

# Government Support of Defense Sales: Can More Be Done?

By

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[The following article was first published in the April 1985 issue of *Defense and Foreign Affairs*, and is reprinted herein with the permission of the publisher. The views expressed by the author are his own. This particular issue of *Defense and Foreign Affairs* is devoted to U.S. arms transfers and provides considerable data of use to our readers, including a catalog of U.S. defense exporters, with accompanying company profiles.]

The potential impact of the Gramm-Rudman-Hollings Deficit Reduction Act has sounded a sombre warning note across the United States. Not the least likely to be affected would be the nation's defense industry. Swinging cuts in defense budgets could have the long-term effect of reducing industry's capability to respond fully to the future needs of the Armed Forces. Technology growth could suffer and the country's defense industrial capacity could be seriously eroded.

Industry is responding to this challenge by taking a harder look beyond the United States towards foreign markets, in order to sustain a viable and competitive business base. During the last few decades, the U.S. defense industry enjoyed supremacy abroad in the areas of technology, capacity to produce, and, to a large extent, the ability to remain competitive. Its position was enhanced by support from successive Administrations of the U.S. Government, in the shape of security assistance programs, and Foreign Military Sales (FMS) credits and grants.

More recently, the policies of the Carter Administration caused a sharp deterioration of this position. The infamous "leprosy letter" had a damaging effect. [The reference here is to Department of State message 207984, August 1977, which was aimed at reducing U.S. arms sales; the message guidelines severely restricted the contacts which U.S. diplomatic mission personnel abroad could have with representatives of U.S. defense firms and similarly limited the services which could be provided to such representatives by mission personnel.] Moreover, despite its altruistic intentions, it served only to create a temporary vacuum, which was soon filled by the industries of other major Western powers. In rescinding the letter, the Reagan Administration slowed this process but much harm had already been done. [On 3 April 1981, the Department of State announced both the rescission of the former guidance, and the promulgation of new guidelines which are far more liberal. For the text of these guidelines, see *The DISAM Newsletter*, Summer, 1981, pp. 18-19.] The U.S. defense industry lost a substantial share of the world market on this account alone. More important, foreign competitors quickly established and consolidated firm footholds, particularly among the developing countries. It will be increasingly difficult to dislodge them.

In addition to promoting their military hardware, foreign firms have, with the active support of their respective Governments, provided financial assistance, offsets, technology transfer, and training. They have also recognized the increasing desire of emerging nations to create and expand their own defense manufacturing capabilities. More often than not with their Governments' participation they have played a key role in setting up assembly and production facilities to facilitate licensed production and support of their defense equipment.

## THE U.K. CASE

In Western industrial countries, such as France, the United Kingdom, Israel, and Brazil, the driving policy behind this active Governmental support is almost wholly fiscal in nature. Exports of defense related products and services are recognized as being among the principal potential national revenue earners. Although there is undoubtedly consideration towards political factors, foreign policy, etc., the real objective behind this support is clearly to achieve export sales. No attempt is made to disguise the fact. In the United Kingdom for example, an extensive Defense Sales Organisation (DSO) operates directly within the Ministry of Defence. The stated purpose of the DSO is "to help British firms market and *sell* their defense products and services overseas."

The DSO achieves its objectives by providing assistance to British industry in many ways:

- Advising firms on defense market prospects on a worldwide, regional, or country basis.
- Providing military assistance in support of sales.
- Acting as a focal point within Whitehall for all defense sales matters, including security clearances.
- Organizing exhibitions, inward missions, and demonstrations.
- Ensuring that overseas sales considerations are given due weight in the UK Ministry of Defence's own procurement process.

The last item is particularly interesting. In effect, the Operational Requirements Branches of the three services are directed to consider potential export sales when formulating their own specific needs. This is not to say that their requirements are actually tailored to those of overseas customers, but at least the needs of the latter in terms of technology, performance, and timescale must be given account in the overall appreciation.

Regular meetings are held between DSO and UK defense manufacturers to make strategy and to optimize potential overseas defense marketing and sales. In the months preceding the biannual Farnborough airshows, highly organized plans are laid to ensure maximum contact for British companies with the large numbers of senior foreign delegations who generally come as official guests of Her Majesty's Government. The British Army and the Royal Navy stage annual equipment exhibitions and demonstrations, similarly sponsored by the DSO.

## THE FRENCH CASE

The French Government, too, looks after its own. The *Office General de l'Air* (OGA), "provides throughout the world in more than 40 countries a comprehensive commercial presence on behalf of the French aeronautical industry." A parallel organization, *Office Francais d'Exportation de Materiel Aeronautique* (OFEMA), "presents and *sells* abroad both the civilian and military products of the French Aerospace, Weapons, and Allied Industries." Both operate under the sponsorship and direction of the French Government. Both are wholly concerned with international marketing and sales of French defense, aerospace, and allied products and services. The division of responsibility between the two is generally on a regional basis.

In talking with a foreign business associate recently, I asked him whether a French competitor of our company was represented in his country. He said that the particular company in question

had no representative in country, but that "the Defense *Sales* Mission in the French Embassy provided the necessary local assistance."

In addition to providing aggressive marketing assistance, in terms of intelligence, briefings, and key introductions, the French Government (like its UK counterpart) frequently arranges the necessary finance to consummate the actual sale. Long-term loans, at extremely attractive interest rates (sometimes as low as 3%), are often instrumental in clinching the deal.

## THE U.S. CASE

The U.S. Government is, of course, by no means delinquent in the business of arms transfers and military assistance. Billions of taxpayers' dollars are distributed annually, on a worldwide basis under the umbrella of "Security Assistance." Several large agencies are employed to dispense these funds and to manage international security assistance programs, in accord with U.S. Congressional and Presidential policies. U.S. Security Assistance has been described as "a key link between foreign policy and defense policy," but its objectives differ fundamentally from those of other Western industrial nations.

U.S. security assistance policy has evolved over the several decades since World War II. Although it has been influenced and modified by the doctrines of successive Presidential Administrations, it has remained an instrument of foreign policy, almost wholly concerned with the establishment and maintenance of our security interests abroad. It developed against a background of years of national prosperity, trade surplus, and overwhelming superiority in technology and resources. To a great extent it has been successful.

But times change. The United States is now suffering the worst trade deficits in its history. Its previous supremacy on the world marketplace has been seriously challenged. Exports are becoming an increasingly vital factor to preserve growth and well-being in the nation's economy. Yet defense-related exports from the USA have decreased significantly in recent years, in contrast to those of other Western industrial nations.

In the light of this, some constructive debate on the aims and objectives of U.S. security assistance policies might be timely.

Let it first be stated that the basic objective should not be changed. Security of U.S. interests abroad remains paramount. Yet, the preservation of this security need not necessarily be to the exclusion of other vital considerations.

President Reagan acknowledged this in the early days of his Administration. He said that one objective of U.S. arms transfer policies would be to . . . "improve the American economy by assuring a more stable defense production base and enhance the balance of payments." However, a cautionary note was added: "This objective should not be construed that the approval of the transfer of arms will be based solely on economic considerations and gain."

This proviso leaves room for much interpretation. It would appear that the agencies concerned with implementing security assistance and arms transfer policies generally take a rather conservative position. What is at issue here, from the standpoint of U.S. defense industry, is not so much the actual *approval* of arms transfers, but rather what steps the individual agencies might take to *assist* in the transfer process, assuming that this approval has been given or will be forthcoming.

Some time ago a U.S. defense company representative visited the Deputy Chief of a foreign air force to submit a proposal to supply a major defense item. In the covering letter to the proposal were a number of obligatory conditions imposed by the U.S. Government which required a signed

acceptance by the air force official before negotiations could go further. The U.S. executive was alone, the local U.S. Embassy military mission having declined to be represented at the meeting, feeling that it might be inappropriate. The Deputy Chief stated that he could not accept the limitations at that early stage of the discussions. More significantly, he informed his U.S. visitor that a French company representative had been in his office on the previous day, accompanied by the French Ambassador, the senior French military attache, and a Government official who had flown from Paris specifically to attend the meeting in support of the French company executive. The letter covering the French proposal simply stated that the program would have the full support of the French Government.

This story highlights the difficulties so often experienced by U.S. defense companies when competing abroad with their foreign counterparts. Doubtless, many other similar situations could be related.

On the whole, U.S. military missions abroad perform very conscientiously within their stated charter. In most cases they will brief and advise visiting U.S. business representatives on the local scenario--political, defense, economic, etc. However, in the writer's experience they are generally careful to point out that they are unable to do much more than this. Unlike some of their foreign counterparts, they are not permitted to enter the marketing and sales arena on behalf of U.S. industry. In contrast, French and British Governments act as vanguards to their respective industries. In fact, foreign companies have often sat "at the back of the auditorium" while their senior Government officials have delivered polished presentations on defense systems and equipment to prospective military customers.

Foreign companies would argue that their U.S. competitors enjoy enormous advantages through the auspices of FMS credits and grants. Closer examination of the actual facts does not support this argument. Forgiven loans are exclusively confined to two countries, namely Israel and Egypt. FMS credits are simply loans which are repayable, in the main, at standard interest rates. Loans at concessional rates amount to only a small percentage of the total. Against this, the Governments of Western industrial powers provide substantial financial support in the form of long-term loans at very favorable interest rates.

Some measures are currently being proposed by the Reagan Administration to alleviate this situation. In its FY 1987 budget request, \$300 million is being sought to provide an "export financing warchest to counteract predatory financing by other Governments to subsidize their exports." This is a step in the right direction. However, it is unlikely to do more than simply offset the potentially damaging effects of Gramm-Rudman on the overall U.S. security assistance program. [Editor's Note: The "export financing warchest" to which the author refers is known variously as the "Tied Aid Credit Program" or the "Fair Export Financing Program." This proposed program, if enacted, will be managed by the Secretary of the Treasury and used to provide grants tied to loans. It is designed to offset the total costs to foreign purchasers of commercial U.S. exports, thereby making them competitive with foreign products which are similarly subsidized.]

A complaint often voiced by U.S. defense contractors relates to the complex rules and procedures controlling the international marketing, sales, and exports of defense equipment and services. The need for strict controls is fully understood and accepted. There are, however, grounds for serious criticism over the inordinate delays built into the bureaucratic processes. Often these give cause for considerable irritations by the end-customer. Occasionally they result in lost sales opportunities for U.S. companies. The Office of Munitions Control (OMC) and other concerned departments strive to make timely responses, but they are literally swamped by requests and are constrained by the inflexible regulations governing their processing. Attempts are being made to streamline these processes but much more needs to be done. For example, if a U.S. contractor is required to respond to an approved customer's request within a specified period,

related supporting actions by U.S. Government agencies should be geared wherever possible to that timescale.

What further measures can be taken to assist the U.S. defense contractor in the international arena? Some areas for consideration might include:

- A shift of emphasis in the Administration's policy toward security assistance--to weigh more heavily the positive effect of international arms sales on the nation's balance of payments and on the U.S. defense industrial base.
- Wider terms of reference could be given to the Agencies and their overseas military missions, to permit them to work in closer concert with industry representatives on approved programs in their respective countries and regions.
- Closer cooperation between the three services, the various Agencies, and industry in the provision of demonstrations, briefings, and interface with prospective foreign customers.
- Further streamlining of the existing licensing and clearance procedures for the export of technical data, equipment, and services.

This is not to suggest wholesale and injudicious relaxation in the conduct of U.S. international arms transfers, to the possible detriment of national security interests. The present system works reasonably well. With some modest revision it could be more responsive to the changing situation on the international marketplace. This would be in the best interests of the three principal participants--the U.S. Government, industry, and the foreign customer.