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C O N F I D E N T I A L SECTION 1 OF 5 MANILA 10627

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TAGS: MASS, BEXP, RP

SUBJ: PHILIPPINE RIFLE MANUFACTURING PROJECT

1. SUMMARY AND INTRODUCTION: THE MISSION HAS NOW COMPLETED ITS REVIEW OF THE PLANNED PHILIPPINE RIFLE MANUFACTURING PROJECT FOR WHICH THE PHILIPPINES HAS REQUESTED CREDIT FINANCING UNDER THE FOREIGN MILITARY SALES PROGRAM. ACTION REQUESTED: THE MISSION STRONGLY RECOMMENDS U.S. SUPPORT FOR THE PROJECT AND REQUESTS AN AFFIRMATIVE REPLY TO THE PHILIPPINE REQUEST FOR FMS CREDIT TO BE MADE AVAILABLE PREFERABLY OUT OF FUNDS APPROPRIATED FOR FY 1974 AND FY 1975.

2. THE MISSION IS SATISFIED THAT THE GOP ASSESSMENT OF ITS HAND WEAPONS NEEDS IS REASONABLE AND THAT THE PLANNED PROJECT REPRESENTS THE PREFERRED OPTION FOR MEETING THE ASSESSED NEED. THE
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BENEFITS OF THE PROJECT ARE ENHANCED AND ITS COST LOWERED BY PRIMARY RELIANCE ON A CIVILIAN CONTRACTOR WHO RUNS AN ESTABLISHED

AND REPUTABLE FIRM. AS A RESULT THE PROJECT WILL PERMIT FOREIGN EXCHANGE SAVINGS ON HAND WEAPONS PROCUREMENT BY THE PHILIPPINES AND AT THE SAME TIME SUPPORT FURTHER PRIVATE SECTOR INDUSTRIAL DEVELOPMENT.

" THE PROJECT WILL INVOLVE \$22.3 MILLION IN ADDITIONAL U.S. EXPORTS AND WILL ENABLE THE U.S. TO BECOME THE PRINCIPAL EQUIPMENT SOURCE FOR THE PHILIPPINES LEADING MANUFACTURER OF PRECISION PARTS AND FITTINGS. MISSION SUPPORT OF THE PROPOSAL IS BASED ON ITS CONTRIBUTION TO PHILIPPINE EFFORTS TO MEET BASIC MILITARY MATERIEL NEEDS WHILE INCREASING SELF-RELIANCE AND DECREASING DEPENDENCE ON THE U.S.

4. DURING DISCUSSIONS WITH DEPARTMENT OF NATIONAL DEFENSE OFFICIALS, AN INFORMAL REQUEST WAS MADE FOR DETAILS OF OFFERS FROM OTHER COUNTRIES, PARTICULARLY FROM THE GERMAN FIRM OF HECKLER-KOCH. THE DNB DECLINED TO PROVIDE DETAILS, STATING ONLY THAT THE GERMAN OFFER IS A VIABLE ALTERNATIVE TO COLT'S SHOULD THE U. S. REFUSE TO SUPPORT THE REQUESTED FMS CREDIT. GOP OFFICIALS ARE DEDICATED TO A PROGRAM FOR

PRODUCING THEIR OWN SMALL ARMS AMMUNITION AND HAND WEAPONS AND HAVE STATED THEIR DESIRE FOR AN EARLY DECISION SO THAT, IF THIS DECISION IS UNFAVORABLE, THEY CAN PROCEED TO DEVELOP AN AGREEMENT WITH ANOTHER COUNTRY.

5. COPIES OF THE AGREEMENTS BETWEEN COLT AND THE PHILIPPINE CONTRACTOR

AND COLT AND THE GOP ARE BEING POUCHED TO EA/PHL. END SUMMARY.

6. I. PROJECT DESCRIPTION

A. THE PROJECT::

THE PHILIPPINE GOVERNMENT HAS BEEN INTERESTED FOR AT LEAST FIVE YEARS IN DOMESTIC PRODUCTION OF MILITARY RIFLES, AND IN 1971 REQUESTED FOREIGN FIRMS TO SUBMIT PROPOSALS TO ESTABLISH A 5.56MM

RIFLE PLANT. WE ARE INFORMED THAT THE FOLLOWING COMPANIES EVIDENCED

INTEREST IN THE PROJECT:

COLT (U.S.), ARMALITE (U.S.) BRETTE (ITALY),

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CENTE (ITALY), ISRAEL MILITARY INDUSTRIES (ISRAEL), SN (BELGIUM) AND HECKLER AND KOCH (GERMANY).

7. IN SEPTEMBER 1972 THE BOARD OF INVESTMENTS (BOI) ANNOUNCED THAT, AS A RESULT OF WEAPONS EVALUATIONS CARRIED OUT BY THE ARMED FORCES, COMPANIES ELIGIBLE FOR FURTHER CONSIDERATION WOULD BE COLT, ARMALITE, HECKLER AND KOCH AND ISRAEL MILITARY INDUSTRIES. THE BOI ANNOUNCED THAT THE PROGRAM WOULD CALL FOR 150,000 RIFLES, TO BE PRODUCED OVER A FIVE YEAR PERIOD, WITH DOMESTIC CONTENT OF THE RIFLES

INCREASING TO 100 PERCENT (EXCLUSIVE OF IMPORTED RAW MATERIALS) WITH-
IN THE FIVE YEAR PERIOD. MOREOVER, IN ORDER TO MAXIMIZE LOCAL CONTENT,

PRODUCTION WAS TO BE UNDERTAKEN BY A LOCAL COMPANY, WITH THE FOREIGN
FIRM PROVIDING TECHNICAL ASSISTANCE, PARTS AND MATERIALS. THE GOVERN-
MENT ITSELF WOULD BE THE LICENSEE.

8. FOLLOWING CAREFUL EVALUATION OF THE PROPOSALS AND DISCUSSIONS
WITH EACH COMPANY, THE GOP ON JUNE 19 RELEASED ITS DECISION TO
ACCEPT THE PROPOSAL PUT FORTH BY COLT INDUSTRIES.

9. IN BRIEF, THE AGREEMENT NEGOTIATED BETWEEN COLT AND THE GOP CALLS
FOR THE DIRECT PURCHASE, IN-COUNTRY ASSEMBLY (INITIALLY) AND PRODUC-
TION (EVENTUALLY), OVER A SIX-YEAR PERIOD, OF 150,000 RIFLES AND
22,500 RIFLES-EQUIVALENT IN SPARES, IN LINE WITH THE FOLLOWING
PRODUCTION SCHEDULE:

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MONTH	QUANTITY	ACTIVITY
0-9	5,000	RIFLES ASSEMBLED IN HARTFORD (0 PERCENT LOCAL CONTENT)

10-18	15,000	RIFLES ASSEMBLED IN PHIL. (10 PERCENT LOCAL CONTENT)
19-21	7,500	LOCAL ASSEMBLY/PRODUCTION (20 PERCENT LOCAL CONTENT)
22-24	7,500	LOCAL ASSEMBLY/PRODUCTION (50 PERCENT LOCAL CONTENT)
25-36	30,000	LOCAL ASSEMBLY/PRODUCTION (80 PERCENT LOCAL CONTENT)
37-48	40,000	LOCAL PRODUCTION (100 PERCENT LOCAL CONTENT)
49-60	45,000	LOCAL PRODUCTION (100 PERCENT LOCAL CONTENT)
61-72	22,500	LOCAL PRODUCTION OF SPARES (100 PERCENT LOCAL CONTENT)

THE LICENSING AGREEMENT BETWEEN COLT AND THE GOVERNMENT IS FOR A
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TOTAL OF TEN YEARS AND , FOLLOWING PRODUCTION OF THE 172,500 UNITS,
IT PERMITS MANUFACTURE FOR EXPORT OF AN ADDITIONAL 65,000 WEAPONS.

10. THE PRIME CONTRACTOR FOR THE PROJECT WILL BE ELISCO TOOL MANUFACTURING CORPORATION (ELITOO), A MEMBER OF THE ELIZALDE GROUP OF COMPANIES, AND A LEADING MANUFACTURER OF PERCISION METAL PRODUCTS. ELITOO PRESENTLY PRODUCES FORGED HAND TOOLS UNDER A LICENSING AGREEMENT WITH BELZER-WERK OF WUPPERTAL, WEST GERMANY. IT HAS ALSO BEEN CONTRACTED TO PRODUCE VARIOUS COMPONENTS BY AT LEAST TWO COMPANIES ENGAGED IN THE PROGRESSIVE CAR MANUFACTURING PROGRAM.

11. PRODUCTION OF THE RIFLE COMPONENTS WILL TAKE PLACE AT TWO LOCATIONS: MANUFACTURE OF BOLT AND BARREL AND FINAL ASSEMBLY WILL BE AT THE GOVERNMENT ARSENAL AT LIMAY, BATAAN; MANUFACTURER OF ALL OTHER COMPONENTS (EXCEPT THOSE SUBCONTRACTED OUT) WILL TAKE PLACE AT THE ELITOO PLANT AT PASIG, RIZAL. NEW PLANT FACILITIES WILL BE CONSTRUCTED AT EACH LOCATION.

12. B. PROJECT FINANCING:

TABLE I		
PROJECT FINANCING SUMMARY		
	GROSS COSTS	NET COSTS
	(MILLIONS)	(MILLIONS)
FOREIGN	\$22.3	\$19.8
DOMESTIC	7.1	6.0
TOTAL	\$29.4	\$25.8

13. THE GROSS PROJECT COST INCLUDES CAPITAL EXPENDITURES AND RESIDUAL BOOK VALUE OF PLANT AND EQUIPMENT, BUT EXCLUDES ELITOO PROFITS. THE NET COST EXCLUDES RESIDUAL VALUE OF EQUIPMENT AND BUILDINGS.

14. ON AUGUST 28, 1973, JUSMAG RECEIVED FROM THE SECRETARY OF

NATIONAL DEFENSE OF THE PHILIPPINES A REQUEST FOR AN FMS LOAN TO PARTIALLY FINANCE THE RIFLE PLANT PROJECT. UNDER THE GOP REQUEST, THE FMS LOAN WOULD BE FOR \$15,614,000, DIVIDED INTO TWO ANNUAL INSTALLMENTS:

FY 1974	\$8,622,000
FY 1975	\$6,992,000

15. THE PHILIPPINE GOVERNMENT REQUESTS THAT THE LOAN BE REPAID OVER A PERIOD OF 10 YEARS, PAYABLE IN EIGHT EQUAL ANNUAL INSTALLMENTS
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FOLLOWING A TWO YEAR GRACE PERIOD. THE REQUESTED GRACE AND REPAYMENT PERIODS APPEAR FULLY JUSTIFIED IN LIGHT OF THE OVERALL PHILIPPINE FOREIGN EXCHANGE SITUATION AND THE COUNTRY'S PLANNED ASSUMPTION OF ALL LOCAL COSTS OF THE PROJECT AS WELL AS ONE-THIRD OF THE FOREIGN EXCHANGE COSTS.

16. ADDITIONAL FOREIGN AND DOMESTIC FINANCING WILL BE REQUIRED FOR THE PROJECT:

FOREIGN	\$6,616,000
DOMESTIC(PESO EQUIVALENT)	\$7,160,000

17. THE ADDITIONAL FOREIGN FINANCING WILL BE ACCOMPLISHED BY AN IRREVOCABLE LETTER OF CREDIT CONFIRMED BY A U.S. BANK OR A SIMILAR GUARANTEE/ASSURANCE ACCEPTABLE TO COLT. IN ORDER TO HELP MEET THE LOCAL PESO REQUIREMENTS, THE GOP WILL ASSIST ELITOOLO TO OBTAIN A PESO LOAN EQUIVALENT TO APPROXIMATELY \$6,380,000. THE BALANCE OF THE DOMESTIC FINANCING REQUIREMENT WILL COME FROM ELITOOLO RECEIPTS AND INTERNAL RESOURCES.

18. II. PROJECT EVALUATION

A. AFP RIFLE REQUIREMENTS

THE ARMED FORCES OF THE PHILIPPINES PROJECTS TOTAL RIFLE REQUIREMENTS BETWEEN NOW AND 1977 AT 221,760, INCLUDING 36,642 WEAPONS ON HAND AND DUE IN AS OF JULY 1973. THESE REQUIREMENTS ARE BASED ON THREE

FACTORS: (1) A GRADUAL EXPANSION OF THE ARMED FORCES; (2) A STOCKPILE TO EQUIP THE MOBILIZABLE RESERVES (CITIZEN ARMY CONCEPT); AND (3) A 2 PERCENT ANNUAL LOSS FACTOR.

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19. THE FOLLOWING TABLE ILLUSTRATES AFP RIFLE REQUIREMENTS IN 1977.
IT WILL BE NOTED THAT ONLY A CERTAIN PERCENTAGE OF THE ARMED FORCES
WILL BE EQUIPPED WITH M-16'S.

UNITS AND PERCENT ARMED WITH M-16	1977 STRENGTH (ESTIMATED)	RIFLES REQUIRED
ARMY (65)	42,000	27,300
CONSTABULARY (65)	36,000	23,500
AIR FORCE (46)	12,000	5,500
NAVY (31)	16,000	4,960
GHQ, AFP, WSSU (50)	7,000	3,500
MOBILIZABLE RESERVES AND STOCKPILE		100,000
LOCAL POLICE		48,000
TOTAL	212,760	
ATTRITION	9,000	
GRAND TOTAL		221,760

20. WHILE THE PROPOSED WEAPONS COUNT APPEARS SOMEWHAT GENEROUS IN
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LIGHT OF PRESENTLY MOBILIZED FORCES, PROJECTED FORCE LEVELS AND HAND
WEAPONS REQUIREMENTS APPEAR TO BE CONSISTENT WITH THE INTERNAL
SECURITY REQUIREMENTS OF A COUNTRY WITH A POPULATION ESTIMATED TODAY

AT 40 MILLION AND APPROACHING 46 MILLION IN 1977. IN 1977, THE RATIO OF ACTIVE DUTY PERSONNEL TO TOTAL POPULATION IS EXPECTED TO BE UNDER 1 TO 400. THE RATION IS SIGNIFICANTLY LOWER THAN IN ANY OTHER MAJOR COUNTRY IN THE REGION AND IT SHOULD BE KEPT IN MIND THAT THESE FIGURES

INCLUDE THE POLICE CONSTABULARY. SIGNIFICANTLY, THE RIFLE MANUFACTURING PROJECT WILL RESULT IN A PHILIPPINE MILITARY HAND WEAPONS TO POPULATION.

RATION OF LESS THAN ONE-THIRD THAT OF SUCH COUNTRIES AS KOREA AND SINGAPORE, WHICH HAVE RECENTLY ESTABLISHED SIMILAR PROJECTS WITH COLT.

21. PHILIPPINE MILITARY EXPEDITURES CURRENTLY STAND AT APPROXIMATELY 2.2 PERCENT OF THE GNP AND ARE NOT EXPECTED TO EXCEED 2.5 PERCENT OF GNP WITHIN THE NEXT YEARS. THE PROJECT COST IS EXPECTED TO ABSORB LESS THAN 3 PERCENT OF THE DEFENSE BUDGET OVER THE PROJECT PERIOD.

22. B. SELF-RELIANCE DEFENSE PROGRAM

THE NEED FOR SELF-SUFFICIENCY WAS RECOGNIZED BY THE GOP WHEN THE SELF-RELIANCE DEFENSE PLAN (SDRP) WAS INITIALLY PRESENTED TO SENIOR OFFICERS OF THE MISSION ON DECEMBER 13, 1971. THE ULTIMATE GOAL OF THE

SDRP IS TO GRADUALLY ESTABLISH A SELF-RELIANT DEFENSE POSTURE THROUGH THE DEVELOPMENT AND ACQUISITION OF MILITARY REQUIREMENTS FROM PRIMARILY INDIGENOUS MATERIALS AND INDUSTRY. RIFLE MANUFACTURE WAS ONE OF THE PROJECTS MENTIONED IN THE SDRP.

23. THE COLT RIFLE PLAND WILL BE A SIGNIFICANT STEP TOWARD PHILIPPINE SELF-RELIANCE IN BASIC MILITARY EQUIPMENT PRODUCTION AND WILL PERMIT THE GOP TO ASSUME GREATER RESPONSIBILITY FOR ITS OWN DEFENSE AND INTERNAL SECURITY NEEDS.

24. BY ACQUIRING THE CAPABILITY TO PRODUCE RIFLES, THE GOP WILL NOT BE DEPENDENT ON GRANT AID FOR ITEMS OF THIS TYPE. IN FACT, DURING THE LAST HALF OF FY-73, THERE WERE 22,887 RIFLES DELETED FROM THE MAP; SINCE IN-COUNTRY PRODUCTION OF THE WEAPON WAS PLANNED BY GHE GOP. IF THE EXPERIENCE WITH THE RIFLE PROJECT IS SATISFACTORY, THE GOVERNMENT

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CAN BE EXPECTED TO MOVE TO IN-COUNTRY PRODUCTION OF OTHER MILITARY ITEMS SUCH AS TACTICAL RADIOS.

25. THE GOP UNQUESTIONABLY WILL JUDGE THE SINCERITY OF U.S. SUPPORT FOR SELF-RELIANCE EFFORTS BY U.S. REACTION TO THIS PROJECT. PHILIPPINE OFFICIALS LOOK UPON THE RIFLE PLANT AS A RESPONSE TO THE NIXON DOCTRINE, PARTICULARLY THE POINT WHICH INDICATES THAT THE U.S. WILL PROVIDE "THAT MIX OF MILITARY AND SUPPORTING ECONOMIC ASSISTANCE WHICH IS NEEDED TO PERMIT FRIENDLY FOREIGN COUNTRIES TO ASSUME ADDITIONAL DEFENSE BURDENS THEMSELVES WITHOUT CAUSING

THEM UNDUE POLITICAL OR ECONOMIC COSTS..." THE PROPOSED PLANT IS THE FIRST MAJOR PHILIPPINE EFFORT IN THE SELF-RELIANCE FIELD AND OFFERS MUCH BETTER OPPORTUNITIES FOR IMPLEMENTING SELF-RELIANCE OBJECTIVES THAN ARE AVAILABLE IN RESPECT TO MANY OTHER DEFENSE MATERIEL AND EQUIPMENT PROJECTS OF POTENTIAL INTEREST TO THE PHILIPPINES.

26. OUR APPROVAL OF THE PRINCIPLE OF SOME DEGREE OF SELF-RELIANCE WAS IMPLIED BY OUR AGREEMENTS EARLIER THIS YEAR TO UNDERTAKE WITH THE PHILIPPINES A DEFENSE INDUSTRY SURVEY DESIGNED TO HELP IDENTIFY THE POTENTIAL FOR LOCAL PRODUCTION OF MILITARY GOODS. ALL MISSION PROPOSALS IN THIS FIELD CONTEMPLATED USE OF A PORTION OF EXISTING OR PLANNED COMMERCIAL CAPACITY.

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C. ECONOMIC ANALYSIS

27. THE PRODUCTION SCHEDULE PROPOSED CALLS FOR THE EARLY BUILDUP OF DOMESTIC CAPABILITIES. UNDER THE PROJECT SCHEDULE FINISHED PARTS FOR THE RIFLE WILL BE 100 PERCENT LOCALLY MANUFACTURED 36 MONTHS FROM

INITIATION OF THE PROJECT. WE WOULD EXPECT THE GOAL TO BE MET FOR MAIN PARTS AND COMPONENTS, BUT NOT NECESSARILY FOR SPECIALTY ITEMS SUCH AS SPRINGS. THIS MEANS, HOWEVER, THAT THE GREAT BULK OF 107,500 RIFLES OR 62 PERCENT WILL BE PRODUCED ENTIRELY USING LOCALLY FINISHED PARTS. MOREOVER, AN ADDITIONAL 45,000 RIFLES WILL INCORPORATE 20-80 PERCENT LOCAL CONTENT. AS LOCAL UNIT LABOR COSTS ARE ESTIMATED TO BE ABOUT ONE-FOURTH OF U.S. LABOR COSTS, THE EXTENSIVE USE OF LOCAL LABOR WILL ENABLE SAVINGS ON TOTAL PROJECT COSTS AS WELL AS ON THE FOREIGN EXCHANGE COSTS.

28. THE FOREIGN EXCHANGE SAVINGS TO THE PHILIPPINES
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FROM THE PROJECT IS LARGELY THE RESULT OF EXTENSIVE RELIANCE ON LOCAL FIRMS FOR MANUFACTURE OF FINISHED PARTS. IN ALL, THE LOCAL PORTION OF THE PROJECT WILL ACCOUNT FOR ABOUT 21 PERCENT OF ITS COST. THIS BREAK-DOWN RESULTS IN UP TO 35 PERCENT LOWER FOREIGN EXCHANGE COSTS TO THE PHILIPPINES THAN WOULD ALTERNATIVE PROCUREMENT METHODS.

COMPARATIVE UNIT COSTS \$

	FOREIGN	DOMESTIC	TOTAL
IMPORTED ASSEMBLED FMS	\$186	\$ 0	\$186
IMPORTED ASSEMBLED			
COMMERCIAL	169	0	169
LOCALLY ASSEMBLED	131	15	146
LOCALLY MANUFACTURED	117	40	157

\$ (AVERAGE PRICE FOR DELIVERY OF 172,500 RIFLES IN ACCORDANCE WITH PROJECT SCHFBULE ASSUMING FOUR PERCENT ANNUAL INCREASE IN UNFIXED PRICES.)

29. THE PROSPECTIVE FOREIGN EXCHANGE SAVINGS FROM THE PROJECT IS ENHANCED BY ITS FIXED PRICE FEATURES. THE CONTRACT BETWEEN COLT AND THE GOP INCLUDES A BUILT-IN INFLATION FACTOR WHICH WILL FIX PRICES ON A YEARLY BASIS FOR IMPORTED COMPONENTS FOR THE FIRST FOUR YEARS OF THE PROJECT, OR UNTIL 100 PERCENT LOCAL MANUFACTURE IS ACHIEVED. NO SUCH GUARANTEE CAN BE MADE FOR THE IMPORTATION OF FULLY ASSEMBLED RIFLES DURING A COMPARABLE PERIOD. THE FIXED PRICE ASPECT OF THE PROJECT EFFECTIVELY OFFERS THE PHILIPPINES A SIGNIFICANT DISCOUNT ON RIFLES TO BE MANUFACTURED DURING THE LATER YEARS OF THE PROJECT. THE TOTAL FOREIGN EXCHANGE SAVINGS OF THE PROJECT OVER THE NEXT LOWEST COST ALTERNATIVE WOULD AVERAGE \$14 PER RIFLE.

30. THE FOREIGN EXCHANGE SAVINGS POSSIBLE FROM THE PROJECT ARE PARTICULARLY IMPORTANT TO THE PHILIPPINES.

SINCE 1970 THE PHILIPPINES HAS BEEN COMPELLED BY INADEQUATE FOREIGN EXCHANGE RESOURCES TO FOLLOW AN INTERNATIONAL MONETARY FUND ADMINISTERED STABILIZATION PROGRAM AND TO SEEK LARGE FLOWS OF ECONOMIC ASSISTANCE FROM MEMBERS OF THE PHILIPPINE CONSULTATIVE GROUP. CONSIDERABLE PROGRESS TOWARD EXTERNAL FINANCIAL CONFIDENTIAL

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STABILITY HAS BEEN MADE UNDER THIS PROGRAM ALTHOUGH NOT WITHOUT THE USUAL COST OF AUSTERITY TO THE PHILIPPINE DEVELOPMENT OBJECTIVES. THE STRUCTURE OF EXTERNAL DEBT HAS BEEN IMPROVED AND ITS GROWTH RATE SLOWED. RECENT HIGH EXPORT PRICES HAVE BROUGHT FOREIGN EXCHANGE RESERVES UP TO A RESPECTABLE WORKING LEVEL FOR THE FIRST TIME SINCE THE MIDDLE SIXTIES. NEVERTHELESS, AS INDICATED IN THE 1973 PHILIPPINE REPORT OF THE WORLD BANK, THE ANNUAL LEVEL OF DEBT SERVICE IN THE PHILIPPINES IS EXPECTED TO RISE FROM \$330 MILLION IN 1972 TO \$520 MILLION IN 1977. BETWEEN THOSE YEARS THE DEBT SERVICE RATIO WILL GO FROM 23 TO 25 PERCENT, REACHING A PEAK OF 27 PERCENT IN 1973. FROM 1973-1977 THE PHILIPPINES IS EXPECTED TO SUFFER A NET OUTFLOW OF MEDIUM AND LONG-TERM LOAN CAPITAL AMOUNTING TO ABOUT \$250 MILLION. THE PHILIPPINES, THEREFORE, MUST FIND FINANCING FOR THE FOREIGN EXCHANGE REQUIREMENTS OF A PROJECT WHICH IS CONSISTENT WITH ANTICIPATED FOREIGN EXCHANGE AVAILABILITIES.

D. TRANSFER OF TECHNOLOGY AND IMPROVEMENT OF LABOR SKILLS

30. CONVERSATIONS WITH INDUSTRY AND GOVERNMENT OFFICIALS INDICATE THAT THE RIFLE PLANT PROJECT WILL INTRODUCE NEW TECHNOLOGY TO THE PHILIPPINES AND UPGRADE EXISTING TECHNOLOGICAL SKILLS AS WELL. OBSERVERS AGREE THAT AT THE PRESENT TIME THE PHILIPPINES COULD NOT MANUFACTURE IN VOLUME THE M-16 OR ANY OTHER UNIT OF COMPARABLE COMPLEXITY.

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32. AN ESTIMATED 50 PERCENT OF THE FACTORY FORCE OF 450 PERSONS WILL BE CLASSIFIED AS HIGHLY SKILLED WORKERS. SOME OF THESE WILL COME FROM THE EXISTING ELITOOOL LABOR FORCE, BUT ABOUT 200 WORKERS WILL HAVE TO BE TRAINED AND UPGRADED TO THE HIGHLY SKILLED CATEGORY. ADDITIONAL WORKERS UNDOUBTEDLY WILL BE TRAINED OVER THE LIFE OF THE PROJECT DUE TO NORMAL JOB MOVEMENT AMONG WORKERS IN THE INITIAL LABOR FORCE. FIFTEEN FILIPINO ENGINEERS WILL RECEIVE EXTENSIVE TRAINING IN THE U.S.

33. THE TERMS OF THE CONTRACT BETWEEN ELITOOOL AND THE GOVERNMENT PERMIT THE UTILIZATION OF THE RIFLE FACTORY EQUIPMENT AND LABOR FORCE IN THE PRODUCTION OF OTHER

ITEMS AS LONG AS THIS DOES NOT INTERFERE WITH THE RIFLE PRODUCTION ITSELF. IN ALL PROBABILITY, ELITOOOL WILL BE ABLE TO USE THE EQUIPMENT AND THE TRAINED LABOR

FORCE TO PERFORM CONTRACT PRECISION MACHINE, CHROME-
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PLATING AND OTHER WORK AS WELL AS TO SUPPLEMENT ITS OWN PRODUCTION REQUIREMENTS. ELITOOOL OFFICIALS STATE THEY EXPECT TO GET SUBSTANTIAL AMOUNTS OF SUCH WORK FROM FIRMS INVOLVED IN THE PHILIPPINE PROGRESSIVE CAR MANUFACTURING PROGRAM AND ANTICIPATION OF SUCH INTER-ACTIONS IS ONE OF THE MAJOR REASONS FOR BOI CHAIRMAN PATERNO'S SSFPORT OF THE PROJECT.

34. COMMENTS: IN OUR APPRAISAL OF THIS PROJECT WE HAVE WEIGHED FULLY THE ECONOMIC, POLITICAL, PSYCHOLOGICAL, COMMERCIAL AND DEFENSE FACTORS. IN ECONOMIC TERMS, THE PROJECT WITHSTANDS CLOSE SCRUTINY. ECONOMICS OF LOCAL OUTPUT IMPROVE WITH

CUTBACKS IN COLT'S U.S. PRODUCTION AND RESULTANT COST INCREASES. IN POLITICAL AND DEFENSE TERMS, THIS PROJECT IS WELL WITHIN THE RANGE OF LEGITIMATE PHILIPPINE SELF-RELIANCE EFFORTS BOTH COUNTRIES CAN SUPPORT. ESPECIALLY IN THIS LIGHT, THE PSYCHOLOGICAL IMPACT OF U.S. REFUSAL TO SUPPORT THE PROJECT WOULD REDOUND ADVERSELY TO THE BODY OF MILITARY AND DEFENSIVE RELATIONS INCLUDING THE BASES. IN COMMERCIAL TERMS, WE WILL BENEFIT MOST CLEARLY BY ASSISTING THE PROJECT, SINCE GOP APPEARS DETERMINED TO ACHIEVE THE ABILITY TO PRODUCE HAND WEAPONS IF NEED BE WITH THE HELP OF THIRD COUNTRIES.

35. ACTION REQUESTED: WE ARE AWARE THAT UNDER THE CRA, NO NEW FMS CREDITS ARE YET AVAILABLE. WE URGE THAT AS FUNDS DO BECOME AVAILABLE FOR FMS A HIGH PRIORITY BE ASSIGNED TO FUNDING THIS PROJECT IN FYS 74 AND 75. WE ALSO URGE A PROMPT AND AFFIRMATIVE RESPONSE TO THE GOP REQUEST FOR FMS CREDIT ASSISTANCE.
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Executive Order: GS SULLIVAN
Errors: N/A
Film Number: n/a
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730928/aaaaaubi.tel
Line Count: 626
Locator: TEXT ON-LINE
Office: ACTION PM
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 12
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 04 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04-Dec-2001 by kelleyw0>; APPROVED <01 MAR 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PHILIPPINE RIFLE MANUFACTURING PROJECT
TAGS: MASS, BEXP, RP
To: STATE CINCPAC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005