-up, the build-up of our own industry, into the requirements that exist for industrial capability to supply foreign countries. Norm recalled a time when the Army was building more for foreign governments than for itself. I don't see that recurring, but I do see the need for a lot of planning to make sure that we've provided adequately. Right now we're in the mode that we first supply the requirements of the U. S. forces, and then we supply foreign customers. This has produced lead times of as much as 5 years in the night-side area for example, and one use that I see being made of this special defense acquisition fund is possibly at the very beginning, to facilitate production lines, to have some fraction of production that would go to priority foreign customers in tandem with the supplying of our own forces. Here again, though, we get into having to have a forward plan before we can do all this.

I must say, having experienced the days of restraint and now moving into the days of a positive policy, the problems are not any less but they're a lot more fun to solve. Thank you.

Mr. Augustine

Our final speaker this morning is Bill Robinson, who was born in South Carolina. He has a B.A.E. from the University of Florida and a Masters degree in Political Science from Georgetown University. He was a Fellow at the Center for International Affairs at Harvard University during the mid-1960's. He has served as Deputy for Operations in the Office of the Deputy Under Secretary of the Air Force for International Affairs, as Deputy Under Secretary of the Air Force for International Affairs, and currently he is Director of the Office of Munitions Control, a very key position in the area in which we're interested, within the Department of State. It is my pleasure to welcome you this morning, Bill.

Mr. William B. Robinson

Thank you very much, Norm. I'm glad you didn't go further into the bio - sometimes when I listen to them I wonder if I really did those things.

You've listened to the policy makers and I guess everything we do in OMC really is policy, in a way, but I think we are more worker bees who attempt to carry out the policy. I'm not going to talk about policy any more, but I'll just give you a few remarks on what we're doing and what we're trying to do.

The new policy, which is before the President for approval, I've seen in draft and I've heard it espoused by Mr. Buckley and I think it's a very good one. It's plain and direct and understandable, and for a fellow like me, I think it would be pretty easy to carry out. It removes many of the restrictions which are irritants to you, but I do want to point out to you that as Les said, there are some controls left and I think one control that is left, and I believe I agree with it, is the necessity for the prior approval for propositions, proposals, over \$7 million. That is still extant and apparently it will be. As an aside to you, in the chain of command I want to say that the new people in PM are terribly supportive of me and very helpful. Rick Burt, who is the director of PM, has been very helpful, but really he is a Special Assistant to the Secretary and for you, industry, to attempt to see him to get into one of these cases or get into security assistance I think is a loser for him and for you. It's really not very efficient. If you did arrange it, he would just have to be briefed up and then he's called off to do his other things and he has to pass it on to someone else. So it's much better if you can't deal with OMC or with Ernie and you have to deal with State, I think you should see Mr. Buckley or see Les or see the proper person in the geographical bureau. Someday,

perhaps, Rick can be a true director of PM and spend some time with us on these activities, but for the moment I think I would try and spare him. He is interested, but he just can't devote the time to it.

I have finally completed my organization and I'm very happy for the first time with the people I have. I have a new Deputy named Hartley. He has been with me a couple of months now. He's good. I have Joe Smalldone heading the Licensing Division and he has just worked out tremendously. Joe is heading up a little committee working with DOD and with others to come up with organizational, procedural, and policy changes that we might be able to make which will help us and help you.

The first thing that we're really looking at is we hope we can do away with the Part 130 Statement, which is the requirement that you report agent's fees or political contributions. That's just an administrative thing now and in other areas of government, you read about SEC and Congressional hearings, and I think this is probably behind that. I think we should get rid of it.

At this particular time, our license application load is running at 36,000 annually. The face value of these license applications is something over \$8 billion. The actual exports against them, which really run a little behind, is about \$2 billion annually and that's increasing at the rate of some \$200 million a year. We want to speed up this processing. We're taking several steps. We have equipment installed now for automation and hope to have the program operating by October. Joe is trying to staff more things in OMC, which means less delay for you. One major step, which I think we'll recommend to Mr. Buckley and I don't think there will be any problem with it, is that our licenses right now, the unclassified licenses, have a validity period of a year. I ran through a check yesterday and about 16 percent of our license applications are renewals. So it is my current intention to ask for authority to extend the validity period to two years and we think that this would take at least 4,000 licenses a year away from us and permit us to look at more important things. Our temporary export licenses pretty much are granted on the amount of time needed for the export, and I think we'll probably standardize on them for a year. We do hope that sooner or later Bruce Meiser, over in DOD, under the new group will get some more people and some more help, because that is one area that we just can't do anything about. We don't move without a DOD answer and as you know, if it's a DOD "no", it's an automatic no from us. If we're going to get a "no" we might as well know it early on and I do hope that wherever that office ends up finally, that he will get more help.

The ITAR has become a very sore subject with me and I just don't know when we're going to have a new ITAR out. Our lawyers

are working on it. We had a hoard of comments, very good comments, and we now have a letter from the Senate as a result of some of the comments that you've made. I suspect that probably we'll have another draft in the Federal Register. I certainly wouldn't rule that out before we go final on it.

The munitions list itself, we just didn't have a whole lot of luck in taking . . . items off. We're not going to stop our effort. Anything that you think should come off, come in and ask us for a commodity jurisdiction and we'll do all we can to help you. But in the final analysis, our regulations, under which we're operating from the President, state that we can't add to the munitions list and we can't delete from the munitions list without DOD approval. So you don't have to persuade us. If you think it should come off, you have to persuade DOD because if they say no, it stays on.

Two last items I would say that you'll probably see more in the paper about our enforcement effort - I don't know if we're getting better if there are more crooks or what, but I think that maybe getting things out is a bit tougher and this raises the dollar value. As most of you are aware, there are people somewhere in this world who will do anything for a sufficient amount of money, and there are some pretty high pay-offs in this.

Last, Larry alluded to Senator Garn's interest in export controls technology. We're getting this pretty much across the board from the Congress and really I think it's good. I can't recall an instance where we have had pressure, real pressure on us to approve somebody's license. All we've had is statements of interest for constituents to get an answer, whether it is yes or no, and as far as our policy and procedures are concerned, I think all of the questions and suggestions that we've had have been objective and helpful and there's been very little sniping. But there really is a tremendous amount of Congressional interest.

Thank you very much and I look forward to your questions.

Mr. Augustine

That completes the formal comments part of our program this morning.

Let's proceed now with the question and answer part of our session here. Let me assure you, we have a super bunch of questions. I think there may be more experts out there than there are up here and I'm just glad I don't have to answer them.

I think I'm going to start out with an easy one and let me read it. It goes as follows. Now that Mrs. Gandhi is in bed with the Russians, what is the State Department's position

regarding trade to India and how does that set with our position regarding trade to China. We need a volunteer to answer that and Robbie, you'll be the first volunteer.

Mr. Robinson

As Mr. Haig said and President Reagan said, case by case. Truly, I haven't received any guidance. We're still looking seriously at things that India wants and we look with a tough eye, it's true. Les and Mr. Buckley were just out and there's a twitch and a breakthrough on Pakistani policy, but I wouldn't say that there's a corollary get-tough-with-India policy, would you, Les?

Mr. Brown

No, not at all. It's not looked at as a punitive policy in any way, shape, or manner toward India, although the Indians may interpret it that way. But the fact is that we have other perfectly good reasons for doing what we're doing in Pakistan without reference to India. As Robbie said, if the Indians have things they want to buy, we'll look at them case by case.

Mr. Augustine

The next question is for Secretary Brady. It asks if you will please clarify and differentiate between the roles of Commerce, Defense and State in establishing the policy for the export of military assistance, and particularly of technology possibly related to military equipment.

Mr. Brady

The Export Administration Act deals with dual use commodities and not military assistance, per se. That is Robbie's area. Basically, Commerce, Defense, and State work fairly closely in terms of the control of what we call dual use commodities - sophisticated computers, machine tools, the whole range of activities. Over the years, particularly through the 1970's, and I think it manifested itself in the disintegration of the system and the ability of the system to deal with the caseload, we've had a diffusion of authority. This was formalized somewhat in 1974, when the Jackson Amendment was adopted as part of the Export Administration Act, which gave the DOD a legislative veto over some of the actions in the export control system. Our objective in the next 6 to 12 months is to reinvigorate the Department of Commerce so that we can deal with this massive amount of paperwork without clogging the system, and we're going to do that by getting qualified people in the Department who are able to evaluate these license applications and make decisions. I think we're also going to deal with it by trying to come to grips with a list of what is controlled from both ends - from

the top end by saying that perhaps we don't want to make exceptions at this level and the bottom tier by saying that it's really from an order of priorities not in our interests to address this kind of commodity. We have also addressed the interagency system as I indicated. We have the apparatus moving and we've already passed through a number of cases that have been held up for 6, 9, 12 months. We've disposed of them in one way or another. So I think what we're looking to is a speedier interagency process by which the views of our advisory agencies are impacted on a particular case or issue and we dispose of it.

Mr. Robinson

I'd like to add one thing. If you refer a case to Commerce and the Commerce Department Licensing Office tells you it's been referred to the State Department, it's gone to the Economic Bureau in the State Department and they push the case around in the State Department for political and other inputs. But that Commerce case never comes to my office. We have nothing to do with it. If you send a case to us, we never refer it to Commerce unless it's a commodity jurisdiction case. We go to Defense, we go to NASA, we go within the State Department, but if you're in the Commerce system, you have nothing to do with OMC and if you're in the OMC system, unless it's a commodity jurisdiction, you have nothing to do with Commerce. But the point I'm making is that if you have a Commerce case and someone tells you it's in the State Department, it's in the Economic Bureau and not in OMC.

Mr. Augustine

Ernie, here's your easy question. It says, as you are well aware, the GAO has lambasted you on the DOD financial management and accounting of FMS programs. Would you take exception with any of this and what steps are you taking to improve the situation?

General Graves

I do take exception to the thrust of the GAO comments. The GAO perspective on this is 10 years and most of the adverse material that the GAO repeats comes from a period anywhere from 5 to 10 years ago before the formation by my predecessor of the Security Assistance Accounting Center in Denver, when we centralized a collection of funds from foreign governments and accounting. We have in place now systems that will accurately account for our costs. We are still building some systems. One of the favorite targets of the GAO is to keep saying that we have not done this or have not done that. Most of these programs that we're still trying to complete are ones that the GAO itself said initially would take at least 5 years to put in place, and they've taken each intervening year to note that we haven't got there yet. So

there is a slow process of accumulating all the costs associated with each sale and of carefully identifying the allocation of costs to individual sales. It's a huge job. If you have one contract which is buying for the U. S. Army plus five or six foreign governments, you have a problem of closing that contract out, it may run for several years, and allocating the costs to the respective customers. The slowness of this process is a problem, but no, I think I do reject these GAO criticisms. I think the tax payers are getting their money's worth.

Mr. Augustine

I liked all your answer except the part where you said the criticism was due to the guys who screwed up 5 years ago. That struck home.

General Graves

Well, let me say that it's not a question of mistakes made 5 years ago. It's a question of a whole new era in foreign military sales and the fact that to get ourselves in a position to cope with this huge problem takes time. At the very beginning, I think anybody would not have been able to handle the load that was thrown on the system.

Mr. Augustine

Ernie, let me ask you another one here. It concerns the fact that in most cases, other countries, particularly the less wealthy countries, request modern aircraft of a very high capability type. There were a number of questions that came in along these lines. The question is what rationale might we use to deter the demand for that type of equipment without damaging the established foreign relations and when profit, not security assistance, is industry's bottom line, how would you handle the rationale for approval to sell? I would add my own P.S. to that that if you do begin to push one contractor's less sophisticated equipment at the expense of another contractor's more sophisticated equipment, isn't the government then interfering with the commercial process in favor of one contractor rather than another?

General Graves

It's an outstanding question and not one easy to answer. However, and I think when you read the new Arms Transfer policy, which I hope, Les, will be issued in less than 1 year, you will see that the foreign policy in national defense aspects of the United States are the driving rationale for this, not commercial profit, balance of payments or anything like that. You will not find that in the policy of that that we're viewing arms transfers as a commercial proposition. Granted, very important companies to our national defense are engaged in this business and need to

profitable to survive. So, we do have a dilemma, but I think we're going to say to these countries, (a) how much money are you prepared to spend on your defense; (b) don't you want to get the most defense for your money; and (c) let's take a hard-headed look at the systems which are best suited to your defense needs. Now, let me jump right into the frying pan and out of the frying pan into the fire, and lay it on the line with respect to the relative merits of the following aircraft: the F-5E, the F-5G, the F-16, the F-18A, the F-18L, the F-15, and the F-14. Now, I will be honest with you. I do not expect the U. S. Government to be totally neutral on the relative merits of those aircraft for the some 74 customers that we have around the world for foreign military sales and security assistance. I think it would be a dereliction of duty if the experts in our Government were neutral on this subject, and if you watched the CBS program on the F-18, I thought it was a hatchet job but there were some very compelling issues raised in that program about the relative utility of these aircraft, depending upon the missions you expected them to fulfill, costs, etc., and I don't expect the U. S. Air Force or the U. S. Navy or the proponents of these aircraft to stand back in total innocence in this subject. That's one guy's view, my view about this issue.

Mr. Augustine

Ernie, thank you for your candor. Let me ask a question now of Mr. Brady, which goes as follows: You mentioned a Soviet aim of making Western Europe dependent on the Soviet market - and Admiral Moorer mentioned that also with respect to the pipeline and so on. Conversely, how can we use the large Soviet Block debt to the West to further national aims, and does not this debt dampen somewhat the Soviet capacity for hostile action?

Mr. Brady

To answer that question, you answer the question of vulnerability and dependence. Is the debt, in fact, a tool for us or is it a lever for them? If they default, which American banks are left holding the bag? Which Western banks are left holding the bag? What is going to happen to Poland and Rumania and Yugoslavia in the next couple of years? There's no doubt that the East European and Soviet debt is a concern. The East European, in essence, at this point, more than the Soviet debt, because the Soviet debt is fairly small. However, that debt is going to increase in tremendous proportions if the pipeline is built. The projections on the cost of the pipeline, for instance, are \$15 billion and if you talk to anybody who was involved in the Alaskan pipeline, they laugh at that. They'll tell you that they'll wager right now that it will be \$30 or \$45 billion. So how much of that is going to be financed from the West? I think these are the legitimate issues. I'm not sure I know where that

leverage is. I'm concerned over the East European debt, but I think we have to look at the element of defaulting and what it does to certain institutions in the West.

Mr. Augustine

Here's one that I'll again seek a volunteer for. It says that most Congressional debates on arms transfers, at least on the surface, appear to be motivated by political considerations, opposition to Saudi sales by Israeli sympathizers, and so on. Is there any relief in sight and how true is this and how might it be handled?

Mr. Brown

Well, I don't think there's anything new in that Congressional approach. Congress is a political animal. It's clear that any controversial sale will be argued on its political as well as its defense and security merits. I think my own experience over a number of years is that the longer the Congress has to wrestle with these problems, and I'm thinking now of the Iranian AWAC sale in 1977, the original F-15 sale to Saudi Arabia, which were equally controversial, that as the Congress had more and more time to look at, absorb, read about the underlying reasons for the sale, the more intelligent became the debate. The more intelligent became the newspaper stories and the editorials. I'm not saying that the current Saudi AWAC sale is going to be an easy one to deal with on the Hill. But I don't believe that simply because it's become a political issue that therefore (a) it's bad and (b) that we're going to lose. I think if the Administration does its homework properly, if it answers the questions that are posed squarely and honestly, the Congress will begin to unpeel the onion and look carefully at every layer and in the end I think we'll come up with the right decision.

Mr. Augustine

Here's one, Robbie, for you. It goes as follows: Foreign customers of defense articles and services perceive that FMS is unduly drawn-out in the bureaucratic process. The time to contract an industrial start-up of production is very long for many cases. Program and contract management by the military departments is perceived as generally poor. Too much of an adversarial relationship is present between the U. S. Government and the U. S. defense industry. What are you doing to alleviate these real and perceived FMS management problems - for example, will State perhaps loosen up on the direct sales licensing process?

Mr. Robinson

I honestly can't answer the question, but I think in the real world, if you're talking about a high dollar value item,

as the questioner was, I think number one, if the company had made a sales proposal, they would have gotten a prior approval from us and if the recipient country was really interested, I think they would have approached the U. S. Government and the real question that you're getting down to, and it's really between Ernie and SAS, is if the country has indicated a desire to go commercial, and I don't think anyone will mind if I say FMC just to get a real life example, on M-113, your real question is would the DOD then give price and budgetary data? I guess the answer again is it depends upon the entire circumstance and I'd rather turn it over to Ernie

General Graves

If the country has entered into discussions with a commercial firm on a commercial sale, we will not give planning and review data unless we can get it clear and we have some customers that keep trying to compare the Government sale with the commercial sale and we've had to rap some knuckles on this subject, to be brutally frank about it. We are not in competition. Our view is that if they want to go government-to-government for whatever reason, and the item is commercially available, they have to make their case at the beginning and the last thing we want is for some firm to expend 2 years of effort making a sale and then have the foreign government turn around and come at us to have it a government-to-government contract. We don't want that, because it gets crosswise on profit and a lot of other things which are inappropriate. On the more general question on the length of time it takes and the competitive nature and all that, I think this was the thrust of my comments earlier. If we get a forward planning mode here, we'll get a much better integration of the foreign requirements with our own and we'll hopefully greatly reduce the time it takes to supply foreign customers.

Mr. Augustine

Let me ask you another one while you're at bat here. In general, what limitations on retrofit modernization are placed on countries which received grants or FMS equipment during the 60's and 70's. For example, does our government exercise any disapproval authority if they have the means to modernize by themselves?

General Graves

Not really. Occasionally there is a sensitive issue here, but almost always there's not. Assuming that we're still on friendly terms with these countries, we generally encourage retrofit and modernization as a much less expensive alternative than acquisition of new equipment.

Mr. Augustine

Here's a question that relates to Commerce. It basically says that with the new emphasis on perhaps strengthening China's military capabilities through better armaments, where is the money going to come from for China to do that? Will the U. S. set up FMS credits or other government-guaranteed credits or grants or what have you to permit industry to service that market. The person who raises the question concludes that China cannot pay for what it wants.

Mr. Brown

Obviously that's a legitimate question and the fact that China is going through its "policy of retrenchment" at the moment lends credence to the question. It's difficult to view, for instance, the China market without contrasting it perhaps with the Soviet market or some of the East European markets. It is true that China has limited currency at the moment. However, it is also true that it has some resources at its disposal to earn itself the currency by which to purchase from the West. If you talk about oil resources, for instance, it's possible that China can earn itself some currency to come into the Western market. Frankly, what the Chinese are doing now makes a good deal of sense. We're talking to a number of companies who are dealing with the Chinese and they're talking not about building the massive scale enterprises that the Soviets talked about in the 70's, but rather refitting, redesigning some of the existing enterprises, concentrating on the agricultural sector. It's more limited, it's more realistic. Nevertheless, it is a problem and it's a problem that we will address in the coming months because we are determined to get in on the ground floor with regard to the PRC. We think it is a market. We think that the strategic interests of the United States and the PRC coincide and we want to bring them into the system and try to find solutions to those world problems.

Mr. Robinson

I would just like to set the record straight and make sure you all have the same understanding of the PRC situation that I do. In March of 1980, an interagency group developed a list of categories of items off the munitions list. It's a foreshortened list of items that we would be willing to consider for the PRC, and we published that and that's known as Newsletter 81. Any other country in the world, every other country in the world is eligible to purchase commercial munitions in the United States, is eligible for the full list, full munitions list. Only the PRC is eligible for our restricted list. Since last March, let's say 15 months, we've handled about 130 applications. We probably

approved 50, probably denied 50, and we have something under 20 pending. Of the approved ones, only one so far has been for a sale and that was for a sale of two fairly small airplanes and we will approve the avionics for those airplanes. That's all that's been purchased to date. What's happened most recently is the Secretary has said that after Congressional consultation and when the Chinese defense delegation comes here in August, we will hear from them what they want to buy and we will look at what we're willing to sell and we will decide on a case-by-case basis what they can have. That is a nutshell description of where we are today on the munitions side.

Mr. Brown

On the dual use side, it is not like that. The trade with China has exploded in the last couple of years in the dual use area. There is substantial trade and for instance, we are going to be making more public the guidelines which Secretary Haig and the President agreed to a couple of weeks ago, and let me tell you that in the computer area, for instance, we will, as a presumption of approval, license to a PDR of 64, which is twice what we were willing to license prior to Afghanistan for the Soviet Union, so it is a substantial improvement in the dual use area.

Mr. Augustine

Les, the next question relates to Secretary Buckley's speech to the aerospace industry's association in Williamsburg. He pointed out that it would be a policy of the administration to encourage sales by industry of less sophisticated, lower cost equipment to our allies. The question is in what positive way will State encourage such sales. And kind of a footnote question, points out that approving an advisory in 6 weeks instead of 8 is not really a substantive help and that we need something of greater magnitude.

Mr. Brown

I think there are two issues here. One is the administrative one of how rapidly we can move advisories through the system and I'm hoping that month by month we will shorten that period. There are unfortunately a number of stops on the bus route that we simply cannot avoid, as Robbie well knows. With respect to the question of flogging less sophisticated equipment, we have limited ability to do that. I guess what Mr. Buckley is really saying is that, as Ernie pointed out earlier, it is in our interest to see that allies get the most for their money. There are real questions in my mind whether the most advanced aircraft for an underdeveloped country is a sensible expenditure of limited funds. The best we can do is to make available to prospective purchasers

the full range of information that we have on potential substitutes of less cost. I think this is particularly true in the aircraft field, although the famous FX controversy still bedevils us, in part because we still don't have an F-5G, except in a mock-up form and it's very difficult to sell a nonexistent airplane. But that is the kind of thing that one would at least want to introduce a foreign buyer to before they opt for F-15 or an F-16A. But quite clearly, the Government cannot be in a position of really directing sales in the sense that we will not permit the sale of, say, a 1679, but we will permit the sale of an F-5G. It is perfectly obvious that that's just not the role of the government, but it certainly is our responsibility to make sure that the information on the full range of airplanes, tanks, artillery, whatever it is, is made available and that the relative merits, costs, and so on, are brought starkly before the potential purchaser.

Mr. Augustine

Ernie, a question for you that as security assistance grows in the years ahead, which it appears likely to do, and the role of the DOD changes rather dramatically from a somewhat passive participant to a more active participant, at least as an intermediary between industry and foreign nations, is there any change in the basic organization or orientation of the DOD that is planned. The question also relates to the fact that if a substantial amount of our procurement and logistic support is on behalf of our allies, a very miniscule percentage of the people in the DOD procurement business are charged to that type of work, and are we properly recouping the true costs that seem to be coming out of the services' hides today?

General Graves

Well, first, we are seeking from Congress approval to raise the overall level of our overseas management organizations by about 100 people because we haven't felt we were effectively able to conduct our security assistance liaison and management activities overseas in all cases. Now, within the CONUS organization, I don't think we're going to change from our basic dual use approach to procurement. That is, if we want to use the same procurement setup for foreign customers as we use for our own forces. That's where the efficiency of the system comes, where we use the various project management offices that are running the major systems to manage both the U.S. program and the FMS program. It will be an endless controversy about whether the costs of effort for foreign customers are adequately reimbursed. We spend a lot of time each year going over service budgets in this area. The 3 percent admin fee produces \$300 million a year, which has to be allocated among the services for costs of the FMS program which are not directly attributable to cases. If we have a major case, we have a management line on the case to which the service can

charge a direct cost of that sale and the management of implementation. We have done a lot of things to be sure that our prices include the costs to the services of doing the job. Currently, we estimate that there is in the neighborhood of 25,000 man-years of DOD effort going into foreign military sales. We program that manpower annually in the defense manpower system and we try to be sure that this effort is reimbursed. We have elaborate rules on this and although the GAO has tended to be critical in this area, here again, I don't agree with them. I think we have a system that takes care of this. If the program is bigger, it will take more people to manage it and we will have to put more people on it; hopefully OMB and Congress will assure that our overall DOD manpower ceiling provides enough people for this and we will collect through the foreign military sales procedure the money to pay the salaries of these people.

Mr. Augustine

Ernie, the next question is the flip side of that one and it points out that R&D recoupment by the U. S. Government can often be the difference between a sale or a loss in a competitive commercial sale to a foreign country. The question is, is there any possibility of relief or at least how will we decide to what degree and when to insist on recoupment?

General Graves

Well, of course, not if Jack Brooks has anything to say about it, because he put me on the griddle about a month ago on the fact that we had waived R&D recoupment at least once too often. We need a set of guidelines in this area so that people know what is and is not possible. The track we're on now is that we'll have waivers for NATO and I hope after this year, Japan, Australia, and New Zealand for standardization. We don't really have authority to waive except in this very unique and never-used case of co-production arrangements. I think this is another case where there are two views and we're sort of in a compromise position now. I doubt whether Congress is going to want to give up this notion of R&D recoupment. I will be honest with you; it would be much simpler to administer if it were all one way or all another - either we didn't recoup it at all or we always recouped it. I think the way we are now, we've just invited trouble, and I could argue that either of those two extremes would be simpler in the sales business. I think you that are in the business of marketing know very well that every customer wants a special deal. That's central to entrepreneurship and we just served one up here that's causing probably more trouble than it's worth. But we'll be waiving when NATO standardization or standardization with Japan, Australia, or New Zealand is clearly served by sales.

Mr. Augustine

The next question is for whomever would like to answer it. What has Pakistan requested in the \$3 billion package? That's a good one for State.

Mr. Brown

It's a little early at this point to really answer that definitively. Senator Buckley and a group of us were out there last week, just got back, in fact, Tuesday night. We have a list of things they want. The problem is that there are questions of availability and cost, and by availability I mean delivery times. We are going to have to look at the list. A few things that they want are simply not in production or have only just begun production and therefore the waiting time is going to be so infinite. We're going to have to look at substitutes, we're going to have to scrub that list pretty carefully. We expect a Pakistani military team to come here probably in early July, at which point we should be in a position to really sit down and go through the list item by item. There are no real surprises in it; as you all know, the top of the Pakistani list is aircraft and specifically the F-16, but they have a lot of other ground force requirements as well that mostly have to do with the northwest territories and the problem of defending a rather long and difficult border against possible incursions by Afghans and Soviets against the refugee camps on the Pakistani side of the line. Since there are 2 million refugees in Pakistan today, you can see that it's a fairly serious problem for the Pakistanis to deal with.

Mr. Augustine

We have time for one more question for each of our panelists, so we'll just go down the line here and begin with Secretary Brady and the question refers to the explosion of high technology in Japan and our European allies. How can the U. S. hope to control the transfer of such technology potentially to the Soviet Union when our allies have that same technology available? How does it serve us to try to control it when our allies are proceeding to export it in many cases?

Mr. Brady

First, I don't necessarily agree with the assumption that the allies are exporting it in each and every case. The controls which we have are administered by an organization called COCOM, which is the NATO allies plus Japan minus Iceland. There is no questions but that there are strains in that relationship. However, implicit in the question was the statement that there is fairly widespread disregard of those controls, and I don't think

I'd accept that. Now, that doesn't mean that as we go ahead and attempt to tighten the controls that we're not going to have some very serious talking to do with our allies. That's already begun. I would make the point that for the first time in 5 to 8 years, these discussions have been raised above the GS-13 level in COCOM every Tuesday morning. The ability of the United States to exert leadership in the area is open. We have raised it to the highest levels in this government already and we have brought about a consciousness with our allies that it's a very serious problem that we have to deal with. What kind of success we achieve, I think depends on how good we are in terms of persuasion, how good we are in terms of defining the threat and what's happened over the last 10 years. Basically, the Europeans know what has happened just as we know what's happened. The Japanese have a certain relationship with the Soviet Union but they also very definitely have certain concerns. So, it's not a black and white situation. I think if we do have the leadership in this government, in this administration, and I believe we do, we can make some significant strides, multilaterally, in implementing a system of controls that really have an effectiveness to them that we've not had in the last 3 or 4 years.

Mr. Augustine

Les, there were several questions that alluded to the fact that last year the Carter Administration opposed the Senate amendment to lift the ceiling on direct commercial sales. This year with such an amendment, how would the Reagan Administration respond?

Mr. Brown

I'm not sure that I'm really competent to answer that one. I know it keeps recurring and I know that there are different views even within the agencies about whether it would be a good idea or a bad idea, whether one loses a measure of necessary control or not. I'm an agnostic on the subject. I'll listen to any argument and the fact is, I don't have a view. But maybe you should ask Ernie that or Robbie.

Mr. Robinson

I think unless you take the position that \$100 million is restrictive, the question is moot. If you take the position that \$100 million is overly restrictive, then you do have a question, and when you get over \$100 million, really you're talking modern jet aircraft, which by and large you're going to go FMS anyway. Outside the NATO area, I just really don't know anybody other than Northrop and the F-5, which the U.S. Government helped them with, it seems to me an airplane of that sophistication costing that much outside the NATO area is going to go FMS. We have sold some F-4's commercially to Greece, which is okay under the

ceilings, because NATO, Australia, New Zealand, and Japan are exempt, but really it just comes down do you need no ceiling rather than \$100 million outside the NATO area, and there you are.

Mr. Augustine

Robbie, while you have the microphone, the next question can come to you. It alludes to the provision of technical data packages and equipment to manufacture munitions to the Koreans and the question is what would be done to protect U. S. industry from competition by the Koreans of manufacturing and selling to . . . countries in violation of perhaps unofficial agreements.

Mr. Robinson

Probably whoever asked that question is the representative of the company we're working with right now through the embassy and the MAAG to get the matter straightened out, and we are being as aggressive as we can.

Mr. Augustine

Last question, Ernie, for you, and it asks do we now or will we ever give consideration in international procurement areas to making decisions which help achieve economies of scale? The writer points out that the XM-1 tank is not only an exorbitantly expensive tank of questionable marginal utility for us, it's absolutely prohibitively expensive and completely unsuitable for export, especially for the developing world.

General Graves

Well, I don't agree with the premises of the question, but I think inherent in my pitch for forward planning is the notion that we do have to, in our whole process, try to get more efficiency into our defense acquisition program, and we are, in Defense, the new administration is very concerned about our defense production mobilization base, about the efficiency of the whole process. And I do see efforts to integrate the foreign supply program with our own procurements in order to enjoy economies of scale and in another vein, to smooth out this process so you don't have the variations in production rates and things like that which are so costly. One advantage of integration will be, hopefully, the ability to start up a program at some rate which makes sense over time and to proceed at that rate and to supply all the various claimants in a logical priority that will make each major production program as efficient as possible.

Mr. Augustine

Well, ladies and gentlemen, that just about runs us out of time. We've got through less than a third of the questions and there are some awfully good ones we didn't get to. I'm going to take the liberty of asking the ADPA to provide each of our speakers with a copy of all of the questions so that they can be at least aware of what is on our minds, and perhaps in future speeches include some of the answers.

I'd like to especially thank our audience for providing those great questions and for your interest, and I would particularly like to thank each of our panelists for taking time off from what are obviously positions of great responsibility and very demanding on your time to be with us today.

Thank you all.

Mr. Shillito

Thank you very much Norm and Larry and Les and Ernie Graves and Bill Robinson for an outstanding panel session. I'll not go into any detail to introduce Secretary DeLauer again, other than to say that he will now give us a presentation on a number of things that have probably come up in the last few days, that came up yesterday during his discussion with us and some of the future directions.

Dr. DeLauer

Now that we're getting to the tail end of the meeting, let me say I think these meetings are useful. The one the ADPA had last December, where you were talking about activities in built-up areas, was very, very worthwhile to have the participation by members of the Alliance in that kind of an interchange. It made the meeting very worthwhile. The report is now out, I saw a copy of it yesterday, and their participation made it really worthwhile. I think the same thing here. So I encourage the ADPA to keep these things going. For goodness sake, let's spread them out a little bit. This was the week that was when it comes to people talking to Associations, so thank God it's Friday.

I talked a little bit yesterday about what the present situation is. I'm supposed to kind of look into the crystal ball and tell you what the future might bring. I'm not going to be a fortune teller. I can merely say that I think that realistically and on balance, the near future is going to be an extrapolation of the present. I hope, as I mentioned yesterday, that we can get into the substance of the matter and try to get more of the MOUs underway and get some real programs underneath them, and I

think we're pressing toward that end. We're just going to have to do it. The threat is real and we just have to have some kind of collective investment, collective development, as well as production in order to really have any chance whatsoever of making a dent in the mismatch.

So we'll keep pressing for that real growth in the budget. It's going to be tough. We're starting to feel the pressures already. There's no way that we can expect anything but support from our allies and friends - they have to also make some commitments. As you all know, both the Secretary in his visits to Europe and meetings here in town with some of the Defense Ministers that have been coming through Washington lately, has urged them that they have to continue committing some resources. They had a big meeting with the Germans when Schmidt was here and it was clear. Certainly you're all aware of the reaction with the Japanese visit. The guy went home and resigned. So we're keeping the pressure on and we're not going to let up. That's what the future holds - more pressure.

Now we need some real results in the hardware end and we're going to try it. I think the present situation is pretty encouraging - we're getting somewhere. We're trying to internally try to improve our acquisition process so that we can provide more stability to the programs. We're in the process now of reviewing the Program Objective Memorandum, the POM. All of the services have theirs in and we're looking and giving presentations and all of a sudden, people are finding that the Carlucci initiatives really do mean what they say, that you'd better have your program and your planning match for a change. We had one incident yesterday and one fellow said, "Well, they never did before - why do you insist on it now?" I told him there was a new memorandum out that says that you have to zero out the error function, and if you have the Defense guidance and your POM says you're going to do something and you take a look at the program and it doesn't match it, then we're going to get back and start figuring out what it takes to make that mismatch come down to zero. Some hard decisions will have to be made in the next couple of months.

I think that with this hopefully better planning and cost stabilization, we can do something about getting some of the vendors and subs back into the defense equipment business. And so we think what we can do in Europe, particularly, in the Alliance, that that will help because I think that indeed provides some competition. Hopefully, it is really a true competition, that you can become competitive and we think that some of the new programs are going to make it clear whether you can or you can't become competitive.

We've had some good cooperative effort. The F-16 is a pretty good model. The forward-looking infra-red thermal imaging system,

they're in pretty good shape. We're going to have the multiple launch rocket system, the MLRS, go international cooperative and we're looking forward to having that happen. We have some conventional munitions that are to be improved; Copperhead, 9-L, Maverick, Patriot, Stinger are all programs that are underway. In co-development, we've got the terminally guidance warhead, the exploder resistant multi-influence sweep system, ERMBS for those who would rather talk in acronyms, the IR search and track, the rolling airframe missile, the KC-135 . . . , which is in the budgets. We do have the air-to-air family MOU in pretty good shape - I'd like to get the programs in better shape, but we have the MOU in great shape.

We're still working on the next generation anti-tank. We're trying to work the problem. The guys who are supposed to be working the problems are here at the meeting, but we'll get them back to work soon. We do have a second generation anti-tank improvement data exchange, which is the first step toward understanding each other, and really comes back to the requirements issue. It's a fundamental piece of the acquisition initiatives. Everybody I've talked to, all the colleagues that we've had here, David Cardwell a week ago when he was over, certainly the Germans are very supportive of the idea - we just have to get some money out of them - they're supportive, but sometimes their parliaments have trouble, which is the same case with us.

There are some problems that remain. Let me talk about a few of them. Ernie talked about one just as I came in, this whole question of pricing is kind of a mare's nest and we're going to try to straighten it out. How successful we'll be when we start arm wrestling everyone's point of view, the whole question of R&D recoupment, the question is what is a component - the question of what is auctioning - all those things that make or break some kind of an arrangement. The whole question of offsets - there's one issue of offsets, particularly in the DOD, and then you start looking at offsets that are not within the control of the DOD or have nothing to do with DOD business, that's another issue. The DOD has kind of taken a laissez-faire attitude on the whole question of the offsets. Sometimes we worry about it and sometimes we don't. I got involved in the offset issue on the other side of the fence, on the F-16/F-18 battle in Canada. We were inventing new things, putting new things in our automobile plant in Ontario in order to support an engine program and a supported airplane program. It gets pretty complicated. I hope we can make some sense about that. I think that it's not a very rational process when these offset issues are there that it doesn't affect the deal. They wouldn't even be considered if it didn't affect the deal. To ignore that fact is an ostrich approach. How to take it into account in any quantitative way is the hard thing. So, to start out it will

will probably be some kind of a qualitative approach as to how it should affect the price.

Technology transfer - I was on the first DSB task force, which produced the Bucie report almost 10 years ago. The water hasn't gotten any clearer in that 10 years. One man's problem is another man's opportunity. The industries vary. Our American instrumentation industry can't live without export. The market is just not big enough, domestically, and particularly the DOD market is not big enough for them to make a living. As a consequence, they do export. I know from my own personal experience. I followed it down in the component business. I wanted to see where some of our LSI commercial components were going so that I wouldn't be embarrassed when I came to a meeting like this. We sold over half of them in Western Europe. But there was absolutely no way for traceability once they got into the hands of the distributors. We never knew where they went - these were chips, A to D conversion chips or multiplying chips, good ones. So it's a tough problem and how we're going to do that is still open for question.

The whole question of patent policy. We had discussions yesterday with the French on an issue in regard to what we would call technology originating in the country on a joint program. How do you determine whether it originated in one place or another? Henri Marque said it was great. He said, "Let's talk about the wireless. The Russians said they invented it, the Italians say Marconi invented it, Americans say Edison invented it - who invented it?" Trying to narrow down the definition and making it acceptable to everybody on this is going to be a tough problem. Someone suggested it should be patented. Patents are different in different places. We have different utilization of patents in this country, whether they are government sponsored and even between agencies. DOE has a completely different patent policy than does DOD. So what if it's an energy kind of technology, where would we stand? We have to sort these things out. As was brought up in the questioning yesterday, our elected representatives want to and do play an important role in this. Our Congress, the parliaments and assemblies in Europe, they get in the act and they will continue to get in the act and no forecast of the future that I can see is going to get them out of the act. So we have to recognize that they're part of the institution that is trying to make this thing work and we have to address explicitly every single issue.

Anti-trust - we're doing better there. I think the environment in anti-trust is better during this administration. Certainly my boss made himself clear on the ATT case, so at least in the DOD we think that some of the views on anti-trust can be looked at differently.

But I think probably the toughest problem is getting the military requirements pinned down. This is always a time-consuming process. We do have some mechanism in place to have the people be able to address it in a collective way and I hope we can get two or three of them out between SEANAV meetings. We have another one coming up in early October and I hope we have a different agenda than the one in April, and get at least a few things off the top and put some new ones on the bottom, particularly about some of the requirements.

Our programmatic issues are real. The minute the House zeroed GPS, I got nothing but wires. "You rascals, you promised us the GPS would exist. We're making big plans on user equipment. We have a plan for the future to put it in all our equipment, and the airborne segment of the system is as best we know zeroed out for this year." Well, we got it back in. We just have to keep meeting those commitments. As a matter of fact, our international cooperation was a kingpin in the GPS. I think it will be the thing that will help us really sell it and get it done in Congress. If it was strictly a domestic issue, we might have lost it, but it wasn't. It was an international issue so we're going to go fight it very well. The KC-135 re-engining went right on through. All the money is there and it's ready to go. The Air Force is going after Rapier, which I think is a good deal. A lot of good marketing done and the people in British Aerospace point out they've got Rapier support capability all over the globe. They've got almost every place in the globe, particularly in Southwest Asia, capability for supporting Rapier because they have sold it to a lot of people. It's got a little bit of a pony in there that might just be the thing that could make it happen. Since this was bought for the Air Force, now we have to convince the Army that it might be a good idea for the whole RDF. We're going to try to do that.

So, in summary, more of the same, I hope a little bit faster rate of success. But we can't have it without everybody working at the problem and trying to do the best they can. We're not going to give up on the third floor, and it must be a good job - I've had more applications for V. Garber's replacement than I think were received for the Secretary of Defense. So somebody must love it, and if it's that good maybe we can put some kind of an incentive forth and get some results with it.

So with that, thanks for having me. Barry, thanks for all your help, and we'll see you soon - but I hope not too soon.

Mr. Shillito

Thank you very much, Dick. I'm going to make a couple of wind-up comments and we're going to get out of here well within

the time scheduled, let me assure you. First of all, I want to express appreciation again to the ADPA staff for putting this entire session together, and most importantly, express appreciation to the participants, particularly those from allied foreign countries who made such an effort to be with us today.

We're planning on not having anything in the way of a near term similar conference in the DC area, but we will be thinking of a future ADPA conference some time next year on the West Coast, not unlike the conference that we're talking about today. It will be structured somewhat like that conference we have had here the last two days.

Just a couple of comments on the highlights. I will say nothing about the comments of the last panel or the highlights of the last panel. We all sat in on those. But a couple of things that stood out, to me, in the way of highlights stood out. I think Dick's comments yesterday relative to working more in the direction of implementation, rather than additional MOUs, etc., is indeed sound. More industry work, less government involvement is indeed sound. The Carlucci initiatives are things that many of us have reviewed and not too much in the way of disagreement as regard these initiatives. At the same time, for those of us who have been wrapped around the axle for a long time, the implementation problem within the U. S. bureaucracy is tough. I think a lot of people down at the desks down the line in our operations within key segments of the U. S. bureaucracy - it takes a lot of work to be sure that these people understand the direction that the policy changes are inclined to push them. Many people are not with the policy changes yet. I assure you, Dick, this is something that takes a lot of attention and will not change rapidly.

In our Session II, a number of things stood out. Jim Barnes' three points relative to international cooperation hit us first. The Armed Forces themselves having to agree on the type of equipment, which was touched on again by Dick; the industries' participating benefits, as we move towards cooperation, is essential; and the agreements between governments as a whole on a myriad of issues that have stymied us so often in the past indeed also stands out. Hanspeter Schwalber emphasized the same three points as he went through his run-down, emphasizing again the industry-to-industry cooperation. General Matre made a point that a lot of U. S. industrialists don't agree with, or haven't agreed with in the past. He talked about various successes of potential opportunities, but he made the point that France is given nothing in the way of subsidies for arms sales in any of their exports. This same point was made by General Poivano of Italy. He also

made it clear, as was the case in a number of other of our speakers, that their governments tie heavily to socio-economic problems and they force an awful lot of problems to surface that present stability problems as regard their military operations. The fact that they have to depend on both their industries and our own and that in his instance, arms sales abroad has become a major domestic political issue was, in turn, emphasized.

Bob Mitchell, at lunch yesterday, was indeed stimulating and there is no question but he was. At the same time, a number of people that were involved in the Munich conference that was referred to that was held early this year, questioned some of the factual material that he presented. A number of our allies disagreed with the point made by Bob, i.e., that U. S. exporters are at a disadvantage due to foreign constraints and U. S. legal and Executive Branch disincentives. A number of our allies would disagree to the point that they would be inclined to say that their industries are at a disadvantage in attempting to sell to the U. S. in a similar kind of mode.

Session III - as a group, Messrs. Selden, Real, Caligiuri, McClennan - I think the single issue here is that exporters must be heard and they're not being heard adequately, as far as the Congress is concerned. That was the single major point that came through from that session, over and over, and that we, the U. S., lack a coherent trade policy, something that's very important for all of us that are in the export business. As a part of that group, Bob McClennan, of course, touched on the international economic policy, the blueprint, that was put together for the Reagan Administration and the taxation policy, the improved financial structure, and so forth, that were all a part of that blueprint, all important items, without question.

Ambassador Okawara made a couple of points that were pretty important to all of us - that defense issues are spilling over into other economic issues between the U. S. and Japan; that the U. S., as was touched on in the very beginning yesterday, is questioning Japanese willingness to support its national security; and he emphasized and touched on a point that many of us were not familiar with - the fact that the Ingersoll-Yoshida get-togethers - that these two gentlemen are leading a joint study assessing our two countries' security and that the outcome of that study will have significant impact on the relationship between the U. S. and Japan relative to national security. As regard their involvement in national security, the Ambassador made it clear that they have been increasing their defense expenditures at the rate of about 7 percent per year since 1970, and they are now at about \$11.11 billion in U. S. terms per year.

On the Session IV parliamentary issues and their responsibilities for cooperative security in trade, I guess I'd have to say that this was one of the best parliamentary discussions that I have ever been exposed to. I think it was outstanding. Their constituency problems are something that many of us in the U. S. sometimes don't think about, our allied constituency problems being very similar to the problems that our elected officials have here in the United States. The structuring issue was touched on, recognizing by them that changing the total structure was awfully important, but that the total structure to get this cooperative job done was going to take time. They emphasized the fact that the next 4 to 5 years are going to be critical and they got into some detail relative to the magnitude of European forces operating in NATO, which I'll not belabor. They emphasized that Europeans feel that U. S. industry would like to see the European industry become its subcontractors in the minds of our European allies, that the two-way street is essential, and that it can stand a little traffic. They feel that there's been comparatively little in the way of traffic coming their way, in their minds. They feel that NATO should be more involved in the total acquisition arena, NATO must become stronger as regard the decision-making process rather than the assessment process. There is anxiety and fear in Europe and they emphasized the fact that we know that we can't survive the next war regardless of the winner. This was made clear on several occasions. And financially it's vital for them to have the necessary cooperation on the part of all of us. They made a point that I thought was fascinating - their difficulty in understanding the U. S. procurement system, in their minds it being incomprehensible to the Europeans and the fact that the Europeans don't know who makes the American acquisition decisions, i.e., within our services, State, White House, etc. I'd say having run the DOD acquisition system for a number of years, I never understood it either, so this wasn't a surprise that the Europeans didn't quite understand it. They emphasized such things as there is no "Buy German" Act and that we need to move into directions of correcting this. As was touched on by Admiral Moorer this morning and emphasized by the parliamentarians, comments being that communism in today's environment is bankrupt and the only communists that operate in the world today are in the free world, and that the fact that communism is bankrupt presents greater concern, or should present greater concern to all of us than were it the other way around. Another war cannot be handled, they cannot stand another war and "can't go it alone" was emphasized repeatedly, the fact that they feel that we in the United States don't fully appreciate or understand their position was emphasized repeatedly. Cost escalation was touched on by the Europeans and by our NATO allies, referring back to the frigates of 20 years ago were \$10 million and these are costing them \$250 million today - same problems that we have often in the United States, the Augustine Laws came to bear, if you will.

Neutralism, indeed a thing that's happening within the European environment, a thing that presents a problem to them. The fact that they're not optimistic relative to cooperative security was emphasized in many ways by them, and particularly our friend from England even suggested that this may present problems as regard staying in NATO, and felt that he expressed the position of many of the European parliamentarians.

Two other issues that came up in the parliamentary discussions yesterday were (1) the chemical and (2) the nuclear. On the chemical side, there was indeed severe and major concern on their parts, as to what we'd do about the chemical situation, pretty much saying that there does not appear to be effective countermeasures. The dangers of the USSR chemical warfare capability, I would have to say, were underscored in many of the comments that were made by these gentlemen. On the nuclear side, the fact that Russia could be tempted to use their mid-range nuclear weapons against Europe bothers the Europeans very much. The Europeans feel that they must have a credible land based mid-range nuclear capability that can reach Russia. In other words, they need cruise missiles, purging tools, etc., and this many of them feel to be essential items, in their way of thinking. They touched on earlier in the day and again during the parliamentary discussion the deficiencies as regard their industrial base, the fact that they really have little, if anything, in the way of plans afoot as regard pulling together the industrial base problems that they know to be one of their major deficiencies. Their industrial base, in other words, is not prepared for a major shift.

A couple of comments relative to Admiral Moorer's discussion this morning. He made it clear that in his mind the NATO war really is World War III. He touched on the raw material problem, the complexities of logistics, particularly in the mid-East. I thought back, as he made his comments relative to logistics, we had over 580 ships in the pipeline at the max in Viet Nam. We have less ships in the entire commercial fleet of the United States today than we had in the pipeline in Viet Nam. In fact, in the pipeline at its max we had 8 ships at all times with beer and soft drinks in the pipeline in Viet Nam. He touched on the all-volunteer force, the issues as regard readiness, and the necessity that the military in a democracy be a cross-section of our society, and the fact that we must expect future confrontations with the Soviets and that we have not been planning accordingly or acting accordingly, and we must do so.

Those were the highlights as I saw them up to the time of this last panel. Again, we thank you very much for your attention. We thank you for being with us. We think it was an outstanding session and in line with Dr. DeLauer's comments, we're not going to have another one of these every third heartbeat. Thank you very much.

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