



DEFENSE SECURITY COOPERATION AGENCY

WASHINGTON, DC 20301-2800

MAR 15 2006

In reply refer to:
I-06/000933-DBO

MEMORANDUM FOR SEE DISTRIBUTION LIST

SUBJECT: Changes to Foreign Military Sales (FMS) Administrative Surcharge Structure and Rate (DSCA 06-14)

The Arms Export Control Act requires that FMS activities be conducted at no cost to the US Government and authorizes an Administrative Surcharge assessment on FMS cases to recover all US Government costs incurred to execute, manage, and oversee these programs. The Administrative Surcharge is assessed as a percentage (2.5% since 1999) of the value of articles and services on each FMS case. The combined revenues generated from this surcharge and a Logistics Support Charge (LSC) are deposited to the FMS Trust Fund Administrative Account and are used to pay for US Government expenses related to FMS programs.

Unfortunately, income from these two charges is currently not sufficient to cover our expenses. My staff has completed an extensive study to develop possible solutions to this problem – looking at ways to reduce expenses and/or increase our income to ensure we recover our costs (as required by law). To help reduce expenses, we have cut budgets, reduced numbers of personnel across the security cooperation community, and continue to work on improving business processes to achieve efficiencies. Even after these savings measures are factored into the budget outlook, there remains a budget deficit that must be addressed by an increase in revenues --- which necessitates an increase to the Administrative Surcharge rate. This increase is part of a package of reforms we are implementing to help ensure the continued solvency of the FMS Trust Fund Administrative Account. The following guidance is provided for your use and information:

a. Effective 1 Aug 06, the Administrative Surcharge rate will be 3.8%. Our analysis shows that this rate will cover our costs and allow us to simplify the surcharge fee structure by eliminating the higher non-standard rate (currently 5%) as well as the LSC. The 3.8% rate will be charged to all new FMS and FMS-like (e.g., pseudo, security cooperation program, etc.) cases “accepted” on or after 1 Aug 06. Any cases accepted prior to 1 Aug 06 will continue to be assessed the rate that was in effect at the time they were implemented --- with the exception that any new line items added to these cases via Amendments “accepted” on or after 1 Aug 06 will be charged the new rate.

b. Table C5.T6. in the Security Assistance Management Manual (SAMM) provides information on what FMS case-related activities are covered by (1) the Administrative Surcharge, (2) FMS case Program Management Lines (PMLs), or (3) other lines on the FMS case. Activities with an “X” in the Administrative Surcharge column of this table reflect the “Standard Level of Service” to be provided on each FMS case. This table is being updated to

clarify proper funding sources and ensure consistent application of the "Standard Level of Service" to all cases. One specific change in the revised table will be the elimination of PMLs. New cases "accepted" on or after 1 Aug 06 may still include valid US Government program management services, but these services will be included as separate, well-defined lines on the FMS case, providing more detail and transparency to our purchasers. As in the past, purchasers who desire additional services, over-and-above those covered by the Administrative Surcharge, may obtain/fund those services on separate lines on the FMS case. PMLs implemented prior to 1 Aug 06 will continue to be executed as written.

c. Effective 1 Aug 06, the 5% Administrative Surcharge currently assessed for provision of non-standard support will be eliminated. Any lines for non-standard articles or services included on cases "accepted" on or after 1 Aug 06 will be charged the standard, 3.8%, rate. Any lines that already exist prior to 1 Aug 06 and are being charged the 5% rate will continue to be assessed that rate.

d. Effective 1 Aug 06, all cases must collect a minimum of \$15,000. This is necessary to ensure we recover costs necessary to prepare and implement the case. We are currently not recovering these costs on cases that are written for small dollar values or on cases which are closed after implementation without delivery of any articles and/or services. For cases "accepted" on or after 1 Aug 06, if the case value is so small such that the Administrative Surcharge amount calculated, using 3.8%, is less than \$15,000, a separate line will be added to the case so that the Administrative Surcharge and this new line combined total \$15,000. The value of this line will be adjusted as necessary to allow for changes in case value if the case is amended or modified. A minimum of \$15,000 will be retained by the US Government when the case is closed. More detailed implementation guidance will be provided, including unique guidance for countries who receive minimal allocations of Foreign Military Financing.

e. Effective 1 Oct 07, the 3.1% LSC will be eliminated. Please note that the effective date for this change is FY08 (vice FY07). Any items delivery reported on or after 1 Oct 07 will not be assessed the LSC --- even if they were originally priced to include this charge.

More detailed guidance necessary to implement these changes will be provided via separate correspondence. DSCA will perform an annual review of these surcharge rates and will make adjustments as needed. If you have any questions or need additional information regarding these changes, please contact Beth Baker, DSCA/DBO, (703) 601-3839 or e-mail: beth.baker@dsca.mil or Steve Harris, DSCA/STR/POL, (703) 604-6611, or e-mail steve.harris@dsca.mil.



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