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SUBJECT: FOREIGN MILITARY SALES (FMS) SURCHARGE CHANGE  
(DSCA 06-15)

TEXT:

RAAUZYUW RUEKJCS6257 0742158-UUUU--RHMFIUU.  
ZNR UUUUU ZUI RUEWMCS0394 0742144  
R 152157Z MAR 06  
FM SECDEF WASHINGTON DC//DSCA-BUSOPS-COMPT//  
TO AIG 8797  
ZEN/AIG 8797 @ AL 8797 (UC)  
INFO ZEN/DSCA BUSOPS COMPT UC  
BT  
UNCLAS  
SUBJ: FOREIGN MILITARY SALES (FMS) SURCHARGE CHANGE (DSCA  
06-15)  
DTG: 152157Z MAR

1. SUMMARY: EFFECTIVE 01 AUGUST 2006, THE FMS ADMINISTRATIVE SURCHARGE WILL BE 3.8 PERCENT. THE 3.8 PERCENT RATE WILL BE CHARGED TO ALL NEW FMS AND FMS-LIKE (E.G., PSEUDO OR SECURITY COOPERATION PROGRAM, ETC.) CASES ACCEPTED ON OR AFTER 01 AUGUST 2006. ANY NEW LINES ADDED TO EXISTING CASES VIA AMENDMENTS OR MODIFICATIONS AND ACCEPTED ON OR AFTER 01 AUGUST 2006 WILL ALSO BE CHARGED THE NEW RATE. ANY CASE LINES ACCEPTED PRIOR TO 01 AUGUST 2006 WILL CONTINUE TO BE ASSESSED THE RATE THAT WAS IN EFFECT AT THE TIME THEY WERE IMPLEMENTED. OTHER REFORMS ARE BEING IMPLEMENTED CONCURRENTLY IN AN EFFORT TO REDUCE FMS EXPENSES AND INCREASE REVENUES TO ENSURE FULL COST RECOVERY AS REQUIRED BY U.S. LAW.

2. BACKGROUND: FMS ADMINISTRATIVE INCOME AND EXPENSES ARE OUT-OF-BALANCE NECESSITATING A COMBINATION OF REDUCED EXPENSES AND INCREASED INCOME SUFFICIENT TO RECOVER THE U.S. GOVERNMENT COSTS INCURRED TO OVERSEE AND MANAGE THE FMS PROGRAM (AS REQUIRED BY LAW) . TO REDUCE EXPENSES, DSCA HAS ISSUED BUDGET GUIDANCE THROUGH FY09 THAT REDUCES EXPENDITURES BY \$18.7M. DSCA HAS ALSO ESTABLISHED THE BUSINESS EFFICIENCIES AND ACTION TEAM (BEAT) TO DEVELOP PROCESS CHANGES, ELIMINATE WASTE, CONSOLIDATE FUNCTIONS, ETC. THIS TEAM INCLUDES MILDEP PARTICIPATION AND HAS SET A GOAL TO IDENTIFY \$36M IN SAVINGS BY FY09. EVEN WITH THESE COST SAVING MEASURES, THERE REMAINS A BUDGET DEFICIT THAT MUST BE ADDRESSED BY AN INCREASE IN REVENUES. OUR STAFFING

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LEVELS IN THE SECURITY COOPERATION COMMUNITY ARE AT THE LOWEST IN HISTORY AND STAFF CUTS BEYOND THOSE CURRENTLY PLANNED THROUGH FY09 ARE NOT FEASIBLE GIVEN OUR ROLE IN THE GLOBAL WAR ON TERRORISM (GWOT). FURTHER, AGING LEGACY DATA SYSTEMS WILL LIKELY REQUIRE MAJOR INVESTMENTS IN THE COMING YEARS. THEREFORE, IT IS NECESSARY THAT SEVERAL ADDITIONAL STEPS' BE TAKEN TO GENERATE THE RESOURCES NEEDED TO MEET OUR OPERATIONAL REQUIREMENTS TODAY AND TOMORROW.

3. AFTER EXTENSIVE ANALYSIS AND INTERAGENCY COORDINATION, DSCA HAS DEVELOPED AND IS NOW IMPLEMENTING A PACKAGE OF REFORMS TO HELP ENSURE THE CONTINUED SOLVENCY OF THE FMS ADMINISTRATIVE TRUST FUND ACCOUNT. THE FOLLOWING INITIATIVES ARE BEING IMPLEMENTED AS INDICATED:
- A. EFFECTIVE 01 AUGUST 2006, THE FMS ADMINISTRATIVE SURCHARGE WILL BE 3.8 PERCENT. THE 3.8 PERCENT RATE WILL BE CHARGED TO ALL NEW FMS AND FMS-LIKE (E.G., PSEUDO OR SECURITY COOPERATION PROGRAM, ETC.) CASES ACCEPTED ON OR AFTER 01 AUGUST 2006. ANY NEW LINES ADDED TO EXISTING CASES VIA AMENDMENTS OR MODIFICATIONS AND ACCEPTED ON OR AFTER 01 AUGUST 2006 WILL ALSO BE CHARGED THE NEW RATE. ANY CASE LINES ACCEPTED PRIOR TO 01 AUGUST 2006 WILL CONTINUE TO BE ASSESSED THE RATE THAT WAS IN EFFECT AT THE TIME THEY WERE IMPLEMENTED.
  - B. SAMM TABLE C5.T6. IDENTIFIES WHICH ACTIVITIES ARE COVERED BY THE ADMINISTRATIVE SURCHARGE. THIS TABLE IS BEING REVISED TO ENSURE MORE CONSISTENT IMPLEMENTATION. THE UPDATED VERSION WILL ALSO BE EFFECTIVE 01 AUGUST 2006 AND WILL CONTINUE TO REQUIRE THAT ANY LEVELS OF SERVICE THAT EXCEED THE STANDARD BE CHARGED DIRECTLY TO THE CUSTOMER ON THE CASE. THE NEW POLICY ELIMINATES THE USE OF PROGRAM MANAGEMENT LINES AND INSTEAD REQUIRES THAT THESE TYPES OF USG-MANAGEMENT SERVICES BE INCLUDED AS WELL-DEFINED SERVICES LINES ON THE CASE.
  - C. EFFECTIVE 01 AUGUST 2006, THE 5 PERCENT ADMINISTRATIVE SURCHARGE CURRENTLY ASSESSED FOR PROVISION OF NON-STANDARD SUPPORT IS ELIMINATED. NON-STANDARD SUPPORT ON CASES ACCEPTED ON OR AFTER 01 AUGUST 2006 WILL BE CHARGED THE 3.8 PERCENT RATE.
  - D. EFFECTIVE 01 AUGUST 2006, A NEW SMALL CASE MANAGEMENT LINE POLICY WILL REQUIRE A MINIMUM OF \$15,000 BE COLLECTED ON EACH CASE TO COVER ESTIMATED COSTS TO WRITE/EXECUTE/CLOSE A CASE. DETAILED GUIDANCE WILL BE PROVIDED VIA SEPARATE CORRESPONDENCE TO INCLUDE AN

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EXCEPTION FOR CASES FUNDED WITH FOREIGN MILITARY FINANCING (FMF) FOR COUNTRIES RECEIVING \$400,000 OR LESS IN FMF THE PREVIOUS FISCAL YEAR. E. EFFECTIVE NO LATER THAN 01 OCTOBER 2007, DSCA WILL ELIMINATE THE 3.1 PERCENT LOGISTICS SUPPORT CHARGE (LSC). PLEASE NOTE EFFECTIVE DATE FOR THIS CHANGE IS FY08 (VICE FY07) .

4. DETAILED IMPLEMENTING GUIDANCE ON EACH OF THESE INITIATIVES WILL BE ISSUED SEPARATELY AND POSTED ON THE DSCA WEBSITE, [WWW.DSCA.MIL](http://WWW.DSCA.MIL) UNDER SAMM, SECURITY ASSISTANCE POLICY MEMORANDA.

5. MORE DETAILED INFORMATION ABOUT THESE CHANGES AND ASSOCIATED POLICIES ARE ALSO AVAILABLE ON THE SAN WEBSITE ON THE DSCA GENERAL INFORMATION BULLETIN BOARD. RESPONSES TO QUERY AND OTHER USEFUL TOOLS ARE AVAILABLE AT THAT SITE. ALL ADDRESSEES ARE STRONGLY ENCOURAGED TO READ THESE DOCUMENTS AND USE THE INFORMATION PROVIDED TO DISCUSS WITH YOUR INTERNATIONAL CUSTOMERS. THESE PRODUCTS WERE CREATED TO ASSIST YOU IN EXPLAINING NOT ONLY THESE CHANGES BUT ALSO HOW FMS REMAINS AN IMPORTANT USG FOREIGN POLICY AND ENGAGEMENT TOOL.

6. DSCA/DBO POINT OF CONTACT IS MS. BETH BAKER AT (703) 601-3839 OR DSN 329-3839; E-MAIL: [BETH.BAKER@DSCA.MIL](mailto:BETH.BAKER@DSCA.MIL). DSCA/STR/POL POINT OF CONTACT IS MR. STEVE HARRIS AT (703) 604-6611 OR DSN 664-6611; E-MAIL: [STEVE.HARRIS@DSCA.MIL](mailto:STEVE.HARRIS@DSCA.MIL).

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\*\*\* End of Message \*\*\*

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