

3477

THE WHITE HOUSE

WASHINGTON

18 May

Dick Kennedy

Dick -

Maybe I am confused, but my information is that markup in the H.F.A.C. will not be completed until Tuesday at the earliest.

On the items which have been marked up, have the House and Senate both agreed on each item?

Didn't F.M.S get out by the Senate to \$430, rather than \$455?

If I am wrong, shoot it back and I'll get it in.

Bunt

MEMORANDUM

3477

NATIONAL SECURITY COUNCIL

UNCLASSIFIED

16 August 1974

Handwritten initials 'RTK' and a large scribble consisting of several overlapping loops and lines.

MEMORANDUM FOR:

SECRETARY KISSINGER

FROM:

RICHARD T. KENNEDY *RTK*

SUBJECT:

Congressional Committee Action

The Foreign Aid Bill and the Defense Appropriations Bill are in Committee in the Congress. A summary of the status of both Bills is reflected in the attached memo to the President should you wish to forward it for his information. The critical reductions and changes, and the impact on our programs, follows in greater detail:

THE FOREIGN AID BILL has been through markup sessions in the House Foreign Affairs Committee and the Senate Foreign Relations Committee. Key changes were:

- Southeast Asia

-- Spending ceilings Would impose FY 75 spending ceilings.

. Vietnam - \$1.28 billion. If North Vietnamese pressure continues at current level, funds available would not provide sufficient ammunition and vital supplies for effective defense, possibly tempting North Vietnam to adventurism. The limited economic aid will cause deterioration of the economy.

. Cambodia - \$347 million. Lessening support when we are pressing for a ceasefire and negotiations will encourage the enemy. Although PL-480 rice, aid to refugees and related transport costs would be paid, all other critical areas would be degraded. If PL-480 were cut, there would be serious food shortages which could result in political instability. In military funding, the degradation means ammunition stocks would be expended in a few months, and no replacement of equipment losses. Over 80% of the MAP program is for ammunition.

. Laos - \$100 million. The cuts in Laos will not do serious damage.

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-2-

- Personnel ceiling in Vietnam Would be imposed limiting direct hire and contract personnel to 4,000 after six months, and 3,000 by end of FY 75; further cuts are programmed for FY 76.

- Phase-out of military grant aid and military missions: All military grant assistance and military aid missions would be terminated within three years. Political consequences of "MAP isolationism" will be serious - a useful and important tool of foreign policy will be lost. Elimination of MAP grant terminates one of most useful forms of political leverage. Actions of mission are not limited to MAP grant, but actively support US export sales.

-- Cost of military missions: All costs of military missions abroad must be paid out of military grant assistance. Deducting the costs from funds available for MAP programs is an additional cut in MAP programs. \$57 million is involved; effects would be unequally distributed, with most adverse impact on those LDC's where MAP is all military training.

-- Elimination of the authority to draw on DOD stocks to provide additional military aid. Currently, President has authority, if he determines it to be in security interest of the US, to order items from DOD stocks for military assistance (subject to reimbursement from later appropriations for military assistance). Current authority has provided flexibility for crisis situations; e.g., Cambodia and Israel.

-- Excess defense articles: Restrictions on excess defense items for military aid will be tightened by requiring that all grants of excesses be charged against military aid at not less than one-third the original value. The actual condition of the items will not be considered. Where material is of near-scrap value, charging at inflated rates would discourage transfer of excess items considered overpriced by recipient country.

-- Military aid to Korea: A ceiling will be set on grant aid and credit sales of not more than three-fourths the FY 74 level and all assistance will be terminated in three years. Reduced levels would be \$117.5 million (\$75 million grant and \$42.5 million FMS compared to the total request of \$157 million). The five year modernization program could not be completed as planned by end of FY 77 (insufficient appropriations have delayed it past the original FY 75 target). If grant aid

could be replaced by sales, required FMS credit would need to be \$350 million over next two years. ROKG perception of threat would cause diversion of funds from economic development; would slow economic development and delay shift to self-reliance. ROKG would consider reduction as proof that US is losing interest and might abandon the ROK; and the North Koreans could misread our intentions.

-- Arms sales through commercial channels U.S. Government arms sales to economically developed countries would be prohibited if items are available through commercial channels. This would raise practical problems in implementation. Weapons systems have varying percentages of components available only from USG facilities, thus there will be questions as to what mix would be required for a system to be "commercially available". Other arms-supplying nations "backstop" their manufactureres with guarantees and credit facilities. Amendment would shift purchases to other nations, resulting in loss of international exchange, especially in the cases of Iran and Saudia Arabia, both of which desire government-to-government.

-- Interest rate on credit sales: Minimum interest rate on credits will be not less than rates on Treasury borrowings of comparable maturity for purchases of arms. This would eliminate the possibility of granting concessional rates when politically important for the US.

-- Chile: A ceiling of \$11 million in sum of military credits and grants is set which is inadequate to meet minimal needs as Chile sees them.

-- Waiver authority: The President's general authority to waive restrictions in Foreign Assistance Act would be repealed, depriving him of flexibility in dealing with unforeseen developments. Frequent appeals for special legislation will be required. Timely response in crises will be all but impossible.

-- Police training: Use of foreign aid for training foreign police, prison, or internal security forces will be prohibited. Elimination of all AID-funded training will hinder establishment of controls on international narcotics and threats of terrorism.

-- Foreign Military Sales cut from \$555 to \$455 million: (Of the \$455, \$100 million is designated for Israel.) Will have world-wide impact on all MAP programs.

-4-

THE DEFENSE APPROPRIATIONS BILL has been through Senate Sub-Committee markup, but has not yet been addressed by the full Committee.

<u>Category</u>	<u>Budget Request</u>	<u>House</u>	<u>Primary Impact</u>
Army ammunition	\$1,344.7	\$732	\$400 million deleted; requirement was for GVN ammunition; now shifted to MASF
Military Assistance, South Vietnam Forces (MASF)	\$1,450	\$1,000	Cut in Army ammunition is in effect an additional \$400 million reduction for MASF. Total GVN defense capability reduced from \$1,850 to \$1,000 billion, or 46%.

The Senate major changes from the House Bill included:

- . Reduction of 24,211 in DOD active duty military end strength.
- . Reduction of 25,000 in military personnel overseas.
- . No new funds, and delayed release of \$29.4 million for design for low-cost mini-carrier.
- . Deletes \$55 million, leaving \$400 million for B-1 strategic bomber.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT  
FROM: HENRY A. KISSINGER  
SUBJECT: Congressional Committee Action

The Foreign Aid and Defense Appropriations Bills are in Committee. A summary of their status and impact of actions upon them to date follows:

1. THE FOREIGN AID BILL has been through markup sessions in the House Foreign Affairs Committee and Senate Foreign Relations Committee.

- Southeast Asia

-- Spending ceilings imposed for Indochina:

- Vietnam - \$1.28 billion. At current levels of consumption, ammunition and supplies will be inadequate, possibly tempting the North Vietnamese to adventurism. The limited economic aid will cause deterioration of the economy.

- Cambodia - \$347 million. Lessening support when we are pressing for a ceasefire and negotiations will encourage the enemy. If PL-480 is cut, there could be serious food shortages resulting in political instability. In military funding, the degradation means ammunition stocks would be expended in a few months, and there would be no replacement of equipment losses.

- Laos - \$100 million. The cuts will not do serious damage.

-2-

- Personnel Ceiling in Vietnam would be imposed, limiting direct hire and contract personnel to 4,000 after six months, and 3,000 by end of FY 75. Current reduction plans call for an FY 75 end strength of 4,000.

- Phase-out of military grant aid and military missions: All military grant assistance and military aid missions would be terminated within three years. Political consequences of "MAP isolationism" would be serious - a useful and important tool of foreign policy would be lost. Actions of missions are not limited to MAP grant functions, but actively support U. S. export sales.

- Cost of military missions would be paid from MAP. Deducting these costs from MAP programs is an additional cut in MAP programs. The most adverse effect would be in LDC's where MAP is all training.

- Elimination of the authority to draw on DOD stocks to provide additional military aid. Currently, the President has the authority, if he determines it to be in the security interests of the U. S., to order items from DOD stocks for military assistance. The authority has provided flexibility for crisis situations such as Cambodia and Israel.

- Excess defense articles used for MAP would have tighter restrictions. If used in MAP, excess items would be sold for at least one-third of the original cost, regardless of their condition. This would virtually eliminate their use to meet MAP requirements.

- Military aid to Korea A ceiling will be set on grant and credit sales of not more than three-fourths the FY 74 level, and all assistance would be terminated after three years. The level would be reduced from \$157 to \$117.5 million. The five-year modernization program could not be completed as planned by the end of FY 77. ROKG perceptions of the threat would cause diversion of funds from economic development, and delay the shift to self-reliance. ROKG would consider the reduction as proof that the U. S. is losing interest, and the North Koreans could misread our intentions.

- Arms sales through commercial channels. U. S. Government arms sales to economically developed countries would be prohibited if items were available through commercial channels. Determination of what would be "commercially available" would be difficult, as some systems have some

of the components manufactured by the USG. The Amendment would shift purchases to other nations, resulting in loss of international exchange, especially in the cases of Iran and Saudi Arabia.

- Interest rate on credit sales would be based on interest rates on comparable Treasury borrowings. The use of concessional rates to attain political objectives would be denied.

- Chile. A ceiling of \$11 million total in military credits and grants is set. This is inadequate to meet even minimal needs as Chile sees them.

- Waiver authority. The President's general authority to waive restrictions in the Foreign Assistance Act would be repealed, depriving him of flexibility in dealing with unforeseen requirements without recourse to requests for special legislation.

- Police training for foreign police, prison and internal security personnel under Foreign aid, would be prohibited. This will hinder the establishment of controls on international narcotics and threats of terrorism.

- Foreign Military Sales cut from \$555 to \$455 million. (Of the \$455, \$100 million is designated for Israel). Degrades programs in FMS worldwide.

2. THE DEFENSE APPROPRIATIONS BILL has been through Senate Sub-Committee markup, but has not yet been addressed by the full Committee. The House shifted an Army buy of \$400 million in ammunition from Service to MASF procurement, then reduced the MASF request from \$1.45 to \$1.00 billion. The total impact is thus real reduction in aid to Vietnam of \$1.850 to \$1.000 billion, leaving only 54% of the requirement. Further Senate changes include reduction in military end strength by 24,211, and a required reduction of 25,000 men overseas. The Senate reduced the B-1 program from \$450 to \$400 million.