# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

June 7, 1999

## H.R. 973
### Security Assistance Act of 1999

*As approved by the House Committee on International Relations on March 4, 1999, with subsequent amendments*

**SUMMARY**


H.R. 973 would modify laws dealing with the sale or disposal of military equipment and technology. Because the bill would affect direct spending and receipts, pay-as-you-go procedures would apply.

The bill would authorize an increase in the War Reserve Stockpile for Allies (WRSA) for Korea and Thailand and provide the Secretary of Defense with the authority, effective for three years after enactment, to transfer items in the WRSA to Korea and Thailand in return for concessions including cash, services, waiver of charges, or other items of value. CBO estimates that these provisions would decrease offsetting receipts and thus raise direct spending by about $90 million over the 2000-2004 period because the Department of Defense (DoD) would probably substitute barter for sales.

The bill would authorize the transfer of 13 naval vessels by sale or grant and would permit the Coast Guard to sell excess equipment under the Arms Export Control Act. CBO estimates that asset sales would generate net collections of $87 million over the next five years.

The bill would increase maximum fines for violations of the Export Administration Act (EAA). Higher fines would increase governmental receipts by $6 million over the 2000-2004 period. CBO estimates that half that amount would be spent from the Crime Victims Fund.

H.R. 973 would also provide an indefinite authorization for the Department of Commerce to enforce export controls. CBO estimates that and other provisions of the bill would cost about $50 million a year, assuming appropriation of the necessary amounts.

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from the application of that act legislative provisions that are necessary for the national security. CBO has determined that the provisions of this bill fall within that exclusion or do not contain intergovernmental or private-sector mandates as defined in UMRA.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 973 is shown in the following table. The costs of this legislation fall within budget functions 050 (defense), 150 (international affairs), 370 (commerce and housing credit), and 400 (transportation).

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| **DIRECT SPENDING** | | | | | | |
| Proposed Changes | | | | | | |
| Estimated Budget Authority | 0 | 30 | 30 | 30 | 1 | 1 |
| Estimated Outlays | 0 | 30 | 30 | 30 | 1 | 1 |
| **ASSET SALES [a]** | | | | | | |
| Proposed Changes | | | | | | |
| Estimated Budget Authority | 0 | -93 | 3 | 3 | 0 | 0 |
| Estimated Outlays | 0 | -93 | 3 | 3 | 0 | 0 |
| **REVENUES** | | | | | | |
| Proposed Changes | | | | | | |
| Estimated Revenues | 0 | b | b | 1 | 2 | 2 |
| **SPENDING SUBJECT TO APPROPRIATION** | | | | | | |
| Proposed Changes[c] | | | | | | |
| Estimated Authorization Level | 0 | 49 | 50 | 50 | 51 | 53 |
| Estimated Outlays | 0 | 42 | 48 | 49 | 51 | 52 |

a. Under the Balanced Budget Act of 1997, proceeds from a nonroutine asset sale may be counted for purposes of pay-as-you-go scoring only if the sale would entail no net financial cost to the government. CBO estimates that the nonroutine asset sales that would result from enacting the bill would generate a net savings to the government, and therefore that the proceeds would be counted for pay-as-you-go purposes.

b. Less than $500,000.

c. These figures include funding for the EAA with adjustments for inflation. If spending were projected at the 1999 level, authorizations and outlays would be $13 million less over the five-year period.

## BASIS OF ESTIMATE

Various provisions of H.R. 973 would affect direct spending, proceeds from asset sales, revenues, and spending subject to appropriation.

### Direct Spending

**Equipment Stockpiles in Foreign Countries**. Title III would authorize an additional $400 million worth of excess defense articles to be transferred to the War Reserve Stockpile for Allies (WRSA) in Korea and Thailand. In addition, the bill would permit the Secretary of Defense to augment defense appropriations over the next three years by exchanging items in the WRSA for Korea and Thailand for cash, services, waiver of charges, and other items of value. Under current law, DoD has the authority to sell defense items from stock, but the cash proceeds from sales are returned to the Treasury. CBO expects that under the bill DoD would barter with Korea and Thailand instead of selling items to them. CBO estimates that, if the bill were enacted, forgone sales would total about $30 million a year, based on information from DoD about how it used similar authority in the past. (In 1996, DoD negotiated a package of concessions with Korea for items from the WRSA that had a fair-market value of $67 million. That amount represents the impact of similar authority that DoD had over a two-year period.) The forgone sales would reduce offsetting receipts, which are a credit against direct spending.

**Economic Sanctions**. Title V would give the President the authority to waive certain sanctions against India and Pakistan. In addition, section 707 would permanently exclude agricultural export credits from the list of mandatory sanctions in section 102 of the Arms Export Control Act (AECA). CBO estimates that enacting these provisions would have no significant effect on direct spending.

After India and Pakistan tested nuclear devices in 1998, the President was required to impose sanctions under section 102 of the AECA. The sanctions cut off credits, credit guarantees, and other financial assistance to these countries from all U.S. government agencies. Subsequently, the Agriculture Export Relief Act of 1998 (Public Law 105-194) removed the credit programs of the Department of Agriculture from the mandatory sanctions through September 30, 1999, and the India-Pakistan Relief Act of 1998 (part of Public Law 105-277) gave the President authority to waive the application of economic sanctions against India or Pakistan. Therefore, CBO estimates that title V would probably not have a significant budgetary effect with respect to assistance for India and Pakistan.

If new sanctions were imposed against countries other than India or Pakistan under the AECA, section 707 of H.R. 973 could affect direct spending because programs to guarantee loans for agricultural commodities would be denied those countries under current law. CBO cannot predict the likelihood or extent of future sanctions under the AECA, but such sanctions rarely affect the use of agricultural export credits. It is therefore unlikely that enacting section 707 would have a significant budgetary impact in any one year.

**Other Direct Spending Provisions**. Section 201 would permit foreign persons receiving training under the AECA to complete their course of study even when assistance to their country of origin would otherwise be terminated. The authority would be discretionary and would apply to terminations after the date of enactment. CBO estimates that enactment of the section would not significantly affect the federal budget.

Section 207 would authorize DoD to charge a fee for the administrative costs of leasing defense articles under the AECA. Leases administered by DoD generate about $40 million per year in offsetting receipts, and DoD leases some defense articles for no charge. Based on information from the department, CBO estimates that DoD would collect and spend less than $1 million under this provision.

## Asset Sales

Title VI would authorize the transfer of 13 naval vessels to foreign countries: four by grant and nine by sale. Based on the Navy's estimate of the value of the ships and recent experience with actual sales, CBO estimates the transfers would increase offsetting receipts by $93 million over the 2000-2004 period. However, because one of the vessels authorized for sale is currently under lease for $3 million per year through 2002, the net increase from this title would be about $87 million over the five-year period.

Section 202 would permit the sale of excess Coast Guard equipment under the AECA. The Coast Guard usually disposes of excess defense articles by making grants under section 516 of the Foreign Assistance Act of 1961, but it has been asked to sell one vessel with an estimated market value of approximately $500,000. CBO estimates the sale would occur in 2001, when that vessel would be taken out of service.

## Revenues

Section 708 would increase maximum fines for violations of the Export Administration Act (EAA) as enforced under the International Emergency Economic Powers Act. On average, about three years elapse between the initial investigation of violations and the time when the

penalty is imposed. Fines are based on the law in force at the start of an investigation. Assuming an effective date of September 30, 1999, CBO does not expect penalties under the new law to be collected until fiscal year 2002. Based on information from the Department of Commerce, CBO estimates that receipts from penalties would increase by $2 million in each fiscal year starting in 2002, net of income and payroll tax offsets.

Collections of criminal fines are deposited in the Crime Victims Fund and are available for expenditure in the following year. Roughly half of the increase in governmental receipts, or $1 million a year, is estimated to be criminal fines. Direct spending from the Crime Victims Fund would equal the criminal fines collected with a one-year lag.

## Spending Subject to Appropriation

**Export Administration Act**. The Bureau of Export Administration (BXA) within the Department of Commerce is responsible for enforcing export controls. Based on information from the Department of Commerce, CBO estimates that BXA will use about 85 percent of its $52 million appropriation for this year to enforce export controls. Assuming historical spending patterns and allowing for cost increases, CBO estimates that implementing section 708 would cost $233 million over the 2000-2004 period.

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| **SPENDING SUBJECT TO APPROPRIATION** | | | | | | |
| EAA Spending Under Current Law by the Bureau of Export Administration | | | | | | |
| Estimated Authorization Level [a] | 44 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 43 | 6 | 2 | 0 | 0 | 0 |
| Proposed Changes | | | | | | |
| Estimated Authorization Level[b] | 0 | 46 | 47 | 49 | 50 | 52 |
| Estimated Outlays | 0 | 39 | 45 | 48 | 50 | 51 |
| EAA Spending Under H.R. 973 by the Bureau of Export Administration | | | | | | |
| Estimated Authorization Level [a] | 44 | 46 | 47 | 49 | 50 | 52 |
| Estimated Outlays | 43 | 45 | 47 | 48 | 50 | 51 |

a. The 1999 level is 85 percent of BXA's total 1999 appropriation of $52 million.

b. CBO estimates that enforcing export controls through 2004 would cost $233 million, assuming increases to cover anticipated inflation. Alternatively, if funding is maintained at the 1999 level, the cost over the next five years would be $220 million.

**International Arms Sales Code of Conduct**. Title IV would require the President to negotiate an agreement with major arms exporting countries to restrict or prohibit arms transfers to countries that do not respect democratic processes and the rule of law, do not adhere to internationally recognized norms on human rights, or are engaged in acts of armed aggression. The bill would require a semiannual report on the progress of the negotiations. CBO estimates that implementing these provisions would not result in a significant added cost to the government because the United States is engaged in ongoing diplomatic efforts on arms sales, and the requirements of the bill would not add significantly to that workload.

**Excess Defense Articles**. Title I of the bill would authorize DoD to pay for the packing, crating, handling, and transportation of excess defense articles transferred to countries participating during 2000 and 2001 in the Partnership for Peace program with the North Atlantic Treaty Organization. Based on information from DoD, CBO estimates that the department would spend up to $2 million each year on such activities, subject to the appropriation of the necessary funds.

**Other Foreign Military Sales Authorities**. The bill would require additional Congressional notifications and reports on military sales. Because the Administration does not currently gather some of the required information, CBO estimates that carrying out the new requirements would cost $1 million a year, assuming appropriation of the necessary funds.

## PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Changes in outlays | 0 | -63 | 33 | 33 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Changes in receipts | 0 | 0 | 0 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of UMRA excludes from the application of that act any legislative provisions that are necessary for national security. CBO has determined that the provisions of this bill either fall within that exclusion or do not contain intergovernmental or private-sector mandates as defined in UMRA.

## PREVIOUS CBO ESTIMATE

On March 22, 1999, CBO prepared an estimate for H.R. 973 as ordered reported by the House Committee on International Relations. The revised bill contains three changes that would have a budgetary impact: a three-year limitation on the authority to exchange items in the WRSA, transfer of 13 naval vessels, and the long-term extension of the authorization for the Commerce Department's export control activities.

## ESTIMATE PREPARED BY:

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