

REPORT BY THE

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Comptroller General

OF THE UNITED STATES

The Defense And Economic Cooperation Agreement -- U.S. Interests And Turkish Needs

In 1980, the United States and Turkey signed a bilateral agreement to foster military, economic, and social development. The agreement has improved U.S. access and interests in Turkey, a key NATO ally. However, Turkey's military needs are so great that the U.S. and other NATO countries are hard pressed to fill them. Thus, the Congress may be asked to increase security assistance or approve other alternatives to better meet Turkey's needs.

This report, an unclassified version of a previously issued report, recommends some alternatives for the Congress to consider in providing this assistance.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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The Honorable Lee H. Hamilton
Chairman, Subcommittee on Europe
and the Middle East
Committee on Foreign Affairs
House of Representatives

The Honorable Paul Findley
Ranking Minority Member, Subcommittee
on Europe and the Middle East
Committee on Foreign Affairs
House of Representatives

This is an unclassified version of our issued report, "The Defense and Economic Cooperation Agreement--U.S. Interests and Turkish Needs" (C-ID-82-2, dated January 6, 1982). Security deletions are indicated as they occur throughout the report.

We are sending copies of this report to the Office of Management and Budget, the Secretaries of State and Defense, and other interested parties.

A handwritten signature in black ink, reading "Milton J. Fowler".

Acting Comptroller General
of the United States



COMPTROLLER GENERAL'S
REPORT TO THE CHAIRMAN, AND
THE RANKING MINORITY MEMBER OF
THE SUBCOMMITTEE ON EUROPE AND
THE MIDDLE EAST, HOUSE FOREIGN
AFFAIRS COMMITTEE

THE DEFENSE AND ECONOMIC
COOPERATION AGREEMENT--
U.S. INTERESTS AND
TURKISH NEEDS

D I G E S T

The Chairman and the Ranking Minority Member of the Subcommittee on Europe and the Middle East, House Foreign Affairs Committee, requested that GAO review the 1980 Defense and Economic Cooperation Agreement (DECA) with Turkey. They were particularly interested in (1) the impact of U.S. security assistance in meeting Turkey's needs, (2) U.S. use of military facilities, and (3) proposed military construction. (See app. I.)

During the first year of the DECA, the United States improved its military operations and interests in Turkey. With some minor exceptions, the agreement appears to be working well. The U.S. fiscal year 1982 "best efforts" security assistance package under the agreement is \$703.5 million. The military portion is \$400 million in Foreign Military Sales (FMS) financing. However, even with this assistance there is a projected shortfall to meet Turkish military needs. Limited military assistance is being provided by the other North Atlantic Treaty Organization (NATO) allies. (See pp. 16 to 17.)

Turkey is faced with tremendous economic problems including a lack of foreign exchange, high debt burden, and balance of payments difficulties. (See ch. 5.) Militarily, Turkey is behind other NATO allies and is troubled by obsolescent equipment. The military has weakened to the point where it would find it difficult to fulfill its NATO responsibilities. (See p. 15.) As a result, Turkey must rely on the United States and other NATO allies for economic and military assistance.

On March 29, 1980, the United States and Turkey signed the DECA, a bilateral agreement containing no specific level of commitment for U.S. assistance. The DECA includes an umbrella agreement to foster military, economic, and social developments, supplemented by agreements on (1) defense support, (2) defense industrial cooperation, and (3) installations. (See p. 1.)

The U.S. commitment under the agreement is limited to making a "best effort" to provide assistance for economic and defense support and strengthening Turkish defense industrial capabilities.

U.S. BENEFITS AND INTERESTS

The DECA restored the level of activity the United States had in Turkey prior to the arms embargo. The United States now has freer access to military facilities, intelligence installations, and a long range navigation station.

Primary U.S. goals during the DECA negotiations were: regaining access to military installations in Turkey at least equal to that prior to the embargo; revitalizing U.S.-Turkish relations; maintaining a U.S. military presence; and, regaining access to intelligence and communication installations. While the DECA clearly limits U.S. activities to NATO-related areas, unless approved by the Government of Turkey, Department of Defense (DOD) and State officials are generally satisfied with the agreement. (See ch. 2.)

Implementation of the DECA has gone smoothly although there have been some disagreements over the interpretation of specific language. For example, construction of badly needed military housing and related facilities have been delayed due to U.S. and Turkish disagreement over the extent to which Turkish labor and materials ought to be used. The difference in the interpretation of the agreement was highlighted when the United States submitted a \$49.4 million proposal to build 825 military housing units for U.S. forces at Incirlik.

Ultimately an oral agreement on the housing construction was reached authorizing Turkish contractors to bid on the first 250 units. (See p. 9.)

TURKISH NEEDS AND PROBLEMS

Turkey is an important NATO ally. However, its ability to perform NATO missions is jeopardized because:

--Turkey has a weak economy which does not generate sufficient foreign exchange resources to meet its military equipment needs. (See ch. 3.)

--Turkey's military equipment faces growing obsolescence and most spare parts will no longer be available from the United States by the mid-1980s. (See p. 18.)

--Operations and maintenance (O&M) costs for 1981 accounted for a large percentage of the FMS credits, reducing the funds available for modernization. (See p. 20.)

Turkey has the largest standing army in NATO after the United States and it ranks third among NATO countries in terms of defense expenditures as a percentage of gross domestic product. Maintaining a 566,000-man armed force has always been a burden on the Turkish economy. (See p. 22.) Modernization has been difficult as a result of a weak economy.

The needs of the Turkish armed forces were accepted from responsible U.S. officials without verification by GAO. (See p. 17.)

Turkey has increased its emphasis on defense industrial development. Turkey has requested that the United States assist in producing anti-armor ammunition; fuses; propellant powders and explosives; rockets; improving aircraft rebuilding capabilities and facilities; constructing modern warships; and implementing a tank upgrade program. Turkey has had mixed results from such endeavors in the past and better management, planning, and economic conditions will be necessary if the current projects are to be successful.

EXTENT OF NATO BURDEN-SHARING

Turkey's military and economic viability affect the strength of NATO; the United States and the Federal Republic of Germany have been providing substantial military assistance funds. A few other countries are providing excess equipment as newer equipment is placed in service. (See p. 18.)

The majority of the NATO countries have done little to strengthen Turkey militarily, but economic assistance from the NATO countries including the United States is provided through an aid consortium under the Organization for Economic Cooperation and Development auspices. For 1979 and 1980 Turkey received \$993.3 million and \$1.16 billion, respectively. However, the value of pledged economic assistance declined

to about \$1 billion in 1981. In light of Turkey's economic condition and the expected continuing requirement for significant external assistance, increased assistance and/or better terms may have to come from the NATO countries, including the United States. 1/ (See ch. 5.)

CONCLUSIONS

Turkey's recovery is contingent upon continued assistance from the United States and NATO countries for the next several years. However, the collective level of U.S. and NATO assistance is not meeting Turkish military needs. Increased levels of assistance without increased burden-sharing by other NATO countries put a greater emphasis on the need for the United States to solve Turkey's military problems.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Turkey's military needs are so great that current U.S. "best efforts" under the DECA will not come close to satisfying these needs. If efforts by the administration do not result in greater assistance being provided by the other NATO allies, the Congress may be asked by the administration to increase security assistance to Turkey or to approve other alternatives that would help to satisfy Turkey's needs. The alternatives which could be applied individually or in a combination include providing Turkey

--debt forgiveness and/or concessionary terms as a further extension of U.S. best efforts, or

--security assistance on a grant basis which would increase U.S. control on how funds are spent.

1/Prior to issuance of this report, a State Department official advised us that the European Community suspended action on a proposed \$600 million economic aid package to Turkey because of the jailing of former Prime Minister Ecevit in December 1981.

However, such bilateral action by the United States to assist Turkey may well be provided with the condition that Turkey grant additional concessions to the United States.

AGENCY COMMENTS AND GAO'S ANALYSIS

The Departments of Defense and State disagreed with some aspects of GAO's draft report and did not agree with GAO's proposal and matters for consideration by the Congress. Appendix II details State and DOD objections and provides GAO's comment and analysis.

GAO points out that, although current levels of assistance are justified primarily on the basis of Turkey's commitment and importance to NATO, the United States has borne and continues to bear the cost of this assistance with relatively small amounts being provided by other NATO members.



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ABBREVIATIONS

DECA	Defense and Economic Cooperation Agreement
DOD	Department of Defense
ESF	Economic Support Fund
FMS	Foreign Military Sales
FRG	Federal Republic of Germany
GAO	General Accounting Office
GOT	Government of Turkey
IMET	International Military Education and Training
IMF	International Monetary Fund
JUSMMAT	Joint United States Military Mission for Aid to Turkey
MAP	Military Assistance Program
MKEK	Makina ve Kimya Endustrisi Kurumu
NATO	North Atlantic Treaty Organization
O&M	Operations and Maintenance
OECD	Organization for Economic Cooperation and Development

CHAPTER 1

INTRODUCTION

The Chairman and the Ranking Minority Member of the Subcommittee on Europe and the Middle East, House Foreign Affairs Committee, requested that we review the 1980 Defense and Economic Cooperation Agreement (DECA) with Turkey and provide a 1-year assessment on its implementation. They were particularly interested in (1) the impact of U.S. security assistance in meeting Turkey's needs, (2) U.S. use of military facilities, and (3) proposed military construction.

DECA

The Governments of the United States and the Republic of Turkey signed the DECA on March 29, 1980. Under this agreement, the United States is committed to use its "best efforts" to provide economic and defense support and strengthen Turkish defense industrial capabilities. In return, the United States has access to an airbase, intelligence installations, a long-range navigation station, elements of a defense communication system, and other support and logistics facilities.

The DECA is a bilateral agreement effective November 18, 1980. 1/ It contains no specific pledge of economic or military assistance. The agreement recognizes the interrelationship between a strong economy and a strong defense and is consistent with ongoing efforts by the United States and the North Atlantic Treaty Organization (NATO) nations to help stabilize the troubled Turkish economy and strengthen the armed forces in furtherance of the North Atlantic Treaty. The DECA includes a foundation agreement aimed at fostering economic and social developments, supplemented by agreements on (1) defense support, (2) defense industrial cooperation, and (3) installations.

Under defense support, the United States is committed to use its best efforts to provide the Government of Turkey (GOT) with defense equipment, training and assistance in order to modernize and maintain Turkish armed forces. To this end, a Joint United States-Turkish Defense Support Commission (Joint Commission) was established in Turkey to ensure the most effective use of U.S. resources provided to the GOT. The Joint Commission complements the existing relationship between the Turkish General Staff and the U.S. Military Assistance Advisory Group--the Joint United

1/The Government of Turkey ratified the agreement on this date and the DECA will remain in force at least until November 18, 1985.

States Military Mission for Aid to Turkey (JUSMMAT). The U.S. representative on the Joint Commission is the JUSMMAT Chief. The Joint Commission assists in developing a procurement plan designed to meet Turkish military needs. To aid in implementing the plan, the U.S. Government makes a best effort to provide military assistance to Turkey annually through the security assistance program.

The defense industrial cooperation section emphasizes enhanced U.S.-Turkish cooperation in the production, maintenance, repair and modernization of defense material and equipment. In addition, the two countries will seek ways to promote and facilitate the coproduction of defense equipment and cooperation in defense research and development.

Under the supplementary agreement on installations, the GOT authorizes the United States to resume military activities at specified Turkish facilities. All the U.S. activities at these installations arise out of and are limited to obligations contained in the North Atlantic Treaty. Any additional activities, outside of the NATO framework would require the permission of the GOT.

HISTORY OF U.S. ASSISTANCE

Throughout the some 30 years of close association, the United States has provided military and economic assistance to Turkey. Turkey was a major recipient under the Marshall plan, in addition to military assistance in early post-war years. From 1950 to 1975 the United States provided about \$4.3 billion in security assistance, consisting of \$3.2 billion in Military Assistance Program (MAP) grant aid, \$895 million in excess defense articles, and \$185 million in Foreign Military Sales (FMS) loans.

After the 1974 invasion of Cyprus, the Congress imposed a partial embargo on military assistance to Turkey which remained in effect from February 1975 until September 1978. The lifting of the arms embargo paved the way for improved relations and allowed military assistance to resume.

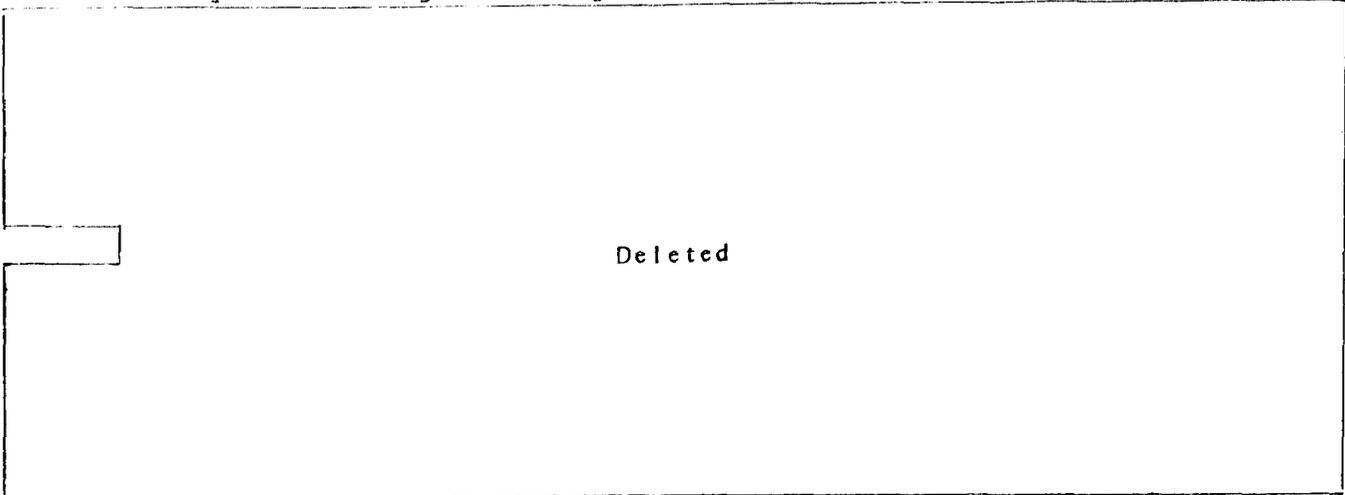
Deleted post-embargo aid has increased steadily as Turkey's economic position has deteriorated and regional concerns have grown. Assistance has increased, from \$225 million in fiscal year 1979 to about \$452 million in fiscal year 1981. The fiscal year 1981 program included \$250 million in FMS credits, \$200 million in Economic Support Funds (ESF), and about \$2 million for the International Military Education and Training (IMET) program.

In 1979 and 1980 these aid packages were controversial in the Congress; the 1980 Security Assistance Act, for example, was delayed for 3 months over Turkey, with the House of Representatives resisting administration efforts to provide military aid on

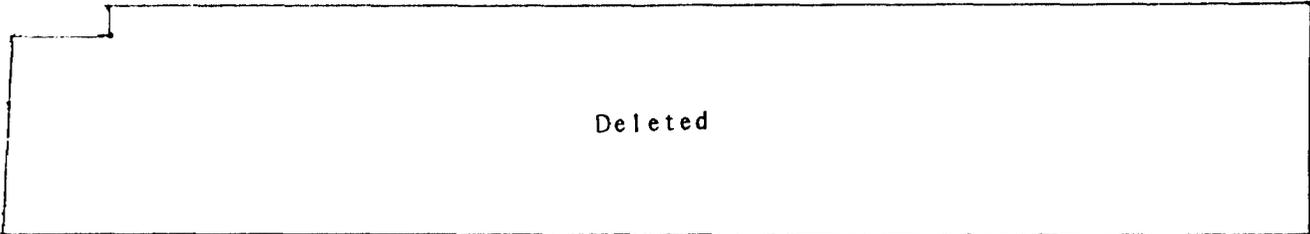
a grant basis. The compromise, worked out in September 1979, converted the military component to a loan, but permitted some of the economic aid to be a grant. The proposed 1982 program is \$703.5 million, consisting of \$400 million in FMS credits, \$300 million in ESF, and \$3.5 million for IMET.

U.S. POLICY AND SECURITY INTERESTS

Turkey is experiencing problems maintaining its economic and military strength. Economically, high inflation and unemployment and inadequate foreign exchange earnings have reduced growth.



Turkey is a most valued NATO ally. It occupies NATO's southern flank, helps guard access to the Mediterranean from the Black Sea, and faces the Soviet Union across the longest common land border of any NATO nation. The importance of Turkey's strategic location has been highlighted by the recent instability in Iran and by the Soviet invasion of Afghanistan.



OBJECTIVES, SCOPE, AND METHODOLOGY

Consistent with the Committee's request, the objectives of our review were to examine how the 1980 DECA with Turkey was being implemented with emphasis on security assistance packages, arms transfers, U.S. use of military facilities, and proposed military construction.

The information concerning the implementation of the agreement was derived from records and interviews with Departments of State and Defense officials involved with implementing the agreement and security assistance program. The everchanging nature of developing security assistance packages and arms transfers made the use of quantitative techniques an impractical way, in our opinion, to accurately ascertain how assistance programs are developed. For the most part the needs of the Turkish armed forces were accepted from responsible U.S. officials without verification.

Since our primary objective was to determine how the agreement was being implemented, we gave only limited coverage to examining Turkey's economic conditions. Although Turkey has serious economic problems, we did not specifically evaluate the impact of debt on Turkey's future economic performance. Our analysis is directed at the types of assistance provided and the problems with continuing the current U.S. programs.

Our review included an examination of records, files, and related documents as well as discussions with senior program officials at the Departments of State and Defense regarding the provisions of the agreement. We also discussed policies and procedures on the development of security assistance packages and arms transfers with senior officials from the (1) Office of the Assistant Secretary of Defense for International Security Affairs; Assistant Secretary of Defense for International Security Policy; Assistant Secretary of Defense for Research, Development and Engineering; and (2) the Defense Security Assistance Agency, in Washington, D.C.

The work in Turkey was conducted during March and April 1981. The in-country work included an examination of program documents concerning the DECA and the security assistance program. We held discussions with officials at the U.S. Embassy, JUSMMAT, and Turkish Military Commands. We also visited Incirlik Air Base, two intelligence sites, and one communication site in Turkey.

We also met with officials from the U.S. Mission to NATO regarding other NATO allies' assistance to Turkey. Finally, we interviewed officials at the United States European Command and United States Air Force Europe regarding the impact of the DECA on U.S. military operations.

CHAPTER 2

THE DEFENSE AND ECONOMIC COOPERATION AGREEMENT

AND U.S. ACTIVITIES IN TURKEY

Maintaining a strong U.S.-Turkish bilateral defense relationship and preserving U.S. utilization of military facilities in Turkey were objectives in negotiating the DECA. The United States was concerned with regaining a status at least equal to what it was prior to the embargo years. Of primary importance was revitalizing U.S.-Turkish relations, maintaining a U.S. military presence, and regaining access to intelligence and communication installations. In this regard the United States was successful and the DECA has generally improved U.S. operations in Turkey. However,

--the DECA limits U.S. activities to NATO-related missions, as did all previous agreements, [

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--there are problems affecting U.S. construction in Turkey, due to differences in interpretation of the agreement; and

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U.S. ACTIVITIES IN TURKEY
IMPROVED BUT LIMITED

The DECA has restored U.S. operations in Turkey to pre-embargo status. It eliminated the restrictions placed on the U.S. forces and installations imposed as a result of the embargo, and allowed them to become fully operational. The specific benefits to the United States are that it

--provided access to specific installations on which U.S. activities remain under U.S. command,

--improved the scheduling and deployment of aircraft, and

--improved the procedures for admitting U.S. military personnel and cargo into Turkey.

Operations under U.S. command

The United States was again provided access to 27 installations in Turkey--a major Air Force base regularly hosting NATO-committed U.S. aircraft; Deleted intelligence gathering installations; a long-range navigation station; elements of a defense communication system; and other important support and logistic units. (See map on p. 7.) Although the installations are designated as Turkish with a Turkish commander, the U.S. commander at each installation has full command and control over all U.S. personnel, equipment, and missions.

Under the DECA, technical operations and maintenance services at the intelligence and communication sites are to be carried out jointly by Turkish and U.S. personnel.

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Increase of U.S. aircraft

The DECA improved the scheduling and assignment of aircraft to Turkey. Prior to the DECA, the United States was only allowed to station 18 aircraft from one unit in Europe to Incirlik Air Base. The DECA increased assigned aircraft from 18 to 36 and opened Incirlik to all U.S. units stationed in Europe. The 36 aircraft limitation matches Incirlik's support capacity.

One major reason units are assigned to Incirlik is to use Konya Range for weapons training. The Range is one of three primary ranges available to U.S. Air Force units stationed in Europe. An Air Force official noted that if Konya was not available it would be difficult to meet weapons training requirements.

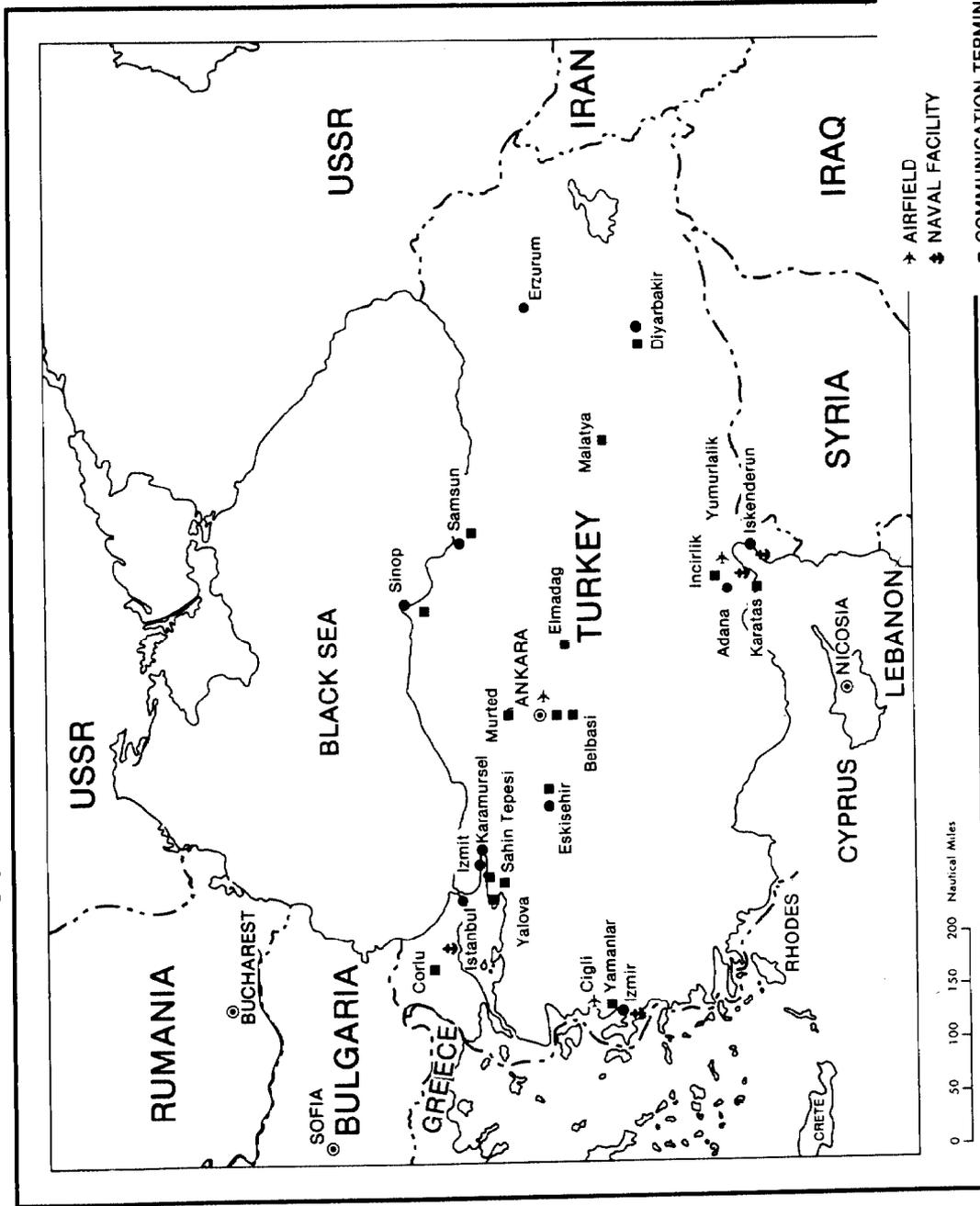
Streamlined processing procedures

Prior to the DECA, the United States had problems importing and exporting supplies and military equipment, as well as admitting personnel into Turkey. The DECA has streamlined the procedures for processing equipment and personnel but is no great improvement over the pre-embargo period.

LIMITATIONS ON U.S. ACTIVITIES

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UNITED STATES MILITARY INSTALLATIONS AND COMMUNICATION FACILITIES IN TURKEY



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DECA IMPLEMENTATION--
ISSUES TO BE RESOLVED

Although U.S. officials are satisfied with the progress made during the first year of the DECA there are still some issues to be resolved. The United States and Turkey have not reached final agreement on how U.S. construction projects will be built. Also, the United States is still awaiting GOT approval to upgrade the Defense Communication System.

Differences in interpreting
DECA--construction projects

Construction projects in Turkey have been delayed since July 1980 over a difference in an interpretation of the DECA. The United States and Turkey have not reached final agreement on the extent of Turkish labor and materials to be used.

The U.S. construction effort in Turkey is aimed at improving the morale and welfare of the U.S. troops assigned in Turkey. During the last 6 years, there was no construction, and now the services are trying to catch up. The following chart shows the proposed U.S. construction in Turkey for fiscal year 1982 through fiscal year 1987.

Schedule of Proposed Military Construction in
Turkey for Fiscal Years 1982-1987

<u>Fiscal year</u>	<u>Air Force</u>	<u>Army</u>	<u>Total</u>
	----- (millions) -----		
1982	\$ 34.4	\$21.3	\$ 55.7
1983	34.4	8.9	43.3
1984	16.6	.7	17.3
1985	12.3	-	12.3
1986	10.6	3.6	14.2
1987	<u>39.3</u>	<u>-</u>	<u>39.3</u>
Total	<u>\$147.6</u>	<u>\$34.5</u>	<u>\$182.1</u>

The facilities will be built with U.S. military construction funds because they do not meet NATO infrastructure criteria. This proposed construction is to provide dorms, direct operational mission support facilities, family housing, and recreational facilities. The goal is to provide the same facilities in Turkey that are available to U.S. service personnel worldwide.

The DECA states that construction in Turkey will utilize Turkish labor and materials to the extent feasible. The GOT interprets "feasible" to mean that if the labor and materials are available in Turkey, they should be used. In planning projects, the U.S. considers the cost, timeliness, and quality of construction.

The difference in interpretation was highlighted when the United States submitted a \$49.4 million proposal (fiscal year 1982 \$13.0 million, fiscal year 1983 \$31.8 million, and fiscal year 1984 \$4.6 million) to build 825 military housing units at Incirlik. These units are needed to replace dilapidated housing and at the same time provide increased security for U.S. military families. The units at Incirlik are 1950-vintage trailers in need of extensive repair and are fire and safety hazards.

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The JUSMMAT Chief stated this agreement was not meant to be an interpretation of the DECA. He noted that this arrangement was agreed to in order to prevent any further construction delays. The definition of "feasible" still has to be agreed upon by both governments. The two governments need to reach an agreement in order to prevent any delays in the \$182.1 million of construction projects planned during the next 6 years.

Delay in upgrading
defense communications

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The GOT has required the United States to obtain approval to conduct a communications survey;

however, the request is still pending. Until the survey is conducted, the cost and time frame for the communications upgrade remains unknown.

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The current U.S. system is approximately 20-years-old and (1) difficult to maintain, (2) labor intensive, (3) has limited capacity, and (4) cannot transmit high-speed data with the required accuracy. To overcome these deficiencies, the United States would like to install a microwave system with unmanned equipment. This would provide the United States with a modern and reliable communication system in Turkey and

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PAYMENTS FOR AN AIRBASE--
NOT INCLUDED IN DECA

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In addition, the base reverts to the United States under a NATO contingency.

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At an April 1, 1981, meeting between JUSMMAT and the Turkish Ministry of Foreign Affairs, Turkish officials indicated operating costs for Cigli for 1975 to 1980 were \$6.3 million.

The Cigli agreement

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Since the United States and Turkey cannot agree on what the United States should be paying for Cigli's maintenance, it was agreed that a joint survey team would conduct a study to determine what

- facilities are used by the United States,
- percent of the air base is used, and
- the U.S. contribution should be.

The survey was completed May 8, 1981, but the information has not been fully analyzed.

VALUE OF U.S. PRESENCE
IN TURKEY

Assigning a cost to U.S. benefits under the agreement is difficult to do because in keeping with the desires of the Congress the DECA does not identify specific dollar amounts. The U.S. commitment is to make a "best effort" to meet Turkey's needs. The amount can vary substantially from year-to-year, based on congressional approval of proposals submitted by the administration. For fiscal year 1982 a proposal of \$703.5 million has been submitted to meet Turkey's economic and military needs.

In addition, there is the prospect of Export-Import Bank loan guarantees; debt rescheduling; ships and industrial equipment loaned at no cost; and the approximately \$100 million per year spent by or for U.S. military personnel working in Turkey.

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The GOT expected \$250 million of FMS credits in both years. However, in fiscal year 1980 the program was only \$200 million due to a continuing resolution and was reduced by \$51 million in fiscal year 1981. This occurred because of a shortfall in the Turkish FMS Trust Fund account resulting from the GOT's failure to pay previous FMS cash purchases on schedule. This account had to be liquidated before additional sales could be made.

TURKISH CONCESSIONS
FOR INCREASED U.S. ASSISTANCE

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CONCLUSIONS

The United States has been successful in regaining access to installations in Turkey at least equal to what it had prior to the embargo years. U.S. operations have improved but are limited as in the past to NATO-related activities. U.S. officials appear satisfied with the agreement and expect the problems with construction of facilities for U.S. forces to be resolved in the near future. Although the problem with Cigli air base is expected to be resolved under a separate agreement, it could have been included under the DECA.

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If this happens, then the United States may gain additional concessions.

CHAPTER 3

MEETING TURKEY'S MILITARY

NEEDS: A NATO PROBLEM

As a member of the NATO Alliance, Turkey fulfills an important role of anchoring the southern flank. Turkey's vital geographic position and large military forces, facilities and bases make it strategically important to the United States and NATO. Turkey provides the largest NATO ground army in Europe and the second largest European military establishment in the Alliance. Turkish forces tie down about [Deleted] and Bulgarian divisions which would otherwise be available against the central front of NATO.

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TURKEY'S MILITARY NEEDS

Large amounts of military assistance have been provided to Turkey since it became a member of NATO in 1952. Yet, Turkey is still significantly behind the military forces of the other allies and is continually troubled by inadequate and outmoded military equipment. The U.S. arms embargo is partly to blame for Turkey's present condition; however, the partial embargo which lasted 3-1/2

years was not the only cause and other causes with far greater impact were (1) already obsolete equipment, (2) inflation in weapons cost, (3) the lack of usable U.S. excess defense articles, (4) Turkey's domestic economic problems, and (5) poor Turkish logistics planning for many years. Also, the U.S. worldwide shift from grant to loan military assistance had serious effects in Turkey because it requires repayment of high-interest loans when Turkey is experiencing a shortage of foreign currency.

Additionally, maintaining approximately a 566,000-man armed forces has always been a burden on the Turkish economy. This large force produces an inherently inefficient military structure which in turn demands an irrational allocation of scarce resources. According to State officials, Turkish military expenditures account for over 5 percent of its gross national product. This is the third highest in the NATO alliance. However, as a result of its relatively lower gross national product and weak economic condition, Turkey spends on its armed forces about what Belgium spends on its 87,000-man force. Although Turkey has the largest standing army in NATO after the United States, it ranks ninth in NATO for annual defense expenditures.

Despite its size and burden on the Turkish economy, military conscription is considered important to Turkish development. The armed forces have contributed to a number of civic action programs including a series of agricultural conservation projects and the construction of needed roads. Also, since the 1960s qualified secondary school graduates were permitted to spend all but 6 months of their required 2-year military service working as teachers in village schools. This program alleviated the shortage of instructors in rural areas and provided hundreds of thousands of young Turks with the ability to read and write.

The armed forces also provide an important service to the individual soldier. The military serves a social function when it drafts young men from all over Turkey, then educates and trains them in skills useful to them after they return to civilian life. At the same time, however, the military competition for limited financial resources and the high cost of maintaining a credible defense posture, have resulted in a gap between available funds and military needs.

Deleted short-fall
to meet military needs

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The funding shortfall may be greater because the plan assumes Turkey will contribute Deleted per year to defense. U.S. officials expressed caution in accepting Turkey's ability to contribute substantial amounts to defense because of the projected 4- to 5-year economic recovery period.

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It should be noted, however, that the economic assistance provided by the NATO countries through the Organization for Economic Cooperation and Development (OECD) consortium (see ch. 5) may free Turkish funds for defense use.

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MILITARY EQUIPMENT IS
OBSOLETE

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The embargo aggravated the supportability problem by forcing the Turkish military to deplete supplies of new spares. The Turkish forces extended equipment service life by manufacturing minor parts, overhauling used parts, and controlled cannibalization.

The JUSMMAT Chief indicated obsolete equipment is evident in all the armed forces and is likely to increase if Turkey is unable to modernize more rapidly. The following highlights some equipment problems facing each Turkish military service.

Army

The Army appears to be in the worst condition. JUSMMAT

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Air Force

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Navy

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FMS CREDITS USED FOR
OPERATIONS AND MAINTENANCE

Each services' programs for O&M, modernization, and defense industrial cooperation compete for limited FMS credits.

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According to a JUSMMAT official, the Air Force receives the largest FMS allocation because (1) the GOT does not want to lose its technology base and (2) it is the most expensive force to maintain. A Turkish Air Force official stated the Air Force needs between [redacted] percent of the FMS credits to maintain current force levels.

[redacted]

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The majority of the Air Force funds are used for aircraft spares. [redacted]

[redacted]

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MODERNIZATION--HOW IT WILL BE ACHIEVED

Even though about \$338 million of the fiscal years 1981 and 1982 FMS credits will be available for modernization, this will not provide the Turkish military with state-of-the-art equipment.

A significant portion of the modernization effort involves upgrading obsolete equipment. The following examples highlight how the military plans to modernize during the 1981 through 1986 time frame.

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Tank upgrading

The Army's principal modernization effort is to upgrade existing tanks to the M48A5 configuration. The objective of this program is to manufacture as many parts in-country and to obtain tank conversion kits from the United States to modernize all M48 tanks in the inventory by 1986. According to the plan under implementation in March 1981,

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Ship upgrading

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Modern equipment

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International Military Education and Training--an essential element in U.S. security assistance program

The IMET Program has a long history in Turkey. Since 1950, over 40 officers who have attended professional military courses in the United States have achieved General/Flag Officer rank, and half are still on active duty. These officers represent a nucleus of personnel who have been exposed to U.S. training and military doctrine, as well as American society.

IMET allows young Turkish officers to receive training in current doctrine, tactics, and techniques.

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Since the IMET program resumed for Turkey during fiscal year 1979, about 200 personnel of all ranks have attended courses on military doctrine, advanced officer training, and mid-level management. A report prepared by the Turkish Army shows that IMET graduates have Army assignments which correspond to their recently acquired training.

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The Turkish Air Force has received approximately 33 percent of the IMET budget. The funds have been used primarily to satisfy maintenance, flight, and professional training needs.

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In fiscal year 1982, approximately \$286,000 or 28 percent of the Air Force allocation will be used to provide English language training. A JUSMMAT official said they are aware of the problem. JUSMMAT is proposing that \$800,000 of the fiscal year 1982 program be used to upgrade the Turkish Armed Forces' English language instruction program.

CONCLUSIONS

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This problem has confronted Turkey for many years but has worsened as a result of the U.S. embargo, inflation, declining economic conditions, and the U.S. shift from grant assistance to FMS credits.

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Turkey's ability to modernize its armed forces is affected by the amount of resources needed to continually repair and maintain existing equipment.

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CHAPTER 4

IMPROVING THE TURKISH DEFENSE

INDUSTRY: LIMITED SUCCESS

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During DECA negotiations, Turkey requested U.S. assistance in the development of seven defense industrial projects. This is now part of the DECA as a compromise for a "best efforts" stipulation. However, we found:

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Additionally, the projects have had limited success. Five of the projects were initiated in 1979 prior to DECA negotiations; however, two were started before the arms embargo. The projects are mainly those the GOT desired earlier but which had remained dormant during the embargo period. For example, the United States and Turkey began cooperation on manufacturing a 2.75 rocket as the result of a 1972 agreement. In another instance, the GOT had ordered 818 tank modernization kits in 1974. The arms embargo led to the suspension of both projects. Although the embargo was a factor in their delay, Turkish and U.S. priorities were factors also. Neither country appears to have given the projects sufficient attention, even though some projects are major modernization efforts.

THE DECA PROJECTS
AND EXPECTATIONS

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The DECA identifies seven projects which the United States is assisting in developing. The projects include

- producing anti-armor ammunition;
- producing fuses;
- producing propellant powders and explosives;
- producing rockets;

--improving aircraft rebuilding capabilities and facilities;

--constructing modern warships; and

--implementing a tank upgrade program.

Specifically, Turkey anticipates the projects will provide greater self-sufficiency in military equipment, new technologies, and entry into the NATO arms market.

The Department of Defense (DOD) estimated that at least Deleted of FMS credits were necessary to make the projects viable, however, Turkey only allocated approximately Deleted of the \$250 million of fiscal year 1981 FMS credits to the projects. Thus, the projects are underfunded and will have little chance of achieving their objectives unless other funding sources are identified.

Perspective of Turkish efforts

The GOT is eager to expand its defense production to meet the demands of its defense forces and for sale in external markets. The balance of payments crisis has reinforced the GOT's desire to export defense equipment as a possible source of foreign exchange earnings. Although the GOT has high expectations, it does not have the financial resources necessary to fund the projects and has repeatedly requested additional U.S. financial commitments over and above FMS credits.

The U.S. technical survey teams visiting industrial facilities concluded that the GOT is capable of improving its self-sufficiency given the proper technology which the GOT intends to acquire through technical data packages. The U.S. Government has provided Turkey with the package for the tank upgrade project. Requests for other packages, such as rocket motors, rocket launchers, and tank ammunition are under discussion. However, both Turkey and the United States realize that the current capacity of the Turkish defense industry makes accomplishment of self-sufficiency not feasible in the near future. Also, exporting to other NATO countries is unlikely under the projects. For example, a relatively inexpensive simple rocket designed for training fighter pilots is the only item under discussion for possible export.

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Deleted PROJECT PLANNING

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U.S. technical review teams were sent to determine what was required to implement the projects. While these teams identified equipment requirements, they did not cover time frames, cost, or expected benefits to Turkey.

The GOT also did not have basic project planning information. Therefore, the United States suggested a format that would explain the technical and financial aspects of the projects. Using this format, the GOT was to address the

- purpose of each project, including specific items to be produced, time frame, and expected production rates;
- current capability and production rates of each facility;
- tasks needed to implement the projects, including feasibility studies, construction, investment, equipment, and training needs;
- sources of estimated funds and other resources required;
- critical elements for success; and
- involvement of any other NATO countries.

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Subsequent to completing our review in August 1981, we were informed by DOD officials that Turkey has revised its plans to upgrade the Korean War-vintage tank. We were told that the

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The impact of these purchases on Turkish plans, priorities, and resources is not yet fully determined.

Project funding uncertain

The GOT does not have sufficient funds for the defense projects and must rely on FMS credits. The GOT is reluctant to allocate substantial FMS credits to the projects, therefore, only one of the projects is receiving adequate funding. Turkish officials contend that all available resources are needed to purchase military equipment and additional resources are required for the projects. They agree that without additional funding, there are insufficient funds to meet equipment priorities and project requirements. However, the U.S. position is that funding for the projects must come from FMS credits. While FMS credits are not specifically designed for defense industrial cooperation projects, they are the only source of funds presently available under U.S. law.

In the past, the Turkish Army has had difficulty allocating sufficient FMS credits to successfully implement the tank upgrade program. For fiscal year 1981, the army had initially programmed \$16.8 million to procure 54 conversion kits. By March 1981, the

plan had been revised to only \$3 million and 9 kits. However, DOD officials in August 1981 stated that the Turkish Army

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The Navy has not allocated sufficient funds to the ship-building project. They have proposed using \$3 million in fiscal year 1982 FMS credits for ship designs but have not submitted budgets or plans to JUSMMAT.

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In fiscal year 1981, the Air Force allocated \$20 million of FMS credits and in fiscal year 1982 they propose to use \$38 million. A JUSMMAT official stated the project has high priority within the Air Force as illustrated by its recent expansion to a 7-year \$185 million program.

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The planning document contained no information on how the estimates were developed. JUSMMAT and Turkish officials stated the estimates are too low. During a visit to some of the MKEK plants, a Turkish spokesman told us these costs were inaccurate because of inflation and poorly estimated machinery prices. The Turkish plan calls for U.S. funds of \$134 million, however, U.S. officials did not know if this was the value of excess equipment or a required cash input.

Problems obtaining defense
industrial plant equipment

Turkey has had limited success in procuring defense industrial equipment and material to improve their defense production capability. The United States made about 300 pieces of equipment available to the GOT in March 1980. A Turkish team visited the United States to discuss the availability of excess equipment for the projects. They selected only 127 items and rejected the others because in their opinion they were (1) too old, (2) too expensive to repair, (3) in poor condition, or (4) not needed. U.S. officials conceded that they had offered equipment without knowing its condition.

The United States and Turkey signed a 10-year "as is" no-cost lease for the 127 items valued at \$6 million in October 1980. Under the lease provision, the GOT is responsible for paying the packaging, crating, handling, and transportation costs to transfer the equipment to Turkey. The GOT did not pay the \$389,000 to cover these costs until March 1981. Two months later the first shipment was made and all shipments were turned over to the Turkish freight forwarder in New York before the end of July. Although production was scheduled to begin in 1981, it appears this goal may be difficult to meet.

An MKEK official estimated the leased equipment meets, at the most, 25 percent of the equipment requirements. The manager at the explosive powder and propellant plant told us that the few items acquired will not increase the existing production rate of 1,800 tons per year of simple explosives to the project goal of 3,600 tons per year of more complex explosives. He added that even if all the required equipment and money were available today, it would take from 1-1/2 to 2 years to meet the increased production goals.

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CONCLUSIONS

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Turkey has not completed project studies and has not allocated funds for the technical data packages and equipment needed. In addition, U.S. officials contend some of the projects are not directed at Turkey's most pressing needs and are unlikely to provide the anticipated benefits.

U.S. and Turkish officials strongly endorse defense industrial cooperation. However, Turkey has not allocated sufficient FMS credits and there has been limited participation from NATO countries other than the United States and FRG. Without increased NATO participation or a change in priorities, some of the industrial projects are unlikely to move forward in the next few years.

CHAPTER 5

ECONOMIC ASSISTANCE: IMPORTANCE AND IMPACT

Turkey is faced with tremendous economic problems, including a lack of foreign exchange, high debt burden, and balance of payments difficulties. The United States and the other Organization for Economic Cooperation and Development countries are providing substantial assistance as well as debt rescheduling to help Turkey through its economic crisis. Nevertheless, Turkey may still need considerable economic assistance for the next several years. U.S. and Turkish officials agree it may take another 4 to 5 years for the Turkish economy to free itself of the need for economic assistance.

The economic assistance which the United States and OECD countries are providing is responsive to Turkey's needs. However, we found

- economic assistance from the NATO members of OECD is decreasing and
- the terms of the U.S. military sales made to Turkey are more rigid than the concessional terms in the economic assistance program and will add to Turkey's already large debt burden.

TURKISH ECONOMIC WEAKNESSES

Overall, Turkish economic growth performance during the 1960s and part of the 1970s had been good compared with other developing countries. A downward turn in the Turkish economy first appeared in the 1970s. The problems were primarily caused by the inefficient structure of the state economics enterprises, industries geared toward internal consumption, and the high cost of imported oil after the price increases in 1973 and 1974. This resulted in rising inflation, lack of foreign exchange, and an unsustainable external deficit. Turkey's foreign debt more than quintupled from \$3.3 billion in 1974 to \$17.8 billion at the end of 1980. In addition, according to the State Department the problems were compounded by a series of weak coalition governments which were unable or unwilling to enforce corrective economic measures.

According to an April 1980 economic survey by OECD, the Turkish economy passed through a difficult period between 1978 and 1980. The inflation rate was the highest of all OECD countries, reaching about 80 percent on a year-to-year basis. Industrial production fell sharply because of Turkey's growing difficulties in generating enough foreign exchange to pay for needed

imports of oil and raw materials. As a result, the gross national product came almost to a standstill and unemployment reached 25 to 30 percent. In order to overcome these problems, it was necessary to implement an economic stabilization program.

ECONOMIC STABILIZATION EFFORTS

In conjunction with outside donors, the GOT has undertaken stabilization efforts to reverse its economic decline. These efforts have three major components: economic policy reforms to restructure the economy worked out with the International Monetary Fund (IMF) standby agreement; balance of payments aid through the OECD consortium; and debt rescheduling. The IMF standby agreement is the key to the entire effort since OECD assistance and debt rescheduling are contingent upon their implementation.

IMF standby agreement

The IMF agreement has focused primarily on liberalizing Turkey's exchange rate policy and limiting the size of its budget deficit. Within the framework of the agreement, Turkey announced an economic stabilization program in January 1980 containing the following key elements:

- Devaluation of the Turkish lira, reform of exchange rate policies, higher interest rates, consolidation of debts, and tax reforms.
- Relaxation of import restrictions and promotion of exports and foreign investments.
- Price measures for products produced by State Economic Enterprises, and reducing subsidies and price controls in the private sector.

There are indications the economic policy changes have had some effect. Although inflation in early 1980 reached 90 to 100 percent, it has declined to below 40 percent in 1981. Exports also have increased from about \$2.3 billion in 1979 to \$2.9 billion in 1980 and Deleted A U.S. Embassy official, however, noted that even though these are positive indications, the Turkish economy is still faced with major problems such as sluggish industrial production, high unemployment, and a large budget deficit. According to U.S. and Turkish officials, it will take another 4 to 5 years for the Turkish economy to recover.

OECD balance of payment aid

The OECD countries provided substantial economic assistance in 1979 and 1980 with total contributions of \$993.3 million and \$1,161 million, respectively.

Eleven of the 17 OECD countries providing economic assistance are NATO countries. Together, the countries have provided \$1.7 billion or about 81 percent of the total assistance pledged for 1979 and 1980. The two largest, the United States and FRG, account for 48 percent of the total OECD assistance and 60 percent of the 1980 assistance provided by the NATO countries. The following table shows the various OECD contributions and total utilized by Turkey.

OECD CONTRIBUTIONS PLEDGED AND UTILIZED
1979 and 1980

	<u>1979</u> <u>pledged</u>	<u>1980</u> <u>pledged</u>	<u>Total</u>	<u>Total</u> <u>utilized</u> <u>(note a)</u>
------(millions)-----				
Austria	\$ 35.0	\$ 15.0	\$ 50.0	\$ 15.0
Belgium (NATO)	99.1	10.0	109.1	63.4
Canada (NATO)	10.2	10.0	20.2	7.8
Denmark (NATO)	4.8	5.0	9.8	9.8
Finland	2.0	3.5	5.5	2.0
France (NATO)	70.0	100.0	170.0	129.0
Germany (NATO)	200.0	295.0	495.0	425.0
Italy (NATO)	85.0	115.0	200.0	130.0
Japan	70.0	100.0	170.0	-
Luxembourg (NATO)	-	1.0	1.0	-
Netherlands (NATO)	21.0	21.5	42.5	37.6
Norway (NATO)	71.2	10.0	81.2	66.2
Spain	5.0	-	5.0	-
Sweden	12.0	10.0	22.0	12.0
Switzerland	30.0	37.0	67.0	45.5
United Kingdom (NATO)	30.0	33.0	63.0	53.3
United States (NATO)	248.0	295.0	543.0	493.0
European Economic Community	<u>-</u>	<u>100.0</u>	<u>100.0</u>	<u>-</u>
Total	<u>\$993.3</u>	<u>\$1,161.0</u>	<u>\$2,154.3</u>	<u>\$1,489.6</u>

a/As of December 31, 1980.

The assistance provided by the OECD countries included tied and untied program aid, project loans, and export credits. The OECD contributions and percent utilized as of December 31, 1980, follow:

OECD contributions pledged and utilized
by type of program

Type of assistance	1979			1980		
	Pledged	Utilized	Percent	Pledged	Utilized	Percent
	(millions)			(millions)		
Program aid untied	\$459.8	\$459.8	100	\$621.5	\$460.5	74
Program aid tied	170.3	136.2	80	220.5	100.7	46
Project loans	46.2	11.2	24	93.5	-	-
Export credits	317.0	156.2	49	225.5	165.0	73
	<u>\$993.3</u>	<u>\$763.4</u>	77	<u>\$1,161.0</u>	<u>\$726.2</u>	63

ECONOMIC ASSISTANCE
IN 1981 DECLINED

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Turkey requested a contribution of between \$1.5 and \$1.7 billion from OECD in 1981; however, about \$1 billion was pledged at the May 7, 1981 session. Overall the value of the pledges declined by \$223 million. Of this amount, the value of the NATO members' pledges declined by over \$57 million from 1980. Although six NATO countries pledged the same amount in 1981, their contributions will be reduced because of the decline in the value of their currencies vis-a-vis the dollar. Also, reduced pledges principally by the FRG and Canada contributed to this decline. On the other hand, the United States increased its pledge by \$55 million and Italy maintained its pledge of \$115 million by granting Turkey dollar aid identical to its 1980 pledge.

A U.S. Embassy economic officer noted that the GOT estimated a need for \$1.7 billion to cover part of a \$5.1 billion current account imbalance. This official noted that concerns over the military government are causing some uncertainty over OECD pledges. Some of the European countries in NATO are reluctant to contribute funds to a military regime. The Embassy official noted that the military government, thus far, has supported the economic stabilization program and recognizes the importance of a strong economy in order to build a strong defense. Other reasons for a decrease

in pledges are (1) generally slack economic conditions in OECD countries and (2) this is the third year in succession aid has been needed. 1/

While total pledges decreased, the United States was the only country to increase economic assistance when it pledged \$350 million. The U.S. pledges included in the OECD contributions consist of Economic Support Fund grant and loan aid and Export-Import Bank loan guarantees. The following shows U.S. economic assistance pledged for 1979 through 1981.

<u>Assistance</u>	<u>1979</u> (note a)	<u>1980</u> (note a)	<u>1981</u> (note a)	<u>Total</u>
	------(millions)-----			
ESF grants	\$ 75	\$134	\$200	\$409
ESF loans	<u>123</u>	<u>66</u>	<u>100</u>	<u>289</u>
Total untied aid	\$198	\$200	\$300	\$698
Export-Import Bank credits or loan guarantees	<u>50</u>	<u>95</u>	<u>50</u>	<u>195</u>
Total assistance	<u>\$248</u>	<u>\$295</u>	<u>\$350</u>	<u>\$893</u>

a/These are from the U.S. fiscal years 1980, 1981, and 1982 budgets, respectively.

Most of the funds for fiscal years 1980 and 1981 have been expended, except the \$50 million in Export-Import Bank loan guarantees. An agreement to use the \$50 million is being negotiated.

DEBT RESCHEDULING

Concern for Turkey's ability to repay debts resulted in debt rescheduling arrangements in 1978, 1979, 1980, and 1981. These arrangements covered official bilateral credits, and debt service obligations, due

--between May 20, 1978, and June 30, 1979;

--between July 1, 1979, and June 30, 1980; and

--for the 3-year period beginning July 1, 1980.

1/Prior to issuance of this report, a State Department official advised us that the European Community suspended action on a proposed \$600 million economic aid package to Turkey because of the jailing of former Prime Minister Ecevit in December 1981.

After taking into account the debt reorganization agreement reached in July 1980, principal and interest obligations on debt outstanding will be approximately \$1.9 and \$2.2 billion for 1981 and 1982, respectively.

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FMS CREDITS INCREASING
TURKISH DEBT

The above figures show that approximately 50 percent of the rescheduled debts owed to the United States were FMS credits. Since 1971 Turkey has obtained \$923 million in FMS direct and guaranteed loans. In order to meet the large scheduled principal and interest repayments, FMS loans have been rescheduled. Annual principal and interest for 1981 to 1985 are shown below.

<u>Year</u>	<u>Principal and interest</u> (millions)
1981	\$ 35
1982	48
1983	129
1984	202
1985	<u>214</u>
	<u>\$628</u>

If the GOT cannot repay the relatively low amounts of \$35 million and \$48 million in 1981 and 1982, respectively, its ability to handle the larger amounts due in 1983 through 1985 is questionable.

The terms of FMS made to Turkey are more rigid than those under the economic assistance package currently provided. While FMS loan guarantees have been made on prevailing U.S. Treasury rates, the ESF program pledge included in the OECD package is providing concessionary terms (two-thirds grant and one-third low interest loans).

Proposed fiscal year 1982 FMS guarantees for Turkey are \$400 million. As noted in chapter 3, these guarantees are part of U.S. "best efforts" and necessary to meet Turkish military needs. Since FMS guarantees pertain to loans and not grants, they will be added to Turkey's debt.

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Ambassador and other
U.S. officials have concerns

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CONCLUSIONS

There are two important issues involved in assessing the future course of action in assisting Turkey alleviate economic and debt problems. One is, while the United States has an interest in maintaining economic stability, assisting Turkey is

clearly a NATO-wide problem. This is essentially a question of equitable and reasonable pledges of economic assistance between the allies. Also at issue is the form such assistance takes and the conditions attached.

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A second concern is the extent U.S. FMS credits are adding to Turkey's already large debt burden. A thorough evaluation of Turkey's future debt and debt burden is beyond the scope of this review. However, some important considerations can be pointed out. The debt burden on FMS repayments is mounting. Even with debt rescheduling, Turkey will have to pay in 1984 \$202 million in rescheduled prior FMS credits which will equal about half of the estimated \$400 million in FMS assistance.

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Therefore, an analysis of this issue should be made in the context of Turkey's overall debt and the terms by which FMS have been and could be made. Unless the sales terms are improved there is a possibility that Turkey may not be able to continue to buy military equipment from the United States without some type of subsidized program that minimizes the constantly increasing debt for defense.

CHAPTER 6

FUTURE CONSIDERATIONS CONCERNING

U.S. ASSISTANCE TO TURKEY

Turkey will require substantial economic and military assistance for at least several more years. The questions are how much, on what terms, and who will provide the assistance. Turkey is a NATO problem but unless the allies are willing to increase their contributions, the United States may have to increase its security assistance program if Turkey is considered vital to U.S. interests. However, in doing so, the United States must consider the impact an increased program will have on the balance of power in the Aegean and U.S. interests in Southwest Asia.

IMPORTANCE OF TURKEY
TO THE UNITED STATES

How important is Turkey to the United States? What are the constraints on increased assistance from the United States?

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There are no easy solutions to Turkey's problems. From the U.S. standpoint, Turkey is receiving substantial assistance for U.S. rights under the DECA. However, as shown in the previous chapters, Turkey's needs are great and currently exceed U.S. security assistance programs.

Future levels of
security assistance

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Factors to be considered

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In the long term this would not serve U.S. and NATO interests.

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Turkish position
on Cyprus

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CONCLUSIONS

Turkey's recovery is contingent upon continued assistance from the United States and NATO countries. Current estimates indicate the economy will require at least 4 to 5 years to recover. Military assistance will also be needed for the foreseeable future. However, U.S. and NATO assistance has not met Turkish projected military needs. Furthermore, U.S. FMS credits are expensive and counter-productive to U.S. assistance provided for the economy. While the U.S. "best effort" commitment is being met with the present levels, the longer it takes to modernize Turkey's armed forces, the more expensive it becomes.

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Increased levels of security assistance without increased burden sharing by other NATO countries put a greater emphasis on the need for the United States to solve Turkey's military problems.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

Turkey's military needs are so great that current U.S. "best efforts" under the DECA will not come close to satisfying these needs.

If efforts by the administration do not result in greater assistance being provided by the other NATO allies, the Congress may be asked by the administration to increase security assistance to Turkey or to approve other alternatives that would help to satisfy Turkey's needs. The alternatives which could be applied individually or in a combination include providing Turkey

--debt forgiveness and/or concessionary terms as a further extension of U.S. "best efforts", or

--security assistance on a grant basis which would increase U.S. control on how funds are spent.

However, such bilateral action by the United States to assist Turkey may well be provided with the condition that Turkey grant additional concessions to the United States.

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AGENCY COMMENTS AND OUR EVALUATION

The Departments of Defense and State disagreed with some aspects of our draft report and did not accept our proposals and matters for consideration by the Congress.

We have modified the final report to answer Defense's and State's comments, clarify some points and update actions taken, but the message in this report is essentially the same as the draft report. However, we are not making any recommendations to the agencies. We have added appendix II to the report detailing State and Defense objections and providing our comment and analysis.

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Current levels of assistance are justified primarily on the basis of Turkey's commitment and importance to NATO. The United States has borne and continues to bear the cost of this assistance with relatively small amounts being provided by other NATO members.

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CLEMENT J. ZABLOCKI, WIS., CHAIRMAN

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Congress of the United States
Committee on Foreign Affairs

House of Representatives
Washington, D.C. 20515

February 19, 1981

JOHN J. BRADY, JR.
CHIEF OF STAFF

Mr. Elmer B. Staats
Comptroller General
General Accounting Office
Washington, D.C.

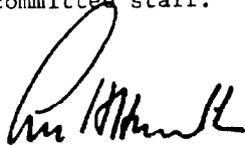
Dear Mr. Staats:

One year ago the United States and Turkey concluded a Defense and Economic Cooperation Agreement (DECA). The Subcommittee on Europe and the Middle East held a hearing on May 7, 1980 to review this agreement and the commitments the United States and Turkey undertook in signing the DECA.

We now would like a further review of the agreement and its implementation by the General Accounting Office. We believe that such a review would be useful to us and to other Members of the Committee on Foreign Affairs. Of particular interest would be the security assistance packages, arms transfers, U.S. use of military facilities in Turkey and purposed military construction.

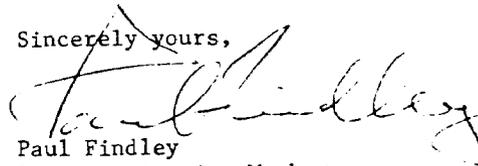
We believe such a GAO study would significantly assist the subcommittee in its oversight of NATO and Eastern Mediterranean issues within its legislative jurisdiction.

Thank you for your consideration. If you have further questions, we suggest that you initially contact Mike Van Dusen and Alison Fortier of the subcommittee staff.



Lee H. Hamilton
Chairman
Subcommittee on Europe
and the Middle East

Sincerely yours,



Paul Findley
Ranking Minority Member
Subcommittee on Europe
and the Middle East

DEPARTMENTS OF DEFENSE AND STATE
COMMENTS AND OUR ANALYSIS

The Departments of State and Defense reviewed a draft of this report and provided extensive comments dated September 23, and September 30, 1981, respectively. Defense and State disagreed with some aspects of our report and did not agree with GAO's proposals and matters for consideration by the Congress. Defense and State also listed numerous specific sections and wording to which they objected. Additionally, they indicated that since the completion of our fieldwork, there had been some new developments which should be clarified in the final report. The comments on this report were prepared by the Principal Deputy Assistant Secretary of Defense, International Security Policy and the Assistant Secretary of State, Bureau of European Affairs.

We have modified the draft report in some areas to take some of DOD's and State's suggestions into account and to update actions taken since the completion of our fieldwork. However, the basic presentation of the draft report remains in the final report, except that we are not making recommendations to the agencies. To present DOD's and State's comments and our analysis, we have added this appendix to the final report. The following sections present DOD's and State's statements and our comments as appropriate.

IMPACT OF UNITED STATES
GOVERNMENT (USG) AID ON
TURKISH NEEDS

State Comment

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GAO Response

Our report presents Turkey's needs as assessed by DOD and State. Furthermore, it identifies the Turkish procurement plan developed with the assistance of the Joint Commission and independently analyzed by JUSMMAT.

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NATO BURDEN-SHARING

State Comment

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GAO Response

We believe the draft and the final report adequately took this point into consideration in chapters 3 and 5. We agree that financial aid provided bilaterally by the allies through the OECD consortium could be expected to promote Turkey's economic self-sufficiency, and thus, further its ability to meet some of its own military needs. However, here again the United States bears the largest share of the burden by providing almost 42 percent of the economic aid pledged to Turkey in 1981.

MATTERS FOR CONSIDERATION BY THE CONGRESS
AND RECOMMENDATIONS

DOD Comment

"The conclusions reached on [Page references refer to draft report.] appear contradictory and illogical. This is not an either/or situation. If the recommendation is accepted, we would in effect be punishing the Turks because other NATO Allies will not do more. The USG is already trying to get our Allies to assist in solving Turkey's economic and military problems. We need to maintain or increase pressure on our Allies and do more ourselves. We suggest a more logical recommendation would be:

Turkey's needs are so great that current U.S. 'best efforts' under the DECA will not satisfy these needs. Congress should take a firm

stance that the administration do its utmost
to increase Allied assistance to Turkey."

State Comment

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GAO Response

In view of the confusion engendered by our proposals we are not making recommendations to the agencies in this final report. Our matters for consideration by the Congress now convey the message that if Turkey is strategically important to U.S. interests and greater assistance is not forthcoming from the NATO allies, the Congress may have to consider other alternatives to assist Turkey.

We believe our report shows that the DECA has successfully achieved U.S. objectives of regaining access to installations in Turkey at least equal to what it had prior to the embargo years. Also, we recognize that the DECA currently applies to only NATO-related uses.

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CONFLICT WITH FRG PROJECT

DOD comment

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GAO Response

We have modified this section of our report to incorporate new developments occurring since our fieldwork was completed, but the basic message remains.

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While the need for tanks is great, the Turkish economy requires substantial outside assistance and does not allow for the inefficient use of internal resources.

DOD officials agree that the best upgrade program, one providing the greater number of tanks to Turkey, is a NATO-sponsored program with major participation from at least the United States and the FRG. We concur, and in our opinion, such a program should be directed at minimizing logistical problems while maximizing the benefit to the Turkish armed forces.

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INCLUSION OF CIGLI AIRPORT
IN THE DECADOD COMMENT

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State Comment

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GAO Response

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DEFENSE INDUSTRIAL COOPERATIONDOD COMMENT

"Chapter 4 - Improving the Turkish Defense Industry: Limited Success. The draft misinterprets the status and intent of the Defense Industrial Cooperation program and reflects misinformation as to expectations in a timing sense.

The DECA, Annex to Supplementary Agreement Number 2... on Defense Industrial Cooperation, leads off with the words - 'Projects presently under consideration' - and then lists seven very general projects as detailed in the draft report (p. 25). The report assumes that these projects are in effect and ongoing rather than under consideration. The more accurate construction would be that at the time of the signing of the DECA, the USG was not committed to support any of the specific projects; rather additional work was required to define priorities, refine projects and expectations, and decide on specific projects before real progress was to be achieved. The findings reflected on p. 25 of the report may well prove to be accurate in the future, but they are premature. Both USG and GOT officials have been striving since the signing of the DECA to help establish Turkish priorities in the face of limited resources and to plan projects. Both the U.S. and Turkey are faced with a fairly massive coordination problem involving the identification of assets, the securing of accurate data and production line start-ups. Much of this effort must be accomplished before progress is visible.

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"Should this study be repeated in 1982 or 1983 and no progress on any of these projects is evident,

then the conclusions reached in this study would be justified."

State Comment

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GAO Response

We believe the report did not misinterpret the status and intent of the Defense Industrial Cooperation program. While the agreement identifies the seven projects as "presently under consideration," there is sufficient evidence to show that six of the projects were in effect and ongoing when the DECA negotiations were completed. Only the ship construction appears to be a new project. The other projects appeared to be well beyond the "consideration" phase. As identified in the report, two projects were initiated before the 1975 arms embargo and four were ongoing in 1979 before the DECA was signed. While DOD appears to be making significant efforts to improve coordination problems, limited Turkish resources and the need for new equipment makes real progress on any of the projects unlikely without additional assistance from the United States and NATO.

TURKISH DEBT

DOD Comment

"DOD strongly supports the recommendation that a serious analysis of debt and debt burden be undertaken in conjunction with FMS credit terms (p. 39). We would emphasize

the contention that 'unless the terms are improved, there is a possibility that Turkey may not be able to continue to buy military equipment from the United States without some type of subsidized program that minimizes the constantly increasing debt for defense.' We strongly believe that Turkey's modernization requirements to meet NATO responsibilities cannot be met without some form of concessional assistance."

GAO Response

Our report did not attempt to determine the amount of U.S. security assistance that should be provided on a grant or concessional basis. Since our primary objective was to determine how the agreement was being implemented, we gave only limited coverage to examining Turkey's economic condition. We did not specifically evaluate the impact of debt on Turkey's future economic performance. Our analysis was directed at the types of assistance provided and the problems with continuing the current U.S. programs. Therefore, we believe a thorough analysis should be performed which deals directly with the credit arrangements required for U.S. security assistance to Turkey. Since DOD agrees, we are not making a specific recommendation to the agencies at this time.

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