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Report to Congressional Requesters

September 2010

PERSIAN GULF

U.S. Agencies Need to Improve Licensing Data and to Document Reviews of Arms Transfers for U.S. Foreign Policy and National Security Goals

GAO-10-918

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Highlights

Highlights of GAO-10-918, a report to congressional requesters

September 2010

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U.S. Agencies Need to Improve Licensing Data and to Document Reviews of Arms Transfers for U.S. Foreign Policy and National Security Goals

Why GAO Did This Study

The United States uses arms transfers through government-to-government Foreign Military Sales (FMS) and direct commercial sales (DCS) to support its foreign policy and national security goals. The Departments of Defense (DOD) and State (State) have authorized arms worth billions of dollars to six Persian Gulf countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The United States established the Gulf Security Dialogue (GSD) to discuss security issues with these countries. GAO was asked to determine (1) the dollar value and nature of U.S. arms transfers authorized for the Gulf countries' governments, (2) the extent to which U.S. agencies documented how arms transfers to Gulf countries advanced U.S. foreign policy and national security goals, and (3) the role of the GSD.

To conduct this work, GAO analyzed U.S. government regional plans, arms transfer data from fiscal years 2005 to 2009, case-specific documentation for fiscal years 2008 and 2009, and program guidance; and interviewed officials in Bahrain, Saudi Arabia, and the UAE.

What GAO Recommends

GAO recommends that (1) State take steps to improve the clarity and usefulness of DCS license data, and (2) State and DOD document their reviews of arms transfer requests. State and DOD agreed with the recommendations, but State noted that it would need additional resources to improve DCS reporting.

View GAO-10-918 or key components.
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What GAO Found

GAO cannot determine the total value of authorized arms transfers to the governments of Gulf countries in part because State's DCS database also includes arms transfers authorized for U.S. military units stationed in those countries. GAO's review of State's database determined that at least $6 billion of the $21 billion of authorized transfers between fiscal years 2005 and 2009 were for U.S. military units in Gulf countries. In addition, some license values were counted twice. State's database system does not have the capability to separate authorizations by end-user or separate multiple authorizations that cover the same equipment. Consistent with statutory requirements, State included this data in reporting all license authorizations to Congress. In contrast, GAO could determine that the DOD-administered FMS program authorized about $22 billion in arms transfers to the six Gulf countries. Authorized transfers included air and missile defense systems, with the UAE and Saudi Arabia accounting for over 88 percent of total FMS authorizations.

Examples of Arms Transfers Authorized to Persian Gulf Countries (Fiscal Years 2005 to 2009)

Javelin missile

Patriot missile defense system

F-16 aircraft

Source: DOD.

State and DOD did not consistently document how arms transfers to Gulf countries advanced U.S. foreign policy and national security goals for GAO selected cases. State assesses arms transfer requests against criteria in the Conventional Arms Transfer policy, including interoperability with the host nation and the impact on the U.S. defense industrial base. Additionally, DOD assesses FMS requests for significant military equipment against criteria in DOD policy, such as the impact on the recipient's force structure and the ability to monitor sensitive technology. GAO's analysis of 28 arms transfer authorizations—15 DCS and 13 FMS—found that State did not document how it applied its criteria to arms transfers, while DOD could not provide documentation on its review of release of technology for 7 of 13 FMS authorizations. Due to a lack of complete documentation, we cannot verify if U.S. agencies consistently reviewed authorizations.

When established in 2006, GSD was intended to enable multilateral cooperation on six security-related topics between the United States and six Gulf countries, but it instead operates as a bilateral forum between the United States and five Gulf countries due to the preference of these countries. Saudi Arabia does not participate in GSD, but discusses security concerns at other forums. According to U.S. officials, GSD's agenda has evolved to focus on regional security and other concerns specific to the country participants.

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Abbreviations

AECA	Arms Export Control Act
CAT	Conventional Arms Transfer
DCS	direct commercial sales
DDTC	Directorate of Defense Trade Controls
DOD	Department of Defense
DTSA	Defense Technology Security Administration
FMS	Foreign Military Sales
GSD	Gulf Security Dialogue
LOA	Letter of Offer and Agreement
State	Department of State
UAE	United Arab Emirates

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

September 20, 2010

The Honorable Ileana Ros-Lehtinen
Ranking Member
Committee on Foreign Affairs
House of Representatives

The Honorable Dan Burton
Ranking Member
Subcommittee on the Middle East
and South Asia
Committee on Foreign Affairs
House of Representatives

The Honorable Mike Pence
House of Representatives

The Persian Gulf remains a volatile region for the United States as it continues to withdraw U.S. forces from Iraq and confronts Iran's attempts to develop nuclear weapons. In the Gulf region and elsewhere, the United States uses two key arms transfer[1] programs to support foreign policy and national security goals: (1) Foreign Military Sales (FMS) that the Department of Defense (DOD) implements[2] and (2) direct commercial sales (DCS) that the Department of State (State) implements.[3] Between fiscal years 2005 and 2009, State and DOD authorized arms transfers worth billions of dollars to Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). In May 2006, the Bush administration created the Gulf Security Dialogue (GSD) as a mechanism for the United States to discuss regional security issues with these six countries.

[1]For the purposes of this report, arms transfers include defense articles and services authorized for sale through direct commercial sales, as well as defense articles and services that the U.S. government sells to foreign governments and international organizations through the Foreign Military Sales program.

[2]Although DOD implements FMS, the Secretary of State is responsible for the continuous supervision and general direction of sales and exports under the Arms Export Control Act.

[3]FMS is negotiated between the U.S. government and a foreign government, while DCS is negotiated between a U.S. supplier and a foreign buyer.

In response to congressional requesters, we reviewed (1) the dollar value and nature of U.S. arms transfers authorized to the governments of Gulf countries, (2) the extent to which U.S. agencies documented how arms transfers to Gulf countries advanced U.S. foreign policy and national security goals, and (3) the role of the GSD.

To address these objectives, we reviewed and analyzed U.S. government regional plans and strategies, arms transfer data, case-specific documentation, program regulations and guidance, and reports on arms transfers to Gulf countries. We obtained agency data on arms transfers authorized between fiscal years 2005 and 2009 for the six Gulf countries. For FMS, DOD provided data from its Defense Security Management Systems and 1200 system databases that included dollar values and item descriptions. For DCS, State provided data from its license database system[4] that included dollar values, types of licenses, destination countries, and descriptions of items or end-users. From this data, we selected a judgmental sample of 28 cases (13 FMS and 15 DCS) from fiscal years 2008 and 2009, based on a mix of criteria, including high dollar values overall and per country; sensitivity of equipment, such as if the authorization approvals were conditional; and destination country. We selected 15 cases for the UAE and Saudi Arabia, which had a larger share of authorizations, compared to 13 cases for the remaining Gulf countries, which had a lower share of authorizations. For these case studies, we requested documents that would show the agencies' review and decisions. We interviewed agency officials from State and DOD, as well as subject matter experts, in Washington, D.C. We met with officials from the Departments of Army, Navy, and Air Force; the Office of the Secretary of Defense; the Joint Chiefs of Staff; and the U.S. Central Command. Additionally, we interviewed U.S. embassy officials and host country officials in three Gulf countries (Bahrain, Saudi Arabia, and the UAE). At each embassy, we met with the Ambassador, State officials representing political and economic offices, and DOD officials who manage the FMS program. We also interviewed U.S. embassy officials from the countries we did not visit (Kuwait, Oman, and Qatar).

We conducted this performance audit from August 2009 to September 2010 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain

[4]For the purposes of this report, we refer to State's DCS case management system as the DCS database system.

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides a more detailed description of our scope and methodology.

Results in Brief

We cannot determine the total value of authorized arms transfers to the governments of Gulf countries in part because State's DCS database also includes arms transfer authorizations to U.S. military units stationed in those countries.[5] Our review of State's database determined that at least $6 billion of the $21 billion in arms transfer authorizations between fiscal years 2005 and 2009 were for U.S. military units in the Gulf countries, such as an authorization of radar equipment for $1.4 billion to the U.S. Navy in Bahrain. We could not determine the exact value of authorizations to U.S. government entities because State's database system does not have the capability to separate authorization data by end-user. Moreover, the remaining $15 billion of the $21 billion includes both the value of authorizations for the overall arms agreement and the value of authorizations for equipment included in the agreement, because State is required to report the aggregate dollar value and quantity of all such authorizations. For example, in 2008, State authorized a $47 million arms agreement with Bahrain and a subsequent $43 million license for aircraft parts. Because the $43 million license was part of the $47 million agreement, the value of this equipment is included twice. Consistent with its statutory requirements, State reported all arms transfer authorizations in its annual reports to Congress; however, State noted for the first time in its 2008 report that the data included authorizations for U.S. government entities. Moreover, State did not provide the magnitude of such authorizations. Since State's database system does not have the capability to separate authorizations for arms transfers to U.S. government entities as well as multiple authorizations that cover the same equipment, we could not determine the total value of arms transfers authorized for the governments of Gulf countries under the DCS program. In contrast, we could determine that the FMS program, administered by DOD, authorized about $22 billion in arms transfers to the six Gulf countries between fiscal years 2005 and 2009. Authorized transfers included advanced air and missile defense systems, with the UAE and Saudi Arabia accounting for

[5]We assessed the value of arms transfers authorized for the governments of each of these countries. We did not assess defense equipment and services subsequently contracted for or delivered to the countries. GAO will report on FMS and DCS deliveries in a subsequent report.

more than 88 percent of total FMS authorizations. Overall, these six countries primarily used their own funds to purchase U.S. arms and services including the Patriot missile defense system for UAE, training for the Saudi Arabian National Guard, Patriot missile defense system upgrades for Kuwait, transport aircraft for Qatar, antitank missiles for Oman, and aircraft parts for Bahrain.

State and DOD did not consistently document how arms transfers to Gulf countries advanced U.S. foreign policy and national security goals for cases we selected. According to federal internal controls standards, all significant events need to be clearly documented. Our analysis of 15 DCS and 13 FMS authorizations showed that State and DOD did not document their reviews for many of these cases. Specifically, for the 15 DCS authorizations, State did not document how it applied criteria such as interoperability with the host nation and the impact on the U.S. defense industrial base, as stated in the Conventional Arms Transfer policy. Eight of 13 FMS authorizations required the U.S. embassy's assessment of criteria such as the impact of the sale on recipient's force structure and plans for monitoring sensitive technology.[6] DOD documented how it applied these criteria for 6 of 8 FMS authorizations. These 6 assessments addressed the majority of the criteria stated in DOD policy guidance. Further, State did not document its review of regional security for 2 of 15 DCS authorizations, while DOD could not document its review of the impact of releasing requested technology for 7 of 13 FMS authorizations. As a result of incomplete documentation, we cannot verify if State and DOD consistently considered U.S. foreign policy and national security goals in authorizing these arms transfers. While documentation was incomplete, U.S. officials stated that arms transfers to Gulf countries are an effective tool to advance U.S. foreign policy and national security goals. For example, U.S. officials noted that Gulf countries support the United States by providing basing rights for the U.S. military in the region and supporting operations in Afghanistan.

[6]Prior to April 2010, DOD policy required U.S. embassies to conduct assessments for defense articles considered to be significant military equipment, which are arms on the U.S. Munitions List that warrant special export controls because of their capacity for substantial military utility or capability. 22 U.S.C. 2794(9) and Security Assistance Management Manual C5.T1. Current DOD policy requires these assessments only for major defense equipment, which is significant military equipment with a non-recurring research and development cost of more than $50 million or total production cost of more than $200 million. 22 U.S.C. 2794(6).

At the time of its establishment in 2006, GSD was intended to enable multilateral cooperation on six security-related topics between the United States and six Gulf countries, instead it operates as a bilateral discussion mechanism between the United States and five Gulf countries; Saudi Arabia does not participate. GSD discussions, co-led by State and DOD, initially focused on six topics: (1) enhancing defense capabilities and interoperability, (2) addressing regional security issues, (3) countering weapons proliferation, (4) countering terrorism and enhancing internal security, (5) protecting critical infrastructure, and (6) stabilizing Iraq. However, U.S. officials stated that GSD's agenda has evolved to focus on regional security concerns and other areas of interest to the participants. Additionally, GSD has not succeeded in enabling multilateral cooperation among Gulf countries because these countries prefer bilateral discussions with the United States on security concerns, according to U.S. officials. Moreover, while five Gulf countries have had bilateral GSD meetings with the United States, U.S. officials stated that Saudi Arabia chose not to participate in the GSD, but it addresses security concerns through other bilateral mechanisms, such as meetings between U.S. and Saudi defense officials.

In this report we are making recommendations to the Secretaries of State and Defense. Specifically, to ensure that State reports more clear and useful information on DCS arms transfers authorized to the governments of Gulf countries, we recommend that the Secretary of State (1) provide more details related to data in reports on arms transfer authorizations to Congress, and (2) modify the DCS database system so that it has the capability to identify and separate licenses issued for arms transfers to U.S. government entities and overlapping values of related licenses. We are also recommending that the Secretaries of State and Defense document reviews of arms transfer requests, including assessments against Conventional Arms Transfer policy criteria, for foreign policy and national security considerations to provide reasonable assurance that such reviews are conducted.

We provided DOD and State with a draft of this report for their review and comment. DOD concurred with our recommendation and noted that it will identify better processes to ensure that key assessments are documented against national security goals. In comments on a draft of this report, State generally agreed with our recommendations, but noted that implementation of these recommendations may require additional resources. Specifically, in response to our first recommendation, State said that it recognizes the importance of reporting reliable data on defense exports to Congress and public. State noted that it is not currently possible

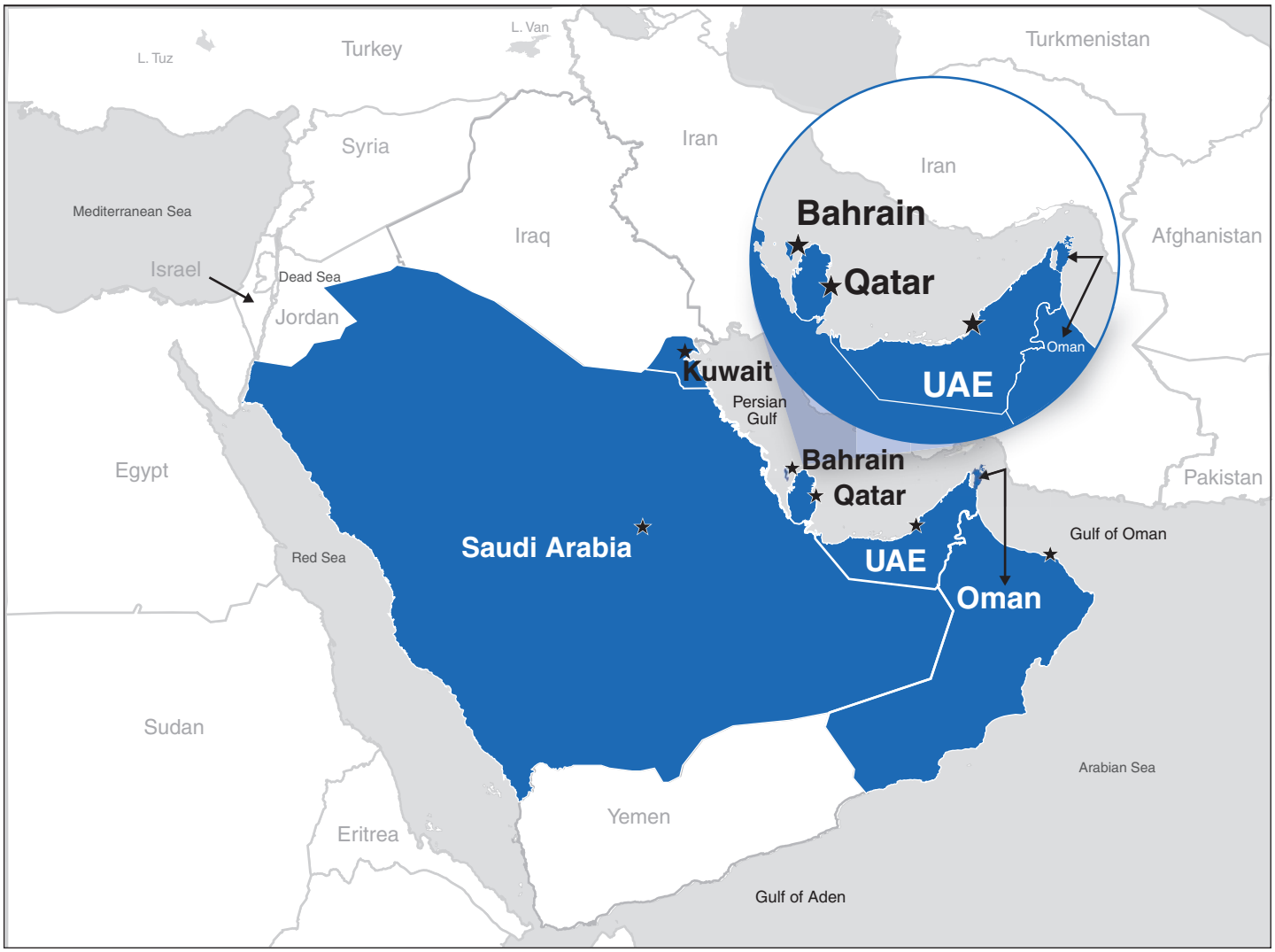
to identify the U.S. government end-users in the database without a manual search, but that the department will continue to make such identifications with existing resources. State also noted that devising additional reporting formats would require the commitment or allocation of significant additional resources. We agree that State should identify U.S. government end-users in its reports to Congress. In considering modifications to its case management system, State should also ensure that the system has the capability to identify overlapping dollar values of authorizations. State concurred with our third recommendation and noted that it is already taking steps, such as improving documentation of FMS and DCS case review for human rights concerns. However, State disagreed with our conclusion that the partial absence of documentation of agencies' reviews raises concerns that U.S. priorities are not consistently considered before such sales are authorized. It stated that the documentation that we reported as "missing" for two DCS cases can be found in previously authorized licenses. However, these authorizations were notified to Congress and, pursuant to State's guidance, required a review. Federal internal control standards require that in addition to clearly documenting transactions and all significant events, agencies should ensure that documentation be readily available for examination. State did not provide us documentation that its Office of Regional Security and Arms Transfers reviewed the two DCS cases.

Background

Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE border the Persian Gulf and, with the exception of Bahrain and Oman, have large oil or gas reserves. Although some of these predominantly Sunni[7] Arab countries have a history of territorial disputes, they have made attempts to increase cooperation. For example, in 1981 these countries founded the Gulf Cooperation Council as a means to resolve internal political and economic issues and coordinate on security concerns. Figure 1 shows Persian Gulf countries that we included in our review.

[7]Bahrain is the only Arab Gulf country where the majority of the population is identified with Shia Islam. Oman is predominantly Ibadi.

Figure 1: Map of Gulf Cooperation Council Countries



Source: Map Resources (map).

The United States has longstanding security relationships with some Gulf countries, such as Saudi Arabia and Bahrain, and developed closer security relations with Kuwait and the UAE following the 1991 Persian Gulf War. Throughout the 1990s, the United States tried to contain potential conventional military threats from Iraq and Iran through its military posture and attempts to promote Gulf Cooperation Council security coordination. The security environment in the region has changed with the emergence of transnational terrorist and proliferation networks,

the removal of Saddam Hussein's government in Iraq, and the relative strengthening of Iran's military. According to U.S. regional and country-specific plans, key U.S. goals in the region include: (1) preventing Iran's development of nuclear weapons capability, (2) gaining support for operations in Iraq and Afghanistan, (3) protecting critical infrastructure, (4) enhancing internal security, and (5) improving maritime security.

Several U.S. laws authorize the transfer of arms from the U.S. government or U.S. companies to foreign countries, or in certain cases foreign entities, and establish requirements to review requests for such transfers and report on them to Congress. The Arms Export Control Act of 1976 (AECA), as amended, provides the President the authority to control the transfer of arms.[8] The AECA authorizes the Foreign Military Financing program, which provides U.S. funds for foreign governments to purchase defense articles and services through FMS or DCS programs. In addition, the Foreign Assistance Act, as amended, provides authority for the transfer of excess defense articles to foreign governments.[9] Section 1206 of the National Defense Authorization Act, as amended, authorizes DOD to use its funds to train and equip partner nations' military.[10] Foreign governments may purchase arms or receive U.S. security assistance through these programs. Furthermore, pursuant to a 2008 amendment to the AECA, State must assess arms transfer requests from Middle East countries, including the six in this review, for the sales' potential impact on Israel's military capability, also known as Israel's qualitative military edge.[11]

The United States sells arms to foreign governments or international organizations through FMS and authorizes the sale of arms for foreign governments or entities through DCS. While State has overall approval authority for both FMS and DCS, DOD's Defense Security Cooperation Agency administers the FMS program. An FMS authorization is a negotiated agreement between the U.S. government and a foreign government for the purchase of arms, which results in a contract termed Letter of Offer and Acceptance (LOA). Under the AECA, it is the sense of

[8]AECA, as amended, 22 U.S.C. §§ 2751 et seq.

[9]22 U.S.C. § 2321j.

[10]National Defense Authorization Act of 2006, as amended, Pub. L. No. 109-163, § 1206. 119 Stat. 3136, 3456-58 (2006).

[11]22 U.S.C. § 2776(h).

Congress that FMS requests should only be approved when consistent with U.S. foreign policy interests. Further, these sales must strengthen U.S. security. DOD policies to implement AECA requirements for FMS are in the Security Assistance Management Manual. State's Directorate of Defense Trade Controls (DDTC) administers the DCS license process. Under DCS, a private U.S. corporation and a foreign buyer negotiate the sale of arms and State issues an export license for the sale. The license may or may not result in a contract between the U.S. corporation and the foreign buyer. Under the AECA the DCS process is to be conducted in furtherance of the security and foreign policy of the United States. State implements AECA requirements for DCS through the International Traffic in Arms Regulations. Table 1 compares key aspects of FMS and DCS.

Table 1: Key Information on FMS and DCS

	FMS	DCS
Administrating agency	DOD—Defense Security Cooperation Agency	State—Directorate of Defense Trade Controls (DDTC)
Description	Government-to-government sales program that produces a negotiated agreement between the U.S. government and a foreign government for arms transfer.	Licensing process for sales negotiated between a U.S. corporation and a foreign entity for arms on the U.S. Munitions List that require an export license.
Authorized request	Authorized requests result in an agreement that serves as a contract between the U.S. government and foreign government, called a Letter of Offer and Acceptance.	The commercial exporter is required to obtain a license from DDTC before it can export defense articles and services. Once DDTC approves the request, it issues a license, which may or may not result in a contract.
Payment mechanism	The foreign government may pay the United States for defense articles and services or may receive security assistance from the United States, such as Foreign Military Financing and excess defense articles.	Generally the buyer pays the exporter for arms. In some instances, the United States may provide security assistance to foreign governments.

Source: GAO summary based on State and DOD information.

Value of U.S. Arms Transfer Authorizations to Gulf Countries Cannot be Determined Due to Limitations in Capability of State's DCS Database System

We cannot determine the overall value of U.S. arms transfer authorizations to Gulf countries because of limitations in capability of State's DCS database system, but we determined that authorized arms transfers to these countries between fiscal years 2005 and 2009 included aircraft, helicopters, and missiles. In contrast, for FMS we determined that the United States authorized about $22 billion in government-to-government arms transfers to Gulf countries between fiscal years 2005 and 2009. Gulf countries primarily use their own funds to purchase arms through DCS and FMS.

State's Database System Does Not Have the Capability to Provide the Value of U.S. Arms Transfer Authorizations to the Governments of Gulf Countries

Section 655 of the Foreign Assistance Act, as amended, requires the President to report each year on the aggregate dollar value and quantity of defense articles, services, and other transfers authorized by the United States to each foreign country and to international organizations.[12] According to State officials, the DCS licensing database is designed to capture information on all licenses irrespective of the end-user and is used to generate information on authorizations by country for State's annual reports. According to State's database, State authorized $21 billion in arms transfers to the six Gulf countries between fiscal years 2005 and 2009. However, we found that total authorizations included at least $6 billion in arms transfers authorized for U.S. government entities, such as the U.S. military operating in these countries.[13] For example, the database included $1.4 billion in radar equipment for the U.S. Navy in Bahrain. While State's database specifies the destination for each license, it does not have the capability to generate reports on arms transfers based on end-users such as the host government or U.S. government entities operating in the host country. Consistent with its statutory requirements, State reported all arms transfer authorizations in its annual reports to Congress; however, State acknowledged for the fist time in fiscal year 2008 report that these data included authorizations to U.S. government entities in other

[12]22 U.S.C. § 2415.

[13]To determine the minimum value of licenses to U.S. government entities, we summed the top 100 highest value licenses to U.S. government entities in Gulf countries where we could clearly verify that the U.S. government was listed as the end-user. Since the description field did not always contain information clearly indicating the end-user, we cannot determine the exact value of authorizations for U.S. government entities.

countries. Moreover, State did not provide the magnitude of such authorizations. For the 2009 report, State officials said that they would manually review licenses to distinguish between sales to host governments and U.S. government entities. However, since the DCS database system does not have the capability to report information by end-user, State may not be able to accurately estimate the value of licenses to U.S. government entities. Further, State noted that because of the size of the database, which includes more than 84,000 licenses, they cannot guarantee that every authorization to a U.S. government end-user can be manually identified.

State proposes to clarify regulations that specify when exports to U.S. government entities need a license. According to the International Traffic in Arms Regulations, a license is not required for permanent export of defense articles and services for end-use by a U.S. government agency in a foreign country if the following conditions are met: (1) the export is pursuant to a contract with a U.S. government agency, (2) the end-user in the foreign country is a U.S. government agency or facility and the defense article or technical data will not be transferred to any foreign person, and (3) an appropriate export license or U.S. government bill of lading cannot be obtained in a timely manner due to the urgency of the U.S. government's requirement. According to State officials, U.S. companies selling arms to a U.S. government agency may still apply for a license to ensure that they do not encounter any legal or regulatory issues when transferring arms.

Further, the remaining $15 billion in DCS authorizations includes both the value of the overall arms agreement and the value of equipment included in the agreement. For example, in 2008, State authorized a $47 million arms agreement for Bahrain and a subsequent $43 million license for aircraft parts. According to State officials, both these values were included in State's 2008 report on arms transfer authorizations to Congress because State is required to report all authorizations by country.[14] Similarly, in 2009 State authorized a $614 million arms agreement, which included two C-17 transport aircraft and related services, for Qatar's Ministry of Defense. In the same year, State also authorized a separate license to export C-17 aircraft for $460 million to Qatar. Aggregating the total value of these two distinct licenses would repeat the $460 million value of the second license. State officials noted that the values of licenses may be repeated because

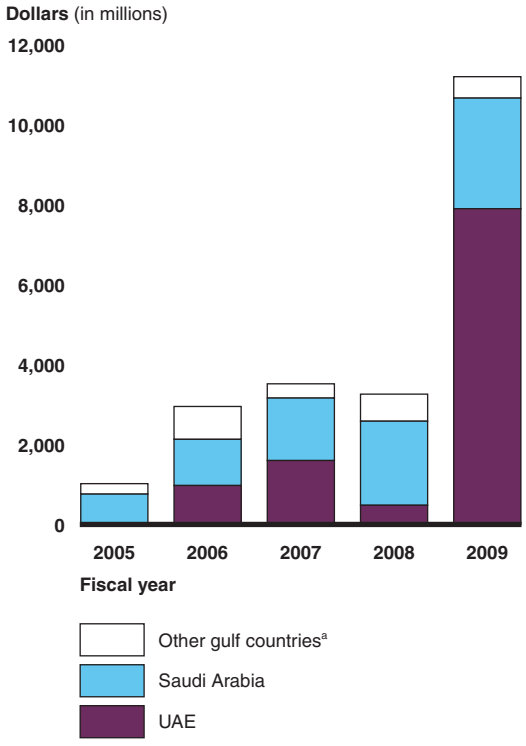
[14]State's 2009 report on arms transfers authorization was due on February 1, 2010.

State's database is designed to capture information on all DCS licenses authorizing arms transfers to each foreign country. Further, State officials noted that they are required to report all authorizations in their annual report, pursuant to Section 655. However, State did not clarify in its annual reports on arms transfer authorizations to Congress that values of licenses may be repeated in reporting different types of licenses.

In Contrast to State, DOD Data Show that the U.S. Government Authorized about $22 Billion in FMS Arms Transfers to Six Gulf Countries Over 5 Years

In contrast to our examination of State's DCS data, we could determine that the DOD-administered FMS program authorized about $22 billion in arms transfers to six Gulf countries between fiscal years 2005 and 2009. Although FMS authorizations to these countries generally increased since 2005, they increased significantly in 2009, partly due to a $6.5 billion authorization for the UAE to purchase the Patriot missile defense system. See figure 2 for FMS authorizations to Gulf countries from fiscal years 2005 to 2009.

Figure 2: Total FMS Authorizations for Gulf Countries (Fiscal Years 2005 to 2009)



Source: GAO analysis of DOD data.

[a]Other countries are Bahrain, Kuwait, Oman, and Qatar.

Various factors may have contributed to Gulf countries' preference to obtain arms through FMS. First, the United States allows the sale of certain highly sensitive equipment—such as Javelin missiles and the Patriot missile defense system—through the FMS program only. The U.S. government authorized these FMS-only arms transfers for several Gulf countries. Second, some Gulf countries preferred the FMS program because of accountability mechanisms that reduce the risk of corruption in host governments, according to U.S. officials. Third, many Gulf countries do not have sophisticated procurement capabilities, so they prefer the established system within the FMS program to negotiate with the defense industry on their behalf, according to U.S. officials.

Combined UAE and Saudi Arabia arms transfer authorizations represent more than 88 percent of the total value of arms transfer authorizations for the six Gulf countries. Between 2005 and 2009, the UAE had about $11 billion in authorized arms transfers; Saudi Arabia was next with about $8 billion.

In general, Gulf countries use their own funds to purchase arms through DCS and FMS. Oman and Bahrain, however, received $179 million from the United States to assist in their acquisition of arms between fiscal years 2005 and 2009. Oman received about $59 million from the Foreign Military Financing program, while Bahrain received about $120 million from the Foreign Military Financing program, Section 1206 funds, and the excess defense articles grant program.

U.S. Agencies Authorized Sales of Aircraft and Missiles, among Other Items, to Gulf Countries

The U.S. government authorized arms transfers of equipment—including aircraft, helicopters, missiles, and military vehicles—to Gulf countries through both FMS and DCS between fiscal years 2005 and 2009. However, the U.S. government authorized more sensitive equipment, such as missiles, through FMS.

The highest dollar value arms transfers authorized through the FMS program included missiles, helicopters, tanks and munitions, and training and support services. For example, to strengthen air defense systems of Gulf countries, the United States authorized the sale of the Patriot missile defense system and associated upgrades for the UAE and Kuwait, respectively; and Black Hawk and Apache helicopters for the UAE and

Saudi Arabia.[15] Additionally, DOD authorized the sale of light armored vehicles and tanks, as well as training and support services, to Saudi Arabian security forces including the Saudi Arabian National Guard that, among other things, protect critical infrastructure including oil installations. See appendix II for FMS authorizations representing highest dollar value arms transfers authorized for the six Gulf countries between fiscal years 2005 and 2009.

The high dollar value arms transfers authorized via DCS included aircraft, helicopters, and spare parts and maintenance for existing arms.[16] For example, the United States authorized the sale of

- Chinook helicopters, F-16 Block 60 aircraft related equipment, and maintenance for C130 and L100 aircraft for the UAE;[17]
- S-92 helicopters, F-15 aircraft spare parts, and maintenance of light armored vehicles for Saudi Arabia;[18] and
- C-17 transport aircraft and spare parts for Qatar.

See appendix III for DCS licenses representing high dollar value arms transfers authorized for the six Gulf countries between fiscal years 2005 and 2009. Figure 3 provides photos and descriptions of some of these arms authorized for sale via FMS and DCS to Gulf countries.

[15]Black Hawk helicopters are tactical transport helicopters, capable of transporting an 11-person infantry squad. Apache helicopters are designed to navigate and conduct precision attacks in day, night, and adverse weather conditions.

[16]Information for high value DCS licenses is based on cases where the State's database included a description of the defense article or service authorized via a license. If the value of the license was among the highest values, but did not include a description, we were unable to use it to describe the nature of equipment authorized.

[17]The Chinook is a twin-engine helicopter designed for transporting cargo, troops, and weapons.

[18]The S-92 is a four-blade twin-engine medium-lift helicopter for civil and military use. The F-15 aircraft is a supersonic fighter aircraft used for air-to-air combat.

Figure 3: Examples of Arms Authorized for Sale to Gulf Countries between Fiscal Years 2005 and 2009

Source: DOD (photographer: Frank Trevino).

Patriot missile defense system: An advanced surface-to-air guided missile air defense system. This system includes radars, missiles, launchers, vehicles, and other related equipment. It has four major operational functions: communications, command and control, radar surveillance, and missile guidance.

Equipment authorized via FMS

Authorized for sale to: UAE, Kuwait, and Saudi Arabia

Source: DOD (photographer: Rodney Jackson).

Javelin missiles: A portable antitank weapon that is highly lethal against conventional and reactive armor. It is hardened against countermeasures and does not require extensive training for effective employment.

Equipment authorized via FMS

Authorized for sale to: UAE and Oman

Source: DOD.

F-16 aircraft: A compact, multirole fighter with air-to-air combat and air-to-surface attack capabilities.

F-16 spare parts and technical data authorized via DCS; munitions and other support authorized via FMS

Authorized for sale to: UAE, Bahrain, and Oman

Source: DOD (photographer: Sinoe Orbe).

Hellfire missiles: This air-to-ground missile is the primary antitank armament of the Army's Apache, Kiowa Warrior, and special operations helicopters; the Marine Corps' Super Cobra helicopter; and the Navy's Sea Hawk helicopter. The Hellfire uses semi-active laser terminal guidance.

Equipment authorized via FMS; parts authorized via DCS

Authorized for sale to: UAE and Saudi Arabia

Source: DOD.

C-17 transport aircraft: A multi-engine, turbofan, wide-body aircraft capable of rapid strategic delivery of troops and all types of cargo to main operating bases or directly to forward bases in the deployment area. It can perform tactical airlift and airdrop missions and can also transport ambulatory patients during aeromedical evacuations when required.

Equipment authorized via DCS; support and parts authorized via DCS and FMS

Authorized for sale to: Qatar

Source: DOD (photographer: K. T. Burch).

Light armored vehicles: An 8x8 wheeled light armored, all-terrain, all-weather vehicle with day and night capability. It is fully amphibious with a maximum of three minutes preparation.

Equipment authorized via FMS; maintenance and repair services authorized via DCS and FMS

Authorized for sale to: Saudi Arabia

Sources: GAO and DOD.

U.S. Agencies Did Not Consistently Document How Arms Transfers Advanced U.S. Foreign Policy and National Security Goals for Selected Cases

State and DOD did not consistently document how arms transfers to the six Gulf countries advanced U.S. foreign policy and national security goals for 28 cases that we selected. State assesses arms transfer requests against criteria stated in the Conventional Arms Transfer (CAT) policy.[19] Additionally, DOD assesses FMS arms transfer requests for significant military equipment against criteria stated in DOD policy guidance.[20] Our analysis of 15 DCS and 13 FMS authorizations found that State did not document how it applied criteria to review arms transfers, while DOD documented how it applied criteria for 6 of 8 authorizations. Further, State did not document its review of regional security for 2 of 15 DCS authorizations and DOD did not document its reviews of the impact of releasing sensitive technology for 7 of 13 FMS authorizations. While documentation was incomplete, U.S. officials explained that arms transfers to Gulf countries are an effective tool to advance U.S. foreign policy and national security goals.

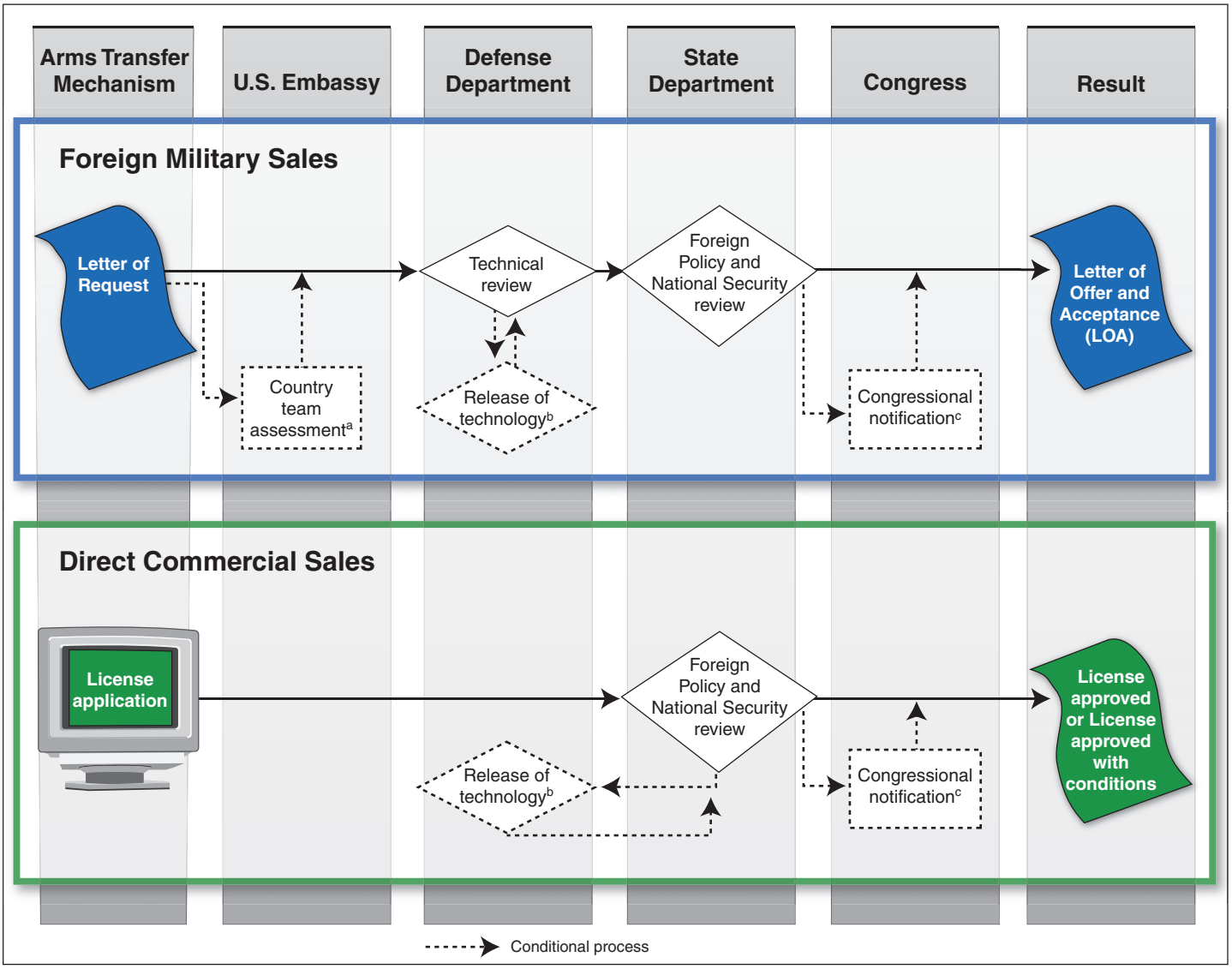
State and DOD Officials Stated that They Consider Foreign Policy and National Security Goals During the Arms Transfer Review Process

State and DOD share responsibilities in reviewing arms transfers requested through DCS and FMS. Figure 4 illustrates the FMS and DCS review process for arms transfer requests.

[19]According to Presidential Decision Directive 34, all arms transfer decisions should take into account 12 criteria in the CAT policy.

[20]DOD 5105.38-M, "Security Assistance Management Manual" (October 3, 2003). This manual provides guidance for the administration and implementation of security assistance and related activities in compliance with the Foreign Assistance Act, the AECA, and related statutes and directives.

Figure 4: FMS and DCS Review Process for Arms Transfer Requests That Result in Authorization



Sources: GAO analysis of U.S. agency information; Corel (clip art).

Note: FMS and DCS arms transfer requests that State or DOD do not approve may result in denial or be returned without action.

[a]Until April 2010, DOD policy required country team assessments for defense articles considered to be significant military equipment, which are arms that warrant special export controls because of their capacity for substantial military utility or capability.

[b]DOD components and interagency committees are involved in decisions regarding release of certain technologies and what, if any, restrictions are placed on the use of technology authorized for foreign entities.

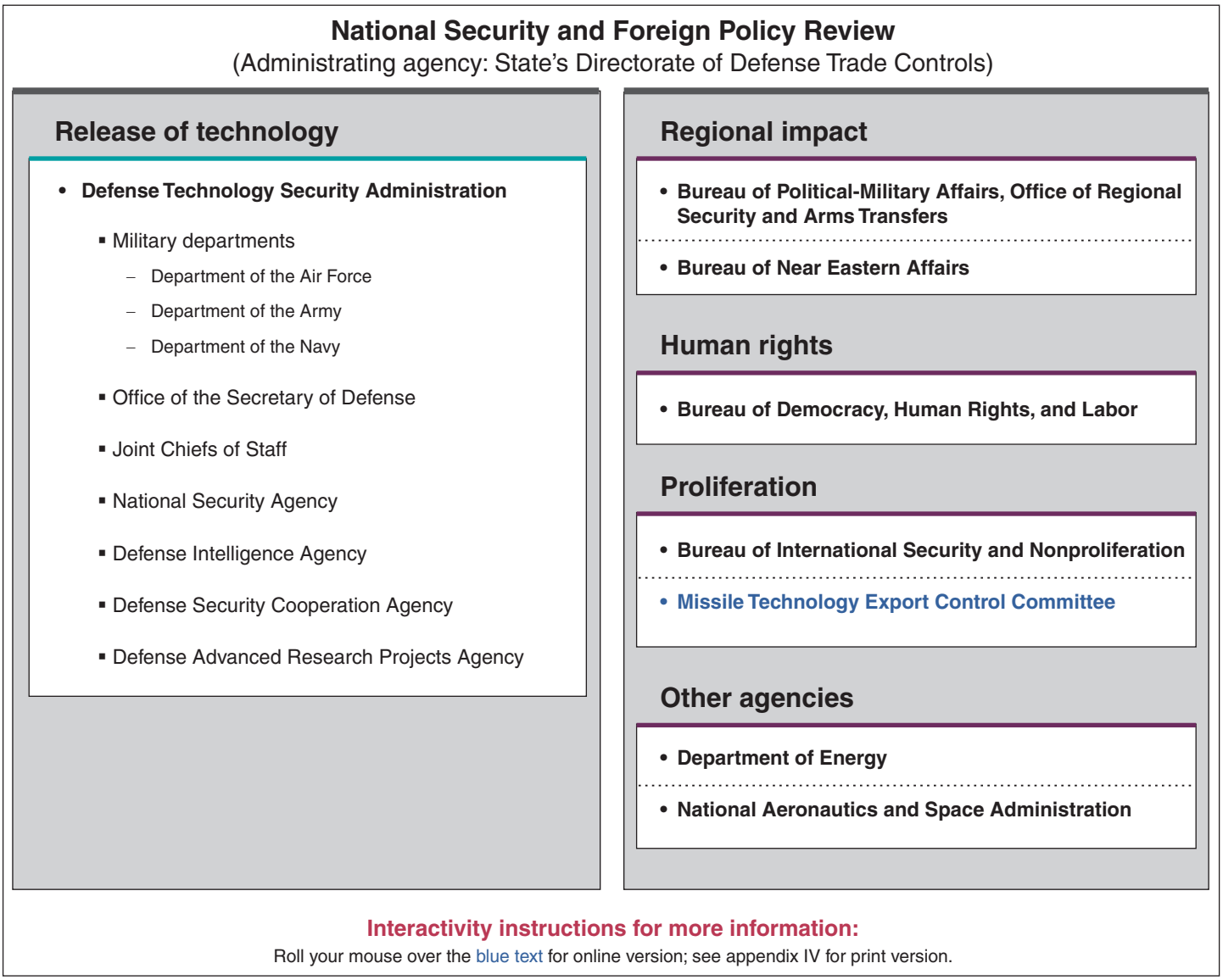
[c]Pursuant to the AECA, FMS and DCS requests require congressional notifications if defense articles and services (1) exceed $50 million or (2) are for major defense equipment worth at least $14 million. Additionally, congressional notifications are also required for FMS requests for design and construction services worth at least $200 million and for DCS requests to export firearms in the amount of $1 million or more.

State Reviews Focus on Foreign Policy Goals

According to State officials, different offices within State may review arms transfer requests for their potential impact on regional security, human rights, and other concerns. For example, State's Office of Regional Security and Arms Transfers and Bureau of Near Eastern Affairs review requests for the impact of arms transfers on regional security, including an assessment of Israel's qualitative military edge.[21] State's Bureau of Democracy, Human Rights, and Labor may review requests for human rights concerns and its Bureau of International Security and Nonproliferation may review arms transfer requests for proliferation concerns. For DCS requests, State's Directorate for Defense Trade Controls may ask State offices to review the request for foreign policy concerns. Similarly, for FMS, State's Office of Regional Security and Arms Transfers receives all requests and may refer these to other State offices for their review. Figure 5 identifies U.S. organizations involved in the review of DCS requests.

[21]The AECA, as amended in 2008, defines qualitative military edge as the ability to counter and defeat any credible conventional military threat from any individual state or possible coalition of states or from nonstate actors, while sustaining minimal damages and casualties, through the use of superior military means, possessed in sufficient quantity, including weapons, command, control, communication, intelligence, surveillance, and reconnaissance capabilities that in their technical characteristics are superior in capability to those of such other individual or possible coalition of states or nonstate actors. 22 U.S.C. § 2776(h)(2).

Figure 5: U.S. Organizations Involved in the Review of DCS Requests for Gulf Countries



Source: GAO analysis based on State and DOD information.

DOD Reviews Focus on National Security Goals

For DCS, State may refer license applications to the Defense Technology Security Administration (DTSA) to determine if the United States should release the requested technology to the requesting foreign government. Specifically, DTSA assesses the sale's impact on preserving critical U.S. military technological advantages, among other things. Not all DCS licenses are referred to DTSA for their review; for example, State's Directorate for Defense Trade Controls may not refer license requests to DTSA for spare parts or equipment previously authorized for the requesting government. DTSA may recommend approval of the license, the addition of specific limitations on the requested technology, return without action for additional information, or denial of the license. To assist in formulating DOD's position, DTSA may also refer a DCS license application to other DOD components, such as the military departments, or other U.S. agencies for further reviews.

For FMS, prior to April 2010, DOD's Security Assistance Management Manual required U.S. embassy personnel to conduct an initial assessment of requests for significant military equipment. These country team assessments provide a justification for the arms transfer request and an overall recommendation on whether the U.S. government should authorize the sale. This recommendation is based on foreign policy and national security considerations. In April 2010, DOD changed its policy to require this assessment only for major defense equipment.[22]

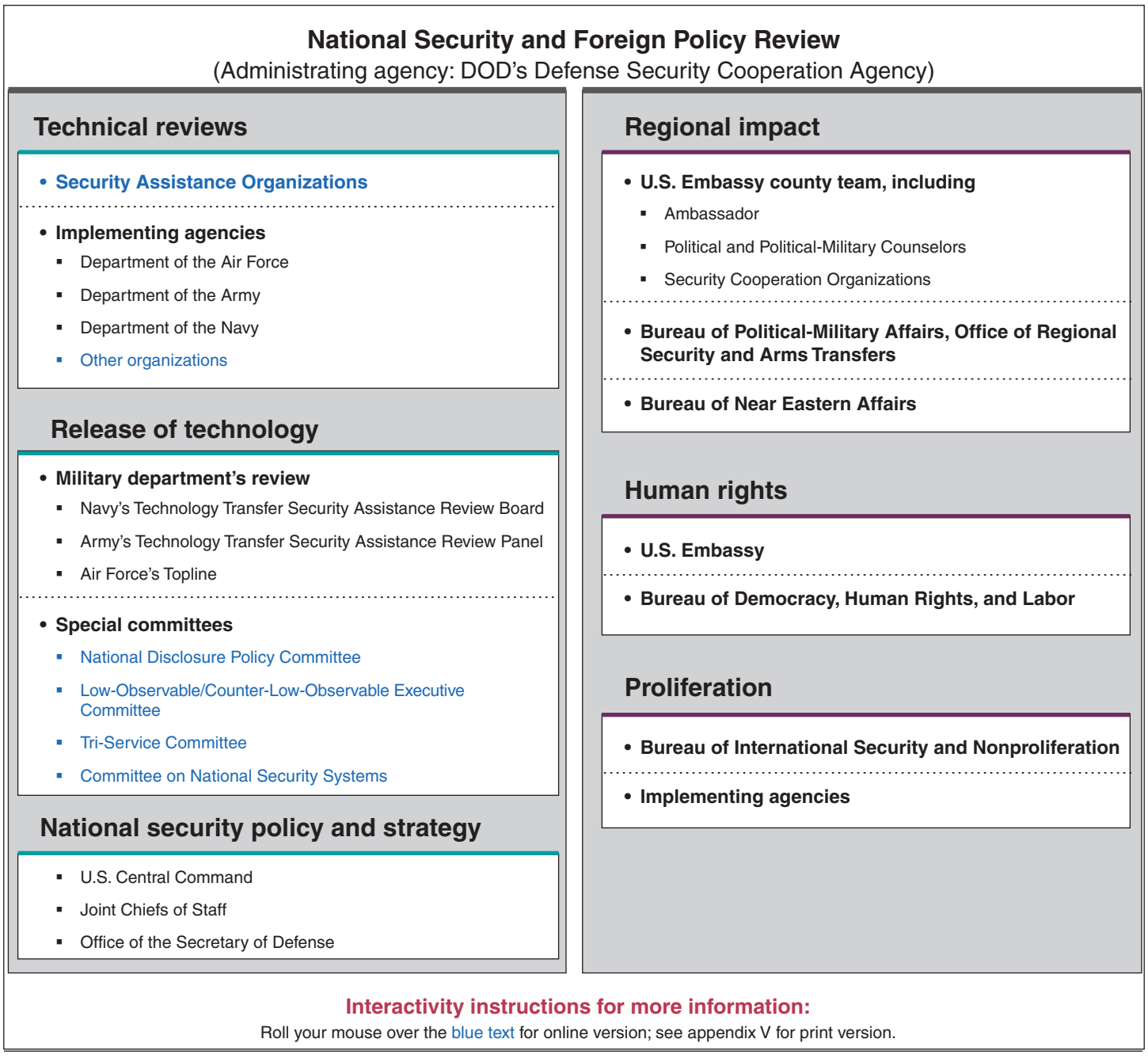
As part of DOD's review for national security considerations, multiple DOD entities may conduct technical reviews of arms transfer requests and determine if DOD allows the requested technology's release to the foreign country. The U.S. agency or military department that implements an FMS authorization has authority to determine if the U.S. government may release the requested technology in accordance with the U.S National Disclosure Policy guidelines.[23] Specialized DOD and interagency committees may need to conduct additional reviews for sensitive technologies. For example, all night vision device requests are referred to DTSA for approval, according to agency officials. Similarly, equipment

[22]See April 5, 2010, Security Assistance Management Manual e-change 161 to DSCA Policy 10-23 for this change in requirements.

[23]National Disclosure Policy governs the disclosure of classified military information, including classified weapons. This policy was established by National Security Decision Memorandum 119, Disclosure of Classified Military Information to Foreign Governments and International Organizations, July 20, 1971, as approved by the President. It was amended by a White House memorandum dated June 6, 1978.

involving stealth technology is referred to the Low-Observable/Counter-Low-Observable Executive Committee. The Committee on National Security Systems reviews requests that include sensitive communications technology. If the requested technology exceeds the military department's approval authority, the department will elevate the request to the interagency National Disclosure Policy Committee, which can approve exceptions to the National Disclosure Policy. In addition to reviews to determine if the equipment should be released, military departments also conduct technical reviews of requested equipment to ensure safeguards, such as anti-tamper measures, are included for the protection of critical information. As the administrating entity for FMS, DOD's Defense Security Cooperation Agency ensures that all appropriate reviews are conducted before offering the agreement to the foreign country. Figure 6 identifies the U.S. organizations involved in the FMS request review process.

Figure 6: U.S. Organizations Involved in the Review of FMS Requests for Gulf Countries



Source: GAO analysis based on State and DOD information.

U.S. Agencies Could Provide Limited Documentation for their Review of Arms Transfer Requests

State and DOD could provide limited documentation for their review of arms transfer requests for cases we selected. GAO's *Standards for Internal Control in the Federal Government* require that agencies should clearly document transactions and all significant events, and the documentation should be readily available for examination. Therefore, we requested that State and DOD provide us documentation on how they assessed 28 arms transfer authorizations against agency-specific criteria. We selected 15 DCS and 13 FMS arms transfer authorizations for the 2008-2009 time period based on a mix of criteria such as high dollar values overall and per country, sensitivity of equipment such as if the authorization approvals were conditional, and destination country. [24] The 15 DCS authorizations totaled more than $3 billion in value.[25] The 13 FMS authorizations we selected represented about 40 percent of dollar value of total authorizations. For these cases, we requested documentation of State and DOD's reviews, including U.S. embassy assessments, DOD offices' technical review to determine the sensitivity and release of technology, and State offices' review for foreign policy and national security goals, such as regional security. Additionally, for authorizations that required informing Congress, we requested that State and DOD provide these notifications.

State Does Not Document Its Review of Arms Transfer Requests Against Policy Criteria, But DOD Generally Does

According to State officials, they assess all arms transfer requests against 12 criteria specified in the CAT policy; these criteria include maintaining regional stability, supporting U.S. interests through increased interoperability, protecting human rights, protecting sensitive technology, and the impact on U.S. defense industrial base. However, State officials noted that they do not document these assessments. Table 2 identifies the CAT policy criteria.

[24]We originally selected 33 cases, but 5 DCS authorizations were for U.S. government entities in Gulf countries and, therefore, did not require foreign policy and national security reviews.

[25]Since we could not determine the total value of DCS authorizations to Gulf countries, we cannot determine what percent of the total value our selected cases represent.

Table 2: Conventional Arms Transfer Policy Criteria

1.	Consistency with U.S. regional stability interests, especially when considering transfers involving power projection capability or introduction of a system which may foster increased tension or contribute to an arms race.
2.	The degree to which the transfer supports U.S. strategic and foreign policy interests through increased access and influence, allied burden sharing, and interoperability.
3.	The human rights, terrorism and proliferation record of the recipient and the potential for misuse of the export in question.
4.	Consistency with international agreements and arms control initiatives.
5.	Appropriateness of the transfer in responding to legitimate U.S. and recipient security needs.
6.	The impact of the proposed transfer on U.S. capabilities and technological advantage, particularly in protecting sensitive software and hardware design, development, manufacturing, and integration knowledge.
7.	The degree of protection afforded sensitive technology and potential for unauthorized third-party transfer, as well as in-country diversion to unauthorized uses.
8.	The ability of the recipient effectively to field, support, and appropriately employ the requested system in accordance with its intended end-use.
9.	The risk of revealing system vulnerabilities and adversely impacting U.S. operational capabilities in the event of compromise.
10.	The impact of U.S. industry and the defense industrial base whether the sale is approved or not.
11.	The availability of comparable systems from foreign suppliers.
12.	The risk of adverse economic, political or social impact within the recipient nation and the degree to which security needs can be addressed by other means.

Source: State.

For 13 FMS arms transfer authorizations we selected, agency officials provided U.S. embassies' country team assessments for 6 out of 8 requests that required such an assessment. Four of 6 country team assessments addressed all applicable criteria, while the remaining 2 assessments each addressed a majority of, but not all, criteria stated in DOD's policy guidance—such as the sale's potential impact on recipient's force structure and the ability to monitor sensitive technology. DOD policy guidance, as stated in the Security Assistance Management Manual, required U.S. embassies to conduct assessments for all requests for significant military equipment. However, DOD officials stated that they conduct and document these assessments only for arms that constitute a new introduction or significant upgrade of equipment to a country, or require a congressional notification. Table 3 identifies the criteria addressed in country team assessments.

Table 3: Country Team Assessment Criteria

1.	Reason the purchaser desires the articles or services.
2.	How the articles or services would affect the recipient's force structure.
3.	How the articles or services would contribute to both the U.S. and the recipient's defense or security goals.
4.	Justification for the type and quantity of articles or services requested.
5.	Combatant Commander's concurrence to the introduction of a new warfighting capability to the nation or region. Combatant Commander's assessment can be provided separately.
6.	Anticipated reactions of neighboring nations.
7.	Assessment of the nation's ability to account for, safeguard, operate, maintain, and support the articles.
8.	Training required either in-country or in the United States and anticipated reactions resulting from the presence of U.S. trainers in-country.
9.	Possible impact of any in-country U.S. presence that might be required as a result of providing the article.
10.	Source of financing and the economic impact of the proposed acquisition.
11.	Human rights considerations relevant to the proposed acquisition.
12.	A plan for end-use monitoring for sensitive and advanced warfighting technology and the Security Cooperation Organization's plan for compliance verification.
13.	Recommendation whether the U.S. government should approve transfer of the article and justification.
14.	If the request is for Night Vision Devices, additional information must be provided such as (a) the justification for the type and quantity of Night Vision Devices requested, and (b) the operational plan for use and specific end-users.

Source: DOD Security Assistance Management Manual 5105.38.

DOD Provided Documentation of Its Reviews for All DCS Authorizations, but Few FMS Authorizations

For DCS arms transfer authorizations we selected, DOD's DTSA provided documentation of its national security review decisions for all authorizations. Specifically, DTSA provided documentation of its review for all 14 cases that needed a national security review.[26] Although DTSA approved all 14 authorizations, it imposed restrictions for 8.

For FMS arms transfer authorizations we selected, DOD could not provide documentation of its national security reviews for 7 out of 13 authorizations. For example, for 3 authorizations, the Department of the Navy—the implementing agency—did not provide us documentation of their approval to release the requested technology. However, for 6 authorizations, the Departments of the Air Force and the Army provided documentation of DOD offices' reviews for the requested technology, such as approvals to provide the requested arms and waivers to authorize the

[26]According to DTSA officials, State is not required to notify DTSA of DCS arms transfer authorizations related to broader DCS agreements that DTSA has previously reviewed and approved. One of the 15 DCS authorizations was for an arms transfer that DTSA had previously approved.

sale of night vision devices. According to DOD officials, although the Defense Security Cooperation Agency is the administrating authority for FMS cases and provided the final review to ensure all required reviews were conducted for the cases we selected, DOD guidance requires that each DOD component maintain the official documentation of its review. As such, according to DOD officials, FMS documentation is scattered among multiple offices and not easily retrievable.

State Does Not Document Its Review of All FMS Authorizations and Did Not Document its Review of DCS Authorizations in Two Instances

According to State officials, although DOD provides State all FMS arms transfer requests for approval, State documents its review only for requests that require congressional notification. The AECA requires U.S. agencies to notify Congress of proposed FMS arms transfers that are more than $14 million for major defense equipment, more than $50 million in defense articles and services, and more than $200 million in defense-related design and construction. For FMS requests, State officials noted that they develop a foreign policy and national security justification that is part of the notification to Congress. Six of 13 FMS authorizations we selected that required congressional notification included a justification based on the sale's impact on regional security, U.S. and host country security goals, and the host country's capability to utilize arms.

Of 15 DCS arms transfer authorizations we selected, State officials noted that they conducted the necessary reviews but could not provide documentation of regional security review for 2 authorizations that required such review pursuant to State's internal guidance. According to State officials, State's Office of Regional Security and Arms Transfers[27] and the Bureau of Near Eastern Affairs review arms transfer requests for Gulf countries for impact on regional security, including an assessment of Israel's qualitative military edge, and the Bureau of Democracy, Human Rights, and Labor reviews arms transfer requests for human rights concerns. However, according to State's internal guidance, these reviews are not required if an applicant requests a license for spare parts or equipment that is part of a previously authorized arms agreement. State officials also noted that reviews are not required for arms similar to what the recipient has already received. Since the majority of cases we selected related to previously authorized arms agreements or for spare parts, these authorizations did not require additional reviews for foreign policy and national security, pursuant to State's guidance. However, for two cases we

[27]State's Office of Regional Security and Arms Transfers manages U.S. political-military relations with other countries and acts as a link between various State offices and DOD.

selected that required a foreign policy review, State could not provide documentation that Office of Regional Security and Arms Transfers reviewed these cases for regional security considerations. These authorizations—$613 million for technical data and defense services to support aircraft to Qatar and $133 million of technical data and services to Saudi Arabia—were notified to Congress as their values met reporting threshold.

U.S. Officials Stated that Arms Transfers to Gulf Countries Advance U.S. Foreign Policy and National Security Goals

According to agency officials, arms transfers are a key component of the U.S. security relationship with Gulf countries and help to advance U.S. foreign policy and national security goals. Gulf countries support the United States by providing basing rights for the U.S. military in the region, allowing the U.S. military to use their airspace, participating in operations in Afghanistan, and supporting other U.S. initiatives and priorities, such as countering terrorism and bolstering regional allies.

For example, some Gulf countries provide important basing rights for the U.S. military, including transit for military supplies and personnel bound for Iraq and Afghanistan. Bahrain hosts the U.S. Navy's Central Command (the Fifth Fleet) and Qatar hosts the U.S. Central Command forward operating headquarters. Gulf countries also allow the U.S. military to utilize their air space.

Two Gulf countries have led an international maritime security task force and provided logistical support for operations in Afghanistan, according to the U.S. ambassadors in both countries. One country has provided troops for operations in Afghanistan. According to U.S. officials, Gulf countries also contribute to U.S. regional priorities such as support for regional neighbors including Iraq and Yemen, countering terrorism and piracy, and protecting critical infrastructure. U.S. officials noted that two Gulf countries supported U.S. goals in Iraq by re-establishing diplomatic relations with Iraq.

Further, U.S. officials noted that as large purchasers of U.S. arms, Gulf countries support the U.S. defense industrial base. In general, FMS sales help lower unit costs by consolidating purchases for FMS customers with those of DOD. For example, according to U.S. officials, the UAE's

purchase of the Terminal High Altitude Area Defense system is expected to reduce production costs for the U.S. military.[28]

Though Intended to Enable Multilateral Cooperation, GSD Operates as a Bilateral Mechanism to Discuss Security Issues Between the United States and Each of the Five Gulf Countries

At the time of its establishment in 2006, GSD was intended to encourage multilateral cooperation on six security-related topics between the United States and six Gulf countries. However, GSD operates as a bilateral discussion mechanism between the United States and five Gulf countries; Saudi Arabia does not participate.

GSD Operates as a Bilateral Discussion Mechanism between the United States and Each of the Five Gulf Countries

In 2006, the U.S. government established the GSD to enable multilateral cooperation on security issues between the United States and the six Gulf countries. According to U.S. officials, the GSD was not intended to be a program with associated funding. Co-led by State and DOD, GSD discussions were to address six specific U.S. priorities: (1) enhancing defense capabilities and interoperability, (2) addressing regional security issues, (3) countering weapons proliferation, (4) countering terrorism and enhancing internal security, (5) protecting critical infrastructure, and (6) stabilizing Iraq. However, Gulf countries prefer to discuss security concerns in a bilateral forum, according to U.S. officials. As a result, the GSD has not succeeded in enabling multilateral cooperation among Gulf countries, but operates as a bilateral mechanism to discuss security issues between the United States and each of the five Gulf countries. U.S. officials stated that Saudi Arabia does not participate in GSD meetings but it addresses security concerns through existing bilateral mechanisms, such

[28]Terminal High Altitude Area Defense weapon system consists of missiles, mobile launchers, ground based radars, a tactical operations center, and support equipment. It intercepts ballistic missiles warheads at high altitudes, therefore, reducing the probability that debris and chemical or biological agents will reach the ground in damaging amounts. According to DOD officials, the sale of this weapon for the UAE has not been finalized.

as military-to-military discussions. According to U.S. officials, the GSD complements other bilateral security discussions with Gulf countries, which include DOD-led Joint Military Committee meetings.

While GSD Agenda Has Evolved, the Meetings Have Not Been as Frequent as Originally Intended

U.S. officials in several Gulf countries stated that GSD meetings have facilitated strategic discussions on security concerns among senior U.S. and Gulf country officials from civilian and military agencies. Additionally, U.S. officials in Washington, D.C. and several Gulf countries noted that the agenda of more recent GSD meetings has changed to focus on evolving regional security concerns and other areas of interest to the participating country.

Although GSD meetings were to occur on a 6-month basis in rotating capitals, these meetings have occurred every 18-24 months and, in some instances, the United States has not hosted meetings, according to U.S. officials. For example, U.S. officials in one Gulf country noted that while the host country hosted several GSD meetings, the United States has not hosted any. Additionally, U.S. officials in another Gulf country noted that the United States has not held GSD meetings as frequently as promised.

Conclusions

While DOD provided data on arms transfer authorizations to six Gulf countries through the FMS program since 2005, State could not provide data on authorizations through direct commercial sales to the governments of Gulf countries. Further, while State noted for the first time in its 2008 report to Congress that the DCS authorization data by country included the value of authorizations to U.S. government entities in foreign countries, State did not provide the magnitude of these authorizations. Therefore, Congress may not have a clear understanding of DCS authorizations intended for foreign governments. Additionally, as arms transfer authorizations increase to this part of the world, the U.S. government needs to ensure that it reviews requests for arms transfers, especially for significant military equipment, for their foreign policy and national security implications. The partial absence of documentation of agencies' reviews, however, raises concerns that U.S. priorities are not consistently considered before such sales are authorized.

Recommendations for Executive Action

In order to address the data and documentation deficiencies noted in our report, we are making the following three recommendations.

To ensure that State reports more clear and useful information on DCS arms transfers authorized to the governments of Gulf countries, we recommend that the Secretary of State:

1. Provide more details related to data in reports on arms transfer authorizations to Congress. For example, for greater clarity, State should specify where authorization data for a country include licenses for U.S. government entities in that country as well as the value of those licenses.

2. Modify the DCS database system, also called the case management system, so that it has the capability to identify and separate licenses issued to U.S. government entities and overlapping values of related licenses.

3. To ensure that arms transfers are consistent with U.S. foreign policy and national security goals, we recommend that the Secretaries of State and Defense require documentation of key reviews and written assessments against policy criteria, especially for sales of significant military equipment.

Agency Comments and Our Evaluation

We provided DOD and State with a draft of this report for their review and comment. DOD and State provided written comments, which we have reprinted in appendixes VI and VII, respectively. In its written comments, DOD concurred with our recommendation and noted that it will identify better processes to ensure that key assessments are documented against national security goals.

In its written comments, State generally agreed with our recommendations, but noted that implementation of these recommendations may require additional resources. Specifically, in response to our first recommendation, State said that it recognizes the importance of maintaining and reporting reliable data on defense exports to Congress and the public. State noted that, while it is not currently possible to identify U.S. government end-users in the database without a manual search, the department will continue to make such identifications with existing resources. State also noted that devising additional reporting formats would require the commitment or allocation of significant additional resources. Accordingly, State will encourage Congress to

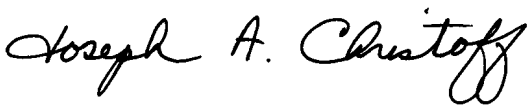
furnish criteria as decisions are made on Export Control Reform. We agree that State should identify U.S. government end-users in its reports to Congress. In considering modifications to its case management system, State should also ensure that the system has the capability to identify overlapping dollar values of authorizations. Since State believes that these modifications would require additional resources, we will monitor agency fiscal year 2012 budget requests for this purpose.

State concurred with our third recommendation, stating that documentation of its reviews of foreign policy and national security justifications for all arms transfer authorizations could be improved. State noted that its Political-Military Affairs Bureau and the Bureau of Democracy, Human Rights, and Labor are already developing a better means of documenting FMS and DCS case reviews for human rights concerns. However, State disagreed with our conclusion that the partial absence of documentation of agencies' reviews raises concerns that U.S. priorities are not consistently considered before such sales are authorized. It stated that the documentation we reported as "missing" in certain Technical Assistance Agreements (TAA) amendments was present in the base TAAs associated with those amendments. We agree that State should take additional steps to improve documentation of FMS and DCS case reviews. GAO's *Standards for Internal Control in the Federal Government* requires that agencies clearly document transactions and all significant events. The agencies could not provide documentation of reviews for all the FMS and DCS cases we selected. State notes that the missing documentation for two DCS cases can be found in previously authorized licenses. These agreements were notified to Congress and, pursuant to State's guidance, required a review. Federal internal control standards also require that documentation of decisions should be readily available for examination. State did not provide us documentation that the Office of Regional Security and Arms Transfers reviewed these cases.

DOD and State also provided technical comments, which we incorporated in this report as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. We are sending copies of the report to the Secretaries of Defense and State and other interested parties. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have questions about this report, please contact me at (202) 512-8979 or at christoffj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VIII.



Joseph A. Christoff
Director, International Affairs and Trade

Appendix I: Scope and Methodology

To determine the value and nature of arms transfers the U.S. government authorized for the governments of six Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) through direct commercial sales (DCS) and the Foreign Military Sales (FMS) program between fiscal years 2005 through 2009, we interviewed officials and requested data from the Departments of State (State) and Defense (DOD). We found FMS data to be sufficiently reliable; however, we found that DCS data on dollar value of licenses authorized to the governments of Gulf countries was not retrievable and, as a consequence, we could not accurately report the magnitude of DCS arms transfer authorizations.

We interviewed officials from State and DOD responsible for reviewing and approving DCS and FMS arms transfer requests. At DOD we spoke to officials from the Defense Security Cooperation Agency, Defense Technology Security Administration, Defense Intelligence Agency, U.S. Central Command, the Office of the Secretary of Defense, and the Joint Chiefs of Staff. At State we spoke to officials from the Directorate of Defense Trade Controls and the Office of Regional Security and Arms Transfers—both these offices are under the Bureau of Political-Military Affairs. We interviewed U.S. embassy officials in Bahrain, Saudi Arabia, and the United Arab Emirates (UAE) and by telephone for Kuwait, Oman, and Qatar. We also interviewed host country officials in Bahrain and the UAE.

We obtained State's DCS license database, which contained 11,058 licenses of which 6,638 licenses were approved or approved with conditions for the six Gulf countries between fiscal years 2005 and 2009. Among other things, this database included the dollar value, description, and date of all approved licenses. We analyzed State's DCS database to determine the value and type of equipment approved for sale to Gulf countries. We assessed the reliability of DCS data by comparing the total value of DCS licenses authorized by fiscal year to State's annual 655 reports. We found that while the DCS data closely matched the data reported in the 655 reports for fiscal years 2006 through 2008, the data were significantly different for fiscal year 2005. According to a State official, this difference may be because the 655 report presents license information at a specific point in time, while the information in the database may change if a license is amended, revoked or suspended. Additionally we reviewed licenses for end-user information and tried to determine cases where licenses were related to each other and, thus, may have overlapping values. The details of our data reliability assessment are noted below. Because of limitations in the capability of State's database system, we could not determine the total dollar value of DCS licenses for

the governments of Gulf countries between fiscal year 2005 and fiscal year 2009.

To identify the licenses where the U.S. government was the end-user, we performed two searches on the database. First, we searched the "description" field in the database for keywords—such as U.S. military and Operation Iraqi Freedom—that were typically used for U.S. government entities. Based on the keyword search, we separated the licenses for defense articles and services where the U.S. government was listed as the end-user. Second, to ensure that the keyword search correctly identified licenses to U.S. government entities in Gulf countries, we manually searched the top 100 highest value licenses and removed any licenses where a Gulf country was the end-user. We then summed the top 100 highest value licenses to U.S. government entities in Gulf countries to determine the extent to which the database includes these licenses. While we were able to determine that at least $6 billion was authorized for U.S. government entities, because the "description" fields did not always contain information indicating the end-user, we cannot determine the exact value of authorizations to U.S. government entities.

To identify instances where the license values overlapped, we searched the description field in the database for keywords such as "in furtherance" to identify licenses that were issued "in furtherance" of an initial agreement. Based on the keyword search, we identified license values that may be counted more than once over one year or multi-year period. We then submitted examples from the keyword search to State officials to confirm whether this listing of a license in furtherance of an initial agreement represented a risk of being counted twice.

For FMS, DOD provided 1,123 actions that included new Letters of Offer and Acceptance (LOA), as well as amendments or modifications to existing LOAs, for the six Gulf countries between fiscal years 2005 and 2009. This data was extracted from DOD's Defense Security Assistance Management System and 1200 system databases and included information such as dollar value, item description, the implementing agency, and date of approval for each action. We determined the data provided by DOD for FMS to the six Gulf countries between fiscal years 2005 and 2009 were both complete and sufficiently reliable for our use. We verified that the correct databases were used to generate the FMS data and cross-referenced numerous datasets provided by DOD.

To identify the nature of equipment authorized to Gulf countries between fiscal years 2005 and 2009 we did the following:

- For FMS, we identified cases that represented highest value authorizations for Gulf countries. For illustrative purposes, we identified the top 10 highest value authorizations for the UAE and Saudi Arabia, since authorizations to these countries is significantly higher than to other Gulf countries. We identified the top five highest value authorizations for the remaining four Gulf countries.

- For DCS, some highest value licenses did not have a description. As a result, we only included information where both the value and the description for the DCS license were available. For illustrative purposes, we selected the top 10 high value authorizations for UAE and Saudi Arabia, and top five high value authorizations for the remaining four Gulf countries.

To assess agencies' review of arms transfer requests for foreign policy and national security considerations, we reviewed agency guidelines, policies, and other documents, and interviewed agency officials from State and DOD. To obtain information on the role of key implementing agencies in reviewing arms transfer requests, we obtained documents and interviewed officials from:

- Department of the Army's U.S. Army Security Assistance Command, the Deputy Assistant Secretary of the Army for Defense Exports and Cooperation, and the Office of the Program Manager--Saudi Arabian National Guard;

- Department of the Navy's International Programs Office; and

- Department of the Air Force's Secretary of the Air Force/International Affairs.

We selected a judgmental sample of FMS and DCS approved requests to determine the nature and extent of the review process and verify agency officials' statements that they reviewed FMS and DCS cases for national security and foreign policy considerations. We selected requests approved in 2008 and 2009 only, as agency officials stated relatively recent cases would be more easily retrievable for examination. Because we selected a judgmental sample, we cannot generalize our findings to all FMS and DCS authorizations for this time period. We selected cases based on a mix of criteria such as high dollar values overall and per country, sensitivity of equipment, and destination country. We selected 15 cases for the UAE and Saudi Arabia, which had a larger share of authorizations, compared to 13 cases for the remaining Gulf countries, which had a lower share of authorizations.

For FMS, we selected a judgmental sample of 13 cases based on the DOD-provided LOA data. These cases represented about 40 percent of the total dollar value of FMS authorization for 2008-2009 time period. We used the following criteria to select our sample: (1) fiscal year, (2) requesting country, (3) high dollar values overall and per country, (4) sensitivity of arms requested such as night vision devices, and (5) agency implementing the case. We selected six cases for the UAE and Saudi Arabia, which had a larger share of authorizations, compared to seven cases for the remaining Gulf countries, which had a lower share of authorizations. Although we chose at least one case for each of the six countries, we selected 8 of the 13 LOAs from agreements offered to Saudi Arabia, the UAE, and Kuwait, as they accounted for about 96 percent of the total value of agreements. Finally, we chose at least one case in which the Army, Navy, or Air Force served as the implementing agency.

For DCS, we selected a judgmental sample of 20 approved licenses from State's DCS database to determine the nature and extent of the DCS review process and verify agency officials' statements that they reviewed DCS cases for national security and foreign policy considerations. We subsequently found that five licenses were for U.S. government entities, which do not require foreign policy and national security review. We therefore removed these cases from our sample and were left with 15 DCS licenses. These licenses had a value of more than $3 billion. We used the following criteria to select our sample: (1) fiscal year; (2) destination country; (3) sensitivity of the defense article or service requested, such as if the authorization approvals were conditional; and (4) high dollar value licenses overall and per country. We selected nine cases for the UAE and Saudi Arabia, which had a larger share of authorizations, compared to six cases for the remaining Gulf countries, which had a lower share of authorizations.

We requested DOD and State provide documentation related to important decisions or milestones for our judgmental sample of 13 FMS and 15 DCS approved requests to verify their consideration of foreign policy and national security during the review process. The documents we requested included: (1) decisions related to the release of the requested technology including any conditions placed upon the sale of defense articles and services; (2) evidence of referrals to internal components, committees, or other agencies for specific reviews; (3) country team assessments, if needed; (4) congressional notifications, if needed; (5) approved agreement or license; and (6) other documentation illustrating the review and approval process such as internal memos, correspondence, tracking sheets, or checklists.

To understand the purpose of the Gulf Security Dialogue (GSD), we interviewed officials from State and DOD headquarters. Additionally, we interviewed U.S. officials in Bahrain, Saudi Arabia, and the UAE; and conducted phone interviews with U.S. officials in Kuwait, Oman, and Qatar. We also reviewed State department reporting cables describing the agenda and nature of the GSD meetings.

We conducted this performance audit from August 2009 to September 2010 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Highest Value FMS Authorizations for Gulf Countries

The table below represents the highest value agreements in descending order, by country, signed between the United States and the country between fiscal years 2005 and 2009. The totals include new agreements, as well as amendments and modifications to agreements that may have occurred over several years between fiscal years 2005 and 2009.

Table 4: Highest Value FMS Authorizations for Gulf Countries, Fiscal Years 2005 to 2009

Dollars in millions

	Defense article or service	Total value	Fiscal year
UAE			
	Patriot missile defense system	$6,516	2009
	UH-60M Black Hawk helicopters	1,554	2007-2009
	AH-64A Apache helicopters	743	2006, 2008-2009
	F-16 aircraft munitions	700	2008-2009
	High Mobility Artillery Rocket System	595	2007
	Hellfire missiles	149	2009
	Javelin launchers and missiles	118	2006, 2009
	F-16 Block 60 training	113	2005, 2007-2009
	Evolved Sea Sparrow missiles	108	2006, 2009
	AH-64A Apache helicopters	72	2005-2006, 2008-2009
Saudi Arabia			
	F110 engines and buildings for aircraft	866	2007-2008
	F-15 sustainment and support	801	2005-2009
	Saudi Arabian National Guard–Training and local procurement of services	495	2009
	Saudi Arabian National Guard–Construction	450	2009
	Light Armored Vehicles	403	2008
	UH60L Black Hawk helicopters	343	2006, 2008
	Apache helicopters	339	2007-2008
	M1A2 and M1A2S tanks	316	2006-2009
	Saudi Arabian National Guard–Services and support	285	2009
	F-15 aircraft engine repair	263	2005-2006 2008-2009

Dollars in millions

	Defense article or service	Total value	Fiscal year
Kuwait			
	Patriot Advanced Capability III upgrade	256	2008
	Fast interceptor boats and support	167	2006, 2008
	F/A-18 C/D follow-on material	158	2006, 2009
	Patriot missile support follow-on services	109	2006, 2008
	Tube-launched optically-tracked, wire-guided (TOW) 2A and 2B missiles	103	2005, 2008
Bahrain			
	UH-60M Black Hawk helicopters	208	2007, 2009
	Follow-on support for F-16 C/D aircrafts	51	2005-2009
	Multiple Launch Rocket System Fire Control upgrade	33	2008-2009
	Hawk missile system support	22	2005-2009
	Air Defense System Integrator	17	2007-2008
Qatar			
	Support for C-17 Globemaster A/C	168	2009
	Training	13	2007
	Training	13	2008
	F-117 engines for C-17	11	2009
	Communication Security custodians	4	2008-2009
Oman			
	F-16 sustainment case	38	2009
	Approach radar system	27	2005-2008
	Radio equipment	20	2007
	Javelin missiles and launchers	15	2005
	Javelin weapon system	11	2008

Source: DOD.

[a]Total value refers to the total dollar amount of all agreements signed between 2005 and 2009 (including amendments, modifications, and new LOAs).

[b]Fiscal year refers to the year in which the basic agreement, modifications, or amendments were offered by the U.S. government to the foreign government. A range of years indicates that at least one agreement, modification or amendment was offered in each of the years within the range.

Appendix III: Select High Value DCS Authorizations for Gulf Countries

The table below represents a selection of the high value licenses, where a description was available, by country, for all new licenses authorized between fiscal years 2005 and 2009. Information for high value DCS licenses is based on cases where State's database included a description of the defense article or service authorized via a license. If the value of the license was among the highest values, but did not include a description, we were unable to use it to describe the nature of equipment authorized. We did not include licenses where the U.S. government was listed as the end-user.

Table 5: High Value DCS Authorizations for Gulf Countries, Fiscal Years 2005 to 2009

Dollars in millions

	Defense articles or services	Value	Fiscal year
UAE			
	Equipment related to the F-16 Block 60 aircraft	$1,011	2009
	D3 satellite	180	2006
	Modification and upgrade of aircraft	178	2009
	CH-47F Chinook helicopters	159	2009
	Support equipment for vehicles	54	2009
	F-16 Block 60 defense articles	50	2005
	Spare parts for repair and maintenance of C130 and L100 aircraft	40	2005
	F-16 Block 60 defense articles	35	2009
	Marketing license for vessels	32	2008
	Repair and maintenance of C130 and L100 aircraft	25	2007
Saudi Arabia			
	S-92 helicopters	512	2008
	Overhaul and repair for F100-W-220/220E and 229 engines	315	2008
	Hardware for the Eurofighter aircraft	34	2009
	Spare parts and components for the F15S aircraft.	34	2009
	Repair and maintenance of Light Armored Vehicles	34	2009
	Marketing license for vessels	32	2008
	Hardware for HAWK air defense system	30	2008
	Munitions and training bombs	27	2007

Dollars in millions

	Defense articles or services	Value	Fiscal year
	Military radio and communications equipment	26	2009
	Spare parts for F15S aircraft	26	2009
Kuwait			
	Marketing license for vessels	32	2008
	Helicopters	14	2008
	Vehicles	14	2009
	Repair of F/A 18 aircraft	13	2008
	Repair of Patriot missile defense system	13	2009
Bahrain			
	Model 412EP helicopters with NVG lighting	48	2009
	F-16 spare parts	43	2008
	Marketing license for vessels	32	2008
	S-70 helicopter repair	4	2006
	Spare parts for AH-1 and 212 helicopters	4	2007
Qatar			
	C-17 Globemaster III transport aircraft	460	2009
	C-17 spare parts and support equipment	70	2009
	C-17 spare parts	18	2009
	Equipment to be installed on Sea King aircraft for security and surveillance, and search and rescue	5	2006
	Maintenance and repair of Sea King Commando helicopters	3	2009
Oman			
	Marketing license for vessels	32	2008
	Spare engines	17	2005
	Radar	7	2007
	Security and surveillance	3	2005
	Maintenance for Super Lynx 300 helicopters	3	2005

Source: State.

Note: The information in this table represents values from individual DCS licenses. Thus, some defense articles or services may be repeated because they appeared on more than one license.

Appendix IV: U.S. Organizations Involved in Review of DCS Requests for Gulf Countries

National Security and Foreign Policy Review

(Administrating agency: State's Directorate of Defense Trade Controls)

Release of technology

- Defense Technology Security Administration
    - Military departments
        - Department of the Air Force
        - Department of the Army
        - Department of the Navy
    - Office of the Secretary of Defense
    - Joint Chiefs of Staff
    - National Security Agency
    - Defense Intelligence Agency
    - Defense Security Cooperation Agency
    - Defense Advanced Research Projects Agency

Regional impact

- Bureau of Political-Military Affairs, Office of Regional Security and Arms Transfers
- Bureau of Near Eastern Affairs

Human rights

- Bureau of Democracy, Human Rights, and Labor

Proliferation

- Bureau of International Security and Nonproliferation
- Missile Technology Export Control Committee
    - Department of State (Committee Chair)

- Defense Technology Security Administration
- Department of Commerce
- Department of Homeland Security
- Department of Energy
- National Aeronautics and Space Administration
- Representatives from the Intelligence Community

Other agencies

- Department of Energy
- National Aeronautics and Space Administration

Appendix V: U.S. Organizations Involved in Review of FMS Requests for Gulf Countries

National Security and Foreign Policy Review

(Administrating agency: DOD's Defense Security Cooperation Agency)

Technical reviews

- Security Assistance Organizations
  - Bahrain–Office of Military Cooperation
  - Kuwait–Office of Military Cooperation
  - Oman–Office of Military Cooperation
  - Qatar–United States Liaison Office
  - Saudi Arabia
    - Office of the Program Manager–Facilities Security Forces
    - United States Military and Training Mission
    - Office of the Program Manager–Saudi Arabian National Guard
  - United Arab Emirates–United States Liaison Office
- Implementing agencies
  - Department of the Air Force
  - Department of the Army
  - Department of the Navy
  - Other organizations:
    - Defense Contract Management Agency
    - Defense Information Systems Agency
    - Defense Logistics Agency
    - Defense Security Cooperation Agency
    - Defense Threat Reduction Agency
    - National Geospatial Intelligence Agency

- National Security Agency

Release of technology

- Military department's review
  - Navy's Technology Transfer Security Assistance Review Board
  - Army's Technology Transfer Security Assistance Review Panel
  - Air Force's Topline
- Special committees
  - National Disclosure Policy Committee
    - Secretary of State
    - Secretary of Defense
    - Secretary of the Army
    - Secretary of the Navy
    - Secretary of the Air Force
    - Chairman of the Joint Chiefs of Staff
    - Special Members (who vote on issues that only pertain to them) include: the Secretary of Energy; the Director of National intelligence; the Director of Central Intelligence; the Under Secretary of Defense for Policy; the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense for Intelligence; the Assistant Secretary of Defense for Networks and Information Integration/DOD Chief Information Officer; the Assistant to the Secretary of Defense (Nuclear, Chemical and Biological Defense Programs); the Director of Defense Intelligence Agency; the Director of Missile Defense Agency; the Director of National Geospatial-Intelligence Agency; and the Director of National Security Agency
  - Low-Observable / Counter-Low-Observable Executive Committee
    - Under Secretary of Defense for Acquisition, Technology,

and Logistics (Committee Chair)

- Vice Chairman, Joint Chiefs of Staff
- Army, Service Acquisition Executive
- Navy, Service Acquisition Executive
- Air Force, Service Acquisition Executive
- Under Secretary of Defense for Policy
- Under Secretary for Defense for Intelligence
- Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics
- Director of Defense Research and Engineering
- Director of Strategic and Tactical Systems
- Director of Operational Test and Evaluation
- Missile Defense Agency representative
- Defense Advanced Research Projects Agency representative

- Tri-Service Committee
  - Director of the Office of Special Programs, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (Committee Chair)
  - Air Force representative
  - Navy representative
  - Army representative
  - Director of Special Programs Staff
  - Joint Staff representative

- Defense Technology Security Agency representative

- Committee on National Security Systems
  - Director National Security Agency-National Manager
  - Secretary of State
  - Secretary of Treasury
  - Secretary of Defense
  - Attorney General
  - Secretary of Commerce
  - Secretary of Transportation
  - Secretary of Energy
  - Director of the Office of Management and Budget
  - National Security Advisor
  - Director of Central Intelligence
  - Defense Intelligence Agency
  - Federal Bureau of Investigation
  - Federal Emergency Management Agency
  - General Services Administration
  - Army, Navy, Air Force, and Marine Corps representatives

- National security policy and strategy
  - U.S. Central Command
  - Joint Chiefs of Staff
  - Office of the Secretary of Defense

Regional impact

- U.S. Embassy country team, including
  - Ambassador
  - Political, and Political-Military Counselors
  - Security Cooperation Organizations
- Bureau of Political-Military Affairs, Office of Regional Security and Arms Transfers
- Bureau of Near Eastern Affairs

Human rights

- U.S. Embassy
- Bureau of Democracy, Human Rights, and Labor

Proliferation

- Bureau of International Security and Nonproliferation
- Implementing agencies

Appendix VI: Comments from the Department of State

United States Department of State

Chief Financial Officer

Washington, D.C. 20520

SEP 0 8 2010

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "PERSIAN GULF: U.S. Agencies Need to Improve Licensing Data and Document Reviews of Arms Transfers for U.S. Foreign Policy and National Security Goals," GAO Job Code 320705.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact John A. Schwenk, Team Leader for the Middle East and Africa, Office of Regional and Arms Transfers, Bureau of Political-Military Affairs at (202) 647-2558.

Sincerely,

James L. Millette

cc: GAO – Joseph Christoff
PM – Andrew J. Shapiro
State/OIG – Tracy Burnett

Department of State Comments on GAO Draft Report

PERSIAN GULF:
U.S. Agencies Need to Improve Licensing Data and Document Reviews of Arms Transfers for U.S. Foreign Policy and National Security Goals
(GAO -10-918, GAO Code 320705)

Thank you for the opportunity to comment on your draft report entitled, "Persian Gulf: U.S. Agencies Need to Improve Licensing Data and Document Reviews of Arms Transfers for U.S. Foreign Policy and National Security Goals."

The Department of State (State) believes some of GAO's main conclusions throughout the report are based on inaccurate interpretations of existing requirements and reporting but agrees that documentation of key decisions pertaining to both Direct Commercial Sales (DCS) and Foreign Military Sales (FMS) processes could be improved.

State would like to clarify that all authorizations for the export of defense articles and defense services, whether DCS or FMS, are subject to a rigorous analytical process to ensure consistency with U.S. Government foreign policy and national security goals.

Recommendation 1: Provide more details related to authorizations data in reports on arms transfer authorizations to Congress. For example, for greater clarity, State should specify where authorization data for a country include licenses, as well as their value, to U.S. government entities in that country.

Recommendation 2: Modify the DCS case management system so that it has the capability to generate information such as authorizations to foreign country governments by identifying and separating licenses issued for arms transfers to U.S. government entities in foreign countries and overlapping values of related licenses.

State recognizes the importance of maintaining and reporting to the Congress and public reliable data on United States defense exports through direct commercial sales or the Foreign Military Sales program. The draft report identifies gaps and inconsistencies in reports of this nature by the Executive Branch, some of which result from the differing reporting

requirements of the Foreign Assistance Act of 1961 (FAA). State agrees that the information that GAO requests to have extracted from the DCS case management system would be useful to users and looks forward to working with Congress to determine the efficacy of changing the requirements to the FAA to provide such information.

State faithfully reports to Congress all data requested by it pertaining to exported articles and services. The Department has undertaken efforts to improve its reporting on transfers to U.S. Government entities under FAA Section 655.

The DCS case management system is designed to capture all authorizations, and extracting data for the 655 Report is just one of its purposes. While it is not currently possible to identify USG end-users in the database without a manual search, the Department will continue to make such identifications with existing resources. Devising additional reporting formats would require the commitment or allocation of significant additional resources.

Providing consolidated and useful defense export data to Congress and the public is consistent with the goals of Export Control Reform and the Executive Branch task force evaluating proposals and recommendations associated with it. As decisions are made on Export Control Reform, the Department of State will encourage the Congress to furnish criteria and resources to develop appropriate information technology platforms and reporting criteria of benefit to both the Congress and the public.

Recommendation 3: To ensure that arms transfers are consistent with U.S. foreign policy and national security goals, we recommend that the Secretaries of State and Defense require documentation of key reviews and written assessments against policy criteria, especially sales of significant military equipment.

The Department documents its foreign policy and national security justifications for all arms transfer authorizations, whether they require congressional notification or not. For cases requiring Congressional notification, State develops a formal foreign policy and national security justification package, pursuant to the notification requirements in the Arms Export Control Act (AECA). For requests falling below Congressional notification thresholds, State conducts a foreign policy and national security

analysis that is captured either in formal documentation or through correspondence with the relevant reviewing agencies or offices. As the Department's lead for arms transfers, the Bureau of Political Military Affairs (PM) is working to ensure FMS and DCS cases are cleared with the Department's key bureaus and other relevant agencies for their potential impact on regional security, human rights and other concerns. For example, PM and the Bureau of Democracy, Human Rights and Labor (DRL) are already developing a better means of documenting FMS and DCS case reviews for human rights concerns.

The Department agrees that documentation of these reviews could be improved, though we do not concur with GAO's comment that "[t]he partial absence of documentation of agencies' reviews, however, raises concerns that U.S. priorities are not consistently considered before such sales are authorized." The documentation GAO states is "missing" in certain Technical Assistance Agreements (TAA) amendments was present in the base TAAs associated with those amendments, though the Department could link the amendments to the existing authorization more explicitly.

Appendix VII: Comments from the Department of Defense

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-2400

INTERNATIONAL
SECURITY AFFAIRS

Mr. Joseph A. Christoff
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Christoff:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report, GAO-10-918, "PERSIAN GULF: U.S. Agencies Need to Improve Licensing Data and Document Reviews of Arms Transfers for U.S. Foreign Policy and National Security Goals," dated August 10, 2010 (GAO Code 320705).

Recommendation: To ensure that arms transfers are consistent with U.S foreign policy and national security goals, the GAO recommends that the Secretaries of State and Defense document key reviews and written assessments against policy criteria, especially for sales of significant military equipment.

DoD Response: Concur. The Department continuously strives to identify better processes to ensure all key assessments are documented against national security goals. DoD appreciates GAO's feedback and assistance with our efforts at continuous process improvement.

Sincerely,

James M. Holmes
Brig Gen, USAF
Principal Director, Middle East Policy

Appendix VIII: GAO Contact and Staff Acknowledgments

GAO Contact

Joseph A. Christoff, (202) 512-8979 or christoffj@gao.gov

Staff Acknowledgments

In addition to the person named above, Jeff Phillips (Assistant Director), Ashley Alley, Martin De Alteriis, Jenna Beveridge, Mitchell Karpman, Mary Moutsos, Aku Pappoe, Mona Sehgal, Bradley Terry, and Jason Trentacoste made key contributions to this report. Karen Deans, Etana Finkler, John Neumann, Madhav Panwar, and Michael Simon also provided technical assistance.

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