# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

May 8, 2008

# H.R. 5916
## Security Assistance and Arms Export Control Reform Act of 2008

*As ordered reported by the House Committee on Foreign Affairs on April 30, 2008*


## SUMMARY

H.R. 5916 would authorize security assistance for Israel and other countries, and assistance to North Korea in dismantling its nuclear facilities. In addition, the bill would require the Department of State to improve the review and processing of export licenses for defense articles, and would authorize the appropriation of such sums as may be necessary in 2009 and future years for that purpose. CBO estimates that enacting H.R. 5916 would increase discretionary spending by $3.2 billion over the 2009-2013 period, assuming appropriation of the estimated amounts. Implementing the bill would increase direct spending by $500 million over the 2009-2018 period, primarily by allowing a Department of Defense (DoD) revolving fund to spend balances without appropriations action. Implementing the bill would not affect revenues.

H.R. 5916 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.


## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5916 is shown in Table 1. The costs of this legislation fall within budget functions 050 (national defense) and 150 (international affairs).

**TABLE 1. BUDGETARY IMPACT OF H.R. 5916, THE SECURITY ASSISTANCE AND ARMS EXPORT CONTROL REFORM ACT OF 2008**

| | By Fiscal Year, in Millions of Dollars | | | | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | |
| Foreign Military Financing Program | | | | | |
| Estimated Authorization Level | 2,575 | 25 | 0 | 0 | 0 |
| Estimated Outlays | 2,559 | 20 | 14 | 4 | 1 |
| Assistance to Dismantle Nuclear Facilities in North Korea | | | | | |
| Estimated Authorization Level | 300 | 200 | 50 | 25 | 0 |
| Estimated Outlays | 165 | 200 | 133 | 59 | 15 |
| Export Licenses for Defense Articles | | | | | |
| Estimated Authorization Level | 8 | 7 | 7 | 7 | 8 |
| Estimated Outlays | 7 | 7 | 7 | 7 | 7 |
| Total Changes | | | | | |
| Estimated Authorization Level | 2,883 | 232 | 57 | 32 | 8 |
| Estimated Outlays | 2,731 | 227 | 153 | 70 | 24 |
| **CHANGES IN DIRECT SPENDING** | | | | | |
| Estimated Budget Authority | 55 | 55 | 55 | 55 | 55 |
| Estimated Outlays | 54 | 55 | 55 | 55 | 55 |

## BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5916 will be enacted before the end of fiscal year 2008, that the estimated authorization amounts will be appropriated near the start of each fiscal year, and that outlays will follow historical spending patterns for similar programs.

### Spending Subject to Appropriation

H.R. 5916 would authorize the Department of State to provide security assistance to Israel and other foreign countries. Title III would authorize the President to lift certain sanctions against North Korea, thereby enabling the Department of Energy (DOE) to assist the government of North Korea in disabling and dismantling its nuclear facilities. Finally, title

I would require the Department of State to improve the review and processing of export licenses for defense goods. In total, CBO estimates that implementing those provisions would cost $3.2 billion over the 2009-2013 period, assuming appropriation of the necessary amounts.

**Foreign Military Financing Program.** Section 204 would authorize the State Department to provide security assistance in the form of a grant to Israel in 2009, and specifies that the amount provided should be an increase of $150 million over the level of assistance specified for the Foreign Military Financing Program for Israel in the 2008 appropriations act. CBO estimates that the grant would total $2.55 billion in 2009, assuming appropriation of the estimated amount. Section 401 would authorize the appropriation of up to $25 million a year in 2009 and 2010 for security assistance to foreign countries. Those funds would be used for training, procurement, and building the capacity of their military forces. CBO estimates that implementing both sections would cost almost $2.6 billion over the 2009-2013 period, assuming appropriation of the estimated amounts.

**Assistance to Dismantle Nuclear Facilities in North Korea.** Title III of H.R. 5916 would authorize the President to waive certain sanctions that were imposed against North Korea after it tested a nuclear device in 2006. Specifically, the bill would allow the United States to assist North Korea over the 2009-2012 period to dismantle three nuclear facilities at Yongbyon: the reactor, the nearby plant that fabricates natural uranium into fuel for the reactor core, and the chemical reprocessing plant where plutonium is separated from the spent fuel rods.

Under an agreement with the United States, South Korea, Japan, China, and Russia, North Korea has started to disable the Yongbyon facilities. All three facilities are scheduled to be disabled by the end of 2008, allowing the process of dismantling the facilities and removing the control rods from North Korea to begin in 2009. Based on information from the State Department and DOE, CBO estimates that the costs of dismantling the nuclear reactor and the nearby fabrication and reprocessing plants, as well as the costs for transporting and reprocessing the spent fuel outside of North Korea, would total about $570 million over the 2009-2013 period, assuming appropriation of the estimated amounts, and contingent on North Korea allowing the facilities to be dismantled.

**Export Licenses for Defense Articles.** Title I would require the Department of State to institute specified performance goals at its Directorate of Defense Trade Controls to improve the review and processing of applications for export licenses (particularly for major allies such as Israel, South Korea, Japan, Australia, New Zealand, and members of the North Atlantic Treaty Organization) and would authorize such sums as may be necessary in 2009 and future years for staffing and resources to meet that objective.

In 2007, the directorate processed approximately 85,000 applications for export licenses and 400 requests on commodity jurisdiction (some items for export fall within the jurisdiction of the Department of Commerce), with a staff of about 47 people. The bill would require the directorate to have three staff members dedicated to requests on commodity jurisdiction and one licensing officer for every 1,250 license applications. Title I also would require expedited reviews for exports to major allies, increased review and enforcement of federal laws and regulations governing arms exports, and increased oversight and management of the licensing process.

Based on information from the Department of State, CBO expects the department would need an additional 55 employees to meet the requirements of the bill: 35 licensing officers, five staff members to review commodity jurisdiction, four staff members to oversee and review processing goals, one person to review regulations and the U.S. Munitions List, and 10 staff members for compliance and enforcement of export controls. CBO estimates that hiring those personnel would cost an average of $110,000 per person and that the department would require additional appropriations of $6 million in 2009 and $31 million over the 2009-2013 period, after adjusting for inflation.

In addition, section 103 would require the President to conduct a thorough review and assessment of the nation's arms export controls. Based on information from the Department of State, CBO estimates this provision would cost $1 million in 2009, assuming appropriation of the estimated amounts.

Finally, other sections of title I would require the Department of State to review and assess current programs, make periodic reports to the Congress, and strengthen diplomatic efforts to improve controls on the international arms trade; CBO estimates the department would require additional appropriations of $1 million a year to implement those provisions. In total, after adjusting for inflation, CBO estimates that implementing title I would cost $36 million over the 2009-2013 period, assuming appropriation of the estimated amounts.

**Reimbursement for Salaries of Reservists.** Section 403 would allow the Department of State to reimburse DoD for the salaries of members of the reserves who participate in international peacekeeping missions or other programs of the Department of State. Under current law, those costs are borne by DoD. While CBO expects that this provision could increase the number of reservists who are called up to active duty, we estimate those numbers would be small, and this provision would have an insignificant effect on spending subject to appropriation.

## Direct Spending

CBO estimates that enacting H.R. 5916 would increase direct spending by $500 million over the 2009-2018 period (see table 2), by allowing amounts in a DoD revolving fund to be available for spending without prior appropriation and by authorizing the Department of State to spend certain civil penalties.

**Foreign Military Sales Stockpile Fund.** Section 404 would rename the Special Defense Acquisition Fund, allow the deposit of certain lease payments into the fund, and delete a requirement under current law that restricts spending of fund balances to only those amounts provided in advance in appropriations acts. Under current law, DoD may deposit into the fund the proceeds from selling military equipment not intended to be replaced and other defense articles from the fund's inventory. The Defense Security Cooperation Agency (DSCA) has indicated that the fund is moribund and has no balances left, but that it would use the authorities provided under the bill to replenish the fund with sales proceeds and lease payments, and use the fund to purchase defense articles for use by U.S. allies.

Based on sales proceeds from recent years and information from DSCA, CBO estimates that deposits into the fund would begin in 2009 with sales proceeds and lease payments worth about $45 million a year, and that the agency would spend roughly the same amount each year over the 2009-2018 period.

**Civil Penalties and Fees.** Section 107 would authorize the Department of State to spend up to $10 million in civil penalties collected each year over the 2008-2012 period for the expenses of its Directorate of Defense Trade Controls. Under current law, the department enforces certain laws and regulations governing exports of defense articles and has the authority to assess civil penalties of up to $500,000 for each noncriminal violation. Civil penalties are deposited into the Treasury as revenues. Collections from civil penalties assessed by the department totaled $23 million in 2007. CBO estimates that collections would become available in the year after they were collected and that implementing this provision would increase direct spending by $50 million over the 2009-2018 period.

The section also would allow registration fees collected by the directorate to be used for new expenses that are prohibited under current law. Recent data for collections and spending indicate that the directorate collects and spends about $8 million in any given year; thus, CBO estimates that this provision would have no significant effect.

**TABLE 2. ESTIMATED IMPACT OF H.R. 5916 ON DIRECT SPENDING**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total 2009-2013 | Total 2009-2018 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | |
| Foreign Military Sales Stockpile Fund | | | | | | | | | | | | |
| Estimated Budget Authority | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 225 | 450 |
| Estimated Outlays | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 225 | 450 |
| Civil Penalties and Fees | | | | | | | | | | | | |
| Estimated Budget Authority | 10 | 10 | 10 | 10 | 10 | 0 | 0 | 0 | 0 | 0 | 50 | 50 |
| Estimated Outlays | 9 | 10 | 10 | 10 | 10 | 1 | * | * | 0 | 0 | 49 | 50 |
| Total | | | | | | | | | | | | |
| Estimated Budget Authority | 55 | 55 | 55 | 55 | 55 | 45 | 45 | 45 | 45 | 45 | 275 | 500 |
| Estimated Outlays | 54 | 55 | 55 | 55 | 55 | 46 | 45 | 45 | 45 | 45 | 274 | 500 |

Note: * = less than $500,000.

**Transfer of Defense Articles in the U.S. War Reserve Stockpile for Allies (USWRSA).** Section 203 would amend the President's authority to transfer to Israel obsolete or surplus defense articles in the USWRSA in Israel in return for concessions to be negotiated by the Secretary of Defense. The bill would raise the cap on the maximum amount that could be transferred from $100 million to $200 million in 2009 and 2010. Under current law, the authority to make transfers to Israel expires in August 2008; therefore this section would have no effect.

Even if the transfer authority were extended, CBO estimates this provision would not affect direct spending. The concessions negotiated by DoD may include cash, services, waiver of charges otherwise payable by the United States, or other items of value. Although the authority provided by section 203 could be used to negotiate noncash concessions instead of selling the articles, DSCA has indicated that the existing authority has not been used for Israel in the past, and CBO expects it is unlikely to be used in the next few years.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5916 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

## ESTIMATE PREPARED BY:

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