

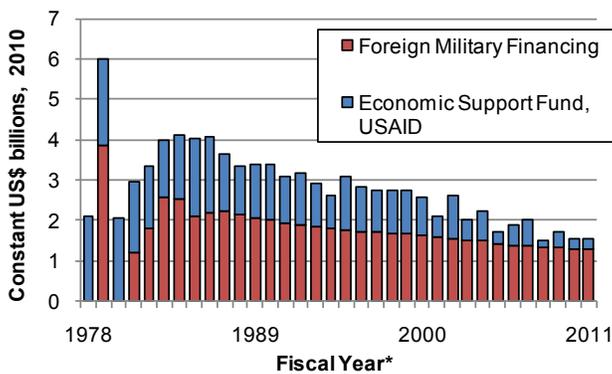
CURRENT ISSUES

No. 23: U.S. Military Aid and Sales to Egypt (3/15/11)

The recent popular protests in Egypt, and the concurrent images of U.S.-made tanks and tear gas canisters, have brought scrutiny upon the historical and remarkably constant U.S. military assistance to Egypt. The crisis may have passed and the military council ruling Egypt has promised to oversee a transition to civilian government, but the future makeup of Egypt’s government remains unclear. This issue reviews U.S. military aid and sales to Egypt and assesses what any changes might mean to the U.S. defense industrial base.

This military aid acts as a gift card for U.S. military goods: from 1978 to 2008 Egypt spent nearly all foreign military financing on arms exports from the United States, as required by law. In 2008, the last year with complete data, Egypt received more than \$1 billion in military deliveries. The figure below also shows a recent rise in foreign military sales agreements, which are typically a leading indicator for deliveries.

U.S. Aid to Egypt, 1978–2011



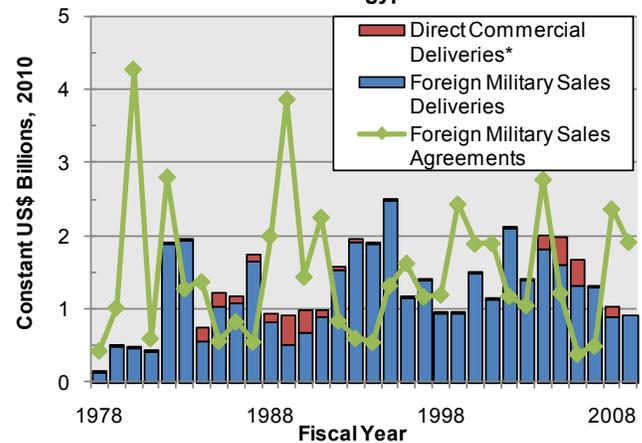
* Foreign Military Financing (FMF) for 1978–1984 includes the FMF Direct Loan Program Account. For the years 2010 and 2011, aid spending reflects estimates and the administration budget request respectively. Source: U.S. Agency for International Development (USAID), [U.S. Overseas Loans & Grants: Obligations and Loan Authorizations, July 1, 1945–September 30, 2009](#), and the U.S. Department of State, [2011 Congressional Budget Justification for Foreign Operations](#).

Since the signing of the Israel-Egypt peace treaty in 1979, military assistance to Egypt has been a cornerstone of U.S. Middle East policy, intended to cement the Egyptian-Israeli peace, promote regional stability, and support counterterrorism initiatives.

Military aid has remained steady in nominal terms at \$1.3 billion per year, totaling \$58 billion (in 2010 dollars) over the past 32 years. U.S. military assistance accounts for 80 percent of all of Egypt’s weapons procurement costs,¹ and as much as a third of its entire defense budget.²

¹ U.S. Government Accountability Office, [Security Assistance: State and DOD Need to Assess How the Foreign Military Financing Program for](#)

U.S. Arms Sales to Egypt 1978–2009



* The value of commercial export deliveries was unavailable for 2009. Source: [Defense Security Cooperation Agency, Fiscal Year Series](#).

The vast majority of exports to Egypt, more than 93 percent, are handled via foreign military sales in which the U.S. government makes a direct agreement with a foreign government. Direct commercial exports by U.S. defense companies have been far more erratic and were consistently below \$10 million per year from 1993 to 2003. Commercial arms exports are also highly regulated, and as a result, any change in U.S. policy could dramatically alter the volume of both forms of exports.

Since the beginning of the foreign military financing program, the United States has sold 36 Apache helicopters, 220 F-16 aircraft, and 880 M1 Abrams tanks

[Egypt Achieves U.S. Foreign Policy and Security Goals](#) (Washington, D.C.: Government Printing Office, April 2006).

² Viola Gienger, “Three Decades with Egypt’s Military Keep U.S. in Loop,” [Bloomberg](#), February 2, 2011; accessed February 18, 2011, <http://www.bloomberg.com/news/2011-02-02/three-decades-of-missions-weapons-training-for-egypt-keep-u-s-in-loop.html>.

(built partially in Egypt through a co-production agreement). Production of 320 more M1 tanks remain from the original co-production plan. But, sales of these big-ticket items are increasingly crowded out by parts, maintenance, training, logistics support, and other follow-on costs associated with earlier purchases.⁵ For example, of the notable agreements for foreign military sales between 2009 and 2010, more than \$1 billion are exclusively for support or upgrade packages.

An Uncertain Future for Military Aid Policy

The immediate crisis has passed and the military council has promised a peaceful transition to democracy. Pentagon officials and some outside experts such as [CSIS's Haim Malka](#) have stressed the importance of this military assistance to maintaining influence with the Egyptian military. The sheer inertia of the U.S.-Egyptian defense relationship will likely maintain the status quo in the near term.

However, over the longer term, the military aid may prove unsustainable due to the changing strategic situation and U.S. budget pressures. Economic support or aid targeted at building democracy may take precedence,³ or, as happened after military rule in Pakistan, the U.S. government may turn the aid into a general purpose transfer. Alternately, if the transition to democracy falters, U.S. policymakers may again consider placing conditions on further receipt of aid. Finally, while the military council has affirmed Egypt's peace treaty with Israel, the strategic vision of a new Egyptian government may diverge with U.S. desires.

If the aid package that requires purchases of U.S. military goods and services is reduced or eliminated, Egypt may turn to lower end goods from cheaper producers. China has been the second-largest exporter of

arms to Egypt, exporting \$100 million worth of arms per year since 2002.⁴ If nothing else, this would open up competition for Egyptian military procurement contracts to European, Russian, and other global competitors. For U.S. arms producers this uncertainty is mitigated by the sunk costs of co-production agreements and services contracts for existing equipment.

Military spending in Egypt is likely to remain constant or rise due to the prominent role that military institutions play in the state as well concerns over the rising influence of Iran in the region. Iran's defense budget was nearly three times that of Egypt.⁵ Furthermore, other regional states like Israel and Saudi Arabia substantially outspend Egypt on defense. Therefore, for a state that considers itself a regional power, military spending cuts may be anathema.⁶

Nonetheless, even if demand remains constant or increases, the U.S. defense industry may need to prepare for a future where military sales are no longer bolstered by U.S. military aid to the extent they have been for the past 32 years.

Get the raw data: <http://cs.is/EgyptArmsAid>.

—Ryan Crotty and Gregory Sanders

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Year	Notable Foreign Military Sales Agreements	Cost (current US\$ millions)
2010	40 Skyguard AMOUN Solid-State Transmitter upgrades	77
2010	Support for 4 PERRY and 2 KNOX Class Frigates	210
2009	Fast Missile Craft program and support	240
2009	156 F-110-GE-100 engine upgrades and support	750
2009	20 RGM-84L/3 HARPOON Block II Anti-Ship Cruise Missiles	145
2009	450 AGM-114K3A HELLFIRE II Missiles	51
2009	24 F-16C/D Block 50/52 Aircraft and supporting equipment and construction	3,200
2009	6 CH-47D CHINOOK Helicopters	308
2009	12 AH-64D Block II APACHE Longbow Helicopters	820

Source: 36(b) Arms Sales Notifications available at Defense Security Cooperation Agency, 2011; http://www.dsca.mil/pressreleases/36-b/36b_index.htm.

³ A major USAID study found that democracy-building aid can work, but that it is less likely to have an effect when a country predominantly receives military aid. Steven E. Finkel. [Deepening Our Understanding of the Effects of US Foreign Assistance on Democracy Building: Final Report](#) (Washington, D.C.: United States Agency for International Development, January 28, 2008).

⁴ Richard F. Grimmett, *Conventional Arms Transfers 2002–2009* (Washington, D.C.: Congressional Research Service, September 10, 2010).

⁵ International Institute for Strategic Studies, *The Military Balance 2010* (London: Routledge, 2010), pp. 248, 251.

⁶ Jeremy M. Sharp, [Egypt: Background and U.S. Relations](#) (Washington, D.C.: Congressional Research Service, February 11, 2011).