PN-AAQ-545
ISN 35687

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984–85 (Part 3)

HEARINGS AND MARKUP

BEFORE THE

SUBCOMMITTEE ON
EUROPE AND THE MIDDLE EAST

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

Economic and Military Aid Programs in Europe and the Middle East

FEBRUARY 28; MARCH 3, 9, 10, 14, 16 AND APRIL 12, 1983

Printed for the use of the Committee on Foreign Affairs

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984–85 (Part 3)

HEARINGS AND MARKUP

BEFORE THE

SUBCOMMITTEE ON
EUROPE AND THE MIDDLE EAST

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES 003665

NINETY-EIGHTH CONGRESS

FIRST SESSION

Economic and Military Aid Programs in Europe and the Middle East

FEBRUARY 28; MARCH 3, 9, 10, 14, 16 AND APRIL 12, 1983

Printed for the use of the Committee on Foreign Affairs

U.S. GOVERNMENT PRINTING OFFICE
18-551 O WASHINGTON : 1983

COMMITTEE ON FOREIGN AFFAIRS

CLEMENT J. ZABLOCKI, Wisconsin, *Chairman*

DANTE B. FASCELL, Florida
LEE H. HAMILTON, Indiana
GUS YATRON, Pennsylvania
STEPHEN J. SOLARZ, New York
DON BONKER, Washington
GERRY E. STUDDS, Massachusetts
ANDY IRELAND, Florida
DAN MICA, Florida
MICHAEL D. BARNES, Maryland
HOWARD WOLPE, Michigan
GEO. W. CROCKETT, JR., Michigan
SAM GEJDENSON, Connecticut
MERVYN M. DYMALLY, California
TOM LANTOS, California
PETER H. KOSTMAYER, Pennsylvania
ROBERT G. TORRICELLI, New Jersey
LAWRENCE J. SMITH, Florida
HOWARD L. BERMAN, California
HARRY M. REID, Nevada
MEL LEVINE, California
EDWARD F. FEIGHAN, Ohio
TED WEISS, New York
ROBERT GARCIA, New York

WILLIAM S. BROOMFIELD, Michigan
LARRY WINN, JR., Kansas
BENJAMIN A. GILMAN, New York
ROBERT J. LAGOMARSINO, California
JOEL PRITCHARD, Washington
JIM LEACH, Iowa
TOBY ROTH, Wisconsin
OLYMPIA J. SNOWE, Maine
HENRY J. HYDE, Illinois
GERALD B. H. SOLOMON, New York
DOUGLAS K. BEREUTER, Nebraska
MARK D. SILJANDER, Michigan
ED ZSCHAU, California

JOHN J. BRADY, Jr., *Chief of Staff*
ROXANNE PERUGINO, *Staff Assistant*

SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST

LEE H. HAMILTON, Indiana, *Chairman*

TOM LANTOS, California
ANDY IRELAND, Florida
MERVYN M. DYMALLY, California
ROBERT G. TORRICELLI, New Jersey
LAWRENCE J. SMITH, Florida
MEL LEVINE, California

LARRY WINN, JR., Kansas
MARK D. SILJANDER, Michigan
ED ZSCHAU, California

MICHAEL H. VAN DUSEN, *Staff Director*
ALISON BRENNER FORTIER, *Minority Staff Consultant*
KENNETH B. MOSS, *Subcommittee Staff Consultant*
JOHN E. HARE, *Subcommittee Staff Consultant*

CONTENTS

Page

Recommendations of the Subcommittee on Europe and the Middle East ix

WITNESSES

ISRAEL

Monday, February 28, 1983:
Hon. Nicholas A. Veliotes, Assistant Secretary, Bureau of Near Eastern and South Asian Affairs, Department of State 2
Col. Homer D. McKalip, Chief, Near East/South Asia Division, Operations Directorate, Defense Security Assistance Agency, Department of Defense 7
Russell Misheloff, Director, European Affairs and Special Programs, Bureau of Near East, Agency for International Development 7

EGYPT

Thursday, March 3, 1983:
Hon. W. Antoinette Ford, Assistant Administrator, Bureau for Near East, Agency for International Development 50
Maj. Gen. Richard V. Secord, Deputy Assistant Secretary for Near East and South Asian Affairs, Department of Defense 56
Hon. Nicholas A. Veliotes, Assistant Secretary, Bureau of Near Eastern and South Asian Affairs, Department of State 64

LEBANON [1]

Wednesday, March 9, 1983:
Hon. Nicholas A. Veliotes, Assistant Secretary, Bureau of Near Eastern and South Asian Affairs, Department of State 96
Hon. W. Antoinette Ford, Assistant Administrator, Bureau for Near East, Agency for International Development 99
Gen. Philip C. Gast, Director, Defense Security Assistance Agency, Department of State 103

JORDAN, YEMEN, OMAN, AND AMERICAN SCHOOLS AND HOSPITALS ABROAD

Thursday, March 10, 1983:
James A. Placke, Deputy Assistant Secretary, Bureau of Near Eastern and South Asian Affairs, Department of State 148
Col. Homer D. McKalip, Chief, Near East/South Asia Division, Operations Directorate, Defense Security Assistance Agency, Department of Defense 161
Charles W. Johnson, Director, Office of Development Planning, Bureau for Near East, Agency for International Development 166
David A. Santos, Director, Office of American Schools and Hospitals Abroad, Bureau for Food for Peace and Voluntary Assistance, Agency for International Development 180
Monday, March 14, 1983:
Najeeb E. Halaby, chairman of the board, American University of Beirut . 207
Malcolm H. Kerr, president, American University of Beirut 208

[1] Includes fiscal year 1983 supplemental foreign assistance.

Monday, March 14, 1982—Continued — Page
Bernice Tannenbaum, former national president of Hadassah, and chairman, Hadassah Medical Organization 215
Thomas A. Dine, executive director, American Israel Public Affairs Committee 221
Robert A. Basil, chairman, American Lebanese League 250
David J. Sadd, executive director, National Association of Arab Americans 267
Frances E. Neely, legislative secretary, Friends Committee on National Legislation 281
James J. Zogby, director, American-Arab Anti-Discrimination Committee 289
Jawad George, executive director, Palestine Congress of North America 297
Douglas A. Bloomfield, legislative director, American Israel Public Affairs Committee 321
Peter S. Kouchalakos, national president, Order of AHEPA 322
Paul B. Henze, private witness 327
Eugene T. Rossides, special counsel, American Hellenic Institute, Public Affairs Committee, Inc 333

GREECE, TURKEY, CYPRUS, SPAIN, AND PORTUGAL

Wednesday, March 16, 1983:
Hon. Richard R. Burt, Assistant Secretary, Bureau of European Affairs, Department of State 354
Hon. Richard N. Perle, Assistant Secretary for International Security Policy, Department of Defense 362
Russell Misheloff, Director, European Affairs and Special Programs, Bureau for Near East, Agency for International Development 385
Tuesday, April 12, 1982 (subcommittee markup):
Robert Pelletreau, Deputy Assistant Secretary, Bureau of Near Eastern and South Asian Affairs, Department of State 400

MATERIAL SUBMITTED FOR THE RECORD

Fiscal year 1984 budget outlay figures for Israel (submitted by the Department of State) 7
Cost to Israel of shipping grain in U.S. bottoms (submitted by the Agency for International Development) 10
Value of Soviet resupply of Syria (submitted by the Department of State) 11
Soviet military deliveries to Libya (submitted by the Department of State) 11
Cost to Israel for oil purchases (submitted by the Department of State) 21
Cost to Israel of relocating military bases (submitted by the Department of State) 22
Impact of other Mideast arms sales on Israel's security (submitted by the Department of State) 23
Transfer of AWACS from Saudi Arabia (submitted by the Department of State) 24
Range of SAM-5 missiles in Syria and their impact on a possible American airlift for Israel (submitted by the Department of State) 25
Value of economic aid provided to Israel (submitted by the Agency for International Development 40
Israel's debt service (submitted by the Department of State) 41
Per capita aid figure for Israel (submitted by the Department of State) 44
Israel's foreign debt (submitted by the Agency for International Development) 45
Value of PLO military equipment captured by Israel in Lebanon (submitted by the Department of Defense 46
Financial incentives offered by Israel to West Bank settlers (submitted by the Department of State) 47
List of projects designated "Turkeys" by AID Mission Director, Cairo; AID action on the projects, and their status (submitted by the Agency for International Development) 54
American project management in Egypt (submitted by the Agency for International Development) 62
Soviet technicians in Egypt (submitted by the Department of State) 72
Egyptian participation in "Brightstar" 1983 (submitted by the Department of Defense) 73

Page

Defense Security Assistance Agency's auditing force (submitted by the Department of Defense and Department of State) 74
Chart depicting increase in military spending by Israel and Egypt (submitted by the Department of Defense) 75
Increased oil revenues for Egypt (submitted by the Department of State) 76
IMF/Egyptian relations (submitted by the Agency for International Development) 82
Impact of oil price drop on Egyptian domestic economy (submitted by the Department of State) 87
Egyptian military sales to other countries (submitted by the Department of Defense) 91
Status of EATSCO inquiry (submitted by the Department of State) 91
Egyptian water and sewerage program (submitted by the Agency for International Development) 93
Chart depicting expenditure and obligation figures of the Lebanon fiscal year 1982 supplemental (submitted by the Agency for International Development) 104
Military program for Lebanon (submitted by the Department of Defense) 105
Humanitarian relief and rehabilitation and reconstruction in Lebanon (submitted by the Agency for International Development) 107
Other donors/organizations providing assistance to Lebanon (submitted by the Agency for International Development) 113
Other donor reconstruction aid for Lebanon (submitted by the Agency for International Development) 119
Reconstruction costs for Lebanon (submitted by the Department of State) 136
Extradition treaties with countries in the Middle East (submitted by the Department of State) 138
UNRWA tent program in south Lebanon (submitted by the Agency for International Development) 144
Customs revenues (submitted by the Department of State) 146
Revenue initiative (submitted by the Department of State) 147
Jordan-Baghdad conference assistance (submitted by the Agency for International Development) 167
American University of Beirut funding (submitted by the Agency for International Development) 183
Syria—aid expenditures in fiscal year 1982 (submitted by the Agency for International Development) 189
Syria—AID program pipeline (submitted by the Agency for International Development) 190
Military construction and personnel in Oman (submitted by the Department of Defense) 193
List of U.S. and international assistance to Yemen following the earthquake (submitted by the Department of State) 196
Other sources of security assistance to Greece (submitted by the Department of Defense) 372
Political prisoners in Turkey (submitted by the Department of State) 382
Turkish military modernization program (submitted by the Department of Defense) 383
Fiscal year 1984 budget outlay figures for Greece, Turkey, Cyprus, Spain, and Portugal (submitted by the Department of Defense) 388

APPENDIXES

1. Prepared statement submitted by Hon. W. Antoinette Ford, Assistant Administrator, Bureau for Near East, Agency for International Development 423
2. Report on the Israeli economy and debt repayment prospects, submitted by U.S. Agency for International Development 445
3. Report on the Egyptian economy and debt repayment prospects, submitted by U.S. Agency for International Development 479
4. Report on the Turkish economy and debt repayment prospects, submitted by U.S. Agency for International Development 503
5. Supplemental questions submitted by the Subcommittee on Europe and the Middle East to the Department of State and Agency for International Development and responses thereto (Israel) 518
6. Supplemental questions submitted by the Subcommittee on Europe and the Middle East to the Agency for International Development, and the Departments of State and Defense and responses thereto (Egypt) 549

Page

7. Supplemental questions submitted by the Subcommittee on Europe and the Middle East to the Agency for International Development and the Departments of State and Defense and responses thereto (Lebanon) 583
8. Supplemental questions submitted by the Subcommittee on Europe and the Middle East to the Agency for International Development and the Department of State and Defense and responses thereto (Jordan, Yemen, Oman and ASHA) 594
9. Supplemental questions submitted by the Subcommittee on Europe and the Middle East to the Agency for International Development and the Departments of State and Defense and responses thereto (Greece, Turkey, Cyprus, Spain and Portugal) 608
10. Letter to President Reagan from 130 retired generals and admirals concerning strategic cooperation between the United States and Israel 632
11. Letter from Hon. M. Peter McPherson, Administrator, Agency for International Development to the Hon. Lee H. Hamilton stating the administration position on the proposed amendment regarding the implementation of economic assistance programs in Egypt 636
12. October 1, 1982 Wall Street Journal article entitled "Arms Sales to Egypt Yielded Huge Profits for Obscure Firm" 638
13. Letter from the Hon. W. Antoinette Force, Assistant Administrator, Bureau for Near East, Agency for International Development, to the Hon. Lee H. Hamilton concerning the Egyptian aid pipeline 644
14. Statement submitted for the record by Dr. Joyce R. Starr, overseas representative in the Middle East, Center for Strategic and International Studies, Georgetown University 646
15. Statement submitted for the record by Hon. Nick Joe Rahall, a Representative in Congress from the State of West Virginia 657
16. Letter from Richard F. Pederson, president, the American University in Cairo to the Hon. Lee H. Hamilton, concerning increased authorization for the American Schools and Hospitals Abroad program 661
17. Letter from Leon Picon, U.S. foreign service officer (ret.) to Hon. Lee H. Hamilton, in support of increased foreign assistance for Turkey 662
18. Statement submitted for the record by George R. Packard, dean, School of Advanced International Studies, The Johns Hopkins University 664
19. Statement of M. Peter McPherson, Administrator, U.S. Agency for International Development, and Attachments on AID-funded contracts in Syria 667
20. Biographies of witnesses:
    - Hon. Nicholas A. Veliotes 687
    - Col. Homer D. McKalip 687
    - Russell Misheloff 687
    - W. Antoinette Ford 688
    - Maj. Gen. Richard V. Secord 688
    - Lt. Gen. Philip C. Gast 689
    - James A. Placke 690
    - Charles W. Johnson 690
    - David R. Saatos, Jr. 691
    - Najeeb E. Halaby 691
    - Malcolm H. Kerr 691
    - Bernice Tannenbaum 691
    - Thomas A. Dine 693
    - Douglas M. Bloomfield 693
    - Robert A. Basil 693
    - David J. Sadd 694
    - Jawad F. George 694
    - James J. Zogby 695
    - Frances E. Neely 695
    - Peter S. Kouchalakos 696
    - Paul B. Henze 696
    - Eugene T. Rossides 696
    - Richard R. Burt 697
    - Richard N. Perle 697
    - Robert H. Pelletreau 688
21. Pertinent maps 699

VII

HEARINGS ON FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984-85

Part 1—Full Committee

Presidential request
Public witnesses

Part 2—Subcommittee on International Security and Scientific Affairs

Overview of security supporting assistance programs

Part 3—Subcommittee on Europe and the Middle East

Economic and military aid programs in Europe and the Middle East

Part 4—Subcommittee on Human Rights and International Organizations

U.S. voluntary contributions to international organizations

Part 5—Subcommittee on Asian and Pacific Affairs

Economic and security assistance in Asia and the Pacific

Part 6—Subcommittee on International Economic Policy and Trade

Bureau for Private Enterprise
Trade and development programs
Environment and natural resources programs

Part 7—Subcommittee on Western Hemisphere Affairs

Latin America and the Caribbean
Special Central America aid request

Part 8—Subcommittee on Africa

Economic and security assistance programs in Africa

Part 9—Full Committee Markup

RECOMMENDATIONS OF THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST

General Recommendations

1. If the Committee on Foreign Affairs reports a 2-year authorization bill for fiscal year 1984 and fiscal year 1985, the Subcommittee on Europe and the Middle East recommends that all economic and military assistance programs be straightlined from the 1984 figures for the second year. At the same time, the subcommittee recognizes that there will likely be a supplemental request for the second year, if it seeks a 2-year bill, and that any essential adjustments can be made at that time.

2. The subcommittee recommends that the committee concentrate on full funding of the important requests for fiscal year 1984 and that the fiscal year 1983 supplemental requests, other than the Lebanon request, be given a lower priority. While the general fiscal year 1983 supplemental contains important money for programs in the countries under the subcommittee's jurisdiction, which were not well funded under the fiscal year 1983 Continuing Resolution Authority, the fiscal year 1984 programs provides adequate funding for these cases provided full funding is obtained.

3. The subcommittee recommends that the economic reports required for countries with whom the United States has extensive programs be required by January 1984 and January 1985, for Israel, Egypt, Turkey, and Lebanon (subcommittee amendment No. 1). The subcommittee would hope that the next reports would include comprehensive data on Egypt's external debt and its payments on the economic and military programs which have been initiated.

4. The subcommittee recommends that the economic and security assistance programs for Egypt and Israel be earmarked in the legislation. The subcommittee also recommends extended repayment terms for loan guarantees for fiscal year 1984 and fiscal year 1985 for Israel, Egypt, Turkey, and Greece (subcommittee amendment No. 2).

5. Over 50 percent of the fiscal year 1984 security assistance request worldwide is intended for programs in the Middle East. The high levels of military aid as well as economic aid provided for Middle Eastern nations are to meet the economic and security needs of friendly countries in that region. They are also provided in the hope that they will promote peace in the Middle East. The subcommittee also hopes that all of the parties will give further consideration to President Reagan's September 1, 1982 peace initiative.

Previous Page Blank

ISRAEL

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic aid: ESF (grant) Total	785	785	785		785	850
Military aid:						
FMS financing:						
Loan guarantee	900	850	950		1,150	850
Grant	500	550	750		550	850
Total	1,400	1,400	1,700		1,700	1,700

1. The subcommittee recommends that the fiscal year 1984 ESF program for Israel be increased from $785 million to $850 million and that the FMS program be maintained at a level of $1.7 billion but that the forgiven portion be increased from the proposed level of $550 million to $850 million. These increases represent a $165 million increase over what was provided in fiscal year 1983. These increases in assistance for Israel are for the purpose of maintaining Israel's economic and military strength.

2. The 1983 AID report on the Israeli economy concludes that the economy is not performing as satisfactorily as it did during 1981, and that while the Government of Israel's stated highest economic priority for 1982 was to reduce the rate of inflation, inflation actually rose in 1982 to an estimated 130 percent from the 1981 figure of 101 percent. Moreover, the balance-of-payments gap is increasing and exports are slumping. The subcommittee recommends that in the light of this economic situation somewhat more concessional terms than those provided in fiscal 1983 by changing the mix of guarantees and grants are warranted for helping Israel avoid an untenable debt repayment burden.

3. The subcommittee recommends that it be a continuing principle of U.S. security assistance to Israel that it enable Israel to maintain a qualitative edge in military technology in the Middle East, in light of increasing sales of sophisticated arms to other countries in the region.

4. The subcommittee is concerned over the state of military relations between the United States and Israel as evidenced by the arguments over positions in and near Beirut, Lebanon between Israeli forces and the U.S. contingent of the Multinational Peacekeeping Force, over the delays on a second sale to Israel of F-16 aircraft, and over an agreement to share information relating to the lessons learned during the 1982 Israeli military operations in Lebanon regarding equipment used in that conflict. The subcommittee hopes that relations between the Department of Defense and the Israeli Defense Ministry will improve and a frank dialog between the two countries on military issues can proceed. It is in the interests of both countries.

5. All economic assistance agreements with Israel have a clause which specifies that the funds are to be used within the pre-1967 borders of Israel. Thus, the subcommittee assumes that no U.S. economic assistance is being used to help develop Israeli settlements

in the occupied territories. This should and does apply to cash transfer agreements as well.

6. One of the principal factors the subcommittee considered in raising the level of ESF assistance to Israel by $65 million above the administration's request is Israel's increasing foreign debt burden. Whereas ESF assistance to Israel has remained constant at $785 million from 1978 until the present, Israel's debt service just to the U.S. Government has risen from $560 million to an estimated $1 billion in 1983. In 1984, Israel's debt service to the U.S. Government is expected to rise yet higher (to $1.15 billion, or $365 million more than the level of economic assistance requested by the administration). In view of this debt situation the subcommittee believes that an increase of $65 million in ESF assistance is justified on economic grounds.

MIDDLE EAST REGIONAL PROJECTS

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Development projects	2.5	6	6.5		7	7
Cooperative activities	4.1	4.1	5	2.5	7	7
Project development	3	1	1		1	1
Total	6.9	11.1	12.5	2.5	15	15

1. The subcommittee recommends the authorization of the $15 million requested for Middle East regional programs which includes: $7 million for development projects for the West Bank and Gaza; $7 million to finance cooperative scientific technical and other activities of mutual interest to Israel and its Arab neighbors; and $1 million for project development and support activities, primarily project design and evaluation services, related to the development of ESF country programs.

2. The subcommittee strongly endorses the development and humanitarian assistance programs for the West Bank and Gaza which are implemented by American voluntary agencies since they promote self-help development efforts and address humanitarian needs in such programs as exemplified by vocational and higher education, community development, land reclamation, improved water storage and agricultural cooperative marketing. Moreover, they are encouraging improved contacts and dialogs between the United States and Palestinians in the West Bank and Gaza and they are helping to lay the foundations for long-term growth and stability in an important region of the world.

3. The subcommittee is pleased that Israeli military authorities on the West Bank and Gaza have been more active in approving the development projects of the American private voluntary organizations. The subcommittee hopes that reason and moderation on all sides will prevail and that economic development can occur in a stable environment.

4. The subcommittee feels that the Cooperative Activities are an important long-term investment for peace, and hopes that, despite

tension in the Middle East, every effort will be made to continue projects already started and to find more projects which will enlarge the number of countries and the number of people involved.

EGYPT

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic and food aid ESF:						
Commodity import program (CIP)	230	300	350		300	300
Developmental aid	520	450	400		450	450
Total ESF	750	750	750		750	750
Public Law 480:						
Title I	275	275	250		250	225
Title II	28.9	31.9	24.6		17.4	17.4
Total Public Law 480	303.9	306.9	274.6		267.4	242.4
Total	1,053.9	1,056 9	1,024.6		1,017.4	992.4
Military aid:						
FMS Financing:						
Loan guarantee	550	700	900		850	850
Grant		200	425		450	450
IMET	.96	2	2		2	2
Total	550.96	902	1,327		1,302	1,302

1. The subcommittee endorses the requests for Egypt of $750 million in Economic Support Fund money and of $1.3 billion in FMS financing with $450 million of that amount forgiven because it supports the foundations of U.S. policy toward Egypt. Those foundations include a shared strategic interest in the stability of the Middle East and the surrounding region and the shared strategic commitment to a peaceful solution of the Arab-Israeli conflict. This commitment, first made and acted upon by President Sadat, has been reiterated by President Mubarak and remains a firm tenet of Egypt's foreign policy.

2. The subcommittee remains concerned over the continued sluggish performance of the U.S. economic aid program and over the fact that, despite some recent improvements, the economic aid pipeline for Egypt continues to grow and may not peak at its current level of $2.6 billion. The subcommittee supports recent efforts to streamline the program and to direct funds to sectors less subject to government subsidies and distorted economic policies. As a management tool for AID to try to improve the performance of this huge program, the subcommittee has an amendment allowing for increased flexibility in administering the program and hopes that procedures can be worked out with the relevant committees of Congress so that such action does not result in new budget authority for the amounts so involved.

3. The subcommittee believes that the huge and growing subsidies in Egypt and the serious economic dislocations they cause do

not give hope for future development and they impair the effectiveness of U.S. economic assistance to Egypt. If efforts by the United States to improve the performance of its economic assistance program for Egypt are to succeed, they must be complemented by Egyptian policies to carry out economic reforms to insure the basis for further growth and development. Some important steps have been taken by the Egyptians, but further progress is essential for sustained growth and for improved economic performance.

4. The subcommittee recommends that the Public Law 480 Title I program for Egypt for fiscal year 1984 be reduced from $250 million to $225 million but defers a decision on fiscal year 1985 until a later time. In part because of congressional views, the Title I program for Egypt was reduced from $275 million in fiscal year 1982 to $250 million in fiscal year 1983. That process should continue.

The Congress has previously demonstrated its intent that Public Law 480 for Egypt be reduced both in actual levels and as a percentage of Public Law 480 Title I worldwide. An amendment achieving this dual objective passed the House in 1981. The House receded to the Senate in conference, accepting report language as a substitute only after the conferees received assurances from the State Department that the future Title I level for Egypt would be reduced.

The State Department itself has indicated that Public Law 480 to Egypt should be reduced. Its letter to House-Senate conferees in 1981 stated "we recognize that it is not in Egypt's best interests in its effort to achieve greater food self-sufficiency for us to continue high levels of food aid for the indefinite future," and that "the administration will continue its efforts both to reduce Egypt's dependence on Public Law 480 and decrease its percentage of the program."

The subcommittee regrets that in making its request for fiscal year 1984 the administration did not stand by its previously stated intent and sees no reason, based on Egypt's food needs, for not reducing this program in order to provide food assistance for more needy countries.

The subcommittee therefore has an amendment to reduce the Public Law 480 Title I for Egypt to $225 million in fiscal year 1984.

5. The subcommittee regrets that events in the Middle East in 1982, principally in Lebanon, had an adverse impact on Egyptian-Israeli relations. It hopes and expects that during the coming months the strain in relations can be overcome. The subcommittee would like to see a solution negotiated to the Egyptian-Israeli differences over Taba, the return of an Egyptian ambassador to Tel Aviv and Egyptian willingness to expand its political, cultural, and economic ties with Israel pursuant to their Treaty of Peace.

6. The subcommittee is aware that Egypt and Sudan recently developed a common market, that a fund has been created to work on projects which will further regional integration between these two important nations and that the parliaments of these two countries will be meeting together shortly to coordinate common programs. The subcommittee supports these joint efforts and their goal of more regional cooperation. The subcommittee urges the United States in developing its programs for Egypt and the Sudan over the next few years to give priority attention to programs and projects

which will promote this regional integration and cooperation.

LEBANON

[In millions of dollars]

	Fiscal year				Subcommittee recommendation	Fiscal year 1984 request	Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental			
ESF	5	6		150	150		
Emergency aid		[1] 111.7					
FMS	20	[2] 35		100	100	15	15
IMET	326	.575	0.75	1	1	0.75	0.75
Total	25.326	153.2	0.75	251	251	15.75	15.75

[1] $50 million of this figure was appropriated, the rest was reprogramed
[2] $25 million in FMS funding for Lebanon was reprogramed

1. The United States is involved in economic and military assistance programs in Lebanon which are critical to that country's stability and survival.

2. Although it is not now clear that the Government of Lebanon will be able to exercise effective control over its territory and population even with U.S. aid, the subcommittee recommends the authorization of fiscal year 1983 supplemental economic and military assistance requests of $251 million for Lebanon. The ESF funds are not limited to fiscal year 1983.

3. The subcommittee recommends further that the committee expedite its consideration of these funds and authorize them in a fiscal year 1983 supplemental, separate from the fiscal year 1984 requests. Most of these funds can be obligated before the start of fiscal year 1984. Given the rapid obligation of existing funds and rising expenditures on programs already underway, there is ample justification for moving ahead on this supplemental request now.

4. The subcommittee also recommends that the Lebanon supplemental request, introduced as H.R. 1849, and the fiscal year 1984 request, H.R. 1850, be amended to include a provision requiring that statutory authorization by the Congress is needed before the U.S. Armed Forces are introduced into Lebanon pursuant to the conclusion of agreements providing for the withdrawal of all foreign troops from Lebanon.

5. The subcommittee makes these recommendations in the belief that an agreement can be concluded soon between Israel and Lebanon providing:

—For a new and expanded relationship between these two countries;

—For the withdrawal of all Israeli troops from Lebanon within a short period of time, concurrent with a withdrawal of Syrian, PLO, and other forces;

—And for comprehensive security arrangements along the Israeli-Lebanese international border.

It is the expectation of the subcommittee that agreements will be reached simultaneously for the withdrawal of all PLO combatants, Syrian troops, Iranian volunteers, and other foreign troops, unauthorized by the Government of Lebanon, from the country.

6. The subcommittee recommends $.75 million from IMET funds and $15 million in FMS financing for fiscal year 1984.

OMAN

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic aid: ESF total		15	15		15	15
Military aid:						
FMS financing (loan guarantee)	25	30	30	10	45	45
IMET	.008	.08	.1		.1	.1
Total	25.008	30.08	30.0	10	45.1	45.1

1. The subcommittee recommends the authorization of $15 million in ESF money and $45 million in FMS loan guarantees for fiscal year 1984 for Oman. The requests for Oman are related to the military facilities access agreement the United States concluded with Oman in June 1980. Oman is a friendly country located on the strategically important Strait of Hormuz and has been supportive to the Egyptian-Israeli Treaty of Peace.

2. The subcommittee is concerned over the dismal expenditure rate in this program and urges the quicker disbursement of ESF funds in Oman in order to obtain concrete development results from the $30 million in ESF funds previously appropriated for Oman. Only $641,000 has been expended to date.

JORDAN

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic and food aid:						
ESF:						
Grant	10	5	10	4.5	13	13
Loan		10	5		7	7
Public Law 480:						
Title I						
Title II	.6	.4	.2		.2	.2
Total	10.6	15.4	15.2	4.5	20.2	20.2
Military aid:						
FMS financing (loan guarantee)	42.1	54.9	40	35	115	115
MAP	1.4					
IMET	.8	1.9	1.3		2	2
Total	44.3	56.8	41.3	35	117	117

1. The subcommittee supports the fiscal year 1984 requests for Jordan of $115 million in FMS financing and $20 million in ESF. This assistance is provided in the expectation that Jordan will be entering the peace process. While Jordan has supported U.N. Reso-

lutions 242 and 338 and has undertaken efforts, so far unsuccessful, to try to enter peace talks on the basis of the September 1, 1982 peace initiative, Jordan has not supported the Camp David peace process and has not been willing to enter negotiations to resolve the Arab-Israeli dispute over the status of the West Bank and Gaza Strip. Assistance levels of Jordan can only continue if the U.S. is able to work with Jordan on the Middle East peace process. The subcommittee believes it is essential that King Hussein soon take the necessary steps to become a participant in the next round of Middle East peace talks. Such action by Jordan will hopefully be reciprocated by confidence building steps by Israel.

2. The subcommittee believes that any new sales of advanced arms to Jordan must await further movement by Jordan toward the peace process. In recognition of its concerns, the subcommittee agreed to an amendment stipulating that no FMS loan guarantees authorized by the act may be provided to finance, and no certification may be made pursuant to section 36(b) of the Arms Export Control Act with respect to a proposed sale to Jordan of, U.S. advanced aircraft, new air defense systems or other advanced military weapons systems until the President has certified to the Congress that Jordan is publicly committed to the recognition of Israel and to prompt entry into direct peace negotiations with Israel under the basic tenets of U.N. Security Council Resolutions 242 and 338 and the Camp David Accords.

The subcommittee interprets "advanced aircraft" to include, for the purposes of this certification, aircraft in the current U.S. inventory and any new aircraft and "new air defense weapons systems" to include mobile antiaircraft systems and air-to-air ordnance.

The subcommittee believes that the presentation of any such sales to the Congress should follow full consultation with the Congress beforehand.

3. The subcommittee supports continued U.S. participation in Jordan's military modernization program and in the training of its armed forces. Not only is this essential to Jordan's security, but it is important to the orientation of Jordan's armed forces to the West and the United States and to the ability of Jordan to continue its important role in training and helping the militaries of many small, moderate states in the Arabian peninsula. The subcommittee hopes that the recent Soviet arms sale to Jordan was a one-time sale and that increased Soviet activity and military presence in Jordan will end promptly.

4. The subcommittee supports efforts to help the Jordanian economy with development funds and technical assistance. Jordan's economic development in recent years has been impressive, especially in the Jordan Valley, and its economic health is essential for its political well-being. Given the ongoing fragility of Jordan's economy, the subcommittee nevertheless believes that there is a continuing role for American technical assistance and assistance for Jordan self-help efforts even though it should be expected that Jordan will receive most of its economic assistance from its Arab neighbors.

YEMEN ARAB REPUBLIC

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic and food aid:						
Development assistance:						
Grant	14.3	23.2	28.082		28	28
Loan	5					
Public Law 480:						
Title I					3	3
Title II	0.3	1.2	.983		1.042	1.042
Total	19.6	24.4	29.065		32.042	32.042
Military aid:						
FMS financing (loan guarantee)		10	4	2		
MAP (grant)		1	1	4	15	15
IMET	.9	1.2	1.2		1.5	1.5
Total	.9	12.2	6.2	6	16.5	16.5

1. The subcommittee recommends the authorization of the fiscal year 1984 requests for Yemen of $28 million in development assistance, $15 million in grant military assistance (MAP), and $1.5 million in IMET. The Yemen Arab Republic, located on the Bab el-Mandeh Strait, is strategically important to the United States. Because the Yemen Arab Republic is threatened by pro-Soviet neighbors, Ethiopia and South Yemen borders Saudi Arabia and supplies much of Saudi Arabia's work force, its independence and moderate policies are important to preserve. The subcommittee also hopes that over time, the Yemen Arab Republic will move away from its reliance on Soviet-supplied weaponry and on Soviet military advisors.

2. The subcommittee recommends the authorization of $28 million in development assistance because it recognizes the importance of supporting Yemeni economic and social development. The subcommittee is concerned about reports of a decrease in assistance from several Arab states and hopes that the Arab states will be able to maintain earlier high levels of assistance to this important country which is the poorest and most populous state in the Arabian peninsula.

3. The subcommittee is encouraged by the initial and favorable U.S. response to the December 1982 earthquake in the Dhammar region of Yemen which left 300,000 people homeless and caused considerable damage. The United States provided $2.5 million in emergency humanitarian assistance. Because of the urgent rehabilitation and reconstruction needs of Yemen following the earthquake, the subcommittee urges the United States to divert as many funds as possible from the ongoing development program to these needs, consistent with Yemen's priorities and with funds available. It is the strong view of the subcommittee that U.S. participation, perhaps on a fixed cost reimbursable basis, if deemed appropriate and quicker in some reconstruction efforts and provision of technical assistance to the Yemenis for damage assessment and recon-

struction needs would serve U.S. political and economic interests in Yemen. The United States has a unique opportunity to help a friendly country with a critical need; it should not let the opportunity pass by.

4. The subcommittee has reviewed the U.S. military program in Yemen and believes that an increase, above six, in the number of U.S. military personnel permanently stationed in Yemen is warranted because of the heavy training component in this program which necessitates more planning and administration than sales of military equipment. This planned increase of two people will enhance the overall effectiveness and success of the U.S. security assistance program in Yemen.

TURKEY

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic aid: ESF total	200	300	245	55	175	175
Military aid:						
FMS financing:						
Loan guarantee	250	343	290	65	525	485
Grant		57	110		230	230
IMET	1.6	3	2.7		4	4
Total	251.6	403	402.7	65	759	719

1. The subcommittee recommends the authorization of $175 million in ESF money for Turkey and $715 million in military assistance of which $230 million is to be grant military aid and the rest to be FMS loan guaranties. The subcommittee also recommends authorization of $4 million requested in IMET funding. The total budgetary outlay of this proposed program is $409 million compared to the budget outlay of $413 million for the fiscal year 1983 request, or $357.7 million for the program provided under the fiscal year 1983 Continuing Resolution Authority.

2. This recommendation represents a $40 million reduction in the fiscal year 1984 request of $755 million in FMS military assistance for Turkey. This reduction is recommended for several reasons. First, the subcommittee feels the increase requested for fiscal year 1984 over what was provided in fiscal year 1983 is too large, despite the many modernization requirements of the Turkish military. Second, reducing the military aid level to $715 helps to restore the 7 to 10 ratio of the Greek and Turkish military assistance programs, a rough ratio recognized over several years and an important factor in maintaining a Greek-Turkish military balance in the Mediterranean. Third, the reduction also signals continuing Congressional frustration with the lack of progress toward a resolution of the Cyprus problem.

3. Despite this reduction in military assistance, there is still a high and substantially increased level of military assistance for Turkey which is provided in recognition of the strategic importance of this ally to the southern flank of NATO, to the Middle East and

Persian Gulf region, and to overall U.S. security interests. Turkish military capabilities have continued to deteriorate in recent years to the point where it is now uncertain that Turkey could fulfill its assigned NATO missions.

4. The subcommittee wishes to state three important concerns relating to United States-Turkish relations:

a. A substantial number of Turkish troops continue to occupy Cyprus and no negotiated solution to the Cyprus situation has been found. Turkey has a special responsibility to help break the current stalemate;

b. Greek-Turkish differences over the Aegean continue to exacerbate tensions between these two allies and the dialog between them on these problems has been suspended. Such a dialog between these two NATO allies is essential;

c. It is critical that Turkey remain committed to its announced timetable for a full restoration of democracy and that it abide fully by internationally recognized standards of human rights; allegations of torture in prisons and of gross violations of internationally recognized human rights should be fully investigated and acted upon by the Turkish Government as it has done in some previous cases.

Therefore, the subcommittee recommends the acceptance of statutory language which would speak to these concerns. This language is similar to that adopted in the fiscal year 1983 foreign assistance legislation as reported to the House of Representatives by the Committee on Foreign Affairs.

GREECE

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 Estimate	1983 supplemental	1984 request	
Military aid:						
FMS financing (loan guarantee)	176.5	280	280		280	500
IMET	1.1	1.2	1.2		1.7	1.7
Total	177.6	281.2	281.2		281.7	501.7

1. The subcommittee recommends the authorization of the $280 million in FMS loan guaranties and of $1.7 million in IMET funding, originally requested for fiscal year 1984. Greece is a vital ally of great strategic importance to the United States and NATO.

2. It is the subcommittee's expectation that the United States and Greece will conclude current negotiations this year for a new base agreement. In an effort to help promote a successful conclusion of these negotiations and to reiterate the subcommittee's strong belief in the importance of a lasting United States-Greek military relationship, the subcommittee also recommends the authorization of an additional $220 million in FMS loan guaranties for Greece for fiscal year 1984 as requested by the administration in a budget amendment submitted in March 1983.

The $220 million, making a new total program of $500 million in FMS financing, would, according to statute language it has submit-

ted to Congress, be made available to Greece "only if the President certifies and reports to Congress that the United States has achieved a satisfactory agreement with Greece in the current negotiations with respect to the use of military facilities in that country by U.S. forces."

The subcommittee recommends, however, modifying the requested statute language that would release the additional $220 million so that the required Presidential certification would read: "The United States and Greece have established mutually acceptable arrangements for access to, and use of, military facilities in Greece by U.S. Armed Forces." Such arrangements would encompass a new United States-Greek base agreement but also, should negotiations on a new agreement continue longer than is now anticipated, the President could make the certification on the basis of ongoing U.S. forces access to Greek bases which meets U.S. national security needs.

3. The subcommittee is concerned about continued Greek-Turkish differences over the Aegean and hopes that these two countries will resume their dialog on these issues in the near future. The subcommittee also hopes that Greece will use its influence to promote a peaceful solution to the Cyprus conflict through the negotiations conducted under the auspices of the United Nations. The subcommittee recommends statutory language which would speak to these concerns. This language is similar to language included in the fiscal year 1983 foreign assistance legislation as reported to the House of Representatives by the Committee on Foreign Affairs.

4. The subcommittee notes with concern several recent statements by some Greek officials against the United States, Greece's NATO membership and U.S. access to military facilities in Greece. The subcommittee believes that such statements do not serve the best interests of either Greece or the United States and that the longstanding Greek-American relationship and common heritage create bonds which should endure.

CYPRUS

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic aid, ESF (grant) total	14	15	[1] 5	[1] 10	3	15

[1] There is a supplemental fiscal year 1983 ESF request for Cyprus because the administration seeks to use section 614 of the Foreign Assistance waiver authority to reprogram to other programs $10 million of the $15 million appropriated and earmarked for Cyprus in the fiscal year 1983 continuing resolution. The supplemental would be necessary to bring the fiscal year 1983 program back up to $15 million.

1. The subcommittee recommends an increase in the fiscal year 1984 ESF program for Cyprus from the $3 million requested to $15 million. The $15 million level represents for Congress an important statement of concern for the Cypriot people and for a political solution to the division of the island.

2. The subcommittee wants this program to support an expanded scholarship program for Cypriots to come to the United States for advanced education and to support other humanitarian and reconstruction projects for Cyprus. The subcommittee would also like ex-

plored the possibility of using these funds for confidence building measures and projects which bring the two communities together. Suggestions of a national university and of joint projects for the divided city of Nicosia should be pursued, if they are considered feasible.

3. The subcommittee notes that the operations of the office of the U.S. High Commissioners for Refugees, which previously administered U.S. aid programs on Cyprus, are winding up and the office will be closed. Henceforth, any portion of the U.S. assistance program which is for development activities on Cyprus may have to be administered by other organizations. The United States will need to explore the possibilities which the subcommittee feels should include the U.N. Development Program (UNDP) or an American PVO but not the introduction of an AID mission. The subcommittee expects that the administrative expenses of operating any such portion of the program devoted to projects will be kept to the minimum in order to maximize the benefits to the Cypriot people. Traditionally, the administrative surcharge of the UNDP for operating programs has been high.

4. The subcommittee strongly opposes use of the waiver authority under section 614 of the Foreign Assistance Act of 1961, as amended, so that some portion of the fiscal year 1983 earmarked ESF program for Cyprus could be reprogrammed for use in other countries. Such use would not only be counter to the intent of the Congress but would cause serious complications in the handling of all Eastern Mediterranean foreign assistance issues in Congress.

SPAIN

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic aid: ESF (grant) total	7	22	12		12	12
Military aid:						
FMS financing (loan guarantees)	120	125	400		400	400
IMET	2.5	2	2.1		3	3
Total	122.5	127	402.1		403	403

1. The subcommittee supports the fiscal year 1984 requests for Spain including $400 million in FMS financing, $12 million in ESF grant aid and $3 million in IMET. Spain entered NATO in 1982 and the subcommittee recognizes that modernization of its forces is essential if Spain is going to fulfill its role in Atlantic Alliance security.

2. The subcommittee believes it is important that the United States continue to encourage full Spanish membership and participation in NATO and in the Western security system. Spain has an important role to play.

3. The United States was able to renew its agreement with Spain on access to certain Spanish military facilities in February 1983. This agreement will be submitted to the Congress under the Case-

Zablocki Act following ratification by the Spanish Cortes which is expected in the near future.

4. Although Spain is concerned about the direct use of Spanish facilities to aid non-NATO contingencies, the subcommittee hopes that the United States will be able to work out practical arrangements to insure that both U.S. needs and Spanish interests in the Mediterranean area are accommodated.

PORTUGAL

[In millions of dollars]

	Fiscal year—					Subcommittee recommendation
	1981	1982	1983 estimate	1983 supplemental	1984 request	
Economic aid: ESF (grant) total	25	20	20		40	40
Military aid:						
FMS financing (loan guarantees)		45	52.5		45	45
MAP	51	20	37.5		60	60
IMET	1.8	2.4	2		3	3
Total	52.8	67.4	92		108	108

1. The subcommittee supports the fiscal year 1984 requests for Portugal which include a doubling of ESF grants to $40 million, $45 million in FMS loan guarantees, $60 million in grant military aid, and $3 million in IMET funding.

2. The subcommittee notes that the bilateral base access agreement with Portugal expired in February 1983 and negotiations have not been completed on a renewed agreement. The subcommittee understands that the fiscal year 1984 assistance requests are made in anticipation of a successful conclusion of present negotiations, but it opposes the inclusion of any specific assistance commitments in the agreement. The subcommittee expects that this agreement will allow both for improvements at the Azores and for access to facilities on mainland Portugal. Such access is in our mutual interest and will enhance Portugal's already significant role in, and contribution to, NATO and the western defense.

3. The subcommittee recognizes that the increase in grant financing (MAP) is intended to relax the financial burden on Portugal's troubled economy and notes Portugal's aversion to FMS loan guarantees. Nonetheless, the Government of Portugal must realize that, over time, Portugal should expect to receive fewer grants and more credit financing.

4. The subcommittee supports providing the $40 million ESF request as a grant for development projects on the Azores and for the establishment of a Luso-American Foundation. The subcommittee also notes the continuing slow expenditures on a series of development projects begun in the 1970's and hopes that priority can be given to their early completion. The subcommittee strongly supports the creation of the Luso-American Foundation and hopes that its emphasis on technology transfer and the development of the private sector will benefit the Portuguese economy in the near future.

American schools and hospitals abroad

[In millions of dollars]

Fiscal year:	
1980	25
1981	20
1983	20
1984 request	7.5
Subcommittee recommendation	30

1. The subcommittee recommends that the authorization for the American Schools and Hospitals Abroad program for fiscal year 1984 be raised from the $7.5 million request to $30 million. Despite the annual low administration requests which would not even enable AID to carry out a reasonable ASHA program, the Congress has been appropriating annually between $20 and $25 million.

2. The subcommittee is recommending an authorization of $30 million for fiscal year 1984 in the hope that at least $25 million will be appropriated. In fiscal year 1982, 25 of 59 applicants for funds received support, but several institutions with meritorious requests did not. To satisfy all meritorious applications, well in excess of $40 million would have been needed. AID already has requests totaling over $77 million for fiscal year 1984.

3. The subcommittee believes that the schools, universities, and hospitals supported by this program represent an important American asset abroad and serve critical foreign policy interests of the United States in various regions of the world, especially the Middle East and Europe where some 43 percent of the program is allocated. That percentage, which has already been reduced from some 90 percent in 1970, can only be further reduced if there is more funding for the overall program.

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984–85

Israel

MONDAY, FEBRUARY 28, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,
Washington, D.C.

The subcommittee met at 2:30 p.m., in room 2200, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Mr. HAMILTON. The meeting of the subcommittee will come to order.

Today, the Subcommittee on Europe and the Middle East meets to discuss the fiscal year 1984 economic and military assistance programs for Israel and Middle East regional projects.

The request for Israel for fiscal year 1984 contains two components: $785 million in economic support fund money to be provided on a grant basis and $1.7 billion in foreign military sales financing with $550 million of that amount to be forgiven, that is, provided as a grant.

These requests differ from what was provided in fiscal year 1983 in only one respect. Under the continuing resolution authority passed by Congress last December, the FMS program for Israel provided for $750 million of the FMS financing to be forgiven. The administration request this year is $200 million below last year's level of forgiveness, but $50 million higher than the administration's request last year.

The subcommittee will also consider today a $15 million request for Middle East regional projects. These projects are grouped in three categories: First, $7 million of this money will finance development projects in the West Bank and Gaza Strip; second, $7 million is to fund cooperative scientific and technical activities of mutual interest to Israel and its Arab neighbors; and third, $1 million is to finance project development and support activities related to the ESF program in the Near East, especially in countries where there is not an ongoing aid program.

The Chair understands that the committee will be considering the possibility of providing a 2-year authorization for fiscal years 1984 and 1985. Our witnesses today are alerted to this possibility and the Chair is requesting no later than Tuesday, March 15, 1983,

your views on a 2-year authorization and your specific recommendations for the countries in your jurisdiction should there be a 2-year bill.

We are happy to have with us today to begin our hearings on the fiscal year 1984 foreign assistance requests, Hon. Nicholas A. Veliotes, Assistant Secretary of State for Near Eastern and South Asian Affairs; Col. Homer D. McKalip, Chief for the Near East and South Asia Division, Defense Security Assistance Agency, Department of Defense; and Russell Misheloff, Director, Office of European Affairs and Special Programs, Bureau for Near East, Agency for International Development.

I believe you have a prepared statement. It will be entered into the record in full. You may suimarize this statement, if you will.

Mr. Secretary, you may proceed.

STATEMENT OF HON. NICHOLAS A. VELIOTES, ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

Mr. VELIOTES. Thank you, Mr. Chairman.

I am the only one who has a statement and I will proceed to read it, summarize it, sir.

I am very pleased to be here again today to testify in support of our military and economic assistance programs for Israel for fiscal year 1984. The administration is proposing a funding level of $1.7 billion in foreign military sales financing and $785 million in economic support funding.

The overall level of $2.485 billion in combined military and economic assistance for Israel would be the largest U.S. bilateral assistance program.

Mr. Chairman, much of what we have to say will not be new to the subcommittee. For example, a year ago this subcommittee was told: "We are in the midst of an extremely tense period affecting not only Israel, but the entire region," and, "The presentation and examination of our foreign assistance proposals are taking place at a particularly sensitive juncture in Israel itself." These views are current today.

However, specific events and immediate problems have changed. The events of the last year, as momentous and even tragic as they may have been have not changed some fundamental realities of the region with which we deal. Among those are the urgency of the need for peace, the need to support the sovereignty, territorial integrity, and unity of Lebanon, the prime importance of assuring for Israel the security it requires and the necessity of addressing the legitimate aspirations of the Palestinian people.

This is, therefore, an appropriate time to discuss the role of our assistance programs in Israel and how they fit into our larger strategy in the region.

Support for Israeh's security and economic well-being is a basic firm principle of American foreign policy.

Our support for Israel grows out of a longstanding commitment to a free nation which has been a haven for immigrants from all over the world and which shares many of our own social and democratic traditions.

Our programs are designed to assist Israel in continuing to maintain its qualitative and technological superiority over any potential combination of regional forces. Our economic assistance helps Israel to finance balance-of-payments deficits. Taken in combination, our programs are the material manifestation of our traditional commitment to Israel.

While it should be clear that the security of Israel occupies a central role in our concerns and policies, our objectives in the Middle East continue to be focused on two mutually reinforcing goals.

First, the search for a just and lasting peace in the region and the second, the assurance that our friends in the area will be able to maintain their security against both outside threats as well as radical forces closer to home.

Our pursuit of this overall objective requires that we maintain and strengthen our relations with other friendly moderate states in the region as well. The relations which we maintain with the states of the Middle East are obviously critical to our ability to achieve those objectives which we believe are shared by Israel.

The President and Secretary Shultz have made crystal clear on many occasions in the past few months (*a*) our firm determination to continue the search for peace begun at Camp David and renewed in the President's September 1 initiative; (*b*) our commitment to achieve complete withdrawal of foreign troops from Lebanon which will help to return stability to that strife-torn country and will also help to insure the security of Israel's northern border; and (*c*) our fundamental perception that a lasting peace achieved through direct negotiations is the best guarantee of long-term security for Israel and its neighbors.

The administration has highlighted that its basic policies toward the Arab-Israeli problem are based on the positive benefits accruing to all parties, including to the interests of the United States, from the resolution of these issues. We have, through many difficult months, continued a pattern of constant movement forward and meaningful consultations toward the objectives we all share both in Lebanon and with respect to a broader Middle East peace. These basic tenets guide our approach, and the assistance programs you will be considering in the coming weeks are a part of this effort.

With these general objectives in mind let me turn to the specifics of our proposal for Israel.

MILITARY ASSISTANCE

We have proposed that a total of $1.7 billion in military assistance be provided to Israel. The bulk of this funding would be used for progress payments on prior year purchases and to initiate purchases of artillery, missiles, APC's, and aircraft from the United States.

Our proposal includes an increase in the grant portion of that assistance from $500 million—our proposal last year—to $550 million with the remaining $1.15 billion to be provided in the form of a 30-year loan carrying a slightly concessional rate of interest.

The modest increase in grant funding we propose is motivated by our understanding of Israeli concerns over their debt burden coupled with our own analysis of that situation and our osn budgetary constraints.

ECONOMIC ASSISTANCE

We are proposing a level of $785 million in ESF, identical to the level of the past several years. The program is a cash transfer, and we propose this year that the entire sum be provided as a grant. Our decision to improve the terms of our proposal for ESF from the one-third loan/two-thirds grant ratio we have proposed in the past was motivated both by the reality of the fact that ESF assistance has been provided to Israel on a grant basis for the last 3 fiscal years and by the slight downturn in Israel's export performance during the last year. This decline is a function of both the continued economic problems from which we and Western Europe are suffering, as well as the Government of Israel's domestic economic policies. Despite some difficulties, however, preliminary indications are that capital inflows to Israel during 1982 continued to exceed financing requirements as official foreign exchange reserves exceeded their levels for 1981.

We continue to have strong confidence in Israel's economic potential. The levels and terms we have proposed for our assistance to Israel for fiscal year 1984 should be more than sufficient to meet the objectives of our program.

ISRAEL'S DEBT BURDEN

Israel's growing debt repayments to the United States have been a major source of concern to many Israeli officials and to members of this committee. A careful examination of the situation, however, reveals that Israeli debt—and particularly the debt service burden associated with that debt—will be manageable given sound Israeli policies and an expected modest return to growth in the world economy.

Our review of our proposals obviously had to take into account our own budget stringencies. In reaching our conclusions, we weigh all factors to achieve a balance. In the real world of budget ceilings, increases in assistance, particularly grant assistance for one country mean that funds will be unavailable to achieve other objectives.

Under our proposals Israel will continue to receive funds—both grant and credit—which are ample to meet our policy objectives in support of the State of Israel.

REGIONAL PROGRAMS

In addition, we would call attention to our request for $15 million in economic support funds for fiscal year 1984 for regional programs. And $7 million of these moneys will go toward sustaining our development efforts in the West Bank and Gaza. These programs are implemented through American voluntary agencies and address needs in such areas as vocational and higher education, community development, improved water storage, and agricultural

cooperative marketing. The program has proved useful as an indication of our humanitarian concerns for the peoples of these regions and we would urge its funding at the level proposed.

An additional $7 million of the regional funds would finance cooperative scientific, technical and other activities of mutual interest to Israel and its Arab neighbors. The remaining $1 million is requested for project development and support activities relating to the development of ESF country programs.

Thank you, Mr. Chairman.

[Mr. Veliotes' prepared statement follows:]

PREPARED STATEMENT OF HON. NICHOLAS A. VELIOTES, ASSISTANT SECRETARY OF STATE FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS

SECURITY ASSISTANCE TO ISRAEL

Mr. Chairman, I am very pleased to be here today to testify in support of our military and economic assistance programs for Israel for Fiscal Year (FY) 1984. The Administration is proposing a funding level of $1.7 billion in Foreign Military Sales (FMS) financing and $785 million in Economic Support Funding (ESF). The overall level of $2.485 billion in combined military and economic assistance for Israel would be the largest U.S. bilateral assistance program.

I am particularly pleased to be here on this occasion because I sense a need, not just to discuss the level and terms of our assistance proposals, but to place this program in the perspective of U.S. foreign policy objectives. In one sense, much of what we have to say will not be new to this Subcommittee. A year ago at about this time this subcommittee was told the following:

"We are in the midst of an extremely tense period affecting not only Israel but the entire region."

"The presentation and examination of our foreign assistance proposals are taking place at a particularly sensitive juncture in Israel itself."

These same observations could be made today, but the specific events and immediate problems have changed. The events of the last year—as momentous and even tragic as they may have been—have not changed some fundamental realities of the region with which we deal. Among those realities are the urgency of the need for peace, the need to support the sovereignty, territorial integrity and unity of Lebanon, the prime importance of assuring for Israel the security it requires, and the necessity of addressing the legitimate aspirations of the Palestinian people. This is, therefore, an appropriate time to discuss the role of our assistance programs in Israel and how they fit into our larger strategy in the region.

THE PURPOSE OF OUR ASSISTANCE

Support for Israel's security and economic well-being is a basic, firm principle of American foreign policy. Our support for Israel grows out of a longstanding commitment to a free nation which has been a haven for immigrants from all over the world and which shares many of our own social and democratic traditions.

Our security assistance programs are designed to assist Israel in continuing to maintain its qualitative and technological superiority over any potential combination of regional forces. Our economic assistance helps Israel to finance balance of payments deficits. Taken in combination our programs are the material manifestation of our traditional commitment to Israel.

While it should be clear that the security of Israel occupies a central role in our concern, our objectives in the Middle East continue to be focused on two mutually reinforcing goals: First, the search for a just and lasting peace for the region and second, the assurance that our friends in the area will be able to maintain their security against both outside threats as well as threats from radical forces closer to home. Our pursuit of this overall objective requires that we maintain and strengthen our relations with other friendly moderate states in the region as well. The relations which we maintain with the states of the Middle East are obviously critical to our ability to achieve those objectives which we believe are shared by Israel. The President and Secretary Shultz have made crystal clear on many occasions in the past few months (a) our firm determination to continue the search for peace begun at Camp David and renewed in the President's September 1 initiative; (b) our commitment to achieve complete withdrawal of foreign troops from Lebanon which will

help to return stability to that strife-torn country and will also help to ensure the security of Israel's northern border; and (c) our fundamental perception that a lasting peace achieved through direct negotiations is the best guarantee of long-term security for Israel and its neighbors.

The Administration has highlighted that its basic policies toward the Arab-Israeli problem are based on the positive benefits accruing to all parties, including to the interests of the U.S., from the resolution of these issues. We have, through many difficult months, continued a pattern of constant movement forward and meaningful consultations toward the objectives we all share both in Lebanon and with respect to a broader Middle East peace. These basic tenets guide our approach, and the assistance programs you will be considering in the coming weeks are a part of this effort.

With these general objectives in mind let me turn to the specifics of our proposal for Israel.

MILITARY ASSISTANCE

We have proposed that a total of $1.7 billion in military assistance be provided to Israel. The bulk of this funding would be used for progress payments on prior year purchases and to initiate purchases of artillery, missiles, APCs, and aircraft from the U.S. Our proposal includes an increase in the grant portion of that assistance from $500 million—our proposal last year—to $550 million with the remaining $1.15 billion to be provided in the form of a thirty-year loan carrying a slightly concessional rate of interest. The modest increase in grant funding we propose is motivated by our understanding of Israeli concerns over their debt burden coupled with our own analysis of that situation and our own budgetary constraints.

ECONOMIC ASSISTANCE

We are proposing a level of $785 million in ESF, identical to the level of the past several years. The program is a cash transfer, and we propose this year that the entire sum be provided as a grant. Our decision to improve the terms of our proposal for ESF from the ⅓ loan ⅔ grant ratio we have proposed in the past was motivated both by the reality of the fact that ESF assistance has been provided to Israel on a grant basis for the last four fiscal years and by the slight downturn in Israel's export performance during the past year. This decline is a function of both the continued economic problems from which we and Western Europe are suffering, as well as the Government of Israel's domestic economic policies. Despite some difficulties, however, preliminary indications are that capital inflows to Israel during 1982 continued to exceed requirements as official foreign exchange reserves exceeded their levels for 1981. We continue to have strong confidence in Israel's economic potential. The levels and terms we have proposed for our assistance to Israel for fiscal year 1984 should be more than sufficient to meet the objectives of our program.

ISRAEL'S DEBT BURDEN

Israel's growing debt repayments to the U.S. have been a major source of concern to many Israeli officials and to members of this committee. A careful examination of the situation however, reveals that Israeli debt—and particularly the debt service burden associated with that debt—will be manageable given Israeli policies and an expected modest return to growth in the world economy.

Our review of our proposals obviously had to take into account our own budget stringencies. In reaching our conclusions, we weigh all factors to achieve a balance. In the real world of budget ceilings, increases in assistance, particularly grant assistance, for one country mean that funds will be unavailable to achieve other objectives. Under our proposals Israel will continue to receive funds—both grant and credit—which are ample to meet our policy objectives in support of the State of Israel.

REGIONAL PROGRAMS

In addition, we would call attention to our request for $15 million in Economic Support Funds for fiscal year 1984. $7 million of these monies will go toward sustaining our development efforts in the West Bank and Gaza. These programs are implemented through American voluntary agencies and address needs in such areas as vocational and higher education, community development, improved water storage and agricultural cooperative marketing. The program has proved useful as an indication of our humanitarian concerns for the peoples of these regions and we would urge its funding at the level proposed. An additional $7 million of the region-

al funds would finance cooperative scientific, technical and other activities of mutual interest to Israel and its Arab neighbors. The remaining $1 million is requested for project development and support activities relating to the development of ESF country programs.

FISCAL YEAR BUDGET OUTLAY FIGURE

Mr. HAMILTON. Thank you, Mr. Secretary.

What was the budget outlay figure for fiscal year 1984 for all assistance to Israel?

Mr. VELIOTES. This would be the total of the programs we are asking for, sir, for fiscal year 1984.

Mr. HAMILTON. The budget outlay figure.

Mr. VELIOTES. The budget outlay figure.

STATEMENT OF RUSSELL MISHELOFF, DIRECTOR, EUROPEAN AFFAIRS AND SPECIAL PROGRAMS, BUREAU FOR NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. MISHELOFF. It would be $550 million for FMS plus the entire $785 million in ESF.

Mr. HAMILTON. Is that all? What about the rest of the military aid, is there no budget outlay figure there?

STATEMENT OF COL. HOMER D. McKALIP, CHIEF, NEAR EAST/SOUTH ASIA DIVISION OPERATIONS DIRECTORATE, DEFENSE SECURITY ASSISTANCE AGENCY, DEPARTMENT OF DEFENSE

Colonel McKALIP. Mr. Chairman, no, the rest would be $550 million, the remainder would be the guarantee loan with no budget outlay.

Mr. HAMILTON. So the budget oulay figure then is?

Colonel McKALIP. It is $550 million for the FMS.

Mr. HAMILTON. That is $1.335 billion?

Mr. MISHELOFF. I believe that is correct. There is in addition a small amount of unutilized funds from the fiscal year 1979 and fiscal year 1981 redeployment assistance effort.

Mr. HAMILTON. OK. You furnish me the budget outlay figure for 1984. I just want to get that on the record.

Mr. VELIOTES. We will do that, sir.

Mr. HAMILTON. For all assistance to Israel.

[The information follows:]

Outlay figures are somewhat difficult to calculate because of the need to take into account the different treatment accorded the off budget FMS guarantee program. For the Israeli program, however, the on-budget (roughly equivalent to outlay) figures would include the $785 million in ESF; $550 million in FMS forgiven credits.

Mr. HAMILTON. I might say I will be asking the same question with regard to other countries as well.

Mr. VELIOTES. We will be prepared at that time.

Mr. HAMILTON. So let's get them.

STRAIGHTLINING FMS FINANCING FOR ISRAEL

Now, what are the implications if the Congress were to straightline the terms of FMS financing for Israel for fiscal year 1984, from that provided in 1983?

Mr. VELIOTES. That provided in the continuing resolution, sir?

Mr. HAMILTON. Yes. In effect you have the $750 million forgiven instead of the $550 million.

Mr. VELIOTES. We would have to find $200 million in moneys to fund other programs.

Mr. HAMILTON. Would you oppose that move?

Mr. VELIOTES. Yes, sir. We believe our programs for Israel are generous and sufficient for support of our policy objectives to Israel.

Mr. HAMILTON. What kind of a signal do you think would be sent to Israel in the event that the Congress were to agree to the $550 million figure and thereby decrease assistance to Israel?

Mr. VELIOTES. I believe that the signal would be that the Congress agreed with the executive branch that the overall level of assistance for Israel in fiscal year 1984, which is substantial, particularly in an austerity year, was sufficient.

DECREASE IN FMS FORGIVENESS

Mr. HAMILTON. Now, what was the budgeting cost to the United States of the forgiveness of the $750 million?

Mr. MISHELOFF. The budgetary cost is the full $750 million.

Mr. HAMILTON. OK. Now the Israeli economy is not performing as well as it did in 1981. If that is the case, why are you asking for a decrease in the forgiveness?

Mr. VELIOTES. Excuse me, sir. We are not asking for a decrease in the forgiveness amount.

Mr. HAMILTON. You are over what was provided in the continuing resolution. You are dropping it down from $750 million down to $550 million, forgiving a portion of the military aid. Why do you cut the aid if the Israeli economy is not performing as well today as it did last year?

Mr. VELIOTES. Mr. Chairman, we opposed the $200 million increase of the grant portion. So I really don't believe the question is relevant. We believe that the $550 million is sufficient.

Mr. HAMILTON. I think you will find it is relevant, Mr. Secretary.

Mr. VELIOTES. But, Mr. Chairman, the way the question was posed I think is not the way I could answer it.

Mr. HAMILTON. In due course you will find that it is relevant, let me put it that way.

Mr. VELIOTES. Let me answer, sir, that if you will note in my opening statement I mentioned that we had proposed that this year's ESF be all grant and I think that we noted that that was at least in part a result of the weakened Israeli economic performance in the export field.

FISCAL YEAR 1983 ESF TRANSFER

Mr. HAMILTON. All right.

The 1982 appropriations report language suggested or specified that the $785 million in ESF should be transferred at an accelerated rate because that has certain advantages to Israel. Can you tell us how the fiscal 1983 ESF money for Israel has been transferred or is being transferred.

Mr. MISHELOFF. The first two quarterly tranches were provided in December 1982. The third and fourth, the remaining half, will be transferred on or about March 31, and June 30.

Mr. HAMILTON. There is no indication that that next tranche will be delayed.

Mr. MISHELOFF. No, sir.

Mr. HAMILTON. It will go out the end of March, is that the time?

Mr. VELIOTES. That is correct.

Mr. MISHELOFF. That is correct.

Mr. HAMILTON. Then the entire sum will have been transferred by July 1.

Mr. MISHELOFF. Yes.

Mr. VELIOTES. That is the current plan, yes.

Mr. HAMILTON. Have the political circumstances surrounding Lebanon prevented the transfers from being accelerated this year?

Mr. VELIOTES. I think, sir, that the primary problem of accelerating transfers beyond the quarterly payments is a budgetary one. It is frankly a transfer of funds and interest from the U.S. Treasury to Israel.

Mr. HAMILTON. But there is no signal to be given to Israel in the fact that the payments were not accelerated?

Mr. VELIOTES. No. We kept the same pattern.

LINKAGE BETWEEN ESF AND DEBT PAYMENT

Mr. HAMILTON. Are you anticipating that Israel will seek any of the following: A linkage between ESF aid and debt payment? I have a list of things I want to check with you here. Is there any indication that Israel is seeking that?

Mr. VELIOTES. There was an indication that friends of Israel were seeking that last year. That is the indexation of the ESF.

Mr. HAMILTON. I am talking about Israel now, the Government.

Mr. VELIOTES. I would have to say that I doubt if they would resist.

Mr. HAMILTON. Are they seeking it?

Mr. VELIOTES. I can't tell you if they are actively seeking it.

Mr. HAMILTON. Are they seeking more concessional FMS financing?

Mr. VELIOTES. They are requesting it.

Mr. HAMILTON. Are they seeking a rollover of the debt in the U.S. commercial banking sector?

Mr. VELIOTES. I am told no.

Mr. HAMILTON. Are they seeking to establish a free trade area between the United States and Israel?

Mr. VELIOTES. They have made the proposal.

Mr. HAMILTON. And we have said what?

Mr. VELIOTES. We have said that we are looking at it. This is a very difficult and complicated area, sir.

Mr. HAMILTON. Are they also seeking broader access for Israeli products in defense procurement?

Mr. VELIOTES. I think, yes, in general terms.

18-551 O—83——3

UNITED STATES-ISRAELI SHIPPING PROVISION

Mr. HAMILTON. Now for several years we have had an understanding with Israel and that understanding contains agreements that Israel would buy commercial goods from the United States in excess of the amount of economic aid, would give preference to the U.S. products on the commercial side, would maintain past levels of grain purchases from the United States, about $350 million a year, and would follow agreed procedures to achieve at least 50 percent of the grain shipped on U.S. bottoms.

My understanding is that Israel has said it would like to eliminate the shipping provision, but that the request was not granted. Can you tell me what percentage did Israel reach in 1982.

Mr. MISHELOFF. Yes. It was just in excess of 50 percent.

Mr. HAMILTON. What did it cost Israel extra to use U.S. ships?

Mr. MISHELOFF. I don't have a precise figure. They estimated in the fall of 1981 that at current shipping rates it would probably be on the order of magnitude of $30 or $40 million a year.

[The information follows:]

COST TO ISRAEL OF SHIPPING GRAIN IN U.S. BOTTOMS

In fiscal year 1982, 1,682,240 long tons of grain were shipped to Israel at a total shipping cost of $72,891,819. 851,414 long tons were shipped on U.S. bottoms for which Israel paid $52,913,900, and 830,826 long tons were carried by foreign flag vessels at the cost $19,997,919.

If the grain shipped on U.S. bottoms had been shipped at foreign flag rates, the cost to Israel would have been $21,323,538. Consequently, the additional cost to Israel in fiscal year 1982 for using U.S. bottoms to ship grain was $31,590,362.

Mr. HAMILTON. All right. Now will the letter for 1984 be identical to the letter for 1983 with regard to these understandings?

Mr. MISHELOFF. Yes.

Mr. HAMILTON. OK. Mr. Lantos.

SOVIET MISSILE DEPLOYMENT IN SYRIA

Mr. LANTOS. Thank you very much, Mr. Chairman.

It is nice to see you, Mr. Secretary.

I wonder if you could give us the State Department's appraisal of the new Soviet Sam-5 missile deployment in Syria?

Mr. VELIOTES. I think, Mr. Lantos, I will do my best in this forum.

The Soviet decision to deploy and man the Sam-5's appears to have been a result of the defeats of the Soviet-Syrian manned air defense systems last year in the course of the hostilities between Syria and Israel.

Mr. LANTOS. Do the new Soviet deployments in Syria, manned by Soviet forces, represent a threat to our own Mediterranean fleet?

Mr. VELIOTES. We have viewed this less in terms of a threat to our own forces, more a step which is potentially destabilizing politically and militarily in the Arab-Israeli context, more specifically the Israeli-Syrian context.

Mr. LANTOS. It is clearly destabilizing in that context, but my question still stands, Mr. Secretary. Does the deployment of the supersophisticated Soviet missiles manned by Soviet troops on Syrian

soil represent a potential threat to our own forces in the Mediterranean?

Mr. VELIOTES. I suppose if you take a look at their technical capabilities, and where our forces might be flying, and they could conceivably reach them, the answer would have to be yes. This gets you into Soviet intentions and their——

Mr. LANTOS. You well know that those are the best at all times, so we don't have to worry about that.

Mr. VELIOTES. No, I don't view that at all as my interpretation of Soviet intentions.

But it is quite a conceptual leap from putting them into Syria to launching them against American aircraft. We don't think that is a likely use of those. But you asked potentially could they be used that way. I think technically, yes.

VALUE OF SOVIET RESUPPLY OF SYRIA

Mr. LANTOS. What is our estimate of the value of the Soviet resupply of Syria?

Mr. VELIOTES. I have seen a figure that I cannot confirm, sir. It was about $2 billion.

[The information follows:]

Total Soviet deliveries of military equipment to Syria in 1982 are estimated at slightly under $2 billion. Over 75 percent of these deliveries occurred in the last six months of 1982. The bulk of these deliveries represented resupply, although there was some limited introduction of new equipment.

LIBYAN PURCHASES OF SOVIET MILITARY EQUIPMENT

Mr. LANTOS. What is our best estimate of purchases by Libya of military equipment in calendar 1982?

Mr. VELIOTES. I will have to get that for the record unless one of my colleagues has it.

Mr. LANTOS. Is there a ballpark figure that you gentlemen who live with these figures can give me?

Mr. VELIOTES. 1982 may or may not be the best year, sir, because the Libyans were having some money problems in 1981.

Mr. LANTOS. I understand.

Mr. VELIOTES. We could get you—over the recent years Libya has bought billions of dollars' worth of equipment from the Soviets, supersonic aircraft, best tanks, et cetera.

[The information follows:]

Total Soviet deliveries to Libya in 1981 and 1982 were just under $2 billion.

Mr. LANTOS. Would it be fair to say that Libya's purchases of military equipment dramatically exceed Libya's own needs?

Mr. VELIOTES. Absolutely.

Mr. LANTOS. Would it be fair to say that the Soviet Union in fact is pre-positioning military supplies in Libya?

Mr. VELIOTES. That is a hypothesis, I couldn't——

Mr. LANTOS. Is it a valid hypothesis in your view, Mr. Secretary?

Mr. VELIOTES. That suggests that the Soviets would be planning to man that equipment and I don't think we can leap to that. The fact that there is equipment far in excess of Libya's needs and that the Libyans are looking for ways and means to destabilize their neighbors and our friends and that at least some of this equipment

could be used in that respect, that would be more the way I would look at it.

Mr. LANTOS. Well, let me commend you and the Department for the recent action in countering the Libyan threat to the Sudan because I believe that our action was prompt, rational, appropriate, and successful.

Mr. VELIOTES. Thank you.

U.S. AWACS TRANSFER

Mr. LANTOS. Having offered, if you will, some praise, I have a question, Mr. Secretary.

Why did we send the AWACS from Tinker Air Force Base in Oklahoma and not merely transfer them from Saudi Arabia?

Mr. VELIOTES. Well, let me—I can give you one reason as to why we would not.

Mr. LANTOS. If there was only one reason then that is sufficient.

Mr. VELIOTES. There may be other technical reasons, but I can give you one substantive reason. And that is those AWACS were sent there in a certain context, to keep watch over the gulf and to be, if you will, part of a screen of protection of vital resources there.

There is nothing in the current situation in that part of the world that would lead us to recommend that the President withdraw those aircraft. They should be there on station, they are needed there.

Mr. LANTOS. There was no consideration given to the enormous financial savings that would have occurred had we merely moved the AWACS from over Saudi Arabia into the Libyan area?

Mr. VELIOTES. I am sure that was considered, sir, in the context of the discussions but you weigh that kind of savings, which is real, against the potential loss if the AWACS weren't there when something starts. About 2 weeks ago, as I believe has been in the press, the AWACS did pick up an Iranian aircraft coming toward a very sensitive area.

MEMORANDUM OF STRATEGIC COOPERATION

Mr. LANTOS. Mr. Secretary, yesterday's New York Times[1] carried a historically almost unprecedented document, an open letter to the President of the United States, signed by 130 of our most distinguished retired generals and admirals. Did you read that letter?

Mr. VELIOTES. Yes, sir.

Mr. LANTOS. Can you tell me, in essence (*a*) what in your view the message of that letter was and (*b*) whether you agree with that message.

Mr. VELIOTES. Well, I think the message of the letter was a message of support or congratulations to the Israeli Armed Forces for their very effective performance against the Soviet air defense equipment in Syrian hands, as well as their effective use of weapons against Soviet armor in Syrian hands.

---

[1] See app. p. 10.

That was part of the message. The second part was to describe it as a victory for the West and the free world and to move from there to a call to the President to recognize this contribution. And underneath it was a coupon asking for funds.

Mr. LANTOS. Beyond the coupon there was a reference, as I recall, of moving toward a resuscitation of the memorandum of strategic cooperation which these distinguished admirals and generals view as in the U.S. national interest, with enormous ramifications for the balance of forces in the NATO theater and with the potential of reduced defense expenditures, if in fact these technological breakthroughs can be implemented.

I viewed those suggestions more important than the coupon, but we all read in our own way.

Mr. VELIOTES. Well, I am not attempting to denigrate or question the intentions of the people who signed the letter or the letter itself.

As far as what is in the U.S. strategic interest, however, at any one point in time, in the first instance militarily, I would have to be guided by the judgments of those who are currently serving and who have the responsibility.

Mr. LANTOS. No one questions, Mr. Secretary, the constitutional authority of those presently in power to make decisions. I am asking your view, as a specialist in the area, on a public letter signed by over 130 distinguished retired admirals and generals on the value to the United States of resuscitating the memorandum of strategic cooperation. Do you believe they are wrong, or do you believe they are right?

Mr. VELIOTES. I believe they have every right to express their views.

Mr. LANTOS. That is not my question.

Mr. VELIOTES. And if and when the circumstances are appropriate then I would be prepared to address the other question. I don't believe they are now and I would just as soon not address the question, sir.

Mr. LANTOS. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Dymally.

SOME CRITICISM OF FOREIGN AID TO ISRAEL HEARD

Mr. DYMALLY. Thank you, Mr. Chairman.

Mr. Secretary, the week before last I held the first in a series of community forums dealing with the problems of jobs, social security, military expenditures and foreign aid. On the question of foreign aid I believe 95 percent of the people present at the city hall in Carson, Calif., thought I ought to vote against increased expenditures for foreign aid.

And for the first time in 3 years since I have been in that district there were some critical questions about aid to Israel. And the first time in 20 years that I have been in public life that those questions were being raised publicly.

So these questions I ask you are based on the concern that is arising across the country, in particular my district, about the question of increased military expenditures, and foreign aid.

The Jerusalem Post reported earlier this year that Israeli Defense Ministry officials estimated that the cost of the invasion of Lebanon until March 1983 would be $38.2 billion Israeli shekels corresponding to approximately $1.125 billion U.S. dollars.

The President of the United States has called for the withdrawal from Lebanon of all foreign forces including Israel. He has described Israel's presence in Lebanon as that of an occupying power, thus putting them in the role of violating the Arms Export Control Act.

In view of these facts, can we justify increased military assistance to Israel?

Mr. VELIOTES. Mr. Dymally, first let me say that this is a very difficult year for all responsible legislators, given our own budgetary stringencies with respect to all aspects of foreign assistance. We in the executive branch certainly recognize that. I recognize it perhaps as much as any because most of the bilateral assistance goes to countries in my area.

It is going to be a difficult task but I don't believe we have any alternative but to continue to play the leadership role in the world that is expected of us and that, frankly, history has put us into. And that costs money.

Specifically, with respect to assistance to Israel, the administration has asked for a considerable amount of funds which is the same amount that we requested last year. So, sir, there is not an increase in this budget for Israel.

Mr. DYMALLY. I believe my constituents were referring to the increase that the Senate put in last year.

Mr. VELIOTES. I have to repeat that the administration was opposed to that. We believe that the funds that we are proposing and which we proposed then were generous and that if the Congress were to support us this year the signal that would be sent would be a signal of strong support to Israel, not of lessened support, particularly in an austere year.

I could not agree with the proposal to increase the budget for Israel because given the budget realities that money would have to come from other programs that are very leanly funded, in some cases would destroy the programs altogether. Either we have to forgo policies, important policies in other parts of the world or we have to coie back to the Congress for funds.

So we would ask that the Congress support us in this important level for Israel which I can support without reservation.

UNITED STATES-ISRAEL AID RELATIONSHIP

Mr. DYMALLY. I want to assess the aid relationship between the United States and our ally Israel. A great deal of disturbing evidence demonstrates that this aid is not contributing to building an indigenously healthy economy in Israel. In fact, evidence bears out the fact that Israel's economy is, pure and simple, insolvent at this time.

In the last few years U.S. aid to Israel has fluctuated between $2.5 and $2.7 billion for a country with a population of approximately 3.5 million.

Question: Could it be that at present the basic structure of the Israel economy as it is dependent upon enormous amounts of U.S. aid will continue to be used in a way which does not produce a stable and solvent economy or could it be the basic aid relationship between the United States and Israel needs to be reevaluated until Israel can learn to spend most of its funds on economic development instead of military assistance and using funds for development in the occupied territories?

Mr. VELIOTES. Sir, I am sure that any economic analysis of the Israeli economy will show weaknesses, will show problems, the whole area of indexation; for example; whatever problems and weaknesses there are, it has been my experience that the Israeli officials are well aware of them, they are trying to deal with them, not exacerbate them.

I also feel that if the Israelis had their druthers they certainly would spend the bulk of their budget and their funds on social, economic, and educational development rather than military projects.

At this point they don't have those options. They must spend an enormous amount on the military. I forget the figures this year, it is 30 or 40 percent of their budget this year.

However, the point you make is a good one and I think it is not just Israel which is in this bind. Countries like Jordan would also like to find a way to stop spending enormous sums on guns. And one important way to be able to do this is for people to take a chance on peace, which is what we are trying to move the area toward.

RATIONALIZATION OF ISRAEL AID PROGRAM

Mr. DYMALLY. Aid to Israel between 1974 and 1982 which came to a total of about $22.6 billion according to the GAO, that is twice the amount the United States has given to the entire continent of Africa in a shorter period of time and 25 percent more than all U.S. aid to Latin America. With a very weak and indigenous economy, in fact virtually insolvent, how can we explain to our constituents back home, as well as try to rationalize to ourselves why we give so much aid to Israel, which in comparison to other aid programs for other regions is astronomically high?

Mr. VELIOTES. Sir, I think in the context of what we are trying to accomplish in the Middle East, the price tag is high and it is not just for Israel. But we believe given the stakes that the results to date and the potential results in the future justify the cost.

We are trying to create an unprecedented area of stability and security which stretches throughout the Middle East over to the Persian Gulf.

It is an area where we have friends, very close friends. It is an area of geopolitical significance. It is also an area that has 70 percent of the free world's proven oil reserves.

This is what we are trying to accomplish. I wish I could tell you and your constituents today that next year or the year after we will have accomplished it and we can spend less overseas in this area for military assistance and perhaps cut the whole bill. I can't tell you that.

I do think, however, that we do have some experience factor and the costs to us of military and economic assistance, trying to move the area toward peace is a bargain compared to what the cost would be to us and our allies if we were to fail.

Mr. DYMALLY. The magnitude of U.S. aid to Israel has escalated dramatically in the past 10 years, while the terms have become increasingly concessionary. In 1972, official U.S. aid aggregated some $475 million, 88 percent of which was a loan. Today of the $2.5 billion in official aid, over 60 percent or $1.5 billion is a direct grant which need not be repaid while the remainder is loans with 10-year grace periods, 20- to 30-year amortizations and at interest rates below market level.

Given the concessionary terms the grant component of the loans is more than one-fifth, so that more than two-thirds of U.S. official aid is economically equivalent to grants.

How can the United States afford to give so much money in view of our economic crisis in the United States; how can we continue to do it for a country that has rejected the President's peace initiatives, stepped up its settlements in the occupied territories and continues to remain entrenched in Lebanon?

Mr. VELIOTES. Our aim is to create that kind of sense of security in Israel so that the Israelis will continue to take risks for peace.

I think your questions are relevant questions. They are very good questions. There are no easy answers, except that we are at the beginning of a peace process which has been launched by President Reagan. We are only a few months down the road. It is too soon to draw conclusions about attitudes of any permanent, negative attitudes on behalf of the Israelis.

As far as Lebanon is concerned, I have every confidence that the Israelis do wish to leave Lebanon. We are hopeful that in the near future we will have agreement there. Then we can move on to the broader peace process.

I don't think it is accurate today to draw conclusions and say that what we are doing is financing attitudes that are opposed to American attitudes. That isn't fair.

Mr. DYMALLY. Mr. Chairman, I know my time is up. I have one final question.

The Jerusalem Post reported earlier this year that costs of settling each family in the West Bank is approximately U.S. $150,000. There are also reports that Israel is luring settlers into the occupied territories by subsidizing housing at prices cheaper than those found in Israel itself. Even though the United States has written agreements with Israel that they will not spend aid in occupied territories, can we not assume that by giving so much aid their money is freed up to continue settlements in the West Bank and the Gaza Strip?

Mr. VELIOTES. In the sense that money is fungible, Mr. Dymally, I guess you could make that statement. We have no reason to believe however that the Government of Israel has ever violated its agreements with us on the use of American aid funds.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

Mr. HAMILTON. Mr. Smith.

ESF CASH TRANSFER

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Secretary, when you talk about money being fungible, first of all, let's clear up some misunderstandings that I may have.

The $785 million in ESF is cash transfer, but it is really basically backlogged against a commitment to buy American goods for a greater amount than that. Isn't that so? In fact Israel does that every year.

Mr. VELIOTES. Yes, sir.

Mr. SMITH. So in essence that $785 million is basically not fungible because it is not there to promote settlements and couldn't be used that way, could it, because they never get their hands on their money, do they?

Mr. VELIOTES. Yes, they do. The money is transferred into a bank account here in the United States.

Mr. SMITH: Which then gets paid out for American goods.

Mr. VELIOTES. We can't indicate that our funds are used for purchase of U.S. goods and other funds are used to buy services, pay debts and so forth. Funds cannot be distinguished by source.

USE OF FMS FUNDS

Mr. SMITH. The second thing on military assistance—doesn't that at this time pay for many types of military goods purchased from the United States?

Mr. VELIOTES. Most of the funds are used for the payment of goods made in the United States.

Mr. SMITH. Then those fungible dollars are not fungible either, are they, because they never turn into cash which could be used to finance West Bank settlements. Is that correct?

Mr. VELIOTES. It is used for the purchase of——

Mr. SMITH. So we have effectively dealt with most of the dollars from the United States in foreign aid in terms of its financing West Bank settlements or any other, have we, it is not as fungible as it would appear is it?

Mr. VELIOTES. FMS funds are used for payments for goods made in the United States regarding cash transfers, I need to reiterate my previous response. The funds cannot be distinguished by source.

ISRAEL ACTIONS IN LEBANON

Mr. SMITH. Thank you. That clears up something I had some problems with.

Would you say that the Israeli expedition in Lebanon has created a better or worse climate in political and military situations in Lebanon itself which would be more or less conducive to ultimate internal stability and peace in Lebanon and for ultimate peace in the Middle East?

Mr. VELIOTES. I am not sure. I don't think the returns are in yet.

On the surface the results of the Israeli action, which had some cost not only to Israel but to others, are that there should be greater chances for stability in the context of meaningful unity, sovereignty for Lebanon, ready and willing to live in peace with its neighbors. If that should happen, and that is what we are striving

for, if that should happen that act by itself would lead to stimulus of the broader peace process, then I would agree that the overall—the net impact of the Israeli invasion was a plus, a big plus.

Mr. SMITH. Let me ask you then, although you say the returns aren't in and you are not certain personally, hasn't the administration proposed a large aid package for Lebanon which has never been proposed previously on the grounds that basically there is now an open door and the possibility does strongly exist for peace and stability coming to Lebanon, and wouldn't you say that is fairly attributable directly to the operation of Israel in Lebanon?

Mr. VELIOTES. Yes. But this is only going to be proven if and when we get agreement for withdrawal of foreign forces under terms that are consistent with the self-respect and internal stability of Lebanon and we are not yet.

Mr. SMITH. Is the aid program being requested by the administration contingent upon the withdrawal of all the forces?

Mr. VELIOTES. I will be before the committee supporting the Lebanese supplemental on the assumption that these good things are going to happen.

Mr. SMITH. I think right now overall the climate seems to be that the operation has lent certainly the impetus to stability and internal security and the United States as well as other countries seem to be operating on that theory. Doesn't it seem rather odd at this juncture then to talk in terms of cutting back last year's aid to Israel when in fact Israel spent so much and it cost so dearly, not only to Israel but to other countries as well for the military operation as well as the continuing operations both in dollars and in lives? Why is this administration now coming and recommending against maintaining last year's funding levels? I find that rather an ambiguous kind of position, even though you did last year recommend against increases.

We do see some very positive signs as to what happened. And disenfranchizing Israel from the dollars which were necessary to effect that substantial gain in the possible move toward total peace in that area seems to be punishing rather than being evenhanded.

Mr. VELIOTES. Sir, I wasn't aware that when the Congress raised the grant component last year by $200 million the purpose was to underwrite the Israeli operation into Lebanon.

Mr. SMITH. That is not my question.

Mr. VELIOTES. I wanted to clarify that because in the record it could have——

Mr. SMITH. That was not implicit in my statement, either.

Mr. VELIOTES. No, sir. Look, we in our view, in the view of the administration we are not asking for less money for Israel than last year; we are asking for the same amount. We disagreed with the Congress when the Congress raised the grant component. We would disagree this year, not because we are trying to punish anyone, but because we believe that the amount that we have recommended, which is $2.485 billion, is generous and is certainly sufficient to support our policy of support for Israel.

USE OF ESF FUNDS

Mr. SMITH. Let me get to something else. ESF. You are back at the same level of $785 million which has been the level for quite a while. If in fact most of that is committed to buy American goods and with looking in terms of diminished buying power over the last few years and the fact that much of this money will be spent in the United States, in fact all of it will be spent in the United States and eventually will create jobs and stimulate some of the economy that we are trying on some other fronts, why does the administration continue to stay on that figure of $785 million, rather than take into account inflation, increased costs of goods, increased cost of doing business, as Mr. Lantos I think talked about, or the chairman, the cost of the American bottoms opposed to Israeli ships? Why is there this continual drive to stay at the level that has been eroded considerably?

Mr. VELIOTES. It is a practical issue, primarily in that we have budgetary problems in this country as well. Other programs are being cut back. We are trying to maintain the Israeli programs at very generous levels. It is probably not as high as Israeli budgeters would like, but we believe they are as high as the realities of our own budgetary problems would allow. That and our desire to run programs elsewhere in the world.

You have, given the budget problems, also congressional attitudes, we are in a zero-sum game. We take $200 million and put it here, it has to come from somewhere, and we have no programs to take it from. So we come up with supplementals.

Mr. MISHELOFF. Permit me to add just a word to that.

Clearly the Israelis could use more, but by the same token our economic assistance is designed as balance-of-payments support. I think our reading of the current, Israel's current balance of payments requirements and our projections for the next couple of years is such that it appears to us that $785 million is quite sufficient.

Mr. SMITH. Just two short questions that may have been covered in previous meetings. Secretary Shultz indicated in response to one of my questions that the F-16 matter was under advisement. That commitment was made quite a while ago. Is there any, in the short term, hope of seeing a resolution of that "advisement problem" since it was a commitment rather than something they are asking for now?

Mr. VELIOTES. I think the answer to your question is yes, but I can't tell you when. This really is with the President and the White House.

SAM 5'S IN LEBANON

Mr. SMITH. And the final thing is to follow up on the question of Mr. Lantos. Do we have any indication that SAM 5's are being placed in Lebanon?

Mr. VELIOTES. No, sir.

Mr. SMITH. None yet?

Mr. VELIOTES. No, sir. I wouldn't expect them in Lebanon, no, sir.

Mr. SMITH. On what basis would you not expect them in Lebanon?

Mr. VELIOTES. It would be very difficult for the Soviets to man them in Lebanon. The Soviet commitment was traditionally to Syria proper.

Mr. SMITH. Do you think that the placement of the SAM 5's in Syria bodes well for a bilateral nonphased withdrawal from Lebanon of the Syrian forces?

Mr. VELIOTES. I think it could turn out to have no relevance to it, but we will have to see. Certainly we would be terribly concerned and we have made this clear to the Soviets, if by their action they were the agents for frustrating agreement on the withdrawal of foreign forces from Lebanon.

Mr. SMITH. Thank you.

Mr. HAMILTON. Mr. Levine.

ADMINISTRATION REQUEST FOR ISRAEL

Mr. LEVINE. Thank you, Mr. Chairman

We have so many Democrats on this side of the table that the mike doesn't stretch all the way over here.

Mr. Secretary, my congressional district borders that of my colleague from California, Mr. Dymally, and the nature of the questions that I received from my constituents across the street from his constituents are quite different. And I would like to pursue some of the questions akin to those that I get from my district.

Mr. DYMALLY. Will the gentleman yield? I must advise the Secretary and the chairman both of whom know L.A. County that Mr. Levine represents the high-rent district.

Mr. LEVINE. High rent district. We could get into a lengthy analysis of congressional districts.

Suffice it to say that some of my district was represented by Mr. Dymally as recently as 3 months ago and in his graciousness in terms of the reapportionment process made it possible for me to represent some of the people who have been asking me some of the questions that I am about to try communicating to you.

The nature of these questions really cuts to the issue of what appear to be cuts in our foreign assistance to Israel and I guess the first series of questions I would like to ask you pertain to the issues that you have already discussed briefly both with the chairman and with my colleague from Florida. Maybe we are dealing with semantics, but maybe with a fundamental issue when you indicate in response to the chairman, that you don't understand the relevance of his question with regard to whether or not your proposal is maintaining last year's level of proposals.

I don't want to get into a semantic excursion at great length, but as I understand the process—and I am new here and you can correct me if this is wrong—last year you did make a particular proposal, that after you made that proposal Congress significantly increased that proposal, and to come back with the proposal that you suggested from last year, appearing to completely ignore Congress response strikes me as essentially saying what Congress does in foreign policy is irrelevant, we only go back to what the administration requested and we should utterly ignore the fact that this request is in fact a couple of hundred million dollars less than Congressional authorization and appropriation.

Can you explain to me what I am missing in that understanding?

Mr. VELIOTES. Yes, sir. When we testified against the congressional action we argued that this would cut very heavily into other programs, programs that we could not afford to seek cuts in, since we are trying to run a worldwide program, not just a Middle East program, certainly not just an Israeli program.

Congress made its decisions, forcing the administration to ask for a supplemental.

I don't think that the executive branch in coming back with a budget which it believes is thoroughly responsive to Israel's needs within the realm of what is available should be seen as taking any form of an arrogant posture vis-a-vis the Congress, or ignoring the Congress.

All we are doing is telling you that this is our best judgment. You may or may not agree with us, but that doesn't mean we don't feel we have a responsibility of proposing and defending our best judgments. That is all I am doing here today, sir.

Mr. LEVINE. I guess as a new member of this subcommittee I should just go on record as saying that it is frustrating to me to hear an administration emphasize maintaining levels, maintaining levels of support, et cetera, which ignores the fact that what this does amount to is a significant cut. It may be a maintenance of something you proposed, but it is a significant cut in terms of what occurred. And I haven't been here long enough to understand the subtle ramifications of diplomatic language, but it is difficult to understand all of those.

Mr. VELIOTES. No, sir, it is not subtle, we just disagree.

COST TO ISRAEL FOR OIL PURCHASES

Mr. LEVINE. Let me ask you about a few specific items that would be relevant I would think to determining how much assistance Israel will need. First of all, subsequent to the Camp David agreement, do we have an analysis of how much money this agreement has in essence cost Israel in terms of purchasing oil from the oilfields that Israel relinquished?

Mr. VELIOTES. We certainly do have the figure. Do you have it?

Mr. MISHELOFF. The oilfields which Israel returned to Egypt in conjunction with the peace with Egypt, supplied approximately, 40,000 barrels of oil per day.

I haven't worked out the arithmetic in terms of what the current value of that is.

Mr. VELIOTES. Probably between $400 and $500 million a year. I am guessing.

Mr. LEVINE. Perhaps you could supply those figures.

[The information follows:]

While it did not claim sovereignty over the Sinai following the 1973 war, Israel, beginning in 1977, put the Shaab Ali field (formerly the Alma field) into production for its own account. Israel returned the field to the Government of Egypt on November 25, 1979, in compliance with its commitments under the Egyptian-Israeli Peace Treaty of March 26, 1979. Prior to withdrawal, Israel had been producing approximately 40,000 barrels of oil per day—about one fourth of its total oil consumption—from the field. From November 1979 through February 1983, the cost to Israel of importing that quantity of a similar-grade Egyptian oil amounted to $1.6 billion. As is evident from the table below, declining oil prices began in 1982 to reduce the cost to Israel of replacing with imports the 40,000 barrels/day that it had produced in the Sinai.

Amoco, which operates the Shaab Ali field as a portion of its concession in Egypt, has followed a more conservative depletion policy than did Israel. We estimate that $1 billion worth of oil has been taken from the field since it reverted to Egyptian control. The field has produced 30,000 barrels per day since 1982, but output was considerably lower in 1980-81.

Estimated Value of 40,000 Barrels per Day Gulf of Suez Crude Oil

[Total dollars in millions for the period indicated]

November 25 to December 1979	48
1980	500
1981	526
1982	476
January and February 1983	71
Total (November 1979 to February 1983)	1,621

COST TO ISRAEL OF RELOCATING MILITARY BASES

Mr. LEVINE. I am interested in knowing how much Israel was required to expend in terms of relocating military bases subsequent to the treaty.

Mr. VELIOTES. Right.

Mr. MISHELOFF. By Israeli estimate, the total relocation cost was something on the order of $5 billion, of which under the 1979 and 1981 special redeployment package approved by the Congress we provided $3.2 billion.

Mr. LEVINE. Those are accurate figures?

Mr. MISHELOFF. Well, they are as close as we can come. Certainly the $3.2 billion is accurate. As to the global figure that is an estimate.

Mr. VELIOTES. If you will ask us your questions we will give you what answers we can and we will still follow up in the record.

[The information follows:]

The Government of Israel estimated at the time of the conclusion of the treaty that relocation of the military bases would cost about $3.6 billion. Following discussions with the Government of Israel, the Administration proposed and the Congress enacted various authorizations and appropriations to provide $3.2 billion in U.S. financing in support of the relocation expenses.

Two of the three military bases concerned were rebuilt by the U.S. These two bases have been completed and final cost estimates indicate total expenditure of $1.077 billion rather than the $1.04 originally projected. Completion of the third base, being constructed by the Israeli Government, has been delayed. We have heard from some Israeli officials that the original Israeli estimates did not take adequate account of inflation particularly in light of delays both intended and unavoidable. We have seen no definitive recalculation, but various Israeli officials have cited a figure of about $5 billion for the potential total costs. A final accounting is, however, not yet possible.

Mr. LEVINE. I would appreciate that followup.

SAM MISSILES IN SYRIA AND ISRAEL'S SECURITY NEEDS

Second, do you in your analysis factor in the SAM missiles in Syria? Do you believe that alters your analysis with regard to Israel's security needs in terms of the aid that we provide?

Mr. VELIOTES. I think the answer to that is that we try to factor in everything. I would have to check as to what that particular weapon system requires more in the way of heavy expenditure hardware or something else. I suspect it is something else, but certainly this is a new element.

Mr. LEVINE. You wouldn't think this new injection of SAM missiles and advisers would require any additional assistance in terms of aid to Israel?

Mr. VELIOTES. I don't want to really pronounce on that. I am not a technician.

As I say the new electronics usually require other new things.

Mr. LEVINE. I would be interested.

Mr. VELIOTES. How much that would be, I don't know.

Mr. LEVINE. I would be interested in a followup to that as well.

Mr. VELIOTES. Some of this would have to be classified.

Mr. LEVINE. That is fine.

[The information follows:]

No. While the introduction of new missiles is troubling, it does not represent a major shift in capability that would require new assistance programs to offset it.

IMPACT OF OTHER MIDEAST ARMS SALES ON ISRAEL'S SECURITY

Mr. LEVINE. During this administration there has been a significant increase in arms sales to other parts of the Middle East and I am curious as to how you analyze the impact of those arms sales to other nations in the Middle East in terms of Israel's security needs.

Mr. VELIOTES. Would you like something for the record which analyzes and lays them all out? Because each time we make a major weapon sale before we make an interagency decision on it and we are talking here about Arab countries, we do factor in the impact on the balance. Essentially technological or qualitative balance is the problem we are looking at.

And the decisions that we have made during this administration and submitted to the Congress that have been controversial—there is only one, the AWACS, that I am aware of—we went into this in very thorough detail.

There may be some other weapon systems that don't come readily to mind.

Colonel McKALIP. That is the major one that has been a factor.

Mr. VELIOTES. Improvement of the F-15's.

Colonel McKALIP. It did figure into the increase recommended by the administration.

Mr. VELIOTES. And actually, I should note on that that one of the results of our having come to the conclusion that we should go ahead with the AWACS and the F-15—what was the phrase—enhancement project, was that we should offer Israel an extra $600 million in military credits over a 2-year period to help compensate for this. And they indicated to us at that time that they probably would buy some additional aircraft.

Mr. LEVINE. I would appreciate that for the record.

Mr. VELIOTES. Let us take a look at it.

[The information follows:]

Our policy of selling military equipment to moderate Arab countries reflects such factors as: (1) the legitimate security needs of each of those countries vis-a-vis both external threats and those within the region; (2) the traditional U.S. commitment to Israel's security and well-being which includes helping Israel to maintain its qualitative military superiority; and (3) our overall desire to avoid the danger of an uncontrolled arms race in the Middle East.

Our commitment to Israel's qualitative edge is fulfilled through our providing Israel with state of the art military equipment. This commitment stems from our recognition that Israel cannot compete on quantitative terms with the military arsenals of its Arab neighbors. In analyzing individual arms transactions we, therefore, look carefully at the impact on military stability and the technological balance in the region bearing in mind factors such as technical and operational capability and the availability, difficulty, cost, and necessity of countermeasures.

AWACS TRANSFER

Mr. LEVINE. As long as you mentioned the AWACS sale, to follow up a prior question with regard to the transfer of the AWACS, I believe it was Mr. Lantos' question, did you explore with the Saudis the idea of transferring the AWACS that is in Saudi Arabia to Libya?

Mr. VELIOTES. I will have to check on that.

Mr. LEVINE. Do you know whether we asked the Saudis and they refused?

Mr. VELIOTES. Let me check on this. I don't think that is the way things work on this.

Mr. LEVINE. I would appreciate that.

[The information follows:]

The question never arose. The AWACS in Saudi Arabia are carrying out an important mission that we would not wish to disrupt.

Mr. LEVINE. I understand my time is up.

Mr. VELIOTES. I would have opposed transferring the AWACS.

Mr. LEVINE. That wasn't my question. My question was did we ask the Saudis and if so how they responded.

Mr. VELIOTES. We don't have that. We will find out for you.

Mr. HAMILTON. Mr. Torricelli.

Mr. TORRICELLI. Mr. Chairman, in my district I get an extensive number of questions about American policy to Italy and since that is not at issue here I feel completely free, all of my questions here are my own.

Mr. VELIOTES. Go ahead, I speak Italian.

UNITED STATES-ISRAEL DATA SHARING AGREEMENT

Mr. TORRICELLI. When Secretary Weinberger met with us, we had extensive conversations concerning any agreement that might be forthcoming between the United States and Israel concerning knowledge gained by the Israelis in Lebanon. He said that the offer that was made by the Israelis, which as I understand it was initialed by American representatives in Israel, was not acceptable at this time.

Can we expect something to come from the administration, a counter proposal so that we can quickly get agreement and get access to all that information?

Mr. VELIOTES. We can expect a counter proposal. Whether that leads very quickly to agreement, I don't know.

Mr. TORRICELLI. But there will be an administration counter proposal.

Mr. VELIOTES. Yes, I am sure of that.

Mr. TORRICELLI. When do you think we will see that?

Mr. VELIOTES. In the near future.

SAM 5'S IN SYRIA AND IMPACT ON POSSIBLE AMERICAN AIRLIFT TO ISRAEL

Mr. TORRICELLI. Let me ask you this: The question has been asked concerning the SAM 5's in Syria. One of the aspects of it that I have not seen explored yet is in your opinion, understanding that you are not a technician, do the SAM 5's, not only pose a

danger to American carrier planes, but would they in any way jeopardize a future American airlift to Israel if we had a situation, again, where America had to resupply Israel by air? Does the range and capability of these new SAM missiles jeopardize that kind of operation seriously?

Mr. VELIOTES. I would have to take a look at the technical characterization and some other things. I would like to submit that for the record.

Mr. TORRICELLI. I would appreciate that knowledge. I wonder if the Colonel feels capable on that question.

Colonel MCKALIP. I would be hesitant to move into that, sir, without checking the classification. So I think we should submit that for the record.

Mr. TORRICELLI. Fine.

[The information follows:]

The range of the SAM missiles would pose some danger to airfields in northern Israel. It is also true, however, that there are airfields in southern Israel, outside the range of the missiles, which could be utilized in such an eventuality.

RATE OF DEBT FORGIVENESS FOR EGYPT COMPARED TO ISRAEL

Mr. TORRICELLI. Mr. Secretary, a third question. I understand that the portion of debt forgiveness now, although we have tried to maintain some equity between Israel and Egypt in assistance, has advanced faster for Egypt than it has for Israel; it does this year. One, I would like your explanation of whether or not you consider that the case, whether proportionately the debt assistance for Egypt has moved faster and, second, if that does not in some way undermine our attempts to appear to be dealing fairly and equitably with Israel and not coercively, because we are currently in an era, a time of disagreement.

Mr. VELIOTES. The word proportionately gives me a little bit of trouble because the Egyptian debt forgiveness started from zero and has moved up. In 1982 it is 200, then it has come up to 425. It has increased proportionately.

Mr. TORRICELLI. So the rate of debt forgiveness for Egypt has been greater.

Mr. VELIOTES. Yes. I would like to enter, I don't want to call it an objection, but I always find myself on the other side of this argument, arguing that the Egyptian program should be looked at on its own merits and not with respect to the American-Israeli program. I happen to believe that.

Mr. TORRICELLI. I understand that.

Mr. VELIOTES. I think it is true also in the Israeli program.

Mr. TORRICELLI. My concern is that the administration's credibility in arguing that in difficult economic times there must be restraint on Israel would have considerably more weight if not for the fact, as you said, that there is rapid advance in debt forgiveness to Egypt since seemingly it is all coming from the same pot.

U.S. AID COMMITMENT TO ISRAEL

Finally, sir, my question would be not to the substance but as to the perception of American assistance to Israel. By that I mean I would like your reaction if you were sitting today in Tel Aviv in a

situation where this year debts from purchases after the 1973 war reached their peak, the rearmament of Israel, where there was a $1.4 billion expenditure in Lebanon, some of which at least in my judgment met some of our foreign policy objectives, a need now to counter because of the delivery of F-15's to Saudi Arabia, to counter in some way the future prospects of AWACS, all these forces converging on Israel this year, and this is the year when the United States takes a step back, in difficult economic times in Israel.

We can debate the merits of it but wouldn't it appear to any reasonable observer that this is an attempt by this country to exercise some coercion, to get into the merits of Israeli policy decisions? And isn't it a sad coincidence in time for the state of Israel?

Mr. VELIOTES. Well, you know only, sir, if you would consider a proposal, a proposed level of assistance of $2½ billion as some kind of a sanction. I really can't accept that. I think that this is a strong vote of confidence in our relationship. I have no doubt there are those in Israel who will say they wish it had been more. I can understand that.

Mr. TORRICELLI. But assistance is measured not only in absolute dollars but in need. There is a mounting need and a decelerating amount of money, of help. And my question to you is: We have got a problem here not just in real terms of dollars but in demonstrating a continuing level of American commitment regardless of domestic political decisions in Israel or their foreign policy.

We have made that commitment to Israel. Isn't it a fact though that if you were in Israel it would be hard to see the substance of that commitment in this that now we appear to disagree with some Israeli policies and for the first time our aid demonstrates that disagreement? I am concerned about the credibility of America's commitment.

Mr. VELIOTES. And I believe that the amount we are proposing carries with it very much credibility. I don't see where this is a negative signal at all.

Mr. TORRICELLI. Thank you, Mr. Secretary.

Mr. HAMILTON. Mr. Zschau.

CONDITIONS ON AID TO ISRAEL AND THE PEACE PROCESS

Mr. ZSCHAU. Thank you, Mr. Chairman.

Mr. Secretary, in your prepared statement you indicated that there are two goals that we have for our policies in the Middle East, particularly for our assistance. One is security for the nations and the other is commitment toward achieving peace.

I can see clearly how giving aid, both military and economic aid, can improve the security situation in Israel, to strengthen its ability to develop itself and also to strengthen its economy.

On the issue of peace, however, I have this question: Are there any conditions that we associate with the giving of our aid, either military or economic, that would guide Israel in either taking action that is in the direction of achieving peace or avoiding action that is in the direction of further conflict? Are there any conditions at all that we associate with our aid?

Mr. VELIOTES. No. There are no conditions in that sense. I think there are some implicit assumptions. That is, our assistance to Israel, which as I said in my statement, is the material, the tangible manifestation of our support for Israel, that the American relationship and that the aid that that represents as well would encourage Israel to move toward peace. In order to take some risks for peace Israel has a right to be secure. In order to take some risks for peace, Israel should feel secure, perhaps supersecure is required because of the past.

I would say we have this assumption, in that we share this goal, that long-term security for Israel really cannot be found in military strength alone.

Mr. ZSCHAU. You are addressing there the issue of security. But my question really pertained to the issue of peace, moving toward the ultimate objective in the peace process. And I guess the answer to the question is "No," there are no conditions that would require Israel to take certain steps.

Mr. VELIOTES. No, there are no conditions but there are assumptions that we are sharing—which I think are valid assumptions—that we and Israel share a common goal, and that is that security and stability of the area, also for Israel, in the long term can only really be found in a combination of military strength and peace with its neighbors.

So in that sense there is an assumption underlying the overall relationship, not just 1 year's appropriations.

Mr. ZSCHAU. In your opinion, do you think there should be conditions that might hasten the objectives of the peace process attached to the foreign aid?

Mr. VELIOTES. Well, you raise an interesting question as to whether or not conditions would hasten. I think at this point I would settle for the assumptions that we share and the policy goals that we share.

ISRAEL'S ATTITUDE TOWARD PRESIDENT REAGAN'S PEACE INITIATIVE

Mr. ZSCHAU. What is your assessment of Israel's attitude toward President Reagan's peace initiative?

Mr. VELIOTES. Well, the Israeli Government has pronounced itself as negative to the peace initiative. The grounds have varied. But most often this opposition is based on a claim that it violates Camp David, which it doesn't.

The objection is probably based on the fact that after almost 4 years we finally decided that in part we would explain publicly what the United States meant by a transitional regime and what our policies would be in negotiations on some of the key issues of final status and peace.

We made very clear at the time and we said since then that this is nothing new, it is not a violation of anything; it is just finally we decided we should do what our Egyptian and Israeli partners have been doing for some years, which is speaking out on their views. And more importantly that this was required in order to give a new credibility to the Camp David process and we think it has done that.

ISRAELI SETTLEMENTS AS AN OBSTACLE TO THE PEACE PROCESS

Mr. ZSCHAU. One of the provisions, as I understand it, in the President's peace initiative was that there would be a halt in the settlements on the West Bank. And, as I understand it, that has not occurred, that is, they have continued to expand.

In your opinion do you feel that that is an impediment toward making progress in the peace negotiations?

Mr. VELIOTES. There is no question about it, because the settlements are viewed as the concrete manifestation of the Israeli Government lack of good faith in subsequent negotiations. That is how they are perceived out there. And this causes major problems.

Mr. ZSCHAU. Since we are giving the aid in order to achieve progress in peace in the area, wouldn't it make sense to associate with the aid some modest condition like a halt in the settlements policy, if that is an impediment toward achieving peace?

Mr. VELIOTES. I hear you, but at this point I would think I would settle for the common assumptions that we are sharing policy goals.

Mr. ZSCHAU. I have no more questions, Mr. Chairman.

Mr. VELIOTES. Mr. Chairman, I should say that in a sense until or unless we have other Arab partners declaring their willingness to come to make peace with Israel, we won't be able to judge what the Israeli Government's reaction or the Israeli public's reaction will be to the President's peace initiative.

Based on my own experiences in Israel and elsewhere in the area, the prospect of real peace rather than theoretical or rhetorical peace is pretty powerful medicine. This is why we are counting on King Hussein making an early decision and announcement. I think you will see some major changes at that point.

FOREIGN TROOP WITHDRAWAL FROM LEBANON

Mr. HAMILTON. I will say to my colleagues that on the second round of questioning we will go 5 minutes at a time, following the same order of the first.

Mr. Secretary, just a few general questions.

Do you think we have a chance of getting a withdrawal agreement in Lebanon within the next month?

Mr. VELIOTES. Yes.

Mr. HAMILTON. Will you predict it?

Mr. VELIOTES. I can state my personal expectation.

Mr. HAMILTON. That is good enough. And the answer is yes?

Mr. VELIOTES. Hopefully, yes.

Mr. HAMILTON. Hopefully we will have agreement within the next month, is that——

Mr. VELIOTES. I would think so.

U.S. POSITION ON ISRAEL POSTS IN SOUTHERN LEBANON

Mr. HAMILTON. All right.

Is the United States opposed to a permanent presence of Israeli personnel manning the posts in south Lebanon?

Mr. VELIOTES. Yes, because it is unacceptable to the Lebanese and it has been made clear in a variety of ways that this would preclude Syrian agreement to withdraw.

Mr. HAMILTON. What did the President mean the other day when he was talking about guaranteeing the security of Israeli's northern borders? What does he have in mind?

Mr. VELIOTES. Strengthening the security and insuring that to the extent possible that there would be no infiltrations, no terrorist attacks mounted through south Lebanon, it was in that sense.

ADDITIONAL AMERICAN TROOPS FOR THE MNF

Mr. HAMILTON. Do you anticipate that the administration will be requesting additional American troops for the multinational force there?

Mr. VELIOTES. It is too soon to make that, even, assumption. It could happen, but I am not prepared to make that prediction.

Mr. HAMILTON. I certainly have the impression in looking at Mr. Weinberger's as well as the President's statements that they are anticipating that the United States will furnish more troops to the multinational force. Is that an inaccurate impression?

Mr. VELIOTES. No. I have read the same things you have read, Mr. Chairman. I think there would be a willingness, depending upon need, mission, time; there are a lot of unanswered questions before I could give any considered answer to that question.

U.S. POSITION ON ISRAEL-LEBANESE PEACE TREATY

Mr. HAMILTON. Do we oppose the signing of an Israeli-Lebanon peace treaty at the present time?

Mr. VELIOTES. At the present time we agree with the Government of Lebanon that were they to do this, they would destroy their internal consensus, you would have no peace, you would have no stability and Israeli's northern frontier would be the first to feel this, over time. It is premature, but it is a goal we share.

THE VILLAGE LEAGUES

Mr. HAMILTON. Could you comment on the Israeli policy of building up the Village Leagues, as Palestinian groups, as opposed to the PLO, for example.

Mr. VELIOTES. Well, it is clearly designed to be an alternative leadership for the West Bankers.

Mr. HAMILTON. Is it?

Mr. VELIOTES. Not to any great extent as far as we can determine.

POLITICAL SUPPORT ON THE WEST BANK FOR THE PLO

Mr. HAMILTON. Do you think that the political support of the PLO in the West Bank has declined since the Israeli invasion of Lebanon?

Mr. VELIOTES. No, but I do believe that the West Bankers, since the President's peace initiative, have shown an impatience to move ahead into the peace negotiations and that is an issue that the—I would associate the Gazans with this. You are talking about per-

haps 1.2 million people. That is quite a few Palestinians that the PLO have to take into consideration when they make their decisions.

JORDAN'S ENTRY INTO THE PEACE PROCESS

Mr. HAMILTON. Do you think the Palestinians in the West Bank would accept a confederal relationship with Jordan?

Mr. VELIOTES. Absolutely.

Mr. HAMILTON. Are you encouraged that King Hussein will join the peace process? I think he set a date, didn't he, March 1st by which he will respond.

Mr. VELIOTES. Actually he has clarified that saying that for him March is the key month. I am hopeful that he will be able to——

Mr. HAMILTON. You have a lot of hope this afternoon, Mr. Secretary.

Mr. VELIOTES. Absolutely. If you are not optimistic you are never going to accomplish anything in this area, Mr. Chairman.

DE FACTO ANNEXATION OF THE WEST BANK

Mr. HAMILTON. Is it your opinion that you now have a de facto annexation process taking place on the West Bank?

Mr. VELIOTES. Process, yes.

Mr. HAMILTON. How long do you think that process can go forward before any chance for the peace talks is rubbed out?

Mr. VELIOTES. This is very hard to say. The more land that is fenced in, the more settlements that are put in, this all moves the process along.

Mr. HAMILTON. We have all been, I think, disappointed at the pace of the Israeli-Lebanese negotiations over troop withdrawal, that they have not proceeded more quickly and some people are now saying that that negotiation ought to be decoupled from the negotiation on the West Bank and Gaza. How do you feel about that?

Mr. VELIOTES. Well, we have never linked the two.

As a matter of fact, we have always stated that we saw Lebanon and the peace process moving along parallel tracks.

Mr. HAMILTON. As a practical matter, can we get to the West Bank negotiations before the withdrawal question is resolved?

Mr. VELIOTES. As a practical matter you can actually engage in the West Bank negotiations in part because many of the energies of those in Israel and elsewhere that would have to go into the West Bank negotiations are currently consumed in Lebanon. But there is no reason why we can't have the new players announce a willingness to negotiate day after tomorrow. Lebanon doesn't impact on that.

Mr. HAMILTON. Mr. Lantos.

NORMALIZATION AND TROOP WITHDRAWALS

Mr. LANTOS. Thank you, Mr. Chairman.

Mr. Secretary, as I understand it, the two basic remaining issues vis-a-vis Lebanon are troop withdrawal and normalization.

Mr. VELIOTES. Yes, sir.

Mr. LANTOS. May I deal with each of these? The administration has been accused of many fetishes. Let me accuse the administration of one more fetish. I would like to call it a zero fetish. The zero-zero option in the Geneva negotiations is not being viewed very seriously abroad because clearly some compromises will have to be made there. And with respect to troop withdrawal, in your own statement you talk about our commitment to achieve complete withdrawal of foreign troops.

I want to deal with the word complete. What is your rough estimate of the number of foreign troops that were in Lebanon, say, at the height of the crisis? Just a ballpark figure.

Mr. VELIOTES. There must have been about 80,000, 90,000.

Mr. LANTOS. 100,000?

Mr. VELIOTES. I don't know.

Mr. LANTOS. As I understand it, one of the stumbling blocks now relates to the suggestion that several hundred troops remain to man some observation posts. And while I realize that complete withdrawal is an ideal goal, is it not a reasonable interim objective to bring about the withdrawal of 95 or 99 percent of foreign troops? Does it really make sense for an administration that wishes to be taken seriously to be confronted with an impossible, complex, difficult, and intractable situation and propose a solution which is a skyhook, which is an ultimately desired objective, and to pretend that any intermediate solution, any partial solution is wholly unacceptable?

Mr. VELIOTES. Well, it is just that you are not going to accomplish anything by that, sir. I don't accept the characterization of our policy as a skyhook. It is eminently practical. If you are going to get the Syrians and the PLO out, which presumably is the goal of the Government of Israel, you are going to have to come to arrangements in the south which adequately protect Israeli security interests without Israeli troops on the ground.

Now that is just a fact of life.

Mr. LANTOS. That is not a fact of life, that is just an opinion. Let me propose an alternative opinion.

Mr. VELIOTES. No, I disagree, sir. It is not an opinion, it is a fact. This has become extremely clear as a result of the direct negotiations between the Lebanese and the Israelis. The Lebanese are the people who are going to live in Lebanon, try to make something of it in a manner which will also be in Israel's interests. They are convinced that they will not be able to get the other foreign forces out unless they have all Israeli foreign forces out as well.

Now that is a fact. You can come up with different proposed solutions, but I am afraid they are not going to work. But I want to hear them.

SYRIAN TROOPS IN LEBANON

Mr. LANTOS. With all due respect, Mr. Secretary, I still feel that is an opinion. That may be the opinion of Mr. Gemayyel, who was not in power a year ago and is in power today. When he was not in power a year ago what was the number of Syrian troops in Lebanon?

Mr. VELIOTES. About the same as there are now, I guess.

Mr. LANTOS. 30,000, 40,000?

Mr. VELIOTES. Maybe 30 or 40.

Mr. LANTOS. Those troops have been there for how many years?

Mr. VELIOTES. They came in 1976, 1977.

Mr. LANTOS. So from 1976 until 1982 you had about 35,000, 40,000 Syrian troops there.

Mr. VELIOTES. Probably 20,000 until—

Mr. LANTOS. 20,000. Do you think it is a reasonable interim goal to have that 20,000 or 30,000 figure reduced to 500?

Mr. VELIOTES. If it were possible to work out this way, sure.

INTERMEDIATE STEPS TOWARD COMPLETE TROOP WITHDRAWALS

Mr. LANTOS. Then, as an honest broker, offering his good offices, would it not be rational for us to deal with the reality which recognizes that the ultimate goal is not instantaneously attainable and not to minimize, denounce, and criticize rational interim solutions?

Mr. VELIOTES. I really can't accept your characterization of American policy.

Mr. LANTOS. It is an all-or-nothing approach, it seems to me. Does not either complete withdrawal or no withdrawal not suggest to you that the rational human mind recognizes intermediate steps?

Mr. VELIOTES. I can recognize the desirability of intermediate steps if they were possible. I am telling you in our considered judgment, and it is not an opinion, it is based on a thorough airing of the possibilities, this is not possible.

However, there are solutions to Israel's security problems in southern Lebanon which can be worked out without the presence of Israeli troops on the ground. These are the issues that the Lebanese and Israelis are talking about now. And no one is denying a legitimate Israeli interest in the security of the northern border or in making sure that the status quo ante is not restored.

When we talk about the status quo ante we have to recognize that those people who might come back in to pose a threat to Israel are also the enemies of the Lebanese. So the Israelis and the Lebanese would have shared interests in making sure that the south no longer posed a threat.

Mr. HAMILTON. Mr. Dymally.

U.S. ARMS SALES TO THE MIDDLE EAST

Mr. DYMALLY. Mr. Secretary, don't you think we all, Americans, Israelis, Arabs would be better off if we spent our resources and energies on minimizing the arms race in the Middle East and maximizing our campaign for peace?

Mr. VELIOTES. Of course.

Mr. DYMALLY. Then why is it we continue to arm both sides, so to speak?

Mr. VELIOTES. Because both sides feel very threatened in an environment that is unsafe.

POSSIBLE U.S. ACTIONS TO MOVE ISRAEL ON PEACE NEGOTIATIONS

Mr. DYMALLY. During the Sinai War between England, France, Israel, and Egypt, President Eisenhower threatened a withdrawal of arms from Israel. Do you think such a drastic move might move the Israelis toward peace negotiations faster?

Mr. VELIOTES. As I recall, President Eisenhower threatened to knock out the tax writeoff. These are—

Mr. DYMALLY. Conjectures.

Mr. VELIOTES. These are very difficult issues on how you best influence your friend. I suppose under certain circumstances you could revert to threats. I would prefer not to do that. Instead I would prefer to reestablish cooperative working relationships working toward common goals.

ARAB LEAGUE MEETING IN ALGIERS

Mr. DYMALLY. Did we see any peace signals from Algiers last week?

Mr. VELIOTES. Well, we saw what we expected, which was an ambivalent, ambiguous step sideways which can be interpreted any number of ways. In the Middle East ofttimes that kind of ambiguity is constructive.

Whether or not it was a step forward, backward, or sideways will only be borne out in the coming weeks, starting with Mr. Arafat's discussions with King Hussein.

Mr. DYMALLY. Let's assume that the King of Jordan, for whatever reason, decided not to proceed with the Fez plan, to work with our initiative to join the peace negotiations. Is it possible to work with the mayors in the West Bank as a substitute? Do you think they would be violently opposed by the PLO if negotiations began with them to get a feel about the settlement of the West Bankers on this subject?

Mr. VELIOTES. Put it this way: Are there people on the West Bank, including the exiled mayors, who would be prepared to work with King Hussein for peace? I think the answer to that clearly is yes.

Mr. DYMALLY. What if he were not in——

Mr. VELIOTES. What if he were not, what if they were opposed in this by the PLO? That would raise a whole new series of issues. An intriguing question that I can't give you the answer to is what if they were not opposed but that they were not openly supportive, what would happen then? I don't know.

PEACE NOW MOVEMENT IN ISRAEL

Mr. DYMALLY. What is your assessment of the Peace Now Movement in Israel?

Mr. VELIOTES. Well, it is a minority movement, very vociferous. I think it is serious. Israel is a free country, so such organizations get their full day on the TV screens and also in the media.

Mr. DYMALLY. Thank you very much, Mr. Chairman, Mr. Secretary.

Mr. HAMILTON. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Secretary, I would like to follow up on what the Chairman started with you. You stated that right now there are no Israeli forces on the ground in South Lebanon, and we agree with that position because of the Lebanese. Suppose the Lebanese dropped their objection. Would the United States go along?

Mr. VELIOTES. Yes. This would obviously be in the context of a Lebanese belief that they had worked out a formula with the Syrians and the PLO to get them out.

Mr. SMITH. So we are not attempting to structure any kind of settlement along our lines. We are solely interested in having the Lebanese happy with anything that they sign.

Mr. VELIOTES. Well, if the Lebanese are able to live with anything they sign and are happy with it.

Mr. SMITH. I am glad you answered that way because that is my problem. Are we telling the Lebanese what in fact they can and cannot live with, or are we allowing the Lebanese to make up their own mind?

Mr. VELIOTES. Well, you know, Mr. Smith, this gets us back a few months when about every day there was a front page story that about the only reason why there wasn't a quick peace treaty or something else, was because the U.S. Government was getting in the way.

Now the fact that there have been very intensive and useful negotiations between senior Israeli and Lebanese delegations for the past 2 months, meeting both in Israel and in Lebanon, virtually in public, in dealing on a published agenda that includes issues such as the end of beligerency, future mutual relations, security arrangements in the south, is largely due to our influence. We worked to have it happen. So I would like to object very strongly to any suggestion from any quarter that the United States somehow is holding back negotiations between Israel and Lebanon.

We are pushing them forward and the only reason they have gotten as far as they have in the constructive manner that they have been conducted I think is largely due to us.

Mr. SMITH. Isn't it true that in the last 8 to 12 weeks we have taken less of a role than we took previously, and isn't it concurrently true that the Israeli-Lebanese peace negotiations have in fact gone much further on their own without our major role, and that Mr. Habib is not jetting daily as he was, et cetera? I am not making any suggestions at all, I am asking you questions.

Mr. VELIOTES. That is a good question. The fact is that they have been going on for the last 10 or 12 weeks because we finally got the talks started. If you get back into some of the recent history, we had a heck of a time getting the darned things even started.

We suggested just before Christmas that they get them going. Once they got started, with Ambassador Draper present and working with the full team, there has been a lot of good work done in a variety of forums. I mentioned they met. It is not just one negotiation, there are three or four going on at the same time with people who now know each other and don't always agree. They have good solid fights. That is good. They clarify the issues for each other.

Our role has been the way it should be. We are there, we are effective, we are not giving press conferences, and Ambassador Habib has been there for the last 3 weeks complementing the formal negotiations by his discussions both in Beirut and Jerusalem.

Mr. SMITH. So we are being facilitators?

Mr. VELIOTES. Absolutely.

KING HUSSEIN'S ENTRY INTO THE PEACE PROCESS

Mr. SMITH. You stated that for King Hussein March is the key month rather than March 1 being the day.

We have gone over this a number of times but I am still curious as to why we are so intent on believing that after all these years, with the Camp David process having gone nowhere since King Hussein is a named party in the process that all of a sudden, why March becomes the key month or March 1 was the date.

What has happened to us to think that? What again do we know that we haven't told anyone, or has Hussein told us, that we now know that makes this so much more of a reality in light of the fact that at the recent PLO conference nothing happened?

He was not designated as the chief negotiator for them. They came to practically no agreement on anything except disagreement, and there was a wider rift in fact in certain of the facts. Why do we continue to believe that Camp David or the Lebanese process or anything else is going to be accommodated by King Hussein? What do you know, Mr. Veliotes, that we don't know?

Mr. VELIOTES. Very little, but let me relate what we both know.

Mr. SMITH. It is that bad?

Mr. VELIOTES. One is that from the moment that the President made his announcement of September 1, King Hussein has been a supporter of it. This is a radically different posture than he took in September 1978.

Mr. SMITH. Didn't he say specifically that he would not come unless he was designated? I mean, more or less was that not the drift of his philosophy about being there to act on behalf of the PLO?

Mr. VELIOTES. He has said that he wished to have the broadest Arab support possible.

Mr. SMITH. He hasn't gotten any. Saudi Arabia, Syria, PLO. Why do we think that? Has the Ides come? Is there something we don't know about in the Ides?

Mr. VELIOTES. All I can tell you is that King Hussein believes that March is the key month, that he is going to be making his calulations. I can't predict that during the month of March anything is going to happen. All I can do, sir, is tell you what we know now.

Mr. SMITH. That is your hope?

Mr. VELIOTES. The belief of the Jordanians is that time is not on the side of those who will procrastinate further. There was a golden opportunity missed in September 1978, October 1978. No one will probably admit it openly but I think they recognize it.

Mr. HAMILTON. Mr. Levine.

MEMORANDUM OF STRATEGIC COOPERATION

Mr. LEVINE. Mr. Secretary, if I might, I would like to return briefly to the questions that Mr. Lantos was asking about earlier with regard to the proposed memorandum of strategic cooperation.

Could you tell me what, if anything, is different now with regard to our entering into such a memorandum with the Government of Israel, from situations after prior wars in which we did enter such an understanding and that appeared to be so valuable to us?

Mr. VELIOTES. This is the question of the lessons learned exchange?

Mr. LEVINE. Right.

Mr. VELIOTES. Well, there is a limit on what I am going to say about any intelligence item in this forum. There is a belief in the Pentagon that—I believe Secretary Weinberger addressed this publicly the other day—that we have something like 20 to 25 such agreements and that basically the structure for the exchange exists now.

Mr. Lantos alluded to, I believe, the fact that there had been a negotiation, an initial agreement, and subsequently a decision that that agreement, which was ad referendum, would not be implemented, and I was asked would there be a counterproposal? And I said I believe so, and I thought in the near future.

I was involved in the 1974 negotiations. I think it is a question of whether you believe, looking at what we have, whether these are ongoing arrangements or whether you need new ones. I am sure this is something that will be worked out.

Mr. LEVINE. In a prior hearing or meeting that we had with Secretary Weinberger, when he was asked questions about this general subject, my recollection is that he said something fairly offhand to the effect that, "well, maybe we will have a counterproposal, but it will be about half a page. There is no reason it need to be in any greater detail."

Subsequent to that, I heard a rumor in fact that there was a counterproposal that was about a half a page, but in essence eliminated the substance of the prior agreement, and which I think can be viewed as an insult in terms of the nature of the counterproposal. Are you familiar with that process, and if so, can you comment on it?

Mr. VELIOTES. I am familiar with it. I am not going to comment on it very much, other than to say this will be worked out. I leave it to the soldiers who are on active duty in the Pentagon to decide, along with the DOD people, the best form for any such exchange. I think whatever lessons have been learned we will benefit from and I think it will be worked out in a manner which is of mutual benefit. They always are.

Mr. LEVINE. Are you prepared to comment as to whether the State Department believes, or you believe that such a memorandum in similar form to the ones we have had before would be appropriate and useful?

Mr. VELIOTES. I don't know how anyone in the State Department could really make a definitive view on this. This gets you into R&D and other issues. All I can say is that obviously I would like to see this resolved in a mutually acceptable and beneficial manner.

LIAISON BETWEEN U.S. MARINES AND IDF IN LEBANON

Mr. LEVINE. Are you in a position to comment about the issue of liaison between our Marines and Israeli troops in southern Lebanon?

Mr. VELIOTES. Yes. I think we have worked this out. That is, around Beirut. Certainly we agree that we should take the appropriate steps to avoid incidents. There has been some argument as to whether this is the best way to do it or that is the best way to do it. I think that has now been worked out pretty well. Certainly I know this was very high on the agenda of the new Israeli Defense Minister, and it is very high on our agenda.

Mr. LEVINE. Has a liaison been established?

Mr. VELIOTES. There is a liaison system that people tell me works out pretty well.

Mr. LEVINE. Was that established in the last week?

Mr. VELIOTES. In the last 2 weeks it was worked out.

Mr. LEVINE. One other thing. I believe again this came from the hearing that Secretary Weinberger testified on. There was a document passed out, I understand, by the Defense Security Assistance Agency, entitled "Major Security Assistance Sales, Strategic Rationales." In the Middle East, countries were labeled as receiving assistance either because they were involved in the Middle East peace, having access and base rights, or because they were allied, coalition warfare partners, or in front lines facing the Soviets or Soviet-supplied forces, in fact not just in the Middle East but throughout the world.

In the Middle East, the only country listed as an ally was Saudi Arabia. I was curious as to (*a*), whether we have any specific lines with Saudi Arabia, and (*b*), whether Saudi Arabia would be viewed as an ally and Israel would not?

Mr. VELIOTES. I am totally ignorant. I didn't even know about the existence of this. I will have to go back and look at it.

Mr. LEVINE. I would appreciate that.

[The information follows:]

Any questions about details of the map should be addressed to DSAA. Our policies in the region are clear and have been described many times. A central element is the need for the United States to maintain close political and security relationships with a number of nations in the region. In this regard, our commitment to the security of Israel is clear, as is our vital interest in the security of Saudi Arabia.

Mr. HAMITLON. Mr. Torricelli.

TECHNOLOGICAL EXCHANGE WITH ISRAEL

Mr. TORRICELLI. I only wanted to add, sir, a final comment on this question of technological exchange with Israel, and that is to note that in the defense budget this year the administration has come to the Congress to begin a program to acquire 7,000 new armored personnel carriers. It was described to me by an Israeli military official that our last generation of armored personnel carriers proved to be death traps in Lebanon.

I say this because the matter of the technological exchange should not get caught up on issues of false pride, of questions of individual policies of members of this administration. If the administration is going to come to this Congress and ask for these kinds

of military expenditures, it should be on the basis of the best possible knowledge of the effectiveness of the items we are being asked to purchase.

I, for one—and I hope this will go back to the Pentagon—because this is not a matter of diplomatic niceties with Israel, it should be a matter of concern to every Member of Congress for the safety of American soldiers. So I, for one, will want to see that exchange agreement concluded before being asked to pass judgment on procurements of new weapons. I merely wanted to make that comment.

PRESIDENT REAGAN'S COMMENTS ON A PALESTINIAN HOMELAND

I wondered if you could enlighten me on the President's intentions in speaking to the matter of a Palestinian homeland this last week. What it is he might have in mind, and what was to be gained? What strategically was the purpose here in the President's comment?

Mr. VELIOTES. Well, I would prefer not to be put in the posture of trying to interpret or reinterpret Presidential statements or statements made by anyone else.

Let me say that our aim is to achieve peace in the Middle East between Israel and its neighbors. This is not going to be done unless there is a satisfactory resolution of the Palestinian problem. A key part of that problem is the desire of the Palestinians, several million of whom live in different places, for an identity, a place that they can identify with. You can call it a homeland, you can call it whatever. We have called it the President's initiative for West Bank and Gaza in association with Jordan.

It was in that context that we discussed the needs of the Palestinians, the legitimate rights of the Palestinians, and I think that is about the only thing I have to add in reply to that.

Mr. TORRICELLI. My concern is that at this time of nervousness, negotiation, and strains in America's relationship with Israel, when all comments and policy should be designed toward reassurance, are you not concerned that this is a new complication now in the effort to reassure all parties. Because it frankly confused me, and if it did that to me, I cannot imagine how it is perceived in Tel Aviv.

Mr. VELIOTES. Basically I am in favor of reassuring my friends. I don't think that means that you have to present everything you are going to say against the backdrop of how it is going to be perceived elsewhere.

The President's statement was thoroughly consistent with the President's policies, and I believe that has been made clear by others. I don't see why this should add to the nervousness. We have a long, ongoing relationship with Israel and other countries in a volatile area. It has been my experience over the last decade that people get upset—and obviously not just in Israel—about American statements, American policies. It is just something that we live with. To the extent we can minimize this, we shall, and we should, and if that is your suggestion, I take it.

Mr. TORRICELLI. By not making such comments at particularly sensitive times.

Mr. VELIOTES. I am not aware of a time that isn't particularly sensitive. That is the problem, sir. But in general, I accept your statement. I am not arguing it. It is just hard to game plan it. It certainly wasn't made as an attempt to make anyone nervous. That should be clear.

SOVIET MANNED SAM'S IN SYRIA

Mr. TORRICELLI. I understand.

One final question. That is, are press accounts of the fact that the Russians are manning the SAM 5's in Syria, are they to be accepted? Is there in fact confirmation that there are Russian soldiers, as the press is maintaining, as it was said in Israel, or do we just know there are Sam 5's and not the Soviets?

Mr. VELIOTES. No, sir. We know there are Soviet crews that are going to man those systems. We also know it because the Soviets have told us.

Mr. TORRICELLI. And this is not in a technical capacity of adding on to crews, but that they are in fact——

Mr. VELIOTES. They are manning crews, that is right. We have no indication that they are there in a training capacity. They are going to man this equipment. That is our understanding.

Mr. TORRICELLI. Let me repeat my question earlier. I would like to see for the record, you provide what impact the Pentagon thinks this has on American efforts to resupply and the impact on American forces in the region?[1]

Mr. VELIOTES. We will do that.

Mr. HAMILTON. Chairman Solarz.

ADMINISTRATION POSITION ON INCREASED AID TO ISRAEL

Mr. SOLARZ. I hope, Mr. Secretary, you will forgive me if I inadvertently touch on one or two areas that you have already covered. I had a hearing to chair on our relationship with China and Taiwan and couldn't be here until now.

Is it your position that the administration would be opposed to any increase in the level of military and economic aid for Israel above and beyond the amount requested by the President in his budget, however modest that increase may be?

Mr. VELIOTES. Yes, sir. I am here to support the President's budget.

Mr. SOLARZ. And is your reason for opposing any increase in the level of military or economic aid primarily due to budgetary considerations?

Mr. VELIOTES. Yes, sir.

Mr. SOLARZ. And what are those budgetary considerations?

Mr. VELIOTES. There is only so much money to go around and this is an austere year. We believe that the administration's proposed level for Israel is a very generous one.

Mr. SOLARZ. Well, if we could increase the level of aid for Israel without decreasing the level of aid for other countries, would you still be opposed to an increase on the grounds that such an increase would require either an increase in revenues or a cut in do-

[1] See p. 25.

mestic programs, or an increase in the deficit, all of which for fiscal reasons, you would be opposed to?

Mr. VELIOTES. Yes, sir.

Mr. SOLARZ. But the Congress might have its own judgment on that.

Now, leaving the budgetary arguments aside, are there any other reasons why you would be opposed to an increase in aid for Israel?

Mr. VELIOTES. No. We have gone into the overall aid program in a very exhaustive manner, trying to provide the minimum and we believe that this proposed amount for Israel does support our policy goals in Israel, which are support for Israel's security and well being.

Mr. SOLARZ. I am sure you have given it very careful consideration.

At the same time, as you know, each year for the last several years the Congress has adjusted upward the level of our aid for Israel or rearranged the terms by which that aid has been given in order to make it somewhat more helpful to Israel. Do you think as a consequence of those congressional adjustments, the economy of our own country, or the prospects for peace in the Middle East have been dealt a severe blow?

Mr. VELIOTES. Well, sir, I can only comment on the basis of the continuing resolution and that extra $200 million granted to Israel has to come out of the hide of a lot of other countries, so we are going to come up for a supplemental.

Mr. SOLARZ. But if it could have been accomplished in such a way that it didn't come out of the other countries then that objection presumably wouldn't have been valid?

Mr. VELIOTES. Well, I guess you are talking about bookkeeping techniques, which always seem to leave us short, no matter how good they look, theoretically.

VALUE OF ECONOMIC AID PROVIDED TO ISRAEL

Mr. SOLARZ. Well, as a member of the Budget Committee, I will sit down with you one day and show you how it can be done. But I do grant that these are arcane accounting methods that are necessarily involved.

The level of economic assistance to Israel has in effect been frozen since 1978 at $785 million a year. Can you tell us by how much the value of that aid has been reduced due to inflation since 1978. How much is the aid worth now?

Mr. MISHELOFF. We can get that.

Mr. SOLARZ. Could you give it to us for the record and perhaps get it to us before the markup in the committee?

Mr. VELIOTES. Yes, sir.

[The information follows:]

The level of ESF for Israel has been constant at a nominal level of $785 million per year since 1978. Using the Consumer Price Index for the United States as an indicator of the rate of inflation, the real purchasing power of the dollar declined by approximately 50 percent between the end of calendar year 1978 and the end of calendar year 1982.

It is important to add that, with the exception of Turkey, for which no ESF assistance was provided in fiscal year 1978, the real value of ESF to all Near Eastern countries has fallen during the past 4 years. Israel is certainly not unique in that regard. In fact, the proportion of the regional total going to Israel in fiscal year 1982

was 42 percent, down only very slightly from 44 percent in fiscal year 1978, and up if Turkey is not considered. As we have already indicated, our economic assistance program to Israel remains a generous one. No doubt, Israel could use more. What country couldn't? But the program meets their basic requirements and is consistent with achievement of U.S. objectives in the context of seve: ' budget pressures.

ISRAEL'S DEBT SERVICE

Mr. SOLARZ. Could you tell us what Israel's debt service was to the United States in 1978 when we first started providing them with $785 million a year in economic aid, compared to what Israel's debt service to the United States will be for the next fiscal year?

Mr. MISHELOFF. I don't have a figure for 1978. For 1983 it will be in the order of magnitude of $1.1 billion.

[The information follows:]

Israel's debt service payments to the United States Government in 1978 were about $560 million. This compares with the current estimate of $1 billion and $1.1 billion in debt service that Israel will owe to the U.S. Government in 1983 and 1984 respectively.

To get a more accurate picture, we should take all aid, both economic and military, into account. If we do so, it is apparent that, despite the increase in interest and principal payments owed to the U.S. Government by Israel, net aid, that is to say, aid less debt service payments, has gone up since fiscal year 1978. While the ESF level has not changed, FMS assistance has risen from $1 billion in fiscal year 1978 to a proposed $1.7 billion in fiscal year 1984.

Recently, we have been hearing a good deal about rising Israeli debt obligations to the United States in the context of unchanged ESF levels. We should note that ESF is provided to Israel to assist that country with its balance of payments problem, not to service debt owed to the U.S. Government. Israel is a capital importing country, and the U.S. Government is its largest creditor. As such, debt service payments in general and to the U.S. Government specifically are rising. But debt service is only one element in the balance of payments. While we need to reassess the situation periodically, at this time there is cause for optimism about Israel's balance of payments prospects in the context of a modest economic recovery in the West, and economic policies in Israel which support export led growth.

MILITARY SIGNIFICANCE OF LESSONS LEARNED BY ISRAEL IN LEBANON

Mr. SOLARZ. Mr. Secretary, just one or two other questions.

Could you expand at all from a substantive point of view on what we believe to be the military significance of the lessons learned by Israel during the engagements in which they were involved, particularly vis-a-vis Syria during the course of Operation Peace for Galilee if shared with us, could the techniques they developed and the lessons they learned have a potentially significant impact on our assessment of Soviet military strength and capacities elsewhere in the world?

Mr. VELIOTES. I really can't comment on that, because we have not yet received all of the lessons learned. I gather we have received some information. We are hopeful that we will work out in the near future an agreement whereby we will get it.

Mr. SOLARZ. I know we haven't gotten the information yet because the agreement to receive it hasn't been worked out. But is it your impression that the lessons that were learned and the techniques that were developed have substantial military significance? Or would this information only be useful to have, but not of great military importance?

Mr. VELIOTES. I really have no idea on that, sir.

Mr. SOLARZ. Colonel, do you have any view on this?

Colonel McKALIP. Of course it is very hard to judge something that you do not have. I would not want to project a situation in which there were no exchanges going on now. Obviously there are some items that the Israeli Minister of Defense would propose to have agreement on the sharing of this information before we are given complete access. I guess I would be foolish not to say that we would be anxious to share any information that would benefit our own ability to assist our friends and allies.

At the same time, one has to take cognizance of any conditions that may be applied thereto as a tradeoff.

Mr. SOLARZ. I have been given the impression that Secretary Weinberger has said that there is really nothing new involved here and that there is nothing that Israel did in effect that we don't already know about.

On the other hand, it would seem to me that on the face of it, their success, particularly in eliminating the Syrian SAM batteries in the Bekaa, and their striking success in the air war, constitutes a prima facie indication that new technologies were developed which could be of great significance to our country. It may turn out when the information is shared with us that the Israel successes were all due to the skill of the Israeli pilots and had nothing to do with new technologies. But that won't be known until the information is shared.

But I can't for the life of me understand how the Secretary of Defense could say we don't think there is anything new here when on the face of it, it would appear that there had to be.

Let me ask you one final question.

REPORT OF THE ISRAEL COMMISSION OF INQUIRY

Since we met last there has been one, I think, very significant development—the report of the Commission of Inquiry that was established in Israel following the massacres in the Palestinian refugee camps of Sabra and Shatilla.

I would like to ask you, Mr. Secretary, what this whole process through which Israel has just gone—including the establishment of the commission, its report and the subsequent action of the Israeli Government, says to you about what Israel is all about—the kind of society it is. To what degree has this process reconfirmed our impression of Israel as a genuine democracy committed in the most meaningful way to some of the highest principles which hopefully and presumably our own country is committed to as well? Has this had any impact on the thinking of our own Government about Israel and what it stands for?

Mr. VELIOTES. Sir, I think in the context of your own comments, reconfirming what we already knew. Before the commission was appointed, I was asked in a public television show what I thought, and I predicted the commission would be appointed. I predicted it would do a very serious job and let the chips fall where they may, based on my own experiences in Israel. So none of this surprises us. But you chose your words well and I think we would all associate ourselves with them.

Mr. SOLARZ. Do you think any other country in the region under similar circumstances would have appointed a comparable kind of

commission? Or would have permitted it to do the work which it did?

Mr. VELIOTES. No. Israel is a free society in the sense that we understand it, and responsive to public pressures, and that is the essence of it.

Mr. SOLARZ. Do you accept the conclusions of the commission?

Mr. VELIOTES. Do I accept them? I am not sure it is up to me to accept them.

Mr. SOLARZ. I mean, do you agree with them?

Mr. VELIOTES. Well, I don't disagree with them. I read them with interest.

Mr. SOLARZ. Do you agree with them indirectly?

Mr. VELIOTES. Do you?

Mr. SOLARZ. I think it was a remarkable document, an incredible tribute.

Mr. VELIOTES. You are talking about the processes?

Mr. SOLARZ. To Israel and to the members of the commission.

Having read the entire report, into the wee hours of the morning when it first came out, I can say that it is one of the most impressive documents I have ever read; careful, thoughtful, prudent in its judgments, going only as far as the evidence permitted it to go, making clear the degree and the nature of Israel's responsibility for what happened.

The report clearly indicated that the direct responsibility for this did rest on the Phalangists, who are the ones who actually did the killing, and pointed out that no Israelis were in the camps or involved or in any way wanted this to happen. But the report went on nevertheless to say that some of the Israeli officials involved bore a measure of indirect responsibility by virtue of not having prudently anticipated that this might happen, given the history of Lebanon and the role of the Phalangists. They had not taken the measures which might have prudently minimized the possibilities for such actions once the decision was made to permit the Phalangists to enter the camps.

I think it is a remarkable document and I think it is difficult to argue with the conclusion. But that was reflected, I think, in the vote of the Cabinet, which by a margin of 16 to 1 voted to accept the report.

Well, thank you very much.

WEST BANK AND GAZA PROJECTS

Mr. HAMILTON. Mr. Secretary, we have not asked you any questions with regard to the programs for the West Bank and Gaza. I want to give you an opportunity to comment on any of those programs and any significant changes. We will be submitting some questions to you with regard to them. We will not go into a lot of detail now.

Is there anything you want to call to our attention in the hearing with regard to those programs?

Mr. VELIOTES. Only that the programs have been obligated. Not all the funds have been actually expended. The problem areas of the VOLAGS, the voluntary agencies, with the military and civilian Israeli authorities seem to have been attenuated. There are

approvals coming through. We are hopeful that this process will continue in a positive and constructive way. The money is very well spent.

STATE DEPARTMENT'S REFUSAL TO MEET WITH MUSTAFA DUDEEN

Mr. HAMILTON. Mustafa Dudeen, as you know, is the leader of the Israeli-supported Village Leagues. Why has the Department of State refused to meet with him?

Mr. VELIOTES. Well, sir, I think in your description of the Village Leagues you give the answer. It is widely perceived not only in the West Bank, but in the Arab world, including Jordan, that it is an Israeli vehicle and a problem.

Mr. HAMILTON. You meet with all kinds of other people, other Palestinians. Why not meet with him?

Mr. VELIOTES. Well, we don't meet with all Palestinians, as well you know, sir.

Mr. HAMILTON. You meet with many other Palestinians.

Mr. VELIOTES. Yes, we do. It is a very simple thing. You have to make a judgment, is this going to—it is not just a matter of meeting with him because he is a nice, distinguished gentleman who has friends. It is a matter of making a judgment whether that is going to move us toward our goal of getting the Jordanians and Palestinians into peace processes. We have made the judgment that it would not. So we will have to put that on ice.

Mr. HAMILTON. Do you not meet with him because of Jordanian opposition to the meeting?

Mr. VELIOTES. We don't meet with him because of the general perception in the West Bank, in Jordan and elsewhere, that the organization that he represents is Israeli-sponsored and therefore, not really Palestinian.

PER CAPITA AID FIGURE FOR ISRAEL

Mr. HAMILTON. Do you have a per capita aid figure for Israel?

Mr. VELIOTES. I suppose we can find one.

Mr. HAMILTON. It was about $740 in 1982. Is that going to be about the same in 1983?

Mr. MISHELHOFF. The aid level is approximately the same. The population has gone up only slightly. So it would be about the same?

Mr. VELIOTES. Yes.

[The information follows:]

The following are per capita aid figures for Israel, calculated using official Government of Israel population figures for the end of the calendar year preceding the U.S. fiscal year: fiscal year 1982—$557; fiscal year 1983—$625; fiscal year 1984—$615.

Mr. HAMILTON. I want the same figures, incidentally, for other countries when we discuss them.

ISRAEL'S FOREIGN DEBT

What is the foreign debt of Israel to date?

Mr. MISHELOFF. It is approximately $20.5 billion.

Mr. HAMILTON. What do you estimate the debt servicing of that cost to be?

Mr. MISHELOFF. We don't have a precise figure. For 1983 it is estimated to be between $3.3 and $4.2 billion. It is likely to be closer to the lower of those figures.

[The information follows:]

The cost of servicing Israel's $20.5 billion outstanding foreign debt (as of December 31, 1982) is estimated to be between $3.3 and $4.2 billion during 1983. It will probably be closer to the lower of those two figures.

Mr. HAMILTON. How much of that will be owed to the U.S. Government?

Mr. MISHELOFF. About $1.1 billion.

Mr. HAMILTON. Is Israel now repaying the United States more annually than it receives in aid?

Mr. MISHELOFF. It is not repaying more annually than it receives in aid. We are providing in 1983 approximately $1.4 billion net of debt repayments.

Mr. HAMILTON. Do you think that debt rescheduling will be necessary in the next year or two?

Mr. MISHELOFF. I think it is very unlikely.

NEW MILITARY PURCHASES BY ISRAEL

Mr. HAMILTON. Is Israel going to be able to purchase any major new military equipment during fiscal year 1984, assuming you have the $1.7 billion that you have requested? Or is that money going to be used just for previously purchased equipment?

Colonel MCKALIP. Financially Israel will be able to make some major new purchases.

Mr. HAMILTON. What kind of purchases do you think they will be making in 1983 and 1984?

Colonel MCKALIP. We have already alluded to the high performance aircraft. There are some air munitions, probably self-propelled artillery, and armored personnel carriers. Those would be the major end items.

COST OF THE F-16'S

Mr. HAMILTON. What is going to be the cost of the 75 F-16's?

Colonel MCKALIP. I believe the pricetag we have on it now is $2.7 billion. That, of course, includes a certain amount of spares, support equipment, and training, in addition to the aircraft themselves.

VALUE OF PLO MILITARY EQUIPMENT CAPTURED IN LEBANON

Mr. HAMILTON. What is the value of the military equipment they got in Lebanon, that Israel captured?

Colonel MCKALIP. I don't know that.

Mr. HAMILTON. Have they been able to integrate any of it into their armed forces?

Colonel MCKALIP. I cannot respond to that.

Mr. HAMILTON. Have they sold any?

Colonel MCKALIP. Not to my knowledge.

Mr. HAMILTON. Can you check the answers you have just given me and see if you can supply any more detail?

Colonel McKALIP. Certainly.

[The information follows:]

The value of the equipment that was captured by Israel varies according to age, origin and complexity of the article. However, it is currently estimated that $100-$200 million worth of PLO equipment was captured. Israel has been able to integrate little of this into its own force structure.

Most of the infantry weapons and ammunition are of little interest to the U.S. or other western countries, but may be desired by lesser developed countries looking for low cost, rapid ways to improve their military capabilities. Specific sales to LDCs are unknown at this time.

Mr. HAMILTON. In all of these requests for information asked by members of the subcommittee we would like those responded to by the 16th of this month. We are on, as I think you can appreciate, a fairly tight schedule at this point.

Is there any military equipment of any kind now under a hold, other than the F-16?

Colonel McKALIP. Yes, sir. The 155-millimeter artillery round containing submunitions.

Mr. VELIOTES. Includes entire bombs?

Colonel McKALIP. It is similar to a cluster bomb, although it is an artillery round. Shipments of those rounds have been suspended.

ISRAEL EXPENDITURES ON SETTLEMENTS

Mr. HAMILTON. What do you estimate Israel is spending on the West Bank settlements? We have had figures in the past of $200 to $400. Last year you estimated $150 to $200 million.

Mr. VELIOTES. This is a very tough one, because you have different costs. Some of them are hidden costs. You include the cost of roads, power, teachers, schools.

Mr. HAMILTON. Let me ask you about the trend. Do you think the figure is up this year?

Mr. MISHELOFF. Sir, if you look at the figures for the fiscal year beginning April 1 this year, they are not up from last year. But I think we would have a very, very difficult time, for reasons the Secretary was saying, to indicate exactly what the totals and therefore, the trends are.

FINANCIAL INCENTIVES TO WEST BANK SETTLERS

Mr. HAMILTON. What kind of financial incentives are offered to Israelis who will settle in the West Bank?

Mr. MISHELOFF. There are a variety of them. There are grants, there are subsidies.

Mr. HAMILTON. Interest rate subsidies?

Mr. MISHELOFF. Yes, for the construction of housing.

Mr. HAMILTON. Can you fill out that answer for me? I would like that as precisely as possible.

Mr. VELIOTES. You want to know?

Mr. HAMILTON. What kind of subsidies are available to Israelis who move into the West Bank?

Mr. VELIOTES. And what our best guesstimate is on the cost of the settlements this year?

[The information follows:]

There are a variety of incentives and subsidies offered at various levels to encourage settlement in the West Bank. To encourage construction, for example, state lands are made available on the West Bank at a lower fraction of the assessed value than similar lands within Israel itself. Individuals are also offered special grants to make downpayments on houses, specially subsidized mortgages, and other special social services Since only some of the subsidies offered appear as actual budget costs in the Israeli government budget, the overall costs are virtually impossible to estimate. Clearly, the overall cost of settlements—taking into account the above enumerated subsidies, plus the costs of various social, educational, and police services, etc.—exceeds the direct costs as revealed in the budget (about $121 million) by a considerable amount.

Mr. HAMILTON. That is correct. We still maintain the provision in our aid transfer agreements with Israel that no U S. aid is going to be utilized for any of the West Bank settlements, do we not?

Mr. VELIOTES. Yes, sir. None of it can be used beyond the so-called green line for any purpose.

ISRAEL USE OF U.S.-SUPPLIED MILITARY EQUIPMENT IN LEBANON

Mr. HAMILTON. Do we have any information about the equipment purchased under FMS agreements by Israel being used in the invasion of Lebanon?

Mr. VELIOTES. Did they use American equipment?

Mr. HAMILTON. Yes.

Mr. VELIOTES. Yes, of course they did.

Mr. HAMILTON. Was there a violation of any agreement by use of that equipment?

Mr. VELIOTES. We haven't gone any further than notification to the Congress which we initially sent last summer.

Mr. HAMILTON. Is it a dead issue at this point?

Mr. VELIOTES. I wouldn't call it a dead issue.

Mr. HAMILTON. Are you still studying it?

Mr. VELIOTES. It is a live issue as long as the Israelis still are in Lebanon.

Mr. HAMILTON. What actions are we taking to get the information?

Mr. VELIOTES. To get what information?

Mr. HAMILTON. The information about what equipment was used, and if it was used, whether it was in violation of the agreement?

Mr. VELIOTES. We know it was used. The question of whether it was in violation of the agreement——

Mr. HAMILTON. When are you going to make a determination on that?

Mr. VELIOTES. I can't predict.

Mr. HAMILTON. Will you make a determination on it?

Mr. VELIOTES. I don't know, sir.

Mr. HAMILTON. But you are hopeful.

Mr. VELIOTES. I didn't say that.

Mr. HAMILTON. Do we have any other questions from my colleagues?

Well, you have had a long afternoon, Mr. Secretary, for you and your colleagues. We appreciate it very much. We will have a good

many more questions to submit to you in writing, and we would appreciate a prompt response.[1]

Mr. VELIOTES. Thank you very much.

[Whereupon, at 5:20 p.m., the subcommittee was adjourned.]

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984-85

Egypt

THURSDAY, MARCH 3, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,
Washington, D.C.

The subcommittee met at 2:05 p.m., in room 2255, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Mr. HAMILTON. The meeting of the subcommittee will come to order.

Today, the Subcommittee on Europe and the Middle East meets to discuss fiscal year 1984 economic and military assistance programs for Egypt. The request for Egypt for 1984 is as follows: $750 million in economic support fund money to be provided on a grant basis; and $1.3 billion in foreign military sales financing, with $450 million of that amount to be forgiven, that is, provided as a grant.

The request for Egypt for fiscal year 1984 differs from what was provided in fiscal 1983 in only one respect. Under the continuing resolution authority passed by Congress last December, the FMS program provided for $425 million of the FMS financing to be forgiven.

The administration's request this year is $25 million above last year's level of forgiveness, but $50 million higher than the administration's request last year.

The subcommittee will also consider today a $2 million request for the international military and education training program, and $250 million in Public Law 480 title I food shipments.

We are happy to have with us today on the 1984 request for Egypt the Honorable Nicholas Veliotes, Assistant Secretary of State for Near Eastern and South Asian Affairs. I guess the Secretary is not here yet, but I understand he is on the way.

The Honorable W. Antoinette Ford, Assistant Administrator for the Near East, Agency for International Development; and Maj. Gen. Richard Secord, Deputy Assistant Secretary of Defense for Near Eastern and South Asian Affairs.

Does either of you have prepared statements?

Ms. FORD. I have a prepared statement, Mr. Chairman. I would like to summarize the aid program, as opposed to reading the full text of the statement.

Mr. HAMILTON. That is fine. Do we have a copy of the statement?

Ms. FORD. Yes.

Mr. HAMILTON. OK. You go ahead and summarize. The statement will be entered into the record in full.[1] You may proceed.

STATEMENT OF W. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR, BUREAU FOR NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. FORD. The proposed aid program for Egypt has been designed to support efforts to make appropriate investment allocations, to increase agricultural and industrial production based on past investments, and to increase the contribution of the labor force to production.

The $750 million requested in economic support funds will be obligated for the commodity import program or CIP requirements of $300 million, to support infrastructure, $200 million for funding of water and sewage programs; $45 million for private sector production credit and industrial pollution control efforts; technology transfer, $15 million; human resources, $88 million to support agricultural, health and population, and education activities; and $102 million to be used as incremental funding under an existing authorization for the decentralization portfolio.

In summary, that is how we propose to use the 1984 requested assistance for Egypt.

Mr. HAMILTON. Thank you.

General, do you have a statement?

General SECORD. No, I have no statements, Mr. Chairman.

BUDGET OUTLAY FIGURES ON ASSISTANCE TO EGYPT

Mr. HAMILTON. What is the total budget outlay for Egypt for all kinds of assistance on this budget?

Ms. FORD. For fiscal year 1984—and I am speaking specifically of the ESF element of the budget—actual outlays in fiscal year 1984, from the $750 million request would be $21 million; outlays in fiscal year 1985 would be $208 million; fiscal year 1986, $300 million; fiscal year 1987, $170 million; fiscal year 1988, $46 million; and in fiscal year 1989 the balance, $5 million.

General SECORD. With respect to the foreign military sales and international military education and training program, the fiscal year 1984 request is for $1,300 million $450 million of which is to be forgiven, and $2 million in grant for international military education and training programs.

Mr. HAMILTON. So what is the budget outlay?

General SECORD. The impact on the budget will be $452 million.

Mr. HAMILTON. There is no budgetary impact on the $1.3?

General SECORD. There is no on-line budgetary impact on the $900 million.

Mr. HAMILTON. Just the $450?

General SECORD. The $452, yes, sir.

---

[1] See app. 1.

AID PIPELINE FOR EGYPT

Mr. HAMILTON. Now, let us take a look at the aid pipeline for Egypt. If you exclude the Public Law 480 shipments, it is continuing to grow: 1981, $2.4 billion; 1982, $2.5 billion; 1983, $2.68 billion.

Ms. FORD. Yes, sir.

Mr. HAMILTON. When are we going to see a decline in the pipeline?

Ms. FORD. We project with a significant degree of confidence, more than we have in the past, sir, that we have seen the peaking of the Egyptian pipeline at $2.7 billion.

Mr. HAMILTON. From here on it is going down, is that right?

Ms. FORD. Yes, sir. As you will recall, I did send a letter in October 1982 indicating our disappointment that we were not able to meet the expenditure projections that I had testified to last year. The specific reasons for that were related to the fact that CIP expenditures in 1982 were $145 million below their 1981 level. Primarily this was because negotiations that we were having with the Egyptian Government on credit term policies took longer than we had anticipated.

I believe, however, that that delay was well worth the effort in that we were able to achieve increases in the interest rates. While project expenditures did reach a high in fiscal year 1982 of $355 million, frankly, we had really hoped for more.

But, the uncertain environment after the assassination of President Sadat, coupled with cabinet changes in the Egyptian Government, did indeed reflect itself in the rate of implementation of our program.

Mr. HAMILTON. How can we justify putting another $750 million into the pipeline when we have got an enormous pipeline like we do now?

Ms. FORD. Well, the $2.7 billion, as I mentioned, represents a peaking of the pipeline; we do feel confident on this point. The Egypt ESF level is earmarked. Nevertheless, we feel that we need to manage responsibly and implement the program as effectively as we can.

We project that in the first quarter of fiscal year 1983 we will indeed see a decrease in the pipeline.

Our first quarter expenditures for fiscal year 1983 have been $216 million. I would like to make a note of comparing that to our expenditures at the same time in fiscal year 1982 which were at $102 million in the first quarter. So we are going in the right direction.

At the same time, we have taken a number of managerial and implementation steps to make certain that we do stay on target in this regard.

Mr. HAMILTON OK. Now, I am glad to hear that report. I hope you are able to carry through on that. I think it is important to begin to move the pipeline figure and to move it down rather rapidly.

DEOBLIGATION/REOBLIGATION AUTHORITY

Now, we have been working for some time on a system of deobligation and re-obligation so that programs that are not working can

be discarded without wasting money, and the funds can be made available for other uses.

Why are you not requesting that authority this year?

Ms. FORD. Well, sir, we are actively coordinating with the involved agencies within the administration to prepare an appropriate proposal for presentation to Congress to consider such a request.

Mr. HAMILTON. Why is it taking so long to get this thing worked out? We have been working on this for 3 years.

Ms. FORD. Because it does have budget impact. There are considerations that must be taken into account beyond AID itself, and those considerations must be coordinated and in cooperation with other agencies.

Mr. HAMILTON. Can you reach an agreement soon?

Ms. FORD. We are working toward that end. I could not give you a particular time.

Mr. HAMILTON. Can you reach an agreement this year?

Ms. FORD. I would like to hope so. As a management tool it would be something that we could use effectively.

Mr. HAMILTON. Is OMB opposed to that kind of authority?

Ms. FORD. I would not say that they are opposed to it. We have not completed our full discussions with OMB, sir.

Mr. HAMILTON. What is the hangup? I do not understand the difficulty.

Ms. FORD. Well to be specific, the concerns are directly related to whether or not deobligation, reobligation authority would be perceived as new budget authority, and those questions must be sorted out.

Mr. HAMILTON. It is just very difficult for me to understand why it takes 3 years to sort it out. We have got a draft amendment which I am thinking very seriously of offering on the bill. I want to hand it to you at this time and request that you give me the administration's position on it by March 16.[1]

Ms. FORD. By March the 16th? Yes, sir.

Mr. HAMILTON. Because I think that is a problem that we ought to resolve.

AID PROBLEM PROJECTS

Now, the AID mission director for Egypt referred to $300 million in "turkey projects" which he wanted to get rid of. What projects is he referring to?

Ms. FORD. Well, I think, sir, that the "turkey projects" was indeed—well, one, it was reported that way. I think that——

Mr. HAMILTON. He was misquoted?

Ms. FORD. I would not say that he was misquoted, sir. I would say, however, that the projects that were referred to, totaling some $300 million, included projects that have had various types and degrees of implementation problems. They included projects that had been slow for a number of reasons, be they administrative, be they on policy questions.

[1] See app. 11.

Those that were considered included the PIE fund, the private investment encouragement fund. I do not have a running list in front of me.

Mr. HAMILTON. Would you give us a list of the projects that he referred to as "turkey projects?"

Ms. FORD. Yes, sir.

Mr. HAMILTON. And we would like to know what their status is. Are you continuing to spend money on them, or does it vary from project to project?

Ms. FORD. Well, sir, I would like to be specific. The $300 million figure was not a figure representing a specific list of "turkey projects." We do have projects in Egypt that we feel certainly would be benefited if we were able to move the money into some other projects or something else. However, the $300 million figure that was referred to included projects that we may well be able to get back on track because the problems may not have to do with the substance of the project, nor would they necessarily have to do with the fact that the project is still off-schedule.

Before saying that all $300 million indicated were "turkey projects," I would like to review them and make certain that I would concur.

Mr. HAMILTON. Would you give me a list of the projects that are so designated by the AID mission director and then tell me what you are doing with regard to each of those projects.

[The information follows:]

MISSION DIRECTOR'S LIST OF PROBLEM PROJECTS
JANUARY 1983

Project Title	Reason for Potential Deobligation	$000,000 Potential Amounts of Deobligation	Total Obligations
Grain Silos	Money was earmarked for further construction. That work is now included in a separate project which is separately funded	6.0	42.0
Suez Port	Project scope originally included a new pier. That pier has now been deleted. Other work has come in under budget	13.4	30.0
PVC Pipe	Egyptian demand for plastic irrigation pipe is lagging due to slow completion of irrigation projects	13.0	31.0
Helwan Housing	Project is substantially behind schedule. Master plan has been changed many times due to changing public transit design plans, changes in soil conditions, and other factors.	63.7	80.0
Aquaculture	Extremely adverse soil conditions have been encountered. It may not be possible to effect engineering redesign work and at the same time complete the work economically	9.0	27.5
Urban Health	Health care delivery mechanisms are being studied by AID/GOE. One conclusion may be that a reduction in certain construction work may be desirable	24.7	37.3
PIE Fund	Fund has not commenced operations. AID/GOE would prefer utilize funds by combining them with another financial project	32.3	33.0
Sinai Studies	No requests from GOE had been received for further project activities as of January.	2.5	5.0
Social Work Training Centers	Project activities and programs have concluded. New projects have been undertaken having similar objectives	1.2	4.0
Private Sector Feasibility Studies	Pace of activity was extremely slow during FY 1982 raising questions as to viability of project	2.8	5.0
	Total Funds from Listed Projects	168.6	294.8

I would like to make several observations on this listing.

First, the characterization of these projects as problem projects and potential deobligations is that of the Mission Director reflecting his views, concerns and understandings at a given point in time. If the list were prepared today, or if a broader consensus had been sought, the composition of the lsiting would be somewhat different.

Second, the approximately $300 million total cited in the Ottoway article represents the total life of project funding already obligated by A.I.D. for the projects listed. It does not represent an amount that might be deobligated. In fact, over $100 million of the $300 million has already been expended. The potential deobligation amount is slightly more than fifty percent of the total amount of A.I.D. funding for these projects, i.e. $168 million.

Third, the appearance of a project in the enumeration does not mean that the project or the purpose for which the project was designed is of low priority or that the funds expended to date have not achieved an important development goal. Indeed, as we testified on March 3, private sector development, for example, remains an important objective of both A.I.D. and the Government of Egypt. The availability of medium term credit for the private sector remains a critical constraint to achieving this objective. The particular vehicle designed to address this need, the Private Investment Encouragement Fund, unfortunately has not proven to be an effective mechanism for this purpose in its present configuration. In the case of the PVC Pipe project, the three pipe factories financed by A.I.D. are in place and producing badly needed drainage pipe to combat salinity and water logging problems in the soils of Upper Egypt. Experience has demonstrated that the anticipated rate of drainage installation can not be achieved. Thus the plants have a reduced requirement for PVC compound, the financing of which was the purpose of the unutilized funds in this project. Thus the appearance of this project in the characterization.

Fourth, the recent portfolio review confirmed that the performance of some of these projects had improved to the point where continuation is now clearly warranted. This is so, for example, with regard to the Helwan Housing project, the largest project listed. On the basis of the portfolio review, we have approved a two year extension of the project to 1986, by which time the project will be completed. The Private Sector Feasibility Studies project is a second example of a project which is now being effectively implemented. (We should note, conversely, that one project not on the Mission Director's problem projects list was identified at the portfolio review as a potential deobligation, project 263-0060, Poultry Development.)

Finally, the referenced article missed the key point of the discussion that formed the basis of the article. That key point is that of the $3.3 billion in funds obligated for project activities through FY 1982, or of the $2.1 billion in the pipeline which corresponds to projects, only approximately ten percent in each category represents activities not performing adequately or better and only 5% and 8% respectively is a potential deobligation. While we would like all projects to meet their goals, this is a creditable performance. Rather than highlighting this positive finding, the article emphasized the activities that were not proceeding satisfactorily. (Note both the obligation and pipeline figures cited above exclude the amounts provided and undisbursed that related to the Commodity Import Program.)

Ms. FORD. Yes, sir, I will. I would like to add, however, that due to the pipeline concern, one of the things that we have begun—and it does impact the question of these projects—we have begun high-level portfolio reviews in coordination with the Egyptian Government, so that the bulk of those projects identified as ones that we would want to move into another category that is deobligation/reobligation would necessarily be coordinated with the Egyptian Government. It is not unilateral.

Mr. HAMILTON. Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

It seems as though Egyptian-Israeli relations have taken a downturn since Israel invaded Lebanon. Apparently Egypt has linked an improvement in relations with Israel to a settlement in Lebanon. Maybe I should be asking this of Mr. Veliotes I think I will, because I think that probably is a little more in his line.

I was going to ask you about those turkey projects, too.

Ms. FORD. They were not called wild turkeys anyway.

Mr. WINN. Well, they got their share of press.

EGYPTIAN GOVERNMENT SUBSIDIES

Let me talk a little bit about what the committee did last year. If you remember, members of this subcommittee considered linking U.S. economic aid to Egypt to a reduction in the Egyptian Government subsidies of food products, petroleum, electricity and some other items.

These subsidies run at a much higher annual level than does U.S. economic aid. Therefore, an argument could be made and has been made, and I think will be made again, that the effect of our aid was being nullified by these high subsidies.

I just wondered why after 1 more year of no action to reduce the subsidies should we not effectuate some kind of a linkage?

Ms. FORD. Well, sir, though we agree that there is much needed to be done with regard to economic policies and subsidy issues in energy and agriculture, the Egyptian Government has taken some measures in the right direction.

I do not say it is enough, but I think for the record it should be pointed out that they have increased agricultural prices. Let me see if I can give you specific numbers. They have increased agricultural prices from 5 to 20 percent on several products.

In regard to energy, the rates to consumers and other medium- and low-voltage users were increased some 10 percent. In addition the rates to two large aluminum and fertilizer industries were increased 50 and 60 percent, respectively.

The net effect of that was not incredibly large, but it does suggest that the Egyptian Government is beginning to recognize that in order to improve economic performance there is a need to look seriously at reducing subsidies and correcting prices.

Mr. WINN. Are we continuing to keep after them on this point and to try to work with them so that they will get away from these high subsidies in these various fields?

Ms. FORD. Yes, sir, we are. A specific example is that right now under consideration by the Egyptian Government part of ongoing discussions is the question of energy prices and aid funding for a

project that we believe is a very good and serious project, the fourth unit at Ismailia. But we have not reached a final decision as to how and if and when the fourth unit would be funded because of the entire question related to energy rates.

Mr. HAMILTON. Would the gentleman yield?

Mr. WINN. I would be glad to yield.

Mr. HAMILTON. Even with these subsidies, the price for energy, as I understand it, in Egypt is 20 percent of what it is on the world market.

Ms. FORD. That is right, sir.

Mr. HAMILTON. The fact is the government is simply not taking the kind of steps vigorously enough to get their economy in order, and, in effect, we are enabling a lot of subsidies with our assistance.

Ms. FORD. I do not think that we have a substantive disagreement at all, Mr. Chairman. I think that the question or the issue that the Egyptians have posed for themselves is at what speed and what rate can they in their own policy framework make these reforms and reduce these subsidies. It is a question of degree.

Mr. HAMILTON. How can we justify subsidizing the economy to the extent that we do when they are not willing to increase the price of fuel beyond 20 percent of the world market?

Ms. FORD. One of the measures that we are taking, and we are in very close coordination——

Mr. HAMILTON. That would be a pretty good deal for taxpayers in Indiana.

Ms. FORD. Yes, it would. When I look at some of the economic distortions.

Mr. HAMILTON. I will give you your time back.

Mr. WINN. I would be glad to have the time back, but just do not hog it for Indiana. Kansas needs some help, too.

Go ahead and finish.

Ms. FORD. In terms of completing that thought, I just wanted to indicate that because of specific questions, energy rates, and policy reforms, because the energy rates are at 20 percent of world market rates, that is the precise reason that we have not made a full commitment to implementing the Ismailia project.

Mr. WINN. Let me point out, as we did last year and I think probably even more so, that a broad spectrum of the members of this subcommittee and the full committee really have deep concerns about these high levels of subsidies; and we think that in the long run they hamper Egyptian economic development.

We are again seriously considering some linkage. I do not know how we might work that. But keep the pressure on them, keep working with them, and keep trying to prove your point. Obviously you are moving, but probably in the eyes of this committee, maybe not fast enough.

Ms. FORD. All right. I appreciate that, sir.

EGYPTIAN-IMF AGREEMENT

Mr. WINN. Do you think it would be best for Egypt to sign an agreement with the IMF and therefore have to come to terms with IMF rather than U.S. pressure on economic reforms?

18-551 O—83——6

Ms. FORD. Sir, I could not speak for the IMF. I really do not know. But I can say the rapport and relationship that we are attempting to develop with the Government of Egypt in the context of our Egyptian program is one that is maturing, it is only the pace of reform we may differ on. The direction we see as going in the appropriate direction.

But at the same time we know that there is quite a bit of work that still has to be done, particularly in the area of subsidies.

EGYPTIAN ECONOMIC REFORMS

Mr. WINN. All right. I would like to ask one more question of Ms. Ford. It seems like the bottom line of the 1983 AID economic report, which is laid out on page 24, appears to be that unless Egypt undertakes some fundamental economic reforms, the economy is going to continue its downward slide.

Now, from a broad standpoint and from the work in the field that you do, would you agree with this?

Ms. FORD. I think that as we look at the debt report and the questions directly related to Egyptian economic management, the concerns expressed there are real. You are correct that if there are not some specific measures taken that indeed the balance of payments gap would broaden. However, at this point we are also saying that in the short term it is not a crisis situation if you will; at the same time it is important that they focus on the need to address the question of subsidies within energy as well as in agriculture.

Mr. WINN. Thank you very much.

ARMS SALES REQUEST FOR EGYPT

I have just one short question for the general, if I may ask. I would like to ask the general to tell the subcommittee, if possible, what new requests for arms sales to Egypt should Congress anticipate for 1983. You talk about the Stinger antiaircraft weapon. What else do we have pending? Multiple-targeted rocket systems?

STATEMENT OF MAJ. GEN. RICHARD V. SECORD, DEPUTY ASSISTANT SECRETARY FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF DEFENSE

General SECORD. This year, sir, I do not think that we have pending any request, any formal request, for any major new weapons system. We have seen some inquiries on Stinger. I think we have received some inquiries on multiple-launch rocket system, but we have not had any formal requests for letters of offer yet. And I would not be surprised if we do not get any for a while. The financial situation——

Mr. WINN. So although the committee has heard rumors of the two that you mentioned, and I have heard a couple more you do not really expect any formal request from the Egyptian Government for any major new military systems in 1983?

General SECORD. Not for any major new systems. The systems that are currently on order, systems already notified to Congress and needed logistics support, consumes all available FMS credits this year.

Mr. WINN. They will use up their credits with orders that are in the pipeline or on order?

General SECORD. That is right. The current 5-year plan has little additional buying power until fiscal year 1987.

Mr. WINN. What year are we in on the 5-year plan?

General SECORD. We are now in the fourth year of the original plan, which started in 1979. The current plan extends to fiscal year 1987.

Mr. WINN. Thank you very much, General.

Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Ireland.

AID TO THE EGYPTIAN PRIVATE SECTOR

Mr. IRELAND. Thank you, Mr. Chairman.

First of all, I would like to indicate strong support, Mr. Chairman, for your questions and the information you have requested concerning the $300 million worth of "turkeys," I also find it very difficult to believe that after 3 years, some of these other matters, which the chairman mentioned, have not been resolved and we cannot find out why.

So I would not want this opportunity to pass without at least saying that I completely support that operation and would like to see something done.

What is not used in Indiana and Kansas on that other matter, we can use in Florida.

Ms. Ford, you indicated that there is $374 million that has been allocated to the private sector in Egypt, and we are aware that there are other activities to enhance the private sector participation in Egypt, including some missions by OPIC and such.

Could you just give us some rundown on whether anything is really happening there or not?

Ms. FORD. In the private sector generally, on the project side—that is, we are providing funding for the private sector Development Industrial Bank in the amount of $32 million. A development industrial bank, a training component, $2 million.

Small farmer production, which is a credit project, $25 million, which by the way is one of the projects that we pointed to that has been having an important impact.

The private investment encouragement fund, $33 million. And if you will recall, that is the project that I mentioned was on, as you referred to it, the "turkey" list. That project has not been effective. It is one that several years ago we had hoped we would be able to use as an instrument for encouraging investment. But it has not been an effective project, and we are prepared to reconsider how we could structure it.

In addition, we have the private-sector feasibility study fund which is $5 million. I will refer you to my statement, in which I indicate that that particular fund of money has most recently, with the support of Minister Shindi, been moving forward. Of the 37 applications under the feasibility study project, 35 of them have been approved or disapproved. In other words, action has been taken. So though it was slow previously, that one we now see movement in, and we are working closely with the government.

The industrial productivity improvement project is $39 million, we should also include our commodity import program, of which a total of $137 million has been used from private sector imports.

Production credit project, we are looking at $68 million. This would be a project that would provide long and medium-term credit in Egypt to encourage investment. This has been one of the areas where there has been some shortfall and where we feel that we can be effective.

And then finally, under the technical assistance and feasibility studies grouping, capital markets authority and the Central Bank of Egypt, we have smaller amounts.

This totals the portfolio grants and loans of $342.7 million, as you indicated.

IMF RESTRICTIONS ON EGYPT

Mr. IRELAND. I would like to question you further regarding the chairman's remarks: The IMF and the restrictions that the IMF has put on Egypt. Do you think that would not help the economy more than some of the AID projects?

Ms. FORD. I apologize for not being able to be responsive, but I do not sufficiently know what the IMF rules, regulations, or guidelines are, sir. So I could not compare it to our program.

Mr. IRELAND. I am sure that they would not include subsidizing energy in that fashion.

Ms. FORD. The IMF is a multilateral institution, sir, I cannot speak for it.

DELAY IN PROJECTS

Mr. IRELAND. Let me ask you one last question about AID. Getting back to the 3-year delay in sorting out these projects, I feel that the best way you can describe it—and this is oversimplified, perhaps—is that there are vested interests within the bureaucracy of AID that want to perpetuate some of these things that do not work? Why do we continue those things? We are talking so much about the pipeline and activities that do not work, and the director or the man on the scene, whom I have great respect for is willing to classify them as "turkeys." And yet after 3 years we cannot seem to sort out what is good or what is bad. We continue programs like the one in the private sector, small in dollars, yes, that do not work. Why?

Ms. FORD. I am very pleased to hear you identify that point. It is because we do not have the managerial capability the way our program is structured to remove the funds once authorized from that project to another.

Mr. IRELAND. Why should that take 3 years? It looks to me that at the very top of this operation there is some great problem.

Ms. FORD. Well, the question of deobligation, reobligation, is a question that is not confined, as I understand it, to one particular agency. It is necessary that those requests be coordinated among the executive branch, which we are actively working——

Mr. IRELAND. For 3 years?

Ms. FORD. I cannot speak for 3 years.

Mr. IRELAND. I consider your answer an obvious dodge of the issue. And the issue is simply that the job is not getting done. The American people have a right to be concerned. If the programs are not working, something ought to be done about it. And you are sitting here telling us that in 3 years you have not been able to figure out what to do about it.

Ms. FORD. Sir, we would really find deobligation and reobligation authority a tremendously helpful managerial tool.

Mr. IRELAND. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Siljander.

Mr. SILJANDER. I am going to pass at this time.

Mr. HAMILTON. Mr. Smith.

AMERICAN PROJECT MANAGEMENT

Mr. SMITH. Thank you, Mr. Chairman.

I really have to continue the line that Mr. Ireland took. I find it very difficult from a management point of view to get some reasons which so far do not seem to be surfacing, as to why- and I am not sure it is just on a deobligation/reobligation theory—we cannot do more to provide impetus to these projects to move on.

Do we make any provision in these agreements when the money is authorized and obligated to provide for American managerial standing on the projects? Do we provide people? For instance, do we ask the Egyptians in their budget when they start the project to bring over American managers so that there will be at least some shred of control that we maintain while moving the project forward? Is there anything about these projects that allows for American input rather than the hiatus of 3 years and hardly moving anything on?

Ms. FORD. Yes, sir, I am trying to be responsive to the different elements of your question. On the $300 million, I think that the focus on that particular number would be a different focus if we would be able to—and I would be willing to provide that information—to look at those projects and see on a case-by-case basis what the reasons were that any number of them were slow.

Yes, we do have covenants and conditions precedent before we go forward with a project. And in many instances, be they policy questions, as I have indicated, for example, in energy or in agriculture, certainly with the bureaucracy—in some instances ours and in some instances the Egyptians—this may have a slowing effect.

A substantial part of our portfolio in Egypt is composed of large infrastructure projects which have a long leadtime before construction can actually begin. That also adds to why the pipeline oftentimes has been slow in moving.

Those are elements that we need to consider, and you are on target and right in saying that we need to make certain that we look at them and make sure we can answer the questions as to why they are slow. And that is what we are doing now.

Mr. SMITH. Maybe I have been less than clear in my question. My question is: Once we obligate this money and go online and the money goes not only to the pipeline but starts dripping out the other end, for the most part are these projects built by Egyptians for Egyptians? Are they managed by Egyptians? Do they bring in

outside countries? And if so are the Americans involved in this, or are they bringing in third parties to run or manage these projects?

Ms. FORD. I am sorry. You did ask that, and I was not responsive. Eighty percent of our program in Egypt is host-country contracting. Virtually all of our projects involve American contractors. I could name you a list of projects that indeed have been handled by American contractors.

Mr. SMITH. It would be very helpful if you could tie that into what you are going to provide to the chairman, and that is projects that have not really gotten anywhere. If there are American companies involved in those kinds of projects, I want to know, too, and I want to know what they are doing in terms of facilitating these projects to move toward completion.

Maybe we are giving the wrong Americans the chance at it. Maybe there are more Egyptian companies that would be able to do better than we are doing.

Ms. FORD. One of the elements of ongoing discussions that we have had with the Egyptians is how can we include—and we have been actively working on this—additional and a larger number of Egyptian consultants and contractors. And we have been doing that with our projects. I do not have any numbers on how many there are. I can make an effort to try to get that.

Mr. SMITH. I would be very interested in that.

[The information follows:]

AMERICAN PROJECT MANAGEMENT

While all AID supported projects in Egypt are managed by the Egyptian Government, there is hardly a project which does not involve American companies. All procurement of imported goods and services is tied to U.S. sources. For example, construction projects typically involve American design and supervisory firms coupled with American and Egyptian construction companies in various prime subcontractor arrangements and, when not available locally, materials and equipment purchased in the United States.

Unfortunately, American involvement is not sufficient to ensure a successful construction project. The trick, as experience has shown, is structuring relationships among the Egyptian Government, U.S. sub- and prime contractors, and Egyptian sub- and prime contractors in such a way as to take maximum advantage of American management techniques, in addition to technical knowhow. Greater use is now being made of turnkey contracts with U.S. construction firms to improve contractor coordination and to ensure that responsibility for the quantity and quality of work is clearly assigned.

Some examples of the successful use of American contractors in large scale construction projects in Egypt include: The overall management by Bechtel of the multi-donor funded Shoubra Thermal Power Project; the Ismailia power project with GE as the prime construction contractor and Gilbert Associates providing A&E services and supervision.

We have organized on a turnkey basis three additional projects which received funding in fiscal year 1982: the Rehabilitation of Aswan Turbines with Allis Chalmers, Cairo Water with Howard, Harbert, Jones, and Grain Silos II with a contractor to be determined.

Mr. SMITH. Do we have in Egypt a system of working daily relationships with the Government on these types of projects rather than dealing with the project itself? Do we have an overall—you mentioned the word "portfolio" kind of management situation—do we have people there that are dealing with the Government at the higher levels on a daily basis, trying to facilitate all these projects daily, or do we look at one project and go on to another one and watch the other one not go anywhere, come back to it 6 months

later and say, well, nothing has moved, what are you doing about it today?

Are we really doing what any normal management would do, what a company that is running its business like a business would be doing?

Ms. FORD. Yes, sir. We do have projects that are successful in Egypt. I just think that in terms of——

Mr. SMITH. I am not saying that there are not successes. That is not my point. My point is we are giving them money to be utilized for legitimately good, worthwhile, and necessary projects, but are we in fact just dumping the money there or are we facilitating the construction?

I have heard you make, frankly, some rather poor excuses for why 3 years have elapsed. They get caught in interagency problems? You are just telling me that there is a maze of Government bureaucracy. And when there is Government bureaucracy, you use Government bureaucracy as the excuse for it.

My question is: Are we running it like a business? Are the Egyptians running it like a business? And how can both of us do better to get those projects which they really need? That is what we are talking about, a need that exists. And frankly, you know, when it is not fulfilled, it is not only to some degree a waste of the money that we have put in the pipeline but it is, frankly, a short shrift on the average Egyptian who needs those projects.

Ms. FORD. The discussions on the deobligation/reobligation issue is not automatically or necessarily tied to specific projects. It is important to separate those two points. That is totally separate and apart.

The question: yes; we do have on a daily basis ongoing contacts and relationships with Egyptian counterparts in Egypt; that is, beginning with the director of the mission and reinforced and supported through his chief deputies and associates. Also on a project basis between the companies or consultants or individuals implementing those projects there is an ongoing relationship, if you will, to see that the projects are implemented.

We have not always done 100 percent perfectly in that category. There have been questions raised as to when did you last see a given project manager of the mission? I think that is a valid question. I was there in December of 1982, and went from Cairo to Aswan by road, Benisouef, Fayoum, Minya, and a number of other places, specifically to look at our projects and to be able to determine when was the last time there had been a contractor there, what was the situation.

I was satisfied on that point that it is a regular and routine relationship that is going on through the contractors and with the Egyptians. But I do not think that is something that we can afford to say is enough and that we do not have to go any further.

Mr. SMITH. Not from the time frame the chairman indicated. You may have been satisfied, but with the long time frame that has been here, frankly, it looks abused. And it really is time to get these things moving, because as I said, ultimately the bottom line is that necessary and worthwhile projects are not online serving the best interests of Egypt.

Thank you very much, Mr. Chairman.

Mr. HAMILTON. Mr. Levine.

Mr. LEVINE. Mr. Chairman, Mr. Veliotes looks very bored in the middle, like he should have some questions to him. It is appropriate to direct questions to the Secretary, or should we wait for his formal testimony?

Mr. HAMILTON. He is there ready to go and very anxious. We have not given him a chance to participate.

PRINCIPAL THREATS TO EGYPTIAN SECURITY

Mr. LEVINE. Yes; it seemed like we were discriminating against him, and I would not want to do that.

Mr. Secretary, in terms of the military portion of the proposal with regard to aid for Egypt, could you outline to the subcommittee where the principal threats to Egypt seem to lie and the general underlying rationale for the broad military-aid picture?

STATEMENT OF HON. NICHOLAS VELIOTES, ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

Mr. VELIOTES. The basic rationale for the U.S. military and security relationship with Egypt is in our common strategic concerns for the area. And when we say "strategic concerns," we mean the threats that we perceive to the stability of the area plus the policies that we share with respect to helping to assure that stability in ways other than through military; for example, the peace process.

Egypt and we share concerns for the destabilizing potential of countries like Libya. We have just seen an example of this cooperation, frankly, in forestalling Libyan designs.

We share significant concerns about the Soviet proxies in Ethiopia, which is a very important country in the Horn, crucial for Egypt, very important for us. We can say the same about South Yemen and the other threats that we see emanating from the area, which includes Africa.

We share these common concerns in helping the Egyptians to prepare themselves to play their role in assuring the stability and security of their neighbors, who are also our friends.

We have embarked on a military assistance program which is designed to replace a part of the aging and, in some cases, inoperable Soviet equipment. I think it is important to recognize that we are not in the process of replacing this equipment on a one-to-one basis. We are engaged in a modernization of part of the Egyptian Armed Forces in our common interest.

Now, when we think about this, we have to consider as well the greater Southwest Asia issues, the problems of security of the gulf. We are in a partnership with the Egyptians also with respect to this aspect of the security of the area.

We have engaged in several important exercises with the Egyptians, which I know General Secord can address in detail. We are currently engaged in a program of military construction, a port on the Red Sea, Ras Banas, that would be very important in allowing us to meet contingencies of a security nature further to the east.

[Mr. Veliotes' prepared statement follows:]

PREPARED STATEMENT OF HON. NICHOLAS VELIOTES, ASSISTANT SECRETARY OF STATE FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS

I appreciate this opportunity to discuss with you the administration's security assistance proposals for Egypt. Before taking your questions, I would like to make a short statement.

U.S.-EGYPTIAN RELATIONS

Let me begin by briefly restating the foundations of U.S. policy toward Egypt. United States-Egyptian relations are based on a shared strategic interest in the stability of the Middle East and the surrounding region. The Egyptians, who have paid the heavy human and economic price of conflict, fully understand the advantages and benefits of peace. As a result they share with us a strategic commitment to the peaceful solution of the Arab-Israeli conflict, which is the fundamental problem facing the region. This commitment, first made and acted on by Sadat, has been reiterated by President Mubarak and remains a firm tenet of Egyptian foreign policy.

While a strong advocate of peace, Egypt, like the United States, understands the need to be able to deter those who would seek to destabilize the region or attempt to subvert friendly states in the area. The Mubarak government shares with us a concern about the threats to regional stability posed by the Soviets or their radical surrogates within the region. Our military cooperation stems from this shared concern and is a vital element in maintaining regional stability and in deterring aggression from within or outside the region.

The past year has seen a number of examples of the importance of close United States-Egyptian relations. We worked closely with Egypt and Israel to secure final Israeli withdrawal from the Sinai in implementation of the Egyptian-Israeli peace treaty. President Murbarak has been a strong supporter of the President's September 1 peace initiative and his backing has complemented our efforts to generate broader Arab support for an expanded peace process.

EGYPTIAN-ISRAELI RELATIONS

I would like briefly to review the status of Egypt's relations with Israel, since I know this is a subject of interest to the committee. Mr. Chairman, I note from your report on your very useful trip to the region last fall that you discussed this subject with President Mubarak. I know that other congressional visitors to Egypt have done so as well. I would point out that President Mubarak's statements to the Congress, to this administration and, indeed, to the public are strikingly consistent on the subject of peace with Israel. President Mubarak's government is committed to a peaceful relationship with Israel in accordance with the treaty between them and to the pursuit of a broader peace in the Middle East.

Despite Egypt's commitment to peace with Israel, it is fair to say that relations between the two countries have been strained by events in Lebanon. Egypt has recalled its Ambassador and has told the Israelis he will not return until there is an announced plan for Israeli withdrawal from Lebanon. Israel, in turn, has complained to Egypt about media treatment of Israel and various trade problems. As you know, both states have circulated memoranda outlining complaints against the other.

We have discussed our concerns about these strains with both Governments. We have urged both to consider the importance of their relationship to the broader goal of regional peace and to be flexible in their dealings with one another. There is some evidence that these efforts, plus the desire of each state to maintain a positive relationship, may have begun to have some effect. Delegations from the two countries met March 2 to resume discussions on the Taba issue, which is the major outstanding issue remaining from the Sinai withdrawal. Talks on other issues of importance to the bilateral relationship are also scheduled to be held in the near future.

While progress on Lebanon is critical to the revitalization of Egyptian-Israeli relations, these direct bilateral talks are an important step in rebuilding a spirit of trust and confidence between the two states. The resumption of expanded peace negotiations, as foreseen in the President's September 1 initiative, would, of course, be the strongest stimulus to improved Egyptian-Israeli relations.

ADMINISTRATION'S BUDGET REQUEST

Mr. Chairman, I would like to turn now to the administration's fiscal year 1984 security assistance request for Egypt. The President's request for Egypt has three components: A Public Law 480 title I program of $250 million; an ESF program of $750 million; and a FMS program of $1.3 billion, of which $450 million would be in

forgiven credits. This request is an essential part of the President's efforts to promote peace and stability in the Middle East, and reflects the special relationship between Egypt and the United States. The individual parts of our budget request support Egyptian Government efforts to revitalize its economy and modernize its military.

Mr. Chairman, as your report on your recent visit to Egypt clearly noted, Egypt faces serious economic problems. While the economy is still growing, its rate of growth has slowed measurably and the indications are that this will continue. At the same time, foreign exchange earnings from tourism, the Suez Canal, oil exports and remittances from Egyptians working overseas are all down. The rapidly decreasing price of oil may contribute to further declines in three of these four areas.

The Mubarak Government recognizes Egypt's economic problems. President Mubarak has graphically outlined these problems for the Egyptian people, speaking more frankly than any modern Egyptian head of state. President Mubarak understands that change is needed if Egypt is successfully to rebuild its economy and achieve a better life for its people. Change, of course, means economic reform. The Mubarak Government is implementing reforms, although not always at the pace that we and others might think best. But unlike the past, the issue is no longer whether reforms are needed, but rather the pace at which they are to be implemented.

Our military assistance program for Egypt is designed to help the Mubarak Government modernize its military establishment, which is still largely equipped with aging Soviet equipment. Egypt needs a credible military force to deter the direct threats to itself from radical states in the region and to help support others from aggression. Our military assistance and training programs are critical parts of the Mubarak Government's efforts to maintain a credible military force. Given Egypt's economic problems, however, we have sought to package this assistance so it will have the lowest possible cost for Egypt.

In closing, let me reiterate the special nature of our relationship with Egypt, which has its roots in shared strategic interests and a common dedication to the pursuit of regional peace. Both the economic and military components of our security assistance program are designed to strengthen that relationship and thereby serve vital U.S. interests in the Middle East. The Mubarak Government sees this assistance as a tangible demonstration of U.S. support and as a key component of its own efforts to deal with its economic problems and to rebuild its military strength. In short, this assistance is an investment in support of not only a key Middle Eastern ally, but regional peace and stability as well.

I would be happy to respond to any questions or comments you might have.

LIBYAN THREAT TO EGYPT

Mr. LEVINE. If I might explore the Libya issue with you for a while. Could you describe to the subcommittee what the nature of the threat from Libya is to Egypt directly and indirectly?

Mr. VELIOTES. Well, there has been in the past an outbreak of direct hostilities between the two countries. I think that is a less likely contingency as we look to the immediate future. The threat of Libyan subversion of countries in the area, particularly the Sudan, for example, is a threat which is very high up on the Egyptian priority list.

Now, this is not just a theoretical concern apart from the recent occasion of Libya's attempt to subvert the Sudan. Back a couple of years ago Libya, Ethiopia, and South Yemen formed an alliance, the specific purpose of which was to subvert the Sudanese (and in that manner to get at the Egyptians) and also to try to subvert the southern part of the Arabian Peninsula through South Yemen. And as you know, Mr. Levine, over the years South Yemen has been active in this capacity both with respect to Oman and North Yemen.

Mr. LEVINE. Do we know how the Egyptians, and can you tell us how the Egyptians specifically viewed our sending of the AWACS recently?

Mr. VELIOTES. Yes, sir. If you will recall, the AWACS were operating in Egypt, at the invitation of the Egyptian Government. We had a scheduled exercise. We moved it up because of the threat that had been identified. So this was a cooperative venture, and it succeeded.

AMERICAN TRANSFER OF AWACS

Mr. LEVINE. Does our recent sending of the four AWACS reduce, increase, affect at all, the threat in the short term from Libya to Egypt?

Mr. VELIOTES. I would think that it carries with it a message of the reaction that can be expected if there is an overt military attack.

Mr. LEVINE. I think it was to you that I asked this question at a prior hearing, but I am not certain. I did ask an administration witness whether we had asked the Saudis whether the AWACS of Saudi Arabia could be used in the Middle East instead of having to send AWACS from the continental United States. And someone was going to get back to me with an answer and I have not received that answer yet.

Mr. VELIOTES. That was me. Let me confer with my colleague.

[Pause.]

Mr. VELIOTES. I can confirm what I suggested at that time. We did not ask the Saudis and we did not wish to because of the threat that we see continuing to the gulf from the war in Iran-Iraq.

Mr. LEVINE. I do not understand that. I do not understand why it was, therefore, more in our interest to expand the resources to send AWACS from Kansas, or wherever we sent them from, rather than from Saudi Arabia.

Mr. VELIOTES. It was a judgment call that the expenditure for those resources would be much cheaper than the cost, should something happen to the oil-producing facilities in Saudi Arabia.

Now, exactly where the AWACS came from—yes, they did come from the continental United States.

Mr. LEVINE. I will yield to my colleague from California.

Mr. LANTOS. I was intrigued by a portion of your answer, Mr. Secretary, that says it was much cheaper to do it that way. Who, in fact, is paying the cost of those AWACS?

Mr. VELIOTES. I think we funded the AWACS.

General SECORD. In Saudi Arabia?

Mr. LANTOS. Yes.

General SECORD. The Saudis are paying the majority of the bill in Saudi Arabia.

Mr. LANTOS. What proportion is the majority?

General SECORD. I do not have that. It is a very large majority of the cost.

Mr. VELIOTES. We paid for the deployment to Egypt, I recall.

General SECORD. Of course. The point is it would have been foolish to uncover the oil wells of Ras Tanura to move to another threatened area.

Mr. LEVINE. Then as I understand your answer, you are saying that if we had asked that the AWACS be moved from Saudi Arabia to Egypt, we would have been, in your opinion, opening up an im-

minent threat to the oilfields in light of the Iran-Iraq war. Is that your testimony?

Mr. VELIOTES. There is a continuing threat, a potential threat. I believe I also mentioned that there had been—I do not know how many weeks ago—just a few weeks ago—an Iranian aircraft coming over that way that was picked up. And this was in the press. The Saudis reacted, and it went back home.

IRANIAN THREAT TO SAUDI OILFIELDS

Mr. LEVINE. Do we have reason to believe that there is an imminent threat to Saudi oilfields from Iran?

Mr. VELIOTES. We have reason to believe that there is a very uncertain and unpredictable situation, which includes certain Iranian aircraft that are purported to always be on the ready.

EGYPTIAN-ISRAELI RELATIONS

Mr. LEVINE. I have been advised my time is up. I wanted to explore this, but let me just ask you one further question and I will get into this on the second round. That is, in reviewing your testimony that you submitted, you indicated that we have—that by our talking to the Governments of both Egypt and Israel with regard to some of the strains in the current relationship between the two countries we may have begun to have some effect.

Can you elaborate on how and in what areas the Government of Egypt is responding differently to the Government of Israel with regard to the areas of current tension as a result of our recent conversations with those two Governments?

Mr. VELIOTES. Well, the most specific recent example of this is the fact that you have a meeting going on now on Taba in Ismailia long delayed since April, and there is scheduled in the next 2 weeks a meeting on trade and commerce, in Ismailia, also delayed by several months.

This is a beginning. We hope that these meetings will be fruitful. They will have to continue, obviously. We are not thinking of solving the situation, or just meeting for the sake of meeting. But meeting for the sake of trying to address problems in a continuum.

Mr. LEVINE. Any progress with opening the Israeli consulate at Sharm Al Sheik or the return of the Egyptian Ambassador?

Mr. VELIOTES. No progress on opening the consulate at Sharm Al Sheik. I would have to find out more about that in detail. On the return of the Egyptian Ambassador, the situation is the same as when President Mubarak was here. When we get an agreement for withdrawal of foreign forces, he said the ambassador would go back.

Mr. LEVINE. Thank you.

Mr. HAMILTON. Mr. Siljander.

ARMS SMUGGLING THROUGH THE SINAI

Mr. SILJANDER. We all know about the strains in the relations, and when President Mubarak was here one of the questions that was asked of him dealing with the relationship with Israel, he asked many specifics about recalling the ambassador, the freezing

of trade, the canceling of the meeting of the Joint Trade Commission, the smuggling of arms, the infiltration of terrorists, the anti-semitic cartoons appearing in the government-controlled newspapers—there is a long list of things that he went point by point by point outlining from his view how either wrong or erroneous or out of context some of those accusations were that were made.

And, of course, one of the deep concerns to Israelis, they accused over 70 times there have been arms smuggled through the Sinai.

Now, we heard from the President himself that they are doing all they can do, that he felt we were doing all we could do to help. Are we doing all we can do from our standpoint? Do you feel that Egypt is doing all they can do to pull back the relations in the areas we have outlined, especially in the areas of arms smuggling? In fact, the President, as I recall, even suggested that there were arms being smuggled the other way, and they have stopped much of the arms smuggling going both ways themselves; not just simply—in other words, he was implying that they were not freely allowing the smuggling to occur. It was happening. They cannot stop it. It happens both in and out, from both sides.

But the concern is it seems like 70 times or more is certainly an extreme amount of instances. I wondered if you could respond to that.

Mr. VELIOTES. Well, on the specific allegations of arms smuggling, when I have talked to the Egyptians about this they have said that certainly, they have no evidence that it is happening; they are doing their best to stop all smuggling. Smuggling has been going on for centuries and it includes narcotics and a lot of nonmilitary items, radios, et cetera.

As far as evidence to support the specific allegations of arms smuggling, because I think that is what catches most people's eyes and causes the greatest concern, I do not think there has ever been any evidence put forward to substantiate Israeli allegations on arms smuggling.

Now, certainly, is everyone doing enough? I doubt it. You can never do enough. Are we doing all we can? Well, we are doing all we can—our judgment is we are doing all we can given the circumstances. How much is enough? I do not know.

At least we were able to get these two talks unfrozen. We think that is a positive development. That is not all that should be done. How fast can the pace go? In my judgment, it is doubtful that you will see this pace pick up significantly until or unless there is an agreement on Lebanon, which is something very important to the Egyptians.

Mr. SILJANDER. So we are stalemated and the things I have outlined, for the most part, you would agree that these are valid concerns? You implied that——

Mr. VELIOTES. Everything is a valid concern. I gather that the press issue has receded somewhat. The Egyptians have apparently taken some action in that field, and I think the Israelis will agree.

Obviously, there is some truth to most allegations on both sides. As you know, both sides have submitted memoranda. Our answer to this is not to take sides, but rather, try to take some concrete and practical steps to get them back in touch to improve relations.

Mr. SILJANDER. So obviously, then, I guess—I know you cannot come right out and say anything in particular, but certainly these things are valid to be concerned about.

Mr. VELIOTES. Oh, they are valid to be concerned about, but that particular issue of gun smuggling I have addressed. We have heard this off and on over the months, and the evidence——

Mr. SILJANDER. Have you talked to the Egyptians about it?

Mr. VELIOTES. We have talked to both sides, sure. And we think that certainly the last time Egypt and Israel discussed this, it is our information that the Israelis agreed that the majority of smuggling cases involved nonmilitary items. It is a border violation.

I think the other issues are really more important, frankly. The question of press treatment is important because that affects mass attitudes, and this is something that we have been concerned with. There has been some improvement.

The lack of contact on normalization issues, that concerns us. That is part of the treaty. The problem of settling this Taba issue, which does not mean much to anyone except the Egyptians, but it is very important. That concerns us.

EGYPTIAN-ISRAELI OBSERVANCE OF THE PEACE TREATY

Having said this and having agreed that there is a list of concerns, that the U.S. Government has been directly involved and that we think we have at least some modest successes to show for our involvement, I do not think we should lose sight of the fact that the Egyptian-Israeli treaty exists. In its essence it is being observed scrupulously by both sides, and both governments are very much in favor of the treaty and all elements of it, not just the formal treaty itself.

Lebanon was a tremendous test. It was quite a shock for the Egyptian side. In their view, they took the minimum action they could and they remind us that they did not withdraw their ambassador until the great outcries over the killings in the two camps.

So while recognizing and agreeing that a cooling of Egyptian-Israeli relations is a matter of concern, and that we should work on it and try to work with the parties to improve that situation, we should always keep before us that the treaty is there, it is a reality, and it is still the bedrock of our peace policies in that area.

Mr. SILJANDER. Let me just say I do not know if I could agree that it is being scrupulously adhered to, the peace treaty, but certainly I think there is an attempt on both sides certainly to do that. What about the information PLO center, in Egypt? That has certainly been a concern brought up time and time again.

EGYPTIAN INFLUENCE ON THE PLO

From your perspective, I would be interested in knowing based on that what influence you think the Egyptians do have in the PLO. And if they do have some sort of influence, they must align the information center there. Wouldn't you assume they would have better influence on bringing the Jordanians into the peace process? Couldn't Egypt be encouraged somehow, through our negotiations now on funds and such, to encourage more participation on

holding treaties and bringing others into the peace-keeping negotiations?

Mr. VELIOTES. As far as the Egyptian-Israeli treaty and elements of it or things that are related to it, I think I have addressed that. And both the Egyptians and the Israelis have shown a willingness to move away from a frozen situation.

On the question of the peace process, the Egyptians are fully supportive of President Reagan's initiative. They have urged the PLO publicly to recognize Israel and U.N. Resolutions 242 and 338 as the basis of the peace process. They are fully supportive of a move by King Hussein to the peace process, to join us in the peace process.

The question of how much influence Egypt has with the Palestinians, with the PLO, this is a difficult issue to address. Obviously, Egypt, as the most important Arab country, has influence, but that influence competes with the influence of other countries, including some that exercise a very strong negative influence—Syria, for example, and Libya.

The mere fact that the information center exists should not be taken as a sign of any significant influence. There is a PLO information center in Washington, and I do not think anyone would suggest that we have any significant influence on that organization.

To summarize this, sir, the Egyptians have been in the forefront of supporting U.S. policies toward the peace process, and that includes urging the PLO publicly as well as privately (but publicly is what people see and hear) to throw away the negativity of the past and be prepared to recognize the reality of Israel and to accept that Israel has a right to live in peace and security.

Mr. SILJANDER. My time has run out. What I was trying to say is do you feel they can play more of an important role in influence and bringing others into the peace process; namely, the Jordanians? Yes or no.

Mr. VELIOTES. I think they are doing all they can at the present time.

Mr. SILJANDER. That is your opinion?

Mr. VELIOTES. Yes, that is my opinion.

Mr. HAMILTON. Mr. Lantos.

EGYPTIAN-SOVIET RELATIONS

Mr. LANTOS. Thank you very much, Mr. Chairman. Mr. Secretary, how would you describe, as specifically as you can, current Egyptian-Soviet relations?

Mr. VELIOTES. I think they are chilly but correct, in the sense that they have diplomatic relations formally but they do not have ambassadors.

Mr. LANTOS. Is there any aid being received by Egypt from the Soviets?

Mr. VELIOTES. No. There were some Soviet technicians who came in about a year ago.

Mr. LANTOS. That is correct.

Mr. VELIOTES. To finish up some projects, some technical assistance projects.

Mr. LANTOS. Are they still in Egypt?

Mr. VELIOTES. I have not heard of them. I could check that for you. We will check that for you.

[The information follows:]

We understand that a small number of Soviet technicians are still in Egypt. These technicians returned to Egypt to carry out installation of Soviet equipment acquired previously, to undertake servicing of Soviet supplied equipment, and generally to undertake only the most essential activities related to the equipment.

EGYPTIAN-SAUDI RELATIONS

Mr. LANTOS. How would you describe Egyptian-Saudi relations at the moment?

Mr. VELIOTES. I would say cordial but not correct in the sense that they do not have diplomatic relations formally.

Mr. LANTOS. What further acts of contrition do the Saudis expect Egypt to undertake before they deign to reestablish diplomatic relations?

Mr. VELIOTES. I do not know, sir. As you know——

Mr. LANTOS. What is your guess?

Mr. VELIOTES. We have strongly encouraged our Arab friends to restore relations with Egypt. I do not know, I think——

Mr. LANTOS. What specifically have we told the Saudis on this issue, Mr. Secretary?

Mr. VELIOTES. What we have told the Saudis is that we would support a rapprochement between them and Egypt. They know that.

Mr. LANTOS. Did we tell them that in our view, Egypt making peace with Israel is not a capital crime?

Mr. VELIOTES. Yes, sir.

Mr. LANTOS. What was their response?

Mr. VELIOTES. Their response basically is not to disagree but to say that is half of the problem. The real issue of importance to us is the Palestinian issue.

SAUDI TRADE EMBARGO ON LEBANON

Mr. LANTOS. Speaking of the same general topic, were we advised by the Saudis that they would place a trade embargo on Lebanon?

Mr. VELIOTES. No.

Mr. LANTOS. A high Lebanese official has advised us that Lebanon was not advised of this by the Saudis, either. What is your view of Saudi Arabia placing a trade embargo on Lebanon?

Mr. VELIOTES. If it happened—and I am not sure it has happened—it would be very unfortunate.

Mr. LANTOS. According to the Lebanese, it has happened.

Mr. VELIOTES. I have no confirmation of that, but I have heard the same report.

Mr. LANTOS. Are we planning to discuss this with our Saudi friends?

Mr. VELIOTES. I would just say that in this forum we believe that the government of President Gemayal requires and deserves support from its Arab friends.

Mr. LANTOS. According to them, they are getting a great deal of negative pressure rather than support. Since we are one of their

friends, my question is are we going to use our good offices with the Saudis to stop the trade embargo they have imposed on Lebanon?

Mr. VELIOTES. Well, we are going to continue our dialog with the Saudis to explain why we believe the Government of Lebanon is deserving of their full support.

EGYPTIAN PARTICIPATION IN "JADE TIGER" MILITARY EXERCISE

Mr. LANTOS. Mr. Secretary, the last United States-Egyptian military exercise was Bright Star 1981. Is there any reason why Egypt did not participate in the 1982 Jade Tiger military exercise?

[Pause.]

Mr. VELIOTES. There was a participation but it was a scaled-down participation.

Mr. LANTOS. What was the scale of it?

Mr. VELIOTES. We were allowed to transit our aircraft through, as I recall.

Mr. LANTOS. There was no active participation by Egyptians?

Mr. VELIOTES. No.

Mr. LANTOS. Did we seek any?

Mr. VELIOTES. Excuse me, sir, let me ask the general. That was November 1982.

Mr. LANTOS. Did we seek any Egyptian participation?

Mr. VELIOTES. Originally it was scheduled to, I believe.

General SECORD. We talked to the Egyptians about participation in Jade Tiger, just as we talked to them the year before and we are talking to them now about this year. They declined to participate with their forces in Jade Tiger because of the Lebanon war. They did, however, allow us to stage a very large number of our Military Airlift Command aircraft through their facilities, without which we could not have done the exercise.

BRIGHT STAR 1983

They have also publicly announced that they will participate in Bright Star 1983.

Mr. LANTOS. What will be the extent of their participation?

General SECORD. Very large.

Mr. LANTOS. Can you give us a ball park estimate?

General SECORD. No.

Mr. LANTOS. Because you do not know?

General SECORD. I do know, but the details are classified. I would be happy to give it to you on a classified basis.

[The information follows:]

The extent of Egyptian participation in Bright Star 1983 has not been determined. Joint meetings will be held in April to determine Egyptian participation. We anticipate a large Egyptian participation.

EATSCO INQUIRY

Mr. LANTOS. My final question, Mr. Chairman, relates to a 1982 Wall Street Journal [1] story which reported that an ex-CIA agent

[1] See app. 12.

was acting as a middleman in the shipment of U.S. arms to Egypt. Serious questions were raised about windfall profits for the company created by this ex-CIA agent. And our understanding in connection with this whole affair was that the Defense Security Assistance Agency has no auditing force. I have two questions.

What is the status of the inquiry into this matter?

Mr. VELIOTES. I believe the inquiry continues to go on and, if I am not mistaken, is it sub judice, Congressman.

Now what was your second question, sir?

DSAA AUDITING FORCE

Mr. LANTOS. Does the Defense Security Assistance Agency have an auditing force?

Mr. VELIOTES. I assume it has an auditing function. I am familiar with the details of the article. [Pause.]

Mr. VELIOTES. We will have to get you that information.

Mr. LANTOS. You do not know whether they have an auditing agency or not?

Mr. VELIOTES. I am sure they have an auditing function. Now just how it works, I do not know.

Mr. LANTOS. Is the company in question still serving as an agent for United States arms sales to Egypt?

General SECORD. It never has and does not now serve as an agent for arms sales. It is in the role of freight-forwarder, which is a direct commercial relationship between the Government of Egypt and that company.

Mr. LANTOS. Does it still perform that function?

General SECORD. It does.

Mr. LANTOS. Does the Department have any objections to that company performing that function?

Mr. VELIOTES. As far as I know, there have been certain allegations made that have not been proven and I would not even express a judgment as to whether the Department agrees or disagrees. We do not usually get involved in this kind of an issue.

Mr. LANTOS. Thank you, Mr. Chairman.

Mr. VELIOTES. I am told that the Maritime Administration audits the freight-forwarding shipments for the DSAA, but we will have to get you that information in more detail.

[The information follows:]

The Defense Security Assistance Agency (DSAA) is a relatively small Defense agency (134 people) with a fairly narrow mission. That mission is to oversee the implementation of security assistance programs. Given the size and role of DSAA, the Agency does not have a resident audit force. However, like many Defense agencies of similar size, it does have access to the audit capability of the Defense Audit Service and the Defense Contract Audit Agency.

The Department of State understands that the Office of the Inspector General of the Maritime Administration acts as an auditor for DSAA.

Mr. LANTOS. Thank you.

Mr. HAMILTON. Chairman Solarz.

MILITARY SPENDING BY EGYPT AND ISRAEL

Mr. SOLARZ. Thank you very much, Mr. Chairman.

Mr. SOLARZ. Thank you very much, Mr. Chairman. Gentlemen, could you tell us whether military spending in Egypt and also

in Israel has gone up or down since the Camp David agreement and the peace treaty between those two countries?

General SECORD. In real terms?

Mr. SOLARZ. Nominal.

General SECORD. It has gone up in absolute terms since 1979 substantially. In real terms, Congressman Solarz, I do not know. I have not factored in the inflation. I would have to do an exercise on that.

Mr. SOLARZ. But it has gone up in real terms in both countries?

General SECORD. Yes, it has.

Mr. SOLARZ. Could you tell us how much it has gone up in each since then?

General SECORD. Yes, I can.

[The information follows:]

How much has military spending in Egypt and Israel gone up or down since the Camp David Agreement?

The chart demonstrates that both countries military spending has steadily increased since the Peace Treaty in 1979.

Fiscal year	Israel	Egypt
1979	$1,000.0M ($500.0M forgiven) $2,200.0M (redeployment) $800.0M (airbase construction)	$1,500.0M (for a 3-year period).
1980	$1,000.0M ($500.0M forgiven)	0
1981	$1,200.0M ($500.0M forgiven) $200.0M (redeployment)	$500.0M (Supplemental)
1982	$1,400.0M ($550.0M forgiven)	$900.0M ($200.0M forgiven).
1983	$1,700.0M ($750.0M forgiven)	$1,325.0M ($425.0M forgiven).
1984 (Proposed)	$1,700.0M ($550.0M forgiven)	$1,300.0M ($450.0M forgiven).

INCREASED REVENUES FOR EGYPT SINCE CAMP DAVID

Mr. SOLARZ. While you are figuring it out, let me move on to another question. Mr. Secretary, could you tell us how much of a peace dividend Egypt has received as a result of the Camp David agreement, in terms of the increased revenues which are available to it as a result of the return of the oil resources in the Sinai; the reopening of the canal; minus the increase in aid from the United States; minus the loss of aid from the Arab countries that followed the peace treaty?

Mr. VELIOTES. Let me——

Mr. SOLARZ. Could you do it for the record?

Mr. VELIOTES. I could do it for the record, sir. We have problems on what the exact revenue earnings of the Canal might be today and what the price of oil is. The two of those together must be over $1 billion. And we would have to check the total U.S. aid figures.

Mr. SOLARZ. What I am interested in figuring out is from the time of the Camp David agreement to the present, has Egypt benefited or suffered as a result of its willingness to make peace with Israel.

In an equation like that, presumably the remittances would not count one way or the other because Egyptians working in the Arab countries were not forced to leave.

[The information follows:]

Prior to its withdrawal from the Shaab Ali (formerly Alma) oil field in Sinai, Israel was producing approximately 40,000 barrels of oil per day from the field. Amoco, which now operates the Shaab Ali oil field as part of its concession in Egypt, has followed a more cautious depletion policy than did Israel. We estimate that $1 billion worth of oil has been taken from the field since it reverted to Egyptian control. The field has produced 30,000 bbl/day since 1982, but output was considerably lower in 1980-81.

Based on the level of Arab donor disbursements prior to the Camp David Agreements, we estimate that Egypt has foregone a minimum of $500 million annually in aid from the Arab countries. Therefore on a narrow cost-benefit tally of oil production gains against Arab assistance losses, Egypt has suffered a loss of about $1 billion in the period 1979-1982. However, if other benefits are taken into account, including the continued operation of the Suez Canal (alluded to by Congressman Solarz), which earns Egypt about $800 million annually, the special Camp David ESF supplement of $300 million, and the tourism and foreign investment inflows which are positively affected by the improved atmosphere of peace between Egypt and Israel, Egypt has clearly benefitted from the Peace Treaty.

AID LEVELS FOR EGYPT AND ISRAEL

Mr. SOLARZ. Now let me ask you something which I think is far more important. This really goes to the whole question of resource allocation. We are, of course, the ones upon whose shoulders it will fall to defend this request, assuming we approve it as we have in the past when it comes up in committee and on the floor.

I think it is important to put some of these questions to you because to the extent that we run into resistance to these requests—and I am talking now not just about Egypt, but Israel as well—it seems to me the objections are likely to come along the following lines.

We all recognize the significance of the Camp David agreement. We all recognize the significant sacrifices Israel has made. We all recognize the great contribution which Egypt has made to peace. We all understand the importance of continuing the peace process. And finally I think we all recognize that both Israel and Egypt are very good friends of the United States and that the kind of relationship that has developed between us clearly serves our interest.

Having said all that, people are likely to point out that when you add up the total amount of our aid for Israel and Egypt it comes to approximately $4.8 billion. That in turn comes to approximately 47 percent of our global FMS, ESF, Public Law 480, MAP, and IMET programs. It also happens to come to approximately 48 percent of the entire FMS, MAP, and IMET programs. In other words, of our global military assistance programs, 48 percent of it is going to two countries.

If you take our entire bilateral aid program, military as well as economic development assistance—Public Law 480, FMS, MAP, IMET, and ESF—Israel and Egypt collectively get 41.6 percent.

Now we are obviously a global power. We have responsibilities not only in the Middle East but in Africa and Asia and Central America and Latin America. How does the administration justify devoting so large a percentage of the resources which the administration itself has requested to just these two countries?

Mr. VELIOTES. Mr. Chairman, you have made a very eloquent summary.

Mr. SOLARZ. That was a question, in my capacity as a devil's advocate.

Mr. VELIOTES. No; I say this seriously. Your presentation leading to your question was a very eloquent summary of the reason why we spend a lot of resources in Egypt and Israel. As far as the percentages worldwide, I believe the administration could make a case that we need more. That would not affect the absolute levels going to the two countries concerned but could affect the percentages of the global resources.

I do not believe we can look at the resource transfers to Egypt and Israel in terms of transfers to two countries. What we are doing is creating the building blocks for peace and security and stability in that broader area. The Egyptian-Israeli relationship is crucial to both our peace and security policies.

Mr. SOLARZ. There is no doubt that the aid to Israel and Egypt can be justified in its own terms. I do not think anybody can seriously challenge that. In fact, I think one could easily justify significant increases for both countries in their own terms.

But to the extent that members raise questions, to the extent that the American people raise questions, to the extent that the press raises questions, as they do and as they will, you have asked us to approve a foreign aid budget in which you are devoting 47 percent of all of the moneys in the FMS, MAP, IMET, ESF, and Public Law 480 to programs in Israel and Egypt.

Is it your position that the significance of the peace process in the Middle East is so great in relationship to our national security that this kind of resource allocation is justified?

Mr. VELIOTES. Yes, sir. This is what I was trying to say, and it goes beyond these two countries. We are talking about the entire region and when we speak of the security and stability of the area, we mean the resources of the gulf and also significant parts of Africa.

Mr. SOLARZ. Have we made any specific commitments to Israel or Egypt in the past that obligate us to provide these particular levels of assistance, or do we arrive at these levels of assistance out of a kind of zero-based budgeting analysis which leads us to the conclusion that our interests are served by giving them a level of aid commensurate with the totals?

In other words, is it like the Philippines, where we made a commitment in the base agreement to provide the Philippines $50 million in military aid a year for *x* number of years?

Mr. VELIOTES. No; it is not in that sense, but it is not starting from a zero base either. I think we have to be perfectly aware that we have political factors involved here that are very important. We are committed to a high level of assistance, economic and military, to both countries.

Mr. SOLARZ. Supposing, say, the Appropriations Committee, in its wisdom, decided that this kind of resource allocation did not make sense and that we ought to devote more of our resources to other strategic and significant countries in Asia, Central America, and in Africa, if consequently they decided to reduce the level of aid for Egypt and Israel in order to free up money for these other countries; do you think that would be in our national interest?

Mr. VELIOTES. No, I do not, sir.

Mr. SOLARZ. And why not?

Mr. VELIOTES. In the first place, there is a need for these resources in these two countries. These two countries are key to our hopes and our plans for the stability and security of this entire region. Should there be Members of Congress who wish to address priority areas in resource terms outside of my area, outside of these countries, I suggest they appropriate additional resources. I do not see how you buy more national security by shortchanging Egypt and Israel.

CONSEQUENCES OF REDUCING AID LEVELS

Mr. SOLARZ. If we were to reduce the aid levels for these countries by significant amounts, what would be the consequences for the peace process?

Mr. VELIOTES. Very adverse both in Egypt and Israel. Different reactions.

Mr. SOLARZ. Could you elaborate on that?

Mr. VELIOTES. Of course. On the Israeli side we would be viewed as taking actions which were designed to impact adversely on Israel's security and Israel's economic well-being. This would have the result of making the Israelis much less secure, much less willing to take any risks to enlarge the peace circle.

On the Egyptian side, we would have been perceived to be unreliable for the first time in 10 years. The Egyptians as a whole would seriously question the rationale behind Sadat's strategic turnaround when he moved away strategically from the Soviet Union to the United States. The reactions amongst the economic managers and the military would be such as to almost certainly lead to a significant reduction in American influence and an increase in tension.

Mr. SOLARZ. You think this would significantly diminish the prospects for further progress in the peace process?

Mr. VELIOTES. Yes, very much so.

Mr. SOLARZ. Between Israel and the Arabs?

Mr. VELIOTES. Yes. And I believe it would run very serious risk on the Egyptian-Israeli treaty too.

Mr. SOLARZ. I agree entirely with that analysis, Mr. Secretary. I think it has been very helpful to get it on the record.

If what you say is true—and I personally believe that it is—where does this all end? Are we locked in perpetuity into multibillion dollar aid programs in the region? I say that in recognition of the fact that should the day ever come—and I fervently hope, Nick, as a friend of mine, that it comes on your watch—when there is a comprehensive and just and lasting peace in the region, it obviously is going to cost us one hell of a lot of money if one looks at what we had to pay for the peace treaty between Israel and Egypt.

So if we have to keep providing billions of dollars a year to keep the peace process going, and if we succeed in the peace process, and have to triple the ante in order to get the countries involved to make the concessions that will be necessary, does this mean in effect that through the rest of this century we have to be prepared in terms of our national interest for major aid programs in the region?

Mr. VELIOTES. Well, I cannot project out to the end of the century, but certainly when you posit comprehensive peace I think the circumstances change radically. There will be other donors ready and willing to pick up the slack. I cannot exclude that it is going to continue to cost us some money. I think this is a given because of our role in the world, particularly in the free world, but if we get to that happy day, which I do hope is on my watch, then I believe that we will find others prepared to share the burden.

Mr. SOLARZ. Thank you very much, Mr. Chairman.

EGYPTIAN AGRICULTURE PROGRAM

Mr. HAMILTON. Let me ask a few questions with regard to the agricultural program. I am struck by the congressional presentation for this year, which shows that of the $750 million in economic assistance, only $25 million of it, as I understand that presentation, is requested to support agricultural activities at a time, of course, when agricultural production has to be one of the highest priorities in Egypt.

Now you need to couple that fact with the very large amount of Public Law 480 that we are providing to Egypt, that country is receiving about a third of the global program. Then what you have is an aid program on our part which is, on the one hand, not helping them increase production very much in agriculture, and, on the other hand, pumping in enormous quantities of food under title I. Isn't our basic policy, therefore, inconsistent?

Ms. FORD. I think that there have been discussions which suggest that there is disagreement as to what is the impact of the title I program on Egyptian agriculture sir. Our title I program——

Mr. HAMILTON. Isn't one impact of it to discourage agricultural production? Why should they work to encourage agricultural production if we are giving them the food?

Ms. FORD. Well, it is true that significant amounts, I think in fact 50 percent, of wheat is imported. I am sorry. Fifty percent of their food requirements are imported.

You mentioned the $25 million figure for agriculture. It is a sector in Egypt where we agree that there is grave difficulty in terms of our being able to have a significant impact unless the question of subsidies, price subsidies, is addressed.

The Public Law 480 title I program, I believe, needs to be viewed in the context of the overall assistance to Egypt in that it, in combination with ESF assistance, represents a package of economic support to Egypt. There may well be differing views as to whether or not——

Mr. HAMILTON. Isn't there a fundamental inconsistency in those two elements of our agriculture program? You have got $750 million economic aid. You are putting a trickle into agricultural production. At the same time that you are doing that, you are pumping in enormous amounts of free food.

Ms. FORD. Well, we are pumping in the enormous amounts——

Mr. HAMILTON. From the Egyptian point of view, aren't they going to say, why bother. They are giving it to us.

Ms. FORD. Well, sir, I think that while we provide large amounts of food, this is indeed responsive to the concerns that the Egyptians

have that they will be able to provide food security for their population.

At the same time, with the $25 million that we put into the agricultural sector, we have identified what we believe can be effectively used in the agricultural sector. That includes equipment. That includes reinforcing and encouraging movement on the policy side, such as combining research and extension.

ADMINISTRATION ASSURANCES ON REDUCING PUBLIC LAW 480 FOR EGYPT

Mr. HAMILTON. Now in December of 1981, as part of the conference report on the foreign assistance legislation we got assurances from the Department of State that they would continue their efforts both to reduce Egypt's dependence on Public Law 480 and decrease its percentage in the program. But if you look at the 1984 request for the title I program, it is the same as it was in 1983.

And the question, therefore, is, haven't you gone back on your assurance to Congress? Why haven't you reduced that program further?

Ms. FORD. I do not believe that we have. We have not gone back on our assurance, sir. Our request this year, rather, in 1983, fiscal year 1983, was $25 million less than it was in 1982. The request for 1984 is the same as it was in 1983, but this is after serious consultation and coordination with State, as well as with the Egyptians. Our expectation is to continue to decrease these amounts, but in a manner and in a staging that will not negatively impact the concerns that the Egyptians have very seriously expressed.

Mr. HAMILTON. If your title I level is the same this year as last, then it does not look to me like you are decreasing it.

Ms. FORD. I think that on a dollar-for-dollar basis it is clear that there has not been a further decrease in 1984 but I think also that we, in considering the impact, the overall impact of the title I program, recognized that this needs to be, and we proposed that it be a staged phasing down because it is, in the overall context of support, a very important element that must not be phased down too quickly.

Public Law 480 is 25 percent of the total imports of wheat for Egypt. They still must purchase 75 percent of their wheat.

Mr. HAMILTON. Well, it is my impression, Ms. Ford, that there is a fundamental inconsistency in our economic assistance program to Egypt for agriculture. My own sense of priorities is that our emphasis ought to be on increasing agricultural production in Egypt and not on giving food to Egypt.

Now I recognize that dramatic changes cannot be made in a year's time, but it is also my impression that you have not moved aggressively on your effort to reduce the Public Law 480. You are giving Egypt a third of worldwide Public Law 480 title I. It seems to me we can reduce that.

You do not have starvation in Egypt today. Food consumption is very, very high there. Some of our food is being used for animal feed. There are all kinds of urgent humanitarian needs across the world for food, for the Public Law 480 title I program, and you are going to have a very hard time persuading me that you have your

priorities in order here in the agricultural program. I will tell you right now I am going to offer again the amendment to reduce the Public Law 480, which I know you folks will oppose vigorously when it comes up in committee.

But I just cannot understand your thinking on it. It seems to me that the way you want to go in the program is to encourage agricultural production in Egypt. You do not encourage that production by giving them food. It seems to me the transition has to be made to cut down on the gift of food, to increase the inputs into agricultural production.

Ms. FORD. Yes, sir.

Mr. HAMILTON. You have got the point?

Ms. FORD. Yes, sir. Well taken.

Mr. HAMILTON. Mr. Ireland.

AID PROJECTS IN EGYPT

Mr. IRELAND. Mr. Chairman, I have to retreat in haste here, and I would be delighted to have one last parting word.

From what I learned during both our trip to the Middle East in November and subsequently of the operation of our mission director, Mike Stone, there. It seems to me that is a man with the background, capability, and the understanding of what the problems are.

I am distressed not only about what I have heard here today but also that I find your agency, Ms. Ford, backing away from the kind of things that this man is capable of doing over there that should be done, the kind of things that the chairman today has pointed out.

Instead of backing away from those things you should be supporting them. The kinds of things coming there are just what your agency needs.

I for one support any of the initiatives that the chairman has along that line and will try to drum up some myself because I think it is a travesty. I think that the idea of not knowing what the "turkeys" are and not doing anything about them is just not good policy. It is abhorrent to me. I would like to see you get this operation turned around and start supporting somebody that can get something done over there instead of 3 years of just milling around.

Mr. Chairman, I thank you for the moment. And I am sorry I have to leave.

Mr. HAMILTON. Mr. Winn.

BENEFIT OF IMF-EGYPTIAN AGREEMENT

Mr. WINN. Thank you, Mr. Chairman.

Mr. Secretary, I asked this question earlier, and you had not arrived yet. I am trying to figure out in my own mind, would it be best for Egypt to sign an agreement with the IMF and therefore have to come to terms with IMF rather than just U.S. pressure on economic reforms? Why has Egypt not signed with the IMF?

Mr. VELIOTES. We will have to get you this for the record. I know that they always have discussions, and I do not know whether the IMF is the vehicle. Certainly, the World Bank has been in discus-

sions with the Egyptians on some of the issues that we have been addressing, that Ms. Ford has been talking about; for example, energy.

Mr. WINN. Would the World Bank or IMF not put more pressure on the Egyptians than maybe we have?

Mr. VELIOTES. Well, I do not like to use the word "pressure," because it has a coercive ring. I think in the last year or two, certainly during this administration, the problem in Egypt has not been whether there will be certain reforms but when and how these reforms would be implemented.

I think the best way to continue would be in this cooperative mode where we and, I believe, the World Bank are working with the Egyptians in the spirit of identifying and supporting the area in which Egypt will institute reform.

Ms. FORD. Precisely.

Mr. WINN. Well, would we, would the U.S. Government, support an agreement between the IMF and Egypt? What would be our policy on that?

Mr. VELIOTES. I think it would depend upon the issues involved.

Ms. FORD. In trying to address the question earlier, I had indicated that I was not fully enough informed to be totally responsive.

I can say, however, with regard to energy prices and other economic areas that we very closely coordinate what it is we are looking to do; we very closely inform the World Bank what it is we are interested in, and the World Bank indeed lets us know what posture they are interested in with regard to energy pricing in Egypt.

Beyond that, and specifically with the IMF, I do not know still. But if that is something that you want particular information on, we certainly——

Mr. WINN. Yes, I would like to have it submitted for the record at this stage in my questioning.

[The information follows:]

IMF/EGYPTIAN RELATIONS

We believe the IMF and World Bank could provide constructive advice to the Government of Egypt relative to meeting the rising expectations of the population for better living standards and providing productive employment for a rapidly growing labor force. The U.S. supports a cooperative relationship between those international institutions and the Government of Egypt. Such a relationship would provide Egypt with access to additional resources and policy guidance in planning resource utilization in the most productive manner.

So far, Egypt has not felt that its need for additional resources outweighed the problem of taking those reform measures which would permit access to these resources.

We understand the measures advocated by the IMF and World Bank include steps to gradually reduce the growth and size of public sector deficits, reduce subsidies particularly on energy and the overall level of budgeted subsidies, increase public industrial sector productivity and adjust the foreign exchange system and exchange rate to encourage export growth and domestic investment along the lines of comparative advantage.

We believe these are issues the government will eventually have to face to keep the economy viable and enable it to meet the expectations of the Egyptian people. However, it is primarily the responsibility of the Egyptian Government to decide when and how fast it can apply these reforms to the domestic economy as they, rather than the donors, must judge the political ramifications of such changes.

U.S. ACCESS TO RAS BANAS FACILILTY

Mr. WINN. General, it has not been a policy of the subcommittee this year to let the military off very easily, I have noticed. This is a tough question, but I would like a little background information about the status of the United States-Egyptian discussions regarding the U.S. access to the Egyptian military facility at Ras Banas and the possible U.S. improvements to this facility.

General SECORD. Yes, sir. That is a tough question. First, in fiscal year 1983, the first tranche of MILCON moneys were appropriated for construction for Ras Banas. It was, I believe, $91 million. Currently——

Mr. WINN. Have any of those funds been appropriated?

General SECORD. They have been appropriated. They have been obligated but not disbursed. One reason for that is that we had to scale down our design because we had requested quite a bit more money than that. And second, there is a mine-clearing operation going on there right now.

Mr. WINN. Now, let me bring that up. There has been a little confusion, I think, by some reports that we have seen that some construction had started based on the mine clearing. You have no record of any construction having started there?

General SECORD. No, sir. I testified to that just 2 weeks ago before another committee.

Mr. WINN. Well, what funds are you asking for 1984?

General SECORD. In military construction funds for 1984 we are asking for $99 million, I believe it is. I believe it is $99 million. I may be one or two digits off on that.

Mr. WINN. I do not know if you can answer this question or not. But other than the military side, are the Egyptians still unwilling—and maybe Mr. Veliotes should answer this—are the Egyptians still unwilling to sign a letter or an agreement regarding U.S. access?

Mr. VELIOTES. What the Egyptians have done is reconfirm the letter sent by President Sadat. In their view, this should suffice.

Mr. WINN. But Mubarak has not reissued a letter?

Mr. VELIOTES. No. He said the fact that there is a letter by President Sadat binds the Government of Egypt and that he certainly stands by it.

Mr. WINN. Is that a sticky wicket in the negotiations?

Mr. VELIOTES. Well, it should not be, actually. Basically, your ability to use such facilities, be they in the Philippines or anywhere else, really depends upon the state of relations between the countries at the time that you are using them.

Mr. WINN. So I gather that the state of the relationship between the United States and Egypt will allow this military facility to go ahead?

Mr. VELIOTES. Of course. And that is going to be the determinant. I think we are prepared to accept President Mubarak's response and take it in good faith.

UNITED STATES-EGYPTIAN MILITARY COOPERATION

Mr. WINN. Well, General, given the Egyptian reaction to the recent U.S. response to the Libyan buildup against the Sudan,

should we not believe that the Egyptians are still forthcoming in terms of United States-Egyptian military cooperation?

General SECORD. Yes, sir, I believe that they are very cooperative with us. We have just completed our annual Military Coordinating Committee meeting in Cairo just this past week, and we have a good deal of rapport and agreement on military issues there. I do not think there is really all that much difference between what Egypt has said and what the United States has said about the AWACS deployments.

The Egyptians have agreed that there was a definable Libyan threat to Sudan, and they agreed that AWACS was there on an exercise. I do not think they wanted to publicize anything more than that.

We have had extensive private discussions with them on this matter. As far as we in the Department of Defense are concerned, the exercise was quite a success.

Mr. Veliotes may want to expand on that.

Mr. VELIOTES. Yes. I just want to emphasize that the exercise involved American AWACS that were brought to the area and Egyptian F4's in a variety of activities, including aerial refueling. So there is one lesson I would draw from the recent Libyan caper is that it reinforced our security relationship with Egypt.

We were able to respond quickly and we were then able to work together closely with them in support of a common objective. And it certainly reassured the Sudanese.

TRANSIT THROUGH SUEZ CANAL OF U.S. NUCLEAR-POWERED WARSHIPS

Mr. WINN. General, last year in this hearing the Department of Defense stated that the United States had hopes that a United States-Egyptian agreement would be worked out on the transit of the U.S. nuclear-powered warships through the Suez Canal. Now, has that agreement been worked out? And is an agreement possible?

General SECORD. I believe an agreement is possible. We addressed this matter at a very high level in January. We addressed it again last week in Cairo. We do not have an agreement as yet. We are pursuing the matter.

Mr. WINN. What is the next step?

General SECORD. The next step is some more technical meetings between ourselves and the Ministry of Foreign Affairs and their technical organization. They have an Atomic Energy Commission or some such organization, and we have to get back with them again and go back through one more time the liability issues and the special monitoring equipment issues. We have also——

Mr. WINN. Is it because they are nuclear-powered ships?

General SECORD. Yes. Only—that is the only problem.

Mr. WINN. That is the only drawback?

Mr. VELIOTES. They have grave concerns about accidents, and we have offered to, I believe, General, to bring an Egyptian team through the Panama Canal.

General SECORD. And the offer has been accepted.

Mr. WINN. They are coming over to check the nuclear warships going through there?

Mr. VELIOTES. To tell them what we do there.

General SECORD. The Secretary of Defense made that offer in January, and I am informed they have accepted that offer.

Mr. WINN. Then that is a step forward in that agreement?

General SECORD. We believe so. It is slow. It is not as fast as we would like.

Mr. WINN. I understand. Now, are you optimistic that we will reach an agreement?

Mr. VELIOTES. Well, hopeful, because I have been optimistic for a long time, Mr. Winn.

Mr. WINN. That is a great answer.

Mr. VELIOTES. I am sorry.

Mr. WINN. No, I wanted your personal opinion. I respect that.

Mr. VELIOTES. As General Secord mentioned, we are going again to go through the bidding on the technical side. We hope this time, coupled with the demonstration of how we handle it in the Panama Canal, that this will give them some reassurances that they do not have now that they too can handle it in a satisfactory——

Mr. WINN. Do you think it is still a matter of an educational process but you are not willing to bet any money on the end result?

Mr. VELIOTES. I am hopeful. And we will keep at it, because we think this is something in the interest of all of our friends in the area. Obviously, it would greatly increase our strategic mobility.

Mr. WINN. Are you hopeful, General?

General SECORD. Sir, I have been with this issue for a couple of years now, and of course I am hopeful. I am guardedly optimistic that we will get it done this year. Guardedly optimistic, this year.

Mr. LEVINE. That is better than hopeful.

Mr. WINN. That sounds like John Riggins' representative in his negotiations.

General SECORD. That would be easier.

Mr. WINN. Thank you very much.

Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Levine.

Mr. LEVINE. Thank you, Mr. Chairman.

AWACS IN SAUDI ARABIA

Mr. Secretary, I would like to follow up on several of the questions that were asked by some of the other members earlier in the hearing.

First, with respect to the questions I was asking you earlier with regard to the AWACS in Saudi Arabia, as I understood the response from you and the General, I guess it would lead me to the implication that there would never be a time that if the United States had military use for the AWACS in another part of the Middle East, that it would be available to be used from Saudi Arabia. Would that be a correct implication?

Mr. VELIOTES. No. I think the only implication to be drawn from the example that we gave on Libya is in that instance we made an internal U.S. Government judgment that it would be best to bring our AWACS in this case from the continental United States.

Mr. LEVINE. And that was based upon the potential threat to the Saudi oilfields?

Mr. VELIOTES. Right.

POSSIBLE U.S. USE OF SAUDI AWACS

Mr. LEVINE. Under what set of circumstances, if any, could you contemplate that there would be such a threat to the Saudi oilfields that we might be able to use the AWACS that are in Saudi Arabia?

Mr. VELIOTES. Well, again I do not want to judge anything other than the specific instance that we have already commented on. Clearly, if the Iran-Iraq war were to end, that would help ease the pressure and introduce a greater sense of certainty and predictability into the situation there. Short of that, I think it would have to be a case-by-case basis.

Mr. LEVINE. Do you believe the Saudis would have any objection to our using AWACS that are stationed in Saudi Arabia in the event that they did not feel there was such an imminent threat to their oil fields?

Mr. VELIOTES. In the first instance, of course, these are our AWACS. So whether or not they stay in Saudi Arabia is essentially our decision, although we have decided that that is where they should be.

Mr. LEVINE. So the position of the Saudis was irrelevant in terms of the decision that we made with regard to the AWACS last year?

Mr. VELIOTES. The position of the Saudis was really not a factor because we made our own decisions on this. Now, of course, in the coming years there will be a Saudi-owned AWACS on station. They start coming on station in fiscal year 1985. We will then be able to withdraw the U.S.-owned AWACS, and over a period of time, I do not know, a couple of years, I guess—so it is not an indefinite—

U.S. UNDERSTANDINGS ON U.S. ABILITY TO USE SAUDI-OWNED AWACS

Mr. LEVINE. Do we have any agreements or understanding with the Saudis as to our ability to use Saudi-owned AWACS when they end up being deployed, when they end up in Saudi Arabia?

Mr. VELIOTES. To be used where?

Mr. LEVINE. If we had a military need in the region.

Mr. VELIOTES. General Secord can correct me, but it is my understanding that we jointly decided that the Saudis needed those AWACS primarily, if not exclusively, there on the gulf.

General, is that right?

General SECORD. Yes, that is correct. We have no arrangements with them for the United States to use those AWACS.

Mr. LEVINE. I take it that issue has not arisen at this point?

Mr. VELIOTES. No, it has not.

SAUDI-EGYPTIAN RELATIONS

Mr. LEVINE. In response to a question from Mr. Lantos when he was asking you about the relationships between Saudi Arabia and Egypt, as I understood your response, you said that really only half of the issue was the Israel-Egypt peace treaty, the other half of the issue was the Palestinians. Was that your response?

Mr. VELIOTES. No. That the Saudi attitudes are that basically it is not the Egyptian-Israeli treaty that is the issue, it is the unfinished business of the Palestinians.

Mr. LEVINE. In what regard?

Mr. VELIOTES. In the sense that if the Palestinian issue can be resolved or if negotiations can start on this in a manner acceptable to the Palestinians, as defined by the Saudis, then that of course would solve their problems with the Egyptians.

I may be doing them a disservice by trying to interpret their position. It is very possible that their relationships publicly could improve for other reasons as well. I do not want to be defining the parameters of building in rigidities in this relationship.

Mr. LEVINE. What do the Saudis expect the Egyptians to do with regard to the Palestinians that the Egyptians are not doing? [Pause]

Mr. VELIOTES. This is somewhat undefined, frankly, sir. I am not quite sure. Clearly, the Egyptians support our policies openly and strongly. Presumably, the Saudis would prefer that the Egyptians be more supportive of the Fez resolutions, for example, on the Palestinian issue. But I am not aware of their having pressed that on the Egyptians, because there is no Saudi desire to create any tensions between the United States and Egypt. That is also not in Saudi Arabia's interest.

Mr. LEVINE. I am somewhat baffled as to the rigidity of the Saudi position with regard to Egypt, particularly in light of the implications that we have received over the recent past as to the increasing flexibility that we were expected to receive from the Saudis.

Mr. VELIOTES. Well, as I mentioned earlier, we would certainly have preferred to have seen an improvement in relations between the two countries.

IMPACT OF OIL PRICE DROP ON EGYPTIAN DOMESTIC ECONOMY

Mr. LEVINE. Let me move to a related area that you and Ms. Ford both touched upon. Ms. Ford touched upon it before your arrival. That is, the whole issue of the change in oil prices and OPEC. I am interested in two aspects of this: First, in how the drop in oil prices will have an impact upon Egypt's domestic economy with regard to our aid program; and second, with regard to how the change in oil prices is likely to have an impact in Egyptian-Saudi relations and in the relations between Egypt and other Arab States.

Mr. VELIOTES. On the first question, we would have to get something for the record for you on that, with more information than I have right now as to what was the effective selling price of Egyptian oil in the last couple of months. I just do not know. As you know—this is less a science than an art.

[The information follows:]

Egyptian Government officials have estimated that lower than anticipated oil prices would reduce foreign exchanges earnings by about $245 million during the Egyptian fiscal year ending June 30, 1983, and by about $500 million in the fiscal year ending June 30, 1984. This shortfall in expected revenues should have no direct immediate affect on our AID program, although the Commodity Import Program and other relatively fast disbursing elements of the fiscal year 1983 program and

the fiscal year 1984 request will support Egypt's ability to finance its increased balance of payments current account deficit.

Mr. LEVINE. What about the second question?

IMPACT OF OIL PRICE CHANGE ON SAUDI-EGYPTIAN RELATIONS

Mr. VELIOTES. I do not think it will have any significant impact. If we just take a look at the landscape, the relationship between Syria and Egypt has nothing to do with the price of petroleum or even petroleum as an issue. It has to do with the traditional rivalry and the fact that the Syrians are adamantly opposed to the Camp David Accords or any steps toward peace with Israel, as far as I can determine.

Egypt's relations with Iraq, on the other hand, have improved considerably. And that is a function, I believe, of two things: An Iraqi movement toward moderation, if we can use this word, that goes back about 4 or 5 years, and given an acceleration by the threat of Iran. Egypt has publicly acknowledged being of assistance to Iraq through the sale of certain munitions and, obviously, political support.

In the Sudan, the relationships are very strong. Oman supports the Camp David Accords and never broke relations with Egypt. Relations between Egypt and Jordan have been improving. They have not yet been formalized, but there has been a considerable warming there.

Again, I believe that the relations between Egypt and Saudi Arabia should be improving faster than they are. I do not see the oil price having any real impact on the politics of the area.

Mr. LEVINE. Thank you.

Mr. Chairman, did you intend to reconvene this or did you want to wind it up?

Mr. HAMILTON. It is my intention to come back after we vote.

Mr. LEVINE. I just have two other brief questions, but it is probably best to wait until after we vote.

Mr. HAMILTON. The subcommittee will stand in recess while we go vote, and then we will resume the hearing.

[Brief recess]

Mr. HAMILTON. The subcommittee will resume its sitting.

Mr. Levine.

Mr. LEVINE. Thank you, Mr. Chairman.

U.S. POLICY ON EGYPTIAN-ISRAELI RELATIONS

I just have two other questions, Mr. Secretary. In response to one of my colleagues, you answered, I believe, that with regard to current differences between Egypt and Israel, we have decided to basically try and facilitate but not set forth our point of view. Is that correct?

Mr. VELIOTES. Yes. Rather than try to judge between the various allegations, and they have been leveled by both sides, we thought we could most productively try to get the parties to engage.

Mr. LEVINE. And that has traditionally been our policy in dealing with these two countries; is that correct?

Mr. VELIOTES. Basically I think so.

Mr. LEVINE. And I take it that is within the framework of Camp David, at least in general. I mean not in terms of the specific——

Mr. VELIOTES. We facilitated the treaty and also the accords.

Mr. LEVINE. Now, that triggered in my mind the first colloquy I had with you when you testified before the subcommittee on another issue a month or so ago, when I asked you whether or not the September 1st peace initiative of President Reagan's was consistent with Camp David. You said yes, in fact, it is.

I felt that by our setting forth our own position at that time, that in fact it varied from Camp David. In light of this reaffirmation of our traditional role in the process, I would again simply like to point that out as a question with regard to consistency. I take it that you and I will disagree again, but I thought that it would be appropriate to raise it.

Mr. VELIOTES. Let me say that if the United States, sir, had never put forth its own positions during the negotiation of the Camp David Accords or the subsequent Egyptian-Israeli, and more recently the creation of the multinational force in the Sinai, I don't think we ever would have changed this. I am certain we never would have had agreements between Egypt and Israel.

Mr. LEVINE. Well, setting these forth in the context or course of a private negotiation among friends is one thing, and setting them forth publicly as a proposed end point in terms of a negotiation is something else. In terms of procedure, I thought that when you talked about our role again with regard to the current issues that are being discussed between the two countries, that it again just seemed to me to reinforce that inconsistency.

Mr. VELIOTES. Right. Let me say that the fact that the Egyptians and the Israelis are back engaging in a constructive manner is also due to some specific American suggestions, however. If I can just—I take your point and I don't want to enter into a debate, but I would like to correct the record if there is any implication that the President in his September 1 initiative laid down the final blueprint for negotiations. That was not the intent.

MUBARAK'S COMMITMENT TO THE PEACE PROCESS

Mr. LEVINE. Just one other issue, and this is an issue that actually I found myself asked by a number of people at home. I came home and reported that I had been privileged to sit in on a meeting with our committee and President Mubarak when he was here, and that being one of the most junior members of the committee, I did not have an opportunity to ask any questions, but I was nevertheless able to sit through it and listen.

I would say four or five people said to me, well, how committed is President Mubarak toward peace? My response was that my impression was that he was quite committed, but I would like to ask you. Just putting the general issue of aid in this context, I personally feel that President Sadat was one of the most courageous and successful leaders of the 20th century and was really a remarkable person in the Middle East and in the world, and appropriately, was viewed as such by the public in this country.

President Mubarak hasn't yet had the opportunities to make the same type of impact one way or the other on the American people,

and I think the type of impact that he makes will obviously have a lot to do with what happens in the near future in the Middle East and the extent to which he is committed to President Sadat's policies.

You have had probably as much of an opportunity to make judgments and to form impressions of the extent to which President Mubarak is so committed, and I would be interested in your assessment of that.

Mr. VELIOTES. Without any question President Mubarak is committed to the policies of President Sadat in the field of peace and security. In that context, committed to President Sadat's policies of making a strategic choice for the United States.

Indeed, although President Sadat was that person that you described, a man of great vision who comes along once in a generation if we are lucky, President Mubarak was his very close confidant.

While Sadat was the architect of these decisions, President Mubarak certainly helped put some of the building blocks in place, not only here where he was a frequent emissary of President Sadat's, but I recall shortly after the signing of the Camp David Accords, when you had the great outcry amongst the Arabs, it was President Mubarak as Vice President who went to many of the Arab countries and steadfastly defended Egypt's policy and invited the Arabs at that time to join in.

So what he is doing when he supports the President's initiative for peace and when he speaks out publicly and calls on the PLO to recognize Israel and to accept U.N. Resolutions 242 and 338, and when he supports Jordan's joining the peace process—he is not only demonstrating his firm commitment to President Sadat's policies but to Vice President Mubarak's implementation of those policies at that time.

Mr. LEVINE. Good. Thank you.

EGYPTIAN MILITARY SALES TO IRAQ

Mr. HAMILTON. I have seen reports that Egypt had military sales to Iraq totaling $1 billion last year. Is that correct?

Mr. VELIOTES. We know there are military sales, sir. We know that they are considerable. We have some idea of some of the items involved, but I don't believe we can confirm a figure like that. General?

EGYPTIAN MILITARY SALES TO OTHER COUNTRIES

Mr. HAMILTON. Have they sold military equipment to other countries?

General SECORD. Yes.

Mr. HAMILTON. Which ones?

General SECORD. I think we would have to furnish for the record our sheet on that, but they have supported Sudan in the past, they have supported Chad.

Mr. HAMILTON. You might give us a little report on the countries where they have been large suppliers and the nature of the equipment, if you would.

[The information follows:]

In 1982, Egypt sold [security deletion] worth of used Soviet materiel. The agreements included [security deletion] of the above were delivered except for the [security deletion] and a large quantity of ammunition. Egypt also delivered [security deletion] under a 1981 contract [security deletion] spare parts for Soviet equipment. Delivery under this contract was made in 1982.

SOVIET MILITARY EQUIPMENT

Mr. HAMILITON. Do they still have the 400 Soviet aircraft in Egypt?

General SECORD. They have a large number of Soviet aircraft, Mr. Chairman.

Mr. HAMILTON. Are they functional?

General SECORD. They are in a state of graceful degradation right now because, as you probably know, they don't have any spare part supplies for these planes and they are getting quite old. We expect that by 1986, 50 percent of their aircraft will be U.S.

EATSCO INQUIRY

Mr. HAMILTON. There is a report in the Wall Street Journal back in October about the activities of a company, Eatsco, I think it is called, which was gaining large profits from the U.S. FMS program. That led to concerns about the Defense Department's monitoring of FMS spending, and at one point I think it came out that the Defense Security Assistance Agency did not have any auditing force.

What is the status of that inquiry? Is Eatsco still serving as an agent for U.S. arms sales, and is that investigation still going forward?

Mr. VELIOTES. Eatsco is serving as a freight forwarder. As far as audits are concerned, we earlier stated that the Maritime Administration audits the freight forwarding invoices on behalf of the DSAA. As far as the investigation, I think different aspects of that investigation are still going on. Isn't that correct, General?

We can submit and I would prefer to submit additional information on this for the record.

Mr. HAMILTON. Have any laws been broken?

Mr. VELIOTES. To the best of my knowledge, no. There have been some allegations that have been bandied about. Again, to the best of my knowledge, there has been no proof.

Mr. HAMILTON. Has the probe led to any changes in the way that the Defense Security Assistance Agency monitors these matters?

Mr. VELIOTES. Not that we know of, but again, let us check this for the record.

Mr. HAMILTON. Could you give us a report on that investigation, please?

Mr. VELIOTES. Yes.

[The information follows:]

The investigation by the Department of Justice continues and thus far no charges have been brought against EATSCO, nor has the DSAA monitoring of this program been criticized. Under the circumstances, the Government of Egypt has not elected to terminate the contract with EATSCO. Since the investigation is incomplete, a report is not available.

FMS PLANNING FIGURES

Mr. HAMILTON. Now, is the $1.3 billion for FMS a planning figure for the next few years?

Mr. VELIOTES. We really haven't gone beyond this year. As we look at the outyears, I think it would be about that.

Mr. HAMILTON. We have another vote. We will wrap up the hearing because you folks have been here a good long while. Let me ask a couple of questions very quickly.

EGYPTIAN MILITARY PARITY WITH ISRAEL

Are the Egyptians pressing for aid parity, military aid parity with Israel?

Mr. VELIOTES. They would like it. They believe it symbolically would demonstrate that we treat Egypt as a full partner the way we treat Israel.

Mr. HAMILTON. Have they asked for a level of forgiveness the same as the level of forgiveness for Israel?

Mr. VELIOTES. This is what they would like, yes.

Mr. HAMILTON. Suppose we have a 2-year authorization bill here. What would be your position on that? Would you object to a 2-year authorization bill which straight lined your request?

Mr. VELIOTES. Well, sir, today I can't really respond to that.

Mr. HAMILTON. All right.

EGYPTIAN TRANFER OF F4E TO TURKEY

The transfer of F4E fighter aircraft to Turkey by Egypt. Has that transfer taken place?

General SECORD. No, Mr. Chairman, it has not. This proposal is simply in the talking stage. There have been some discussions between Turkey and Egypt and even with Greece also, I believe, but there has been no decision taken to make that transfer. It is problematical whether it will occur.

Mr. HAMILTON. Are you going to phase that aircraft out of the Egyptian air force?

General SECORD. That is up to the Egyptians.

Mr. HAMILTON. Are the Egyptians planning to phase it out?

General SECORD. The Egyptians are divided on that point. There is still debate going on.

FMS LOAN GUARANTIES

Mr. HAMILTON. OK. Now, if you look at the amount of the interest payments that are due each year, they are steadily rising: $308 million in 1984, $340 in 1985, bigger and bigger interest payments. Then you have the repayment on principal.

What concerns me is that we are going to lock ourselves into a larger and larger U.S. FMS program to Egypt in order to get the old loans repaid. What do you have to say to that problem?

General SECORD. It is a big problem, Mr. Chairman, and that has been recognized for quite some time. The problem is not unique to Egypt, unfortunately. We face this problem elsewhere, in Israel, for instance, and elsewhere around the world. I don't have any answer for the problem. We are certainly aware of it.

Mr. HAMILTON. OK.

EGYPTIAN SEWERAGE AND WATER PROJECTS

Let me just raise one other thing and then we will conclude. We have some agreements to undertake major projects on sewage and water, and that came out of Mr. Mubarak's visit here this year. Have we reached an agreement with the Egyptians about what they will do to facilitate that project, specifically setting up a management entity and a system to recover operation and maintenance costs?

Ms. FORD. We are currently working with the Egyptians to determine what this administrative structure would look like. We have not come to a final conclusion, but that is precisely what we are doing right now, Mr. Chairman.

Mr. HAMILTON. Would you give me a report on that project in writing with regard to when you expect an agreement to be signed, how long you see the project taking, when we will start digging dirt, and any other thing you think might be significant about that project? We would be very interested in that.

Ms. FORD. Certainly.

Mr. HAMILTON. We have two Cairo water projects worth $90 million started in 1977, and 6 years later now we have expended only $5 million on those projects.

Ms. FORD. I am sorry, Mr. Chairman?

Mr. HAMILTON. These two water projects in Cairo are worth $90 million. They were begun in 1977 and they have had an expenditure thus far of only $5 million, which raises the question of how do you expect any new water projects to go any quicker when we are talking about the water-sewage system for Cairo.

You might address yourself to that to me in writing as well. I will let you off the hook.

Ms. FORD. I appreciate that.

[The information follows:]

WATER AND SEWERAGE PROGRAM

The Egyptian Government has placed high priority during the next five years on improving water and sewerage infrastructure in Cairo, Alexandria and the cities bordering the Suez Canal. The existing infrastructure is now 50-75 years old and was designed for much smaller populations. It is overstrained and poorly maintained. Recently, the Egyptian Government asked A.I.D. to allocate a high percentage of our planned ESF resources to help mount a major water and sewerage rehabilitation and expansion program.

There is full agreement with the need for major new resource investments in the water and sewerage sector, but given experience in this sector, we have begun high level consultations with Egyptian officials on how construction will be managed and how the systems will be administered once construction is completed. Both the U.S. and Egyptian Governments need to assure themselves that future construction in this sector will progress more rapidly, and that the systems will be operated, maintained and financed properly.

Our Mission in Cairo is discussing these concerns with the Egyptian Government and is trying to reach clear understandings on the best way to proceed. While complete institutional and tariff rate changes can only be accomplished over the next five to ten years, we expect initial adjustments will begin immediately and that all major components will be in place by the time our new investments are completed.

There are grounds for believing that a new and larger program in water and wastewater can be implemented more expeditiously than the seemingly slow moving projects already on the books. First, President Mubarak is giving this sector his personal attention and will demand results. Second, the original projects had to be de-

signed from scratch and construction had to wait for the completion of the design work. Master plans financed by earlier projects have been completed and will guide investments in all of the cities under consideration. This should shorten the time necessary to complete final designs and begin construction. We intend to limit our future support to program components for which final design and construction can be completed within three to five years.

The Cairo water project is a good example of one of the earlier projects in this sector. Begun in 1977, the project initially encountered design delays and subsequently contract and cost issues. The Egyptian Government was unable to sign a contract with a construction firm to actually carry out the project until August 1982. The joint venture firm of Howard, Harbert, Jones has now mobilized in Cairo and has begun construction. The delay in completing the project has not been due to construction delays, but rather the length of time necessary to complete design work and the bidding and contracting process. We're hopeful that actual construction will now more forward rapidly.

Mr. HAMILTON. But I have to ask a question on behalf of our former distinguished colleague, Mr. Paul Findley, who would want us to update the status of U.S. efforts to develop an agricultural extension service in Egypt. We will be submitting some questions to you in writing on that.[1]

I want to enter into the record a letter dated October 29, 1982, addressed to me from you, Mrs. Ford, relating to the pipeline.[2]

Mr. HAMILTON. Also we will put into record without objection the full statements that you and Secretary Veliotes had.

I thank you very much.

This concludes the subcommittee's session.

[Whereupon, at 4:42 p.m. the hearing was concluded.]

[1] See app. 6.
[2] See app. 13.

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984-85

Lebanon

WEDNESDAY, MARCH 9, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,
Washington, D.C.

The subcommittee met at 10:30 a.m., in room 2200, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Mr. HAMILTON. The meeting of the subcommittee will come to order.

Today, the Subcommittee on Europe and the Middle East continues its foreign assistance hearings with an examination of the fiscal year 1983 supplemental request for Lebanon. This request for fiscal year 1983 includes $251 million in military and economic aid, which is broken down as follows: $150 million in ESF money; $100 million in FMS financing; and $1 million in IMET training.

This request was formally submitted to the Congress February 19, 1983, and on February 28, it was referred to the subcommittee. Chairman Zablocki, by request, introduced this request as H.R. 1849 on March 2, 1983.

Members of the subcommittee are advised that, in addition to reviewing this request, it will be necessary for the subcommittee to decide during its consideration of foreign aid recommendations to the full committee later this month whether or not this supplemental should be expedited or should be woven into the fiscal year 1984 foreign assistance request.

We are happy to have with us today the Honorable Nicholas A. Veliotes, Assistant Secretary of State for Near Eastern and South Asian Affairs; the Honorable Antoinette Ford, Assistant Administrator for the Near East, Agency for International Development; and Gen. Philip C. Gast, Director of the Defense Security Assistance Agency, Department of Defense.

I believe I have statements from you, Mr. Secretary, and likewise from AID, Ms. Ford, and those statements will be included in the record. We will give you an opportunity to summarize those statements.

Mr. Secretary, you may proceed.

STATEMENT OF HON. NICHOLAS A. VELIOTES, ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

Mr. VELIOTES. I welcome this opportunity to appear again before the subcommittee in support of the administration's supplemental foreign assistance request for Lebanon in fiscal year 1983. I have submitted a statement. There are some minor changes on pages 5 and page 7. I will quickly summarize them, and I will also make sure I focus on those changes so all members of the subcommittee will have the language.

The $150 million in economic support funds, $100 million in foreign military sales guarantees, and $1 million in IMET funds we requested are needed now to begin urgent projects which cannot await the normal fiscal year 1984 appropriations cycle.

Lebanon endured nearly 8 years of brutal civil war followed by the Israeli invasion. During the period, the agony of Lebanon and its residents, as measured in human as well as physical terms, has been enormous. Although the major hostilities are over, the scars of the constant bloodletting and physical destruction are very vivid, and today the agony goes on in the form of the continued military occupation of most of Lebanon by the Israel Defense Forces, the Syrian Army, armed PLO elements, and other armed foreigners. The Lebanese Armed Forces, the legitimate military arm of the Lebanese Government, control only the capital city of Beirut.

Lebanon has been the victim over the years of a violent cycle of action and reaction and PLO attacks against Israel and Israeli retaliation. There can be no repeat of this unhappy history. It is necessary for the Lebanese Armed Forces to be the only armed force in Lebanon. It must be sufficiently strong to control effectively its borders and prevent outside armed groups from reentering the country. It must be equipped and trained to insure that Lebanon never again becomes the battleground for outside contending forces.

The United States fully supports the territorial integrity, unity, and sovereignty of Lebanon, which we believe is consistent with, indeed the prerequisite for, the long-term security of Israel's northern border.

The funds we are requesting will finance programs in Lebanon designed to help rebuild the economic and security infrastructure of that war-ravaged country, by providing the Government with the resources necessary to reestablish its sovereign authority throughout the country.

The ability of the Lebanese Government under President Gemayel to restore essential government services and maintain security is crucial to building a national consensus which will strengthen the Government's ability to negotiate the departure from Lebanon of all foreign forces, The departure of those forces is of vital importance to our purposes, both in Lebanon and with regard to the Middle East peace process.

A stable, reconstructed Lebanon, free from all foreign forces and with a strengthened Central Government exercising sovereign control over all of its territories, is a most worthy goal on its own

merits. Such a Lebanon will also make a major contribution to the security of Israel's northern border.

Finally, this Lebanon, enjoying good relations with its neighbors, will give a stimulus to the broad peace process. For these reasons, it is critically important for us now to demonstrate in a concrete way the U.S. commitment to Lebanon's reconstruction and restoration as a sovereign and independent nation.

Lebanon and Israel are currently conducting direct, intense negotiations with our participation and support. Many exceedingly difficult problems remain, but the United States is working closely with both sides to help them reach a compromise which will satisfy the major issues of sovereignty and security.

When this occurs and when all foreign forces withdraw from Lebanon, we fully expect a resurgence of confidence among both Lebanese and foreign private investors, who will then start to play a major role in the reconstruction of Lebanon.

Reconstruction of infrastructure is urgent. The economy remains a shambles. Basic infrastructure is destroyed or deteriorated. The Government cannot provide much in the way of basic services outside Beirut and entrepreneurs are afraid to invest in reconstruction until they see positive signs of improvement.

The Government of Lebanon will need a great deal of assistance to accomplish the tasks before it. U.S. assistance alone will not suffice. Multinational agencies and other nations must also help, and indeed have already indicated to us their willingness to do so. They are all waiting, however, for the political and security situation to improve, and of course for the longer term stability that would be provided by the complete withdrawal of foreign forces. Their very waiting, however, is contributing to the fact that, other than the very significant restoration of security in Beirut, progress is limited.

The ESF funds will be used primarily to rehabilitate and reconstruct basic infrastructure, such as potable water systems, telecommunications, and public health services.

The FMS program will be supported by the slightly increased IMET program, military training program, which will improve overall training of the Lebanese Armed Forces. Equipment and training needs of these forces, while urgent, are paced by the availability of military manpower. FMS and IMET funds sought in the supplemental are matched to the ability of the Lebanese Armed Forces to absorb them. Lower FMS and IMET levels of $15 million and $750,000, respectively, are sought in fiscal year 1984 because all of the equipment for the LAF buildup should have been ordered by then.

Thus, to an extent Lebanon is caught in a vicious circle of inaction. The United States is taking steps to help break this vicious cycle. We are strengthening the military forces of the Government of Lebanon by providing equipment and training. Already, this assistance has had a notable effect.

The Lebanese Armed Forces are now in full control of Beirut, a city which contains over one-third of the population of Lebanon. No longer are armed militiamen or PLO fighters seen in the streets. This provides a highly visible political signal of the expand-

ing ability of the Government of Lebanon to exercise sovereignty and to provide security.

In recent days, the Government has also taken over a portion of the Port of Beirut which had long been illegally operated by a private militia. Government forces are now in control of the administration of the entire port. Currently, the entire capital city of Beirut is enjoying peace for the first time in years. That is only the beginning, but the restoration of central institutions in Beirut is a model which we want to see expanded countrywide and which we believe can be.

However, these are only initial efforts and the overall security needs of that war-torn country require our urgent attention. By assisting the Lebanese Armed Forces to increase its capability, we are helping the Central Government reassert and extend its authority throughout the country. The expected increase in the size and effectiveness of the LAF forces in maintaining security will permit the withdrawal of the Multinational Forces.

We are talking about a LAF structure of some 20,000 personnel, which requires a great deal of equipment to provide for national security. We have nearly completed a program to make four brigades capable of performing this mission. In the next phase we plan to equip another brigade and further enhance the effectiveness of one of the original four brigades. This supplemental funds additional equipment and training for two more brigades. That would in effect, give Lebanon seven equipped brigades, an ideal long-term goal. But the Lebanese Armed Forces are ready now to take on new missions and put to use the new equipment and training they are receiving.

We know that the members of the subcommittee are interested in knowing how long the Multinational Forces will have to remain in Lebanon to bolster the security role of the Lebanese Armed Forces. I cannot today give you an exact date. But it is our intention to phase out the multinational presence just as soon as the evacuation of Syrian, Israeli, and Palestinian forces is complete and the Lebanese Army is able to do its job countrywide. The success of the military assistance program we are describing today will directly contribute to that goal.

As a result of technical assistance and infusions of modest but critical amounts of material assistance from the United States the Government of Lebanon is beginning to improve its organization, throw off the torpor induced by years of civil conflict, and gear up to rehabilitate and reconstruct basic infrastructure in order to get the economy moving.

In Lebanon, as anywhere, perceptions are important. As other donor organizations, such as the World Bank, and other donor countries perceive that some progress is being made, there will be a bandwagon effect. Some other donors have already agreed to participate in the reconstruction effort, but much more will be needed.

The funds which the United States contributes to this reconstruction effort, small in terms of total needs, will allow vital reconstruction to get started now, at a time when others are watching and waiting. Once this effort begins, we fully expect it will attract funds from other donors, funds which will carry the rehabilitation through to completion.

To conclude, Mr. Chairman, even while the United States is currently working with the Government of Lebanon in an effort to obtain the departure of all foreign forces, critical projects for reconstruction and reequipping the Lebanese Armed Forces have begun. This is not lost upon the Lebanese Government or the people of Lebanon, who look to the United States as their principal friend during this most difficult time.

The actions which the United States takes in Lebanon this year and next will benefit not only Lebanon but the entire Middle East for years to come. We cannot overemphasize the impact that our programs in Lebanon will have upon our efforts to obtain a just and lasting peace for all countries in this important region.

Thank you, Mr. Chairman.

Mr. HAMILTON. Thank you.

Ms. Ford.

STATEMENT OF W. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR, BUREAU FOR NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. FORD. Mr. Chairman, you have a copy of my prepared statement and I am prepared to try to respond to questions you may have on the ESF portion.

[Ms. Ford's prepared statement follows:]

PREPARED STATEMENT OF W. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR FOR THE NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

In Lebanon today, massive damage from recent fighting, combined with the even larger damage in the previous seven years of civil war, together create an enormous requirement for rehabilitation and rebuilding. I have seen for myself in a trip to Lebanon last month that while some skirmishing still goes on, there now seems to be, for the first time in recent years, a genuine willingness on the part of most Lebanese to regain authority and control over their country and to bring about a national healing of old wounds.

Administrator McPherson testified before you last summer on our need for emergency disaster assistance funds to handle urgent relief and rehabilitation requirements. Of the $50 million you voted for this purpose in September, we have obligated or firmly earmarked some $41 million, for a variety of relief and reconstruction activities, including grants to UNICEF, the International Committee of the Red Cross, American University of Beirut, Beirut University College, and International College, and most recently to the Lebanese Government for emergency housing repair and for fixing up the telecommunications system. We expect over the next several weeks to obligate almost all

of the remaining $9 million which will go for restoring sewer systems, solid waste collection in the Beirut area, and for non-shelter needs of Palestinian refugees.

The U.S. will devote its aid resources, as part of a World Bank-led multilateral effort, to repair and rebuild vital public services in priority sectors such as water and sanitation, health, telecommunications, electric power, transportation, and construction equipment. Restoration of these services is crucial for the private sector to flourish.

Close to half the additional funds we are requesting, $69 million, will be used to set up a Capital Equipment Fund to allow us to meet high priority reconstruction needs in the public and private sectors. The Fund enables the United States to provide quick-disbursing, easy to absorb assistance, by financing equipment in which United States suppliers have a competitive advantage.

Most of the remaining funds will be focussed on the priority sectors of water and sanitation ($32 million), health ($11 million), and telecommunications ($15 million). Here, too, all equipment and services will come from the United States. Funds will be used to maximize possibilities for engaging United States Export-Import Bank and commercial bank financing in the reconstruction effort.

Other funds will be used for relending by the Lebanese Government at near commercial terms for small businessmen ($10 million), for grants to

experienced private voluntary agencies helping economically disadvantaged Lebanese to obtain credit, job skills, health care, and better education ($10 million), and for providing management and planning assistance to the Lebanese Government to improve its ability to use our aid and that of other donors ($3 million).

Our request will allow the United States to "put its money up front"--to indicate to the Lebanese, to the donor community, and to private investors the extent of our interest in participating in the reconstruction. It should serve as a catalyst for other aid and as a stimulus to the Lebanese Government to accelerate the reconstruction effort. We are now fully engaged with the government in planning the detailed commitment of these funds. We will be consulting with the Committee shortly on how we can solve the problem of maintaining program commitments to Lebanon pending prompt authorization and appropriation of supplemental funds.

A major goal in providing aid is to demonstrate visibly and quickly our support to Lebanon during this critical period. We want to help the central government give tangible evidence of expanding its control throughout the country by providing better services to its people. Thus, most of this aid will go directly to government ministries and agencies.

In closing, I would like to say we believe that a substantial multicountry aid effort now will be of considerable help in the necessary ongoing process of national reconciliation. I have talked to President Gemayel and other Lebanese Government officials as well as to many Lebanese and Americans in the private sector. I am convinced that contributions now from ourselves and others will allow the Lebanese economy after a few years to take off on its own. I would be happy to respond to your questions on this proposal.

BUDGET OUTLAYS

Mr. HAMILTON. All right. Let us begin with the budget outlay question. What is the budget outlay of the Lebanon supplemental for fiscal 1983 and fiscal 1984?

Ms. FORD. As was proposed earlier this year, Mr. Chairman, the total $150 million supplemental would be for 1983. If we go with the projects that we have identified we can obligate $100 million in fiscal year 1983 and $50 million in fiscal year 1984. We estimate outlays against those obligations as follows: $55 million in fiscal year 1983; $50 million in fiscal year 1984; and $45 million in fiscal year 1985.

It is possible that with the projects that we have identified that we could if need be obligate the total in fiscal year 1983. I think I should say that, looking at the management concerns associated with obligating the entire amount, we would like to obligate a portion of those funds in 1984.

Mr. HAMILTON. So we have a $150 million outlay and $55 million will be in 1983; $50 million will be in 1984; and $45 million in 1985 as best you can judge at the present time?

Ms. FORD. That would be the most conservative figure.

Mr. HAMILTON. No outlay for 1984 unless some of this $150 million spills over?

Ms. FORD. Unless it spills over, we have the capability of obligating all funds in fiscal year 1983.

Mr. HAMILTON. OK. Now, on the military side, what is the outlay figure?

STATEMENT OF GEN. PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY, DEPARTMENT OF DEFENSE

General GAST. The 1983 supplemental?

Mr. HAMILTON. Yes.

General GAST. On budget, a $1 million increase in the IMET program with $550,000 in outlays.

Mr. HAMILTON. That is the only outlay figure?

General GAST. Yes.

Mr. HAMILTON. There is no outlay with the $100 million FMS?

General GAST. That is off budget.

Mr. HAMILTON. That is off budget?

General GAST. Yes, sir.

NECESSITY OF LEBANON SUPPLEMENTAL

Mr. HAMILTON. OK. Now, why cannot these funds simply be included in the fiscal year 1984 foreign assistance legislation? Why is a supplemental necesary?

Mr. VELIOTES. Mr. Chairman, the purpose of the supplemental was to hopefully expedite the Lebanon portion through the Congress. We believe that the key period is approaching this summer, when we will indeed succeed in getting agreement for the withdrawal of foreign forces. We believe it is imperative that in that time frame we, the United States, be able to come forward with resources, both in economic reconstruction and in the military assistance field, in order to demonstrate that we are able to support our

leadership role in Lebanon with funds and with resources, and in order to play the catalytic role which is required in this crucial timeframe with money up front, in order to stimulate the largest possible response from the other donors.

We do not believe that we can meet these objectives unless the Lebanon program were treated separately from the regular fiscal year 1984 appropriation request.

EXPENDITURE AND OBLIGATION OF LEBANON FISCAL YEAR 1982 SUPPLEMENTAL

Mr. HAMILTON. Mr. White of AID testified not long ago that you have only expended some $50 million of the $112 million that has already been provided to Lebanon.

Ms. FORD. Mr. Chairman, we have obligated about $72 million to date of the $112 million you mentioned, and expended a total of $57.5 million. The $50 million that Mr. White referred to was, I believe, a $50 million disaster supplemental which was appropriated in September of 1982. Of that $50 million, we have at this point expended $27.3 million, and I have a list by project, if you would want me to refer to it, for the remainder which we expect to obligate in the next 2 months.

Of the entire amount that was made available for Lebanon, which was $111.8 milion, we have listed all the projects for which that was obligated. That money is spent for all intents and purposes and it is not available.

Mr. HAMILTON. Did you say only $57.5 million has been expended of the $112 million?

Ms. FORD. Yes, $57.5 million is the figure to date. This money has been committed very quickly. I can make certain that that is the latest figure and submit a detailed list of obligations and expenditures. We had by category $41.5 million of the $50 million fully obligated the planned obligations for the balance includes $5 million for a potable water project, as well as funds for BUC, Beirut University College, and IC, International College, plus $3 million for nonshelter needs of Palestinians.

[The information follows:]

Of the $112 million in available funds, $71.7 million has been obligated to date and $57.5 has been expended. These activities are presented below:

Funding source/activity	Amount available	Obligated	Expended
A. Disaster assistance funds (DAF):			
1. UNICEF		10.0	10.0
2. ICRC		5.0	5.0
3. Amer. Univ. of Beirut		10.0	10.0
4. Beirut Univ. College		1.5	1.5
5. International College Beirut		.3	.3
6. Small value procurement/rehab. plan		2.0	.5
7. Telecommunications		7.7	
8. Ministry of Housing/Coop.		5.0	
Subtotal	50.0	41.5	27.3
B. Migration and refugee assistance (MRA)			
1. Grant to UNRWA/refugee costs		14.5	14.5
2. Grant to UN and PVO's		10.0	10.0

Funding source/activity	Amount available	Obligated	Expended
Subtotal	24.5	24.5	24.5
C. Emergency refugee and migration assistance (ERMA): 1. Grant to ICRC/refugee transportation (subtotal)	2.0	2.0	2.0
D. International disaster assistance (IDA): 1. Grant to UN/PVO's (subtotal)	2.3	2.3	2.3
E. Public Law 480 Title II: 1. Public Law 480 commodities (subtotal)	3.0	1.4	1.4
F. Housing investment guarantees (HIG): (subtotal)	30.0		

Mr. HAMILTON. Is the military program on schedule?

General GAST. It is, sir. I can provide additional information.

Mr. HAMILTON. We have understood it is a few weeks behind schedule.

[The information follows:]

Our objective was to provide equipment for four brigades of the Lebanese Army by the end of February 1983. We succeeded in releasing this equipment on schedule. Nearly all of this equipment is either in-country or on the high seas at this time as follows: 2 M48A5 tanks, 132 armored personnel carriers, 24 recoilless rifles with carriers, 344 wheeled vehicles, and thousands of items of communications and telephone equipment, uniforms and tentage are all in-country; 32 M48A5 tanks will be delivered on 19 Mar. and 522 additional wheeled vehicles are on the high seas at this time. The few remaining trucks and radios not yet delivered will be released within the next few months. The second phase of this program was implemented on schedule last month.

General GAST. In working with the Lebanese Government, we had to make some adjustments from our initial plans simply because in their reorganization of their defense establishment there were some delays in making decisions.

However, as of today almost all of the equipment that we are providing will be in country. There will be a few more trucks and more radios that will be delivered in the next couple of months. The equipment is arriving as fast as they can absorb it.

REPROGRAMING REQUESTS

Mr. HAMILTON. Are we going to have any requests for reprograming or anything of the sort with regard to the Lebanese program?

Ms. FORD. On the project side and the ESF side, no, we will not. I do not see any need for requests for reprograming of project resources, sir.

Mr. HAMILTON. You are not going to be borrowing money from some of your larger accounts for Lebanon?

Ms. FORD. Sir, one of the concerns that we have is that if we do not have a supplemental appropriation then our options as to how we handle funding of Lebanon's reconstruction needs become somewhat limited. Certainly we would consult with Congress as to what we could and should do.

EXPENDITURE LEVELS

Mr. HAMILTON. If you have a lot of money unexpended, what is the urgency on this? Why must it go into a supplemental?

Ms. FORD. The disaster account, the funds that we have already, have been fully committed, with the remaining $9 million to be ob-

ligated in the next 2 months. What I am saying is that all those funds are already committed against specific identified projects and the remainder will be obligated very soon. There is a question of the absorptive capacity. We can identify the projects and where and how these funds will be most efficiently utilized.

FUNDS OBLIGATED TO DATE

Mr. HAMILTON. When will the $112 million be fully obligated?

Ms. FORD. Except for the housing guaranties, $15 million of which will be agreed to later in the year, the $112 million will be fully obligated, based on the latest information that I have, by the end of April and that goes against specific projects that I do have identified, again if you would want me to read those off.

Mr. HAMILTON. I think we could just take those for the record.

[The information follows:]

Humanitarian Relief, Rehabilitation and Reconstruction in Lebanon

Summary:

The U.S. Government has responded to emergency needs in Lebanon by providing a combination of funding and guaranties in the amount of $111.8 million. Of that amount $71.7 million has been obligated. The following table summarizes the sources of U.S. support for Lebanon and the funds obligated to date. A description of activities funded under the FAA follows the tabular summary.

Funding Source	Amount Available ($ Millions)	Obligated to date ($ Millions)
1. Disaster Assistance Funds (DAF)	50.0	41.5
2. Migration and Refugee Assistance (MRA)	24.5	24.5
3. Emergency Refugee and Migration Assistance (ERMA)	2.0	2.0
4. International Disaster Assistance Account (IDA)	2.3	2.3
5. PL 480	3.0	1.4
6. Housing Investment Guaranties	30.0 1/	0
	111.8	71.7

1. Lebanese Relief and Rehabilitation or Reconstruction
   A. International Disaster Assistance Account (IDA)

International Committee of the Red Cross (ICRC) in support of its emergency program which includes medicines and medical supplies, support of the Lebanese Red Cross (LRC) and Palestinian Red Crescent (PRC) efforts.	$ 600,000

1/ A loan agreement for $15 million between the Government of Lebanon and a U.S. investor will be signed in March, thereby committing the U.S. Government as guarantor of this activity.

American University of Beirut/Hospital (AUB/H) to purchase medical supplies and provide care for victims of the conflict.	30,000
Hagazian College Emergency Relief Group for distribution of food, mattresses, blankets, and clothing.	15,000
Catholic Relief Services (CRS) for its emergency program of distribution of food, clothing, mattresses, blankets, cooking utensils, shelter materials in Beirut, the South, and the Bekaa Valley.	300,000
Young Mens' Christian Association (YMCA) to support the emergency efforts of the Lebanese YMCA.	10,000
Private Voluntary Organization (PVO) Consortium which is a group of indigenous PVOs chaired by the YMCA without normal funding access to the USG.	200,000
UNICEF emergency program of three months which includes interim food supplies, first aid and health, provision of water.	300,000
Save the Children Federation (SCF) - for aid to displaced persons in Byblos area and for medical assistance to W. Beirut.	332,206
UN Special Trust Fund for Assistance to Lebanon; monies in this fund can be used by any of the UN specialized agencies for relief work in Lebanon.	100,000
Project Hope for procurement and airlift of emergency medical supplies for the AUB/H.	291,285
900 Hospital beds, including transportation.	125,300
Administrative expenses	53,715
Total IDA since June 9, 1982	$2,257,506

B. Food for Peace (FFP)

World Food Program (WFP) for 700 MT commodities to be distributed by the GOL.	$ 210,500

CRS for 1,656 MT commodities to help feed the displaced.	462,000
Ocean Freight for above commodities	727,500
Total Food for Peace	$ 1,400,000

C. Migration and Refugee Assistance Account (MRA)

SCF - to continue its assistance program of emergency distributions of tents, blankets, mattresses, kitchen utensils, soap, water containers, milk, medicines (see section A above also).	$ 167,794
CRS - for continuation of its emergency program (see section A above).	250,000
World Vision for an emergency program including distribution of high protein foods.	100,000
Airlift of four generators for UNICEF's efforts in W. Beirut on behalf of Disaster Relief Office (UNDRO)	76,000
UNICEF for its emergency program (see Section A, above).	2,800,000
Project Hope (see Section A, above).	515,715
United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) in response to its emergency appeal to meet the basic needs (food, shelter, medical aid) of up to 175,000 Palestinian refugees.	2,000,000
PVO consortium - to continue its emergency efforts (see Section A, above).	200,000
AUB/H to undertake a nationwide epidemiological surveillance program.	131,760
ICRC for its emergency efforts (see Section A, above)	900,000
15,000 blankets for International Committee for the Red Cross (ICRC).	100,000
Airlift of medicine for Middle East Council of Churches (MECC).	95,000
MAP, International - airfreight of medicines.	2,336
ICRC - transportation costs for PLO evacuation from Beirut last August	2,500,000*

Bedding for PLO evacuees from Beirut.	161,395*
(UNRWA) toward emergency appeal and for clearance of Palestinian refugee camp sites and related refugee costs.	14,500,000
Total MRA since June 9, 1982	$ 24,500,000

D. Emergency Refugee and Migration Assistance Fund (ERMA)

ICRC - transportation costs for PLO evacuation. from Beirut	$ 2,000,000
Total ERMA since June 9, 1982	$ 2,000,000

E. Disaster Assistance Funding (DAF) for Lebanon contained in the September 1982 Omnibus Supplemental Appropriation Bill (These funds were, in effect statutorily transferred from the Refugee and Migration Assistance Account to A.I.D. for Lebanon Disaster Assistance under Section 495J of the Foreign Assistance Act.) $50,000,000 was made available, of which:

To the United Nations Children's Fund (UNICEF), which in close cooperation with the Council for Reconstruction and Development of the Lebanese Government, will rehabilitate potable water systems, hospitals, clinics and schools. The program also will provide funds and assistance to local community self-help projects. The grant is a contribution to a joint UNICEF/Government of Lebanon program estimated at $60 million. UNICEF is raising half of the amount through an appeal for contributions from the United States and other donor nations. The Government of Lebanon will contribute the other $30 million.	$ 10,000,000
To the ICRC to help that organization maintain its traditional humanitarian activities in Lebanon, including providing relief supplies, medical care, and protection of war victims.	5,000,000
To the American University of Beirut (AUB), the first tranche of the total $10,000,000 earmarked for the University by Congress. It will be used for the repair of war damage and to meet urgent financial needs. The balance will be made available when a more detailed analysis of needs has been completed.	10,000,000
To Government of Lebanon's Ministry of Housing and Cooperatives over thenext three months, to	5,000,000

* These funds were used to facilitate the evacuation which ended major fighting in Beirut at the time, thus avoiding the prospects of serious additional loss of life. Department of State is looking to effect refund of these monies from the ICRC.

be used for emergency repairs of approximately 2,500 housing units occupied by lower income families. Specifically, it will increase resources available to these families so that they can make their own repairs needed to make their dwellings habitable for winter. This is part of a longer-range housing rehabilitation program where we anticipate AID Housing Investment Guarantees will be able to provide additional resources.	
To Beirut University College, an American-sponsored educational institution in Lebanon, to help compensate for war damages and other loss resulting from last summer's fighting.	1,500,000
To International College, an American-sponsored educational institution in Lebanon, to help compensate for war damages and other loss resulting from last summer's fighting.	300,000
For small value procurement, and relief and rehabilitation planning and implementation.	2,000,000
To assist the Ministry of Post Telecommunications and Telegraph (PTT) in the rehabilitation and restoration of telecommunication services in West Beirut and in the development of a training program to upgrade the skills of PTT personnel to operate and maintain effectively the restored telecommunications systems.	7,700,000
Total DAF since September 1982	$41,500,000

F. All Funding Sources

Grand total obligated since June 9, 1982	$64,057,506

Note: A total of $111.8 million of U.S. Emergency Funding has been made available for Lebanon since June 1982. As outlined above, $71.7 million of these funds have been obligated. The remaining $40.1 million includes the following:

$15 million Housing Investment Guaranty authorized in FY 1978, but never obligated, which has been reprogrammed for current emergency. The loan agreement will be signed in March 1983. Additional $15 million guaranty to be made available from FY 1983 authorization. (No AID funds are directly involved; rather A.I.D.	$30.0 million

provides a guarantee of a commercial loan). Funds to be used for housing or supporting infrastructure reconstruction.	
Remaining Disaster Assistance Funding, which should be completely obligated in the near future, includes the following:	
- Potable water and waste management, first tranche	5,000,000
- Assistance to Palestinian refugees	3,000,000
- International College of Beirut	500,000
Unutilized PL 480 Title II Funds: We do not foresee any need for these remaining PL 480 funds.	1,600,000
	$40.1 million

DONORS/ORGANIZATION PROVIDING ASSISTANCE TO LEBANON

Mr. HAMILTON. Now, is Lebanon receiving any assistance from anybody else? We understand that last year there was $112 million in emergency aid from us and a total of $165 million from other sources. Is that correct?

Ms. FORD. That is correct.

Mr. HAMILTON. Where did the other money come from?

Ms. FORD. The $165 million?

Mr. HAMILTON. Yes.

Ms. FORD. As it is referred to in the congressional presentation, that is from a number of different donors, international organizations——

Mr. HAMILTON. Give us a list of those for our record, if you will.

[The information follows:]

Summary:

United Nations System	$ 7,485,000
Inter-governmental Organizations	21,451,100
Governments (excluding U.S.)	95,055,568
Voluntary Organizations	17,151,796
Not Attributed Accurately	13,357,344
U.S. PVOs	10,264,630
Total	164,765,438*

(*Note: This total does not include U.S. Government contributions nor in-kind contributions that have not been given a cash value.)

Detail of the above total figures is given below. If contributions have been in-kind, and the source is known, they are indicated by source; however, no cash value has been noted.

I. International Community (does not include USG or US PVOs or Lebanese self-help)

A. U.N. System (funds from U.N. organization resources, not what passed through the organizations)

FAO - assessment	- Value Not Recorded
ICAO - assessment	- Value Not Recorded
UNDRO	$ 30,000
UNHCR	4,400,000
UNICEF	1,000,000
UNIFIL	25,000
UNRWA	1,500,000
UNVP	250,000
WFP - assessment	- value NR ($142,700, $11.445M)
WHO	200,000
Trust Fund	40,000
U.N. Housing Team	NR
World Bank Mission	NR
	$ 7,485,000

B. Inter-governmental Organizations

EEC (+ loan authority, $50 million)	$ 21,451,100

C. Governments (* indicates contributions in kind/services. When no dollar figure is given, they have not been valued)

Argentina	$ 25,000
Australia	12,502,550
Austria	575,233*
Bahrain	200,000*
Bangladesh	10,293*
Belgium	564,212
Brazil	*
Canada	3,225,358*
Chile	5,000
China	40,000
Comoro Islands	5,750
Cuba	*
Cyprus	22,763
Demark	3,959,654
FRG	4,307,478*
Finland	2,369,889
France	151,014*
GDR	434,783
Greece	*
India	183,469
Iran	349,337*
Ireland	300,752
Israel	1,900,000*
Italy	15,498,000*
Japan	1,000,000*
Jordan	257,188
Korea	2,725
Kuwait	3,779,584*
Malaysia	52,000
Maldives	1,000
Malta	*
Mexico	5,000
Morocco	*
Netherlands	1,974,965
New Zealand	77,161
Norway	6,597,407
Norwegian Refugee Council	320,000
Oman	1,000,000
Pakistan	150,000*
Portugal	*
Qatar	2,500,000*
Saudi Arabia	11,214,357*
Senegal	5,000
Spain	2,900,000
Sweden	9,568,502*
Switzerland	4,859,335*

Thailand	*
Tunisia	*
Turkey	*
UAE	*
UK	2,153,309*
USSR	*
Yugoslavia	7,500
	$ 95,055,568

D. Voluntary Organizations

	$
Algerian Red Crescent	*
Australian R.C.	5,193
Austrian R.C.	71,908
Bahrain R.C.	50,000
Belgian Nat'l. UNICEF Committee	40,000
Beligan R.C.	21,177
Brazilian private sector	*
CAFOD/UK	17,794
Canadian Nat'l UNICEF Committee	19,379
Canadian R.C.	18,000*
Cape Verde R.C.	1,000
Caritas Belgium	20,000
Caritas Germany	217,391*
Caritas Internationalis	443,278
Caritas Italy	21,505
Chinese R.C.	*
Christian Aid/UK	43,029
Czechoslovak Organizations	*
Danish Red Cross	364,528
Deutsche Welthungerhilfe (Neth.)	138,340
Egyptian R.C.	13,000
Emmaus Groups Europe	15,810
Enfants du monde (Fr.)	*
Finnish Metal Workers Union	10,500
Finnish R.C.	576,801
Finnish Trade Union	10,000
Foundation for Refugee Aid	27,668
French Nat'l UNICEF Committee	83,333
French R.C.	*
FRG Nat'l UNICEF Committee	100,000
FRG R.C.	1,235,675
Greek genr'l. public	158,000*
Help for the Aged	*
Hungarian R.C.	8,750
Indian R.C.	*
Individuals	2,018,183
Iraqi R.C.	102,500
Irish R.C.	133,387

Italian R.C.	193,962
Japan Assoc.	40,000
Japan Shipbuilding Industry Foundation	450,000
Jerusalem Interfaith Committee	25,000*
Jordanian genr'l. public	500,000
Kuwaiti genr'l. public	1,525,000
Kuwaiti R.C.	*
League of R.C. Societies	38,400
Luxembourg Nat'l UNICEF Comm.	5,000
Luxembourg R.C.	10,300
Magen David Adom	*
Monaco R.C.	3,010
Netherlands R.C.	219,989*
Nestle Suisse	100,000
New Zealand R.C.	7,183
Norwegian R.C.	1,194,572*
Oxfam/Gelgium	*
Oxfam/UK	806,517
Pakistani genr'l. public	14,250
Portugese Nat'l UNICEF Comm.	5,000
Qatari genr'l public	325,000
Qatari R.C.	53,500
Radda Barnen (Sweden)	137,000
Red Barnet (Denmark)	16,667
Redd Barna (Norway)	16,667
Rotary Clubs	*
Saudi Arabian private donor	3,353
Saudi Arabian R.C.	*
Save the Children/UK	25,000*
Spanish Nat'l UNICEF Comm.	30,000
Swedish R.C.	2,577,319
Swiss R.C.	143,016
Syrian Arab R.C.	*
Terre des Hommes (Sw)	40,000*
Tunisian R.C.	14,505
Turkish R.C.	10,500
UK Nat'l UNICEF Comm.	20,000
UK R.C.	229,800
WCC	2,785,424
Yugoslavian R.C.	*
	$ 17,151,796

E. Other (Difference between total reported to have gone thru an organization and the reported component contributions)

Additional thru UNRWA	$ 819,442
Additional thru Caritas Int'l	166,588
Additional thru ICRC	12,371,314
	$ 13,357,344

II. U.S. PVOs

American Corporate Aid for Lebanon, Inc.	$ 1,390,000
American Friends Service Comm.	35,000
AJJDC	969,553
American Nat'l R.C.	396,230
AMERICARES Foundation	*
AMIDEAST	*
ANERA	549,667
AGBU	100,000
Baptist World Aid	25,000
Brother's Brother Foundation	31,000
CRS	205,000
Christian Reformed World Relief Committee	50,000
CWS	959,576
Direct Relief Int'l.	785,140
Episcopal Church	100,000
Interfaith Hunger Appeal	30,000
Int'l Christian Aid	193,500
Int'l. Rescue Committee	*
Lutheran World Relief	222,200
MAP Int'l.	224,654
Mennonite Central Committee	550,000
Operation California	752,042
Oxfam America	339,000
Project Hope	*
Save the Children	600,000
Save the Refugees Fund/Mercy Corps	8,000
SAWAS	*
Southern Baptist Convention-Foreign Mission Board	55,000
U.S. Nat'l UNICEF Comm.	200,000
World Concern	117,000
World Relief	250,000
World Vision	1,127,068
YMCA	*
	$ 10,264,630

OTHER DONOR RECONSTRUCTION AID FOR LEBANON

Mr. HAMILTON. How many countries are helping, do you know, roughly?

Ms. FORD. There are a number of countries, particularly among the western donor community, who have indicated privately to us and the Lebanese their interest and willingness to provide resources to Lebanon. However, in most cases, they have not yet publicly announced their specific figures or levels to which they have committed.

Mr. HAMILTON. Well, I think what we are interested in at this point is who is giving Lebanon some help, not who is going to give it in the future but who is giving now. So provide that for the record, would you?

Does anybody come to mind offhand?

Ms. FORD. The Italians and the Australians. The figures I do not have.

Mr. HAMILTON. They would help.

Ms. FORD. Yes.

[The information follows:]

OTHER DONOR AID TO LEBANON FOR RECONSTRUCTION

Other donors have given very generously to Lebanon since last June. In all, about $165 million was contributed by Western and Arab countries bilaterally, by UN agencies, the International Committee of the Red Cross, and by U.S. and other private voluntary organizations. The great bulk of this aid was for immediate relief purposes:

We understand that a variety of bilateral and international donors have agreed to over the last year or are considering significant amounts of assistance to Lebanon's reconstruction, totalling about $500-600 million—some of which would cover multiyear periods. Among the major Western or international donors now discussing assistance are Australia, France, Germany, Italy, the European Economic Community (EEC), the World Bank and the International Fund for Agricultural Development. Nine or ten other donors are considering smaller contributions. Very few specifics have been publicly announced however (e.g. Australia $8.5 million, Italy $19 million, EEC $50 million) and it would be inappropriate for the United States to reveal specific amounts beyond the $150 million before the Lebanese Government and other donors announce their specific intentions.

The wealthy Arab countries have made it clear that while prepared to help Lebanon, they are holding back official commitments until they are more certain of the prospects for Israeli withdrawal and the nature of relations between the Lebanon Government and Israel. Nevertheless, the wealthy Arabs have contributed significant amounts of relief assistance to Lebanon and to the Palestinians through UNRWA, ICRC and UNICEF. Saudi Arabia last summer gave $11.2 million for reconstruction in South Lebanon. However, we are unaware of any new commitments of official Arab aid for reconstruction.

Unofficial Arab assistance is flowing into Lebanon through private channels. While no official estimate has been made of the overall level, this private assistance could be as much as $50 million. The Arabs at the 1979 Tunis Summit pledged $2 billion over five years for reconstruction of South Lebanon. However, only some $380 million has been provided so far; the remainder appears to be frozen.

We think many donors are holding off announcing their intentions because they want to see what the World Bank report on Lebanon looks like. That report, which should be available to us and other donors in late March, will set out in some detail potential sectors and projects for bilateral donor financing. After the donors get a chance to review the report, we anticipate there will be some sort of donor meeting, after which we believe there will be some public statements of other donor intentions.

WORLD BANK DAMAGE ASSESSMENT

Mr. HAMILTON. What about the World Bank? Secretary Shultz called for them to take a lead in Lebanon. Why have they been slow to come into this?

Ms. FORD. The World Bank has been working very closely with us. I think they have been working since the beginning of our heightened concerns last summer with regard to Lebanon. In fact, in November of 1982 the Bank sent out a 16-person team to provide estimates of the damage.

They also, by the end of March, expect to have available for us and other donors a comprehensive report prepared by that team identifying the sectors and areas for reconstruction in Lebanon. It is with this report in hand, and also under the World Bank's leadership, that it is expected that those donors will be called together to determine where and how we can as an international community provide assistance most effectively.

Mr. HAMILTON. So you expect them to be involved very heavily very soon?

Ms. FORD. They have been and we expect them to continue.

ESTIMATE OF TOTAL RECONSTRUCTION COSTS

Mr. HAMILTON. What is our estimate of the total cost of reconstruction in Lebanon? Do we have any such estimate?

Ms. FORD. The total costs for an 8- or 9-year period have been revised downward from the original $25 billion figure to a figure more in the neighborhood of $12 billion.

Mr. HAMILTON. Is that our figure or that of the World Bank?

Ms. FORD. Frankly, sir, when I talk about figures I get a little bit nervous, only because everyone has had a figure over the last several months. This latest figure is a combination of inputs, and I have spoken myself recently on this subject with a number of Lebanese officials. It is based on their estimates as well as what the World Bank is projecting as well as our own.

Mr. HAMILTON. So, it is a common figure of $12 billion?

Ms. FORD. Yes.

For the record, I should also indicate, Mr. Chairman, that the World Bank in an estimate of the 1983 to 1985 reconstruction bill has put a figure of $4 billion as to what would be required over a 3-year period.

Mr. HAMILTON. Million or billion?

Ms. FORD. Billion.

Mr. HAMILTON. OK. Now, how long are we going to be confronted with very large aid requests, economic and military, for Lebanon? Is this something we expect for a year or two or are we setting ourselves up for a 5- or 10-year period?

Mr. VELIOTES. No, sir, I do not believe we are setting ourselves up for another major Middle East aid program. As I understand the thrust of your question, we believe the circumstances in Lebanon are quite different from those elsewhere. We believe that the Lebanese, once they are in charge of their own affairs, can with a certain amount of outside help economically and socially have a boom. We expect large amounts of private money also to come back into Lebanon.

Mr. HAMILTON. Two or three years? What do you think?

Mr. VELIOTES. I would guess that it might be that. Certainly not in amounts larger than what we are talking about today.

Mr. HAMILTON. Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

JUSTIFICATION FOR LEBANON SUPPLEMENTAL

Mr. Secretary, you say that these requests are needed now to begin urgent projects which cannot await the normal fiscal 1984 appropriations cycle. There has been great reluctance on the part of the House and the Senate authorization and appropriations committees to take supplemental foreign aid bills to the floor in addition to a regular foreign aid bill which even is questionable.

My point is that if the administration really needs these funds right now I think they are going to have to make a much stronger case for this aid on a rush basis than they have to date. Maybe they are going to have to lay a little more groundwork on covering the members of the authorization and appropriations committees. They are going to have to lobby Congress, as they do in other matters, for this supplemental bill. And you might want to call this your kickoff for that type of campaign with your testimony here today, because I do not think that the mood of the Congress leans in that direction.

Do you want to care to comment on that in any way before I move to another little subject, different subject?

Mr. VELIOTES. Certainly. Well, I do appreciate your advice and certainly this testimony is intended to be a kickoff for our attempts to convince the Congress that the funds are needed and needed urgently. If I could just expand for a moment.

The critical time that we see for Lebanon is the middle of the year. This is when we thoroughly expect to have the agreements that will have the foreign forces out. We must be in a position to support the Central Government. We must be in a position to allow that Central Government to go into the newly liberated areas, if you will, newly controlled areas, and demonstrate that they can bring something with them, they can start repairing the basic infrastructure, the sewage system, the water system.

It is terribly important that this series of economic projects be available for them to demonstrate that, yes, we are here, this is a new dawn, we and your government are bringing new services, we are repairing things, we are worthy of your support. This is why this is such an important issue, sir, and why we do not believe it can await the normal appropriations process, which could end up much later in the year.

General GAST. Mr. Winn, let me comment also. I think it is important to understand that the supplemental request, and the assistance we have been providing, is for the Lebanese Army only and not their Navy and their Air Force. The French and Italians are coming up with what would be in effect a supplemental to fund assistance for the Air Force and Navy and possibly to provide specific equipment to the Army. We have had several meetings with them, one which concluded yesterday, in which we believe significant progress has been made.

18-551 O—83——10

The Lebanese Army, we believe, requires essentially seven brigades to provide necessary security for the country. We are not providing sophisticated equipment. The most sophisticated are 34 M-48 tanks, and the rest of it are vehicles, communications equipment, armored personnel carriers, and some munitions.

The Lebanese Army and President Gemayyel have looked to the United States to assist them in developing their equipment requirements and also to reconstruct their infrastructure. They lost barracks. They lost logistic systems. They do not have a good training plan. We are providing a great deal of assistance in these and other areas.

The equipment that we have provided to date—32 tanks, 64 APC's which have arrived today, 297 trucks, and 10,000 tents—have done a great deal to improve the morale and to encourage the Lebanese Armed Forces to be prepared to move out when foreign forces withdraw.

Mr. WINN. Let us assume that your military show and tell is working over there from a psychological standpoint and preparedness standpoint. I am really saying, more to the Secretary than I was to anyone else, however, I do appreciate that information, but that maybe show and tell has got to take place right here on the Hill to the Members of the Congress, and second to the people of the United States.

We are a very, very sympathetic people. But the fact that we have high unemployment and other economic problems and a huge deficit—every time all of us go home somebody says, why are you going to spend all that money outside the United States, why do you not spend it here at home? And we can understand that.

SECURITY ARRANGEMENTS FOR SOUTHERN LEBANON

To change the subject a little bit, in the "Washington Post" on the 9th of March—the headlines say: "Israel Signals Compromise on South Lebanon Security." And in the second part of that it talks about Shamir's plans to visit Washington. I do not know how much you can tell us about that, Mr. Secretary, but there is some talk about U.S. troops, a possibility of Israeli, Lebanese, and U.S. troops patroling a security zone in southern Lebanon after troop withdrawals.

In the first place, it does not seem to us—and particularly since Phil Habib is on his way home—that there has been any great indication by the Israelis to withdraw, and that of course is one of the main problems. Is this something new? Is this a new movement? Is this a public relations effort on the part of Foreign Minister Shamir or is this some kind of new movement here that we should ask the chairman of the subcommittee to hold a closed briefing on?

Mr. VELIOTES. Mr. Winn, I prefer not to address my remarks to a newspaper article, because even when there are encouraging items in them they are usually distorted.

FOREIGN MINISTER SHAMIR'S UPCOMING VISIT

Mr. WINN. Let me ask you this. Is Shamir coming to Washington?

Mr. VELIOTES. Yes, he is. Foreign Minister Shamir is coming to Washington. We expect he will be here at the end of the week. Secretary Shultz and others will be engaging with the Foreign Minister and his colleagues.

Mr. WINN. Do you know offhand, just out of curiosity, will he be meeting with Members of Congress?

Mr. VELIOTES. This I am not sure of, sir. They are arranging things at the end of the week. I would assume that would be somewhere on the schedule.

We will have several days of talks. Obviously, we consider this an important development. The Foreign Minister is of course welcome. Ambassador Habib is back. He met with the Secretary in California over this past weekend and he is arriving this evening.

We are hopeful that these discussions will move us toward the kinds of compromises that are required, which will strengthen the security of Israel's northern frontier, as we look to the out years, and also do this in a context that will strengthen the chances for the Lebanese themselves to have an internal consensus.

Mr. WINN. Mr. Chairman, let me ask one more question that could be answered by a yes or no, if I might.

Mr. HAMILTON. Certainly.

Mr. WINN. Is the United States considering stationing U.S. troops in southern Lebanon as a part of a permanent peacekeeping force?

Mr. VELIOTES. The United States has not made such a proposal to the parties, to the best of my knowledge. No, they have not made such a proposal.

Mr. WINN. Thank you.

Mr. HAMILTON. Mr. Ireland.

Mr. IRELAND. Thank you, Mr. Chairman.

OTHER DONOR ASSISTANCE AND EXPENDITURES FOR LEBANON

Ms. Ford, you mentioned $165 million other nations had obligated themselves, or you assume were going to obligate themselves, to put up. And I am aware that you said that you would send us a list of those.

But by the time you got through talking about the World Bank making some studies and everybody sitting around and talking, at no stage of your conversation did you name anybody that has actually helped. Now, has anybody actually helped, and if so, to what extent?

Ms. FORD. Yes, sir.

Mr. IRELAND. And I do not mean the whole laundry list. I know you are going to send it. But give us a number. It did not sound as though anybody had really done anything but sit around and talk.

Ms. FORD. Well, the $165 million was donated primarily for the immediate disaster relief needs of Lebanon. That was done through a number of international organizations. The countries that have to date—and I do not have the specific figures as to how much they have provided. The countries to date that have been involved in providing assistance to Lebanon include Australia, Italy, I believe France——

Mr. IRELAND. These are moneys already expended?

Ms. FORD. These were for moneys obligated immediately—

Mr. IRELAND. They have been expended?

Ms. FORD. Yes, some of them have already.

Mr. IRELAND. This is not just passing conversation?

Ms. FORD. That is where the $165 million comes from.

What I was referring to with regard to the World Bank and the results of the technical report was how the nations of the world would be able to respond to those needs that have been identified with regard to public infrastructure, telecommunications, roads, water and sewerage, and those other significant elements required to place Lebanon back in a strong position.

For example, regarding our supplemental request for $150 million, we propose a significant portion of that be obligated and used for assistance in infrastructure directly related to the priorities established by the Lebanese Government.

Mr. IRELAND. And you are not aware that anybody else has made that obligation.

Ms. FORD. We have not made those obligations.

Mr. IRELAND. Well, I understand.

Ms. FORD. That was the purpose of our coming to ask.

Mr. IRELAND. I understand that, but you are not aware that anybody else has taken that step as well?

Ms. FORD. The World Bank report, which we do not yet have, will be the basis for meeting with all of the donors so that we can among ourselves determine which elements of that report we can take on as our participation in support of the Lebanese Government. So that has not yet occurred, because the report is not——

Mr. IRELAND. Now, tell me when do you expect that to be ready?

Ms. FORD. The report should be in by the end of the month.

Mr. IRELAND. The meeting?

Ms. FORD. The spring of this year.

Mr. IRELAND. Thank you.

IMPACT OF SYRIAN MILITARY BUILDUP ON LEBANESE-ISRAELI SETTLEMENT

Mr. Secretary, regarding the Syrian military buildup that we hear about and the quite obvious need for the Israelis to protect themselves along that line, what effect is that going to have on any settlement that is reported as imminent? It seems to me that this development would indicate that things are going the other way.

Mr. VELIOTES. The Soviets are in the process of replacing or have replaced most of the Syrian losses during the hostilities with Israel. It is possible they may even provide more than what was lost. We do not have totally accurate figures on the Syrian buildup.

The other Soviet-related issue, of course, is the deployment of the new missiles in Syria proper, under Soviet control, manned by the Soviet Union. The question is, and it is a very good question, has this Soviet action or will this Soviet action have the impact of making the Syrians less willing to cooperate with a solution which will restore Lebanon to sovereignty?

SYRIAN COOPERATION FOR WITHDRAWAL FROM LEBANON

Will Syria cooperate in a withdrawal? I suppose that we will not really be able to have the answer to that finally until or unless we come to the point where we are able to lay on the table an agreement and say--or the Lebanese lay on the table and have an agreement and say—OK, here it is, and on this basis we want everyone out and by a date certain.

But what I can tell you is this. In discussions with us, and we understand in discussions with the Lebanese and others, the Syrians have reconfirmed their willingness to withdraw in the context of an Israeli withdrawal. Whether or not that withdrawal will be totally simultaneous or not is something to be worked out. We think it should be the closest thing to that.

The PLO, which is the other major actor, which has some thousands of armed fighters who are colocated with the Syrians, have indicated to the Lebanese their willingness to leave when the Syrians leave. So we believe that despite that recent development, including the most unfortunate deployment of these missiles to Syria, that the Syrians will still abide by what they have said they would do; namely, withdraw when the Israelis are withdrawing.

IRANIAN TROOPS IN LEBANON

Mr. IRELAND. One last question. Some months ago there were a relatively small number of Iranian troops, or agitators or whatever you want to call them in Lebanon, and they were an obviously destabilizing force. What has become of that factor? Does it remain a factor?

Mr. VELIOTES. Those troops are still there. They may be up to 2,000. No one has an exact figure; say between 1,000 and 2,000. They are behind Syrian lines in the northeastern part of Lebanon. Most recently they ambushed a Lebanese Army patrol and there was a firefight.

To the best of our knowledge, they are having minimal success in affecting the Shia, who live in the Bekaa area, but they are doing their best. That is another good reason for getting the foreign forces out. That is, that these particular people would also leave.

Mr. IRELAND. Thank you very much.

Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Siljander.

SOVIET SA-5'S IN SYRIA

Mr. SILJANDER. Mr. Secretary and General Gast, the Soviets of course now have the SA-5's because of the inefficiency, obviously, of the 8 and 9. Do you feel this is a measure by the Soviets to provoke attack by Israel, to test their key surface-to-air missiles to determine whether or not this "new technology" is able to knock out their most, as we understand it, their most sophisticated surface-to air-missile battery systems?

Do you think this is a move on their part to provoke attack, especially considering, as I understand it, that they have over 1,000 Soviet technicians there to man the missiles?

Mr. VELIOTES. I can give you a judgment and General Gast can give you his. We do not believe that is the purpose of the deployment. The deployment is obviously related to the very poor performance of the Soviet equipment in the 3 or 4 days of intense hostilities last year between Israel and Syria.

There is obviously a military component to the deployment, which is the greater range of these missiles. Second, they will be under total Soviet control and manned by Soviet troops, so presumably they would be more efficient and effective in new hostilities.

There is also a political element for the deployment. I cannot tell you today which is more important in this case. The Soviets obviously got a little tired of hearing that they had lost their position in the Middle East as a result of the defeat of their equipment, so they decided that this would be a method of recouping political and psychological losses.

All of these are rather difficult to measure exactly, but we think these are the issues. The Soviets have made it clear publicly and privately that they view this deployment as defensive only, and this is a ploy to try to put the monkey on somebody else's back.

We view the deployment as potentially destabilizing and dangerous, because of the technical characteristics of this weapons system.

General Gast?

General GAST. I would totally agree with the Secretary's comments. I would only add that it is tremendously high technology, a tremendously capable weapons system which can cover areas, vast areas to include Israel, slightly into the Mediterranean and into Jordan itself, and therefore is something that will be of concern to Lebanon.

INTEGRATING HADDAD'S FORCES INTO THE LEBANESE FORCES

Mr. SILJANDER. Moving on, no one disagrees with your comments, Mr. Secretary, about the integrity and sovereignty of Lebanon. When I was there in July that was all I heard. The hearts of the Arabs, the hearts of Islam, the Christians there, all seemed to be in unity. They just want to be a sovereign country and get the foreigners out; Israel and Syria and the PLO and everybody out. They want to be their own people.

Bashir Gemayyel, before he was assassinated, explained to me that his biggest problem, as Secretary Shultz has told this committee, would be to integrate the various factions of Lebanese forces, including Sa'ad Haddad in the south.

How much of our funds are we using to assist in that integration, which to me is much more important than how many weapons we give them? As Secretary Shultz told us, they have probably more weapons in Lebanon than anywhere else in the world. What they do not need is more weapons; what they need is training, they need encouragement and infrastructure rebuilding. I agree with that. With just one quick trip to that country, anyone with any eyesight at all could determine that.

But my question is, how can we work to integrate Haddad? Can we integrate Haddad? There have been terribly conflicting reports that I heard while there and before departing. I still hear conflict-

ing reports that Haddad is a rebel on his own and the main Lebanese forces are not supporting him. At least the Lebanese Armed Forces told me they were not supporting him in July.

So I repeat—what are we doing with our funding to help arrive at this integration of these various factions.

Mr. VELIOTES. Let me address part of that. Maybe General Gast would like to comment.

The question of integration of these militia, or I suppose the starting point, is the elimination of major organized armed groups that can be competitors to Government authority. That is a primary problem. There are several major groups, all of which have their own turf. The most powerful group, the Lebanese Forces—that is, essentially the Maronites—are headquartered at Mount Lebanon. Their spiritual and political leader, Pierre Gemayyel, is the father of the current President.

There have been some interesting and encouraging developments in the last month or so with respect to the relationships between the Lebanese Forces and the Lebanese Armed Forces. You cannot confuse the two. Lebanese Forces means a certain thing, it means the Christian militia in the north. Lebanese Armed Forces means the Government's army.

Exactly how these positive developments take place is very difficult to document, but it happens as a result of the continuing process of negotiation. There is a Lebanese way of accommodating people's interests in the interest of the overall good. That is the way it used to be. That is what they are trying to get back to.

You have just seen this in the expansion of government authority to East Beirut, accompanied by a flurry of rumors and newspaper articles and intelligence reports that it could never happen. And all of a sudden the Lebanese worked it out and they worked it out well.

You have the problems of the so-called Druze militia. Again, there are negotiations going on. The Lebanese tell us that if the Israelis leave they are confident they will be able to work out an arrangement whereby the Lebanese Armed Forces will deploy and there will not be great conflicts, and they can reassure the Druze.

Mr. SILJANDER. How about the——

ROLE OF MAJOR HADDAD

Mr. VELIOTES. I am getting down to Major Haddad. That is different from the Lebanese Forces in the north. Major Haddad's militias are still in the south and they are the important military force, Lebanese military force, in the south. The Israelis, of course, are the dominant military force.

The Lebanese have assured us and the Israelis that they are prepared to work out an arrangement with those forces which would include a substantial integration of those forces into the Lebanese Army in the south. Now, exactly how that will be done I can't say—but this will be done. I am convinced it can be and will be done.

The question is, is there a direct relationship between the funds that we are asking the Committee to approve and this integration process, particularly in the south? I would think that the answer is

yes, but indirectly; that the extent to which the Lebanese militias in the south are integrated into the Lebanese Army, and then to the extent that those units over time are retrained and re-equipped, that is the way you will have the relationship.

General?

NEEDS OF THE ARMY

General GAST. May I speak to the equipment first. It is true that there is considerable equipment in Lebanon, but it comes from numerous countries and is of varying age, and therefore a lot of it is not supportable. A logistics system does not exist to support this equipment.

The amount that we are proposing to include in this supplemental seeks a standardization within their system which they are capable of developing; that is, a logistics system training, and a common doctrine for all of the Lebanese military forces which we think is essential for them, as for any other army.

But perhaps more important at this stage is the composition of the leadership and its effect on the rank and file of the Lebanese Army. A great deal has been done to assure a balance of the various faiths and groups. The Lebanese Army commander has been working with the government to have appointments that spread that balance very well, and our information indicates that that is going very well.

The appearance and the presence of unsophisticated but good equipment has a positive effect on the Lebanese Army itself. The training done by the marines and all other factors so far have been very, very positive. It is also, I think, equipment that will serve them well and is supportable. And I believe that that has already been taken into consideration by some of the Lebanese Forces and others who now seem to be willing to compromise.

Mr. HAMILTON. Mr. Smith.

EFFECT OF TROOP WITHDRAWAL ON LEBANON'S STABILITY

Mr. SMITH. Thank you Mr. Chairman.

Mr. Secretary, last week when you appeared before the committee we discussed some of the facets relating to the operation and we spoke about the fact that to some extent—and you agreed, I believe, to some extent—that operation had created a more stable climate in Lebanon and facilitated to some degree what is happening in the peace process. And hopefully, when Mr. Shamir comes here, further breakthroughs can be made with the facilitation of the United States, which we talked about, the role of the United States as a facilitator.

The question, however, of withdrawal again strikes me as odd, with talking about withdrawal as quickly as possible, and at the same time talking about a strong, central, stabilized government in Lebanon. Is it not really the case that there has never been, for many, many, many years, a strong, stable government in Lebanon, and that to ask for an early withdrawal of all these troops may in fact be ultimately counterproductive to obtaining not only a strong central government but maintaining a strong central government?

Mr. VELIOTES. I can give you our judgment and I can tell you what the Lebanese Government thinks. And when I say "the Lebanese Government," I should expand this. It comes from virtually all elements of that society, regardless of confession, as Mr. Siljander noted.

It is our judgment that—first, you are right. At least for the last 10 years the Government of Lebanon has been weak and increasingly weakened.

REASONS FOR SYRIAN PRESENCE

Mr. SMITH. Is that why they invited the Syrians, back in 1976, to some degree, to bolster what was slipping?

Mr. VELIOTES. You recall at that point that you had strange bedfellows, if that is the phrase. You had an outbreak of violence between the Maronite Christians and the PLO, which quickly took on the attributes of a major conflagration where the Maronites were besieged and were in danger of going under, which would have meant that for all practical purposes the PLO would have taken over Lebanon.

It was under those circumstances that the Syrians came in, and during that time frame the Syrians fought the PLO and bloodied them badly and restored stability there, with certainly the acquiescence of many other people.

Over time, things changed and the Syrian Army clearly became an army of occupation, a hated army of occupation. Most armies of occupation fall into this category.

This was shown by a variety of things over time. For example, the Arab donors, I think, several times stopped their payments. So clearly there was only a very thin, cosmetic legitimacy to the claim that the Syrian armed forces were there at the request of the Arab League and the Government of Lebanon, and there was an attempt by the Lebanese to get them out before the Israelis came in.

CAPABILITY OF LEBANESE ARMED FORCES TO EXTEND ITS AUTHORITY

Now, the question you pose as to whether the Government of Lebanon is strong enough in its armed forces to actually extend its authority throughout the country, I think this has to be looked at in terms of what would be opposing them. Obviously, the Lebanese Army is not being geared to fight the Syrians or to fight the Israelis. We are positing that these major forces and the Palestinians, who would be up north, would be leaving.

The Lebanese believe that they can do it, and in Lebanon it is not just a matter of who has got how many guns. There is a long tradition of negotiation amongst Lebanese as they try to live together.

We mentioned the Shuf. We know the Lebanese are working hard on the Shuf. They worked very hard on East Beirut. Very few people knew what was happening there. It is sort of nice to know that there are one or two secrets that can be kept in Lebanon. And it was positive, what happened, and it happened in a way where all of the parties were satisfied.

We believe we share their judgment. The Lebanese Armed Forces, who are being trained and retrained and strengthened, can

extend their authority effectively over the country. Obviously, the Multinational Force will be there to be supportive to some extent. Who knows, there may be a role for UNIFIL in some manner temporarily. We are thinking of foreigners there, for example.

The basic issue is, what is the opposition? The opposition, to be sure, may have some guns, and most of those are sidearms, but you do not have opposing domestic armies, really, who are going to be fighting the Lebanese Armed Forces. And those who are there, if they do make trouble, we think the Lebanese Armed Forces would be a match for them.

I mentioned earlier East Beirut and that is a key because that clearly indicates accommodations, positive accommodations, between the Government of Lebanon and the Lebanese Forces, which was the most powerful militia. This bodes well for the future.

Saying that, I am not suggesting everything is going to be just lovely. Some violence, unfortunately, is a fact of life in Lebanon. I assume there will be some. I assume there will be some people hurt, some people killed.

But we believe that the Lebanese Army can indeed control its territory and should be given the chance. What happens, sir, is that the longer they are not allowed to do this, this plays back in and erodes their confidence in themselves and erodes their ability actually to play the role that they want to play.

Mr. SMITH. Well, let me ask you this, however. Let us assume that under different circumstances Israel, Syria, and the PLO all withdraw subsequent to the operation more or less finishing up, let us assume in 3 or 4 years or so. Would in fact the Lebanese Government as it is now constituted have been able to do in East Beirut what they have done?

Mr. VELIOTES. Well, all I can say is that they want the chance.

NATURE OF DAMAGE

Mr. SMITH. I am glad you brought up Syria and talked about this. A witness testified last week in front of the Senate Foreign Relations Committee, a Lebanese I believe, who indicated that over the years, of the total damage that has been done to Lebanon, basically physical more than anything else, about 85 percent of it is attributable to all the wars previous to the Peace for Galilee operation.

And now, getting back and tying that into the dollars which are now being requested in the supplemental, my question is, given that testimony and assuming the factualness of it for the time being, we are being asked to provide additional moneys, and not only what Mr. Ireland was inquiring about as to what has already flowed, but additional to flow further to aid in this process.

ROLE OF ARAB DONORS IN LEBANON RECONSTRUCTION

Basically, I am not opposed to that. My question is, however, from all the other factions which have contributed to the 85 percent of that damage, would you indicate to me what, if anything, they have indicated that they would be willing to contribute? I have heard that they are not contributing anything or little or nothing. As a matter of fact, they have cut off some of the things

they were contributing already or threatened to do if the Lebanese do anything that they consider untoward with Israel.

Mr. VELIOTES. Well, I am not sure that the parties you are talking about would agree that they contributed to 85 percent of the damage. But I know—I think I understand——

Mr. SMITH. I am asking you to assume that for the time being.

Mr. VELIOTES. Well, I cannot even assume that. But what we are talking about here is what will be the role of Arab donors to the reconstruction of Lebanon. We have expectation, every reason to believe, that once the withdrawals are effected their contribution will be significant.

They have made clear, however, that they are not going to be contributing, because they do not wish to be perceived as endorsing the status quo. Now, most of the rhetoric will be aimed at the Israelis being in Lebanon. But these same people very much want the Syrians out as well, even if they do not say it, and in the past they have stopped funding the so-called Arab Deterrent Force, and that is one way of voting in the Middle East. And these same ones have done that.

So we would expect that there would be a considerable amount of money coming in, and the Lebanese expect it as well.

Mr. SMITH. Do we have anything greater than an expectation? This is what I am trying to get at.

Mr. VELIOTES. We have had lots of discussion, and I do not have any figures.

Mr. SMITH. We are putting ourselves on the line right now, right here in front of Congress, and Congress may put itself on the line and the administration has requested us to do it. Fine, has anybody else done anything? That is all I am asking.

Mr. VELIOTES. If we are successful, as we expect to be, in the coming months with respect to an agreement on Lebanon, then I am very confident that there will be significant funds coming.

Mr. SMITH. Then your answer is no, we do not have anything more than expectations.

Mr. VELIOTES. No, it is more than that. It is not just a vain hope. Do not forget, it has been put that until or unless they leave, you cannot expect to see us contribute, but when they go, we will.

Mr. SMITH. On their terms, however. You have already indicated, if I am not mistaken, that certain of those leaving require leaving on certain terms as opposed to others.

Mr. VELIOTES. Well, these are issues that we are aware of and that we are working out. Our view here has been made clear to everyone, that is Lebanon and its people have suffered so much that the only right and decent and smart thing for these people to do is to support the Government of Lebanon in the decisions it feels it can, must, and believes it should take in its own interests in trying to straighten out the mess which so many have contributed to. And we have made this very clear. I do not want to go into that in this open session——

Mr. SMITH. I was going to ask you if we have taken a strong stand.

Mr. VELIOTES. Yes. I hope you will understand why I do not want to go into details.

Mr. SMITH. I never understand that. [Laughter.]

Thank you very much, Mr. Chairman.

Mr. HAMILTON. Ms. Ford is going to comment.

ARAB DONATIONS FOR HOUSING RECONSTRUCTION

Ms. FORD. I would like to, if I could, Mr. Chairman, add the comment, an additional element for Congressman Smith, and that is, though not on formal pledges, but rather through an informal process, in Lebanon to date, after the United States provided $5 million in a grant to Lebanon for housing reconstruction, that grant was matched from funds from Arabs in Lebanon. So that there was indeed $10 million available for housing reconstruction.

At the same time, Arab countries privately financed significant removal of rubble in Lebanon, without which a lot of the reconstruction and building could not be accomplished. That too was informal. I do not know the dollar cost, but the equipment and the manpower required to do that was also one of the contributions.

We have, again with and through the World Bank, continued to make certain that information that we were able to develop on projects would be available to potential Arab donors. Also, I am aware that the World Bank team, when in Lebanon just recently, was able to meet and discuss some of these things with Arab and other donors.

It does not give you a specific answer as to formal Arab contributions, but I think it indicates a degree of interest beyond that which is verbal.

Mr. SMITH. Thank you.

Mr. HAMILTON. Mr. Zschau.

TROOP WITHDRAWAL NEGOTIATIONS

Mr. ZSCHAU. Mr. Veliotes, for me the issue here is not the question of need for economic and military assistance, but rather the timing. The supplemental request requires us to add on to the foreign aid bill this special request, and so I would like to explore once again my understanding at least of the need for speeding up the funds.

I thought I heard there were two reasons for it: No. 1 that there was going to be a breakthrough in the negotiations of troop withdrawals and that we would want to have the funds ready to support the Lebanese in maintaining stability in their country. Also, if we came out front other donors would follow us.

Are those the two reasons that you are giving us?

Mr. VELIOTES. The two principal reasons, yes.

Mr. ZSCHAU. What indications do we have that there will be a breakthrough in the troop withdrawal negotiations and your timetable of this summer is accurate?

Mr. VELIOTES. Sir, in the negotiations that have taken place to date—and I remind the committee, they have taken place in two different fora which are closely related; one is the forum that Ambassador Draper has been involved in, which is the delegation meetings between the Israelis and the Lebanese which have taken place two or three times a week for the last 6 weeks, both in Lebanon and in Israel.

In that forum, the parties have come to grips with all of the issues that exist. They have heard from each other what the other side claims is its bottom line, and they have actually started to have those kind of corridor discussions which suggest that, well, maybe some deals can be cut. That is the first thing.

Second, Ambassador Habib in his most recent visit out there has been working the senior political circuit on both sides, if you will. He has been able to come up with proposals which he put to both sides, which we believe to form the basis for agreements which would satisfy everyone's priority requirements. In negotiation, one never gets everything he wants. That is a fact of negotiating life. We all know that.

Foreign Minister Shamir is coming to discuss, at least in part, the current Israeli views of where we stand. I think there is a possibility that there also could be a Lebanese ambassador coming at some point to discuss how the Lebanese see it. This would be before Ambassador Habib goes back.

So, without raising great expectations for the next couple of weeks, it seems to us that we are witnessing a process now which is getting pretty close to the point of decision.

IMPACT OF SUPPLEMENTAL ON NEGOTIATIONS

Mr. ZSCHAU. Do you think the passage of the supplemental will have an impact on those negotiations, and if so what would it be?

Mr. VELIOTES. Yes, sir. I think the support of the Congress in passing the supplemental will be very important. It will be a public indication of the depth and breadth of the political support in this country for our policy toward Lebanon, for our desire that Lebanon not only be reconstructed, but reconstructed in a manner which contributes to our broader peace policies in the area.

On the other hand, if there is hesitation and if there is considerable delay I believe this will have a negative impact. I certainly know the Lebanese are looking at every word we say here. They are desperately hopeful that the Congress will move fast and give them this vote of confidence in their future.

Mr. ZSCHAU. Are you suggesting that if the supplemental is not approved that it could undermine the negotiations for troop withdrawal?

Mr. VELIOTES. I believe it will have a significant negative impact, yes.

LINKAGE BETWEEN SUPPLEMENTAL AND OTHER COUNTRY DONORS

Mr. ZSCHAU. Finally, the other reason for the speedup is to motivate other donors. Is there any specific indication, Ms. Ford, from other countries that if we would go ahead with this kind of a commitment that they are ready to step in, and is there any kind of, if not formal agreement, informal agreement to do so? Or is it more our hope and wishful thinking?

Ms. FORD. There are countries, and I mentioned several previously, like Italy, Australia, France and several others, that are prepared to go forward. We have this information on an informal basis as well as a formal basis, because most of this assistance has not yet been publicly announced.

What has not been decided upon yet is the specific dollar level and specific projects. The World Bank as well as we have been very much involved in trying to see where and how the donors can be most effective. So we do believe strongly that the $150 million ESF request would be catalytic, not just because we want it to be, but because we really believe it will be.

Specifically, in addition to Western donors and potentially Arab donors as well, we believe that the approach, the fast disbursing and visible way that we want to move these funds, will encourage U.S. private business as well to play a significant role, and that if we are successful in securing supplemental funds the capital equipment fund, which would be a significant part of that, about $69 million, and is able to be moved very quickly, would allow U.S. businesses to seriously have an opportunity to do business with and through Lebanon. It would also be another statement of U.S. support.

Mr. ZSCHAU. In these sorts of situations, do countries ever make more formal agreements, say, for example, if I put in my money then you have agreed and committed to put in your money? Do they band together and do that in these sorts of situations?

Ms. FORD. I do not want to speak specifically for the World Bank. I believe, however, there is what the Bank calls a donor consortium, or consultative groups in conjunction with the recipient country, in this instance Lebanon.

What I am referring to in terms of the ongoing discussions—and I have been a part of those discussions that we have been involved in since last summer—are No. 1, the Bank report providing the technical basis for those countries, Western donors, to look and see where they have significant advantage, for example where they can be most supportive.

Mr. ZSCHAU. I think you are getting perhaps a sense of the committee that it would be more comfortable if we did not look like the Lone Ranger in this situation, and so anything that could be done to strengthen those commitments I think would be helpful.

Ms. FORD. I would be happy to provide by country, in whatever specificity I can, what has been formally committed, and as best I can what has also been informally committed. But I can assure you from conversations I have had with people in positions to make the decisions that we are not alone.

I think, however, it is also fair to say that everyone does indeed look to us to see what and to what degree and what degree of support, dollar and political, we do intend to provide.

Mr. ZSCHAU. Thank you, Ms. Ford. And thank you, Mr. Chairman.

Mr. HAMILTON. Ms. Ford, we should have that list very promptly. We are interested in that.

Ms. FORD. Certainly.

Mr. HAMILTON. Can you have it by the end of the week?

Ms. FORD. I will try even faster than that.[1]

Mr. HAMILTON. Thank you.

General Gast.

---

[1] See page 114.

LEBANON'S MILITARY NEEDS

General GAST. I would like to add additional comments, hopefully to justify the urgency of our request for additional funding. Perhaps it would be useful for you to know that the equipment that is on order and is being delivered now and will be delivered this summer is financed only in part with U.S. FMS credits, and only less than half of that.

The Lebanese Government in desperation last fall committed itself to $70 million in cash to procure this equipment. That cash was urgently needed for their infrastructure, to do the things that needed to be done within Lebanon, building barracks and training areas, setting up the supply system, the support system, everything it takes to get an army going.

They do not now have the funds to procure additional equipment which is urgently required to fill out the army.

That is why we must have the supplemental soon so that we can place on order the equipment which will match the Lebanese conscription available as additional units are formed. And it is very important, we believe, not only to the Lebanese Army for morale purposes, but to their ability to exercise control.

As far as what other countries are doing, I have already indicated to you we are working very closely with the French and the Italians, who are going through the same process that we are. In fact the French already have made money available, and it is just a matter of working out the details of what they can do for the navy and the air force. So we are not alone in providing that assistance in a coordinated way.

Mr. HAMILTON. Mr. Lantos.

ARAB LEAGUE FINANCIAL COMMITMENTS TO LEBANON

Mr. LANTOS. Thank you very much, Mr. Chairman.

Mr. Secretary, let me preface my questions by saying that I think in this matter the administration has acted prudently and rationally and deserves commendation.

My questions relate not to the Western European or Australian donors, because I do not think that is the issue. I do not think that is the issue that bothers this committee. As I recall, in Tunis in 1980, before the events of 1982, the Arab League committed $2 billion over a 5-year period to aid Lebanon. How much of that $2 billion by the Arab League was in fact delivered?

Ms. FORD. To date, $380 million of that pledge has been delivered to Lebanon.

SAUDI AID TO LEBANON SINCE SUMMER OF 1982

Mr. LANTOS. Since the summer of 1982, how much aid has been provided by Saudi Arabia?

Ms. FORD. I do not know the answer to that.

Mr. VELIOTES. I do not believe there is any official assistance that you could find a figure on.

Mr. LANTOS. My information is that there has been no official assistance, and that there has been some secondhand unofficial as-

sistance in the amount of maybe $30 million through a construction company. Is that your information?

Well, you know, you chided Congressman Winn for relying on newspapers. But since we are getting so little from the Department, we are relegated to those secondary sources. So if you would tell us more, we would know more.

Mr. VELIOTES. What you have described is substantially accurate, sir.

ESTIMATES ON DAMAGE TO LEBANON PRIOR TO 1982

Mr. LANTOS. Well, I am deeply disturbed by the fact that help from the wealthy OPEC group is limited, and effectively nonexistent, particularly in view of the fact that the bulk of the damage in Lebanon occurred prior to 1982. The estimates that I have heard from fairly authoritative sources is that over 80 percent, maybe 85 percent, of the damage occurred prior to the events of 1982.

Is that approximately your understanding, Mr. Secretary?

Mr. VELIOTES. I really do not know.

Mr. LANTOS. It is a pretty critical figure.

Mr. VELIOTES. I am not challenging the figure.

Mr. LANTOS. What is your ballpark estimate?

Mr. VELIOTES. Whether it is 85 percent or 73 percent, it is a lot.

Mr. LANTOS. Would you say it is the majority?

Mr. VELIOTES. I guess, but I really do not pose as an expert on this.

Mr. LANTOS. Would you attempt to obtain the best estimate?

[The information follows:]

RECONSTRUCTION COSTS

No completely reliable assessment of damages sustained in Lebanon during the past decade is available. However, the most recent estimates of damage provided by the Government of Lebanon's Council for Development and Reconstruction (CDR), which is very likely to be confirmed by the World Bank report to be issued in March of this year, are in the $14-15 billion range. It is generally agreed that approximately $2 billion of the damage resulted from the Israeli invasion.

Mr. VELIOTES. Perhaps Ms. Ford may have some information.

Ms. FORD. I do not have anything.

Mr. VELIOTES. I have seen many different estimates of how much actual damage there is in total. But certainly, sir, I accept the point that a lot of that damage was done——

Mr. LANTOS. Would you accept that the major portion was done prior to the events of 1982?

Ms. FORD. Mr. Chairman, my understanding is that the Council for Development and Reconstruction, which has an estimate of total damage of $12 billion, estimates that $2 billion of the $12 billion is the result of damage since June. I do not know if that is on target I am just merely at this point giving you another figure.

Mr. LANTOS. That is the same ballpark that I have.

Mr. VELIOTES. It is a lot.

Ms. FORD. Any way you cut it, it is a lot. I do not know on what basis it is derived.

Mr. LANTOS. In that period, the forces creating damage were Syrian, PLO, and indigenous, is that correct?

Mr. VELIOTES. Yes.

U.S. PRESSURE ON GULF STATES TO PROVIDE AID TO LEBANON

Mr. LANTOS. Under the circumstances, I am wondering, what pressure did we apply to the Gulf States, to Saudi Arabia, so they would be more forthcoming with aid?

Mr. VELIOTES. In what time frame?

Mr. LANTOS. In any time frame.

Mr. VELIOTES. Most recently? That is the one I can address more readily.

Mr. LANTOS. All right, go ahead.

Mr. VELIOTES. In the earlier periods—I am not trying to justify or even explain the lack of followthrough on the commitment. I assume, however, that to some extent the fact that more funds were not spent between 1980 and June of 1982 was a reflection of the fact that the potential donors did not consider Lebanon a very good risk. You had a foreign occupation army that was in charge of half the country and you had a state within a state that was in charge of most of the rest.

Mr. LANTOS. But the commitment was made under those same circumstances.

Mr. VELIOTES. I understand that.

What we have done is that we have talked to potential donors. We have talked on the technical level, we have talked on the political level. It is as a result of these discussions taken together that we have confidence that when the foreign forces withdraw there will be significant funds coming from Arab sources, either bilaterally or through the mechanism——

Ms. FORD. Through the Arab donor organizations. But at this point we could not speak—that is, I could not speak—for a particular figure or timetable, because that would be implying I could speak for them, which I cannot.

Mr. VELIOTES. We have been told authoritatively that those funds will not be forthcoming until or unless there is a withdrawal of foreign forces. I said earlier that the rhetoric usually focuses on the Israeli forces, but these are the same people who cut off funding several times to the Syrian forces. So there is no doubt that they also wish the Syrians out.

There is nothing that we can do beyond what we have already done to get the commitments moving, because they do not wish to be perceived as supporting the status quo or financing the status quo.

UNITED STATES-SAUDI EXTRADITION TREATY

Mr. LANTOS. Mr. Secretary, since we are unlikely in the near future to have a hearing on Saudi Arabia, I want to pursue a question which is related to this. Has the administration taken any steps to conclude a treaty of extradition with Saudia Arabia, in view of the recent episode involving a member of the royal family who sold a stolen ring valued at $1,200,000, skipped bail and left the country?

Mr. VELIOTES. I will have to check on that, sir, for the record. I just do not know. I was not aware, I have to admit.

18-551 O—83——11

Mr. LANTOS. You ought to read the newspapers like the rest of us. [Laughter.]

Mr. VELIOTES. I am aware of the wayward prince who was picked up coming into this country. Is he the same one?

Mr. LANTOS. This is a fellow who sold, or tried to sell, a $1,200,000 stolen ring to an FBI agent and was arrested and was out on bail, $25,000 bail, and he skipped the country.

Mr. VELIOTES. I will check on the facts for you, as well as the question of an extradition treaty.

EXTRADITION TREATIES WITH COUNTRIES IN THE MIDDLE EAST

Mr. LANTOS. And would you supply the committee with a list of countries in the Middle East with which we have treaties of extradition?

Mr. VELIOTES. Yes.

Mr. LANTOS. And what, if any, negotiations are underway to conclude treaties of extradition with the ones we currently do not have a treaty with.

Mr. VELIOTES. Yes.

[The information follows:]

EXTRADITION TREATIES WITH COUNTRIES IN THE MIDDLE EAST

U. S. extradition treaties are currently in force with Egypt, Iraq and Israel in the Middle East. At present, no negotiations are under way with other countries in that region. However, within budgetary limitations, the Department is actively pursuing extradition agreements with other countries where a substantial law enforcement need has been demonstrated.

Basic differences between the U.S. and Saudi legal systems present major obstacles to negotiating such a treaty. We do not, of course, rule out negotiating an extradition treaty with Saudi Arabia at some point in the future, but would note that Saudi authorities have not made a practice of allowing non-Saudis accused of crimes abroad to take refuge in the Kingdom.

I would also note for the record that the individual you mentioned who was indicted and reportedly forfeited bail is not a member of the Saudi ruling family.

PLO REENTRY INTO BEIRUT

Mr. LANTOS. There have been reports lately of PLO elements seeping back into Beirut. What is the information that the State Department has on this?

Mr. VELIOTES. It is very sketchy information.

Mr. LANTOS. Would you share it with us?

Mr. VELIOTES. It is nothing hard. It is as you described, a "PLO element." I have heard stories of individuals who may have come back to see their families. We have no information that any reconstruction of the PLO infrastructure is in process, and certainly the Lebanese would not tolerate it.

I think when we consider, sir, the question of the security in the south, that we have to keep uppermost in mind that those elements which would seek to reestablish themselves in the south to do harm to Israel would also be viewed by the Lebanese as their enemies.

Mr. LANTOS. My final question is this. You mentioned earlier that Foreign Minister Shamir is expected this week and he expects to see the Secretary. I am sure you and I are equally convinced that we have some idea of the scenario that is likely to unfold.

PROPOSALS FOR WITHDRAWAL AND NORMALIZATION

Would you mind sharing with the committee, under the present circumstances what kind of withdrawal and normalization package can be expected?

Mr. VELIOTES. With respect to withdrawal—please excuse me. I have a problem of negotiating issues in public that have not yet been engaged, because I do not know what the Israelis are bringing. But from our perspective, I would rather say that what we see as required in general terms——

Mr. LANTOS. Could you——

Mr. VELIOTES [continuing]. Is a security arrangement in the south which strengthens the security of the northern border of Israel, which does not involve a continuing presence of Israeli troops.

Mr. LANTOS. Continued stationing or continued presence?

Mr. VELIOTES. Well, I think both, in the sense that this would be viewed by the Lebanese as something they cannot accept, for the simple reason that the Syrians would not leave and then you are on the way to partition of Lebanon. I mean, these are the implications.

But the fact that there is——

POSSIBLE PATROL WITHIN LEBANESE SECURITY ZONE

Mr. LANTOS. Could I stop you there. There have been ideas floated with respect to stationing people outside Lebanese frontiers who nevertheless would patrol within Lebanon, within that security zone, on a 24-hour basis.

Mr. VELIOTES. Well, I would have to speak for myself——

Mr. LANTOS. Yes.

Mr. VELIOTES [continuing]. Without any reference to anything that has been presented to us, because it has not been. I would find that concept a very difficult one for the Lebanese to accept. It would have the problems of sovereignty, the problems of Syrian withdrawal, and so this would be difficult.

On normalization, you know, we think——

PROVIDING SECURITY IN SOUTHERN LEBANON

Mr. LANTOS. Well, how do you view security, then, being provided? We cannot just gloss over it.

Mr. VELIOTES. No, of course not. The security is very important.

Mr. LANTOS. Well, what mechanism do you view as feasible?

Mr. VELIOTES. What I would see as feasible would be using Lebanese in the south.

Mr. LANTOS. Exclusively?

Mr. VELIOTES. Yes.

NUMBER OF LEBANESE ARMED FORCES

Mr. LANTOS. Then could I turn to General Gast and ask this question: What is in your view the effective number of Lebanese Armed Forces personnel at the moment?

General GAST. Probably about 17,000, sir, 17,000 to 20,000 in uniform.

Mr. LANTOS. In uniform.

As a specialist and as a professional, if you had the task of advising anyone on the number of Lebanese Armed Forces personnel required to secure that zone of 28 miles, what would be the number you would use?

General GAST. I have seen various estimates on that, but it is believed by many people, that the Lebanese Army, assuming that it continues to grow, and is able to exercise authority to get out of Beirut, a couple brigades there should be able to secure this zone. We are not talking about a major operation on their part.

It is also clear, though, that the Lebanese Army as it exists today as four brigades, which is just finally being equipped and trained, is not capable of assuming the entire role throughout Lebanon and will not be for some time. So that would be a concentration of their most capable brigades there.

LEBANESE INCORPORATION OF EXISTING FORCES

Mr. VELIOTES. I think there is another element as well there, and that is the Lebanese themselves have been discussing the likelihood of incorporating into the brigade in the south elements of the existing forces, both Shia and Christian, of Major Haddad. That could be a strengthening.

General GAST. And there may be a possibility that they will receive additional troops from the Lebanese Forces. I think there is progress being made in that area.

Mr. VELIOTES. Now, we are talking about the ability to interdict infiltrators, not to fight pitched battles with large mobile battalions.

General GAST. Yes, that is right.

Mr. VELIOTES. We are confident that arrangements can be worked out which would allow for very close liaison, where these issues of security can be satisfactorily met.

NORMALIZATION OF RELATIONS

Mr. LANTOS. What is your scenario for normalization?

Mr. VELIOTES. The more the better, we think. That gets you back to a judgment as to what the Lebanese believe are their limits with respect to their own internal situation, and then again you get around to the judgments of how much can be accepted in what format. And certainly there is no built-in bias against talking to Israelis who come across the border or things like this on the part of the government.

There is a concern there about how far they can go in any one time period without threatening their internal consensus. If the internal consensus goes, stability goes. Instability, amongst other things, is not in Israel's security interest. So these things all get linked up and we are hoping to talk them through this weekend and be closer than where we are right now as far as getting this solved.

Mr. LANTOS. Thank you, Mr. Chairman.

LEBANESE PROPOSALS FOR STATIONING U.S. TROOPS IN SOUTH LEBANON

Mr. HAMILTON. Mr. Secretary, in your response to a question earlier you said that the United States had no proposal to put U.S. troops into south Lebanon. Do we have a proposal from Israel or Lebanon to do so?

Mr. VELIOTES. The Lebanese are on record, and I do not believe they have done it recently, but they have been on public record of asking for up to 20,000, I believe, in the MNF. We have no proposals from the Israelis. I do not believe we have any hard proposals from the Lebanese.

When I say that, I do not say that we would not be prepared to consider some sort of a deployment, but that is just not—that is, it is not right now on the table.

FUTURE ROLE FOR UNIFIL

Mr. HAMILTON. Do you see a future role for UNIFIL in Lebanon?

Mr. VELIOTES. There should be. There are 7,000 people, 7,000 troops, whom we believe can play a role at least for a period of time in helping the Lebanese, but nothing permanent. That role we will have to try to work out.

U.S. TROOP EXPANSION IN LEBANON

Mr. HAMILTON. Are we seriously considering expanding the number of U.S. troops in Lebanon?

Mr. VELIOTES. No, sir, nothing beyond the last time we talked. I said I could not exclude the possibility that, if the President were asked under the right circumstances, that he would consider this sympathetically. But we are no further along than that right now.

NUMBER OF LEBANESE TROOPS NECESSARY TO MAINTAIN EFFECTIVE CONTROL

Mr. HAMILTON. How many troops do we think it will be necessary for the Lebanese Army to have to maintain effective control and order in their country?

General GAST. The estimate is, for the longer term the seven brigades we are working on, the supplemental is for the final two. I think this depends much upon future events and what is able to be worked out in the withdrawal of the foreign forces.

It also has to do with the ongoing negotiations and what role the MNF will play, as well as UNIFIL, in the interim as the Lebanese build up their army during the next year or so. Assuming that they are able to obtain the enlistment of the personnel that is required, which would go along with the delivery of the equipment, it would be mid-1984 before they would organize and receive training for this entire force. And that would be sufficient, we believe, to accomplish the mission of maintaining the Government of Lebanon's authority there.

Mr. HAMILTON. How many?

General GAST. Seven brigades, and we are probably talking about 45,000 personnel instead of the 20,000 that are there now.

FRENCH, ITALIAN, AND U.S. WILLINGNESS TO EXPAND TROOPS

Mr. HAMILTON. The French and Italians have indicated their willingness to expand their numbers, have they not?

Mr. VELIOTES. In principle, yes.

Mr. HAMILTON. Have we indicated a willingness to do the same?

Mr. VELIOTES. We have indicated a willingness to consider such an expansion, depending on the circumstances in which such a proposal would be put to the President.

Mr. HAMILTON. Would you seek specific statutory authorization from the Congress for any successor force to the Multinational Forces there now?

Mr. VELIOTES. That is certainly something that has to be considered seriously.

Mr. HAMILTON. I would hope so. But you are not committing yourself to do it?

Mr. VELIOTES. Well, I cannot commit us, but I understand you and it makes a lot of sense.

Mr. HAMILTON. I am glad I am understood.

STRENGTH OF PHALANGE FORCE

What about the strength of the Phalange militia as a military force? Is the government's strength or ability to deal with that group gaining?

Mr. VELIOTES. The answer is yes, and I would not, however, put into the calculus numbers of soldiers, because in Lebanon that is important, but what is also important are the understandings, the agreements, the attempts to serve mutual interests. In this sense, I believe that the Lebanese Forces and the Government of Lebanon are in a much better relationship today.

I think the best example of this today is the recent deployment of the Lebanese Army into East Beirut. We really cannot underestimate this. And also, there are the ports. That is very important. Of course, this could not have been done without the agreement of the Lebanese——

Mr. HAMILTON. The Phalangists still get a lot of money out of those ports, do they not?

PORT REVENUE RECEIVED BY THE PHALANGE

Mr. VELIOTES. Well, the Phalangists were getting the total out of those ports, and one reason why the Government wished to take them over was in order that the Government could start receiving revenue from those ports.

Mr. HAMILTON. Pretty big bucks there, is it not?

Mr. VELIOTES. Yes, sir.

Mr. HAMILTON. $100 million or so?

Mr. VELIOTES. It might come to that.

Mr. HAMILTON. Is the Government moving to take over that source of revenue?

Mr. VELIOTES. Yes, sir.

Mr. HAMILTON. When?

Mr. VELIOTES. They have already moved, I believe.

Mr. HAMILTON. They are getting some——

ARRANGEMENTS FOR LEBANESE GOVERNMENT TO RECEIVE PORT REVENUES

Mr. VELIOTES. I assume they have. Now, what arrangements there may be that have been made I am not party to. I would not be surprised if there were some. But that is all right. The important thing is that the Government is showing the flag in this important part of Lebanon, and that is important for all the Lebanese, and particularly important as the Government thinks in terms of moving into the shief, for example, because they have proven that they can move into and provide security in East Beirut, which is the Lebanese Forces-Phalangist area.

LEBANESE INVESTIGATION OF THE MASSACRES AT SABRA AND SHATILLA

Mr. HAMILTON. How is the investigation coming into the massacres by the Lebanese Government?

Mr. VELIOTES. I do not think it is coming any further than it was.

Mr. HAMILTON. We do not expect them to do very much with that?

Mr. VELIOTES. No, sir, I would not expect much.

Mr. HAMILTON. Are we pressing them at all on it?

Mr. VELIOTES. Not pressing. We inquire. I am not aware of any groundswell of Lebanese public pressure on the Government on this.

LACK OF PROTECTION FOR PALESTINIAN CIVILIANS

Mr. HAMILTON. Now, there have been some reports about the lack of security for the Palestinians in the south.

Mr. VELIOTES. Yes, sir.

Mr. HAMILTON. What is your impression of that?

Mr. VELIOTES. Well, we were very concerned about this. We are not quite sure who was responsible. It appears to be some Christian militias. There were reports, probably confirmed, of some killings, lots of threats, knocks on doors, et cetera.

We have been in touch with UNRWA, the ICRC, the Lebanese and the Israeli authorities. We believe that the situation has improved to some extent. We do not see that there is any imminent danger of any large bloodletting.

The question seems to be trying to get Palestinians out of peripheral areas, out of apartments, that are in very short supply, and back into camps, and camps that of course are not yet equipped to take them all.

UNRWA TENT PROGRAM

Mr. HAMILTON. What happened to all those tents we sent over there?

Mr. VELIOTES. I think the tents were set up and are being used.

Ms. FORD. Some of the tents are being used, as far as I know. There is no reason to think that they are anywhere other than where they were directed toward. I was there last month——

Mr. HAMILTON. Our information is that none of them are being used. We just had a couple of members of the staff over there. What makes you think they are being used?

Ms. FORD. I am frankly going by the figures. Hold on. Let me check.

Mr. HAMILTON. Let us get the tent expert up here and get on this.

Mr. VELIOTES. I thought some were being used as mess tents and school rooms and central mess tents. I know you had some problems initially when the camp dwellers were afraid they would not be able to rebuild.

Mr. HAMILTON. Are they being used for housing?

Ms. FORD. My understanding is that the tents in use are being used primarily for schools. Those that were supplied for housing are not being used for housing. In fact, what is being done is reconstruction of destroyed housing with cement. Cement is being supplied.

Mr. HAMILTON. How many were sent over in terms of tents?

Ms. FORD. About 10,000 tents.

Mr. HAMILTON. How many are being used?

Ms. FORD. I do not know. I can get that specific figure.

Mr. HAMILTON. Half of them?

Ms. FORD. I do not know. I was in a school tent. I was in a tent that was being used——

Mr. HAMILTON. One is being used. [Laughter.]

Ms. FORD. That is for sure. [Laughter.]

But I will supply it for the record.

[The information follows:]

UNRWA TENT PROGRAM IN SOUTH LEBANON

UNRWA purchased 10,200 six-person tents in July 1982. These tents were intended for use as refugee housing. They arrived in Southern Lebanon by October 1982; however, refugees protested against the erection of tents as housing and destroyed 40 units that were erected in Ayn Al-Hilwah camp. Following this demonstration, UNRWA stopped setting up tents as living quarters, and instead they supplied 10 bags of cement, a tent if wanted, and cash grant of a few hundred dollars (depending on family size) for building materials.

In addition, donor governments and voluntary organizations contributed 3,500 "marquee" and family tents in UNRWA for its emergency shelter program. Of the 200 "marquee" size tents, several were set up as classrooms and administrative buildings. Fifteen of these larger tents are still in use as classrooms in Ayn Al-Hilwah Camp today. They are large enough to hold about 90 students or three classes.

It appears that tents are not acceptable by refugees as living quarters. There is no plan to set up any more in the immediate future.

Mr. VELIOTES. Mr. Chairman, let me comment on that——

Mr. HAMILTON. I do not know that that is the most important question we have discussed, but I——

Mr. VELIOTES. No, it is important.

Mr. HAMILTON. I understand that we have sent a lot of tents over there. They were sent over there for the purpose of housing. They are not being used for housing. Some few have gone up for schools and other general purpose uses, but by and large the sending of the tents has not been very effective.

PURPOSE OF TENT PROGRAM

Mr. VELIOTES. Well, the purpose in sending the tents was to make sure that tens of thousands of people were not living out in the elements during the wintertime. Since that decision was made

to send the tents, which I think was the right decision, other decisions were made by the Lebanese, by the Israelis, by the Palestinians themselves, which led to some reconstruction of dwellings on the ground.

So they had more permanent housing. And that—if the tents are not being used to full extent, it is because the need is not there. But we were responding to a very important need at the time.

COMPLETION OF PHASE 1 OF THE MILITARY PROGRAM

Mr. HAMILTON. Now, General, phase 1 of the military program is about finished or is finished, is that right?

General GAST. It is in the process of being finished.

Mr. HAMILTON. When will all the training be completed?

General GAST. The training will continue. There has been a great deal of refresher training with assistance from the marines, using IMET funds and we are providing a training team of some 28 people within the next 30 days who will provide longer term more intense cadre training. There will also be a personnel management training team to train the Lebanese to handle the recruits that are coming in.

I think that the training will be a continuing thing, however.

Mr. HAMILTON. Was not phase 1 to go to March and then you were supposed to be finished in March and then start phase 2?

General GAST. That was the delivery of the equipment.

Mr. HAMILTON. Only equipment, and that has been done?

General GAST. Yes, that will be finished in the next few weeks. The principal deliveries will be finished; some of it was harder to get and therefore it was delayed. But the majority of the equipment has been taken care of.

Mr. HAMILTON. So the phase 1 equipment phase will be completed on schedule?

General GAST. Yes.

Mr. HAMILTON. The training will run over?

General GAST. Yes. One of their problems is the units being bottled up in Beirut as they are. They do not have much access to training areas. That is another reason they need to get out into the countryside and back into the training areas up in the Bekaa.

STATUS OF PHASE 2

Mr. HAMILTON. Now, phase 2 is beginning even though phase 1 is not finished.

General GAST. Phase 2 is on order. Those deliveries will begin in the summer as they recruit additional personnel to make a fifth brigade operational and fill their reserve brigade to 100 percent.

Mr. HAMILTON. And phase 2 is to be completed in February of 1984?

General GAST. That is about the date, yes. And the funds that we are asking for now would be to place on order equipment meant for delivery in 1984 as well.

Mr. HAMILTON. Is there a phase 3?

General GAST. That is phase 3. That is what we are speaking of in the supplemental request.

CAPABILITY OF LEBANESE GOVERNMENT TO MANAGE RECONSTRUCTION

Mr. HAMILTON. OK. Now, is the Lebanese Government in your judgment capable of undertaking, handling the reconstruction effort?

Ms. FORD. I am sorry, you are referring to the ESF-financed reconstruction?

Mr. HAMILTON. Yes.

Ms. FORD. Yes, sir, without any equivocation.

Mr. HAMILTON. They are going to be able to fund their side of the deal?

Ms. FORD. I think that they will be able to support their side. When you say fund, it is not their economy that is the primary question. It is the question of the stability that directly needs to be spoken to. It is, I think—as we look at our funds as catalytic, that is the important part.

Mr. HAMILTON. Well, are they not to put up 25 percent local funds for each activity we enter?

Ms. FORD. They have said they will put up 25 percent of the total reconstruction costs as well as a significant portion of the local costs of ESF-financed projects. We do not have at this point a concern that they will be able to support their part of the reconstruction.

Mr. HAMILTON. You think they will be able to?

Ms. FORD. I think they will be able to, sir.

Mr. HAMILTON. OK. And are you confident they will be able to provide the recurring costs to maintain the investments that we are making?

Ms. FORD. You are referring to the water and sewage?

Mr. HAMILTON. Yes, the operations and maintenance.

Ms. FORD. The operation and maintenance costs. We feel that they will be able to provide the operation and maintenance costs. We are also, however, working closely with them to make certain that we provide them the technical and managerial support that they need. That is, part of our program proposes that we provide them funds so that they can indeed train their people, to make certain that they have all the elements in place to run their operations once they are reconstructed.

STEPS TO INCREASE REVENUE OF THE LEBANESE GOVERNMENT

Mr. HAMILTON. Now, what moves is the Government taking to increase the revenues of the Government?

Mr. VELIOTES. They just took over the ports of East Beirut. That is one important move.

Ms. FORD. I think that it is also——

Mr. HAMILTON. Does the Government now have control of all of the income from the Beirut port?

Mr. VELIOTES. I believe so, sir. We could check into this.

Mr. HAMILTON. All right. Let us know, would you, please?

[The information follows:]

CUSTOMS REVENUES

The Government of Lebanon is now collecting all of the customs duties from the entire port of Beirut.

Mr. HAMILTON. We are interested in the specific initiatives that they have taken to capture revenue.

As usual, we will be submitting questions to you in writing.[1]

[The material follows:]

REVENUE INITIATIVE

The Government of Lebanon has taken steps to divert shipments from illegally operated ports in Lebanon to the port of Beirut so that customs duties can be applied and collected. In addition, it has recently taken steps to collect income taxes owed, but unpaid. It is also being provided technical assistance by the United States Agency for International Development (A.I.D.) United States tax experts, provided by A.I.D., have done analyses and provided recommendations concerning administrative changes in the compliance and assessment of income tax, a business registration tax, possible increases in the rate of the gasoline and lubricants tax, and other excise taxes.

Mr. HAMILTON. Ms. Ford?

Ms. FORD. On the last part of the question, in terms of what the economic side does look like, for the record I can indicate that, one, the Lebanese pound is strong and it has appreciated or is appreciating 35 percent in the first half of 1982.

Also cement production and oil refining, Lebanon's only heavy industries, are functioning normally, and these industries are obviously very important to reconstruction.

WITHDRAWAL OF AUSTRALIAN TROOPS FROM THE SINAI

Mr. HAMILTON. Mr. Secretary, one final question. The Prime Minister-elect of Australia during the campaign said that he was going to withdraw the Australian troops from the Sinai. Do you have any information on that?

Mr. VELIOTES. We have no information, sir, that this is a policy decision. Of course, it would concern us if this were to be. But we are hopeful that this will not eventuate.

Mr. HAMILTON. Thank you very much.

The subcommittee stands adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984-85

Jordan, Yemen, Oman, and American Schools and Hospitals Abroad

---

THURSDAY, MARCH 10, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,
Washington, D.C.

The subcommittee met at 10:10 a.m., in room 2255, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Mr. HAMILTON. The meeting of the subcommittee will come to order.

Today, the Subcommittee on Europe and the Middle East continues its foreign assistance hearings with an examination of the fiscal year 1984 requests for Jordan, Yemen, Oman, and the American Schools and Hospitals Abroad program.

The requests are as follows, and I won't go through all that, you know what they are.

Although no new money has been provided to Syria since 1979, the subcommittee today will ask for an update on ongoing projects in that country.

We are happy to have with us today Mr. James A. Placke, Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs; Mr. Charles W. Johnson, Director of the Office of Development and Planning, Agency for International Development; David A. Santos, Director of the American schools and hospitals abroad program; and Col. Homer D. McKalip, Chief, Near East/South Asia Division, Defense Security Assistance Agency, Department of Defense.

Mr. Placke and Mr. Santos, I understand you have prepared statements, and they will be entered in the record in full. I hope you will summarize those statements very briefly so we can get to questions.

Mr. Placke.

Previous Page Blank

STATEMENT OF JAMES A. PLACKE, DEPUTY ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

Mr. PLACKE. Mr. Chairman, yes, I would like to submit that statement for the record. If I may, I will take just a few minutes to summarize.

Thank you for this opportunity to appear in support of the administration's request for funding levels for foreign assistance for these three countries. The purposes underlying these requests essentially fall into three areas. One is to maintain the relationships of mutual trust and to strengthen the self confidence of these states as they seek to advance toward a stable peace in the region.

Second, we intend by these fundings to strengthen our security relationships as a means of containing the encroachment of the Soviet Union and its client states in the region and especially to provide for and enhance the security of the gulf.

Finally, we have the continuing purpose of contributing to the economic development of the region.

The funding figures you have before you, Mr. Chairman, but in general the levels we are seeking for these three countries are $35 million in economic support funds, $28 million in development assistance, $3 million in title I Public Law 480, $160 million in foreign military sales guarantees, and $15 million for grant military assistance under the MAP program, as well as $3.6 million for IMET, international military education and training.

Very briefly, Mr. Chairman, the purpose that we would intend to serve by these proposed levels of funding are to enhance Jordan's security and economic well-being which we believe is essential for that country to have the internal strength and unity to face up to the very difficult challenges ahead as it considers full engagement in the peace process initiated by the President's statement of September 1 and building on the Camp David agreements which underlie the President's initiative.

In addition, our strong support is crucial to Jordan's ability to continue to contribute more broadly to the security and stability of the region.

With respect to Oman, which is one of the most strategically located states in the region, lying as it does on one side of the Strait of Hormuz, it is making a major contribution to our Southwest Asian security strategy by granting the United States access to military facilities there. By providing a modest level of military and economic assistance, we are demonstrating our preparedness to support the very real security needs of Oman as it faces Iran across the gulf and the PDRY on its southern flank.

With respect to the Yemen Arab Republic, which continues to be one of the poorest states in the region, and indeed in the world, it in turn occupies a critical location on the other side of the Arabian peninsula at the Bab Al-Mandib entrance to the Red Sea. Our assistance to Yemen contributes an important increment to its developmental needs, and in cooperation with Saudi Arabia, we continue to make through Yemen an important contribution to our security interests in the Arabian peninsula.

That, I think, summarizes our purposes, Mr. Chairman, and I will leave the record there.

[Mr. Placke's prepared statement follows:]

PREPARED STATEMENT OF JAMES A. PLACKE, DEPUTY ASSISTANT SECRETARY FOR NEAR EAST AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

I WELCOME THE OPPORTUNITY TO TESTIFY TODAY IN SUPPORT OF THE ADMINISTRATION'S PROPOSALS FOR ECONOMIC AND SECURITY ASSISTANCE TO JORDAN, OMAN AND THE YEMEN ARAB REPUBLIC FOR FISCAL YEAR 1984.

WHILE OUR ASSISTANCE PROGRAMS ARE TAILORED TO EACH COUNTRY'S NEEDS, THESE PROGRAMS ARE ELEMENTS OF THE BROAD REGIONAL STRATEGY WHICH THE ADMINISTRATION HAS DEVELOPED AND IS CARRYING OUT. IN EACH COUNTRY, OUR ASSISTANCE PROGRAMS ARE INTENDED TO NURTURE BASIC RELATIONSHIPS OF MUTUAL INTEREST AND TRUST AND TO ASSIST THEIR GOVERNMENTS IN STRENGTHENING THEIR SECURITY AND PROMOTING THEIR ECONOMIC PROGRESS. IN THE PROCESS, WE WILL BE ADVANCING OUR OBJECTIVES OF PEACE, AND SECURITY AND PROGRESS TOWARD REALIZATION OF THE ECONOMIC AND SOCIAL ASPIRATIONS IN THIS STRATEGICALLY IMPORTANT PART OF THE

WORLD. THE FUNDING THAT WE ARE REQUESTING, DEVELOPED IN LIGHT OF OUR OWN BUDGETARY STRINGENCIES, IS WHAT WE BELIEVE IS ESSENTIAL TO PURSUE OUR REGIONAL POLICY AND TO PROGRESS TOWARD THESE OBJECTIVES. SPECIFICALLY:

-- OUR ASSISTANCE IS IMPORTANT TO JORDAN'S SECURITY AND ECONOMIC WELL-BEING, THE MAINTENANCE OF WHICH IS ESSENTIAL FOR THAT COUNTRY TO HAVE THE INTERNAL STRENGTH TO ENTER THE PEACE PROCESS AT THIS CRITICAL JUNCTURE. IN ADDITION, OUR STRONG SUPPORT IS CRUCIAL TO JORDAN'S ABILITY TO CONTINUE TO CONTRIBUTE TO THE SECURITY AND STABILITY OF THE REGION.

-- OMAN, STRATEGICALLY LOCATED ON THE STRAIT OF HORMUZ, IS MAKING A MAJOR CONTRIBUTION TO OUR SOUTHWEST ASIAN SECURITY POSTURE BY GRANTING THE U.S. ACCESS TO MILITARY FACILITIES. BY PROVIDING MODEST MILITARY AND ECONOMIC ASSISTANCE, WE DEMONSTRATE THAT WE ARE PREPARED TO SUPPORT THE VERY REAL SECURITY NEEDS OF THIS COUNTRY, WHICH FACES IRAN ACROSS THE STRAIT AND WHICH HAS A HISTORY OF PAST CONFLICT WITH SOVIET-BACKED SOUTH YEMEN.

-- THE YEMEN ARAB REPUBLIC, THE POOREST NATION IN THE REGION, OCCUPIES A CRITICAL LOCATION ON THE SOUTHERN BORDER OF SAUDI ARABIA AND AT THE BAB AL-MANDAB ENTRANCE TO THE RED SEA. OUR ASSISTANCE TO YEMEN CONTRIBUTES AN IMPORTANT INCREMENT TO ITS

DEVELOPMENT NEEDS AND, IN COOPERATION WITH SAUDI ARABIA, MAKES A VITAL CONTRIBUTION TO ITS SECURITY AND THAT OF THE ARABIAN PENINSULA GENERALLY.

THE UNITED STATES HAS A STRONG INTEREST IN THE STABILITY AND ORIENTATION OF THESE COUNTRIES OVER THE PERIOD AHEAD. OUR CONTINUING SUPPORT TO HELP THEM FACE EXTERNAL AND INTERNAL CHALLENGES IS A MAJOR FACTOR IN ADVANCING OUR INTERESTS IN THE REGION.

FOR JORDAN, THEREFORE, IN FISCAL YEAR 1984, WE ARE REQUESTING $20 MILLION IN ECONOMIC SUPPORT FUNDS (ESF), $115 MILLION IN FOREIGN MILITARY SALES GUARANTEES (FMS) AND $2 MILLION FOR INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET). UNDER THE FISCAL YEAR 1983 SUPPLEMENTAL REQUEST, JORDAN WOULD RECEIVE AN ADDITIONAL $35 MILLION IN FMS, WHICH BRINGS THE TOTAL FOR THAT CATEGORY IN FY 1983 TO $75 MILLION.

OUR CONTINUED SUPPORT FOR JORDAN IS CRUCIAL TO ITS ABILITY TO REMAIN A VIABLE, MODERATE FACTOR IN THE REGION. WE MUST ENCOURAGE THIS COUNTRY TO JOIN DIRECT PEACE NEGOTIATIONS WITH ISRAEL BY ENSURING THAT JORDAN HAS CONFIDENCE IN ITS OWN STRENGTH AND THAT SUPPORT FROM THE U.S. IS SUFFICIENT FOR THE GOVERNMENT OF JORDAN TO ACCEPT THE HEIGHTENED RISK TO ITS SECURITY WHICH ENTERING SUCH NEGOTIATIONS IS LIKELY TO ENTAIL.

18-551 O—83——12

WE MUST HELP ASSURE JORDAN'S ABILITY TO KEEP ITS BORDERS SECURE AND TO CONTINUE ITS POLICY OF PRESERVING PEACE ALONG ITS FRONTIER WITH ISRAEL. IT IS IN OUR INTEREST TO ENCOURAGE JORDAN TO CONTINUE TO BE AN EFFECTIVE REGIONAL SOURCE OF MILITARY TRAINING AND ADVISORY ASSISTANCE.

JORDAN URGENTLY REQUIRES MORE MODERN ARMAMENT, ESPECIALLY IN THE FACE OF THE SOVIET RESUPPLY OF HOSTILE SYRIA. FMS FINANCING ASSISTS IN THE ACQUISITION OF MILITARY EQUIPMENT MOST CRITICAL TO JORDAN'S LEGITIMATE SELF-DEFENSE. ANY ARMS REQUEST FROM JORDAN WILL BE CONSIDERED CAREFULLY. CONGRESS WILL BE CONSULTED AND HAVE AMPLE OPPORTUNITY TO REVIEW MAJOR ARMS SALES DECISIONS. PRIORITY MATERIAL FOR WHICH THIS FUNDING IS INTENDED INCLUDES AMMUNITION, ARMORED PERSONNEL CARRIERS, COMMUNICATION EQUIPMENT, CHEMICAL PROTECTIVE EQUIPMENT, AND SPARE PARTS.

IMET ENHANCES THE PROFESSIONAL CAPABILITY OF JORDAN'S ARMED FORCES AND CONTRIBUTES TO THE GENERAL WESTERN ORIENTATION OF JORDAN'S OFFICER CORPS. THIS FUNDING ALSO ASSURES THAT JORDAN CAN CONTINUE ITS VALUABLE MILITARY TRAINING AND ADVISORY ASSISTANCE ROLE IN THE REGION, A ROLE WE SEE AS GENERALLY SUPPORTIVE OF U.S. INTERESTS.

IN ADDITION TO SECURITY ASSISTANCE, THIS REQUEST PROVIDES FOR CONTINUATION OF OUR LONG-STANDING SUPPORT OF JORDAN'S ECONOMIC DEVELOPMENT. JORDAN'S ECONOMY IS HEAVILY DEPENDENT UPON TRANSFER PAYMENTS IN THE FORM OF FOREIGN (PRIMARILY ARAB) AID AND EXPATRIATE WORKER REMITTANCES. OUR ASSISTANCE HAS LONG BEEN AN IMPORTANT SUPPLEMENT TO THESE RECEIPTS, BUT IT IS MORE SIGNIFICANT NOW THAT THESE FLOWS ARE LIKELY TO BE ADVERSELY AFFECTED BY THE REDUCED EARNINGS OF THE OIL EXPORTING COUNTRIES OF THE GULF. ESF FUNDS WILL CONTINUE TO ASSIST IN THE DEVELOPMENT OF WATER AND WASTE WATER SYSTEMS, JORDAN VALLEY IRRIGATION PROJECTS AND HEALTH AND AGRICULTURAL PROGRAMS. THE PROGRAM WILL ALSO EMPHASIZE INSTITUTION BUILDING THROUGH MANAGEMENT TRAINING AND TECHNOLOGY TRANSFER.

FOR OMAN IN FISCAL YEAR 1984, WE ARE REQUESTING $15 MILLION ESF, $45 MILLION IN FMS GUARANTEES AND $100,000 FOR IMET. UNDER THE FY 1983 SUPPLEMENTAL REQUEST, OMAN WOULD RECEIVE $10 MILLION IN FMS FOR A TOTAL OF $40 MILLION IN THIS FISCAL YEAR.

OMAN HAS GIVEN VITAL SUPPORT TO U.S. INTERESTS IN THE REGION BY ALLOWING ACCESS FOR OUR FORCES TO SPECIFIED PORTS AND AIRFIELDS. THESE FACILITIES, WHICH WOULD BE CRUCIAL TO ANY EFFORT TO CONFRONT AGGRESSION IN THE GULF, ARE NOW BEING IMPROVED UNDER A MAJOR CONSTRUCTION PROGRAM. IT IS IMPORTANT THAT OMAN'S ARMED FORCES BE MODERNIZED SO THAT THEY CAN

CONTRIBUTE EVEN MORE EFFECTIVELY TO OMAN'S DEFENSE. MOREOVER, OMAN HAS ACCEPTED RISKS AND CRITICISM BY ITS STEADFAST SUPPORT OF THE CAMP DAVID PEACE PROCESS AND PARTICULARLY OF EGYPT'S ROLE.

OMANI SECURITY NEEDS ARE REAL. OMAN SHARES A COMMON BORDER WITH SOVIET-BACKED SOUTH YEMEN. THOUGH TENSION BETWEEN THE TWO COUNTRIES HAS EASED, SOUTH YEMEN STILL REPRESENTS A SECURITY THREAT TO THE SULTANTATE. IN ADDITION, POTENTIALLY HOSTILE IRAN IS ONLY A FEW MILES DISTANT ACROSS THE STRAIT OF HORMUZ. BY PROVIDING MODEST ASSISTANCE, WE CAN DEMONSTRATE THAT WE ARE COMMITTED TO A GROWING SECURITY RELATIONSHIP AS PART OF OUR STRATEGY IN THE AREA.

OUR RELATIONSHIP WITH OMAN ALSO RECOGNIZES THE RAPID PROGRESS THIS COUNTRY HAS MADE DURING THE PAST DECADE IN CREATING MODERN ECONOMIC AND SOCIAL INFRASTRUCTURE WHERE A TRADITIONAL SOCIETY EXISTED BEFORE. OMAN HAS BEEN HELPED IN THIS ENDEAVOR BY ITS OIL INCOME, BUT THESE RESOURCES ARE SMALL BY THE STANDARDS OF THE REGION AND IN RELATION TO THE DEVELOPMENT TASK IT IS FACING. THE COUNTRY HAS RECEIVED SUBSTANTIAL ASSISTANCE FROM FRIENDLY COUNTRIES IN THIS DIFFICULT TASK AND WILL RELY ON SIMILAR HELP IN THE FUTURE.

IN AN EFFORT TO BROADEN OUR RELATIONSHIP WITH OMAN BEYOND ITS SECURITY ASPECTS, THE U.S.-OMAN JOINT COMMISSION WAS ESTABLISHED IN 1980 IN CONJUNCTION WITH THE FACILITIES ACCESS AGREEMENT. WE PROVIDE $5 MILLION A YEAR IN ESF GRANTS TO FUND THE OPERATION OF THE JOINT COMMISSION, FEASIBILITY AND DESIGN STUDIES, TECHNICAL ASSISTANCE AND TRAINING. A $10 MILLION ESF LOAN PROGRAM HAS THUS FAR CONCENTRATED ON WATER RESOURCES AND IS PLANNED IN FISCAL 1984 FOR SCHOOL CONSTRUCTION.

FOR THE YEMEN ARAB REPUBLIC IN FISCAL YEAR 1984, WE ARE REQUESTING $28 MILLION IN DEVELOPMENT ASSISTANCE, $3 MILLION IN PL-480 TITLE I, $15 MILLION IN GRANT MILITARY ASSISTANCE PROGRAM AND $1.5 MILLION IN IMET FOR FISCAL YEAR 1984. OUR FISCAL YEAR 1983 SUPPLEMENTAL ASKS $6 MILLION IN FMS GUARANTEES FOR A TOTAL OF $10 MILLION, AND $4 MILLION MAP FOR A TOTAL OF $5 MILLION IN FY 1983.

U.S. ECONOMIC AND SECURITY ASSISTANCE IN YEMEN IS PART OF OUR EFFORT TO COUNTER THE SOVIET CHALLENGE IN THE MIDDLE EAST AND TO CONFRONT THE CHALLENGE OF RADICAL FORCES IN TH REGION. OUR SECURITY ASSISTANCE HELPS TO PROVIDE YEMEN WITH AN ALTERNATIVE TO EXCLUSIVE RELIANCE ON THE SOVIET UNION FROM WHICH YEMEN FOR A LONG PERIOD OBTAINED THE BULK OF ITS MILITARY SUPPLIES.

THE YAR SCORED A SERIES OF VICTORIES OVER MARXIST-LED INSURGENTS LAST YEAR, CULMINATING IN A CEASEFIRE WHICH LEFT THE YAR GOVERNMENT IN THE MOST SECURE POSITION IT HAS ENJOYED SINCE THE OUTBREAK OF THE INSURGENCY. HOWEVER, THE THREAT OF EXTERNALLY SPONSORED AGGRESSION OR SUBVERSION PERSISTS, AND THE THREAT IS AGGRAVATED BY YEMEN'S PRESENTLY DETERIORATING ECONOMIC CONDITION.

THE YAR IS UNABLE TO UTILIZE FMS FUNDS BECAUSE THESE WOULD INCREASE ITS MEDIUM-TERM DEBT BURDEN. NEVERTHELESS, THE COUNTRY HAS ESSENTIAL TRAINING REQUIREMENTS RELATED TO THE 1979-80 ARMS PURCHASE FINANCED BY SAUDI ARABIA. THESE REQUIREMENTS CANNOT BE FULLY MET THROUGH OUR IMET PROGRAM, AND WE ARE REQUESTING GRANT FUNDS IN FY 1984 IN RECOGNITION OF THE YEMENI FINANCIAL STITUATION. THIS TRAINING CONTRIBUTES TO YEMEN'S SECURITY AND LESSENS YEMEN'S DEPENDENCY ON SOVIET MILITARY ASSISTANCE. THIS CONTINUES THE PROCESS OF ORIENTING YEMEN TOWARD MODERATE ARAB STATES AND THE WEST. A PORTION OF THE MAP FUNDS WILL ALSO BE UTILIZED FOR PURCHASE OF REQUIRED SPARE PARTS AND AMMUNITION.

IT IS EQUALLY IMPORTANT THAT WE CONTRIBUTE TO YEMEN'S EFFORT TO DEVELOP ITS HUMAN AND ECONOMIC RESOURCES. THE SEVERE EARTHQUAKE LAST DECEMBER ADDED A NEW DIMENSION TO YEMEN'S ALREADY TROUBLED ECONOMIC SITUATION, WHICH HAS EXPERIENCED

DECLINING LEVELS OF FOREIGN AID AND REDUCED REMITTANCES FROM WORKERS IN SAUDI ARABIA AND THE GULF STATES. THE PROPOSED NEW PL 480 TITLE I PROGRAM REPRESENTS A FURTHER MODEST BUT RECOGNIZABLE EFFORT TO RESPOND TO YEMEN'S INCREASED ECONOMIC NEED.

OUR DEVELOPMENT ASSISTANCE FUNDS WILL CONTINUE PROGRAMS DESIGNED TO MEET BASIC HUMAN NEEDS IN EDUCATION, PRIMARY HEALTH CARE, AND A MAJOR EFFORT IN THE AGRICULTURAL SECTOR AND RURAL WATER SYSTEMS. WE ALSO INTEND TO INITIATE A MODEST FAMILY PLANNING PROJECT. MANY OF THESE PROGRAMS ARE INTEGRATED WITH EFFORTS OF OTHER DONORS WITH WHOM WE SEEK CLOSE COOPERATION TO MAXIMIZE THE IMPACT OF THE LIMITED AID FUNDS AVAILABLE. OUR PROJECTS CONCENTRATE ON THE DEVELOPMENT OF HUMAN AND ORGANIZATIONAL RESOURCES UPON WHICH THE YEMEN CAN BUILD ITS OWN DEVELOPMENT PROGRAMS.

WE BELIEVE THAT OUR DEVELOPMENTAL AND MILITARY ASSISTANCE PROGRAMS CORRECTLY ADDRESS THE MOST PRESSING NEEDS OF THE YAR IN A REALISTIC MANNER, AND REPRESENT THE MOST EFFECTIVE AND EFFICIENT USE OF THE ASSISTANCE RESOURCES WE ARE PRESENTLY ABLE TO PROVIDE.

TO CONCLUDE, MR. CHAIRMAN, WE ARE WORKING CLOSELY WITH THE GOVERNMENTS OF EACH OF THESE THREE COUNTRIES TO FOSTER COMMON OBJECTIVES OF PEACE, FREEDOM, SECURITY AND PROGRESS TOWARD ECONOMIC AND SOCIAL ASPIRATIONS. A CONTINUED ADEQUATE LEVEL OF ECONOMIC AND SECURITY ASSISTANCE IS CRUCIAL TO OUR INTERESTS IN EACH OF THESE COUNTRIES. WE WILL NOT HAVE PEACE IN THE MIDDLE EAST AND STABILITY IN SOUTHWEST ASIA IF WE DO NOT BACK OUR RHETORIC WITH RESOURCES.

INCREASE IN FMS PROGRAM FOR JORDAN

Mr. HAMILTON. Does anyone else have a statement, or are you ready to go?

Let's start with the military assistance for Jordan. We have a big increase there. You are requesting $115 million for FMS for 1984, and that is a huge increase over the $40 million provided in 1983. I see you have a supplemental there, but even with the supplemental of $35 million, you have got a big jump.

So the first question, I guess, is why the increase?

Mr. PLACKE. Mr. Chairman, going back a bit further in history, I am sure you recall that this level of funding is substantially less than that which we had sustained through much of the 1970's until it declined to these present levels.

I might note that the administration's request for fiscal year 1983 was a total of $75 million, which accounts for the additional funding we are seeking through the supplemental appropriation.

The increase that we are seeking for 1984 is indeed a substantial one. It is intended, in part, to address the accumulation of requirements that we see in Jordan that have mounted over the past several years.

This level of funding is not for extraordinary new programs or for exotic weapon systems, but simply to maintain the Jordanian army and other military forces at an adequate state of preparedness and to engage in modest modernization of those forces.

FMS INCREASE AS AN INDUCEMENT FOR JORDANIAN ENTRY INTO THE PEACE PROCESS

Mr. HAMILTON. It is meant as an inducement for Jordan to enter the peace process? We are all awaiting the King's decision here. This isn't a little carrot, is it, to bring him into the peace process?

Mr. PLACKE. Not in the direct sense, Mr. Chairman, no. Clearly this level of funding is not something that is going to influence King Hussein's decision. The issues are far too fundamental and important for Jordan and, indeed, for the region to be affected by a program of this magnitude or probably any level of funding one could reasonably foresee.

It is related to our efforts to encourage Hussein to participate openly and directly in the peace process in the sense that by doing so he certainly is going to accept a higher level of risk, particularly vis-a-vis Syria and some of the other radical states in the region. In order to make that risk an acceptable one, we believe it is important to enhance Jordan's security by these means.

Mr. HAMILTON. So it is related to, but not linked, is that what it is?

Mr. PLACKE. Yes, sir.

Mr. HAMILTON. Are we tying Jordan's access to some of these sophisticated weapons like the F-16 in any way to their participation in the peace process?

Mr. PLACKE. No, sir. It is an open secret that Jordan is interested in modernization of its air defenses and foresees a requirement for an advanced fighter aircraft as well as a ground-to-air missile system, but that is certainly not incorporated into this request. Indeed, we have no request from the Government of Jordan pending at this time. That is another issue that would be addressed somewhere down the road.

Clearly there is a political environment that surrounds these requests, and Jordan's position on the peace process and the level of engagement that it seeks, we all recognize will influence that environment.

FMS SUPPLEMENTAL FOR FISCAL YEAR 1983

Mr. HAMILTON. You have a $35 million request for FMS supplemental for 1983.

Mr. PLACKE. Yes, sir.

Mr. HAMILTON. What is the purpose of that?

Mr. PLACKE. That is to further the purposes that we saw for 1983 in the administration's original request. The continuing resolution level of funding is not adequate in our view to realize the purposes that we recognized and supported in the 1983 program.

Mr. HAMILTON. Do you expect to get that $35 million?

Mr. PLACKE. We certainly hope to, sir.

Mr. HAMILTON. That is a little different than the question I asked.

Mr. PLACKE. Yes, sir, that is our expectation.

USE OF $115 MILLION FMS

Mr. HAMILTON. What about the uses of this $115 million. How much of it is going to be used for payment on previous purchases and how much of it is going into new purchases?

STATEMENT OF COL. HOMER E. McKALIP, CHIEF, NEAR EAST/SOUTH ASIA DIVISION, OPERATIONS DIRECTORATE, DEFENSE SECURITY ASSISTANCE AGENCY, DEPARTMENT OF DEFENSE

Colonel McKALIP. Sir, the Jordan program has been treated, unlike some other countries in the region, notably Egypt and Israel, as what we call a "fully funded country." This means that they can only place orders for the amount of those credits—we are talking about credit purchases only and not cash—that they have been allocated. In other words, they will be able to place $115 mil-

lion worth of new orders if and when they receive this level of credit. There is no so-called cash flow for Jordan.

Mr. HAMILTON. Is any of this amount going to go for the purchase of those F-16's or the Hawk missile?

Colonel McKALIP. There is no relation to a possible request for advanced aircraft.

Mr. HAMILTON. If we get the additional request for the advanced aircraft, then does that mean that additional financing may be necessary to assist in that sale?

Colonel McKALIP. In all candor, sir, this amount would not underwrite the purchase of advanced aircraft because, as you are probably well aware, a couple of squadrons of F-16's are up into the billion dollar category. I am not suggesting that you are going to be confronted with a billion dollar request, but that is the sort of money you are talking about, so $115 million is not sufficient for an aircraft purchase.

STATUS OF ARMS SALES FOR JORDAN

Mr. HAMILTON. What is the status of this sale, anyway? We have been hearing for a long time about the Hawk missiles, the F-16's, and other items, the Stinger missiles, where does that stand at the moment?

Have they made a formal request for any of those items?

Colonel McKALIP. They have not to my knowledge.

Maybe I should defer to Mr. Placke.

Mr. HAMILTON. Where does all this stuff come from? You tell me that they have not made any request. We keep hearing about it. What is going on here?

Mr. PLACKE. Well, sir, as I said earlier, it is an open secret that Jordan believes that its air defense systems are well below those of its potential adversaries. Looking at Syria, for example, the Syrian Air Force is vastly superior to that of Jordan. The Syrian air attack capabilities are a current threat to Jordan, and one that their present air defense systems would not be adequate to meet.

The question is probably more one of timing. As I noted earlier, there is, as we all recognize, a political environment or a political context that surrounds these kinds of questions. The need for an enhanced air defense system for Jordan is pressing, but until we receive a request from the Jordanian Government, we don't have anything to deal with, and we are not in a position to address the question.

Mr. HAMILTON. When do you anticipate getting the request?

Mr. PLACKE. It is impossible to say, sir.

LINKAGE BETWEEN SALE AND JORDANIAN ENTRY INTO THE PEACE PROCESS

Mr. HAMILTON. Is it related to a settlement in Lebanon?

Mr. PLACKE. No, sir.

Mr. HAMILTON. A troop withdrawal?

Mr. PLACKE. I think it would be more in the course of decisions to be made by King Hussein in regard to his position on the Middle East peace process, recognizing that that certainly is an element in the environment in which that request will be received.

Mr. HAMILTON. Are you saying to us, then, if the King enters the peace process, this administration is going to be receptive to a sale of these fancy things to Jordan?

Mr. PLACKE. I think, sir, in all candor that the administration would support a request from Jordan for improvement of its air defenses whatever policies Jordan pursues so long as they are compatible with our general interests in the Middle East. With respect to Middle East peace, it is——

Mr. HAMILTON. How could it be compatible if they don't join the peace process?

Mr. PLACKE. I think, sir, so long as Jordan maintains its present posture of contributing to the general stability of the region—and it has done so, I think, in really dramatic ways for a sustained period of time.

Mr. HAMILTON. So you think the administration will entertain favorably a request for F-16's, the Hawk missiles, and the Stinger missiles, and so forth, whether or not the King enters the peace process?

Mr. PLACKE. I could not predict with that level of precision, but I think we would certainly examine very carefully and take a sympathetic approach toward Jordan's request. It would depend upon the size and the content of that request as to what the final determination would be.

Mr. HAMILTON. Mr. Winn.

SOVIET MILITARY ADVISORS IN JORDAN

Mr. WINN. Thank you, Mr. Chairman.

Mr. Placke, I want to follow part of the same line of questioning as the chairman.

First, I wonder how many Soviet military advisors are there in Jordan, and what are they doing there?

Maybe, Colonel, you would have that information.

Mr. PLACKE. I will have to defer to Defense to come up with a number for that.

JORDANIAN ENTRY INTO THE PEACE PROCESS

Mr. WINN. While he is looking for that, let me pursue the political line a little bit on the sale to Jordan of whatever hasn't been requested but widely talked about in the press.

The fact is that we all realize that Jordan is a key factor in the President's proposal for Middle East peace made on September 1, but to this point Hussein has not entered the peace process. If my memory serves me correctly, at one time he said something about March 1 being an important date, and the last I heard he said something about the month of March.

Why do you think, from a political standpoint, he has not made up his mind? What is the problem? Why has Jordan not entered into the peace process?

Mr. PLACKE. In responding to that question, I think it is necesary to take a look at what has happened since the President's statement of September 1.

First you had the meeting of the Arab heads of state at Fez which took a favorable view of the President's initiative. It didn't

fully accept it, as one would hardly have expected them to do so—not all elements of it are in accord with the Arab view, just as not all elements are in accord with the Israeli view. It was, after all, an American position and not intended to assert the interests of either side.

In that context, Hussein, who is the fulcrum at this point, needs to have a sufficient degree of consensus and support from the rest of the Arab world, and especially from the more moderate elements of the Arab world, to credibly enter the process as a negotiator in association with non-PLO Palestinians.

I understand, via a broadcast from Radio Amman, and that is my only source, that King Hussein and Yassir Arafat met in New Dehli in the context of the nonalined summit yesterday. One can assume that this was very much a feature of their meeting. They have had, as you are well aware, I am sure, a series of meetings over the past several months leading to understandings between the Palestinian leadership, both PLO and non-PLO, as to a view on Jordan engaging more directly in the process.

Mr. WINN. Do you have any idea from the discussions or from reliable sources that we hear about frequently, how much additional time Hussein is willing to give to the President's peace proposal?

Mr. PLACKE. I think it is quite clear to everyone who is interested in the process that the clock is running and time is running out at a substantial rate. I think that is what underlies King Hussein's comments, and I recall also his mention first of March 1, I think one would have to look upon that as a bit of hyperbole, but clearly the spring is a key point. Whether it is in the month of March or whether it slips over into April, it is difficult to be that precise. We are at a point where further delay will remove the possibility of some of the choices.

JORDAN'S ATTITUDE TOWARD CAMP DAVID

Mr. WINN. What is Jordan's attitude today toward the Camp David Accord?

Mr. PLACKE. Jordan, of course, did not enter into the Camp David process. What it is being invited to do now and the decision now confronting King Hussein, is whether to enter into what I think could be termed phase two of the process. The President's statement of September 1 builds on Camp David. It extends it and it is intended to broaden the process to address, in a more complete way than was possible in the bilateral treaty between Israel and Egypt, the totality of the Palestinian issue.

SOVIET MILITARY ADVISERS IN JORDAN

Mr. WINN. Colonel, did you get those figures that I asked about? How many Soviet advisers are there in Jordan and what they are doing there?

Colonel MCKALIP. I confirmed my understanding by looking at my statistics, and there are no Soviet advisers in Jordan at this time. I have to qualify that because I am sure you are aware that some months ago Jordan was reported to have entered into an agreement with the Soviet Union to provide certain air defense missile equipment.

To my knowledge this has not been delivered yet, but obviously, when it is delivered, there will have to be some sort of technical support as this is absorbed by the Jordanian forces. This would certainly bring into the country Soviet personnel, call them advisers, call them technicians, the label is open to debate.

We have expressed our concern about this, at least through Defense channels, and our counterparts have been very loud in assuring us that this is a onetime compartmentalized project and that they certainly have no intention of establishing a broad-ranged advisory relationship such as we have enjoyed between our two countries in the past and now enjoy.

Mr. WINN. Doesn't the presence of the Soviet military advisers, or whatever they are going to be called, in Jordan enhance the risk of the security of the U.S. military equipment in Jordan's inventory, and wouldn't this place in risk the security of the F-16 if we sold them to them? It looks like we are a little inconsistent.

Colonel MCKALIP. I don't think so, sir. I think that this argument can be made but it must be overemphasized. We also have confidence, particularly in the case of the Kingdom of Jordan, in their ability to provide adequate security for these various systems and to guard against the mixing which you suggest.

I would observe, having spent some time in Jordan, that they do have an especially competent military establishment. We have no reason to believe at this time that they would not be able to provide adequate security. I would also add that the ability to provide the security would be one of the considerations that we would examine if we were requested to make such a sale.

LACK OF CONGRESSIONAL SUPPORT FOR SALE TO JORDAN

Mr. WINN. What I am saying, and this is my last question, Mr. Chairman, or statement, I doubt very much that there are the votes in Congress to support a sale of the I-Hawk, or the F5-G, or the F-16 even. I am trying in my own mind to say that it looks to me like we are taking on another divisive military sale and another ugly fight similar to the AWACS battle.

I think that possibly rather than come up here with any more request for controversial arms sales, that the administration would do better to expand its energies on the peace processes.

Mr. PLACKE. If I could respond to that, Congressman Winn.

Mr. WINN. Certainly.

Mr. PLACKE. I think we have to be careful to make a distinction between the request that the administration is proposing here, which is for modernization of largely ground forces and does not address this larger, more far-reaching and much more expensive question of modernizing Jordan's air defense systems and getting into a new air superiority fighter and so on. That is a question that we have not yet had to address, and it is difficult to predict when and in what form that might occur.

So far as the Soviet adviser issue that you raise, the technicians or whatever the appropriate term might be, it is my understanding that Jordan military personnel have gone to the Soviet Union to be trained on that system.

The system, as you will recall, was purchased because Jordan's assessment of its air defense requirements and our inability to respond to them in a way that was generally judged by military experts on both sides to be fully effective. They turned to the Soviets, therefore, as a second choice, perhaps as a choice of last resort.

Be that it as it may, the training that the Jordanian officers and NCO's receive in the Soviet Union, combined with relatively short-term and compartmentalized assistance in training on site, as it were, by the Soviet advisers yet to arrive in Jordan, altogether means a relatively short term, discrete, and contained program, certainly nothing near the scope of the assistance relationship that has existed bilaterally between us over such a long period of time.

I think it is entirely feasible to monitor that program to see that this is in fact the course that it takes, and to be fully aware of whatever risks there might be, which at the moment we think are minimal, to the integrity and security of our military systems.

It is a serious question that you raise. I think the answer is that the degree of likelihood that the Soviets can get into a position to seriously prejudice our interest in maintaining our security and military technology is a low risk at this point.

Mr. WINN. I disagree with you. It looks to me like they are the 12th man in the huddle.

Mr. HAMILTON. Mr. Lantos.

BAGHDAD CONFERENCE ASSISTANCE TO JORDAN

Mr. LANTOS. Thank you, Mr. Chairman.

I must say that I fully agree with my distinguished colleague from Kansas.

I would like to change the line of questioning, if I may.

What is the amount of aid Jordan is receiving from other Arab countries, both economic and military? Please don't tell me that you don't know, and don't tell me that you will give it to us 3 weeks later when we will all forget about it.

STATEMENT OF CHARLES W. JOHNSON, DIRECTOR, OFFICE OF DEVELOPMENT PLANNING, BUREAU FOR NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. JOHNSON. Under the Baghdad Agreement, Jordan was scheduled to receive something on the order of $1.2 billion per year.

Mr. LANTOS. That Baghdad Agreement was made when?

Mr. JOHNSON. In 1978, sir.

Mr. LANTOS. Jordan was promised $1.2 billion per annum?

Mr. JOHNSON. That is correct, sir.

Mr. LANTOS. What has been the performance thus far?

Mr. JOHNSON. In the last year——

Mr. LANTOS. Can we have it year by year; what happened in 1979 and then 1980, 1981, and 1982?

Mr. JOHNSON. I am sorry, I cannot provide those numbers year by year. I could, I think, make an estimate for the record.

[The information follows:]

JORDAN-BAGHDAD CONFERENCE ASSISTANCE

While pledges made to Jordan by individual Baghdad Conference participants were made as a part of a confidential agreement and while we do not have precise figures as to the specific amounts that were provided by the Arab donors, we estimate tht Jordan has received the following amounts of aid from the conference participants: 1979, $990 million; 1980, $1,110 million; 1981, $1,100 million; 1982, $900 million.

I think in terms of trends, what is happening is that there are questions about both the timing and the amounts of those aid pledges. The Jordanian expectation seems to be that the total amount will be——

Mr. LANTOS. Let's not deal with expectations. Let's deal with the last 4 years. A commitment was made to provide Jordan $1.2 billion per annum. Four years have transpired. Please give me your best judgment as to how much aid was given in each of those 4 years, or over the 4-year period.

Mr. JOHNSON. I am sorry, I do not have the precise figure. It has been less, definitely less than the $1.2 billion.

Mr. LANTOS. Half?

Mr. JOHNSON. More than half.

Mr. LANTOS. Three-quarters?

Mr. JOHNSON. On that order.

Mr. LANTOS. So Jordan has been receiving aid at an annual rate of about $900 million to $1 billion.

Mr. JOHNSON. Yes.

Mr. LANTOS. How is that broken down between economic and military assistance?

Mr. JOHNSON. I do not know the answer.

Mr. PLACKE. I don't think, sir, that there is that kind of breakdown. I think the transfers have just been financial transfers, budgetary support, if you will.

Mr. LANTOS. How has Jordan used that budgetary support?

Mr. PLACKE. As you know, funding if fungible, and it would be, I think, impossible to trace through exactly how it was used.

JORDANIAN MILITARY EXPENDITURES

Mr. LANTOS. How much has Jordan spent in the last 4 years on its military?

Mr. PLACKE. I don't have that figure at hand, sir, we will make our best efforts to get it for you.[1]

JORDANIAN INVOLVEMENT IN IRAN-IRAQ WAR

Mr. LANTOS. It is very disappointing to see this degree of either unpreparedness or unwillingness to respond to questions.

I wonder if you could give us an indication of the extent of Jordanian involvement in the Iran/Iraq war— numbers of troops, numbers of aircraft, and what is or was the nature of that involvement.

Mr. PLACKE. To the best of my information, sir, as you are well aware, there is a close relationship between Iraq and Jordan at the present time, but there are no Jordanian troops, that is regular army troops, from Jordan in Iraq. I wouldn't exclude the possibility

[1] The information was provided on a classified basis and is retained in subcommittee files.

that there may be Jordanians who have been recruited by Iraq to serve in a technical capacity or in some auxiliary way, but there are no Jordan army units engaged in those hostilities.

Mr. LANTOS. What then is the nature of the Jordanian involvement in the Iran/Iraq war?

Mr. PLACKE. I think that it is much more of a political engagement rather than a direct military engagement. Jordan is one of Iraq's supporters in that conflict.

SAUDI INFLUENCE ON JORDAN VIS-A-VIS THE PEACE PROCESS

Mr. LANTOS. Is it the impression of the Department that Saudi Arabia has had an impact on the hesitancy of the King to enter into the negotiating process?

Mr. PLACKE. Hesitancy, no, I don't think so, sir. I think the Saudi role is clearly an important one.

Mr. LANTOS. How would you characterize that role?

Mr. PLACKE. Saudi Arabia has been one of the financial supporters of Jordan in the course of the last several years. King Hussein, in addition to looking toward us for a degree of assurance about our support for Jordan's security and territorial integrity, would I think of necessity, look to Saudi Arabia and other states of the gulf to maintain the level of economic support that we have been discussing.

JORDANIAN TRADE EMBARGO ON LEBANON

Mr. LANTOS. Jordan has placed an embargo on trade with Lebanon. What is our view of that embargo?

Mr. PLACKE. I wasn't aware that Jordan had done that, sir.

Mr. LANTOS. You are not aware of Jordan having done that?

Mr. PLACKE. No, sir.

Mr. LANTOS. Are you suggesting that they have not or that you are not aware of it?

Mr. PLACKE. I am saying that I am not aware of it. To the best of my knowledge, they have not.

JORDANIAN CONDITIONS TO ENTER THE PEACE NEGOTIATIONS

Mr. LANTOS. On February 24, the Jordanian Foreign Minister outlined the conditions that Jordan expects to be fulfilled before they enter peace negotiations, and one of those conditions relates to the termination of settlement activity.

Since under the present Israeli Government that seems totally unlikely, do you expect the Jordanians to change their so-called conditions, or will this be used as an excuse for not entering into the negotiations?

Mr. PLACKE. I can't predict what decision King Hussein may take, or the terms in which he may couch it. Clearly the settlements question is an extremely important and sensitive one, that was recognized by the President in the context of his statement on September 1 when he identified that as an action that would contribute to advancing toward the objective of a peace negotiation.

It is really difficult to say how Jordan will treat that issue. I think it is quite legitimate and we expect that that is going to be

something that Hussein will certainly have on his mind and may well incorporate into the position he ultimately adopts, but what it will be I would not be able to say.

MILITARY THREATS TO JORDAN

Mr. LANTOS. My final question, Mr. Chairman, relates to military threats to Jordan.

What is our appraisal of the military threat to Jordan at present?

Mr. PLACKE. I think at present the most serious military threat to Jordan is posed by Syria.

Mr. LANTOS. What are the other threats?

Mr. PLACKE. The Middle East is a peculiar place, as I am sure you are aware, Mr. Congressman.

Mr. LANTOS. I understand that.

Mr. PLACKE. There have been times in the not too distant past when even Iraq and Jordan have had problems.

Mr. LANTOS. Would you list Iraq as a military threat to Jordan at present?

Mr. PLACKE. No, sir, not at present.

Mr. LANTOS. What other country would you now list as a military threat to Jordan, other than Syria?

Mr. PLACKE. I think I would limit it to Syria, sir.

Mr. LANTOS. Are you suggesting that Syria is the only military threat to Jordan at present?

Mr. PLACKE. In the present political context, yes, sir.

Mr. LANTOS. Are you, therefore, suggesting that Israel does not represent a military threat to Jordan at present?

Mr. PLACKE. As long as the present environment obtains along the border. I think both sides have attempted with success for some years to maintain a peaceful border between them.

Mr. LANTOS. By environment, you mean Jordan's attempt to prevent terrorists from invading Israel from Jordanian territory?

Mr. PLACKE. Yes, sir.

Mr. LANTOS. What you are suggesting, therefore, is that as long as the Jordanian Government succeeds in preventing terrorist attacks against Israel, Israel will continue to represent no military threat to Jordan; is that your statement?

Mr. PLACKE. I would say that that is the practical outcome of what the circumstances of the last several years have been, yes, sir.

Mr. LANTOS. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Zschau.

Mr. ZSCHAU. Thank you, Mr. Chairman. With your permission, I will yield part of my time to my colleague from Michigan who has another hearing going on but has one question he would like to ask.

Mr. HAMILTON. Certainly.

Mr. SILJANDER. Thank you.

My question is a followup on Congressman Lantos question regarding perceived threats. I have garnered from the media that the two major threats would be between Israel and Syria, and Israel and Jordan. In the process of selling F-16's, Hawks, and other such military equipment, would we not be undercutting one country

that we have been supporting by the very sale and updating and modernization of the military for Jordan when they clearly perceive Israel as one of their threats. It seems that we are supporting one end and pulling from the other, or is that not an accurate assessment.

It seems that if Jordan perceives Israel as a threat, then who are we favoring by updating, modernizing, and helping their military? It seems that we are playing some sort of military game or political game.

Mr. PLACKE. Certainly politics has something to do with it. It is not possible to sustain a comprehensive regional policy, particularly one directed toward accomplishment of a peaceful environment in that region, and put all of your efforts only on one side, that is to give total support to Israel without considering the requirements of the other states of the region.

I think that it is that kind of balance and recognition of Jordan's broader regional role that really is involved here. Jordan under no conceivable circumstance that we can foresee at this point would constitute a serious military threat to Israel.

Quite clearly, as long as there is a peaceful environment, without the formalities that go along with the arrangements that we are seeking to arrive at, Israel is not a military threat to Jordan. It certainly has the capability of posing an overwhelming threat to Jordan, should it choose to do so, but without provocation or motivation, we would not expect that to happen.

I think the contrast that you are posing there is not one that we would subscribe to. It is quite possible to address the security interests of both of those parties without putting them in conflict.

Mr. SILJANDER. Thank you for yielding.

U.S. ACTIONS TO ENCOURAGE JORDANIAN ENTRY INTO THE PEACE PROCESS

Mr. ZSCHAU. Mr. Placke, I think everyone agrees that King Hussein's participation in the peace process is a fundamental prerequisite for moving the process ahead. You also testified earlier that gaining support from the other Arab factions was critical to his stepping forward and serving as a credible negotiator. You also testified that this aid proposal was not directed toward encouraging him to do so, but it would help pay some of the costs that might be related to his doing so. It wasn't necessarily the carrot, if you will.

My question is, are there actions that the Congress or the administration could be taking or should be taking that would encourage King Hussein to enter the peace process?

Mr. PLACKE. At this time, I think, our principal focus is on this security assistance and economic development package, that is where we would put our principal emphasis. Beyond that, however, and this perhaps is really the point of your question, we have our own dialog with each of the states in the region, and we view it as extremely important to encourage King Hussein by every means to enter the process. We are addressing that question with the other states of the region.

Mr. ZSCHAU. My question was, what are those other means?

Mr. PLACKE. The moderate Arab camp in general has to provide the degree of sanction and support within the Arab camp that Hussein is going to need in order to be a viable negotiator. It is those terms that we are addressing with other Arab states, particularly the moderates.

Mr. ZSCHAU. Does this mean that there are either aid proposals or certain other actions directed toward those other states that are important. Should we be expanding our vision past just Jordan when we are trying to encourage King Hussein to enter the process?

Mr. PLACKE. Not in all cases is it an aid relationship. For example, with Saudi Arabia, we certainly have a far-reaching security relationship, but it is not dependent on assistance from our side. The Saudis have an important supporting role to play in this, and it is a feature of our dialog with them, and an effort on our part to encourage them and to collaborate with them to provide the support for Jordan that the King is going to need.

SENATE RESOLUTION ON ARMS SALES TO JORDAN

Mr. ZSCHAU. Last month a majority of senators cosponsored a resolution saying, roughly, that until King Hussein entered the peace process and ceased the purchase of Soviet arms, we should not sell any advanced weapons to Jordan. You have said, they have not requested those weapons, but this perhaps was in anticipation of a request.

Do you feel that that kind of action is helpful in motivating King Hussein to enter the peace process, or do you feel that that might be counterproductive?

Mr. PLACKE. With due regard to that document, I think I would have to come down on the side of it being counterproductive for this reason: just as the conflict between the Arab States and Israel has a very long history, there is a long history of failed efforts by the United States, and indeed others, to bring about a resolution of that conflict.

When the President made his announcement on September 1 and laid out an American design or American principles for settlement, he did so mindful of the history that lies behind it. It has never been done at that level by any American administration before, so it was a very substantial commitment.

What I am saying is that in light of the history of the last 35 years, it is not surprising that there is a certain reservation about how sustained an American initiative can be. I think that all of the states of the region are well aware that there are three equal branches to this Government and that they can look at this issue quite differently. But to the extent that there are questions raised which can cause doubts to exist, or encourage doubts, about the ability of the administration to maintain a coherent policy line on this critical issue, I think that is not constructive.

Mr. ZSCHAU. As a final question, I would just like to ask, are you suggesting that since the timetable for King Hussein's decision seems to be so near, you were talking about the month of March, would you advise the Congress that we should avoid any actions at

this time and allow the King to make his decision without the benefit of such carrots or sticks?

Mr. PLACKE. If a benign political environment could prevail, I think that would certainly be helpful at this juncture.

Mr. ZSCHAU. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Levine.

KING HUSSEIN'S ROLE IN THE PEACE PROCESS

Mr. LEVINE. Thank you, Mr. Chairman.

Mr. Secretary, I would like to pick up on some of the questions that are related to those that my distinguished colleague from California was just asking with regard to Hussein and the peace process, particularly in light of your reference to the history of the past 35 years.

As I read that history from the past 35 years, I have a difficult time seeing much difference in the recent past, with King Hussein initially saying that there was a particular date on which he will be responding, and then he said March 1, and then it was the month of March. I heard you say for the first time within the past few minutes that it may not be March but sometime in the spring.

What makes us think that he is going to respond any differently than he has in the past 35 years, and reject peace as he has time and time again. He continues to reject this date. I don't see anything that leads me to conclude that he will ever come to the peace table, or if he does that he will ever do it without putting such onerous conditions upon his being at the peace table as to make his appearance there moot.

What is new?

Mr. PLACKE. I think this is new. Since the President's statement of September 1, King Hussein has publicly and unequivocally recognized the legitimacy of the State of Israel, its right to exist in peace and security, and claiming the same right for himself and his kingdom.

I think it is that imperative that is driving Hussein into the peace process. I think he sees the fate of Jordan directly associated with the outcome of this issue. As long as the Palestinian question remains unresolved, there is a basic challenge to the security of Jordan.

King Hussein, like the rest of us, is not getting any younger, I think he would like to see the future of Jordan, the future of his monarchy, as assured as is possible in the course of human affairs. Clearly a critical element is resolving the Palestinian question, and that requires peace between Israel and its Arab neighbors.

Mr. LEVINE. Does the administration view the September 1 initiative of President Reagan as consistent with Camp David or as a part of the Camp David framework?

Mr. PLACKE. Very definitely, sir. The President's initiative on September 1 is in no way inconsistent with Camp David and really builds upon that fundamental foundation. The peace treaty between Egypt and Israel is the basis for the President's initiative.

Mr. LEVINE. So this is a part of the Camp David process?

Mr. PLACKE. Yes, sir.

Mr. LEVINE. Does King Hussein feel any differently about the Camp David process than he historically has? As I understand it, his consistent position with regard to Camp David has been complete rejection.

Mr. PLACKE. Words have a magic of their own, particularly in the Middle East. When one says, "Camp David," you conjure up a bit of history that Hussein did not associate himself with, you are quite right. I think it is possible to accomplish the same purpose without necessarily putting a label on it.

Mr. LEVINE. I guess you will have to use words and we will have to try and figure out what their meaning is.

It seems to me that either the September 1 initiative of President Reagan is not consistent with Camp David and therefore gives King Hussein a different vehicle from Camp David with which to associate himself; or it is consistent with Camp David, and King Hussein continues to oppose Camp David and therefore will not support the initiative; or it is inconsistent with Camp David and therefore gives King Hussein the opportunity to pursue a different peace process. I don't see how we can have it all ways.

Mr. PLACKE. Could I suggest another alternative formulation to the ones that you have posed.

The September 1 statement by the President is entirely consistent with, and builds upon, the Camp David process. It incorporates and assumes the same principles, the fundamental one, of course, being a tradeoff between peace and security on the one hand, and territory on the other.

That is the underlying principle in U.N. Resolutions 242 and 338 which was intended to give effect to 242, to the Camp David principles and the process that flowed from them continuing right on through the President's September 1 statement.

If you will, I think we can have the Camp David process without having to put a label on it.

Mr. LEVINE. I don't want to spend the entire time quibbling over the semantics, but I do think that while you are very artfully interpreting a process in a very flexible fashion, I think that there is an inconsistency somewhere. Either September 1 is consistent with Camp David and if so Hussein has got to make a choice as to whether he wants to associate himself with Camp David, or it is not consistent with Camp David and gives King Hussein a different vehicle for making a judgment with regard to peace in the Middle East.

I very much hope that King Hussein will change his political view. I hope that he will decide to participate in this process. I haven't thus far seen the type of evidence that causes me to have the same optimism that you and the other members of the administration have. I am curious as to whether Camp David is a relevant part of it or not, and that is one of the reasons that I raised that question.

Mr. PLACKE. I think the principles are clearly relevant, and Hussein has explicitly accepted U.N. Resolution 242. He has explicitly accepted Israel's right to exist. He has explicitly put forward as part of the policy of his nation the tradeoff of security for territory. He has not said, yes, I accept the Camp David process, and I am not sure that it is possible to anticipate that he will do that. I am

not sure that it is even important that he use that formulation. I think we can get to the same place without it.

PURPOSE OF JORDAN'S ACQUISITION OF SOVIET MILITARY EQUIPMENT

Mr. LEVINE. Let me move to one other area. What is the purpose, in your opinion, in the eyes of Jordan of obtaining Soviet equipment and Soviet military assistance at this time?

Mr. PLACKE. To recall that bit of history as best I can, Jordan's assessment, and one which I think our own military largely share, is that there is a pressing need for a vastly modernized and improved air defense.

Mr. LEVINE. Their defense against whom?

Mr. PLACKE. Their defense against, at this point, as we discussed earlier, Syria constituting the principal threat.

Mr. LEVINE. Let me just interrupt you at this point. Why would the Soviet Union have an interest in giving Jordan assistance in improving its defense against Syria?

Mr. PLACKE. It is not unique certainly in Soviet policy to come down on both sides of a conflict. They have done it again in the Iran/Iraq affair, for example. They have done it with respect to North and South Yemen. There they are supplying arms heavily to both sides, and you have Soviet tanks shooting at each other, and so forth. So that is not uncharacteristic of Soviet policy.

Why Jordan? I think the history of our own relationship with Jordan suggests at least part of the answer. Jordan and the United States have enjoyed a close and, I believe, quite productive security relationship contributing to stability throughout the region, and taking it outside of the context of just the states on its immediate borders, but looking toward the gulf, the role that it played earlier in the Oman war, the advisers that it has made available to North Yemen, and so on. The Jordanian Army is a highly skilled, I think by all military judgments, fighting force—one of the best in the region—we benefit from its availability for security purposes that are consistent with our objectives.

This has been a very productive relationship over a long period of time. If an opportunity arises where the Soviets can insert themselves into that relationship, perhaps with the longer term hope of detracting from it or disrupting it in some way, clearly they would conceive that to be clearly in line with their interest.

U.S. CONCERNS OVER JORDANIAN PURCHASE OF SOVIET EQUIPMENT

Mr. LEVINE. Do we do anything to discourage the Jordanians from seeking military assistance from the Soviet Union?

Mr. PLACKE. Yes, sir. We raised with them our serious concerns about the implications of a security relationship, however limited it might be, along the lines of some of the earlier questions today, our necessary concern with the security of our military technology. They have explained to us that they can contain this, compartmentalize it, to a very limited relationship along the lines that I attempted to describe earlier this morning. I think we will be looking very carefully to see that that in fact is the way that things develop.

Mr. LEVINE. In closing I would simply say, it seems to me that the King is a master at walking a series of tightropes, and this is one of them that I have a very difficult time being sympathetic to.

On the one hand, he seeks significant and sophisticated military assistance from us, and on the other hand he is, apparently, utterly unconcerned about our suggestions that the receipt of that assistance would not be consistent with his obtaining sophisticated assistance from the Soviet Union.

The questions that Congressman Winn asked earlier are extremely relevant. I think you have done as good a job in answering them as can be done, but I don't think there is an answer to them. I don't see how we can protect our technology from the Soviet Union when they are in the same place that we are.

I marvel at King Hussein's ability to cause ourselves, the Soviet Union, and other peoples whose interests are not exactly identical, all to be marching to the tune of his drummer.

Mr. PLACKE. Sir, the concerns that both you and Congressman Winn have expressed are clearly well founded. If, in fact, it develops as we think it will and as we believe Jordan is entirely capable of seeing that it does—that is a very tight, limited, confined, and compartmentalized relationship, limited to this specific item of equipment—I think that is an adequate response to those concerns, at least that would be our judgment.

Mr. LEVINE. I have never expected this particular administration to be so trusting of a relationship between a friend of ours and the Soviet Union. In this instance, I am particularly surprised.

Mr. HAMILTON. Mr. Smith.

NEED FOR INCREASED FMS FINANCING

Mr. SMITH. Thank you, Mr. Chairman.

I am sorry for being late, but three 10 o'clock hearings almost every day is very difficult to balance. I apologize, Mr. Placke, if I ask a question that may have been answered. If you will please tell me, I will discontinue it.

We have a request for $115 million in FMS financing which is a $75 million increase. Has Jordan sustained any damage to any of its military components over the last few years at all? Have they rendered any assistance to any area in military terms with equipment that they obtained from us, or is there anything that we are attempting to replace which has been diminished or damaged or lost by virtue of Jordan's complicity in any fighting, et cetera?

Mr. PLACKE. No, sir, I don't think in the terms that you mean that.

I think what is important is to look back over the trend. Our security assistance levels in the late 1970's were well above $100 million. They declined in recent years to the present low level.

The administration's request for fiscal year 1983 was a total of $75 million, and the supplemental request which the Congress now also has before it is intended to raise the amount available to Jordan back up to that $75 million from the amount provided in the continuing resolution.

Over a period of time any military force deteriorates. The principal purpose of the level of funding requested for 1984 is to make

up, if you will, some of the ground that has been lost in the meantime without the sort of active hostilities that you suggested.

Mr. SMITH. What ground has been lost?

Mr. PLACKE. Just the passage of time.

Colonel MCKALIP. Mr. Smith, I will try to address your question. Any military establishment deteriorates sitting there, and I am sure you will allow that. Quite frankly, even for a force the size of Jordan's, a program of, I would say, $50 million or $75 million is just a sustaining level of funding.

Mr. SMITH. If we had to provide all the funding, but we don't.

Colonel MCKALIP. And we have not. Mr. Winn asked a somewhat similar question as far as expenditures, and I am not prepared to address their total expenditures, but I do notice in my notes here that they have spent on an average of around $200 million a year in the United States primarily on modest things.

A number of years ago, they bought the M-60A-1 tanks from us. They have established an armor rebuild capability, and in the last year or so have purchased what we call kits to upgrade them to a better version.

Mr. SMITH. They are replacing the cannons?

Colonel MCKALIP. No, this is only replacing fire control, laser range finders in lieu of the older ones, but retaining the same cannon.

They have annual requirements for training ammunition and for spare parts which are just part of normal operating costs. Professionally speaking, this is not an extreme rate. In fact, it is my view that at least half of this request would not be enough to sustain their force. They are making expenditures of national funds in the United States for sustaining purposes.

I would also go on to say, I would encourage the committee to look carefully at the regional balance because they are very concerned about this.

This concern is warranted, if you assume that there may just be a threat to Jordan from some quarter, and if you assume that any sovereign country has a right to provide for its own self-defense. I will grant you that any time we help one country, it could be to the disadvantage of a neighbor. I will grant you that any time there are more than one country providing items, there is a possibility of technology compromise.

But I would ask you to look particularly at Jordan's situation, particularly in the area of air defense. I think that is what our discussion has frequently touched here because we are talking air defense aircraft and I-Hawk type missiles in many instances. You will find—I can't go into classified materials and I am not sure I am competent to brief you thoroughly off the top of my head, but you will find about a 6 to 1 numerical disparity between Syria and Jordan, and that is just in quantity, not quality.

The mainstay of their air force is the earlier model of the international fighter, the so-called F-5, that we sold worldwide 20 years ago. I believe that their case, should they ask, deserves our consideration, a respectful hearing which I know they will get. I also feel that it begins, to bring this back to your question, to give an appreciation for why they may have looked to others for some of this air defense.

I am convinced that it was not to make mischief, certainly not on the part of the Jordanian Government, but it was more because of what they believe to be a legitimate need to improve their air defense. The bottom line is that the available suppliers are few in number.

Mr. SMITH. Let me throw out this scenario in light of certain questions that have been asked, including that which Mr. Levine asked regarding King Hussein and the whole motivation for the peace process, and Mr. Zschau's question and your answer regarding the counterproductive nature of resolutions which say that we shouldn't sell arms to Jordan for certain reasons and at certain periods of time.

The United States is depending very heavily upon King Hussein, according to the September 1 initiative of the President. King Hussein is not getting any military aid from the United States and wants aid. Any aid from the United States does not want to be perceived as the carrot which brings Hussein into the peace process because there is a large sentiment about doing that in this country.

Hussein arranges with the Soviet Union, and with Syria impliedly, to allow Soviet missiles to be placed in Syria, which then constitute a grave danger to Jordan, as well as Israel and U.S. ships and planes based on those ships in the Mediterranean off the coast of Israel. Those are facts that have been testified to by your own agency.

The scenario being now that as a result of their machinations, the Jordanian threat from other places is perceived as real. You have already agreed that there is no threat from Israel given the existing circumstances. All of a sudden the whole U.S. Congress is locked into a situation where if we do not aid Jordan, (a) we are perceived as allowing them to be continuing under the threat of a major problem from Syria, (b) we are not willing to do anything at all to bring him to the peace process, and (c) we are compromising our own security in the region, our own forces in the region, and our allies to whom we have already given money and military assistance. Therefore, we must move forward notwithstanding the fact that we don't want to move forward.

Is that scenario possible, and would the State Department ever have any hand in doing anything like that in order to justify what this administration wants to do?

Mr. PLACKE. Let me, if I remember correctly, Mr. Congressman, try to address your points (a), (b), and (c) toward the conclusion of that scenario.

(a) Syria, of course, posed a serious defense challenge potentially to Jordan, as my colleague from Defense has outlined, before the advent of the SA-5 missile, which I assume your reference is to. That certainly doesn't improve the situation, but there was an enormous imbalance in air attack capability on the part of Syria and the air defense on the part of Jordan before that system was introduced in Syria.

Mr. SMITH. Let me stop you there. That is true, it may have existed for quite a while, but nothing came of it, did it?

There was an imbalance, but the imbalance resulted in a balance. There was no attack. There was no direct threat. There was nothing. It was just that an imbalance existed, is that correct?

Mr. PLACKE. That is substantially correct, but I would ask you to recall that 2 years ago or approximately 2 years ago, Syria and Jordan, while they did not come to the point of active hostilities, were confronting each other with very substantial forces along their common boundary. The amount of animosity has run fairly high in the past, and there has been a history of open hostility between those two countries.

I think it is not possible, as you would readily agree, to wait to make a judgment about an FMS request that will result in equipment sales over a period of time and deliveries over an even longer period of time, until you have got active hostilities. Clearly by the time the process has run its course, the result of those hostilities will be a matter of history.

The fact that there aren't hostilities now, I think to some degree at least, is attributable to the kinds of policies that a series of administrations have followed in the region.

To turn to your second point, that we are not doing anything to engage Hussein into the peace process, I think quite the contrary. That was a feature of Hussein's working visit here 2 months ago. There were long and intensive discussions between the King and the President directly, as well as between his advisors and other members of the administration.

The part of the background to the administration's request that is before you now is, as I indicated earlier, related to the peace process. It is not a carrot; $100 million is not going to buy you Jordan, and I don't think that anybody has any illusions about that, but it is evidence of our continuing commitment to the kind of security relationship that we have had with Jordan for a very long time.

Does that adequately address the scenario that you have posed?

U.S. POSTURE ON SALES TO JORDAN

Mr. SMITH. Is it possible that the King of Jordan would approach the Soviet Union and use as a justification for his arm sales the threat of the Syrian missiles? Would that be something that would ultimately shake the United States into a position of having to come forward where they didn't before?

Have the Soviets, to some degree, agreed to give Hussein what he might be looking for their own purposes, and Hussein at the same time having his own purpose to shake the United States forward in doing what some people have come to this room and testified we would not do, and that is use the promise of additional arms sales to Jordan as leverage for getting him into the peace process?

We are now doing it. There is a supplemental request here for additional moneys for Jordan which is being couched in terms of traditional, continuing, sustaining of a fighting force, which has not been diminished to any degree, and in which they have already placed large sums of their own money.

They are not falling apart. I think that the Colonel, frankly, is trying to paint a picture which may or may not be the case. They are far from falling apart. They still have the best fighting force in the region among the Arab states, and nobody has said anything to

shake me from the fact that they have not diminished that capacity.

What I am hearing today is that while we are not giving them anything specifically, we are enticing them, that was part of what the President said, but other people have told us that we are not promising them anything.

I am just wondering whether next week somebody is going to finally waltz in this room and lay down what we are hearing slowly but surely creeping up on us: We want to give the Jordanians x in exchange for their coming into the peace process.

I hear it, I hear it crawling, and if that is what we want to do maybe we ought to just say it. But to keep doing the things that we are doing, slowly but surely, we are going to do a little bit here and a little bit there, and we are going to entice them into the peace process.

He hasn't come in 3½ years since Camp David, and there is absolutely no reason for him to come now unless we have told him that we will do X, Y, and Z for him. I frankly would like to hear from somebody a little bit more of what is probably rolling out there that we haven't heard yet. I am rather dissatisfied with the answers that I get consistently that this is not happening. Yet when I look in the paper I see that it is happening slowly but surely.

Mr. PLACKE. Let me try to take another run at that question, sir. I think, if I understand correctly, you are asking: Is Hussein likely to try to leverage us on security assistance by the threat of turning to the Soviets in some more massive way? Is that the point of the earlier part of your question?

Mr. SMITH. That is one of the scenarios that I painted. Is that a possibility?

Mr. PLACKE. In the sense that anything is possible, yes.

Mr. SMITH. No, Mr. Placke, what we are doing in reality here, and not theoreticals. Is that a possibility? I mean, games are being played every day in the world on a military and political basis. Is it a possibility for Hussein to use leverage with the Soviets in order to leverage us?

Mr. PLACKE. Setting aside the theoretical aspect that anything is possible, I would say, practically, no, for a very good reason.

The United States is the only major power that has an acceptability by both of the main parties to the Palestine issue. The Soviet Union has not been a contributor to peace in that region. Hussein has said it plainly time and time again that his interest is peace, a real peace, I think in the same sense that Israel means peace, a permanent one, signed and sealed, with a treaty and all of the formality that goes with it.

Mr. SMITH. Let's stop there because that is the bottom line. We have finally waltzed around the issue to the bottom. When is he going to come?

Lebanon did not come until June 1982, and yet 3 years had transpired since Camp David. Hussein was if not a signer, a named party in Camp David, and nothing that we could do in 3 years moved him at all. Nothing we have done since then has moved him at all, except for him to say that he believes in the President's September 1 peace initiative.

Everybody believes in peace. It is a wonderful flag to wave when you have nothing else to say, or aren't doing anything. It keeps all of the people at bay for a while. But, is it in fact anywhere out there that we are doing more than people are trying to tell us.

Mr. PLACKE. If I could pick up a reference you made to Lebanon. There are many consequences that flowed from the events in Lebanon last summer, but one of them and one of them that I think is the background to the President's September 1 initiative and to events since then, is that there is no military option on the Arab side.

There is no military capability that the Arab states can muster to militarily overwhelm Israel. We are committed, and we have been as a matter of policy through a number of administrations, to maintaining that qualitative edge on the part of Israel. I think others have already addressed the question of the relationship of this level of assistance to Jordan in that context.

Once having removed the mystic of a military solution, it is possible to get down to a more serious discussion of political realities and to the fundamentals of the trade-off of territory for peace. I don't think Hussein has as many illusions about the military balance as perhaps others in the Arab world.

In any event, all of this has been swept aside, and it is now possible to deal with the realities of the situation, as you suggest. I think that that is one of the things that has changed, and it is one of the reasons why envisioning Jordan engaging as a valid negotiator in the process is feasible and realistic today. It was not 3 years ago.

Mr. SMITH. Thank you, Mr. Chairman. I do appreciate your courtesy very much.

Thank you, Mr. Placke.

REQUEST FOR ASHA

Mr. HAMILTON. The Chair is aware that there are other items in this request, other than Jordan.

Mr. Santos, you have had a rather pleasant morning sitting there. I thought maybe I had better ask some questions to you.

You are here with a request for $7.5 million for the American Schools and Hospitals program, and we are playing the old game again, why? You know that $7.5 million is not a reasonable figure.

STATEMENT OF DAVID A. SANTOS, DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. SANTOS. Yes, that would be a difficult figure with which to administer a worthwhile program, Mr. Chairman.

Mr. HAMILTON. If you got the $7.5 million, you would be in an awful mess, right?

Mr. SANTOS. Yes.

Mr. HAMILTON. Why do you come in with the $7.5 million?

Mr. SANTOS. As you know, Mr. Chairman, I administer the American Schools and Hospitals Abroad program, but I do not determine the funding levels that are requested.

Mr. HAMILTON. Is that right.

Mr. SANTOS. Yes.

Mr. HAMILTON. Are you saying that you think it ought to be higher?

Mr. SANTOS. I think you can see from our congressional presentation that there are a lot of applications that far exceed the request.

Mr. HAMILTON. What would happen if you only got $7.5 million?

Mr. SANTOS. We would obviously have fewer and smaller grants than we have had in recent years.

Mr. HAMILTON. I understand the problem, of course, but it is a little tiresome to play the same game every year. I can't remember when the figure has been less than $20 million. It has been $20 million for a long time. You have got requests in 1984 exceeding $77 million, and you come in with a request for $7.5 million which is not even close to reality. We have always appropriated somewhere, I think, in the neighborhood of $20 million.

Your document indicates that some 25 of the applicants received funds in 1982. Of the 59 applicants, how many would you consider serious, meritorious, and worthy of funds?

Mr. SANTOS. As a result of our review process last year, and given a $20 million appropriation, we concluded that the 25 institutions that received grants had the most meritorious projects.

Mr. HAMILTON. Does that mean the others were not meritorious?

Mr. SANTOS. Some of the others, I would say, were meritorious and some, I would say, were not. We stretch the $20 million as far as we can.

PROJECTS WORTHY OF SUPPORT

Mr. HAMILTON. I am trying to get an idea of how many of those 59 you think are really worthy of funding, if the funds were available.

Mr. SANTOS. I would say that some of the applicants, in addition to the 25 that received grants would be worthy of some assistance.

Mr. HAMILTON. Five additional ones or 20 additional ones, or what?

Mr. SANTOS. Probably another 10 additional ones. The 25 applicants that received assistance at $20 million, those 25 were seeking over $40 million in assistance themselves.

Mr. HAMILTON. Have you had a steady increase in the number of meritorious applicants?

Mr. SANTOS. Yes, I think we have. In the past 5 years, we have had 26 institutions from developing countries, primarily in Asia, Africa, and Latin America, that were first time recipients and had not previously gotten assistance from the program.

GEOGRAPHICAL DISTRIBUTION

Mr. HAMILTON. You know of my concern about the geographical distribution of these funds and I think you have made considerable progress in changing that geographic distribution, down from 94.7 percent in 1970 to 43.5 percent in 1983 going into the Near East. Do you see that percentage continuing to go down, or do you think that it has gone down about as far as it will?

Mr. SANTOS. It has been down to that percentage for the last few years, and I think that it will be difficult to get it down appreciably considering the requirements of such institutions as the American University in Beirut.

Mr. HAMILTON. I think you have made significant progress over a period of time.

Do you see a majority of the money in the Near East going to the American University in Beirut and to the Hadassah Hospital and the Feinberg Graduate School of the Weizman Institute; is that where most of our funds go in the Near East?

Mr. SANTOS. Yes, these have been continuously strong competitors among the applicants.

Mr. HAMILTON. Will your ability to continue to reduce the funds for the Near East depend in part on the size of the appropriation?

Mr. SANTOS. Obviously that is a factor, yes.

AUB FUNDING

Mr. HAMILTON. How much money has the American University of Beirut received from the United States since fiscal year 1981, and how much of that has come out of the ASHA account?

Mr. SANTOS. In fiscal years 1982 and 1983 to date, the American University of Beirut has received $21.5 million, and that includes $6 million from the development assistance regional scholarship program, $5 million from ESF, and $4 million from the ASHA account. That does not include any fiscal year 1983 assistance that ASHA may provide to AUB.

Mr. HAMILTON. Are you going to?

Mr. SANTOS. We are presently reviewing the situation and it will be some weeks before we actually have revised statements of revenues and expenditures from that university.

Mr. HAMILTON. But you are receptive to providing them funds for 1983?

Mr. SANTOS. Yes, we expect to be providing some funds. It is a question of how much.

Mr. HAMILTON. When will the $10 million that was provided in 1982 emergency legislation be obligated?

Mr. SANTOS. It has been fully obligated, Mr. Chairman.

Mr. HAMILTON. Why the delay?

Mr. SANTOS. That $10 million was obligated in 2 tranches, the first one of $3 million, and the second of $7 million. The $7 million tranche was obligated just a week or two ago.

Mr. HAMILTON. OK.

You have fiscal year 1984 expenditures listed in the Lebanon program on the congressional presentation document of $3 million. Where does that come from?

Mr. SANTOS. Is that the computer printout on the final page?

Mr. HAMILTON. Yes, for the Lebanon program.

Mr. SANTOS. Those are estimates that are done by another office. I am not responsible for that page and I can't address it.

Mr. HAMILTON. Could you tell us in writing afterward where that $3 million comes from? It is put down as a 1984 expenditure, and we don't understand it, that is the point.

Mr. SANTOS. Frankly, I don't know where the figure comes from either. I will try to find out.

[The information follows:]

AMERICAN UNIVERSITY OF BEIRUT

As the Chairman points out, on page 150 of Annex IV of the fiscal year 1984 Congressional Presentation there is a $3 million expenditure from the Disaster Assistance account noted in fiscal year 1984. This figure represents an estimate made by the Near East Bureau at the time the document was drafted. Since that time the estimate has been revised and we have expended in fiscal year 1983 the entire $10 million made available to the AUB under 1982 emergency legislation. At the present time, any fiscal year 1984 funding provided will come from the American Schools and Hospitals account and/or from the Near East Regional account which is a scholarship program. The latter program is estimated to require $3 million in regional support.

[Mr. Santo's prepared statement follows:]

PREPARED STATEMENT OF DAVID A. SANTOS, DIRECTOR, OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to appear before this Subcommittee on behalf of the Agency for International Development's American Schools and Hospitals Abroad program.

The efforts and resources of thousands of U.S. citizens have built and sustained a significant number of non-profit schools and hospitals overseas which provide citizens of other countries with the training needed for economic and social development.

Fiscal Year 1984 marks the 25th anniversary of the American Schools and Hospitals Abroad (ASHA) program. During this period, the program has helped U.S.-sponsored institutions carry American know-how to over 50 countries. The ASHA program has assisted secondary schools which provide academic and vocational training; undergraduate and graduate institutions with programs in business administration, engineering, medicine, nursing, agriculture, liberal arts and the physical sciences; and hospital centers which offer primary and specialized health services and conduct medical education and research.

Initially responsive to the needs of only a limited number of institutions, mainly in the Near East, ASHA has become a competitive program in which an annual comparative assessment is carried out to determine the impact, need and cost-effectiveness of proposals as well as the degree to which applicants meet established criteria. In the past five years, 26 institutions in developing countries, primarily in Africa, Asia and Latin America, received help for the first time.

Since the beginning of Fiscal Year 1982, projects at 28 institutions have been completed with $35 million of prior year grants. These projects have provided classrooms, laboratories, libraries and U.S. scientific and medical equipment. Such facilities and equipment have permitted institutions in Botswana, Liberia, Malawi,

Zaire, Ecuador, Guatemala, Honduras, Mexico, India, Indonesia, Korea, Philippines, Thailand, Egypt, Greece, Israel, Turkey and the West Bank to increase student enrollment and to improve and expand educational and medical programs. A listing of these completed projects is attached. Other projects already financed by the ASHA program are at various stages of completion in some of the countries noted above as well as in Brazil, Haiti, Jordan, Lebanon, Poland, Rwanda, and Tanzania.

In addition to grants for specific projects, $7.7 million was granted in FY 1982 to help a limited number of other institutions sustain ongoing programs and operations, the expenses of which are met primarily from tuition, fees and private contributions. These include the American University of Beirut, the American University in Cairo, the Bologna Center of Johns Hopkins University, the Project HOPE Schools of Health Sciences in the Caribbean and Central and South America, and the worldwide blindness prevention programs of Project ORBIS.

A.I.D. is requesting $7.5 million in FY 1984 for the American Schools and Hospitals Abroad program. Budgetary constraints and other priority development needs compel a request well below current program funding. This will necessitate difficult choices among many worthy applicants. However, the same basic selection process will continue. Priority will be given to those institutions that best serve as study and demonstration centers for U S. ideas and practices. We will seek in particular to assist those institutions that offer the greatest potential for developing human resources, furthering the transfer of technology and maintaining or improving their own financial well being.

Attachment
ASHA Funded Projects Completed
Since the Beginning of Fiscal Year 1982

18-551 O—83——14

ASHA FUNDED PROJECTS COMPLETED SINCE THE BEGINNING OF FISCAL YEAR 1982

Medical Projects Completed

1. Admiral Bristol Hospital, Istanbul, Turkey
   Project: Outpatient facilities, laboratories and equipment
   Completed: December 1982
   ASHA funding: $945,000
   Grantee: The American Hospital in Istanbul, Inc., New York, New York

2. Good Shepherd Hospital, Kananga, Zaire
   Project: U.S. medical equipment
   Completed: January 1983
   ASHA funding: $557,000
   Grantee: Medical Benevolence Foundation Woodville, Texas

3. Hadassah Medical Center, Jerusalem, Israel
   Project: U.S. medical equipment, principally for new surgical suites
   Completed: September 1982
   ASHA funding: $2,200,000
   Grantee: Hadassah Medical Relief Association, New York, New York

4. Hospital de la Familia, Nuevo Progreso, Guatemala
   Project: Outpatient facilities, laboratories, equipment and staff quarters
   Completed: March 1982
   ASHA funding: $940,000
   Grantee: Hospital de la Familia Foundation, San Francisco, California

5. Kanye Hospital, Kanye, Botswana
   Project: Nursing school, ambulatory health care center and surgical suites
   Completed: February and December 1982
   ASHA funding: $1,900,000
   Grantee: Seventh-Day Adventist World Service, Washington, D. C.

6. Ludhiana Christian Medical College and Brown Memorial Hospital, Ludhiana, India
   Project: Living quarters for residents and interns
   Completed: October 1982
   ASHA funding: $500,000
   Grantee: Ludhiana Christian Medical College Board USA, Inc., New York, New York

7. Malamulo Hospital, Makwasa, Malawi
   Project: Pediatric and isolation wards
   Completed: October 1981
   ASHA funding: $550,000
   Grantee: Seventh-Day Adventist World Service, Washington, D.C.

8. Mount of David Crippled Children's Hospital, Bethlehem, West Bank
   Project: 140-bed orthopaedic hospital with operating, laboratory, rehabilitation and ancillary facilities
   Completed: September 1982
   ASHA funding: $2,250,000
   Grantee: Holy Land Christian Mission, Inc., Kansas City, Missouri

9. Presbyterian Medical Center, Jeonju, Korea
   Project: Hospital annex
   Completed: October 1981
   ASHA funding: $833,000
   Grantee: Medical Benevolence Foundation, Woodville, Texas

10. Project ORBIS, Worldwide
    Project: Conversion of aircraft to serve as ophthalmological teaching hospital
    Completed: March 1982
    ASHA funding: $1,034,000
    Grantee: Project ORBIS, Inc., New York, New York

11. Shaare Zedek Hospital, Jerusalem, Israel
Project: Nursing school
Completed: November 1981
ASHA funding: $800,000
Grantee: American Committee for Shaare Zedek Hospital, Inc., New York, New York

Educational Projects Completed

12. American University in Cairo, Egypt
Project: Library
Completed: February 1982
ASHA funding: $4,000,000 (Of the $4 million, $3.5 million is the dollar equivalent of U.S.-owned excess Egyptian pounds.)
Grantee: Trustees of the American University in Cairo, New York, New York

13. Anatolia College, Thessaloniki, Greece
Project: Industrial arts workshop, faculty residence and classrooms
Completed: September 1982
ASHA funding: $408,000
Grantee: Trustees of Anatolia College, Inc., Boston, Massachusetts

14. Athens College, Athens, Greece
Project: Science building addition and multi-purpose auditorium
Completed: June and December 1982
ASHA funding: $1,560,000
Grantee: Athens College in Greece, Inc., New York, New York

15. Beth Zeiroth Mizrachi Vocational School, Jerusalem, Israel
Project: Classrooms and workshops
Completed: May 1982
ASHA funding: $500,000
Grantee: America Mizrachi Women, New York, New York

16. Cuttington University College, Suacoco, Liberia
Project: Dining hall remodeling and expansion
Completed: July 1982
ASHA funding: $163,000
Grantee: The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America, New York, New York

17. Feinberg Graduate School of the Weizmann Institute of Science, Rehovot, Israel
Project: U.S. scientific equipment for training and research in the natural sciences
Completed: August 1982
ASHA funding: $1,500,000
Grantee: The Board of Trustees of the Feinberg Graduate School, New York, New York

18. Gan Yavne Youth Village, Gan Yavne, Israel
Project: Student dormitory
Completed: September 1982
ASHA funding: $975,000
Grantee: American Friends of Gan Yavne Youth Village, New York, New York

19. Panamerican Agricultural School, Zamorano, Honduras
Project: Student dormitories, faculty residence, utility improvements and equipment
Completed: December 1982
ASHA funding: $1,320,000
Grantee: Escuela Agricola Panamericana Inc., Boston, Massachusetts

20. Payap College, Chiang Mai, Thailand
Project: Classrooms, library, administrative and multi-purpose facilities
Completed: June 1982
ASHA funding: $3,055,000
Grantee: The Chiang Mai Mission Board Inc., Ann Arbor, Michigan

21. Robert College, Istanbul, Turkey
Project: Energy conservation program; equipment and remodeling
Completed: November 1982
ASHA funding: $575,000
Grantee: The Trustees of Robert College, Inc., New York, New York

22. Satya Wacana University, Salatiga, Indonesia
Project: Administration building
Completed: November 1981
ASHA funding: $650,000
Grantee: United Board for Christian Higher Education in Asia, Inc., New York, New York

23. Sogang University, Seoul, Korea
Project: Library annex
Completed: August 1982
ASHA funding: $800,000
Grantee: American Board of Sogang University, Inc. Minneapolis, Minnesota

24. Trinity College, Manila, Philippines
Project: Library
Completed: July 1982
ASHA funding: $900,000
Grantee: Association of Episcopal Colleges, New York, New York

25. University of the Americas, Puebla and Mexico City
Project: Mexico City Center, classrooms and library
Completed: January 1983
ASHA funding: $3,800,000
Grantee: Foundation for the University of the Americas, Washington, D.C.

26. University of the Valley of Guatemala, Guatemala City
Project: Science laboratories and equipment
Completed: August 1982
ASHA funding: $670,000
Grantee: Foundation of the University of the Valley, Boston, Massachusetts

27. Xavier University, Cagayen de Oro City, Philippines
Project: College of Engineering building
Completed: July 1982
ASHA funding: $1,550,000
Grantee: Jesuit Seminary and Mission Bureau New York, New York

28. Working Boys' Center, Quito, Ecuador
Project: Vocational training school
Completed: October 1981
ASHA funding: $1,125,000
Grantee: Working Boys' Center Foundation Saint Paul, Minnesota

SYRIA AID EXPENDITURES IN FISCAL YEAR 1982

Mr. HAMILTON. Now, let's talk about Syria. There is $317 million in currently active projects, but no new money since 1979. Now, is it accurate that by action of this committee in 1981, some $99.5 million of the $317 million is frozen and cannot be used at this time?

Mr. JOHNSON. That is correct, Mr. Chairman.

Mr. HAMILTON. How much was expended in Syria in fiscal year 1982?

Mr. JOHNSON. $31.5 million.

Mr. HAMILTON. What for?

Mr. JOHNSON. Would you like to have the information on a project by project basis?

Mr. HAMILTON. You don't have that information?

Mr. JOHNSON. I have a large spread sheet with a lot of data.

Mr. HAMILTON. Get it for the record, but when we say "for the record," we are under the gun because we are going to be marking up pretty quick, so we have to have it very promptly.

[The information follows:]

SYRIA—AID EXPENDITURES IN FY 1982

[In thousands of dollars]

Project	Grant/ Loan	Project No	Fiscal year 1982 Expenditures
English Language Training	G	276-0002	218
Agricultural Education and Research	G	276-0003	466
General Participant Training	G	276-0004	346
Tech Services and Feasibility Studies II	G	276-0005	368
Development of Health Services	G	276-0006	15
Damascus Water Supply I	L	276-0008	25
Damascus Water Supply II	L	276-0010	199
Euphrates Basin Irrigation Maintenance	L	276-0011	1,666
Damascus Deraa Highway	L	276-0012	661
Tartous-Lattakia Highway	L	276-0017	
Rural Electrification	L	276-0018	8,936
Technical Health Institute	G	276-0019	1,249
Land Classification/Soil Survey	G	276-0020	698
Provincial Water Supply	L	276-0024	3,594
Tech Services and Feasibility Studies II	G	276-0026	104
Rural roads	L	276-0033	1,984
Rural Schools I	L	276-0035	4,281
Development Imports II	L	276-0036	6,178
Remote Sensing	G	276-0041	536
Total			31,524

Mr. JOHNSON. May I go back to your opening remark, sir, and correct a figure with the latest figure on the status of the pipeline as of December 31, 1982?

Mr. HAMILTON. Go ahead.

Mr. JOHNSON. The total obligations, as you said, were $438 million. We have deobligated to date $11.5 million. The total expenditures through December 1982 were $180.4 million. That leaves a pipeline of $246.1 million of which $99.4 is frozen, leaving an active pipeline of projects totaling $146.7 million.

Mr. HAMILTON. What is that for?

Mr. JOHNSON. That is for a total of 19 separate projects.

Mr. HAMILTON. They are going forward, contracts are let?

Mr. JOHNSON. That is correct.

Mr. HAMILTON. We got that highway built for the president?

Mr. JOHNSON. No, sir, we do not.

Mr. HAMILTON. Is that money frozen?

Mr. JOHNSON. You are speaking of the Damascus highway?

Mr. HAMILTON. No, the President Asad Memorial Highway, which we are building.

Mr. JOHNSON. $55 million of the total is frozen for the Lattakia Tartous Highway.

U.S. ATTITUDE ON SYRIA

Mr. HAMILTON. Has Syria done anything in the last year which would qualify it for the United States to lift the ban on the frozen funds? I want a very clear answer to that question, and it had better be the right answer, one word, and I will spell it out for you, if you want.

Mr. JOHNSON. No.

Mr. HAMILTON. Thank you.

How long are you going to keep those frozen funds in place before they are deobligated?

Mr. JOHNSON. It is our intention, per our understanding with this committee and with the State Department, to proceed to do business as usual. We will hold the frozen funds until the terminal disbursement dates that are in the individual loan agreements, and when those dates have expired, we intend to deobligate the funds.

Mr. HAMILTON. What does that mean in terms of calendar time?

Mr. JOHNSON. In this fiscal year 1983.

Mr. HAMILTON. The 1983 fiscal year?

Mr. JOHNSON. Yes. $4.8 million of frozen funds will be eligible for deobligation because terminal disbursement dates will expire. Would you like it year by year, sir?

SYRIA PIPELINE

Mr. HAMILTON. I will tell you what I want. I want all of the Syrian moneys spelled out very carefully to me very quickly, so that we get the various classifications of the money, a very detailed accounting of the economic assistance money to Syria, and when deobligation will occur.

Mr. JOHNSON. I can give you that schedule very quickly now or provide it for the record.[1]

Mr. HAMILTON. Provide it for the record.

[The information follows:]

SYRIA—A.I.D PROGRAM PIPELINE

$438 million was obligated for the Syria program between fiscal years 1975 and 1979. As of December 31, 1982, $246.1 million remained in the financial pipeline, of which $146.7 million was committed to active project implementation and $99.4 million was "frozen" per the terms of the understanding among State, A.I.D. and the Congress. The "frozen" funds will be eligible for deobligation upon the expiration of

[1] See app. 19.

Terminal disbursement Dates in the individual project loan agreements. Assuming no change in these dates, sums of money would be eligible for deobligation, according to the following schedule (in thousands of dollars):

Project title	Amount obligatged in agreement	Estimated amount of frozen funds	Terminal date for disbursement
Fiscal year 1983:			
Euphrates Basin Irrigation Maintenance	17,600	102	6/30/83
Development Imports III (CIP)	20,000	4,733	7/31/83
Total	37,600	4,835	
Fiscal year 1984:			
Damascus Water Supply I	48,000	12,505	6/30/84
Damascus Dera'a Highway	45,900	902	12/30/83
Rural Electrification	34,700	9,424	2/28/84
Rural Schools	11,000	1,367	9/15/84
Total	139,600	24,198	
Fiscal year 1985:			
Provincial Water Supply Systems	17,600	1,496	9/30/84
Rural Roads	26,400	13,759	9/30/84
Total	44,000	15,255	
Fiscal year 1986:			
Damascus Water Supply II	14,500	119	6/30/86
Total	14,500	119	
Fiscal year 1987:			
Lattakia-Tartous Highway	60,000	54,978	12/31/86
Total	60,000	54,978	
Grand total	295,700	99,384	

The trend in Soviet arm deliveries to Syria is up, I think you have said, or perhaps others before you have said. Do you think that Soviet moves in Syria are related at all to U.S. military presence in Lebanon?

Mr. PLACKE. No, sir, I wouldn't draw that conclusion. I think what has happened, particularly with respect to the introduction of SA-5 air defense missile system, is more in the character of a political response by the Soviets, taking a military form, to the damage to their prestige that was done in the course of the events of the summer, to the credibility of the performance of their military equipment and tactics, and the necessity to do something, one assumes, fairly dramatic to shore up their relationship with Syria and to maintain the position in the Middle East which obviously they are very interested in doing.

PROGRAM FOR OMAN

Mr. HAMILTON. Now I want to cover some questions with regard to Yemen and Oman.

Let's start with Oman. You have a $15 million economic support fund request for Oman, and that is the same level as in the past few years. What keeps jumping around is the grant portion. Why do you keep jumping that grant portion around all the time?

Mr. JOHNSON. Last year our request was to provide $10 million in loans and $5 million in grants. In fact, as we proceeded with project development for what is called an aquifer recharge project, the total cost of the project simply was not large enough to utilize all of the loan moneys since we financed it on a 50-50 basis with Oman.

Mr. HAMILTON. Is that the one that is $7.5 million in obligated form?

Mr. JOHNSON. Yes, sir.

Mr. HAMILTON. When was that obligated?

Mr. JOHNSON. That was obligated, I believe, in August of last year.

Mr. HAMILTON. The project isn't going yet, is it?

Mr. JOHNSON. No, sir.

Mr. HAMILTON. When is it going to go?

Mr. JOHNSON. The engineering supervision contract was signed last month and I believe that the request for proposals will go out in April for the construction contract. So we are looking at another 6 months before the construction contract will be let.

Mr. HAMILTON. Do you believe that $2.5 or $3 million of that can be expended this year?

Mr. JOHNSON. For the first part, for the engineering supervision, there will be expenditures. In addition, there will be mobilization expenses for the construction contractor.

RATIONALE OF GRANT PORTION

Mr. HAMILTON. How can we justify an increase in this grant amount when you have a country that has a per capita income of $6,000 a year?

Mr. JOHNSON. The per capita income figure is accurate, however it is all based upon oil wealth. The other fact is that expressed in usual statistical indicators, Oman is a very poor country with respect to literacy, school enrollments, access to health facilities, and safe water.

Mr. HAMILTON. But why should we pay for it?

Mr. JOHNSON. The provision of economic support funds was a part of the understanding between the United States and the Government of Oman with respect to military base rights.

Mr. HAMILTON. Is this a rental?

Mr. JOHNSON. As I understand, it is that the Oman Government would like to have an economic aid program as a tangible expression of U.S. interest beyond the purely political or military.

U.S. MILITARY ACCESS RIGHTS IN OMAN

Mr. HAMILTON. We have some access rights there, don't we, military access rights?

Mr. PLACKE. Yes, sir. We are involved in construction and in modernization of existing military facilities principally to enable us to project forces into that region if necessary.

Mr. HAMILTON. Is this rental then?

Mr. PLACKE. It is not rental in any normal sense of that term, no, sir. I think what really is involved is recognition of our mutual interest: that we had a shared security assessment, that we viewed

similarly threats posed by the Soviet Union and surrogate states for the Soviet Union, principally the People's Democratic Republic of South Yemen in this case, not to neglect Iran across the gulf. We then concluded that we wanted to establish a long-term, broad-based security relationship.

Oman is interested in advancing its economic development as rapidly as possible. The Sultan, when he came to power some 11 years ago, found a country that was barely coming out of the Middle Ages. It has made enormous progress in that period of time. I think it is a proven principle that relationships founded upon security interests exclusively are too narrow to be sustained for a prolonged period of time, and both of us have an interest in their economic development.

MILITARY CONSTRUCTION AND PERSONNEL IN OMAN

Mr. HAMILTON. What is the military construction going on out there?

Mr. PLACKE. Runway expansion, installation of fueling facilities, aircraft maintenance and accommodation facilities, and warehousing at principally three locations in Oman.

Mr. HAMILTON. How many U.S. military personnel do we have in Oman?

Mr. PLACKE. Concerning men assigned there in the sense that you may mean that question, Mr. Chairman, there are a few there for the purpose of contract administration and this sort of thing. There also is a small advisory element attached to the embassy.

Mr. HAMILTON. For training?

Colonel MCKALIP. There are three people in the advisory element there.

Mr. HAMILTON. Is that for training purposes?

Colonel MCKALIP. No, sir.

Mr. HAMILTON. Any people there with regard to the base access agreements?

Colonel MCKALIP. I can't respond to that. It is not under the security assistance as we speak of it. I can find out.

[The information follows:]

In conjunction with military construction projects, a major part of the access agreements, there are three military personnel stationed in Oman.

ESF EXPENDITURE RATE

Mr. HAMILTON. Your rate of expenditure on this economic support program is astounding. Last year, you estimated $8.1 million for 1982 expenditures, but you have only spent $331,000, is that right, in the last year?

Mr. JOHNSON. That is correct, sir.

Mr. HAMILTON. Why, what went wrong?

Mr. JOHNSON. The loan project was actually signed much later in the fiscal year than we had thought at the time we prepared the congressional presentation.

Mr. HAMILTON. What are you going to do this year?

Mr. JOHNSON. The most likely prospect is that we will enter into an agreement for a school construction project in the rural areas of Oman.

UNITED STATES—OMANI JOINT COMMISSION

Mr. HAMILTON. How is the U.S./Oman Joint Commission doing?

Mr. JOHNSON. It is operating.

Mr. HAMILTON. Have they appointed a full-time person to the commission?

Mr. JOHNSON. There is one part-time person and one full-time Omani project officer who is a graduate engineer of a U.S. college. They are now currently interviewing Omanis to fill the accounting position and a second project officer position.

Mr. HAMILTON. So you are persuaded that the Government is interested in moving ahead at this point?

Mr. JOHNSON. Yes, sir.

Mr. HAMILTON. Your expenditure level was very modest for that, too. You estimated $5.1 million, and you only spent again something like $300,000.

ASSISTANCE FOR NORTH YEMEN

Mr. JOHNSON. That is correct, that is the total.

Mr. HAMILTON. Now let me ask a few questions with regard to North Yemen.

You requested $15 million in 1982 in military aid. Your fiscal year 1984 request is $15 million in grants. The 1982 request was $10 million in grants and $5 million in loans. Why are we shifting to grants?

Colonel MCKALIP. I think that this is one of those interesting cases where we feel there is a definite need to provide some economic assistance to the country. They have expressed to us their concern about the near term debt servicing. We had explored the possibility of some direct credit at a less than market rate, but I think we have been influenced somewhat by Congress' shift in the last year of some of our direct credit request to MAP.

RELUCTANCE ON FMS PROGRAM

Mr. HAMILTON. Why were they so reluctant to enter into an FMS agreement?

Colonel MCKALIP. For credit, sir?

Mr. HAMILTON. Yes.

Colonel MCKALIP. Actually, they have entered into an agreement. They entered into an agreement for $10 million in 1982, and they have not drawn it down yet.

Mr. HAMILTON. They entered into it on the last day of the fiscal year.

Colonel MCKALIP. Yes, sir.

Mr. HAMILTON. What is their hesitation?

Colonel MCKALIP. My own view is twofold. This concern about debt service, the interest rate particularly at the time which I believe was around 14 or 15 percent was a very sobering fact to them. Second, as far as the lateness in the year, I think we had some problems explaining the bureaucratic and administrative processes to them.

Mr. HAMILTON. So after some tough bargaining, we decided that we would make it all grant?

Colonel McKALIP. I don't like to put it that way, sir, but I do believe that you can make a case if countries, such as Yemen, do deserve our support, consideration of modest grants, and $15 million certainly is a modest grant in the sense of the figures with which we frequently deal, that it makes sense.

U.S. AND INTERNATIONAL ASSISTANCE FOLLOWING YEMEN EARTHQUAKE

Mr. HAMILTON. They had a bad earthquake there. What kind of assistance did we provide during that earthquake?

Mr. JOHNSON. Mr. Chairman, the United States reacted very quickly. About $2.5 million worth of commodities were provided, tents, blankets, water tanks, generators, for immediate relief needs.

Mr. HAMILTON. Was there international assistance provided, or just the United States?

Mr. JOHNSON. There was international assistance as well as substantial assistance from Yemen's Arab friends, particularly the Saudi Arabian Government.

Mr. PLACKE. In fact, Mr. Chairman, the assistance was quite widespread. The U.N. system provided some. The European Economic Community.

Mr. HAMILTON. Why don't you just give us a list of where the assistance came from and who provided it, and what they provided.

[The information follows:]

A Full Listing of U.S. and International Assistance

YEMEN ARAB REPUBLIC - EARTHQUAKE

Data

Date: December 13, 1982

Location: Dhamar region

Dead: 1,507 confirmed; 2,500 estimated

Injured: about 1,500

Population of Affected Area: estimated 800,000; 700 villages affected

Homeless (part of above figure): estimated 400,000 of which 300,000 housed in tents and other temporary shelters

Damage: 42,314 homes (27,527 damaged and not habitable, 3,407 partially destroyed, 11,380 totally destroyed); water supply in 122 villages; 78 schools in Dhamar province; 651 mosques; 131 water projects; $17 million in lost housing; $73.3 million in public facilities such as schools, utilities, and mosques; $28.5 million in agriculture - grain and animal losses; $199.5 million in private property such as tools, furniture, cars; estimated loss to GNP - $2 billion

General Situation

- The earthquake which hit the Yemen Arab Republic (North Yemen) on December 13, 1982, was measured at 6.0 on the Richter scale. It was the first instrumentally recorded earthquake in that location. Daily aftershocks continue.

- Since the earthquake struck about noon, those found inside at that time were the principal victims; these were women, children, and the elderly.

- Emergency needs have now been met, though some areas still lack sufficient potable water and sanitation.

- Some 3,237 metric tons of relief supplies arrived by air. Also, considerable quantities of supplies arrived overland.

- An international assessment team composed of representatives of the World Bank, Kuwait Fund, Arab Fund, Economic Commission for Western Asia, and Organization of Arab Petroleum Exporting Countries has surveyed reconstruction needs.

Action Taken by the Yemen Arab Republic Government (YARG) and Yemeni Groups

- An emergency relief committee was organized, composed of the Ministers of Health, Municipalities, and Youth plus the Chief of Staff of the Armed Forces and the Governor of Dhamar Province.

- Eight assessment teams looked at damage to water systems/resources; 884 villages were surveyed.

- The Central Planning Organization (CPO) played a coordination role in identification of needs and receiving and distributing supplies. A village by village assessment was carried out by the CPO and by the Council for Yemeni Development Associations (CYDA).

- Four district zones for relief coordination were established - Al Ans, Al Anis, Jahran, and Al Hada. Each group of six villages had a committee which reported needs to the respective zone committee.

- The Ministry of Health established six teams, both mobile and static, to respond to curative and public health needs.

- YARG - $300,000 for tents

- Yemen Arab Red Crescent - a member of the field operation committee; $5,000 for hospital linens

- Private donor - $219,000 (one million rials) for local purchase of jerry cans for water

- Yemen Airlines offered to carry relief supplies free on a space available basis from European cities.

Assistance Provided by the U.S. Government (USG)

- The U.S. Ambassador to the Yemen Arab Republic, David Zweifel, determined that a disaster of sufficient magnitude to warrant USG assistance existed and exercised his $25,000 disaster authority.

- Airlift of: 3,000 tents with flies
  15,000 blankets
  eight 3,000 gallon water tanks
  six 30 KW generators (plus 2 technicians)
  680 hospital gowns and 500 masks
  all valued at $2,559,150 including transport

- $10,000 worth of medical kits through UNICEF

- Loan of 4 vehicles for use as ambulances

- U.S. Geological Survey personnel studied the earthquake jointly with Saudi scientists.

- Four Peace Corps Volunteers assisted with water system surveys in 250 villages. One volunteer helped with the public health survey.

Total value of USG assistance to date: $2,594,150

Assistance Provided by U.S. Voluntary Agencies

- Catholic Relief Services (CRS)- local purchase of 5,000 blankets, 1,500 utensil sets, 5,000 sweaters (valued at $21,300) and children's clothing using $156,000 of CRS, United Kingdom, Caritas Germany, and Caritas Switzerland funds; 450 tents valued at $125,000

- Lutheran World Relief - $24,000 to CRS for purchase of 100 tents

- Save the Children - launched appeal on behalf of Norwegian and British counterparts in Yemen; $5,000 to Redd Barna (Norwegian Save the Children)

- Southern Baptist Convention, Foreign Mission Board - Team of 5 medical personnel (2 orthopedic surgeons, 2 nurses and 1 aide) leaving 12/20 for Yemen; $70,000 appropriated for relief activities of which $50,000 expected to be used for local purchase of food

- World Vision - $20,000

Total value of U. S. volag assistance reported to date: $293,630

Assistance Provided by the International Community

U.N. System

- UNDP (U.N. Development Programme)- coordinating donor assistance, especially technical teams; $30,000 in cash

- UNDRO (Office of the U. N. Disaster Relief Coordinator)- $30,000 in cash for kitchen sets; services of a relief coordinator

- UNESCO (U. N. Educational, Scientific, and Cultural Organization)- two earthquake experts

- UNICEF - 830 tents; $220,000 worth of medical and relief commodities; 3,400 kitchen sets; 2,000 blankets; 500,000 water purification tablets; 6 vehicles valued at $80,000 to be used as ambulances; 150 sprayers; 3,000 tents valued at $304,000 from funds given by Japan

- WFP (World Food Program) - three-month emergency program for 50,000 people includes 1,350 metric tons (MT) wheat flour, non-fat dried milk, pulses, and edible oil from in-country stocks valued at $908,300; food survey/evaluation team due mid-February

- WHO (World Health Organization) - pharmaceuticals, vaccines, disinfectants, surgical sundries, and emergency kits all worth $50,000

Inter-Governmental Organizations

- Arab Gulf Fund for United Nations Development - $1 million for purchase of tents

- EEC (European Economic Community) - 100 tents, 4,000 blankets, 2 MT medical supplies; airlift for Belgian Red Cross at a cost of $60,000 (65,000 ECU); $902,759 (935,000 ECU) to League of Red Cross Societies

Governments

- Algeria - 103 tents

- Australia - $50,000 cash to League for tents

- Bahrain - bedding, blankets, clothing, cooking stoves, and 7 MT medical supplies all valued at $425,000 (BD 170,000)

- Belgium - 4,000 blankets

- Canada - $139,500 (Canadian $175,000) to League; $325,000 (Canadian $400,000) through UNICEF for 2,000 tents

- Denmark - $87,404 to UNICEF for tetanus vaccines; $41,666 (350,000 kroner) through Danish Red Cross

- Djibouti - 216 tents

- Egypt - airlift of 40 MT medicines, 11 MT canned food, 3,000 tents, 4,500 blankets

- Federal Republic of Germany - 26-person search and rescue team with sniffer dogs; 44 technicians in electrical and water connections and demolition; $13,250 (32,000 marks) in conjunction with the FRG Red Cross; 750 tents; 18,000 blankets; 2.5 MT children's clothes; 4 doctors and orthopedic instruments in conjunction with the FRG Red Cross; 2 generators

- France - 300 tents; geological team; 2 MT clothes; 2 MT medical supplies; 2 helicopters; 2,000 MT wheat; 700 blankets; 5 large hospital tents; 4.1 MT soap and antiseptics; 100 kg antibiotics; 100 kg food

- German Democratic Republic - 170 tents; $62,500 (DM 150,000) worth of medicines to the Yemen Arab Red Crescent

- India - medical team; sanitation expert; 1,100 blankets; 10.8 MT medicine

- Italy - orthopedic surgeons; $357,782 (500 million lire) worth of medicines

- Japan - $500,000 in cash

- Jordan - 17-person medical team

- Kuwait - medical team, medicines, and relief supplies

- Libya - 100 tents; 20-person medical team

- Netherlands - 165 tents; 360 kitchen sets; 4,000 blankets; medicines; canvas; total value of supplies - $202,000 (540,640 Guilders); $936,330 (2.5 million Guilders) to repair damage to development projects; $1,872,660 (5 million Guilders) for housing reconstruction; $936,330 (2.5 million Guilders) for food aid

- Norway - 5,000 blankets; $214,285 (1.5 million Kroner) to Redd Barna (Norwegian Save the Children Fund)

- Oman - five planeloads of supplies including 100 tents, 1,500 blankets, food, 6 MT medicine; 900 additional tents

- People's Democratic Republic of Yemen (South Yemen) - 26-person medical team, medicines, and relief supplies

- Qatar - medical team, medicines, and relief supplies including 1,000 tents and 5,000 blankets

- Saudi Arabia - 50-bed field hospital, 37 medical and support personnel, five C-130 loads of medical aid and 40 planeloads of other relief aid including blood plasma, dextron, antibiotics, analgesics, oxygen cylinders, splints, surgical equipment, blood transfusion apparatus, 3,000 tents, 6,000 mattresses, 19,000 blankets, 15 MT baby food, 300 MT food in 50 kg boxes; $30 million (100 million riyals) allocated for emergency assistance

- Somalia - 50 tents, 100 tons fresh food, medical team

- Sweden - 35,000 blankets valued at $230,000 to UNICEF; $205,580 (1.5 million kroner) worth of tents and clothes through the Swedish Red Cross

- Switzerland - search and rescue team with sniffer dogs; medical personnel; 6 MT medical equipment; 4 MT tools and rescue supplies; 860 kgs blood plasma; 35,000 blankets through UNICEF; water purifying equipment, 160 tents, and 1,000 blankets all through the Yemen Arab Red Crescent

- United Arab Emirates - medical and food aid; 39 medical personnel

- United Kingdom - plans to supply 500,000 water purification tablets; mobile workshop; $16,140 (£ 10,000) through UNICEF/CRS; 300 surgical masks; 5,000 liters insecticide valued at $28,225 (£ 17,000)

- U.S.S.R. - 145 tents; 2.5 MT medical supplies

Voluntary and Private Organizations

- Caritas/Belgium - $3,000 to CRS

- Caritas/FRG - $41,580 (100,000 marks) to CRS

- Caritas/Italy - $7,407 (10 million lire) to CRS

- Caritas/Switzerland - $24,650 (50,000 Swiss francs) to CRS

- Caritas/Norway - 600 tents valued at $150,000

- Danish Red Cross - 25 large tents

- Diakonisches Werk/FRG - $41,580 (100,000 marks) to CRS

- French Red Cross - one MT protein tablets

- FRG Red Cross - ship "Flora" with six 30 KW generators and 30 collapsible water tanks

- Italian private contributors - 5,000 kitchen sets

- League of Red Cross Societies - services of a League delegate; $246,500

(500,000 Swiss francs) for local purchases and operations including $10,000 for cooking utensils and $5,000 for hospital linens; appeal to national societies for some $1.47 million (2.975 million Swiss francs) on behalf of the Yemen Arab Red Crescent; 17 national societies, 3 governments, and the EEC have announced contributions in cash, in kind, and in services valued at $1.13 million (2.3 million Swiss francs); supplies being provided include 2,020 tents, 29,200 blankets, 16 MT clothing valued at $40,000, and 2,000 sets hospital linen

- Libyan Red Crescent - 50 tents

- Netherlands Red Cross - $10,000 (25,000 Guilders)

- Oxfam/U.K. - 19,000 blankets; three 10,000 gallon and five 2,000 gallon water tanks; 50 rolls plastic sheeting valued at $12,097 (L 7,500)

- Philips Co. (Netherlands) - portable x-ray unit

- Radda Barnen (Swedish Save the Children Fund) - 5,000 blankets

- Redd Barna (Norwegian Save the Children Fund) - 24-hour emergency medical clinic care

- Swiss Red Cross - 173 family size tents valued at $68,849

- U.K. Save the Children Fund - 24-hour emergency medical clinic care; assessment team

Total value of assistance from the international community (not including the U. S.) reported to date: $40,771,024

Martin D. Howell
Director
Office of U.S. Foreign
Disaster Assistance

Are we giving any thought to transferring any AID development funds toward reconstruction?

Mr. JOHNSON. Only on a very modest scale. Allow me to say this first, however. The World Bank has fielded a team that went to Yemen to assess the damage. They returned in early February. We expect their damage report to be issued momentarily.

We have also fielded a team from the U.S. Geological Survey to assess the probability that these kinds of quakes would occur again. Unfortunately the bad news is that they may very well occur again.

Mr. HAMILTON. Do you need any special authority to make these transfers?

Mr. JOHNSON. We don't believe so, sir. In particular, we are interested in helping to repair small village water systems, and we believe that we can do that under one of our projects which does in fact construct water systems.

Mr. HAMILTON. Suppose we had an amendment to mandate reconstruction efforts, would you support it or oppose it?

Mr. JOHNSON. I think it is too soon for us to know. We would like to have a look at the World Bank report and see what their assessment is, and then come to a better understanding of what the government's intentions are.

Most of the physical damage is in what might be called the private sector, damage to private housing, and we believe that the government's intent is to focus on public infrastructure. So we would like to have a better understanding of the requirements.

U.S. TRAINING PROJECTS

Mr. HAMILTON. Do we have some North Yemenis here in the United States who participate in training projects of one kind or another?

Mr. JOHNSON. Who are receiving training at U.S. colleges?

Mr. HAMILTON. Yes, in the United States.

Mr. JOHNSON. This year, about 225 from Yemen.

Mr. HAMILTON. Are there any Soviets in North Yemen?

Mr. JOHNSON. Yes, sir.

Colonel MCKALIP. Mr. Chairman, there is a fairly sizable force of military advisors there.

Mr. HAMILTON. How many?

Colonel MCKALIP. The latest figure that sticks in my mind is—again I hate to use the word advisor, technicians, call them what you will—a couple of hundred.

Mr. HAMILTON. So here is a country getting military assistance from both sides.

Colonel MCKALIP. Yes, sir.

SOVIET SUBVERSION OF U.S. MILITARY SUPPORT

Mr. HAMILTON. What assurance do we have that the military support we are giving to Yemen isn't diverted or subverted by the Soviets?

Colonel MCKALIP. I think the best assurance is twofold. One, we do have personnel there overseeing our projects. Second, interestingly, the way the Yemenese have organized their forces is to equip one brigade of their ground forces primarily with U.S. equipment, and the other brigades with the Soviet equipment. They themselves keep them very much separated.

The same in the air force, there is a small number of F-5 aircraft of U.S. origin and once again they are relegated to one corner of the military.

Mr. HAMILTON. Would the Soviet aid exceed ours?

Colonel MCKALIP. I would estimate that it would.

Mr. PLACKE. May I interrupt for just a moment, Mr. Chairman.

Mr. HAMILTON. Yes.

Mr. PLACKE. The last Soviet arm purchase that Yemen made was 2 years ago and it was on credit, the terms of which we don't have complete information on, but it was in excess of $1 billion.

Our assistance program is primarily directed toward training Yemenis to operate military equipment that was purchased from the United States by Saudi Arabia or for which the funding was provided by Saudi Arabia. So the equipment really is not part of this military program. It is training to enable the Yemen forces to use it effectively. I think we could demonstrate, if you wish, for the record, a quite favorable comparison in performance of U.S-versus the Soviet-equipped units.

OMANI AND SOUTH YEMENI TENSIONS

Mr. HAMILTON. There has been tension, has there not, between Oman and South Yemen?

Mr. PLACKE. Yes, sir.

Mr. HAMILTON. What is the status of that?

Mr. PLACKE. The insurgency that was sponsored from the south has reached a level much lower than at any point in recent years. The North Yemen military forces have had a string of successes in pushing the insurgents, for the most part, back across the border and into a small pocket still on the North Yemen side of the border. This has been brought about principally because of diminished support for the insurgents by the People's Democratic Republic of Yemen.

The political relationships between the two Yemens, which is very difficult to divide, continue to at least pay lip service to an eventual union between the two, but the contrast in their interests and the contrast in their policies remains very sharp.

FMS INCREASE FOR JORDAN

Mr. HAMILTON. Let me go back to Jordan for just a minute.

Mr. Placke, would you state again why we have this very large increase for Jordan. You go from $40 to $115 million.

Mr. PLACKE. The increase is not as large as those figures would suggest, Mr. Chairman. The administration's request for fiscal year 1983 was $75 million.

Mr. HAMILTON. You are not going to get the $35 million, so you are going to go from $40 to $115.

Mr. PLACKE. We believe that the $75 million was justified.

Mr. HAMILTON. I understand that, but as a practical matter you are going from $40 million to $115 million. Why do we need such a big increase?

Mr. PLACKE. To begin to recover from the very long period of a low level of funding, at least for the aspects of their program in which we are interested, and to permit the Jordanian forces, quite apart from the question of air defense, to maintain and to modernize themselves.

THREAT TO JORDAN

Mr. HAMILTON. Do we believe that the threat to Jordan has increased substantially; is that the reason we are giving this increase?

Mr. PLACKE. I would not draw that kind of direct parallel, no, sir. I think we believe that the threat has been significant throughout this period.

Mr. HAMILTON. That threat comes only from Syria?

Mr. PLACKE. That is the principal source at this time.

1982 FMS SALES TO JORDAN AND 1983-84 PROJECTIONS

Mr. HAMILTON. Jordan purchased $140.8 million of equipment in fiscal year 1982. We want to know what the amount of FMS credit sales in 1982 to Jordan was and what your projections are for FMS

sales for 1983 and 1984. You can furnish that now or for the record, as you choose.

Colonel McKALIP. The actual sales to Jordan in fiscal year 1982 under the foreign military sales program, that is a combination of cash and credit, were $140 million. We are estimating in 1983, $300 million, and a similar figure in 1984.

Mr. HAMILTON. What are they going to be purchasing, $300 million worth of equipment?

Colonel McKALIP. Yes, sir.

Mr. HAMILTON. Who is paying for it?

Colonel McKALIP. The Hashimite Kingdom of Jordan will pay for the amount in excess of credits.

Mr. HAMILTON. Where is that money coming from?

Colonel McKALIP. I am sure that part of their expenditures would be from the grants they receive from the Arab League.

Mr. HAMILTON. What is that going to be used for, that is a big increase.

Colonel McKALIP. I think, as my State Department colleague has said, we are trying to recover or help them to recover from a period of——

Mr. HAMILTON. Let me put it this way, is any of that for sophisticated stuff?

Colonel McKALIP. Let me tell you what it is for and maybe you can draw the conclusions. I am afraid of this word "sophisticated" because in this day and age sophisticated covers a lot of things.

We know they are interested in acquiring a new generation of antitank missiles, something to replace the Dragon missile which they now have; this would probably be the Viper. We know they are interested in some additional armored personnel carriers. We know they are interested in a variety of tactical communications equipment, radios, microwave.

We know they are interested, and this certainly is not sophisticated, in a number of wheeled vehicles. This is one area they have allowed to decline, and they need a lot of cargo trucks and jeeps and the like.

We know that they are interested in significant purchases of munitions for their stocks. They have indicated to us that they feel that their stockpiles of ammunition are insufficient.

We know that they are interested, and let me make a distinction here, in purchasing a man-portable air defense missile system.

Mr. HAMILTON. Let me cut through. I appreciate that and it is helpful to me, but none of this $300 million is going to be used to purchase the F-16, the F-5G, or the Hawk missile.

Colonel McKALIP. No.

Mr. HAMILTON. Perhaps on such a positive note, we will end.

Mr. Levine, do you have any further questions?

U.S. ROLE AS A WORLD ARMS SUPPLIER

Mr. LEVINE. I don't want to stop you from ending, Mr. Chairman, but I have just one real broad question that has been percolating through my mind during this hearing and some of the others, and I might as well just ask it of Mr. Placke.

As I sit and listen to this testimony, and it is not really directed specifically at today's testimony, it involves the variety of requests that we get from various parts of the world.

As I listen to this testimony and general testimony about these arms requests here, there, and elsewhere, I guess I have an underlying gnawing concern about the wisdom for our nation to be so significantly involved in being essentially the arms supplier and arms seller to so many parts of the world.

It seems to me that we keep increasing the level of armaments and the sophistication of armaments. We keep supplying more and more to Jordan when they think they need it. We are supplying more to Saudi Arabia when they think they need it. We are sort of raising the stakes, raising the levels, and this is not only true in the Middle East but in other parts of the world as well.

Could you just tell me broadly why it is in our national interest to pursue that type of a policy?

Mr. PLACKE. I am afraid, Mr. Levine, that I wouldn't be able to address the broad policy question that you are raising, which is really an arms proliferation question. I think that it is quite a serious question, and I am not competent to address it on a global basis.

I think all we can do is describe to you the security requirements, and their political dimensions as we see them in these specific cases, not only the three we have addressed today, but more generally throughout this region of the world. I think the question you are raising is a much broader one.

Mr. LEVINE. Could you answer it just with regard to the Middle East?

Mr. PLACKE. In each of the three instances that we have addressed today, with Yemen being the least of those, there are broad regional security interests that go beyond the Arab-Israel dimension, and we think these security assistance requirements will go a long way toward addressing them.

Part of it is the thrust of the Soviet Union into that region; what has happened in Afghanistan; the instability in Iran; the continuing turmoil between Iran and Iraq; the tensions that are currently submerged but still exist between North and South Yemen; Soviet support for Ethiopia; the machinations of Qadhafi, and so on.

It is quite a bubbling stew. What we have talked about today is somewhat piecemeal and it doesn't give you the comprehensive overview that I think you are seeking.

Mr. LEVINE. I appreciate your response. As a new member of the committee and the subcommittee, this is a general area that I will continue to be interested in and I would like to be able to pursue with you and other people in your department on a subsequent date.

Mr. PLACKE. Please do.

Mr. LEVINE. Thank you.

Mr. HAMILTON. Thank you very much, gentlemen. We will be submitting some questions to you in writing.[1]

The subcommittee stands adjourned.

[Whereupon, at 11:55 a.m., the subcommittee adjourned.]

---

[1] See app. 8.

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984-85

Public Witnesses

MONDAY, MARCH 14, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,
Washington, D.C.

The subcommittee met at 2 p.m., in room 2172, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Mr. HAMILTON. The meeting of the subcommittee will come to order.

Today, the Subcommittee on Europe and the Middle East meets to hear testimony from public witnesses on the foreign assistance requests for fiscal year 1984 for countries in the regions under the subcommittee's jurisdiction.

Before announcing our panel of witnesses, the Chair would like to request that, due to excessive printing costs in connection with statements and extraneous material submitted for the record, which totaled close to $5,000 during the past 2 years, that witnesses limit the material you wish to submit to eight pages.

Our witnesses today are made up of three panels. The first and second panels will be on programs for the Middle East; and the third panel for countries in the Eastern Mediterranean.

We have asked all public witnesses to limit their opening remarks to 5 minutes in order to allow an opportunity for everyone to speak. The light system here will turn red in 5 minutes and witnesses should at that time conclude their remarks.

We will hear first from Mr. Najeeb Halaby, chairman of the board of the American University of Beirut, and Dr. Malcolm Kerr, president of the American University of Beirut, who are testifying together, and Ms. Bernice Tannenbaum, former national president of Hadassah and chairman of the Hadassah Medical Organization.

Mr. Halaby, we welcome you to the subcommittee again. We look forward to your testimony.

STATEMENT OF NAJEEB E. HALABY, CHAIRMAN OF THE BOARD, AMERICAN UNIVERSITY OF BEIRUT

Mr. HALABY. Mr. Chairman, our president, Malcolm Kerr, will give a statement from the American University of Beirut, and he and I will answer any questions you may have after his statement.

Previous Page Blank

Mr. HAMILTON. Dr. Kerr, we are delighted to have you.

STATEMENT OF MALCOLM H. KERR, PRESIDENT, AMERICAN UNIVERSITY OF BEIRUT

Mr. KERR. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, thank you for the opportunity to appear before you today to discuss the American Schools and Hospitals Abroad program and the role of the American University of Beirut in the reconstruction of Lebanon.

When I appeared before this committee last July, AUB literally was in the midst of full-scale war in Lebanon. Together with Dr. Joseph Simaan, associate dean of our medical faculty, I described what the university and its personnel were doing, at risk to their own lives, to minister to the needs of a city and a country in chaos.

Before the summer was out, American University Hospital had cared for 2,629 wounded without regard to creed or political faction, and the university's help had been sought by the local and national governments, international organizations such as the Red Cross, and the U.S. Agency for International Development. We responded by assisting in medical, refugee, and public health problems.

I also had the opportunity last July to thank this committee for recognizing in its report on legislation to provide humanitarian assistance to Lebanon that AUB could make an important contribution to relief and reconstruction. And we have had many occasions, both then and in the past, to thank you for your interest in and commitment to the ASHA program.

I recall these events to emphasize to the committee the vital link between the goals of U.S. foreign policy and the ASHA program, which is now before you for reauthorization. In Lebanon last summer American University Hospital stood as irrefutable evidence that the United States cared. But the modern medical center which was able to accept and treat the wounded at a rate as high as 70 new admissions in half an hour—a new patient every 25 seconds—would not have existed without the American Schools and Hospitals Abroad program. In the decade of the 1960's, ASHA grants totaling more than $31 million made construction of the new hospital complex a reality.

Much the same could be said of many other aspects of the university's operations. Over the quarter century history of the ASHA program, AUB has been substantially assisted through grants both to strengthen general operations and to fund specific projects and programs. We are proud of our private heritage, which in fact stretches back for the better part of a century before the ASHA program and Government support became part of the picture. But we are a stronger university for the assistance we have received. We are in a better position to contribute to an understanding of the United States, to testify to American know-how and technology, and to convey the American values of the free exchange of ideas and the operation of a competitive, open economy.

We offer for your consideration the thought that the ASHA program should be substantially expanded, not just to aid AUB—although your further support would be most welcome—but also to

the world. As the largest and oldest institution receiving ASHA funds, we suggest that AUB offers an example of what can be accomplished elsewhere.

The spirit of what I mean was captured only last week by Congressman Clarence Long, himself a professional educator as well as chairman of the Appropriations Subcommittee on Foreign Operations. In the course of hearing testimony from the ASHA program director, he expressed his hope that ASHA would be enlarged because it, more than any other within the Agency for International Development, contributes to improving the quality of leadership in the countries we assist.

Although Chairman Long did not cite AUB as an example of what he had in mind, he well might have. An analysis of AUB graduates over the past 25 years reveals that more than 600 of them are now serving the region in such key roles as ministers of government, presidents and deans of universities, directors general of government departments, and presidents of major public and private corporations. Across the entire spectrum, the leadership of this part of the world owes an incalculable debt to AUB, which not only has educated many of them, but also has provided the intellectual stimulus for new ideas and new approaches to resolving their problems. The United States could not hope for a greater or more salutary impact from its AID dollars.

Institutions such as AUB make possible the true blending of cultures. That is why our faculty are not only welcome but actively sought out to help governments in the area meet their educational and developmental needs. Some leading examples are summarized in our prepared statement.

Assistance with reconstruction is now being planned with the Ministries of Health and Agriculture. Projects being contemplated include: Development of a primary health care system, a survey of the damaged agriculture sector, evaluation of the feasibility of various projects in agriculture, and a training program for extension personnel and staff of the Ministry of Agriculture.

I hope the committee will agree with me that the activities of the university I have recited in my prepared statement give concrete evidence that ASHA dollars to AUB do indeed contribute to AID's developmental goals, and to the larger goal of enlarging understanding and respect for the United States. If you do agree, I urge you to authorize for ASHA more than the $20 million of the past 2 years, so that AUB and its sister private institutions elsewhere in the world may make even greater efforts in this direction.

The $20 million figure is not even equal to the average authorization over the past 14 years. As you will see by examining the attached table on the ASHA authorization and appropriation levels for each year since 1970, the mean is $23.7 million. The authorization in 1970 was $25.9 million, and as recently as 1982 it was $30 million. Even these higher figures of past years, however, would not meet even half the demonstrable need. The ASHA program office now receives applications for approximately $80 million each year, a doubling of the level of support requested in the mid-1970's.

We thank the committee for inviting us to testify today, and as always, we appreciate your interest and concern for the American University of Beirut.

[Mr. Kerr's prepared statement follows:]

PREPARED STATEMENT OF MALCOLM H. KERR, PRESIDENT, AMERICAN UNIVERSITY OF BEIRUT

Mr. Chairman and Members of the Committee. Thank you for the opportunity to appear before you today to discuss the American Schools and Hospitals Abroad program and the role of the American University of Beirut in the reconstruction of Lebanon.

When I appeared before this committee last July, AUB literally was in the midst of full-scale war in Lebanon. Together with Dr. Joseph Simaan, Associate Dean of our Medical Faculty, I described what the university and its personnel were doing, at risk to their own lives, to minister to the needs of a city and a country in chaos. Before the summer was out, American University Hospital had cared for 2,629 wounded without regard to creed or political faction, and the university's help had been sought by the local and national governments, international organizations such as the Red Cross, and the U.S. Agency for International Development. We responded by assisting in medical, refugee, and public health problems.

I also had the opportunity last July to thank this committee for recognizing in its report on legislation to provide humanitarian assistance to Lebanon that AUB could make an important contribution to relief and reconstruction. And we have had many occasions--both then and in the past--to thank you for your interest in and commitment to the ASHA program.

I recall these events to emphasize to the committee the vital link between the goals of U.S. foreign policy and the ASHA program, which is now before you for reauthorization. In Lebanon last summer American University Hospital stood as irrefutable evidence that the United States cared. But the modern medical center which was able to accept and treat the wounded at a rate as high as 70 new admissions in half an hour--a new patient every 25 seconds--would not have existed without the American Schools and Hospitals Abroad program. In the decade of the 1960s, ASHA grants totaling more than $31 million made construction of the new hospital complex a reality.

Much the same could be said of many other aspects of the university's operations. Over the quarter century history of the ASHA program, AUB has been substantially assisted through grants both to strengthen general operations and to fund specific projects and programs. We are proud of our private heritage, which in fact

stretches back for the better part of a century before the ASHA program and government support became part of the picture. But we are a stronger university for the assistance we have received. We are in a better position to contribute to an understanding of the United States, to testify to American know-how and technology, and to convey the American values of the free exchange of ideas and the operation of a competitive, open economy.

We offer for your consideration the thought that the ASHA program should be substantially expanded. Not just to aid AUB--although your further support would be most welcome--but also to extend the reach of American ideas and values in other parts of the world. As the largest and oldest institution receiving ASHA funds, we suggest that AUB offers an example of what can be accomplished elsewhere. The spirit of what I mean was captured only last week by Congressman Clarence Long, himself a professional educator as well as chairman of the Appropriations Subcommittee on Foreign Operations. In the course of hearing testimony from the ASHA program director, he expressed his hope that ASHA would be enlarged because it, more than any other within the Agency for International Development, contributes to improving the quality of leadership in the countries we assist.

Although Chairman Long did not cite AUB as an example of what he had in mind, he well might have. An analysis of AUB graduates over the past 25 years reveals that more than 600 of them are now serving the region in such key roles as ministers of government, presidents and deans of universities, directors general of government departments, and presidents of major public and private corporations. Across the entire spectrum, the leadership of this part of the world owes an incalculable debt to AUB, which not only has educated many of them, but also has provided the intellectual stimulus for new ideas and new approaches to resolving their problems. The United States could not hope for a greater or more salutary impact from its AID dollars.

Institutions such as AUB make possible the true blending of cultures. That is why our faculty are not only welcome but actively sought out to help governments in the area meet their educational and developmental needs. Allow me to give you some examples.

1) American University Hospital and the Faculty of Medicine have agreed to provide administrative and staffing support for the new Hariri Medical Center near the southern Lebanon city of Sidon. The university's expertise in hospital management will assure the oversight and training necessary to bring first-rate health care to an area of the country where it previously has been inadequate. Simultaneously, AUB medical residents will gain valuable experience working at the Hariri Center.

2) The university's Science and Mathematics Education Center has an on-going program to develop textbooks and teaching materials. The ministries of education of Lebanon, Sudan, and Jordan all have been assisted. The largest contribution of all in this area, however, has been with the Ministry of Education in Saudi Arabia. For ten years AUB has been involved in preparing science and mathematics textbooks for both elementary and secondary education. Thirty-nine books have so far appeared.

3) In Bahrain AUB helped establish and is involved in the on-going management of the College of Health Sciences, which trains health paraprofessionals. It also is participating with the Bahrain Ministry of Health in the Office of Professional Standards and Systems Analysis.

4) Numerous projects in agriculture are underway in Saudi Arabia. One of the largest of these is the Regional Agriculture and Water Research Center, which AUB assisted in establishing and for which it now provides management support.

5) In Qatar AUB is working with the government to establish a national system of primary and secondary education, and in the United Arab Emirates the university is engaged in a national project to develop improved school curricula.

The added strength given AUB by ASHA support through the years has paid an especially valuable return in the university's ability to make a significant contribution to the reconstruction of Lebanon. This work, I would remind the committee, did not just begin a few months ago. We have been assisting the Government of Lebanon's Council on Development and Reconstruction (CDR) for several years. in 1979 AUB completed a plan for detailed agricultural development in Lebanon and finished a surveillance project on food- and water-borne disease. In 1981 the university developed for CDR a computer simulation model of the country.

The additional severe physical damage Lebanon suffered this past summer has led to a new series of projects between AUB and the Lebanese ministries and CDR. Tasks currently underway include (a) establishing a unit for health systems planning, (b) providing health surveillance and monitoring, and (c) creating a national health information system.

Other assistance with reconstruction is now being planned with the Ministries of Health and Agriculture. Projects being contemplated include:

--Development of a primary health care system

--A survey of the damaged agriculture sector

--Evaluation of the feasibility of various projects in agriculture

--A training program for extension personnel and staff of the Ministry of Agriculture

I hope the committee will agree with me that the activities of the university I have recited give concrete evidence that ASHA dollars to AUB do indeed contribute to AID's developmental goals, and to the larger goal of enlarging understanding and respect for the United States. If you do agree, I urge you to authorize for ASHA more than the $20 million of the past two years, so that AUB and its sister private institutions elsewhere in the world may make even greater efforts in this direction.

The $20 million figure is not even equal to the average authorization over the past 14 years. As you will see by examining the attached table on the ASHA authorization and appropriation levels for each year since 1970, the mean is $23.7 million. The authorization in 1970 was $25.9 million, and as recently as 1981 it was $30 million. Even these higher figures of past years, however, would not meet even half the demonstrable need. The ASHA program office now receives applications for approximately $80 million each year, a doubling of the level of support requested in the mid-1970s. Last year fewer than half the institutions requesting assistance actually received it, and those that did by no means had their full needs met.

Inflation has had a profound impact on the effectiveness of the ASHA program. As you will see from the attached table providing conversion ratios for 1970 to later year dollars, it took $2.49 in 1982 to purchase what $1.00 bought in 1970. Since in 1970 both the authorization and appropriation for ASHA were $25.9 million, and since that level of funding approximately met legitimate program requests at the time, it is instructive to translate that year's figure into 1982 equivalent purchasing power. Multiplying $25.9 million by the conversion factor 2.49, we see that today's funding level would need to be $64.49 million to achieve the same program objectives. But in fact, the ASHA program is today trying to serve a much greater number and broader geographic distribution of institutions, as mandated by the Congress several years ago.

We understand the desire to bring burgeoning federal deficits under control and the responsibility of this committee, together with the Congress as a whole, to balance demands on the tax dollar. But we submit that the ASHA account is severely out of balance when measured by the growth in other programs and the investment returns to the United States achieved by ASHA. We hope you will act to restore it to a more appropriate level of support. AUB stands ready to continue its contribution to American education and regional development which these funds help make possible.

We thank the Committee for inviting us to testify today, and as always, we appreciate your interest and concern for the American University of Beirut.

AUTHORIZATION AND APPROPRIATION LEVELS FOR ASHA (By Fiscal Year)

Year	Authorization	Appropriation
1970	$25.9 million	$25.9 million
1971	12.9 "	12.9 "
1972	30.0 "	20.0 "
1973	30.0 "	25.0 "
1974	19.0 "	19.0 "
1975	19.0 "	17.5 "
1976	25.0 "	19.8 "
TQ		2.4 "
1977	25.0 "	19.8 "
1978	25.0 "	23.75 "
1979	25.0 "	25.0 "
1980	25.0 "	25.0 "
1981	30.0 "	20.0 "
1982	20.0 "	20.0 "
1983	20.0 "	20.0 "

EFFECT OF INFLATION: CONVERSION RATIO FOR 1970 DOLLARS TO EQUAL PURCHASING POWER

Year	Ratio
1970	1.00
1971	1.04
1972	1.08
1973	1.14
1974	1.27
1975	1.39
1976	1.47
1977	1.56
1978	1.68
1979	1.87
1980	2.12
1981	2.34
1982	2.49

Mr. HAMILTON. Thank you very much. We appreciate your statement.

I think all of us on the subcommittee have a great deal of admiration for the work done by AUB, particularly during the exceedingly trying times of recent years. We want to be receptive to your requests.

You are aware, of course, that the Congress has been a fountain of generosity compared to the administration. We have only a $7.5 million request here from the administration, and that is for the entire ASHA program. And we have repeatedly authorized at least $20 million, and I am sure we will again this year, if not more. But not all the problem lies on Capitol Hill, as I think you can appreciate.

I think we will follow the procedure of letting all on the panel testify before we ask questions.

Mrs. Tannenbaum, we would be very pleased to hear from you.

STATEMENT OF BERNICE TANNENBAUM, FORMER NATIONAL PRESIDENT OF HADASSAH, AND CHAIRMAN, HADASSAH MEDICAL ORGANIZATION

Mrs. TANNENBAUM. Thank you, Mr. Chairman and members of the committee.

My name is Mrs. Bernice Tannenbaum, I am the chairman of the Hadassah Medical Organization, which is responsible for the operation and maintenance of Hadassah's medical facilities and programs in Israel. I am also a former national president of Hadassah.

Hadassah has testified many times in support of the ASHA program and I am very pleased indeed for this opportunity to testify again.

It is because I feel so strongly about the impact of the ASHA program and its effectiveness in spreading American medical and educational know-how in far corners of the world that I am here today to testify on behalf of an increase in the ASHA 1984 authorization.

In relative terms, ASHA is a very small program which, in its best years, has had an authorization of no more than $25 million. For the last 3 fiscal years the authorization was only $20 million. In actuality, I cannot think of many instances where so few dollars have done so much to build and enhance America's image abroad, while at the same time performing such a valuable service.

The American schools and hospitals abroad program does more than achieve its stated objectives to strengthen the capacity of private U.S.-sponsored nonprofit schools and hospitals overseas. It manages to enhance the ability of those institutions fortunate enough to receive a grant to reach out beyond their own borders in ways more significant than the actual dollar amounts represent.

With its vote of confidence in the ability of an institution to represent the United States abroad, the well-managed, well-administered and underfunded ASHA program has acted as a vital catalyst. It has enabled American schools and hospitals abroad to transfer American capabilities and promote economic and social development in many needy countries. It has made it possible for institutions to provide modern training and adapt American education and medicine to foreign cultures. It has also increased under-

standing between the people of the United States and those of other countries. Hadassah is proud to be a part of such a worthy endeavor.

Hadassah is an American not-for-profit organization registered with the State Department. Founded in 1912 by Henrietta Szold, a Baltimore, Md., native, and 12 women with a vision, it has grown to encompass a membership of over 370,000 American women volunteers who dedicate countless hours in support of the Hadassah Medical Organization through 1,600 chapters in the United States and Puerto Rico.

In the years since it was founded, 71 years ago, Hadassah has built a medical, research, teaching, and service complex whose impact has been felt far beyond the borders of Israel. Under the umbrella of the Hadassah Medical Organization, Hadassah initiates and maintains extensive activities in preventive, diagnostic, and curative medicine, in medical education and in medical and scientific research in Israel. Moreover, its medical, dental, and nursing schools have supplied physicians, dentists, and nurses for medical institutions in Asia, Africa, and Central America, by training students from those areas so that they might return home to help their own people.

While Hadassah trains many of the future doctors and nurses from developing countries, its own physicians have been sent to more than 20 developing countries, including those with which they have no diplomatic link, to give medical assistance, participate in special missions, and serve on World Health Organization panels.

Through one of these assistance programs, Hadassah made dramatic contributions toward the eradication of trachoma in Liberia, Tanzania, Ethiopia, Bwana, and other countries. With its work in the treatment of eye disease, the education of blind children, and the special training of local nurses and physicians, Hadassah participated in a comprehensive program which proved to be an outstanding example of cooperation at its best.

In a broader context, Hadassah has also participated in a number of binational research projects. Israel's geographic location at the crossroads of Europe, Asia, and Africa has provided an opportunity for making a special contribution in the treatment of illnesses which are endemic to developing peoples living in large parts of Africa and Asia.

The World Health Organization recognized Hadassah's Department of Virology and the Leishmania Laboratory in the Department of Parasitology as international reference centers in the field of trachoma and leishmaniasis. It has cooperated with a Hadassah team in an international study covering India, Somalia, Brazil, and Spain in testing the effectiveness of Thalidomide in suppressing reactions in the treatment of leprosy.

Many of Israel's professional staff people are American-trained and bring to their positions American standards and American know-how. Hadassah medical personnel frequently come to the United States for seminar courses and specialized training. In addition, technical advisory committees composed of well-known, respected, and highly qualified U.S. citizens who are leaders in their respective fields are utilized as staff resources. On the whole, the

standards used for Hadassah's programs are based completely on tactics and procedures used in the American model of a teaching hospital.

I do not believe that anyone here questions the value and the effectiveness of the ASHA program, or that the committee needs to be convinced of the benefit accrued to the United States through this program. In my testimony I have attempted to show the vast range of activities which Hadassah, only one of the grantees, undertakes beyond its own boundaries to help countries in need. Unquestionably, the worth and the impact of this program could be strengthened with an increase in the authorization for 1984.

That the program achieved as much as it did is a testimony to the dedication and the commitment that both the donors and the recipients of the ASHA program have brought to it. How very much more could be done.

Our figures show that between 1975 and 1980, ASHA appropriations went from $17.5 million to $25 million. The $7.5 million increase did not even keep up with the rate of inflation; in real terms, to do so would have required an authorization of $26.8 million. In subsequent years, not only were the appropriations not increased but, rather, they were decreased to $20 million for the last 3 years. Using 1975 as a base year, a year during which the appropriation was quite modest, the 1984 authorization would have to exceed $34.5 million in order to keep pace with inflation.

ASHA does many things. It helps those who need help, it disseminates American medical and educational know-how, and it promotes the U.S. image abroad. It cannot continue to be effective unless it is given realistic means with which to achieve its ends.

Hadassah is grateful that it has been able to contribute its share to the healing of the sick and the prevention of disease all over the world. It is especially proud that the American standards of medical care and equipment which it has helped to make the norm in Israel are being transferred to developing countries in the service of all people, without respect to color or creed.

Hadassah wants to continue to give this added dimension to its work and, as the chairman of the Hadassah Medical Organization, I respectfully request that the ASHA authorization for 1984 be increased to help make this possible.

Thank you.

Mr. HAMILTON. Thank you.

We are aware of the outstanding work done by you and your colleagues in Hadassah. We consider it one of the great medical institutions in the world. We will be very pleased to support it.

Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

I want to congratulate you on a fine presentation, and you and your organization for your fine work.

I have no questions, Mr. Chairman.

Mr. HAMILTON. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

I would like to congratulate both of the witnesses, not only for fine presentations, but obviously what they have been doing over the years in their various organizations.

I would be very curious to ask either one of the gentlemen associated with the university what the status is at the present time, how much of an effect there has been on your programs and attendance and your overall ability to do what you need to do in terms of what has happened in Lebanon the last nine months?

Mr. KERR. The effect of what, Mr. Congressman?

Mr. SMITH. The effect on your ability to maintain your level of teaching student attendance.

Mr. KERR. The effect of our ASHA assistance are you saying?

Well, we have for the present year a budget of $62 million approximately. We had assistance of $5.5 million, including some emergency funds, supplemented by $10 million last summer to meet the deficit in our hospital.

I would say that without the overall assistance of $15.5 million that we received last year, we would not be in business any longer. In normal times you could put the level lower. But even then, coping with a deficit of $4 million a year would be beyond our means. I would say that it makes all the difference between an institution that can keep its head above water and conduct proper academic business and medical business and one that really would have to cut itself to the bone and operate a third-rate institution.

So we consider this assistance valuable and essential assistance to us.

Mr. SMITH. How would you characterize the administration's request in terms of its impact on your ability to do what you need to do?

Mr. KERR. The $7.5 million?

I don't see how we could expect to receive more than a fraction of what we have been accustomed to receiving. I think it would be a very grave blow to us.

Mr. SMITH. I am not sure that answers my question.

How would you characterize the Reagan administration's proposal in the budget for your assistance?

Mr. KERR. Inadequate, sir.

Mr. SMITH. Thank you.

Mr. HALABY. Could I supplement the first question?

We got $4 million out of the $20 million that you voted last year from the ASHA fund. And that was the deficit up until the tragedy of last summer. We could not live off endowment for many months. Therefore, that $4 million was lifeblood to us. It enabled the president to open the university this year and enroll almost as many students as last year, namely, 4,800. And therefore that $4 million was the margin that enabled us to proceed, even if there had not been strife in Lebanon last summer.

Mr. SMITH. Let me ask you this, then. Based upon that and the fact that that was so helpful, did you have any input into this budget process?

What was your request to the administration?

Mr. KERR. Our request this year was $6 million, about $6 million as I recall.

Mr. SMITH. Have you had any further conversation after the budget has been submitted as to why the dollar amount is not the same, in terms of your saying that it is inadequate, why it is that it is inadequate. What reasons did they give you for that?

Mr. HALABY. I think the general budget deficit is the reason given. And I guess it is fair to say that the expectation that you in your wisdom would add to the request in any case.

Mr. SMITH. Is that your expectation or the administration's?

Mr. HALABY. I believe it is both ours and theirs.

Mr. SMITH. Thank you.

Mrs. Tannenbaum, again let me compliment you. I am very, very familiar with Hadassah. My wife has been a member for many years.

If you had to for your own sake and for the sake of those I know you are concerned about, who don't have direct impact on your organization but have the same goals and do the same kind of work in other areas, had to pick a number, what would you say is the number that you would be wanting as a request for authorization for these types of programs?

Mrs. TANNENBAUM. For the total program or just for Hadassah?

Mr. SMITH. For both, if you can.

Mrs. TANNENBAUM. I would say even to keep up with inflation, the $20 million would have to be about $34.5 million.

For the total request, I would think about $35 million would be a nice increase. It would not permit us to do very much more than we are doing now, because inflation has eaten up the possibilities. However, Hadassah has just submitted a request for $4 million plus. We received $1 million last year. It was barely adequate. We, too, are running on a deficit budget. In that respect, we have a lot in common with the University of Beirut.

In order to conduct the special programs that our organization maintains to administer the program in the best possible way, we believe that the $4 million we requested is not an exorbitant grant for us to receive. However, realistically, I would assume that we should receive something greater than the $1 million we got last year.

Mr. SMITH. Would I be correct in saying that the United States stands to benefit a great deal as a country from the work that is done by these hospitals overseas, not only Hadassah but some of the other medical facilities, that much research is being carried on that might go begging in the United States were it not being given priority in other countries? You gave one example with the Thalidimide research.

Are those types of research ongoing that the United States would not be getting as a result?

Mrs. TANNENBAUM. Absolutely. If you gave me a hour or two, I could recite a long list of such programs. Basically we conduct one of the best tertiary care institutions in the Middle East. With our kind of high-level teaching institution we can offer our services in the fields of research, medical care, and training to Israel and to other countries, particularly to many countries in Asia and Africa. It would be a disservice to the goals of the United States if we were denied this small sum of money in order to carry on these programs. It is of benefit both to the recipient and to the donor.

Mr. SMITH. Wouldn't you—and I invite a response from either of you gentlemen—characterize these types of programs and the money that the United States funds into these programs as almost the same as economic aid, raising the level of standard of medical

care, of intelligence, of intellect, of training in these countries which are the recipients ultimately of the aid, so that it is not just really a separate category we are dealing with but an integral part of what it is that the United States needs to do around the world to possibly circumvent more—I hate to use the word, it is so battered about these days—more El Salvadors?

Mrs. TANNENBAUM. I would agree completely.

One of the courses we have been conducting is for public health practitioners. Last year, we trained 30 graduates from countries in Asia and Africa, who will now be able to offer their countrymen proper public health and preventive measures as a result of the training they received. We could not offer this kind of service without the level of assistance that you are discussing.

Mr. SMITH. One final question.

Mr. Halaby or Mr. Kerr, in fact don't you have programs at the University of Beirut that are in reality educating people who are going to go back into the countryside in Lebanon or in other countries and do the same kinds of things you are doing on a smaller local-level basis?

Mr. KERR. This is precisely the purpose of our university since its inception, yes, sir.

Could I add one other point, Mr. Congressman?

I think if you looked for the return on U.S. Government money spent in the Middle East, I cannot see what could be more valuable, dollar-for-dollar, than money spent in the educational and medical research fields.

I think everything Mrs. Tannenbaum has said with regard to Hadassah applies also to us. This is money in very, very small amounts which yields an enormous return.

Mr. SMITH. I couldn't agree more.

Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Levine.

Mr. LEVINE. Thank you.

I would like to thank the witnesess for their testimony and compliment each of you for the fine work you and your organizations do.

I have no questions.

Mr. HAMILTON. Mr. Zschau.

Mr. ZSCHAU. No questions.

Mr. HAMILTON. Thank you very much for your testimony this afternoon.

We will now ask panel No. 2 to come forward:

Mr. Thomas A. Dine, executive director for the American Israel Public Affairs Committee, and Mr. Douglas M. Bloomfield, legislative director for the American Israel Public Affairs Committee;

Dr. Jame Zogby, Director, American Arab Anti-Discrimination Committee;

David J. Sadd, executive director, National Association of Arab Americans;

Ms. Frances Neely, legislative secretary, Friends Committee on National Legislation;

Mr. Robert Basil, chairman, American Lebanese League, and

Mr. Jawad George, executive director of the Palestine Congress of North America.

Just for the benefit of my colleagues on the subcommittee, I think the way we will proceed is to hear from each of our witnesses, each will be operating under the 5-minute rule—we will just go right down the table from my right to left. Then at the conclusion of the testimony, we will go to questions of the subcommittee members.

Mr. Dine, you are first in line.

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

Mr. DINE. Thank you, Mr. Chairman, for the opportunity to testify before this distinguished subcommittee on the proposed foreign assistance authorization bill for fiscal year 1984.

The American Israel Public Affairs Committee is an organization of Americans who value and are deeply committed to strengthening the already strong moral and strategic bonds between our country and Israel. As you know, on AIPAC's Executive Committee sit the presidents of 38 major American Jewish organizations, representing a membership of 4.5 million throughout the United States.

In the context of formulating a realistic foreign policy, which I believe recognizes the difference between the desirable and the essential, as well as between the desirable and the attainable, three critical questions lie before this policymaking subcommittee.

First, how does aid to Israel serve the national interest of the United States?

Second, is the amount under consideration proportionate to the U.S. interest?

And third, how does the amount correspond to Israel's legitimate requirements?

Let me try to answer these.

Israel is the only country in the Middle East with meaningful free elections, a robust and unfettered free press, checks and balances to prevent and correct abuses of authority, extensive equality for women, and other safeguards and rights that are typical of a free society. It stands in sharp contrast to the other countries of the region, which include monarchies like Saudi Arabia, where all power is permanently concentrated in the hands of 3,000 wealthy relatives, and ordinary people are under constant surveillance by the religious police and internal security forces, and dictatorships like Syria, where the army recently slaughtered 10,000 of its own citizens.

We now see in the United States an energetic campaign by adversaries of the U.S.-Israel relationship to undermine the ties between the two countries. The method applied is to focus attention exclusively and relentlessly on any aspect of Israel which puts the Jewish state in a negative light, and thus to erode the relationship.

Israel, although a vibrant democracy, has, like the United States itself, unsolved social problems. But it is, in any honest accounting, one of the great success stories of the democratic experience in the modern world. Not one of the Arab countries, whose interests the anti-Israel propagandists seek to promote, has anything approaching the standard of democratic rights and civil liberties which Israel maintains.

In a wider perspective, Israel compares quite favorably to the other recipients of U.S. aid in the Middle East, Northeast, Southeast, and South Asia, Africa, the Caribbean, and Central America.

The U.S. interest in Israel also has a strategic dimension. Israel is our only reliable and effective ally in the Middle East, and one of only two in the eastern Mediterranean. It sits in a vital position midway between Europe and the Persian Gulf, and has offered to the U.S. air and naval bases which others have declined to provide.

It has played a critical role in cementing closer U.S. relations with Egypt by relinquishing the Sinai at great economic cost and strategic risk. It has stopped the drift of Lebanon into the Soviet orbit, dealing a vital blow to international terrorism at the same time.

It has helped prevent Syria from invading Jordan in 1970 and 1980, securing a pro-American government in that country. Its actions have helped to make the Mediterranean Basin and the Middle East heartland secure against Soviet expansionism.

Israel also helps the United States in the sphere of military preparedness. Israel's air force and navy are a significant factor in the East/West balance in the Mediterranean. Israel's action against the Soviet-supplied Syrian SAM's in Lebanon have dealt a vital blow to conventional weapons systems on which Moscow spends more than it does on all land-based nuclear weapons. The political-military information Israel provides to the United States makes a major contribution to U.S. intelligence. The strategic value of Israel to the United States is substantial.

Compared to its moral and strategic value, the cost of aid to Israel is small. Fiscal year 1984 aid to Israel will be less than 1 percent the size of the U.S. defense budget, it will be less than one-thirtieth the amount we spend on NATO and European security. It will be a fraction of the cost of our support to the security of South Korea. Moreover, unlike many allies, Israel seeks no commitment of U.S. combat forces on its behalf. All of the aid requested for Israel is spent within the borders of our country.

I conclude, Mr. Chairman, that aid to Israel is one of the most cost-effective security expenditures made by the United States.

From the point of view of Israel's needs, it is important to recognize that net aid has declined rapidly in recent years due to inflation and to the growing burden of debt service on past loans. Net aid in constant dollars has declined by 65 percent in the past 9 years and is now about one-third the former level.

At the same time, Israel's needs have continued to increase as larger quantities of more modern arms have gone to Israel's enemies at an accelerating rate. Some people, looking at last summer's fighting between Israel and Syria, have concluded that Israel need no longer fear an Arab attack. But this conclusion is misleading.

The summer conflict in and over Lebanon between Israel and Syria is but a small piece of the picture. In the future, Israel must be prepared to defend herself against a much wider threat than just one Arab country.

In the 1973 Yom Kippur war, 11 Arab countries contributed armed forces. Syria has mostly Soviet weapons, but other Arab states have superior systems provided by Western countries. Syria,

itself, is rearming at an alarming rate. And Israel must also take account of the possibility of a direct Soviet threat. The Soviet Union now has 7 airborne divisions much more capable of rapid intervention than they were in 1973.

People forget that the Arab aggregate now has almost as many tanks and combat aircraft as NATO, and that Israel is a tiny country of 4 million which must prepare against this threat, and fight on its own.

On page 13 of my prepared testimony is a chart showing the military balance. Israel faces a much greater imbalance than that facing NATO in Europe than that facing the South Koreans.

I have provided you with a full written statement containing background material on these questions—and with a booklet on the strategic value of Israel to the U S. Air Force.

Let me conclude by observing that, as polls taken in 1983—Gallop, Harris, and the Washington Post/ABC—show, the general American public is favorably disposed toward Israel and Americans agree that aid to Israel serves the national interest of the United States.

As you consider the Foreign Aid Authorization/Appropriations bill before you, and the Israel account in particular, it is important to note that net aid for Israel has declined by 65 percent in real terms over the past 9 years, while Israel's importance to the United States remains essential.

I urge this subcommittee to vote in favor of an appropriate portion for Israel in the context of our whole foreign aid effort and furthering U.S. interests in the region and worldwide.

Thank you, Mr. Chairman.

Mr. HAMILTON. Thank you, Mr. Dine.

[Mr. Dine's prepared statement follows:]

PREPARED STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE [AIPAC]

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished committee. Appearing with me is Mr. Douglas Bloomfield, AIPAC's Legislative Director

The American Israel Public Affairs Committee (AIPAC) appreciates the opportunity to express our views on the proposed Foreign Assistance Appropriation bill for FY 1984 and the state of U.S.-Israel relations.

AIPAC is a domestic organization of Americans who value strong ties between our country and Israel. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four-and-one-half million members throughout the United States.

As this committee considers the foreign assistance authorization for Israel for FY 1984, it faces three essential questions. First, how does assistance to Israel serve the national interest of the United States? Second, is the amount proposed proportionate to Israel's legitimate requirements and to the national interest of the United States? And third, are the objectives of the aid program consistent with the wider objectives of U.S.-Israel relations and U.S. diplomacy in the Middle East? I would like to take this opportunity to provide pertinent background for your deliberations on each of these three issues.

1. <u>How does assistance to Israel serve the national interest of the United States ?</u>

The United States has both a moral and a strategic interest in Israel. Israel is the only country of the Middle East with meaningful free elections, a robust free press, checks and balances to prevent and correct abuses of authority, extensive protections for the rights of individuals and minorities, basic equality for women, and other safeguards and rights that are typical of a free society. It stands in sharp contrast to the other countries of the region, which include feudal monarchies like Saudi Arabia, where all power is permanently concentrated in the hands of a few wealthy princes and the ordinary people are under constant surveillance by the religious police and internal security forces, and dictatorships like Syria, where the government recently slaughtered 10,000 of its own citizens.

We now see in the United States an energetic campaign by enemies of the U.S.-Israel relationship to undermine the moral ties between the two countries. Their method is to focus attention exclusively and relentlessly on any aspect of Israel which puts the Jewish state in a negative light, and thus to erode the relationship. Israel, although a democracy, has, like the United States itself, some unsolved social problems. But it is, in any honest accounting, one of the great success stories of the democratic experience in the modern world. None of the Arab countries, whose interests the anti-Israel propagandists seek to promote, has anything approaching the standard of democratic rights and civil liberties which Israel has maintained. Aid to Israel is based on a common Judeo-Christian and democratic heritage that is virtually unique in a world of imperfect nations and imperfect alliances. In a wider perspective, Israel compares quite favorably to the other recipients of United States aid in the Middle East, Northeast Asia, Southeast Asia, South Asia, Africa, the Caribbean, and Central America.

Alongside the moral tie between the two nations, the United States' interest in Israel has a strategic dimension. Israel is our only permanent ally in the Middle East and one of only two in the eastern Mediterranean. While we enjoy, for the moment, good relations with a number of other countries in the region, these are based on alliances with unelected ruling elites in societies where the ordinary person has no special love for the United States or for the Western world. As we learned in Iran, such alliances with autocratic and unstable elites can be ended by the next coup or revolution, or we can be thrown out by rulers attempting to hold on to power by appeasing radical opinion. In Israel, by contrast, the ordinary citizen, and the leaders of all major parties, conceive their own interests as part of the Free World. The alliance between the United States and Israel is, therefore, above all a bond between the peoples of the two countries, and it will endure long after these other "friends," who are really temporary allies of convenience, are gone.

The strategic value of this alliance to the United States derives from Israel's geographic position in a vital area of the Mediterranean and the Middle East midway between Europe and the Persian Gulf, and from Israel's own strength and effectiveness as the most powerful state in the region. President Reagan has emphasized that the "paramount American interest in the Middle East is to prevent the region from falling under the domination of the Soviet Union." In this regard, Israel's strength has played a critical role in four cases:

<u>Egypt</u> - Israel's willingness to relinquish the Sinai, at great economic cost and strategic risk, has helped to wean Egypt from the Soviet Union and to cement closer U.S. ties with Cairo.

<u>Lebanon</u> - Israel stopped the drift of Lebanon into the Soviet orbit by driving the Syrians and the PLO out of Beirut, thus allowing a pro-Western government to come to power and creating a new opportunity for creative American diplomacy.

Jordan - Israel has twice helped the United States to prevent Syria from invading Jordan, thus enabling a pro-Western government to remain in power in Amman.

Terrorism- Israel has dealt a vital blow to international terrorism, eliminating its global headquarters in Lebanon and capturing thousands of terrorists operating from there against other countries around the world.

As a result of these Israeli actions, the eastern Mediterranean region, which once looked like fertile ground for Soviet adventurism, is now evolving toward stable relations with the Western world. Thanks largely to the actions of Israel, the Mediterranean basin is now virtually an American lake, with the exceptions of Syria and Libya. This basic point has not escaped the attention of Moscow, which understands better than some in the West the profound strategic value of Israel to the United States.

Beyond these cases, Israel is an important strategic asset for the United States, providing significant assistance to our defense and intelligence establishments. Currently, Israel helps the United States in the following ways:

* Israel provides the United States with intelligence on Soviet equipment and on Soviet-allied forces in the Middle East, and is prepared to provide more.

* Israel has demonstrated the vulnerability of Soviet SAMs and interceptors in Lebanon, which may force the USSR to divert large sums in Europe from force expansion to force renovation and replacement and has also discredited the weapons on which much Soviet influence depends.

* Israeli air and naval forces are sufficiently strong to challenge Soviet naval forces in the eastern Mediterranean, and are thus a significant factor in assessing the East-West naval balance of power in that region.

* Israel has provided considerable combat data on the performance of American military equipment, allowing the United States to correct problems and to incorporate improvements without risk to American lives.

* Israel has developed equipment and tactics which have subsequently been adopted for use by the American military.

* Israel has directly aided in the improvement of American weapons by developing improvements subsequently adopted by the United States and by funding such programs in the United States.

But the United States has not yet exploited the full strategic advantage of cooperation with Israel. If the United States adopted a systematic program of strategic cooperation, as proposed but suspended a year ago, the areas of potential gain could include the following:

* Israeli hospitals could save American lives by caring for the large number of American wounded likely to result from a Persian Gulf war; indeed, no other solution is presently visible.

* Israel has offered to protect American lines of communication in the eastern Mediterranean in a crisis, thus freeing American aircraft for use elsewhere.

* Israel has offered to make available air fields and ports to support American military deployments in the Mediterranean and the Middle East.

* Israel could be used as a storage site for prepositioning of fuel, ammunition, and equipment for use by American forces sent to the Middle East.

* Relatively modest assistance from the United States and an agreement on strategic cooperation could expand significantly the value of Israel as a naval ally.

But with or without these additional steps, cooperation with Israel greatly enhances America's strategic position not only in the Middle East and the Mediterranean but indeed throughout the world.

Overall, then, the United States has both moral and strategic interests in Israel, and the program of assistance for FY 1984 which is before you serves both. It is a reflection of our concern for the security of Israel, in that it helps Israel to offset the massive quantities of arms that are flowing from most of the world's major production lines to countries hostile to Israel. Aid is also a reflection of our strategic interests, in that it helps our one permanent ally in the region to maintain its strength as an asset in the broader strategic arena.

2. Is the amount proposed proportionate to U.S. interests and Israeli needs?

Aid to Israel has declined considerably in real terms and in proportion to U.S. aid commitments worldwide over the past few years. Still, it remains a substantial figure. A continuing concern of Congress is how to determine the level of aid that is appropriate in light of the national interest of the United States and in terms of what is necessary to support the security of Israel.

The central purpose of aid to Israel is to ensure the security and survival of a vital ally whose strength is an asset in the wider international security system. The ultimate purpose of assistance to Israel is essentially similar to the reason we keep troops in Europe and Korea and a naval presence in the western Pacific: to enhance international security by deterring aggression and ensuring the defense of important friends and allies. To determine whether our assistance to Israel is proportionate to U.S. interests, the appropriate measure is therefore an assessment of the costs and benefits compared with other major expenditures on international security.

FY 1984 aid to Israel will be less than 1% the size of the U.S. defense budget, under one-thirtieth of our expenditures on NATO and European security, and a fraction of the cost of our support to the security of Korea. Moreover, unlike many allies, Israel seeks no commitment of U.S. combat forces on its behalf. In light of the important role Israel plays in regional and international security, which we have outlined, aid to Israel is one of the most cost-effective security expenditures made by the United States.

Moreover, a considerable portion of the cost of our aid to Israel is offset by direct economic benefits to the United States. Israel is a substantial net importer from the United States, spending on civilian imports alone about twice what it receives in economic assistance. Every dollar of aid is spent within the borders of the United States, and a major portion of the total consists of loans on which Israel has an excellent record of re-

payment. According to Peter McPherson, Administrator of AID, every billion dollars of U.S. aid translates into 60 to 70 thousand jobs in the U.S.

But the benefit to the United States goes beyond the aid process itself. For example, when Israel defeated the Syrian's Soviet-supplied SAM and air defense systems in Lebanon, it implicitly dealt an important blow to one of the largest and most important elements of the Soviet and Warsaw Pact military buildup in Europe. The Soviet Union spends more on its SAM system in Europe than it does on its entire land-based nuclear weapons complex. If we add to the surface-based air defenses its expenditures on the MiG-21 and MiG-23 interceptors, which Israel also defeated, it spends more on combined air defense than it does on its entire Navy. Over time, the effect of Israel's actions will be to force the Soviets to spend considerable sums on altering and replacing important parts of this huge system. This means a significant diversion of Soviet defense expenditures from force expansion to force replacement, and from expenditure on offensive systems to spending on a defensive one. While the results for the United States will not be visible immediately, the implicit effect is to reduce by billions of dollars the Soviet defense buildup which the U.S. must match.

Similarly, Israel's combat experience will over time affect billions of dollars in U.S. defense expenditures, although here again the full effects will take some time to unfold and will not always be visible to casual observers. In the current period of rebuilding the United States armed forces to meet the growing Soviet challenge, each of the new systems we acquire involves hundreds of millions or billions of dollars in research, development, procurement, operations, and maintenance costs. If Israel's combat experience in Lebanon alters only 5% of this activity--and its experience in 1973 altered a good deal more--these savings alone, in the form of diverting expenditures from less effective solutions to combat proven alternatives--will have an economic benefit to the United States comparable to the total cost of foreign aid.

These are but two examples. If we could give a dollar value to the other areas in which Israel is a strategic asset to the United States, such as the value of its air and naval contributions to the Mediterranean balance and its role in securing pro-Western governments in Egypt, Lebanon, and Jordan, it would be clear that the total gain for the United States greatly exceeds the cost of aid.

The current level of assistance to Israel is thus easily justifiable in terms of the national interest of the United States. The next question is how it compares to Israel's legitimate requirements in terms of the goals of the aid program.

The primary reason Israel needs assistance from the United States is the enormous cost of maintaining a military balance. Israel is a small state of four million people with a GNP of $21 billion which must somehow defend itself against the relentless hostility of confrontation states with 30 times the population and ten times the GNP. Saudi Arabia's defense budget alone exceeds Israel's total GNP. The combined defense budgets of just five Arab states (Syria, Iraq, Jordan, Saudi Arabia, and Libya) are five times that of Israel.

The people of Israel are proud and determined to be responsible for their own defense. Unlike many other countries, they do not intend today or ever to ask American soldiers to provide their protection for them. They also contribute the economic cost of their own defense to the limit of their capabilities, spending a much greater portion of their resources on security than the United States, Europe, or Japan. But Israel is not capable of matching the unlimited expenditures of the Arabs and the Soviet Union. United States aid is essential to maintaining a stable military balance.

Israelis are deeply grateful for the substantial support that the United States has provided over the past decade, and are well aware that the United States above all countries has stood by them during this difficult period. We Americans, both Jewish and Christian, who care about Israel share this feeling and a great pride that our nation has honored its tradition of standing by a vital

ally. I come before you today to express our thanks to the Congress.

However, we are also concerned by the unhappy reality that net aid to Israel is declining rapidly due to inflation and the growing burden of service on past loans, while the accumulation of arms by hostile countries continues to accelerate and Israel's vital needs therefore grow. This is leading to a widening gap between Israel's legitimate requirements and the aid that is available from the United States each year.

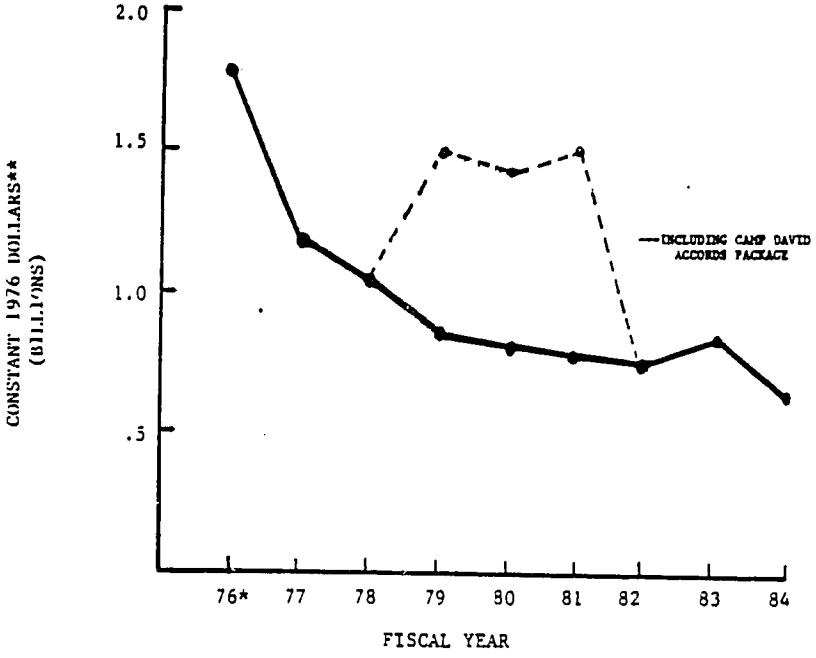
The fact that net aid to Israel has declined significantly in real terms is not widely understood. In FY 1976, the Congress appropriated $2.214 billion and Israeli debt service on past loans totalled $376 million, leaving a net aid balance of $1.838 billion. For FY 1984, the Administration has proposed $2.485 billion, but debt service to the United States government will be $1.15 billion, leaving a balance of $1.335 billion in net aid. Taking inflation into account, the package before you is equivalent to $661 million 1976 dollars, a decline of 65%. As you can see in Figure 1, net United States aid to Israel has declined over the past nine years, and is now about one-third the former level in real terms.

FIGURE 1.

NET AID TO ISRAEL

Annual grants and loans less debt service

ADJUSTED FOR INFLATION



* EXCLUDING TRANSITIONAL QUARTER FOR COMPARABILITY
** ADJUSTED BY U.S. DOD INFLATOR

BASIS OF COMPUTATION-SEE APPENDIX

At the same time, Israel's need for assistance has continued to grow. It derives, above all, from the necessity to maintain a military balance against an Arab coalition which is receiving ever-larger numbers of more sophisticated arms. Because of its direct relevance to the question of Israel's need for aid, I would like to devote a few minutes to an assessment of the military balance.

Some people have concluded from Israel's successes against the Syrians in Lebanon last summer that Israel need no longer fear an Arab attack and that Israel now has all the arms it needs for self-defense. This perception, although widespread, is erroneous and misleading, because the balance between Israel and Syria in Lebanon is but a small piece of the picture, for several reasons:

(1) In 1982, Israel had to fight only a portion of the forces of one Arab country. In the future, Israel must be able to defend itself against a much wider threat, like that of 1973 when eleven Arab countries contributed forces.

(2) Syria is one of the few remaining Arab countries which gets most of its weapons from the USSR. Many Soviet systems are less capable and more vulnerable to Israeli countermeasures than the Western-supplied systems that are now entering the arsenals of other Arab countries, such as the Saudi F-15s which can easily outperform the Syrian MiG-21s.

(3) Syria itself is now in the midst of a major modernization and rearmament, reportedly including a satellite data link connecting Syrian air defense to a control system in Moscow. The Soviets are introducing new countermeasures at a feverish pace, to ensure that Syria will fare better in any future round of fighting.

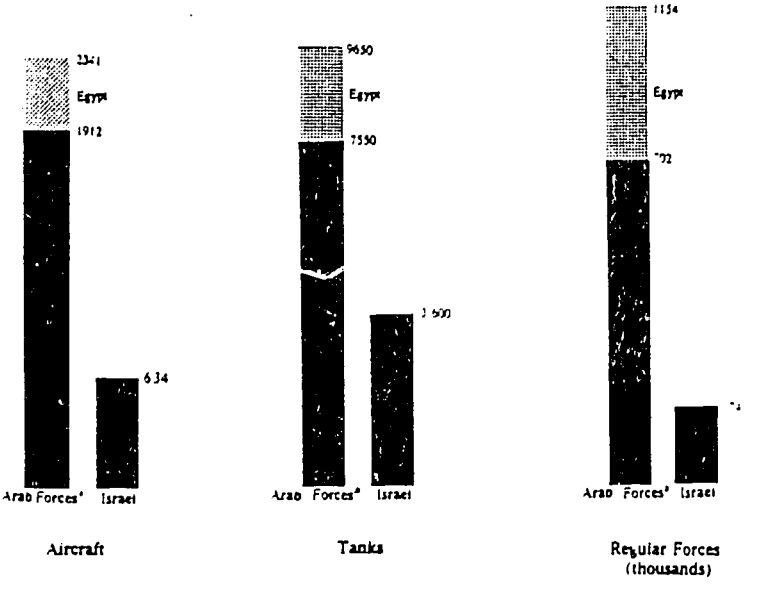
(4) Israel must take account even of the Soviet Union itself as a potential threat. Russia now has seven airborne divisions whose troops and equipment could be introduced rapidly into a Middle Eastern conflict. It also has several thousand military personnel already on the ground in Syria.

Above all, Israel is forced to plan, not only for the situation that exists at a given moment, but for the more demanding situations that could come about over a ten year time horizon. If the Arab League is divided today, this can change rapidly, as it does from time to time, and Israel may face a much larger coalition than is apparent at the present time. Taken together, the Arabs pose a formidable threat, possessing collectively almost as many combat aircraft and tanks as NATO (e.g. 1,912 jets compared to NATO's 1,986 in Central and Northern Europe). The long lead-time on aircraft and tank procurement makes it necessary for Israel to plan against this larger threat today.

In the wider strategic perspective, Israel operates on a narrow margin of safety, with the certain knowledge that the first war it truly lost would be the last. As Figure 2 shows, Arab military forces have a substantial quantitative advantage over those of Israel, averaging a ratio of about three-to-one. For example, Israel has about 634 aircraft against the Arabs' 1,912 (2,341 counting Egypt), and 3,600 tanks compared to the Arabs' 7,550 (9,650 if Egypt is included) counting only those Arab countries able to send forces. This is a quantitative disparity considerably larger than that faced by NATO in Europe or by South Korea, and it forces Israel to take extraordinary measures to compensate.

FIGURE 2

THE MILITARY BALANCE 1983



[a] Includes: Algeria, Iraq, Jordan, Kuwait, Libya, Saudi Arabia, Syria—capable of rapid deployment of aircraft.

[b] Includes: Eastern Front Arab States: Iraq, Jordan, Kuwait, Saudi Arabia, Syria—capable of sending tanks.

Source: The Military Balance, 1982-1983. London: International Institute for Strategic Studies, 1982.

Until recently, this quantitative imbalance was offset by important qualitative advantages in Israel's favor, but these too are eroding. Israel can no longer count on having better weapons than those available to the Arabs. For example, Israel now has a total of about 125 advanced-design combat aircraft (F-15s and F-16s), in service or on order. By comparison, Arab countries now have in service or on order more than 160 Western state-of-the-art jets (U.S. F-15s and F-16s, French Mirage 2000s) not to mention the latest Soviet models. If in the future the U.S., as expected, sells to the Arabs another 200 advanced fighters and the French only add 40, by the end of the decade the Arabs will have 400 to Israel's current 125, making it all the more important that the Administration end delays on authorizing the 75 additional F-16s to Israel. Allowing the qualitative balance of airpower to tip in the Arab favor is definitely not in the interest of the United States. If the Arabs are able to compound their advantage in quantity with an advantage in quality, the temptation to resort to force will grow dramatically.

Equally important, there are growing indications that the Arabs are acquiring sophisticated electronic warfare equipment from Soviet and Western sources, as we are now seeing in Syria. Much of the equipment is state-of-the-art, some developed by Western companies with access to highly secret data about the very weapons that are used by Israel.

There are other disturbing trends. The growing range and payloads of Arab ground attack aircraft may soon mean that the Arabs will have a deep strike capability against Israel, raising the spectre of a surprise attack in the air. The sheer number and diversity of revolutionary new systems being introduced into Arab arsenals at the same time raises the possibility of technical breakthroughs that will give an unforeseen advantage to the Arabs (as new missiles and radars did in 1973). The shift that is taking place in several Arab states, from Soviet to Western sources of arms, worsens Israel's problems, because most of its countermeasures are designed against Communist rather than Western systems. The very plurality of the arms which Israel now faces, in both numbers and types, raises the danger of a saturation effect, a point beyond which Israel cannot cope. Finally, as noted above, the growing interventionary power of the Soviet Union raises an unprecedented danger of escalation to superpower involvement.

These new problems come on top of some asymmetries which have long characterized the conflict. The Arabs are able to maintain standing armies while Israel relies on reserves, creating favorable conditions for an Arab suprise attack. In the diplomatic context of Middle Eastern wars, Israel is expected to allow the Arabs to fire the first shot, thus conceding the advantage of choosing the time and place of conflict. The Arabs can lose one war after another and come back to fight again, but Israel cannot afford to lose even one. If Israel wins on the battlefield, it is not permitted to translate these results into a peace settlement at the conference table, but must settle for mere cease-fires and begin to prepare for the next round of fighting which the Arabs openly declare is their intention.

In sum, the military balance at this moment may seem favorable to Israel because of the sharp divisions which now characterize the situation in the Arab world. But this advantage is temporary and cannot be the basis of sound planning. The longer-term trenda in the military balance are disturbing, and Israel's requirement for U.S. aid to offset these adverse trends remains a vital need. The fact that net aid is declining in real terms does not help the situation.

In conclusion, then, the sum proposed for aid to Israel this year is offset by many advantages accruing to the United States and to Western security, and is one of the most cost-effective expenditures made by the United States in the foreign policy and international security arena. From the point of view of Israel's legitimate requirements, appropriation of the full amount, which actually represents a decline of 65% in net aid after inflation compared to a few years ago, is essential to maintaining a stable military balance. Although the figures before you may seem large in an absolute sense, they are minimal in light of the U.S. interests and vital Israeli security needs that are at stake.

3. How does aid to Israel fit in the wider picture of U.S. diplomacy in the Middle East?

As the Congress turns its attention to the for ign aid package, it also needs to consider three issues in terms of the wider diplomatic/strategic environment of the Middle East: (a) the situation in Lebanon; (b) problems of U.S. arms sales to Israel's enemies; and (c) U.S.-Israel relations in the context of the peace process. I would like to take this opportunity to comment on these three key issues.

Lebanon

Israel's actions in Lebanon provide a vivid demonstration of the convergence of Israeli and American interests in the containment of Soviet expansionism in the Middle East, the elimination of the threat of international terrorism, and the creation of conditions necessary for regional peace and stability.

At the outset of Operation "Peace for the Galilee," Lebanon was in an advanced state of disintegration. It had become effectively partitioned between two Soviet proxies--the PLO and Syria. The PLO's state-within-a-state served as the hub of the international terrorist network. The attacks on Israel from Lebanon provoked Israeli reprisals and thus exacerbated the Arab-Israeli conflict for 12 years. This helped the Arab rejectionists to isolate Egypt and stall the peace process.

Now, Lebanon has the opportunity to reconstruct itself as a stable, orderly, and pro-Western state. Israel's use of force helped create order out of chaos. It destroyed the PLO's infrastructure and removed Lebanon as a source of both regional instability and worldwide terrorism. As a result of the war, Moscow was discredited as an arms merchant, as a superpower protector, and as a party with influence in the region. With the defeat of the PLO and Syria--the most committed opponents of the Camp David Accords--the "moderate" Arabs have an opportunity to pursue a more constructive course.

Israel thus made a substantial contribution to the task of combatting the Soviet Union in the Middle East, at almost no cost to the U.S. The demonstrated superiority of American weapons will impact favorably on the global military balance. On the diplomatic level, the Reagan Administration is seeking ways to exploit the opportunities created by Israel, in an entirely new Lebanese situation.

But, in a distressing reversal of perspective, U.S. diplomacy in Lebanon, instead of working with Israel as a reliable and effective ally, is defining its interests in opposition to those of the state which made it all possible. The Administration has, surprisingly, lost sight of the basic strategic issues, and is instead obsessed with problems of little real significance for the United States.

What is the United States' national interest in Lebanon? It is, first and foremost, to prevent that country from falling back once again under the influence of Soviet-allied forces. Second, it is to strengthen Lebanon's pro-Western government--not necessarily to solve every local problem, but to create conditions under which no challenge to that government by Syria, the PLO, and radical elements within Lebanon, can succeed. Third, it is to bring about peace between Israel and Lebanon, reinforcing both Egypt's position and the peace process. A fourth but probably unattainable objective is to bring about reconciliation between all the diverse factions within Lebanon and to solve its many other social, economic, and political problems.

But what is the Administration doing? It is putting all its effort into the single task of getting Israel out, showing very little concern over the PLO and the Syrian presence. It is <u>opposing</u> peace and normalization between Israel and Lebanon, even though only an alliance with Israel can offset Syrian influence in the country and give the new regime any prospect of long-term survival.

It is doing this on the implausible assumption that, if we only got the Israelis out, the Syrians and the PLO would leave and peace would break out among all the internal factions. In truth, if

Israel withdrew precipitously, a more likely result would be chaos, followed by the resumption of the war of each against all, followed by the reemergence of the Syrian and PLO influence.

The first task of U.S. diplomacy should be to secure the removal of the Syrians and the PLO. Former Secretary of State Kissinger recently commented that, "People forget that after Israel's part of this negotiation is concluded, one has to go to the Syrians and see whether they agree. And, if I know anything about the Syrians, they will not accept the results of an Israeli, Lebanese, and American negotiation without a long negotiation by themselves."

Beyond this, why should the United States object to normalization between Israel and Lebanon, and why oppose simple security arrangements in the south, which are all Israel seeks to withdraw? The answer given by Administration officials--that this would impede Christian/Moslem reconciliation in Lebanon and reduce the credibility of the new government in the eyes of Syria and the rest of the Arab world--is not convincing. Recreating Christian/Moslem harmony is like teaching the zebra to fly again: it never happened and never will. Moreover, there is a natural alliance between the Christians of Lebanon and the Western world. Most of the Moslems, who look to the East, have never felt any particular affinity with the United States and Europe. The objective interest of the United States in Lebanon is with the Christians and the Israelis.

As to gaining Syrian acceptance of the Lebanese government, this is a particularly dangerous and erroneous way of describing the U.S. interest. Syria is and seems likely to remain a Soviet ally, a rejectionist state, and an unspeakable tyranny. It has territorial aspirations in Lebanon, has never recognized it as a separate nation, and would destroy the new government there if it could. It is very possible that the Syrians were responsible for assassinating the former President-elect and brother of the current president of Lebanon. The regime in Damascus is a brutal dictatorship which recently killed 10,000 of its own citizens, and it has no strategic or moral reason to feel kindly to the present regime in Lebanon. Premising the future government of Lebanon

and U.S. policy in the region on Syrian approval is tantamount to giving a veto to the most intransigent and dangerous actor in the whole situation.

A problem of even greater magnitude but of relatively little interest to the Administration is the growing Soviet military presence in Syria. At this time, SA-5 missiles are being emplaced in Syria which can reach all of Lebanon, northern and central Israel, and deep into Turkey and the eastern Mediterranean. The missiles and the positioning of Soviet troops indicates that the new Soviet leadership has decided not only to expand significantly its commitment to Syria's war-making capability, but also signals its determination to maintain a position of influence in the Middle East heartland. This activity must be viewed as part of the Soviet global strategy in the Middle East reflected in its occupation of Afghanistan, its designs on Iran, and its alliance with Libya. Paradoxically, the Administration is less concerned with the implications of this renewed Soviet activity for NATO and the heightened chance of a superpower confrontation, than with the ejection of its consistent ally, Israel. This is the case even though the Soviet proxies in Lebanon continue to refuse to withdraw.

Another objective of U.S. policy in Lebanon is the establishment of a strong central Lebanese authority which is pro-American and pro-Western. Israel's operation made it possible to join forces with those Lebanese elements who share an organic bond with the United States--namely, the Lebanese Christians and those Moslems favoring a pro-American alignment.

Finally, U.S. policy as it stands ignores Israel's legitimate security requirements in Lebanon. Israel went into that country to wipe out the threat of PLO rockets which held one fifth of its population hostage for over a decade. To withdraw without the necessary security measures would enable terrorists to return to southern Lebanon and threaten to renew the cycle of violence and instability.

Only after progress in Lebanon is decoupled from other problems in the area and negotiations are conducted with a perspective on the wider context of United States strategic interests there--containment of Soviet expansion in the region and the establishment of a friendly Lebanese government--can a realistic solution be reached.

Arms Sales to Israel's Enemies

The Congress will soon face a decision on the sale of advanced fighters and missiles to Jordan. This comes on the heels of major sales to Saudi Arabia and Egypt, which have raised serious problems, and the package that is apparently intended by the Administration for Jordan may prove to be the most troublesome of all.

Today, the Arab states on Israel's borders are engaged in a military buildup larger even than the Syrian-Egyptian expansion of 1968-73, involving a larger number of states, a wider array of suppliers, and far more advanced equipment. Particularly alarming is the role of the United States in fueling this buildup. Whereas, before 1973, the Soviet Union was the most important provider of arms to the confrontation countries, today the United States is the principal supplier to four of the five Arab states closest to Israel, and American weapons will almost certainly play an important role for any Arab coalition attacking Israel in the future. By supplying Jordan and Saudi Arabia, which have played minor roles in past wars, the United States is encouraging these countries to play a more significant part in any future attack on Israel. If a conflict does occur, this may produce a situation in which U.S. action has exacerbated the Arab-Israeli conflict, and in which the United States will be torn between the two sides.

Jordan stayed out of the 1973 war because it lacked an air defense system, but the United States is now providing one. Saudi Arabia played a secondary role in 1973 (as it did in 1967 and 1948), because it lacked a significant capability for power projection, but the United States is now building up Saudi capabilities in this area. This is contributing to the dynamic of escalation between Israel and these Arab countries. If in the future they get into a war with

Israel and do well, we will have seriously hurt Israel; if they fare poorly, they will blame the United States. We are slipping into a no-win situation.

The Administration says it is providing arms to aid these countries against other regional threats, e.g., Saudi Arabia against Iraq, and Jordan against Syria. But the Saudis themselves consider Iraq an ally and they are providing aid to Baghdad to buy more arms. Jordan will never have the capability to match the far larger Syrian army and air force. Neither Saudi Arabia nor Jordan currently deploys its army as it would if it took these threats seriously as the basis for military planning. Instead, both keep the largest part of their armies on the front facing Israel. The Arabs themselves openly state that they are arming against Israel; only in Washington do we hear the fiction that the purpose is all these other threats.

The Administration also says that it is providing arms to the Arabs in support of the peace process. Yet Saudi Arabia continues to reject the Camp David process, is conceded by Administration officials to be less than helpful in Lebanon and, far from encouraging King Hussein to join the peace process, is holding him back.

In the case of Egypt, we proceeded more sensibly, providing arms only after the peace process was well underway. But even here, it is not clear that arms have cemented the ties of peace. Egypt has dramatically slowed the pace of normalization, restricted trade, and recalled its Ambassador from Israel. It has also moved closer to some of the confrontation states, readmitted Soviet technicians, and cut back on strategic cooperation with the U.S. (including cancellation of the second part of Operation Bright Star '82). As the modernization of its army matures with U.S. help, the pressure within the country to rejoin the struggle against Israel may intensify. The poor state of the army has been one of the reasons given for standing back from confrontation; as the U.S. arms flow in, this part of the argument will be weakened.

But the next case to come before Congress is arms to Jordan. King Hussein has still not agreed to sit down to talk, but reportedly has been promised advanced aircraft, mobile I-Hawk missiles, and other equipment as well as training for a Jordanian Rapid Deployment Force, not to mention a host of political concessions. From the point of view of Israeli security, Jordan poses a qualitatively unique problem, because it shares the longest border with the Jewish State and has the airfields closest to key targets. Amman is barely 50 miles from Jerusalem; Jaafar is less than 8 minutes flying time from Eilat; and Mafrak is less than 100 miles from Tel Aviv. These conditions make Jordan the state best positioned to spearhead a surprise attack against Israeli airfields and cities. The placement of advanced jets with fast scramble times, excellent ground attack capabilities, and accurate weapons delivery systems in Jordan will force Israel to take strong defensive measures if Jordan is part of a situation of escalating tensions. American arms to Jordan may worsen relations between the two countries instead of advancing the peace process, eroding the modus vivendi which has enabled them to avoid serious conflict for the past 16 years.

To prevent embarrassment to the Administration later, it is important for the Congress to let its views be known now, before notification of the sale is sent to Capitol Hill, that arms to Jordan are unwarranted until King Hussein actually joins serious negotiations. This means not only direct talks, but a substantive position that goes beyond mere posturing. We cannot conduct our Middle East diplomacy solely on the basis of trying to meet every Arab demand to curry their favor. Arms to Jordan at this point simply do not make sense.

The Peace Process and U.S.-Israel Relations

Finally, this is an appropriate occasion to review the overall state of U.S.-Israel relations in the context of the peace process. There seems to be general agreement in Washington and in Jerusalem that relations are seriously strained and may in fact be on a collision course. But there is also agreement that the moral and

strategic bonds between the two countries are vital to the interests of both. What can be done to stop the deterioration and get back on a constructive basis?

Administration officials are placing the blame on Israel. They argue that only changes in Israel will improve the situation. But the direction in which the Administration itself is headed is a major part of the problem, and much could be done on this side of the water to move in a more positive direction.

The Administration has been pursuing a policy premised on and obsessed with conflict with Israel. High Arab officials visiting Washington have been treated royally, including in recent weeks, the Kings of Morocco and Jordan and the President of Egypt. Saudi princes are the object of particular devotion and genuflection. By contrast, visiting Israeli officials are given the cold shoulder, and Prime Minister Begin is not even allowed to come to discuss the problems that exist.

The President's own regard for Israel is said to be favorable. I believe this. Yet, he has not taken a single major initiative in two years in office which would reasonably be described as helping to improve the relationship. Although the Administration denies that it considers massive pressures an appropriate way to deal with an ally like Israel, it has in fact invoked more sanctions over a longer time period than any preceding Administration, including: suspending for over a year now the agreement on strategic cooperation; refusing to complete the sale of F-16s which its own specialists have confirmed are necessary to offset the massive quantities of arms going to various Arab countries; holding up approval of technology transfers for the Lavi aircraft; and, most importantly, sending and then leaking to the press menacing notes to the Prime Minister of of Israel implying that the entire relationship may be in question. Recently, the Administration has hinted darkly that still more sanctions lie ahead.

Some in the Administration are constantly advising the President that, if only he "cracked down" on Israel, the core problems of the Middle East could be solved. This is a dangerous illusion. Israel is a proud and independent country. As the world knows, it is quite able and committed to defend its vital interests, and it is simply unrealistic to imagine that any arrangements can be arrived at in negotiations between the United States and the Arabs, and then somehow imposed on Israel. Progress toward peaceful coexistence in the Middle East requires working with Israel, instead of treating her as an adversary while consulting intimately with those who would destroy her.

The Administration's behavior is convincing an important minority in Israel that the United States is not a reliable ally, and that they must be prepared to go it alone. This loss of confidence is destructive to the long-term interests of both countries and it could, if things get worse, force Israel to consider what it will do if it is completely isolated while the Arabs continue their military buildup.

It is also a profound mistake to premise U.S. policy on a change of government in Israel. Israel is a democracy in which the people choose their own government. Menachem Begin is the people's choice to be Prime Minister, and it is time to stop mocking and maligning him and to begin according him the respect to which he is entitled as the democratically elected leader of our only permanent Middle Eastern ally. If the people of Israel decide to change their government, that is their decision to make. But, if Washington persists in a policy that it imagines will "save Israel from herself," it will find that the Israeli reaction is to save herself from the United States. Moreover, key elements of the Administration's approach are unacceptable, not just to the Likud government, but to the great majority of Israelis of all parties, including Labor.

A realistic American policy is one that works with Israel, not against her. The Administration must stop conducting guerrilla warfare against Israel on the front pages of our daily newspapers. The United States should strive to restore the mutuality of the relationship and correct the harm that has been done by past pressures, not sink deeper into the quagmire.

Clearly, it is time for the United States, and especially the Reagan Administration, to lift its eyes from the lesser problems of the Middle East, many of which have little real consequence for the United States, and to return to the essential strategic realities of the region which affect vital American interests. In the past 24 months, Israel has driven two Soviet clients--the PLO and the Syrians--out of a major Arab capital and saved Lebanon for the United States and the West; relinquished the Sinai, helping to cement the bond between the United States and Egypt; and delivered a major blow to the reputation of Soviet arms, on which Moscow's influence in much of the world depends. Yet, to listen to some of the President's top advisors, all of this is insignificant compared to an argument over the exact security arrangements that are desirable in southern Lebanon.

When a partnership is strained, it is not enough for one side to call on the other to make all the changes. Nor is it constructive to focus obsessively on the differences, and to ignore the common interests. Much can be done in Washington, now, to improve a relationship that is much more significant for the long-term interests of the United States than many of the countries being so ardently pursued today.

CONCLUSION

This is a time of trial in the U.S.-Israel alliance, but also a time of creative opportunity. The moral bonds between the two countries are strong and secure, and have recently been reaffirmed by the American people in a series of public opinion polls. The strategic relationship is, in spite of obstacles, growing in importance, though there is great potential for future cooperation to enhance the position of both countries and the Western world in general.

The aid package before you can make an important contribution to these ends. It represents a significant decline in net aid in real terms compared to past years, and I urge this Committee to make the necessary adjustments to help Israel maintain a stable military balance under difficult circumstances.

Beyond aid, there are serious strains in the relationship that can be overcome in a spirit of dialogue and compromise. The first necessity here is consultation, with a recognition that the relationship serves the vital interests of both parties.

APPENDIX

NET AID TO ISRAEL

Annual grants and loans less debt service

ADJUSTED FOR INFLATION
$ Million

FISCAL YEAR	TOTAL LOANS & GRANTS	DEBT. SERVICE	NET AID (aid minus debt service)	INFLATION INDEX **	NET AID ADJUSTED to INFLATION
1976	2,214*	376	1,838	100	1,838.0
1977	1,742	440	1,302	107	1,214.0
1978	1,791	561	1,230	115	1,067.6
1979	1,790	680	1,110	133	834.6
incl. Camp David	2,790		2,110		1,586.0
1980	1,786	590	1,196	149	802.2
incl. Camp David	2,786		2,196		1,473.0
1981	1,985	680	1,305	167	781.4
incl. Camp David	3,185		2,505		1,500.0
1982	2,185	810	1,375	182	755.5
1983	2,485	910	1,575	195	808.1
1984	2,485	1,150	1,335	202	661.0

*Excludes Transitional Quarter for comparability
**Adjusted by U.S. DOD price deflator

18-551 O—83——18

Mr. HAMILTON. We are also pleased to have Douglas Bloomfield with us.

I understand you have no statement.

Mr. BLOOMFIELD. That is correct, Mr. Chairman.

Mr. HAMILTON. The next witness, then, will be Mr. Robert A. Basil, who is chairman, policy committee of the American Lebanese League.

We are very pleased to have you. You may proceed.

STATEMENT OF ROBERT A. BASIL, CHAIRMAN, AMERICAN LEBANESE LEAGUE

Mr. BASIL. Thank you, Mr. Chairman.

I would like to enter our statement into the record.

Mr. HAMILTON. All statements will be entered into the record in full.

Mr. BASIL. Today I would like to discuss briefly the importance of Lebanon to the United States, and the major U.S. policy and foreign aid actions that should be considered to achieve U.S. strategic and regional objectives, and to support justice and freedom for the Lebanese nation and people. Policy action and foreign aid must go together; otherwise, foreign aid will not be effective.

First of all, permit me to state the profound thanks of the American Lebanese League—ALL—to the Reagan administration and the Congress for recently adopting the policy we in ALL have been proclaiming, almost alone in this capital, for the last 5 years, namely:

One, solve the Lebanese problem immediately, rather than have Lebanon held hostage to the eventual solution of the Palestinian problem.

Two, withdraw all foreign forces from Lebanon immediately.

Three, establish a strong sovereign Lebanese government duly constituted, with authority over all the territory and people of Lebanon.

Four, approve foreign aid programs for build-up of the Army, major reconstruction of the country, and rehabilitation of the thousands of physically and psychologically damaged men, women, and children.

Lebanon has suffered enough. During the past 7 years 110,000 killed, 200,000 wounded, 400,000 displaced, 38,000 orphaned children; 1 out of every 4 Lebanese men, women, and children have either been killed, wounded, orphaned, or displaced.

From a strategic point of view, Lebanon is important far beyond its size and natural resources because it represents a unique and intense concentration of problems and opportunities facing the United States regionally and strategically.

There were four problem areas the United States hoped to solve by the removal of all foreign forces. These problems remain to some extent because of the delay in negotiations.

One, Soviet penetration of the region. The major Soviet regional client, Syria, remains in Lebanon and as you know, Mr. Chairman, all of the reports, especially Secretary Weinberger's assessment, indicate that because of the major Soviet build-up in Syria, Syria is "just another outpost of the Soviet empire." It is causing major concern to everyone in Washington.

Two, international terrorism. This plague has been significantly reduced because the training camps and infrastructure are now gone from Lebanon. However, the threat is still posed by continuing armed elements of the PLO under Syrian army protection.

Three, strengthening the peace process. The United States hoped to reduce the Syrian-Libyan-PLO influence and increase moderate Arab influence. However, moderate Arab governments still have considerable difficulty asserting control as long as Syria and the PLO remain in Lebanon and reinforce the Rejectionist Front.

Four, and most importantly, the Lebanese flash point is more dangerous today than ever before, with hostile armed forces facing each other. Unless fully withdrawn, these forces could again collide, likely with ominous strategic implications between the United States and Soviet Union.

The next few weeks will determine whether Lebanon will divest itself of all foreign occupation forces, Syria, PLO, Israel, or whether the occupiers will settle in for the long term by dismembering and feasting on a wounded nation with the tacit approval of all regional powers.

The U.S. role is vital in four areas: Withdrawal negotiations, multinational forces, the build-up of the Lebanese army, and reconstruction.

On withdrawal negotiations, some Arab and Israeli actions link negotiations on troop withdrawal to other issues to the detriment of real progress. These Arabs are linking both political and economic issues to the negotiations, pledging opposition to both the Reagan peace plan and reconstruction aid to Lebanon if troop withdrawal negotiations are not to their liking, reflecting the characteristic lack of concern during the past 7 years over the brutal occupation of Lebanon.

The Israelis are linking full normalization to the negotiations, reflecting an insensitivity to the dangers it unfairly imposes upon President Gemayyel in forcing him to go too fast in this direction while Lebanon is pulling itself together.

Multi-National Force: We are gratified to know of Secretary Weinberger's continued support for this requirement.

Concerning the Lebanese army build-up, this is the most essential element in sustaining sovereignty and control over its territory. Its twofold mission, internal security and external defense, must be fulfilled. There is a build-up now of the four brigades, extending to seven, for internal security. However, we do need for the Lebanese army increased air mobility, better command and control, and advanced day-night surveillance.

In addition, Lebanon needs external deterrence mission in order to inflict unacceptable losses on much stronger neighboring States in order to deter many levels of conflict that would otherwise be attractive to a potential aggressor. Therefore, we recommend that $150 million a year for 4 years of FMS credits be authorized for these objectives.

Reconstruction. In the long term, peace is sustained through stability, and that is based on a sound economy. Lebanon has traditionally had a sound economy. The present one-shot 1983 supplemental request is grossly inadequate and out of touch with reality. It is a $15 billion problem and there is a fundamental discontent

between this sum and the planned U.S. aid package, between the importance the United States attaches to a stable Lebanon and the degree of financial support planned.

We feel it is unrealistic to expect the Arab world to shoulder most of this reconstruction aid because of the political linkage. It presumes that U.S. and Arab objectives are precisely the same, which is not the case. Therefore, we feel that either the United States should have a policy goal of being the major contributor or having the Arab world be the major source unattached to political conditions.

Therefore, we urge a 5-year U.S. aid program to include budget support, financing of reconstruction, and development projects and military support.

The first year should be at a level of $1 billion and gradually decrease over the 5 years, and we can guarantee you, Mr. Chairman, that after the 5 years, because of Lebanon's renowned resiliency and capacity of the private sector, they will never ask for another dime, and actually be a positive contributor economically to the U.S.-Lebanon relationship.

Thank you very much, Mr. Chairman.

Mr. HAMILTON. Thank you.

[Mr. Basil's prepared statement follows:]

PREPARED STATEMENT OF ROBERT A. BASIL, CHAIRMAN, POLICY COMMITTEE OF THE AMERICAN LEBANESE LEAGUE

Mr. Chairman:

My name is Robert Basil, Policy Chairman of the American Lebanese League, a nationwide non-profit organization founded by American citizens in 1976 to promote United States-Lebanon relationships and to foster the sovereignty, security, democracy and independence of Lebanon within the bounds of the U.S. national interest.

We are not a lobbying organization but an educational, humanitarian and social organization with the broad national membership base representing the philosophy and ideals of the great majority of the two million Americans of Lebanese descent.

Today I would like to discuss briefly the importance of Lebanon to the U.S., and the major U.S. policy and foreign aid actions that should be considered to achieve U.S. strategic and regional objectives, and to support justice and freedom for the Lebanese nation and people. Policy action and foreign aid must go together; otherwise foreign aid will not be effective.

First of all, permit me to state the profound thanks of the American Lebanese League (ALL) to the Reagan Administration and the Congress for recently adopting the policy we in ALL have been proclaiming - almost alone in this capital - for the last 5 years, namely:

1. Solve the Lebanese problem immediately, rather than have Lebanon held hostage to the eventual solution of the Palestinian problem.

2. Withdraw all foreign forces from Lebanon immediately.

3. Establish a strong, sovereign Lebanese government, duly constituted, with authority over all the territory and people of Lebanon.

4. Approve foreign aid programs for build-up of the Army, major reconstruction of the country, and rehabilitation of the thousands of physically and psychologically damaged men, women and children.

Lebanon today is important far beyond its size and natural resources, because it represents a unique and intense concentration of problems and opportunities facing the U.S. regionally and strategically.

The four major problem areas the U.S. hoped to solve by the removal of all foreign forces from Lebanon still largely remain due to the delay in negotiations over the past several months:

1. Soviet Penetration of the Mid-East Region.

The major Soviet regional client, Syria, remains in Lebanon. The alarming build-up of Soviet advisors and advanced weapons in Syria over the past few months presents a new danger of Soviet-Syrian intrasigence to withdraw, and of the Soviets directly involved in decisions and actions in the region. In a statement this week, Secretary of Defense Weinberger declared that this build-up, especially the deployment and Soviet personnel manning of SA-5 missles, demonstrates that Syria is "just another outpost of the Soviet empire."

2. International Terrorism.

This plague has been significantly reduced because the training camps and infrastructure are now gone from Lebanon. However, the threat is still posed by continuing armed elements of the PLO under Syrian Army protection.

3. Strengthening of the Peace Progress.

The U.S. hoped to reduce the Syrian-Libyan-PLO influence and increase moderate Arab influence. Moderate Arab governments still have considerable difficulty asserting control of Arab World policies as long as Syria and the PLO remain in Lebanon and reinforce the Rejectionist Front.

4. Regional Stability Affecting Access to Oil.

The Lebanese flash point is more dangerous today than ever before, with hostile armed forces facing each other in grim proximity. Unless fully withdrawn, these forces could again collide, likely with ominous strategic implications, between the U.S. and the Soviet Union.

Lebanon is now going through the most critical phase of its life. After seven years of brutal and degrading occupation, Lebanon now has the opportunity to be re-born. But the opportunity is fleeting. The next weeks will determine whether Lebanon will divest itself of all foreign occupation forces - Syria, PLO, Israel - or whether the occupiers will settle in for the long-term by dismembering and feasting on a wounded nation, with the tacit approval of all regional powers.

It is clear that all nations of the region have motives in Lebanon that may not be in Lebanon's or the U.S.'s interests, and that a direct U.S.-Lebanon relationship should be established, to realize U.S. goals within Lebanon, and to the extent the Lebanese situation impacts U.S. goals in the region.

As President Gemayel stated to President Reagan during his visit several months ago (Attachment A): "America's committment to the sovereignty and territorial integrity of a free, democratic Lebanon has been fundamental to our survival - - - - the historic U.S.-Lebanon relationship is the conerstone of building this new Lebanon."

The U.S. role is vital in four areas:

1. Withdrawal negotiations;
2. Multi-national forces;
3. Lebanese Army build-up;
4. Reconstruction.

Withdrawal Negotiations: Some Arab and Israeli actions link negotiations on troop withdrawal to other issues to the detriment of real progress. These Arabs are linking both political and economic issues to the negotiations, pledging opposition to both the Reagan Peace Plan and reconstruction aid to Lebanon if troop withdrawal negotiations are not to their liking, reflecting the characteristic lack of concern during the past seven years over the brutal occupation of Lebanon. The Israelis are linking full normalization to the negotiations, reflecting an insensitivity to the dangers it unfairly imposes upon President Gemayel in

forcing him to go too fast in this direction while Lebanon is pulling itself together.

It is in the interests of the U.S. and Lebanon to unlink withdrawal negotiations from both the Reagan Plan and full normalization. As Dr. Wadie Haddad, President Gemayel's National Affairs Advisor stated in Washington three weeks ago (Attachment B):

"The Lebanese cause is just and true in itself and does not need any other cause, no matter how just or true, to justify it. Regaining Lebanon's freedom is important in itself, just as the solution of the Palestinian problem is important in itself also. Linking the two sequentially may not help either cause. In fact, arbitrary linkage either forces solution of the complex Palestinian issue into the urgent, collapsing the time frame of Lebanon's deterioration under occupation, or forces Lebanon's continued occupation and defacto partition by chaining Lebanon's freedom to the eventual solution of the Palestinian problem. While the two issues are inter-related, the treatment of each of them should have a life of its own in terms of time, conditions and trade-offs."

Multi-National Force: If early withdrawal of Syrian, PLO and Israeli forces is accomplished, increased U.S. participation in an expanded Multi-National Force will be required temporarily while the Lebanese Armed Forces is building up. We are gratified to note Secretary Weinberger's support of this requirement.

Lebanese Army Build-Up: The most essential element in sustaining Lebanese sovereignty and control over its territory is strong, competent Armed Forces. Its mission is two-fold:

internal security, and external deterrence. Total concentration is now on the first mission by rapid build-up to full personnel, equipment and training levels for four brigades, with two additional brigades to be added on. The special supplemental request for 1983 of $100 million in FMS guaranteed loans and $1.0 million in military training aid contributes significantly to this objective. However, certain essential capability needs to be added to that already planned to insure full internal security throughout the difficult terrain in the country, notably heliocopter air mobility, better armored vehicles and tanks, modern command, control and communications systems, and advanced day/night surveillance systems.

In addition, it is unrealistic to expect Lebanon to sustain its stability in this volatile region without building up deterrence capability against external threats. Lebanon must, like Sweden, Switzerland and others, have sufficient capability to inflict unacceptable losses on much stronger neighboring states in order to deter many levels of conflict that would otherwise be attractive to a potential aggressor. This capability includes improved armor, surface - based air defense, gun and missile systems, ground and heliocopter launched anti-tank weapons. Therefore, it is recommended that $150 million per year for four years (FMS credits) be authorized for these objectives. These costs will be considerably offset by the earlier elimination of present U.S. Multi-National Force participation, or possible future re-deployment.

Reconstruction: In the long run, peace is sustained through stability, whose essential element is a sound economy. Lebanon has traditionally had a strong economy, and with proper help can regain it again.

The present one-shot 1983 supplemental request is grossly inadequate and out of touch with reality. The cost for reconstruction of the public infrastructure and the private industries and housing is approximately $15 billon. There is a fundamental disconnect between this sum and the planned U.S. Aid Package, between the importance the U.S. attaches to a stable Lebanon and the degree of financial support planned. The U.S. appears to be trying to obtain $15 billion worth of influence and committment with $200-300 million worth of investment.

It is unrealistic to expect the Arab World to shoulder most of this reconstruction aid burden. Despite repeated past promises, the wealthy Arab nations have not yet delivered any financial aid to Lebanon. In 1979-1980, Lebanon was promised $2 billion - nothing yet. Several years ago, the wealthy Arab nations promised $10 billion aid to poor Arab nations. - nothing yet either. Presently the Iran-Iraq war, which costs Saudi Arabia and the Gulf States $1 billion a month, constitutes a far graver risk to their security than Lebanon. In addition, dramatically lower OPEC oil prices, resulting in unprecedented budget deficits for these countries, all add up to very little hope that Saudi Arabia and the Gulf States will shoulder the bulk of the multi-billion dollar Lebanon reconstruction program.

Most importantly, a strong argument can be made that it is not in the U.S. interest to expect the wealthy Arab states to be the major source of Lebanon reconstruction funds which are linked with political demands. Arab requirements are that Lebanon regress from their present position to one that is more hostile to Israel, while the U.S. desires broad movement toward peace under the Reagan Plan. U.S. policy should have reconstruction aid dependent upon Lebanon adopting U.S. goals, not upon Lebanon adopting Arab goals which do not support U.S. policy.

However, Arab funding could be the major source for reconstruction if unattached to political conditions. The basis could be, presumably, as compensation to Lebanon since Arab funding formed the basis for Syrian and PLO military personnel and material used to devastate much of Lebanon for seven years. Israel also should shoulder its share of the burden for the major destruction caused by its operations.

Therefore, we urge a 5-year U.S. Aid Program, to include budget support, financing of reconstruction/development projects, and military support. The program should be in the form of concessional aids and grants, as was the case with Jordon and is still the case for Egypt and Israel. The U.S. should encourage potential European and Arab investors to provide large-scale concessional aid. The aid package should be at the level of $1 billion for fiscal year 1983-1984, and gradually decrease thereafter as public revenue and economic activities increase.

After 5 years, Lebanon will never again need financial help, and should be a strong economic ally of the U.S.

Mr. Chairman, a strong, sovereign, pro-West Lebanon is the keystone of Administration plans in the region. Failure to achieve and sustain this Lebanon would be a major setback to U.S. interests, and would cause costly and agonizing reappraisal. Lebanon and its people have the strength and committment to insure U.S. goals in the region are met, provided the U.S. supports Lebanon to get on its feet again. As President Gemayel so eloquently stated to President Reagan:

"We see the U. role as the indispensible ingredient to bring peace not only to Lebanon, but also to the whole region as well. We firmly believe that President Reagan's initiative has created unprecedented opportunities for peace. We, in Lebanon, intend to be active in the search for peace with all nations of the region - - - - Lebanon has been the most recent, and for us the most painful, example of the assault upon free men by the forces of darkness and occupation. We have fought to retain our freedom, and the strength of our resistance has earned for us not only a restated pride in ourselves but also a re-entry into the ranks of the Free World - - - - The historic U.S.-Lebanon relationship is the cornerstone of building this new Lebanon. America's friendship and assistance, not only in peacekeeping and peacemaking but also in reconstruction and rebuilding our armed forces, are vital. We, on our part, intend to carry our share of the responsibility of this partnership by a full and reciprocal contribution to all U.S. goals in its many noble endeavors as the leader of the Free World.)

Thank you, Mr. Chairman

Statement by President Gemayel following the White House meeting With President Reagan, October 19, 1982

Mr. President:

I am honored to be the first President of Lebanon to make an official visit to the United States.

The Lebanese people deeply appreciate and will never forget the your courageous and decisive efforts to help bring an end to the suffering of my country. America's commitment to the sovereignty and territorial integrity of a free, democratic Lebanon has been fundamental to our survival.

We see the U.S. role as the indispensible ingredient to bring peace not only to Lebanon, but also to the whole region as well. We firmly believe that President Reagan's initiative has created unprecedented opportunities for peace. We,in Lebanon, intend to be active in the search for peace with all nations of the region.

The relationship between the United States and Lebanon is not only between our two governments. It is between our two peoples, who share the same heritage and adhere to the same values and principles of democracy and liberty. The two and half million Lebanese have an almost equal number of close relatives in the United States. We value enormously the unique tie provided by these American-Lebanese, among the most loyal of all Americans, and we believe they have a leading role in keeping our two countries together.

Lebanon has been the most recent - and for us the most painful - example of the assault upon free man by the forces of darkness and occupation. We have fought to retain our freedom, and the strength of our resistance has earned for us not only a

restated pride in ourselves but also a re-entry into the ranks of the Free World.

With equal resolve, I together with my people, am committed to the immediate removal of all foreign forces from our soil, and to work hand in hand with all sectors of Lebanese society to build a nation in which all citizens have equal privileges, rights and responsibilities.

The historic U.S.-Lebanon relationship is the cornerstone of building this new Lebanon. America's friendship and assistance, not only in peacekeeping and peacemaking, but also in reconstruction and rebuilding our armed forces, are vital. We, on our part, intend to carry our share of the responsibility of this partnership by a full and reciprocal contribution ot all U.S. goals in its many noble endeavors as the leader of the Free World.

EMBASSY OF LEBANON
WASHINGTON

STATEMENT

By Dr. Wadi Haddad

National Affairs Advisor to the President of Lebanon

A few short months ago, Lebanon appeared to be at the dawn of a new era of peace and tranquillity after seven years of occupation, death and destruction at the hands of warring foreign armies. With the determination of President Reagan and the efforts of the U.S. administration, foreign forces withdrew from Beirut, and negotiations for total withdrawals from the rest of Lebanon were commenced. Recently, however, Lebanon's initiative for freedom has become bogged down.

The crisis in Lebanon has now reached a critical stage, requiring urgent action in the next days. While other U.S. initiatives around the world, and even in the region, can take months or perhaps a year or two, the Lebanon problem must be solved immediately in order to prevent a catastrophic impact to the interests of Lebanon and the U.S.

As far as Lebanon is concerned, the various foreign armies are inducing instability and violence in the areas under their occupation. If this situation continues for even a short time longer, Lebanon is in serious danger

of long-term occupation and defacto partition by the various foreign occupying armies.

Moreover, the impact of foreign occupation is to "disfigure the face of our truth," as Albert Camus wrote of German occupation of France. The physical, psychological and spiritual face of Lebanon is being disfigured by the occupiers, and soon that process will be irreversible.

For the U.S., the juxtaposition of adversary forces occupying Lebanese soil constitutes an extremely unstable and potentially explosive situation which could ignite the entire region, the next time perhaps with strategic confrontation. Moreover, as the time goes by, the credibility of the U.S. and its ability to deliver are questioned, and other powers, notably the Soviet Union, heretofore denied a significant role in the region, will start asserting their authority.

The Lebanese cause is just and true in itself and does not need any other cause, no matter how just or true, to justify it. Regaining Lebanon's freedom is important in itself, just as the solution of the Palestinian problem is important in itself also. Linking the two sequentially may not help either cause. In fact, arbitrary linkage either forces solution of the complex Palestinian issue into the urgent, collapsing time frame of Lebanon's deterioration under occupation, or forces Lebanon's continued

occupation and defacto partition by chaining Lebanon's freedom to the eventual solution of the Palestinian problem. While the two issues are inter-related, the treatment of each of them should have a life of its own in terms of time, conditions and trade-offs.

The Lebanese government and people are fully committed to peace, and are prepared to carry their share of the burden toward its achievement. In this process, the Lebanese people are resolved to regain their freedom and sovereignty and re-establish their unified nation. They will accept nothing less. From Tripoli and Baalbeck in the north, to the Chouf in the center, to Sidon in the south, the people of Lebanon are demanding that the Lebanese government and Army regain control of the areas presently occupied by foreign forces who are dedicated to preserving their alien presence by inducing instability in the regions under their control.

To those who question Lebanese unity as a fiction, we challenge them to permit full self-expression, even for a brief period, of Lebanon's democracy and sovereignty, and watch the miracle of free men unfold. To those who question Lebanese resolve, we will continue to resist, and cannot permit, a regional solution which involves the dismemberment or occupation of Lebanon.

The U.S. - Lebanon relationship is fundamental to our survival. We shall continue to work hand in hand with the U.S. to achieve our objectives.

Mr. HAMILTON. Next, Mr. Sadd.
We are glad to have you back, sir.

STATEMENT OF DAVID J. SADD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ARAB AMERICANS

Mr. SADD. Thank you, Mr. Chairman.

The National Association of Arab Americans welcomes this opportunity to testify. This subcommittee has an important opportunity and responsibility to investigate issues of concern regarding our Middle East policy.

I vividly remember a question raised by a then member of this subcommittee at hearings last July when Hon. Paul Findley stated:

> I think we can all understand the concern the Palestinian leadership might have, leaving about half a million people at the mercy of these uncertain currents of political and military fortune in Lebanon.

Then he asked each of the witnesses to comment on that.

If sufficient attention had been paid to the concern raised by Mr. Findley at this subcommittee's hearings then, perhaps the tremendous human tragedy at Sabra and Shatilla could have been avoided.

We are concerned that, however good and honorable our intentions, American foreign aid is not encouraging stability and peace in the Middle East.

We think that it is time, Mr. Chairman, that American aid to all nations be contingent upon behavior which is compatible with America's national interests.

I will comment on three principal areas of concern.

First, the supplemental appropriation for Lebanon.

This year President Reagan has requested a supplemental appropriation of $251 million. Lebanon has suffered billions of dollars of damage in its long civil war. This civil war pitted many elements of Lebanese society against the other and involved foreign forces: the Syrians were invited in by the Lebanese Government to end the bloody civil conflict, and the Palestinians, driven from their homeland in Palestine by Israel, ultimately arrived in Lebanon.

The Israeli invasion of Lebanon caused billions of dollars of damage in just 3 months. By every standard Israel should pay reparations to the Government of Lebanon or, alternatively American aid to Israel should be redirected to Lebanon.

With regard to foreign assistance levels to the West Bank, Gaza, Egypt, and Jordan, let me turn first to the West Bank.

The small program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid project in the world. We urge that funding be increased to $15 million for fiscal year 1984.

With regard to Egypt and Jordan, we support the administration's recommendations for economic and military aid. However, in the case of both these countries, and Lebanon as well, we urge that aid be extended in the same proportion of grants and loans as proposed for Israel and that loans carry the same favorable 30-year to 10-year grace period terms.

With regard to Israel, I think we address the crucial question which must be addressed if we hope to promote a Middle East

peace is the linkage of all of our aid to political performance and in particular the linkage of aid to Israel and the policies of Israel.

We oppose the disproportionate amount of American aid going to Israel. Military and economic aid to Israel has grown at an unprecedented rate in the last 10 years.

While our direct aid to Israel totaled less than $2 billion in the 20 years prior to 1972, an average of $100 million per year, aid to Israel has totaled over $18 billion in the last 10 years, $1.8 billion a year. On an annual basis direct aid to Israel has grown from $475 million in 1972 to $2.5 billion now, an increase of over 500 percent.

Growth of grant aid to Israel has been even more dramatic, increasing from $57 million in 1972 to $1.5 billion now, an increase of 2,600 percent.

I would also point out that of the over $20 billion of aid extended to Israel, only 17 percent, or $3.4 billion, has been repaid to the United States.

Mr. Chairman, our massive aid to Israel and the rapid escalation of that aid has not contributed to peace in the region nor to Israeli policies which are responsive or responsible. Until the Congress puts more teeth in the President's Middle East initiative, until there is linkage between our billions of dollars of aid to Israel and Israel's political performance that will enable us to obtain, first, Israeli withdrawal from Lebanon and, second, an Israeli freeze on settlement activity in the West Bank and Gaza, we believe there will not be a successful Middle East peace process and we will only experience continued Israeli intransigence.

I will close with the comment of a distinguished American made in a letter to one of his constituents. He sets an example for all American elected officials:

> My interest is only in the promises we have made to defend Israel against attack. To that end I promise you, even at my advanced age, I will volunteer for service to do that. But, I will not permit the United States of America, my country and your country, to continue to furnish supplies for Israel to murder, massacre and destroy civilizations only because of the whim of what I consider to be one man, and that man's name is Begin.
>
> I just don't want any of my grandchildren or your grandchildren to go through the horrors of war when those horrors are not needed. I am an American, and I am also a man who is part Jewish and extremely proud of that part, but I am an American and I think that explains where I stand on this whole thing.
>
> Sincerely,
>
> BARRY GOLDWATER,
> *United States Senator.*

I thank you, Mr. Chairman.

Mr. HAMILTON. Thank you.

[Mr. Sadd's prepared statement follows:]

Prepared Statement of David J. Sadd, Executive Director of the National Association of Arab Americans

The National Association of Arab Americans welcomes the opportunity to present testimony to this Subcommittee concerning the Middle East portion of the Administration's Fiscal Year 1984 foreign aid request and the Fiscal Year 1983 supplemental request. As representatives of the more than 3 million Americans of Arab descent across the United States, the National Association of Arab Americans and its members are deeply concerned that American tax dollars be spent in such a way as to promote U.S. interests in the Middle East most effectively by encouraging peace and stability in the region and contributing, within the limitations of severe budgetary constraints, to the economic development of our friends.

We need not remind members of the Subcommittee that whatever levels of foreign aid assistance may be appropriated, they will reflect United States values and priorities and will be so interpreted by the rest of the world. The U.S. has always had a strong moral commitment toward promoting respect for human rights throughout the world and our foreign aid program has traditionally been utilized as one means of observing that commitment. Indeed, Congress has adopted legislation which prohibits foreign aid from being granted to any country which "engages in a consistent pattern of gross violations of internationally recognized human rights," and it is vital that we adhere to this legislation to preserve our credibility.

It has become clear to a large and growing segment of the American people over the past year that, however good and honorable our intentions, American foreign aid, or at least that portion of American aid that is going to Israel, is not encouraging stability and peace in the Middle East. On the contrary, it has inadvertently contributed to the unspeakable violence and devastation that has characterized the region over the past year.

By donating billions of dollars of aid to Israel without holding it accountable for its actions in the Middle East and elsewhere, we are enabling Israel to pursue policies that damage America's national interests and

jeopardize the peace process. By extending billions of dollars of military aid to Israel annually, we are contributing to a widening of the military imbalance in the region that only encourages Israel to settle by military means those issues which it ought to be settling at the negotiating table.

Our generosity to Israel is even more striking when it is compared to the conditions and requirements attached to extending military and economic aid--even cash military sales--to the Arab World. Discussions on aid or arms sales to Arab friends and allies have routinely elicited determined efforts, particularly within Congress, to require specific concessions from them. All too frequently the American people are told that we can only bring Israel to the negotiating table if we supply it with enough arms and aid to make it willing to bargain. It is claimed, on the other hand, that the Arab countries can only be brought to the bargaining table by imposing pressure on them through the withholding or limitation of aid. This tendency to extend the carrot to Israel and the stick to our Arab friends does not contribute to the search for peace.

Our great nation has demonstrated over the years its commitment to preserve the security of Israel. We submit, however, that the United States should have equal concern for the security of our friends and allies in the Arab World. The Israeli invasion of Lebanon has made clear that Israel's neighbors have every reason to fear Israel's military preponderance and its proclivity to wield disproportionate and irresponsible force against them whenever it wishes to do so.

It is time, Mr. Chairman, that American aid to all nations, including Israel, be contingent upon behavior which is compatible with America's national interests. The United States has traditionally not hesitated to withhold aid to foreign nations that have pursued policies held to be either incompatible with our national interests, disruptive of our foreign policy or in violation of the high ideals that our nation and people hold most dear. It is time that Israel be held to the same standards to which we require all other countries to adhere. [Amplifications of this point may be found in Appendix A, which includes an interview with former President Gerald Ford and articles by Jody Powell, George Ball and Joseph C. Harsch.]

In the past two years, the National Association of Arab Americans has, on numerous occasions, protested against specific Israeli actions which have been disruptive of the peace process or in violation of international law. On each occasion we have urged that continued aid to Israel be made contingent upon cessation of such activities. Among the actions to which we have objected are: the destruction of an Iraqi nuclear research facility in June 1981, the bombing of Beirut in July 1981 (which left 300 people dead), the annexation of the occupied Syrian Golan Heights in December 1981, the invasion of Lebanon in June 1982, the siege of West Beirut, the categorical rejection by the Israeli Government of President Reagan's Middle East peace initiative, the increase in Israeli settlement activity in the occupied territories and the massacre at the Palestinian refugee camps of Sabra and Shatila, which took place at the very least because of the "indirect responsibility" of the highest Israeli officials.

Israeli settlement policy in the territories occupied since 1967 has become a central issue in the quest for peace in the Middle East. President Reagan's peace initiative outlined on September 1, 1982, reiterated the provisions of Security Council Resolutions 242 and 338 that call for withdrawal from occupied territories in exchange for peace. The U.S. has taken the position that prior to a final negotiated settlement, the Palestinians in the West Bank and Gaza must be allowed to practice self-government for a transitional period. In order that this can be made possible, Israel must eventually desist from actions that "create facts" in the territories or create conditions that would make Israeli concessions difficult in negotiations for an overall settlement.

President Reagan's peace plan spelled out this position clearly in a statement in which he said, "The United States will not support the use of any additional land for the purpose of settlements during the transition period." The President then called for "the immediate adoption of a settlement freeze by Israel," as this could "create the confidence needed for wider participation in these talks. Further settlement activity is in no way necessary for the security of Israel and only diminishes the confidence of the Arabs that a final outcome can be freely negotiated." [The problems

surrounding Israeli settlement policy are illustrated in Appendix B, which includes articles by Meade Thorpe, Jr. and Anthony Cordesman, an article on former Presidents Gerald Ford and Jimmy Carter and a background paper by the National Association of Arab Americans.]

These Israeli actions and others have embarrassed the Reagan Administration and often been harmful to the conduct of American foreign policy in the region. In the aftermath of Israel's tragic and unjustifiable invasion of Lebanon, for example, an invasion which left nearly twenty thousand Lebanese and Palestinians dead--most of them civilians--and many tens of thousands of others wounded or homeless, the United States has been forced to rush millions of dollars in humanitarian aid to Lebanon in order to help it recover from a war which was conducted largely with American military equipment and financed with funds made possible through massive infusions of American economic assistance. As the President's supplemental request for Lebanon makes clear, it will be necessary in the future to supply hundreds of millions of dollars in additional assistance to Lebanon in order to help it recover from the devastation it has suffered.

Our interest in this issue is not academic, Mr. Chairman. Many of our members, both Lebanese and Palestinian, have lost friends or relatives in Lebanon in the past year.

The United States has, moreover, been forced to send American troops to occupied Lebanon in order to help provide the conditions necessary to achieve the withdrawal of all foreign forces--particularly Israeli forces--from that beleaguered country. We need not remind this Subcommittee that one American soldier was killed in Lebanon last year by the explosion of a cluster bomb that had been used by Israel in its invasion, despite supposedly solemn assurances that such weaponry would not be used in an offensive war. [See Appendix C for information on Israeli use of cluster bombs in Lebanon.] We need not remind this Subcommittee either that there has recently been a series of confrontations in Lebanon between Israeli occupying forces and U.S. Marines or that Secretary of Defense Caspar Weinberger recently declared, quite

correctly, that the latest incident, in which a U.S. Marine refused to let Israeli tanks into American-patrolled territory, was "basically damaging to the President's efforts to secure peace in the whole area." [For details of the confrontations between Israeli soldiers and U.S. Marines, see Appendix D.]

Israel's belligerency in Lebanon has also brought the United States into yet another round of seemingly endless negotiations, this time to end Israel's military occupation of Lebanon. Last year at this time, the National Association of Arab Americans warned this Subcommittee that Israel was poised to invade Lebanon and that it was prepared to do so despite the fact that the cease-fire arranged by U.S. Special Envoy Philip Habib in July 1981 was being generally adhered to by both sides. We submitted to this Subcommittee a research alert prepared by our organization entitled "High Risk of Israeli Invasion of Lebanon" and urged the Congress to act on the matter at once. Unfortunately, our warnings were not heeded. [See Appendix E for research alert.]

Had Israel been willing, the cease-fire, which called for an end to hostilities across the Lebanese-Israeli border, would have held indefinitely and progress could have been made in the search for Middle East peace. Instead, Israel chose to use the pretext of the dreadful assassination attempt on the life of the Israeli Ambassador to the United Kingdom as an excuse to lay waste to Lebanon. As this Subcommittee knows, the assassination attempt was not carried out by the Palestine Liberation Organization, as Israel claimed, but by a group that had carried out assassination attempts on both Israeli and PLO targets in the past.

Now, following the invasion, negotiations to secure a withdrawal of Israeli troops from Lebanon are dragging on and on, with no sign of success. This is a gigantic step backward, paid for by the lives of thousands of people. As this Subcommittee is doubtlessly aware, less than one month ago President Reagan observed that "there's a certain moral point that we think the Israelis are neglecting or not observing," namely, that the new government of Lebanon has asked all foreign forces to leave and therefore Israel is "technically in the position of an occupying force."

The negotiations to secure withdrawal of foreign forces from Lebanon, moreover, are sidetracking U.S. efforts to settle the overall Israeli-Palestinian dispute. When President Reagan introduced his Middle East peace initiative last September, he gave a needed and valuable impetus towards settling that dispute. As the President stated so eloquently in his address to the nation, the problem is to find a way "to reconcile Israel's legitimate security concerns with the legitimate rights of the Palestinians." Moreover, as recently as February 23, 1983, President Reagan indicated that we "can't go on with these people in not providing something in the nature of a homeland."

Unfortunately, the President's initiative has been categorically rejected by Israel. The government of Prime Minister Menachem Begin has clearly stated that it will never relinquish the West Bank and it has greeted the President's call for a cessation of new settlements with a defiant and frenetic increase in settlement activity, presumably as a prelude to outright annexation of the occupied territories. [Israeli and Arab responses to President Reagan's Middle East peace initiative may be found in Appendix F.]

The President's Middle East initiative was greeted much more favorably in the Arab World. The Fez Summit Conference last September put forward a unified Arab set of peace proposals that took the President's initiative into account and implied recognition of Israel's right to exist. Following the Fez Conference, Jordan's King Hussein and Palestine Liberation Organization Chairman Yasser Arafat held a series of meetings aimed at building mutual cooperation and formulating a common stance on Middle East issues. These positive developments need to be encouraged and nurtured.

One way to encourage such developments would be for Congress to give unmistakable and concrete support for President Reagan's Middle East peace initiative. Confusion has arisen on the part of many countries as to what extent the President can rely on the Congress for support of his initiative. This confusion was reinforced during the lame-duck session of the previous Congress, when a significant increase in grant aid to Israel was approved in a continuing resolution over the express objections of the Reagan Administration.

The President's Foreign Aid Requests.

It is apparent from the Administration's foreign aid request that the primary beneficiaries in Fiscal Year 1984, as in Fiscal Year 1983, are Israel and Egypt. Although the total amount of assistance to Israel and Egypt are somewhat similar (approximately $2.5 billion for Israel and $2.3 billion for Egypt, including PL 480 food aid), assistance for Israel is far more generous. Under the terms of the Administration's pronosals, Egypt, with a very low per capita GNP of only $650, will receive a sum of approximately $51.80 for every Egyptian. Israel, on the other hand, with an extremely high per capita GNP of $4,500 and a high standard of living, will be receiving the enormous sum of $634.60 for every Israeli citizen. There can be no justification for compelling the American taxpayer to provide each and every Israeli citizen with such extravagant doses of welfare when Americans, suffering from high unemployment rates and enormous budget deficits, are being required to tighten their belts back home.

I would now like to comment on several of the specific proposals in the foreign aid request and make recommendations concerning them.

1. Lebanon

We are gratified by the bipartisan support that has arisen in Congress towards dramatically increasing the amount of aid to Lebanon. Successive Administrations and Congresses have been acutely aware of the many problems facing Lebanon and have been sympathetic to the Lebanese and their plight, but they have been unwilling or unable to provide Lebanon with the assistance necessary for it to overcome the debilitating effects that years of civil strife has had upon it.

Lebanon has suffered billions of dollars of damage in its long civil war. That war pitted elements of Lebanese society against one another and involved foreign forces as well. Palestinians, driven from their homeland in Palestine by the Israelis, ultimately arrived in Lebanon, where they placed great strains on the delicate socio-economic balance there. Syrian forces were originally invited in by the legitimate Lebanese Government to help end the conflict.

The Israeli invasion of Lebanon, on the other hand, caused billions of dollars of damage in a mere three months. Israel should pay reparations to the Government of Lebanon for the damage it caused in the invasion. If it refuses to do so, American aid, in an amount equivalent to the damage caused in the invasion, should be diverted from Israel to Lebanon.

This year, President Reagan has requested a supplemental appropriation of $251 million for war-devastated Lebanon to help the process of recovery which must take place in the aftermath of the Israeli invasion. While modest in comparison with Lebanon's needs and tiny in relation to the welfare which Israel is provided, the President's request represents a positive step towards helping Lebanon rebuild. It is a step which we welcome warmly.

Nevertheless, if Lebanon is to recover fully from the devastation that it has suffered and is suffering under Israeli occupation, additional sums must be earmarked for Lebanon, and the United States must be willing to maintain these higher levels for some years to come. We strongly urge that Congress increase the amount of economic and military aid to Lebanon. We recommend that, in view of the widespread destruction and economic dislocation inflicted in the past year, aid to Lebanon be extended in the same proportion of grants and loans as is proposed for Israel.

A strong and stable Lebanon is a prerequisite for the achievement of a comprehensive and lasting peace in the Middle East. We support the Administration's efforts to achieve the withdrawal of foreign forces, particularly Israeli forces, from Lebanon. The United States must encourage a process whereby the legitimate Government of Lebanon can become the sole guardians of peace and security in the country. The Lebanese armed forces must be strengthened and consolidated. It is essential that Lebanon achieve national reconciliation so that it can reunify and extend its sovereignty and authority up to its internationally recognized boundaries.

2. West Bank/Gaza

We are gravely concerned that Israeli policies in the West Bank and Gaza are severely undermining the chances for a peaceful settlement of the

Israeli/Palestinian dispute. We are particularly troubled at the frenetic increase in Israeli settlement activity in the West Bank, the frequent closures of and interference with academic freedom of Palestinian educational institutions in the occupied territories, and revelations of harassment and mistreatment of Palestinian demonstrators in the occupied territories. [Appendix G includes articles on Israeli treatment of Palestinian residents on the West Bank.] Some of these problems are dealt with in the chapter on Israel and the Occupied Territories in the Country Reports on Human Rights Practices for 1982 recently submitted to the Foreign Relations Committee by the State Department.

The Palestinian Christian and Muslim inhabitants of the occupied territories, who have suffered under almost sixteen years of Israeli occupation, are in desperate need of American assistance, since Israel refuses to meet their needs. The Administration has proposed that $7 million be funneled through private and voluntary organizations (PVOs). This represents a modest increase in aid of half a million dollars, but it is still woefully inadequate.

The Agency for International Development, in its official proposals submitted to Congress, has stated that:

> Evaluations indicate that PVO projects are generally well designed and implemented. The numbers of projects proposed by community groups which are rejected or deferred by PVOs because of funding limitations indicate a substantial demand for assistance in self-help efforts which is not being met from other sources. The PVOs continue to encounter difficulties in obtaining clearance from the Israeli Government to proceed with individual sub-projects.

The small program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid project anywhere in the world. We urge that funding for the West Bank and Gaza be increased to $15 million for Fiscal Year 1984 and urge further that the United States Government put increasing pressure upon Israel not to put intolerable

obstacles in the way of economic development programs that the Arab people of the West Bank and Gaza need and deserve. A substantial increase in the West Bank/Gaza program can be a symbol of a more constructive relationship between Americans and Palestinians and can reflect the increased emphasis on the Palestinians that the Reagan Administration has begun to display.

3. Egypt

We support the Administration's proposals of economic and military aid to Egypt. Egypt is an important Arab country and has long been a close friend of the United States. It is essential that that friendship continue. We urge that Congress consider extending a larger portion of its Foreign Military Sales (FMS) aid to Egypt in the form of grants.

4. Jordan

The friendship between Jordan and the United States has been long and enduring despite the differences that exist between the two countries concerning the Israeli/Palestinian conflict. Jordan is an indispensable element in any efforts to secure a just and lasting peace in the Middle East. We endorse the Administration's proposals to increase FMS to Jordan and to maintain Economic Support Funds (ESF) for Jordan at the level of $20 million. We urge, however, that aid to Jordan be extended in the same proportion of grants and loans as is proposed for Israel.

5. Israel

We oppose the disproportionate amount of American foreign aid going to Israel in Fiscal Year 1984, particularly in the aftermath of the invasion of Lebanon. Although Israel enjoys the highest per capita GNP of any country in the Near East Region covered by the Administration's foreign aid proposals, it nevertheless will receive a higher amount of aid than any other recipient nation. Given Israel's status as the fourth strongest military power in the world and its unquestioned military superiority in the region, the amount of aid earmarked for Israel is exorbitant.

We note that, while the President has requested the same total amount of aid for Israel in Fiscal Year 1984 as he did for Fiscal Year 1983 ($2.485 billion), the proportion of aid he has asked be extended in the form of grants is substantially higher. The President's Fiscal Year 1984 requests include $260 million of additional ESF grants and $50 million of additional FMS direct financing, for a total of $310 million. This represents a very generous additional concession to Israel. We are opposed to the enormous amount of aid that is provided to Israel and we urge this Subcommittee not to recommend terms that are even more favorable than the President has requested.

Israel must be held accountable for the policies it pursues in the Middle East. Unless the United States is willing to reduce or suspend military aid to Israel when it pursues military policies that violate U.S. laws, including the Arms Export Control Act, Israel will continue to violate those laws. Unless the United States puts Israel on notice that it will reduce its economic assistance if Israel continues to establish new settlements in the West Bank and Gaza and reduce U.S. assistance by the amount of money spent by Israel in the pursuit of those policies, Israel will continue to ignore American condemnations and defy American wishes.

The International Edition of The Jerusalem Post reported earlier this year that Israeli Defense Ministry officials had estimated that the cost of the invasion of Lebanon until March 1983 would be 38.2 billion Israeli shekels, corresponding to approximately $1.44 billion. The same issue reported that the cost of settling each Jewish family in the West Bank is four to five million Israeli shekels, corresponding to approximately $151,000 to $189,000 per family. There are reports that Israel is now luring settlers into the occupied territories by subsidizing housing at prices cheaper than those found in Israel itself. There can be no justification for asking the American taxpayer to finance the invasion and continued occupation of Lebanon or to fund the settlement activity in the occupied territories that is currently taking place. [The question of U.S. aid to Israel is examined in Appendix 4.]

U.S. law (PL 94-329) prohibits foreign aid from being granted to any country which "engages in a consistent pattern of gross violations of internationally recognized human rights." Many of the Arab inhabitants of the occupied

territories have been subjected to a pattern of deprivation of their human rights by the Israeli Government and the Israeli occupation forces. We strongly urge the U.S. Congress to withhold economic and military aid to Israel when such rights violations occur in order to discourage Israel from continuing these unlawful practices.

APPENDICES 1/

Appendix A	
1. San Diego Union	Ford: Begin Should Be Better Ally Or Lose American Aid
2. Jody Powell	A Widening Gap Between Us and Israel
3. George Ball	Reassessing Relations
4. Joseph C. Harsch	Israel and the US at Cross-purposes
Appendix B	
1. Meade Thorpe, Jr.	How Israel Settles the West Bank
2. Anthony H. Cordesman	Israel Does Not Need the West Bank
3. Washington Post	Carter, Ford Rap Israel on Settlements
4. Nat'l Assoc. of Arab Americans	Overview of Israeli Settlement Policies
5. Washington Post	Subsidies Pull Israelis to West Bank
Appendix C	
1. New York Times	'78 Pact Said to Limit Israeli Use of Cluster Bombs
Appendix D	
1. Christian Science Monitor	US Marine-Israeli Relations Tense
Appendix E	
1. Nat'l Assoc. of Arab Americans	High Risk of Israeli Invasion of Lebanon
Appendix F	
1. Nat'l Assoc. of Arab Americans	The Reagan Peace Initiative and the Israeli Response: A Comparison
2. Nat'l Assoc. of Arab Americans	The Fez Summit Peace Plan and the Reagan Peace Initiative: A Comparison
Appendix G	
1. The Boston Globe	Israeli Tells of Orders to Beat Arabs
2. San Francisco Chronicle	Israeli Officer's Story on Beatings
3. Miami Herald	Israeli Defends Harassment as a Policy to Crush Unrest
Appendix H	
1. Christian Science Monitor	Total US Aid to Israel--Its Dimensions, Implications
2. Augusta Chronicle Augusta Herald	Israel: America's Costly Burden
3. New Statesman	US Stepped Up Arms for Invasion
4. George W. Ball	Divert Aid for Israel to Rebuild Lebanon

1/ Appendices to Mr. Sadd's testimony are retained in subcommittee files.

Mr. HAMILTON. The next witness is Ms. Frances Neely, legislative secretary of the Friends Committee on National Legislation. We are pleased to have you before the subcommittee again.

STATEMENT OF FRANCES NEELY, LEGISLATIVE SECRETARY, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Ms. NEELY. Thank you, Mr. Chairman. We appreciate appearing before this subcommittee because your actions affect the well-being of children and the effectiveness of multinational peacekeeping.

I will focus on requests for Israel and Lebanon.

We support all aid proposals that would help the children of Lebanon and of the occupied territories regain or maintain their physical and emotional health.

We oppose all military assistance to either Israel or Lebanon as a threat to the well-being of children. The Israeli sweep through southern Lebanon and its 9-week seige of Beirut uprooted and terrorized thousands of children.

The dead can be counted. But the psychological damage to survivors is harder to measure and difficult to heal.

The invasion brought with it the breakup of families and the disruption of other institutions that help children grow. According to UNICEF, family rehabilitation is essential if Lebanon is to avoid development of a handicapped generation.

The Israelis are still holding many skilled Palestinian teachers and social workers who would normally be assisting in the development of the young. The Palestinian medical system has been almost destroyed by Israeli gunfire and imprisonment or harassment of personnel.

A new campaign of terror is reportedly being launched in southern Lebanon by Christian factions and fears of additional massacres run deep.

The climate of hostility has been fed by the Israeli Government's decision to arm various Lebanese factions, regardless of consequences for the civilian population. The Israeli Commission appointed to assess responsibility for the Sabra and Shattila massacres reported that:

> In our view, everyone who had anything to do with events in Lebanon should have felt apprehension about a massacre in the camps if armed Phalangist forces were to be moved into them without the IDF exercising concrete and effective supervision and scrutiny of them . . . all those concerned [Israelis] were well aware that combat morality among the various combatant groups in Lebanon differs from the norm in the IDF, that the combatants in Lebanon belittle value of human life far beyond what is necessary and accepted in wars between civilized peoples, and that various atrocities against the noncombatant population had been widespread in Lebanon since 1975.

Yet despite this assessment, the Israelis armed the Phalange, maintained constant contact with Phalangists, chose them to comb the refugee camps for terrorists, because the Israeli military could give the Phalangists orders whereas it was impossible to give the Lebanese Army orders.

After failing to co-opt the Shiites in southern Lebanon, Israel has tried to divide them into uncoordinated village militias linked with Haddad, another discredited competitor for power in Lebanon. Israel also trains and supports the Haddad militia.

These actions have ramifications for children. Although Israel is not the only outside power in Lebanon, Israeli actions are especially important to Americans because we have provided Israel with billions of dollars in military and financial aid.

Since you have oversight of the level and distribution of aid, you have a responsibility to set standards as to what is and what is not acceptable conduct by aid recipients.

Last year the Israelis, like the Phalangists at Sabra and Shattila, might well have believed that their mentor, the United States, had given them carte blanche to move into Lebanon and clear out the terrorists regardless of consequences to women and children.

If you continue military aid to Israel, you will reaffirm that belief. If you continue military aid to Israel, you will also be acquiescing in the arming of factions within Lebanon. If these factions share with Sharon a lack of moral brakes, as one Israeli has suggested, it may be because other nations have used them as proxies to attain foreign goals.

The United States, as weapons supplier to Israel, shares blame for the moral degradation involved.

We oppose the $101 million supplemental request to help expand and equip the military forces of the Lebanese Government. Although the goal is admirable, to stabilize Lebanese society, the danger of triggering additional violence is too great.

Stability might be achieved more quickly and with less pain by turning all of Lebanon into a demilitarized zone. We urge you and the executive branch to join together in asking the U.N. to expand its peacekeeping forces in Lebanon, to assign them to stations throughout the country, and to supplement their policing capability with the addition of special mediation and conciliation teams.

Continuation of U.S. military aid to Israel despite Israel's unwillingness to settle disputes by peaceful means has undercut the effectiveness and curtailed the growth of international peacekeeping and peacemaking.

Sending U.S. military contingents into the Middle East largely because Israel refuses to accept U.N. involvement sets a precedent for bypassing the United Nations in future peacekeeping operations.

If and when there is a foreign forces withdrawal agreement, Congress may be faced with a request to send more troops to Lebanon. We hope you will reject that request.

Please ask the administration to return peacekeeping responsibility to the world community where peacekeeping procedures may be nurtured and improved. In the long run, no country, including Israel, will benefit from destroying the fragile international institutions that are trying to promote and monitor the peaceful settlement of disputes.

Thank you, Mr. Chairman.

Mr. HAMILTON. Thank you very much.

[Ms. Neely's prepared statement follows:]

PREPARED STATEMENT OF FRANCES E. NEELY, LEGISLATIVE SECRETARY, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

I am Frances Neely, Legislative Secretary, Friends Committee on National Legislation. We appreciate the opportunity to appear before you because your actions affect two of our major concerns: the well-being of millions of children and the effectiveness of multinational peacekeeping and peacemaking. These issues are important to all Friends, although, as you know, FCNL does not attempt to speak for every member of the Society of Friends.

Historically, the Friends Committee has supported U.S. development programs that benefit the poorer inhabitants of the poorer nations. We have endorsed U.S. contributions to multilateral programs, such as the UNDP, UNICEF, IDA and the soft loan windows of the international banks. We have opposed grants and sales of U.S. arms to any nation, as well as construction of bases or stationing of U.S. armed personnel on foreign soil.

We have recommended that the Economic Support Fund be eliminated and ESF projects that meet criteria for economic development activities be transferred to the appropriate categories of agriculture and rural development, population and health, education and human resources, etc. We have suggested that countries needing budgetary support be referred to the International Monetary Fund.

I bring you that same message today, but I will concentrate on foreign aid requests for Israel and Lebanon, because U.S. aid to those nations affects so immediately the lives and psychological health of children, as well as the effectiveness of multinational peacekeeping and peacemaking institutions.

EFFECT ON CHILDREN

We support any components of the proposals before you that will help the children of Lebanon and the occupied territories regain or maintain their physical or emotional health. We oppose all military assistance to either Israel or Lebanon as a threat to the well-being of children.

1. In Lebanon

U.S. military aid to Israel has had a devastating effect on the children of Lebanon. Children under 15 constitute about 39% of the population. Last June, the UNICEF director in Beirut estimated that there were nearly 460,000 children in West Beirut and the suburbs alone. The Israeli sweep through southern Lebanon and its 9-week seige of Beirut uprooted and terrorized thousands of children. The dead can be counted, but the psychological damage to survivors is harder to measure and difficult to heal.

The invasion brought with it the break-up of families and the disruption of services and other institutions that help children grow.

The break-up of families. Last summer UNRWA appealed to Palestinian mothers to be more sensitive to signs of illness among their younger children. According to Agency staff, many mothers were so traumatized by the invasion and the loss or disappearance of husbands and older sons that they were unable to care adequately for the health of their families.

Over 5,000 Palestinian and Lebanese males are still imprisoned at the Israeli Ansar camp. These prisoners are being held without charges. Releases are approved sporadically, and rumors of prisoner exchanges remain just that -- rumors. Family visits are prohibited. Messages may be exchanged, but some prisoners hesitate to use this channel for fear of drawing attention to the location of their families. The families themselves suffer emotional and economic deprivation from the loss of husbands, fathers and breadwinners.*

Life is also precarious for the wives and children left behind when the Palestinian fighters were forced to leave Beirut for other lands. Some of the dependents of the deportees may have died at Sabra and Shatila.

The breakdown of institutions. The Israelis are still holding many highly-skilled Palestinians who would normally be assisting in the training or development of the young. These include social workers, teachers and medical practitioners. The Palestinian medical system, including clinics and hospitals, has been almost destroyed by Israeli gunfire and imprisonment or harassment of personnel. According to one U.S. official, it will be almost impossible to restore the level of care provided by the Palestine Red Crescent.

Nearly 70 Palestinian employees of UNRWA remain in Israeli hands. Most of these detainees are teachers. Almost all of UNRWA's schools have reopened, but schooling is circumscribed. In Sidon, Palestinian schools operate on triple shifts, and classes are held in large tents.

The on-going terror. A new campaign of terror seems to be developing in southern Lebanon, and fears of additional massacres run deep. The terrorists seem to be from various "Christian" factions, and their hatred is directed against Shiite Muslims as well as Palestinians. People have been injured, mutilated and killed, and families intimidated into leaving their homes. The potential for intimidation in the Sidon area is enormous, according to UNRWA officials. The Secretary General of the United Nations has expressed deep concern and is studying possible UN action. The Commissioner General of UNRWA and the ICRC have demanded that Israel, as the occupying power, fulfill its responsibility to ensure the safety of the civilian population.

The ICRC reported, on February 24, that:

> During the past two weeks, the fate of the Palestinian population in southern Lebanon became a matter of deep concern. ICRC's delegation in Lebanon directed most of its energies to this problem and also immediately strengthened its representations to remind the occupying power of its obligations under international law, i.e. the fourth Geneva Convention and the Hague Convention of 1907. (see attachments)[1]

The climate of hostility has been fed by the Israeli Government's decision to arm various Lebanese factions, regardless of consequences for the civilian population. The Israeli Commission appointed to assess responsibility for the Sabra and Shatila massacres reported that:

> In our view, everyone who had anything to do with events in Lebanon should have felt apprehension about a massacre in the camps if armed Phalangist forces were to be moved into them without the IDF exercising concrete and effective supervision and scrutiny of them . . . all those concerned [Israelis] were well

---

[1] Attachments to Ms. Jeely's statement are retained in committee files.

aware that combat morality among the various combatant groups in Lebanon differs from the norm in the IDF, that the combatants in Lebanon belittle value of human life far beyond what is necessary and accepted in wars between civilized peoples, and that various atrocities against the noncombatant population had been widespread in Lebanon since 1975."

Yet despite this assessment, the Israelis armed the Phalange, maintained "constant contact" with Phalangists, chose them to comb the refugee camps for "terrorists", because the Israeli military could give the Phalangists "orders whereas it was impossible to give the Lebanese army orders" (New York Times, 2/9/83). Israel continues to supply the Phalange with arms, although the Phalange charges that Israel is also helping their enemy, the Druse (New York Times, 2/16/83). After failing to co-opt the Shiites in southern Lebanon, Israel has tried to divide them into uncoordinated village militias linked with Haddad, another discredited competitor for power in Lebanon. Israel also trains and supports the Haddad militia.

All of these actions have incredible ramifications for the well-being of children. Of course, Israel is not the only outside power operating in Lebanon and supplying Lebanese factions to a degree that hurts the young. I have concentrated on Israeli actions because, over the years, the United States has provided Israel with billions of dollars in military and financial aid. It would be only natural for Israelis to assume that we wouldn't provide them with that much of our substance unless we approve of what they do. Since you have oversight of the level and distribution of U.S. aid funds, you have a tremendous responsibility to set standards as to what is and is not acceptable conduct by aid recipients.

Last year, the Israelis, like the Phalangists at Sabra and Shatila, might well have believed that their mentor, in this case the United States, had given them carte blanche to move into Lebanon and clear out the "terrorists", regardless of consequences to women and children. If you continue military aid to Israel, you will reaffirm that belief.

If you continue military aid to Israel, you will also be acquiescing in the arming and/or rearming of factions within Lebanon. If these factions share with Sharon a "lack of moral brakes" as one Israeli has suggested, it may be because other nations -- Israel, Syria and Libya -- have plied the Lebanese with weapons and used them as proxies to attain foreign goals. The United States, as weapons supplier to the Israeli player, shares blame for the moral degradation involved. We urge you to assert your strong objection to such practices by ending military aid to Israel.

ii. In the Occupied Territories of the West Bank and Gaza

The impact of this occupation also rests heavily on children, their schooling, their freedom of movement, their freedom of speech and, in some instances, their right to survive. It is only in the past few months that we Americans have become aware of the techniques employed in the West Bank during last spring's disturbances -- techniques that were set forth in two documents issued by Israeli Chief of Staff Eitan. General Eitan, as you will recall, was charged in the Sabra-Shatila report with a breach of duty for neither forseeing nor attempting to halt the "slaughter" in the camps. Israeli policy in the occupied territories, according to Eitan, should include punishment of parents of students who participate in demonstrations,

expulsion from the territories, economic punishment of whole villages, etc. (see attachments) Here, too, the United States, through its military and financial aid may have led the Israeli Government to believe that we don't care how Israel treats the people over whom it holds the power of life and death.

iii. U.S. Military Aid to Lebanon

We oppose the $101 million supplemental request to help expand and equip the military forces of the Lebanese Government. Although the goal is admirable -- to stabilize Lebanese society -- the danger of triggering additional violence is too great. Stability might be achieved more quickly and with less pain by turning all of Lebanon into a demilitarized zone.

We urge you and the Executive Branch to join together in asking the UN to expand its peacekeeping forces in Lebanon, to assign them to stations throughout the country and to supplement their policing capability with the addition of special mediation and conciliation teams. The UN peacekeeping forces could oversee the disarming of all militia, including the Phalange, and the conciliation teams could help the Lebanese and Palestinian people move away from horror and back to community.

The Lebanese Government has already requested that UNIFIL be deployed throughout Lebanon as soon as all non-Lebanese forces are withdrawn. The Lebanese want UNIFIL to confirm the withdrawal of all foreign forces, restore international peace and assist the Lebanese army in extending governmental authority throughout Lebanon.

If Lebanon were to become a demilitarized zone, UNIFIL could do all the things the Lebanese Government suggests to guarantee Lebanon's external security, but it would work with the Lebanese police instead of an army to bring about internal peace.

EFFECT OF U.S. AID TO ISRAEL ON UN PEACEMAKING AND PEACEKEEPING

Continuation of U.S. military aid to Israel, despite Israel's unwillingness to settle disputes by peaceful means, has undercut the effectiveness and curtailed the growth of international peacekeeping and peacemaking. The lack of U.S. response to Israel's contemptuous treatment of UN peacekeeping forces gives the impression that the U.S. acquiesces in Israel's refusal to accept UN decisions. Even when the U.S. has endorsed UN efforts to control Israel's actions, we have made a mockery of that endorsement by sending Israel arms and equipment to carry out illegal acts. (Resolutions attached)

This is particularly unfortunate since the U.S., as a founding member of the UN and a permanent member of the UN Security Council, has a special responsibility to help that agency "maintain international peace and security."

Furthermore, the sending of U.S. military contingents into the Middle East, largely because Israel refused to accept UN involvement on the Israeli-Egyptian border or in Beirut, sets a precedent for by-passing the UN in future peacekeeping operations. If and when there is a foreign forces withdrawal agreement, Congress may be faced with an Administration request to send more troops into Lebanon. We hope you will reject that request. Please ask the Administration to return peacekeeping responsibility to the world commu-

nity, where peacekeeping procedures may be nurtured and improved.

In the long run, no country, including Israel, will benefit from destroying the fragile international institutions that are trying to promote and monitor the peaceful settlement of disputes. In the long run, all nations will need such institutions to help bring about a civilized re ponse to political problems. We urge you to reaffirm the U.S. commitment to such institutions and supplement that affirmation by discontinuing military aid to Israel.

Some Excerpts from the Record

When Israel was forced to withdraw from Lebanon after its 1978 invasion, it circumvented UN goals by turning the southern border area over to an Israeli ally, former Lebanese Army Major Haddad, and his militia, whom the Israelis trained and armed. The Haddad presence made it impossible for the UN Interim Force in Lebanon (UNIFIL) to fulfill its 1978 mandate, i.e. to confirm withdrawal of Israeli forces and to establish a demilitarized zone in southern Lebanon. Haddad's presence also facilitated the breaching of UN peacekeeping areas last June.

Last June, General Eitan, Chief of Staff of the the Israel Defence Forces, gave the UNIFIL commander 28 minutes notice of Israel's second invasion of Lebanon.

> He indicated that there was need for the IDF to pass through or near UNIFIL positions, and he expected that UNIFIL would raise no physical difficulty to the advancing troops. General Callaghan objected to . . . and protested against this totally unacceptable course of action . . . [When] UNIFIL troops attempted to prevent the entry and advance of Israeli forces . . . tank barrels were pointed at UNIFIL soldiers . . . obstacles [placed in the way of the Israeli advance] were forcibly removed and bulldozed. At Khardala Bridge, a small Nepalese position stood its ground for two days, despite harassment and threats. . . their positions was partially destroyed . . .
>
> I regret having to report that a Norwegian soldier was killed by shrapnel on 6 June. Further, the IDF has taken prisoner 62 Lebanese army soldiers who were serving under the operational command of UNIFIL. This was protested to the IDF with the demand that they be returned to UNIFIL. Despite this, the IDF has handed over the prisoners to the de facto forces [Christian and associated militias], an action that has been most vigorously protested. -- Secretary General's Report, June 11, 1982

UNIFIL headquarters was cut off from all UNIFIL battalions and supply routes closed. UNIFIL responded by holding to its positions. UNIFIL staff attempted to assist persons evacuated from Tyre with food, water and medical supplies, according to the Secretary General's report of June 8, 1982.

> In the days immediately following the Israeli invasion . . . there were instances in which Israeli military personnel forced entry into UNIFIL installations, destroyed UNIFIL checkpoints, fired close to UNIFIL positions or blocked roads in the UNIFIL area of deployment . . . At the end of June, a new armed group, equipped and controlled by the Israeli forces appeared in parts of the UNIFIL area. These armed persons, recruited from the local population and variously referred to by the Israeli forces as "national

guard" or "civil guard" attempted to establish checkpoints and patrol the villages. In some locations the ill-disciplined behaviour of these irregulars, who are not recognized by the Lebanese Government, led to friction with the other inhabitants. With a view to protecting the civilian population, UNIFIL has taken action to contain the activities of these armed persons.
-- Secretary General's Report, August 13, 1982

On 23 November 1982, an Israeli unit forced its way into the Senegalese battalion headquarters and briefly questioned Lebanese army personnel stationed there. The following day, a similar attempt was foiled at the Irish battalion headquarters. On 16 December 1982, Israeli soldiers fired approximately 20 rounds and two illumination flares towards two Nigerian positions. On 20 December, Israeli personnel on two separate occasions fired over the heads of two members of the UNIFIL military police who were on convoy duty . . .

During the period under review, IDF continued the recruitment and arming of selected villagers in the UNIFIL area . . . UNIFIL has made strong representations to the Israeli authorities about the arming of such groups and the risk of incidents arising from their irresponsible behaviour. -- Secretary General's Report, January 1, 1983

ADDENDUM

You may, of course, wish to consider more mundane issues as you examine the Administration's request for aid to Israel. If the Israelis are able to finance the war on Lebanon without outside assistance, as the Israeli Government has said, then why should American taxpayers continue to subsidize Israel's ongoing military establishment?

Since the Israeli social consciousness forces that government to subsidize basic living costs and to worry about an unemployment rate of about 5% (1981), you may find it useful to weigh the needs of America's poor against the proposed subsidy to Israel. We would applaud a decision to transfer Israel-designated-dollars to programs to meet the needs of Americans standing in bread and unemployment lines.

---

* "As of the end of 1982, the Israeli government had not made public a full or partial list of names of the detainees, had not permitted relatives access to the detainees, and, while granting the Red Cross access to most of the prisoners, apparently maintained some of them incommunicado and unaccounted for. Because of the lack of charges, access, or, in some cases, information as to whether or where specific persons are being detained, legal recourse for the detainees was extremely limited; however, various cases were filed in the Israeli judicial system on behalf of some of the prisoners, demanding that the Government set forth the legal basis for holding them. As of the end of 1982, no decisions had been announced in those cases. At year end, the number of prisoners captured in Lebanon and still held by Israel, aside from about 300 Syrian POWs, was probably in the neighborhood of 5,400, with approximately 5,300 held in Ansar prison camp." -- Country Reports on Human Rights, Department of State, February 1983.

Mr. HAMILTON. The next witness is Mr. Zogby, who is the Director of the American Arab Anti-Discrimination Committee.

STATEMENT OF JAMES J. ZOGBY, EXECUTIVE DIRECTOR, AMERICAN-ARAB ANTIDISCRIMINATION COMMITTEE

Mr. ZOGBY. Thank you, Mr. Chairman.

My testimony has been submitted to the committee. I have some informal remarks to make.

The year 1982 has been disturbing for Arab Americans. We were as a community shaken by the massive destruction of human life and severe repression of our people in Lebanon, in occupied West Bank and Gaza Strip regions of Palestine, and in the Golan Heights.

The majority of Arab Americans and, therefore, of our membership, are of Lebanese and Syrian descent. There is also a sizable Palestinian contingency among Arab Americans and, therefore, among our membership.

I only want to address to you today a few of the concerns shared by our community.

Today as I speak to you, at least 6,000 Lebanese and Palestinians, many of them family members of people of Arab descent living in America, remain held by Israel in makeshift prisons in southern Lebanon.

They are held without charges. They are not allowed family visits. Nor are they allowed adequate medical health care. There are entire areas of south Lebanon today where villages exist, camps exist, where there are no young men, only women, children, and old people.

They want to know where their men are, and they are denied that simple information.

In addition, there are a sizable number of prisoners held in Israel itself. Among them there are at least eight Lebanese and Palestinian women held incommunicado in prison. While Israeli attorneys have asked to see them to investigate charges against them and to see the conditions that they are living under, they have been denied access, and there are serious concerns as to the conditions of these women prisoners.

In the West Bank and Gaza, repression reached new heights in 1982. Hundreds have been shot by Israeli soldiers and settlers, dozens were killed, thousands of acres of land were confiscated and scores of homes were destroyed.

In the Golan Heights, the Arab population there remains victim of harsh military rule. The Golan, you see, was annexed in 1982, a fact that has been largely overlooked in America today, and this annexation was followed by massive repression in almost every village and town.

The Golan was subjected to months of curfew and blockade—no food, no medical supplies, no travel was allowed for shepherds to tend flocks or farmers to tend fields. While the curfew has been lifted, the repression in the Golan remains.

I don't know if you have read this year's State Department human rights report. It was commissioned by Congress to inform

Congress so that Congress could make determinations as to when U.S. aid should be allowed.

The law reads that no aid should be given to countries that are violators of human rights. While I have some concern that the report in some areas has been understated, even a casual reading indicates that a serious and disturbing pattern of human rights abuses exists in areas under Israeli occupation.

Reading the report one can only conclude that the Middle East is not a military or strategic problem. It is an enormous human tragedy that can no longer be ignored. I could come to you and say that the policies of Begin or the policies of Israel are devastating to the soul of Israel. But I have to be honest with you.

I have reached the point of exhaustion. I don't care any more about the effect on the soul of Israel. You see, for me it has become a question of what Israeli policy does to the bodies and souls of Arab people.

This year thousands have been killed and repression is intense. How, I ask you, can this Congress turn a blind eye to these abuses. Could it turn a blind eye to such abuses of similar proportions if they happened to Polish people or Jewish people or people really in any other part of the world?

How can the United States support or maintain an identification with these policies and how can these policies of the Israeli Government be seen in any way, shape, or form as being in our national interests.

When in history have cruel and intense abuses of human rights ever been in the national interest of any country?

Today over 2 million Arab people live under Israeli occupation. This occupation is funded largely by our tax dollars to the tune of about $9 million a day for the last 9 years.

I urge you to send a signal to Israel that the abuses of rights must be stopped. If you can find the courage and the vision to do so, I urge you to send a signal, a gesture, if you will, to the Arab people of the Golan, of occupied Lebanon and of the West Bank and Gaza, that the United States will not ignore their plight, and that in conformity with U.S. law, their human rights will be defended.

Thank you.

Mr. HAMILTON. Thank you very much, Mr. Zogby.

[Mr. Zogby's prepared statement follows:]

PREPARED STATEMENT OF JAMES ZOGBY, EXECUTIVE DIRECTOR, AMERICAN-ARAB ANTI-DISCRIMINATION COMMITTEE

I am Executive Director of the American-Arab Anti-Discrimination Committee. ADC is a 14,000 member grassroots organization with 49 chapters nationwide. It is my responsibility to bring Arab-American concerns, needs and aspirations to your attention. These are inextricably linked to Israeli behavior in the Middle East and to our government's underwriting of that behavior.

The U.S. has continued to provide Israel with generous amounts of military and economic aid despite its accelerated pace of establishing exclusive Jewish settlements in the occupied territories of the West Bank and Gaza Strip. It has continued to arm Israel despite its unprecedented air strike against Iraq's nuclear reactors; and it has rewarded Israel with military assistance in the wake of the invasion and occupation of South Lebanon, and Israeli violations of human rights not only in occupied Lebanon but in the occupied Palestinian lands of the West Bank, Gaza Strip and the occupied Syrian Golan Heights.

Israel is the largest single recipient of U.S. aid. No other country

enjoys such priviliged access to U.S. tax revenues. No other country so blatantly ignores U.S. intent and sensibilities. It is clear that our emphasis on military aid as a foreign policy tool has not contributed to peace in the region. This past summer, we witnessed a savage Israeli invasion of Lebanon. I use the work savage consciously. It was carried out coolly, technologically from 30,000 feet up and 10-20 miles away. It was done with the conscious decision to put civilian lives at risk in order to minimize casualties to Israeli military personnel. And it was effective. Only 340 Israelis died in the fighting, but over 20,000 Lebanese and Palestinians were killed.

What was this war intended to accomplish? According to Sharon there were three basic reasons for the invasion of Lebanon.

The first he said was to eradicate the PLO once and for all. The second was to save Israeli lives in nothern Israel. The third was to establish a central government in Lebanon that could make peace with Israel.

With regard to the first rationale, the PLO has not been eliminated. It is still the recognized voice for Palestinian aspirations for a homeland. Furthermore, the PLO is not the instigator of a Palestinian yearning for a homeland. It is the expression of this yearning. The elimination of the PLO would neither stifle that yearning nor produce the acceptance of Israel by the Arab States.

As to the second, the first violation of the July 1981 cease-fire negotiated by Philip Habib was by Israel. On April 21, the Israeli

air force bombed PLO bases and Palestinian population centers in the Beirut and Sidon areas. The pretext was the death of an Israeli soldier in a land mine explosion in southern Lebanon. The PLO did not respond. On May 9, Israel again bombed PLO installations and Palestinians camps in Beirut and southern Lebanon. In response, the PLO fired artillery and rocket shells into nothern Israel. This was the only PLO shelling of nothern Israel between July 1981 and the massive Israeli bombing of Beirut, Tyre, and Sidon on June 4th & 5th, 1982.

With regard to the third, while Lebanon has not signed a peace treaty with Israel nor formally recognized Israel. It also has never participated in the wars against Israel. As unstable as Lebanon might have been, nowhere in all the covenants between nations is it declared permissable for one country to invade another to bring about stability. That is the U.S. position on the Vietnamese invasion of Cambodia and the Soviet invasion of Afghanistan.

What did the war actually accomplish? For Lebanon, it resulted in $12 billion in damages; 80,000 homeless; three major cities in ruins; 20,000 killed and 30,000 wounded.

For the region, the war has resulted in further destabilization. There are 17,400 new refugees, and the Soviets are now installing SA-5 surface to air missiles in Syria.

For the U.S., it resulted in another loss of Arab faith in American good will, and another decline in U.S. standing among the world nations. We alone voted against a U.N. resolution to condemn Israel's action and to call for a cessation to hostilities and a beginning of negotiations.

It is true that, in the aftermath of the war, the Reagan administration has made a halting and limited first step. But the Reagan peace initiative was really a step that was too little too late.

In his September 1 statement, President Reagan condemned the building of new settlements. Begin responded with an announcement of four new settlements, but Reagan said--and did-nothing. Once again, we saw the Reagan Administration, like those before it, acting as the dog that is wagged by the Israeli tail.

Arab-Americans believe that in order for this administration, for this country, to take the decisive steps necessary to bring about peace in the Middle East, Israel must be brought to account. We cannot continue to send $9 million a day to Israel, as we have been doing for the past 9 years. That kind of aid level cannot go unchallenged as long as Israel uses it in such a way as to violate American laws stipulating how U.S. economic and military aid is to be used. We have a choice of three options, as Chairman Zablocki of the House Foreign Affairs Committee has made clear, either we abolish the laws and get rid of the Arms Export Control Act (which would make many countries, such as Argentina, Turkey, Ecuador and Chile, who have been previously censured, very happy) or we tell the world community that Israel is an exception and can therefore rewrite American laws at will and use American aid as it pleases. Or, we can take the courageous step, the decisive step, and simply apply the law to Israel.

I am not so naive as to think that military aid to Israel is likely to be cut by this Congress. I do, however, believe that this Congress

should and can tie U.S. assistance to Israel's conforming to U.S. foreign policy objectives in the Middle East. I urge this committee to tie the Economic Support Funds to a cessation in the establishment of settlements on the West Bank. For those who fear that attaching strings to Israeli aid (as we do with almost every other country) would imperil Israel's survival, I would remind you that the Israeli economy appears to be fattening off the war, and Israeli exports are flooding the Lebanese market.

Another important fact to consider is that the Israeli peace movement cannot gain strength, as long as the government of Israel is continually rewarded for its violation of U.S. laws. It is clear that the peace movement in Israel has gained its greatest momentum and had its biggest upsurges when America spoke out, even haltingly, against the war. It was on the day that Reagan announced his peace plan that the Israeli peace forces had their greatest showing of strength--and even the appearance of a photograph, in which Reagan signalled his displeasure with Israeli actions by refusing to smile during meetings with Shamir, launched the second largest day of demonstrations in Israel. These little gestures--Reagan sneezes, Israel catches cold--have never been understood. As long as Begin comes back from the U.S. with cars, household appliances and guns, there is no reason for the Israeli body politic to challenge him. We actually end up weakening the peace forces in Israel by rewarding the behavior of the Begin and Sharon government.

The last issue I want to deal with is the question of Lebanon.

Lebanese sovereignty cannot be established merely by force of arms yet it appears that the Reagan administration has adopted that option. By heavily arming the current government, it hopes that Lebanon will achieve sovereignty. Tragically, Lebanon is a focal point for the general regional conflicts and tensions in the Middle East, and the current government has yet to show that it is above the internal partisan rivalries. It is therefore our conviction that aid to Lebanon should be given in consultation with the many components of the Lebanese political community and that such aid should be tied to compliance with basic human rights.

This year, Congress will be faced with a monumental challenge once again--$2.5 billion aid request for Israel and millions of dollars in military aid to Lebanon. We urge you this year, and next year, and the year following, to ask hard questions and to vote against such aid unless preconditions are met which ensure that the aid will be used for peace and not for continued conflict.

In the Middle East today, after the Israeli terror-war in Lebanon, the insertion of new arms into an old conflict will only succeed in producing new wars. Americans, their Congressmen, and their administration have a role to play in helping the people of the Middle East turn a corner and move toward peace. But to do so will require vision and courage--a vision that can encompass peace, justice and security for all the people of the Middle East, and courage to say no more arms and no more aid to those whose actions make the realization of this vision impossible.

Mr. HAMILTON. The last witness in this panel will be Mr. George.

STATEMENT OF JAWAD GEORGE, EXECUTIVE DIRECTOR, PALESTINE CONGRESS OF NORTH AMERICA

Mr. GEORGE. Thank you, Mr. Chairman.

The Palestine Congress of North America is an umbrella organization which represents 50 separate Palestinian American organizations. Those are primarily organizations of American citizens of Palestinian descent.

We come before the committee to ask that all security assistance to Israel for fiscal year 1984 be curtailed. We believe that the proponents of U.S. aid to Israel predicate their arguments on two faulty assumptions.

The first assumption is that U.S. dollars to Israel are necessary because Israel acts as a reliable strategic asset for the United States in the region.

Secretary of Defense Weinberger reportedly characterized Israel as an unsinkable aircraft carrier.

We challenge that assumption.

Stability in the Middle East cannot be imposed upon the people. Security in the Middle East will come about when authentic freedom and justice for all people is met.

Israel's continued occupation of the West Bank and Gaza and its denial of the Palestinian people's right to return to their historic homeland and the establishment of their own independent state is the foremost symbol of oppression in the Middle East.

Mr. Chairman, the Palestinians, denied their right to statehood, represent a time bomb in the Middle East. The diaspora and homelessness of 4 million Palestinians exacerbates internal tensions in the Middle East including Israel.

Without a state, the Palestinians also represent a moral paradox for us in the United States. For how could we remain loyal to our convictions of self-determination if all people of the world insist on the right of statehood for Israelis and deny that same right to the Palestinians?

The second assumption that United States policy is predicated on contends that economic and military assistance give Israel the confidence to enter into negotiations that ultimately will entail Israel's withdrawal from the territories it occupied during the 1967 war.

The United States has given Israel $12 billion since Prime Minister Begin came to office in 1977. Yet during those years, Israel annexed the Golan Heights, extended formal annexation over the city of Jerusalem and made it unmistakably clear that it envisions the West Bank and Gaza to be an integral part of Israel.

Aid to Israel should be cut also purely on economic grounds. If we look, for example, at the United States dollars to Israel versus cuts in the Reagan domestic budget, Israel was budgeted $2.48 billion in 1983, a $300 million increase over 1982.

That increase alone would have paid for the $280 million which was cut from the child nutrition program. Also $1.53 billion of the 1983 aid package, over half was given as an outright grant which never has to be repaid.

That grant could have covered the costs of the food stamp program and the mass transit program that the administration cut in 1983.

U.S. aid to Israel also takes place in many other forms. My written statement delineates some of those. I will not take the time to go into those now. But they are included in the statement.

The United States gives more aid to Israel than to any other country. The aid to Israel is twice the amount given to all of Africa. The United States has given more money to Israel than to any other country in the world.

U.S. aid to Israel from 1948 to 1982 totaled $22.6 billion. That is twice the amount the United States has given the entire continent of Africa, and 25 percent more than all U.S. aid to Latin America.

The yearly $2.6 billion that the United States now gives Israel amounts to about one-fourth of the total global disbursements of U.S. aid.

This is particularly egregious when we compare it with the developing world. The U.S. State Department estimates that Israel's per capita GNP in 1979 was $4,150; it has an 87 percent literacy rate; and has an excellent health care system, with one of the highest physician-to-patient ratios in the world. Life expectancy is 72 years, and the infant mortality rate is 1.8 percent.

Nonetheless, Israel gets more American aid, and at better terms, than do most underdeveloped countries.

The population of Africa is about 413 million. Most live in egregious poverty. A deadly drought has parched most of central and east Africa, killing hundreds of thousands of Africans.

Yet, between 1978 and 1981, the United States gave to Africa only $2.9 billion in economic assistance. In those same years, the United States gave Israel $3.1 billion in nonmilitary aid.

In per capita terms, that translates into about $2 per African per year against about $200 per Israeli per year.

The story is the same no matter where we look. In Latin America, U.S. aid, from 1978 to 1981, totaled $1.8 billion. That is an average of about $1.40 per person. In East Asia, U.S. aid totaled about $2 billion; that amounts to less than $1 per person.

In conclusion, Mr. Chairman, we ask "why"? Why is Israel entitled to such a disproportionate share of U.S. foreign aid?

Why do we continue to provide economic and military assistance to Israel when Israel flagrantly disregards—some, Mr. Chairman, would say contemptuously disregards—our Government's policies in the Middle East?

Why do we provide such assistance to a country which is, in fact, leading to a great deterioration of our own national interests in the Middle East?

Why is it that in times of massive cutbacks in our domestic budget does the United States continue to send huge amounts of economic and military aid to Israel?

Our analysis is basic and direct. There is only one way in which the United States can exert meaningful pressure on Israel. That is by curtailing all direct and indirect economic and military aid to Israel.

We urge you to examine your individual and collective consciences and to initiate a fundamental reassessment of the support

our Government gives to Israel. We ask this in the name of justice. We ask this in the name of humanity. We ask this in furtherance of peace and security in the Middle East.

Thank you.

[Mr. George's prepared statement follows:]

PREPARED STATEMENT OF JAWAD F. GEORGE, EXECUTIVE DIRECTOR, PALESTINE CONGRESS OF NORTH AMERICA

SECURITY ASSISTANCE TO ISRAEL

Mr. Chairman:

The United States has given more money to Israel than to any other country in the world. U.S. aid to Israel from 1948 to 1982 totals $22.6 billion. In fiscal year 1983, Israel was budgeted $2.4 billion, a $300 million increase over 1982. The Administration is proposing total security assistance funding for Israel for FY 1984 in the amount of $2.485 billion. Included in this $2.485 billion of security assistance is a grant of $785 million in economic assistance and $1.7 billion in military assistance, of which $550 million is an outright grant. What this means is that the Administration is proposing that a total of $1.335 billion be made in outright grants to Israel with an additional loan of $1.15 billion over a thirty-year period.

U.S. Aid to Israel
Predicated on Faulty Assumptions

The attempted justification for this enormous transfer of U.S. resources to Israel is made in the name of furthering peace in the Middle East and securing U.S. national interests in the region. A review of official White House or State Department statements finds that continued aid to Israel is based primarily upon two assumptions.

The first assumption is that U.S. dollars to Israel are necessary because Israel acts as a "reliable, strategic asset" for the United States in the region. Secretary of Defense Weinberger reportedly characterized Israel as an "unsinkable aircraft carrier."

The second assumption contends that economic and military assistance give Israel the confidence to enter into negotiations that ultimately will entail Israel's withdrawal from the territories it occupied during the 1967 war.

The Palestine Congress of North America challenges those assumptions. We believe that these assumptions have steered the United States down the path of disaster in the Middle East.

The first assumption is that Israel's strategic role in the Middle East furthers U.S. security interests in the region. It is in the defense and furtherance of those interests that the U.S. gives Israel millions of dollars each year in sophisticated military hardware.

But Israel's recent actions, including its persistent colonization of the West Bank and Gaza, its subjugation of over one million Palestinians in the occupied territories, and the manner in which it brutally attacked Lebanon this past summer, have unquestionably undermined U.S. interests in the Arab world.

U.S. security interests in the Middle East cannot be safeguarded through the massive use of terror. This is precisely how the Arab people interpret U.S. announcements that Israel is America's strategic asset in the Middle East. It is universally

viewed throughout the Arab world that the United States endeavors to use Israel as a stick to beat the Arab states into submission.

Stability in the Middle East cannot be imposed upon the people. Security in the Middle East will come about when authentic freedom and justice for all people is met. Israel's continued occupation of the West Bank and Gaza, and its denial of the Palestinian people's right to return to their historic homeland, and establishment of their own independent state, is the foremost symbol of oppression in the Middle East. That denial exists solely because the United States either directly or indirectly underwrites Israel's absorption of the West Bank and Gaza, and then provides Israel with the military strength to maintain its hold on these territories. America could help resolve the Palestine conflict anytime it wanted by simply shutting off the flow of U.S. dollars to Israel.

Mr. Chairman, the Palestinians, denied their right to statehood, represent a time bomb in the Middle East. The diaspora and homelessness of four million Palestinians exacerbates internal tensions in the Middle East, including Israel. Without a state, the Palestinians also represent a moral paradox for us in the United States: for how could we, remaining loyal to our Wilsonian convictions of self-determination for all peoples of the world, insist on the right of statehood for Israelis and deny that same right to the Palestinians? It is a dilemma which cannot be resolved with bombs of F-15 warplanes of M-1 tanks.

This tension in Palestine, indeed in the whole Middle East, has spiraled with each new act of Israeli aggression, whether it be the invasion of Lebanon, or the construction of new settlements on the West Bank and Gaza.

So we ask you, Mr. Chairman, in what way has Israel's role as a so-called "strategic asset" strengthened domestic stability in the Middle East? In what way have Israel's military adventures fostered trust among the states of the Middle East? The answer is that they have not.

The second assumption, justifying U.S. aid to Israel, is that it will facilitate Israel's willingness to relinquish the lands conquered during the 1967 war.

However, a look at the record shows no evidence that U.S. dollars to Israel has built, is building, or will build in Israel the confidence to withdraw from the West Bank and Gaza, Jerusalem, or the Golan Heights. The only tangible consequence of U.S. aid has been the construction of more settlements on the West Bank and Gaza and the invasion of Lebanon.

The U.S. has given Israel $12 billion since Prime Minister Begin came to office in 1977. Yet, during those years Israel annexed the Golan Heights, extended formal annexation over the city of Jerusalem, and made it unmistakeably clear that it envisions the West Bank and Gaza to be an intregal part of Israel. The Begin government has backed up this vision with "facts." It has built an unprecedented number of settlements on the West Bank and Gaza. The former deputy mayor of Jerusalem, Meron Benevenisti,

concludes that Israel already holds 55 to 60 percent of the land in the West Bank. Earlier this month, Israeli Deputy Agriculture Minister Mikhail Dekel said that in two more years the government hopes to see 100,000 Israelis permanently living in the West Bank. That, he said, would make it "politically impossible for any Israeli government to agree to return the area to Arab rule."

Mr. Chairman, the evidence clearly shows that U.S. aid to Israel has not contributed to any meaningful sense of regional security in the Middle East; indeed, the record shows that Israel's use of U.S. weapons has actually undermined Middle East stability.

The evidence also shows that the enormous amount of aid the U.S. has given Israel over the years has not in any way even slowed — let alone halted — the colonization of the West Bank and Gaza by Israel.

If the United States permits the absorption of the West Bank and Gaza into Israel, it will mark a new phase of the Palestine-Israel conflict. Simply, Israel's actions are foreclosing on the minimum authentic peace option acceptable to the Palestinians and to the Arab states. Israel's annexation of the West Bank and Gaza is turning back the diplomatic clock for a just resolution of the Palestine conflict.

Mr. Chairman, the Reagan Administration and the U.S. Congress have the power and ability to bring peace to the Middle East if, and only if, they can summon the courage and foresight to deal honestly with Palestinian national aspirations — an issue to us in America of political, strategic, as well as moral implications

Mr. Chairman, we urge that this subcommittee understand that the rationale behind U.S. aid to Israel is vacuous and that continued aid to Israel will result only in more violence in the Middle East. We implore that, at a minimum, you cut from the current aid request the amount of money that Israel spends on settlement constructionin the West Bank and Gaza. Such a cut would represent a credible and unambiguous signal that finally the United States is serious about resolving, with justice, the Palestine conflict and bringing peace to the Middle East.

U.S. Dollars to Israel
vs.
Reagan's Domestic Budget Cuts

A clear and unmistakable theme present in President Reagan's domestic policy speeches has been the need to eliminate wasteful public spending. The Reagan Administration launched an unprecedented budget-cutting assault against an array of government-funded programs. The White House promised that there would be no sacred cows: everyone was to share equally the budget-cutting burden. But, as the facts show, "everyone" did not include Israel.

Israel receives from the United States approximately $2.5 billion every year. Nearly half that money is for economic assistance to a country that already has been judged to be an advanced, economically-modern nation. The remainder of the aid goes toward paying for Israel's military arsenal that has become the fourth, if not the second or third, most powerful military establishment in the world.

For fiscal year 1983, on top of the Reagan Administration's proposal to add 21 percent to the previous year's aid allocation for Israel, the U.S. Congress sought an additional $475 million. Israel was budgeted $2.48 billion for 1983, a $300 million increase over 1982. That increase alone could have paid for the $280 million which was cut from the Child Nutrition program. Also, $1.53 billion of the 1983 aid package — over half — was given as an outright grant which never has to be repaid. That grant could have covered the costs of the food stamp program and the mass transit project that the Adminstration cut in 1983.

In the face of drastic budget cuts in U.S. social programs, is it fair to permit the U.S. Government spending for Israel to go unchecked?

A Look Into the Labryinth: U.S. Aid to Israel

Every Israeli citizen in 1984 will receive $1,250 from the United States. That is about half the amount the U.S. Government spent on each of its own citizens in 1982, according to the new Census Bureau statistics. It is a few hundred dollars less than what the U.S. Government gave per capita to the states of Illinois, Indiana, Iowa, Michigan, and Wisconsin.

Savings in Israel are negative — aid finances the investments needed for growth because the Israelis themselves consume more than their income. Moreover, the important export sector is itself heavily dependent upon subsidies which in turn are financed

by aid. This means that Israel is 45 to 50 percent dependent upon overseas assistance — in fact, "foreign aid generates about one-half of Israel's GNP and most, if not all, of its economic growth." 1/

Nearly all that vital aid comes from the United States. Congressional appropriations are only one part of the total comprehensive package. Also included are official but nonaid accounts, private transfers, and subsidies. The largest transfers, apart from direct official funding, are from private sources. Total overseas charitable monies have been running between $950 and $1,050 million for the last several years, of which Israeli authorities estimate 70-plus percent to originate in the United States. One reason for the prominence of U.S. contributions is that any American charity recognized under Israeli law automatically qualifies for tax-deductible status in the United States under the Internal Revenue Code, a privilege generally not accorded other states around the world.

Also part of private transfers is the sale of Israeli Development Bonds and direct investment in Israeli industry or portfolio accounts. When totalled, it comes to at least $1.2 to $1.4 billion per year, of which some $500 million represents tax losses to the United States Treasury because of the tax-deductible status of the charitable contributions. 2/

1/ *U.S. Aid to Israel: The Vital Link*, Thomas R. Stauffer, Middle East Institute.

2/ *Ibid.*

Extra-budgetary support for Israel also comes in the form of trade exemptions. For example, Israel is not held to the "Buy America" restrictions otherwise applicable to most Department of Defense purchases. Israel also is exempt from import duties even where it competes directly against domestic sellers. Indeed, over 95 percent of Israeli exports to the United States are exempt from normal tariffs. Washington has classified Israel as a "developing country," thereby permitting it to enjoy free but nonreciprocal entry to the U.S. market, selling approximately $1 billion per year. That makes the United States Israel's number one export recipient.

Israel will be permanently dependent on U.S. funds "because Israel's domestic resources or earned income are insufficient to support its preferred levels of consumption." 3/ That fact raises two questions. First, to what extent should the U.S. economy be obliged to underwrite and sustain Israel's high standard of living? Second, why has Washington refused to use this enormous lever over Israel to end Israeli occupation of the West Bank and Gaza? Until Washington answers those questions by cutting aid to Israel, or at least closing some of the tax loopholes, it will have signaled that the United States is not serious about resolving peacefully the Palestine conflict.

3/ *Ibid.*

Want to Buy a House at Two Percent Interest?

A new car loan or a conventional house mortgage from the American Security Bank in Washington, D.C., the Continental Illinois Bank in Chicago, or the Maryland National Bank in Baltimore, costs the typical buyer 17 percent interest. A personal loan from those banks would cost from 19 to 21½ percent.

But what interest rates does Washington charge Israel on its enormous economic loans? Two to three percent! The interest on foreign military sales loans, however, has been about eight percent. In 1980, it inched up to 11 percent.

Are these low-interest rates fair to the average American home-buyer? Could not the U.S. Treasury generate income if U.S. interest rates on aid to Israel were brought up to normal levels?

It is an issue of paramount importance that the White House or Congress should equalize the burden of high interest rates among Israeli and American consumers.

More U.S. Aid to Israel Than to Any Other Country — Twice the Amount Given to All of Africa

The United States has given more money to Israel than to any other country in the world. U.S. aid to Israel from 1948 to 1982 totals $22.6 billion. That is twice the amount the U.S. has given the entire continent of Africa and 25 percent more than all U.S. aid to Latin America. The yearly $2.6 billion the U.S. now gives Israel amounts to about one-fourth of the total global disbursements of U.S. aid.

American aid to Israel stands in sharp contrast to the dwindling amount of aid the U.S. gives worldwide. U.S. economic aid worldwide fell from $7.1 billion to $5.8 billion in 1981; but, for Israel, U.S. nonmilitary assistance over the past five years has been maintained at a steady $782 million a year.

Double Standard Toward the Developing World

The amount of U.S. aid to Israel is grossly unfair to the poverty-struck developing world. Indeed, with Israel's modern economy and high standard of living, it is difficult to understand why it receives economic aid at all. The U.S. State Department estimates that Israel's per capita GNP in 1979 was $4,150; it has an 87 percent literacy rate; and has an excellent health care system, with one of the highest physician-to-patient ratios in the world. Life expectancy is 72 years, and the infant mortality rate is 1.8 percent. Nonetheless, Israel gets more American aid, and at better terms, than do most underdeveloped countries. Take, for example, some states in Africa.

The population of Africa is about 413 million. Most live in egregious poverty. A deadly drought has parched most of central and east Africa, killing hundreds of thousands of Africans. Yet, between 1978 and 1981, the U.S. gave to Africa only $2.9 billion in economic assistance. In those same years, the U.S. gave Israel $3.1 billion in nonmilitary aid. In per capita terms, that translates into about $2 per African per year against about $200 per Israeli per year.

These aid inequalities become even more incomprehensible when we look at cases of specific countries. For example, Chad is one of the poorest countries in the world, with a per capita GNP of only $129 per year. The recent drought has devastated the country, killing thousands of people, and resulted in a negative growth rate. The U.S. State Department estimated that 87 percent of the country lives at the subsistence level. Yet the U.S. gave Chad no economic assistance in 1981.

Eighty-five percent of Sudan's 4.5 million population lives in poverty, and the 1979 per capita income was $370. The U.S. gave the Sudan $109 million in 1981.

Brunndi is one of the most densely-populated countries in Africa, with 55 percent of the urban population and 85 percent of the rural population living below the poverty line. Its per capita GNP is $180. It received $6 million in U.S. aid in 1981.

The story is the same no matter where we look. In Latin America, U.S. aid, from 1978 to 1981, totalled $1.8 billion. That is an average of about $1.40 per person. In East Asia, U.S. aid totalled about $2 billion; that amounts to less than one dollar per person.

Do Africans, Asians, and Latin Americans, in the eyes of the U.S. Government, count as human beings in desperate need of assistance? If so, then why so much aid to Israel? The money Israel receives will help to subsidize consumer purchases of color televisions, new cars, household appliances, and the construction of illegal settlements on the West Bank and Gaza. But, for the

people in Africa or Asia, the money could mean the difference between life and death.

Conclusion

In conclusion, Mr. Chairman, we ask "Why?" Why is Israel entitled to such a disproportionate share of U.S. foreign aid? Why do we continue to provide economic and military assistance to Israel when Israel flagrantly disregards — some, Mr. Chairman, would say contemptuously disregards — our government's policies in the Middle East? Why do we provide such assistance to a country which is, in fact, leading to a great deterioration of our own national interests in the Middle East? Why is it that in times of massive cutbacks in our domestic budget does the U.S. contine to send huge amounts of economic and military aid to Israel?

Our analysis is basic and direct. There is only one way in which the United States can exert meaningful pressure on Israel. That is by curtailing all direct and indirect economic and military aid to Israel.

We urge you to examine your individual and collective consciences and to initiate a fundamental reassessment of the support our government gives to Israel. We ask this in the name of justice. We ask this in the name of humanity. We ask this in furtherance of peace and security in the Middle East.

Thank you.

Mr. HAMILTON. Thank you, Mr. George.

We thank each of our witnesses for your statements.

Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

I don't have any questions. I would like to thank each of the witnesses for their prepared remarks which are very helpful to all the members of the subcommittee.

Thank you very much.

Mr. HAMILTON. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Let me thank all of the members of the panel. They were very succinct on a very difficult subject for everyone—not only from the dollar amount, but the rational sense and the emotional sense that we all share concerns about human life. There is nobody on this panel that I think disagrees with one another in basic human terms.

I have some difficulty, however, when it comes to detailing and conducting some of the things that have been read. I am curious. For instance, Mr. Basil, you have asked for a certain amount of money in Lebanon. I would strongly support American aid in Lebanon to help bolster hopefully new, strong, viable government, democratic society in Lebanon, that everybody always looked to as a Switzerland of the Middle East.

Maybe you can tell me, however, this increased aid that is being requested, in regards to other aid, what type of dollars are right now flowing into Lebanon from other Arab countries which may or may not have been promised briefly, and what type of funds in fact have been cut off by some of the other Arab countries that were briefly flowing?

Mr. BASIL. Well, sir, actually the record of Arab funding actually delivered to Lebanon versus promises has been rather a poor one.

Back in 1979 the Arab League decided to give $2 billion, I think translated to this year's dollars about $3.5 billion, to Lebanon as a result of the massive destruction that had occurred, and recognizing the fact that much of the destruction had occurred as a result of the funding by the Arab League of the Arab peacekeeping force of the Syrian Army, which ended up embarrassing the Arab League and wreaking a tremendous amount of destruction in the country.

But of that $2 billion, very little has actually come to Lebanon.

Mr. SMITH. Isn't that one of the reasons why in fact the United States is being looked to now by Lebanon for a large increase over and above what the administration has proposed in order to do what has been frankly previously promised by other countries and not delivered? Isn't it a fact U.S. aid would be able to be reduced if other countries were picking up some share of this cost to Lebanon.

Mr. BASIL. I would say there are two reasons why the Lebanese Government wants a major increase in U.S. aid. No. 1, they have very little faith presently based upon past actions that very little aid would be forthcoming from other countries, and that includes the Arab world at this time. And No. 2, the President of Lebanon has made the United States-Lebanon relationship fundamental to Lebanon's survival; which means that Lebanon should be a major implementer of U.S. policy in the region.

That cannot be done as long as the present position by the Arab world links or demands political compliance by the Lebanese Government to Arab world objectives that conflict with objectives of the United States. So however, this aid would be very important from the Arab world provided it could be delinked. But nobody has seen a way by which to achieve this. At least to this point, the United States and Lebanon have both been unsuccessful in trying to get reconstruction aid from the Arab world delinked from Arab world demands toward their political objectives in Lebanon.

Mr. SMITH. Thank you.

Mr. Sadd, that answer is one of the problems that is bothering me. Everyone on the panel talked in humanitarian terms. The destruction, the violence—Ms. Neely's references and rightfully so to family problems, family, and children. And yet when we talk about moneys coming from other places, there is this linkage to political overtures which is counterproductive in terms of the dollars being used to help a country get back on its feet and make family life better for individuals, and have children reunited with their families and lead decent lives.

I am curious as to how you can justify the message you were giving us in light of that.

Mr. SADD. Well, let me say first of all that Lebanon is an Arab country, and Lebanon is not a social welfare country. It has never depended on our aid, or the aid of anyone else to exist. Rather, it has depended on the healthy entrepreneurial abilities of the Lebanese people in interplay, in trade, throughout the world, and throughout Europe and the rest of the world.

The real boost to Lebanon's longrun economy will be its ability to continue the tradition it has had over many centuries to be a key link in trade in and among the Arab countries and between the Arab countries and the West.

I would point out that the Lebanese pound remains strong. Transfers of simply commercial deposits to banks in Lebanon or repatriation of moneys earned in the Arab world by Lebanese working throughout the Arab world are probably a much larger component than American aid will ever be of a healthy Lebanon.

The last thing I would want to point out is that everyone needs a Lebanon that is stable and a central government that is able to control all of Lebanese territory for Lebanon. I think that if our aid can help achieve that, certainly Lebanon will be able to reassume its position as a center of economics, and trade in the Arab world and other direct aid, if necessary, would follow.

I would hope that Lebanon is going to again become the business and commercial center it has been.

Mr. SMITH. I am glad you said that, because I would also ask you if you felt the same way about Israel. Doesn't Israel have the right to have a secure, safe area? Your statement talked about bemoaning aid to Israel. Yet it did not touch on all of the various—don't forget Israel, when it looks for aid, mainly it looks to the United States. It does not get any Soviet aid. Hasn't asked for any and would not get any, I assume.

What about the Soviet aid to Syria, to Iraq, to Iran, to Yemen, to Libya, to all of those countries and to the PLO—certainly at least

18-551 O—84——22

the elements within the PLO that have been engaged over the years in the fighting, in the military aspect.

What about all that aid that is counterbalancing to what the United States provides to Israel. No one touched on that. I am rather curious as to how you view being able to support Israel's right to exist and Israel's right to have its territory remain sovereign, have a strong society, in light of what is happening in the rest of the Arab world with Soviet aid.

And let's use as a new example the rearming in Syria of the SAM missiles and the Russian advisers, as an example.

Mr. SADD. I would like to point out first that I edited out a paragraph of my statement; I was trying to get it down to 5 minutes. It reads: "The fundamental objective and purpose of our organization this year is to work toward a negotiated Middle East peace—a peace which provides the opportunity for all people in the region to live in safety and security."

I believe that is what all the people of the region want. Certainly the Arab people want that. They want an ability for all the peoples including Israel, including the Palestinians, to live in safety and security.

With regard to the aid that goes to Syria, I believe there is a cause and effect. Most of the aid to the Middle East is military aid. I believe we have gotten ourselves into a vicious circle where each new increase in military aid to Israel or more sophisticated weaponry to Israel has brought a round of new weaponry and new technology to Syria.

I think the installation of the new SAM missiles are the best recent example. The older versions were knocked out by the Israelis, so the Soviets turn around and install a higher grade weapons system.

I am afraid this is the cause and effect that leads us to a spiral in military aid to both sides. It is my fond hope that we can use our aid programs to push all the participants to a negotiated peace wherein Israel will be safe and secure within its borders and the Palestinian people will have a homeland and country of their own. It is my belief that both of these very talented peoples can prosper and participate in the general prosperity of the Middle East and that the achievement of this goal be in part a product of our aid policy.

Mr. SMITH. Doesn't in fact that Soviet missile system, the contentions being left aside as to why it is there, threaten not only Israel but all of the major Arab States in that area? Every witness that has appeared before this subcommittee over the last 2 months or so has indicated specifically that Jordan is threatened and Lebanon is threatened and a number of other Arab nations themselves are in severe threat, as well as the United States might add, its aircraft carriers and its aircraft taking off from those carriers in the near Mediterranean.

So don't we have a situation where the United States in and of itself on best interests needs to continue to make sure that its interest, which coincides with peace and self-determination for a lot of countries, is protected in the Middle East.

Mr. SADD. I think we do. The question is how do you go about obtaining our own best interests. I don't think our own best inter-

ests are obtained by a spiral of increasing military aid to every country in the region. Every country is going to have some defense capability. And by every definition, defense capability can also be an offensive capability.

But every country, hopefully, does not go around irresponsibly using that against its neighbors. Our best hope for protection of our own 6th Fleet lies in countries in the Middle East living in peace without the need for this massive, sophisticated weaponry buildup. And that includes Israel, Syria, and all the rest. In June 1967, Israeli forces attacked an American naval ship, the U.S.S. *Liberty*, killing 34 servicemen and wounding 171 others.

Mr. SMITH. Thank you very much.

Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Zschau.

Mr. ZSCHAU. Thank you, Mr. Chairman.

I too would like to thank all of the witnesses, not only for the oral statement that you gave today, which was so helpful to me, but also the prepared statements. It will take a little bit of time to read them. But I intend to do so.

I just have one question of Mr. Dine. It is really a point of clarification.

You say in your written statement that from the point of view of Israel's legitimate requirements, appropriation of the full amount is essential to maintaining a stable military balance. By the full amount, are you referring to the administration's proposed $2.4-plus billion that has been recommended to this committee?

Mr. DINE. I am in favor of the full amount that this subcommittee, and then the full committee, in its wisdom deems necessary to advance the interests of the United States. Last year there was a debate between both Houses over this very question; full amount.

The argumentation I would make would be that Israel needs as much as it can possibly receive from the United States, and hopefully that will be at least what the administration has proposed, and perhaps in the wisdom of both Houses, more.

Mr. ZSCHAU. But in answer to my question, do you feel, based on your judgment of what the requirements are for Israel, that the administration's proposal would be satisfactory?

Mr. DINE. Well, if you break it down, Congressman, in the foreign military sales portion an extra $300 million was asked for by the administration last year, because of its sale of the AWACS F-15 enhancements package to Saudi Arabia.

Rather than a market rate loan suggested by the administration last year and again this year, the Congress last year appropriated $200 million of that $300 million as a grant. I would hope very much, since Israel did not ask for that arms sale to Saudi Arabia, didn't ask to offset it, that the Congress would try to be reasonable and try to see whether or not the United States would bear more of the economic burden.

Mr. ZSCHAU. But in your opinion, given the requirements that you see and are aware of, do you feel that the administration's proposal this year would be satisfactory?

Mr. DINE. No, I don't. I go back to what I just said. It was the United States that imposed this extra weapons system package to Saudi Arabia and put the added military burden on Israel. Most

people agree it was a new threat to Israel, in some form, and that it was necessary for us to help to carry that burden.

Now, for instance, Israel owes the United States a lot of money. Another substantial loan, in this case $300 million at market rate, places a further debt burden on a country which already has a large outstanding foreign debt which continues to grow, as you know.

A January 1983 GAO report stated:

> Unrealistic use of loans to support foreign military sales could encounter debt servicing problems when it also begins to pay large principal payments after the expiration of its grace periods.

Thus if you increase Israel's indebtedness, you only exacerbate Israel's debt servicing problem.

Mr. ZSCHAU. So when you talk about, from the point of view of Israel's legitimate requirements, appropriation of the full amount is essential to maintain a stable military balance, you are not referring, when you say the full amount, to the administration's proposal.

You are referring to some other——

Mr. DINE. Yes, I am; that is correct. Also you have to remember that in the seventies it was the pattern of the Congress and the administration to divide the foreign military sales account evenly, half loans, and half grants or in this case forgiveness. I would hope very much that that formula would be returned to.

Mr. ZSCHAU. In the same sense, I left out some words which you said, "This full amount represents a decline of 65 percent in net aid after inflation." What is that number that you had in mind that represents the 65 percent decline in net aid after inflation?

Mr. DINE. In fiscal year 1984, if you deduct debt service and adjust aid to the inflation rate, starting in 1976, the net aid would amount to $661 million out of a total of $2.485 million.

Mr. ZSCHAU. So the $2.485 is this full amount?

Mr. DINE. It is the gross figure, that is correct. And that is the figure requested by the administration.

Mr. ZSCHAU. But didn't you just tell me that was not satisfactory?

Mr. DINE. That is correct. So I am saying to you in real terms starting in 1976 that is a decrease in aid, in that perspective. In terms of gross amount today, or in the fiscal year 1984, I would hope very much that this committee and then the full House and the full Congress would appropriate at least full amount if not more in terms of real aid.

Mr. ZSCHAU. Do you think that the full amount would be satisfactory if that was all that was appropriated?

Mr. DINE. There is no doubt in my mind that any amount would be well received. What I am saying is I am trying to put it into a broader perspective, namely what is in the interests of the United States.

The interests of the United States in this moral, strategic relationship with Israel is to provide Israel enough to take care of itself, to further American goals in the region. To do so is to provide the funds, because of the economic conditions, because of the

Arab aggregate around it, which still doesn't exactly wish Israel well; to make sure that Israel is prepared.

Mr. ZSCHAU. The reason I am asking these questions is not to be a pest; but we have had proposals that the administration—or suggestions that the administration requests are not satisfactory and should be increased by some amount. And I was trying to get your guidance on whether you think that is necessary or whether it is desirable but not really necessary.

Mr. DINE. I understand. Last year the Senate Foreign Relations Committee and the full Senate agreed to extra moneys beyond the administration request. It split the Foreign Military Sales Act 50 percent forgiven, 50 percent loan. It also added money in the economic support fund to match the indebtedness that was being repaid by Israel, $910 million.

I would hope very much that you would consider those figures for this year.

Mr. ZSCHAU. Thank you.

Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Levine.

Mr. LEVINE. Thank you, Mr. Chairman.

I think, Mr. Dine, that you, in response to Mr. Zschau's final question, got to a point I was seeking as well. Let me try and spend a moment or two further on this specific issue.

In the first panel, Mr. Halaby testified with regard to the American schools and hospitals assistance program, that the amount that was requested by the administration was an amount that both the administration and the recipients of the funds themselves expected the Congress to supplement.

As I understood the testimony of Mr. Halaby, it was a clear understanding that when the administration offered a particular figure, came down to this committee with this figure, they expected us to increase that figure.

I am not sure that is necessarily the most constructive way of fashioning an aid process. But it led me to believe this was certainly likely to be the case in other specific items within the administration's aid request as well.

Now, when I heard Mr. Basil testify with regard to proposals pertaining to Lebanon, as I understood his testimony, he was seeking a 400-percent increase from this committee over what the administration has suggested. And he made some very persuasive arguments in support of some significant increase.

I guess what Mr. Zschau was interested in and what I am interested in also is how much of an increase do you think this committee should provide. What are the expectancies? What is necessary? What is desirable? What is appropriate? And what numbers would you be suggesting to us that we should be considering with regard to our response on the Israel aspect of the aid program?

Mr. DINE. Congressman Levine, I appreciate the question. It really gets to the struggle in setting the direction of American foreign policy between both branches of government.

I know certain Members of Congress in both Houses who have pleaded with the administration to go ahead and provide at least the amount that the Congress voted for last year in the continuing resolution. Others thought it should be even higher.

Whether or not the burden was placed on your shoulders consciously I won't say. I will go back to what I just used as a baseline in terms of aid levels, the Senate Foreign Relations Committee mark last year, and what the Senate Appropriations Committee agreed to, and what they took to the Continuing Resolution Appropriations Conference in December.

Although the House level became the continuing resolution level, I think it is appropriate that we try again to match what the Senate Foreign Relations Committee and the Senate Appropriations Committee thought was in our best interests.

Mr. LEVINE. Thank you.

The testimony that others on this panel offered provoked in my mind dozens of questions. But in light of the fact that we have so many people and we are trying to adhere to some time limitations, I will limit them to just two questions at this time; but indicate publicly that I would be interested in exploring a number of the issues raised at a later date.

The first question that I have is for Mr. George and anybody else who would be interested in responding to it, and that is whether in your opinion, sir, do you believe that the Arab nations have any responsibility for helping to settle Palestinian refugees in the Arab world?

Mr. GEORGE. Yes, I do. But I think that the Arab States and I think that the individual Palestinians have made it abundantly clear where they seek to be resettled, and that is in Palestine, that they want to go home. And I think the Arab States have been more than willing to help in the assistance of the relocation of the Palestinian refugees in their homes.

Mr. LEVINE. This is a point I don't wish to belabor at great length at this time because of the time restrictions. But I would simply suggest that it might be appropriate, when we are talking about humanitarian concerns, humanitarian rights, and basic human needs, to elevate the terribly callous and cruel manner in which the Arab nations have allowed the Palestinian people to be used as pawns in a greater political war over the course of the entire generation that the Arabs have been so resistant to providing the Palestinian people with basic assistance in terms of resettlement and in terms of human assistance.

Ms. NEELY. May I respond?

Mr. LEVINE. Yes. Let me ask you a question, and in response to my question to you, you can respond to my first question as well.

Preliminarily, in asking you the question, let me indicate that in three terms in the California Legislature, I believe my voting record was very close to a 100-percent voting record year after year with regard to that series of issues that the Friends Committee on Legislation used as a litmus test or a basis for analysis of people's voting records.

Ms. NEELY. I have been told you always did your homework.

Mr. LEVINE. I tried. And I respect very much where the Friends were coming from, and I think you always brought to the issues that you testify about and lobby for a thoughtful understanding of the background of the issues.

I was moved by the premises that you outlined with regard to your statements. In terms of trying to analyze the general context

of your position on these issues, Middle East related issues, I would appreciate it if you would let me know the historical positions in terms of stated positions, who in terms of testimony or position papers or anything else, that the Friends have provided with regard to the history of the killing of Israeli children from bases on the Golan Heights, southern Lebanon and other staging areas that have been used by the PLO.

Ms. NEELY. Well, we are opposed as you could imagine to murder; whoever does it.

Mr. LEVINE. Have you testified to that effect? Have you come to the Congress and made that position clear in terms of American foreign policy in the Middle East?

Ms. NEELY. What we have tried to make clear is that we believe all of the Middle East should be a demilitarized zone.

Mr. LEVINE. Have you testified with regard to the murder of Israeli children in the manner you have testified today?

Ms. NEELY. Normally the only place where one has a possibility of testifying is on the foreign aid proposals. In the past we have testified in support of U.S. contributions to the voluntary programs of the United Nations, and we have testified on the Middle East to the extent that we have opposed all military aid to any country in the Middle East.

What we have tried so hard to do before this committee is to remind all of us of what our responsibility is as Americans. So our testimony has tried to focus on that aspect.

Mr. LEVINE. Thank you. And if you want to deal with the first question, feel free to do that as well.

Ms. NEELY. I wanted to speak to it to the extent of saying that certainly we do feel the Arab countries could do more with regard to refugees. But I don't think that eliminates our responsibility as Americans. And I do think that when you are discussing how much to give Israel, it is pertinent to look at such things as the fact that in Israel they worry about a 5 percent unemployment rate.

You people have to grapple with the U.S. unemployment rate that is more than twice as high. Is that not a legitimate issue to consider when you are deciding on the disposition of U.S. funds? And if the Israelis can afford to pay for the war in Lebanon as they say they can, why should we continue to subsidize their ongoing military effort?

It does seem to me these are questions you must ask yourselves; instead of just how much more does Israel need?

Mr. LEVINE. Thank you.

Mr. HAMILTON. Mr. Dymally.

Mr. DYMALLY. Thank you, Mr. Chairman.

Mr. Bloomfield and Mr. Dine, I had the occasion to read your letter to Chairman Hamilton just before coming to the hearing, and a cursory reexamination of your statement to the committee you have just completed. And in view of your statement in the letter and to the committee, don't you think it would be in Israel's best interests from an economic point of view—and I emphasize that—to withdraw from Lebanon?

Mr. DINE. Mr. Congressman, any time you use your military either internally or externally, that places a heavy burden on the society. So from an economic point of view, when we have troops in

Germany or elsewhere in Europe, certainly in Japan and South Korea, that places a burden on us, and it is part of the defense budget on which you will vote. Of course the answer to your question is yes. But no nation can afford to sacrifice its security because of economic consideration.

Mr. DYMALLY. Thank you, Mr. Chairman.

Mr. HAMILTON. Are there any other questions? Mr. Smith?

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Dine, there is talk that the Senate, possibly the House, may be trying to go to where the Senate was last year, in terms of the aid package, which would be approximately the same amount in military assistance only a change in the formula between grants and loans and a little bit of an increase in the ESF.

You have said here today that you would certainly take it as a welcome sign to have the largest amount possible, and that does represent an increase. How could you justify those kinds of increases? One is an increase of a small amount, the other a recalculation of existing dollars appropriated last year.

Mr. DINE. There are some who have recommended that the ESF Act match Israel's debt service to the United States in fiscal year 1984, which is $1.15 billion. I certainly am not talking about that number. So there are higher numbers.

As I have mentioned before, I would think that the Foreign Military Sales Act, because it is based on offsetting the AWACS/F-15 enhancement sale of 1981 to Saudi Arabia, should be forgiven rather than provide Israel the $300 million at market loan levels. Israel is going to go ahead and purchase 11 F-15 fighter planes within the $300 million from last year and the $300 million that has been proposed and suggested this year.

But in purchasing the additional aircraft, because it is based on offsetting that previous sale to Saudi Arabia, I don't think it is unreasonable that the United States share more of the economic burden of that policy decision. Israel must alone bear the military burden.

Second, along the same lines as I mentioned before, if you provide Israel more moneys at market rate levels for advanced weaponry, you are only going to exacerbate the debt servicing problem that Israel faces from government to government.

Third, the reason perhaps for all of you to consider a $300 million forgiveness rate is that it would return Israel to the 50-50 formula that was provided in the seventies; that is, 50 percent at market rates in the Foreign Military Sales Act and 50 percent grants.

Finally, as the Western European countries, the Soviet Union and the United States provide arms in various ways to Israel's enemies, that is only going to make Israel more conscious of the aggregate of Arab nations that surround it. To look at the figures, if you would in the prepared testimony that I provided—I think it is on page 13—you will see a chart showing the Arab arms acquisition in aggregate.

Mr. SMITH. Am I correct in saying that—I think you may have mentioned it—for the last 6 years Israel has not received any increase in its ESF?

Mr. DINE. In the economic support fund it has remained at a $785 million level.

Mr. SMITH. I believe I am also correct, because I asked a number of the State Department people in question—the money that Israel gets in ESF funds are in fact committed even to a larger degree than the amount of funds to purchase economic goods in the United States.

Mr. DINE. Do you believe that amount is spent in the United States?

Mr. SMITH. The reality is that the cash never goes to Israel. It is transferred and spent here in the United States.

Mr. DINE. That is correct.

Mr. SMITH. So it all stays in the United States.

Mr. DINE. That is correct.

Mr. SMITH. And the military assistance at the 850—850 level—is no additional dollars to Israel, and it is all in U.S. military assistance, so there is nothing flowing to Israel out of the United States——

Mr. DINE. Every bit of it is spent in the United States.

Mr. SMITH. So what the Senate attempted to do last year in some degree recognized some of the latent problems in the Israeli economy and some of the responsive dollars necessary in order to have an offset for some of the programs that were briefly set in motion by the administration.

Mr. DINE. That is correct.

Mr. SMITH. Thank you. Thank you, Mr. Chairman.

Mr. HAMILTON. Are there any other questions from members of the panel?

Mr. SADD. Mr. Chairman, if I may—Mr. Smith said he understood that the AID money goes into exports. That is an inaccurate understanding. Our economic support fund moneys to Israel, unlike those provided other countries, which are billeted for sewer systems, hospitals, whatever the case may be, and which have Americans stationed over there to insure we know where the money is spent, are labeled debt service. That means the money goes to Israel to pay off its debt service, principally to the United States. There are no Americans over there overseeing the expenditure of those moneys.

It is really inaccurate to say the money goes to Israel and is used in buying products from us. If you look at the AID congressional presentation document, debt service is the only described use of the economic support fund moneys we give Israel.

Mr. SMITH. I am correct in saying that no money ever winds up in Israel. The money that the United States appropriates stays in the United States. There are those who have been talking about suitcases full of money rushing over to Israel to pay for things, when in fact that is really not so. The reality is the money never really leaves the United States. It is more or less a paper transaction.

Mr. SADD. It comes out of our bond markets. We have a deficit. To reduce the deficit, it goes in the bond market; it goes over to Israel, and they give it back to pay off the loans we give them.

STATEMENT OF DOUGLAS A. BLOOMFIELD, LEGISLATIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

Mr. BLOOMFIELD. Mr. Chairman, I believe the funds we are talking about do not leave the United States, but instead are spent

here. At one time both the United States and Israel had set up a vast bureaucracy here to document that all the ESF funds were spent in the United States.

Both Governments found that Israel was spending more than double that amount in the United States, and as a result wasting millions of dollars in documenting what they already knew; and thus by mutual agreement have decided to end that bureaucracy and continue to use the present system of a cash transfer program.

But the money does not leave the United States.

Mr. SMITH. Thank you.

Mr. HAMILTON. Any other questions?

We thank the members of the panel.

We will call next Eugene Rossides, special counsel to the American Hellenic Institute Public Affairs Committee; Peter S. Kouchalakos, national president, Order of AHEPA; and Paul B. Henze.

Gentlemen, we are happy to have you with us today. We will ask you to keep your eye on the lights.

Mr. Kouchalakos, the national president of the Order of AHEPA. You may proceed.

STATEMENT OF PETER S. KOUCHALAKOS, SUPREME PRESIDENT, AMERICAN HELLENIC EDUCATIONAL PROGRESSIVE ASSOCIATION (AHEPA)

Mr. KOUCHALAKOS. Thank you.

Mr. Chairman and members of the subcommittee, thank you for the opportunity of presenting my views on behalf of the 50,000 Americans of Hellenic heritage who are members of the AHEPA—American Hellenic Educational Progressive Association.

There are two points I want to make concerning our policy in the Eastern Mediterranean and the administration's proposals concerning U.S. military, economic, and humanitarian aid to Turkey, Greece, and Cyprus.

The United States has no coherent policy in the region. There are two causes of instability in the Eastern Mediterranean: (A) Greek-Turkish conflict over the Aegean Sea and (B) the continued Turkish occupation of northern Cyprus. For several years the State Department has told the American people that these problems are best solved by intercommunal negotiations on Cyprus and by direct dialog between Greece and Turkey. While this has the ring of reason, balance, and noninterference, in reality it is untenable.

We cannot simply hide under the guise of noninvolvement. All three countries receive U.S. aid and have bases that support the defense of the West. American interest is reflected in the fact that the administration is proposing a total aid package to Turkey and Greece, including fiscal year 1983 supplemental requests, of $1.338 billion. How, then, can we claim that the very serious problems between them are of no concern to the United States?

AEGEAN SEA

In the last few months, there have been frequent incursions of Greek air space by planes of the Turkish air force, planes that have been given to Turkey through our FMS and MAP programs. I believe the United States must take a leadership role in stopping

those incursions and pressing for a resolution of the conflict between the two countries.

That Greece has a right to deal with the Turkish threat is a view held by many, including the late Congressman Benjamin Rosenthal, who said after his trip to Greece last year:

> Mr. Papandreou explained to me his unhappiness with NATO. It is the view of the Greek military people, including the previous government, including the previous defense minister, the present defense minister, that there is a more likely threat from their eastern border than from their northern border. It is perfectly appropriate for any nation to assess its own military needs and where that nation perceives a threat coming from.

In November I met with Greek Prime Minister Andreas Papandreou and urged him—as an American citizen and a person of Hellenic descent—to keep the American bases in Greece. I believe the Prime Minister is a reasonable man, and from our conversation my impression was that in the interests of United States-Greek relations, the last thing he wants to do is close the American bases.

But, he takes the Turkish threat seriously. If Papandreou continues to feel that the security of Greece is imperiled and that the United States is unwilling to recognize its responsibility in helping find a solution, I think that closing the bases is an option he might exercise. American leadership in the area is needed.

CYPRUS

We continue to see no progress toward solving the Cyprus problem. The Turkish Cypriots have still not permitted resettlement of the ghost town of Famagusta. Further, no progress has even been noted on such simple, humanitarian issues such as accounting for the 2,100 persons, including at least 8 Americans, who have been missing since the 1974 Turkish invasion. There will not be any peace in the area until the Turkish troops are withdrawn and the Cypriots are left to solve their own problems.

Our nonintervention is fueling an arms race in the area that could prove disastrous. We are fueling a rapid arms buildup in the area, and cannot view our aid to Greece and Turkey in isolation from the current tensions between them. American aid to Greece and Turkey has increased from $263.8 million in 1974 to $1.2157 billion proposed for fiscal year 1984, an increase of 460 percent.

Further evidence of this arms race can be found in the fact that the military expenditures of the two countries have increased from a combined total of $1.852 billion in 1973, to $4.905 billion in 1981—a 265 percent increase. This money is not only being spent as part of the Western defense against the Eastern Bloc, but it is being spent on the Turkish occupation troops on northern Cyprus, on Turkey's Aegean Army, and on Greek troops along the Turkish border. This is what our nonintervention is creating.

This arms buildup is encouraged by our refusal to help negotiate a guarantee of Greece's border against Turkish attacks. The Western alliance is based on the notion of a common defense, and although I understand that a conflict between two allies pose special problems for our diplomacy in the area, we have a responsibility to face the problem of Greece's security squarely. It is a responsibility we cannot shirk.

A poignant example of ill-advised diplomacy was evidenced by President Reagan's recent letter to Greek Prime Minister Papandreou. The President stated in his letter that the United States, in the context of a new agreement, would "seek increased levels of security assistance for Greece above the level of the current program."

In other words, the United States will grant Greece a level of military assistance on a par with Turkey only if there is a resolution of the current negotiations over the U.S. bases. This policy does not provide for stability in the area, but only increases Greek feelings of insecurity.

I believe the United States must: (1) Take immediate, positive action toward the Turkish withdrawal of troops from Cyprus, and for a permanent resolution of that conflict. (2) Make an immediate affirmation of Greece's territorial integrity, and inform both Greece and Turkey that the use of force to settle conflicts by either country would severely and permanently alter our relationship with them. (3) Maintain aid to Turkey, Greece, and Cyprus at current levels until stability reigns in the area.

It is the responsibility of the Defense Department to ascertain our military requirements, including assistance needed by allies who contribute to the common defense. But military needs must always be considered in a political context. Providing an ally with guns and tanks is not a policy. Turkey may need more airplanes or artillery, but this does not outweigh its need to resolve its difficulties with Cyprus and Greece.

Stability in the area will not come by increasing military aid to either Greece or Turkey. More aid will only exacerbate tension and encourage military adventurism. Stability can, however, be achieved through American leadership and initiative. If we continue to ignore the broader needs of all three countries to live in peace and within secure borders, the consequences of our nonintervention will only be increased problems in the future.

Mr. Chairman and members of the subcommittee, I thank you again for providing me with this opportunity to testify.

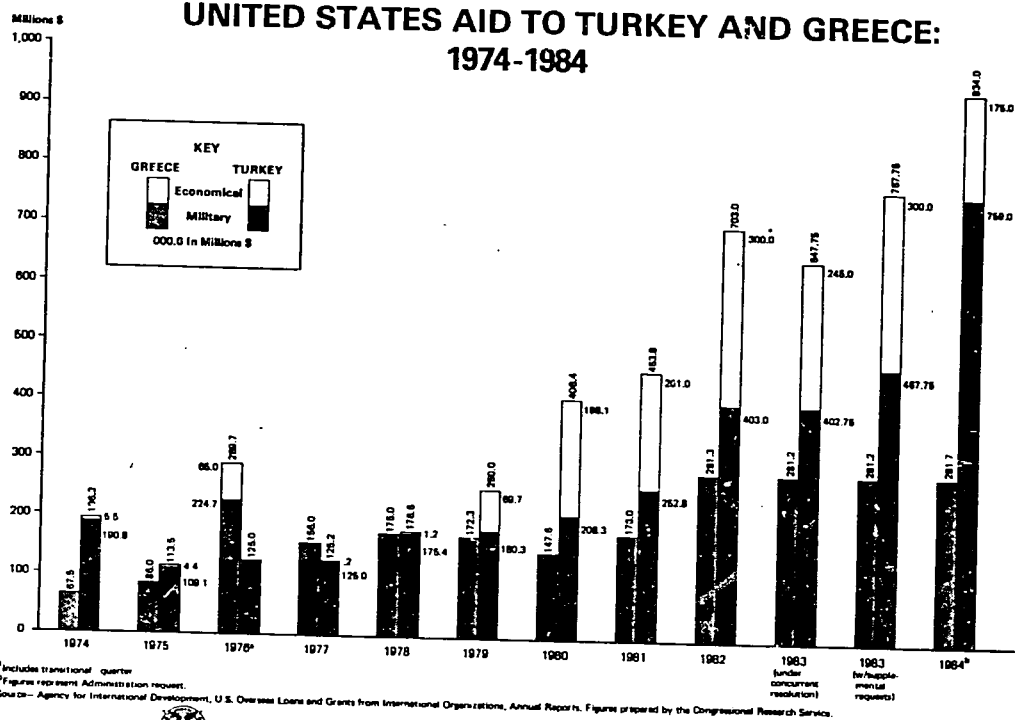
Thank you.

Mr. HAMILTON. We thank you for your statement.

[The appendixes to the statement of Mr. Kouchalakos follow:]

Appendix One

UNITED STATES AID TO TURKEY AND GREECE: 1974-1984

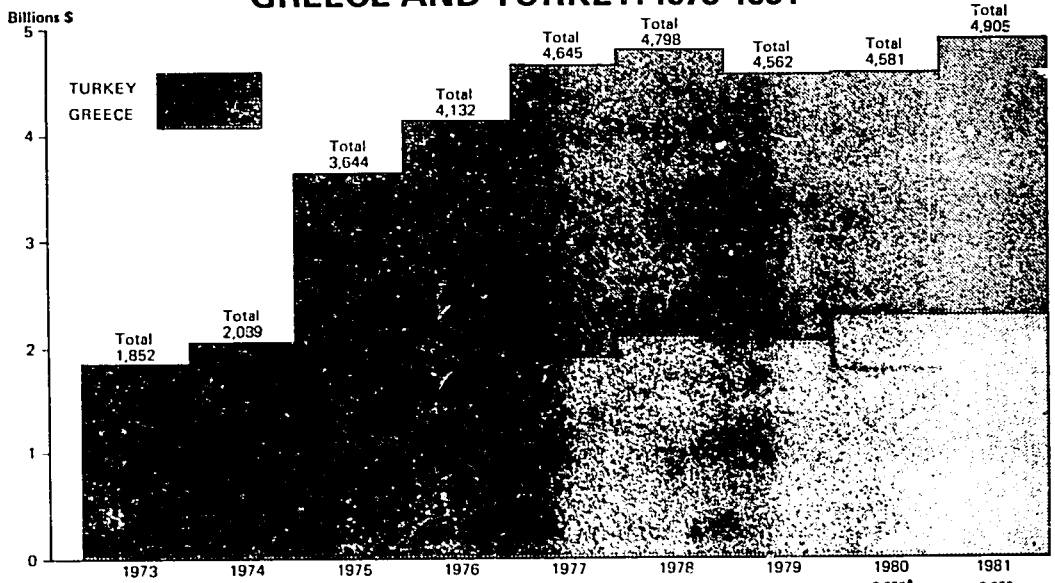


[a] Includes transitional quarter
[b] Figures represent Administration request.
Source— Agency for International Development, U.S. Overseas Loans and Grants from International Organizations, Annual Reports. Figures prepared by the Congressional Research Service.

Prepared by the Order of AHEPA.

Appendix Two

COMBINED MILITARY EXPENDITURES GREECE AND TURKEY: 1973-1981



	1973	1974	1975	1976	1977	1978	1979	1980	1981
Greece	760	830	1,469	1,480	1,890	2,071	2,057	2,275[a]	2,273
Turkey	1,092	1,209	2,175	2,652	2,755	2,727	2,511	2,306	2,632

Sources: For 1973 to 1979 figures see *World Military Expenditures and Arms Transfers 1970-1979*, U.S. Arms Control and Disarmament Agency, released, March, 1982. For 1980 and 1981 figures see *The Military Balance 1982 1983*, The International Institute for Strategic Studies, London, England, 1982.

[a]Defense expenditures are based on the NATO definition. Figures from 1981 are provisional only.

Prepared by the Order of AHEPA

Mr. HAMILTON. Mr. Henze, would you proceed.

STATEMENT OF PAUL B. HENZE

Mr. HENZE. Thank you, sir. It is an honor to be able to talk to you. I am talking as a private American citizen and a former Government official. I represent no ethnic group or constituency. I wish to support the administration's request for appropriations for military and economic assistance to Turkey for fiscal year 1984 and supplemental aid for fiscal year 1983.

Turkey maintains the largest standing armed forces in NATO after the United States. She has done so year after year through periods of internal, political, and economic strain without pressure or persuasion from the outside. Turkey has never flinched from NATO responsibilities, has never threatened to leave the alliance or engaged in gamesmanship over her status in it. She has provided military facilities and services to the United States on a bilateral basis as well.

Turkey has proved to be a dependable, honest, and serious ally. With no significant exceptions, she has respected and supported basic U.S. foreign policy and defense initiatives. Turkish and U.S. officials are in continual productive dialog on political, military, and economic issues affecting both countries.

Levels of military assistance for Turkey should not be determined on the basis of Greek fears and prejudices any more than U.S. relations with Greece and U.S. assistance for the Greek armed forces should be determined on the basis of Turkish attitudes.

The Turkish Government and Turkish Americans have made no effort, even during the period of the Colonels in Greece, to influence the U.S. Government's decisionmaking processes on Greece or congressional actions on matters relating to Greece; and Greek-Americans have not reciprocated.

I have always favored Greek membership in NATO and military assistance to Greece, economic assistance as well, if it should become necessary again.

The leader of the present Greek Government has made things difficult for us. He came to power expressing hostility to NATO and a desire to leave the alliance, which his country had rejoined only a short time before. He expressed hostility to American bases in Greece and delayed until recently resuming the repeatedly halted base negotiations.

No one would want to place a high wager now that the negotiations underway will be concluded successfully or soon. These are not attitudes befitting a serious ally. Meanwhile, Greece's prime minister has refused to condemn oppression in Poland, is equivocal on Afghanistan, has warmed relations with Bulgaria at a time when that country stands under strong suspicion of having abetted one of the most ghastly terrorist crimes of the century and consistently takes a nonalined stand on Middle Eastern and Third World issues.

He refused to permit his armed forces to participate in NATO maneuvers which have already been devised to take Greek sensitivities into account. In the face of this, Greece wants military aid to itself and Turkey to continue on the basis of a 7 to 10 formula

that has never been officially recognized by the United States. The 7 to 10 formula is alleged to serve the purpose of insuring balance.

It is a strange form of balance. The ratio of Greece's armed forces to Turkey's is approximately 4 to 10. The teaching of mathematics has perhaps been deficient in this country in recent years but even a poor student of arithmetic can see a 7 to 10 aid formula applied to armed forces that stand 4 to 10 in proportion to each other results in continuing worsening imbalance.

The smaller armed forces get twice as much aid per man as the larger. This means that the United States has been giving Greece twice as much aid for each man under arms as it has been giving Turkey. This makes, it seems to me, very little sense when Greece has only nominally been a member of NATO in recent years and Turkey is enthusiastically in it.

The Reagan administration's request for $280 million for Greece is justified by reason that the leaders of the Greek armed forces themselves appear to be more sincerely committed to NATO than their present prime minister.

Regrettably, little can be expected from Mr. Papandreou in respect to settlement of differences that have long persisted between Greece and Turkey. In face of a conciliatory attitude on the part of the Turkish military leadership and a clear desire on their part to settle issues with Greece before political pressures resulting from party politics make the task more difficult, Mr. Papandreou has contrived to invent new tensions and suspicions to fan Greek fears and generate new strains.

The Greek prime minister's recent warm welcome for Soviet Premier Tikhonov at a time when the Soviet Union was intervening blatantly in the electoral processes of another NATO ally, Germany, is incompatible with loyal alliance behavior. It can hardly fail to make Turkey as well as the rest of the alliance uneasy.

It is depressing to me that any sense of sincere desire to conciliate and compose differences has been absent from Mr. Papandreou's approach to relations with Turkey and the alliance as a whole.

The same holds true with respect to Cyprus. Mr. Papandreou's approach has been devoid of serious effect to work toward settlement.

The United States needs to look at the Eastern Mediterranean in terms of what serves basic American interests. The Reagan administration's requests for military aid for fiscal year 1984 and for supplementary military and ESF aid for fiscal year 1983 for Turkey are based on a clearer version of our fundamental interests and how best to serve them than we have seen in Washington for a long time. I sincerely hope the Congress supports them.

Mr. HAMILTON. Thank you.

[Mr. Henze's prepared statement follows:]

Prepared Statement of Paul B. Henze

I wish to support the Administration's requests for appropriations for military and economic assistance to Turkey for FY 1984 and supplemental for FY 1983. I offer the following considerations in favor of this aid.

In the final year of the Carter Administration (during which I served as an NSC Staff Member) I chaired an interdepartmental working group on Turkey which reviewed economic and military aid requirements. In respect to the latter, we reached two important conclusions in December 1980:

(1) Turkey's military assistance requirements should be considered separately from those of Greece in view of the larger and more varied contribution to the Western Alliance which Turkey makes;

and (2) Military aid for FY 1982 should be set at no less than $400 million and increased steadily thereafter in view of the pressing Alliance need for modernization of Turkey's armed forces.

The Reagan Administration accepted these recommendations as its own policy, but it was slow to implement them. The requests for FY 1984 assistance and for a supplemental appropriation for FY 1983 signify full recognition of Turkey's urgent needs, which two administrations have supported; they are thus bi-partisan.

The reduction in economic support funds (ESF) is now justified by the fact that Turkey, even in a period of general world recession, has made impressive economic progress. Economic reforms enacted early in 1980 and repeatedly reaffirmed as basic policy have brought Turkey very far along the road to a free market economy. Thus Turkey has adopted the kind of economic approach which both major parties in the United States have always championed. Turkey had more than 4% real economic growth during the past two years--the best performance in the OECD. Its international credit rating has improved steadily. Its needs for emergency economic aid have been reduced.

Its economy is nevertheless still far from strong enough to generate the resources that are needed for military modernization. And while a country can encourage foreign investment and borrow on the international market to expedite its economic development, this is not possible as a means of securing funds for military modernization. So it is appropriate that the emphasis in US assistance now be shifted sharply to the military side.

Turkey maintains the largest standing armed forces in NATO after the US. She has done so year after year, through periods of internal political and economic strain, without pressure or persuasion from the outside.

18-551 O—83——23

Turkey has never flinched from NATO responsibilities, has never threatened to leave the Alliance or engaged in gamesmanship over her status in it. She has provided military facilities and services to the US on a bilateral basis as well and curtailed them--partially--only in face of the severe restrictions placed upon her by the arms embargo imposed during the period 1974-1978. When the arms embargo was lifted, Turkey quickly entered into negotiations for a new agreement on defense installations and services with the United States. An agreement satisfactory to both countries was concluded without friction or procrastination even though Turkey's internal political situation was strained at the time. This agreement, since signed and ratified, has worked well. Turkey has proved to be a dependable, honest and serious ally. With no significant exceptions, she has respected and supported basic US foreign policy and defense initiatives. Turkish and US officials are in continual, productive dialogue on political, military and economic issues affecting both countries.

As Turkey's principal source of military support and advice for well over three decades, the US has been discussing military modernization with the leaders of the Turkish armed forces for the past ten years. All of the issues have been carefully weighed and examined. There are no serious disagreements about the main lines which need to be followed. Since there has invariably been too little military assistance available in recent years to meet the clearly identified requirements for it--and since urgent requirements have had to be postponed from one year to the next over and over again--there is no problem with Turkey's capacity to absorb the large aid increases the Administration seeks during the current and coming year. Working in close collaboration with US military advisers, the Turkish General Staff has developed a sound structure for setting priorities among its three services and implementing modernization plans. Turkey's record for making good and full use of the aid she has been given in the past is outstanding.

During the past several years, first within the US Government and since the end of 1980 outside of it, I have participated in at least two dozen working groups and conferences concerned with improving the US strategic position in the Eastern Mediterranean and the Middle East. Not a single discussion of this area has failed to underscore the high value of Turkey and the desirability of building up its military strength as a means of improving security in the region and enhancing the capacity of the Western Alliance to meet emergencies and prevent threatening contingencies in this part of the world. The current requests for appropriations of the Reagan Administration represent the first fully serious response to this situation.

I should like to address a few issues which are sometimes raised as arguments for delaying, decreasing or failing to provide support for Turkey.

I have visited Turkey six times during the past two years, spending a total of approx. four months in the country in all. I have traveled in all parts of it, from the Iranian and Soviet border regions to Thrace, where Turkey faces Bulgaria, and from the Black Sea to the southwest. I have talked to thousands of Turks, ranging from simple peasants and small businessmen to industrialists, generals, professors and civilian governmental leaders. I can assure you that the country has made enormous strides since the military leadership took the reins of government in September 1980 and brought

a period of terrorism, political confusion and Communist-instigated destabilization to an end. Turks do not feel they are living under an oppressive government now. But neither the populace nor the military leadership wants the present interim situation to continue. The main business of the military leaders has been to oversee the writing of a new constitution and to reform the governmental structure and electoral system to ensure that democracy can flourish and endure once the parliamentary system begins to function again. Promises have been kept and time-tables followed. The program for restoration of strengthened democracy which the military leaders committed themselves to as soon as they had taken power is well advanced and on schedule. Turks have proved that they need no meddlesome nannies to tell them now to manage their affairs.

Nevertheless Turkey's military leadership has been the target of a steady campaign of misinformation and denigration by politicians, publicists and academicians in Europe and in some other parts of the world who see themselves as liberals and socialists and self-appointed guardians of other people's morals. Some of these people are simply naive and ill-informed; but with others criticism is a camouflage for other purposes and they are serving anti-democratic and anti-Western interests.

While terrorism inside Turkey has for the most part been brought under control, Turks cannot rest easy. Their diplomats and airline offices abroad continue to be attacked by Armenians. Armenian extremists, who appear to be supported ultimately by the Soviet Union, are still trying to generate terrorism inside Turkey. I happened to arrive at the Ankara airport last August when Armenian terrorists attacked, killing 9 persons (two of them Americans) and wounding 72. Nothing, absolutely nothing, can justify this kind of attack. Turkey is to be praised for the endurance and mature good sense with which she has confronted these continual provocations. When Armenian-Americans fail to condemn them, they reflect discredit on themselves.

Levels of military assistance for Turkey should not be determined on the basis of Greek fears and prejudices, any more than US relations with Greece, and US assistance for the Greek armed forces, should be determined on the basis of Turkish attitudes. The Turkish government and Turkish-Americans have made no effort, even during the period of the colonels in Greece, to influence the US Government's decision-making processes on Greece or congressional actions on matters relating to Greece. Greece and Greek-Americans have not reciprocated at any time since 1974 and continue to try to influence American decision-making processes at many levels and in many ways. No other NATO ally behaves in this fashion. Holland does not attempt to veto US actions on Germany, nor does Italy feel itself entitled to interfere in US policy-making processes in respect to Spain. Greece should be expected to meet the same standards.

I have always favored Greek membership in NATO and military assistance to Greece; economic assistance as well if it should become necessary again. Greece has been a valuable member of the community of Western nations. American links with Greece are bound to remain broad and deep. But Greece is not entitled to make the US relationship with Turkey hostage to its own concerns and prejudices.

The leader of the present Greek government came to power expressing hostility to NATO and a desire to leave the Alliance--which his country had rejoined only a short time before. He expressed hostility to American bases in Greece and delayed until recently resuming the repeatedly halted base negotiations. No one would want to place a high wager now that the negotiations under way will be concluded successfully, or soon. These are not attitudes befitting a serious ally.

Meanwhile Greece's prime minister has refused to condemn oppression in Poland, is equivocal on Afghanistan, has warmed relations with Bulgaria at a time when that country stands under strong suspicion of having abetted one of the most ghastly terrorist crimes of the century, and consistently takes "non-aligned" stands on Middle Eastern and Third World issues. He refuses to permit his armed forces to participate in NATO maneuvers which have already been devised to take Greek sensitivities into account. In the face of this, Greece wants military aid to itself and Turkey to continue on the basis of a 7-10 formula that has never been officially recognized by the United States. Greece's strongest argument for the 7-10 formula is that it was set by Henry Kissinger--in the course of negotiating an agreement which Greece refused to accept!

The 7-10 formula is alleged to serve the purpose of ensuring "balance". It is a strange form of balance. The ratio of Greece's armed forces to Turkey's is approximately 4-10. The teaching of mathematics has perhaps been deficient in this country in recent years, but surely even a poor student of arithmetic can see that a 7-10 aid formula applied to armed forces that stand 4-10 in proportion to each other results in continually worsening imbalance. The smaller armed forces get twice as much aid per man as the larger! This means that the United States has been giving Greece twice as much aid for each man under arms as it has been giving Turkey. Does this make any sense? Above all, when Greece is only nominally in NATO and Turkey is enthusiastically in it? When Greece is harrassing our facilities while Turkey is supporting them willingly?

The Reagan Administration has finally recognized this disparity. Under the circumstances, its request for $230 million for Greece for FY 1984 may in itself be too generous. But it is justified by realization that the leaders of the Greek armed forces themselves appear to be more sincerely committed to NATO than their present Prime Minister. They have a keener sense of their strategic interests and of what constitutes real dangers to their country. For their sake we need to continue to be patient with Greece. Mr. Papandreou's political position appears to be weakening. His policies have already caused a deterioration in the Greek economic situation. We need to continue to be patient with Greece, for Mr. Papandreou, much as he would like to think so, is not synonymous with Greece. I therefore support the Administration's request for $230 million in military assistance for Greece.

But we must recognize that little can be expected of Mr. Papandreou in respect to settlement of differences that have long persisted between Greece and Turkey. In face of a conciliatory attitude on the part of the Turkish military leadership and a clear desire on their part to settle issues with Greece before political pressures resulting from party politics make the task more difficult, Mr. Papandreou has contrived to invent new tentions and suspicions, to fan Greek fears and generate new strains.

The Greek Prime Minister's recent warm welcome for Soviet Premier Tikhonov--at a time when the Soviet Union was intervening blatantly in the electoral proccesses of another NATO ally, Germany--is incompatible with loyal Alliance behavior. It can hardly fail to make Turkey feel uneasy. Mr. Papandreou even tried to lure Tikhonov into supporting positions that the Soviets, in spite of their well-known propensity to fish in any troubled waters, could not bring themselves to take. The fact that Papandreou was rebuffed by his Soviet guest in his effort to gain backing for his extreme position on Aegean maritime limits is not likely to make Turkish leaders feel more comfortable about the Greek Prime Minister's intentions toward them.

It is depressing that any sense of sincere desire to conciliate and compose differences has been absent from Mr. Papandreou's approach to relations with Turkey--and the alliance as a whole. The same holds true in respect to Cyprus. Mr. Papandreou's approach to Cyprus has been devoid of any serious effort to work toward a settlement. His interventions in Cypriot politics have only made them more complicated and unproductive, with the result that Mr. Kyprianou has now been returned to power only by virtue of a large Communist vote.

The United States needs to look at the Eastern Mediterranean in terms of what serves basic American interests. The Reagan Administration's new requests for military aid for FY 1984 and for supplementary military and ESF aid for FY 1983 for Turkey are based on a clearer vision of our fundamental interests and how best to serve them than we have seen in Washington in a long time. I urge the Congress to support them.

Mr. HAMILTON. Mr. Rossides, are you ready.

STATEMENT OF EUGENE T. ROSSIDES, SPECIAL COUNSEL, AMERICAN HELLENIC INSTITUTE, PUBLIC AFFAIRS COMMITTEE, INC.

Mr. ROSSIDES. Thank you, Mr. Chairman.

Mr. HAMILTON. We are glad to have Mr. Kyros with you.

Mr. ROSSIDES. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to present testimony before this subcommittee on behalf of the American Hellenic Institute Public Affairs Committee, Inc., regarding the foreign aid requests of the administration for Turkey, Greece, and Cyprus.

Appearing with me today is Hon. Peter Kyros, former Member of Congress from Maine.

The policy of this and the past three administrations toward Turkey, by disregarding the rule of law and our fundamental policy against aggression, has been a failure and has seriously damaged U.S. interests in the Eastern Mediterranean, costing the American taxpayer a great deal of money. This summer will mark the ninth anniversary of Turkey's aggression and occupation of Northern Cyprus. Our relationships with both Turkey and Greece have been weakened during this period. It is past time for a change.

We believe that the interests of the United States are not served by the administration's current military and economic aid requests for Turkey—$934 million for fiscal year 1984 and $120 million supplemental for fiscal year 1983. There is no justifiable reason for Turkey to join the billion dollar club.

Our position is based primarily on: One, the rule of law in international affairs—Turkey's violation of our foreign aid laws, the

U.N. Charter, the NATO Treaty, the Geneva Convention, and the 1960 Treaty of Guarantee—and two, our current budget crisis, economic situation, and 10.4 percent unemployment.

In this connection see exhibit 1 for an exceptional article by Harry J. Shaw in the spring issue of Foreign Policy magazine on the security assistance program entitled "U.S. Security Assistance: Debts and Dependency," [1] which analyzes the program and details the damage to U.S. interests by the administration's foreign aid proposals and the damage to recipients such as Turkey.

Mr. Shaw is the former Chief of the Military Assistance Branch of the Office of Management and Budget during the Johnson, Nixon, Ford, and Carter administrations and is presently a lecturer in Government and foreign affairs at the University of Virginia.

See also the recent GAO report entitled "Unrealistic Use of Loans to Support Foreign Military Sales," dated January 19, 1983.

Our position is also based on three, the unreliability of Turkey as an ally—NATO is not a self-executing treaty—four, Turkey's intransigence; five, the questionable strategic value of Turkey in modern warfare; six, Turkey's military and economic relationships with the Soviet Union, seven; Turkey's threats against Greece in the Aegean; eight, the fact that Turkey has a common border with the Soviet Union of 380 miles in Eastern Turkey; nine, Turkey's human rights violations in Turkey and Cyprus, and ten, the fact that Turkey is a military dictatorship. So, $330 million of the total $934 million request for fiscal year 1984 is in the form of outright grants.

The administration request of $759 million in military aid for fiscal year 1984 represents:

An 88-percent increase over the $403.5 million authorized and appropriated by Congress in the continuing resolution on appropriations for fiscal year 1983 and in the 2-year foreign aid bill passed by Congress in December 1981 for fiscal years 1982 and 1983;

A 62-percent increase over the $468.5 million requested by the administration for fiscal year 1983;

A 201-percent increase over the $252 million authorized and appropriated for fiscal years 1980 and 1981;

A 334-percent increase over the $175 million authorized and appropriated for fiscal years 1978 and 1979;

A 500-percent increase over the $125 million authorized and appropriated for fiscal years 1976 and 1977.

The attached chart prepared by the Congressional Research Service shows the dramatic and exorbitant increases in the military and economic aid authorizations for Turkey for the past several years. See exhibit 2.

At a time when the American people are asked to make significant sacrifices, both in their own national security and economic well-being, there is simply no justification for these aid levels and grants to Turkey.

Support for the rule of law in international affairs is reason enough to change the policy. The budget crisis, the economic situation, and the unemployment rate should have made it a certainty last year.

---

[1] Exhibits to Mr. Rossides' statement are retained in subcommittee files.

For those who believe that Turkey is of more than minimal value strategically, we suggest that Turkey's value as an ally is negated as long as: One, Turkish troops continue to occupy Northern Cyprus; two, Turkish colonists remain in Cyprus; and three, Turkey continues its threats against Greece in the Aegean.

A prime reason for this is that a major portion of the troops and weapons of both Turkey and Greece are pointed at each other. Rarely, if ever, has anyone in the executive branch responsible for providing these arms admitted and made clear to the Congress this stark and brutal fact.

The arms race between Greece and Turkey, stimulated by the administration's exorbitant arms aid to Turkey, can lead to a disastrous war between them. In a U.S. News & World Report article—May 3, 1982, page 30—University of Rochester political science Prof. Bruce Bueno de Mesquita, author of "The War Trap," in an analysis of why nations engage in conflict, stated: "I will go out on a limb and cite places where I think war is likely in the next year or two. Conflict between Greece and Turkey over Cyprus is one prospect."

In his September 26, 1980, statement, the President made certain pledges which he has not kept. In that statement he also said that "several disputes between Greece and Turkey have seriously damaged our alliance over the past several years" and that these "issues—Cyprus and the Aegean—must be resolved before any real cooperation and lasting friendship can be achieved between Greece and Turkey."

A recent letter to the President from former mayor of San Francisco George Christopher is set forth in exhibit 4.[1]

Our support of Turkey's aggression and colonization in Cyprus makes a mockery of our desperate attempts to make Poland free for the Poles, Lebanon free for the Lebanese and Afghanistan free for the Afgans. Pursuit of such a double standard destroys our credibility worldwide.

How noble did we all feel when the United States, despite political difficulties, came out four-square against aggression and affirmed the inviolate principle of self-determination in support of the cause of the Falkland Islanders and the rule of law in last year's dispute between two of our traditional friends. If freedom is indivisible, then it is not possible to distinguish between the conflict in Cyprus and the conflict in the Falkland Islands. If Great Britain would have acted in a similar manner, as she should have, when Turkey invaded Cyprus in 1974, we would not be here today.

Aid to Turkey without conditions precedent as to the removal of all foreign troops in accordance with U.N. Resolution 3212 of November 1, 1974, has not worked and will not work. In the summer of 1978, at the administration's strenuous urging, the remaining partial embargo was lifted. The vote in the Senate was 57 to 42 and the vote in the House of Representatives was 208 to 205.

The proponents of lifting the embargo in the Senate and House debate stressed the administration's and their expectation that Turkey would be forthcoming in negotiations to settle the Cyprus

[1] Exhibits to Mr. Rossides' statement are retained in subcommittee files.

problem. Turkey has not been forthcoming and in fact has hardened her position.

Support for the rule of law in international affairs, our current budget crisis and economic situation and 10.4 percent unemployment require action now.

We submit that it is in the best interests of the United States for the Congress to:

One, condition all aid, military and economic, to Turkey for fiscal year 1984: (a) on the removal of Turkish military forces from Cyprus in accordance with unanimous U.N. Resolution 3212 of November 1, 1975, which resolution President Reagan fully endorsed in his campaign statement, and (b) on the removal of Turkish colonists from Cyprus;

Two, reduce substantially military and economic aid levels to Turkey. A substantial proportion of Turkey's and Greece's military forces are specifically earmarked solely for use against each other. Aid to both countries should be reduced accordingly while keeping the balance of power as stipulated in the 1978 legislation which lifted the remaining partial embargo;

Three, oppose all grant military and economic aid, $330 million in fiscal year 1984, and concessional loan aid to Turkey;

Four, oppose the fiscal year 1983 supplemental appropriation request of $120 million for Turkey;

Five, reduce substantially the $647.75 million for Turkey in the continuing resolution on appropriations for fiscal year 1983;

Six, condition all aid to Turkey on the return of Varosha, New Famagusta, to the Government of Cyprus as a starting point for serious negotiations; in 1978 the administration proposed the return of Varosha as part of a 10-point plan;

Seven, condition all aid to Turkey on Turkey's agreeing to give the U.N. Committee on Missing Persons full authority to investigate all leads regarding the 1,600 missing Greek Cypriots and several Americans; and

Eight, condition all aid to Turkey on Turkey's lifting all restrictions and ceasing her continued harassment of the Patriarchate at Istanbul.

Greece: The administration's military aid request for Greece remains at $280 million. The administration has not requested economic aid for Greece. In order to preserve the military balance between Greece and Turkey and to deter aggression against Greece from Turkey, we believe it is important for Greece to receive aid on a 1-to-1 ratio basis with Turkey and that economic as well as military aid be included in the equation, since money is fungible; economic aid releases other funds for military purposes.

Cyprus: For all of Cyprus the administration is proposing $3 million in humanitarian assistance for fiscal year 1984 and a reduction of $10 million for fiscal year 1983 from the $15 million appropriated by Congress in the continuing resolution on appropriations for fiscal year 1983. We oppose the reduction for fiscal year 1983 and urge that the $3 million requested for fiscal year 1984 be increased to $15 million.

Mr. Chairman, I have elaborated on a number of the points in this statement in an addendum attached hereto, exhibit 5.[1]

Thank you, Mr. Chairman and members of the subcommittee.

[Mr. Rossides' prepared statement follows:]

PREPARED STATEMENT OF EUGENE T. ROSSIDES, SPECIAL COUNSEL, AMERICAN HELLENIC INSTITUTE PUBLIC AFFAIRS COMMITTEE, INC.

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to present testimony before this Subcommittee on behalf of the American Hellenic Institute Public Affairs Committee, Inc., regarding the foreign aid requests of the Administration for Turkey, Greece and Cyprus. Appearing with me today is the Honorable Peter Kyros, former Member of Congress from Maine.

Turkey

The policy of this and the past three Administrations toward Turkey, by disregarding the rule of law and our fundamental policy against aggression, has been a failure and has seriously damaged United States interests in the Eastern Mediterranean, costing the American taxpayer a great deal of money. This summer will mark the ninth anniversary of Turkey's aggression and occupation of northern Cyprus. Our relationships with both Turkey and Greece have been weakened during this period. It is past time for a change.

We believe that the interests of the United States are not served by the Administration's current military and economic aid requests for Turkey ($934 million for FY 1984 and $120 million supplemental for FY 1983). There is no justifiable reason for Turkey to join the "billion dollar club."

[1] Exhibits to Mr. Rossides' statement are retained in subcommittee files.

Our position is based primarily on (1) the rule of law in international affairs (Turkey's violation of our foreign aid laws, the UN Charter, the NATO Treaty, the Geneva Convention, and the 1960 Treaty of Guarantee), and (2) our current budget crisis, economic situation and 10.4% unemployment. In this connection see Exhibit 1/ for an exceptional article by Harry J. Shaw in the Spring 1983 issue of Foreign Policy magazine on the security assistance program entitled "U.S. Security Assistance: Debts & Dependency," which analyzes the program and details the damage to United States interests by the Administration's foreign aid proposals and the damage to recipients such as Turkey. Mr. Shaw is the former chief of the military assistance branch of the Office of Management and Budget during the Johnson, Nixon, Ford and Carter administrations and is presently a lecturer in government and foreign affairs at the University of Virginia. See also the recent GAO report entitled "Unrealistic Use of Loans to Support Foreign Military Sales " dated January 19, 1983.

Our position is also based on (3) the unreliability of Turkey as an ally (NATO is not a self-executing treaty), (4) Turkey's intransigence, (5) the questionable strategic value of Turkey in modern warfare, (6) Turkey's military and economic relationships with the Soviet Union, (7) Turkey's threats against Greece in the Aegean, (8) the fact that Turkey has a common border with the Soviet Union of 380 miles in eastern Turkey, (9) Turkey's human rights violations in Turkey and Cyprus, and (10) the fact that Turkey is a military dictatorship.

Exhibits to Mr. Rossides's testimony are retained in subcommittee files.

The $1,054 million Administration request breaks down as follows:

(In Millions of Dollars)

	FY 1984	FY 1983 Supplemental	
FMS--Foreign Military Sales Credits-Guaranteed Loans	$525	$65	
MAP--Military Assistance Program	230 (grant)		
IMET--Military Trainir ·	4		
Total Militar,	759	65	
ESF--Economic Support Fund	175 (100 grant 75 loan)	55	
Total Economic	175	55	
Total Military and Economic	934	120*	= $1,054

* The $120 million was not approved last year by the Congress.

$330 million of the total $ 934 million request for FY 1984 is in the form of outright grants.

The Administration request of $759 million in military aid for FY 1984 represents:

--an 88% increase over the $403.5 million authorized and appropriated by Congress in the Continuing Resolution on

Appropriations for FY 1983 and in the two-year foreign aid bill passed by Congress in December, 1981, for FYs 1982 and 1983;

--a 62% increase over the $468.5 million requested by the Administration for FY 1983;

--a 201% increase over the $252 million authorized and appropriated for FYs 1980 and 1981;

--a 334% increase over the $175 million authorized and appropriated for FYs 1978 and 1979;

--a 500% increase over the $125 million authorized and appropriated for FYs 1976 and 1977.

The attached chart prepared by the Congressional Research Service shows the dramatic and exhorbitant increases in the military and economic aid authorizations for Turkey for the past several years (see Exhibit 2).

At a time when the American people are asked to make significant sacrifices, both in their own national security and economic well-being, there is simply no justification for these aid levels and grants to Turkey.

Support for the rule of law in international affairs is reason enough to change the policy. The budget crisis, the economic situation and the unemployment rate should have made it a certainty last year.

For those who believe that Turkey is of more than minimal value strategically, we suggest that Turkey's value as an ally is negated as long as (1) Turkish troops continue to occupy northern Cyprus, (2) Turkish colonists remain in Cyprus, and

(3) Turkey continues its threats against Greece in the Aegean. A prime reason for this is that a major portion of the troops and weapons of both Turkey and Greece are pointed at each other. Rarely, if ever, has anyone in the Executive Branch responsible for providing these arms admitted and made clear to the Congress this stark and brutal fact.

The arms race between Greece and Turkey, stimulated by the Administration's exhorbitant arms aid to Turkey, can lead to a disastrous war between them. In a U.S. News & World Report article (May 3, 1982, p.30), University of Rochester political science Professor Bruce Bueno de Mesquita, author of The War Trap, an analysis of why nations engage in conflict, stated:

> "I will go out on a limb and cite places where I think war is likely in the next year or two. Conflict between Greece and Turkey over Cyprus is one prospect."

In his September 26, 1980 statement, the President made certain pledges which he has not kept. In that statement he also said that "several disputes between Greece and Turkey have seriously damaged our alliance over the past several years" and that these "issues [Cyprus and the Aegean] must be resolved before any real cooperation and lasting friendship can be achieved between Greece and Turkey." (See Exhibit 3.) A recent letter to the President from former Mayor of San Francisco George Christopher is set forth in Exhibit 4.

Our support of Turkey's aggression and colonization in Cyprus makes a mockery of our desperate attempts to make Poland free for the Poles, Lebanon free for the Lebanese and Afghanistan

free for the Afghans. Pursuit of such a double standard destroys our credibility worldwide.

How noble did we all feel when the United States, despite political difficulties, came out foursquare against aggression and affirmed the inviolate principle of self-determination in support of the cause of the Falkland Islanders and the rule of law in last year's dispute between two of our traditional friends. If freedom is indivisible then it is not possible to distinguish between the conflict in Cyprus and the conflict in the Falkland Islands. If Great Britian would have acted in a similar manner, as she should have, when Turkey invaded Cyprus in 1974, we would not be here today.

Aid to Turkey without conditions precedent as to the removal of all foreign troops in accordance with UN Resolution 3212 of November 1, 1974, has not worked and will not work. In the summer of 1978, at the Administration's strenuous urging, the remaining partial embargo was lifted. The vote in the Senate was 57 to 42 and the vote in the House of Representatives was 208 to 205. The proponents of lifting the embargo in the Senate and House debates stressed the Administration's and their expectation that Turkey would be forthcoming in negotiations to settle the Cyprus problem. Turkey has not been forthcoming and in fact has hardened her position.

Support for the rule of law in international affairs, our current budget crisis and economic situation, and 10.4% unemployment require action now.

We submit that it is in the best interests of the United States for the Congress to:

1. condition all aid (military and economic) to Turkey for FY 1984, (a) on the removal of Turkish military forces from Cyprus in accordance with unanimous UN Resolution 3212 of November 1, 1974 (which resolution President Reagan fully endorsed in his campaign statement), and (b) on the removal of Turkish colonists from Cyprus;

2. reduce substantially military and economic aid levels to Turkey. A substantial proportion of Turkey's and Greece's military forces are specifically earmarked solely for use against each other. Aid to both countries should be reduced accordingly while keeping the balance of power as stipulated in the 1978 legislation which lifted the embargo;

3. oppose all grant military and economic aid ($330 million in FY 1984) and concessional loan aid to Turkey;

4. oppose the FY 1983 supplemental appropriation request of $120 million for Turkey;

5. reduce substantially the $647.75 million for Turkey in the Continuing Resolution on Appropriations for FY 1983;

6. condition all aid to Turkey on the return of Varosha (New Famagusta) to the Government of Cyprus as a starting point for serious negotiations (in 1978 the Administration proposed the return of Varosha as part of a 10-point plan);

7. condition all aid to Turkey on Turkey's agreeing to give the UN committee on missing persons full authority to

investigate all leads regarding the 1,600 missing Greek Cypriots and several Americans; and

8. condition all aid to Turkey on Turkey's lifting all restrictions and cea[illegible] her continued harassment of the Patriarchate at Istanbul.

Greece

The Administration's military aid request for Greece remains at $280 million. The Administration has not requested economic aid for Greece. In order to preserve the military balance between Greece and Turkey and to deter aggression against Greece from Turkey, we believe it is important for Greece to receive aid on a one-to-one ratio basis with Turkey and that economic as well as military aid be included in the equation, since money is fungible (economic aid releases other funds for military purposes).

Cyprus

For all of Cyprus the Administration is proposing $3 million in humanitarian assistance for FY 1984 and a reduction of $10 million for FY 1983 from the $15 million appropriated by Congress in the Continuing Resolution on Appropriations for FY 1983. We oppose the reduction for FY 1983 and urge that the $3 million requested for FY 1984 be increased to $15 million.

Mr. Chairman, I have elaborated on a number of the points in this statement in an addendum attached hereto (Exhibit 5).

Thank you, Mr. Chairman, and Members of the Subcommittee.

Mr. HAMILTON. I should say to my colleagues Mr. Rossides is a former distinguished official in the Treasury Department, and we are glad to have him here. We welcome him before the committee again.

Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

I don't have any questions of the panel. I would like to make just a short statement to Mr. Kouchalakos.

I believe you said something about noninvolvement of the United States in the problems between Greece and Turkey. We are involved and I truthfully personally, and I know some other members of the full Committee of Foreign Affairs have been personally involved with the various leaders of both countries down through the turnovers in their leadership, both Greece and Turkey, and doing everything possible, urging them, meeting with them here and in their countries, urging them to become involved in negotiations. And both of them, both countries sort of say, yes, we ought to. But getting Greece and Turkey to sit down and talk business is tough.

I think everyone in this room knows that. But it is not because there is a lack of interest on the part of the United States.

Mr. KOUCHALAKOS. I appreciate that, Congressman.

Please do not take it in a direction that it might not be intended. It was just that the anxiety has been such without anything really happening. I appreciate your remarks with regard to your efforts.

Thank you.

Mr. WINN. We all feel a tremendous frustration that we cannot get some serious talks started there. But I think we have to keep trying. Everyone involved has just got to keep trying and working at it.

I don't know how long it is going to be before we reach some successes here. But I just met in January twice with Papandreou. He basically spent an awful lot of his time pointing his finger at Turkey.

We undertand that from the American standpoint. But we hope that as soon as they get through finger pointing they can sit down and really start negotiating.

Mr. KOUCHALAKOS. In appendix 1, you see the tremendous growth of military aid from 1974 to 1984. You begin to wonder if somebody had eaten those tanks and guns and what have you, because of the tremendous difference from 1974 to 1984. There is so much material going over there, I just wonder what can happen.

I feel this is where the anxiety exists.

Mr. WINN. I think part of that we would have to say is the concern of the United States for what is referred to as the soft underbelly of NATO. And I think that is where a lot of it is going. Some of it goes to Greece and some to Turkey, and all down in that area. But that is the basic reason for it.

Thank you very much, Mr. Chairman.

Mr. HAMILTON. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Yatron has asked me, since he could not be here today if I would ask a question or two of the witnesses. And I would certainly be happy to.

As you know, there has been some discussion in the State Department and the Congress with respect to conditioning U.S. military assistance to Greece on an equitable base agreement.

It has been suggested that this proposal would enhance the American position with the Greek Government at the negotiating table.

Would any of you care to comment as to how a proposal of this nature might affect our efforts to conclude a base agreement favorable to American interests?

Mr. HENZE. May I comment, sir?

I think the Reagan administration has finally faced the realities of this situation and realizes if you go on giving Greece aid year after year on a basis that is really more favorable than the aid given to Turkey you stand no prospect of having any leverage in the base agreement.

Since Mr. Papandreou has been in power in Greece, every aspect of our relations with Greece has become more difficult and prospects for any kind of settlement of the issues that bedevil us in the Eastern Mediterranean, I agree entirely with Congressman Winn, as to the lack of desirability in this—that this situation persists, and also about the fact that the United States cannot escape getting into it.

Walking away from it, either trying to put unjust pressure on one party or the other, or walking away from it and ignoring it will do no good. We have to face the fact that we do play a role here. But we also have to look at our own basic interests, and our own interests, since Mr. Papandreou has been in power in Greece, have suffered considerably.

And Mr. Panandreou has shown no willingness whatsoever on any count to meet Turkey even a quarter of the way, let alone halfway.

So I think the Reagan administration has been very wise to make the proposal it has made this year. This proposal does offer some possibility for bargaining with Greece. How valuable our bases are in Greece, how much we should really pay for them, I hesitate to say. I don't think we should submit to blackmail on this issue.

Mr. KOUCHALAKOS. Mr. Congressman, I believe conditioning U.S. military assistance on any progress in the base negotiations would be counterproductive. Clearly, as far as I am concerned, it is absolutely essential that we maintain the bases in Greece. When I was over there, and I talked to the Prime Minister, I so let him know emphatically that we should keep the bases.

Now the American stategic objectives would be adversely compromised if those bases were closed down, and that point was brought to him also.

In my estimate, ongoing base negotiations are very complex and sensitive. It seems to me we should be making positive gestures to the Greek Government—for example, the 10-to-7 ratio, so we can reach an agreement that is mutually beneficial to Greece and the United States.

I honestly feel that this can be the case if we could get to an agreement on a 10-to-7 basis.

Mr. ROSSIDES. I concur with Mr. Kouchalakos. It is very important from the American point of view that we have bases there. And we hope the negotiations will succeed.

As to the tactical aspects of what is happening regarding the negotiations, I just hope that our negotiators do a good job. I disagree fundamentally and fully with Mr. Henze and his commments regarding ratios, et cetera. In fact, we feel that the ratio should be 1 to 1. We have a small nation threatened by a larger one. You need a 1-to-1 ratio. That was the concept of aid to Israel as well.

The major problem that people fail to realize regarding Turkey is that Turkey has had substantial dealings with the Soviet Union. Turkey receives the largest aid from the Soviet Union of any nation outside the Warsaw Pact.

The question that Turkey looks to NATO enthusiastically is utter silliness. It is this particular dictator General Evren, who stated in 1979, "clear it with Moscow," when Mr. Carter wanted to have SALT verification flights of the U-2 over Turkey.

So all this talk—we only ask the committee and the members to analyze the facts of the Turkey-U.S.S.R. relationship. No nation like Turkey on the border of the Soviet Union is ever going to take a position that they are not going to have friendly relations with the Soviet Union. This has been stated, quoted, time and again, by this Turkish Government and previous Turkish Governments.

Mr. SMITH. Thank you.

A question by myself. What is the size of the armed forces in Greece as opposed to the size of the armed forces in Turkey at the present time?

Mr. ROSSIDES. It is a little hazy. We understood that the armed forces of Turkey were 550,000, an overblown number at that, and in an article in the Armed Forces Journal, the official leading scholarly journal of the Defense Department, they said they should not be maintaining that large a force.

Mr. Perle, in testimony the other day before the Senate, tried to suggest now it is 770,000. I think the Greek Armed Forces may be about 280,000, but I do not know for sure.

The important thing to realize is that a substantial percentage of the Turkish Armed Forces are (1) in Cyprus; (2) in Western Turkey aimed at Greece; and (3) doing routine national police force work, all non-NATO functions. I suggest that this committee write to the Defense Department inquiring officially as to the number and percentage of Turkish troops doing non-NATO functions. There is martial law throughout Turkey. The army performs a social as well as a military function.

Mr. KOUCHALAKOS. We know 25,000 troops are definitely in Cyprus, and an estimated 40,000 troops in the Aegean Army. This we know for a fact, because we got those figures when we were in Cyprus. That is the figure I have.

Mr. HENZE. May I give you a few specific figures from the U.S. Disarmament and Arms Control Agency?

The average of the Greek Armed Forces between 1974 and 1978, and they may be slightly smaller now, but essentially in the same range, was 209,000. The average size of the armed forces of Turkey during that period was 511,000. That may be slightly higher now. We may now have a ratio of about 190,000 to 540,000.

Greece maintains over 20 men under arms per 1,000 population. Turkey maintains not quite 12 men under arms per 1,000 population. Greece is a more armed country than Turkey. Greece spends more on armaments than Turkey. Greece proportionately has received more American aid than Turkey. Greece was not in NATO at all from 1974 to 1979. Turkey was in NATO during that entire time.

I could offer a good many other points.

Mr. SMITH. You raised the point of the imbalance in terms of the 7-to-10 ratio. I was curious as to what numbers we are talking about, where that money is going, and what it is funding.

Mr. ROSSIDES. The force levels are such, Mr. Smith, that Greece has to have that kind of manpower in proportion to its smaller population because of the threat from their neighbor, Turkey. To deny that is to deny reality of what is happening.

For Mr. Henze to say they were not in NATO, he doesn't know what he is talking about. They were out of the military arm of NATO but full members of NATO.

They never closed the U.S. bases during that period, whereas Turkey, after violating our law, invading Cyprus, and because this Congress—I think in one of its finest moments—enforced the law that was on the books against use of our arms for aggression, Turkey closed our bases in Turkey, precipitously, and not in accordance with the agreement—supposed to be 1 year's notice. They just closed them down.

That is what you are dealing with in Turkey, aside from the violation of many treaties in the past.

Mr. SMITH. Mr. Chairman, was there an invitation extended to anyone on behalf of Turkey to appear here today?

Mr. HAMILTON. Not specifically. We gave an opportunity for anyone to testify who wanted to testify. No specific invitations were extended to anyone.

Mr. SMITH. I would certainly like the opportunity of hearing from Turkey on a lot of these issues that have been raised.[1]

Mr. ROSSIDES. Mr. Smith—we are not here on behalf of Greece. We are here on behalf of the United States, and what is best for the United States. We could care less in many ways what happens to Greece—if what Greece does is not in our interests.

We would be strongly opposed to the failure to conclude a defense agreement with the United States. The only test is what is best for the United States. That is the only test involved.

I only wanted to say when we analyze this, and you will see in our testimony, in our statements, strictly, is this amount of aid in the best interests of the United States, and should the money be going for a school lunch program or tuition assistance for kids or for housing.

$330 million in direct grants to Turkey? It is just ludicrous in this day and age.

Mr. SMITH. I understand how you feel. But there may be some compelling reasons that somebody who feels the same way you do but on the other side of the coin might have wished to have been here. I was just curious if anyone indicated.

---

[1] See app. 17.

I think at the full committee we might want to hear—it would be better to make a decision on an informed basis.

Thank you, Mr. Chairman.

Mr. HAMILTON. I might say to the gentleman that we do permit those who want to testify to do so. Obviously, we have to close off the period so that members of the committee can be notified of the witnesses that are to appear. And those who are tardy in getting their requests in we are not able to accommodate. All of these persons before us today requested to appear. And we have accommodated all of them.

Mr. Dymally?

Mr. DYMALLY. Perhaps, Mr. Chairman, it is a case, in the case of Turkey, when you are ahead, quit. And Turkey has the administration on its side, so they don't need any witnesses.

Mr. Henze, you made some reference to the Russians, and I suspect it as a critical reference to Russian incursions in other parts of that territory, making it insecure. And I suspect also you are opposed to the Russians' presence in Afghanistan.

Would you care to make a comment about Turkish presence in Cyprus?

Mr. HENZE. I don't think there is any analogy whatever. Turkey entered Cyprus as party to an international agreement. What happened in Cyprus in 1974 was that the colonels' regime in Greece, which we all agree was a highly undesirable regime, tried to kill Archbishop Makarios. In the commotion that ensued, Cyprus degenerated into chaos and the Turks, according to treaty rights firmly established and recognized, moved in.

I don't think Cyprus is an issue that the United States should take primary responsibility for. It never did. The United States was not a party to the treaties which set up independent Cyprus in 1959 and 1960. Great Britain, Greece, and Turkey were parties. And the main responsibility rested then and rests still on Great Britain, Greece, and Turkey.

Great Britain continues to hold sovereign base areas in Cyprus. Greece and Turkey are the two parties most immediately concerned. This is not the U.S. primary concern. It is obviously a matter of humanitarian concern to us. It would take a wild stretch of the imagination to equate conditions in Cyprus today with conditions in Afghanistan.

Mr. DYMALLY. The fact of the matter is the Russians claimed they were invited to Afghanistan also.

Mr. HENZE. We all have adequate information to be able to judge that claim quite objectively.

Mr. DYMALLY. I don't think one can be half pregnant on the question of invasion either.

Mr. HENZE. The Turkish move into Cyprus was not an invasion. It was a move which Turkey was entitled to make and required to make under the treaties which established the independent Republic of Cyprus in 1959 and 1960.

Mr. DYMALLY. That is what the Russians are saying in Afghanistan.

Mr. HENZE. I see no parallel whatsoever between the Russian appearance in Afghanistan and their behavior in Afghanistan and the situation in Cyprus.

Mr. DYMALLY. When we start talking about behavior—the behavior of the Turks in Cyprus is a very deplorable one in my judgment.

Mr. HENZE. I know of no evidence that the behavior of the Turks in Cyprus in recent years has involved anything deplorable whatsoever. And I don't believe you would be able to obtain any information from the Department of State that would bear that out.

Mr. DYMALLY. I am afraid time does not permit us to continue this very interesting dialog.

Mr. ROSSIDES. Mr. Dymally, again, Mr. Henze made a statement which is a flatly false statement. Mr. Henze is a former National Security Council staff member. And he makes a statement here that Turkey entered Cyprus as part of an international agreement, had a right to do so, and then said "required". Nothing could be more false. The treaty of guarantee which says that Greece, Turkey, and Great Britain had a right of intervention under certain circumstances, the only condition for entering was to return the island to the status quo ante, namely the Government of Cyprus as it was then constituted. They could have invaded and left, put Archbishop Makarios back and left. They are completely in violation of a basic international agreement.

Aside from the fact there is a great deal of question as to whether the treaty of guarantee gave any right of armed intervention and one of our former State Department counselors in a book wrote that he did not feel they even had the right to use force, the other point is they violated our laws in using our weapons for their invasion of Cyprus. But again, you have a former National Security Council staff member come up here and tell this committee they had the right to go in and bomb civilians and bring in the tanks, U.S. weapons, roll over the people, with several thousand killed, and then say there is no analogy.

Mr. HENZE. Mr. Chairman, I object to coming before your committee to testify in all honesty and be accused of being a liar.

Mr. KOUCHALAKOS. I have to put in a couple of cents worth on this particular thing.

I believe that the presence of Turkish occupation troops, as I stated, 40,000, in Cyprus, it gave the Turkish Government a direct hand in deciding the fate of the Cypriot people. They are there, and they have the guns, and they are American guns.

As Mr. Rossides said: "They invaded, they could have left, they are still there." Therefore, we have this particular problem. Turkish forces are there and they don't have to be there. We pay for them, as I read in my statement previously.

The U.S. Government pays for those troops without question. Anyone that can say it doesn't, I would like to hear it.

Mr. DYMALLY. Thank you, Mr. Chairman.

Mr. HAMILTON. Any further questions by members of the panel?

Mr. HENZE. I would like to repeat what I said. I deeply resent coming before this committee and testifying in all honesty in defense of basic American interests and being called a liar by other witnesses. I have not stooped to that level myself and don't intend to.

I would say that the information you have been provided by the other witnesses has been biased in a great many respects. You

have access very readily to far better information. I am not going, unless you wish to ask me further questions, to go into greater detail and burden the committee and take up the committee's time, because you are well aware of all of the places where you can get the accurate facts.

The facts as to what happened in Cyprus in 1974 are on the record, and the legalities are clear.

Mr. HAMILTON. Thank you, Mr. Henze.

Thank you, members of the panel.

Any further comments or questions by members of the subcommittee?

If not, the subcommittee stands adjourned.

[Whereupon, at 4:35 p.m., the subcommittee adjourned.]

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984-85

Greece, Turkey, Cyprus, Spain, and Portugal

WEDNESDAY, MARCH 16, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,
Washington, D.C.

The subcommittee met at 10 a.m., in room 2255, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee), presiding.

Mr. HAMILTON. The meeting of the subcommittee will come to order.

Today, the Subcommittee on Europe and the Middle East meets to examine the fiscal year 1984 foreign assistance requests for Turkey, Greece, Cyprus, Spain and Portugal. Today's hearing will conclude the subcommittee's hearings on the fiscal year 1984 foreign assistance requests and it is the Chair's intention to mark up the subcommittee's recommendations next week.

The requests for fiscal year 1984 are as follows:

For Turkey—$525 million in Foreign Military Sales financing and $230 million in grant military assistance for a total of $755 million in military assistance for fiscal year 1984, a sizable increase from the $400 million in grant and loan military aid provided in the continuing resolution authority passed by Congress last year; $175 million in economic support fund—ESF; and $4 million in the international military education and training program—IMET;

For Greece—$280 million in FMS financing, the same level as was provided in fiscal year 1982 and fiscal year 1983; and $1.7 million in IMET;

For Cyprus—$3 million in the economic support fund. This request is substantially below the $15 million provided by Congress the last several years;

For Spain—$400 million in FMS financing; $12 million in the economic support fund; and $3 million for the IMET program; and

For Portugal—$45 million in FMS financing; $60 million in grant military assistance; $40 million in the economic support fund; and $3 million for the IMET program.

We are happy to have with us today Hon. Richard R. Burt, Assistant Secretary of State for European Affairs—I understand Hon. Richard Perle, Assistant Secretary of Defense for International Security Policy, will be with us shortly, although I don't see him at

Previous Page Blank

the moment—and Mr. Russell Misheloff, Director for European Affairs and Special Programs, Agency for International Development.

Secretary Burt, you have a prepared statement which will be entered into the record in full. You may proceed to summarize that statement.

STATEMENT OF HON. RICHARD R. BURT, ASSISTANT SECRETARY, BUREAU OF EUROPEAN AFFAIRS, DEPARTMENT OF STATE

Mr. BURT. Thank you very much, Mr. Chairman.

You are corrrect, I do have a prepared statement which I will submit for the record.

I am pleased to be here this morning to make just a few brief remarks, an overview of what my prepared statement says.

As you know, the Reagan administration looks at security assistance and our broader foreign assistance effort as a integral part of our foreign and defense policy planning. In particular, in looking at the European region we believe that security assistance is really vital to the continuation of the NATO alliance.

In many respects in Europe our security assistance is magnificently cost effective. One example is in the case of Turkey where we have estimated it would cost us $60,000 to equip and maintain one U.S. soldier in Turkey whereas it costs the Turks only $9,000 to do the same job.

Now, our assistance program for Europe principally focuses on four nations, Spain, Portugal, Greece and Turkey. Let me just run down our status in each of these four.

For Spain, as you said, Mr. Chairman, we are requesting $400 million FMS, $12 million ESF; and $3 million for IMET. Spain has been an important strategic partner of the U.S. since 1953. Of course it entered the NATO alliance last May. They have had elections and it is clear that democracy is firmly in place in Madrid.

We have signed a new bilateral base agreement with the previous government last July and the new socialist Spanish Government has told us that they expect to seek the ratification of this agreement next month or May.

So, we are very pleased with the solid and continuing firm security and foreign policy relationship we have in Madrid.

Portugal, a country that has been a close and reliable and strategically important ally, too, is continuing to consolidate its young democracy. In the Portuguese case we are asking for $45 million in FMS; $60 million, MAP grants; $40 million in ESF; and $3 million IMET. The Portuguese economy remains troubled. It does need our help to carry out its military modernization goal.

For Greece we are requesting $280 million in FMS and $1.7 in IMET. We think this will provide the equipment and support that Greece needs to fulfill its responsibilities in defense of the southern flank and we view the assistance as an integral part of a broader U.S.-Greek security relationship which includes important U.S. facilities.

As you know, we are currently in the midst of a negotiation with the Greek Government on our military access in Greece and the status of our bases there. The President has decided that the administration would be prepared to request from the Congress addi-

tional aid beyond the figures that I mentioned earlier in the context of an acceptable base agreement.

Finally, in the case of Turkey we are requesting $525 million in FMS, $230 million in MAP grants, $175 million in ESF and $4 million for IMET. We think that it is true that Turkey anchors NATO's southern flank, but it does more than that. It stands at a vital strategic crossroads between the Eastern Mediterranean and the Middle East and Persian Gulf. It provides us with access to important military facilities and it has a potentially significant role to play in promoting both stability and western security interests in the Middle East and Southwest Asia. It maintains the largest armed forces in NATO and it defends land and sea borders against Bulgaria and the Soviet Union as well as common borders with Iran, Iraq and Syria.

As I know my colleague, Richard Perle, will want to go into greater detail, it is clear to the Reagan administration that Turkey's need for defense modernization is urgent and cannot be accomplished without substantial American assistance.

We think that a strong Turkey is very much in the interest of the United States and that the program that we are outlining will not disturb fundamental balances in the region. We support a strong and secure Greece and we support a strong and secure Turkey and our request is designed to achieve these ends.

We want both countries to play valuable constructive and positive roles within NATO and we want strong bilateral relationships with both countries.

Mr. Chairman, there are other programs, smaller programs, that we are requesting within the European area. I will only mention one of those and that is Cyprus where we are requesting $3 million ESF grants. Our assistance since 1974 has totaled $140 million. The economy on Cyprus has made a remarkable recovery since 1974. We hope to continue to aid and help that country in any way we can.

We think that security assistance in the European area has been an extremely cost effective way of maintaining the cohesion of the alliance and furthering U.S. interests and in that sense security assistance is one of the principal areas of our support for the continuing vitality of the NATO alliance.

Thank you. I will be happy to answer any questions you may have.

[Mr. Burt's prepared statement follows:]

PREPARED STATEMENT OF HON. RICHARD R. BURT, ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS

I appreciate the opportunity to appear before this committee in support of the European portions of the administration's proposals for security assistance in fiscal year 1984.

As Secretary Shultz emphasized to the Senate Foreign Relations Committee on February 15, 1983, the general program of security assistance and economic assistance is of great importance to us in our foreign policy. He also emphasized before the House Foreign Affairs Committee on February 16, in support of our foreign assistance programs, that NATO is an alliance that serves the interest of the United States as well as of our Allies. I have participated in the development of the integrated foreign assistance program to meet our national economic and security objectives, as well as those of our close allies who share these objectives. I want to emphasize that security assistance is an essential part of both our foreign policy and defense planning, and I would now like to describe our major programs in support of the NATO allies requiring assistance, as well as a program for Cyprus:

SPAIN

Spain has been an important strategic partner since 1953. Now, with its entry into NATO last May and its democracy firmly in place following elections and a peaceful change of government last fall, Spain has become an important democratic ally as well. The basis for our security cooperation has thus broadened, modernization of Spanish military forces to NATO standards has gained new importance, and our security assistance relationship has become more vital than ever.

In this context, the United States and Spain signed a successor agreement to the 1976 Treaty of Friendship and Cooperation on July 2, 1982. The new Spanish government, after negotiating a supplementary protocol which clarifies the relationship between the agreement and NATO, has proceeded with the ratification process, which is expected to be completed in late April or early May. It has, however, "frozen" further military integration into NATO pending an overall review of its security policy. The new agreement provides for US "best efforts" in security assistance and ensures continued US use of important Spanish military facilities.

US security assistance is thus an integral part of this important security relationship. It is vital to the credibility of our "best efforts" pledge and to our reliability as an ally, and it is vital to Spanish efforts to bring their forces to NATO standards. And, apart from securing US direct military benefits in Spain, US security assistance will serve broader security interests, encourage Spain to see the greater benefits of cooperation in a NATO context, and signal our continuing support for Spain's still young democracy.

The proposed FY 1983 security assistance program for Spain consists of $400 million of foreign military sales financing (FMS), $3 million of international military education and training (IMET), and $12 million of Economic Support Fund (ESF) assistance. The FMS financing request will help Spain to purchase advanced fighter aircraft, an air defense missile system, helicopters, harpoon missiles, torpedo improvement kits, and ground support weapons (LTV's and tanks).

The FY 1984 IMET will support armed forces modernization by increasing the overall professionalism of the Spanish armed forces. It will also provide specific training course (pilot training, missile systems, maintenance, logistics, administration) to help ensure the most efficient use of FMS-supplied resources. The FY 1984 ESF request will fund the educational, cultural, and scientific programs administered by the Department of State and the US Information Agency. These programs enhance the non-military aspects of our relationship with Spain and are important in developing a broad range of ties appropriate for two friends and allies.

PORTUGAL

Portugal is a close, reliable, and strategically important ally. It has consistently stood by us, taking a forthright stand on such international issues as Poland and Afghanistan, an interested and helpful stance on problems in the Middle East, and it is a valued interlocutor regarding developments in Southern Africa. Furthermore, the facilities it makes available for our use as part of our security cooperation relationship are critical to NATO re-supply and reinforcement, and to possible contingencies in other parts of the world.

We are currently engaged in negotiations regarding that relationship. While the negotiations are in abeyance at the moment pending the elections of a new government in Portugal, we are confident that it will be possible to arrive at a new and mutually satisfactory agreement in the course of this year.

It is clearly in our own interests to do so. Not only are

the facilities to which we have access vital, but our security cooperation relationship is closely tied to the process through which Portugal seeks to expand its own direct and active contribution to Western defense efforts.

Portugal is a charter member of NATO, and takes seriously its Alliance responsibilities. It wants to play a more active role in NATO, and we welcome this desire. At the same time, the Portuguese economy has been very hard-hit by the international recession, and Portugal needs help from its friends if it is to be able to carry out the military modernization required for it to meet NATO force goals and expand its own participation and contribution to the common defense.

It is clearly in our own interests to encourage this effort, and we and other NATO partners are engaged in a concerted effort to do so.

The multilateral program, to which our own security assistance is partially directly, focuses on the construction of three new ASW frigates, which would enable Portugal to assume an important role in ASW protection of the Central Atlantic. Other anticipated purposes of our assistance include a second squadron of A-7 aircraft, a few more C-130's for support of a NATO-dedicated airlift brigade, and P-3 aircraft to contribute to ASW effort. Military training is a further and integral part of the effort to enable Portugal to contribute more actively and effectively to the defense of the West.

Economic support funds are also important. Portugal is the poorest country in Western Europe, and the Azores Islands, where most of these funds would go, have a per-capita income one-third that of the country as a whole. These funds are an important expression of our support for Portuguese democracy and of our friendship for the Portuguese people. The remaining portion of these funds would be aimed at creating a Luso-American Foundation to coordinate private efforts at economic and technical cooperation following the elimination of AID in Portugal.

ADMINISTRATION'S EASTERN MEDITERRANEAN POLICY
GREECE, TURKEY, CYPRUS

Let me now turn to the Administration's security assistance proposals for Greece, Turkey and Cyprus for Fiscal Year 1984 and to discuss US relations with the countries of the Eastern Mediterranean.

Several political entities of key importance to U.S. interest come together in the Eastern Mediterranean--Western Europe, the Balkans, the Soviet Union and the Middle East/Southwest Asia. The area continues to be of great strategic significance. For example, Greece and Turkey face the Warsaw Pact in the Balkans and Black Sea Straits area, and Turkey has an important role in the Caucasus where it abuts directly potential Soviet lines of advance to the Gulf. A strong and effective NATO southern flank is thus essential to protect our interests and those of our allies in this part of the world. Unfortunately, the effectiveness of this flank has been weakened in recent years to the point where it is a matter of grave concern to our allies and to the United States.

Several fundamental aims guide U.S. policy in this region. It is essential that we strengthen our bilateral relations with two firm and long-standing friends and allies--Greece and Turkey. Furthermore, it is vital to strengthen NATO's southern flank, thus advancing Western security interests in the Eastern Mediterranean and beyond. At the same time, the President and all of us in the Administration remain fully committed to help in the search for a solution in Cyprus that will enable the two Cypriot communities to live peacefully together as one country. I want to emphasize that each of these goals is important and full effort and attention must be paid to them if we are to succeed. What I want to do today is outline the Administration's program for assistance which I believe will help meet our goals and contribute to resolving some of the outstanding problems in this critical region.

Security assistance for Greece demonstrates continuing American support for a traditional close friend. It is an integral part of our commitment to a strong, mutually beneficial bilateral relationship. As the Congress is aware, we are currently negotiating with the Greek government a new Defense and Economic Cooperation Agreement to modernize and define our security relationship with Greece, including the status of the U.S. facilities there. In view of these on-going discussions, we believed it would not be prudent to propose an increase in the level of assistance until our overall security relationship with Greece had been determined. However, we have informed the Greek government that, in the context of an agreement, the U.S. will seek increased levels of defense support above the level currently proposed.

U.S. assistance is also intended to assist recipients to carry out NATO defense missions. Greece in recent years has made substantial progress in modernizing it military equipment, using significant U.S. assistance as well as its own resources. However, further U.S. assistance is needed to continue the process. I would note that Greece's importance is reflected in the Administration's proposal which makes it the sixth largest recipient in our FY 84 program, aside from any increase which may be requested in the context of the current negotiations.

Our assistance program for Turkey has changed significantly. Economic assistance drops from the high level of recent years, reflecting continued strong recovery of the Turkish economy. Military assistance, on the other hand, increases substantially, reflecting our strong conviction that prompt measures to modernize the Turkish armed forces can be delayed no longer. In addition to its borders with the USSR and Bulgaria, Turkey faces Iran, Iraq and Syria, the first two of which remain engaged in a shooting war while the third remains closely tied to the USSR. The age of their major equipment lines make it difficult for the Turkish armed forces to fulfill NATO responsibilities, much less adequately defend their other borders and make a contribution to stability and security in that region.

Turkey's military government has been in power two and one half years and has restored law and order, curbed political violence, bolstered public confidence and continued an impressive economic recovery program. While the effort to eliminate the terrorism which wracked Turkey before September 1980 inevitably produced limitations on political freedoms and some abuses of human rights, we think the military government by and large has observed the rule of law. Equally important, it has adhered to its timetable for returning power to civilian authority, a process which will culminate this fall with parliamentary elections and installation of a representative democratic government established under the recently approved Constitution which was overwhelmingly endorsed by more than 90 percent of Turkey's voters.

The significant reduction in economic support funds testifies to the substantial progress Turkey has made under its stringent economic stabilization program. While Turkey still faces long term economic problems, its strong performance over the past two years should enable it to begin to return to private capital markets, thus reducing dependence on the need for balance-of-payments support from other governments.

Concerning Cyprus, this Administration has from its very first days placed a high priority on the achievement of a just settlement. We are committed to that goal. for as long as Cyprus is divided and its status uncertain, it constitutes a humanitarian issue and it also remains a serious barrier to good relations between Greece and Turkey. In support of our commitment to achieving a Cyprus settlement, the Administration has made extensive efforts to encourage realistic and meaningful negotiations between the parties which are being conducted under the auspices of the UN Secretary General. The Secretary of State has appointed a Special Cyprus Coordinator who is responsible for orchestrating our activities with the parties in support of the UN talks. Unfortunately, despite these efforts, the talks have so far produced no dramatic breakthrough. However, there has been progress in narrowing the differences and we are hopeful that further gains can be

made in the months ahead.

For Greece, we would continue the level of FMS funds at last year's level--that is, $280 million--for the purchase of equipment, spare parts and ammunition; and also propose $1.7 million in international military education training (IMET) to improve managerial and technical expertise. Again, it is important to note that in the context of a new base agreement we are prepared to return to the Congress to ask for additional assistance for Greece.

For Turkey, our request is for $755 million in military assistance ($230 million in MAP and $525 million in FMS guarantees), $175 million in economic support funds and $4 million in international military education training. Turkey's armed forces are the second largest in NATO and consume over 17 percent of the government budget. But because Turkey does not enjoy the wealth and industrial capability of most other NATO countries, we and other allies must help fill the gap. Some of our assistance will continue to provide maintenance and support of equipment for which spare parts are no longer in the US military inventory, and to replace that equipment with newer but still outdated equipment. Some will be used for procurement of new equiment for naval modernization and for a first tranche of modern fighter aircraft for future delivery. While our request falls short of meeting all of Turkey's urgent military equipment needs, it will begin the task of helping Turkey meet NATO commitments contributing directly to our own defense.

For Cyprus, we propose $3 million in ESF grant authority to be applied to the existing university scholarship program. The program is presently fully funded to bring 150 Cypriots from both communities to the US for their studies. There are no universities in Cyprus and our program, therefore, provides an opportunity, and often an alternative to study in the Eastern bloc, for young Cypriots.

The provision of security assistance to Greece and Turkey is consistent with our policy of encouraging these two countries to find a peaceful resolution of their differences, and with US support for efforts to solve the Cyprus problem.

Mr. HAMILTON. Thank you very much, Mr. Secretary.

We now have Mr. Perle, Assistant Secretary for International Security Policy, Department of Defense.

You have a statement which will be entered into the record.

Do you care to make a statement at this point to the committee?

STATEMENT OF HON. RICHARD N. PERLE, ASSISTANT SECRETARY FOR INTERNATIONAL SECURITY POLICY, DEPARTMENT OF DEFENSE

Mr. PERLE. Yes, Mr. Chairman, if I might briefly make one or two points that I did not develop in my prepared statement that need emphasis.

The countries for whom we are requesting congressional support this morning are all NATO allies that occupy the critical southern flank of NATO. The flank that by virtue of the relative lack of sophisticated equipment is perhaps our most vulnerable flank.

It is also a flank that because of its location has an important bearing on the effectiveness with which we can protect our maritime forces in wartime, bearing, as these countries do, on the balance in the Mediterranean which has been shifting increasingly adversely to the NATO alliance as the Soviet Navy has expanded.

So we regard each of these allies as an important partner in the defense of the United States as well as the alliance as a whole and they each have significant needs for assistance.

The assistance that we have proposed to you is, I am sorry to say, not adequate to the task which is far larger than our ability to support the requirements in these four countries, but it would make a significant contribution together with the countries themselves who in turn are making a contribution, sometimes at very considrable sacrifice in terms of their relatively less affluent economies.

We also enjoy close security cooperation with each of the partners. We share facilities with many of them. We expect that in the event of a war in Europe we will fight alongside of them and we believe the security assistance that is vital for them in effect strengthens the United States.

I should point out that most of the money that we are talking about here takes the form of loans that are repayable. The funds are expended for the purchase of U.S. equipment and therefore jobs in this country are produced as a result of this defense investment.

That is never a sufficient reason for expending funds on the purchase of weapons, Mr. Chairman, but it eases the pain somewhat that we will put Americans back to work by helping to provide this vital equipment to our allies.

I can say one concluding word about the Turkish request and I single Turkey out because we have asked for a significant increase this year compared to last year.

I have had occasion to visit Turkey three times now since I have been in the Department of Defense. I have been in the field with Turkish forces, I have visited the Turkish facilities all over that critical country. I can tell you that the requirement for assistance in order to modernize Turkish forces is widespread. One sees it everywhere in Turkey.

It affects all elements of Turkish military power, land, sea, and air. Turkey is facing, to put it simply, block obsolescence in the equipment for their military establishment and therefore the second largest force in our military alliance is lacking.

The situation has reached a critical point and without assistance on the scale that we have proposed, which is, as I said earlier, not sufficient, but it is a gauge, I am afraid that we see Turkey unable to meet its critical NATO missions.

Among the most important of those NATO missions that is worth singling out is closing of the straits because in the event of failure to close the straits in wartime we will see the Soviet Black Sea Fleet enter the Mediterranean and engage U.S. naval forces.

I have yet to talk to a naval commander who is experienced in the Eastern Mediterranean who believes we could survive if we had to face the combined Soviet Fleet in that vital sea.

Obviously Turkey has profound implications for the stability of Southwest Asia. I would like to be very clear about the relationship that we in the Department of Defense see between Turkey as a valuable NATO ally and the stability of Southwest Asia. If one looks at the map, it is clear that the existence of a vacuum in Eastern Turkey, which is the present situation, Mr. Chairman, leaves the Soviets with a great deal of freedom to move their Transcaucus force which consists of 19 divisions and associated air power.

It leaves the Soviets free to move that Transcaucus force south into Southwest Asia if they should choose to do so with virtually no prospect that they would be exposing a vulnerable flank.

We would not like to see Soviet military commanders with the confidence that that would give them. We would much rather that they have reason to question the wisdom of moving those troops south, the wisdom of exposing themselves on a vulnerable flank, and therefore we believe that a significant deterrent effect is achieved by the strengthening of Turkey in its own territory.

We do not envision Turkey as a way station for American forces enroute to Southwest Asia. It is quite sufficient for us that a strong Turkey will have a profound deterrent effect on the Soviet leaders.

Given the importance of Southwest Asia to the stability of the world economy we think that strengthening Turkey is vital in this regard.

Mr. Chairman, that concludes the remarks that I would like in open session.

I have brought with me some additional detail on the status of Turkish forces and at an appropriate point, if it is agreeable to the subcommittee, I would be pleased to present some classified information.

[Mr. Perle's prepared statement follows:]

PREPARED STATEMENT OF HON. RICHARD N. PERLE, ASSISTANT SECRETARY OF DEFENSE (INTERNATIONAL SECURITY POLICY)

Mr. Chairman: I have the honor to come before the subcommittee today to discuss security assistance for our southern flank NATO Allies—Spain (NATO's newest member), Portugal, Greece, and Turkey. These allies have important strategic missions to perform, but these countries cannot be themselves finance the fulfillment of these roles. These allies therefore need U.S. assistance to supplement their own contributions to Western security. This assistance is among the most prudent and most

efficient forms of national defense expenditures. It contributes substantially to our own national security interests and to world peace.

Perhaps because this assistance is sometimes loosely labeled "foreign aid," implying a giveaway, security assistance is seldom recognized for the invaluable strategic investment it is. Most of the security assistance we provide is in the form of guaranteed loans at market rates of interest. These loans finance purchases of U.S. goods and services. Consequently, the cost of security assistance is much less than the bald numbers seem to indicate.

The United States benefits greatly from our security assistance program. First, security assistance decreases the costs of certain programs and missions vital to our national defense—our allies are in many cases capable of performing specific missions and implementing certain programs less expensively than we can. Second, we increase our defense flexibility—helping our friends and allies acquire the means to defend themselves makes possible the performance of certain important regional tasks that would otherwise remain undone altogether. Third, there is the crucial strategic cooperation—regarding, for example, base or facility rights and intelligence sharing—for which security assistance lays the groundwork.

Few other programs provide us with as much return on our investment. What we are proposing is minimal in light of the deficiencies that must be addressed. Cutting needed security assistance programs is false economy. The punative savings are more than offset by the increased amount which would be needed for our own defense budget.

I would now like to turn to the specific proposals for assisting our southern flank NATO allies.

The administration is proposing $400 million in foreign military sales credits for Spain, the same amount authorized for Spain in fiscal year 1983. These credits will help our Spanish allies modernize their armed forces and are an imporatant element in the overall U.S.-Spanish security relationship. Another element in that relationship is the recently concluded U.S.-Spanish base rights agreement. This agreement is awaiting ratification by Spain's parliament. It was signed in July 1982. Spain became a NATO member in May 1982. The path is now open for Spain's integration into the NATO command structure. This step would permit joint planning in peacetime and close cooperation in time of war.

The Reagan administration is working to enhance our security relationship with the Spanish Socialist Party government, which took power after national elections last October. When we negotiated for U.S. use of several valuable Spanish bases, our Government pledged its best efforts to help Spain obtain the credits it needed to purchase U.S. military goods and services. Through the present proposal, we aim to fulfill that pledge.

Our fiscal year 1984 military assistance request for Portugal is $105 million. As the subcommittee members know, Portugal has stood by the U.S. in times of crisis with singular steadfastness. Portugal is an important NATO ally which shares our commitment to the defense of the West. It has made available its strategically located airfield at Lajes in the Azores. Lajes is an especially valuable facility which can be used in a wide variety of contingencies. Negotiations to extend our agreement began in December 1982, but have been delayed by the resignation of the Portuguese Government. We anticipate that negotiations will resume after the April 25 elections and culminate in a new agreement. The much-needed security assistance we provide Portugal demonstrates that the United States recognizes the value of the U.S.-Portuguese relationship. With the aid of other NATO allies, U.S. security assistance will help Portugal acquire a second A-7P squadron, construct three modern ASW frigates, and upgrade 43 tanks to the M48A5 configuration. This assistance will smooth the way toward a new U.S.-Portuguese base rights accord. It will help enhance the ability of the U.S. and NATO forces to conduct many essential missions, including rapid long-range airlift to Europe and beyond.

The administration's security assistance proposals also affect the delicate base negotiations between the United States Government and the Papandreou government in Greece. The future of the U.S.-Greek security relationship hinges to a large extent on the successful completion of these negotiations. Be assured that this administration enormously prizes our country's deeply rooted amity and long history of cooperation with Greece, and will continue to work constructively to make these negotiations a success. The benefits of U.S.-Greek security cooperation to both parties, to NATO and for stability in the Aegean are large and evidently impressive enough in Athens as well as in Washington to give us reason to expect a new base agreement in the near future. In this regard, it is difficult to overstate the importance of close collaboration between the Congress and the administration.

Though the administration is now requesting $280 million in military assistance for Greece for fiscal year 1984, Greece's security requirements could justify an increase about this level. Though the Greek economy is strong, compared to other nations in the area, Grece lacks the resources to maintain its aging equipment in a reasonble state of readiness while simultaneously modernizing its forces.

For reasons that are undoubtedly clear to the subcommittee, the administration finds it necessary to defer any such increase until the base negotiations are concluded. The base negotiations and assistance levels are all part of the general U.S.-Greek security relationship. We all want this relationship to produce greater mutual benefits and it is therefore crucial that the elements of the relationship advance in proper sequence. Our friends in the Greek Government understand our position and, I believe, respect it, for it represents our best hope of rallying support in both the American and Greek political arenas for a more harmonious and fruitful U.S.-Greek relationship.

Lastly, I would like to discuss Turkey, which is clearly in great need of our help, and which has unique geostrategic importance. Turkey anchors the critical southeastern flank of NATO, and is charged with the critical mission of bottling up the Soviet Black Sea fleet, which otherwise could tip the military balance in the Mediterranean. Turkey also abuts potential lines of Soviet advance through northwestern Iran toward the Persian Gulf. The Soviets have massive forces deployed in the Transcausus, posing a threat of intimidation or potential agerecsion in the area, which Turkish forces are ill-equipped to deter or thwart.

It should be noted that the Warsaw Pact forces facing Turkey have been steadily modernized despite a deterioration in Turkish capability. This dangerous situation can be corrected with our help and that of other allies, such as the Germ . Federal Republic which is doing a great deal, and we hope will do more in the future. Turkey has the largest standing military force of any NATO ally, but needs to modernize its forces to capitalize upon the human resources Turkey is dedicating to the alliance. Turkey desperately needs our help. I say help because some forget Turkey's outstanding record in bearing the burden of defense. Turkey has the highest real increase in defense spending over the last ten years of any NATO nation (105 percent).

Turkey is making a valiant effort to keep equipment operational. However, almost all major items are obsolete. This includes not only weapons systems such as tanks, ships and aircraft but communications and support equipment as well. In the army almost all tanks are 90MM with limited effectiveness and gas-powered with short range, only 1 percent of critical anti-tank weapons are modern, 89 percent of short-range air defense weapons are 1940 vintage or earlier and 93 percent of FM radios are unsupportable. In the navy all destroyers are ex-U.S. World War II ships and 75 percent of submarines are over 35 years old and at the end of their operational usefulness. In the air force 70 percent of fighter aircraft are pre-1970 vintage, and there is no modern ground air defense for bases. This obsolete equipment not only reduces combat effectiveness but also increases operations and maintenance costs.

Our proposed program was devised with many considerations in mind, including the importance of stability in the Aegean. It will accomplish several things which are of direct benefit to the United States. We will assist Turkey in implementing agreed NATO force goals and thus enhance its ability to perform its NATO missions. A strengthened Turkey would be an increased deterrent to possible Soviet expansion into the Middle East and Southwest Asia. Improvements in Turkey's air defense capability help protect the U.S. Sixth Fleet in the Eastern Mediterranean. Lastly, the program will result in the purchase of a new fighter aircraft and other equipment from the U.S.

I would like to be able to conclude by stating that, if Congress approves our whole security assistance proposal, all of the recipient countries will be albe to fulfill their NATO tasks. Unfortunately, I cannot conclude that way because it is not so. Even if all these proposals are approved, critical force deficiencies will still exist in NATO's southern flank. We have proposed only what we had reasonalbe hope of obtaining. Our program is sinew and bone. We respectfully urge that it not be cut.

FMS INCREASE FOR TURKEY AND FROZEN LEVEL FOR GREECE

Mr. HAMILTON. I will keep that request in mind, Mr. Secretary.

Under the rules of the committee we have to have a vote after a quorum is here. When a quorum is here we will suspend for a few

minutes to take a vote to go into executive session. We will do so after the close of public testimony.

Thank you very much each of you for your statements. Let me begin with a few questions on the Greek-Turkish requests.

The first thing, of course, that strikes us which you both referred to is the very large increase for Turkey over what was provided in 1983, at the same time a static or frozen level for Greece.

Now, in the past we have had a rough kind of 10-to-7 ratio. I understand that you do not accept that, but at the same time we have had it in the past. When you combine the proposals before us from the administration for Turkey and Greece with the further fact of not achieving any progress in resolving the Cyprus problem, you clearly have the possibility of some difficulties, I think you appreciate, here in the Congress.

So, the question then is: Why are you freezing these programs for Greece? Why are you asking for such a huge increase for Turkey? Why is that in our national interest to do it that way? Why aren't these two NATO allies, both important to us, receiving equal treatment. Or at least the same kind of treatment that they have had in the past.

Mr. BURT. Mr. Chairman, you have asked several questions there. I will try to answer a few and then Mr. Perle may want to embellish a little bit on the rationale for the increase for Turkey.

Let me begin by saying that you are correct, this is a unique year, if you want to put it that way, in terms of our handling of the Greek and Turkish requests. We recognize that inevitably there is a relationship between the two.

It is unique mainly because we are in the process, as I stated in my opening remarks, of working out, hopefully working out a new security relationship with Greece. We are in the process of negotiating a new defense and economic cooperation agreement.

Our negotiator, Reginald Bartholomew, is in fact in Athens now. He has been carrying on these negotiations now for almost five months. He is at an important phase in these negotiations. In putting together this year's security request we had, of course, to keep that in mind.

We wanted to put together our request in such a way as to maximize the opportunities of sustaining a strong United States-Greece security relationship. In other words, we didn't want to put together a request in such a way that it would undercut our negotiator.

As I said in my opening remarks, the President has decided that we will be prepared to come back to you, Mr. Chairman, and come back to the Congress with an additional request for Greece in the context of an acceptable base agreement.

SEVEN TO TEN RATIO

Now, you are correct, we do not accept the principle of the 7-to-10 ratio between Greece and Turkey. It might be worth saying a few words why we don't accept that principle.

The idea of a regional balance between Greece and Turkey is a factor in our security assistance decision. We recognize it has to be taken into account. The problem with 7-to-10 ratio is that that bears little relationship to the overall military balance.

For one thing, it only takes into account the security assistance given by the United States to the two countries. The two countries are able to obtain hardware and military equipment elsewhere. They have differing capacities to buy commercially.

It does not tell you very much about the disposition of the two sides' forces and how they are deployed and their relative capabilities. So, a balance is a factor and it is an important factor in how we think about our security assistance decision. The 7-to-10 ratio we think does not provide us a good guidepost for maintaining that balance.

Having said that, I want to underline that we do want a successful base negotiation agreement. We do value very highly our military and security relationship with Greece.

We do want to handle our security assistance request this year in such a way that we maximize opportunities to obtain that agreement. This is why we have straightlined Greece for the time being, recognizing that our request for Greece could change pending the results of a successful agreement.

UNITED STATES-PORTUGUESE BASE NEGOTIATIONS AND INCREASE FOR PORTUGAL

Mr. HAMILTON. One of the things that strikes you when you look at the request before us today is that although you have straightlined Greece because, as you suggest, of the base negotiations, and I think that is an understandable position, you nonetheless have increased Portugal with whom you also are engaged in base negotiations.

How do you distinguish those two cases?

Mr. BURT. I will be quite candid. None of these situations, of course, is the same. They are all uniquely different. As I was saying, we are now in an important phase of our negotiations with Greece. Those negotiations have been underway for some time.

The Portuguese situation is not quite the same. We have had some preliminary discussions with the Portuguese. There have been some political changes in Lisbon and there will be elections soon. We do not expect to really be able to get to the negotiating table with Portugal until those elections are held. So, the two situations are out of synch.

Also, we over the years have done a fairly adequate job in responding to Greek security assistance requests. As I indicated before, we are prepared to do an adequate job this year in the context of an agreement.

I can't say the same thing for Portugal. Portugal I think over the years has not received sufficient attention.

The Congress is not to blame for that. I think the U.S. Government as a whole is to blame for that. We are recognizing that problem and we are recognizing the special problems of the Portuguese economy.

I don't think it is often recognized that the per capita income of Portugal is half that of Spain. Given the fact that we want to help consolidate democracy in Portugal, and that Portugal is in a very strategic location, especially the bases in the Azores, we think that this increase in the Portuguese context to recognize their impor-

tance is the way of creating a proper kind of framework for the initiation of a successful negotiation.

We are in a very different process or point in the process in the case with Greece.

TURKEY-GREECE AID LEVELS

Mr. HAMILTON. Mr. Perle, do you want to comment on the Turkey-Greece aid level?

Mr. PERLE. Yes, Mr. Chairman, simply to say that the figure for Turkey is the product of some intensive scrutiny of Turkish requirements.

Discussions with the Turkish defense establishments and our military and insistence on our part that the Turkish modernization program, which is a broadly based program, will be carried out with a level of efficiency that we don't always achieve in our own forces because the funds are so scarce.

We are insisting that the Turks, wherever possible, upgrade existing equipment, purchase new equipment, and much of the funds would be used for that purpose.

They would acquire hopefully some used aircraft as part of the modernization from the United States and perhaps elsewhere. It is a minimum figure, less than we believe Turkey needs and significantly less than we would like to be able to make available, and given the realities of the budget overall, we thought this was the best we could do.

We wish we could do better. We think a close look needs to be taken at Greek requirements as well.

Setting aside for the moment the special situation that applies in the midst of negotiations, the 7-to-10 ratio or indeed any other ratio does not begin to express what we think ought to be the determining principle here which is the minimum level of assistance necessary to enable our allies to carry out their agreed NATO missions.

You can't derive that by reference to any arbitrary ratio. It is for that reason that we take exception to the concept of an arbitrary ratio.

VOTE TO GO INTO CLOSED SESSION

Mr. HAMILTON. I will ask the witnesses to suspend here. We have had a request from the witnesses to go into executive session at the close of the public part of our meeting this morning.

Under the committee rules, that requires a vote of the subcommittee members. So the Chair will entertain a motion.

Mr. WINN. Mr. Chairman, I move the subcommittee go into executive session as soon as the public hearing is completed.

Mr. HAMILTON. The rules require a rollcall vote.

Mr. VAN DUSEN. Mr. Hamilton.

Mr. HAMILTON. Aye.

Mr. VAN DUSEN. Mr. Lantos.

[No response.]

Mr. VAN DUSEN. Mr. Ireland.

Mr. IRELAND. Aye.

Mr. VAN DUSEN. Mr. Dymally.

Mr. DYMALLY. Aye.

Mr. VAN DUSEN. Mr. Torricelli.
[No response.]
Mr. VAN DUSEN. Mr. Smith.
[No response.]
Mr. VAN DUSEN. Mr. Levine.
[No response.]
Mr. VAN DUSEN. Mr. Winn.
Mr. WINN. Aye.
Mr. VAN DUSEN. Mr. Siljander.
Mr. SILJANDER. Aye.
Mr. VAN DUSEN. Mr. Zschau.
Mr. ZSCHAU. Aye.
Mr. VAN DUSEN. Mr. Chairman, on this vote there are six ayes and no nays.
Mr. HAMILTON. The motion is carried. We will go into executive session at the close of the public portion.
Mr. Ireland.

UNITED STATES-GREEK BASE NEGOTIATIONS

Mr. IRELAND. Thank you, Mr. Chairman.
Mr. Burt, will you flesh out some aspects of our negotiations with the Greek Government, in particular, regarding how this posture of a little bit now and the promise of some later will bring about satisfactory negotiations from our point of view?
I am particularly concerned as I learn more about the relationships that the current Greek Government has with the Soviet Union, scientific and other arrangements, and recent Soviet officials visiting Greece. I wonder whether this method is pushing the whole situation in the right direction and I am wondering what our view of the matter is.
Mr. BURT. I am pleased to hear of your concerns. We too are concerned.
Our principal objective in managing these negotiations is to sustain security relationships with Greece and to achieve a successful agreement. These negotiations are always complex. They involve different kinds of concerns, national concerns about sovereignty, questions about access and under what circumstances the United States can use military facilities, to what extent various arrangements are created for sharing and communicating with one another.
In additon to that, though, they do involve a certain quid pro quo, that we recognize—we don't like to formalize it, but we recognize there is a relationship between our ability to achieve our requirement in terms of access to any given country and our decision in terms of security assistance amounts.
One thing we are concerned about, and have been concerned about, is the trend that over time, in order to sustain our access in various countries, that we find ourselves paying more and more amounts of money. That is a long-term problem and one that we can't solve in any given negotiation.
What we are trying to do here is to give our negotiator a maximum opportunity to achieve an agreement.

Now, there are different ways, different options that we could have chosen for trying to achieve that agreement and looking at those different options, none of them looked very good.

One thing we could have done is tell the Greeks they were going to get the same amount this year, we are going to request the same amount this year as last year and if we get an acceptable agreement, we will take that into account next year. We decided that that was not probably very attractive to the Greek Government.

Alternatively we could have come in with a larger request for the Greek Government without achieving a base agreement, but that kind of approach would have meant that the Greek Government would have been able to accomplish its objectives in the negotiations without having to sign an agreement, and that certainly is not in our interest because we are concerned about not simply Greece, we are concerned about Soviet diplomatic, military, and economic activities in the whole sector of southern Europe and one way we deter that is to maintain a strong relationship and to reach a new agreement.

What our negotiator believes and what our Ambassador in Athens believes is that the approach we are taking, that is, asking for the current figure and in the event of an acceptable agreement, one that the President is willing to support, coming back to you for an additional amount. That is the way that logically enhances our negotiator's position.

These are very tough negotiations. There is a lot at stake politically and economically for these countries.

Our negotiations with Greece on two previous occasions, with former governments in Greece, have failed. We were to reach an acceptable agreement. So we are following an approach that we think will give us the best chance.

I don't want to predict that we will. We may not get an agreement. But certainly I think this is the best approach.

GREEK-SOVIET RELATIONS

Mr. IRELAND. Would you comment in a little bit more detail on any initiatives of the Soviet Union in Greece, such as scientific agreements, and your view of the vulnerability to us from such initiatives?

Mr. BURT. I probably would not want to say too much in open session, nor would I want to suggest that we fear that Greece is especially susceptible to Soviet blandishments.

Greece is an important ally and they are a member of NATO. At the same time the Soviet Union has paid, I think, the government in Athens, special attention.

They have noted, for instance, that that government has supported some Soviet disarmament proposals such as a Balkan nuclear-free zone. They did have a recent high level Soviet visit. This, I think, is pretty typical of the kind of Soviet peace offensive or propaganda offensive that they are waging throughout Europe.

In fact, we recently had a visit of a senior Soviet foreign ministry official to Turkey. So they are covering all bets. It just, in our view, underlines the importance of maintaining our presence in these

countries, of working with them in every sphere including the security sphere.

CYPRUS SOLUTION

Mr. IRELAND. You mentioned earlier that the economy in Cyprus was improving. But it seems that the prospects for a solution to the problem have not improved, particularly when the kind of meetings that previously had been going on between the Turkish Government and the Greek Government have stopped.

Is that going to be a part of these negotiations? Are we going to get any help toward a solution there?

Mr. BURT. I would certainly hope that we will get progress. The Cyprus problem is not a part of the United States-Greek negotiations. It indirectly, of course, is a factor. We are concerned about the continuing situation on Cyprus. We are doing what we can to bring about some resolution.

There have been some impediments. You mentioned one of them. The difficulty of getting a Greek-Turkish dialog going. I don't think it is helpful in public to sort of say who is at fault, but it is helpful to say as a government official that we think that dialog is important and we would like to see it get underway.

Second, there is a process on Cyprus itself and it is a process that is under the rubric of the United Nations. We think it is so important that we have a special Cyprus coordinator that the State Department has named and he keeps in very close touch, both with the thinking of the authorities at the United Nations that are working on this problem as well as Greek and Turkish views and the Greek and Turkish communities on Cyprus

There has been a recent election on Cyprus. We knew before that election it would be difficult to get progress in the inter-communal talks. Now that election has been held we hope the talks will begin to make some progress.

Mr. IRELAND. Thank you.

Mr. HAMILTON. Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

OTHER SOURCES OF MILITARY AID TO GREECE AND TURKEY

What military aid does Turkey receive from other sources and what military aid does Greece receive from other sources?

Mr. PERLE. Turkey has been receiving assistance, principally economic assistance, from the Federal Republic of Germany. Turkey also has been receiving equipment that is no longer regarded as serviceable by some other NATO allies which they have been compelled, by virtue of the state of their equipment, to press into service nevertheless.

While most of the German assistance is civil, there has been some $52 million a year in military assistance from the Federal Republic of Germany.

Finally, the NATO infrastructure program under which facilities are built and maintained ends up or can end up- it varies from one year to another—in a net transfer to any recipient country. In the case of Turkey there is quite a lot of pending activity under the

NATO infrastructure program, which, carried out, would represent a contribution from the alliance as a whole to Turkey.

Greece is in a much stronger economic situation with a per capita income three to four times that of Turkey. So they have not had quite the same pressing need for the kind of assistance that the Turkish have gratefully received.

Aircraft that have been transferred to Turkey from other NATO allies would probably not be welcome in the Greek Air Force.

Mr. WINN. Do you have any figures on the Greek military aid?

Mr. PERLE. I will be glad to supply that for the record.

[The information follows:]

Greece continues to receive security assistance from other sources [illegible] complete data we have reflects 19[illegible] deliveries totaling an estimated $[illegible] from six nations. The following is a list of delivered equipment.

Country	Equipment	Value (Millions)	Terms
China (Taiwan)	50 light trucks	$0.6	Commercial sale.
France	14 armored infantry fighting vehicles	39.0	
	14 armored recon vehicles	14.1	
Federal Republic of Germany	2 destroyers, 48 M48 tanks, 40 air defense guns, 900 utility trucks	17.5	Grant aid.
Italy	7 helicopters	4.0	Sale—commercial.
Netherlands	1 frigate	153.0	Do.
United Kingdom	1 naval trainer	2.5	
Total		221.7	

DECREASE IN AID FOR TURKEY

Mr. WINN. The chairman talked about the 7-to-10 ratio in aid to Turkey and Greece and I know you don't accept that. It is not in writing, it is not a binding deal, but it has been the desire of Congress basically to have that ratio.

Now if Congress were to cut aid for Turkey, would that put a ceiling on what the United States could offer Greece in the base negotiations?

Mr. BURT. Congressman, I think that is a useful question because we don't believe in the final analysis that we should make our programs for one country dependent on the other. A cut of the sort you are suggesting of the Turkish account would have that impact.

It would make it, in my view, more difficult for us to carry on our negotiations in Athens because, as you suggest, Congress in the past has accepted basically a 7-to-10 relationship and if the Turkish figures were substantially cut, that would give us less flexibility in how we handled, and I would assume how the Congress handled, the Greek figures.

I think that has to be taken into account as a factor that could not only influence the ultimate Greek amount, but it could complicate our efforts to achieve an acceptable agreement with Greece.

Mr. PERLE. Mr. Winn, if I may say so, a cut in the Turkish program, which as I indicated earlier, is already below what we believe is necessary, but that is, in the reality of the budget, would have a devastating effect on the Turkish ability to carry out its

NATO missions and therefore would represent a fundamental worsening of our own security. We would be very much opposed to that and we hope that you will find it possible to grant us the full request.

Mr. BURT. If I could just come back. In some ways if you add our two remarks together, a substantial cut in the Turkish account could jeopardize our security relationships not only with Turkey, but with Greece as well.

Mr. WINN. I am not suggesting we have a cut. I am suggesting that that is a possibility with the difference in the two figures.

AIRCRAFT REPLACEMENT FOR TURKEY

Now, what proportion of the 1984 funding for Turkey would go to fighter aircraft replacement? Mr. Perle mentioned that.

Are we talking about F-16's, F-18's, or the new F-20?

Mr. PERLE. No decision has been made yet by the Turkish Government. They are looking at all three of those aircraft as candidates. I think they are nearing a decision, but have not yet made one.

We have stressed in our discussions with the Turks the need on their part to develop a long-term modernization program that carefully balances the requirement for their air force, their ground forces, and their naval forces.

Mr. WINN. What kind of aircraft do they have now?

Mr. PERLE. The most modern of their aircraft at present are F-4's.

Mr. WINN. F-4's.

Mr. PERLE. F-4's of the type that we have been transferring now to the Guard and Reserve. That is their most up-to-date aircraft. Most of their aircraft are F-100's and F-104's. These are aircraft that no other air force, if they had a choice about it, would accept. They are aircraft built in the 1950's.

Often there are no spare parts available, so they have to be cannibalized in order to keep others in the air.

COMPARISON OF GREEK AND TURKISH NAVIES

Mr. WINN. How do the navies compare, the Greek and Turkish Navies?

Mr. PERLE. If I may answer that question in the context of the balance in the Aegean, we are persuaded in the studies that we have done and studies done by the intelligence community which all come to the same conclusion that there is a balance in the Aegean. In many ways the Greek maritime forces have an advantage.

Mr. WINN. What I am trying to do, Mr. Chairman, is to figure out in my own mind if the military balance between Greece and Turkey has changed since 1974. If so, how and why?

Mr. PERLE. On the whole we believe there is now a military balance. Let me say further that we do not see the imminence of armed conflict between Greece and Turkey.

Mr. WINN. Greece refers to it frequently.

Mr. PERLE. I think there are apprehensions in the region and the apprehensions are understandable. We like to think of ourselves as

objective observers of the situation and we have not observed the kinds of menacing activities that would justify fears of imminent military conflict.

We don't expect that to happen. One reason we don't expect it to happen is that we see no desire for it to happen on the part of either of the parties. Beyond that there is now a reasonable military balance.

If anything, the situation has moved somewhat to favor Greece in recent years and this is partly the result of the continuing obsolescence of Turkish military equipment and that is a situation that simply gets worse every year.

Mr. WINN. Thank you very much.

Mr. HAMILTON. The subcommittee will stand in recess while we go to vote. On our return I will recognize Mr. Dymally.

[Recess.]

Mr. HAMILTON. The subcommittee will come to order.

Mr. Dymally.

CYPRUS SOLUTION

Mr. DYMALLY. Thank you very much, Mr. Chairman.

Mr. Burt, like you, I am concerned about the presence of Russians in Afghanistan.

How do we reconcile our increasing aid to Turkey without attendant pressure upon them to resolve the dilemma in Cyprus?

Mr. BURT. I did not quite understand the reference to the Soviets in Afghanistan.

Mr. DYMALLY. We are opposed to foreign troops in a foreign territory. Is that correct?

Mr. BURT. I think that the easiest answer to that question is that that has been tried. We have tried to bring pressure of that sort.

The U.S. Congress voted an arms embargo against Turkey which had the effect of badly setting back Turkey's own military capabilities and did not have the desired effect of bringing about greater flexibility on the part of Turkey on Cyprus.

It had precisely the opposite effect. The arms embargo was not on for a few months, it was on for several years. I think that the Congress in its good judgment recognized that in 1978 when it took the decision to lift that embargo.

The burden of proof now is on those who will say that somehow another embargo or some other form of pressure will force Turkey to do something that it obviously does not want to do or wants to do in the context of a negotiated settlement.

You and I could argue all day about the rights and wrongs of Cyprus and the problems of the Greek Cypriot community and problems of the Turkish Cypriot community and recall the Turkish military action on Cyprus took place after a Greek coup attempt when there was a military dictatorship in power in Athens.

But that is history. We want to do now two things. We want to protect U.S. security interests in the eastern Mediterranean and we want to bring about a peaceful resolution of the Cyprus problem.

We believe the best way to do that is to work very closely with both the Greeks and the Turks, and especially to support the intercommunal talks that are underway.

Holding up funding, threatening behavior by the United States against its close allies does not usually work. It certainly has not worked in the case of our relationship with Turkey.

COST TO TURKEY OF MAINTAINING TROOPS ON CYPRUS

Mr. DYMALLY. How much do you suppose it is costing the Turkish Government to maintain the troops on Cyprus who are supplied with American weapons?

Mr. BURT. For the most part they are using American weapons. I can't estimate the cost. I don't know how relevant that will be because I would presume those forces would be maintained regardless of where they were.

There is a similar argument, people talk about cost of maintaining U.S. forces in Europe. It costs just as much to maintain those U.S. forces in the United States.

Mr. DYMALLY. And then the prohibition against the use of our weapons in unauthorized ventures?

Mr. BURT. I am not personally going to take a position on that because I haven't looked into the matter. I will simply say that what we are doing here is going back to a very complicated situation in the summer of 1974.

I don't think it is the position of the Reagan administration to point blame or to point a finger at one or the other parties. We recognize that we had to accept the reality of that situation and we are working for a solution.

We are not trying to inflame it by saying people are right or wrong.

ADMINISTRATION POSITION ON RESTORING 7-TO-10 RATIO

Mr. DYMALLY. What do you think will be the administration's position if the Congress restores the 7-to-10 ratio?

Mr. BURT. The Congress, of course, can make these decisions. I think that our position would be that we want to get the request that we have submitted for Turkey and we are prepared to look at the possibility of additional amounts for Greece in the context of an acceptable base agreement. That outcome might look something like a 7-to-10 ratio.

Mr. DYMALLY. Probably the sweetener that the Greeks need now is a 7-to-10 ratio. If restored to 7-to-10, it might move them a little faster in negotiations.

Mr. BURT. If you restored the 7-to-10, in my view, before we have an acceptable base agreement, you would do just the opposite, you would not get a base agreement.

What incentives would exist to negotiate an agreement?

Mr. DYMALLY. That we took a very positive and constructive step forward.

Mr. BURT. We are in a political situation where the Prime Minister of Greece has told his own population that these negotiations involve the liquidation of the American military presence in Greece.

I think that this is a negotiation and we are not talking about carrots and sticks. You have been involved in negotiations, I have been involved in negotiations. Certainly it is the view of our negotiator that he would lose his effectiveness if we preemptively came forward with an additional amount for Greece and we did not view such a step in the context of an acceptable agreement.

AEGEAN NEGOTIATIONS

Mr. DYMALLY. Let me shift to the Aegean Sea. That is a source of major controversy betweeen Greece and Turkey. There was a report in December that a meeting took place between the foreign ministers.

Mr. BURT. I do not think it did. We have indications of why that meeting did not take place, but perhaps if we are going to go into executive session following this meeting we could talk about that.

Mr. DYMALLY. The other question has to do with the application of international law as it relates to airspace. That is another area of controversy. The Greeks have a unique interpretation of it.

Has that been resolved at all?

Mr. BURT. I know that the two sides do differ and there have been proposals by one or the other to have them adjudicated. My understanding is that there is not now any process underway to resolve that difference.

We, of course, would like to see that difference resolved; and if it can be resolved through bilateral negotiations or if it can be resolved in some other manner, fine.

GREEK-TURKISH DIALOG ON BOUNDARIES

Mr. DYMALLY. The Turks at one time expressed an interest in working out some mutual agreement with the Greeks to give some assurances about the integrity of their boundaries.

Do you know what happened to that overture?

Mr. BURT. There have been suggestions over the past years that there should be a high level Greek-Turkish dialog. So far that dialog has not gotten underway. We are highly supportive of such a dialog.

Mr. PERLE. If I may say, both Greece and Turkey as members of the United Nations are pledged to observe the territorial integrity of other countries.

INTERCOMMUNAL TALKS

Mr. DYMALLY. Can you give an update on the intercommunal talks and what is our position?

Mr. BURT. Unfortunately, those negotiations have not gone very quickly, mainly because of internal developments on Cyprus. As I was saying earlier, we hope that now that elections have been held in Cyprus, that those talks can now begin to move ahead.

There are a variety of different issues and discussions. They involve, of course, different forms of arrangements for political decisionmaking between the different communities on Cyprus, financial matters, and the like.

We are playing as supportive a role as possible and our view now is that it is time for those talks to make progress.

F-20'S FOR TURKEY

Mr. DYMALLY. Mr. Perle, the sale of the F-16's has been a source of controversy for every nation. You sell to one, the other nation is unhappy.

Are you considering the F-20 because of the defensive nature as a less offensive—I use that word politically—weapon?

Mr. PERLE. My own view is that the F-20 is an aircraft very well adapted to the defensive needs of a number of countries. I very much regret the fact that the F-20 is not yet in production because until it is in production the United States does not have available a relatively low cost, relatively easy to maintain aircraft with modern military capabilities.

It is an extremely able aircraft. We have urged the Turks to look at the F-20 as an option and I believe they have done so. There was a Turkish delegation in the United States recently and they had occasion to fly the airplane. The F-20 is an aircraft that we think would well suit the purposes of a number of countries, including Turkey.

Mr. DYMALLY. You recognize the reason they are not in production is because they used private sector money, they did not have any DOD advances, and therefore unless they begin to sell some of these there won't be any production lines rolling.

The fact that they went ahead and invested their own money, it seems to me, is sufficient incentive, given the private sector bias of this administration and the fact that it is technologically a good piece of hardware, it is sufficient incentive, at least in the context of this administration's philosophy, to proceed with that sale.

Mr. PERLE. I very much accept your point. The F-20 is a far more capable aircraft than its public image. It is in some ways an ironic victim of the arms export policies of the previous administration.

Under the previous administration you had to show that an airplane was not militarily capable in order to get administration approval to sell it. Unhappily the F-20 acquired an image which does not do justice to its real military capability.

TURKISH-SOVIET RELATIONS

Mr. DYMALLY. What is the relationship between Turkey and Russia?

Mr. BURT. I would answer that starting with the fact that of course Turkey is a very loyal, fully integrated member of the NATO alliance. It has taken a staunchly supportive position on the most important allied questions including the December 1979 decision to seek an arms control agreement on intermediate-range nuclear forces and in the absence of that agreement to go ahead with deployment.

It, I think, is respected by the Soviet Union. The Turkish forces are seen as hard fighting and reliable forces by Soviet military commanders. Moreover, I think that the Turks have generated respect for their diplomacy in Moscow.

18-551 O—83——26

While they have supported us and have been loyal members of the alliance, they are an Islamic country, they have an Islamic dimension to their policy and they can thus be supportive of the western interests in the Middle East and Southwest Asia.

They do have a relationship with the Soviet Union. As I mentioned recently, a Soviet foreign ministry official visited Ankara and the report we have received from the Turks from that visit was that the Soviets took a very tough line, warned the Turks against continuing to support the United States on the December 1979 INF decision, and the Turks, I am told, took a very strongly supportive position, telling the Soviet Union that the deployment would proceed in the absence of an acceptable agreement.

Mr. DYMALLY. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Torricelli.

Mr. TORRICELLI. Thank you, Mr. Chairman.

TURKISH HUMAN RIGHTS SITUATION

I wondered what part the reports of Amnesty International of 30,000 political prisoners still in Turkey and the level of retribution against political elements in Turkey have played in this country's formulation of foreign assistance; to what extent there has been communicated our concern about political prisoners; and on the continuing reports of torture and the like?

Has that been communicated? How did that factor into this? What response have you got from Turkey?

Mr. BURT. Mr. Congressman, all of that has been taken into account in our decisions and I am very happy that you have raised this line of questioning. I would like to talk about the human rights situation in Turkey and what the Turkish Government has done about it.

I think the place to begin is the total chaos that existed in Turkey until 2 or 3 years ago when we saw almost a complete collapse of political order. We saw a situation where the civilian political parties were unable to form a government, where terrorism existed to such an extent that there were 25 deaths a day attributed to terrorism, and where the economy, due to these political and terrorist dislocations, was in a shambles.

The Turkish military authorities came into the government, as they have done in the past, briefly to pull things together. They have done so. They have put the economy back on the road and they have made significant economic progress.

They have also, I think, taken steps to correct human rights abuses, human rights abuses that the Turkish authorities themselves admitted existed and they have been candid about this.

Mr. TORRICELLI. Maybe you can update me on this.

Mr. BURT. Let me finish.

Because what they have done in this process, because the most important of human rights is the chance to stay alive, I think you will agree with me on that, they have corrected the problem of terrorism.

Another change in human rights is freer political expression and communications. What they have done there is, to the surprise of

many skeptics, many Turkish critiques, to come forward with a constitutional referendum.

It passed last fall by a vote of 90 percent of the public, which was a ringing endorsement for what the authorities had done and were planning to do.

In the next 6 weeks the first new Turkish political parties are going to begin formulation and the Turkish Government has indicated that they are going to have parliamentary elections by next October.

So, we are extremely satisfied with the progress that the Turkish authorities have made.

We recognize, as we did in our human rights report, that there are still some questions that need to be cleared up and we are always candid with our Turkish friends on these questions. But we believe that in terms of dealing with our friends, not just Turkey, but any friends on this question that candid, quiet diplomacy is the way to proceed.

I would certainly suggest that in the case of Turkey it has been very successful. I think the Turkish authorities have a lot to be proud of and the United States has a lot to be proud of as well in terms of our sophisticated handling of this problem.

POLITICAL PRISONERS AND TORTURE

Mr. TORRICELLI. Let me ask specifically. The figures that Amnesty International is now publishing of 30,000 political prisoners and last year 82 political prisoners being tortured resulting in their death in jail, do you not subscribe to those figures?

About 30,000 political prisoners makes El Salvador look like a local lockup in comparison.

You do not find those to be accurate?

Mr. BURT. I don't know that they are or not.

Mr. TORRICELLI. It makes it difficult to measure their progress.

Mr. BURT. I disagree with that very strongly.

Mr. TORRICELLI. If we don't know what the numbers are, how else do you measure progress?

Mr. BURT. I don't know that the numbers are accurate. You haven't given me any figures on what they were the year before or year before that.

Simply based on systematic studies, and I will be glad to bring Elliott Abrams about this, the situation has improved substantially, that the Turks have told us it would improve and it has improved. They kept their word.

You know, it is very easy sitting in Washington, D.C., when there is not widespread political terrorism, when people are not being killed at a rate of 25 people a day, to cast judgment in a situation like this.

Mr. TORRICELLI. I understand.

Mr. BURT. I don't know if you do.

Mr. TORRICELLI. I do and I would like to say so. What I am trying to say there is not progress, but the trends are not the only element here. If 30,000 political prisoners remain in jail and the fact is it might have been 35,000 last year, I do not put great hope in these numbers.

Would you agree that 30,000 people is a fairly significant problem still?

Mr. BURT. I don't know that those figures are accurate.

TROOP-CARRYING SHIPS FOR TURKEY

Mr. TORRICELLI. I noted that among those elements of American military assistance to Turkey in terms of naval units there were troop-carrying ships that have been supplied to Turkey.

Now, I understand the difficulty of making it appear that by our military and economic assistance, we are not subsidizing the occupation of part of Cyprus. It is difficult to still help Turkey and not appear to be doing that. But I also don't understand how, given the military situation in Turkey, a troop-carrying ship can be interpreted any other way than that we are aiding and abetting their illegal actions in Cyprus.

Could you tell me why that would be included in that assistance.

Mr. PERLE. I am not sure I understand the points of your concern. Is it your assumption troop-carrying ships only operate between the Turkish mainland and Cyprus?

Mr. TORRICELLI. My point is that if the military assistance to Turkey is to protect the integrity of their borders from Soviet onslaught, given the fact those borders are land borders, it is hard to see how the troop-carrying ships will fit in that posture.

Mr. PERLE. I can assure you that there are Turkish military operations and I could give you a long list of them that might well encourage Turkish military authorities to desire the ability to move troops from one point to another by sea.

Mr. BURT. Turkey does border on the Black Sea. I would imagine there are some potentially vulnerable areas along that coast.

Mr. TORRICELLI. Does this not just increase concerns that our military and economic assistance to Turkey in fact enables them to remain in Cyprus? Should we in fact not be more careful about the kind of assistance we are giving to Turkey and make clear its purpose?

Mr. BURT. I think we have done that. In fact, we saw the result of an effort to totally disassociate ourselves altogether from the Turkish military. We imposed a full-scale embargo. We even shut off most spare parts going to the Turkish military. It had no impact whatsoever on the presence of Turkish forces on Cyprus, no impact whatsoever.

I think in designing our program, as Mr. Perle has pointed out, we are principally concerned about a variety of important threats, not simply to Turkish territorial integrity, but our strategic interest in the region, our ability to maintain and project military power into Southern Europe, our ability to maintain stability in the Middle East and maintain important strategic relationships with other countries in the Middle East, our ability to maintain security relationships with Israel, our concerns over the potential implications of the Iran-Iraq war and what that conflict's implications would be for the Persian Gulf.

All of these I think are the principal factors that we take into account in designing our security request for Turkey. Those are the key factors and must be the key factors. I don't think we would

want to do anything that would directly suggest somehow that we favor a Turkish position over a Greek position.

Our whole effort on the Cyprus problem has been to be very pragmatic, to seek a solution, and it is a very difficult problem.

Mr. TORRICELLI. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Solarz.

RECENT TURKISH ELECTIONS

Mr. SOLARZ. Thank you, Mr. Chairman.

Mr. Burt, in the judgment of the Department were the elections that were held in Turkey last fall free and fair elections?

Mr. BURT. Yes, they were.

Mr. SOLARZ. You would consider the vote in favor of the new constitution and President Evren to be the legitimate expression of the will of the Turkish people?

Mr. BURT. Yes, I would.

U.S. POSITION ON TURKISH CONSTITUTION

Mr. SOLARZ. There was some criticism of the new constitution when it was adopted. My reading of it seemed to suggest that it was not fundamentally dissimilar from a number of other West European constitutions which provided for a very strong executive, including the French constitution under de Gaulle.

Does the administration have any reading on that? Do we consider the constitution that was adopted to be fundamentally a constitution compatible with the principles of democracy and political pluralism?

Mr. BURT. We do. Not only is the constitution itself compatible with democracy and the political process, but we were impressed by the way it was put together, the consultative process that went on, the fact that their government made decisions not to do things that it earlier wanted to do.

It was a genuine consultative exercise.

POLITICAL PRISONERS IN TURKEY

Mr. SOLARZ. Let me raise this question of political prisoners which my good friend from New Jersey touched on, because obviously this is a source of concern to many members of this committee and the Congress.

I don't know exactly how many people are currently incarcerated in Turkey, but based on my trip there in November, I came away with a very strong impression that the overwhelming majority of people who remain in prison are people who have been arrested due to their alleged involvement in terrorist activities which involved violence, acts of mayhem, sabotage, assassination, and the like.

These were not people who were picked up because they expressed opinions that were critical of the government.

Is that an accurate or inaccurate assessment?

Mr. BURT. That is accurate. In fact, sometimes labels here can be a bit confusing. We talk about political prisoners and sometimes the idea that the Turkish Government has rounded up unionists.

We have a picture in our head of people sort of participating in the political process.

In fact, most of these people have been accused of acts of physical violence.

Mr. SOLARZ. They ought to be tried and presumably they will be and due process will be accorded. I don't think it is quite fair to suggest that somebody who is accused of assassination or terrorism is a political prisoner. They ought to be tried.

Mr. BURT. My understanding is that most of these people have in fact already been tried and found guilty through their judicial process.

Mr. SOLARZ. Could you possibly for the record let us know to what extent you think there are any prisoners and if so, how many who have been put in jail in Turkey not because of accusations of violence and terrorism, but because of expressing criticism of the Government?

I think that is what most of us mean when we use the term "political prisoners." If there were a sizable number, that would be a source of concern to all of us.

Mr. BURT. Fine.

[The information follows:]

We estimate that the vast majority, certainly more than 95 percent, of the individuals serving prison sentences for martial law offenses were convicted either for personally committing violent, "terrorist" acts or on charges of membership in illegal, extremist organizations which carried out killings, bombings, arson, etc. While some journalists, former politicians, and others have been convicted of violating specific martial law statutes prohibiting public criticism of certain governmental activities, and on other purely political charges (a few such trials are presently underway), we are unaware of any individuals now serving sentences for such offenses.

Since the imposition of martial law in some Turkish provinces at the end of 1978 through January 31, 1983, a total of 30,000 persons have been convicted by martial law courts. Defendants in those courts are formally arraigned, have a right to counsel and an opportunity to defend the charge against them. Most trials involve offenses against criminal statutes pre-dating the military government, including prohibitions on working to overthrow the constitutional regime as well as common crimes. Of the 30,000 people sentenced, 12.5 percent have received sentences of over 5-years imprisonment up to the death penalty. Of the 110 death sentences handed down, 23 have been carried out and 87 await further appeals. (All death sentences must be ratified by the Consultative Assembly and ruling National Security Council.) All the death sentences have been for murder. As of January 31 there were 22,973 persons in prison: 7,435 serving sentences in military or civilian prisons; 737 under investigative detention; and 14,801 persons under formal "arrest" (arraigned and in custody pending trial).

COST ESTIMATE OF TURKISH MILITARY MODERNIZATION PROGRAM

Mr. SOLARZ. Let me ask Mr. Perle a question in terms of NATO's military needs.

The administration has asked us for a substantial increase in the level of military assistance. My own thinking is that that is long overdue. Turkey, together with Greece, is the key to the southern flank of NATO. We have a significant strategic interest here.

Could you give us an estimate of the total cost of a modernization program for the Turkish Armed Forces which would put it in a position to fulfill its NATO obligation?

Has that been priced out?

Mr. PERLE. We have looked at various modernization programs that would accomplish that purpose. It is a purpose we share. It de-

pends on how rapidly one wants to move. We would think that it would require assistance on the order of $1 billion a year over a sustained period.

Mr. SOLARZ. For how long?

Mr. PERLE. Over a decade or more.

Mr. SOLARZ. You are saying the total modernization requirement of the Turkish forces, if they were to be brought up to a standard compatible with NATO requirements, would be $10 billion?

Mr. PERLE. That would be the U.S. assistance program of that magnitude.

Mr. SOLARZ. That would not count the Turkish contribution?

Mr. PERLE. That is right.

Mr. SOLARZ. The point is with this increase there is still a long, long way to go?

Mr. PERLE. Yes.

Mr. SOLARZ. Could you possibly submit for the record a fuller description of what would be involved in a comprehensive modernization program and how you break out the cost?

Mr. PERLE. The details are still under discussion between us and the Turks.

[The information follows:]

This program would enable Turkey to improve its level of readiness over a protracted period subject to the slow (but anticipated) recovery of the Turkish economy. It would also provide an early and marked increase in the readiness of the southeast flank of NATO; and in the final analysis, a powerful signal of U.S. resolve to assist Turkey in military modernization.

Mr. SOLARZ. I gather your view is that substantial progress toward modernization of Turkish forces is indispensable in terms of shoring up the southern flank of NATO?

Mr. PERLE. That is right.

Mr. SOLARZ. One final question.

IMPACT OF RESTORING THE 7-TO-10 RATIO

As I am sure you know, there is a good deal of sentiment in the Congress for maintaining the traditional 7-to-10 ratio in military assistance to Greece and Turkey. If we were to approve a substantial increase in the level of aid to Turkey, there are many members who would feel it would be in the interest of the United States to maintain the 7-to-10 ratio which would require an increase of $248 million in the level of military assistance to Greece, assuming that we approved the total $755 million request of the administration for Turkey.

At the same time we have base negotiations going on with Greece in the course of which I gather the Greeks have indicated they would want a substantial increase in aid as part of the price for a continuation of our ability to use these facilities.

My question to you is this: How do we square the circle? What impact would it have on the base negotiations if we were to restore the 7-to-10 ratio, and add $248 million more for Greece prior to an agreement on base negotiations?

What impact would that have on our ability to get an agreement that is in the interest of the United States.

Mr. BURT. Congressman, you are correct. This question has come up before and what we have said this morning is that we believe that coming forward with any additional amount prior to achieving an agreement would jeopardize and hinder our opportunity to achieve an agreement.

Mr. SOLARZ. Why?

Mr. BURT. That is certainly the view of our negotiator. There would be very little incentive for the Greek Government to follow through and to agree with those things we have to achieve as an agreement to make it attractive to sign.

We both have requirements. It is obvious, as your question pointed out, that part of the Greek requirement is financial, part of our requirements are access and continuing ability to use our facilities there.

You would be cutting off our negotiator at the knees with a proposal like that.

Mr. SOLARZ. Suppose we condition our help on the successful conclusion of the base negotiations?

Mr. BURT. You have described the administration's policy and position on this. That is what the President wants to do. He is prepared to come forward with additional funding for Greece in the event we can achieve an agreement that is acceptable to him.

Mr. SOLARZ. How do you respond to the argument that this increase for Turkey could prejudice adversely the prospects for an agreement with the Greeks because it might be interpreted or has been interpreted by some people in the Greek Government as a kind of effort to blackmail Greece by virtue of the additional money we are giving to Turkey?

Were this proposal approved by the Congress, would it have an adverse impact on our ability to get an agreement with the Greeks on the bases?

Mr. BURT. You mean the kind of conditional statement you just described?

Mr. SOLARZ. Yes. I am talking about the increase in the level of aid for Turkey.

In other words, supposing we approve your request, $755 million military assistance to Turkey is a substantial increase.

Let us say we also included in that the restoration of the 7-to-10 ratio, but making it conditional on the successful completion of the base negotiation. If we were to do that, in your judgment, is there any merit to the argument that the increase to Turkey, even with the maintenance of the ratio, would have adverse consequences?

Mr. BURT. No, we don't believe there is. We have not seen any signs of it in the negotiations.

What we have seen in the negotiations is not unusual, that the Greeks are principally interested in what they are going to achieve from us in our bilateral security relationships.

Mr. SOLARZ. Is this the view of our negotiator?

Mr. BURT. Yes, and also the view of our Ambassador.

Mr. SOLARZ. Thank you very much.

Mr. HAMILTON. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

OTHER SOURCES OF AID TO GREECE AND TURKEY

Mr. Perle, can you tell us what aid is received by Turkey and Greece outside the United States in terms of other countries giving them either economic or military assistance, and the differences between the two countries, what they receive from whom, with particular regard to the Soviet Union?

Mr. PERLE. Let me say that Turkey is the recipient of aid from a number of countries. It depends on how you look at what is provided to them. They receive support in kind, of equipment from other NATO allies. They receive economic support and military budget support from the Federal Republic of Germany and through the NATO infrastructure program.

NATO MILITARY ASSISTANCE TO TURKEY

Mr. SMITH. Please be as specific to the extent you can. I understand you are dealing with figures you don't have in front of you.

How much in essence would you say that NATO gives Turkey in military assistance? Can you give me a ball park figure?

Mr. PERLE. It varies from one year to the next. The Germans supply $52 million a year. It would be total equipment and other support that comes to Turkey and I don't have a figure.

Mr. SMITH. There is also economic aid given to Turkey by members of NATO countries?

Mr. PERLE. There is OECD assistance, but that varies from one year to the next.

STATEMENT OF RUSSELL MISHELOFF, DIRECTOR, EUROPEAN AFFAIRS AND SPECIAL PROGRAM, BUREAU FOR NEAR EAST AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. MISHELOFF. For 1979-81 total assistance to Turkey of an economic nature provided through the OECD mechanism was approximately $3.1 billion. Pledges in 1982 were on the order of an additional $700 or $800 million.

NATO ASSISTANCE TO GREECE

Mr. SMITH. Would you contrast that against what Greece receives from NATO, either economic and military assistance from OECD or military assistance directly?

Mr. MISHELOFF. I have no figures on assistance to Greece. We provide no assistance of an economic nature.

Mr. PERLE. It might be useful to give you a couple of economic statistics about the relative economic strength of Greece.

Mr. SMITH. To me that would not be answering my question.

My question is: How much money does Greece get from the same sources as Turkey is getting it. That is part of the balance.

Mr. PERLE. I would not assume it is part of the balance. The reason why I sought to make a point is there are differences in the economies of the two countries, that the defense budgets are about the same. Turkey could not maintain that budget without assistance.

Greece finds it possible to do so because it has a much higher per capita income.

Mr. SMITH. It therefore makes the Greek level much higher as a percentage of their GNP than it would in Turkey?

Mr. PERLE. I can give you the figures if you would like. Defense spending as a percentage of GNP, as a percentage of gross domestic product is 6.9 percent in the case of Greece and 5.3 percent of Turkey for 1982.

Mr. SMITH. Let me ask the same question.

What do the NATO allies supply to Greece in the same vein that they supply to Turkey?

Mr. PERLE. I don't think this is a comparable program because the NATO allies as a whole have concluded that Greece does not require the kind of assistance that Turkey does.

SOVIET ASSISTANCE TO TURKEY AND GREECE

Mr. SMITH. What does the Soviet Union supply to either of the two countries, either in the way of economic assistance or military assistance?

Mr. BURT. There is certainly no security assistance. I am not aware of any important economic assistance to speak of. There are some bilateral economic agreements that the Soviet Union has with both countries, but they are probably technical exchange agreements not involving transfers of resources.

ADMINISTRATION POSITION ON RESTORING 7-TO-10 RATIO

Mr. SMITH. If Congress decides to maintain that ratio of 7 to 10, would the administration rather see an increase to Greece or decrease to Turkey or a combination of the two?

This is only an assumption that Congress is going to do what the administration has not proposed. This is not subscribing to what will happen, but what form would you prefer to see it take?

Mr. BURT. We have two basic goals, Congressman. One is to keep Turkey a strong member of the alliance and the second is to maintain our very important security relationship with Greece and to do both of those things, we believe it is necessary first of all to fully fund our request to Turkey and second, to achieve a base agreement that could lead to additional amounts of aid requested for Greece.

To answer your question, it would be, I guess it was the former option rather than the latter. That is, the full request for Turkey and if we can achieve an acceptable base agreement, an additional amount for Greece.

DIFFERENCE IN GREEK-TURKISH TROOP STRENGTH

Mr. SMITH. You may have covered this, and I apologize if you did, I was late, but I had only three committee meetings at the same time plus the floor vote.

What is the difference in troop strength right now under arms between Turkey and Greece?

Mr. PERLE I see that the information I have here is marked confidential. I will be glad to give you those figures in closed session. It may be that it is not necessary that they are confidential.

Mr. SMITH. I am not bound by the restrictions you have in front of you. My understanding is that there are 300,000 less in terms of Greek troops as opposed to the Turkish Army. That may or may not include the Turkish troops on Cyprus.

Do you believe that it is necessary for either Greece or Turkey to maintain such large forces, assuming my figures are correct and they may be totally incorrect because I did not get them from any top secret source. Maybe they could be more correct because they didn't come from any top secret source.

Mr. PERLE. Let us say they are not correct from any source, but they are not far off either.

Mr. SMITH. OK.

Mr. PERLE. We are rather pleased that the Turks are prepared to undertake the sacrifices involved in conscripting young Turks in the Armed Forces because every time they do that there is another soldier defending this country.

We would encourage them to maintain their strength in any way they can. They do it through a large standing army, in part because they lack the sophisticated modern firepower that might otherwise enable them to release the young men from that military service. They also have a tradition of military service.

Mr. SMITH. What about Greece?

Mr. PERLE. Again as NATO allies and partners of Greece, we are pleased that Greece maintains a defense capability. It is part of the overall alliance.

TURKISH THREAT TO GREECE

Mr. SMITH. Have you been informed previously by the Greeks over the years—I would assume you would have— that a large portion of their armed forces are under arms because of the fact they perceive a threat from Turkey?

Mr. PERLE. There is no question that there is sentiment in Greece that is based on the assumption that Turkey represents a threat to Greece. I don't believe that Turkey represents a threat to Greece.

I see no evidence it does. I have sat in meetings where the accusations were made to that general effect and the evidence that was cited consisted of statements that had been made 6, 8, 10 years ago and by minor officials in some cases.

We like to say we have the advantage of detachment from being neither Greek nor Turkish and our detached view of the situation is that Turkey does not have military designs with respect to Greece.

There are tensions as a result of day-to-day issues like the control of aircraft over the Aegean and issues of territorial limits and the like that reflect tensions between the countries, but do not in our judgment indicate imminence of war or conflict.

Mr. SMITH. My time has expired, but do you in fact feel that there is any value to the statement Greece should not be called Greece? You know, it is part of the Aegean, and that statement has been made by the Turkish leadership in terms of Greece.

It seemed to me to be something which would not be conducive to that kind of feeling that there could be cooperation.

Mr. PERLE. I don't know what statement you have in mind. The last thing we come here to do today is to sit in judgment of who is responsible for the tension existing between two countries.

I must say I have sat in ministerial meetings and watched Greek officials repeatedly, and in my judgment without provocation, make accusations about Turkey that have just not been supported by reasonable evidence.

Mr. SMITH. Thank you.

Thank you, Mr. Chairman.

FISCAL YEAR 1984 BUDGET OUTLAY FIGURES

Mr. HAMILTON. Gentlemen, I want to get in the record the budget outlay figures for these various proposals.

Will you give those to me for Spain, Portugal, Turkey, Greece, Cyprus?

Mr. BURT. Mr. Chairman, we are really not able right now to provide you the figures for the record. We are now working with OMB to do so. As soon as we do, we will have them.

Mr. HAMILTON. We are up against the gun here. We need an answer by Friday, if possible, Monday at the latest.

Mr. BURT. Mr. Chairman, we will get those to you as soon as we possibly can.

Mr. HAMILTON. Can you assure me I will have them by Monday?

Mr. BURT. I don't know. It is a little bit dangerous when dealing with OMB to assure anything. We will certainly try our best.

UNITED STATES-SPANISH BASE AGREEMENTS

Mr. HAMILTON. We start marking up Tuesday. That is the problem for us. We ought to have those budget outlay figures. I would very much like to have them by then at the lastest.

[The information follows:]

PROJECTED BUDGET OUTLAYS: FISCAL YEAR 1984

[In millions of dollars]

	ESF	IMET	MAP	FMS
Greece		0.9		(1)
Turkey	175	2.2	34.5	(1)
Cyprus	2 8.5			
Portugal	46.5	1.7	9	(1)
Spain	12	1.7		(1)

1 No on-budget outlays. Guaranteed credit program by Federal Financing Bank.
2 Includes fiscal year 1983 supplemental for scholarships.

Now, on Spain for a few minutes.

Is there any limitation in the agreement with Spain on the bases, forfeiting or restricting the use of those bases for American troop movements to the Middle East?

Mr. BURT. There is a variety, not of what I would necessarily call restrictions, but understandings that we have with the Spanish Government on procedures for consultation on different types of forces, including forces based in Spain, forces rotating from Spain to the United States and external forces, it is principally through

this process of consultation, of getting Spanish views and having them listen to our views, that those problems are being worked out.

I can't give you a black and white answer on what would happen in the event of a specific contingency.

Mr. HAMILTON. So in any given contingency it is possible that those bases might not be available to us for use?

Mr. BURT. That is possible.

Mr. HAMILTON. We don't have any assurance under the agreement that we can use those bases?

Mr. BURT. There are certain circumstances that we would have assurances, but again, as I said earlier, it is becoming an immensely more complicated process in negotiating these base agreements because countries understandably want to cover all bets.

We are certainly interested in maintaining maximum flexibility and our negotiators are instructed to do that. But their governments have their negotiators trying to achieve maximum control over what actually goes on on their soil.

Mr. HAMILTON. Was the protocol that was negotiated and added to the treaty a restriction that gave Spain greater control over the bases?

Mr. BURT. It did not, Mr. Chairman. It had no impact on the substance of our ability to operate in Spain. It only was a technical fix. When we negotiated the agreement with the previous government there was an assumption that Spain was a member of NATO.

As you know, the current government has not decided one way or another yet over whether Spain is a member of NATO. So the protocol leaves that question open. Other than that there is no change in the substance of the agreement, itself.

Mr. HAMILTON. So Spain then did not want the agreement to link Spain to NATO in any way?

Mr. PERLE. They want, as I said, to keep their options open.

I think there was a report yesterday which indicated that the government is planning a referendum on this issue, but they don't want to make a decision during 1983 because it is a difficult year for the alliance.

They felt that simply going ahead with the agreement as written, though, closed off options to them.

Mr. HAMILTON. They look upon it as a bilateral agreement and not a NATO agreement?

Mr. PERLE. That is right.

Mr. HAMILTON. Is that agreement going to be submitted to us and the Case-Zablocki Act that requires notification to the Congress?

Mr. PERLE. I assume it will be if it has not been done already.

Mr. HAMILTON. I am not aware it has been done. I think it has not been done. Maybe you ought to let me know when it will be done.

Mr. PERLE. Very well, Mr. Chairman, I will do that.[1]

---

[1] See app. 9.

U.S. ASSISTANCE TO SPAIN

Mr. HAMILTON. Now under the agreement Spain gets $415 million in assistance, $400 million of which is FMS financing, $12 million ESF, and $3 million in IMET.

Is that a sum that will be consistent throughout the life of the agreement?

Mr. BURT. What we have pledged to the Spaniards is our best efforts. What you have described is our request for the coming year. I wouldn't want to say that some specific amount of money is necessarily going to be funded for a successive number of years, but I think it is true that we think that this is our best effort for this year.

Mr. HAMILTON. You would anticipate that level for the future?

Mr. BURT. We would certainly want to try to achieve at least that level.

Mr. PERLE. Mr. Chairman, it may seem a fine point, but it is important that the funds that have been requested for this year were not agreed to in the context of that negotiation. We simply agreed to make our best effort. This year our judgment of the requirement is that this is consistent with our best effort.

SPAIN'S NATO ROLE

Mr. HAMILTON. What is your judgment now about when Spanish forces will soon assume a NATO role? Is that a matter of years?

Mr. BURT. It is really impossible to say because the Spanish Government is currently undertaking a review of its role within NATO. So they have taken an interim posture which says that they will continue.

You will recall Spain actually entered the alliance under the previous government. They began a process of integration. It would have been possible to talk about a schedule for integration. What has happened is that the current Spanish Government has essentially frozen the integration efforts as they undertake this review.

Pending the outcome of that review and the decision that the Government takes, they will then have to decide whether they are going to remain a member of the alliance or then move ahead with the integration process. So it could be some time.

Mr. HAMILTON. But the decision will be clarified this year?

Mr. BURT. No. In fact the Spanish Government has said that they do not want to make such an important decision in such a critical year for the alliance. Frankly, we think that is the right decision to make because we believe that it is important for the Spanish people to get a better sense of the contribution and the value of NATO membership, that they have moved into the alliance fairly rapidly and we think that time to think about alliance membership, time to get a better sense of what alliance membership means could be generally helpful. We are very clear about the decision we would like the Spanish Government to make and that is that they stay as a member of the alliance.

STATUS OF F-18 SALE TO SPAIN

Mr. HAMILTON. Last year the Spanish announced they were going to buy a large number of F-18's, 84 of them, I think.

What is the status of that sale now and will some of this FMS financing be involved?

Mr. PERLE. I am not certain as to the status. There have been reports, some as recent as this morning, that bear on that, Mr. Chairman. I just can't give you an up-to-date answer.

Mr. HAMILTON. When you gave us the figure of FMS financing recommendation, were you anticipating some of that would be for aircraft or for the F-18?

Mr. PERLE. Yes. We have looked at the total program. It is a part of it, yes.

Mr. HAMILTON. We would like an update on that as soon as you have that available.

Mr. PERLE. There is a review going on and therefore it is a rapidly changing situation.

UNITED STATES-PORTUGUESE BASE NEGOTIATIONS

Mr. HAMILTON. Now on Portugal, what are the issues that remain in the base negotiations?

Mr. BURT. There are a number of issues, Mr. Chairman, because we have so far only had technical discussions with the Portuguese and that process, which I believe began last December has been interrupted by political changes in Lisbon.

While there have been some technical talks, there really have not been high level negotiations and there will not be until the Portuguese hold their elections in April and we have a new Portuguese Government.

Mr. HAMILTON. Are we seeking base rights on the mainland?

Mr. BURT. We would hope to be able to increase our ability to use facilities on the mainland. This is something that we would like to address in those talks.

Mr. HAMILTON. Have the Portuguese accepted that?

Mr. BURT. I think they understand. Because the negotiations have only been technical so far, I don't think we can say clearly what the Portuguese's political position is on that question, particularly given the fact that once those negotiations get underway we will be dealing possibly with a new government.

LINKAGE BETWEEN AID FOR PORTUGAL AND BASE NEGOTIATIONS

Mr. HAMILTON. Now the economic assistance for Portugal is $40 million. Is that money a quid pro quo for the base access?

The reason I ask that is you say in your congressional presentation document that it is in support of the "mutual security understanding now being negotiated".

Mr. BURT. I think it is fair to say that it is part of the overall amount that we would want to be able to offer in the context of those upcoming negotiations.

Mr. HAMILTON. Is that $40 million a ceiling, or are we going to get an additional request in case we get access to facilities beyond the Azores?

Mr. PERLE. We have not separated in the discussions specific facilities and related them to specific levels of aid. We have talked to the Portuguese, as we did the Spanish and the Turks before that, about a willingness to make the best effort that we are capable of in light of their requirements.

It is simply not possible to equate a specific facility with a specific aid level.

Mr. HAMILTON. That $40 million is going to be spent in the Azores, is it not?

Mr. BURT. That is right. The bulk is because of the economic problems of the Azores.

Mr. MISHELOFF. Within the $40 million we would like to reserve a small portion for establishment of what we have elected tentatively to call the Luso-American Foundation which would enable us to continue technical exchanges, particularly in the private sector.

We have talked to the Portuguese at a technical level, but that is still to be negotiated.

Mr. HAMILTON. How much is that, $10 million?

Mr. MISHELOFF. That is correct.

Mr. HAMILTON. The balance would be for the Azores?

Mr. MISHELOFF. That is correct.

Mr. HAMILTON. What kind of things for the Azores?

Mr. MISHELOFF. As in the past, it would be a cash transfer. It would be transferred to the development budget of the Azores.

Mr. HAMILTON. Mr. Winn.

PROGRESS ON CYPRUS NEGOTIATIONS

Mr. WINN. Mr. Chairman, I have some questions on Cyprus, but because of the time, I would just as soon submit them in writing and go ahead with the executive session.

Mr. HAMILTON. Before we go into executive session, let me cover one other matter, if I may, on Cyprus on those negotiations.

We have had observations that we have a window of opportunity here on negotiations since the presidential elections have now been concluded there and the return to democratic elections in Turkey will occur this fall or next spring.

Do you see this period then as an opportunity for progress that is better than has existed for some time?

Mr. BURT. Mr. Chairman, I think that the political situation, as you pointed out, on Cyprus and in the region is probably or will be more conducive to progress there. I would not, however, want to raise too many expectations.

There are enormously difficult problems. Cyprus is one of the most difficult problems you can find and has all the elements of other disputes that are deeply ingrained.

Mr. HAMILTON. What could we do there to resolve them?

Mr. BURT. First of all, we tell ourselves that we are not the principal locomotive for a solution. I don't think that the United States in a case like this always has to provide peace plans and negotiate solutions.

With that said, we do have a vital interest obviously in the progress. The track we are now pursuing is to be as supportive as possi-

ble to the intercommunal negotiations which are underway which are principally organized under the auspices of the United Nations.

Mr. HAMILTON. They are not getting anywhere.

Mr. BURT. We still think that that is the best track, that if progress is going to be made this year it is going to be made there. We have a special coordinator for the Cyprus problem. He is in very close touch with the U.N.

Mr. HAMILTON. Something has to activate the discussions, Mr. Burt. Nothing is happening. I don't know whether that window of opportunity is there or not. It looks to me like it might be. I don't think we can depend on the U.N. mediator to get the job done. It will take some political push somewhere. It is not going to come from the United Nations. It is either going to come from us or I don't think it is going to come. I don't see where else it is going to come from.

Mr. BURT. We are willing to support a process to resolve these problems. I think you are calling for an initiative on our part. It is not, I think, our view now that an American initiative on Cyprus would be helpful.

Mr. HAMILTON. I am not suggesting necessarily that it be an American initiative. At the same time I think I have the sense that we have to become more active in it, perhaps behind the scenes, than we have been. I have the general feeling that this is a matter that has been very low on our list of diplomatic priorities for some time.

I also have the sense that nothing is going to happen unless we do move because I don't see that the Turks are going to do anything.

The U.N. does not have the clout to do it. My conversations with the mediator make me think that the United States has to become involved in some way.

So, I would like you to reflect on that.

Mr. BURT. Thank you. Thank you for those comments.

Mr. HAMILTON. Any other questions before we go into executive session?

AMOUNT OF TURKISH BUDGET FOR MILITARY

Mr. DYMALLY. Mr. Burt, how much of the Turkish budget goes to military assistance.

Mr. BURT. How much goes into military assistance?

Mr. DYMALLY. Military preparedness, military defense?

Mr. BURT. I think the statistics that Mr. Perle used was 5.8 or 5.3.

Mr. PERLE. That was a percentage of their gross domestic product. I should think it would be a substantially higher percentage of their budget. Twenty-two percent, I am advised.

Mr. DYMALLY. Thank you.

Mr. HAMILTON. Any further questions? If not, we will ask then that the room be cleared of all of our friends and the persons who are not cleared for the purposes of taking executive session testimony.

18-551 O—83——27

AID TO TURKEY AND 7-10 RATIO

Mr. DYMALLY. While that is being done, aid to Turkey includes an economic assistance package? That is not in the 7-to-10 formula. The formula could be 4 to 10. When you say 7 to 10 it is less than that when you include the economic package.

Mr. PERLE. That is right. The rationale for the 7 to 10, we were talking about military assistance somehow would affect the economic balance.

You have a gross per capita income of about $1,400 in Turkey and a per capita income close to $4,000 in Greece. The Turkish part of the assistance greatly exceeds that of Greece. The nature of the programs before us is that as you get richer you move out.

Mr. DYMALLY. Are you aware of what the Prime Minister said to the President?

Mr. BURT. That has been made public. Papandreou's letter to the President has been in the Greek press. We answered that letter.

[Whereupon, at 12:05 p.m., the subcommittee proceeded in executive session.]

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEARS 1984–85

TUESDAY, APRIL 12, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,
Washington, D.C.

The subcommittee met in open markup session, at 2:20 p.m., in room 2255, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Mr. HAMILTON. The meeting of the subcommittee will come to order.

The Subcommittee on Europe and the Middle East meets today to consider its recommendations to the Committee on Foreign Affairs. The full committee is scheduled to meet next week to begin its markup of H.R. 1850, the fiscal year 1984 foreign assistance authorization legislation.

Members have before them copies of H.R. 1850, the draft report of the Subcommittee on Europe and the Middle East, and a packet of nine subcommittee amendments. The Chair will offer these amendments at the appropriate time during our proceedings today. The Chair is aware that several members of the subcommittee have their own amendments which will also be offered during this session.

It is the Chair's hope that we can proceed rapidly. The House is scheduled to finish consideration of the nuclear freeze tomorrow and, therefore, I hope we can try to complete our recommendations today.

Members have before them the report. It is my intention to proceed section by section through the report. Minor word changes to the draft report can be provided to the subcommittee staff or the Chair. I hope we can avoid major additions or deletions to the draft report.

Before leaving each section of the report, we will vote our recommendations on the section and on assistance levels and other amendments contained therein. The report will not be made public until all members have agreed to it and language differences have been reconciled.

Now is there any question about procedures?

I think Mr. Levine wanted to make a statement, and at this point I recognize Mr. Levine.

Mr. LEVINE. Thank you, Mr. Chairman.

JORDAN'S REFUSAL TO ENTER THE PEACE PROCESS

I did want to make a statement at the outset of this markup session.

Mr. Chairman, it is appropriate that today's markup occurs only 2 days after King Hussein has again played Hamlet in the Middle East. For all of his promises, for all of his rhetoric, for all of his implications, we have again seen the tragic rejection and repudiation of the road toward peace.

President Reagan's September 1 initiative should have been called the Hussein plan. Assistant Secretary Veliotes, in testimony before this subcommittee, confirmed that King Hussein had at least several weeks to review, analyze and approve that plan. It clearly had his imprimatur. Israel, on the other hand, was told only hours before the plan was announced what it would contain. King Hussein appears to have rejected it anyway.

Egypt remains the only Arab country which has demonstrated a willingness to move toward peace with Israel. It is time to pull back from our policy of currying favor with states whose moderate rhetoric is not reflected in their conduct. We should assess where that policy is taking us and recognize that it has not been toward peace.

We should further recognize and remember that it is completely counterproductive and inappropriate to try to compel Israel to make policy decisions based on the quantity or quality of aid she will receive from this country. A vital element to peace in the Middle East is Israel's belief that she can count on the support of the United States. Continuing to try to link aid to Israel to compliance with demands of others, as this administration has recently tried to do on several occasions, can only undermine Israel's trust in the motives and dependability of the United States, and that serves no good whatsoever.

I think that it is time for this administration to call a halt to that policy, so that all parties can once again get back on the track toward finding peace in the Middle East, unencumbered by outside intimidation.

Thank you for the opportunity to make these brief remarks.

Mr. HAMILTON. Are there any other members who would like to comment?

[No response.]

MARKUP OF THE LEGISLATION

Mr. HAMILTON. If not, the Chair will proceed with the markup of the bill. I want to bring up the first amendment.

REQUIRED ECONOMIC REPORTS

The first amendment relates to the third recommendation on the first page of the draft report.

This amendment has been included in the foreign assistance legislation for 4 years. Countries whose economic performance has improved have been taken off the list and others are added. This year Israel is included because of its deteriorating economic situation and its very heavy debt burden. Egypt and Turkey are included be-

cause of the gravity of their debt situation. Lebanon is included because of the large needs of that country and its likely demands for U.S. assistance in the coming few years.

The amendment simply provides for annual economic reports for these countries. The list will be revised each year. So far as I know it is not a controversial amendment. I will ask if there is any objection to it.

[No response.]

Mr. HAMILTON. If not, the amendment is adopted without objection.

FUNDING LEVELS FOR ISRAEL AND EGYPT

The next amendment relates to the funding levels for Egypt and Israel. It is a complex amendment, four pages long, and its purpose is to earmark funds for Egypt and Israel for fiscal years 1984 and 1985. It covers both FMS guarantees, FMS direct credits, as well as economic ESF funds. It increases Israel's FMS forgiven direct credits by $300 million, and it increases Israel's economic support fund by $65 million.

On page 2, in the section entitled "Extended Repayment Terms for Egypt and Other Countries," also establishes extended repayment terms for Turkey and Greece. The figures for those countries, however, are not included in the amendment. Extended repayment terms for Israel are covered on page 3, lines 15 through 19.

Just to review with members, the figures for Israel. The economic support fund would be at a level of $850 million, the loan guarantee figure would be $850 million, and the grant figure will be $850 million. The loan guarantee and the grants together would total $1.7 billion for Israel. That amount of money is earmarked.

With regard to Egypt, the amendment provides $750 million in economic support, including $300 million for the commodity import program, and $450 million for developmental aid. For military assistance, it provides $850 million in the loan guarantees and $450 million for grants, and $2 million for IMET.

Is there discussion on the amendment?

Mr. LANTOS. I move that we approve the chairman's recommendations.

Mr. HAMILTON. I think on this amendment we will have a vote. All those in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. All opposed.

[No response.]

Mr. HAMILTON. The ayes have it, and the amendment is adopted.

Mr. DYMALLY. Mr. Chairman.

Mr. HAMILTON. Mr. Dymally.

Mr. DYMALLY. Mr. Chairman, this is a parliamentary question. I have an amendment to offer; would this be the appropriate point to offer this amendment?

AMENDMENT TO INCREASE AID TO EGYPT

Mr. HAMILTON. Your amendment is in order, so why don't you offer your amendment and we will consider it. Then, pending the

action on your amendment, we will see whether we need to reconfirm our vote on my amendment.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

Mr. Chairman, prior to the subcommittee's meeting this morning, I had intended to offer three amendments, the nature of which would seek to bring some parity in the FMS programs of Egypt and Israel. In addition, the third amendment would have increased the ESF levels for each. In light of our discussion this morning, and in keeping consistent with the views of the chairman, I am prepared to offer only two of those amendments.

The first amendment will bring Egypt's FMS program level closer to Israel by adding $100 million in fiscal year 1984 and fiscal year 1985. The amendment is at the desk or before the members now. It is my feeling that this should not be a very controversial amendment.

Last year Congress approved a nominal increase of $25 million and sent a signal to the administration that Egypt's FMS program levels should be closer to Israel's. Egypt already has contracts for more than $1.3 billion in the United States for military goods, and not all of it is in FMS. It plans to spend over $1.4 billion in fiscal year 1984, and over $1.5 billion in fiscal year 1985. Raising Egypt's level would make it easier for our strategic allies to arrange credit for these existing commitments. Egypt's ESF level is approximately 95.5 percent of Israel's. Its FMS at $1.3 billion is only 77.9 percent.

I think this amendment sends a strong signal to the Egyptians, especially in light of Jordan's recent announcement not to play a key role in the negotiations. It puts Congress in a position of supporting Egypt's unique role among the Middle East Arabs as being supportive of the U.S. initiatives.

The second amendment, Mr. Chairman, continues the parity relationship between our Middle East allies by raising Egypt's forgiveness level to the same proportion as Israel's. Egypt has been a solid ally of the United States since Camp David, and this amendment would send a strong signal that Congress recognizes its importance.

President Mubarak has demonstrated his commitment to our policy by supporting by the President Reagan's September 1 initiative and by urging other Arab leaders to do the same. This amendment is the best way for the Congress to demonstrate our appreciation for Egypt's continued support.

Egypt also has a severe balance-of-payment problem. Its foreign exchange decreased due to declining Suez Canal revenues and cutbacks in all prices. I support all levels recommended by the subcommittee so long as Egypt receives the same percentage in FMS forgiven loans.

I might add, Mr. Chairman, that these levels are not in any way linked together by law, I do not support such linkage. But I believe that parity must at least be an objective of this Congress, especially considering the unique role Egypt plays in the Middle East and its support for the U.S. interest.

Mr. HAMILTON. May I ask a question, Mr. Dymally?

Mr. DYMALLY. Yes, Mr. Chairman.

Mr. HAMILTON. You raise the amount of military assistance to $1.4 billion, from the proposed $1.3 billion?

Mr. DYMALLY. Yes, sir.

Mr. HAMILTON. The amount of forgiveness will be how much?

Mr. DYMALLY. It would be $700 million.

Mr. HAMILTON. So half of that would be forgiven. I don't think that forgiveness feature is in the specific amendment before us.

Mr. SMITH. No; it is not, Mr. Chairman.

Mr. DYMALLY. It is in the amendment No. 2.

Mr. HAMILTON. May we have both of them, and we will consider them both at the same time.

Mr. Levine, do you have a comment?

Mr. LEVINE. Yes, and I would be very interested in your comments with regard to this, but I have a couple of preliminary objections which I would like to make.

I think much of what my colleague from California, Mr. Dymally, has said is valid, and in fact Egypt has been a very good friend of this country and has responded in a constructive, appropriate and helpful manner with regard to peace in the Middle East and it has done so in an obviously unique fashion.

I believe that we should as a Congress be responding to that and should be giving to Egypt the type of generous military and economic assistance that we have been giving, and that I think Congress is prepared to give. I am concerned, however, about going as far as my colleague suggests and even implying in any fashion whatsoever that there should be—whether it is called linkage or something else—any relationship between the levels of aid to Israel, on the one hand, and the levels of aid to Egypt, on the other.

I do not think that the appropriate test of the level of economic or military assistance to Egypt has anything to do with the level of military or economic assistance to Israel for reasons which I think needn't be elaborated on at great length, but only to mention that we are dealing with a regional problem here. We are dealing with needs that Israel has that are much broader than those that pertain simply to the country of Egypt.

I would be concerned about establishing a precedent through this subcommittee that in any fashion, explicitly or implicitly, links assistance to Egypt with the level of assistance that we give to Israel. I want to raise that as a concern. I am not sure that this is Mr. Dymally's intent, but I do think that it is an inescapable implication of this type of a suggestion, and I am concerned about it.

Mr. DYMALLY. Would the gentleman yield?

Mr. LEVINE. I will be happy to yield.

Mr. DYMALLY. Of course, we do not suggest in this language any linkage but simply parity. In my explanation of the amendment, I made reference to Israel, but the amendment does not make any connection with linkage. It simply suggests parity. I support, of course, the subcommittee's recommendations.

Mr. HAMILTON. Mr. Winn wanted to comment.

Mr. WINN. Thank you, Mr. Chairman.

Mr. Chairman, this amendment from the gentleman from California represents an increase budgetary outlay over the administration's request in fiscal year 1984 budget of $250 million and in fiscal year 1985 of $250 million. This is an enormous increase for

Egypt. It certainly runs counter to the fiscal austerity budget in the United States.

I don't know whether this is the right time or not, Mr. Chairman, but I wonder if we could hear from the administration witnesses at this time regarding this amendment.

Mr. HAMILTON. Certainly.

STATEMENT OF ROBERT PELLETREAU, DEPUTY ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

Mr. PELLETREAU. Mr. Chairman, I am Robert Pelletreau. I am Deputy Assistant Secretary in the Bureau of Near Eastern Asian Affairs.

In our view, there should not be any formal linkage or formal ratio established between Egypt and Israel, although there is some tendency out in the area to view the two programs together. We don't think that such an association is necessary or warranted.

In our view, the program that we have proposed for Egypt is the proper level to carry out the administration's objectives.

Mr. HAMILTON. Any other comments?

Mr. Lantos.

Mr. LANTOS. Yes, I would like to ask a question of the administration.

I am in sympathy with my colleague's proposal, although I will have to vote against it for budgetary reasons. I will have to ask, however, what efforts, if any, the administration has made to persuade Saudi Arabia, which thus far has provided, depending on whose estimates we accept, between $25 and $30 billion to Iraq for its military effort, to renew on a significant scale its aid to Egypt?

The need in Egypt is real. Egypt has been a good friend of the United States. I think that it is only appropriate that this enormously wealthy nation of Saudi Arabia, and the other Gulf States, return to the pattern of providing some assistance to Egypt. I wonder what specifically the administration has done about this.

Mr. PELLETREAU. Mr. Lantos, there has been some gradual improvement in Egypt's relations with the rest of the Arab world, including with Saudi Arabia. The private Saudis have in some cases resumed their financial interests in Egypt.

Mr. LANTOS. That is really not my question. My question is what specific steps has the administration taken to have the Saudis resume their aid to Egypt.

Mr. PELLETREAU. We have not felt it appropriate to push the Saudis.

Mr. LANTOS. Will this administration ever feel it appropriate to push the Saudis along any lines?

Mr. PELLETREAU. I think we have, Mr. Lantos, a very good dialog and consultation with the Saudis. We believe that the Saudis are supporting the President's efforts to bring a broader peace in the Middle East.

However, with regard to your specific question, we have not specifically urged the Saudis to resume an assistance program to Egypt.

Mr. LANTOS. Why not?

Mr. PELLETREAU. We think that the Saudi and Egyptian relationship has got to improve at a level and at a pace which those two countries themselves set. It would be a mistake for us to try to accelerate that process.

Mr. LANTOS. You really believe that it would be a mistake on the part of the United States to accelerate the development of friendly relations between two nations with whom we have friendly relations. Explain the logic of that because it escapes me. It boggles the mind.

Mr. PELLETREAU. In the case of these two countries, we know that they are proceeding at a pace which each of them feels is appropriate for its own political background.

Mr. LANTOS. Is that the Egyptian view? Wouldn't the Egyptians like to see the aid resumed?

Mr. PELLETREAU. At the right time, I think they would, sir.

Mr. LANTOS. And they don't think that it is the right time yet?

Mr. PELLETREAU. They would like to have it happen as soon as it can happen within the political atmosphere of the Middle East.

Mr. LANTOS. You will notice that I didn't get an answer to my question, Mr. Chairman, but that is not a new pattern.

Mr. HAMILTON. Are there any further comments on the proposal by Mr. Dymally?

Mr. DYMALLY. Mr. Chairman, if I may just conclude by pointing out that we decreased the Public Law 480 by a considerable amount, and I support the committee's recommendation. We have also increased the FMS financing grant portion. So we just have one increase instead of two increases in there.

Mr. HAMILTON. Let me indicate to the members of the subcommittee that I will not support the Dymally amendment. I will support the administration's recommendations with regard to economic and military assistance to Egypt.

All those in favor of the Dymally amendment say aye.

Mr. DYMALLY. Aye.

Mr. HAMILTON. Opposed, "no."

[Chorus of "noes."]

Mr. HAMILTON. The noes have it, and the amendment is defeated. The action previously taken stands with regard to the earmarking of the levels of assistance for Israel and Egypt.

APPROVAL OF MIDDLE EAST REGIONAL FUNDS

The third amendment relates to page 8 of the report. However, before we go to the next amendment, I want to get approval of the figures relating to the Middle East regional project. So far as the Chair knows, there is no objection to those figures. Are there any comments?

[No response.]

Mr. HAMILTON. Mr. Lantos.

Mr. LANTOS. Mr. Chairman, I move that we approve the figures.

Mr. HAMILTON. All those in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed "no."

[No response.]

Mr. HAMILTON. The ayes have it, and the motion is carried, the figures are adopted.

PROJECT FUNDS FOR EGPYT

The next amendment relates to page 8 of the report, the second paragraph and concerns the availability of certain project funds for Egypt. The purpose of this amendment is to provide a management tool for AID to improve the performance of U.S. economic aid programs in Egypt allowing AID, with Egypt's consent, to shift from one project to another.

The amendment has been discussed with the executive branch over the last several months and we have gone through several revisions. Members have before them the recently revised version. My understanding is that it has been approved by the staff of the Budget and the Appropriations Committee.

Mr. Boyer of the House Foreign Affairs Committee staff is here to explain the amendment.

Mr. Boyer, do you have any comments for the members or can you answer any questions about it?

Mr. BOYER. This amendment, Mr. Chairman, would permit AID to deobligate funds contracted for a particular project or projects in Egypt and reobligate them for other projects in Egypt considered to be more likely to be productive than the current projects in question. It would permit this with respect to funds which are already obligated through the end of this fiscal year.

The staff of the Budget Committee and the scorekeepers at CBO, the Congressional Budget Office, have indicated that the language or the amendment in its current form would not constitute new budget authority. Therefore, there would be no problem under the Budget Act. It is still technically a reappropriation under the House rules, however, the staff of the Foreign Operation Subcommittee has indicated that the subcommittee would support this and would support a waiver in the foreign assistance authorization rule to accomplish this purpose.

Mr. HAMILTON. Does the administration support this provision? We are going to approve it, even if you don't agree.

Mr. IRELAND. Mr. Chairman, while they are making up their mind, I want to go on record here as strongly supporting your effort here, and the effort of those currently longsighted in trying to do something about those very grave problems. I would like to see that reflected in our deliberations as an important and necessary step to treat a very serious problem.

Mr. HAMILTON. Thank you very much.

Mr. PELLETREAU. Mr. Chairman, we would like to support it provided we have the OMB approval.

Mr. LANTOS. I move its adoption, Mr. Chairman.

Mr. HAMILTON. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed "no."

[No response.]

Mr. HAMILTON. The amendment is adopted.

DECREASE IN PUBLIC LAW 480 TITLE I FOR EGYPT

The next amendment relates to food assistance to Egypt. I refer you to page 9 of the report, item No. 4. The purpose of this amendment is to encourage Egypt to achieve greater food self reliance by decreasing gradually the level of U.S. assistance under the Public Law 480 title I section. The amendment limits financing of the title I to $225 million for fiscal year 1984, and $200 million for fiscal year 1985.

Is there discussion.

Mr. WINN. Mr. Chairman.

Mr. HAMILTON. Mr. Winn.

Mr. WINN. Thank you, Mr. Chairman.

We discussed this amendment this morning and it was my contention then, and it still is, that this puts a burden on the farmers and those in the flour milling business. It seems to me that it opens Egypt to competition from other grain-producing countries at a time when our farmers are having real trouble.

First, I would like to see if we could hear from the administration on this, but before we do, I wonder if the chairman might back off of the fiscal year 1985 commitment. That is a long way down the road. We could take another look at this later on, and we might well want to do exactly what the chairman has in mind, or we might well want to leave it at the $225 million that he has in there for fiscal year 1984.

Mr. HAMILTON. Would the gentleman be willing to accept my 1984 figure, if I backed off the 1985, which is really a very modest reduction?

Mr. WINN. I probably would. I would like to hear from the administration on that, if they have any strong thinking one way or the other.

Mr. PELLETREAU. We believe the Public Law 480 item is a very sensitive part of our whole program. Egypt looks at our food aid as a bellweather of our total support. In Egypt the food subsidies are fundamental domestic policy instrument. The Egyptians have been moving gradually to reduce distortions in the agricultural sector, but will maintain subsidies as long as they feel they are necessary regardless whatever actions we take on Public Law 480.

We agree that we should reduce over time the percentage of Public Law 480 going to Egypt, and this percentage has gone down. But to push the process too far and too fast will be costly to us on the foreign policy front without achieving our development objectives.

We particularly strongly disagree with the provision to lock in another cut in fiscal year 1985. We believe that would reduce flexibility, and we think that the timing of proposed cuts should take into account the totality of the United States-Egyptian relationship in the peace process and Egypt's foreign exchange situation.

Mr. WINN. I wonder if the administration would care to comment on the chairman's proposal that we accept for 1984 the $225 million. Do you think that that is a drastic cutback?

Mr. PELLETREAU. It is not a drastic cutback, but at this time, when Egypt has suffered an additional foreign exchange shortfall,

we would prefer not to see it. We are particularly strongly opposed to having fiscal year 1985 also cut back at this time.

Mr. WINN. Is it true that the United States is just now beginning to make some new grains sales to Egypt, and previously Egypt had been buying from the European markets, and that we are striving to offset some of the damage that was done by the U.S. grain embargo?

Mr. PELLETREAU. Yes, that is correct. In the last year, we have substantially increased our commercial sales.

Mr. WINN. Let me ask one last question, if I may, Mr. Chairman.

What is the administration's thought regarding our leaving it at $225 million for 1984, and then either leaving it open or leaving it again at $225 million for 1985, rather than $200 as proposed by the chairman?

Mr. PELLETREAU. In our view that would be preferable to the chairman's proposal, sir.

Mr. HAMILTON. I think my position is known to the members of the subcommittee. Egypt receives an extraordinary amount of the title I program, and naturally the Egyptians are interested in continuing to receive that amount of money or commodities from title I, but the problem here is that the U.S. strategy in Egypt just is not consistent.

We keep supplying these enormous amounts of free commodities under title I, and at the same time we are holding back, for policy reasons, assistance to permit Egypt to develop their own agricultural capability. So that the Public Law 480 program here is acting as a disincentive to Egypt to develop their own agricultural production.

I am fully aware that you can't make an abrupt change in our policy in this regard. But it does seem to me that it is in Egypt's interest to encourage food production in that country and it is not in Egypt's interest to continue these very large amounts of subsidies.

The Egyptian economy has improved. There is no starvation in that country. Consumption levels are high. There is a much greater need elsewhere in the world for these commodities.

All I am trying to do is to give the United States and Egypt a little gentle push in the direction that I think we ought to go on the Public Law 480 program. So I am not disposed to accept an increase in the $225 million figure. I would accommodate Mr. Winn's view, I think he makes some good points, and knock out the 1985 portion of the amendment without prejudice to a further reduction for fiscal year 1985 to be voted on at any time.

Mr. SMITH. Mr. Chairman, may I inquire of the administration?

The grain deal just recently completed with Egypt, approximately $1 billion worth, with credits and other forms of assistance—that was outside this year's foreign aid package to Egypt, was it not?

Mr. PELLETREAU. Yes, it was.

Mr. SMITH. So in addition to what is in the package, and with your response to a question from Mr. Winn from Kansas with reference to further deals, it could be very well that what is in this bill this year may again be exceeded by a large amount of additional aid to Egypt outside the scope of this bill just like the last grain package; is that correct?

Mr. PELLETREAU. The grain package that you talk about is a 1-year sale that came under the credit authority of the Department of Agriculture. It is not part of this program. We can't say whether it would be repeated next year or not. We hope that there will be a favorable development in the direction of Egyptian commercial sales from the United States as a result of this year's program.

Mr. SMITH. So in response to Mr. Winn, your answer was that you are now working on additional types of these arrangements as was concluded this year. Is that correct?

Mr. PELLETREAU. We are in discussion with the Egyptians, yes.

Mr. SMITH. That means that, even assuming that the chairman's amendment was to be successful, there is a possibility or maybe a probability that Egypt could look forward to a great deal of the same type of help as Public Law 480 provides but from another source than the records of Public Law 480.

Mr. PELLETREAU. The Department of Agriculture program is not of the same concessionality, of course, as Public Law 480. It is a commercial sale with a small amount of what they blended credit to help make it more favorable. It is possible that we would have such sales in future years, but it is by no means a certainty now.

Mr. SMITH. I sympathize with the problem that Mr. Winn would have with some of his constituents, but I also feel that the chairman has made some excellent points in terms of this problem of relating to our disincentive type of program. I would like to see how we could accommodate both ways. Hopefully, Egypt could be accommodated by the same chance.

Mr. HAMILTON. Any further discussion?

Mr. LANTOS. Mr. Chairman, I move the chairman's recommendation for 1984 with no figure for 1985, that figure to be determined at a later date.

Mr. HAMILTON. Is there any further discussion?

[No response.]

Mr. HAMILTON. I will put the question. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[No response.]

Mr. HAMILTON. The ayes have it. The amendment is adopted.

PROPOSAL FOR LEBANON FISCAL YEAR 1983 SUPPLEMENTAL

The next amendment relates to Lebanon. I want to point out to members that we are proposing for Lebanon here a supplemental request for 1983, and it will be cited as the Lebanon Emergency Assistance Act of 1983. The report discusses it on page 11, items 2 and 4. It authorizes military sales and related programs. It is also intended to allow a specific amount authorized for the ESF program to be made available beyond fiscal year 1984.

Section 4 of this amendment insures that the President will obtain statutory authorization from Congress before introducing U.S. troops into Lebanon for the purpose of a new and more permanent peacekeeping force. The ESF levels provided for in the amendment are $150 million, the FMS is $100 million, and the IMET is $1 million. These figures are the recommendation of the administration.

Is there any discussion of this proposal with regard to Lebanon?

Mr. LANTOS. Mr. Chairman, I move the approval of the Lebanon Emergency Assistance Act for 1983.

Mr. HAMILTON. All those in favor of the motion by Mr. Lantos say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[No response.]

Mr. HAMILTON. The ayes have it. The amendment is adopted.

The next amendment is a section of the Lebanese proposal just made. It applies to the 1984 foreign assistance bill and not to the supplemental bill. It has the language that the President will obtain statutory authorization of the Congress before introducing troops into Lebanon for the purpose of a peacekeeping force.

I will recognize Mr. Lantos for a motion.

Mr. LANTOS. I move the adoption of the chairman's recommendations.

Mr. HAMILTON. I will put the question. All those in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[No response.]

Mr. HAMILTON. The ayes have it. The motion is carried.

Let me call the attention of the members. On page 11 of the Lebanon table, there is a $0.75 million IMET program that has to be separately approved.

Mr. LANTOS. I move the adoption of $750,000 for IMET for Lebanon.

Mr. HAMILTON. All in favor of the motion say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. All opposed, "no."

[No response.]

Mr. HAMILTON. The ayes have it and it is carried.

OMAN PROGRAM

On page 13 we have the Oman program. The economic aid assistance in ESF is $15 million, FMS financing and guarantees is $25 million, and IMET is $100,000. These are the administration's recommendations.

Mr. Lantos.

Mr. LANTOS. Mr. Chairman, I move the approval of the recommendations.

Mr. HAMILTON. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[No response.]

Mr. HAMILTON. The ayes have it, the motion is carried.

AMENDMENT RELATING TO ADVANCED AIRCRAFT FOR JORDAN

The next proposal relates to Jordan. The figures are before you on page 14 of the report. The ESF figures are $13 million grant, $7 million loan, title II of Public Law 480 is $0.2 million. The military

assistance, FMS financing, all of it loan guarantees, is $115 million, IMET, $2 million for a total of $117 million.

I think we have an amendment with regard to Jordan, do we not?

Mr. SMITH. Additional language, Mr. Chairman, not to the numbers.

Mr. HAMILTON. Mr. Lantos.

Mr. LANTOS. Mr. Chairman, I move the adoption of the recommendations with respect to Jordan.

Mr. HAMILTON. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Those opposed, "no."

[No response.]

Mr. HAMILTON. The ayes have it. The proposal is adopted.

Mr. SMITH. Mr. Chairman.

Mr. HAMILTON. Yes.

Mr. SMITH. I have an amendment at the desk.

Mr. HAMILTON. Mr. Smith is recognized for 5 minutes in support of the amendment, and we will suspend until it is passed out.

The clerk will read the amendment.

Mr. VAN DUSEN. Page 9, after line 6, add the following new section.

Mr. SMITH. I would move that the amendment be considered as read.

Mr. HAMILTON. Without objection, the amendment is considered as read. The gentleman is recognized for 5 minutes.

Mr. SMITH. Thank you, Mr. Chairman.

Basically what this amendment does is to do, I think, in the bill what many of us have indicated in the course of the last few months as something that is very necessary in order to try and move all parties in the same direction at the same time with the same common goals by setting some basic ground rules in advance.

The unfortunate circumstances of the last few days have shown, as Mr. Levine has indicated at the beginning of this meeting, that as much as we try, as much as we talk in terms of getting people to move into the peace process, people really do not take the same concern about that from country to country.

We also hear over and over that there will be a time when in order to move some of these parties, including the King in Jordan, there may be a strong possibility of increased and additional sales of sophisticated weaponry, of new weaponry, and increased sales of upgraded weaponry to that country. Yet, we have seen no strong movement—of course on Sunday we saw just the opposite—to really take part in the initiative that factually we now know really was an initiative molded by King Hussein himself. He had no control over subsequent events after September 1 and apparently, therefore, did not lay the appropriate foundation.

What this amendment would say is that prior to any of the foreign military sale guarantees being used to finance any procurement by Jordan of advanced aircraft, or new defense weapon systems, or any foreign military sale guaranteed by this act are put into place, it would be expected of Jordan that there would be a direct negotiation with Israel under Resolutions 242 and 338 and the Camp David accords which was enunciated by the King, and I

assume that the New York Times' transcript of his message was accurate, in the Times on Sunday. Those were his exact words.

I would assume that we would, therefore, be only logical in picking up what he said and taking it and moving forward with it on this basis. That is, if we are going to do something that he would want, we want him to do something that we would want.

I believe that Mr. Siljander joins me in cosponsoring and coauthoring this amendment, as well as Mr. Levine. I would offer this in the way of moving everyone forward on the same basis, on the same plane, with the same set of rules within the game.

Mr. HAMILTON. Mr. Siljander, do you want to be heard on this amendment, and then Mr. Dymally?

Mr. SILJANDER. Why don't I yield to Mr. Dymally.

Mr. DYMALLY. Thank you very much.

Mr. Chairman, I have a very, very small amendment in the section headed "Draft for report language," after F-18——

Mr. SMITH. Would the gentleman yield?

Mr. DYMALLY. Yes.

Mr. SMITH. Since we are not going to be considering today the draft report language, I would ask that this portion of the amendment be excluded from review because we are not considering any of the draft language. We are going to do that, as we indicated this morning, by working further on that and not here today. So I would ask that that portion of the amendment not be regarded as being proposed.

Mr. DYMALLY. Just for posterity, let me continue.

After F-18, I would want to move at the appropriate time "and F-20." The F-20 is not considered to be an offensive weapon, it is a defensive weapon. It is not technology that the Pentagon is very nervous about as in the case of the F-14, 15, 16, and 18 series. So I would recommend at the appropriate time, Mr. Chairman, that we eliminate the F-20 in this language.

Mr. HAMILTON. We will certainly consider the gentleman's observation when we consider the draft report language.

Mr. Siljander.

Mr. SILJANDER. Mr. Chairman, I all of us are deeply concerned with what is happening in the Middle East. We are all seeking avenues to insure a lasting peace, especially with respect to the Palestinians. We have called on King Hussein who has flatly refused getting involved at this point in time.

I personally feel that this amendment will certainly be an added incentive to bring the King back into the negotiating process. I believe we should do all we can to encourage and motivate the peace process and make sure that the Jordanian Government will remain at peace with Israel, and will be more than willing to participate in any type of negotiations that may mean peace to the Middle East.

Mr. HAMILTON. I wonder if we might hear from the administration on this amendment.

Mr. PELLETREAU. Thank you, Mr. Chairman.

We believe that King Hussein has worked hard to find a way to enter negotiations. As a result of the telephone conversation that took place between the King and the President 2 days ago, we are assured and are comforted that the King remains determined to try to work to find a way to come in.

It is important here, we think, to understand what it is that has caused the events over the weekend. The Jordanian Cabinet statement in the New York Times—it was not a statement by King Hussein. It was a statement by the Jordanian Cabinet—was aimed at rejecting certain amendments, which had been insisted on, to the draft agreement that he was working out with Arafat.

This rejection does not constitute a formal and full withdrawal of King Hussein from the peace process. We are assured and we are determined ourselves to continue to work in the direction of having King Hussein, under the proper conditions, join in the peace process.

We think that at this time, it is doubly important that we be supporting King Hussein, and not acting in a way that brings into question our support of him or that punishes him for rejecting unacceptable changes that had been submitted by the radicals. For these reasons, we oppose the suggested amendment.

Mr. LANTOS. Mr. Chairman.

Mr. HAMILTON. Mr. Lantos.

Mr. LANTOS. I have a question. Do I understand that entering negotiations following the Camp David accords, would be viewed by the administration as punishment? The Camp David accords call for the King to enter negotiations, and that is all this amendment is asking for.

Mr. PELLETREAU. Since the President announced his September 1 initiative, Mr. Lantos, we have seen a good deal of movement in the Arab world as the various Arab parties have been trying to organize themselves to take advantage of this opportunity for peace.

King Hussein has been in the forefront of this effort. He has been in favor of coming into negotiation under the proper circumstances where he can properly say that he is in the negotiations representing Palestinians and Jordanians together. That is what the discussions have been all about.

That is the process that is continuing now, and we don't think that it is over. We think that King Hussein is still very interested in coming in, and it is a time that we should be supporting him.

Mr. LANTOS. We don't seem to be communicating today at all. Let me try another tack.

Does the administration view coming to the bargaining table without preconditions and negotiating as punishment?

Mr. PELLETREAU. No, sir.

Mr. LANTOS. Then the word you used was inappropriate, was it not, because this amendment provides an incentive to negotiate. Since negotiation is not viewed as a punishment, this amendment is not punitive.

Mr. PELLETREAU. I suppose that is correct, Mr. Lantos. Let me rephrase it to say that I believe he would consider it a discouragement.

Mr. HAMILTON. Mr. Levine.

Mr. LEVINE. If I could yield to Mr. Smith for a moment, and then I have a comment to make.

Mr. SMITH. I am little curious about something. First of all, if I am not mistaken, King Hussein himself was quoted as saying it is up to the Palestinians to take care of themselves. This was not the cabinet but King Hussein. That was a direct quote as far as I read

it. Now if you tell me that on that basis he is still willing to enter into further negotiations, then he is saying things that don't leave that kind of door open.

Now, even assuming that I agree with everything you said and that it was in fact true, and that the King is still striving to do this, why would it be any problem to adopt this amendment?

The administration, through a number of witnesses, has come here and said consistently that there is no administration plan to sell any of this equipment to the King prior to his entry into negotiations. They have also told us that he has not asked for the sale of all this as his price for entering the negotiations.

Therefore, I would find from the administration's testimony, and from King Hussein's testimony through the mouths of your witnesses, that there would be absolutely no objection whatsoever to this amendment which basically does nothing more than codify what those people have said, and what they say that King Hussein has said. To follow up on Mr. Lantos, in fact, there is no punishment at all, and it certainly wouldn't be a disincentive.

If you can tell me that I am wrong in what I have said, I will be happy to hear it.

Mr. PELLETREAU. Let me take another tack, if I may, Mr. Smith.

The United States and Jordan have had a relationship over many, many years that has included a strong U.S. involvement in both the economic development of Jordan and the military strength of Jordan in terms of maintaining a legitimate defensive capability. This interest, we believe, is important to continue to maintain.

Jordan faces a number of potential adversaries. The King has the national duty to work for acquiring the types of defensive equipment that he needs to defend his country. In light of uncertainties in the future, we don't know for sure what is going to come, but we feel that it is very important that we would continue this relationship.

We would like to have the flexibility to be able to bring to the Congress what proposals in the future we and the Jordanians may think are required to continue the relationship, and the Congress will have the opportunity, of course, to express its views on them.

Mr. HAMILTON. The Chair has a substitute which I will call at this time.

Mr. LANTOS. Mr. Chairman.

Mr. DYMALLY. Mr. Chairman, would you yield at this point?

Mr. HAMILTON. Let's hold that one. Let me recognize Mr. Levine and then Mr. Dymally. Then we will call the amendment.

Mr. LEVINE. I just wanted to follow up in terms of the administration's witnesses and make a couple of comments about the amendment as it was offered. I was very pleased to coauthor it with my colleague, Mr. Smith, and my colleague, Mr. Siljander.

I think it is a very important amendment. As Mr. Smith implied by his question, I believe that it is simply taking the administration at their word. We are just saying to the administration that we are going to hold them to their commitment and we are going to hold King Hussein to all of the implications of all of your statements that, in fact, he wants peace and is going to move.

I would just like to remind the administration and some other of the people who have participated in these hearings of a little bit of the history of the past spring with regard to the specific subject.

When we had our first hearing, or even before our first hearing, we were told that King Hussein was going to join the peace talks by New Year's. We were subsequently told that the King was going to join the peace talks in January. I remember being in a hearing in this very room in January or February when we were told that the King had stated that he would start the peace talks by March 1. That was the magic date, March 1. Then it was allowed to backslide a little bit, and sometime in March the King would join the peace talks.

I don't doubt that it was his rejection, and not simply the cabinet's rejection. It is not the last word that we have heard. I don't doubt that we will have some other tightwire walking from King Hussein in the near future, and we are going to hear something further from the King, and I don't doubt that it is likely to include conditions, suggestions, preconditions, hints, parameters, rather than the type of unconditional negotiations that he had implied he would pursue.

I think that we in this country have watched this King walk on a tightrope and do a high-wire act for a very, very long time. This is a King who explicitly rejected Camp David, who turned his back on Camp David, and then was even given a proposal by President Reagan that was essentially, as I mentioned earlier, his own proposal. Despite that, he is unwilling to respond appropriately.

I think at some point we should take a look at the history of this man in the Middle East who has time and again led us on, hinted to us that he wanted peace, given us all of the proper rhetoric and implications that he was a moderate leader, and then when the chips were down, on every occasion, rejected peace and turned his back on the whole process.

This administration has elected to use every kind of carrot imaginable to get King Hussein to the peace table, and has elected to use sticks with Israel. I have little doubt that the announcement last week, or the week before by President Reagan that he was going to withhold the F-16's even longer was simply another means of pressuring Israel to try to get King Hussein to the peace table.

We should realize that these approaches are not working. Now I think it is appropriate to take you at your word and to say to you, if in fact you say and King Hussein says that he wants peace, let's get him to the table, let's let him talk, let's let him pursue peace, and then let's think about something in the nature of a reward, rather than continuing this policy that has gotten us absolutely nowhere and given the King the best of both worlds.

Other than that, I am somewhat uncommitted on the amendment. [Laughter.]

Mr. HAMILTON. Mr. Dymally.

Mr. DYMALLY. Mr. Chairman, the F-5G is the F-20. Therefore, I wanted the record to state that my comments previously also apply to the F-5G.

SUBSTITUTE TO THE JORDAN AMENDMENT

Mr. HAMILTON. The Chair has an amendment in the nature of a substitute.

The clerk will read the amendment.

Mr. VAN DUSEN [reading]:

Page 9, after line 6, insert the following new section: Foreign Military Sales for Jordan. Section 116. (a) The foreign military sales guarantees authorized by this Act for Jordan are provided in the hope that Jordan will enter into direct negotiations with Israel, based on the United Nations Security Council Resolutions 242 and 338 and the Camp David Accords, in order to resolve the state of war between the two countries.

(b) Foreign military sales guarantees authorized by this Act may be used to finance the procurement by Jordan of United States advanced aircraft, new air defense weapon systems, or other new advanced military weapon systems, and a certification may be made pursuant to Section 36(b) of the Arms Export Control Act with respect to a proposed sale to Jordan of the United States advanced aircraft, new air defense weapon systems, or other new advanced military weapon systems, only if the President has certified to the Congress that Jordan is committed to the recognition of Israel and to prompt entry into direct peace negotiations with Israel under the basic tenets of United Nations Security Council Resolutions 242 and 338 and the Camp David Accords.

Mr. HAMILTON. First let me observe that I fully understand, I believe, the feelings of the sponsors of this amendment. All of us have been disappointed by the King's decision last weekend not to come into the peace process at this time. It is quite true, in many respects, over a period of years, Jordan's performance has been disappointing to us in some respects.

I also do not favor the sale of the advanced aircraft to Jordan at the present time, but I do think that this amendment is unwise and goes a little too far.

The proposal that I have put before the members would omit section (a) of Mr. Smith's and Mr. Siljander's amendment, and it would essentially keep paragraphs (b) and (c) with important changes, and weave portions of paragraph (a) into a revised paragraph (c), which is paragraph (b) in my amendment.

With regard to the subsection (a), the only change that is made there, I think, to the amendment sponsored by Mr. Smith and Mr. Siljander is to insert the word "hope" instead of "expectation." With regard to subparagraph (b) of my amendment, which is subparagraph (c) of the original amendment, the key difference is in line 16 which says that the sales will go forward only if the President has certified to the Congress that Jordan is committed to the recognition of Israel and to prompt entry into direct peace negotiations with Israel.

Let me just say why I think we ought to soften somewhat the direct language of the Smith/Siljander amendment. I believe that the President's initiative in the Middle East today is hanging by a thread. The King will read this amendment—no matter what we think here—as a rebuke. We are saying something very directly and very bluntly to him on a point that of very great importance to him, the purchase of air defense weapons and advanced aircraft out somewhere in the future.

The administration has made clear that they are not going to sell these new items with the money that is provided in this bill, and it has said in its testimony that the money that is provided

here is already earmarked for payment on previously contracted military equipment.

So that portion of the amendment really is not necessary, and it does add, it seems to me a rebuke to King Hussein at a very critical point in the process. There is still hope, clearly, in our President's mind that the process can go forward and that the King can be brought into that process.

Jordan has helped us a lot in the Middle East on a number of occasions. They have been training troops in the Persian Gulf, and they have stood against Syrian and Soviet influence in the Middle East. They have maintained their links to the West. Other than Egypt they have been the most forthcoming of the Arab States with regard to the recognition of Israel. They have kept the past several years a peaceful border between Jordan and Israel which has been enormously important to Israel.

Despite many differences with us, Jordan remains an important friend for us in the Middle East. The President is trying very hard to continue to involve Jordan. I just sense that at this stage of the peace process, it is unwise to deliver this rebuke, if that is the correct word, or slap in the face of the King at a time when we ought to be extending every possible effort to reconstitute, reinvigorate the President's peace initiative.

Many of my colleagues have spoken. Mr. Winn, would you like to make some comments?

Mr. WINN. Thank you, Mr. Chairman.

I agree with you wholeheartedly. I realize that it has been hard for some of our colleagues to swallow some of the actions that we have seen and the words that we have heard over the past weekend.

At the same time, some of us happen to know the many, many hours that have been spent by the administration and by the Secretary of State, and by many others representing many other Arab countries, to try to persuade King Hussein to come forward and enter peace talks with Israel.

I have to remind my colleagues that one week we see Arafat and Hussein hugging and kissing each other on the cheek on the TV, and 3 or 4 days later they are not speaking to each other. I think it is obvious that Hussein felt that he had an agreement with the PLO and then got the carpet pulled out from under him. He was left standing there in the eyes of many people of the world.

I think that the Smith amendment is too harsh. I understand the reasoning behind it, but I would lend my support to the substitute offered by the chairman.

Mr. HAMILTON. Mr. Torricelli.

Mr. TORRICELLI. Mr. Chairman, I have several difficulties with the substitute, the first being that this Congress has already been frustrated by a certification process that requires interpretive powers on behalf of this administration.

The fact is generally, and in the Middle East specifically, I as an individual do not believe that the President has the credibility to certify interpretive events. Mr. Smith, on the other hand, requires a factual determination without intepretation.

Specifically, I have a problem with the words "prompt entry." I have sat in this chair more times and heard about the prompt

entry of Jordan into the peace negotiations. I suppose that under this language it would have been possible for certification to take place sometime in early March because then there was going to be prompt entry.

Finally, there is a question here of offering false hope to Jordan on arms sales. I do not understand the difficulties with making clear to Jordan that they are not going to receive aircraft or other weapons, which the administration has repeatedly told us they have not asked for and the administration has no intention of coming to us to request. Therefore, some of the dispute escapes me.

In any case, were I the King, I would be grateful in some respect, peculiar as it may seem, for Mr. Smith's amendment because without it, I at least would not be supporting any assistance for the King at all.

There is something very uncomfortable about being here only days away from when the King rejected peace, and we are appropriating money to help that nation. I find that uncomfortable circumstances, and I am able to do so with the kind of language offered by Mr. Smith.

Mr. HAMILTON. Are there any other comments?

Mr. SILJANDER. Yes, Mr. Chairman.

Mr. HAMILTON. Mr. Siljander and then Mr. Ireland.

Mr. SILJANDER. There are three things that I would like to say.

No. 1, I must break away from my colleagues over there to suggest that I believe the President does not have credibility of certifying certain things. I would not make a blanket statement like that, so I am going to disassociate myself from that particular comment dealing with this issue and being part of the sponsorship of the original amendment.

I guess, Mr. Chairman, the question is to you. You did make mention that the sales of advanced aircraft and air defense systems were not presently included in the budget. Is that correct?

Mr. HAMILTON. That is correct. We can confirm it with the administration.

Mr. PELLETREAU. That is correct.

Mr. SILJANDER. We have gone through this scenario often before.

My question would be, what objection would you have to deleting subsection (a) of the original amendment? If it is not part of the discussion anyway, why not give some members a clear assurance that, in fact, it isn't. If it is not part of it, why include it? Why create such dissention if you say that it is unnecessary? It might be worth doing just to keep some unanimity among the committee. That would be my question.

Mr. HAMILTON. I think the gentleman's observation is sound with regard to the committee, but we have to look beyond the committee and we have to look at the impact of this language on the peace process, or at least that is my perspective. I do not view section (a) of your amendment as encouraging the peace process. I view it as discouraging that process.

I am reasonably sure that the King will interpret that language as a rebuke. Now the King has had a tough time here. We have reason to be unhappy with the King. But the target for the United States is to keep that process going, that is the critical point now.

If you reach a point where the Middle East countries no longer see the alternative of a viable peace process, then you are headed for real trouble in the Middle East, and we are very close to that point now. That is why the President, and the Secretary of State are fighting desperately to keep that peace process alive and moving, and they are absolutely right in my judgment in trying to do that. You are putting another nail into the peace process' coffin when you put this language forward.

I understand the dissatisfaction with Jordan. I am not happy with Jordan on a lot of things, but I think you have to look beyond this committee to the impact on the peace process.

Mr. SMITH. Would the gentleman yield?

Mr. HAMILTON. Mr. Ireland and then Mr. Smith.

Mr. IRELAND. Very briefly, Mr. Chairman, I would like to support very strongly your solution to this problem. Things are moving fast. We are meeting at the present time when we share a lot of concern about what Jordan has done and not done. To almost negotiate by committee would be a tragic thing at the delicate time that we are meeting today. It seems to me that your proposal has come up with a very fair solution to the problem.

In the weeks and months ahead, before it gets to the full committee and before it gets to the floor, if other things seem to be necessary they are certainly going to be added in the normal process. I would strongly support your solution.

Mr. HAMILTON. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

I understand the grappling that you have because I have the same kind of situation. I would like to do whatever needs to be done to propel the whole region into a peaceful solution, as we all would. I do have some problems with trying to tie anyone into anything on a permanent basis.

However, it pains me that while the administration has taken the position that the King has not asked for any planes or other weaponry, nor will they be in fact asking themselves to come here for it, we do have written testimony from Mr. Veliotes in its original draft form, other than what he may have testified to, but it is in the record, that Jordan may be needing additional warplanes in the near future. That is in the testimony a number of months ago.

Those kinds of dichotomies, the differences between what the pronouncements are and what we read in the administration's written testimony bother me, and give me cause for concern about what may come tomorrow. In fact, I asked Mr. Veliotes at one point when actually it was coming. I said, I can smell it, I can hear, I can feel it moving on me. It just doesn't have a form yet.

All I am interested in doing is to make sure that everyone is a man or woman of their word. I want to be able to have everyone taken at their word.

I would suggest, if the chairman would entertain, the following. I would be willing to compromise between both amendments. I sense, perhaps, a Mexican standoff at this moment, Mr. Chairman, and therefore I would like, in the spirit of entering into the negotiations——

Mr. HAMILTON. Not only do you sense well, but you count well. [Laughter.]

Mr. SMITH. We have a saying in Florida, "My mother didn't raise no fool." [Laughter.]

I would be willing to use the substitute amendment, with the language in section (a), just changing, therefore, in section (b) on line 17, striking the word "to," and the first word on line 18 "prompt," and insert "has entered." So it would be that "to prompt entry" that would be stricken and "has entered" would be inserted.

Therefore, the first part in section (a) is no longer there in my amendment at all, which you found extremely offensive. Indeed, we have used your language. Instead of using the word "expectation," we have used the word "hope."

Mr. HAMILTON. If you would read it now?

Mr. SMITH. It would read, "only if the President has certified to the Congress that Jordan is committed to the recognition of Israel and has entered into direct peace negotiations with Israel." That takes out part of the objectional parts of mine, and what I consider to be that trigger mechanism in yours which, in fact, is the area of grave concern on both sides.

Mr. HAMILTON. Mr. Dymally.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

I am convinced that lasting peace in the Middle East is in the interest of Israel, the Arab States, and indeed America, and nothing disappointed me more than reading in yesterday's New York Times the news that Jordan has decided, because of objections from the PLO, to withdraw from the President's proposal.

However, I am also optimistic that if the administration and this Congress continue to send quality messages to Jordan, we may very well be able to salvage this process. I would, therefore, think that Mr. Smith's amendment would be somewhat objectionable to the Jordanians, and that the chairman's substitute is in a more conciliatory manner. For that reason, I would support, Mr. Chairman, your substitute.

Mr. HAMILTON. Mr. Smith, I don't think I can accept that.

AMENDMENT TO THE SUBSTITUTE

Mr. LANTOS. Mr. Chairman, may I try to propose a compromise and see if it is acceptable to both sides?

Taking your amendment, on line 17, I would like to suggest that we insert the word "publicly," which would make the operative phrase read as follows, "only if the President has certified to the Congress that Jordan is publicly committed to the recognition of Israel and to the prompt entry into direct peace negotiations."

Would that be acceptable to you, Mr. Chairman?

Mr. HAMILTON. It is acceptable to me.

Are there other comments?

Mr. LEVINE. Yes.

Mr. HAMILTON. Mr. Levine.

Mr. LEVINE. Mr. Chairman, I am not sure that there are the votes for my position of not supporting one of these compromises, although I could have supported Mr. Smith's.

I must tell you that the bottom line to me, in terms of fashioning a compromise at this point, is that which Mr. Torricelli emphasized

with regard to the President's track record on certification and the subjective nature of the language in your alternative.

I should tell you that I have so much respect for you personally and I am so concerned about your analysis of the situation that if there were a way for me to support the modification of our amendment that you suggest, I would like to do it.

One area that I would suggest you consider altering is that area which leaves the certification in a grey, subjective form on the issue of entering into the peace talks. I would have to vote no on a compromise that left that subjective, because King Hussein's history, which I outlined in my earlier remarks, is such that he can quite consistently with everything that he has been doing in the recent past, continue to "be committed to prompt entry into direct peace negotiations," which would be consistent with your language and never enter them.

He has been committed to the prompt entry into peace negotiations, if you take him at his word, for a long, long time. I guess my concern is that if that were the triggering mechanism, even if the administration were acting in complete good faith, they would have no way of knowing whether King Hussein were telling the truth or not.

The triggering mechanism in a subjective manner just gives the green light to this administration to want to believe King Hussein with all the best intentions, and then have King Hussein essentially double cross the administration again. So I would hope that the standard could be shifted from subjective to objective.

Mr. HAMILTON. I think that it may be that we have discussed these two proposals enough. We should keep in mind that our action is preliminary and there will be other opportunity in the committee. I don't want to close anybody off, but I do want to move.

Mr. Torricelli.

Mr. TORRICELLI. I have one question that I wanted to raise, Mr. Chairman. I wanted to ask whether Mr. Lantos' compromise only involved that one change "public." Is that the only thing that would be required?

Mr. LANTOS. To get the parliamentary procedure back on track, Mr. Chairman, I wish to offer an amendment to the substitute that reads:

> Only if the President has certified to the Congress that Jordan is publicly committed to the recognition of Israel and to prompt entry into direct peace negotiations with Israel under the basic tenets of United Nations Security Council Resolutions 242 and 338 and the Camp David Accords.

If I may speak to my amendment, the word "publicly" refers to both a public commitment to the recognition of the State of Israel and a public commitment to prompt entry into direct peace negotiations with Israel under the appropriate resolutions.

Mr. HAMILTON. Mr. Dymally.

Mr. DYMALLY. Mr. Chairman, I move your substitute.

Mr. HAMILTON. Let me make clear the procedure. The first vote will occur on the Lantos proposal, which is an amendment to the substitute that inserts the word "publicly," as Mr. Lantos has described. The second vote will occur on my proposal. The third vote will be in regard to the Smith/Siljander proposal.

VOTE ON JORDAN AMENDMENT

The Chair will put the question on the Lantos amendment to the substitute. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[Chorus of "noes."]

Mr. HAMILTON. The Chair is in doubt. I will ask for a show of hands. All those in favor of the amendment, please raise your right hand.

[Show of hands.]

Mr. HAMILTON. Those opposed likewise.

[Show of hands.]

Mr. HAMILTON. The vote is 7 to 3, and the amendment to the substitute is adopted.

The vote now occurs on the substitute as amended. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[Chorus of "noes."]

Mr. HAMILTON. The Chair is in doubt. I will ask for a show of hands. All in favor raise your right hand.

[Show of hands.]

Mr. HAMILTON. Opposed likewise.

[Show of hands.]

Mr. HAMILTON. The vote is 6 to 4, the substitute is adopted.

Now we vote on the Smith/Siljander/Levine amendment as amended. All those in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[Chorus of "noes."]

Mr. HAMILTON. The Chair is in doubt. We will have a show of hands. All in favor raise your right hand.

[Show of hands.]

Mr. HAMILTON. Those opposed likewise.

[Show of hands.]

Mr. HAMILTON. The vote is 6 to 4, and the amendment is agreed to, as amended by the substitute.

YEMEN PROGRAM

The next item is on page 16, and it is the Yemen Arab Republic. The figures are the same as recommended by the administration.

Mr. Lantos do you have a motion?

Mr. LANTOS. I move that we adopt that section of the recommendations.

Mr. HAMILTON. All those in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[No response.]

Mr. HAMILTON. The ayes have it and the recommendations are adopted.

AMENDMENT ON AID TO GREECE AND TURKEY

The next section relates to Greece and Turkey. I have an amendment here. The clerk will distribute the amendment.

We will have order please.

The proposal relates to the loan guarantees for Greece and Turkey. It specifies that $485 million is the FMS guarantees for Turkey and $500 million for the loan guarantees for Greece, to be available to Turkey and Greece respectively for 1984 and 1985. However, funds beyond what they received in fiscal year 1983 will be available only if both countries meet the requirements set for them, and those requirements are discussed on page 2 of the amendment. It stipulates conditions that are to be met by Greek and Turkish governments in order to receive military assistance.

I might say that the language here is similar to that in last year's foreign aid bill and is self explanatory. I have discussed it with members of the subcommittee. I don't think that it is necessary to go into any further detail on it, unless there are questions or comments. Are there any such questions or comments?

Mr. DYMALLY. I have a question. Do we have any language addressing the presence of Turkey in Cyprus?

Mr. HAMILTON. Yes, there is language in the amendment that requires the certification from the President that the country of Turkey has taken steps to achieve a settlement and to include the withdrawal of foreign troops from the Republic of Cyprus. That language is spelled out on page 20 of the report.

Mr. DYMALLY. Thank you, Mr. Chairman.

Mr. HAMILTON. Are there any further questions?

Mr. TORRICELLI. Mr. Chairman, I have only one. During our hearings, questions were raised about the human rights in Turkey, and we talked extensively about progress in getting out of Cyprus. I wanted to say that I have not seen any of the information that was promised on the human rights record and those incarcerated on Turkey. This will be my last vote on behalf of further aid to Turkey if, one, it does not become clear exactly what is happening with the estimated 30,000 political prisoners; and, two, if after all these years of talking about progress in Cyprus, the talk doesn't stop and we start seeing some real progress.

The Congress has to draw the end of the line, and I think that it is coming. Those who are concerned and want to see continued American assistance to Turkey should take note.

Mr. HAMILTON. I appreciate the comments of the gentleman.

Are there any further comments.

Mr. HAMILTON. I understand that we have not yet received from the Department the answers that the gentleman from New Jersey is seeking. I hope you will take note of that and get them to him right away, so that we can go to the full committee markup with that information available to us.

Mr. Lantos.

Mr. LANTOS. I move the adoption of the chairman's recommendations.

Mr. HAMILTON. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[No response.]
Mr. HAMILTON. The ayes have it. The proposal is adopted.

RECOMMENDATION FOR CYPRUS

The next amendment relates to Cyprus. The recommendation here is for $15 million, which is the figure that we have had in the past.
Mr. Lantos.
Mr. LANTOS. Mr. Chairman, I move the approval of $15 million in aid to Cyprus.
Mr. HAMILTON. All in favor say "aye."
[Chorus of "ayes."]
Mr. HAMILTON. Opposed, "no."
[No response.]
Mr. HAMILTON. The ayes have it, the amendment is adopted.

RECOMMENDATION FOR SPAIN

We have to approve the figures for Spain. It is on page 26 of the report, ESF is $12 million, military aid FMS is $400 million and IMET is $3 million.
Mr. Lantos.
Mr. LANTOS. Mr. Chairman, I move approval of the recommendation.
Mr. HAMILTON. All in favor say "aye."
[Chorus of "ayes."]
Mr. HAMILTON. Opposed, "no."
[No response.]
Mr. HAMILTON. The ayes have it. The figures are adopted.

RECOMMENDATION FOR PORTUGAL

The next relates to Portugal. The figures are on page 27 of the report. The economic aid is $40 million, the military aid and loan guarantees is $45 million, MAP is $60 million, and IMET is $3 million.
Mr. Lantos.
Mr. LANTOS. Mr. Chairman, I move approval of the recommendation.
Mr. HAMILTON. All in favor of the motion say "aye."
[Chorus of "ayes."]
Mr. HAMILTON. Opposed, "no."
[No response.]
Mr. HAMILTON. The ayes have it. The figures are agreed to.

RECOMMENDATION FOR ASHA

The final amendment relates to the American schools and hospitals abroad. The subcommittee recommendation is for $30 million. I am sure that this amendment is familiar to members of the subcommittee.
Mr. Lantos.
Mr. LANTOS. Mr. Chairman, I move that the recommendation be adopted.
Mr. HAMILTON. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[No response.]

Mr. HAMILTON. The ayes have it. It is adopted.

Are there any other amendments?

Mr. LANTOS. I have a motion, Mr. Chairman.

Mr. HAMILTON. The gentleman is recognized for his motion.

Mr. LANTOS. Mr. Chairman, I would like to express, I hope on behalf of all the members of the subcommittee, our appreciation for the fairness, the balance, the perspective, and the judgment that you have demonstrated again in bringing these very complex and difficult issues before the subcommittee.

Mr. HAMILTON. Thank you very much.

Mr. SMITH. Mr. Chairman.

Mr. LANTOS. Mr. Chairman, I would like a vote on my motion.

Mr. HAMILTON. All in favor say "aye."

[Chorus of "ayes."]

Mr. HAMILTON. Opposed, "no."

[No response.]

Mr. HAMILTON. It is unanimous. [Laughter.]

Mr. SMITH. I appreciate the Chair's courtesy in the debate on that amendment. I would just like to say, quite honestly, that I am a little disappointed in the fact that the amendment says that the moneys being appropriated may be used to finance weapon systems, except for certification.

I will be quite honest and candid and say that if the administration comes in in the short term with a request for aircraft or weapon systems, which they indicated in writing at one point is lurking in this area, I will feel as malignant as I can toward the proposal, and I will enlist every piece of aid I can get my hands on to make sure that that doesn't happen.

I don't want the adoption of that amendment to be a signal, and I would hope that this subcommittee did not adopt that amendment to be a positive signal to do now what the administration said it was not going to do before, but rather it will be viewed in the spirit in which it was offered, and that was to make sure that nobody is rewarded for sound and fury signifying nothing whatsoever.

Thank you, Mr. Chairman.

Mr. HAMILTON. Are there any further comments?

[No response.]

Mr. HAMILTON. If not, the subcommittee's business is concluded and the subcommittee stands adjourned.

[Whereupon, at 3:50 p.m., the subcommittee adjourned.]

APPENDIX 1

PREPARED STATEMENT OF HON. W. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR, BUREAU FOR THE NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Committee:

I am pleased to be here today to support the President's request for economic assistance for countries in the Near East region. For the region as a whole, the President is requesting $1,837 million, comprised of $1,803 million for Economic Support Funds (ESF) and $34 million in Development Assistance funds. Attached to this statement, which I am submitting for the record, is a table which summarizes the Administration's request. Under a separate appropriation, $284.8 million in Public Law 480 Titles I and II is planned for countries in the Near East.

Within the region, our request for countries in the Middle East includes $1,585 million in Economic Support Funds and $34 million in Development Assistance while our request for countries in Europe is in the amount of $218 million under the ESF.

THE MIDDLE EAST

The Administration's goal - as stated in the President's initiative last September - is to help bring a just and lasting peace to this crisis torn area. In this context, our economic assistance programs are designed to help bolster the efforts of those governments which are undertaking major policy risks on the road to peace by addressing some of the pressing economic and long term development problems which these countries face. Certain of our

Previous Page Blank

programs are directed at helping those countries in the region which provide important access or transit facilities into the region for U.S. forces and support their deployment in time of crisis to defend strategic U.S. in the region. Through our support of long term economic and social development as well as economic stabilization and emergency reconstruction efforts in Lebanon, AID helps strengthen the perception that the U.S. is dedicated to the security and economic well being of all friendly states in the area.

Egypt

For fiscal year 1984, we are requesting $750 million under the Economic Support Fund, the same level as in FY 1983. In addition, $267.5 million is planned under PL 480 -- $250 million under Title I and $17.5 million under Title II. We are proposing that the resources to be made available under the Economic Support Fund be provided as grants, as Congress has provided since FY 1981. PL 480 Title I resources would be provided as loans payable over a period of 40 years, including a ten year grace period. Interest on the loans would be two percent during the grace period and three percent thereafter.

The program of economic assistance to Egypt which we are requesting for FY 1984 continues to be built around three central objectives: stability, productivity, and equity. The main components of the Economic Support Fund program are:

-- A $300 million Commodity Import Program to help assure the availability of essential materials and capital goods for Egyptian industries and development programs and consumer items needed by the populace.

-- $200 million to support the Government of Egypt's new and ambitious five year plan for improving water and sewerage infrastructure, particularly in the greater Cairo and Alexandria metropolitan area and in the cities bordering the Suez Canal.

-- $102 million in incremental funding for decentralization activities. These funds will be allocated among the Basic Village Services, Provincial Cities, Neighborhood Urban Services, and Decentralization Support Fund sub-activities included in the Decentralization Sector Support program.

-- $45 million for industry in the form of additional credit, especially medium and long term, for investment, and equipment to expand pollution control in the Nile Valley and Delta areas.

-- $25 million to expand successful ongoing small farmer agricultural credit and irrigation management projects.

-- $63 million to continue and expand ongoing health, population, and education programs.

-- $10 million for technology transfer through an ongoing project in energy policy and planning and renewable energy.

-- $5 million for a new project emphasizing long term workforce planning and priority training.

The proposed FY 1984 program reflects a year of extensive discussions with the Egyptian government about the focus, structure, and flexibility of the U.S. economic assistance program and the nature, timing, and pace of Egyptian economic reforms. The program responds to the priorities of the Government of Egypt's new five year plan and the Government's request that a larger share of U.S. economic assistance planned for Egypt be concentrated in water and sewerage infrastructure, agriculture, and industry. The proposed program avoids investments in areas where they might negatively impact on the pace of economic reforms.

Before proceeding to elaborate on the impact of our past assistance and our FY 1984 request I would like to comment briefly on the current state of the Egyptian economy and the economic measures being taken by the Egyptian

18-551 O—83——29

government. In our April 1982 report on the Egyptian Economy and Debt Repayment Prospects we noted the downturn in world economic conditions and the likely adverse effects this would have on the Egyptian economy. In light of the expected continuation of these conditions, the report outlined policy measures the government might consider to enable the economy to adjust without detriment to the country's development program. The report suggested measures: 1) to encourage non-oil exports; 2) to attract external capital through exchange and interest rate adjustments; and 3) to lessen demand growth by reducing budget deficits.

Our latest report, submitted to the Congress in February 1983, confirms that the adverse effects anticipated in our earlier report have in fact occured. In contrast to the 27 percent average annual growth in foreign exchange earnings from 1976 to 1980, the value of both merchandise exports and service receipts declined in 1982. Lower foreign exchange earnings forced a nominal decline in imports, especially capital equipment purchases. A precipitous drop in imports and in consumption levels was avoided only by a decline in Egyptian import prices. Despite lower imports, the current account, balance of payments deficit is estimated by A.I.D. to have increased by $1 billion to $3.5 billion. The overall deficit is thought to have exceeded $1 billion and was financed largely by short-term borrowing. The impact of the lower foreign trade level is not yet reflected in data on domestic output, as domestic demand was sustained by a budget deficit equivalent to nearly 20 percent of gross domestic product in the Egyptian fiscal year 1981/82 and projected to exceed that in the 1982/83 fiscal year. Budget deficits are fueled by extensive subsidies on food and other basic goods, which absorb 30 percent of central government revenues. Domestic energy prices, despite modest increases in 1982, remain low, representing on

average only 20% of their international values, are resulting in capital and energy intensive investments being favored over labor intensive industries which would provide employment for Egypt's rapidly growing labor force. Despite recent increases, farm gate prices remain too low to encourage the farmer to take full advantage of new technologies which would significantly increase his yields. Imports now account for nearly 50% of Egypt's food consumption. A policy framework which minimizes price distortions and leads to competitive production for the domestic and export markets consistent with Egypt's comparative advantage remains an essential requirement for self-sustaining growth.

Over the past year we have had a series of discussions with Egyptian officials on how ESF resources might be used to support important economic reforms which the Government has determined are necessary. Discussions began with the visit of President Mubarak in February 1982, continued during the year with separate discussions of former Deputy Administrator Joseph Wheeler, myself, and Administrator McPherson in Cairo, in addition to regular consultations carried out by the Country Team in Egypt, and most recently with the visit of President Mubarak and several of his key Ministers here in Washington in January 1983. These discussions have resulted in a clearer understanding of the economic problems faced by the Egyptians.

President Mubarak has encouraged open discussions of economic issues and the government is taking some steps to raise prices of highly subsidized items, to allow interest rates and foreign exchange rates to more nearly reflect market conditions, to encourage foreign investment, and to give more attention to the productive sectors - agriculture and industry.

For example, during the past year:

-- Lentils, fava beans, margarine and soap were removed from the list of commodities sold at subsidized prices;

-- Interest rates on Egyptian pound deposits were raised in a move designed to increase savings;

-- The range of consumer items imported by the Government at the undervalued official foreign exchange rate for sale through government stores was reduced;

-- Electricity rates for residential and low and medium voltage business consumers were increased an average of 10 percent, and rates for two large industrial plants (aluminum and fertilizer), which together are responsible for one-fifth of national electricity consumption, were increased 50 and 60 percent respectively;

-- In the industrial sector, implementing regulations for a new companies' law were issued. This law extends to new Egyptian private sector investments the range of investment incentives available to Law 43 joint venture undertakings. Together with other administrative changes, this brought a notable increase in investment applications and approvals.

-- In the agricultural sector, the Government raised prices paid farmers for wheat, rice, corn, fava beans, soybeans, sugar cane and cotton between 5 - 20 percent and consolidated research and extension functions as recommended by both the BIFAD extension team and the Presidential Mission.

Nevertheless, as elaborated in our report on the Egyptian Economy and Debt Repayment Prospects, much remains to be done to adjust to new economic conditions. AID remains sensitive to and supportive of structural adjustment requirements. For example, while we have an electricity generating project (Ismailia Electric Power Plant) in the budget for FY 1983, we have not definitively decided to go forward with this project. The Egyptian Government

is currently reviewing its energy price policies. Until this process is completed it is premature to speculate whether the resulting policies will provide the appropriate framework for support of additional power investments.

In addition to recent agreement on areas of concentration of our assistance, the past year has also produced some programmatic changes in response to the Statement of Principles issued during President Mubarak's February 1982 trip.

-- We are providing sector, rather than project, assistance whenever appropriate (examples include the Decentralization Sector Support Program in FY 1982 and a broad sector support program covering comprehensive agricultural research and extension requirements planned for FY 1983);

-- We incrementally fund, rather than fully fund, projects whenever possible to keep obligations more in line with the rate of expenditure of a project;

-- Last year we began high level, bi-annual portfolio reviews with the Egyptian government to help resolve implementation problems.

-- The Egyptian Government has requested that as much as $450 million of our assistance be allocated annually to the Commodity Import Program (CIP). We are proposing a more modest level since about two-thirds of our assistance already is provided in quick disbursing forms (e.g. CIP and PL-480 Title I programs) which support balance of payments objectives. We agree with the conclusion of this subcommittee's staff trip report that the CIP should not be allowed to dominate the program at the expense of other worthwhile economic and social development investments.

I will turn now more directly to the progress of our AID program.

In spite of the fact that last year I predicted expenditures would exceed new obligations in FY 1982, and that didn't happen, I believe that the pipeline has now peaked at $2.7 billion.

As I related in my October 29, 1982 letter to this Subcommittee, FY 1982 was a disappointing year in terms of expenditures. CIP expenditures in FY 1982 were $140 million below their level in FY 1981, primarily because of negotiations with the Egyptian government on credit term policies. I believe the changes made as a result of these discussions were worth the temporary delay in disbursements. While project expenditures reached a new high in FY 1982, $355 million, we had hoped for even more. The uncertain environment following President Sadat's assassination and successive changes in the Cabinet slowed decision making in the Egyptian bureacracy and, therefore, the rate of implementation.

We project that in FY 1983, expenditures will reach $867 million and exceed new obligations for the first time. I accept that this target sounds high. However we have made a special effort to assure that the expenditure projections are realistic. Barring a calamity, we should be close to the target level. In fact, expenditures during the first quarter of FY 1983 were $216 million, right on target.

As members of this committee and its staff can corroborate from their recent trips to Egypt, many of our large construction projects are now under full implementation after years of planning and design. I am pleased to announce that since your visits in November 1982, U.S. contractors now are mobilizing in Cairo to carry out two additional major construction jobs under the Cairo Water and Cairo Sewerage programs.

Indeed a number of our capital and technical assistance projects are completed or nearing completion, making the impact of U.S. assistance increasingly widespread and visible to the average Egyptian. Other continuing projects are already producing important results. A short list of these activities includes the following:

-- The steam power facility at Ismailia is nearing completion and will add another 450 megawatts. The first unit start-up is scheduled for early 1983, with the second in mid 1983, and the third in mid 1984. This project is on target and on budget. Two gas turbine stations were previously completed in the industrial areas of Helwan and Talkha which added three hundred megawatts of power to the grid.

-- A $100 million project to construct the Suez Cement Company plant, capable of producing a million tons of cement a year, should begin production in mid-1983. A second plant at Quattimaya, ($95 million) should be completed one year later.

-- Construction and computer installation of the new, fully automated National Energy Control Center at Embaba ($43.5 million) was completed in mid 1982. Final hook-up to the national grid is underway.

-- Since 1980 nearly $80 million in ESF grant funds plus $45 million in Title III funds have been disbursed for activities in the Decentralization Sector Support program. More than 1900 water, sewerage and other service activities have been completed or are well underway in nine rural governorates and five urban centers. The program will expand to 21 rural governorates during 1983. Decentralization activities also are spurring new or expanded private sector contracting and service activities.

-- A program to rehabilitate irrigation canals through provision of canal maintenance equipment ($19 million) is nearing completion. All equipment is under procurement, and the hydraulic dredge maintenance equipment has arrived in country and is in use. Delivery of all equipment is expected to be completed by June 30, 1983.

-- Significant yield increases have been achieved in field trials of the $47 million Major Cereals project during the 1981/82 crop seasons. 6,742

farmers working on 6,021 feddans produced an average 2.46 MT of wheat per feddan (about one acre), 47.3% higher than nearby controlled plots and 60% higher than the national average. Maize demonstration plots on 6,000 feddans yielded an average 2.93 MT per feddan, 52% higher than controlled plots and 60% above the national average. Sorghum demonstration plots on 500 feddans yielded an average 2.66 MT per feddan, 64% above control group plots. Soybean demonstration plots on 2,000 feddans yielded an average 1.49 MT per feddan, 27% greater than those plots in the control group.

-- A careful blend of farm management and credit practices in the Small Farmer Production Project has resulted in tomato yield increases from 6 MT a fedda' to 14 to 22 MT per feddan in Sharkiya Governorate. Pest control efforts on eggplants are yielding increases of 35%. The GOE has waived production quotas and mandatory cropping patterns for farmers participating in this project. The resulting significant production increases realized by participating farmers are providing an opportunity for the government to gauge the serious disincentives to agricultural production posed by present price policies and production controls. In achieving these results, participating farmers have been willing to pay the substantially higher credit interest rates called for in this project (8% versus 4% in Government controlled quota and mandatory cropping pattern programs).

Other bright spots include:

-- the rapid take-off of our Basic Education program, which is expanding access to primary schooling, particularly for females in rural areas. Begun in August 1981, 1100 classrooms have been put to bid, actual construction begun on 717, and the first 18 classrooms (2 schools) were completed in December 1982. We'd like to note that we are supplying

practical instructional materials to these and other primary schools through the CIP;

-- the Peace Fellowship program, after somewhat of a slow start, which is now in full swing with 704 participants currently enrolled in post-graduate programs in the United States; and

-- the family planning program which is very active in both governmental and private sectors, and which has received public support from President Mubarak. There is some uncertainty about what precisely is happening to the rate of population growth: the Egyptian government recently announced that population growth declined from nearly 3% in 1980 to 2.54% in 1982 while other non-Egyptian agencies are estimating a less rapid decline. However, after several years of increasing population growth rates, the trend is clearly one of slower growth rates.

Progress in certain other areas has been less than we or the Egyptian Government had hoped. The Helwan Housing project continues to be marked by slow progress due to a variety of factors including troublesome soil conditions and inadequate Egyptian project management. Certain complex construction projects, in particular those involving grain silos and water and sewerage infrastructure, have been confronted with contractor coordination and manpower availability issues. To alleviate these problems, greater use of turnkey contracts with U.S. construction firms is being utilized. Three large projects receiving funding in FY 1982, organized on a turnkey basis, were the Rehabilitation of Aswan Turbines, Grain Silos II, and Cairo Water activities.

Another area where progress has been far more limited than desirable is our private sector portfolio. The Private Investment Encouragement Fund, provided for in 1979, is still not operational. Expenditures under the Development Industrial Bank project have lagged behind expectations. However, the private sector program has recently shown signs of renewed vitality.

The Private Sector Feasibility Studies project finally is moving forward due to the interest in promoting foreign investment shown by the new Minister of Investment and International Cooperation. After only a couple of months in office Minister Shindy has effectively gotten this activity on track. Of the thirty-seven investor applications for cost sharing that have been received, decisions have now been made on thirty-five. Our Mission is working closely with Minister Shindy on ways to invigorate other existing projects and to structure a more effective private sector program.

In conclusion, we believe that the economic assistance program to Egypt is maturing. Most projects have moved into full-scale implementation. Intensive mangement attention is being devoted to those that are not. We are more attune to Egyptian priorities and requirements. Our Egyptian colleagues have become more familiar with AID procedures and limitations. Discussions over the past year have resulted in a strengthened partnership and a renewed conviction that the economic assistance program to Egypt is improving the lives of large segments of the Egyptian populace.

Israel

Our fiscal year 1984 request is for $785 million in grants from the Economic Support Fund. This is the same level Israel has received in previous years. ESF resources combined with the proposed FMS program is a strong demonstration of U.S. support for Israel and one which is intended to provide Israel the security needed to take the risks associated with further steps toward peace in the Middle East. As in the past, the ESF cash transfer program will be implemented on the assurance from Israel that it will continue to import non-defense goods from the U.S. in an amount at least equal to the cash transfer level and that Israel will follow agreed procedures for selecting dry bulk carriers to ship grain. These procedures were developed with a view toward assuring a share of the market for U.S. flag carriers.

Israeli economic performance in 1982 was somewhat disappointing. High defense expenditures, continued efforts to maintain a high level of social services and economic security while avoiding any increase in unemployment and the prolonged recession in Western Europe and North America were major causal factors. While final statistics are not available, it appears that economic growth stagnated in 1982 in contrast to a real growth rate of 4.6% in 1981. However, per capita domestic consumption grew by 7%. The inflation rate increased to 131.5% compared to 101.5% in 1981 and a record rate of 132.9% in 1980. Exports declined by 7% while imports grew. The non-defense goods and services deficit for 1982 was probably in the range of $2.5 to $2.8 billion in comparison to a $2.2 billion level for 1981. However, since Israel's foreign exchange reserves at the end of December 1982 increased by $294 million from a year earlier, it is clear that net capital inflows -- foreign investment, commercial borrowing and aid -- were more than sufficient to finance the current account deficit and the amortization of Israel's external debt.

The net impact of the war in Lebanon on Israel's overall economic performance is not expected to be large. Of course, the conflict did entail expenditures which had not been foreseen. These are estimated to have been in excess of $1 billion. However, the Government responded by taking a number of measures which were designed to generate additional revenues and to spread the cost of the war over a three year period.

Despite economic policy reforms adopted in 1982 and prior years, Israel's basic economic problems continue. These problems are triple digit inflation and disequilibrium in the balance of payments. The challange is to resolve these problems without sacrificing the economic well-being of the Israeli people as reflected in the high level of social and economic development of the country and a low rate of unemployment. Achievement of these objectives

requires continued priority to export expansion while holding growth in domestic demand to moderate levels, constraints on monetary expansion and careful scheduling of military equipment purchases so that they do not unduly exacerbate existing economic pressures. Given realistic economic policies, the anticipated economic upturn in Western Europe and North America, and continued support from private donors and the U.S. Government, the Israeli economy should remain viable and dynamic.

Based upon on current circumstances, it is the Administration's view that the proposed aid level and terms are adequate to meet Israel's requirements without creating the need for unduly burdensome economic adjustments in Israel and without leading to a serious debt problem.

Jordan

In fiscal year 1984 we are requesting $20 million under the Economic Support Fund for Jordan, of which $7 million will be repayable loans with maturities of 20 years, a five year grace period, and five percent interest. These resources will be used to support priority development programs in a country which plays a moderating role in the Arab world and which has been positive in its response to President Reagan's September 1, 1982 peace initiative. While Jordan's level of per capita income ($1600 per year) places it in the ranks of middle income countries, its need for external resources is greater now than a year ago. Jordan continues to be highly dependent upon foreign assistance to finance its ambitious development plans and with the sluggish demand for and declining prices of oil, some Arab donors have slowed or reduced their assistance to Jordan. Remittances from Jordanian workers abroad have also begun to level off. Through 1981 Jordan was maintaining an overall balance of payments surplus and expansion of gross domestic product was an impressive 7.6 percent. With meager natural resources, Jordan's

successes are attributed to government policies which encourage a dynamic private sector and to a skilled and hard working labor force.

The fiscal year 1984 program will continue the transition begin in 1982 away from capital infrastructure projects toward technical assistance and technology transfer projects which stress institution building as the best means to make a qualitative American impact with a relatively small assistance program. A.I.D. assistance will help create Jordanian capacities to provide safe water and controlled sewerage to growing urban populations while exploiting and conserving its very scarce water resources; substantially increase crop productivity on irrigated farmlands; simultaneously attack the health problems of mothers and children while increasing public awareness of Jordan's overriding population growth problem; promote the transfer of appropriate technology; and launch a new in-country program to accelerate the development of critically scarce management skills.

Lebanon

A.I.D. is deeply engaged in a reconstruction effort in strife-torn Lebanon but because the requirements must be met on an urgent basis, funding was requested in the form of a fiscal year 1983 supplemental. It is important for the U.S. to be able to make a tangible demonstration of its commitment to Lebanon's reconstruction and, thereby, help galvanize the support of European and Arab donors as well as multilateral institutions. For these reasons, program requirements which might have been requested in the fiscal year 1984 budget have been covered by the special supplemental request.

Oman

In fiscal year 1984 we are requesting $15 million under the Economic Support Fund for Oman of which $5 million would be in the form of grants and $10 million in loans. The loan funds are repayable in twenty years with a

five year grace period and five percent interest per annum. In 1980 the United States agreed to establish a Joint Commission with Oman through which modest levels of economic assistance would be channeled to respond to the Omani desire to broaden our bilateral relationship beyond mutual security concerns in the area. Oman's high per capita income is based almost entirely on its oil wealth and obscures the fact that the overall level of economic development is low. The modernization process is only a little more than a decade old and the country has spent large sums of money on creating the basic physical infrastructure upon which to launch effective development programs. Oman will require technical assistance for many years to implement development programs which will meet the needs of its people.

The fiscal year 1984 grant funds will support the work of the Joint Commission -- now staffed and operational -- feasibility studies and technical assistance including further support for the fisheries and participant training projects, the former which began in fiscal year 1982 and the latter which is expected to begin in fiscal year 1983. The $10 million loan may be used to support the further expansion of the schools construction project which the Joint Commission intends to initiate in fiscal year 1983.

Yemen Arab Republic

We are requesting $28 million Development Assistance grants for Yemen in fiscal year 1984 and, under a separate appropriation, $3 million in PL 480 Title I to finance wheat flour imports.

Despite several years of rapid domestic economic growth Yemen still ranks as one of the world's poor countries, particularly in terms of quality of life indicators. Beginning in the latter half of the 1970s real gross domestic product expanded at a rate between 8-10 percent per annum, fueled primarily by the growth of remittances from Yemenis working abroad and foreign assistance,

principally from Arab donors. While the figures are not entirely reliable, it is clear that the trend in working remittances and Arab assistance donor assistance is generally down. Some estimates would have remittances declining from a high of about $1.5 billion in 1979 to as low $700 million in 1982. These economic trends coupled with a growing trade deficit and devastating earthquake on December 13, 1982 in Dhamar Province -- which reportedly killed or injured 5000 people and left up to 400,000 homeless -- strongly suggest that the Government of Yemen will not be able to implement its ambitious development schemes as previously planned.

Aside from some agricultural potential Yemen's natural resources are meager. Yet there is a reasonable prospect that by building up the physical infrastructure, creating institutions, mobilizing its human resources and further encouraging a dynamic private sector that it will be possible to achieve substantial improvements in the quality of life for Yemeni citizens. In this context the A.I.D. strategy places particular emphasis on institutional development, human resource mobilization and appropriate technology transfer while other donors, particularly the Arabs, emphasize capital intensive construction. Our strategy is manifest in our portfolio of projects which address a wide range of agricultural problems, through a long term, U.S. University, Title XII endeavor with the Ministry of Agriculture; a similar collaborative assistance project in education which will improve primary education and teacher preparation; and a broad based participant training project to introduce needed technical and managerial skills into governmental and private institutions. The portfolio also includes significant projects addressing health service delivery in the Tihama, the poorest area of the country, village based development activities -- particularly water supply projects, and a new effort to train health care

workers in family planning education. All elements of the A.I.D. program are heavily laden with the technical assistance and training which will help Yemen to achieve productive growth, increase employment and income, and address some of the basic needs of its people particularly in the areas of education and health.

Regional Activities

In addition to these country programs we are requesting $6 million in Development Assistance grant funds and $15 million in grants under the Economic Support Fund for projects which primarily impact on the Middle East.

The Development Assistance grants will finance the continuing scholarship program at the American University of Beirut ($3 million) which will cover the full financing of 50 new students, project design and evaluation work (about $1 million) for Middle East development assistance programs, and five continuing projects (about $2 million). These include family planning activities in those countries which do not have bilateral population programs, the National Technical Information Service project, a project to stimulate private enterprise development, a program of small projects in collaboration with the Peace Corps, and technical assistance to the Arab Center for the Study of Arid Zone and Drylands.

Our request under the Economic Support Fund will sustain our development efforts in the West Bank and Gaza ($7 million) which are implemented by American voluntary agencies and address needs in the areas of vocational and higher education, community development, land reclamation, improved water storage and agricultural cooperative marketing, etc. In addition, $7 million is requested to finance cooperative scientific, technical and other activities of mutual interest to Israel and its Arab neighbors and $1 million is required for project development and support activities, primarily project design and evaluation services, related to the development of ESF country programs.

EUROPE

For fiscal year 1984 we are requesting $218 million under the Economic Support Fund to address critical economic and security needs in Turkey and Portugal and to continue the scholarship program in Cyprus.

Turkey

We are requesting $175 million to continue support of Turkey's economic stabilization program. We plan to provide the assistance in the form of a $100 million grant and $75 million loan, repayable in 20 years with a 5 year grace period on repayment of principal and 5 percent interest throughout. We expect other OECD donors and Arab nations to provide assistance as well. The Turkish government continues to show political courage in implementing its comprehensive and well-conceived economic reform program. It still needs and deserves the support of its allies and friends. We will do what we can to encourage this support.

The Turkish government put into place a well-conceived and far-reaching economic reform program in January 1980. Its major features have remained intact and include the maintenance of a realistic foreign exchange rate; elimination of government subsidies to cover operating losses of most State Economic Enterprises; fiscal, monetary and wage restraint; elimination of most price and interest rate controls; and liberalization of the foreign investment regime.

Turkey's performance through 1982 provides strong evidence that the new policies have taken hold. Wholesale prices, which doubled in 1980, increased by only 25 percent in 1981 and probably by only 23% for 1982. GNP has maintained a constant annual real growth rate of 4.5% for the past two years

18-551 O—83——30

compared to absolute declines in 1979 and 1980. Exports surged in 1981 and were up an additional 15-25% in 1982. This coupled with a leveling off in payments for imports led to further improvement in the trade balance. The current account deficit declined from about $3.2 billion in 1980 to $2.1 billion in 1981 and will probably be about half that in 1982.

Turkish dependence on concessional assistance is not as great as it has been in recent years. Our fiscal year 1984 budget request reflects this fact. In our view it would be a mistake to reduce economic assistance further. Turkey is entering a critical period when interest and principal obligations on outstanding debt will rise as the relief provided by recent debt reschedulings diminishes. Balance of payments deficits on current account are likely for the next few years. Although the likely levels are smaller than those of recent years, there is still considerable doubt that the private commercial market will provide all of the financing necessary.

Portugal

We are requesting $40 million in fiscal year 1984 under the Economic Support Fund for Portugal. The United States and Portugal have initiated discussions concerning a new security cooperation agreement. We anticipate that a cash transfer in the amount of $40 million will be required in FY 1984 in connection with the new understanding. As in the past, the Government of Portugal is very likely to use the transfer to advance the economic and social development of the Azores and might also allocate a small amount to establish a Luso-American Development Foundation whose purpose will be to sustain technical cooperation and exchange between our two countries.

The Committee may be interested to learn that the earlier technical assistance and earthquake reconstruction efforts are largely completed and the USAID staff is being phased down to only one AID officer by the end of FY 83. Since 1975 A.I.D. has helped in the resettlement of refugees from Africa,

provided loans for social infrastructure (particularly schools and rural health centers), and made a $300 million loan to Portugal for economic stabilization as part of a highly successful multilateral stabilization program. A.I.D. has also provided housing guarantees to address the critical housing shortage and helped with reconstruction following the 1980 earthquake in the Azores.

Cyprus

In fiscal year 1984 we are requesting $3 million in grants under the Economic Support Fund for the scholarship program. The program began in FY 1982 after lengthy negotiations with the planning officials in both Cypriot communities. The program is administered jointly by American-Mideast Educational and Training Services and the Fulbright Commission. The first group of students entered U.S. institutions in the fall of 1982 and selection and placement is currently underway for the next group for the fall of 1983.

No funding is requested for the United Nations High Commission for Refugees (UNHCR) since the objectives of the programs administered by this Agency have been achieved.

Thank you Mr. Chairman, I would be pleased to answer any questions you and members of the Committee may have.

Attachment

NEAR EAST
PROGRAM SUMMARY
(in millions of dollars)

		FY 1982 Actual	FY 1983 Estimated	FY 1984 Proposed
MIDDLE EAST				
Egypt	ESF	771.0	750.0	750.0
Israel	ESF	806.0	785.0	785.0
Jordan	ESF	15.0	20.0	20.0
Lebanon	ESF	6.0	150.0 1/	-
Oman	ESF	15.0	15.0	15.0
Yemen	DA	23.3	28.1	28.0
DA Regional Activities		4.4	5.2	6.0
ESF Regional Activites		11.1	15.0 2/	15.0
(Reg. Cooperation)		(4.1)	(7.5)	(7.0)
(West Bank/Gaza)		(6.0)	(6.5)	(7.0)
(Project Dev./Support)		(1.0)	(1.0)	(1.0)
Sub-Total Middle East		1,651.8	1,768.3	1,619.0
	ESF	1,624.1	1,735.0	1,585.0
	DA	27.7	33.3	34.0
EUROPE				
Cyprus	ESF	15.0	15.0 3/	3.0
Poland	ESF	5.0	-	-
Portugal	ESF	20.0	20.0	40.0
Turkey	ESF	300.0	300.0 4/	175.0
Sub-Total Europe		340.0	335.0	218.0
	ESF	340.0	335.0	218.0
NEAR EAST TOTAL		1,991.8	2,103.3	1,837.0
	ESF	1,964.1	2,070.0	1.803.0
	DA	27.7	33.3	34.0

1/ Supplemental appropriation covering FY 1983 and 1984
2/ Includes $2.5 million supplemental request
3/ Includes $10 million supplemental request
4/ Includes $55 million supplemental request

REPORT ON THE ISRAELI ECONOMY AND DEBT REPAYMENT PROSPECTS, SUBMITTED BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

The Honorable Lee H. Hamilton
Chairman, Subcommittee
on Europe and the Middle East
Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As required by Section 723 of the International Security and Development Cooperation Act of 1981, I am pleased to transmit a report on economic conditions in Israel and the capacity of that country to service its foreign debt.

Sincerely yours,

James L. Bryan
for Daniel B. Denning
Office of Legislative Affairs

Enclosure

REPORT ON THE ISRAELI ECONOMY AND DEBT REPAYMENT PROSPECTS

I. Introduction and Summary

This is the fourth annual report on this subject. As discussed in the previous reports, Israel's economic achievements since 1948 are remarkable, especially in view of its limited natural resource endowment. Exports, in current dollars, have increased at an average annual rate of 18 percent in the past 25 years, resulting in the doubling of exports every four to five years. There has also been substantial growth in per capita income with an average annual per capita real Gross National Product (GNP) growth rate of 3.8 percent for the period 1960 to 1980; thus real per capita income approximately doubled during this 20 year period and reached a level of about $5,200 in 1981. Imports also continued to increase but at a lower average rate than exports. There has been a relative improvement in the balance of payments during the recent years as the non-defense trade (goods and services) deficit for 1981 of $2.2 billion is no larger in nominal terms than in 1975, which results in a decline in the real economic burden of the deficit. Israel's foreign debt has grown substantially since 1973 but remains within its capacity to service.

In 1973 there was an economic watershed for Israel as a consequence of the Arab-Israeli War which coincided with a sharp acceleration of price inflation worldwide, particularly for petroleum products, and a worldwide recession. These new circumstances required a reorientation of economic policies to deal with high inflation and slow growth in the West. Under the circumstances of the mid and late 1970s, Israel had to shift to slower growth in order to contain balance of payments and debt related problems. The particular circumstances which have affected Israel's economic choices particularly in the post-1973 period are:

1. National defense and the deterrence of potential aggressors continues to be a major concern which requires the diversion of large manpower and capital resources from productive economic activities (although defense related production has emerged as a major growth sector). In 1981, Israel allocated approximately one quarter of its Gross National Product (GNP) and 15 percent of its total available resources1/ to defense consumption.

1/ Total available resources is defined as Gross Domestic Product plus imports.

2. Oil imports require substantial foreign exchange resources. In 1981, oil imports amounted to $2,048 million, or 18 percent of total foreign exchange earnings from goods and services exports. While Israel is certainly not unique with respect to the burden of paying for imported oil, this burden is in part a result of Israel's return of the Sinai oil fields to Egypt in support of the desire to achieve peace with Egypt. (The Sinai oil fields supplied about 25 percent of Israel's requirements). The apparent trend of oil prices stablizing and perhaps even declining in the near term will have a favorable impact on the balance of payments.

3. The cost of redeploying military installations and forces from the Sinai were also substantial. While a sizable portion of those costs were offset by U.S. Government assistance ($2.4 billion in FMS credits and $800 million in grants) Israel's outlays from its own resources will be substantial.

The United States has evaluated these requirements and taken them fully into account in determining appropriate assistance levels. Our economic and military assistance have enabled Israel to finance the military imports, fuel and other civilian imports it needs without having to rely unduly on higher cost commercial borrowing, drawing down foreign exchange reserves and without drastically constraining the growth of the economy or causing a depression.

During 1982, Israel was faced with two added factors with economic implications:

1. The continuing recession in the United States and Western European countries, Israel's main trading partners, appears finally to be impacting on export performance. In contrast to the buoyant export performance of 1980 and 1981, exports for the first ten months of 1982 are 6 percent below the same period for 1981.

2. The military campaign in Lebanon has had some economic consequences, although the costs are preliminarly estimated substantially below those of the Yom Kipper War. The estimates of total direct and indirect costs2/ range between $1.2 billion and $1.4 billion (of which less than 30 percent is estimated as foreign exchange costs). Israel plans to spread the bulk of this financial burden over three years (1982-1984).

In the pre-1973 period Israel managed its economy in a way which facilitated relatively rapid growth and a high degree of social welfare without undue dependence on assistance from abroad.

2/ Indirect costs include the loss of production, exports and tourism resulting from the campaign.

More recently, economic growth slowed, inflation and balance of payments deficits became major concerns, and dependence on U.S. Government assistance grew. In order to recreate a viable economy under current circumstances, Israel must:

A) give priority to export expansion, while holding growth in domestic demand to moderate levels,

B) constrain the rate of expansion in liquidity in order to reduce inflationary pressures and make progress in reducing inflation below the three digit levels of the past several years, and

C) pay careful attention to the burden of defense and schedule military equipment purchases so that they do not unduly exacerbate existing economic pressures.

As pointed out in the three previous reports, the overall success of Israeli efforts will be affected by events outside the control of Israeli policy makers. For example, reestablishment of balance of payments equilibrium depends on recovery of the economies of Western Europe and the United States, and on the absence of further unforeseen setbacks to the Israeli economy. U.S. policy with respect to assistance levels and terms will continue to take

into account not only the overall economic condition of Israel but also the global economic milieu as it affects Israel's requirements. Based on the current circumstances, as described in this report, it is our opinion that the current and proposed aid levels and terms are adequate to meet Israel's requirements without creating the need for burdensome economic policies and without leading to a serious debt problem.

II. Economic Developments in 1981 and 1982

A. 1981

Early in 1981 the Government of Israel adopted several measures which while primarily designed to reduce inflation below the three digit level also had the effect of stimulating economic growth. This was a transition period that indicated a change from the "austerity program" which had been the major economic theme since 1979. The major economic policies adopted early in 1981 included:

a) reduction in the indirect taxes on a number of consumer goods, especially durables,

b) moderation in Government controlled price

increases. This also resulted in increases in the subsidy element for subsidized items such as dairy products, bread, meat, fuel and public transportation,

c) adjustments in income tax schedules to reverse increases in tax rates caused by inflationary bracket creep, thus increasing the disposable income of middle income Israelis,

d) reduction in income tax rates for off-hour shifts, and

e) introduction of more attractive cost-of-living indexed savings schemes which guaranteed a positive rate of return of 5 percent annually on funds deposited for two years.

The annual statistics for 1981 seem to indicate that the policies have had the intended effects, at least in the short term. The GNP growth rate was 4.6 percent for 1981 in comparison to the 2.7 percent annual average for 1975-1980. The consumer price index rose by 101 percent in 1981, still very high, but a major reduction from the 133 percent increase in 1980.

All major components of GNP showed significant real growth. Private per capita consumption increased by 8.5 percent as a result

of increases in real wages and increased subsidies. Public consumption grew by 7.5 percent, as a result primarily of increased military consumption which increased by 11 percent. The increase in military consumption was led by a 29 percent nominal increase in defense imports. Gross total investment declined by 1 percent in contrast to a 17 percent decline in 1980. Gross fixed investment increased by 2 percent and investment in fixed assets other than housing grew by over 4 percent. This marks a turnaround from the 1974-1980 period when investments in non-housing fixed assets declined by over 20 percent cumulatively. Exports of goods and services increased nominally in dollar terms by 7 percent over 1980 despite the continued slow down in Western Europe. On the other hand, unemployment increased somewhat from 4.8 percent in 1980 to 5.1 percent in 1981.

While the short term effects of the policies adopted at the beginning of 1981 were favorable with respect to growth and inflation, as evidenced by the annual statistics, the longer term impacts as revealed by the trends developing throughout the year, seem to be less certain. The efforts to hold down prices subject to Government control moderated the increase in the cost of living index and thus the cost of living adjustments to wages and welfare payments. On the other hand larger Government subsidies and reduced consumption and income taxes stimulated private consumption and led

to increases in the money supply to fund the growing fiscal deficits thus leading to renewed inflationary and balance of payments pressures.

The effect of the subsidies and tax reductions on consumption were somewhat moderated by the introduction of new, more attractive price index linked savings instruments which helped maintain high savings levels. In addition, the stock and bond markets remained popular as good hedges against inflation. Nevertheless, the new savings instruments were only available for a few months and the large increase in private consumption recorded for the year seems to suggest the Israelis rearranged their investment portfolios to take advantage of the new instruments rather than substitute savings for consumption.

The unavoidable result of the package of policies introduced in early 1981 was a growing government deficit which had to be financed by inflationary increases in the money supply or by crowding out private borrowing in the credit markets3/. The data indicate that

---

3/ Triple digit inflation and the uncertainty which it engenders for private investors are factors which also cause investors to limit borrowing.

early in 1981 Government infusion of liquidity dropped and even turned negative in April, but accelerated as needs increased over the year to finance the growing budget deficit. As a result of a 23 percent real increase in Government spending in Israel Fiscal Year 1981 the budget deficit reached $2.7 billion compared to $765 million in Fiscal Year 1980. The rate of inflation accelerated in the second half of the year, reaching 150 to 175 percent on an annualized basis during September and October. With increased subsidies on Government controlled goods in 1981 the rate of increase in the consumer price index dropped again and the average rate of increase for the year was contained to 101 percent.

Starting in July there was growing evidence that the Government was concerned about these trends and was trying to take steps to correct them. The major corrective measures which were attempted included reductions in Government expenditures, including defense and consumer subsidies; however, as discussed earlier the budget deficit was not effectively contained in 1981, as subsidies increased by 80 percent and defense expenditures also by a substantial amount. While these efforts were not wholly successful in 1981 they did lead the way for similar policy corrections in 1982.

Increased domestic economic growth has usually been associated with balance of payments deterioration. However, in 1981 the

non-military deficit amounted to $2.2 billion, the same as in 1980. The previously predicted $300 million increase did not materialize. This is particularly noteworthy because of the $500 million decrease in the non-military deficit which occurred in 1980.

Foreign trade was characterized by a decline in both import and export prices. Despite inflation abroad, prices in international trade declined in dollar terms due to the strengthening of the dollar against European currencies. Israel's terms of trade improved by about 0.5 percent as export prices declined less than import prices. The overall current account deficit increased to a level of $4.4 billion, some $500 million larger than in 1980, as a result of an equivalent increase in direct military imports.

The total foreign exchange financing requirements4/ for 1981 was approximately $4.8 billion. This was more than covered by grant and concessional and commercial borrowing from abroad. Foreign

---

4/ The non-defense goods and services deficit plus cash flow requirements for defense imports and medium and long term debt maturities.

exchange reserves continued to grow, increasing by some $188.5 million in 1981. U.S. assistance was the largest single source of capital inflows amounting to $2.7 billion5/.

Other significant sources included unilateral transfers from private individuals and institutions, restitution payments to private Israeli citizens from the Government of the Federal Republic of Germany (FRG) for holocaust losses, sale of Israeli bonds, FRG assistance and commercial loans.

The national external debt grew by $1.7 billion, reaching $18.3 billion in 1981. Approximately 40 percent of this debt was owed to the United States Government. Eighty-seven percent of the debt is long and medium term. About $2.3 billion was short-term. Total debt service amounted to $3.2 billion, up from $2.6 billion in 1980, with the growth consisting mainly in increased interest payments.

5/ On a disbursement basis. Disbursements are often made against assistance approved in prior fiscal years. This is important in the case of the $3.2 billion special redeployment package in FY 1979 and FY 1981.

18-551 O—83——31

B. 1982

Preliminary indications, based on partial and incomplete data for 1982.6/ are that the Israeli economy is not performing as satisfactorily as it did during 1981, nor is the performance up to the expectations the Government of Israel had earlier in the year. The continuing recession in the West seems to finally have caught up with Israel and is adversely affecting export performance which will constrain overall economic growth. Inflation has again surged; to a rate of about 130 percent. The Government of Israel has enacted measures to deal with these problems. These are discussed below.

Early in the year the Government forecast that growth in GNP for 1982 would be similar to 1981, about 4.5 percent. Since the export sector is increasingly important to Israel, this optimistic forecast was necessarily based on healthy growth in exports and therefore on a recovery in the economies of Western Europe, Israel's major trading partners. The commodity trade statistics for the first 10 months of 1982 provide important indications of the performance of the economy generally. Commodity exports in dollar

---

6/ Extreme caution should be used in considering these data, as preliminary estimates are often substantially revised when more complete information becomes available.

terms, are down 6.1 percent in this period. Non-defense commodity imports are also down, but only by 0.8 percent, resulting in an 8.7 percent expansion in the commodity deficit. There are no official data available yet on the invisibles, but it has been reported that tourism is down significantly. For example, the number of tourists was approximately 5 percent below 1981 for the period prior to June and has been down about 20 percent over the prior year from July to October. Accordingly, tourism receipts could be expected to be $100 million to $200 million below those of last year. On the basis of this partial information, it appears that the non-defense goods and services deficit will probably be between $2.5 billion and $2.8 billion in contrast to the $2.2 billion level of 1981.

Capital account data are still only very fragmentary. However, since it has been reported that Israel's foreign exchange reserves continued to grow7/ (the seventh consecutive year for such growth), it appears that gross capital inflows, including U.S. loan assistance, have been sufficient to finance the current deficit plus the amortization costs of Israel's external debt.

The war in Lebanon has added an additional element to the economic situation and the full impact will not be known for some

---

7/ Bank of Israel foreign exchange reserves were $3.716 billion on November 30, 1982 and $3.49 billion on December 31, 1982.

time. First, there are the direct costs of the confrontation which are roughly estimated at $1 billion. There are also some indirect costs, mainly those resulting from reduced levels of tourism and production. These indirect costs have variously been estimated at $200 million to $400 million. The foreign exchange costs are estimated at about $400 million. The Government of Israel has taken a number of steps to spread the major costs over the three-year period 1982-1984, thus avoiding a serious economic impact in any one year period.

Policy measures undertaken to offset the costs of the Lebanon War are expected to generate $1.45 billion in revenues. These include:

a. a 2 percent tax on stock market transactions,

b. an increase in the value added tax of 3 percent (from 12 percent to 15 percent),

c. a six-hundred shekel levy on Israelis travelling abroad,

d. a levy on imports of 3 percent, and

e. a compulsory loan to the Government of up to 5.0 percent of salaries.

These measures will add revenue needed to finance the war costs. In addition, they will reduce the spendable income available to the private sector and thereby help absorb some of the excess liquidity which is causing inflationary pressures. However, to the extent that increases in indirect taxes and price increases for Government controlled goods and services are reflected in the consumer price index and, via indexation, in wages, the positive impact on inflation will be reduced or eliminated.

In addition to policy measures introduced after the war began, the Government of Israel has introduced or is planning to introduce a number of measures to cope with the underlying economic problems of the economy, e.g. high inflation, a low rate of economic growth, falling exports in the face of buoyant private sector import demand and inadequate levels of productive investment. These include:

a) a real spending cut in the FY 1982 budget (vis-a-vis the 1981 budget) including a 2.3 percent real cut in domestic defense spending (planned prior to the war in Lebanon),

b) gradual reduction in subsidies, (this was recently changed to a policy of maintaining the proportion which subsidies represent in consumer prices for six basic foodstuffs),

c) elimination of the tax deduction on corporate borrowing for investment in securities (One factor which is assumed to have caused investments to shift from real to financial assets.),

d) a temporary, short-term, reduction in the rate of depreciation of the value of the shekel,

e) reduction in some indirect taxes, and

f) a reduction in the employers' contribution to the National Health Insurance Fund.

The composite picture of these economic policy adjustments is one of a country trying to manage the trade off between inflation and unemployment, when it is a major social objective to keep unemployment low, and not reduce incomes. The actions to reduce inflation have not significantly altered the system of indexation which protects the Israeli population from the major effects of the high inflation rates. As a country dependent upon export growth for any substantial overall growth, the recovery in the West is a critical exogenous factor in this scenario.

Three digit inflation has been the price of past policies which attempted to achieve high employment and a high level of social welfare, as well as external factors such as rising import prices. One major adverse result of the high inflation was a decline in real investment (productive capital formation was one objective that could not be effectively protected by indexation).

A progressive reduction in the rate of inflation to the two digit level is considered an important objective. While some of the policies in force today or currently being discussed are designed to put constraints on public and private sector consumption, at least two major elements are designed to deal with the psychological causes of inflation: the change in the way wages are linked to inflation, and the temporary reduction in the rate of depreciation of the shekel. With respect to both items, the Government of Israel ultimately hopes to achieve a forward indexation mechanism which will link exchange rate changes and wage increases to anticipated inflation rather than having adjustments lag inflation, with catch up increases which further exacerbate the rate of inflation. While the psychological causes of inflation may be at least partially

brought under control if these policies are successful, the Government must still deal with the underlying real causes of inflation, e.g., deficit spending by the Government and excess demand.

III. Future Prospects

Israel's prospects for resolving its balance of payments and other economic problems and successfully managing its external debt depend critically upon developments in five areas:

a) economic conditions and the rate and nature of recovery in the countries with which Israel trades,

b) political and military developments in the Middle East and the impact on Israel's defense spending,

c) the price and quantity of imported energy,

d) the rate and pattern of growth in the Israeli economy, and

e) the ability of Israel to reduce the three digit rate of inflation to a more manageable level.

These factors affect not only the pace of economic development in Israel and size of the current account deficit, but also the willingness of private foreign investors and lenders to finance that deficit. The nigh rate of inflation in particular has an impact on the balance of payments in two ways, first it makes it difficut to manage a consistent foreign exchange rate policy and second it impacts negatively on investments and therefore export competiveness. Of these factors, only the last two, -- the rate and pattern of growth, and the rate of domestic inflation -- are substantially subject to the control of the Israeli authorities, and even the rate of domestic inflation is only in this category as long as the prices of necessary imports remain fairly stable. This report can add little to what is already known about the first three factors, and thus they will not be emphasized in the discussion that follows. However, it is important to point out, as was done in past reports, that developments in any of these areas can have an important bearing on inflation, economic performance generally and the balance of payments in particular -- for better or worse -- and therefore the U.S. Government will continue to monitor the situation and reassess Israel's requirements in light of changing political, military and economic developments.

A) Israeli Economic Priorities

The economic priorities of the Government of Israel and the related policies to achieve these priorities have been shifting dramatically over the last four years. The year 1979 was a period of transition. In 1980, the priority theme was domestic austerity and the restoration of balance of payments equilibrium. In 1981, there was a shift in emphasis toward stimulating economic growth and controlling inflation; economic policies in the period included initiatives to reduce direct and indirect taxes, moderate Government controlled price increases and introduce more attractive inflation indexed savings schemes. The Government's stated highest economic priority for 1982 was to reduce the rate of inflation below the current three digit level. It also continues to give attention to reducing the current account deficit of the balance of payments and to stimulating a higher rate of economic growth.

While the control of inflation has been a major concern for some time, the increased emphasis which the Government is giving it now seems to stem from two major factors. First, the rate of inflation has remained above the three digit level since 1979, and for short periods it has accelerated to levels which may be unmanageable if sustained for longer periods. Second, it now seems to be clear that the prevailing high rate of inflation is not derived solely from price increases on imports or excess demand in

the public sector, but that inflation in Israel is also caused by domestic cost inflation which is transferred from one sector to another by an intricate system of indexation. Thus, the major economic policies introduced in 1982 were intended to deal with inflation not only in the traditional manner, i.e. by restricting public and private consumption, but also by attacking the inflation generated and transmitted by the scheme of indexation of wages, benefits and Government budgets.

Some of the policy measures employed in 1982 to reduce inflation, especially reduced direct and indirect taxes and reduction in the rate of depreciation of the shekel, have the tendency to increase domestic private consumption, pull in imports and divert industry from production of exports to production for domestic consumption. Others, such as the reduction in consumer subsidies and the temporary measures to finance the war in Lebanon, tend to translate into higher rates of inflation via the existing indexation measures. Reduction in the cost inflation that results from indexation, particularly of wages, can only be accomplished with the full cooperation of labor, the government ministeries and the public at large. Progress in this area will likely be gradual.

The results of the competing and sometimes conflicting short and longer term policy initiatives for 1982 are still uncertain. However, it appears the complex system of indexation contributed to continued strong private consumption growth and accelerated inflationary pressures with an annual rate of 130 percent currently

expected. There has also been weak export performance as a consequence of falling demand and reduced export profitability stemming from a strengthening in the U.S. dollar. The financing of the war in Lebanon has been spread over three years and therefore is not expected to add an unmanageable burden. With inflation mounting, there are again pressures to increase consumer subsidies, wages and Government budgets. In the face of these mounting pressures, there is still uncertainty about the implementation of all the policies adopted earlier in the year.

B. Balance of Payments and Debt Servicing Prospects

The Government of Israel's priority emphasis on reducing inflation by means of domestic demand management policies and attacking indexation linked inflation should also be consistent in the long run with reducing the balance of payments current account deficit. However, despite this policy milieu, domestic consumption growth was fueled by real increases in disposable incomes during the first half of the year. This factor in combination with continued worldwide recession is clearly affecting export performance. The efforts to contain consumer subsidies to the present proportion of prices and temporary revenue measures enacted to finance the Lebanon War should help dampen consumption demand in the long run, but

progress has been gradual, and even if current demand management policies are maintained intact and fully implemented, there is a danger that aggregate domestic consumption demand will remain strong.

There is a high degree of uncertainty about future trends in Israel and the rest of the world; therefore, we examine two possible scenarios:

1) relatively low economic growth, with moderate growth in consumption and a slow worldwide recovery from the recession, (this reflects an improvement over the poor economic performance in 1982 but with a similar pattern of growth), and

2) the resumption of a moderate rate of economic growth (4 to 6 percent), with private consumption and investment rising slowly in real terms and export growth exceeding the aggregate rate of economic growth.

The analysis assumes no dramatic changes in external factors. Oil prices are assumed to be in line with those of other imported goods and services expressed in dollar terms8/; political and

---

8/ If the oil prices fall relative to those of other traded goods, then this would work to Israel's advantage.

military developments in the Middle East will not necessitate a reassessment of defense related requirements; Israel's terms of trade will neither improve nor deteriorate9/, that is to say prices of Israeli exports and imports will rise at approximately the same rate; economic conditions in countries with which Israel trades will not change dramatically, and the dollar will neither appreciate nor depreciate against major European currencies to any significant degree. It is assumed that the rate of economic growth in the countries with which Israel trades will be less than 3 percent per annum in the first scenario and 3.5 to 5 percent in the second. The projections have not taken into account the reductions in interest rates that are now evident in the major financial markets. The continuation of this trend in interest rates will have a direct and immediate impact on the cost of financing the foreign debt particularly the short term debt. Thus, declining interest rates should improve the balance of payments outlook under both scenarios.

9/ If European currencies appreciate relative to the dollar, this would improve Israel's export performance. If the shekel becomes overvalued vis-a-vis Israel's trading partners because of the policy to reduce the rate of depreciation of the shekel, then exports would be hampered. It is also possible that such development would be mutually offsetting.

1) Prospects Assuming Low Economic Growth, Moderate Growth in Private Consumption and Slow Worldwide Recovery.

It will not be possible for Israel to sustain the low growth and moderate consumption pattern (without export growth) without escalating balance of payments pressures in 1983 and 1984. Continuation of this pattern would increase consumer imports and/or result in a shift in domestic production toward domestic consumption demand and away from export markets. This would necessarily result in a decrease in the non-defense balance of payments surplus on current account 10/ for 1983 and 1984; the surplus which was $656 million in 1981, has probably decreased by $300 to $500 million in 1982 and similar changes would be indicated for 1983 and 1984. In order to finance the growing deficits under this scenario and amortize foreign debt on schedule, an increase in foreign capital flows would be required.

This scenario is clearly only a hypothetical one and is designed to illustrate the point that the pattern of economic growth achieved in 1982 is not sustainable. No one expects the Government of Israel to stand by and permit such a pattern to continue. As

---

10/ Civilian goods and services balance plus net receipts from transfer payments.

already discussed, it took significant steps both in 1981 and 1982 to contain domestic demand, control inflation, and stimulate growth. These efforts are expected to continue and if ultimately they are insufficient, we fully expect that the additional necessary economic adjustments will be undertaken. The fact that the Government of Israel indicates that it is committed to solve the problem of cost inflation caused by the structure of indexation is a positive sign.

While this is a hypothetical scenario which is not likely to develop it is useful to point out that if Israel could attract sufficient commercial capital flows to finance the increased deficits which would arise and amortize outstanding loans, it could do so without an increase in the relative financial burden of its debt. Total debt service payments would probably continue to increase each year11/, but with the resumption of even a low real

---

11/ Amortization payments on Israel's foreign debt increased substantially in 1981, as a result of a bunching of maturities which was an exception to the trend.

rate of export growth, the financial burden of debt as measured by the debt service ratio12/ would probably not increase13/.

2) Prospects Assuming Moderate Economic Growth with Moderate Export Performance.

This scenario is based on moderate but progressively strengthening recovery in the economies of Western Europe and the U.S., which are the principal trading partners of Israel, and the continuation of demand management and inflation fighting policies by the Government of Israel -- with these policies affecting the economy gradually over several years. This could be characterized as a guarded but optimistic outlook, based on Israel's demonstrated economic capacities. Even in this scenario the non-defense goods and services deficit will probably increase slowly for the next few years, with meaningful reductions in the deficit only possible after

---

12/ The ratio of principal and interest obligations on external debt to foreign exchange earnings from exports of goods and services.

13/ The Government of Israel is currently making major adjustments in debt and debt service estimates which makes it impossible to specify this indicator at this time.

18-551 O—83——32

several years. Given the existing structure of the Israeli economy, and the political commitment to containing the unemployment rate -- currently 5.1 percent -- a sizable trade deficit appears to be inevitable even if export growth resumes at fairly high levels.

The structure of Israel's outstanding foreign debt will result in gradually increasing interest obligations14/ which will account for part of the growth in the deficit. Amortization of the principal on foreign debt will also increase each year, but the economic burden of the debt will decline with the growth in export earnings and with the declining commercial interest rates. Grants, transfers and remittances from abroad should increase slowly in current dollars; direct foreign investment may also see some improvements as the world economy recovers. Taking into account the set backs in the balance of payments in 1982 on the one hand, and a gradual increase in capital flows anticipated on the other, Israel will probably need to continue to rely on net borrowing in commercial credit markets to finance a part of its balance of payments shortfalls.

The Government of Israel continues to be very optimistic about the world recovery and about its prospects to expand Israeli exports

---

14/ Interest payments are recorded as service imports to the current account.

at a pace that would exceed the economic rate of recovery in the rest of the world. This optimism is based on the historical success that Israel has had in its export performance and on the assumption that Israel can continue to capitalize on its already substantial research and development efforts in high technology fields. If Israel can return to the rates of export expansion experienced prior to the current recession and sound economic management policies are pursued, then it will be able to earn the foreign exchange to import necessary goods and services to sustain economic growth and to service its foreign debt. Despite the anticipated continued growth in the overall size of the foreign debt, the proportion of foreign exchange earnings which will be required to service its debt would probably decline gradually, beginning in 1983 and 1984.

It is important at this point to emphasize that these conclusions do assume the continuation of economic belt tightening policies, but not a level of economic austerity which U.S. citizens would be loath to impose on themselves. In addition, these conclusions would not require any changes in foreign assistance levels or terms from those the Administration is proposing.

C) U.S. Aid Terms

The approximate debt service savings to Israel resulting from the forgiven interest15/ and amortization payments under the FMS program is approximately $10.5 million per year on $100 million of forgiven FMS credits16/.

Forgiving a portion of FMS has clearly lightened Israel's debt burden. The long grace and amortization periods on the unforgiven portion of FMS loans to Israel have had the same effect. In addition, the interest rate derived from the Federal Financing Bank (F.F.B) is generally a few percentage points below commercially available alternative sources of financing. However, the important variables determining the financial burden of Israel's debt are the rates of economic growth and the level of exports More concessional terms would reduce the need for more stringent economic austerity measures (at least on balance of payments grounds), but are not

---

15/ Since ESF terms have always been highly concessional, the issue does not arise in this context.

16/ It assumed that the interest rate of FMS credits is 10.5 percent.

essential to avoid an untenable debt burden. Moreover, more concessional FMS terms add to our own budget burden. For every $10.5 million we would save Israel this year on F.F.B. loans the direct budgetary cost for the U.S. would be $100 million.

In sum, there is no reason to expect Israel will be unable to meet the debt service obligations which it incurs by accepting U.S. assistance on the terms proposed by the Administration.

IV. Overall Conclusion

Israel, which in FY 1983 will receive about $2.6 billion in economic and military assistance from the United States17/ continues to experience balance of payments problems and rapid inflation.

17/ This represents an estimate of gross disbursements of economic and military assistance, including assistance authorized in FY 1979 and FY 1981 to meet some of the costs of relocating military units in the Sinai. Israel will make principal and interest payments to the U.S. Government of about $1,100 million, so that net aid in FY 1983 will be about $1.5 billion.

Consistent implementation of policies designed to encourage exports and restrain domestic demand will be necessary to avoid a recurrence of past difficulties. The inflation problem will be particularly difficult to solve, but over time should respond gradually to appropriate restrictive fiscal, monetary and incomes policies. The Finance Ministry has indicated that it plans to implement such policies as well as attack the cost inflation which results from indexation. While Israel's $18.3 billion foreign debt is high18/, with feasible increases in exports of goods and services, the financial burden of servicing external debt will probably not increase.

18/ Estimated outstanding debt for December 1981

REPORT ON THE EGYPTIAN ECONOMY AND DEBT REPAYMENT PROSPECTS, SUBMITTED BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

The Honorable Lee H. Hamilton
Chairman, Subcommittee on Europe
and the Middle East
Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As required by Section 723 of the International Security and Development Cooperation Act of 1981, I am pleased to transmit a report on economic conditions in Egypt and the capacity of that country to service its foreign debt.

Sincerely yours,

Kelly C. Kammerer
Director
Office of Legislative Affairs

Enclosure: Report on the Egyptian Economy
and Debt Repayment Prospects

EGYPT: REPORT ON THE EGYPTIAN ECONOMY AND DEBT REPAYMENT PROSPECTS

SUMMARY

The present report is one in a series requested by Congress. Previous reports were prepared for the years 1979, 1980 and 1981. The current report covers economic conditions in Egypt during 1982. The Foreign Assistance legislation calling for the study states that its purpose is to report on prevailing economic conditions which may affect Egypt's ability to meet its international debt obligations and to stabilize its economy.

The previous report of April, 1982 noted the downturn in world economic conditions and the likely adverse effects this would have on the Egyptian economy. In light of the expected continuation of these conditions, the report outlined policy measures the government might consider to enable the economy to adjust without detriment to the country's development program. The report suggested measures: 1) to encourage non-oil exports; 2) to attract external capital through exchange and interest rate moves and 3) to lessen demand growth by reducing budget deficits.

Conditions in 1982

The adverse conditions noted in the earlier report have continued. Total foreign exchange receipts were $700 million lower in 1982 than the year before, in contrast to the average annual growth of 27 percent over the five years 1976-80. The value of exports is expected to be 5 percent less in 1982 than the previous year. Adjustment to lower exchange receipts has taken place mainly by postponing capital equipment purchases, especially by public sector companies. Other imports were also probably discouraged by the higher effective price of foreign exchange. Lower foreign exchange earnings increased pressure on the exchange rate for the pound. The "own exchange" (or free market) rate rose, bringing the premium on the dollar over the official rate from 42 percent at the end of 1981 to 62 percent by the end of 1982. For the first time in the past five years, the value of imports in current prices is estimated to have declined; it was 2 percent less than in 1981. However, import prices dropped by an estimated 4 percent, leaving the volume of imports in real terms 2 percent above the 1981 level.

The downturn in the expansion of foreign earnings, which commenced in 1981 and accelerated sharply in 1982, marks a turning point for the Egyptian economy. The unexpectedly large expansion in foreign exchange earnings which financed simultaneous growth in consumption and investment in the past is unlikely to be repeated. Petroleum exports account for roughly three-fourths of total merchandise exports. In addition, remittances from Egyptian workers in the Gulf states and Suez Canal revenues depend on expanding OPEC country economies and the international oil trade. The IMF foresees no real increase in oil prices in 1983. A prolonged economic recession in the developed economies, continued conservation efforts, and higher domestic petroleum production in these countries are expected to decrease demand for imported oil and to keep oil prices soft. Without reductions in the very high rate of growth in domestic consumption of petroleum products (15 percent or almost twice the rate of GDP growth) it is unlikely that the volume of Egyptian oil exports can be increased to compensate for lower international prices.

The estimated $1.1 billion deficit in the overall balance of payments in 1982 was financed by short term bank loans and to a lesser extent by drawdowns in reserves. Official foreign exchange reserves declined by $90 million in the first seven months of 1982 to a level representing less than one month's imports. Egyptian debt to banks in the reporting area of the Bank for International Settlements (BIS) increased by over one billion dollars in the first six months of 1982; almost all of the increase was in maturities of one year or less.

Official government forecasts estimated GDP growth for FY 1983 (July 1982 to June 1983) at 9 percent over the previous year. No revised forecasts are yet available. Consumption was temporarily sustained during 1982 at the expense of investment. Capital goods and intermediate goods imports were only about two-thirds of planned public sector outlays for these items. Such short term measures cannot be extended indefinitely without affecting domestic production, employment and incomes.

The budget deficit in the Egyptian Fiscal Year 1981/82 was estimated at 18.7 percent of GDP. The projected deficit for 1982/83 is expected to exceed 20 percent. Without a reduction in the high level of subsidy payments in the budget -- 30 percent of 1981/82 Central Government revenues -- sizeable reductions in the deficit are unlikely. Government borrowing to finance the deficit increased money supply by almost 30 percent in the first 8 months of 1982. Growth in domestic credit slowed somewhat, reflecting decreased foreign trade activity.

The increase in debt service merits watching. Medium and long term civilian debt amounts to $13.5 billion or 62 percent of GNP. Foreign Military Sales (FMS) debt adds an additional $2 billion, raising the percentage represented by these two debt categories to 71 percent at the end of 1982. In addition, short term debt rose by at least $1 billion in the first six months of 1982, an increase of one-third. There are indications that growth of short-term debt continued into the third quarter of the year. Service on medium and long term non-military debt at the end of 1982 is estimated at 26 percent of exports of goods and services. Including payments on FMS credits, the debt service ratio is 28 percent. Medium and long term civilian debt service increased 25 percent in each of the past two years. Although interest payments on FMS credits are still at a low level, they are growing rapidly, rising from $35 million in 1980 to $120 million dollars in 1981 and $175 million in 1982. FMS payments added 2 percentage points to the debt service ratio indicator.

Servicing present levels of medium and long term debt does not represent a serious financial burden on the economy. However, in view of the outlook for much slower growth in Egypt's foreign exchange earnings, continued expansion in debt obligations at previous rates would be of concern.

Prospects, 1983-86

Given the pessimistic forecast for the international petroleum market, which is directly or indirectly the source of a major portion of such earnings, Egypt's foreign exchange earnings are projected to rise at a rate of only 4

percent annually in the period through 1986. Large budgetary deficits and money supply growth are assumed to continue. Increased liquidity in turn is expected to encourage strong demand for imports, projected to grow at an annual compound rate of 6 percent. Based on these assumptions, we forecast the current account balance of payments deficit to rise from $3.5 billion in 1982 to $6 billion by 1986. In the short term, it is unlikely that Egypt's non-oil export base can be expanded rapidly. Thus, with Central Bank exchange reserves already at low levels, present economic management policies would require large amounts of external financing to support the projected balance of payments deficits.

Projected levels of non-debt flows -- direct investments and grant American assistance -- are estimated to provide about $1.7 billion per year or about 30 percent of the $23.2 billion of net additional financing required over the 1983-86 period, leaving a $16 billion gap. Assuming financing is sought on foreign capital markets at approximately the average effective interest rate on previous disbursed debt, the additional financing would run up debt service ratios to 48 percent by 1986. FMS payments would raise the debt service ratio to 53 percent.

At these debt service levels, Egypt would find access to capital markets for projected amounts extremely difficult, especially since the emergence of worldwide LDC debt repayment problems and a more pessimistic outlook for world trade growth have led international lenders to be more critical in assessing the credit risks of individual borrowers.

A comprehensive planned strategy of adjustment can offset declines in oil and related earnings sources through measures designed to encourage expansion in non-oil exports and to discourage consumption of scarce resources. Moderate growth in monetary aggregates and a reduction in the budget deficit can restrain import demand and attract external financing. Successful export growth and expansion in domestic production along lines of comparative advantage would avoid cuts in capital investments. Sustained efforts in these areas will be required to deal with Egypt's worsening external payments position and maintain its ability to tap the world's capital markets.

Some steps toward structural adjustment have been taken. Interest rates were raised early in 1982, although interest rates are still negative in real terms, and not surprisingly, savings have not responded to minimally higher nominal rates. Price adjustments of about 10 percent were made on electricity tariffs and higher taxes were put on some consumer items. The 16 percent increase in budget expenditures for the 1982/83 fiscal year was the smallest increase budgeted in the past 5 years. Domestic tax collections also are expected to rise. However, the measures already taken, while steps in the right direction, do not appear sufficient to stave off a worsening in Egypt's external balance.

INTRODUCTION: THE CHANGING EXTERNAL SCENE

As foreseen in last year's report, the effects of a deteriorating international economy were strongly felt in Egypt during 1982. In contrast to the 27 percent average annual growth in foreign exchange earnings from 1976 to 1980, the value of both merchandise exports and service receipts declined in 1982. This year was the first year that the value of oil exports failed to increase. The worldwide recession, particularly the downturn in industrial economies, reduced demand for oil imports, putting pressure on prices. International oil prices fell by 5 to 10 percent in the first 9 months of 1982. To maintain its market share, Egypt lowered its prices by 7 percent over the year. The major items in the services account (tourism, remittances and Suez Canal revenues) together with oil covered 105 percent of merchandise imports in the period 1979-81. They are now estimated to have been only two-thirds the value of merchandise imports in 1982. As a result, the current account deficit grew from $2.6 billion in 1981 to an estimated $3.5 billion in 1982*. Foreign exchange reserves declined from an equivalent of 2 1/2 months' import financing at the end of 1981 to less than one month's imports by the end of August 1982.

This year's slower export growth forced a decline in nominal imports. A precipitous decline in imports and consumption levels was avoided by a 4 percent decline in Egyptian import prices, so that the 2 percent decline in the nominal value of imports meant that, in real terms, imports probably increased by 2 percent.

The impact of the lower foreign trade level on domestic output is not yet reflected in economic data, as domestic demand was sustained by a budget deficit equivalent to 14 percent of GDP in the Egyptian fiscal year 1981/82 and a projected deficit equivalent to almost 20 percent of GDP for the 1982/83 fiscal year. Official Government estimates are published only infrequently and those covering the present period were made over a year ago for the 1982/83 Development Plan. They forecast a 14.5 percent real increase in gross domestic production (GDP) and a 9 percent real increase for the following year. Both sets contain projections for increases in foreign trade, investment and consumption and a decline in the trade deficit, which are not occurring. It is uncertain when new official data will become available. However, recent declines in Egyptian external trade imply adjustment in economic activity is taking place.

STRUCTURAL IMBALANCE

The current account deficit is a reflection of structural imbalance in the economy. The Government sets prices on many inputs and finished products.

*The Egyptian fiscal year was changed in mid-1980 from a calendar year basis to a July to June year. Official Government statistics were published on a calendar year basis to mid 1980 and on the revised fiscal year formula thereafter. For the sake of consistency and clarity, data are presented on a calendar year basis unless specifically noted otherwise.

The Egyptian industrial infrastructure is designed to fit this pattern of artificial relative prices. In response, producers, particularly public sector companies, use resources in an economically wasteful pattern, without regard to real opportunity costs. Resources with high relative value on the world market are used domestically in activities with relatively low value. The most obvious examples are in energy and agriculture.

Energy

At the end of 1981, the average domestic price of petroleum products was less than 20 percent of world levels. Revenue foregone as a result of setting prices below world levels exceeded LE 1.8 billion, close to 10 percent of GDP. Low prices have encouraged rapid increases in domestic consumption of oil and gas. From 1977 through 1980 the average annual growth rate was estimated at 12 percent; for the nine months ending in March, 1982 consumption rose 18 percent over the similar period a year before. Low energy prices also encourage energy intensive investments -- two large public sector industrial companies (an aluminum plant and a fertilizer plant) account for about one-fourth of total electricity use. A reduction in their energy consumption would increase the amount of oil available for export. It would also require changing present manufacturing processes and modernizing the industrial equipment in use.

Some price increases were approved by the Government over the past year. Residential and commercial electricity tariffs were raised as well as tariffs for the two industrial users mentioned above. However, apart from premium gasoline, domestic energy prices remain severely distorted. Even after recent actions, energy prices in real terms are 57 percent below 1976 levels.

Agriculture

Distortions in agriculture arise from compulsory farm sales to the government at below market prices. The government also directly imports foodstuffs for sale in the domestic market at considerably less than cost, further depressing prices at which farmers can sell output not contracted for by the government. This has adversely affected incomes, employment and output.

A study by the International Food Policy Research Institute estimated the gross revenue loss to farmers of low domestic prices at 8 percent of 1980/81 GDP.* Reduced profitability is reflected in low growth in output and yields. Total cultivated area in Egypt is fixed in the short term and farmers' land allocation is circumscribed by government regulations. Farmers alter resource use through putting more effort into those crops which are more profitable. This is reflected in the trend in the yields of price controlled crops, the growth of which has fallen behind increases made by other LDCs. A World Bank study estimated price distortions in agriculture reduced employment

*These losses were mainly due to low grain and cotton prices. Other farmers benefitted from those crops whose prices are above world levels -- mainly farmers raising livestock and fodder crops. The benefit to this latter group was estimated by IFPRI at 3.3 percent of 1980/81 GDP. Thus, the net revenue loss to agriculture is put at 4.6 percent of GDP.

opportunities in this sector by 300 to 800 thousand full-time workers below the optimal level of labor allocations which would occur if crop prices were set at world levels.

The Government has frequently changed both procurement quantities and procurement prices. Nevertheless, the average price received by the farmer for his total crop falls significantly below world levels. Over the past year, price increases were announced for wheat, fava beans, rice, soybeans and corn. In the case of soybeans, the increase raises domestic prices above world levels and amounts to increased protection. The increase in the government's procurement price for rice still leaves domestic prices at one-third the international market price and below the free market price in Egypt. Only the rise in wheat prices narrows the gap. The new increase for wheat brings the domestic price to 83 percent of world levels, but the extent to which the government will actually purchase wheat from farmers at this price is unclear.

Impact

The distortion in relative prices throughout the economy has slowed economic growth and reduced productivity. The added amount of capital required to increase output is very high by international standards. It was estimated in a Ministry of Economy study in 1979 that this capital output ratio was over five to one for the manufacturing sector alone and about three to one for the economy as a whole. With a slowdown in the growth of foreign exchange earnings, there will be greater difficulty in attaining the investment levels and high growth required to absorb new workers in the face of the inefficiencies in the Egyptian economy.

A USAID sponsored study estimated that at existing levels of efficiency, a 3 1/2 fold increase in the present level of industrial investment would be required to absorb the likely new entrants coming into the labor force in the mid 1980's. Yet total investment is already at a level of 27-30 percent of GDP - high by comparison to other countries at Egypt's income level. In the light of forecasts for more slowly expanding foreign exchange earnings, it is unlikely that the imported capital equipment and other production inputs which have to be purchased from abroad to productively employ expected additions to the work force can be financed without first resolving the structural inefficiencies in the Egyptian economy.

FINANCIAL IMBALANCE

Government Budget

The bottlenecks in organizing real resources productively are made worse by the pressures generated by the expansion of claims on these resources. Government policy has sought a large role for public sector control over resources. Total public expenditures (central and local government expenditures on capital and current account) increased by over 24 percent annually from 1974-79 and by almost 50 percent since 1979. As a result, public expenditures increased from 50 percent of GDP in 1977 to 57 percent in the fiscal year 1981/82. Most of this increase (60 percent) was for general administration and a further 2 percent was in the "defense" category. Public investment expenditures are also at high levels.

The increase in total expenditures in the current budget, however, is the lowest in the past five years. Wage increases for government and public sector employees just matched the increase in consumer prices -- 16 percent -- in contrast to wage hikes of nearly 50 percent in recent years. Outlays on food subsidies, which represent about 7-8 percent of GDP, are budgeted are 5 percent less than in last year's budget, reducing the share of the subsidy bill in the budget from 18 percent in 1981/82 to 16 percent in 1982/83. However, this figure implies a reduction of 25 percent from last year's estimated actual subsidy expenditures. No changes in eligibility to purchase subsidized items nor in the number of subsidized commodities have been announced. It is not clear how the subsidy bill can be capped without these changes or an increase in prices. However, the international prices of a number of imported items -- wheat, sugar, meat -- are down.

The overall budget deficit climbed from 16% of GDP in 1977 to 22 percent in 1979. With the increased revenue flows from higher oil prices, the deficit fell to 14 percent in the following two years. The slower growth in oil prices brought the deficit last fiscal year (1981/82) up to 19 percent, and it is expected to be over 20 percent this fiscal year (1982/83).

GOE Budget

	FY 83/FY 82 (percent increase)
Total Government revenue	2.0%
taxes on income and profits	-7.8
customs duties	33.8
taxes on goods and services	24.7
oil, Suez revenues	
Expenditures	8.2
of which: subsidies	(-5.1)
Deficit	7.8
of which bank financed	15.1

	FY 82	FY 83	% Change
Deficit as % GDP	18.7	21.5	15%

Taxation is very low for a country at Egypt's development level. Personal income taxes as a percentage of GDP for middle income countries are five times the Egyptian level (1.5 percent versus 0.3 percent); the same gap exists in personal taxes as a percentage of personal disposable incomes (2 percent for middle income LDC's versus 0.4% for Egypt).

Selected Revenue Sources
(in millions of Egyptian pounds)

	1977	1978	1979	FY80/81	1981/82	Expected 1982/83
Profit Transfers						
Suez	58	107	148	190	335	320
EGPC	177	193	632	1,376	1,167	1,195
Sub-Total	235	300	779	1,566	1,502	1,515
Taxes, other	215	276	417	470	451	455
TOTAL	450	576	1,196	2,035	1,953	1,970
Memo Item: Above as % of Total Gov't Revenues	18	20	36	32	27	23(est)
Overall Deficit as % of GDP	16	22	22	14	19	22(est)

Excluding taxes on the oil and Suez Canal companies, government tax revenue barely rose from 1979 to 1981/82. In nominal terms, the increase was about 8 percent; in real terms, taxes decreased. With the drop in oil prices and a slowdown in world trade, profit transfers and taxes from the petroleum and Suez Canal companies are not likely to grow as fast as in the past. Other revenue sources, including taxes, will have to be tapped to raise future budget revenues. Unfortunately, the effective rate of taxation is falling. Customs duties collected as a share of imports have declined by almost one-third. Duties collected represented 32 percent of the average annual value of imports in 1977-79 but declined to an annual average of 21 percent in FY 80/81-81/82. A part of this decline was due to duty evaluation of imports at the official exchange rate of LE 0.70 to $1.00, rather than the actual exchange rates used to obtain the foreign exchange to pay for the imports (LE 0.84 to $1.00, or higher).

The tax structure relies heavily on specific taxes on production and consumption. The bulk of revenues is derived from only a few items -- tobacco products, beverages, fuel, sugar and textiles. Excise taxes on cigarettes and soft drinks were increased in the 1981/82 budget. An increase in some customs duties and the passage of a new general sales tax is expected to raise revenues in the budget for this fiscal year (FY 82/83) by 14 percent. Prices of gasoline, soap and some other basic goods, as well as electricity tariffs, were raised this year. These adjustments decrease the transfers from the Central Government to cover the difference between costs and revenues of public sector companies producing these items.

First quarter results indicate that taxes on income, custom duties and consumption tax receipts rose above the corresponding period a year ago. The increase may be due to better enforcement. However, with prospects of lower revenues from the Suez Canal and oil exports, total government revenues may fall below the budget estimates.

Money Growth and Inflation

The government's fiscal imbalance has been a major source of increases in the money supply, liquidity and prices. Up to 1979, money supply creation was dominated by the portion of the government's deficit financed by Central Bank borrowing. In more recent years, foreign exchange deposits became an increasing source of liquidity in Egypt. Growth in private sector credit has also been rapid in recent years. Borrowers found local currency loans profitable due to the relatively low interest rates. Money supply, which had been growing at an annual rate of 30 percent in the 1976-79 period, increased rapidly thereafter. In the last six months of 1981, the money supply grew at an annual rate of 51 percent. The impact of Central Bank ceilings on private credit and the higher costs of importing slowed the increase in the money supply for the first eight months of 1982 to an annual rate of 28 percent.

Money Supply Growth
(average annual growth rates)

	1977	1978	1979	1980	1981	Jan-Aug 1982
Money & Quasi Money	32	28	30	32	42	28

The increase in money supply growth in 1981 can be traced to the monetization of the huge increase in oil and Suez Canal revenues. One-third of budget revenues in fiscal year 1981 came from these two sources. A second source of financial imbalance has been rapid growth in private sector credit. In the early 1970's, limited demand from the private sector limited the growth of bank credit. Money and liquidity increased only slightly more than reserve money. However, lending to the private sector increased by 47 percent annually in the 1977 to 1981 period. By the end of 1981, claims on the private sector were 36 percent of total domestic credit. These large increases impelled the Central Bank to impose a loan to deposit ratio in November, 1981, replacing an older ceiling on private sector bank credit. Limits were also placed on the rate of growth of bank credit to the commercial and household sectors. The growth of private deposits was cut from an 80 percent annual rate in the last six months of 1981 to a 20 percent annual rate in the first eight months of 1982.

Domestic Credit
(annual percentage change)

	1978	1979	1980	1981	Jul-Dec 1981	Jan-Aug 1982
Domestic Credit	57	25	23	32	26	22
of which:						
private	16	34	29	36	80	20
government	80	23	12	14	36	22

Monetary factors have had a greater impact on prices than that reflected in official price indices. The 10 - 13 percent increase in the consumer price index was less than half the money supply growth from 1977 to 1979. The published consumer and wholesale price indices are heavily weighted with

price-controlled items, which are permitted to rise only intermittently. In the years since 1973, the housing index has changed by only 8 percent. The transport index has also hardly moved. Food prices, which make up 50 percent of the market basket, are subsidized. Cereals, sugar and oils are under government price controls. Furthermore, energy prices, utility tariffs and prices of public sector output have been held down despite rising world prices. In those markets not controlled by the government, prices have increased, reflecting rising real costs and increased purchasing power.

A USAID supported study reported increases in annual construction costs of 18-23 percent from 1971-81 and 19 - 25 percent from 1978-1981. Land prices also showed dramatic increases, rising at an annual rate of 25 to 40 percent from 1968 to 1980. However, the urban housing index, which is dominated by the rents of existing units, changed at a compound rate of only 1.1 percent per year.

It appears, however, that there is more price flexibility in Egypt now than in earlier periods. The group of developing countries most similar to Egypt -- the less developed net oil exporting countries -- had increases in consumer prices 65 to 80 percent higher than Egypt during 1977-79. However, in two out of the next three years, Egyptian consumer prices rose at nearly the same rates experienced by this group of developing countries.

Price Changes
(in percent per annum)

	1977	1978	1979	1980	1981	1982
GOE Consumer Price Index	13	11	10	21	10	36 (6 mos)
Prices in comparable developing countries*	23	18	18	24	25	37
Implicit GDP deflator	12	10	22	--17--		N.A.
Export unit values of manufactures**	9	15	15	11	-5	5 (6 mos)

*IMF category of non-oil developing countries which on a net basis are oil exporters.

**Proxy for Egyptian import prices.

Exchange Rate Policies

The third factor causing financial imbalance is Egypt's exchange rate system. Since the introduction of a new rate in August, 1981, Egypt has a three tiered multiple exchange rate system.

In January 1979, the official rate of exchange was fixed at $1.43 to the Egyptian pound (LE 0.7 per U.S. $1.00). This rate is used mainly for official public sector exports (oil, Suez Canal revenues, cotton, rice, and pipeline royalties) and for basic commodities imported and distributed by the

18-551 O—83——33

government (wheat, flour, sugar, tea, edible oil and fertilizers). Official invisible transactions (loan repayments and official services -- transport, shipping, investment income, etc.) also take place at this rate. Foreign exchange at the official rate is allocated to users through the government's foreign exchange budget.

The widening spread between free market and official exchange rates in mid-1981 caused the goverment to permit other service type transactions, such as tourist payments and workers' remittances, to take place at an "incentive" rate equal to the then-prevailing discount of 20 percent from the official rate, or $1.20 per LE (LE 0.84 per $ U.S. 1.00). This Commercial Bank Pool also receives a portion of private export receipts not channeled to the official government pool. Public sector companies are permitted access to the pool of exchange available at the commercial banks from these sources. Commercial capital transfers, profit repatriation and debt service on commercial external loans are also eligible.

Private sector importers obtain exchange in the own exchange or free market whose rate varies daily. Users of exchange eligible for but unable to get financing through the other two pools also can obtain financing in the own exchange market. Sources for this pool are mainly earnings from Egyptian workers abroad. They may sell hard currency earnings to domestic buyers (including banks) at higher than the commercial bank pool rate or can import goods directly. Other internal transactions which legally should be exchanged at the incentive rate, such as tourists' expenditures, increasingly are carried out at the higher rates available on the free market.

As the demand for exchange at the official and incentive rates exceeds the supply of hard currency earnings going into these pools, an increasingly larger share of total transactions take place at the own exchange rate. This rate is now LE 1.13 per U.S. $1.00 or a 62 percent premium over the official rate.

Since the inception of the Open Door Policy in 1973/74, Egypt has benefitted from large capital inflows. About $3.5 billion in direct foreign investments and $13 1/2 billion in external capital debt disbursements have come into Egypt since the Open Door Policy. Of this, Arab aid and investment (up until the boycott and cessation of such aid in 1979) is estimated at $6 billion, including some defense related expenditures. The impact of these flows has been to raise Egypt's exchange rate above an equilibrium level. The higher exchange rate makes it more difficult for merchandise exports to be competitive and makes imports more attractive.

As pointed out in a Boston University study of industrial development in Egypt, exporters of non-oil merchandise receive a real effective exchange rate of LE 0.83 to LE 1.15 for their exports but face an exchange rate (including fees, taxes, etc.) of LE 1.05 to LE 1.65 when buying their imported inputs. To restore the competitive position which exporters of manufacturers enjoyed in 1977 would require a 30 percent higher rate. In part due to this unfavorable exchange rate situation, manufactured exports have stagnated in nominal terms and declined in real terms.

BALANCE OF PAYMENTS

Foreign Exchange Earnings
(in billions of dollars)

	1974-78 (annual avg.)	1979	1980	1981
1. Oil and related receipts				
oil	0.5	1.9	3.0	3.1
remittances	0.76	2.2	2.7	2.2
Sub-total	1.26	4.1	5.7	5.3
2. Non-oil exports	1.3	1.1	1.1	1.1
of which manufactures	(0.74)	(0.5)	(0.4)	(0.3)
3. Suez Canal	0.5	0.6	0.7	0.9
4. Tourism	0.5	0.6	0.8	0.6
5. Other	0.45	0.7	1.1	1.3
6. Total	4.01	7.1	9.4	9.2

Oil, remittances and Suez Canal receipts dominate foreign exchange earnings, comprising almost 70 percent of the total.

Petroleum

The increase in oil production and prices has had a profound impact on the Egyptian economy. Unfortunately, the large growth of foreign exchange inflows associated with the oil boom may not be continued into the future. The worldwide recession, international conservation measures, and rising non-OPEC oil production are putting heavy pressure on world oil prices. Since 1973, the growth in world oil consumption has been cut to under 2 percent per year as compared to 7 percent in the previous decade. In 1980 and 1981 world consumption actually declined 5 percent per year. As a result, Egypt was forced to lower its export prices by 6.7 percent in 1982. These prices are 23 percent below the high point reached 2 years ago and at their lowest level since mid-1979. In its World Economic Outlook report for 1982, the IMF forecast no real growth in world oil prices before 1984 (i.e., a nominal increase in prices of 5 percent, matching the rise in prices of non-oil imports).

The share of the oil sector in the Egyptian national income accounts rose more than six-fold, from 3 percent in 1975 to over 20 percent in 1981. Oil accounts for about three-fourths of Egypt's merchandise exports, while profit transfers and taxes and duties from the Egyptian oil company provide an estimated 30 percent of government revenues. Investment by private foreign oil companies accounts for 20 percent of total investment.

Although official projections forecast petroleum production of 50 million tons (one million barrels per day) by 1984/85, growth of production has slowed substantially in recent years (to an annual average of about 12 percent in 1978-80 compared with an average of 40 percent in the previous three years). New discoveries may be made, but production from new fields will not be

available until the end of the decade. Even if growth of production can be sustained at 12 percent per year, rising domestic consumption is likely to cut into Egypt's oil surplus for export. Low domestic prices have spurred domestic oil consumption, which has been growing at 12 percent annually, rising to 18 percent in the last quarter of 1981 and first half of 1982.

The government fixes domestic petroleum prices which have remained essentially unchanged since the late 1960's. Although higher valued products, such as jet and aviation fuel and gasoline, are priced closer to world market rates (65 - 75 percent), the average price of petroluem products, weighted by amounts consumed, was about 20 percent of world levels at the end of 1981. Revenue foregone as a result of holding prices below world levels is estimated at $2.8 billion.

Remittances: Workers' remittances have been one of the fastest growing sources of foreign exchange for Egypt. Estimates of the number of Egyptians working overseas vary widely, from 1.5 to 3 million. Saudia Arabia, Kuwait, Libya, other Persian Gulf countries and, more recently, Iraq are the principal host countries.

Remittance Flows
(in billions of dollars)

	FY 1980/81	FY 1981/82
Cash	1.1	0.7
Own exchange imports	1.5	1.0
Total	2.6	1.7

There are several ways remittances take place: (1) Earnings are deposited in commercial banks in host countries and usually redeposited by the banks, in Euro-currency markets. (2) Egyptian workers transfer hard currency directly via commercial banks in Egypt. Remittances may be kept in foreign exchange in Egyptian banks or may be converted into Egyptian pounds at the incentive rate of LE 0.84 per dollar for which they receive local currency deposits. (Under pressure from local companies unable to obtain foreign exchange at the official or incentive rate, commercial banks reportedly are bidding in excess of the incentive rate for hard currencies.) The local currency may be used to purchase goods or real assets. As an example, a USAID-financed housing study found a majority (64 percent) of individuals having built recently relied in part on remittances from abroad. (3) Also, workers directly bring into Egypt actual foreign exchange which they sell in the own exchange market.

As can be seen in the table above, remittances flows fell by $900 million between FY 80/81 and 81/82. There are many factors affecting remittance flows, including assessment of risk associated with economic conditions in Egypt as compared to the alternative investments available to workers abroad. Another is the size of the earnings of these workers. A World Bank study found that a 10 percent change in GDP in host countries with the largest number of Egyptian workers results in a 13 percent change in remittance flows to Egypt. Thus the decline in the oil sectors of OPEC economies will likely be felt in a decline in the actual flow of worker's earnings.

Remittance flows will also be affected by savings incentives. Interest rate differentials in the past have not favored Egypt. Not unexpectedly, Egypt is a net capital exporter to Euro-financial markets.

Egyptian Net Position with BIS Banks
(billions of dollars)

	1978	1979	1980	1981	1982
Funds on deposit	3.4	3.8	5.1	5.0	7.0 (June)
Borrowings	1.6	2.0	3.1	3.9	5.3 (June)
Net	1.8	1.8	2.0	1.1	1.7

While some interest rates in Egypt have been raised and rates in industrialized economies have come down from their peaks, it is questionable whether these changes are sufficient to overcome other factors and reverse capital flows. As seen in the table below, interest rates still favor the Euro-currency market.

Three-Month Deposit Interest Rates
(percentage points)

	1978	1979	1980	1981	1982
Euro dollar rate	8.8	12.1	14.2	17	15.2 (June)
Egypt: commercial banks	5.5	6	7	8.5	9.0

Suez Canal: Revenues have increased by 7 to 12 percent annually since 1975, reflecting a steady increase in the volume of traffic passing through the Canal. Government expectations are for 1983 revenues of $1.0 billion. In 1981, the rates were raised to make the cost of Canal transit comparable to voyages to Europe via the Cape of Good Hope. Another rate increase in the beginning of 1982 favored large tankers and made it more expensive for small ships to pass through the Canal. A further 5 - 10 percent increase in rates is expected in 1983. The recent strengthening of the dollar has had a negative effect on actual receipts, since tolls are denominated in SDR's. Oil tankers account for about 1/3 of total tonnage of transitting vessels. Last year oil tanker transits increased in number by 18 percent and, in tonnage, by 28 percent. In 1983, however, world oil imports are expected to remain flat and the total volume of trade is not likely to increase.

Tourism: The number of tourists visiting Egypt grew at an annual rate of 12 percent from 1978 through 1981. However, due to uncertainties after the death of President Sadat, tourist arrivals dropped by 15 percent in the last three months of 1981 compared with the same period a year earlier. For the first 10 months in 1982 the number of tourists was just slightly higher than the comparable period one year before. Events in Lebanon, as well as the world recession probably contributed to the lack of growth. Moreover, expenditures per tourist dropped, as reflected in exchange passing through commercial banks. Some of the decline is due to an increasing number of transactions taking place on the free market. In part, lower per capita tourist expenditure also reflects the increasing share of tourists from the OECD area.

The Current Situation*

The current account deficit is estimated to have worsened to over $3.5 billion for calendar year 1982, amounting to 12 percent of GDP. The overall balance of payments deficit about doubled from a half billion dollars in 1981 to an estimated $1.1 billion in 1982. The shortage of foreign exchange pushed up the own exchange rate 15 percent over the year to LE 1.15 - LE 1.18 per US $1.00. The higher price resulted in a 2 percent decrease in the value of imports. An increase in import volume of 2 percent still occurred, however, since falling world export prices reduced Egypt's average import prices by 4 percent.

Adjustment to a lower level of earnings was eased by lower import prices, particularly for foods, fuels and raw materials. This permitted a higher real volume of imports despite the drop in the nominal value of imports. The decrease of $700 million in exchange earnings forced many firms from the official and commercial bank pools into the own exchange market to finance imports. Companies also postponed purchases of capital goods.

A complete picture of the financing of the overall deficit is not possible since detailed debt records are available only for 6 to 8 months of 1982. It appears that much of the gap may have been financed from short-term loans from BIS and other commercial banks. In the first six months of 1982 loans of one year's maturity or less increased by almost $1 billion, all with a maturity of one year or less.

Commercial banks in Egypt reportedly are aggressively bidding for hard currency deposits of Egyptian workers in Persian Gulf countries by paying market rates of exchange. The deposits are then used to finance import demand, without being recorded as own exchange finance. In the first 8 months of 1982, commercial bank foreign currency deposits increased by about $800 million.

*Estimates for 1982 are based on Central Bank data for the first half of the year and preliminary figures for transactions from the official and commercial bank exchange pool. Estimates of the fourth quarter were based on the previous three quarters. The latest available statistics are from exchange records of the Central Bank. These are often incomplete and fail to pick up many categories, mainly own exchange imports and private sector transactions. Customs data are more inclusive but are available only after a long delay. Revisions to Central Bank series, when they are made, are extensive. Regulations recently announced require the opening of letters of credit for all imports and should help in improving Central Bank data coverage.

EGYPT: BALANCE OF PAYMENTS
(billions of current dollars)

	CY 1980	CY 1981	CY 1982
1. Merchandise exports, fob			
oil	3.0	3.1	2.9
cotton	0.4	0.4	0.4
textiles, other, & misc.	0.7	0.7	0.7
sub-total	4.1	4.2	4.0
2. Merchandise imports, cif			
foodstuffs	1.6	2.0	2.3
raw materials	3.2	3.3	3.2
capital goods	2.5	2.3	1.9
fuels	0.3	0.6	0.7
consumer goods	1.0	1.3	1.2
other, nec	0.4		
Total	9.0	9.5	9.3
3. Services, receipts			
Suez Canal	0.7	0.9	1.0
remittances	2.7	2.2	1.8
(cash)	(1.1)	(0.7)	(0.6)
tourism	0.8	0.6	0.6
invest. income and other	1.2	1.3	1.1
sub-total	5.3	5.0	4.5
4. Services, payments			
interest on debt	0.6	0.7	0.9
other	1.6	1.7	1.8
sub-total	2.2	2.4	2.7
5. Private transfers	0.1	0.1	0
Balance on Current Account	-1.6	-2.6	-3.5
6. MLT Capital, & ST Credits (net)	0.7	0.9	1.0
7. Direct Investment	0.7	0.7	0.6
8. Balance (ex U.S. aid)	-0.3	-1.0	-1.9
9. American aid	0.9	1.0	0.9
errors, omissions	0.3	-0.5	--
10. Overall balance	0.9	-0.5	-1.1

Note: Details may not add to totals due to rounding.

DEBT SERVICE

Payments on medium and long term debt outstanding at the end of 1981, increased by almost $500 million during 1982, mainly due to increased principal repayments. This increase and the smaller growth in exchange earnings increased the debt service ratio from 18 percent of total foreign earnings for goods and services in 1981 to 26 percent in 1982.

Medium and long term debt increased during 1981 by $1.5 billion or 12.5 percent over the previous year. Another $2.5 billion increase is projected by the end of 1982, bringing civilian disbursed debt outstanding to about 64 percent of GDP in 1982. About 60 percent of the total outstanding amount was in the form of concessional loans. The United States is the largest bilateral lender, accounting for 43 percent of total bilateral loans and 25 percent of total external debt.

Arab Assistance: Debt service flows as recorded in external debt tables are not always reconcilable with payments in the balance of payments tables. Over three-fourths of the scheduled repayments to multilateral institutions arise from repayments to the Gulf Organization for the Development of Egypt (GODE). GODE was set up by Arab governments in 1976 to tide Egypt over its debt servicing problems and assist in financing Egyptian development efforts. Repayments to GODE and Arab bilateral donors and institutions total $950 or about 43 percent of scheduled $2.2 billion in debt service payments on medium and long term debt in 1982. Next year's scheduled repayments on Arab debt are almost twice this amount ($1.8 billion), about the amount Egypt received from workers' remittance flows in 1981.

In response to Egypt's signing of the Peace Treaty with Israel, financial assistance from Arab governments and institutions was suspended in 1979. It is unclear the extent to which scheduled repayments to Arab lenders are actually effected. Debt obligations to Arab countries in the form of bi-lateral loans and cash deposits at the Central Bank totaling over $2 billion in 1981 were recapitalized. Consistency in the balance of payments would require a contra-item to the repayments which are rescheduled. Arrearages would normally appear as the balancing item to the unremitted debt service flows but are omitted in the Egyptian accounts.

Despite the absence of formal relations, the size of continued capital and investment flows between Egypt and Arab economies closely link the two and sustain the ability of the Egyptian economy to carry a large debt burden without undue financial strain on the balance of payments. Other forms of Arab assistance may also have eased Egypt's financial needs. Remittances from Egyptian workers in Iraq alone could total $3 billion, much of it unrecorded. The extent to which these flows go to Egypt depends on political, as well as economic, considerations of profitability and security.

Foreign Military Debt-FMS: In FY 1979, Congress approved a program of Foreign Military Sales (FMS) credits of $1.5 billion to Egypt to assist in Egypt's force modernization efforts; $550 million was budgeted in FY 1981 and $900 million for FY 1982. Two hundred million of the FY 82 program and $425 million of the $1.3 billion FY 1983 program is in the form of forgiven

Egypt: Outstanding External Public Debt
(in millions of dollars)

	1977	1978	1979	1980	1981	estimated) 1982
Medium, Long Term Disbursed Outstanding Debt at Beginning of Period:	5,008	7,364	9,225	10,712	12,030	13,560
Official	3,958	6,071	7,796	8,836	9,970	10,770
Multilateral	183	1,558	2,306	2,597	2,872	3,048
Bilateral	3,775	4,513	5,490	6,239	7,098	7,722
(U.S.)	(460)	(863)	(1,442)	(1,997)	(2,667)	(3,330)
Private Creditors	1,050	1,293	1,429	1,876	2,060	2,790
Disbursements	2,894	2,452	2,301	2,508	2,935	1,707
Official	2,157	1,739	1,247	1,392	1,318	1,349
Multilateral	1,373	774	292	300	228	290
Bilateral	784	965	955	1,092	1,090	1,059
(U.S.)	(429)	(615)	(583)	(709)	(709)	(418)
Private Creditors	737	713	1,054	1,116	1,617	358
Repayments						
Principal	720	826	812	1,116	1,359	1,758
Official	155	182	186	214	279	771
Multilateral			4	18	24	312
Bilateral	155	182	182	196	255	459
(U.S.)	(26)	(39)	(29)	(38)	(47)	(49)
Private Creditors	565	644	626	902	1,080	987
Interest	274	344	241	301	404	476
Official	226	272	155	215	320	394
Multilateral	26	105	27	42	49	150
Bilateral	200	167	128	173	271	244
(U.S.)	(9)	(22)	(37)	(49)	(70)	(78)
Private Creditors	48	172	86	86	84	82
Total Debt Service	995	1,170	1,053	1,417	1,763	2,234
Official	381	454	341	428	599	1,163
Multilateral	26	105	31	60	73	461
Bilateral	355	349	310	368	526	702
(U.S.)	(35)	(61)	(67)	(87)	(117)	(127)
Private Creditors	614	716	712	989	1,164	1,071
FMS DISBURSED Outstanding	--	--	270	897	1,515	1,965
FMS Debt Service (interest payments)	--	--	--	35	120	175
TOTAL DEBT SERVICE	995	1,170	1,053	1,452	1,883	2,409
Medium, long term	995	1,170	1,053	1,417	1,763	2,234
FMS	--	--	--	35	120	175

Note: Includes debt with a maturity longer than one year.

Egypt: Outstanding External Debt
(in millions of dollars)

	1977	1978	1979	1980	1981	1982
Memorandum Items:						
Disbursed Outstanding Debt	5,008	7,364	9,495	11,609	13,545	15,525
MLT Non-military	5,008	7,364	9,225	10,712	12,030	13,560
FMS	--	--	270	897	1,515	1,965
As Percent GNP						
MLT Non-military only	60	65	59	61	63	62
Including FMS	--	--	61	66	71	71
Debt service, Percent exports, goods & services						
MLT	24	22	16	19	18	26
FMS	--	--	--	--	1	2
TOTAL	24	22	16	19	19	28
B.I.S. Claims ($ billions)*	--	1.1	1.3	2.0	2.9	3.9

*Claims of banks in the B.I.S. area on Egyptian residents, with maturities of one year or less.

credits. Unforgiven credits have a repayment period of thirty years, including a ten year grace period during which only interest payments are due. The loans bear interest at a rate equal to the average interest rate paid by the Federal Financing Bank (FFB) for thirty year borrowing from the U.S. Treasury, plus 1/8 percent charge by the FFB for its services. This rate has dropped from the high point of 15 percent reached in October of 1981 to the current level of 10.8 percent.

Interest payments under the FMS program amounted to $120 million in 1981, about 20 percent of the amount of interest payments made on total civilian debt in that year. In 1982 FMS interest payments are estimated at $190 million. Future debt service payments under the program will likely grow at a faster rate, due to speed up in disbursements under the cash flow financing method. This method permits contracting for purchases larger than the amounts of FMS financing available during the fiscal year and has the impact of speeding up deliveries as well as future disbursements. Present estimates of program levels and future disbursement patterns suggest that total FMS disbursements in 1985 could total $5 billion. Interest payments in that year would amount to [illegible] million, assuming no sharp changes from current interest rates and disbursement patterns.

Under both Presidents Sadat and Mubarak, Egypt has made known its desire to avoid dependence on a sole source for military procurement. Under this policy, Egypt has several non-U.S. military purchase programs. At the end of 1981, Egypt announced a purchase of French military aircraft and associated equipment. The total agreement was $1 billion, reportedly at an 8 percent rate of interest, with repayments extending over eight years. As the exact terms are not clearly known, payments under this Agreement have been excluded from our calculations. While the interest rate under this sale is lower than current FMS rates, the amortization period is shorter, causing repayments to escalate rapidly after a brief grace period. These and other military purchases will undoubtedly add to the repayment burden.

Debt Service Burden: There is no single indicator that can do as well in appraising Egypt's debt servicing capacity as an integrated review of the country's external debt position based on a wide range of economic data and analysis. Within this context, however, debt indicators can serve a useful function. One generally used guideline is the debt service ratio -- scheduled interest and amortization payments as a share of export earnings, either merchandise or including services and other receipts. It provides a measure akin to cash flow indicators for a firm. It should be noted, however, that a country rarely must service debt obligations wholly from current export earnings. A meaningful judgment must also include the sustainability of the earnings flow -- the future prospects for the main sources of receipts (trends and variability in export prices and demand) and the degree to which non-essential imports can be compressed without damaging domestic production.

A projection of Egypt's balance of payments was made for the 1983-86 period to assess the impact of future debt repayment burdens. The projection assumes no policy changes by the government in its current management of the economy. It is assumed that effective average exchange rates will not change from the levels prevailing in the last half of 1982. The average price of oil is

assumed to remain constant in real terms through the end of 1983, to rise no more than 5 percent per annum thereafter. Import prices are assumed to follow oil price changes.

These estimates then are projections and not predictions of the future. In addition, we need to avoid attaching precision to the balance of payments projections because of deficiencies in the data base. The debt record is particularly weak. A factor contributing to Egypt's debt problems in the past was the absence of a central office to record and regulate public external debt obligations. In 1977, an office was set up in the Central Bank to register new debt with a maturity of one year or more. However, debt with a maturity of less than one year escapes the requirement to be registered with this office. It is this type of short-term debt which has a tendency to escalate rapidly during financial difficulties.

Projections: Egypt Balance of Payments
(in billions of current dollars)

		1982	1983	1984	1985	1986
1.	Merchandise exports	4.0	3.9	4.0	4.2	4.3
	(oil)	(2.9)	(2.7)	(2.8)	(2.9)	(3.0)
2.	Imports, cif	9.3	9.8	10.3	11.0	11.4
3.	Trade balance	5.3	5.7	6.3	6.8	7.1
4.	Services, net.	1.8	1.9	1.8	1.7	1.5
	receipts	4.5	5.0	5.2	5.3	5.5
	payments	2.7	3.1	3.4	3.6	4.0
5.	Current account balance	-3.5	-3.8	-4.5	-5.1	-6.0
6.	MLT, '81 & prior debt, net.	-0.5	-0.5	-1.0	-1.1	-1.2
7.	Direct investments	0.6	0.7	0.7	0.8	0.9
8.	U.S. economic aid	0.9	0.9	1.0	1.0	1.1
	sub-total	0.9	1.1	0.7	0.7	0.8
9.	uncompensated balance	-2.6	-2.7	3.8	4.4	5.2
10.	Monetary flows, net.	2.6	2.7	3.8	4.4	5.2
	gross disbursed	2.6	3.0	4.8	6.3	8.4
	repayments		0.3	1.0	1.9	3.2
Memo:						
Debt Service payments						
	on 1982 & prior debt	2.2	1.9	1.8	1.6	1.5
	1983, & future debt		0.3	1.0	1.9	3.2
	Total, MLT	2.2	2.2	2.8	3.5	4.7
	FMS, payments	0.2	0.3	0.4	0.4	0.5
	Total Debt Service payment	2.4	2.5	3.2	3.9	5.2
Debt service as %, Exports, goods and services						
MLT		26	25	30	37	48
MLT (payments on 1982 & prior debt)		(26)	(21)	(20)	(17)	(15)
TOTAL including FMS		28	28	35	41	53

Note:
Includes debt service on existing debt at the beginning of 1982, other likely indebtedness obligations and assumed future debt to finance the current account deficit. Does not include payments under French or other non U.S. military credit arrangements. Details may not add to the totals due to rounding.

Projected debt outstanding*	16.2	19.0	23.3	28.3	34.5
MLT -- 1981 & prior	13.6	13.4	13.3	12.8	12.1
1982 & future*	2.6	5.6	10.0	15.5	22.4

*assumes, 7 year, 10 percent interest with grace period of two years on new debt - Excludes FMS

Under these assumptions Egypt's debt service burden on civil medium and long term debt rises from 25 percent in 1982 to 48 percent by 1986. Including repayment on FMS raises the overall repayment level, from 28 percent in 1982 to 53 percent in 1986. The average annual growth in these payments of 17 percent should be compared with the 3 percent increase in projected foreign exchange earnings.

In normal circumstances, where creditor confidence is maintained, a large part of scheduled principal repayment is "rolled over" through new gross foreign borrowings. The principal value of the debt-service indicator is as an index of short-run regularity in the balance of payments - the higher the ratio the greater the external adjustment required to compensate for adverse balance of payments developments.

Many countries have had ratios between 20 percent and 70 percent at various times without encountering serious debt servicing problems - while other countries have had ratios below 20 percent when they renegotiated their external debt. The average debt service ratio for all non-oil developing countries at the end of 1982 is estimated at 22 percent. The class of developing countries with economies most closely resembling Egypt's - the net oil exporters - have even higher debt service ratios -- 37 percent -- a sharp rise from the 1981 level of 33 percent. From 1978 to 1982 their total outstanding debt increased by some 75 percent. In contrast, poorer developing countries, unable to borrow in international financial markets to the extent which wealthier economies can, have debt-service ratios of less than half that of the net oil exporter's - 13 percent in 1981 and 14 percent in 1982.

Despite these cautions, the outlook for Egypt's debt repayment burden is somber. There is now more attention to assessing overall debt repayment capacity of developing economies. Recent events have made lenders more critical in assessing the credit risks of individual borrowers. Pessimistic assessments of the outlook for the international oil market have also made lenders more concerned with the future emergence of large debt servicing problems. This has put more attention on the indicators of the capacity to repay.

A sharp turn-around in the world economy would improve the outlook for Egypt's present sources of foreign exchange earnings by firming up petroleum prices, increasing traffic through the Suez Canal, and improving earnings of expatriate workers and receipts from tourism. However, the prospects for international economic recovery in the near future are not encouraging.

Egypt cannot rely on such factors beyond its control. For the debt service outlook to improve, the imbalances noted earlier must be corrected. There are a number of policy measures that could bring import demand within the capacity of the economy to sustain. Non-oil export performance could be encouraged through exchange rate and price policies. Investment regulation could be geared to increase capital investment financing through encouraging non-debt incurring capital flows. Higher domestic prices for petroleum products would reduce internal demand and free oil for export. Higher interest rates, combined with appropriate exchange rate guidelines, could attract remittances and short-term capital from abroad. Removing cost-price distortions would encourage production along lines of Egypt's comparative advantage, bringing about increased production, and substituting for imports or providing an export base.

Unless the economic transition is started shortly and measures undertaken to correct the imbalances noted earlier, there will be insufficient time for these measures to generate the productive capacity to earn sufficient exchange to service the projected debt without affecting the performance and growth of the economy as a whole. The extent to which the government will adopt such measures to improve its balance of payments and ease the debt servicing is not yet demonstrated.

REPORT ON THE TURKISH ECONOMY AND DEBT REPAYMENT PROSPECTS, SUBMITTED BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

The Honorable Lee H. Hamilton
Chairman, Subcommittee
on Europe and the Middle East
Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As required by Section 723 of the International Security and Development Cooperation Act of 1981, I am pleased to transmit a report on economic conditions in Turkey and the capacity of that country to service its foreign debt.

Sincerely yours,

James L. Brown

for Daniel B. Denning, Director
Office of Legislative Affairs

Enclosure:
a/s

December 1982

REPORT ON THE TURKISH ECONOMY AND DEBT REPAYMENT PROSPECTS

A. Introduction and Summary

This is our third "Report on the Turkish Economy and Debt Repayment Prospects." It is essentially an update of the earlier ones, and should be read in conjunction with them.

In the intervening period since submission of our second report in March 1982, Turkey has continued to make substantial progress toward restoration of balance of payments equilibrium and price stability. There is now general agreement that the financial crisis which necessitated extraordinary efforts on the part of Turkey's donors and creditors is coming to an end. This is not to suggest that the deepseated problems which gave rise to the crisis are fully resolved. Clearly, some will require the attention of the Turkish authorities for many years to come. Moreover, the Turkish economy is highly vulnerable to external shocks, particularly in the Middle East. Nevertheless, if Turkey follows through on the program of stabilization and structural reform put into place in 1980, as it committed to do, and if exports continue to grow, it should be possible for Turkey to further reduce the deficits in its foreign trade and services accounts and increasingly finance those that remain on commercial terms without jeopardizing its development plans or causing a new debt crisis.

The sections which follow describe economic developments of the past year and project Turkey's balance of payments and external debt picture for the next few years. In an annex, there is a brief discussion of some of the major structural problems which will need to be resolved if Turkey is to maintain equilibrium in its external accounts in the long term.

B. Developments During the Past Year

In 1982, Turkey continued to make progress toward reestablishing price stability, creating conditions condusive to stable, long-term economic growth, and restoring equilibrium in its external accounts.

In real terms, Gross National Product (GNP) grew by an estimated 4.4 percent, about the same level as achieved in 1981. On a per capita basis, the rate of growth was approximately 2 percent. As in 1981, growth was export led. Merchandise exports grew from 22-25 percent in current dollar terms. Real fixed capital investment increased by some 3 percent, with growth in public investment expenditures outpacing those of the private sector. The latter have remained sluggish for many years, the 1982 level being no higher in real terms than that reached in 1972.

18-551 O—83——34

Real consumption expenditures probably rose by approximately 2 percent in 1982, up fractionally from 1981. As with investment, public sector consumption grew more rapidly than did private consumption. The growth rate of the former was, however, slower than it had been in 1980 and 1981. Slow growth in private consumption reflected wage restraints, high unemployment and the availability of savings instruments which yielded a high real rate of return.

In the spring of 1982 the rate of inflation accelerated briefly, following two years of steady decline. However, the downward trend in both the wholesale price and cost-of-living indices resumed in May. For the period November 1981-November 1982, wholesale prices increased by 20.5 percent. By contrast, the rates of increase for the two preceding years were 27.3 percent (Nov. 1980-Nov. 1981) and 96.9 percent (Nov. 1979-Nov. 1980). Consumer prices rose somewhat more rapidly (about 28 percent over the past year) but also trended down.

The balance of payments picture continued to improve in 1982. When final data are available, they will probably show a small overall surplus, thus permitting Turkey to replenish its foreign exchange reserves. While it is correct to say that the crisis of the late 1970's and early 1980's is largely over, Turkey has not as yet reestablished equilibrium in its external accounts. The small balance of payments surplus projected for 1982 could not have been achieved

without substantial inflows of concessional capital from OECD and OPEC countries, the World Bank, and the IMF, and without continued implementation of debt rescheduling agreements.

Still, progress was impressive. As previously noted, merchandise exports grew by 22-25 percent in current dollar terms. This follows a 62 percent growth rate in 1981. Most if not all of the growth which occurred during 1982 was in the processed and manufactured products sectors. For the nine month period January through September 1982, these sectors contributed 60 percent of the total dollar value of exports. This is the first time that Turkey's exports of these products exceeded its agricultural exports.

The shift in the geographic distribution of exports observed in last year's report continued. For the first nine months of 1982, exports to Middle East and North African countries increased by 55 percent over the corresponding months of 1981. Approximately 50 percent of Turkey's merchandise export earnings were derived from trade with these countries.

Preliminary data indicate that the rate of growth of exports has declined in recent months. Agricultural exports have been less than previously anticipated. A decline in the availability of export credits may also be a factor, although we do not yet have enough information to know for sure. It should be emphasized that the decline in the export growth rate is a very recent occurrence. It is too early to know whether a problem is emerging.

For the first three quarters of 1982, merchandise imports declined by 5 percent in dollar terms, reflecting declining prices of oil and other goods. The world-wide oil glut and the appreciation of the dollar vis a vis other convertible currencies are major reasons. Another is that Turkish importers apparently no longer have to pay premium prices for their orders now that foreign exchange transfers are once again proceeding smoothly. In real terms, imports have risen in 1982, as one would expect given the expanded level of economic activity.

For the year as a whole, the trade deficit was probably in the neighborhood of $3 billion, approximately 30 percent or $1.2 billion less than it was in 1981. Net earnings from invisibles--largely workers' and profit remittances, transport services and tourism, less interest payments on foreign debt--were probably about $1.7-$1.9 billion, a drop of some $200-$400 million from 1981. Interest obligations may have risen slightly as Turkey received less relief from debt reschedulings than it had in previous years. Of potentially greater consequence was a decline in workers' remittances. Growing receipts from Turks working in the Middle East did not offset a decline in remittances from Europe. To some extent, changes in currency valuations were to blame. The Deuchemark depreciated relative to the dollar, reducing the dollar equivalent of a given level of mark denominated remittances from Germany. However, in balance of payments

terms, this is probably not a serious problem for Turkey, since the reduction in foreign exchange earnings expressed in dollars was roughly offset by reductions in the dollar value of imports. More importantly in terms of future prospects is the decline in demand for expatriate labor in Germany and other Western European countries, which in turn reflects continued sluggish economic conditions. A third factor may have been some loss of confidence in the Turkish banking sector. In June, one of the largest private brokerage houses, which inter alia placed certificates of deposit of banks among the public, collapsed creating a momentary panic and weakening the position of the smaller banks. While the Government of Turkey moved quickly to restore confidence, it may be supposed that some expatriate workers reacted by investing funds in their countries of residence rather than remitting them to Turkey.

Tourism probably netted Turkey about $250-$300 million, approximately the same as in 1981. Earnings from other invisibles--transport services, profit remittances, etc.--increased by approximately 25 percent to $700 million in 1982.

The balance of payments deficit on current account was probably in the $1-$1.3 billion range in 1982, down significantly from the $3.2 billion figure recorded in 1980 and $2.1 billion in 1981. The aforementioned impressive growth in merchandise exports, coupled with a leveling off--perhaps even a marginal decline--in payments for imports accounts for this salutary development.

Turkey had no difficulty financing the deficit thanks to concessional financing, stretching out of principal repayment obligations as previously arranged in agreements with bilateral and bank creditors, and continued IMF assistance.

C. Prospects for 1983-85

The balance of payments crisis is coming to an end. However, Turkey is entering a critical period. The Government understands that it can no longer count on the high levels of extraordinary assistance provided by bilateral and multilateral donors for the past few years. At the same time, interest and principal obligations on outstanding debt will rise as the relief provided by recent reschedulings diminishes. In a nutshell, the question may be stated as follows:

Can Turkey generate enough foreign exchange to finance the imports it needs for growth and development and still manage its foreign debt?

It seems unlikely (although it is not impossible) that as a capital-short, developing country facing difficult world market conditions, Turkey will be able to quickly achieve a current account balance without adverse consequences for its legitimate development aspirations. Of course, the current deficit must be held down to a manageable level. This leads to two subsidiary questions:

(1) Can Turkey continue to expand its exports of goods and services in the face of sluggish economic conditions worldwide?, and

(2) Can it attract the commercial capital inflows it will need for current and investment requirements and for debt amortization?

Turkey is not in a position to guaranty positive responses to these questions by its actions alone. Nevertheless, the macroeconomic policy framework which it adopts will clearly be of considerable importance. In essence, it will be necessary for Turkey to continue to constrain domestic demand, provide a milieu conducive to export expansion and more efficient use of resources, continue efforts to reduce dependence on imported energy, and attract the capital needed to realize its very considerable potential. Monetary, fiscal and wage restraint will be required. So too will import liberalization and maintenance of the real foreign exchange rate at a level which holds out the promise of profits for successful exporters. The Government is committed to this course of action. Nevertheless, the obstacles are formidable. Turks have been living with economic austerity for some time now. In effect, they are being asked to continue to do so for the extended period of time necessary to effect a major restructuring of the economy. The scheduled return to parliamentary democracy, while clearly a welcome development, is also a complicating factor in that it will provide an environment in which diverse economic interests will have broader opportunities to press their concerns.

Assuming the Turks persevere in the restructuring task they have set for themselves, and absent severe external shocks, the picture nevertheless appears promising. The Turks have already demonstrated their ability to perform in the export market. With proper incentives (already in place), it should be possible to achieve further substantial export growth during the next few years. In this regard, it should be noted that (1) Turkey continues to have excess capacity i many non-agricultural sectors and a high rate of unemployment and underemployment; if the opportunities are there, Turkish entrepreneurs are well-positioned to take advantage of them, (2) Turkey's geographic position astride Europe and the Near East, and its cultural affinity to both regions, provide advantages in terms of low transportation costs and familiarity with the business practices of its trading partners, (3) Turkey does not export enough of any good or service to affect prices; as a price taker it need not be concerned about the possibility of creating a glut on the world market by increasing production for export, and (4) there remains substantial potential for growth in agricultural exports.

In broad terms, we think the Turks should be able to expand merchandise exports fast enough to finance the increasing volume of imports it needs to accommodate a 4-5 percent economic growth rate. The trade deficit would thus remain at approximately the 1982 level of $3 billion for the next few years. In the meantime, earnings from profit and workers' remittances, transport services, tourism and other services should grow slowly in dollar terms. And assuming that

interest rates remain moderate, interest obligations will remain at approximately their current level and net invisibles earnings will grow, probably reaching $2.5-$3 billion by 1985. If this scenario, i.e. unchanged trade deficits and increasing earnings from invisibles, proves accurate, the current account deficit will fall, and conceivably could even be completely eliminated.

Amortization of Turkey's external debt will require some $800 million to $1 billion more in 1985 than it did in 1982 as the grace periods on previous debt reschedulings expire and new loans are secured. However, given the likelihood that the current deficit will decline and that adherence to sound economic policies will make Turkey increasingly attractive to foreign investors, commercial lenders, and institutions such as the World Bank and European Investment Bank, it should be possible for Turkey to secure the financing it will require.

The debt burden is expected to remain heavy, but manageable. The debt service ratio[1/], which was 22 percent in 1981 and about 23 percent in 1982, should remain at about the same level, as rising debt service obligations are offset by increasing earnings, particularly from merchandise exports.

1/The ratio of principal and interest obligations on external debt to

ANNEX

Structural Problems with Balance of Payments and Debt Implications

While prospects for the near term appear favorable, Turkey will need to persevere in its efforts to resolve a series of structural problems which otherwise could threaten its long term economic and financial viability. Some of these are discussed briefly in this section.

(1) Increasing the Efficiency of the State Economic Enterprise

In 1979, the State Economic Enterprises (SEEs) as a group lost $2.3 billion, approximately 3.5 percent of the Gross Domestic Product (GDP) that year. Nevertheless, they invested over $5.5 billion in plant, equipment and inventories. Total financing requirements[2/] amounted to over 11 percent of Turkey's GDP. Two-thirds of those requirements were met from government sources, mainly budgetary transfers and borrowing from the central bank. The implications for fiscal and monetary policy are apparent. Clearly, the SEEs were inefficient, overstaffed and badly managed, both by the SEE staff itself and by the Government bureaucracies which maintained extensive control over SEE hiring and firing, pricing, investment decisions, etc.

[2/] Operational losses, plus investment less depreciation.

In view of the sheer size, and therefore importance, of the SEEs, the Government is taking a gradual approach to reform. Access of SEEs to budgetary resources has been reduced. Concurrently, steps are being taken to strengthen SEE management and to give management the autonomy, and incentives it needs to set prices, establish salaries and incentives and make investment decisions on the basis of sound economic and financial criteria.

Interim results have been encouraging. By 1981, the SEEs actually showed a small profit on current operations and were able to self-finance a small portion of their fixed investments. The proportion of total financing requirements met from government resources fell to one-half and budgetary transfers were down by 19 percent ($500 million) from their 1979 level. Nevertheless, serious inefficiencies remain, and are a drain on the economy.

(2) Energy Development

Turkey's dependence on imported energy, particularly oil, is a prime source of balance of payments disequilibrium. In the winter of 1979-80, foreign exchange shortages meant that many Turks had to do without heat and light. Industrial production was cut back due in part

to energy shortages. In 1980, over 70 percent of Turkey's goods and services export receipts went to pay for imported oil. While the crisis subsequently eased, due in the main to moderating oil prices and dramatic growth in Turkey's export earnings, Turkey still spends large sums for imported oil, and could find itself in a very precarious position in the event of another sharp escalation in oil prices. Recognizing this, the Government is stressing development of domestic energy resources -- particularly hydropower and lignite -- and oil exploration, and is utilizing price mechanisms to encourage energy conservation. Again initial results are encouraging. In 1981 domestic production of lignite, hard coal and hydropower increased by 10 to 15 percent over the previous year. At the same time, imports of oil and petroleum products dropped in volume terms despite the economic revival in Turkey that year.

The priority which the Turkish authorities accord to energy development is clear from the government's investment program. For 1982, 34 percent of total public investment expenditures are for energy projects.

(3) Development of Agriculture for Export

Agricultural exports grew by 65 percent in current dollar terms between 1979 and 1981. However, this was achieved largely through diversion of current production to foreign markets, a pattern which does not provide a sound basis for sustained growth.

In last year's report, we noted that there remains considerable potential for further growth in agricultural exports, and that realization of that potential depended inter alia upon the Government's ability to utilize price signals effectively, arrest the rapid rate of decline in fixed investment in agriculture which took place in the late 1970s and expand and improve the quality of services provided to Turkish farmers.

This analysis remains valid. It may also be appropriate for Turkey to consider shifts in the composition of agricultural production to give more emphasis to industrial and cash crops and less to import substitutes and staple foods, and to develop a more aggressive strategy for marketing its agricultural products abroad.

(4) Development of Tourism

Last year we noted in passing that while Turkey clearly possesses touristic attractions, tourism, which is a major source of income for other Mediterranean countries, remains disappointing in Turkey. Substantial investments in infrastructure over a period of several years will be needed before tourism becomes a major source of foreign exchange.

APPENDIX 5

SUPPLEMENTAL QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST TO THE DEPARTMENT OF STATE AND AGENCY FOR INTERNATIONAL DEVELOPMENT (AID) AND RESPONSES THERETO (ISRAEL)

RESPONSES FROM THE DEPARTMENT OF STATE:

1. How much money is there today in the Israeli trust fund which has money for payments on military purchases?

--What efforts have been made to try to devise a way to restructure the fund to help Israel, and what might that involve?

Israel, as of March 10, 1983, has $15.7 million in its FMS trust fund account. However, this does not reflect the FMS monies which Israel has available for use. Israel still has $179.1 million of its FY 1982 credit funds available for its purchases of defense articles and services and it has not expended any of the $1.7 billion of FY 1983 credit funds. We have restructured Israel's FMS trust fund requirements by establishing a special billing procedure on its FMS cases which minimizes Israeli drawdowns of working funds from its loan agreements for the FMS trust fund. Additionally, we permit termination/liaibility requirements to be covered by a signed but unexecuted drawdown letter. That is, the Israeli FMS trust fund currently does not contain termination/liability funds, but should Israel default on its payments we could execute the drawdown letter to provide the required funds.

2. The Israeli government has repeatedly pointed out that its financial standing could be improved if the United States removed obstacles to the export of Israel-made military and non-military goods.

--To what obstacles is Israel referring?

We are not certain what is referred to in this question. With respect to Israeli produced military goods, certain items produced with U.S. technology or U.S.-made components require approval for export to third countries. We review requests in this category on a case-by-case basis. It is not possible under the law for us to give blanket approval to Israel for exports of any item containing U.S. components or technology. Despite this requirement, Israeli exports of military goods have been estimated to have reached almost $1 billion in 1982. With respect to exports to the U.S., Israel benefits from the Generalized System of Preferences provided for developing countries (and is among the seven top beneficiaries of that program) as well as enjoying MFN tariffs on items excluded from the GSP.

--What was the total of Israeli military and non-military exports to the U.S. in 1982?

Total U.S. imports from Israel in 1982 were $1.162 billion according to Commerce Department statistics. It is difficult to come up with separate figures for military imports because of problems of definition. The Department of Defense informs us that in 1982 procurement contracts with a

total value well in excess of $74 million were granted to Israeli firms under the provisions of the 1979 Memorandum of Agreement. The above figure covers only those contracts managed through the Defense Attache Office of our Embassy in Tel Aviv. Substantial additional contract awards have been made involving U.S. military units in Europe and the U.S., but decentralization of procurement plus the complexities of some contracts involving companies of more than one country make it difficult to provide an exact total.

--Has there been any change in the pattern of exports since the Israeli invasion of Lebanon?

We are not aware of any change in Israeli exports to the U.S. nor is there any reason to expect that there would be one. Israeli exports in general have suffered no quantifiable impact from the invasion of Lebanon. While there was a slight downturn in Israeli export performance in 1982 it had begun before the invasion and little, if any, of it can be attributed to that event.

--What preferential treatment could we provide to help Israeli exporters, and would the administration support this?

Israel already enjoys a regime with regard both to trade and U.S. Government procurement as liberal as that provided to any of our allies. In addition to the MFN and GSP benefits cited above, a 1979 Memorandum of Agreement between our two

governments grants Israel rights in bidding on DOD procurements that are similar to those accorded our NATO allies. Israel is negotiating this month toward acceding to the GATT Government Procurement Code. Their accession to that Code will, under the provisions of the U.S. Trade Act of 1979, provide further access to U.S. Government procurement.

One Israeli suggestion for further preferential treatment has been the negotiation of a Free Trade Area with the U.S. Any consideration by the U.S. of such a proposal would have to take into account overall U.S. trade policy and implications for U.S. industry.

--What would be the cost of such concessions to U.S. exporters and manufacturers?

It is impossible to estimate costs in the absence of a specific proposal for such tariff reductions. It is reasonable to assume that, depending on the exact arrangements, there would be costs to some U.S. industries where Israel is highly competitive with our own firms. At the same time, there may be opportunities for expansion of overall U.S. exports through such a vehicle.

18-551 O—83——35

3. In testimony before the subcommittee last year, Mr. Draper said that the purpose of seeking $300 million more in FMS for FY 1983 than for FY 1982 was related to the sale of AWACS aircraft to Saudi Arabia, though not as a strict quid pro quo. Another $300 million add-on was projected for FY 1984.

--Does this remain part of the justification for the $300 million extra requested for FY 1984 over FY 1982?

The Administration discussed with the Israelis the prospect of seeking an additional $600 million in the same time frame as the Saudi AWACS purchase, although not necessarily in direct relationship to the Saudi sale. Our FY 83 and 84 proposals have fully reflected those discussions.

--Without this explicit justification next year, can we expect a decline in your FY 85 proposal?

The Administration has not yet fully formulated an FY 85 budget proposal. It would, therefore, be premature to speculate on exact budget levels. Our proposal will, however, continue to reflect our analysis of Israel's overall capability vis-a-vis its potential adversaries.

4. The Lebanese Government indicates that last summer most of the equipment of the Lebanese army which was in the south was either destroyed or confiscated by Israel.

--Have we brought this issue up with the Israelis?

We have raised individual incidents in which it was brought to our attention that the weapons or equipment of the Lebanese Armed Forces, the legally constituted military authority of the country, were confiscated. An example of such an incident occurred when a number of rifles, originally alleged to have been supplied by Saudi Arabia to the PLO, were found in fact to have been sold to the Lebanese Government and in possession of LAF units when their barracks was overrun by IDF units.

--What are we trying to do?

We have, since the beginning of the Lebanon invasion, sought to avoid situations of friction between the legally constituted military force of Lebanon, the LAF, and Israeli forces. Our objectives have been spelled out on numerous occasions as encompassing the full withdrawal of foreign forces in a manner consistent with the territorial integrity and sovereignty of Lebanon and the security of Israel's northern border area. The Lebanese Armed Forces will have an essential role to play in arrangements to ensure the security of Israel's northern border. It is important, therefore that the LAF have the means and capability to carry out effectively its responsibilities.

--Are we trying to have the confiscated equipment returned?

Consistent with the role the LAF will play in carrying out its responsibilities in south Lebanon following the successful conclusion of the Lebanese-Israeli negotiations, any LAF equipment currently held by the Israelis should be returned.

5. What Israeli requests for permission to sell sophisticated equipment to third countries, especially in South and Central America, are pending today?

--Are the Israelis selling weapons to Iran and South Africa today?

We have no pending requests from the Israeli Government to sell sophisticated equipment subject to U.S. control, either to countries of South and Central America or elsewhere.

With respect to Israeli sales of weapons to third parties it is important to note that Israel produces a substantial variety of weaponry that does not involve U.S. technology and is, therefore, not subject to our legal controls. Our ability to monitor transfers of such equipment is relatively limited since our primary responsibility is for military equipment subject to U.S. controls.

6. What is the current status of discussions on the production of the LAVI plane?

--Can you tell us whether the obstacles at present are primarily technical or political?

--Is the U.S. willing or unwilling to provide advanced technology or R & D funding to the Israelis for the Lavi production?

The LAVI project, and the extent of potential U.S. support for the program, remain under review at senior levels of the U.S. Government. A number of complex issues are involved -- including transfer of advanced technology, and the appropriate use of FMS resources -- and no decisions on these questions have yet been made.

7. The administration is requesting $12.5 million for FY 1984 for refugee resettlement to Israel. But the program will now assist all Jewish refugees resettling in Israel, not just those from the Soviet Union and Eastern Europe, who are now leaving in small numbers.

--Does this mean that we will now pay for American Jews who choose to resettle in Israel?

No. The funds will be used for resettlement of refugees from "countries of distress."

--What is the justification for the change?

The broadening of the language was undertaken at Congressional initiative because of increased costs associated with the resettlement of new refugee groups whose requirements for additional assistance in acculturation and job training are proving expensive.

WEST BANK AND GAZA PROGRAMS AND REGIONAL COOPERATION

1. Do you project that the entire $7 million in the West Bank and Gaza account will be made available to American Private Voluntary Organizations (PVOs) which currently administer the program?

We envisage a continuation of the PVO programs. At this time, however, we cannot say for sure whether the entire amount will be used for PVO-implemented activities as in the past. We would like to retain some flexibility to utilize funds allocated for West Bank and Gaza programs for other than PVO implemented activities if suitable projects can be identified which are more suited for implementation by other kinds of institutions. Flexibility will be especially important if, as hoped, negotiations on the future status of the West Bank and Gaza are resumed, as called for in the President's September 1 initiative. As in the past, we will notify the Congress before initiating any new activities under the West Bank and Gaza program, regardless of whether they are proposed for PVO implementation.

--Have all the funds for FY 1982 been obligated? What remains unobligated? What remains unexpended?

All FY 1982 funds ($6 million) have been obligated. As of December 31, 1982, $6.6 million was unexpended from FY 1982 and prior year obligations which totalled $27.1 million. Of this $6.6 million, $2.7 million was obligated late in FY 1982, $2.4 million remains in the America-Mideast Educational and Training Services (AMIDEAST) scholarship program under which participants are foward-funded through completion of their

approved academic studies, and $1.5 was unexpended under the American Near East Refugee Aid (ANERA) grant because of difficulties that PVO has encountered in receiving sub-project clearance from the Israeli authorities.

We anticipate that the first obligation of FY 1983 funds, $2.2 to the Community Development Foundation (CDF), will be made this month. AMIDEAST and ANERA are expected to submit funding proposals for review in April or May, and additional funding for the Catholic Relief Services (CRS) Health Education project is scheduled after completion of an evaluation of the project in the early summer.

--On what basis do you justify the $7 million request in aid for the West Bank and Gaza for FY 1984?

Since FY 1982, the budget for West Bank and Gaza programs has increased by annual increments of $500,000. The overall program has increased somewhat, but the annual increment has been primarily used to meet increased program costs due to inflation and the substantial rise in U.S. university tuition and international travel costs of the faculty development program implemented by AMIDEAST. We think it important to allocate a sufficient amount to at least maintain the real level of activity under this program after taking inflation into account. In this regard, as our presentation to Congress indicates, "...the developmental needs of the population are being well served by this program and ... the continuation of this assistance demonstrates U.S. concern for the people of the West Bank and Gaza." This latter objective assumes even

greater importance as we continue our efforts to broaden the peace process, as the President called for last September 1.

--What types of development projects do the PVOs plan to continue to develop with the $7 million?

We anticipate that the PVOs will continue to implement programs similar to those currently in operation, with ANERA concentrating on assistance to cooperatives in land reclamation, marketing and provision of agricultural services. The AMIDEAST faculty development program will probably be extended to an additional institution, and CRS is expected to extend its self-help development project to additional rural villages in the West Bank and Gaza. CDP will continue to develop projects in water distribution and storage, agriculture and health services, as well as provide some assistance to day care centers.

--What is the benefit to the U.S. of these projects?

This program is the only tangible effort underway to demonstrate U.S. concern for the people of the West Bank and Gaza. By its presence in the territories, the program provides concrete evidence of U.S. interest in and commitment to an eventual, equitable resolution of the problems of the area.

2. The American PVOs working in the West Bank and Gaza implementing these development projects have had difficulties in the past with the Israeli government. Some of them have reported recent improvements and Israeli approval of projects.

--What is the reason for the recent improvement in relations?

We cannot be sure of the exact causes of such changes. It seems reasonable to suppose, however, that greater understanding of the mutuality of interest between the Israeli Government and the USG has developed over the years as the program and its objectives have been discussed by the PVOs, the Israeli Government and the US Government.

--What is your general impression of the impact of Dr. Milson's resignation as West Bank Civil Administrator and events in Lebanon on the West Bank and Gaza and on U.S. projects.?

We have not been able to discern any immediate impact from these events on U.S. projects. It is clear that events in Lebanon have contributed to greater tensions among the Palestinians of the West Bank and Gaza. With respect to Dr. Milson's resignation, the fundamental issue appears to be less who than how the Israelis conduct their administration of the occupied territories.

--What is your impression of the state of PVO-Israeli relations today?

We believe there has been some improvement in the past year measured both in terms of the number of project approvals by

the Israeli Government and the general tenor of the dialogue between the two parties.

--How effective have our Consulate General in Jerusalem and Embassy Tel Aviv been in resolving problems that have arisen regarding these U.S. programs? Who takes the lead on these matters?

The Embassy deals directly with the Israeli Government, and has been effective in intervening with the GOI when it was felt that Israeli actions made achievement of the purposes of the program difficult. When an individual PVO encounters difficulties, it is our practice to urge that, in the first instance, the PVO make every reasonable attempt to resolve the problem with the Israeli authorities without our intervention. This approach is generally preferred by the PVOs and has usually been effective. Nevertheless, there have been occasions when the Embassy has felt it necessary to intervene with the appropriate Israeli Government department or departments concerned.

--The Israelis recently approved a produce market for Halhul, a project which was originally proposed four or five years ago. Will you now be able to fund this project soon from other funds already appropriated and available?

We understand from ANERA that it will include an updated proposal for funding of the Halhul market project in its request for FY 1983 funding to be submitted to AID this April or May. If the proposal contains adequate information as to economic justification and cost effectiveness of the market, we certainly anticipate funding this long delayed project this year.

3. U.S. aid to universities in the West Bank and Gaza has gone from $2.2 million in FY 1982 to an estimated $2.5 million in FY 1983, to a requested $2.8 million in FY 1984, to be funded through AMIDEAST.

--Has any of this money gone to universities closed by Israeli authorities over the past year? If so, how does such renewed tension and disruption affect American-funded projects? If the universities are closed much of the year, how can these projects be implemented?

A total of approximately $200,000 annually is provided by AMIDEAST directly to three universities - Bethlehem, Bir Zeit and Al Najah - for undergraduate scholarships. The bulk of AMIDEAST grant funds is expended in the U.S. to support graduate studies for university faculty development, non-degree participant training programs and for administrative costs. Thus, most of the AMIDEAST program is not directly affected by tensions in the West Bank. The universities have not been closed for extended periods over the past year. When they were closed for long periods in the past, the universities extended class hours upon re-opening, introduced Saturday sessions, and lengthened the school calendar into the summer months in order to complete course work. These measures have been successful, and students, including those receiving AID scholarship funds, have been able to complete a full year's work.

4. Last summer the Israeli authorities imposed a requirement on all foreign nationals teaching at the universities on the West Bank to sign a statement declaring that they would not do anything "to help or support the so-called PLO organization or any other hostile oraganization." In November the requirement for a separate statement was dropped, and the statement was incorporated into the work permit application itself. The faculty members continue to reject the statement.

-- Is the requirement that the statement be signed currently being enforced?

The Israeli authorities continue to enforce the requirement. In recent weeks a number of foreign faculty members have been banned from teaching for failure to comply with it, but, as far as we are aware, none have been expelled from the area for this reason since last fall.

-- Secretary Shultz objected publicly to the original requirement. Are we satisfied with the incorporation of the statement into the work permit application?

The Israeli decision to modify the form of the requirement was evidently an effort at compromise, but it did not resolve the problem. We understand a further modification has been proposed. It remains our firm hope that both sides will find a way to work together to break the current impasse, so that the future of higher education on the West Bank will not be imperiled.

-- How much do the universities in question depend on foreign nationals (including Jordanians)?

It is our understanding that most of the foreign professors were hired because faculty with their special qualifications could not be found locally. Their departure could put many departments of the four West Bank universities out of action and even force some or all of these institutions to close.

RESPONSES FROM THE AGENCY FOR INTERNATIONAL DEVELOPMENT:

Your 1983 report on Israel's economy says, "the government of Israel's stated highest economic priority for 1982 was to reduce the rate of inflation below the current three digit level." But inflation actually rose in 1982 to an estimated 130 percent from 1981 figure of 101 percent.

A. Question: What accounts for this failure of the government to bring down inflation to double digits?

Answer: The continuation of three digit inflation in 1982 can be attributed importantly to expansionary fiscal policy and the accommodating monetary expansion. The financing of the war in Lebanon has further increased the rate of inflation since mid-1982 as the Government of Israel has introduced new indirect taxes and cut subsidies as a means of financing the military operations. The reduction in inflation in 1981 was

partially due to deferring the upward adjustment of a number of controlled commodity prices and cutting indirect taxes on a number of products. These 1981 fiscal measures led to pressures on the budget near the end of the year, and as a result, government subsidies were reduced near the end of 1981, which in turn led to a renewed upturn in the measured rate of inflation which continued into 1982.

Israel's attempts to control inflation are enormously complicated by the complex system of indexation that has been instituted to protect the Israeli population from the ravages of inflation. Thus, while indexation of wages, welfare payments, tax brackets and controlled prices have guarded the population against most of the adverse impacts of these high rates of inflation, it has limited the ability of the government to deal with inflation. For example, reductions in subsidies or increases in indirect taxes increase the measured level of inflation and, via indexation, this results in further wage increases exacerbating inflation further. Conversely, increases in subsidies and reductions in indirect taxes generally reduce inflation for a time. But these kinds of measures also have adverse budgetary implications which translate into monetary expansion and (with lags) higher prices. Thus, once inflation has reached high levels, it is difficult to resolve the problem quickly.

B. Question: What are the external developments that have had the greatest impact on Israel's inflation rate?

Answer: Historically, the external factors which had the greatest impact on Israel's inflation were the rapid oil and commodity price increases that occurred in 1973-74 and in 1979-80. However, since this trend has abated at least temporarily in the 1980's, this was not a significant factor affecting inflation in 1982. Rising world interest rates also had an impact in increasing the real costs of servicing Israel's debt, particularly short term debt. However, with interest rates declining, there should be reduced pressures in this area.

C. Question: What measures has the Government of Israel taken in this fiscal year to cut inflation, and how successful are these measures likely to be?

Answer: During the last four months of 1982 the Government of Israel introduced new measures to help control inflation. These include attempting to hold down government expenditures through tighter control over ministry budgets, limitations of the price increases of controlled commodities, a reduction in the rate of depreciation of the shekel below the rate of inflation, as a temporary measure, until the rate of inflation

and the rate of depreciation can be stabilized at a lower, more acceptable rate, and revising the cost of living adjustment system for wages in an effort to assure that it does not directly contribute to inflation.

The rate of depreciation of the shekel was less than the rate of inflation for the last 6 months of CY 1982. While this should have a salutary impact on the rate of inflation, it threatens export profitability, and thus reestablishment of balance of payments equilibrium. There are indications that Israel is attempting to increase the prices of controlled commodities in a fashion that would keep the subsidy proportion constant. There has also been some progress in getting organized labor to agree to modifications in the cost of living adjustment mechanism that would permit the adjustments to track the rate of inflation more closely rather than add additional inflationary pressures. On the other hand, it appears that there has been little progress in constraining ministry budgets, and that the process of funding supplemental budget requests will continue. This combination of policy measures may well reduce inflation. But progress will be gradual. It can not be predicted that there will be a major reduction in inflation this year.

D. Question: Given that one of the inflationary features of

Israel's economy is the high level of subsidization of basic foodstuffs, what action has the Government of Israel taken to reduce subsidies?

Answer: The budgetary subsidies cover a number of basic foodstuffs, services and energy. The original budget for Israeli fiscal year 1982 included a planned overall reduction in the subsidies budget estimated at 25 percent in real terms. This was probably an optimistic estimate. Since the policy objective was modified later in the year to that of containing the proportion which subsidies represent in retail prices at the current level rather than reducing it, the original budgetary objectives will probably not be realized. But it will not be possible to evaluate this year's changes in subsidies until actual expenditure figures are released later in the year.

There is much to be said for reducing subsidies. However, as already indicated, given the comprehensive indexation system in Israel, there is certainly no guarantee that lower subsidies mean less inflation.

18-551 O—83——36

Question: The overall current account deficit increased in 1981 to a level of $4.4 billion, some $500 million larger than in 1980. What is your current estimate for the current account deficit in 1982?

-- Do you consider this deficit more easily manageable than last year or more difficult to manage?

Answer: In 1981, the deficit on goods and services account was $4.4 billion. The current account deficit, which includes transfer payments from abroad including U.S. Government grant assistance, was approximately $1.5 billion. We do not yet have comparable data for 1982, but it is likely that the deficit increased somewhat, perhaps to $1.9 billion or $2 billion. Larger deficits are, of course, more difficult to manage than small ones. But it does not appear that Israel experienced great difficulty in 1982. In that regard, foreign exchange reserves rose in both years.

For the future, the size of the deficit will be directly dependent upon the ability of the Israeli Government to implement policies supportive of export-led growth and upon the rate of economic recovery in the countries with which Israel trades. With favorable economic indicators in the U.S. and Western Europe and declining interest rates on international markets, it seems reasonable to assume that the size of the deficit will be reduced in 1983.

REGIONAL COOPERATION

Question: The request for regional cooperation program which bring Israelis and Arabs together is $7 million -- a reduction from last year's original request of $8 million and the $5 million made available in the Continuing Resolution.

-- Why the decrease from the FY 1983 request?

Answer: It is difficult to predict exact future funding need, of a program that is so sensitive to political events but we believe that the $7 million requested will be sufficient to cover most regional needs expected to arise in FY 1984. Our hope has been that the need for funds to bring Arabs and Israelis together will gradually diminish as contacts are developed between the countries and the request reflects this slow phasing down.

-- Are the Arabs involved in these projects still exclusively Egyptian?

Answer: Most of our projects are between Egyptian and Israeli institutions, so the great majority of the Arab participants are Egyptian. The Images of Conflict project however, includes a number of Palestinians participating as

individuals as the Salzbury Seminars included Arabs from several countries. Some proposals which are under development will include additional Palestinian participation and it is possible that participants from other neighboring countries will occur in some future projects.

-- Is it accurate that most of the money to date has been spent in the U.S.? If so, how successful can you say the projects have been in advancing mutual understanding between Israel and Egypt?

Answer: Most of the regional funds have not been spent in the U.S. For example, in the Marine Sciences Project, which was our first major regional activity and which has had the largest amount of American participation, only 30% of the total funding will be spent in the U.S. The U.S. proportion has generally declined in subsequent projects. While a U.S. role has thus far been necessary to develop and administer regional projects, we will continue to try to minimize the amount of U.S. participation and limit it to project development, management, and consulting. We are hopeful that in the future we will be able to provide grants directly to Middle Eastern institutions without involving a U.S. intermediary.

-- How have the projects been affected by the deterioration in Israeli-Egyptian relations?

Answer: Our on-going projects have been somewhat adversely affected by the deterioration of relations due to the Lebanon war, but they all have continued. The number of direct contacts and visits between the participants has substantially declined and a number of joint meetings have had to be postponed. The personnel and professional ties which were created by the project participants are anxious to regain the previous level of contacts as soon as political conditions permit.

In contrast to on-going activities, few new contacts and projects have been initiated since June. A number of new activities which were under development at that time have been put aside but many are likely to be revised when political conditions improve.

REGIONAL COOPERATION

Question: Your tables in this and last year's Congressional Presentation Documents would indicate that in FY 1982 you expended nearly $5 million, up from a previous total expenditure of $756,000.

-- What did the increase support?

Answer: The increase in expenditures supported disbursements for projects which were previously obligated and which were not fully underway until FY. The Marine Sciences project began in August 1980 but did not really begin until the winter of 1981. The Arthropod Borne Diseases and Images of Conflict projects were obligated in FY 1982 and were in full implementation by FY 1982.

-- If expenditures are increasing, why are you asking for less money in FY 1984 than you did in FY 1983?

Answer: The increase in expenditures reflects the liquidation of the pipeline from previously obligated projects rather than an increase in activity. The FY 1984 request will cover our anticipated need for funds in that year.

Question: -- Regional programs so far have focussed on marine sciences, biological productivity, shore erosion, infectious diseases, and psychological perceptions of the Middle East conflict. What other projects are now planned?

Answer: In addition to the above mentioned activities, we have a major ($5 million) agriculture project concerned with salt-tolerant crops, arid land fodder, and arid land industrial crops. The slowdown in the normalization of relations has caused postponement of many proposals which had been under development. We have approved in principal a project to identify and bring about exchange of a variety of agricultural technologies between Egypt and Israel but submission of the final proposal has been delayed due to events in Lebanon. We are considering a project to support small conferences, visits, and similar activities, and partial support of a series of conferences sponsored by the American Psychiatric Association. Proposals in the marine sciences, social welfare, solar ponds, commercial relations and other areas are in various stages of development and we expect that some of these will be submitted to us as the political situation improves.

Question: Can you explain to us why you are seeking a FY 1983 $2.5 supplemental for regional programs? What specific activities would the supplemental support that will otherwise not be funded?

Answer: The request for FY 1983 for regional programs was $8 million. Under the Continuing Resolution, $5 million is available for regional cooperation. The $2.5 million supplemental will provide the funding required for the level of activity envisioned in the request.

The specific activities will depend on the evolution of the political situation. Among the new activities which would be supported by the supplemental are a project to identify and exchange a variety of agricultural technologies used in Egypt and Israel; and projects in marine sciences, social sciences, renewable energy, social services, and other areas.

Question: The overall current account deficit increased in 1981 to a level of $4.4 billion, some $500 million larger than in 1980. What is your current estimate for the current account deficit in 1982?

-- Do you consider this deficit more easily manageable than last year or more difficult to manage?

Answer: In 1981, the deficit on goods and services account was $4.4 billion. The current account deficit, which includes transfer payments from abroad including U.S. Government grant assistance, was approximately $1.5 billion. We do not yet have comparable data for 1982, but it is likely that the deficit increased somewhat, perhaps to $1.9 billion or $2 billion. Larger deficits are, of course, more difficult to manage than small ones. But it does not appear that Israel experienced great difficulty in 1982. In that regard, foreign exchange reserves rose in both years.

For the future, the size of the deficit will be directly dependent upon the ability of the Israeli Government to implement policies supportive of export-led growth and upon the rate of economic recovery in the countries with which Israel trades. With favorable economic indicators in the U.S. and Western Europe and declining interest rates on international markets, it seems reasonable to assume that the size of the deficit will be reduced in 1983.

QUESTION: You are requesting $1 million in FY 1984 to finance project development and support activities related to Economic Support Fund programs in the Near East.

-- You indicate you intend to spend $500,000 of the money in FY 1983 on population program activities?

-- You also indicate that you intend to spend money from this account on ecology and environment activities: What states are involved?

-- What other uses are planned for FY 1984 with this money?

-- Can you assure the subcommittee that this money is not being used to supplement ongoing aid programs in the Middle East countries?

-- For example, are Egypt or Jordan drawing on any of these funds?

ANSWER : : We are in the process of designing a Regional Population Activities project which will use both Development Assistance and Economic Support Funds in support of activities designed to: assist countries to strengthen national family planning and maternal and child health programs; provide family planning information and educational materials to Near East countries; assist in demographic data collection and analysis to advance family planning program interests; provide family planning policy information to Near Eastern leaders; fund training of midwives, pharmacists and other professionals involved in family

planning programs; and promote private sector participation in family planning activities at the regional and national levels. Of the $500,000 in ESF funds we plan to spend in FY 1983, $415,000 will be spent for truly regional activities such as development of Arabic language materials. Country - specific activities will be undertaken in Jordan ($20,000) Lebanon (20,000), Tunisia ($20,000) and Turkey ($25,000).

At present, the only environmental activities identified for FY 83 are in Tunisia and Turkey, where we are supporting private sector initiatives in pollution control.

In addition to the use of PD&S funds for population and environment, we expect to use PD&S for project design and evaluation for ESF programs where there currently exists no bilateral program souce for these activities.

We can assure the subcommittee that ESF project development and support funds are not being used to supplement ongoing bilateral aid programs to any significant extent, with the possible exception of the family planning activity. This is not to say that there is no relationship at all between bilateral programs and PD&S funded activities.

For example it is entirely possible that Arabic family planning publications developed with these funds would be tested in Egypt and Jordan through the network supported by our bilateral programs. While we make every effort to ensure that as many activities as possible are funded from bilateral programs, there are cases in which we provide funds to a private voluntary organization or contractor to undertake an activity in more than one country and where, because of the small size of the activity, and the time involved in getting clearance from the host government for the use of bilateral funds, we consider it preferable to use regional funds for the entire activity. We are, however, extremely conscious of the desirability of including activities which relate to only one country within the bilateral program, and we make it a point, in reviewing proposals for PD&S funding in countries such as Jordan or Egypt that have their own sources of funding for such activities, to require explicit justification for using PD&S rather than country program funds.

APPENDIX 6

SUPPLEMENTAL QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST TO THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID), THE DEPARTMENTS OF STATE AND DEFENSE AND RESPONSES THERETO (EGYPT)

RESPONSES FROM THE AGENCY FOR INTERNATIONAL DEVELOPMENT:

QUESTION: You now have some 66 major projects in Egypt and some 2,000 subprojects according to the AID Mission Director.

--To manage these programs, what size American presence, both AID and non-AID, is needed?

--Why are there so many subprojects?

--Do you expect to stay below the 186 person level for AID personnel?

--How many people does AID have in Egypt now?

ANSWER: The large number of subprojects associated with our A.I.D. program in Egypt is a reflection of the size of the program and the multi-faceted nature of many of the projects. The latter often requires the provision of assistance to several divisions of a particular Ministry or to several groups working in a related field (such as public and private family planning/population agencies) using one funding agreement. Grouping projects and subprojects also is responsive to the requests of the Egyptian Government to simplify and make more flexible our A.I.D. program in Egypt. It also simplifies the project development process and facilitates project implementation.

To manage our large and varied portfolio, we have identified a requirement for 186 Americans including AID direct hire staff, other U.S. Government participating agency personnel, and direct contract personnel. In addition, a significant number of American personnel (as of December, 1982) are working for the Egyptian Government under the contracts financed by A.I.D. We do not expect the level of A.I.D. direct hire or AID direct contract staff to grow. At the present time, we have 126 U.S. direct hire, 7 participating agencies, and 50 direct contract personnel in Egypt.

Question: Earlier this week, the General Accounting Office issued a report on the lessons learned from AID's private sector development efforts in Egypt which concludes that the program has not proceeded very well in part because the business climate in Egypt does not favor the private sector and the government discriminates against it and in part because of AID lack of experience in such an effort in a country like Egypt and in part because of poor information flow, guidance and collaboration between the U.S. and Egypt on each other's strategy for the private sector.

What efforts are now underway to improve these projects?

Do you agree with the observations of the GAO reports?

Answer: The two private sector projects which have experienced significant delays and implementation problems are the Private Sector Feasibility Studies Project and the Private Investment Encouragement Fund (PIE Fund). Over the last

several months there has been substantial progress by the Egyptian Investment Authority in processing and approving applications under the Feasibility Studies Project. This has resulted primarily from the personal intervention of the Egyptian Minister for Investment and International Cooperation as well as from intensive monitoring and follow-up by AID and staff changes at the Investment Authority. The backlog of applications from U.S. investors has been substantially reduced and decisions on current applications are being made on a more timely basis. The PIE Fund, on the other hand, is not operational and shows virtually no prospect for becoming active again. Nevertheless, the underlying purpose of the PIE Fund--that of providing term credit to the private sector through the Egyptian banking system--remains sound, and we are developing a new proposal utilizing a different delivery mechanism.

Answer: Although we have only recently received the GAO's final report on "Lessons Learned from AID's Private Sector Development Efforts in Egypt", we did have an opportunity to comment extensively on

the draft report. These comments appear to have been fully reflected in the report just published. We are in general agreement with GAO's observations regarding the less than favorable Egyptian climate for private sector development and the limited impact of AID's initial efforts to develop private sector projects. We also agree with the GAO's broad recommendations for more actively involving the Egyptian Government in the refinement of AID's private sector strategy and for development of a better information base with which to assess private sector needs. Considerable progress, we believe, has already been made in both respects.

Question: Last year, with some fanfare you set up a Trade Financing Facility which you said would promote U.S. development objectives in Egypt of stability, productivity and equity. These funds would be used to encourage Egyptian purchasers to utilize U.S. suppliers for international tenders in situations where the U.S. suppliers are otherwise the lowest bidders.

What happened to the facility and why has it been discarded?

Why isn't something like this facility worth maintaining and essential in competition with other countries who will subsidize national companies in order to promote their sales?

Answer: The Egypt Trade Financing Facility (TFF) has not been discarded. To date, two transactions totalling $5.9 million have been financed under TFF, one with General Electric ($3.6 million) and one with Westinghouse ($2.3 million). The total value of these two procurements secured by the U.S. via the TFF was $53 million. There continues to be considerable interest in TFF on the part of the U.S. business community.

18-551 O—83——37

We believe the TFF can play a useful role in helping U.S. bidders compete for business in Egypt. There are, however, two important requirements for TFF eligibility which have limited the number of qualifying transactions. These are:

a. The bid of the U.S. company must be both technically responsive to the international tender and have the lowest price, and

b. A non-U.S. bidder must be offering mixed credit financing which results in a lower overall cost to the Government of Egypt.

The second requirement reflects U.S. obligations under the OECD Arrangement and means that TFF can only be applied defensively. Without contravening this principle, we have recently broadened the criteria under which TFF can be used, with the expectation that a greater number of qualifying transactions will be possible.

QUESTION: How many Egyptian students have been in the United States on AID-financed participant training in the last year?

--How many were women?

--What has been the number of students that have benefitted from the Peace Fellowships which were set up in 1979 after the peace treaty?

--How many are in the U.S. today (there were 320 here last year)?

--How many have returned?

--How many more do you expect to come under that program?

--Have you still only spent about $7.5 million of the $54 million obligated?

--How much more do you intend to obligate for these fellowships?

--When do you expect the $54 million to be expended?

ANSWER: There were 2,044 Egyptians in the United States on AID financed participant training programs (including Peace Fellowships) in the last year (The FY 1983 participant figure of 1,310 in the 1984 Congressional Presentation does not include participants carried over from previous years.). Of these, 390 were women. 522 Egyptians are here under the Peace Fellowship program. Since the Peace Fellowship program began, 875 students have benefitted under both Phase I and II of the program. 353 of these have already returned to Egypt. The program was originally designed to provide fellowships to as many as 1,900 Egyptians. Thus, there is a potential for over 1,000 additional fellowships under the program.

Of the $54 million obligated for the Peace Fellowship Program, $14.3 million had been expended as of December, 1982. Expenditures are increasing rapidly and we expect the $54 million program to be completed by FY 1986. No additional funds have been programed for this fellowship program.

QUESTION: An important new activity of AID in recent years which has led to the quick disbursement of funds is a series of decentralization projects in urban neighborhoods, in villages and in small towns.

--Is the support of the Egyptian government bureaucracy for this activity waning or is it still strong?

--If this activity is doing so well, why can't you commit substantially more funds to it in FY 1984 than the $102 million planned?

--Are there policy issues which are hampering these decentralization projects?

ANSWER: We have not detected any waning of support for decentralization or the portfolio of A.I.D. supported activites designed to strengthen local initiative. President Mubarak has stressed several times the need to continue the decentralization process and local officials continue to be strong supporters of the program.

Considerable capacity and enthusiasm has been found at the local level to implement simple investment projects and our decentralization activities are very successful. Local government units, however, do have constraints on the amount of financing they can productively absorb. Local government needs assistance in policy development, local revenue generation, and improving management. We intend to provide a significant level of financing to this sector, while expanding their capabilities in these areas. The level of our support for decentralization necessarily must be determined within the context of the overall needs, priorities and opportunities of the Egyptian economy.

Question: Last year, the Chairman questioned you considerably on the Suez Cement project.

Has that project been completed?

When will the first bag of cement from that plant be sold?

What are you doing to try to insure that when production is in full swing the plant operates with similar input costs to nationalized cement companies, and to avoid the situation which exists today where that plant has to pay several times more for its energy imputs than other national companies.

Doesn't the situation which exists mean that when supply and demand are in equilibrium, this plant we built will not be able to compete on the open market? Aren't these discrepancies a violation of the terms under which the plant was originally built? Didn't Egypt agree to rationalize the market place to its cement operation?

Precisely what is A.I.D. doing to remove these obstacles?

Answer: The project was 95 percent complete on February 1, 1983 as reported by the U.S. project engineer. The remaining 5 percent includes completion of a water delivery system, electricity delivery system and the plant start-up and testing procedures, which are lengthy and complex. Projected date for production start-up is August 30, 1983.

If the start-up and testing procedures are carried out as anticipated the plant should be producing commercial cement after August of this year. It will be available for sale shortly thereafter. There is no way of knowing for sure--as any U.S. plant manager will confirm--that start-up and testing of a facility this large will be without significant problems, but the shipment target remains the early fall of 1983.

The issue of input costs, particularly those for electricity, is being negotiated by Suez' plant management and a number of relevant Government Ministeries. That must, however, be viewed against the background of the cement market in Egypt as predicted over the next 5-10 years. During that period, at least, Egypt will import up to 50 percent of its cement needs. Imported cement is purchased at the world price (with variations according to

source) and resold to most in-country customers at a price reflecting those costs. Although they are 30 - 40 percent higher than domestic prices, demand is so high that imported cement moves immediately into sales at the higher prices. It has been the plan that the Suez Plant cement will be sold in that same market without significant sales resistance. With regard to electricity tariffs, our objective is that prices be rationalized for all users. This in effect means reducing the subsidy now received by public sector industry.

Should nothing change between now and the achievement of such an equilibrium, then the plant could not compete on the open market. However, the understanding with the GOE is that during the period that new construction of domestic cement plants is underway (5-10 years) to meet domestic needs, the price of cement from the subsidized national companies will be slowly increased to meet the world price. All prices for cement should be roughly the same at that time and Suez should have no competetive disadvantage. The situation described here is clearly a very dynamic one and A.I.D. will have to continually press the GOE for an equitable solution.

At the present time A.I.D. is waiting for decisions to be made on the output pricing of the Suez Cement plant product. Our Mission in Cairo has regularly reminded principal officials of the Government that we expect Suez Cement to operate in an economic way to return a reasonable amount on investment and that the pricing of inputs and output is obviously the key to that goal. Following the usual Egyptian practice, decisions on costing and pricing within an assisted industry are not made (or publicized) until operation begins. A.I.D. will have to shape its strategy when the operating facts are known.

Question: I note from the CPD that you have a PVC Pipe Drainage project which was started seven years ago and yet today less than half of the $30 million for the project has been expended.

What is the problem with this project and what are you doing about it?

In your judgment is the responsibility for the delay here a U.S. problem or an Egyptian problem?

Are you considering deobligation of a project like this, irrespective of a reobligation authority?

Answer: The project was designed to finance the erection of three plants to manufacture PVC pipe for three irrigation drainage projects and to provide the PVC resin to assure two to three years production. The World Bank agreed to finance a parallel project which would provide contractors to prepare fields and would provide equipment for the installation of the PVC pipe to drain and revitalize salinated agricultural lands.

Following that plan, A.I.D. completed the construction and start-up of all three manufacturing plants. In the meantime the Bank project fell behind schedule. Rather than continue to stockpile pipe, A.I.D. has halted further purchases of PVC resin.

Our primary responsibility was to supply the pipe plants. That has been accomplished. The failure was in the preparation of the agricultural areas and the supply of machinery to lay the pipe.

This is an example of project money which cannot effectively be used for its orginal purpose. Reobligation authority would enable the funds to be used for other priority purposes. If that is not possible we would plan to deobligate the residual funds.

EGYPT - HOUSING

QUESTION: In FY 1978 you obligated $80 million for Housing but entering FY 1983, you had expended under $8 million after five years. I gather that nearly 80 percent of housing construction in Egypt is informal and private and that the government is not oriented well to dealing with the problem.

--Why are you continuing to have such trouble with this project?

--Is this the last such housing project you will undertake?

--How can we help in the housing areas where there is a real problem?

--Are you considering scrapping this housing project?

Answer: There are two major actors trying to increase the availability of low-cost housing in Egypt: the Government of Egypt and the informal sector. The Government of Egypt has been building relatively expensive apartment buildings and offering these to recipients on a highly subsidized basis. The informal sector has been building relatively inexpensive housing but with poor supporting infrastructure and legal problems. The purpose of the AID-supported low-cost housing project is to demonstrate that basic housing and community facilities can be provided for low-income families which are locally acceptable, at a price they are willing to pay, and which provide the Government of Egypt a substantial cost recovery on its investment.

The project has been seriously delayed due to: 1) problems in negotiating and executing technical assistance and engineering contracts; 2) frequent planning and design revisions; 3) inadequate staffing of the government's project implementation unit; and 4) soil test and right of way problems at the project site. These problems have been ameliorated to a great extent and

implementation has picked up. The project implementation unit is making good progress in management reorganization and staff recruitment. By the end of 1983, we expect to have executed contracts for $42 million of construction services, materials and equipment. Bidding has begun for a construction contract to develop all four zones of the Helwan new community and should be awarded within six months. Construction and credit programs are being implemented in the upgrading areas and will be initiated in the three remaining areas this fiscal year.

We have spent a number of years and a large amount of money getting this project moving and it looks at this time as if the goals of the project may be met. We will continue to monitor the project closely.

Signaling a policy change by the Egyptian Government, the new five year economic development plan does not allocate any new funds for constructing public housing projects. Instead, the Egyptian Government is looking to the private sector to finance housing. Of course, the Egyptian Government will have to make complementary investments in infrastructure, e.g. roads and utility connections, to improve the overall quality of urban housing. It is in this area that our current project can provide some useful lessons. We have not been approached by the Egyptian Government to finance any further housing related investments although the expansion of water and sewer lines under our five year commitment will help provide the infrastructure to support new housing development and informal housing upgrading.

Question: Last year you were questioned about the Near East Advisory Committee. You indicated that the committee was about to be selected and letters of invitation would soon be sent.

-- Could you provide us with a list of who is serving on that committee and when it has met?

ANSWER : There will be a formal announcement in March, 1983 about the formation of the committee and its membership.

Question: Would you update us on the status of U.S. efforts develop an agricultural extension service in Egypt?

-- In 1982, a U.S. team headed by E. T. York prepared for the Government an overall study of the Egyptian agricultural sector and strategies for upgrading it. Has the Egyptian government acted on the recommendations made in this study?

-- On which? What has been done?

Answer: Yes, the Egyptian government is acting on recommendations made in the report, "Strategies for Accelerating Agricultural Development (SAAD). The Ministry of Agriculture is proceeding with plans to consolidate and strengthen Egyptian agricultural research and extension activities, as well as the institutional framework within which these activities are being carried out.. Crop-specific extension campaigns such as those recommended in the SAAD report are being devised to extend "packages" of technology developed in AID projects.

Question: You are approaching the aid program for 1984 differently. Very few new projects are being considered and activities are being clustered in four or five areas.

-- Do you conceive of this as a sectoral approach?

-- Will the funds for each category be obligated as a lump sum?

-- Do you think you will have any flexibility within each category or cluster to shift funds depending on what activities progress well or are preferrred for some reason?

-- Don't several of the funds you are committing support on-going projects by merely adding on funds and extending the life or scope of the original projects?

-- Will this approach you are adopting lead to a short term increase in the pipeline or do you foresee immediate increases in the pipeline before more rapid expenditures occur?

-- At what level will the pipeline peak and when?

-- What do you see as the lead time on this new type of funding approach and will that be less than your usual lead time?

Answer: The trend towards concentration of our assistance in fewer areas and the clustering of projects, sometimes under a single obligation, is a process that has been going on for some time. It began with our Family Planning project, which incorporates a number of discrete but mutually reinforcing activities within a single project. In FY 1982 a further step was taken when the various decentralization projects were combined in one program. We expect the process to continue and perhaps accelerate somewhat this year and next. The process can be viewed as moving toward a sectoral approach.

In some cases, (e.g., Family Planning, Decentralization, Water and Sewerage) funds will be obligated for a broader category than traditional projects. In other cases, individual project

obligations will continue. At the present time, we are not proposing to obligate funds for very broad sectoral categories such as infrastructure, industry, etc.

One of the purposes of a single obligation for a group of related activities is to permit better management through the flexibility of shifting funds to fast-moving and/or high-priority activities.

As the program has matured, a greater portion is going toward expansion and replication of successful on-going activities rather than new undertakings. Given the magnitude of Egypt's development problems, our projects were initially designed to address only a piece of each. As these pieces are taken care of, we then look to the next phase. An example is Cairo Sewerage, where our existing project is financing only the most urgent elements of a master plan for rehabilitation and expansion that will require many years to carry out.

We do not expect the movement toward a sectoral approach to lead to an increase in the pipeline. On the contrary, the flexibility to shift funds from slow-moving to faster-moving activities, coupled with incremental funding where feasible, should help reduce the pipeline.

We believe the pipeline peaked at $2.7 billion at the end of FY 1982. Disbursements this year should exceed new obligations by more than $100 million, and in FY 1984 we expect the pipeline to fall by an additional $200 million.

Since a growing share of our program will be funding continuation, expansion, and replication of on-going activities, the lead time before actual disbursement of funds occurs should be noticeably shorter than in the past when we were facing unfamiliar circumstances.

Question: Do you expect to use the same new approach in FY 1985 as you have devised for FY 1984 or are you going to see the results first before committing yourself?

-- Precisely how will you judge the success of this new approach, given the fact that you will simply be supporting a small, old proven set of activities?

-- Do you envisage using this approach for several years?

-- If you do that, won't you merely be building up funds for a few activities and only increasing the pipeline?

Answer: Barring unforeseen new developments, we expect to continue along the track we are on -- progressively greater movement toward a sectoral approach -- in FY 1985 and beyond. We now have considerable experience with this programming method, and we believe it has been a factor in our finally being able to bring a halt to pipeline growth while at the same time responding to Egyptian priorities and interests.

Question: Under this new approach, what research will be possible to insure that projects are available which are responsive to Egypt's most pressing needs?

- How will you insure that we are in front of problems or isn't this one of our concerns?

Answer: Over the past eight years, many of the basic studies and assessments needed for effective program design in the sectors in which our assistance is concentrated have been completed. For example, master plans exist for water and sewer development in Cairo and Alexandria, and the "Strategies for Accelerating Agricultural Development," together with other studies, identify the problems of the agriculture sector and outline recommended solutions. In addition, the Egyptian Government's new Five-Year Plan goes much farther than previous plans in laying out priorities and relating budget resources to them. We are reflecting those priorities in our programming, specifically the priority given to water and sewer problems.

Question: Is this new approach an approach which the Egyptians wanted or is it mainly a device we sought in order to give us a chance to try to consolidate and streamline the program and try to get it moving better?

Answer: The movement toward a sectoral approach was undertaken in close consultation with the Egyptian Government. It shares with us a desire to improve and speed up the implementation of the program and to ensure that it addresses priority Egyptian developmental needs. We both see the sectoral approach as one means of accomplishing this purpose.

18-551 O—83——38

QUESTION: One of the small, new activities you plan in FY 1984 is a work planning project which seeks to aid Egypt in preparing its work force better for new types of jobs.

-- Who will be the agency in Egypt with whom you work on this project?

-- Who will be the target group: college graduates? semi-skilled groups? or the unskilled?

-- Precisely what institutions will be involved in phase one and in phase two of the program?

-- What is your goal and how many people do you expect to be able to train?

-- Do you envisage in this project mainly training people for careers outside the government?

ANSWER: The purpose of the proposed Workforce Planning Project is to assist the Government of Egypt in strengthening selected public and private sector training systems to make them more responsive to labor market needs, and to provide training in priority areas. The first phase (approximately one year) will develop a capacity in the government to analyze and plan manpower requirements. The second phase (approximately three years) will prepare and implement training programs designed to meet development needs. Special emphasis will be given to increasing the involvement of the private sector in meeting the education and training needs of the labor force.

The project is scheduled to be designed and approved during FY 1984. Key development ministries are expected to be involved in the project. Specific institutional responsibilities and relationships will be worked out in designing the project. People in both the public and private sector will be targeted for training. The types of workers (e.g. unskilled, semi-skilled, college graduates, etc.), and the number to be trained will be specifically determined at that time.

Question: The mission director has stated a preference for sector funding as a means of speeding disbursements of project funds. We understood the principle is to move the funds to the areas of greatest demand.

-- How does this solve the implementation problems that are not demand related?

-- How will these problems be addressed?

-- If project focus shifts to a demand basis, how will lower priority initiatives, such as private-sector development be affected?

Answer: It is true, to a certain extent, that shifting funds from slow-moving to faster-moving activities could be seen as dealing with the symptoms of a problem, rather than with the underlying problem itself. However, the ability to take funds away from a project that is encountering delays sometimes can serve as an inducement to corrective action.

Nevertheless, funding flexibility is far from a panacea for implementation problems. Together with the Egyptians, we are constantly seeking ways to deal directly with these problems. An example is the fact that we have turned more to turn-key contracts with U.S. firms because of problems encountered in the past with over-extended local construction companies. Another measure initiated to deal with implementation problems is an intensive semi-annual portfolio review carried out jointly with the Egyptian Ministry of Investment and International Cooperation. During these reviews, serious implementation problems are highlighted and chronic problems that occur across several projects can be identified so that corrective action can be taken.

Our interest in sector funding does not imply that programming will be determined by demand. Initial allocation of funds will continue to be based on mutual U.S./Egyptian agreement on development priorities and a realistic assessment of the absorptive capacity of the activities representing those priorities. Any subsequent shift of funds between activities would come about either because of unexpected developments that affected relative absorptive capacity or because of a mutually agreed shift in priorities.

QUESTION: The Government of Egypt has issued a new Economic Development plan.
--How will this plan affect current AID private-sector development projects and future plans for expansion in this area?

ANSWER: The new economic development plan sets ambitious investment targets and calls for significant private sector participation in industry, services, and housing. The Egyptian Government expects that 25 percent of total investment over the plan period will come from the private sector.

AID believes that the new plan continues a trend towards greater reliance on the private sector begun with the announcement of the "Open Door" policy in the mid 1970's. We expect to continue AID-financed private sector programs and are looking for ways to increase the amount of term credit available to the private sector for productive investments.

Question: Ninety percent of the private sector in Egypt is comprised of small scale entrepreneurs. These businessmen stated that their greatest need is credit and equity financing. Traditionally, such businesses have the most difficulty obtaining this type of assistance.

What does AID plan to do to assist these businesses as it helps the Egyptian private sector to expand?

Answer: None of AID's private sector programs currently in place were intended or structured to address SSE credit needs. The intention has been and continues to be to develop separate programs for assisting SSE's, programs which are specifically designed to meet the unique requirements, including extensive technical assistance, associated with SSE activities. The AID-financed 1982 Arthur D. Little study on internal constraints to SSE growth is, for example, part of a continuing effort by AID to establish the requisite information base for determining how best to address SSE development in Egypt.

RESPONSES FROM THE DEPARTMENT OF STATE:

Q. In September 1981 after rising tensions and violence between Egyptian Moslems and the Christian Coptic community, about 100 Copts and over 1000 Moslems were jailed. Most of these have since been released including all of the Copts except for the Coptic leader Pope Shenouda III who remains under enforced seclusion in a remote monastery. The Egyptian leadership has said to many American visitors over the last year that the release of the Pope was imminent.

---When will the Egyptian Government permit Pope Shenouda to return from seclusion to public life.?

---Have tensions between Moslems and Copts declined since 1981?

---What are we doing to press the Pope Shenouda issue?

A It is still uncertain when Pope Shenouda III will be allowed to return from seclusion at a Coptic monastary at Wadi Natrun or when his status as Patriarch will be restored. The Pope can move freely and interact with resident monks there. Recent reports indicate that the Pope receives up to 100 visitors a week and is in regular contact with many of his bishops. He is reportedly active and in good health and spirits. The Egyptian Government has made it clear that the Pope will be allowed to return to public life.

While individual acts of discrimination against Copts by members of Egypt's Moslem majority do occur, and reports are not uncommon of persecution or occasional physical attacks on Copts by Islamic extremists, intercommunal tensions have declined since 1981.

Our Embassy in Cairo continues to monitor the situation of Copts in Egypt and of Pope Shenouda III in particular. The Egyptian Government is aware of our concern about the Pope's continued enforced seclusion.

Q. You recently completed a large commercial flour sale to Egypt.

---What has been the impact of this sale?

---Was there any subsidy or cost to the U.S. taxpayer?

---Are you trying to send a message to the Europeans that if subsidies are used as a trade weapon, we will win the war? If so, has the message been received?

A. The impact of the sale in the Egyptian market is clear. The supply of one million tons of wheat flour to Egypt has allowed U.S. exporters to supply Egypt's commercial flour import needs. In terms of our trade policy objectives, the sale has had an impact on our competitors in the agricultural export markets by demonstrating the depth of US concern over EC agricultural export practices, and our intention of improving the position of US exporters in the world market. There has been little impact on prices in the United States due to the small amounts of flour involved relative to the size of the U.S. supply. However, the sale will allow our mills to operate more efficiently by engaging otherwise unused capacity. There will also be a positive impact on employment in the milling industry.

There is a subsidy involved in the wheat flour sale, since the U.S. Government will give enough surplus wheat to U.S. millers to allow them to sell flour to Egypt at the agreed price of $155 per ton, which is well below the world market price. However, our donation of wheat to the millers represents a budget savings on storage costs for wheat which would have had to be purchased for CCC stocks in any case.

Our sale to Egypt is not intended to be the start of a trade war with the EC in the agricultural export market. Such a trade war would be neither to our nor the EC's advantage. Our message, which we are confident the EC has received, is that we are willing to indulge in temporary trade distorting measures, such as the wheat flour sale to Egypt, to improve the position of U.S. exporters in an area in which the EC has captured 75 percent of the world commercial flour market through the use of subsidies.

Q Like most developing countries, Egypt's economic and financial problems derive in part from external factors due to a weak international economy. However, in great measure, Egypt's problems derive from its own policies. Yet, very little has been done by the government over the past five years to revise or reform these policies. To what degree will it be possible for Egypt to correct inefficient policies such as the following and how serious is the U.S. effort to induce Egypt to alter policies such as:

a. Artificially low domestic petroleum prices which lead to high growth in domestic petroleum consumption which, in turn, limits Egypt's ability to export oil for revenue; this cost Egypt an estimated $2.8 billion in 1982;

b. A high level of subsidy payments in the budget (30 per cent of 1981-82 government revenues) leading to budget deficits;

An artificially set three-tiered exchange rate which has caused the stagnation of manufactured exports.

--What is Egypt doing about these inefficient policies?

--What are we doing to encourage Egypt to do something about them?

--If you had to single out just one of the above four policy problems as <u>the most harmful</u> to Egypt's economy, which would it be?

--Could we focus all our efforts on that one problem to encourage some change?

A. President Mubarak, more than any other Egyptian leader in recent history, has spoken frankly and publicly to the Egyptian people of the enormous cost of the subsidy program to the Egyptian economy and the need to reduce consumption growth. Government leaders are also aware of inefficiencies and harm to development caused by cost-price distortions in the economy. Over the past few years, the Egyptian Government has taken some actions in several of the problem areas, although not in each case to the extent that we may deem desirable. The following comments address the particular problem areas noted by the Committee:

a. Energy prices. Domestic energy prices average about 18 to 20 percent of world levels. Not surprisingly, domestic energy consumption has been growing at about 16 percent annually. In conjunction with the World Bank, Egypt is constructing pipeline networks which will enable it to distribute natural gas as a substitute for liquid hydrocarbons, thus releasing some petroleum supply for export. Natural gas prices are planned to increase five-fold from present levels by 1985.

In 1980, the Egyptian Government increased domestic petroleum prices by almost 20 percent. Gasoline in Egypt now sells at a price equivalent to about 77 percent of world market prices. Electricity rates on residential and commercial usage were raised 20 percent in 1980 and were raised another 10 percent in 1982. Rates for high voltage industrial customers were also raised between 50 and 60 percent in 1982.

b. Subsidies. Total subsidies now account for one third of current expenditures and over one half of central government revenues. The largest increase in the subsidy bill was for food subsidies. Apart from minor change (for example, raising the price of higher quality bread and lowering quality standards for subsidized bread), the food subsidy system has not substantially changed in recent years. However, a recent government decree limits access by some members of the general

population to low priced mass consumption goods. In addition, the Egyptian Government is slowly reducing subsidies for nonfood items such as soap, cigarettes, pharmaceuticals, cars, and some food items, such as rice.

c. Low taxation. Tax revenues increased from LE 0.76 billion in 1974 to LE 4.8 billion in 1981/82. However, government expenditures increased at a much faster rate over the same period. In addition, budget revenues from Suez Canal tolls and oil are levelling off. To increase revenues, the authorities raised excise taxes in 1981 on 125 categories of imported and locally produced luxury goods. The income tax laws were streamlined at the same time and collection procedures were improved. In 1982, consumption taxes were increased in a range of 5 to 100 percent, and tax coverage was extended from 53 to 124 commodities.

d. Exchange rate. The foreign exchange rate has depreciated over the 1974-82 period. In 1979, Egypt devalued its currency, moving the official rate from LE 1=$2.50 to the then free market rate of LE 1=1.43. A commercial bank rate was introduced in 1981. This rate, now at LE 1=$1.18, is the rate at which most public sector firms carry out foreign exchange transactions. Private sector firms usually carry out transactions at the free market rate of about LE 1=$0.88.

The policy problem areas identified by the Committee are also of concern to us and to the Egyptian leadership. We are encouraging Egypt in its efforts to deal with these issues by conducting an economic dialogue with the Egyptian Government and offering support for those policies and plans directed at removing distortions.

Each of the policies noted by the Committee is costly to the Egyptian economy. Each also has major political and macroeconomic implications. If the Egyptian Government is to address these problems, it must both expand the amount of external resources available and more efficiently use and invest its available resources. Each of the problem areas noted above concerns one or another of these targets. However, the totality of economic inefficiences must be addressed in a coordinated fashion if they are to be overcome. Thus, it is preferable that our efforts be directed to support Egypt's reform efforts over the range of areas needed to broaden its productive base and make better use of resouces.

Q. Other conditions which adversely affected the Egyptian economy in 1982 by decreasing important sources of revenue were:

a. The flow of remittances from Egyptians working overseas fell by $900 million between 1981 and 1982;
b. Tourism declined partly because of President Sadat's death and turbulence in Lebanon;
c. The strengthening of the dollar had a negative impact on Suez Canal receipts.

--Do you expect the revenues from these three foreign exchange sources to decline again in 1983?
--Particularly in the area of tourism, can Egypt do more than it is now doing to increase tourism and the revenues from this source?
--What are the principal obstacles now to increased tourism?

A. We do not expect the revenues from these three foreign exchange sources to decline again in 1983. The number of Egyptians working overseas appears to have increased and the already reduced level of remittances sent back by the workers to help support their families in Egypt should not decline further. Revenues from traffic through the Suez Canal are affected by the strengthening of the dollar, since tolls are set in SDR's. Traffic levels have not declined and we do not expect further drops in Canal receipts in dollar terms absent another substantial strengthening of the dollar. As noted, tourism revenues declined from the 1980 level of $700 million to $600 million annually by 1982 partly because of President Sadat's death and turbulence in Lebanon. Another major determinant of tourism revenues is the state of the economy in Europe and the United States, since tourist expenditures are a function of discretionary income levels in the West.

Therefore, Egypt cannot on its own affect what are probably the two major factors determining tourism flows, i.e. the state of Western economies and the political and security situation in the Middle East. Egypt is attempting to upgrade the capabilities of its tourist infrastructure by better and more extensive manpower training, and encouraging foreign investment in tourist facilities. However, in the near term such efforts should not have a major effect on tourism income.

RESPONSES FROM THE DEPARTMENT OF DEFENSE:

Question : Will the $1.3 billion FMS program requested for Egypt for fiscal year 1984 enable Egypt to make new purchases of additional military equipment or will it all be applied to progress payments on outstanding orders?

-- Would you please provide the subcommittee with a breakdown of how the $1.3 billion will be spent?

-- What is the projected level of fiscal year 1984 FMS funding available for new procurements?

Answer: In FY1984 the follow estimates are provided of Egyptian expeditures: Prior commitments (progress payments) - $633 million, follow-on support - $366 million, and new program $301 million.

Question : In order to enable Egypt to make its progress payments on outstanding U.S. orders, for how long into the future will the U.S. FMS program need to continue at a level of at least $1.3 billion?

Answer:

If Egypt was to immediately discontinue its force modernization program the FY1984 FMS credit level could be reduced. The delivery obligations extend into FY1988. However, this does not account for the needed follow-on logistic support for these programs which show a gradual upward trend.

Question : Would you please provide the subcommittee with a projection of Egypt's progress payments on outstanding orders such as the F-16 aircraft, the M60A3 tanks, I-Hawk batteries, and armored personnel carriers?

Answer:

The current projection of the Egyptian progress payment requirements for programs already accepted and implemented is:

FY84	FY85	FY86	FY87	FY88
$499M	$426.9M	$385.3M	$123.2M	$10.3M

Question : What is the status of the sale of the four E-2C radar warning and control aircraft to Egypt?

-- How does the Egyptian payment for this sale fit into available FMS fundings?

-- What planned purchases of military equipment did Egypt have to postpone when it decided to buy the E-2C?

Answer: The estimated $689 million E-2C program cost is spread over seven years. The maximum yearly outlay is expected in FY1986 when progress payments are estimated to be $217 million.

The Egyptian Ministry of Defense deferred an M60A3 tank buy in order to initiate the E-2C program in FY1983.

Question : There is a $2 million International Military Education and Training (IMET) request for Egypt for fiscal year 1984. This program will fund the military training of 435 Egyptian students in the U.S. and overseas.

-- Would you provide for the record a list of where these Egyptian military personnel are training and a rundown of the nature of the training involved (e.g., on what military equipment are they being trained?)

Answer:

The purpose of the training requested is to assist Egypt to improve the professionalism of its armed forces, and facilitate its ability to absorb the military equipment purchased from the U.S. The training request ususally is not related to any particular weapons system. U.S. training bases for Egyptian students are spread across the entire country. There is no one single concentration of Egyptian students. The following table summarizes the category of training and military service:

Continental U.S. Training	Army	Navy	Air Force	Total
Operations	66	13	18	97
Comm/Electronics	-	-	8	8
Maintenance	36	5	19	60
Logistics	10	-	18	28
Administration	4	22	4	30
Professional	82	40	84	206
Orientation	-	-	10	10

APPENDIX 7

SUPPLEMENTAL QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST TO THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID), AND THE DEPARTMENT OF DEFENSE AND RESPONSES THERETO (LEBANON)

RESPONSE FROM THE AGENCY FOR INTERNATIONAL DEVELOPMENT:

Question : Will the Capital Equipment Fund operate like a Commodity Import Program? Which agency in the Lebanese government will operate the fund? How will it operate; and will it generate local currency; and, will it become a revolving fund?

Answer : The Capital Equipment Fund (CEF) is being designed along the lines of a commodity import program. The CEF will be coordinated by the Council for Development and Reconstruction (CDR). A.I.D. will make a grant to the Government of Lebanon. The GOL through the CDR will lend these funds to public and private sector entities in Lebanon who wish to import U.S. goods. The CEF will also be used to attract other financing from EXIM Bank and U.S. commercial banks so as to increase the availability of financial resources. As the executing agency, CDR will determine who will participate in both the public and private sector based on mutually agreed criteria between the U.S. and the GOL. Once participants have been selected, the CDR, working in conjunction with the Central Bank and the commercial banking system, will loan capital at a rate slightly lower than market terms in order to serve as an incentive for borrowers. All repayments will be directed back into the fund which will be used as a source of local currency loans for a variety of reconstruction related activities. Details on the operation of this project are currently being negotiated in Beirut.

Question : You are committing $32 million to a potable water and sanitation activity.

-- Is there an effective Lebanese agency with whom to work on this project?

Answer : The Council for Development and Reconstruction will be the overall coordinating agency for this project. The Government of Lebanon with assistance from A.I.D. has established a technical group of all agencies involved in the implementation of this project. Such agencies include the Ministry of Hydraulic and Electrical Resources, the Beirut Water Authority, and the Municipality of Beirut. A.I.D. is including technical assistance where possible in all of its projects in order to improve the capacity of the ministry and agencies carrying out our program.

Question : In general, are you insisting on effective government action and organization as a prerequisite for U.S. assistance in each area of activity?

-- Is the U.S. insisting on civil service reform?

Answer : After eight years of civil strife and the invasion of 1982, there is an important need to strengthen the Government of Lebanon's ability to lead the reconstruction effort and to exert its authority where possible. Certainly, the ability of Lebanese ministries to carry out their tasks will be a major factor in the government's efforts to assert authority and leadership. The capacity of these ministries varies. Our proposed program emphasizes reconstruction of public sector infrastructure as a means for supporting the Lebanese government's program for establishing its leadership. This is a high priority. While our program does not include a wholesale civil service reform effort, we do intend to bolster the capacity where possible of those ministries we will work with in the reconstruction effort. Specific examples are as follows:

- Council for Development and Reconstruction (CDR): The CDR is the Lebanese government agency responsible for overseeing the reconstruction effort. A.I.D. is financing both long and short term advisors to consult with council members as well as local administrators. The long term advisors will work at the national government level on economic planning, public administration, public finance, financial analysis and civil engineering.

  Short-term specialists will be brought in from time to time to work on transportation, communications, water, electricity generation, sewerage, housing, health and education.

- Telecommunications: We will finance the establishment of a Post, Telegraph and Telecommunications Institute which will conduct on-going training in skill and management areas.

- Water/Sanitation: In addition to financing comprehensive studies of Lebanon's long-term water needs, training will also be conducted for sanitarians and water-supply personnel.

- Health: A.I.D. will finance the training and development of an information system for health, including data collection, processing and interpretation, in order to allow for internal long-term needs assessment.

- Tax Administration: Increasing tax revenues is a priority concern of the GOL, which faces staggering reconstruction costs. The Ministry of Finance requested, and A.I.D. provided, two tax administration experts to study current procedures and recommend short-term measures to increase revenues.

- Trouble-Shooting on Administrative Reform: The Government of Lebanon asked A.I.D. to provide carefully-focused assistance in dealing with both institution-specific and cross-cutting functional problems in public administration, as the government undertakes broad reforms to streamline government operations. Expert teams will be brought in for short term, hands-on analysis to assist in this effort.

- Private Enterprise: The Lebanese value and intend to protect fully their free-market economy. They have asked for U.S. assistance in designing a structure for anti-trust and trade-restraint measures which will keep the system open, both from below and among established entities. Expert assistance will begin in April.

Question: Your table indicates that $3 million of the funds provided in the FY 1982 supplemental $50 million for Lebanon would be for the Palestinian refugees.

-- What is that money for?

-- Will any of the funds in this supplemental be used for the Palestinian refugees?

-- If so, for what projects will it be spent?

Answer : The $3 million in the FY 1982 supplemental $50 million will be used for non-shelter needs of the Palestinian refugees. We will provide $500,000 for an intermediate health care facility, $2 million to the ICRC for medical needs of the refugees and $500,000 to UNRWA as our share of the costs for rebuilding administrative facilities in the refugee camps.

None of the funds we are requesting in the FY 1983 supplemental will be used for Palestinian refugee programs. U.S. support for the refugees is contained in the contribution to the support of UNRWA's program for Palestinian refugees.

Question : In the FY 1982 supplemental of $50 million, the American University of Beirut (AUB) was provided $10 million.

-- Will the remaining $7 million of that which has not been expended be expended soon?

-- From what account will the $3 million you intend to provide to AUB in FY 1984 come?

Answer : The remaining $7 million for AUB was obligated in March, 1983. All of the $10 million will be expended by the end of September, 1983 i.e. FY-83.

On page 150 of Annex IV of the FY-84 Congressional Presentation there is a $3 million expenditure from the Disaster Assistance account noted in FY-84. This represents an estimate made at the time the document was drafted. Since that time the estimate has been revised and we will be expending that money in FY-83 as indicated above. At the present time, any FY-1984 funding provided will come from the American Schools and Hospitals account and/or from the Near East Regional account which is a scholarship program. The latter program is estimated to require $3 million in regional support.

Question: Will most all of the money you seek in the supplemental be for projects in the Beirut area and southern Lebanon?

-- To what degree will you be supporting activities in other areas of the country?

Answer : Our proposed supplemental addresses reconstruction in areas under the GOL's control or where it exercises considerable influence. Therefore, our proposed projects will also operate primarily in the greater Beirut area and will include some activity in southern Lebanon. Our proposed program is not directed to such areas as north Lebanon and the Bekaa valley.

Question: In the strife in Lebanon, a lot of men were killed, leaving a large number of women and children.

-- Do you have any estimates on this?

-- Has AID considered supporting income generating projects for women?

-- What, if anything, is AID doing in this area?

Answer

National estimates on the number of Lebanese widowed women and orphans as a result of the strife in Lebanon are not currently available. Our proposal for supplemental funds includes programs which will provide the opportunity for women as well as men to become income earners, particularly through PVO programs. We have requested: $6.2 million for Save the Children Federation to provide agricultural and business credits through cooperatives and other community initiatives; $2.6 million for Catholic Relief Services for rehabilitating private educational, health and social welfare institutions; and, $1.5 million for the YMCA of Lebanon to provide vocational training in certain skill areas. These activities will facilitate the possibility for women to become income earners. Female entrepreneurs in fact have received credits under our current Save the Children project. Similarly, women are now being trained as draftspersons under the YMCA training project. These and other proposed activities, such as the Small-Scale Enterprise project will stimulate economic activity and job opportunities.

Question : The Lebanese Council on Development and Reconstruction (CDR) was created in the late 1970s to be the coordinating agency for the country's reconstruction efforts, but the organization has been lackluster in its performance, reflecting in part the security situation in the country.

-- Are you confident that the CDR is capable of providing strong leadership and coordinating the important reconstruction effort?

-- In your view, is there sufficient coordination between the CDR and the various ministries of the government?

-- What needs to be done to improve the CDR's operations?

Answer : We are confident that CDR is doing a sound job of coordinating the reconstruction. The CDR is a major focal point for donor assistance. In the projects we have been designing and negotiating with the GOL, the CDR has been coordinating very well with the ministries and agencies which will carry out the projects. Our request for supplemental funds includes a project for a significant amount of technical assistance to the CDR. These U.S. advisors will augment the CDR's ability to plan, design, manage and implement the reconstruction program. We expect that our technical assistance will begin in the very near future.

RESPONSE FROM THE DEPARTMENT OF DEFENSE:

Question: For what purpose will these IMET funds be used?

Answer: We have requirements for additional training in basic skills of the individual soldier, small unit tactics, leadership (particularly noncommissioned and junior commissioned officers), operations and maintenance of newly acquired U.S. weapons systems (e.g., M48A5 tanks and M198 155mm howitzers), and personnel, supply, and maintenance planning and management.

Question: Will it all be spent in the U.S. or is some for training in Lebanon?

Answer: We expect this training will include both enrollment of Lebanese personnel in military schools in the United States and the deployment of U.S. mobile training teams to conduct training in Lebanon.

APPENDIX 8

SUPPLEMENTAL QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST TO THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID), AND THE DEPARTMENTS OF STATE AND DEFENSE AND RESPONSES THERETO (JORDAN, YEMEN, OMAN, AND ASHA)

RESPONSE FROM THE AGENCY FOR INTERNATIONAL DEVELOPMENT:

Question: Your program for FY 1984 states that it "represents the first year in which most of the requested funding will be used for technical assistance, transfer of technology, and training that also seeks to strengthen the role for the private sector."

-- Why do you believe it advantageous to shift money to training for the private sector at this time?

-- How does this shift realistically answer Jordan's economic and development needs?

Answer: In keeping with A.I.D.'s general policy guidelines to increase the use of the U.S. and indigenous developing country private sectors as development tools, A.I.D. plans to assist Jordan to develop an Executive Management Institute, modeled along the lines of the Asian Management Institute in Manila, which will help the Jordanians to develop senior level management capabilities among both public and private sector executives.

In FY 1982, A.I.D. began to shift the orientation of its Jordan program away from capital assistance and infrastructure-type projects toward technical assistance and projects stressing technology transfer and institution building, thereby enhancing the

prospects for long-term development benefits and lasting U.S.-Jordanian relationships. While A.I.D.'s and Jordan's development priorities remain basically unchanged, the methodologies with which A.I.D. and the Government of Jordan are addressing key developmental problems are increasingly focussed on developing institutional capacities in both the public and private sectors. We believe this focus will allow Jordan to ultimately continue its economic progress without U.S. assistance. We have developed our proposed project portfolio for FY 1984 in keeping with these shared Jordanian and A.I.D. priorities.

Question: What is the state of discussion on the Maqarin Dam project?

-- Has any progress been made on settling the differences among Jordan, Syria, and Israel on water rights?

-- Is the U.S. still committed to this project?

Answer: Construction of the Maqarin Dam project (estimated to cost $1.2 billion) has been deferred because there is no early prospect of Jordan's reaching agreement with Syria and Israel on riparian issues. Accordingly, A.I.D. has not requested funding from the Congress for Maqarin in FYs 1982, 1983 and 1984. Nevertheless, the Maqarin Dam project remains one of Jordan's highest development priorities and it has A.I.D.'s continuing encouragement. We appreciate the strong support of the Congress for this project in the past.

Question: The subcommittee was told last year that AID plans to have its program completed in 1985 except for some technical assistance.

-- Does it remain your objective to phase out the project program then?

Answer: Jordan's pivotal role in President Reagan's September 1 Middle East Peace Initiative, along with its moderating influence in a highly unstable region, makes it a country of special political and strategic interest to the U.S. We now expect to continue our economic aid relationship with Jordan through the 1980s.

Despite considerable economic growth and development during the past decade and the attainment of "middle-income country" status, Jordan now faces some significant economic problems which must be addressed if the nation's continued development and stability is to be assured. In late 1981, Jordan's economy slowed down due largely to factors beyond its control: 1) Arab assistance was reduced (from US $1,240.1 million in 1980 to US $1,210.6 in 1981); and 2) lower worldwide market prices depressed the country's commodity exports. The trade deficit continued to worsen in 1981. By the middle of 1982, the rate of increase in remittances from Jordanians working abroad had declined. According to data released by the Central Bank of Jordan, during the first three quarters of 1982 Arab assistance was 13% lower than in the comparable period in 1981.

Nevertheless, the over-riding rationale for continuing our bilateral aid program is political. Like our military assistance, U.S. economic aid is critical to our credibility and is a concrete symbol of our continuing commitment to Jordan's development - a commitment we have honored for 30 years.

Question: Jordan continues to have difficulty accomplishing a favorable balance of trade (the imbalance is about 6 to 1).

-- What measures is Jordan taking to change this?

-- Can mining (particularly of phosphates) help rectify this problem?

Answer: The Government of Jordan, acutely aware of its chronic trade imbalance, is taking the following measures to reduce this imbalance:

1. Encouraging its expatriate workers to send substantial remittances back to Jordan;

2. Encouraging the rapid development of Jordan's tourism industry;

3. Continuing to expand and diversify its production of exports such as phosphates, potash, manufactured goods, and fruits and vegetables; and is

4. Attempting to introduce energy conservation as a means of reducing Jordan's large petroleum bill.

Although Jordan's imports have increased sharply for the past few

years, the structure and trends of these imports reflect the strong domestic demand and the relative increases in prices of goods and services that characterize expanding industrialization. For example, the share of imports of raw materials has been increasing at a faster rate - reflecting the needs of Jordan's rapidly expanding industries. Imports of foodstuffs have declined sharply since 1971. In recent years, roughly one-third of Jordan's imports have been for machinery and transport equipment, while about one-fifth have been for relatively high cost oils and fuels, primarily coming from Saudi-Arabia by pipeline.

Jordan has made significant progress in both developing and diversifying its exports. In 1981, Jordan's exports increased by 29 percent, but, due to depressed worldwide market prices for phosphates, these export gains did not continue to grow as rapidly in 1982. Exports of fruits and vegetables have also lagged in recent years due to several bad crops, but should expand as a result of substantial recent investments in greenhouses and improved agricultural technology and expanding markets in Jordan's neighboring countries. Exports of manufactured goods such as cigarettes, textiles, clothing, pharmaceutical products, stoves, batteries and electrical appliances, and a wide range of construction materials and building components have been growing steadily as markets have developed slowly in Iraq and the other Arab states. (However, in 1982, as a result of the costs of its war with Iran, Iraq has sharply reduced its imports of Jordanian goods.)

Other important trading partners include Saudi Arabia and Syria.

There is no doubt that the continued expansion of Jordan's phosphate mining industry is an all important element of its export trade. During 1981, Jordan's phosphate production increased by nine percent to 4.2 million metric tons, with virtually all of the output exported. It is hoped that this production will increase to seven million tons annually by 1985. Additionally, the Government is now conducting feasibility studies for developing additional phosphate deposits which could lead to export of an additional three million tons by 1986. Jordan's current five-year Economic Development Plan also includes projects for the production, and possible export, of bromine, magnesium oxide, aluminum flouride and uranium oxide. Expansion of these mining/processing activities hold excellent promise of substantially increasing Jordan's export earnings in the not too distant future.

Question: What specific steps is Jordan taking to slow down its population growth?

Answer: Although there is increasing evidence of high level concern in Jordan over the country's rapid population growth, there is as yet no national population policy or government sponsored family planning program. Perhaps the most significant step that Jordan has so far taken with regard to slowing population growth is to have allowed population-oriented activities to take place in the country. To date, these have consisted of a variety of small programs such as training of female gynecologists, training in the use of population and development and planning models and tabulation of the 1979 Jordanian census data. In addition, the Jordan Family Planning and Protection Association provides family planning services and information, education and communication activities with consent of the Government. A new A.I.D. centrally-funded family planning information and education activity has recently been proposed of which, Crown Prince Hassan reportedly approves.

Question: Palestinians compose over half of Jordan's population: Is there any difference in the birth rate between them and the rest of the population?

Answer: We have no information available with which to respond to this question.

Question: Your CPD states that 1981 and 1982 respectively were the last years of obligations for two programs related to the Taiz Water and Sewerage project. In 1980 and 1981 this project had problems with overruns and the contractor. How has this project turned out and were the problems facing it settled?

Answer Construction of the Taiz Water and Sewerage project began in 1979 and is now about 95% complete. Progress was initially slowed down by design, management, and supervision problems including unexpected rock excavation and resulting cost increases.

The replacement of the original supervisory engineer in 1981 largely solved the contract problems that existed in the early stages of the project. Cost overruns due to unexpected rock excavation were financed by the Arab donors financing the construction component of the project. In addition, the Yemen Government agreed to the use of a portion of the original AID loan ($10.0 million) for this project to cover those overruns associated with the replacement and extension of the supervisory engineer through the end of construction in June 1983.

18-551 O—83——40

Question: You are requesting $3 million for PL 480 money for wheat flour imports. Given the fact that 80 per cent of Yemen's food processors' raw material is imported and that its agriculture is in trouble, is promoting more food imports the way to encourage agricultural self-subsistence?

Answer : The Administration has requested $3.0 million in PL 480 Title I (wheat flour) for Yemen in FY 1984. This program is meant to serve as one component of the U.S. response to the recent earthquake in Yemen the local currency generations from which will be used for rehabilitation/reconstruction purposes.

Recent analyses indicate that, despite the dramatic rise in food imports due to the inflow of remittances, consumer preferances have caused locally grown crops and livestock to command premium prices. This is particularly reflected in the horticulture subsector where data indicate a significant shift from field grain crops to high value horticultural crops. We believe that this relatively small PL 480 program for wheat flour will have little or no impact on agricultural trends in Yemen.

Question: Yemen commenced a five-year development program last December which will spend $6.5 billion, of which at least $3 billion according to the economist will have to come from foreign assistance.

—Will Yemen be able to get this money? Which source will provide the most assistance?

—It is reported that the Saudi's are reducing their assistance to Yemen. Do you know by how much?

—How will the drop in oil prices affect aid to Yemen by the Arab states?

Answer : Official Arab aid, the most substantial source of aid for Yemen, is slowing down in response to the decrease in oil revenues and the Iran/Iraq war. While difficult to quantify at this time, assistance from Iraq, Kuwait, and the United Arab Emirates has been cut back substantially and Saudi project aid has been reduced. However, except for Iraq, the pipeline for existing projects appears intact. New project starts appear most affected.

The YARG's Second Five Year Plan calls for 46% of the $6 billion investment budget to be in the form of foreign loans and grants. The reduction of foreign assistance as well as reconstruction requirements arising from the recent earthquake will almost certainly require a scaling back of plan objectives

Question: The economist reported last May that North Yemen's agriculture was in serious trouble. It estimated that 80 percent of the food processors' raw material was imported, and that if labor costs remained high and the currency overvalued, Yemen's food industry might be squeezed out of its own markets.

—Do you agree with this assessment?

—Is Yemen going to be able to correct this problem in its agriculture?

ANSWER While we agree with the economist's assessment that the cost of labor, particularly in the agriculture sector, is high and that the Yemeni currency may be overvalued, we do not necessarily agree with its conclusion that Yemen's food industry might be squeezed out of its own markets. Recent analyses indicate that the incentives for agricultural production in some areas are still quite

strong. For example, despite the dramatic rise in food imports due to the inflow of remittances, consumer preferences have caused locally grown crops and livestock to command premium prices. This is particularly reflected in horticulture, where data indicate a significant shift from field grain crops to high value horticultural crops. Production costs can be significantly decreased through the availability of information to the Yemeni farmer on higher yielding crop varieties and more efficient production techniques. AID and the Yemeni are attempting to address these constraints by developing extension activities which transmit cost-saving and improved technological practices.

The Yemeni are also aware of the problems posed by an overvalued currency. They are seeking ways to balance the economic imperatives of pursuing a correct policy in this area with other, largely political, constraints.

RESPONSE FROM THE DEPARTMENT OF STATE:

1. How much money does Jordan acquire annually from Jordanian workers abroad? A 1981 figure was about $1 billion.

-- Did this figure decline in 1982? If so, why?

Data for calendar year 1982 are not yet available. We do not believe, however, that the absolute amount will prove to be less than the $1.03 billion remitted in 1981. There is a consensus that the rate of increase in remittances declined in 1982 from previous years. While the reason for that decline is uncertain, it appears to be due both to apprehension caused by the Israeli invasion of Lebanon last summer and to a general slowdown in development projects in the Gulf states, caused by declining oil revenues.

2. Q. The Peace Corps has decided to end its activities in Oman. Why is this happening?

A: The Government of Oman has not submitted new project requests and, apparently, does not consider the Peace Corps so relevant to Oman's development problems as it once did. Therefore, programs are being phased out as they are completed. The last volunteers are expected to leave in late May, and the program is being concluded in an orderly and amicable manner.

RESPONSE FROM THE DEPARTMENT OF DEFENSE:

QUESTION: You plan to increase the number of authorized U.S. military personnel in North Yemen from six to eight. Why the increase when the level of aid is remaining the same?

ANSWER: While the total program value remains level from FY83 to FY84, we propose a shift from reliance on FMS financing (credit) to the Military Assistance Program (grant) which will permit an increased number of U.S. technical assistance and training teams and a considerable increase in the number of students trained in the U.S. The increased manning is required to provide a full-time officer for closer supervision and management of the additional training and technical assistance teams. An additional noncommissioned officer will provide necessary administrative support for the increased program.

QUESTION: What military equipment will Oman purchase with a $45 million program? What is the anticipated use of this $45 million? Would you provide for the record, an accounting of Omani progress payments on past military purchases from the U.S.? Aren't most Omani military purchases still British?

ANSWER: The proposed $45 million for Oman anticipates continued procurement of training and spare parts support for existing U.S. weapon systems and acquisition of additional transport aircraft, Sidewinder air defense missiles, and Improved TOW antitank missiles.

Oman's Foreign Military Sales payments to the United States have been:

FY1977	$ 194,326.52	
FY1978	259,956.36	
FY1979	419,044.94	
FY1980	15,296,697.45	($12,707,923.00 from FMS Financing Program)
FY1981	40,352,027.58	($22,292,077.00 from FMS Financing Program)
FY1982	36,115,136.08	($34,016,461.11 from FMS Financing Program)

Oman traditionally acquires most of its arms from Great Britain. Recent known procurements include Chieftain tanks, Jaguar aircraft, and the Rapier air defense (missile) system.

APPENDIX 9

SUPPLEMENTAL QUESTIONS SUBMITTED BY THE SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST TO THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID), AND THE DEPARTMENTS OF STATE AND DEFENSE AND RESPONSES THERETO (GREECE, TURKEY, CYPRUS, SPAIN, AND PORTUGAL)

RESPONSE FROM THE AGENCY FOR INTERNATIONAL DEVELOPMENT.

Q: Does it concern you that the U.S.-Greek Scientific and Cultural Cooperation Agreement signed in 1981 has never gotten off the ground, in good part because of a lack of funding on the U.S. side?

A: -- Since the umbrella agreement was signed in April 1980, some bilateral cooperation in the areas of science and technology, mainly in the field of earthquake research, has been linked to the agreement. An MOU for cooperation in strong motion data acquisition was signed in April 1982 between the US Geological Survey and the Greek Scientific Reasearch and Technology Agency (which then had responsibility for such research). American and Greek earthquake specialists have worked together in several workshops held under the agreement. EPA officials have cooperated with their counterparts in Greece, briefing them on American environmental legislation and policies, an area of great interest to Greece.

-- Lack of funding is only one reason why cooperation projects have been limited. One area of cooperation envisaged when the agreement was signed was in energy research; this is an area where diminished funding for the Department of Energy played a role. In addition, the Greek government was reorganized in July when the Ministry of Coordination, responsible for implementing our bilateral agreeement, was abolished and responsibility for scientific and technological cooperation given to the newly created Ministry of Science and Technology. We are working on possible changes in the agremeent to meet the altered circumstances.

-- The Fulbright program covers graduate studies. In 1981-2, twelve Greek students began studies in the U.S. - ten in the sciences and two in the humanities.

-- In response to student demand, the Fulbright program in Greece has recently been focused more on scientific studies than on the humanities. Since there are more fellowships and assistanceships available in the U.S. for scientific study, the number of students assisted has increased while the cost per student to the Fulbright program has decreased.

-- Some Greek students are interested in study in nearby Eastern European universities because of the difficulty of finding places in Greek universities. It would be difficult to compare the preferences of students, but there has always been a substantial number of Greek students in the U.S. as a result of available scholarships, family ties and programs available in particular universities. I can tell you that in the 1981-2 academic year, the Fulbright centers in Athens and Thessaloniki received 20,000 queries about study in the U.S.

Question: How much of the FY 1983 program for Cyprus is being spent on the scholarship program?
Answer: AID's supplemental ESF request contains $10 million for the Cyprus-America scholarship program.

Question: How many Cypriot students are enrolled in U.S. colleges and universities for the 1982-1983 academic year under this scholarship program?
Answer: Fifty-nine students matriculated this year.

Question: Are these students from both Greek and Turkish Cypriot communities? What are the numbers involved?
Answer: Our records indicate that 47 are Greek Cypriots and 12 are Turkish Cypriots.

Question: How much money on average is given to each Cypriot student who comes to the U.S. to study?
Answer: We estimated that it would cost, on the average, about $12,000 plus travel costs to maintain a student in this program this year. This amount is offset, to a small degree, by scholarships received. Only a little of this -- for living expenses and book allowances -- is paid directly to the student. Most payments are made directly to the educational institution.

Question: What is the status of the United Nations High Commission for Refugees on Cyprus. Is it still administering on-going aid programs?
Answer: The UNHCR is administering most programs funded by A.I.D. The only major exception is the scholarship program.

Question: Is our program the only one it is administering on Cyprus?
Answer: For the past several years, the U.S. has been the sole contributor to UNHCR programs in Cyprus.

Question: Has any serious thought been given to putting the U.S. program under the UNDP which operates on Cyprus?
Answer: Many alternatives have been seriously considered. The difficulty with the UNDP is that resources could only be used in the more economically prosperous Greek-Cypriot south. Moreover, since the program was conceived to assist displaced persons, the UNHCR has always seemed more appropriate.

Question: Are there opportunities for funding projects which might help conciliate the Greek- and Turkish-Cypriot communities such as joint projects between the two communities in the divided city of Nicosia?
Answer: We encourage all project which would promote reconciliation of the two communities.

Question: What are you doing to develop such confidence-building projects?
Answer: Our support to the Red Cross provides one of the few telephonic links between the south and north and has been used to facilitate programs of humanitarian concern. We hope that the scholarship program promotes reconciliation through training outstanding students from both communities and bringing them into contact with each other.

Question: How many refugees are there on Cyprus today?
Answer: About 200,000 people were displaced by the events of 1974 and have not returned to their previous homes. By definition, a refugee is one who flees his country; very few have left Cyprus.

Question: Are any of them in tents or in temporary housing?
Answer: There have been no tent communities for many years and early wooden shelters are being torn down as newer housing developments are constructed. Even though these newer housing estates are exceedingly well built to provide excellent shelter for generations to come, the Greek-Cypriots continue to refer to them as "temporary" as an expression of the desire to some day return to their previous homes -- which in many cases were not built to such high standards nor provided rent free by the Government.

Question: How many housing units have been built since 1974?
Answer: Despite many attempts to find out, there is no clear and consistent answer to this question. In 1979 we were told that 23,459 government-financed public housing units would be completed by 1980 and an additional 9,427 former Turkish Cypriot houses had been repaired. More recently, the U.S. Embassy was told only 26,884 units have been constructed or repaired. The facts may be somewhat complicated because emergency housing units which were constructed quickly have subsequently been torn down as more substantial housing was built.

Question: Are you satisfied that those refugees from the 1974 Turkish invasion are now adequately housed?
Answer: The November 30, 1981 GAO report to the Subcommittee concluded:

> We believe that the need for continued U.S. humanitarian assistance to Cyprus has greatly diminished. The Government of Cyprus continues to request financial assistance to house all the displaced, irrespective of their income, including families of their children. In our view, providing such assistance goes somewhat beyond that normally associated with U.S. foreign disaster recovery and assistance.

While the report notes the difficulty in obtaining complete, agreed-upon statistics on the numbers of displaced people requiring housing, average family size, etc., it does indicate that "housing for the displaced Cypriots in greatest need will have been largely satisfied by current and planned construction through 1983." With the number of housing units built and refurbished for use by displaced persons -- not even counting the high level of construction in the private sector -- we do not believe that further external assistance to the housing sector is warranted.

Question: FY 1980 was the last year for new economic assistance to Portugal, except that targeted for the Azores. Yet, there was money left in the pipeline (about $22 million as of September 30, 1982).

-- How much of this money remains in the pipeline?

-- When will it all finally be expended?

Answer: As of February 28, 1983, the pipeline has been reduced to $20,072,682. We anticipate programs continuing through late 1985 with the final disbursement (for the Agriculture Production Program) taking place in 1986.

Question: There are a number of AID funded projects which have been underway for the past few years. They include technology transfer; soil fertility; private sector development; housing, sewerage and rural health projects; and the construction of secondary and primary schools. How will these projects be affected by the shift of ESF spending away from project aid?

Answer: AID's strategy for Portugal call for the orderly completion of ongoing projects. None of them require funding from FY 1983 or future year appropriations. All construction projects have been completed and both the soil fertility/ agriculture production project and technology transfers, including private sector development initiatives, will continue though 1985. We anticipate that the Portuguese will use some of the non-project resources provided in the future to establish a Luso-American Development Foundation which would continue technical exchange programs between our two countries.

RESPONSE FROM THE DEPARTMENT OF STATE:

Q: Is the US-Spain bilateral agreement going to be submitted to Congress pursuant to the Case-Zablocki Act and when will it be done?

A: -- The Department has every intention of complying with the law, and will formally submit the agreement to the Congress within sixty days of the agreement's entry into force which will be effective with the Spanish parliament's ratification of the agreement. We expect this ratification in April. (FYI: Advance copies of the agreement were passed to the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations, on a confidential basis, on August 12, 1982.

Q: Two years ago, Greek and Turkish officials were meeting regularly to try to iron out their differences in the Aegean. The Papandreou government suspended these talks. -- Why were they suspended? -- Have they resumed?

A: -- The dialogue which had developed between Greek and Turkish deputy foreign ministers during 1981 was suspended soon after Prime Minister Papandreou took office when his government instituted a review of its relations with Turkey. An informal "moratorium" on provocative statements and actions was agreed upon in July 1982 and two meetings between foreign ministers followed in the summer and fall of 1982 which appeared to be leading to resumption of a formal dialogue. Unfortunately, incidents stemming from differing views regarding Greek airspace in the Aegean led to cancellation by the Greek Government of a further meeting scheduled for December 1982. High-level meetings have so far not resumed, but recent statements by both sides have been moderate and we hope the two countries will find a way to discuss their differences.

--Why do the two sides not meet?

-- Prime Minister Papandreou has taken the position that Turkey, rather than the Warsaw Pact, is the real threat confronting Greece. The failure so far to establish a dialogue can basically be attributed to this intense

Greek mistrust and fear of Turkey which have deep historical roots and cannot be easily overcome. As indicated above, both sides seem to be looking for ways to re-establish direct discussions.

--Is the U.S. actively encouraging Greece and Turkey to meet to resolve their differences?

-- The U.S. Government has followed a clear and consistent policy of encouraging Turkey and Greece to work out their bilateral differences through mutual contacts and dialogue. We have made this point both publicly and privately on every appropriate occasion, including meetings between Secretaries Haig and Shultz and leaders of both countries. We have also made it clear that we value highly our relations with both countries and that we believe the security interests of both countries are best protected by full participation in the Western Alliance.

-- What are the prospects for a resolution of these differences?

-- The issues dividing the two countries are serious, involving complex legal questions relating to air space, territorial waters and the continental shelf which are also

sensitive political issues directly involving each country's sense of national identity. Resolution of those difficult issues is complicated further by the atmosphere of mistrust, suspicion--and, for Greece fear--between the two which is rooted in the history of their relations. Resolution of all the issues is not necessarily vital to a cooperative relationship between the two, as witness the era of good relations inaugurated by Prime Minister Venezelos and President Ataturk in 1923, and, in fact may not be achievable in the short term. We are encouraging both sides to create the conditions which will make possible a dialogue and, hopefully, a reduction of tensions between them.

Q: How many troops does Turkey maintain as an occupying force on Cyprus and what does this cost the Turkish government annually?--Have there been any withdrawals of Turkish troops from Cyprus over the past year?

A: -- According to our best sources Turkey maintains a force of about 20,000 troops in northern Cyprus, out of its total armed forces of 700,000. We think the cost to the Government of Turkey of maintaining these troops is minimal. There may be some transport costs beyond what would be incurred if the troops were based in Turkey, but apart from that, the added expense is negligible. We are not aware of any significant troop withdrawals over the past year; however, the level of about 20,000 troops represents a considerable reduction from the original force of over 40,000.

Q: What accounts for the US reluctance to offer Greece a guarantee of its borders against Turkey?

-- Has this been the general reaction within NATO?

-- Does the United States regard the exchange of letters between Secretary of State Kissinger and Greek Foreign Minister Bitsios on Greek territorial integrity still to be valid?

-- Is the US willing, as part of an agreement, to reiterate the essence of that exchange?

A: -- The United States believes that it would be inappropriate to offer a security guarantee to one member of a defensive alliance directed against another member, a view shared by most of our NATO partners. In our view, full participation in the NATO Alliance offers its members their best guarantee of security against the threat of aggression. We recognize that Greek-Turkish differences have deep historical roots which cannot easily be overcome. The US is opposed to military solutions to international disputes. We have consistently urged that disputes between our allies Greece and Turkey be resolved by discussion between the parties.

18-551 O—83——41

Q: Would you list the four principal military facilities covered by the U.S.-Greek base agreement?

-- What is the function of each?

-- Do we consider any of these facilities less valuable than the others?

A: -- The U.S. maintains four major and twelve secondary defense installations in Greece. Approximately 3,700 U.S. military personnel and a like number of dependents are associated with these facilities. The major installations are Hellenikon Air Base near Athens, Nea Makri Naval Communications Station on the mainland near Marathon Bay, Iraklion Air Force Communications Station located on the north central coast of Crete, and the Naval Detachment at Souda Bay on the northwestern coast of Crete near Hania.

-- Hellenikon Air Base serves as an airlift facility. Nea Makri Naval Communications Station is a relay station for naval communications, while Iraklion Air Force Communications Statements performs a similar function for the Air Force. The Naval Detachment at Souda Bay services the Sixth Fleet and additionally some other airlift needs.

-- U.S. installations in Greece serve the following type of missions: naval support, defense communications, strategic airlift, wartime beddown of forces, peacetime training, storage of POL and war reserve materiel and munitions.

-- Since the facilities serve different functions, they are all important. It would be difficult to rank their value to the United States or to the defense of NATO's southern flank in time of crisis.

Q: Soviet Premier Tikhonov visited Athens in February.

-- What was the purpose of that visit?

-- How would you describe Greek-Soviet relations?

A: -- The official visit of Soviet Prime Minister Tikhonov to Greece reciprocated an official visit to the USSR made in 1979 by then Prime Minister Constantine Karamanlis. The visit apparently was intended to strengthen Greek-Soviet bilateral relations. The Papandreou government, although a member of NATO, has expressed support in principle for some Warsaw Pact disarmament concepts, such as establishment of nuclear free zones. Our views on these issues are well known.

-- The current Greek government seeks improved ties with the Eastern bloc as a part of a policy of maintaining good relations with all areas of the world, including Eastern Europe, the Arab states and the Third World. The Eastern Bloc is an important trading partner of Greece (providing 6.7% of Greek imports and taking 8.1% of Greek exports). Soviet-provided oil and Greek export of agricultural products are particularly important. At the end of the Tikhonov visit, Greece and the USSR signed a "Ten Year Agreement on Economic, Industrial, Scientific, and Technical Cooperation".

Q: During the Tikhonov visit, Greece and the U.S.S.R. signed an agreement on scientific and technological cooperation.

-- Does this agreement provide for Greek students to study in the Soviet Union?

-- What else does it provide for?

A: -- There is no indication that the cooperation agreement envisions specific student exchange programs, although research programs might include some type of educational exchange.

-- The "Ten Year Agreement on Economic, Industrial, Scientific, and Technical Cooperation" provides a general framework for cooperation possibilities, increased commercial activity in commercial development projects, energy (oil, natural gas, electricity and research projects) utilization of raw materials, transportation, scientific research and development, seismological research and ship repair. Associated with the agreement is a letter of intent to build a bauxite processing plant in Greece which would produce 600,000 tons of alumina per year. The agreement is to be implemented with two-year programs established and reviewed by a joint Greek-Soviet ministerial committee which is to have its first meeting in Athens in October 1983.

Q: How many Cypriot students do you estimate to be studying currently in Eastern bloc countries?

A: -- Our best estimate is 1500.

Q: In FY 1983, Cyprus received $5 million in the Continuing Resolution. Your FY 1983 supplemental contains a $10 million ESF request for Cyprus to make $15 million. Since the $15 million appropriated for Cyprus was earmarked, and a 5 per cent limitation is placed on the transfer of funds from earmarked countries, this would require a Section 614 waiver to break the earmark. Why have you sought to reprogram $10 million from Cyprus? When do you intend to send to Congress a notification of your intention to use a Section 614 waiver to break the earmarking for Cyprus and reprogram $10 million of the $15 million appropriated for Cyprus in FY 1983?

A: -- The Administration intends to honor all the earmarks, including Cyprus. In reviewing the situation the Administration faced under the Continuing Resolution, we felt there was no alternative to asking Supplemental relief.

-- The action we took was to apportion the funds provided under the Continuing Resolution, based on the most urgent needs that had to be funded early in the fiscal year.

-- Our hope is that we will be able to fund the Cyprus scholarship program from monies made available in a Supplemental.

Q: Could you provide the subcommittee with a list of the specific programs which receive ESF funding in Spain and the amounts available for each program?

A: -- ESF funds to Spain are used for numerous programs administered by the Department's Office of Scientific and Technological Cooperation and USIA's Bureau for European Affairs. A definitive list of the programs currently receiving ESF is attached.

US-Spain Cooperative Scientific and Technological Program

Joint Projects currently receiving ESF

Project Title	US Institution (Current funding,$)	Spanish Institution (Current funding,$)
"Oceanographic studies of the Rias Bajas"	Skidaway Institute of Oceanography 125,555	Instituto Espanol de Oceanografia 103,305
"Study and Development of a new steel for use in civil engineering"	Stanford University 8,000	Polytechnic University of Madrid 20,619.97
"Hydrology of large sedimentary basins"	University of Arizona 13,879.99	University of Madrid 37,759.97
"Eutrophication response relationships for Spanish impoundments"	Texas Tech University 16,796	Center for Hydrological Studies 14,254
"Conjunctive water uses of complex surface and groundwater systems"	George Washington University 64,436	Polytechnic University of Valencia 53,954
"Identification and propagation of resistant chestnuts"	Concord College 3,905	University of Santiago 28,764.96
"Nutrient cycling research"	Yale University 10,000	University of Barcelona 27,829.96
"Study of cucumoviruses in plants of economic importance to Spanish agriculture"	US Department of Agriculture 10,560	Jaime Ferran Institute 12,500
"Biological evaluation of fluorine substituted anti-juvenile hormone analogs"	US Department of Agriculture 12,620	Institute of Organic Chemistry, Barcelona 13,029.97
"Paleogeography of the Balearic Sea"	Lamont-Doherty Laboratories 33,029	Jaime Almera Institute 38,790.92
"Factors affecting the corrosion of steel in pre-stressed concrete"	National Bureau of Standards 22,274.95	Ministry of Public Works 22,275
"Basic theory and efficiency limitations of bifacial so' · cells"	University of Florida 19,966	Polytechnic University of Madrid 53,703

"National parks"	National Parks Service 0	Institute for the Conservation of Nature 2,050
"Solar energy research and applications"	Sandia Laboratories 40,000	Center for Energy Studies 120,379.82
"Techniques for planning, developing and managing water resources"	Bureau of Reclamation 155,800	Ministry of Public Works 205,239.67
"Hydrogeology of large sedimentary basins"	University of Arizona 10,980	Servicio Geologico 20,229.97
"Surface science research for solar energy conversion and heterogeneous catalysis"	University of California 33,539	University of Madrid 27,539
"Biological activation of molecular hydrogen"	University of California 7,500	Institute of Catalysis and Petrochemistry 10,340
"Development and testing of experimental monogerm sugarbeet hybrids"	US Department of Agriculture 5,500	Aula Dei Institute 21,769.96
"Primary trisomic series in inbred strains of sugarbeets"	US Department of Agriculture 1,800	Aula Dei Institute 8,459.99
"Mechanism for conversion of light into solar energy"	University of California 6,000	Rocasolano Institute 17,669.98
"Study of the Alboran Sea and its circulation"	Associated Scientists of Woods Hole 43,069	Spanish Institute of Oceanography 49,000
"Dopamine hypothesis"	New York University 4,592.99	Nicolas de Achucarro Institute 7,[illegible]12
"Oceanographic study of the Continental Shelf"	Atlantic Oceanographic and Meteorological Lab 135,000	Instituto Investigacion Pesquera de Barcelona 243,599
"Study of quality of continental and maritime waters in Ebro Estuary"	Bodega Bay Institue of Pollution Ecology 32,000	Subdireccion General de Sanidad Ambiental 106,149.87
"Submicrowatt bipolar integrated circuit design"	Stanford University 25,401	Polytechnic University of Madrid 65,319
"Increasing the useful gene pool of legumes and cereals"	University of Illinois 8,909.99	Escuela Tecnica Superior de Ing. Agronomos Cordoba 8,909.99

"Plant protection"	US Department of Agriculture 4,000	Instituto Nacional de Investigaciones Agrarias 37,039.95
"Forestry"	US Department of Agriculture 3,960	Instituto Nacional de Investigaciones Agrarias 28,439.96
"Agricultural economics"	US Department of Agriculture 0	Instituto Nacional de Investigaciones Agrarias 15,659.98
"Production of meat"	US Department of Agriculture 0	Instituto Nacional de Investigaciones Agrarias 48,869.94
"Critical crops"	US Department of Agriculture 0	Instituto Nacional de Investigaciones Agrarias 64,799.82
"Optimization in the use of water in irrigation"	US Department of Agriculture 11,250	Instituto Nacional de Investigaciones Agrarias 11,429.97
"Methodology and administration of agricultural research"	US Department of Agriculture 8,250	Instituto Nacional de Investigaciones Agrarias 58,979.62
"Control of infectious and parasitic diseases of livestock"	US Department of Agriculture 0	Instituto Nacional de Investigaciones Agrarias 106,649.88
"Fruits and vegetables"	US Department of Agriculture 8,800	Instituto Nacional de Investigaciones Agrarias 11,179.98
"Solar air heating"	Franklin Research Institute 59,000	National Institute of Industry 128,109

CURRENT ESF-FUNDED USIA ACTIVITIES IN SPAIN

Program Category (and description)	$ Amount
1. Grants to Spanish institutions (to buy lab equipment, books, etc.)	49,998
2. Grants for research in Spain (for museum study, cataloging, etc.)	232,000
3. Cooperative Reasearch grants (for joint US-Spanish study; eg. archeological research.)	168,000
4. Travel only grants (for travel to the US or Spain to complete a thesis, take courses, give recitals, etc.)	48,394
5. Post doctoral grants in US (for Spanish grantees to study in US; for US grantees to study in Spain)	823,067 551,463 271,604
6. Grants for the disemination of Spanish culture in the US (eg, the Spanish Institute in New York)	321,198
7. Special grants	15,650
8. Administrative Costs (salaries, furniture, etc.)	311,821
9. Miscellaneous (set-aside accounts) Treaty-agreement bridging contingencies Foreign exchange losses account	429,872 400,000 29,872
10. Total	2,400,000

Q: In FY 1982 you requested $22 million in ESF funding. The figure for FY 1983 and 1984 is $12 million. Why have you decreased the figure from $22 million to $12 million? Do you see the $12 million remaining the same for the duration of the new base agreement period?

A: Under the terms of the 1976 Treaty we undertook to provide to Spain the following levels of assistance annually:

FMS credits:	$120 million;
ESF:	$ 7 million;
IMET:	$ 2 million;
MAP:	$ 15 million.

In FY 1982 MAP (grant military aid) was discontinued. In an effort maintain our commitment to the Spanish, we substituted the $15 million in MAP with the same amount of ESF. This increased the total ESF in FY 1982 to $22 million ($15 million + $7 million).

Under the terms of our new bases agreement with Spanish, we undertook to make an annual best effort with Congress for assistance to Spain. We may request more than $12 million in the "out years" of our five-year agreement, but will not in any case request less than $12 million. To do so would be seen as an abandonment of our best efforts pledge.

Q: Could the offer of more aid for FY 1984 be affected in any way by a failure of Portugal to sign a new base agreement?

A: --We do not foresee any insurmountable difficulties in our negotiations with the Portuguese which would preclude the conclusion of a new agreement. Our close security relationship with Portugal is one of mutual benefits as well as shared responsibilities. In that context, the Portuguese contribute some things, and we contribute others. possible disagreement on each nation's contribution would be resolved in the course of the negotiations. Lack of agreement of this issue could, of course, lead to a reevaluation of current individual negotiating positions.

RESPONSE FROM THE DEPARTMENT OF DEFENSE:

Question: In FY 1982, Greece made $204 million in FMS purchases and Turkey made $526 million in FMS purchases. Has that disparity existed over the last several years? What are your FY 1983 and FY 1984 projections for each country.

Answer: No. When comparing the total value of Foreign Military Sales Agreements signed by Greece and Turkey over the past eight yers (FY 1975-1982), the Government of Greece exceeded the Government of Turkey in fiscal years 75, 77, 79 and 80 and Turkey exceeded Greece in fiscal years 76, 78, 81 and 82. The FY 1983 FMS sales projections for Greece and Turkey are $300 million and $420 million respectively. The FY 1984 FMS sales projections for Greece and Turkey are $300 million and $900 million respectively.

Question: The International Military Education and Training program (IMET) request for Turkey for FY 1984 is $4 million, the largest program in the world. This compares with a FY 1983 request of $2.75 million and a FY 1982 request of $3 million. The FY 1984 program will fund the training of 290 Turkish military personnel in the United States compared with a FY 1983 number of 170. Why the significant increase in the number of Turkish military personnel to be trained in the United States? On what systems are they to be trained? What are the comparative costs of training them in the U.S. and in Turkey?

Answer: Turkey's recovery from crippling economic problems has not yet permitted the necessary acquisition and maintenance of military skills to support Turkey's own and NATO's defense commitments. While the increase in students appears substantial, the IMET program is only a small, albeit a most important, part of the total Turkish training effort. The FY 1982 IMET program for Turkey included a major effort to improve its military English language programs, which also temporarily limited the total number of students in FY 82. The FY 84 IMET planned for Turkey includes flying, operations, communications electronics, maintenance, logistics administration and professional/specialist training. Some of the weapon systems on which Turkey receives training are M48A5 tank, TOW/DRAGON anti-tanks systems, OH-58 helicopters, T-37 aircraft and Sparrow missile. Most of the training planned under IMET can only be accomplished in the U.S. Some training can be provided by the U.S. mobile training teams (MTTs) going to Turkey, but normally the cost MTTs of (such as travel and transportation of instructors and training aids) is uneconomical by comparison to training at prepared facilities and classes in the U.S. which has the additional benefit of Turkish student's exposure to the U.S. military social and political environment.

Question: On December 13, 1982 Congress was notified that Egypt was transferring thirty-five F-4E fighter aircraft, at a value of $167.3 million, to Turkey. Yet, apparently this transfer has not occurred. Why has the transfer not occurred? How will Turkey pay for these F-4Es if it does take delivery of them? How does this fit into Turkish plans to purchase the F-16 or F-18 fighter aircraft?

Answer: The governments of Turkey and Egypt are still negotiating this sale. Should agreement be reached Turkey could use both FMS credits and national funds to pay Egypt. The arrangement to use FMS credits would be structured so as to make it mandatory for Egypt to use the proceeds for procurement in the United States. These additional F-4s would be used to replace aging F-100 aircraft and would have no impact on the eventual purchase of a new fighter aircraft which would not be delivered until 1987 at the earliest.

Question: What ship leases or transfers do you anticipate in fiscal year 1983 and fiscal year 1984?

Answer: We anticipate that the following vessels will be transferred to Turkey in FY 1983/84:

TYPE VESSELS	METHOD OF TRANSFER
Submarine (Gudgdon)	Lease
Patrol Combatants (2)	Lease
Auxillary Repair Drydock (ARD-12)	Lease

Question: What ship leases or transfers to Turkey occurred in fiscal year 1982?

Answer: There were four ship transfers to Turkey in FY 1982. They were:

NAME	TYPE	METHOD OF TRANSFER
Owens	Destroyer	Lease
Orleck	Destroyer	Lease
McKean	Destroyer	Sale
Piedmont	Destroyer Tender	Lease

Question: What are the NATO missions of the Greek Air Force and the Greek Navy? Are each of these two branches of the Greek armed forces capable of fulfilling their assigned missions? Or, are they diverted from their ability to fulfill their missions because of the perceived threat from Turkey?

Answer: The Hellenic Air Force mission is air defense and tactical air support of the land and naval forces. The mission of the Hellenic Navy, within NATO's force posture in the Eastern Mediterranean, is to contribute to Allied sea operations with the objectives of achieving an acceptable level of sea control, securing the sea lines of communication, protecting the Greek coasts and islands, and providing support to Greek and Allied Armed Forces. The Hellenic Air Force does not meet its commitment. The planned introduction of 45 F-5 interceptor day fighter aircraft has not been effected leaving a shortfall in NATO assigned forces. A decision has been made to purchase five squadrons of modern multi-role aircraft during 1982-1986. The NATO commitment for the Hellenic Navy in 1982 was met. The Greek perception of a threat from Turkey has no bearing on the capabilities of the Hellenic Air Force and Hellenic Navy to fulfill NATO commitments.

Question: In FY 1982 Spain purchased $66.3 million of weapons from the U.S. Do you have estimates of projected FMS sales for FY 1983 and FY 1984?

Answer: The projected value of FMS sales for Spain in FY 1983 is $2.7 billion and $300 million in FY 1984.

Question: Why had none of the $45 million of FMS financing for Portugal for FY 1982 been expended by the end of the fiscal year? Has any been expended since? What is the problem?

Answer: FY 1982 marked the beginning of FMS credits for Portugal. Previously, Portugal's security assistance program was grant aid. No. Under Portugal's constitution and the new National Defense Law which took effect in December 1982, the use of foreign credits must be approved by Parliament. Portugal's Parliament has recessed because of the Government's resignation in December, and new elections are now scheduled for April 25. We understand that the internal procedures for handling these credits are still to be adjusted to satisfy the new National Defense Law.

Question: In FY 1983, Portugal purchased $42.3 million of weapons from the United States. Do you have estimates for the amount of sales expected in FY 1983 and FY 1984?

Answer: The estimated value of FMS sales to Portugal in FY 1983 and FY 1984 is $120 million in FY 1983 and $100 million in FY 1984.

APPENDIX 10

LETTER TO PRESIDENT REAGAN FROM 130 RETIRED GENERALS AND ADMIRALS CONCERNING STRATEGIC COOPERATION BETWEEN THE UNITED STATES AND ISRAEL

AT LAST—A SOVIET DEFEAT

ACCORDING TO A LARGE GROUP OF U.S. GENERALS AND ADMIRALS, RUSSIA—THROUGH ITS SOVIET-EQUIPPED SYRIAN SURROGATE—HAS SUFFERED A MAJOR DEFEAT WHICH PUTS INTO SERIOUS QUESTION THE VIABILITY OF SOVIET WEAPONRY AND MILITARY DOCTRINE

DEAR MR. PRESIDENT: As former members of our country's military and naval services, we are taking the liberty of addressing you directly on a national defense matter of great concern to us as private citizens.

Only once before in our nation's history have large numbers of senior retired officers publicly offered advice to their Commander in Chief. On January 21, 1979, alarmed by the then Administration's apparent complacency about rising Soviet military strength and geopolitical gains, many of us wrote your predecessor to express our views. It was gratifying to find that our concerns were reflected on November 4, 1980, in the mandate which the people gave you to rearm America and to challenge Soviet aggression. The first two years of your Administration have proven the sincerity of your personal beliefs and expressed intention of restoring the security of the United States and the free world.

We are troubled, however, that the profound military significance of the decisive defeat of Soviet arms in Lebanon is being obscured by the political turmoil surrounding Israel's armed intervention. We believe that the victory of Israeli-modified American weapons and tactics over those of the Soviet Union presents the free world with a tremendous opportunity to reduce the impact of Russia's extraordinary growth in tactical forces and battlefield technology.

Despite denials in some quarters, it is clear to us that the Israelis have made major breakthroughs in conventional and electronic weaponry designed to overwhelm and destroy Soviet-made weapons systems. Advanced, battle-proven technology and tactics, as deployed by our Middle East ally, offer a unique opportunity to diminsh the present quantitative superiority of Soviet forces in Europe. These advances are in the areas of anti-armor, missile site suppression, and aerial combat, as well as command, control and communications (C^3):

A modified 105mm shell which pierced the honeycomb armor of the formidable Soviet T-72 main battle tank;

Highly advanced Electronic Counter Measures (ECM) and strike techniques which neutralized and destroyed Syrian SA-6, SA-8 and SA-9 Soviet-made missile arrays without loss;

Enhanced air-to-air missilery and other aerial ECM and tactics which resulted in an unprecedented combat kill ratio of at least 85-0 against Soviet aircraft; and

A unique C^3 ability to coordinate air, land and sea operations down to the unit level.

This combination of combat-proven high technology and tactics employed under remarkable Israeli generalship, together with new NATO arms technology and targeting systems already under development, could conceivably revolutionize the overall U.S. defense posture and offers exciting prospects for arms control and disarmament negotiations. Furthermore, the adoption of these modern, advanced technologies could make a favorable impact upon future defense costs and the national budgets of the United States and our allies.

An enhanced defense for NATO forces, achieved through the incorporation of the lessons of the war in Lebanon, raises the intriguing possibility of reducing the reliance on escalation of tactical nuclear weapons because of conventional battlefield inferiority.

The entire Soviet "Wave Theory" of advance in the Central Front of NATO is based upon swift movement of mass formations of armor and infantry, closely supported by Warsaw Pact air, all protected by integrated mobile missile air defense systems. If Pact tanks can be knocked out with unique penetrating shells, if SAM sites can be neutralized and destroyed in large numbers, and if their aircraft can be shot down in a virtual Turkey Shoot, then established Soviet military doctrine comes into question.

But lest the free world relax and congratulate itself on the recent victory of Israeli-manned American arms over those of the Russians, the crushing defeat of the Soviet-equipped PLO and Syrians in Lebanon should be recognized as a possible harbinger of future Russian aggression.

According to the best unclassified intelligence, the initial Soviet reaction to their losses was to blame Syrian manpower for ineptitude. Neither Soviet military doctrine nor equipment inadequacies were considered as factors. There is now reason to believe that the Soviets are no longer so certain.

If the free world doubts the actuality or the significance of these startling advances in weaponry and tactics, Moscow cannot afford to On an issue so fundamental to their aggressive designs, the Soviets must know whether or not their military doctrine and weaponry are flawed.

Mr. President, if this supposition is correct, the Soviets will be tempted to test their doctrine and weaponry under combat conditions—and soon.

Implementation of these plans may have already begun. This ominous replenishment of war stocks in Syria includes the construction of three bases for SAM-5 anti-aircraft missiles and the further introduction of Soviet technicians. The SAM-5—which rings Moscow itself—has never before been placed outside the Soviet Union.

Mr. President, it ill behooves military men publicly to comment upon purely political matters. However, the current strained relations between Washington and Jerusalem do not augur well for utilizing what you yourself have called "Recognizing the Israeli Asset" in your Washington Post article of August 15, 1979: ". . . the paramount American interest in the Middle East is to prevent the region from falling under the domination of the Soviet Union. . . . Israel has the democratic will, national cohesian, technological capacity and military fiber to stand forth as America's trusted ally . . . Therefore, it is foolhardy to risk weakening our most critical remaining strategic asset."

For example, Israeli ports and bases would be open instantly to U.S. forces in the event of a serious strategic threat to the Middle East. Israel constitutes the only U.S. ally capable of immediate parry to a serious thrust against free world interests in this theater. And, Israel's continued sharing of vital intelligence on Soviet operations constitutes the other essential element of U.S. security in the Middle East.

Your 1979 views have proven prescient indeed, Mr. President. We concur in our assessment of our ally's ". . . geopolitical importance as a stabilizing force, as a deterrent to radical hegemony and as a military offset to the Soviet Union." Therefore, your present initiative on the Middle East must carefully consider the Israeli requirement of strategic depth for her own security, lest our ally be transformed from a strategic asset into a liability.

We have every confidence, Mr. President, that transitory political strains will not be allowed to detract from the fundamental congruence of strategic interests cemented by a common heritage of Western values and democratic ideals.

Mr. President, we therefore urge you to revitalize the strategic cooperation between the United States and Israel, thereby enhancing the safety and well-being of the free peoples of the world.

Sincerely and very respectfully,

Brigadier General Frank Albanese, AUS (Ret.).
Major General Earl O. Anderson, USAF (Ret.).
Major General Earl J. Archer, Jr., USAF (Ret.).
Brigadier General Charles H. Barnwell, Jr., USA (Ret.).
Brigadier General Richard G. Beckner, USA (Ret.).
Major General Paul B. Bell, USAR (Ret.).
Brigadier General Tedd L. Bishop, USAF (Ret).
Brigadier General Edwin F. Black, USA (Ret).
Brigadier General Jack S. Blocker, USA (Ret).
Major General Charles P. Brown, USA (Ret).
Brigadier General Albert R. Brownfield, USA (Ret).
Brigadier General Ernest H. Burt, USA (Ret).
Major General Jonathan R. Burton, USA (Ret).
Lieutenant General Charles W. Carson, USAF (Ret).
Major General Leslie D. Carter, USA (Ret).

Major General J. Hart Caughey, USA (Ret).
Major General Claude H. Chorpening, USA (Ret).
Major General Wendell J. Coats, USA (Ret).
Major General Marcus F. Cooper, USAF (Ret).
Major General William A. Cunningham, USA (Ret).
Brigadier General Robert S. Dale, AUS (Ret)
Brigadier General Anthony F. Daskevich, USA (Ret).
Brigadier General Clinton W. Davies, USAF (Ret).
Brigadier General Kenneth F. Dawalt, USA (Ret).
Major General Elbert DeCoursey, USAC (Ret).
Rear Admiral Charles G. DeKay, USN (Ret).
Major General Sylvester T. Del Corso, USA (Ret).
Brigadier General Clyde R. Denniston, Jr., USAF (Ret).
Rear Admiral Wallace R. Dowd, Jr., USN (Ret).
Brigadier General Thomas J. DuBose, USAF (Ret).
Brigadier General Wilbur E. Dunkelberg, USA (Ret).
Rear Admiral Robert W. Elliott, Jr., USN (Ret).
Major General Harry J. Engel, USA (Ret).
Rear Admiral James E. Forrest, USN (Ret).
Major General John H. Foster, USAF (Ret).
Rear Admiral Walter M. Foster, USN (Ret).
Major General David P. Gibbs, USA (Ret).
Brigadier General John C. Gordon, USAF (Ret).
Lieutenant General Daniel O. Graham, USA (Ret).
Lieutenant General Gordon M. Graham, USAF (Ret).
Vice Admiral Arthur R. Gralla, USN (Ret).
Vice Admiral Samuel L. Gravely, Jr., USN (Ret).
Rear Admiral George R. Gronvold, USNR (Ret).
Rear Admiral William S. Guest, USN (Ret).
Brigadier General Charles S. Harris, USA (Ret).
Brigadier General Edwin C. Heffelfinger, USA (Ret).
Major General Harold F. Harding, USA (Ret).
Major General John P. Henebry, USAF (Ret).
Brigadier General Sidney R. Hinds, USA (Ret).
Major General William J. Hexson, AUS (Ret).
General Bruce K. Holloway, USAF (Ret).
Major General Charles T Horner, Jr., USA (Ret).
General Hamilton H. Howze, USA (Ret).
Major General W. T. Hudnell, USAF (Ret).
Major General Herbert T. Johnson, AUS (Ret).
Major General George F. Keegan, Jr., USAF (Ret).
Major General Gerald F. Keeling, USAF (Ret).
Brigadier General John E. Kelsey, USA (Ret).
Admiral George E. R. Kinnear II, USN (Ret).
Brigadier General Albion W. Knight, USA (Ret).
Major General William R. Kraft, Jr., USA (Ret).
Brigadier General Philip E. Kromer, Jr., USAF (Ret).
Rear Admiral Chester A. Kunz, USN (Ret).
Brigadier General Fred C. Kyler, USAF (Ret).
Major General Edward G. Lansdale, USAF (Ret).
Brigadier General Louis W. LaSalle, USAF (Ret).
Vice Admiral Fitzhugh Lee, USN (Ret).
General Curtis E. L May, USAF (Ret).
Rear Admiral James E. Leeper, USN (Ret).
Brigadier General Selig J. Levitan, USA (Ret).
Brigadier General Gerald F. Lillard, USA (Ret).
Brigadier General John J. Liset, USAF (Ret).
Major General John L. McCoy, USAF (Ret).
Rear Admiral Brian McCaulay, USN (Ret).
Major General Raymond F. McNally, Jr., AUS (Ret).
Vice Admiral William P. Mack, USN (Ret).
Major General Ralph J. Maglione, USAF (Ret).
Rear Admiral Robert C. Mandeville, USN (Ret).
Rear Admiral David L. Martineau, USN (Ret).
Brigadier General John A. Maurer, USA (Ret).
Major General John B. Medaris, USA (Ret).
Brigadier General Charles R. Meyer, USA (Ret).

Brigadier General Robert L. Moeller, USAF (Ret).
Brigadier General Hammond M. Monroe, USA (Ret).
Rear Admiral Albert J. Monger, USN (Ret).
Major General Harley L. Moore, Jr., USA (Ret).
Lieutenant General George W. Mundy, USAF (Ret).
Lieutenant General Samuel L. Myers, USA (Ret).
Brigadier General Bernard A. Nurre, USA (Ret).
Rear Admiral Arthur H. Padula. USN (Ret).
Brigadier General Edward A. Pagels, AUS (Ret).
Brigadier General George A. Pappas, Jr., USAF (Ret).
Brigadier General Donald G. Penterman, USA (Ret).
Brigadier General Roy W. Peters, AUS (Ret).
Rear Admiral Richard W. Peterson, USN, (Ret).
Lieutenant General Kenneth E. Pletcher, USAF (Ret).
Brigadier General Jack P. Pollock, USA (Ret).
Major General John E. Ralph, USAF (Ret).
Rear Admiral Kendall S. Reed, USN (Ret).
Major General Thomas F. Rew, USAF (Ret).
Brigadier General Royal Reynolds, Jr., USA (Ret).
Brigadier General Nathaniel B. Rieger, USA (Ret).
Major General Milnor J. Roberts, AUS (Ret).
Brigadier General H. F. Safford, USA (Ret).
General Bernard A. Schriever, USAF (Ret).
Rear Admiral John C. Shepard, USN (Ret).
Major General John K. Singlaub, USA (Ret).
Brigadier General Franklin G. Smith, USA (Ret).
Major General Paul T. Smith, USA (Ret).
Rear Admiral Philip W. Smith, USNR (Ret).
Major General Maxwell C. Snyder, AUS (Ret).
Rear Admiral Robert H. Spiro, USNR (Ret).
Brigadier General Harry G. Staulcup, USAF (Ret).
Brigadier General Carl F. Steinhoff, USAR (Ret).
Major General Richard R. Stewart, USAF (Ret).
Brigadier General Clio E. Straight, USA (Ret).
Vice Admiral Robert J. Stroh, USN (Ret).
Major General James B. Tipton, USAF (Ret).
Lieutenant General T.J.H. Trapnell, USA (Ret).
Brigadier General Thomas K. Trigg, USA (Ret).
Vice Admiral Frederick C. Turner, USN (Ret).
Major General Francis E. Uhrhane, USA (Ret).
Brigadier General William M. Van Harlingen, USA (Ret).
Brigadier General Herbert D. Vogel, USA (Ret).
Brigadier General Frederick T. Voorhees, USA (Ret).
Major General Louis A. Walsh, Jr., USA (Ret).
Rear Admiral Joseph Harold Wellings, USN (Ret).
Brigadier General Roger E. Whitcomb, AUS (Ret).
Brigadier General G.P. Wiedeman, USAF (Ret).
Rear Admiral Charles S. Williams, USN (Ret).
(Responses from additional signators arrived too late for inclusion in this list.)

APPENDIX 11

LETTER FROM HON. PETER M. MCPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT TO HON. LEE H. HAMILTON, STATING ADMINISTRATION POSITION ON PROPOSED AMENDMENT REGARDING THE IMPLEMENTATION OF ECONOMIC ASSISTANCE PROGRAMS IN EGYPT

The Honorable Lee H. Hamilton
Chairman
Subcommittee on Europe and
the Middle East
Committee on Foreign Affairs
House of Representatives
Washington, D. C. 20515

MAR 21 1983

Dear Mr. Chairman:

I am writing in response to your request for our comments on a proposed amendment regarding the implementation of the economic assistance program in Egypt.

I share your concern for the effective implementation of the Egypt program. Its political importance as well as its size justifies thoughtful and innovative approaches to ensure that our assistance will promote economic and political stability and foster equitable economic growth.

The rapid expansion of the Egypt program and the complexity of many of the programs have been the primary reasons for the large pipeline of unexpended funds. Good management of the large project portfolio that resulted from this rapid expansion clearly would be enhanced by the ability to reappropriate funds from more marginal projects for the benefit of projects with greater potential. The logic of this approach is not questioned. It is for this reason that I have been actively discussing with OMB the need to seek authority to reappropriate funds for the Egypt program. I am optimistic that we will be going forward with such a proposal in the very near future.

It is in this light that I view your legislative initiative as a very constructive step forward. As I read the language, the provision would amend the Foreign Assistance Act to authorize the amendment of a project agreement to extend its purposes to include other projects or activities in Egypt. Once amended, funds could be moved from one project component to another where they could most effectively be used. The language, it seems to me, is broad enough that it would not require all project components contained in the amended agreement to be in the same economic sector, though the word "extend" implies some relationship to the original project.

Your amendment, although offering the Administration a flexible tool for the implementation of our Egypt program, raises several issues. I am concerned that the exercise of the authority offered by your amendment would be counted as new budget authority, with the result that either the Egypt program or other country programs might be reduced by subsequent congressional action. The Congressional Budget Office has advised informally that it would be scored that way for purposes of the foreign assistance authorization bill. The Office of Management and Budget concurs with this interpretation. We would be most concerned over such an accounting of this authority because of the implications it would have for the Egypt or other economic assistance programs. While the amendment does offer considerable potential for making adjustments in our assistance portfolio in Egypt, I am afraid I must withhold endorsement of it in light of the uncertain budget implications it might have.

The Office of Management and Budget advises that this report is consistent with the legislative program of the President.

Sincerely,

M. Peter McPherson

APPENDIX 12

OCTOBER 1, 1982 WALL STREET JOURNAL ARTICLE ENTITLED "ARMS SALES TO EGYPT YIELDED HUGE PROFITS FOR OBSCURE NEW FIRM"

ARMS SALES TO EGYPT YIELDED HUGE PROFITS FOR OBSCURE NEW FIRM [1]

A SHIPPING COMPANY SET UP BY EGYPTIAN, EX-AGENT OF CIA IS BEING PROBED

PENTAGON BENDS SOME RULES

(By Edward T. Pound and Walter S. Mossberg)

WASHINGTON.—In the spring of 1979, President Jimmy Carter and Egyptian President Anwar Sadat were basking in the glow of the historic peace treaty between Egypt and Israel.

A few months later, away from the limelight, another American and another Egyptian were fashioning a different kind of agreement. They were entrepreneurs with government connections, and they were looking to make money on the treaty—lots of it. Egypt's willingness to make peace had won for it a promise of billions of dollars in U.S. military aid to purchase jets, tanks, missiles and other arms. And someone would be hired to ship these weapons.

As it turned out, that someone was the Egyptian American Transport & Services Corp., or Eatsco, an unknown company set up in August 1979 by the two men, Hussein K. Salem, a mysterious Egyptian businessman and Thomas G. Clines, an American fresh out of the Central Intelligence Agency.

By November, Egypt's defense ministry and the U.S. Defense Department had both approved paying Eatsco to be the agent for the huge arms shipments, despite nagging worries at the Pentagon that the fledgling company was unqualified.

PAYMENTS BEGIN

In December, the U.S. Treasury, on Pentagon orders, began a series of payments to Eatsco that, by last month, totaled $71.4 million. The money came from generous U.S. government loans to Egypt that needn't be repaid for decades if at all.

Now the new company's quick success is being questioned. For months, the Justice department has been investigating Eatsco's affairs. A grand jury in Alexandria, Va., is studying how the untried, hastily formed concern won Pentagon approval and whether its billing procedures were proper.

Whatever the legal findings, the history of Eatsco raises difficult questions about the manner in which U.S. arms sales credits are spent, how the Pentagon monitors that spending and how defense officials deal with foreign allies anxious for money and arms. Defense officials questioned about the Eatsco matter concede that the Pentagon's Defense Security Assistance Agency, the office responsible for arms sales, hasn't any auditing force to check on the billions of dollars in loans it doles out to foreign armies.

The company's smooth sailing at the Pentagon was possible only because defense officials decided to swallow their own doubts and to bend Pentagon rules, according to officials there, Mr. Salem had the blessings of the Egyptian government, and the U.S. was anxious to please President Sadat.

---

[1] Reprinted by permission of the Wall Street Journal, copyright Dow Jones & Co., Inc., 1982. All rights reserved.

PENTAGON POLICY

Thus, Egypt was allowed to hand over some of its U.S. loan funds to Eatsco even though Pentagon policy normally bars using such funds to cover shipping. And Eatsco's approval came only a few months after the Pentagon rebuffed an earlier bid by Egypt to have Mr. Salem handle the arms shipments.

Late last year, the Pentagon says, "the Maritime Administration raised suspicions that Eatsco may have overcharged" for certain portions of the arms shipments, even though its fees overall were competitive. A subsequent review by Pentagon aides identified several million dollars in charges listed on selected Eatsco invoices that couldn't be explained by comparing them with bills Eatsoc received from shipping lines. The Pentagon never determined whether the differences amounted to improprieties. But the Federal Bureau of Investigation is poring over Eatsco and Pentagon records to try to find out.

Prosecutors are also investigating Eatsco's ties, if any, to Edwin P. Wilson, a former CIA agent currently in jail awaiting trial on charges of aiding terorists in Libya and conspiring to kill a Libyan dissident. In January 1979, Mr. Wilson arranged a $500,000 loan for his friend, Mr. Clines. The money was funneled through Bermuda and some of it went to a company later used by Mr. Clines to buy into Eatsco, according to a source close to Mr. Clines.

The prosecutors are studying, too, the conduct of two top Pentagon officials—Air Force Maj. Gen. Richard V. Secord and arms sales chief Erich F. von Marbod, now retired—who helped oversee the Egyptian sales. Mr. Wilson and Mr. Clines knew both officials. General Secord was involved in a 1978 real-estate transaction with Mr. Clines and Mr. Wilson and was given the use of Mr. Wilson's plane in 1978 and 1979.

TIES TO EX-CIA MEN

Investigators want to know if the defense officials' government actions relating to Egypt or other matters were influenced by their ties to the former CIA men. Of particular interst is a London dinner attended by Mr. von Marbod, Gen. Secord and Mr. Wilson in January 1979—around the time that Mr. Wilson arranged the loan for Mr. Clines.

The grand jury is trying to determine if federal fraud, conspiracy or other laws were broken in the Eatsco matter. But no such charges have been leveled and Eatsco continues to handle the arms shipments, which the Pentagon says have gone generally well. However, the Pentagon says, it stopped paying Eatsco for a time early this year and no longer makes multimillion-dollar advance payments to the company.

Gen. Secord, who advices Defense Secretary Caspar Weinberger on Middle East arms-sales policy, was suspended for three months this year after the Pentagon learned of his ties to Mr. Wilson, according to a Pentagon official. He was reinstated after he agreed to a lie-detector test of his assertions of innocence. (The test was never given.) Mr. von Marbod, 53, retired last December citing health reasons.

Lawyers for all the men and companies under study insist their clients are innocent of any wrongdoing, and some charge that close associates of Mr. Wilson are feeding the prosecutors false information that might help dig him out of his deep legal hole. They also contend that some of Eatsco's competitors are spreading innuendoes. (The chief prosecutor, Theodore S. Greenberg, won't comment on the case.)

The case is so sensitive, because of the potential for damage to U.S.-Egyptian relations, that it is being personally overseen by high Justice Department officials, one of whom traveled to Egypt recently. The U.S. has taken pains to avoid angering or embarrassing Cairo and to seek its cooperation.

Many questions remain unanswered; the Justice Department may be unable to answer them all either. For instance, defense officials still can't say why Mr. Salem was picked by Egypt to ship the arms, and Justice Department sources hasten to say that prosecutors haven't any evidence that Egyptian officials were improperly influenced by him.

The Egyptian government won't comment on Eatsco.

A spokesman for Eatsco and Mr. Salem says the company performed both competently and legally. Eatsco, he says, actually saved money and the Egyptian government "is satisfied with Eatsco's performance and charges, including all profits, which are below the limits permitted by its contract" with Egypt. Pentagon officials confirm that Eatsco's charges averaged less than the 10.15% of value shipped allowed in its contract. The Pentagon says Easco rates are competitive with other private firms and well below the cost of military transport.

It is known that prosecutors are intensely interested in the personal relations between Mr. Clines and Mr. Wilson and the Pentagon officials, Mr. von Marbod and Gen. Secord. Mr. Clines and Gen. Secord have been close friends since both served in covert operations in Southeast Asia in 1967, and Mr. Clines introduced the general to Mr. Wilson in [illegible]. Both former CIA men also knew Mr. von Marbod, though apparently less well.

In January 1979, around the time Mr. Wilson was arranging the loan to Mr. Clines of $500,000, Mr. Wilson met over dinner and drinks in a London restaurant with Gen. Secord and Mr. von Marbod, who were there on official business. The meeting among the three men is confirmed by several sources, including two close to Gen. Secord.

LINK TO LIBYA

It isn't known what transpired at the meeting, which took place more than a year after it was publicly reported that Mr. Wilson was under federal investigation for his activities in behalf of anti-American Libya. Sources close to Gen. Secord say that the general and Mr. von Marbod have told associates that the occasion was purely social.

Investigators are also studying transactions between Gen. Secord and Mr. Clines and Mr. Wilson.

While serving as a U.S. military adviser in Iran in 1977, Gen. Secord bought a suburban Washington town house from Mr. Clines for $56,500. The investment became a "big drag" on the general's finances because a tenant couldn't be found for it, according to a source close to Gen. Secord. So, in September 1978, shortly after Gen. Secord returned home, Mr. Clines arranged for Mr. Wilson to take the house off his hands for $60,000 according to several sources and land records.

The general's lawyer, Thomas Green, says the house deals were innocent and that his client didn't profit from them.

Around the same time in 1978, officials in the Pentagon and elsewhere say, Mr. Wilson bought a private plane, a $100,000 twin-engine Beechcraft, for business use. He encouraged Gen. Secord, who had advised him on the type of plane to buy, to pilot the Washington-based aircraft as often as possible, the oficials say.

From the fall of 1978 until mid-1979, the general piloted the plane on personal flights 11 times, paying for fuel but not for the use of the aircraft. Gen. Secord's lawyer says the flights shouldn't be seen as a free benefit for his client. Instead, he says, the general was doing Mr. Wilson a favor by giving the aircraft the use needed to keep it in good flying condition.

DENIALS OF WRONGDOING

The attorney says Gen. Secord did nothing wrong, hadn't any direct role in approving Eatsco, and did nothing in his official capacity to aid Mr. Wilson and Mr. Clines. He adds that, at the time of the house deals, the aircraft use and the London dinner, Gen. Secord didn't know Mr. Wilson worked for Libya's government or that he was under investigation.

Mr. von Marbod's lawyer, Robert S. Bennett, says the former arms sales chief never engaged in "any improper, unethical, or illegal conduct," or violated his duties.

John Ellsworth Stein, Mr. Clines's lawyer, says Mr. Clines "vigorously denies the allegations that Eatsco engaged in any unlawful or improper business practices" and is "confident" he won't be charged with any crimes. He says Mr. Clines denies Mr. Wilson held any interest in Eatsco.

Mr. Wilson's lawyer, Herald Price Fahringer, declines comment.

Under pressure from both the Justice and State Departments, the Pentagon has refused to let The Wall Street Journal see the more than 20,000 documents it holds relating to Eatsco, and it has stopped answering even routine press questions on the subject.

But enough facts have emerged to show that Eatsco's story is an intriguing tale of business and international politics with a cast of colorful characters—spies and generals, wheeler-dealers, feuding and bungling bureaucrats.

From the start, the concept of a middleman company such as Eatsco, which serves as logistics manager for the Egyptian arms shipments, was a strange animal to those in the Pentagon who deal with arms sales. Defense officials explain that Egypt's approach to the shipments was different from that of other big customers, such as Israel, which haven't any commercial concern like Eatsco between their governments and the U.S. freight forwarders they use. These countries deal with

the freight forwarders through large government arms-buying missions here. (A freight forwarder books cargo space and generally makes shipping arrangements.)

Eatsco's tale begins with Hussein Salem, an obscure Egyptian businessman described as a short, stocky man in his 40s. People in this country who have dealt with him seem to agree that he is ambitious, very secretive and careful to curry favor with those in power.

Mr. Salem operates out of Cairo, London, Geneva and Washington, and has been variously described as a former intelligence officer, a former Cairo bureaucrat, or a Persian Gulf shipper. But Pentagon officials say they knew nothing about him when he showed up in 1979 with a letter from Egypt's government granting him the right to handle the Egyptian arms shipments.

Many in the U.S. government believe he is closely connected with Egyptian Foreign Minister Kamal Hassan Ali and Defense Minister Mohammed Abu Ghazala, both former generals. But a senior American diplomat, who served in Egypt in the late 1970s, insists, "I never heard of Salem while I was in Egypt, either as a government figure or a shipping magnate." (Mr. Salem has been out of the U.S. for months and isn't talking.)

PENCHANT FOR SECRECY

Mr. Salem's penchant for secrecy added to the mystery about him. One of his former employees recalls Mr. Salem's taking copious notes at a business meeting on a long yellow legal pad. When the meeting ended, the employee says, Mr. Salem immediately placed his notes in a paper shredder. "He once told me," the man says, "keep everything to yourself! You needn't tell anybody anything."

Whatever his background, it is generally agreed that Mr. Salem arrived in Washington in late summer or early fall of 1978, around the time Egypt, Israel and the U.S. agreed at Camp David to seek a Mideast peace treaty. Already, some U.S. military goods were beginning to trickle into Egypt.

But Mr Salem and others interested in arms sales expected the trickle to turn to a flood once Egypt and Israel formally made peace. His foreign-based company, Tersam, set up shop in Washington's Virginia suburbs. Mr. Salem's ace in the hole was a letter from the office of Gen. Ali—then Egypt's defense minister—appointing him to handle the expected arms shipments, according to a Pentagon official.

As predicted, the arms dam burst the following March, when the treaty was signed. Since then, the U.S. has agreed to sell Egypt about $4 billion worth of military gear—F16 jets, M60 tanks, missiles, radar units and many other items—and has approved nearly $3 billion in loans to finance the purchases. The arms trade is a shipper's dream,

EARLY REJECTION

When Mr. Salem walked into the Pentagon offices of arms-sales official Erich von Marbod that spring or early summer, however, he got a quick jolt: Mr. von Marbod, who had to pass on Egypt's use of the loan funds, turned thumbs down on him. Air Force Col. Thomas Schoegler, the Egyptian desk officer who worked for Mr. von Marbod, attended the meeting. "He (Mr. von Marbod) was concerned that Tersam wasn't a company that could perform," the colonel recalls.

The Egyptian, says Col. Schoegler, "was a little taken aback" by Mr. von Marbod's stand in the face of Gen. Ali's letter of endorsement.

Mr. von Marbod was well known for making just such tough calls, Pentagon officials say. Although at the time he was only deputy director of the Pentagon's arms sales agency, he had been picked by then-Defense Secretary Harold Brown to assure the quick, smooth start for the vital U.S.-Egyptian arms relationship, which was a high White House priority. He was considered the man for the job because of his reputation for decisiveness and for finding ways around Pentagon red tape.

Throughout his career, Mr. von Marbod had drawn a succession of tricky arms sales assignments in the Middle East, Southeast Asia and Iran. He is said to have walked the streets of Tehran earlier in 1979 with a derringer strapped to his leg. Mr. von Marbod's specific problem that summer was to meet President Sadat's demand that the first batch of highly visible U.S. weapons—including Phantom jets and armored vehicles—reach Cairo in time for the annual military parade on Oct. 6, a tight time schedule by Pentagon standards.

After learning that the Maritime Administration knew nothing of Tersam's track record, Mr. von Marbod concluded that the shipments couldn't be risked with Mr Salem, Col. Schoegler says, and decided to send them on U.S. military ships and planes.

NEED FOR A U.S. FIRM

According to the colonel, Mr. von Marbod "told him (Mr. Salem) that we weren't going to use them for the interim period. . . . von Marbod didn't specify to him when" the shipping "was going to be switched over (to Tersam), or if it was ever to be switched over." In addition, the colonel says Mr. Salem—who knew little about Pentagon rules—was told that regulations required shippers to be U.S.-based firms, using U.S. ships, able to comply with Pentagon billing practices.

The arms sales official had an ally in his stand: Gen. Richard Secord, a close colleague who at the time was the Air Force's top international relations official. The general knew that, under U.S. policy, the Phantoms themselves would be flown by the Air Force to Egypt. But he was fearful, Pentagon sources say, that if the supplies and other gear needed to support the jets were shipped privately, they might be late or lost and the planned fly-by at the parade could prove impossible.

The hard-nosed general, like Mr. von Marbod, had had years of experience in dealing with foreign arms sales. Both men served in Southeast Asia and Iran; both had worked closely with U.S. intelligence agencies and had many contacts in the intelligence and had many contacts in the intelligence community and overseas. Gen. Secord had personnally signed the agreement to sell Egypt the Phantom jets that were the heart of the 1979 arms package.

Egytian officials complained about the von Marbod decision, but Col. Schoegler says "he just cut them off . . . He had a hammer over them."

Thus, Mr. Salem lost the first big U.S. arms shipment to Egypt, but it wouldn't be long before he got approval. He was already moving to form a U.S. company to comply with the Pentagon's wishes, and he was also seeking an American partner. He joined up with Thomas Clines, the former CIA official, after another American businessman declined Mr. Salem's partnership offer.

CAREER IN CIA

Mr. Clines served in the CIA for more than 25 years, having joined the agency when he was only 19 years old. He rose to a senior position in clandestine operations and also served as a liasion to the Pentagon, people familiar with his career say, before retiring in October 1978. He set up several companies in 1978 and 1979 to conduct international trade in military material, oil-field equipment and other goods.

In early August 1979, Mr. Clines and Mr. Salem formed Eatsco. Sources familiar with the company say Mr. Salem put in $51,000 for his 51 percent control and that Mr. Clines used a small company he founded—Systems Services International Inc.—to acquire 49 percent of Eatsco for $49,000.

Even today, it isn't clear how the two men got together or whether they were previously acquainted. Mr. Clines has told others that he pursued Mr. Salem and won him over alter the Egyptian expressed fear that any big, established American partner would swallow him up.

Mr. Clines, who, associates say, bragged about his government connections, also offered to provide the new company with the services of R. G. Hobelmann & Co., a Baltimore freight forwarder with which he had good connections.

A former Salem employee, retired Air Force Col. Joseph J. McLachlan, says Mr. Salem and Egyptian Gen. Ghazala told him the U.S. ordered Hobelmann's hiring. "Your government told us we had to take Hobelmann." Mr. McLachlan says he was told by Gen. Ghazala, a close friend.

ANY ROLE OF WILSON?

Federal investigators are focusing currently on whether Mr. Wilson, the jailed former agent for the CIA and naval intelligence, had any role in the Clines-Salem venture. A longtime friend of Mr. Clines, Mr. Wilson was an expert in using companies, agents and secret bank acounts to mask his activities. In 1980, a former employee of his in Libya, arrested in connection with the shooting of a Libyan dissident in Colorado, was found to possess handwritten notes listing the names of Eatsco, Mr. Salem and top Egyptian officials.

People familiar with the financial relationship between Mr. Clines and Mr. Wilson say that in early 1979, on Mr. Wilson's instructions, his Geneva attorney arranged a $500,000 loan for Mr. Clines. The funds came from "a company associated with Ed Wilson," according to a source close to him, and were sent to a Clines company in Bermuda. And Mr. Clines, according to a source close to him, made periodic fund transfers from the Bermuda firm to his companies, including Systems Services

International, to cover operating expenses. Later in 1979, Mr. Clines used SSI to buy into Eatsco, the source says.

Sometime later, the source adds, Mr. Clines paid off the loan, with interest. There isn't any public evidence that Mr. Wilson held an interest in, or in any way controlled, Eatsco. Nonetheless, after the Wilson-Clines ties became public in a newspaper story in late 1981, Mr. Salem bought out Mr. Clines for an undisclosed sum, partly to avoid any ties with Egypt's Libyan enemies.

EMBASSY PRESSURE

While Mr. Salem was transforming Tersam into Eatsco, the Egyptian embassy was continuing to press Mr. von Marbod on his behalf. In letters and in meetings, Mr. Salem was backed by Gen. Ghazala, now the defense minister and then the military attache in Washington; and by a Ghazala aide, Gen. Mounir Sabet, brother-in-law of Egypt's current president, Hosni Mubarek, according to Pentagon officials.

By November, Mr. Salem was back in Mr. von Marbod's office, and this time he was given the go-ahead.

The reasons for the defense official's turnaround aren't certain. But his former aide, Col. Schoegler, offers these explanations: First, Egyptian officials told Mr. von Marbod that Mr. Salem had set up an American company, Eatsco, and, second, a Maritime Administration official, S. Thomas Romeo, informed the defense official that Eatsco had retained an able freight forwarder, Hobelmann, and could thus perform the shipping.

Nevertheless, he says, Mr. von Marbod only "reluctantly went ahead." He "was never very comfortable" with the company, the colonel recalls. "He didn't feel that Eatsco had to be. (He felt) that Hobelmann could have handled it (alone)." Despite these doubts, Mr. vom Marbod ordered an advance payment of $13.5 million to Eatsco, followed by further advances of $7.5 million periodically over the next two years. Eatsco wasn't made to account for the advances until after the funds were spent.

Thousands of Eatsco invoices, accompanied by fat stacks of backup bills Eatsco paid, were submitted, but never audited, Pentagon aides say. They were reviewed only by low-level clerks, who merely checked to see that Egypt had okayed that, that the arithemetic was okay, and that they didn't list payments for nondefense goods.

COMPARISON OF CHARGES

But the Maritime Administration also was monitoring Eatsco. In November last year, the Pentagon says, the agency's Mr. Romeo came to Mr. von Marbod and said he believed Eatsco's billing method was unacceptable and might contain substantial overcharges for particular services. Prompted by Mr. Romeo, and on Mr. von Marbod's orders, the Pentagon began an inquiry, Col. Schoegler says. Pentagon aides compared certain of Eatsco's submissions with actual shipping line bills for six sample voyages and found that Eatsco's charges were $5 million or so higher.

The comparison involved bills Eatsco had paid to a Hobelmann subsidiary that isn't a vessel operator itself but which assumed the responsibility for the shipments. The Pentagon never finished its review, or fully explained the differences, because the FBI stepped in. Nevertheless, the Pentagon ordered Eatsco to stop submitting bills from the Hobelmann unit and halted Eatsco's advance payments. Col. Schoegler says Mr. von Marbod and Mr. Romeo quarreled, blaming each other for overlooking the billing problem.

Spokesmen for Hobelmann and Eatsco strongly deny that their bills were too high or were in any way improper. The Hobelmann firm says that prosecutors have informed it "that there are no allegations of wrongdoing" against Hobelmann. An Eatsco spokesman says its contract with Egypt allowed it to charge "an aggregate percentage of the value of goods shipped" and that "any cost analysis on an item by item basis would not be meaningful."

Pentagon officials strongly defend the arms sales office's stewardship of the credit program; Walter Ligon, the acting director of the office, says "the only reason we have to believe there's anything wrong is the noise we're hearing from the outside."

APPENDIX 13

LETTER FROM HON. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR, BUREAU FOR NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT TO HON. LEE H. HAMILTON CONCERNING THE EGYPTIAN AID PIPELINE

The Honorable Lee Hamilton
Chairman, Subcommittee on Europe
and the Middle East
House Foreign Affairs Committee
House of Representatives
Washington, D.C. 20515

October 29, 1982

Dear Mr. Chairman:

During the hearing on the Egypt economic assistance program on March 30, I indicated the Agency's analyses concluded that the Egypt pipeline had plateaued at $2.5 billion and that expenditures during FY 82 should exceed new obligations of funds. More specifically, we projected that disbursements under the Commodity Import Program would be just slightly less than the FY 81 level of $380 million and that project disbursements would approach $470 million.

During the months following the hearing, it became progressively clear that we were unlikely to reach our disbursement targets. We have just received preliminary reporting on the end of FY 82 expenditures and indeed there is a substantial shortfall below our estimates. Not only did expenditures fail to increase in FY 82 as we had anticipated, they actually fell by about $130 million.

With regard to the Commodity Import Program, expenditures during FY 82 were only some $242 million, or $140 million below the level of the previous year. The contributing factors were:

(a) The pipeline of Commodity Import Program funds at the beginning of the year was lower than at the beginning of the previous two years. That is, there was a smaller universe of transactions in progress on which disbursements could occur.

(b) The FY 81 Commodity Import Program was signed in June of 1981 but was not opened for procurement actions until February of 1982, almost nine months after signature. At the time these funds were committed, the Government of Egypt indicated it would be taking action to raise toward market levels the interest rates at which CIP funds are made available to end-users. The Egyptian Government only completed this action in February. We had made it clear to the Government that we would be unable to release the funds made available by this agreement until such time as the interest rate adjustment had been completed.

(c) The FY 82 Commodity Import Program agreement, which was signed on February 5, 1982 at the time of President Mubarak's visit to the U.S., was not submitted for ratification by the People's Assembly until some five months following the signature of the agreement. Consequently there were no disbursements under the FY 82 Commodity Import Program during FY 82.

On the project side, disbursements in FY 82 were again at $350 million, the same level as in the preceding year. Thus while project expenditures did not grow, neither did they fall.

The absence of anticipated growth in project expenditures appears to be due to:

(a) President Sadat's untimely death and the period of mourning that followed which caused a hiatus in program momentum;

(b) There were two partial Cabinet changes during the year which meant that some leadership positions were occupied by as many as three different persons during this period. These changes in personnel have also affected program momentum.

(c) The Memorandum of Understanding on Greater Support to Economic Progress in Egypt, effected during President Mubarak's February visit, temporarily caused some uncertainties in the operating ministries as to how it affected projects in place.

(d) The Egyptian Government concern for propriety in Government has led to extreme caution within the bureaucracy and contributed to a slowdown in decision making in the awarding of contracts.

(e) Significant turnover in personnel in our mission in Cairo occurred during the second half of the fiscal year, and undoubtedly contributed to the slowdown in expenditure growth. While turnover is a normal occurrence and can largely be anticipated, the extent of personnel changes this year was unusually heavy.

(f) Lastly, a number of project specific factors arose to cause expenditures to fall below expectations. For example in our relatively successful Decentralization portfolio various problems associated with moving our money through their system using our regulations emerged which had to be sorted out before second generation disbursements could occur. Another example is those projects which were delayed because of significant variances between engineering cost estimates and the bid prices as received thus requiring protracted negotiations with the prospective contractor or in some instances project amendments.

I am not happy with this outcome. We will be continuing to analyze the factors that contributed to the slow down in FY 82 expenditures as complete end of fiscal year data become available. However, I wanted you to know early on that our targets had not been met. Secondly, aware of your concerns as to the accuracy of the Agency's expenditure estimation, I wanted you to know that we are taking special measures to assure that our projections for FY 83 and FY 84 are closer to the mark.

Thank you for your continuing interest and concern for our program.

Sincerely,

W. Antoinette Ford
Assistant Administrator
Bureau for Near East

APPENDIX 14

STATEMENT SUBMITTED FOR THE RECORD BY DR. JOYCE R. STARR, OVERSEAS REPRESENTATIVE IN THE MIDDLE EAST, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, GEORGETOWN UNIVERSITY

If we step back from the crisis response that events in Lebanon have compelled us to adopt, the question can reasonably be asked: Should the United States maintain its present influence in the country once the Marines and Philip Habib have been withdrawn? and if so, how?

Lebanese Foreign Minister Eli Salem, echoing the fears of most Lebanese, believes that Lebanon has never been at a more cirtical stage, the outcome of which will be principally determined by a single actor -- the United States. "At this moment in history," says Salem, "we stand naked, hanging ourselves around the neck of America like an albatross. It is the United States that has become central to the survival of Lebanon."

The line separating Lebanon's potential reemergence as a thriving nation from its further decline is narrow. Time is not on the side of the Lebanese.

To the contrary, continued uncertainty about Lebanon's future has brought the economy -- which valiantly withstood eight years of war -- to a virtual standstill. The spirit of hope, so evident this summer, has been slowly eroded by renewed fighting and fear. Plans for productive, job-creating enterprises remain on the drawing boards, which in turn only exacerbates the country's potentially explosive social problems -- including acute housing shortages, the numbers of homeless, and an excessively high cost of living.

Further, while it is acknowledged and oft-quoted that a sum in the range of $10 to $14 billion is required to reconstruct basic infrastructure in Lebanon, not one country has yet committed the kind of economic support that the government of Lebanon urgently requires. Common wisdom has it that Saudi Arabia will underwrite the bill and thus it is unnecessary to unleash the anxieties of Congress or the American taxpayer. This line of thinking ignores Saudi Arabia's commitments in the Gulf, its dilemma in maintaining OPEC oil prices on a profitable keel, and the threat that not a penny will be forthcoming to Lebanon should there be the slightest sign of normalization with Israel. Lebanese, in private, also voice concern that infusions of Arab money will be used as a cover for the reentry of the PLO, Syrians and others hostile to a unified Lebanon.

But why, given these problems, should the United States take responsibility for putting Lebanon back on it et? There are compelling reasons to do so. Because of its location, Lebanon is strategically important to U.S. interests in the Middle East, blunting a Soviet thrust into the region and international terrorism. From stations in the mountains of Lebanon, troop movements can be monitored from the Atlantic to the Gulf.

The war this summer was seen by many as a victory for the free world, a triumph over pro-Soviet, PLO and Syrian forces. And just as Lebanon is now portrayed by the Administration as a showcase for U.S. power and prestige in the Middle East, Lebanese stability has also become a measure of our credibility. A weak or hesitant

American policy towards Lebanon plays directly into the hands of those who like to see Lebanon remain divided, thus undermining the strategic position of the United States throughout the region. Strong U.S. military assistance to Lebanon could also prove critical in enabling the Lebanese Army to emerge as a force capable of defending and stabilizing the country, which otherwise could once again become a powerkeg for the entire area.

The historic vitality of the Lebanese economy, its proven resilience, could also provide a key for U.S. economic interests. Officials of the Export-Import Bank (EXIM) say that no other Middle East capital can compete with Beirut as a commercial center for the region. "Once they get the foreign troops out", declares a vice president of the bank, "Lebanon will rebound so fast it will astound the world."

The EXIM Bank has recently reopened all of its programs for Lebanon (restricted to the Beirut area) and the Overseas Private Investment Corporation is now considering a recommendation by one of its top officials to do the same.

The Lebanese are hoping that both the U.S. Government and the American private sector will play major roles in the reconstruction process. But at present the prospects are unclear. Since the election of Amin Gemayel as President of Lebanon in September of 1982, only one American corporate mission has visited Beirut (an OPIC delegation of U.S. contractors), while senior level European delegations (not to mention Japanese and Australian) have virtually beseiged the Lebanese Government with their constant visits. Teams of U.S. technical experts sent to Lebanon on an emergency basis by

AID and by private groups have also been no match numerically for the French, who have maintained several hundred advisors on the ground for weeks at a time.

According to a senior member of the U.S. AID mission in Beirut, American firms visiting Lebanon in the near future "are already late." The Europeans, unlike their American counterparts, are not waiting for guarantees of security or the withdrawal of foreign forces to make an initial foray which will give them a competitive edge in future trade or project development. European governments, led by the French, are also already in advanced stages on the signing of special financial protocol agreements with Lebanon which will bolster these efforts.

Lebanese Government officials recognize the competitive constraints on American firms -- specifically the high cost of EXIM and other U.S. financing as compared to that of COFACE (Compagnie Francasie Assurance Pour le Commerce Exterieur, the French counterpart of the EXIM Bank) and other subsidized export agreements -- but state that they are nonetheless ready to lean toward American companies whenever possible and that the quality of American products and technology, coupled with competitive delivery dates, can offset higher U.S. credit rates.

Advisors to President Gemayel also express the view that a strong U.S. private sector presence in Lebanon will have important political consequences that reach beyond the issue of "business as business." Many would like to see Lebanon economic future tied to the West, preferably to the United States, which in turn would reduce its dependence on and vulnerability to Arab investments and

18-551 O—83——43

markets. There was great concern over the fact that three U.S. banks based in Lebanon have recently sold their full interests to a specific Saudi group (albeit for entirely different reasons related to the internal problems of each insitution). The February 15 announcement by the management of TAPLINE, which runs one of Lebanon's two major oil refineries, that it will be closing its operations, also produced shockwaves, since many Lebanese feared that the departure from Lebanon of four major U.S. oil companies could be perceived as a lack of confidence in the country. There are Lebanese who argue that although TAPLINE suffered the loss of revenues in Lebanon, its critical losses were actually incurred in Saudi Arabia.

The issue of U.S. export financing vis-a-vis European credit facilities also troubles the Lebanese since it is clear that European governments are able to offer mixed-credit packages which the U.S. Government cannot match. For example, EXIM rates for Lebanon are now pegged at approximately 11%, whereas COFACE, in conjunction with the French Treasury, can offer loan packages to French companies doing business in Lebanon at rates as low as 3½%, with a ten-year grace period. The EXIM has, on rare occasions, participated alongside AID in joint projects, but only under exceptional circumstances and in clear contravention of the Bank's usual practice (that it is not to be used as an instrument of U.S. foreign assistance policy). Therefore, even if a major lobbying effort were mounted, the likelihood that Lebanon would be declared an exception or that this longstanding policy would be reversed is minimal at best.

If, however, Lebanon could document that another country offered better credit facilities than EXIM is able to provide and specifically requests that EXIM match the more favorable rates, the Bank is evidently permitted to react by reviewing its credit provisions. The Catch-22 is that EXIM is already competitive with the export finance facilities offered by its counterparts in other Western nations -- but cannot match the favorable terms which result when other governments link their export financing with foreign aid monies.

Since EXIM project requests are also evaluated on an individual rather than a national basis, the opportunity for a special, comprehensive bilateral agreement between EXIM and Lebanon does not exist, nor therefore the possibility of a media event occasioned by the signing of a protocol similar to that from which the French and others have benefited.

The AID package under study for Lebanon would provide only $150 million over the next two years, which is not an enormous sum given the extent of Lebanon's reconstruction needs. Nevertheless, these funds will be tied to U.S. goods and services, which would provide an important entre for American companies. The February 7 signing by AID of a $7.7 million telecommunications project to repair lines in West Beirut was, for example, received enthusiastically by the Lebanese Government and the leading press.

For U.S. corporate representatives worried about their personal safety in Lebanon, the news is favorable. While there have been a few rather depressing incidents of car bombings and

the like over the last few weeks, the general climate and access between East and West Beirut has returned to relative normality, and Lebanese Government seems to have successfully established its authority over both sectors of Beirut. Moreover, when the Lebanese Army extended its authority to East Beirut on February 14, they did so with the full cooperation of the Lebanese Forces, who had previously controlled that area. It should be noted that the new Commandant of the Lebanese Army, General Ibrahim Tannous, served with the Lebanese Forces during the past eight years of fighting, while simultaneously retaining his military rank. The relationship between Tannous and the Forces is viewed in Lebanon as an important bridge towards the eventual emergence of a unified army capable of defending the country.

In an effort to attract foreign investment, the Lebanese Commissioner of Taxes, Joseph Torbey, will also soon submit to the Council of Ministers a legislative initiative establishing beneficial tax status for offshore holding companies in Lebanon. Further, a set of laws were promulgated at the end of January 1983 which provide that a new industry can obtain an exemption from income tax for a period of ten years, that special loans will also be made available by the Lebanese Government at preferential rates to such new industries, and that these industries will have a tax exemption for a period of six years.

There also exists in Lebanon a public risk insurance program that is virtually unknown in the United States, but which would be of particular benefit to medium and small-sized U.S. firms that would

otherwise have difficulty meeting OPIC eligibility requirements. Lebanon's National Investment Guarantee Corporation was established in 1977 and is backed by the country's international reserves amounting to approximately $375 million in gold and $1.5 billion in convertible currency (based on 1981 figures, with gold valued at US $42.22 per ounce and end-of-period exchange rates of dollars for Lebanese pounds).

The NIGC covers only the risk of war and insurrection -- whereas OPIC also covers inconvertibility and expropriation -- but its fixed assets insurance is available to any firm residing in Lebanon, whether local or foreign, as long as it falls under one of the following broad categories: commercial, industrial and service establishments; charitable, health and cultural institutions; and international foreign missions. Between 1977 and 1983, 173 firms have taken advantage of the NIGC's program, with all claims for damage and loss filed to date fully honored. According to the Director of the NIGC, Alef Kahil, the NIGC has no equivalent in the Arab world and its risk coverage for fixed assets is competitive with any equivalent insitution worldwide.

Moreover, while the Government of Lebanon is in serious financial difficulty, the private sector is not. The private bank holdings of Lebanese citizens presently amounts to approximately $4 billion, while Lebanese abroad are believed to hold at least three times that amount ($12 billion). President Gemayel has recently named a special External Economic Advisory Group, composed of leading businessmen of Lebanon, to attract the investment of these local and foreign deposits.

Even if the Government's program for reconstruction should move slowly, opportunities for private sector joint-ventures and

U.S. representational offices in Lebanon will probably increase at a rapid pace concurrent with improvements in the security situation.

The argument that any "normalization" between Israel and Lebanon will automatically eliminate critical Arab markets for American firms and also threaten the remittances of Lebanese workers in the Arab world (estimated by the Minister of Industry at approximately $150-200 million per month -- and the principal vehicle by which Lebanon was able to balance its trade deficit over the last eight years) has been counterbalanced by some Lebanese who move in Presidential circles. They state that other factors should be considered which will soften any such outcome: (1) Whatever markets might be closed to Lebanon in the Arab "East" would be compensated for to some extent by trade with Africa (where several hundred thousand Lebanese entrepreneurs and leading businessmen presently reside), with Egypt, and even Jordan; (2) That Lebanese working in the more conservative capitals are, in fact, among the most prominent financial and technical advisors in these countries. Thus, unlike the case of Egyptian guestworkers, it is unlikely that very many of these leading professionals will be asked to leave. (3) That the Europeans do not seem exceedingly concerned about this prospect, nor do even some of the pro-Arab members of the Gemayel Cabinet. As one such advisor, known as a spokesman for the "Arab" position, recently commented, "Israeli Arabs are now allowed into Mecca, and everybody knows it. This part of the world will never be the same. The question is one of process and timing."

Two of Lebanon's most urgent priorities today are low-cost housing and the creation of statistical analysis capability for the administrative agencies of the government. In both cases, the opportunities for the U.S. business sector have not been properly evaluated. According to an official with the U.S. Embassy in Beirut, 'most American firms think that the Lebanese private sector can't build anything but a mud hut, when the exact opposite is true." In fact, Lebanese contractors are quite able to absorb the amount of construction work required to meet the housing and industrial needs of the country. U.S. Embassy experts also warn that the Lebanese are concerned about maintaining their own heritage in construction projects, i.e. standardized U.S. building structures are not likely to fare well in Lebanon. On the other hand, sophisticated engineering design technology and components such as windows, doors and forms for pouring concrete are presently lacking in Lebanon and could prove a substantial market for U.S. firms, particularly medium-wized ones.

Both the government and private sectors of Lebanon need the information systems technology and servicen that U.S. firms can supply. But where as the government, during the years of fighting, was unable to introduce these systems and therefore cannot easily absorb the highly sophisticated consulting services U.S. firms are accustomed to providing, the business community was able to introduce limited information technologies and is consequently more likely to make use of U.S. capabilities.

Other sectors which U.S. companies could profitable explore include: telecommunications -- as noted above, U.S. - AID has been working hard to "get a foot in the door" in this area; health industries; transportation; communications; banking support services;

tourism; and non-hardware intensive sectors such as water and sewerage systems. Because Lebanon is now in the process of rehabilitating all of its public assets, a sale of any major equipment item today is likely to mean a long-term relationship in the supply of parts and technical services.

President Reagan has appointed a special commission -- the U.S. Business Commission on the Reconstruction of Lebanon -- to encourage and guide the participation of American business in Lebanon. This initiative, in combination with the AID package, EXIM and OPIC guarantees and financing, indicates an appreciation of our relationship with Lebanon.

Looking towards the future, a more comprehensive and long range approach could take the form of increased military and economic aid, the creation of a capital fund for joint U.S. - Lebanese projects, and the tailoring of incentives for trade between the two countries. Efforts to support the Lebanese government will have a catalytic effect both on internal security and economic revitalization.

This material will appear in the forthcoming issue of Middle East Insight.

DR. JOYCE R. STARR is Overseas Representative in the Middle East for the Georgetown University Center for Strategic and International Studies. In addition, she currently serves as Director of the Secretariat of the U.S. Business Commission on the Reconstruction of Lebanon.

APPENDIX 15

STATEMENT SUBMITTED FOR THE RECORD BY HON. NICK JOE RAHALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WEST VIRGINIA

Mr. Chairman, Members of the Subcommittee:

The events of the past year in Lebanon have shed a new light on life in Lebanon and what the United States can do to help alleviate the suffering of the people of Lebanon and start them on a road to recovery and a rebuilding of their war-torn country. Lebanon, struggling to re-establish its government as an authority in its own country, faces an uphill struggle to free itself from the occupation and influences of outside forces. The United States of America must stand ready to help Lebanon in its quest for self-determination, free from those who use their country as a battleground to further their own self-interests.

During this past summer and again in the fall, I traveled to Lebanon as well as to five other Middle East countries: Syria, Israel, Egypt, Jordan, and Saudi Arabia. During my travels through Lebanon, I saw first-hand what the ravages of war have done to this country, from the southern ports of Tyre and Sidon to the city streets of Beirut to the northern borders. Schools demolished, apartments and private homes leveled, shopping areas and restaurants destroyed, and even hospitals bore scars of repeated bombing and shelling. Most of this damage was done with weapons made right here in the United States; cluster bombs which carved out a path of destruction in all directions and sophisticated U.S. bombers keeping a constant flow of aerial bombardment raining down on the city of Beirut.

Beirut, once called the "Paris of the Middle East", now reduced to streets filled with the rubble of leveled houses and hollow shells of what once were high-rise apartment buildings. The United States must bear responsibility for the actions of our allies and it is incumbent upon the U.S. to allocate funds to help the Lebanese in the rebuilding of their shattered country, as ridiculous as this circle appears to the world.

In the past, United States aid to Lebanon has paled in comparison to our aid to other countries in that region. Now, Lebanon turns to the United States for help. In the Fiscal Year 1983 Supplemental Appropriations, the President has requested that an additional $150 million be sent to Lebanon in an effort to help rebuild the Lebanese Army and to help reassert the authority of the government over the many factions in Lebanon. In addition, the President has requested that Lebanon be allocated $90 million in Foreign Military Sales and $1 million for a military education and training program. I view these steps as positive ones as we attempt to help Lebanon rebuild. However, this may not be enough to build the Lebanese Army into a unit able to hold its own against the other forces of the region. The higher allocation to Lebanon in the FY 83 supplemental is strictly a one-shot deal. The funding level for aid to Lebanon in the FY 84 budget request sinks back down to the minute levels of assistance before the recent war. Rebuilding the Lebanese Army is not a "one-shot deal". In order

to guarantee the authority of the Lebanese government and Army in the future, we must look past any "one-shot deal" and place the continuing growth of Lebanon among our top priorities. The United States, through weapons supplied to other countries, has contributed greatly to the demise of the Lebanese government and we now have an opportunity to undo some of the damage we have wrought.

I would like to take this opportunity to urge you, Mr. Chairman, and the members of this subcommittee to recommend even more than the level of funding requested by the President in the FY 83 supplemental and to continue this level of funding in FY 84 and beyond so that the increased levels of funding for Lebanon become a permanent fixture in our aid package. This would bring Lebanon a little closer to the levels of aid enjoyed by some of the other countries in the region, although still lagging far behind the levels contained in our aid package to Israel and Egypt.

In addition to economic and military aid, the United States must show its commitment to Lebanon in other ways. The reassertion of authority by the Lebanese government cannot be obtained until the withdrawal of all foreign forces from Lebanon is complete. It is incumbent upon the United States to do everything in its power to implement President Reagan's peace initiative. The key point in this initiative is the removal of all foreign forces from Lebanon. Negotiations in this regard are proceeding woefully slow. The United

States must assert itself in these negotiations and facilitate the removal of all foreign troops.

A strong Lebanon benefits the United States as well as Lebanon itself and it is in the best interests of the United States to play a larger role in strengthening Lebanon, establishing the government authority and helping to rebuild the Lebanese Army. The FY 83 supplemental level is a starting point but not enough. We as a nation must follow-up on our commitment to Lebanon both economically and politically. I urge the subcommittee to recommend that funding levels for Lebanon be increased and be made a permanent part of our foreign aid package.

APPENDIX 16

LETTER FROM RICHARD F. PEDERSON, PRESIDENT, THE AMERICAN UNIVERSITY IN CAIRO, CONCERNING INCREASED AUTHORIZATION FOR THE AMERICAN SCHOOLS AND HOSPITALS ABROAD PROGRAM

The Honorable Lee H. Hamilton
Chairman
Sub-Committee on Europe and the Middle East
Foreign Affairs Committee
United States House of Representatives
Washington, D.C. 20515

March 11, 1983

Dear Congressman Hamilton,

The American University in Cairo wishes to express its support for an increased authorization for AID/ASHA above that of the last two years.

The support which AUC receives from ASHA to enable it to maintain high standards as a study and demonstration center for ideas and practices of the United States comes primarily from PL-480 pounds. Nevertheless AUC also receives some support in dollars. It is greatly appreciative both of the dollar and pound support it receives through AID. In Egypt's low income environment such support provides the critical difference that makes it possible to provide a quality American education.

For many years the amount authorized for support of American Schools and Hospitals Abroad has remained level, or even been reduced, with the result that in real terms financial support for such functions has been steadily eroding.

The objectives of the Mutual Educational and Cultural Exchange Act of 1961 and Section 214 of the Foreign Assistance Act of 1961 remain important, indeed increasingly significant, objectives in today's complex world of greater cultural contact. AUC hopes that the erosion in the overall level of support supplied to American hospitals and educational institutions operating abroad can be reversed.

Sincerely yours,

Richard F. Pederson

Richard F. Pedersen
President

APPENDIX 17

LETTER FROM LEON PICON, U.S. FOREIGN SERVICE OFFICER (RET.) TO HON. LEE H. HAMILTON, IN SUPPORT OF INCREASED FOREIGN ASSISTANCE FOR TURKEY

March 16, 1983

The Honorable Lee H. Hamilton
of Indiana
Room 2187
Rayburn House Office Building
Washington, DC

Dear Congressman Hamilton:

Assuredly, our nation's foreign policy, like that of any other nation, must be predicated on our own national self-interest. Having attended the afternoon session of the Subcommittee on Europe and the Middle East's hearings of March 14, 1983, I was impressed by the attempts of the Special Counsel of the American Hellenic Institute's Public Affairs Committee, Mr. Rossides, to divert attention away from major American foreign policy goals and to channel the discussion along lines that support only the anti-Turkish and anti-Western Alliance rhetoric of Prime Minister Papandreou.

Toward the close of the session, it was heartening to note that some of the members of your Committee obviously felt the need to hear other points of view. It is unfortunate that the excellent, well-documented testimony by Mr. Paul Henze in support of the Administration's request for military and economic assistance to Turkey was met by personal vilification on the part of the Greek lobbyists at the table. I am therefore grateful to you for suggesting that I write to you and for offering to place this letter into the hands of the other committee members.

Sir, contrary to the statements of Mr. Rossides, a high-water mark was reached in American Foreign Policy when the Congress lifted the injudicious Arms Embargo against Turkey in 1978, thereby allowing vital strategic relationships in United States policy to return, at least partially, to normalcy. Full restoration to normalcy will come only after Turkey has finally recovered from the destabilization brought on by the strains on her economy and by terrorism during the four-year period of the Embargo. Turkey is well on the way to recovery, but the process is not yet completed

The earlier distortions of history regarding Cyprus leading up to the embargo need not be reviewed at this time. They are simply not germane to the current issues, nor are they actually related to our global, strategic goals. By now, it is well recognized that the onset of the Cyprus problem was generated in the mid- and late-1950's by an intense propaganda onslaught from the Greek mainland, in which the keyword was "Enosis"---("unification"---with Greece). In any case, Cyprus is a matter to be settled through negotiation by the Greek Cypriots, the Turkish Cypriots, and the British in line with the London Accords. It is not an American issue, and thankfully we have begun to recognize that.

The central issue for the United States has been and remains the need to maintain Turkey as a valuable asset in the NATO framework. The Embargo Years have revealed that even when the United States

placed Turkey in an untenable position by the imposition of an embargo, Turkey remained steadfast in her commitments to NATO---and to the United States---by maintaining NATO installations and by keeping operative essential intelligence collection activities. It has been, in fact, a remarkable demonstration of reliability and steadiness that speaks well for the future. Contrast this behavior with the disruptive position of Greece in the Alliance, and the recent courtship that Mr. Papandreou has undertaken with the Soviet Union.

Comparative statistics regarding the nature, size, modernity, and effectiveness of the Greek and Turkish Armed Forces are readily available to the Congress from American official sources and from the studies published by our scholarly research institutions. These make one major fact clear: there is an urgent need for the Turkish Armed Forces to modernize. In the wake of the political and economic reforms which Turkish democracy has just undertaken, a vibrant society is beginning to re-emerge. The Administration has set a realistic figure for assistance to Turkey in FY '84. It takes into account the urgent needs of modernization. It should be supported. Hopefully, in its deliberations, your committee will this year recognize that it is a mistake to couple these appropriations with those of Greece. The ratios that were devised during Mr. Kissinger's time are anachronistic; they have no bearing on today's real world and should be abandoned. This is recognized in the Department of Defense and elsewhere in the Administration.

Our national interests dictate that we regard Turkey separately for what that country means to our overall strategic objectives, without the discoloration of issues that have been and continue to be raised by Hellenic Americans.

The single and crucial fact is clear. Given the situation into which our staunchest ally has been placed, as a result of the embargo and of the ensuing strains of political and economic reform during the past few years, we must assist in strengthening and modernizing the forces of our allies who are supporting and protecting NATO's southeastern flank.

Respectfully,

Leon Picon

Leon Picon
United States
Foreign Service Information Officer
Retired

APPENDIX 18

STATEMENT SUBMITTED FOR THE RECORD BY GEORGE R. PACKARD, DEAN, SCHOOL OF ADVANCED INTERNATIONAL STUDIES, THE JOHNS HOPKINS UNIVERSITY

For twenty-eight years the Johns Hopkins University's Center of International Studies in Bologna, Italy has performed a unique educational role in Europe. It has attracted European and Third World students, who each year make up half the student body of 120, providing them with an understanding and knowledge of American institutions and perspectives that are not available in their university systems. It has given American students a chance to study in Europe with Europeans under the leadership of an international faculty. In recent years, the Center's Research Institute has held a number of conferences and seminars, making it more and more an Atlantic resource for debate and high level discussion on key issues of European-American relations.

The Hopkins Center is not only performing an educational function. It also supports U.S. foreign policy objectives. While serving as United States Ambassador to Italy, Professor Richard N. Gardner called the Center "the single most important American educational institution in Europe today." He applauded the Center's role in training students -- both European and American -- who move on "to become leaders in governments and in the private sectors throughout the United States and Europe." Indeed, the Center continues to serve broader American foreign policy interests by training new generations of Europeans and Americans who emerge with mutual understanding and personal ties at a time when the old postwar Atlantic network of leaders is passing from the scene. In

short, the Center is helping develop a better and more genuine foreign understanding and appreciation of the institutions and people of the United States -- an understanding that has a cignificant bearing on our total efforts to nurture a harmonious and constructive European-American relationship and to build a peaceful world.

Since the early 1970's the Center has received an annual grant from the ADI/ASHA program. If this support is terminated as now projected, the Center will face a very seious financial crisis which could force it to close. This would be a serious blow not only to The Johns Hopkins University and the Center's 2,500 alumni but also for the United States, given the fine record and reputation the Center has established over the past three decades.

The Center benefits from an Advisory Council of outstanding European leaders, chaired by Egidio Ortona, former Italian ambassador to the United States. The present director is Dr. Robert G. Gard, Jr. The Center includes among its alumni many U.S. foreign service officers and USIA officers. On the European side, distinguished graduates include Gianfranco Pasquino, professor at the University of Bologna; Fritz Bauer, political director of the Austrian Foreign Ministry; Richard Shepherd, conservative member of the British Parliament; Reimut Jochimsen, minister for science and research of the Land-Nordrhein-Westfalen, Germany; Ruprecht Vondran, executive director of the German Iron and Steel Federation; and Jean-Michel Corre of the Commission of the European Community. American graduates include Richard A. Melville, chairman and president, Allied International Bank of New York; Professor Wolfram Hanrieder, University of California, Santa Barbara; Judy Hendren Mello, president, First Women's Bank of New York, John Treat, president, New York Mercantile Exchange; and Karl Van Horn, senior vice president of Morgan Guaranty Trust Company.

18-551 O-83---44

I am convinced that the U.S. Government's assistance to the Hopkins Center through the AID/ASHA program is a sound investment in furthering European-American understanding. Any cutback in the AID subvention to the Center would deal a severe blow to its ability to carry out its mission of training a sucessor generation of Atlantic leaders for their future responsibilities in maintaining and strengthening the Western political and defense allaince and fostering productive economic ties between Europe and the United States.

George R. Packard
Dean
School of Advanced International Studies
The Johns Hopkins University
March 21, 1983

APPENDIX 19

STATEMENT OF M. PETER MCPHERSON, ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, AND ATTACHMENTS

THANK YOU, MR. CHAIRMAN, FOR THIS OPPORTUNITY TO APPEAR BEFORE THIS SUBCOMMITTEE TO PROVIDE ADDITIONAL INFORMATION RELATED TO OUR A.I.D. PROGRAM IN SYRIA.

IN VIEW OF THE CRITICAL ROLE SYRIA PLAYED IN OUR EFFORTS TO BRING ABOUT A PEACEFUL SOLUTION TO THE MIDDLE EAST CONFLICT, A NEW ECONOMIC ASSISTANCE PROGRAM WAS INITIATED IN FY 1975. THE PROGRAM WAS FUNDED INITIALLY FROM THE MIDDLE EAST SPECIAL REQUIREMENTS FUND AND SUBSEQUENTLY FROM THE ECONOMIC SUPPORT FUND. BETWEEN FY 1975 AND FY 1979 A.I.D. OBLIGATED $438 MILLION FOR SYRIA. THE PROGRAM WAS TERMINATED IN 1979 AND NO ADDITIONAL FUNDS HAVE BEEN OBLIGATED SINCE THEN.

IN APRIL 1981, IN ACCORDANCE WITH CONGRESSIONAL GUIDANCE, THE DEPARTMENT OF STATE AGREED WITH CONGRESS TO FREEZE THAT PORTION OF THE UNDISBURSED FUNDS, THE PIPELINE, NOT "COMMITTED" AS OF APRIL 9, 1981. "COMMITTED" FUNDS WERE DEFINED AS THOSE FUNDS THAT WERE EITHER SUBOBLIGATED OR EARMARKED FOR (A) SIGNED CONTRACTS; (B) ISSUED INVITATIONS FOR BIDS; (C)

NEGOTIATED PROCUREMENT FOR WHICH DETAILED NEGOTIATIONS WERE UNDERWAY; (D) PROJECTS INVOLVING THE "FIXED AMOUNT REIMBURSEMENT" PAYMENT PROCEDURE FOR WHICH DESIGNS HAD BEEN APPROVED BY A.I.D., AND (E) PARTICIPANT TRAINING, WHERE TRAINING PLANS WITH U.S. INSTITUTIONS (INCLUDING AUB) HAD BEEN INITIATED. AID HAS BEEN RESPONSIBLE FOR THE MANAGEMENT OF THIS AGREEMENT.

AT THE TIME THE PROGRAM WAS "FROZEN" IT INCLUDED TEN ACTIVE LOAN FUNDED PROJECTS AND NINE ACTIVE TECHNICAL ASSISTANCE GRANT FUNDED PROJECTS. THE PROJECTS EMPHASIZED IMPROVING THE LIVING CONDITIONS OF THE SYRIAN PEOPLE. THE LOAN PROJECTS PROVIDED FUNDS FOR: (1) THE RURAL ELECTRIFICATION OF 1,200 SYRIAN VILLAGES; (2) THE CONSTRUCTION OF 94 RURAL SCHOOLS; (3) CONSTRUCTION OF 376 KILOMETERS OF RURAL ROADS; (4) CONSTRUCTION OF FOUR PROVINCIAL WATER SUPPLY SYSTEMS; AND (5) THE IMPROVEMENT AND REHABILITATION OF THE DAMASCUS WATER DISTRIBUTION SYSTEM. THE TECHNICAL ASSISTANCE GRANT PROJECTS INCLUDE EFFORTS IN THE HEALTH SCIENCES, ANIMAL SCIENCE EDUCATION, LIVESTOCK PRODUCTION TECHNIQUES; LONG TERM ADVANCED DEGREE TRAINING; ENGLISH LANGUAGE TRAINING; SOILS CLASSIFICATION AND MAPPING; AND NATURAL RESOURCES INVENTORY AND MANAGEMENT. THE FUNDS IN THESE DEVELOPMENT PROJECTS FINANCE THE EXPORT OF U.S. GOODS AND SERVICES AND THE TRAINING OF SYRIANS IN U.S. EDUCATIONAL INSTITUTIONS.

AS OF APRIL 1981 THE AID PIPELINE AMOUNTED TO $308.4 MILLION ($129.6 MILLION OF THE TOTAL OBLIGATION OF $438 MILLION HAD BEEN DISBURSED).

SINCE THEN WE HAVE DISBURSED $68.3 MILLION AND DEOBLIGATED $11.6 MILLION. THE CURRENT PIPELINE IS $228.5 MILLION IN 19 PROJECTS. OF THIS AMOUNT, $96.1 MILLION IS IN THE FROZEN CATEGORY WHICH WE WOULD EXPECT TO DEOBLIGATE AS THE APPROPRIATE TERMINAL DATES FOR DISBURSEMENT (TDDs) FALL DUE. THE BALANCE, $132.3 MILLION, IS IN ACTIVE COMMITMENTS WHICH ARE BEING DISBURSED. DURING FY 1983, DISBURSEMENTS ARE EXPECTED TO BE $85.9 MILLION. WE EXPECT THE PIPELINE TO EXPEND RAPIDLY IN FY 1984 AND 1985. IT SHOULD BE FULLY LIQUIDATED BY FY 1987.

MR. CHAIRMAN, I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU OR MEMBERS OF THE SUBCOMMITTEE MAY HAVE ON AID'S MANAGEMENT OF THIS PROGRAM.

SYRIA
DAMASCUS - DERA'A HIGHWAY PROJECT

On July 22, 1976, A.I.D. and the Government of the Syrian Arab Republic (SARG) signed a loan agreement for $45.9 million to finance engineering and construction costs for a four-lane divided highway extending from the southern fringe of Damascus for a distance of 104 km parallelling the present inadequate road to the Jordanian border at a point east and south of Dera'a.

Heavy domestic and international truck traffic had caused the existing two-lane road to become (1) inadequate in capacity; (2) substandard in structural design; and (3) unsafe due to accidents caused by poor surface conditions and the movement of traffic through populated centers. The new highway will provide sufficient capacity to accommodate existing and future traffic and will reduce the cost of highway transportation below costs incurred on the present road. In addition to reductions in vehicle operating costs, the project road will greatly reduce transit time and traffic accidents.

The existing traffic corridor connects the capital with the towns of Kiswe, Sanamain, Sheik Neskin and Dera'a. Industrial development on the southern fringe of Damascus includes agro-industries, chemical works and cement works. Further south, the road traverses the provinces of Suweida and Dera'a which are mainly agricultural and in early stages of development. The effect of pro- posed irrigation in this area with a resulting increase in agricultural pro- duction and the generation of traffic on the new road was, however, not speci- fically included in the traffic projection. In Dera'a, all border bound traf- fic must pass through the steep grades and heavily congests the urban street system. Several past efforts have been made to completely bypass the city but the hilly terrain would necessitate extensive, costly bridges and large earth- works. At the time this project was authorized, Congress was notified in accordance with usual A.I.D. procedures and did not object to its implemen- tation. The implications of the highway location were thoroughly discussed with the Congress.

The original project concept called for: (1) the design and supervision of highway construction to be carried out by a U.S. engineering firm; and (2) construction services to be provided by a U.S. construction company. A contract for the engineering services was signed with a joint venture of Daniel, Mann, Johnson and Mendenhall (DMJM) and Tippetts-Abbet-McCarthy-Stratton (TAMS). However, the project was redesigned during 1979/1980 because the Ministry of Communications (MOC) considered the bids received from American construction companies excessive in price. Under the revised project concept, the road was divided into two sections and the MOC contracted with two Syrian public sector firms, Mount Kassioun Construction Company (MK) for Section I, and the General Road Company for Section II, to build the highway under the supervision of DMJM/TAMS, financed by SARG. It was also contemplated that the construction firms were to be responsible for purchasing the American source and origin construction equipment and related spare parts, valued at

approximately $42 million. The A.I.D funds are associated only with this construction equipment and the U.S. engineering services under a modified "fixed amount reimbursement" (FAR) procedure. SARG is to pay the U.S. suppliers directly from its own foreign exchange for the equipment and be reimbursed by A.I.D. over the four-year construction period based on attainment of predetermined construction milestones. Due to the requirements of A.I.D. Regulation I, contracts were to be signed with local agents of U.S. manufacturers for necessary equipment, but payment was to be made directly to the U.S. manufacturers.

Although the Syrians began construction with their own funds in April 1980, progress has been behind schedule from the outset. Delays in procurement of U.S. construction equipment have arisen from the Syrian Government's unwillingness to accept equipment bids by U.S. suppliers which the Syrian authorities consider too high-priced compared with similar equipment from other sources, and the SARG's decision to divert the General Road Company (Section II) to work on other highway projects.

During April 1981, Mount Kassioun executed supply contracts totalling approximately $27.2 million with twelve local dealers of U.S. construction equipment manufacturers. The contracts were approved by the Syrian High Economic Committee in May 1981, but no Letter of Credit has been issued, apparently due to a SARG shortage of foreign exchange. On truck procurement, Mount Kassioun, with the concurrence of the SARG, did not award contracts to International Harvester (IH), the low responsive bidder for 158 trucks of various types valued at approximately $11 million. During October 1981, an IH representative visited Damascus and after negotiations provided a letter to Mount Kassioun and the SARG agreeing to certain requests by Mount Kassioun. These requests included IH signing the contract directly with Mount Kassioun, thus bypassing the IH local dealer, and a provision for IH technical assistance to Mount Kassioun to provide services beyond the capacity of the local dealer. To date, neither SARG nor Mount Kassioun has rendered a decision concerning the IH trucks.

Most of the selected U.S. suppliers and their agents have kept their contracts open, with price adjustments due to the passage of time. A.I.D. reviewed the latest prices in December 1982 and found they were reasonable. Recently, the SARG asked AID for approval to rebid the procurement to U.S. suppliers, eliminating the local agents in the transaction. Because initial procurement was properly conducted, with reasonable prices still available, A.I.D. advised the Syrians that it did not find any justification for rebidding, particularly since evidence indicates that U.S. prices are not likely to decrease. The USAID Mission in Damascus has also advised the Syrian representatives (the Ministry of Communications and the State Planning Commission) that, under normal A.I.D. procedures, if the Syrian Government did not act favorably on this procurement, the Terminal Date for Disbursement under this loan would expire and A.I.D.'s participation in the project would end. The Syrians have expressed their intent to utilize the loan funds and continue to be optimistic that an effective way can be found to utilize the loan. The terminal disbursement date for this loan is December 31, 1983, at which time the project would normally be terminated.

Attachment I - General Project Information

A. A.I.D. Project Number: 276-0012

B. A.I.D. Loan Number: 276-K-012

C. Loan Amount: $45,900,000

D. Loan Agreement Date: July 22, 1976

E. Terminal Date for Requesting Letter of Commitment:
Original: July 30, 1978
Revised: June 30, 1983 (TDRLC applicable only for engineering services)

F. Terminal Disbursement Date:
Original: June 30, 1980
Revised: December 31, 1983

G. SARG Implementation Agency:
(1) Ministry of Communications
(2) Mount Kassioun Construction Company

H. U.S. Consulting Firm: DMJM/TAMS
DMJM International/Tippetts-Abbett-McCarthy-Stratton (DMJM/TAMS)
Fred Swartzman, Resident Project Manager

Attachment II - Financial Status

A. Funds were obligated in FY 1976 in the amount of $45,900,000.

B. At the time of the "freeze" of all non-committed funds on April 9, 1981, it was estimated that of the $45,900,000 obligated, $35,735,000 had been committed and $10,165,000 had not been committed (or frozen). Revised estimates were made on April 28, 1981 which changed the amount committed to $44,998,000 and the amount frozen to $902,000. While these estimates have been evaluated again on September 11, 1981, December 31,1981, February 22, 1982, March 9, 1982, May 14, 1982 and in March 1983, the amount of funds committed has not changed.

C. On April 28, 1981, the amount of committed funds for the architectural and engineering contract with Daniel, Mann, Johnson and Mendenhall (DMJM) and Tippetts - Abbett, McCarthy, Stratton (TAMS) has been increased by $3.3 million to cover: (a) additional services from DMJM-TAMS that are needed as a result of construction supervision services will be needed, due to an estimated eight month delay in project completion (now scheduled for May 1985 at the earliest). This delay has arisen from problems associated with the failure in 1979 to obtain satisfactory construction bids from U.S. contractors and ensuing lengthy negotiations needed to reach a satisfactory alternate arrangement; (c) six million dollars ($6.0) added to the estimated costs of construction equipment being procured by the Syrian contractor. Contracts recently received provided spare parts at 20% of equipment costs, while earlier estimates had assumed 15%. Also freight at 15% of equipment costs has been added to cost of equipment.

D. On May 15, 1978, an A.I.D. Letter of Commitment was signed for $2,935,000 to DMJM/TAMS to provide architectural and engineering services for the construction of the highway. As of March 31, 1983, $2,201,000 had been expended and an undisbursed balance of $734,000 remained in this letter of commitment.

E. Contracts for equipment imports from U.S. suppliers totalling $27.4 million dollars were approved by SARG. However, this project was placed under modified FAR system (as with Damascus Water Supply) and the SARG did not have sufficient foreign currency to pay for them. Subsequently these offers ran out; and when new offers were received, SARG maintained prices were excessive. SARG has not yet signed these contracts. See Attachment III for a listing of these U.S. contingent suppliers with the amounts of these potential contracts follows:

Attachment III - Potential Equipment Supply Contractors for Damascus Dera'a Highway Project

COMPANY/ADDRESS	ITEM	FAS PRICE	CIF COSTS With Spare Parts
1. Fiat-Allis Milwaukee, Wisconsin	Dozers Loaders	4,800,000 1,460,000	6,240,000 1,898,000
2. Terex Hudson, Ohio	Dozers Loaders	560,000 1,750,000	728,000 2,275,000
3. Champion Road Machinery	Graders	1,170,000	1,521,000
4. Blaw Know Mattoon, Illinois	Pavers	1,345,250	1,748,825
5. Harnischfeger Corp. Milwaukee, Wisconsin	Cranes	1,400,000	1,820,000
6. WABCO Peoria, Illinois	Rear Dumpers (Off Hwy)	4,650,000	6,045,000
7. Cummins Engine Co. Columbus, Ohio	Generators	927,613	1,205,897
8. Dynapac Stanhope, New Jersey	Rollers	2,017,974	2,623,366
9. CMI Corp. Oklahoma City, OK	Autograder	654,480	850,824
10. Clark-Michigan Benton Harbor, Michigan	Dozers	369,600	480,480

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Grants

Project No. and Title	Contractor/Supplier	Date RFP Issued	Date Contract Signed	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
267-0002 English Language Training Center	Georgetown University School of Languages & Linguistics Washington, D.C. 20057	3/4/77	8/3/77	1,891	1,751	To assist the Government of Syria improve English proficiency of potential A.I.D. sponsored participant trainees and selected Syrian Government officials and to establish a viable English Language Training Center (ELTC) staffed by Syrians as teachers of English, replacing U.S. contract personnel of the ELTC.
276-0003 Argricultural Education and Livestock Production	University of Minnesota 121 Peters Hall 1404 Gortner St. Paul, Minn. 55108	12/27/77[1]/ 2/26/81	4/12/82	4,663	603	To expand University of Damascus educational and research activities, especially development of a graduate program leading to Master of Science Degree in fields of nutrition, poultry and dairy science. Some livestock are being provided to the University farm so students can learn "hands on" animal husbandry practices.
Participants for this project	Various U.S. universities and training institutions			1,301	943	
276-0004 General Participant Training	Various U.S. universities and training institutions	N.A.	2/27/75	7,108	5,755	To provide specialized training in the U.S. for key Syrian officials, and academic training in development related fields primarily for faculty members of Syrian universities.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Grants

Project No./ Title	Contractor/Supplier	Date RFP Issued	Date Contract Signed	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0005 Technical Services and Feasibility Studies II	Various U.S. universities and training institutions (Includes participants in training)	N.A.	9/20/77	3,500 (763)	3,083 (414)	To finance the cost of technical advice, feasibility studies and other consulting services to be carried out by U.S. and Syrian individuals, consulting firms or educational and other institutions. A total of 74 participants have been trained.
276-0019 Technical Health Institute	Medical Service Consultants, Inc. 1716 Wilson Blvd. Arlington, Va. 22209	2/14/79	9/17/79	4,721	3,525	To provide technical services, equipment and training to the Technical Health Institute for retraining of auxiliary health personnel.
	Participants in training			797		

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Grants

Project No./ Title	Contractor/Supplier	Date RFP Issued	Date Contract Signed	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0020 Soil Survey/Land Classification	Louis Berger International, Inc. 100 Halsted St. East Orange, N. J. 07019	3/15/79	10/10/79	2,200	2,200	To Strengthen the Government of Syria's capacity to undertake and maintain a current inventory of land and soil resources and to perform the necessary analysis and interpretations of these data to guide policy formulation and decision making in regard to land soil resource allocation and use.
276-0026 Technical Services and Feasibility Studies III	Various U.S. and Syrian individuals, consulting firms and educational institutions (Includes participants in training)	N.A.	7/12/78	2,000 (459)	1,796 (255)	To finance the cost of technical advice, feasibility studies and other consulting services to be carried out by U.S. and Syrian individuals, consulting firms or educational and other institutions.
	(Includes Louis Berger International, Inc. 100 Halted St. East Orange, N.J. 07019)	12/14/77	2/8/79	(1,591)	1,541	To conduct a comprehensive transportation sector study. (Partially funded under prior project).
276-0041 National Remote Sensing Center	Transcentury Corporation and Technical Development Corporation (Host Country Contract) 1789 Columbia Road, N.W. Washington, D.C. 20009	5/22/80	5/20/81	3,500	732	To provide technical assistance, training and commodities for the establishment of Syria's National Remote Sensing Center.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Loans

Project No. and Title	Contractor/Supplier	Date of 2/ AID Commitment	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0008 Damascus Water Supply I	Gilbert Associates, Inc. Morgantown Road Green Hills, Reading, Pennsylvania 19603	1/27/77 Contract signed 8/20/76	1,330	220	To provide architectural and engineering services for construction of the Damascus City Water Supply system.
	U. S. Pipe 3300 First Ave. North Birgmingham, Ala. 35202	IFB issued 12/24/80 12/2/80	18,654	5,605 1/	To import equipment for the Damascus Water Supply system
	Caterpillar Tractor Co. Peoria, Illinois	Proprietary Procurement Waiver Req. 7/2/80 4/3/81	1,898 1,389		To import equipment for the Damascus Water Supply system
	Meuller Co. 500 N. Eldorado St. Decatur, Illinois 62525	4/3/81	3,041 2,483		To import equipment for the Damascus Water Supply system
	Yazbak and Sons, Inc. 108 Becson Avenue Uniontown, Pa.	4/3/81	543 667		To import equipment for the Damascus Water Supply system
	O & E Trading Co. Post Office Box 853 Birmingham, Alabama 35201	4/3/81	1,620		To import equipment for the Damascus Water Supply system
	F & H Harnischfleger International Post Office Box Milwaukee, Wisconsin 30201	Proprietary Procurement Waiver Req. 7/2/80 4/3/81	519		To import equipment for the Damascus Water Supply system

1/Total for all below contracts in this project

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Loans

Project No. and Title	Contractor/Supplier	Date of[2/] AID Commitment	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0010 Damascus Water Supply II	Gilbert Associates, Inc. Morgantown Road Green Hill, Reading, Pennsylvania 19603	Contract signed 5/18/78 1/11/79	1,127	533	To provide architectural and engineering services for the construction of pumping stations and installation of communications and disatching systems.
	Philip E. Lamoreau with Gilbert Associates, Inc. Morgantown Road Green Hill, Reading, Pennsylvania 19603	Contract signed 12/3/80 2/19/81	1,169	451	To provide architectural and engineering services for the investigation of Figeh Spring.
	G. E. Boggs & Associates 6862 Elm Street McLean, Virginia 22101	2/18/81	3,080		To import equipment for a communications systems.
	G. E. Boggs & Associates 6862 Elm Street McLean, Virginia 22101	2/18/81	4,507		To import equipment for a dispatching system.
	General Company for Executing Industrial Projects Syria	2/18/81	3,625		To construct dispatching building, four pumping stations and to install utility systems for remote radio locations.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83))

Project No. and Title	Contractor/Supplier	Date of AID Commitment[2/]	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0011 Euphrates Basin Irrigation Maintenance	Louis Berger, International 100 Halsted St. East Orange, New Jersey 07019	8/7/78	2,320	1,433	To provide architectural and engineering services for the purchase and maintenance of equipment.
	Soule Steele Co. 6200 Wilmington Avenue Post Office Box 71618 Florence Branch Los Angeles, Calif. 70001	1/24/80	741	641	To import pre-fab steel buildings.
	Warner and Swasey Cedar and East Blvd. Cleveland, Ohio 44106	7/2/79	779	779	To import irrigation maintenance equipment.
	John Deere and Co. John Deere Road Moline, Illinois 61265	10/9/80	334	334	To import irrigation maintenance equipment.
	Clark International Marketing Post Office 333, Benton Harbor, Michigan 49002	7/2/79	590	581	To import irrigation maintenance equipment.
	J. I. Case Co. 700 State Street Racine, Wisconsin 53404	7/2/79	81	74	To import irrigation maintenance equipment.
	Koehring Co. Bomag D.R., 1210 Kenton St. Springfield, Ohio 44503	7/2/79	375	375	To import irrigation maintenance equipment.
	Wacker Corp. 3808 Elm Street Milwaukee, Wisconin 53209	7/2/79	34	33	To import irrigation maintenance equipment.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83))

Loans

Project No. and Title	Contractor/Supplier	Date of 2/ AID Commitment	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
Euphrates Basin Irrigation Maintenance (Continued)	Raygo Inc. 9401 8th Avenue North Minn., Minnesota 55445	7/2/79	34	33	To import irrigation maintenance equipment.
	American Export 6[illegible] New Hampshire Avenue Washington, D.C. 20037	7/2/79	190	190	To import irrigation maintenance equipment.
	Champion Road 107 McQueen St., West Columbia, S.C. 29169	7/2/79	347	341	To import irrigation maintenance equipment.
	New World Research One World Trade Center Suite 1717 New York, New York 10048	7/2/79	251	239	To import irrigation maintenance equipment.
	Insley Manufacturing 801 North Olney Street Ind., Indiana 46201	7/2/79	794	771	To import irrigation maintenance equipment.
	American Equipment Co. 150 E. Palmetto Park Rd Post Office Box 381 Boca Raton, Florida 33432	7/2/79	158	153	To import irrigation maintenance equipment.

18-551 O—83——45

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Loans

Project No. and Title	Contractor/Supplier	Date of 2/ AID Commitment	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0012 Damascus - Dera'a Highway	Daniel, Mann, Johnson and Mendenhall (DMJM) 775 I Street, N.W. Washington, D.C. 20006 with Tippetts-Abbet-McCarthy-Stratton (TAMS) 655 3rd Avenue New York, New York 10017	Contract signed 5/15/78 6/22/79	2,935	2,201	To provide architectural and engineering services for the construction of the Damascus-Dera'a Highway.

Potential Equipment Supply Contractors For
Damascus Dera'a Highway Project

COMPANY/ADDRESS	ITEM	FAS PRICE	CIF COSTS With Spare Parts
1. Fiat-Allis Milwaukee, Wisconsin	Dozers Loaders	4,800,000 1,460,000	6,240,000 1,898,000
2. Terex Hudson, Ohio	Dozers Loaders	560,000 1,750,000	728,000 2,275,000
3. Champion Road Machinery Columbia, S. Carolina	Graders	1,170,000	1,521,000
4. Blaw Knox Mattoon, Illinois	Pavers	1,345,250	1,748,825
5. Harnischfeger Corp. Milwaukee, Wisconsin	Cranes	1,400,000	1,820,000
6. WABCO Peoria, Illinois	Off Hwy	4,650,000	6,045,000
7. Cummins Engine Co. Columbus, Ohio	Generators	927,613	1,205,897
8. Dynapac Stanhope, New Jersey	Rollers	2,017,974	2,623,366
9. CMI Corp. Oklahoma City, OK	Autograder	654,480	850,824
10. Clark-Michigan Benton Harbor, Michigan	Dozer	369,600	480,480
			$27,436,392

Contracts for equipment imports from U.S. suppliers totalling $27.4 million dollars were approved by SARG. However, this project was placed under rediffied FAS system (same as Damascus Water Supply) and SARG did not have sufficient foreign currency to pay for them.. Subsequently offers ran out when new offers were received, SARG maintained prices were excessive. SARG has not yet awarded these contracts.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Loans

Project No. and Title	Contractor/Supplier	Date of AID Commitment[2/]	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0017 Lattakia - Tartous Highway	Lyon Associates, Inc. 6707 Whitestone Rd. Baltimore, Maryland 21207	6/25/79	5,022	1,924	To provide architectural and engineering services for the construction of the Lattakia-Tartous Highway.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Loans

Project No. and Title	Contractor/Supplier	Date of[2] AID Commitment	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0018 Rural Electrification	Gilbert Associates, Inc. Morgantown Road Green Hills, Reading, Pennsylvania 19603	Contract signed 3/31/79 2/29/80	5,269	4,097	To provide architectural and engineering services for the construction of rural electrification system.
	Southern Wood Piedmont Co. Post Office Box 5447 Spartanburg, S.C. 29304	11/30/80 IFB issued 3/29/81	16,285	12,344	To import wooden poles for rural electrification system.
	Southwire Co. Carrollton, GA. 30117	11/30/80 IFB issued 3/29/81	2,139	1,849	To import bare conductor for rural electrification system.
	ALCOA Conductor International 510 One Allegheny Square Pittsburgh, PA. 15212	11/30/80 IFB issued 3/2/81	2,394		To import insulated conductor for rural electrification system.
	Joslyn Manufacturing & Supply Company 9200 W. Fulberton Avenue Post Office Box 368 Franklin Park. Ill. 60137	11/30/80 IFB issued 3/29/81	954		To import hardware for rural electrification system.
	A. B. Chance, Inc. 720 N. Allen Street	11/30/80 IFB issued 3/29/81	208		To import hardware for rural electrification system.
	New World Research One World Trade Center Suite 1717 New York, New York 10048 Centralia, Mo. 65240	IFB issued 3/29/81	808		To import hardware for rural electrification system.
276-0024 Provincial Water Supply Systems	Syrian Construction Contractors	7/22/80 to 8/18/80[3]	16,104	7,728	To provide construction of provincial water supply systems on a reimbursable basis.

ACTIVE AID-FUNDED CONTRACTS IN SYRIA
($000 as of 3/31/83)

Loans

Project No. and Title	Contractor/Supplier	Date of 2/ AID Commitment	Contract Amount	Amount Disbursed 03/31/83	Contract Purpose
276-0033 Rural Roads	Syrian Construction Contractors	8/8/80 to 3/ 11/26/80	12,641	2,490	To provide construction of rural roads on a reimbursement basis.
276-0035 Rural Schools	Syrian Construction Contractors	9/5/80 to 3/ 2/3/81	9,633	5,505	To provide construction of rural schools on a reimbursement basis.
276-0036 Development Imports II (CIP)	Energy Efficiency Systems 187-B N. Orangethorpe Ave. Placenta, California 92670	10/16/79	535	496	To import, install and provide training services for air quality/pollution control monitoring equipment for the Meteorology Dept.
	Penske Power Systems	2/10/81	5,677 x/		To import five mobile gas turbines for electricity generation by the Minister of Electricity.

x/Although the IDD expired on 8/31/83, the performance bond remains valid pending completion of outstanding contractor obligations.

Footnotes:

1/ A contract was signed with the University of Nebraska for implementation of this entire Title XII project. A solicitation for a replacement contractor to implement the second phase was issued February 26, 1981.

2/ Commitment date is defined as the date an IFB was issued or contracts were signed. In some cases contract dates were not readily available, in these cases the dates of issuance of Letters of Commitment (L Com) against contracts was used. The L/Com data is always after the date of the contract. On loans for rural schools, rural roads, and provincial water, dates of AID approval and authorization to the Syrian Government to enter into construction were used as commitment dates as earlier agreed with Congress.

3/ Dates on which AID approved the designs and authorized the Syrian Government to enter into construction contracts.

4/ For Damascus Water Supply I Project (276-0009), the contracts for pipe, fittings and hardware, and construction equipment, whose combined value totals $30.8 million, were financed by commercial letters of credit issued by the Syrian Arab Republic Government utilizing its own foreign exchange. AID reimbursement to the SARG is on a modified fixed amount reimbursement based on construction progress of the water system.

APPENDIX 20

BIOGRAPHIES OF WITNESSES

NICHOLAS A. VELIOTES

Nicholas A. Veliotes was sworn in as Assistant Secretary of State for Near Eastern and South Asian Affairs on May 21, 1981. Prior to this appointment, he had served since 1978 as United States Ambassador to Jordan.

Mr. Veliotes, a career Foreign Service Officer, was born on October 28, 1928 in Oakland, California. He received Bachelors and Masters degrees from the University of California at Berkeley and served in the United States Arny from 1946 to 1948. He joined the Foreign Service in March, 1955.

Mr. Veliotes has served overseas as Deputy Chief of Mission in Tel Aviv (1973-75) and earlier in a variety of positions in Vientiane, New Delhi, Rome and Naples. In the Department, he has held the positions of Deputy Assistant Secretary for Near Eastern and South Asian Affairs (1977-78), Deputy Director of the Policy Planning Staff (1976-77), and as Special Assistant to the Deputy Secretary of State (1970-73). Mr. Veliotes was selected as a Woodrow Wilson Fellow at Princeton University in 1969.

Mr. Veliotes is married to the former Patricia Nolan. They have two sons.

COL. HOMER D. MCKALIP

Col. Homer D. McKalip has served as the Chief of the Middle East/South Asia Division of the Defense Security Assistance Agency since August 1980. In this position, he is responsible for U.S. security assistance within an area extending from Egypt to Bangladesh.

Colonel McKalip received a Bachelor of Arts degree from the Pennsylvania State University and a Master of International Affairs from the George Washington University. He is a graduate of the U.S. Army Command and Staff College and the National War College.

An armor officer, Colonel McKalip has served with tank and reconnaissance units in the United States and Europe. In addition to his present duties, he has had previous security assistance assignments in Vietnam, in Iran, and on the staff of the U.S. Army Chief of Staff.

RUSSELL MISHELOFF

1. Present Position

Director, Office of European Affairs;
Bureau for the Near East; and
Agency for International Development.

2. Previous Positions

Numerous positions in A.I.D.'s Bureaus for the Near
East, Africa and Latin America serving in Washington and overseas; and
Peace Corps Volunteers in Ethiopia.

3. Education

M.A. in Economics, American University, 1973;
M.A. in International Relations, University of Pennsylvania, 1962;
B.A. in Economics, University of Michigan, 1961.

W. Antoinette Ford

W. Antoinette (Toni) Ford is the Assistant Administrator for the Near East in the Agency for International Development (AID).

Ms. Ford, nominated by President Reagan and confirmed by the U.S. Senate, administers AID programs that provide economic and humanitarian assistance to Egypt, Israel, Jordan, Turkey, Cyprus, Morocco, Oman, Syria, Portugal, Tunisia, Yemen, Italy and Lebanon.

Ms. Ford worked for General Motors first as a corporation manager for career planning and managerial recruiting in Detroit and later as manufacturing superintendent for the Fisher Body Division, where she had full responsibility for a $60 million production facility.

In 1971 she was a White House Fellow and a special assistant to Secretary of the Treasury John Connally. In that capacity, she represented the United States in South Asia, Japan and Africa. She also was elected as a delegate to the International Peace Academy in Helsinki, Finland, in 1972.

From 1973 to 1975 she was a City Councilwoman for Washington, D.C. President Gerald Ford appointed Ms. Ford to the Presidential Clemency Board in 1975 and in 1976 she was designated deputy director of the Office of Federal Contract Compliance Programs.

Ms. Ford received her bachelor's degree from Chestnut Hill College in Philadelphia, Pennsylvania, and did graduate study in biology at American University. She was a Fellow at Harvard University's Institute of Politics and performed research at the Harvard Business School.

Ms. Ford has been a National Science Foundation Fellow at Stanford University, where she studied biological oceanography. She worked as a oceanographer for the U.S. Navy Department and for Ogden Corporation before her assignment as a White House Fellow. Ms. Ford was a member of the American Council of Young Political Leaders delegation to the Soviet Union in 1974 and chaired the delegation's conference on the uses of communication technology. Ms. Ford was also a member of the State Department's Threshold Review Panel, which recommends foreign service junior officers for career status and tenue.

Ms. Ford has received numerous awards, including the United Nations Association Service Award for humanitarian service in 1976.

She is married to Melvin Ford and they have a daughter, Regan.

Maj. Gen. Richard V. Secord

Maj. Gen. Richard V. Secord is deputy assistant secretary of Defense for international security affairs (Near East, Africa and South Asia affairs), Washington, D.C.

General Secord was born July 6, 1932, in La Rue, Ohio, and graduated from high school in Columbus, Ohio, in 1950. He entered the U.S. Military Academy, West Point N.Y., in 1951, and graduated in 1955 with a bachelor of science degree and a commission in the U.S. Air Force. He received a master of science degree in international affairs from The George Washington University, Washington, D.C., in 1972. He is also a graduate of the Air Command and Staff College at Maxwell Air Force Base, Ala., and the Naval War College, Newport, R.I.

He entered pilot training at Marianna, Fla., after graduation from the academy, and received his pilot wings in August 1956 at Greenville Air Force Base, Miss. He then served as an instructor pilot in single-engine jet basic pilot training from 1956 until 1959 at Laredo Air Force Base, Texas. From 1959 until 1961, General Secord was assigned as a flight instructor and operations officer at Tinker Air Force Base, Okla., flying jet trainers and transports including T-33s, U-3s, C-54s and C-97s.

In August 1961 he was selected to serve with a special volunteer tactical organization which was formed at Hurlburt Field, Fla. He remained with this unit, later designated as the 1st Air Commando Wing, until 1965. During this four-year assignment General Secord had numerous extended temporary duty tours in overseas areas. In March 1962 he was assigned as an adviser to the Republic of Vietnam, flying Vietnamese air force AT-28s, during which time he logged more than 200 combat missions. Beginning in January 1963 he served for six months in Iran working with the Iranian air force as an adviser on air-ground operations. General Secord again was assigned on temporary duty tours in Iran from January to May 1964 and from January until March 1965, working on joint operations.

The general then served as chief of the Tactical Operations Division, 1st Air Commando Wing, until July 1965 when he entered the Air Command and Staff College. After graduation in 1966, he returned to the Republic of Vietnam as an air operations officer in Saigon. Transferring to Udorn Royal Thai Air Force Base, Thai-

land, in August 1966, he served as an air adviser until August 1968. He flew 285 combat missions while serving in Southeast Asia.

From September 1968 to November 1969, General Secord was assigned to Eglin Air Force Base, Fla., as assistant deputy chief of staff for operations, U.S. Air Force Special Operations Force, Tactical Air Command. He then took command of the 603rd Special Operations Squadron at Hurlburt Field, flying A-37B's. He served as squadron commander until 1971 when he entered the Naval War College.

After graduation from the Naval War College in June 1972, General Secord was assigned as a staff assistant in the Office of the Secretary of Defense, Washington, D.C. His duties included serving as desk officer for Laos, Thailand and Vietnam under the assistant secretary of Defense for international security affairs. In July 1973 he assumed the position of executive assistant to the director, Defense Security Assistance Agency, under the secretary of Defense.

In March 1975 General Secord was named deputy commander for operations, 29th Flying Training Wind, Craig Air Force Base, Ala. In this position he was responsible for pilot training in T-37s and T-38s in three squardrons.

General Secord was appointed chief, Air Force Section, Military Assistance Advisory Group, Iran, in September 1975. While there he acted as chief adviser to the commander in chief of the Iranian air force, and managed all U.S. Air Force programs in Iran as well as some Army and Navy security assistance programs.

Following his return to the United States in July 1978, he was appointed director of military assistance and sales, Office of the Deputy Chief of Staff, Logistics and Engineering, Headquarters U.S. Air Force, Washington, D.C. In January 1979 General Secord was named director of international programs, Office of the Deputy Chief of Staff for Programs and Evaluation. He assumed his current duties in April 1981.

General Secord is a command pilot with more than 4,500 flying hours. His military decorations and awards include the Distinguished Service Medal, Legion of Merit, Distinguished Flying Cross, Meritorious Service Medal, Air Medal with two oak leaf clusters, Air Force Commendation Medal, Republic of Thailand Most Exalted Order of the White Elephant and Republic of Korea Order of National Security Merit Cheonsu Medal.

He was promoted to major general May 1, 1980, with date of rank July 1, 1976.

General Secord is married to the former Jo Ann Gibson of Oklahoma City. They have three children: Julie, John and Laura. His hometown is Fort Walton Beach, Fla.

Lt. Gen. Philip C. Gast

Lt. Gen. Philip C. Gast is director, Defense Security Assistance Agency, Office of the Secretary of Defense, Washington, D.C.

General Gast was born Jan. 9, 1930, in Philadelphis, Mo., and graduated from Emerson-Philadelphia High School in 1948. He received a bachelor of science degree from the University of Missouri in 1952 and was commissioned a second lieutenant through the Air Force Reserve Officers' Training Corps program. General Gast graduated from Squadron officer School in 1957, at Maxwell Air Force Base, Ala. He received a master's degree in military science through the Army Command and General Staff College, Fort Leavenworth, Kan., in 1965, and completed the National War college, Fort Lesley J. McNair, Washington, D.C., in 1970.

He entered active duty in August 1952 and completed pilot training at James Connally Air Force Base, Texas, in December 1953. In April 1954, after gunnery training at Williams and Luke Air Force Bases, Ariz., he went to Turner Air Force Base, Ga., where he was assigned as an F-84 pilot in the 31st Fighter-Bomber Wing.

In April 1955 he transferred to Larson Air Force Base, Wash., as an RF-84F pilot with the 71st Strategic Fighter Reconnaissance Wing. From April to July 1957, he attended Squadron Officer School He next was assigned to Bergstrom Air Force Base, Texas, and flew F-84s for the 12th Tactical Fighter Wing and F-101s in the 27th Tactical Fighter Wing. In January 1959 he began a tour of duty with the 81st Tactical Fighter Wing at Royal Air Force Station Bentwaters, England, again flying F-101s.

General Gast returned to the United States in March 1962 and was assigned to George Air Force Base, Calif., as an F-105 pilot in the 355th Tactical Fighter Wing and became chief, wing standardization and evaluation. Following completion of the Army Command and General Staff College in June 1965, General Gast was assigned to Headquarters Tactical Air Command, Langley Air Force Base, Va., as chief of the command briefing team and later as chief, Fighter Commitments Branch.

From July 1966 to January 1967, during the Vietnam War, he was assigned to the operations staff, 355th Tactical Fighter Wing and later became commander of the 354th Tactical Fighter Squadron, Takhli Royal Thai Air Force Base, Thailand. General Gast completed 114 combat missions, 101 of which were flown over North Vietnam. He is credited with destroying one MiG-17.

He was next assigned to Hahn Air Base, Germany, in July 1967 as operations officer of the F-4 equipped 10th Tactical Fighter Squadron. He became squadron commander in November 1967.

Following graduation from the National War College in June 1970, the general was assigned to Headquarters U.S. Air Force, Washington, D.C., as an executive officer to the Air Force vice chief of staff. In April 1971 he became deputy director of doctrine, concepts and objectives in the Office of the Deputy Chief of Staff for Plans and Operations.

General Gast was named vice commander of the 12th Flying Training Wing, Randolph Air Force Base, Texas, in July 1972. He then served as commander of the 3550th (redesignated the 38th) Flying Training Wing, Moody Air Force Base, Ga., from August 1973 to April 1975.

He became vice commander, San Antonio Air Logistics Center, Kelly Air Force Base, Texas, in April 1975. In December 1976 he transferred to Wright-Patterson Air Force Base, Ohio, where he served as assistant for international logistics, Air Force Logistics Command, until June 1977 when he became the command's chief of staff.

From November 1977 to October 1979, General Gast served as chief, Military Assistance Advisory Group, Iran. In November 1979 he returned to the United States as assistant for readiness at Tactical Air Command headquarters, and in March 1980 became the command's vice commander. In July 1980 he was named director for operations, Joint Staff, Organization of the Joint Chiefs of Staff, Washington, D.C. He assumed his present duties in August 1982.

He is a command pilot with more than 4,150 flying hours. His military decorations and awards include the Defense Distinguished Service Medal with one oak leaf cluster, Silver Star with one oak leaf cluster, Legion of Merit with one oak leaf cluster, Distinguished Flying Cross with three oak leaf clusters, Bronze Star Medal, Meritorious Service Medal, Air Medal with 10 oak leaf clusters and Air Force Commendation Medal.

He was promoted to lieutenant general March 1, 1980, with same date of rank.

General Gast is married to the former Kay Martin of Menlo Park, Calif. They have three children: Tracy, Philip II and Mark. His hometown is Ewing, Mo.

James A. Placke

Born: June 14, 1935 at Grand Island, Nebraska.

Education: Graduated from University of Nebraska· B.S. in Business Administration—1957; M.A. in Economics—1959.

Professional: Entered the Foreign Service in September 1958. From 1959 to 1971, Mr. Placke served mainly as an economic specialist on the staff of U.S. Embassies in Iraq, Kuwait and Libya, and also completed Arabic language training at Beirut, Lebanon. He received the State Department's Meritorious Honor Award in 1969 and again in 1971 for his work on petroleum and financial matters.

While assigned to the State Department from 1971 to 1976, Mr. Placke served as a Foreign Service Inspector and as Director of the Department's Office of Food Policy. In this capacity, he was a member of the U.S. delegation to the World Food Conference in 1974. He was assigned to the Embassy at Ottawa, Canada, as Counselor for Economic and Commercial Affairs in 1977 and from there to the Embassy at Jidda, Saudi Arabia, as Deputy Chief of Mission in 1979.

Returning to Washington in August 1982, he is serving as a Deputy Assistant Secretary in the State Department's Bureau of Near Eastern and South Asian Affairs, where he is responsible for overseeing economic matters in that region and also for general relations with the states of the Persian Gulf area.

Charles W. Johnson

Charles W. Johnson has served as the Director, Office of Development Planning, Near East Bureau in the Agency for International Development since December, 1981. He was commissioned in the Senior Foreign Service with the rank of Counselor in February, 1982. Previously, he served as Deputy Director, Office of Development Planning in the Asia Bureau (1978-81), Program Officer in the USAID Mission in Bangladesh (1976-1978), Deputy Program Officer in the USAID Mission to

Afghanistan (1973-1976), Assistant Program Officer in the USAID Mission to Ethiopia (1968-1972), and Assistant Desk Officer for Somalia in the Africa Bureau in A.I.D. (1967-1968). Prior to joining A.I.D. in 1967 as a Management Intern, Mr. Johnson was a Peace Corps Volunteer in rural Ethiopia (1964-1966) and a budget analyst for the City of Los Angeles (1963-64). Born in California on February 2, 1941, Mr. Johnson attended California State University Los Angeles (B.A.) and the University of California at Los Angeles (M.A.). He and his wife, the former Patricia McHale, have two children, Juliet Elizabeth and Gregory Charles.

David A. Santos, Jr.

David A. Santos, Jr., of Washington, D.C., born Plymouth, Massachusetts, 1935; educated in the public schools of Plymouth, Massachusetts; received BS degree Holy Cross College, Worcester, Massachusetts, 1957; MA degree Indiana University, Bloomington, 1960; U.S. Civil Service Commission 1961-63; Agency for International Development 1963 to present; Director, Office of American Schools and Hospitals Abroad, 1978 to present; married former Carol M. Connelly, 1965.

Nabeeb E. Halaby

Najeeb E. Halaby is President of Halaby International Corporation, a firm engaged in development and finance in the Eastern Hemisphere. He was formerly Chief Executive Officer of Pan American World Airways (1969-72), and he served President Kennedy as Federal Aviation Administrator. Previously, he served President Truman and Secretary Forrestal as a Defense Affairs Advisor during formation of NATO and the Mutual Defense Aid Program, and President Eisenhower as Deputy Assistant Secretary of Defense for International Security Affairs.

Mr. Halaby is Chairman of the Board of Trustees of the American University of Beirut, and is its first chairman of Lebanese heritage. He is a Fellow of the American Institute of Aeronautics and Astronautics and also serves on the Boards of the Aspen Institute for Humanistic Studies, Business Council for International Understanding, Colorado State University, and Eisenhower Exchange Fellowships. He is a Director of BankAmerica Corporation, International Information Services Co., Ltd. (Chairman), Inter-Asia Management Co., Ltd, and Menlo Financial Corporation He is a graduate of Stanford University (AB 1937) and the University of Michigan and Yale Law School (LLB 1940). He holds honorary degrees from Allegheny College and Loyola University. His publications include "Crosswinds", "The First 40 Years of Jet Aviation", and numerous articles on civil aviation and the Middle East.

Malcolm H. Kerr

Malcolm H. Kerr is the ninth President of the American University of Beirut. For the 20 years preceding his 1982 appointment as President, he was professor of political science at the University of California at Los Angeles, and had served for several years as a trustee of AUB. He was born in 1931 in Beirut, where his father, the late professor Stanley Kerr, taught bio-chemistry at the university for 36 years.

Dr. Kerr earned his BA at Princeton, obtained his MA in Arab Studies from AUB, and received his PhD in international relations from Johns Hopkins in 1958. He taught at AUB from 1958 to 1961 and again from 1965 to 1966. Fluent in Arabic, Dr. Kerr is an authority on Middle Eastern Affairs and was director of the University of California's G.E. von Grunebaum Center for Near Eastern Studies from 1977 to 1979. He had previously served as dean of UCLA's division of social sciences. Dr. Kerr is the author of numerous books and articles on the Middle East.

Bernice Tannenbaum

Bernice Tannenbaum is the immediate past president of Hadassah, the Women's Zionist Organization of America, which is the largest women's volunteer organziation in the United States. With over 370,000 members, Hadassah is also the largest Jewish organization in the country and the largest Zionist organization in the world. She is now chairman of the Hadassah Medical Organization which includes the Hadassah-Hebrew University Medical Center in Jerusalem, and a network of clinics as well as full partnership with the Hebrew University in various schools of medicine, health and nursing.

Mrs. Tannenbaum, a life-long Zionist, was elected chairman of the American Section of the World Zionist Organization at the World Zionist Congress held in Jerusalem in December 1982. She is a member of the Board of Governors of the Jewish Agency, a member of its Assembly, and a member of the Conference of Presidents of Major American Jewish Organizations.

Mrs. Tannenbaum is the co-president of the World Confederation of United Zionists, as well as a member of the Executive of the American Zionist Federation.

She is national vice-president of AIPAC (American Israel Public Affairs Committee).

She is a member of the executive bodies of the National Conference for Soviet Jewry; the World Jewish Congress-North American and American Sections, and chairman of its International Affairs Commission; a member of the Board of Directors of the Jewish Telegraphic Agency; a member of the Board of Governors of the Hebrew University and of the United Israel Appeal. She has been an official delegate to the Board of Governors of the World Jewish Congress at meetings held in Geneva, Amsterdam, Washington, D.C., and Jerusalem.

She is a member of Mayor Koch's Holocaust Commission for the City of New York, and a member of the American Holocaust Commission, headed by the Hon. Arthur Goldberg.

Since she joined Hadassah in 1940, she has held a variety of positions on the Chapter, Region and National levels, as National Vice President, National HMO Fundraising Chairman, Ya'al Liaision, Zionist Affairs and Youth Aliyah chairman. She was also National Secretary and National Membership chairman. She was chairman of Hadassah's tribute to Israel's 20th Anniversary and of the first Hadassah Mid-Winter Conference ever to be held in Israel. And in 1982-83 she was chairman of Hadassah's 70th Anniversary Committee.

She was instrumental in founding the Kew Gardens Chapter of Hadassah in 1944. In 1948 she was one of the organizers of the Long Island Region and in 1954 she became its president. She later helped to create the Nassau-Suffolk Regions of Hadassah, off-shoots of the former Long Island Region.

In 1953, in recognition of her ability as a speaker, she was sent to Israel by National Hadassah as its Speaker's Bureau Fellow-of-the-Year. Mrs Tannenbaum has been a member of the National Board of Hadassah since 1954. In 1957 she became National Chairman for Junior Hadassah and it was during her chairmanship that Junior Hadassah became a department of National Hadassah. In 1961 she was appointed chairman of Hadassah's Press, Radio/TV Department. Mrs. Tannenbaum served as co-chairman of Hadassah's National Conventions in 1962 and 1963. In 1969, as Youth Aliyah chairman, she coordinated an International Specialists Seminar on Group Care, co-sponsored by Youth Aliyah and Hadassah in Jerusalem.

Mrs. Tannenbaum made her first trip to Israel in 1950. She has been a delegate to seven World Zionist Congresses. She has made more than 50 visits to Israel over these years; she was delegate to the Sixth Plenary Assembly of the World Jewish Congress in Jerusalem, February, 1975 and to the Assemblies of the Jewish Agency in 1975, 1976, 1977, 1978, 1979, 1980 and 1981.

Mrs. Tannenbaum was a delegate representing Hadassah and the World Jewish Congress to the U.N. Mid-Decade Conference on Women held in Copenhagen in 1980.

She participated in the rededication of the Hadassah University Hospital, Mount Scopus in October, 1975 and the Double Dedication ceremonies of the Hadassah-Hebrew University Medical Center of the Guggenheim Rehabilitation Pavilion on Mount Scopus, and the Ulmann Building for Cancer and Allied Diseases at Ein Karem in June, 1976.

Mrs. Tannenbaum served as co-editor of *The Hadassah Idea*, the handbook on Hadassah which is widely used by Hadassah leaders throughout the country.

A woman of broad interests, Mrs. Tannenbaum has served over the year as General Chairman of the UJA's Queens Women's Division, a member of the New York and National UJA Advisory Boards, chairman of the Long Island Women's Division of Bonds for Israel, Social Actions chairman of her local sisterhood. She was also active in the P.T.A., Jewish Community Council, and the United Hospital Fund Drive in her community as well as many other ad-hoc committees and commissions set up to benefit the general and Jewish communities.

Mrs. Tannenbaum has acted as Conference Advisor to almost all Regions of Hadassah. Mr. and Mrs. Tannenbaum are Founders of the Hadassah-Hebrew University Medical Center, both at Ein Karem, and at Mount Scopus and are members of the society of Major Donors of Hadassah.

Mrs. Tannenbaum was born in Brooklyn, N.Y., and received her B.A. Degree in English and Art from Brooklyn College.

THOMAS A. DINE

Thomas A. Dine, an expert on American foreign and defense policy, has been Executive Director of the American Israel Public Affairs Committee since October 1980. In February 1982, he was cited by Washingtonian magazine as being one of the 100 most influential people in Washington. In March 1983, he was appointed by the Administration, along with 14 other distinguished citizens, to be a public member of the Commission on Foreign Security and Economic Assistance.

Mr. Dine's previous 10-year Senate experience includes: deputy foreign policy advisor to Senator Edward M. Kennedy; SALT advisor to Senator Edmund Muskie; director of the national security staff of the Senate Special Committee on National Emergencies and Delegated Emergency Powers; legislative assistance for foreign affairs to Senator Frank Church.

His articles regularly appear in various public affairs journals, the Washington Post, New York Times, and other newspapers. As a senior fellow at the Brookings Institution, Mr. Dine co-authored the 1979 chapter on the defense budget in Setting National Priorities. In 1974-1975, he held fellowships at Harvard University's Kennedy Institute of Politics, the Center for International Affairs, and the Program for Science and International Affairs.

Before coming to Capitol Hill, Mr. Dine served as personal assistant to Ambassador Chester Bowles at the American Embassy in New Delhi, India. He was U.S. Peace Corps congressional liaison and before that a Peace Corps volunteer in the Philippines from 1962-1964.

Born in Cincinnati in 1940, Mr. Dine has a B.A. from Colgate University and an M.A. from the University of California in South Asian history.

DOUGLAS M. BLOOMFIELD

Douglas M. Bloomfield is Legislative Director of the American Israel Public Affairs Committee.

He joined AIPAC after nine years as a senior legislative assistant to Congressman Benjamin S. Rosenthal of New York. Prior to that, he was a legislative assistant and speech writer for Senator Hubert H. Humphrey. Mr. Bloomfield has played a leading role in the major legislative and other Congressional initiatives affecting Israel and Soviet Jewry.

Mr. Bloomfield holds BA and MA degrees from Ohio State University, where he also did post-graduate study in legislative government. He was the recipient of fellowships from the Ford Foundation to legislative government, the Washington Journalism Center, and the American Political Science Association Congressional Fellowship and the Van Leer Jerusalem Foundation. Prior to coming to Washington, Mr. Bloomfield was on the editorial staff of the Cleveland (Ohio) Plain Dealer and taught college journalism courses. His articles have appeared in a variety of publications.

AIPAC is the only registered lobbying group which works on behalf of legislation and other Congressional action affecting Israel. It is also active in other public action in Washington to improve the friendship and cooperation between the United States and Israel.

ROBERT A. BASIL

Robert A. Basil is the founder and president of Robert Basil International, Inc. (RBI), a high technology international consulting firm with major corporate clients in the U.S., Canada and Europe.

Mr. Basil served from 1971 through 1977 as a senior Pentagon official in NATO, Middle East and Far East affairs. He served six years as a principal member of the Middle East Task Group responsible to the Secretary of Defense for Middle East decisions and actions. Specifically, Mr. Basil was responsible for all international R&D procurement, technology transfer, foreign military sales, East-West trade and COCOM and technical military positions for DOD and interagency groups. In addition, he interfaced with the White House; Congress; Departments of State; Commerce and Treasury; NASA and senoir officials throughout the world.

Some major accomplishments were:

Author and major architect of NATO RSI, thus initiating policies of international cooperation in R&D and production for increased NATO military and industrial capability.

DOD positions ofn East-West Trade, COCOM, technology transfer and control.

Interagency techno-military positions on hardware and technology release in Middle East.

Interagency techno-military position on hardware and technology release in NATO-Warsaw Pact context.

400 Data Exchange Agreements, Memoranda of Understanding and Protocols with foreign countries around the world, including the U.S.S.R.

Approval of all FMS, international co-production and licensing agreements.

DOD policy on international transfer of R&D and production technology consistent with national economic, technological, political and military objectives.

Interface with many Ministries of Defense and Foreign Ministries around the world.

From 1954 to 1971, Mr. Basil served in senior management positions with Hughes Aircraft Company and Rockwell International in missile, avionics, and reconnaissance and strategic programs.

As President and chairman of the Board of the American Lebanese League, Mr. Basil has met with two U.S. Presidents and Vice Presidents, several top foreign officials and His Holiness Pope John Paul II. Mr. Basil has testified before Congress on sixteen different occasions during the past five years on Lebanon and U.S. policy. Mr. Basil has had close personal relations with the late President-Elect of Lebanon, Bashir Gemayel, and with his brother, now Lebanese President Amin Gemayel.

Mr. Basil is a graduate of West Point. Further, he has done graduate work in physics and mathematics at the University of California and the University of New Mexico.

Married to the former Labibe Sissi, Mr. Basil is the father of three boys—Bobby, "J.J" and Phillip.

DAVID J. SADD

Mr. Sadd was appointed Executive Director of the National Association of Arab Americans in October, 1980. He had previously served the organization as Treasurer and member of the Board of Directors and the Executive Committee. He has had extensive involvement with Middle East issues and with Arab-American relations.

Education: U.S. Naval Academy, BS in Naval Science, Minor in Electrical Engineering; George Washington University, MBA Finance & Investment/International Business.

Background: Served as a U.S. Naval Officer from 1966 to 1969. From 1969 to 1980, Mr. Sadd was associated with prominent Wall Street firms representing them in various investment banking and securities trading capacities. Mr. Sadd has provided financial consultant services to governmental institutions.

Misc: Serves on the Board of Directors of the American Near East Refugee Aid, the Industrial Development Financing Authority of Loudoun County, Virginia, and the Board of Governors of the Army & Navy Club in Washington, D.C.

Mr. Sadd is married with four (4) children and resides in Virginia.

JAWAD F. GEORGE

EMPLOYMENT EXPERIENCE

January 1979-Present: Law offices of Jawad F. George, 5010 Wisconsin Ave., N.W., Washington, D.C. 20016, President.

Responsibilities: Management and supervision of eight person staff involved with following types of legal representation: legal counsel to foreign sovereigns, international law, general corporate, political consultation, administrative law, economic development programs, and other representation of individuals and groups.

August 1976-January 1979: Arnold & Porter, 1200 New Hampshire Ave., N.W., Washington, D.C. 20036, Associate.

Responsibilities: Associate at major Washington, D.C., law firm; participated in major litigation in the following areas: antitrust, SEC, aviation, commercial arbitration, employment discrimination; designed system to computerize factual background information in complex class action litigation; supervised other attorneys and paralegals.

March 1979-May 1979: Antioch School of Law, 1624 Crescent Place, N.W., Washington, D.C. 20009, Adjunct Faculty.

Responsibilities: Taught government internship seminar designed to integrate traditional legal education with actual practice in government legal offices.

January 1975-September 1975: Chief Justice Warren Burger, United States Supreme Court, Washington, D.C., Judicial Intern and Research Associate.

Responsibilities: Examined various aspects of judicial administration and formulated alternatives for reform; monitored activities on Capitol Hill; speechwriting; undertook major study of course offerings of every law school in the country.

May 1973-September 1973: Congressman Edward J. Patten, Rayburn House Office Building, Washington, D.C. 20515; Legislative Assistant.

Responsibilities: Formulated legislative proposals; represented Congressman at various meetings; handled constituent responses.

January 1972-September 1972: Senator Edward Kennedy, Residence in McLean, Virginia; personal aide.

Responsibilities: Handled constituent responses received at the Senator's residence; assisted with social and political functions conducted at Kennedy household.

EDUCATION

Juris Doctorate. Antioch School of Law, Washington, D.C., 1976.

Achievements: Received designation of "Honors" on approximately 90 percent of all classroom and clinical work; thesis: "The Domino Theory of Legal Education," a computerized analysis of the interrelationship of the following factors: pre-law school grades, LSAT scores, classroom performance in law school, ability to pass a bar examination, and basic lawyering competency; published materials on teaching paralegal basic law courses; "Who's Who Among Law Students."

Master of Science in Foreign Service. Georgetown University Graduate School, Washington, D.C., 1973. Major: International Law and Organization.

Achievements: Graduated with "Distinction"; received Fellowship to study at the Bologna Center of the School of Advanced International Studies, Bologna, Italy; selected to participate in combined undergraduate/graduate degree program; designed curriculum which included international law courses at Georgetown University Law Center.

Bachelor of Science in Foreign Service. Georgetown University School of Foreign Service, Washington, D.C., 1972. Major: International Economic Affairs.

Achievements: Dean's List; President Georgetown University Student Senate; School of Foreign Service Academic Committee; "Who's Who Among University Students."

JAMES J. ZOGBY

James Zogby is the National Organizing Director of the American-Arab Anti-Discrimination Committee (ADC). He also serves as the National Chairman of the Palestine Human Rights Campaign.

Married, with four children, he is a native of Utica, New York. He received his Ph. D. in 1975 from Temple University in Philadelphia in the area of Islamic Studies, from the Department of Religion—his dissertation on "Arabs in Israel". He formerly held the position of Associate Professor of History and Philosophy at Shippensburg State College in Pennsylvania. His publications include the monthly Palestine Human Rights Bulletin, and numerous articles and books on the Palestine Question and U.S. Middle East policy, including "New Perspectives on Palestinian Arabs and Israeli Jews," and "Zionism and the Problem of Palestinian Human Rights."

Dr. Zogby has been an invited speaker before a number of U.N. Conferences both in the U.S. and Europe, and has recently testified before the National Council of Churches Middle East Panel and Numerous House and Senate Committees.

FRANCES E. NEELY

Education: MA from the University of California at Berkeley.

Mr. Neely has served on the staff of the Friends Committee on National Legislation for 23 years. Her areas of responsibility have included military spending, international development, and UN related issues.

PETER S. KOUCHALAKOS

The accomplishments and activities of Supreme President Peter S. Kouchalakos would easily fill the biographies of three active individuals.

In addition to B.A. and M.A. degrees from the University of Miami, he has taken graduate courses at Peabody College, Atlantic University, and Chicago University's Kellogg Center. Until his retirement in 1979, Kouchalakos had spent 32 years as a teacher, coach, and administrator for the Dade County Public School System. He is also a licensed and registered psychologist in the Domestic Relations Court in Miami, FL.

The Supreme President's AHEPA accomplishments are equally impressive. In addition to holding various chapter offices he served on the District No. 2 Lodge for six years, including two years as Governor. He has served as Supreme Governor, Treasurer, Secretary, and Vice-President, was a member of the Supreme Board of Trustees for five years, and a six year member of the AHEPA Educational Foundation, including one year as Chairman.

He has been elected Supreme Convention Chairman three times, and has attended over 35 District and Supreme Conventions as a delegate. He neatly sums up his AHEPA activity by saying: "No matter whatever other activities I had going on in my life, my work for AHEPA always came first."

Brother Kouchalakos has also been deeply involved in various Miami community organizations. He has served on the Executive Committee of the Dade County March of Dimes for 11 years, and presently serves on the City Commissioners Advisory Board, the Dante Fascell U.S. Congress Academy Civil Service Board, Dade County Water and Sewer Board, and as Chairman of the Miami Reading Olympics Committee. In 1980 he was the U.S. Census Director for Dade and Monroe Counties and was in charge of over 1,700 employees conducting the census.

He and his wife, Penelope, are the parents of three children.

PAUL BERNARD HENZE

Born in Minnesota in 1924. Entered U.S. Army at age of 18 and served three years in World War II, primarily in Europe. Earned BA from St. Olaf College in 1948 (Summa cum Laude, History, Languages) and MA from Harvard University in 1950 (Russian Program).

Spent 30 years in U.S. Government and government-related organizations, 1950–1980, including Radio Free Europe, Johns Hopkins Operations Research Office, Department of Defense, U.S. Embassies in Addis Ababa and Ankara and National Security Council Staff (1977–1980).

Retired from U.S. Government December 1980 and has since been active as business consultant and free-lance journalist, contributing to the Christian Science Monitor, Wall Street Journal, Reader's Digest and other publications.

Publictions include "Ethiopian Journeys" (London, 1977) and numerous articles in scholarly journals and periodicals on Caucasus and Central Asia, Eastern Europe, Turkey, Ethiopia, archaeology, current affairs, travel, broadcasting and linguistics.

During 1982, Fellow at the Woodrow Wilson Center for Scholars at the Smithsonian Institution, Washington, D.C., working on project "The Superpowers and the Horn of Africa—Dilemmas and Challenges."

Currently Resident Consultant, RAND Corporation, Washington, D.C.

EUGENE T. ROSSIDES

Eugene T. Rossides is a senior partner in the New York and Washington law firm of Rogers & Wells.

Mr. Rossides served as Assistant Secretary of the United States Treasury Department from 1969 to 1973. His responsibilities included direct supervision of the U.S. Customs Service, U.S. Secret Service, Bureau of Alcohol, Tobacco & Firearms, Bureau of the Mint, Bureau of Engraving and Printing, Office of Tariff and Trade Affairs, Office of Foreign Assets Control, Office of Law Enforcement, Office of Operations, and Consolidated Federal Law Enforcement Training Center, and policy guidance for Internal Revenue service law enforcement activities.

Mr. Rossides was the customs, tariff and trade policy advisor to the Secretary of the Treasury and handled Treasury's relations with the Congress and with the other Executive Departments on those matters. He had final authority for Treasury's decisions under the customs and related laws including tariff classifications and valuations, and the Antidumping and Countervailing Duty laws. He supervised

U.S. relations with the Customs Cooperation Council (CCC), an international organization of some 72 countries. He is the author of "U.S. Customs, Tariffs, and Trade," published by the Bureau of National Affairs in October, 1977, and Chief Editor of its "U.S. Import Weekly."

Mr. Rossides served as the law enforcement policy advisor to the Secretary of the Treasury. He served as United States Representative to INTERPOL (International Criminal Police Organization) from 1969 to January, 1973, and was one of the three Vice Presidents (1969-1971).

In 1952 he served in the Rackets Bureau on the staff of New York County District Attorney Frank S. Hogan. In 1956-1958, he served as an Assistant Attorney General, New York, in the Bureau of Securities, appointed by the then Attorney General, Jacob K. Javits. From 1958 to 1961, he served as Assistant to Treasury Under Secretary Fred C. Scribner, Jr., before returning to the practice of law.

A native of New York, Mr. Rossides graduated from Erasmus Hall High School and received his A.B. Degree from Columbia College in 1949 and his LL.B. Degree from Columbia Law School in 1952.

In 1972, Mr. Rossides was awarded the Columbia University Medal for Excellence and was also given the Young Lawyer's Award by the Columbia Law School Alumni Association.

In 1974, he was chosen by the National Collegiate Athletic Association as one of five recipients of its Silver Anniversary Award.

A member of the Greek Orthodox Church, Mr. Rossides served on its highest ruling body, the Archdiocesan Council, from 1969-1972. He is a founding member and Chairman of the American Hellenic Institute, Inc., and Special Counsel to the American Hellenic Institute Public Affairs Committee, Inc. A former legal officer for the Air Materiel Command, U.S. Air Force (1952-1953), Mr. Rossides was president of the Judge Advocate General's New York Unit of the Reserve Officers' Association.

Mr. Rossides is married and has four children.

RICHARD R. BURT

Richard Burt was sworn in as Assistant Secretary of State for European Affairs in February 1983.

From January 1981 through 1982, Mr. Burt served as Director of the Bureau of Politico-Military Affairs at the Department of State. Previously, he was the National Security Affairs Correspondent for the *New York Times* covering foreign policy and defense issues in Washington. Mr. Burt has served as Assistant Director of the International Institute for Stragegic Studies in London; was a Research Associate at the International Institute for Strategic Studies; worked as an advanced research fellow at the U.S. Naval War College in Newport. Rhode Island; and was an adviser on defense and arms control to the House of Representatives Republican Wednesday Group.

Mr. Burt recieved a B.A. in Government (Honors Program) from Cornell University in 1969, and an M.A. in International Relations from the Fletcher School of Law and Diplomacy at Tufts University in 1972. He is the author of many scholarly articles on European security and strategic affairs. He was born in Sewell, Chile, on February 3, 1947 and currently resides in Washington, D.C.

RICHARD N. PERLE

Born: New York City, September 16, 1941.

Education: B.A. (International Relations) University of Southern California, Los Angeles 1964; Honors Examinations, London School of Economics and Political Science, 1963; M.A. Princeton University, Department of Politics, 1967

Fellowships: Princeton University, 1964, 1965, 1966; Ford Summer Fellowships, 1964, 1965, 1966; Foreign Area Fellowship, (1967-68) Administered by Social Science Research Council and American Council of Learned Societies; and American-Scandinavian Foundation (Honorary Fellow).

Employment: March 1980-March 1981, Consultant; July 1972-March 1980, Professional Staff Member, Senate Permanent Subcommittee on Investigations; Staff, Subcommittee on Arms Control, U.S. Senate, Committee on Armed Services; January-June 1972, Staff, Senator Henry M. Jackson (D., Washington); and October 1969-January 1972, Member, Professional Staff, Subcommittee on National Security and International Operations, U.S. Senate, Washington, D.C. September-November 1969, Full-time Consultant, Special Assistant to the Secretary of Defense, Office of the

Secretary of Defense, Washington, D.C. (Paul Nitze). June-August 1969, Committee to Maintain a Prudent Defense Policy, Washington, D.C. (Under the Direction of Dean Acheson, Paul Nitze, and Albert Wohlstetter). Westinghouse Electric Corporation, Defense and Space Center, Advanced Studies Group, Waltham, Massachusetts, October 1967-March 1969, Consultant; March—June 1969, Senior Political Scientist. Sandia Corporation, Albuquerque, New Mexico, September 1966-October 1967, Consultant. Institute of Naval Studies, Center for Naval Analyses, Cambridge, Massachusetts, June 1965-December 1965, Professional Research Staff. Research Assistant, Institute of Government and Public Affairs, University of Southern California, Los Angeles, February 1964-September 1964.

PUBLICATION AND RESEARCH PROJECTS

"An Information System for Housing Decisions, Research Memorandum 13, Institute of Government and Public Affairs, University of California, Los Angeles, 1964.

"Overseas Bases in American Defense Policy," Sandia Corporation, Albuquerque, New Mexico, 1968.

"Deterrence and Sub-Limited War" (joint authorship), Research Report CNA No. 14, Center for Naval Analyses, Washington, D.C., 1966 (especially Annex "B," an historical analysis of post-war conflicts, 1945-1964.

Miscellaneous Reports and Memoranda in connection with work on Committee to Maintain a Prudent Defense Policy (see above).

Numerous speeches, reports, etc., for Senator Henry M. Jackson.

Lectures at numerous institutions including: Harvard University, M.I.T., Princeton University, University of Chicago, UCLA, Georgetown University, N.Y.U., University of Colorado, etc.

"Echos of the 1930s, Strategic Review," Winter 1979.

Memberships: International Institute for Strategic Studies, London; Council on Foreign Relations.

Current: Assistant Secretary of Defense, International Security Policy.

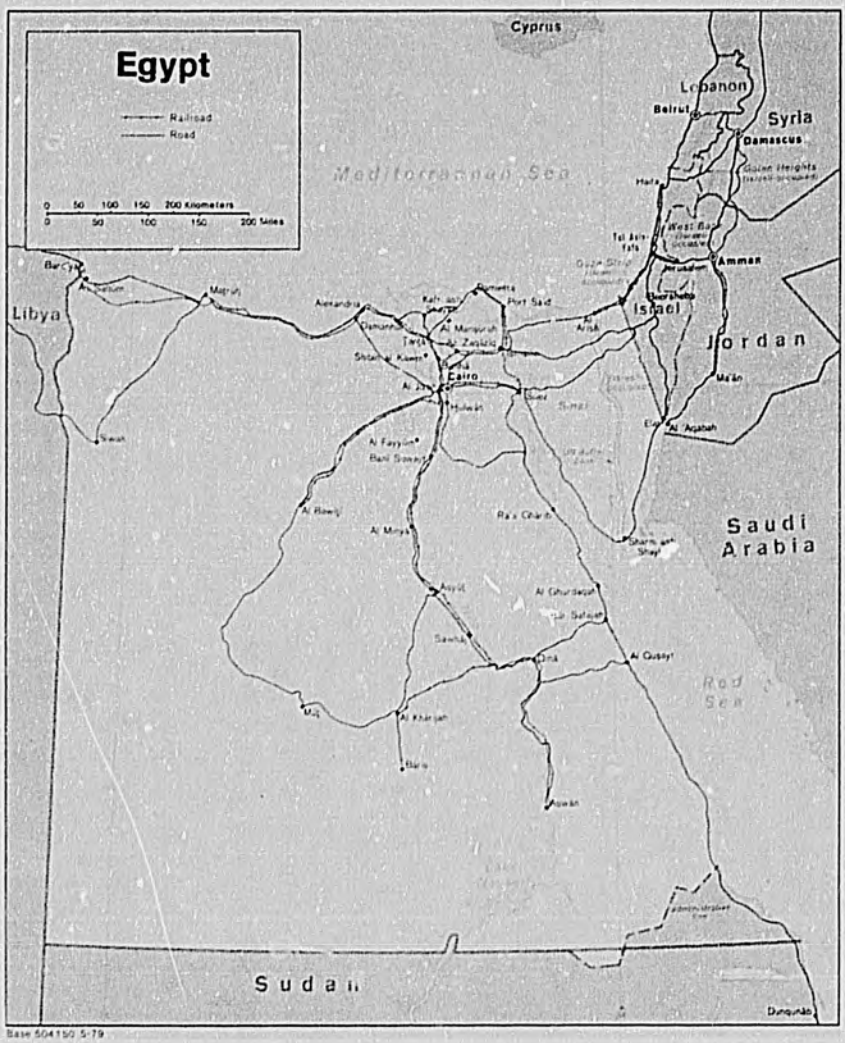
ROBERT H. PELLETREAU

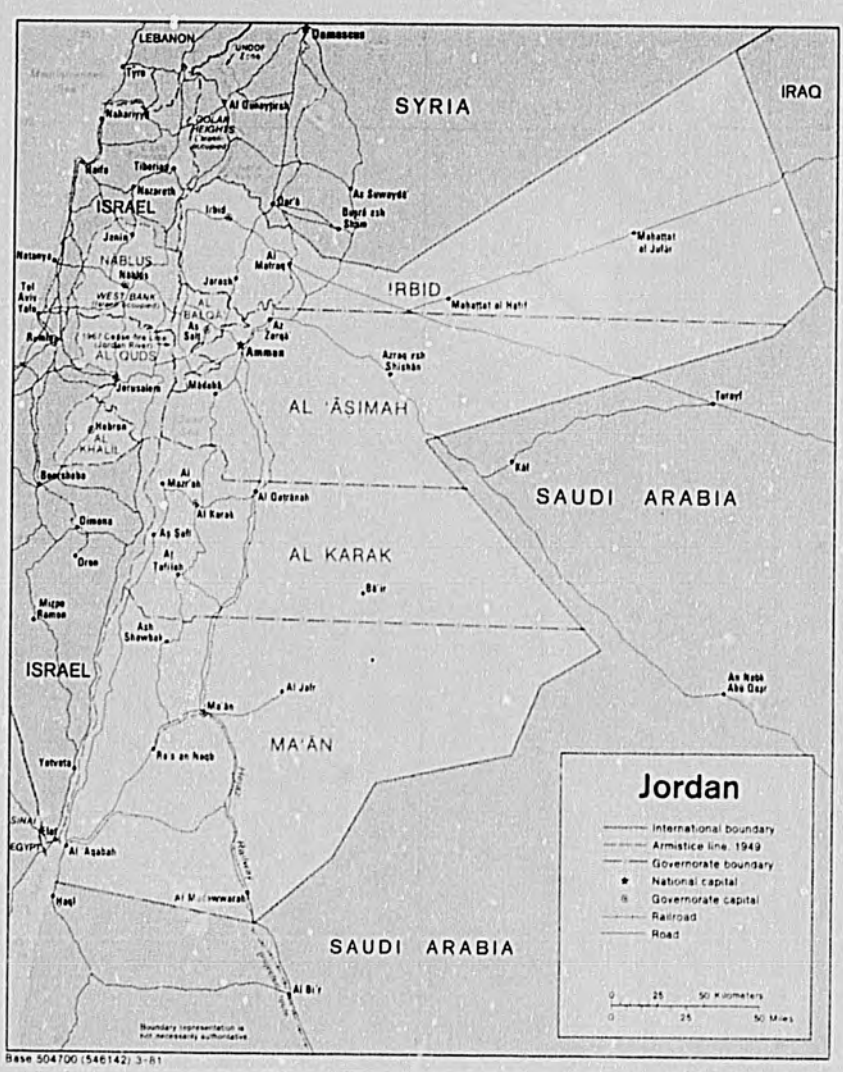
Ambassador Pelletreau was born in Patchogue, New York, in 1935. He attended Yale University (B.A. '57) and Harvard Law School (LLB) '61). He is a member of the New York Bar Association and practiced with the firm of Chadbourne, Park, Whiteside and Wolfe before joining the United States Foreign Service in 1962. His diplomatic career has included service in seven Arab countries, most recently as the United States Ambassador to Bahrain. He was Deputy Assistant Secretary of Defense for the Middle East, South Asia and Africa prior to assuming current responsibilities in May 1981.

Ambassador Pelletreau is married and has three children. He currently lives in Washington, D.C.

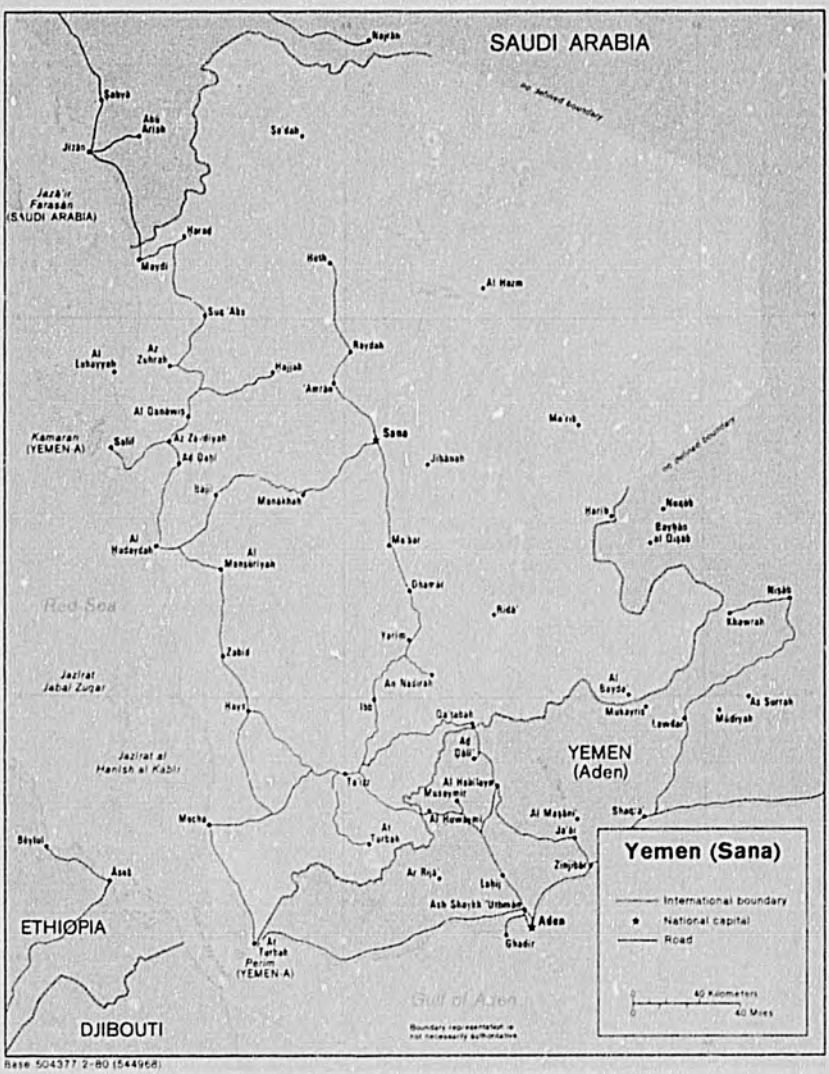
APPENDIX 21

PERTINENT MAPS

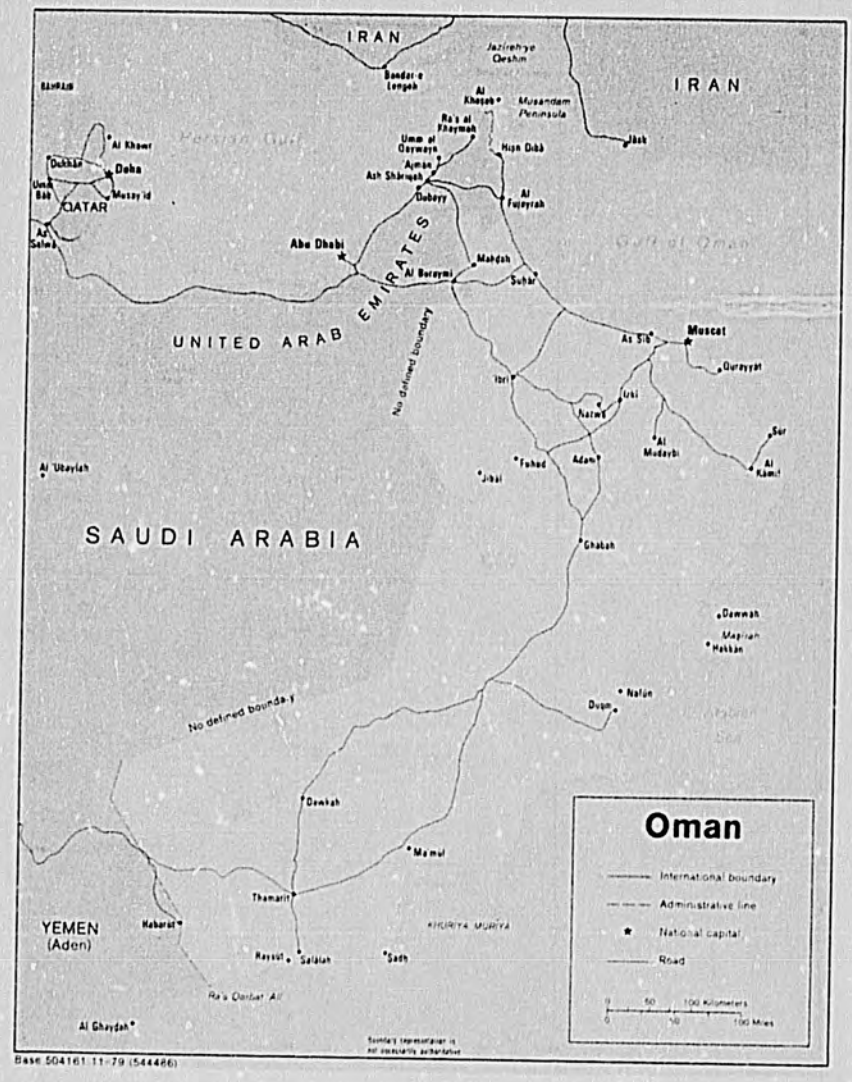

Egypt
Railroad
Road
0 50 100 150 200 Kilometers
0 50 100 150 200 Miles
Cyprus
Lebanon
Beirut
Syria
Damascus
Mediterranean Sea
Haifa
West Bank
Ammar
Jerusalem
Israel
Jordan
Libya
Alexandria
Port Said
Cairo
Suez
Al Arish
Al Aqabah
Saudi Arabia
Red Sea
Sudan
Base 504150 5-79



Base 504700 (546142) 3-81

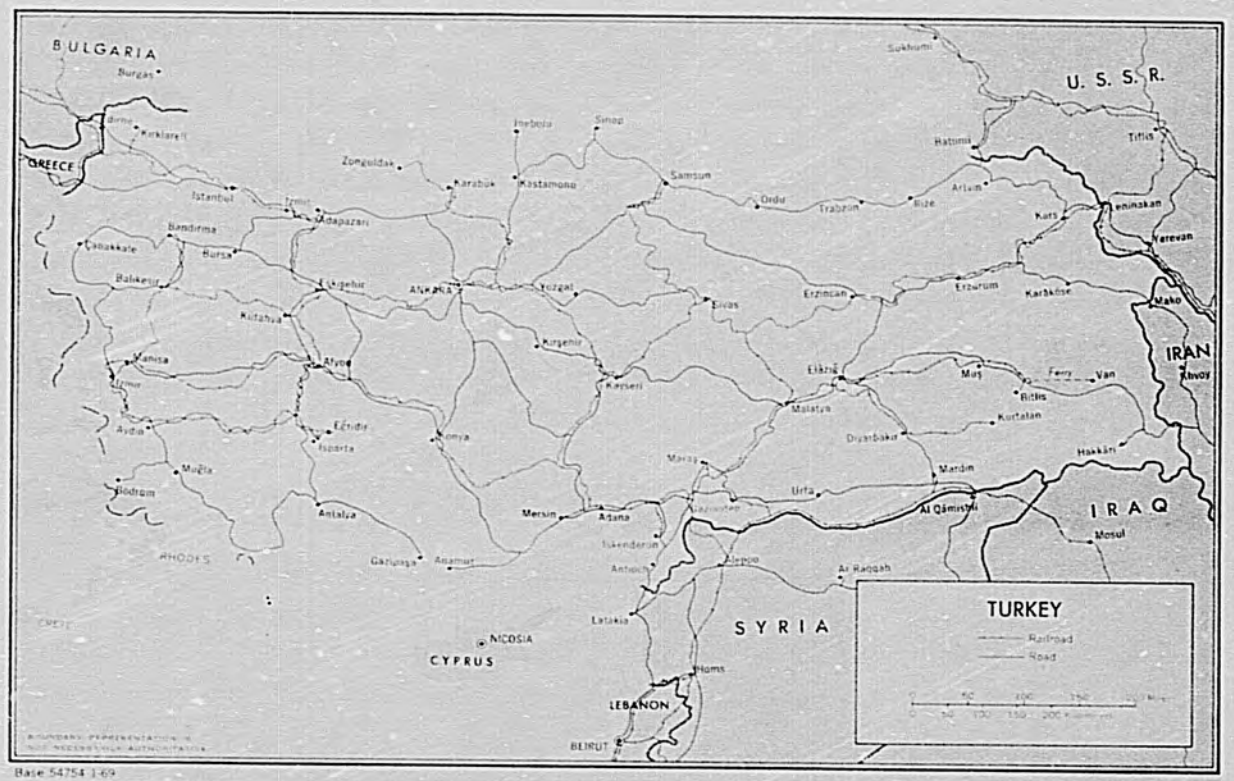


Base 504377 2-80 (544968)

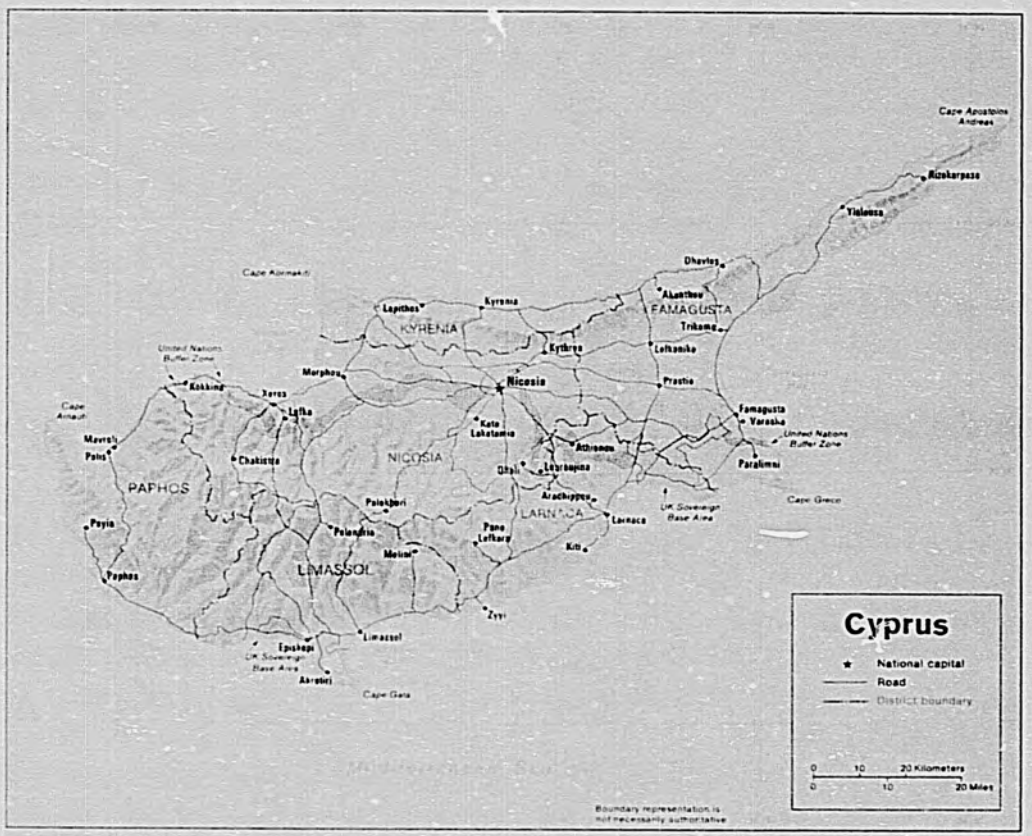


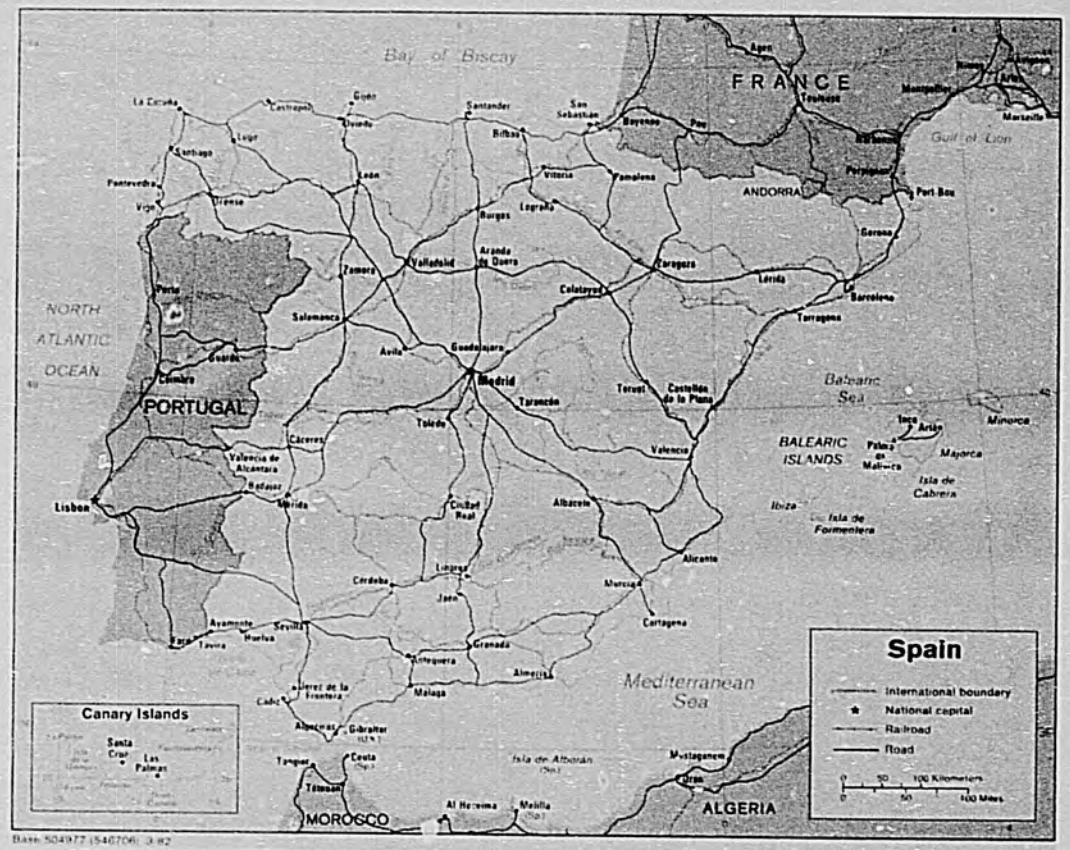
Base 504161 11-79 (544466)

Base 58425 1-68

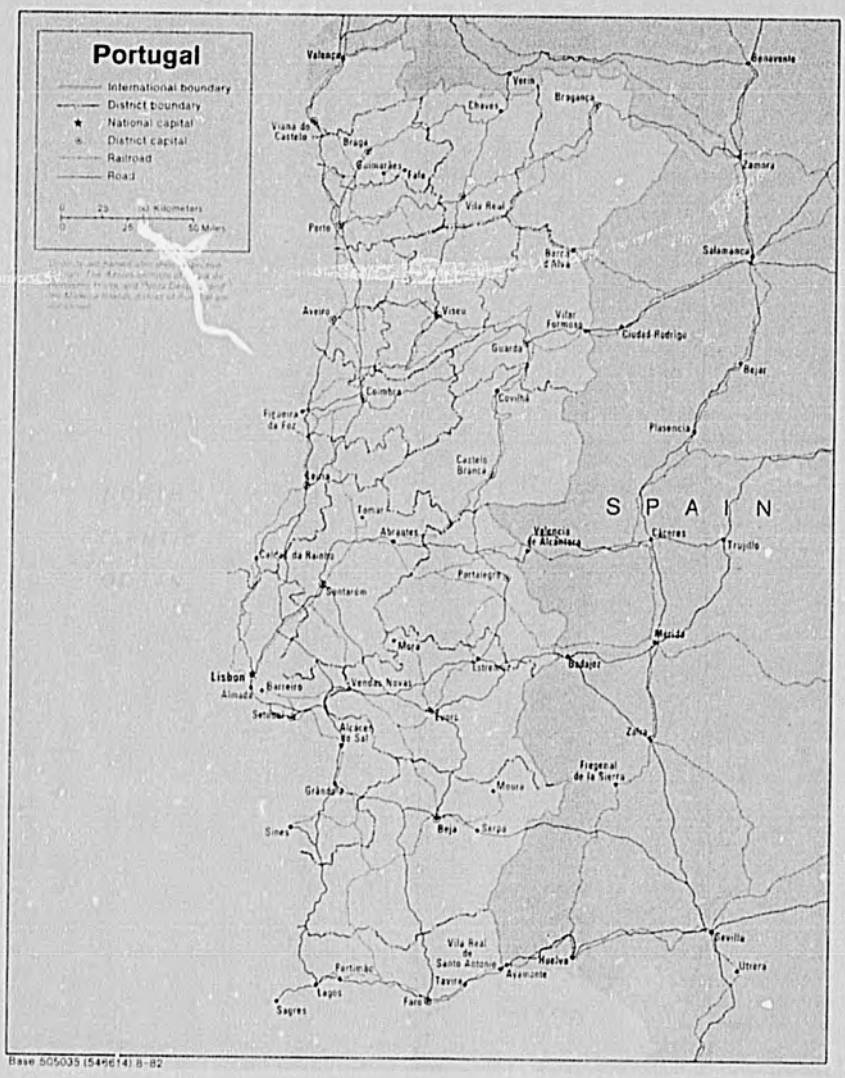


Base 54754 1-69


Cyprus
National capital
Road
District boundary
0 10 20 Kilometers
0 10 20 Miles
Boundary representation is not necessarily authoritative
Cape Apostolos Andreas
Rizokarpaso
Yialousa
Dhavlos
Akanthou
FAMAGUSTA
Trikomo
Lefkonika
Prastio
Famagusta
Varosha
United Nations Buffer Zone
Paralimni
Cape Greco
UK Sovereign Base Area
Larnaca
Kiti
Zygi
Pano Lefkara
Lefkara
Larnaca
Aradippou
Athienou
Ophi
Lazarejina
Kato Lakatamia
Nicosia
Kyrenia
Lapithos
KYRENIA
Kythrea
Morphou
Cape Kormakiti
United Nations Buffer Zone
Kokkina
Xeros
Lefke
Cape Arnauti
Mavroli
Polis
Chaklitra
PAPHOS
Peyia
Paphos
Palekythro
Palaichori
Pelendria
Moniatis
LIMASSOL
Limassol
Episkopi
UK Sovereign Base Area
Akrotiri
Cape Gata



Base 504977 (546706) 3-82



Base 505035 (546614) 8-82