

CORPORATE WELFARE FOR ARMS MERCHANTS: U.S. Subsidies Benefit Our Adversaries --- Not Ourselves

There is currently a bipartisan effort afoot which would increase the annual welfare check to U.S. exporters of major weapons systems -- from more than \$380 million, to more than \$550 million a year. At the same time, this move will encourage U.S. participation in the proliferation of major conventional weapons systems around the world. Most observers believe this subsidy is well on the way to becoming a reality. However, few are aware of the following:

The corporate special interest lobbying for this pro-proliferation subsidy includes a number of U.S. arms merchants whose exported weapons have, in recent years, been turned around and used by U.S. adversaries, as well as against innocent civilians. The most active industry group lobbying for this deal is the Aerospace Industries Association (AIA), which represents 73 of the biggest defense contractors in the country. (APPENDIX A)

According to the May 1995 World Policy Institute Issue Brief, "U.S. Weapons at War: United States Arms Deliveries to Regions of Conflict" (APPENDIX B):

- in Somalia, where 25,000 U.S. troops were sent as peacekeepers and 31 were killed, 31% of the weapons that had been sent to Somalia before the recent civil war broke out were made in the United States, including **FMC M-113** armored personnel carriers, and **Hughes TOW** anti-tank missiles;
- in Haiti, where 28,000 U.S. troops were sent to restore President Aristide to power after a military coup, 25% of the Haitian military's weapons were manufactured in the U.S., including **Textron's Cessna** planes; and
- in Turkey, a NATO ally receiving 80% of its weapons from the U.S., the military is waging a war in Kurdistan, killing 13,000 people and displacing as many as two million Kurdish civilians in the process with **General Dynamics F-16** fighter aircraft (now manufactured by **Lockheed Martin**), **McDonnell Douglas F-4** fighter aircraft, **Northrop F-5** fighter aircraft, **Lockheed F-104** fighter aircraft, **Textron's Bell** Cobra helicopters, **United Technology's Sikorsky** Black Hawk helicopters and **FMC M-113** armored personnel carriers.¹

RECOUPMENT FEES

The subsidy in question is the elimination of a program that requires defense contractors to repay the government for some of the money taxpayers have invested in these corporations.

¹ See also Human Rights Watch Arms Project, "U.S. Cluster Bombs for Turkey?", December 1994, Vol. 6, No. 19.

The "recoupment fee" is intended to "recoup" some of the \$30 billion annually the federal government has paid these defense contractors just for the research and development of major weapons systems to be used by the U.S. military. Because these companies are able to make additional profits by selling the weapons abroad, the U.S. government has -- until now -- argued that these merchants should return some of the government's investment to the taxpayer. The fee averages about 3-5% of the gross price of the contract.

In addition to the elimination of recoupment fees, industry has also been pushing to consolidate its control over the research and development packages of weapons systems even further. According to industry lawyers, there are currently high-level meetings taking place in the Pentagon, where policy-makers are considering giving industry complete control of the weapons' "technical data packages", even when the government has fully subsidized the cost of research and development. This is forbidden in most other sectors of the federal government.

Historically, military reformers have argued that the government should own a right to the "technical data" designs of weapons systems, as long as the government has paid any portion of the cost of researching and developing the weapon.

CORPORATE WELFARE

The current move to eliminate recoupment fees on Pentagon-negotiated contracts, or "Foreign Military Sales", is the final step in an incremental increase in this subsidy over recent years. Originally, this recoupment fee was extracted from all overseas sales of U.S.-manufactured major weapons systems -- those systems that cost over \$50 million for research and development, or over \$200 million for production. This included both Foreign Military Sales, and direct commercial sales -- contracts negotiated directly between the U.S. merchant and the foreign country. "Small arms" -- such as those sold by U.S. companies to Panamanian forces that were later faced by U.S. troops, and to the Guatemalan military that were later used against civilians -- have always been exempted from the recoupment fee.

During the Bush Administration, recoupment fees were then eliminated from direct commercial sales. According to the Congressional Budget Office, this will cost taxpayers as much as \$110 million in 1996, and \$920 million over five years. (APPENDIX C) In addition, the recoupment fee is waived for sales of weapons to NATO countries and Japan. According to a GAO report released May 31, 1995, "Military Exports: Recovery of Nonrecurring Research and Development Costs", this cost the U.S. Treasury an additional \$273 million in 1994 alone. (APPENDIX D)

Finally, the arms industry is currently trying to eliminate recoupment fees in the final category of arms exports -- those negotiated by the Pentagon with foreign countries on behalf of private contractors. According to the GAO report, this would amount to an additional welfare check of \$845 million between 1995 and 1999, or more than \$160 million annually.

U.S. ENCOURAGEMENT OF WEAPONS PROLIFERATION WORLD-WIDE

It is undeniable that removing the recoupment fee will only make it more profitable for U.S. defense contractors to sell their weapons abroad, and feed into the destabilizing proliferation of conventional weapons around the world. AIA member company Lockheed Martin's CEO Danielle M. Tellep wrote to Congress in April 1995, "I submit that whatever cost

is involved in correcting these inequities would be more than offset from the increased exports they would create." (APPENDIX E)

Not only does this increase in the export of major weapons systems contribute to the destabilization of the globe, but also, as has been proven, it also increases the likelihood that in the future our weapons will be used against our own troops, our allies or even civilians.

LOBBYING AND PROPAGANDA FROM THE ARMS EXPORTERS

According to the Arms Sales Monitoring Project, industry has been lobbying to repeal recoupment fees since at least 1991. (APPENDIX F) In May 1992, the AIA produced a briefing paper on "Recoupment of Nonrecurring Costs", in which they defined the issue as follows:

"The U.S. government currently attempts to recover some of the costs associated with developing and producing a defense product each time such an item is sold overseas or when technology developed for such a product is used in civil products. This policy can make U.S. products noncompetitive and discourages technology flow between defense and civil sectors of industry." (APPENDIX G)

In March, 1995, in a Defense Trade Seminar before the Congress, the AIA, along with the American League for Exports and Security Assistance and the Electronic Industries Association stated:

"Recoupment charges raise the price of U.S. products. While these charges may have made sense when the U.S. dominated the world defense market, today there are competitors for most products the U.S. is willing to sell. . . The taxpayer and DoD benefit in many ways from an export sale of defense equipment, including increased employment and taxes and decreased unit costs of equipment for U.S. services. If a sale is lost because of the price raising effects of recoupment charges, none of these benefits are realized. RECOMMENDATION: Congress should pass an amendment to repeal the section of the Arms Export Control Act which requires recoupment charges." (APPENDIX H)

The CEO of AIA member company Martin Marietta (now Lockheed Martin) Norman Augustine, wrote in 1993 to Members of Congress:

"As the President and Congress explore how best to spend the \$20 billion the President has proposed for defense conversion, I would urge consideration be given to converting some of our nation's tax and export policies which currently discriminate against the U.S. defense industry and jeopardize its ability to compete in the world market place. . . Today, in the case of foreign military sales of major defense equipment, a 3-5% of gross sales must be added to the gross sales price to reimburse the Department of Defense for R&D expenditures for that specific product. . . PROPOSAL: Repeal the statutory recoupment requirements in Section 21(e)(2) of the Arms Export Control Act." (APPENDIX I)

U.S. CONTRACTORS STILL DOMINATE THE WORLD ARMS MARKET

Members of the AIA and the other arms merchants who are asking for the removal of the recoupment fee argue that they need it to be competitive in the world arms market. Yet, according to the Congressional Research Service, in 1994, the U.S. was responsible for the most new weapons sales agreements and deliveries to the world --- 35% of the agreements and 52% of the deliveries. Although the U.S. is now second to France in weapons sales agreements to the Third World, the U.S. still leads in sales agreements to the entire world. (APPENDIX J) Despite the March '95 Defense Trade Seminar's suggestion that the U.S. is losing in the international arms bazaar, the U.S. market share of arms deliveries to the world has increased every year since 1988.

Even a December 1994 Pentagon report on "World-Wide Conventional Arms Trade (1994-2000): A Forecast and Analysis" concluded:

"The forecasts support a continuing strong defense trade performance for U.S. defense products through the end of the decade and beyond. In a large number of cases, the U.S. is clearly the preferred provider, and there is little meaningful competition with suppliers from other countries. **An increase in the level of support the U.S. government currently provides for arms exports is unlikely to shift the U.S. export market share outside a range of from 53 to 59 percent of world-wide arms trade.**" (emphasis added)
(APPENDIX K)

Clearly U.S. defense contractors are not suffering from an inability to compete because of the recoupment fee.

THE POLITICS BEHIND THIS CORPORATE SUBSIDY CROSS PARTY LINES

Industry's recommendations and proposals to eliminate the recoupment fee on Foreign Military Sales now have very powerful bipartisan support. The Clinton White House has embraced this plan and is supporting this subsidy for arms merchants. When introducing legislation to repeal the recoupment fee, House Reform and Oversight Committee Chairman William Clinger (R-PA) explained:

"Title III of the bill would repeal a Cold War-era law which places U.S. exporters at a competitive disadvantage. To spread the financial burden of developing weapons systems, the 1960's law requires that a fee or tax be paid to the U.S. government on foreign sales of products and technologies developed under government contracts. The bill repeals this "recoupment" provision, which is unique to U.S. exporters. The Administration endorses this position." (APPENDIX L)

In April, 35 House Democrats wrote to Clinton urging him to drop his support of this corporate subsidy. "We are pushing for an overhaul of the dense fabric of subsidies and

giveaways that are being called corporate welfare. . . A multibillion dollar tax break for U.S. arms merchants flies in the face of these ideals." (APPENDIX M)

While an amendment to repeal the recoupment tax has passed in the House, initial efforts to repeal the recoupment fee in the Senate have stalled. Senator Biden (D-DE) is leading the charge to block efforts to provide the arms industry with this subsidy. A vote is expected in late 1995.

CONCLUSIONS

During this political climate of severe budget cuts and the elimination of federal programs and possibly even agencies, it is not in the public interest to give arms exporters a government subsidy.

Moreover, it is not in the public's best interest to sell major weapons systems abroad, despite claims to the contrary, when they have been proven to be used by U.S. adversaries and against civilians once the sale has been made.

The current momentum towards granting this subsidy to the arms export industry is corporate welfare at its worst.