THE DISAM JOURNAL OF INTERNATIONAL SECURITY ASSISTANCE MANAGEMENT

I can definitely say that this Journal has something for everyone who deals with security assistance and security cooperation issues. Our feature article, a collaboration of a number of authors within Defense Security Cooperation Agency and several military departments, deals with the use of Performance-Based Management (PBM) within the security assistance community. This is a hot issue within government in general, trying to marry up strategy, goals, objectives, programming, and budgeting processes. In essence, we are trying to achieve the best "value for the dollar." In the international arena, we are linking these processes to the funding coming from foreign military sales and foreign military financing administration sources. Note that this is still a growing process. We are certainly not there yet, but we are hopeful this article gives you a perspective of what it is about, and where we are headed. Hopefully, it also provides you with a feel on where you fit in! The Defense Institute of Security Assistance Management (DISAM), along with the players involved in this article, are developing curricula to help address these types of issues in our courses. The plan is to integrate the course manual after the first of calendar year 2005. This article is a good kick-off to the effort to better inform you of the process and what it means to your organization and you personally.

Legislation and policy issues within this Journal tend to key in on the Western Hemisphere, but I would particularly call your attention to the other articles dealing with U.S –India relations, by Mr. Robert O. Blake Jr. An additional article by Mr. Richard F. Grimmett provides a great rundown of, not only U.S. transfers, but also those of other nations who provide arms to developing nations.

I will not spend a lot of time here running down our table of contents, however, one notable article is by DISAM's own Lieutenant Chris Krolikowski and Mr. Ed Smith. Their article recaps the Defense Security Cooperation Agency's annual Security Cooperation Conference held in mid October 2004. The Defense Security Cooperation Agency's website has additional photos and several of the presentations are available in more detail.

I would also be remiss if I did not thank you for your continuing support of DISAM. It is your attendance, feedback, and reliance upon our various programs that make our jobs not only worthwhile, but moreover fulfilling. We have completed a very successful year, doubling students compared to two or three years ago. DISAM had 4200 students who attended resident, non-resident, team-presented programs, and web-based learning. DISAM traveled to the Army War College, the Air Force Air Command and Staff College, and the Coast Guard's International Maritime Officer Courses to instruct an additional 800 students.

As we end another year, allow me pass on my best wishes to you during the holiday season and New Year!

RONALD H. REYNOLDS
Commandant

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FEATURE ARTICLE

The Evolving Stages of Performance-Based Management in the Security Cooperation Community

By

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Defense Security Cooperation Agency

Introduction

Over the past four years, the *Defense Institute of Security Assistance Management Journal* has published several articles on various segments of performance-based management (PBM) within the security cooperation community. This article looks at the current status of these financial management initiatives, and how we are integrating planning, programming, budgeting, and costing in a comprehensive fashion. The article examines in some detail the performance-based costing (PBC) initiative within the Army, Navy, Air Force, and Defense Security Cooperation Agency (DSCA). It also provides a contractor's perspective of the implementation and sustainment of PBC.

These efforts began as a confluence of issues located in the *Government Performance and Results Act of 1993* (GPRA), a critical General Accounting Office (GAO) finding in a 1999 report, and the *President's Management Agenda of 2001* (PMA). Prominent among these issues was the integration of planning, programming, and budgeting to performance, ensuring a more effective use of resources. Specifically, in some form, they called for standardized integration at a sufficient level to provide timely program-level feedback for management.

In the key areas of defense security cooperation, foreign military sales (FMS), foreign military financing (FMF), and international military education and training (IMET), DSCA embarked on initiatives to moving these programs significantly towards the goals cited in the PMA, GPRA, and as a response to GAO findings. These efforts are geared to encourage a results-oriented culture of performance throughout the security cooperation community that clearly links resources to programs with measurable results.

Performance-based budgeting (PBB), performance-based cost and programming (PBC&P) are giving security cooperation organizations the tools needed to understand where FMS and FMF administrative budget dollars are currently spent, an opportunity to strategically decide where they should be spent, and the ability to track program execution against desired results. Together, these initiatives are beginning to significantly improve FMS financial management.

Overview of Performance-Based Budgeting

Performance-based budgeting provides security cooperation organizations with a process to link budgets to corporate strategy, planning, performance measures, and program execution. The PBB enables DSCA to better explain and justify the cost of administering the FMS and FMF programs, whether requesting general inflationary increases or major new program funding, to the Office of Management and Budget (OMB) and the Congress.

One of the more significant PBB process changes was to realign FMS requirements from solely an object classification breakout i.e., payroll, travel, contracts to one that captures requirements by core function, program element, and object classification. This additional information is key to allow security cooperation organizations the ability to assess program accomplishments as the additional information provides a better understanding of what is being accomplished. Performance measures are a natural adjunct to the core functions and program element structure, provided they are common across the enterprise and clearly understood and defined. Measures need to help organizations assess how well they are executing against their proposed program and budget.

The PBB process is built around six FMS Core Functions, Table 1, developed collaboratively with the military departments (MILDEPs). The core functions parallel the FMS business life cycle. The six core functions are progressively broken into twenty-three program elements, which in turn are further broken down into discrete activities in the PBC models.

Table 1 Core Functions

Core Function	Definition
Pre-Letter of Request (LOR)	Efforts expended prior to receipt of a Letter of Request (LOR), includes responding to inquiries, pre-requirements determination, developing a total package approach (TPA), if required or specifying the mix of FMS and direct commercial sales (DCS) under a hybrid approach.
Case Development	Efforts required to process customer request, gather, develop and integrate price and availability data for preparation of a Letter of Offer and Acceptance (LOA). These efforts continue from receipt of a customer's LOR through case preparation, staffing, and customer acceptance.
Case Execution	Overall coordination to initiate case implementation efforts required to conduct and execute case management, security assistance, team management, technical, logistical, and financial support, and the contractual efforts under acquisition and contracting.
Case Closure	All actions required to perform logistical reconciliation, financial reconciliation, certify line, and case closure.
Business Sustaining	Efforts required in providing employee supervision, leadership, and guidance including personnel management, workload management, and secretarial support that cannot be traced directly to one of the other five core functions or specific cost objectives. Other functions such as international training, budgeting, and training and education of security cooperation personnel are included here.
Other Security Cooperation	All efforts involved in the administration and management of special programs and projects associated with security cooperation requirements, particularly, the non-FMS security cooperation programs authorized under the *Foreign Assistance Act*, such as the FMF program, the grant Excess Defense Articles (EDA) program, and DCS.

The program elements are a time phased set of resource allocations assigned to the six core functions. Figure 1 shows the twenty-three-program element structure and their relation to the core functions.

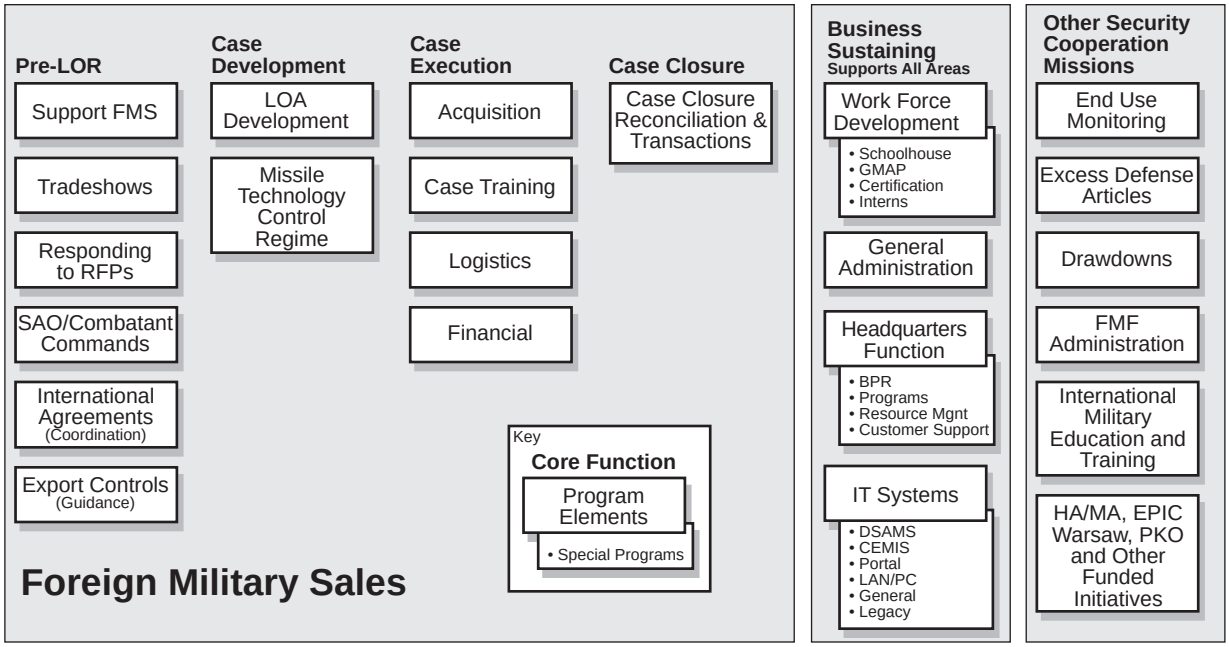


Figure 1 Program Element Structure

Overview of Performance-Based Costing

The recent proliferation of articles on activity-based costing (ABC) techniques and technology, PBC, PBB, and PBM provides evidence of the widespread use of these management tools becoming more pervasive in both the private and public sectors. Used in the context of the security cooperation community, PBC is synonymous with ABC. The fundamental nature of PBC is the relationship between the three main components of an organization's business structure: resources, activities and outputs, as depicted in Figure 2.

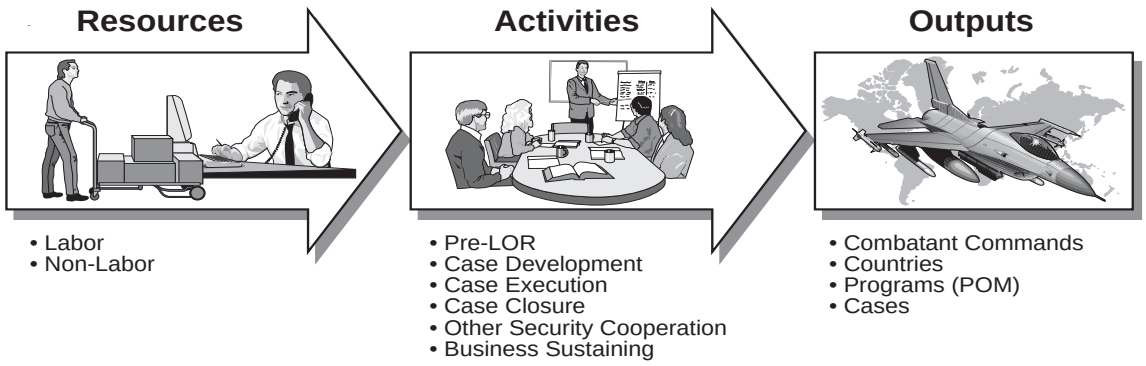


Figure 2 Overview of Performance-Based Costing

The overall objective of the PBC project is to provide an accurate and thorough cost infrastructure of the security cooperation community to support an overall performance-based management process. This is accomplished by providing costs for core functions, program elements, activities, processes, and object classification level data which are used to justify

budgets, provide management with improved cost data, and act as the foundation for future strategic needs. Additionally, PBC allows managers to better understand the macro-level aspects of the security cooperation business, such as the cost structure underlying the FMS administrative rate, the FMF administrative budget, and the appropriate level of annual FMS administrative obligations.

The need to better understand the cost of conducting security cooperation has been a major concern for some time. PBC is designed to provide decision-makers at all levels in the security cooperation community with sufficient cost and programmatic information to effectively manage their organizations. More specific objectives of the PBC project include, but are not limited to the following:

- Calculate total costs, cost by core function, cost by program element, and cost to manage country programs, as well as other cost objects and outputs;
- Compare costs for similar activities across MILDEPs, training commands and military headquarters;
- Calculate costs for each core function or program element, and then compare to FMS or FMF Administrative budget allocation, and finally to execution data;
- Highlight costs in total and by program for all non-FMS functions; and
- Provide cost data to each MILDEP for the purposes of allocating their FMS Administrative budget.

PBC provides the optimum method for gathering and understanding these costs. It assigns resource costs to activities based on the use of resources, and assigns activity costs to products based on the use of activities.

These activity costs are rolled up to twenty-three program elements, and then to the six FMS core functions, previously identified in Tables 1 and 2. Furthermore, PBC shows the costs of core business functions to better justify the FMS administrative budget inputs, and leads to a better understanding of costs in support of the security cooperation program. This overall architecture, as exhibited in Figure 3, provides for a diverse number of models at the activity level while still rolling up to a standardized corporate level. The PBC infrastructure provides a comprehensive look at each organization, the activities performed, and the associated costs. This information is widely used as the basis for program and budget submissions.

The development and implementation of PBC required a number of critical planning, technical and process-related steps. Five distinct technical tasks, occurring in two phases, were identified. The five distinct tasks were as follows:

- Design the costing infrastructure;
- Complete detailed planning;
- Create static ABC models;
- Migrate static ABC models to an active PBC infrastructure; and
- Mature the PBC infrastructure to PBM.

Phase one of the project included design, planning, and static ABC model development. Phase two migrated the static infrastructure to an active environment, and then matured the active PBC infrastructure to PBM.

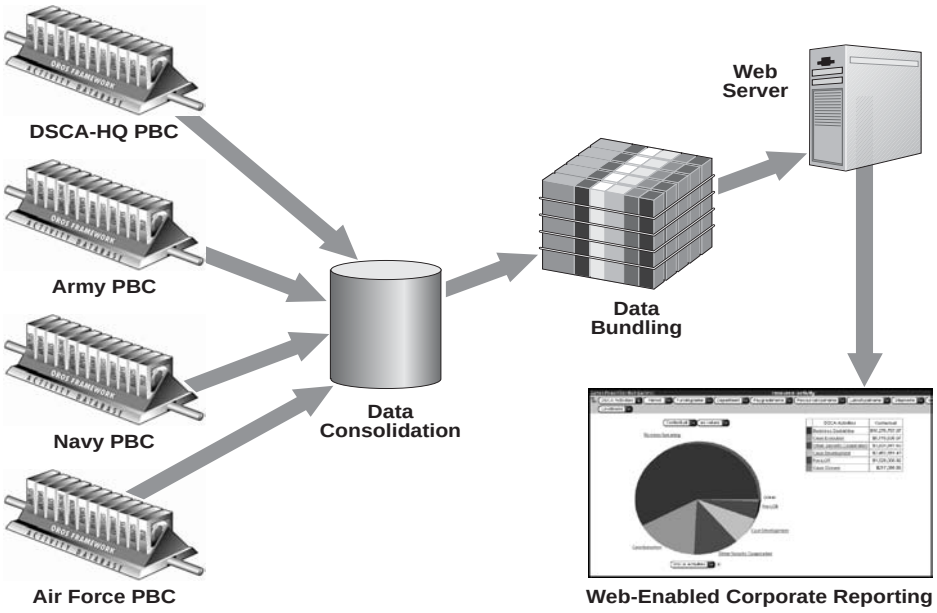


Figure 3 PBC Architecture Overview

Phase I – Design, Planning, and Development

The design and planning tasks were extremely important to the overall success of the project. It set the goals and objects up front, guiding all subsequent decision-making against those targets. In a project of this size and complexity, it was very easy to get off-track, become distracted with peripheral issues, or get bogged down in decision-making unrelated to the core of the project.

The creation of static ABC models was important because it served as the basis for the development of a static or non-automated PBC infrastructure. Since some of the MILDEPs already had models, this phase refined existing models. The objective was to develop a static infrastructure for the organizations participating in the PBC project that conformed to the structure as identified in tasks 1 and 2, met the needs of the Corporate Model, and provided benefit to the MILDEPs and DSCA.

Phase II – Migration and Management

Migrating the static ABC models to an active PBC infrastructure in Phase II included the development of automated feeds and links to update resources i.e., object classification information by interfacing between the appropriate legacy system and the PBC model, and developing methods to update the resource drivers i.e., percent of time spend on or against activities by resources. The final task of Phase II, mature PBC to PBM, entails using the PBC infrastructure to support planning, programming, budgeting, and provides assistance in active organizational decision-making. This phase is important because it sets the stage for maintenance, sustainment, and exploitation of the system.

In April 2001, DSCA began the twenty-four-month project to develop and implement a performance-based costing infrastructure in forty-six of the major organizations in Department of Defense (DoD) performing security cooperation functions. Table 2 shows the participating organizations.

While the DSCA leadership recognized the need for implementing PBB and PBC, and championed these initiatives, major elements of a performance-based environment originated in the MILDEPs. For sometime, both the Army and Navy cross-walked their traditional object class budgets to categories that better explain annual budgets at a program level. Similarly, the Air

Table 2 Performance-Based Cost Participating Organizations

DSCA		
	DSCA-HQ	Crystal City, Virginia
	DISAM	Dayton, Ohio
	DSADC	Mechanicsburg, Pennsylvania
	DLO	Denver, Colorado
	DIILS	Newport, Rhode Island
	DFAS	Denver, Colorado
Army		
	DASA (DE&C)	Arlington, Virginia
	ASA-FM&C	Arlington, Virginia
	USACE	Washington, D.C.
	USAPA	Washington, D.C.
	USAREUR	Germany
	USARPAC	Fort Shafter, Hawaii
	TRADOC	
	SATFA	Fort Monroe, Virginia
	SATMO	Fort Bragg, North Carolina
	OTSG	Washington, D.C.
	MEDCOM	Fort Sam Huston, Texas
	USAMMA	Fort Detrick, Maryland
	USASAC	Alexandria, Virginia and New Cumberland, Pennsylvania
	AMCOM	Huntsville, Alabama
	CECOM	Fort Manmouth, New Jersey
	OSC	Rock Island, Illinois
	SBCCOM	Rock Island, Illinois
	STRICOM	Orlando, Florida
	TACOM	Warren, Michigan
Navy		
	Navy IPO	Washington, D.C.
	NAVAIR	Pax River, Maryland
	NAVSEA	Crystal City, Virginia
	SPAWAR	San Diego, California
	NETSAFA	Pensacola, Florida
	USMC	Quantico, Virginia
	NAVICP	Philadelphia, Pennsylvania
	NOLSC	Mechanicsburg, Pennsylvania
	Coast Guard	Washington, D.C.
Air Force		
	SAF	
	SAF/IA	Rosslyn, Virginia
	SAF/FM	The Pentagon
	AFMC	
	AFMC HQ	Wright-Patterson Air Force Base, Dayton, Ohio
	AFSAC	Wright-Patterson Air Force Base, Dayton, Ohio
	OO-ALC	Hill Air Force Base, Ogden, Utah
	WR-ALC	Robbins Air Force Base, Georgia
	AAC	Eglin Air Force Base, Florida
	ASC	Wright-Patterson Air Force Base, Dayton, Ohio
	ESC	Hanscom Air Force Base, Massachusetts
	AFMETCAL	Newark, Ohio
	AFSPC	
	SMC	Los Angeles Air Force Base, California
	PACAF	Hickam Air Force Base, Hawaii
	HQ AETC	Randolph Air Force Base, Texas
	USAFE	Ramstein Air Force Base, Germany
	ANG	Arlington, Virginia
	ACC	Langley Air Force Base, Virginia
	AMC	Scott Air Force Base, Illinois
	AFSAT	Randolph Air Force Base, Texas

Force Materiel Command (AFMC) and Navy Inventory Control Point (NAVICP) were early pioneers in costing initiatives to improve cost information and operational data, each utilizing ABC principles and techniques.

Overview of Performance-Based Management

Program based management for the security cooperation community is a process built around three stages:

- Data and information gathering and analysis;
- Planning and programming, and
- Budgeting and execution.

Collectively, they form a coherent cycle of events throughout each fiscal year (FY). Each stage is designed to channel information in a way that links resources to program execution. The process includes many key elements of the DoD's Planning, Programming, Budgeting, and Execution System (PPBES).

Stage 1 Data and Information Gathering and Analysis

This stage includes a call for security cooperation issues, the development of sales estimates, and a review of revenue and expenditure projections. The purpose of this stage is to provide an opportunity for DSCA and the MILDEPs to discuss internal and external issues important to the community as a whole. It is also the stage in which the out-year fiscal environment is outlined. It is within this overall environment that initial program and budget estimates take form.

Stage 2 Planning and Programming

Defense Security Cooperation Agency and the security cooperation community have made tremendous advances implementing a process for the planning and programming of requirements and associated resources. The goals are drawn primarily from the *Department of Defense Security Cooperation Guidance* (SCG), associated Regional Commanders' Security Cooperation Strategies, the DSCA Planning Guidance, and the strategic plans and objectives unique to each MILDEP or Defense Agency. With the introduction of the SCG, our community will begin to focus more attention on country and regional priorities.

Programming gives us the means to change. It establishes future funding and manning levels, hence the ability to align goals and resources. It represents a balance between the fiscal realities of a constrained environment, and the need to program funding in support of valid requirements over a window of three years. Program element targets and objectives consider implementing agency (IA) requirements, studies and analysis of income and expenditures, the potential for business process improvements and efficiencies, the exploitation of information technology, any unique nature of an individual program element, and the identification of new missions.

Programming relies on a program element structure that describes our missions and systems. They were defined after laying out the guiding directives, such as the Quadrennial Defense Review and mission statements for DSCA, the MILDEPs, and Defense Agencies. As shown in Figure 1, we developed a common vocabulary to group activities that make up the traditional elements of security assistance such as FMS, FMF, and IMET. It also permits the inclusion of other responsibilities, such as Humanitarian Assistance, the Warsaw Initiative, Enhanced Peacekeeping, or any number of DoD programs for which we have responsibility.

Programming focuses primarily on FMS and FMF administrative funding. It encompasses three programming years beyond the upcoming budget year. We are learning; however, that FMS and FMF Administrative funding cannot be examined in isolation. Appropriations such as operations and maintenance (O&M) or even research and development (R&D) support important

and interrelated segments of the security cooperation business model. In short, our program element structure is intended to encompass all that we do regardless of the funding stream.

Key documents associated with programming, that identify our policy and goals are:

- Defense Security Cooperation Guidance. In support of the President's National Security Strategy and U.S. defense strategy, the Secretary of Defense's *Security Cooperation Guidance* (SCG) provides strategic direction for all DoD interactions with foreign defense establishments, and replaces broad-based theater engagement. As we discussed at the DSCA Worldwide Conference in October 2003, we need to move beyond simply understanding the SCG, but take proactive steps to have our work support it. This should affect our long and short-range priorities, especially in reorienting our thinking to focus on regional and country priorities.
- Theater Security Cooperation (TSC) Strategies. Regional Combatant Commanders prepare their own Theater Security Cooperation strategy and implementation plan in response to the Security Cooperation Guidance. These strategies also deserve our careful attention as we gain a more detailed and tailored understanding of how we offer the tools of security cooperation to support the Combatant Commanders and the Security Assistance Offices (SAOs) in the region.
- *Defense Security Cooperation Agency Planning Guidance*. The DSCA Planning Guidance, issued for the first time in December 2002, led the planning and programming for the Program Objective Memorandum (POM) 2005 and 2006 cycles for our community. It established an overarching vision and set of objectives for DSCA and the broader security cooperation community.
- Military Department and Defense Agency Strategic Plans and Objectives. Defense Security Cooperation Agency produced a Strategic Plan that establishes objectives to support the SCG and comply with the DSCA Planning Guidance. Each MILDEP and Defense Agency established similar documents to define their efforts in conjunction with service and agency unique goals and objectives.

The product resulting from a completed programming cycle becomes a foundation, or "baseline" for the following budget cycle. The product resides online in the official PPBE application, a single submission tool and archive repository. All implementing agencies and their claimants utilize the application. Once a PDM is approved and issued, subsequent budget development for the implementing agencies is much easier; and more relevant, since budget requirements are based on program decisions. The database is delta-based, meaning submissions only need to address changes to the existing baseline for out-year allocations.

A key component of planning and programming is the Program Element Monitor (PEM), who reviews all submissions for technical compliance, affordability, and consistency against stated objectives. Today, the PEM serves primarily as a subject matter expert (SME) for his or her program element. They do not produce or submit programming requests, except for those cases where the PEM is the program manager. The PEM is tasked with establishing objectives and priorities, advising claimants on their submission, reviewing submissions, and assisting in the setting of targets and the allocations of resources.

Crafting a complete program submission has been a challenge requiring careful thought and analysis. The process involves change management, global prioritization, and strategic foresight. Already programming along with PBC and metrics has led to a wealth of information about policy, process and resources, giving us the means to prioritize funding and improve performance.

Stage 3 Budgeting and Execution

This stage begins with the issuance of the FMS and FMF Administrative Budget Call, then to the allocation of resources, and finally execution and closeout. The significant change in this stage is an increased emphasis on narrative and descriptive information that supports each

submission. Initially, this stage included a set of separate performance measures. However, with the implementation of programming and the integration of PBC, performance measures are now consolidated into existing, community-wide measures. Figure 4 provides a graphical depiction of the PBM cycle.

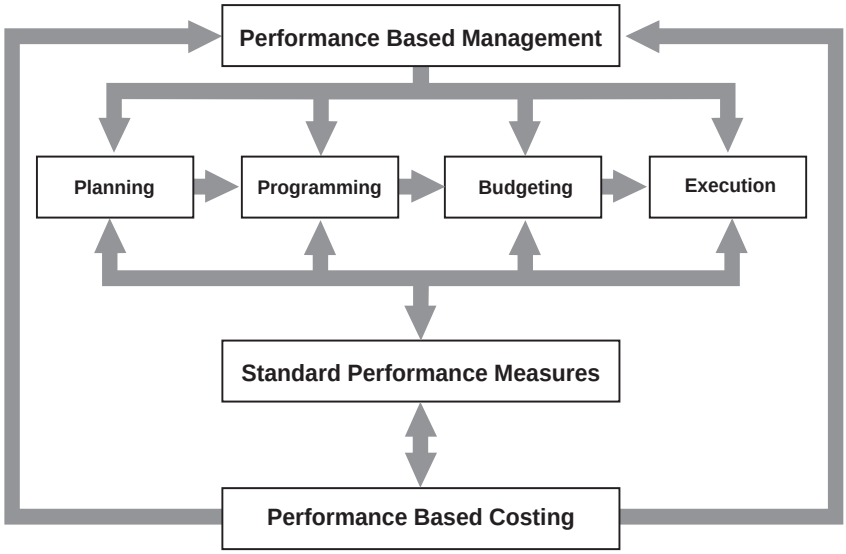


Figure 4 Overview of the Full Performance-Based Management Linkage

Security Cooperation Community Implementation Performance-Based Costing

This section of the article showcases the development and implementation of PBC in the Army, Navy, Air Force (AF), and DSCA. It also provides a contractor's perspective, discussing the project from the outside looking in. In particular, we will look at the participating organizations implementation strategy, how they internalized the PBC infrastructure, and how they are using it to manage their security cooperation programs.

Army

The DoD utilizes a variety of security cooperation tools to provide materiel, services, training, financial assistance, and military-to-military contact through an array of programs and authorities. FMS is one such program. During fiscal years 2001 through 2003, the Army, Air Force, Navy, and other defense agencies averaged combined sales of more than $12.6 billion per year. As of 30 September 2003, the implementing agencies maintained approximately 12,000 open cases valued at $222.2 billion.

Executive management within DSCA saw a need for all implementing agencies to adopt a management approach based on performance and results. There are ongoing initiatives to invest in new financial and program management systems, institutionalize a formal PPBE process, and investigate business process changes. In general, DSCA intends to exploit modern technology and internet-based tools to realize efficiency and effectiveness improvements.

Implementation of Performance-Based Costing in the Army

DSCA funded the PBC project to develop costing models for FMS. The modeling, data updating, and reporting comprise the Performance-Based Costing Information System (PBCIS). The system was developed in three steps, shown in Table 3.

Table 3 Stages of Development

Step 1	Develop PBC cost models. The cost models describe DSCA, Army, Navy, and Air Force expenditures in comparable terms. The cost modeling is referred to as Performance-Based Costing, and utilizes ABC principles.
Step 2	Move the PBC models to PBM. PBM allows the data in the PBC models to be updated on a routine basis with minimal effort. The PBM efforts also develop reports, analysis, and web-based access to the cost information.
Step 3	Utilize the cost information to generate budget information as a PBB tool. The primary objective of PBB is the development of a program and budget process that links to a corporate strategy, planning, and performance measures for justification purposes.

Overall, Army users believe the PBCIS will provide their organizations with useful information helping them become more efficient and effective. They envision the PBCIS will be able to help them meet customer requirements, determine productivity measures, and improve the allocation of resources.

The PBCIS included requirements to provide current and historical information for development of trends and to allow for forecasting. The information must be web-based, exportable, straightforward, and viewable in graphical user interface formats. Table 4 lists a description of the other expectations listed by the Army.

Table 4 Army User Requirements

Functional Requirements	Comments
Trace to countries	Based on the Centralized Integrated System for International Logistics (CISIL) and the Defense Security Assistance Management System (DSAMS). Users need to identify the levels of resources utilized to support individual countries or regions.
Roll up information accessible to all, details accessible only to specific organizations	PBC models are able to roll up cost information from the working level to DSCA. Summary cost information should be viewed from the organization all the way to DSCA. In this manner, all organizations would benefit from seeing general cost patterns, while reserving the organization-unique data for their internal use.
Performance-Based Cost Analysis	Ability to measure performance, efficiency and effectiveness of resource utilization. An essential part of cost analysis is the use of what-if scenarios to assess the impacts of differing allocation formulae. Specifically, what-if scenarios would greatly support budget development efforts. The Army can t then evaluate the costs and risks inherent in changes to security assistance strategies
Provide Performance Measures	Performance measures are utilized by every organization to judge its efficiency, workload, or business placement. The users would like additional information that helps them assess their strengths and weaknesses through performance measures
Performance-Based Budgeting.	Analysis based on the PBC model results will be useful for resource allocation
Sustainability	System should require minimal support in terms of people, time and training to operate and maintain.

Methodology

With the help of contractor support from BearingPoint®, the Army is working to ensure that its PBC objectives are met by designing a system that will provide the necessary information for managers to make informed decisions in line with the expectations outlined above. A technical design and architecture plan is in place that will fit the PBCIS requirements and is compatible with existing information technology architectures. The five components of this design include:

- Data Gathering Warehouse;
- Cost Modeling Software;
- Actionable Data Warehouse;
- Analysis and Reporting Software; and
- Web Delivery.

Army Performance-Base Costing Infrastructure

Army developed five components that constitute its internal PBCIS. These components are described in the sections below, and are developed and implemented within a single network. Once the data has been collected and processed through the current system, the results are posted through a web delivery format that can be viewed at any location. Figure 5 shows a diagram of the PBC infrastructure system setup.

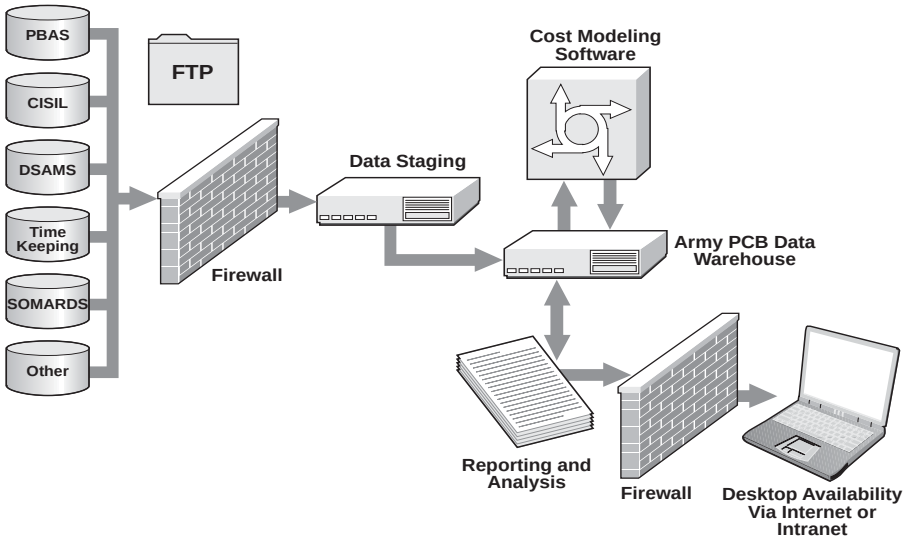


Figure 5 Performance Base Costing Infrastructure System Setup

Cost Modeling

The Army has utilized Activity Based Costing principles at numerous organizations. The Army's Cost and Economic Analysis Center (CEAC) selected SAS® Oros® ABC software suite as their standard software. This is the same software suite selected and used by DSCA.

Army Performance-Base Costing Data Warehouse

The Army PBC Warehouse is where cleansed, calculated, and aggregated data are positioned. The purpose of this actionable data warehouse is to put the data into formats readily available for analysis and reporting. The warehouse contains numerous data marts. Many of these data marts will be designed using On Line Analytical Processing (OLAP) formats; these are multi-dimensional databases, sometimes referred to as "cubes". This is where the historical data sets will be available for comparisons and trend analysis.

Analysis and Reporting

The Analysis and Reporting component is where the cost data is placed into perspective, fit into mathematical descriptions, and is presented in meaningful manners. The analysis software provides a means to access appropriate data, carry out any required calculations, examine data marts from the appropriate dimensional views, and transfer the results to the appropriate report. Ad hoc queries are required for non-routine assessments; these queries can be completely authored, provide drill down details, or modify existing queries.

The reporting component allows complex reports to be distributed over a web-based enterprise. The reporting tool permits reports to be displayed in text and graphical formats. It also permits queried data to be downloaded to users in various formats, i.e., PDF or Excel. The reporting tool provides a variety of standard reports for ease of use. A proven software package for these requirements is the Cognos® Business Intelligence suite that provides multi-dimensional views of the data. The following graphics depict sample web reports generated using Cognos® and are currently being used by the Army:

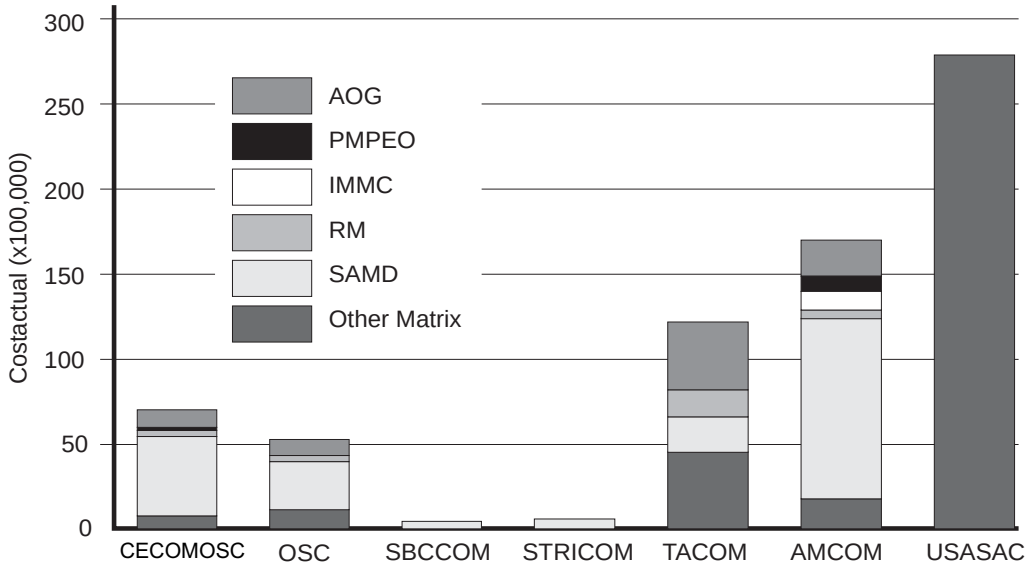


Figure 6 Cost by Sub-Organizations

Web Delivery

The PBCIS delivery is web-based. It is crucial that the FMS information be readily accessible by all commands and as many personnel as possible to have maximum impact. The Cognos® Business Intelligence Suite is designed to provide easy transfer of data and reports via the web. Figure 8 depicts the PBC data cube dimensions that are used to post reports via the web.

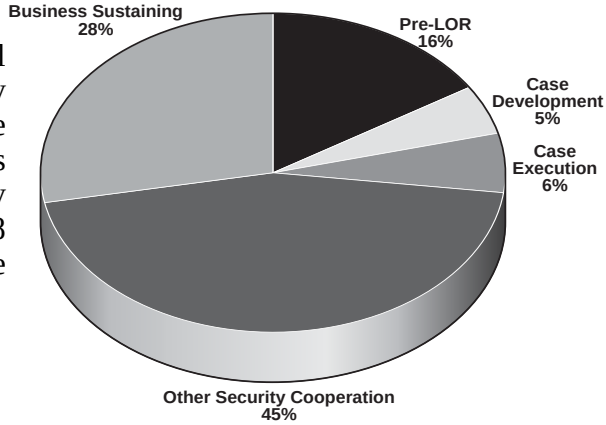


Figure 7 Core Function Costs
Does this match your mission and strategy?

Table 5 Breakdown of Activities by Funding

Activity	FMS Administration	MPS	OMA	Total Cost
Perform Pre-LOR Activities	$388,095.14	$69,937.50	$154,404.33	$612,436.97
Develop and Prepare LOA	$154,688.69	$34,968.75	$18,750.00	208,407.24
Implement Case	$77,617.21	$4,662.50	$2,500.00	$84,779.71
Manage Program, Case, and Lines	$131,902.89	$11,656.25	$6,250.00	$149,809.14
Management Oversight of Export Activities	$373,753.91	$.00	$269,612.02	$645,365.93
Perform Other Security Cooperation Activities	$607,294.42	$69,937.50	$380,117.77	$1,057,349.69
Develop Policies and Procedures	#305,504.14	$11,656.25	$113,651.50	$430,811.89
Develop and Execute Budget	$99,376.29	$.00	$18,184.24	$117,560.53
Internal Training	$14,332.61	$2,331.25	$4,548.06	$21,209.92
Perform General Administrative Services	$192,278.09	$23,312.50	$36,366.48	$251,959.07
Perform Management Duties	$138,921.05	$2,331.25	$36.368.48	$177,620.78
Perform Manpower Activities	$80,092.70	$2,331.25	$4,546.06	$86,970.01
Provide Information Technologies Support	$8,404.05	$.00	$4,546.06	$12,950.11
Totals	**$2,574,261.00**	**$233,125.00**	**$1,049,845.00**	**$3,857,231.00**

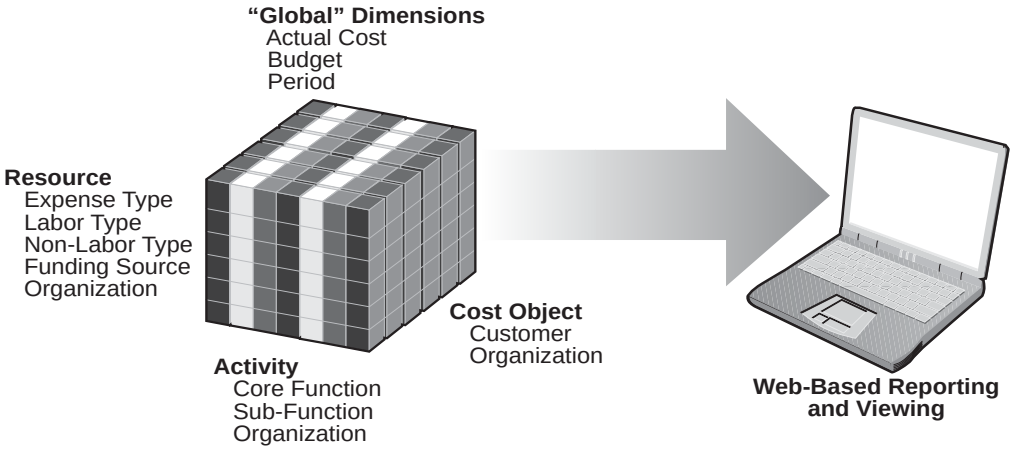


Figure 8 Performance-Base Costing Data Cube Dimensions

How Performance-Base Costing Is Being Used in the Army

Current governmental budgeting and accounting systems provide information categorized by obligations and expenditures e.g., salary, travel, information system. Army PBC models express costs in relation to their operational processes, activities, and services. Additionally, the cost model results for all of the MILDEPs roll up to develop a cost-workload overview for the entire FMS program. The Army cost managers develops appropriate benchmark measures and assess the meaning of the cost data.

A further objective of PBC modeling is to create cost information that supports the development of PBB models. The Army uses these PBB models to assess the impacts of proposed program and budget priorities workloads and priorities upon their resource and funding needs in alternative scenarios. Army FMS managers are able to evaluate competing priorities that identify program and budget approaches based on performance and results. Thus, the development of

FMS programs and budgets is associated with workload and strategy. Other uses for PBC within the Army are as follows:

- Determine how well we budget and execute against Army priorities.
- Ensure that activities are properly funded.
- Ensure that resource allocation is fair and equitable.
- Measure workload and performance.
- Project out year resource requirements.
- Focus process improvement efforts in areas where we get the best return on investment.

Initial Results from Performance Base Costing

The overall findings of the analysis of the fiscal year 2003 PBC data include the following.

- Execution of FMS Administrative funds gradually increased each quarter in fiscal year 2003, from approximately $18 million in the first quarter to $23 million in the last quarter.
- Case execution costs totaled approximately $64 million in fiscal year 2003 with an average of $15.5 million per quarter.
- Business sustaining costs are a significant portion of the overall Army costs, comprising 32 percent of the total Army FMS Administrative costs
- A significant amount of FMS cases are being developed each quarter, the majority of which are less than $1 million in value and do not generate sufficient fees to cover costs.
- All MILDEPs are showing similar trends. For example, cases are taking at least five years to process (implementation to closure) regardless of the size of the case. The exceptions are cases valued at more than $500 million, which represent a small fraction of overall cases written.
- Cases are staying open well beyond their estimated scheduled delivery time.

How Performance-Base Costing Supports Other Initiatives

By creating several reports that provide different sets of data, PBC has the capability of supporting other methods of performance management. The following reports provide different views of financial, labor hour, and workload data that can be used to better manage and help make more informed decisions in regards to the Army's FMS business process.

- Standard Reports - Pre-made templates are available to the average user with the objective of providing frequently viewed information more readily.
- Ad-hoc Reports - These reports are constructed by users, using a web interface to a database, or by users designated as super users. Ad-hoc reports answer non-standard questions and meet unique requests.

These PBC reports also benefit Army FMS business process decisions in the following ways:

- Make cost drivers and activities that dictate resource requirements visible and measurable.
- Provide management with greater insight into the factors that consume resources.
- Identify how activities contribute to outcomes.
- Free up resources to allow the security cooperation community to focus on the activities that matter most to FMS customers.
- Improve budget forecast accuracy.
- Accurately reflect actual costs within the organization.
- Identify requirements which will result in more appropriate funding levels.

- Determine what level of funding should be applied to particular services.
- Discover opportunities for process improvement.
- Increase visibility on how effectively resources are being used and how all activities contribute to the cost of Army programs.
- Identify activities with disproportionately large cost and little added value which could be eliminated or reduced.
- Improve strategic and organizational decision making.
- Assist decision-makers in making cost-conscious decisions at all organizational levels.
- Promote proactive cost reduction rather than reactive performance problem investigation.

Lessons Learned from the Performance-Base Costing Experience

During the three-year project, Army has been able to observe the business processes of the Army security cooperation community. Several key outputs such as the Cognos® reporting tool and PBC models, provide additional insight and suggestions for improvements in moving forward. Based on past experiences, the following factors have been identified as the keys to future PBC success:

- Assessment of financial data sources to improve consolidation and analysis. Identification of one system as a single source of data would significantly improve accuracy, improve turn-around time, and reduce resources required in gathering and reporting the information.
- Document management system. Using a document management system, standard forms are shared electronically and automatically tracked, reducing turn-around time and improving accountability.
- Project management system. A simple, web-enabled project management system could be implemented to capitalize on the existing PBC data (cost, resource, and workload data). This system would be enhanced by a future document management system, which would provide standardized procedures and workflow. A project management system would promote standard work breakdown structures for different case types, as well as improve turn-around time and accountability.

The PBC project for the Army is currently in the sustainment period. Our support contractor provides quarterly updates to the models and reports. These quarterly updates consist of receiving financial, labor hour, and workload data from the Army, importing these figures into the PBC Models, and uploading them into formats that can be viewed by the end user through web reports. Once these updates are completed, the focus is shifted toward analyzing reported data and information. They can enable an organization to examine the following questions:

- How do the different organizations within the Army differ from one another in reference to costs?
- What is the relationship between cost and workload effort?
- How should resources be allocated?

Several applications are available to answer these questions. Examples are:

- Profitability Analysis;
- Target Pricing;
- Strategic Alignment; and
- Process Improvement.

Defense Integrated Financial System Analysis

The objective of the Defense Integrated Financial System (DIFS) analysis is to analyze the administrative cost of FMS cases in order to identify where costs are being incurred. This analysis is facilitated through the organization of cases by size and system. By performing cost comparisons based on supplied data, Army will be able to identify which systems are disproportionately more costly so that analysis can be focused on identifying major cost drivers. This analysis will enable us to determine the break-even points of cases, i.e., the point at which delivering additional amounts of articles or services results in greater administrative costs to the MILDEPs.

Next Steps

The next steps for PBC are to identify methods of comparing various costs across all MILDEPs and using this data to build common metrics for certain business conditions. Three main objectives for the analysis portion of PBC have been identified. They are:

- Unit costs for services/products or client groups;
- Cost, performance and productivity metrics; and
- Simple cost-volume relationships (analysis of alternatives).

Several methods of PBC workload analysis have already been implemented in order to develop future projections and strategic planning. The following corporate analysis items have been identified:

- Case development analysis;
- LOAs offered;
- Number and case size (dollar value) by MILDEP;
- By system (generic code) or case type;
- LOAs implemented;
- Number and case size (dollar value) by MILDEP;
- By system (generic code) or case type;
- Implemented versus Offered;
- Efficiency ratio by MILDEP or country, and;
- Country versus system and case size.

According to initial Case Development Analysis:

- A large number of cases are being developed every quarter;
- The majority of new cases are less than $1 million in value; and
- The volume does not make up for smaller-sized cases.

Case Execution Analysis Items

- Active cases;
- By MILDEP, case size and system;
- Case status;
- Percent services delivered (service delivery status);
- Age of case;
- Service delivery status versus case age;
- Case activity level;
- Time since last transaction;

- Service delivered last quarter;
- Work backlog level;
- Services remaining to be delivered;
- New work vs. service delivered (net balance for quarter);
- Unit cost versus service delivery;
- Unit cost calculation by case, and;
- Service delivery by case.

According to initial Case Execution Analysis:

- All MILDEPs are showing similar trends;
- Cases are taking five years to process regardless of size (except for extra large cases), and;
- Cases are staying in the system beyond their estimated closure date.

The implementation of PBC, the Army hopes to provide overall visibility of the cost of work or service for the Army's FMS process. Further analysis suggests several steps that may allow managers to make informed decisions faster and get results sooner. PBC analysis will enable them to use cost data to generate and justify budgets, create customized user reports that can be tailored to the unique needs of managers and decision makers at all levels, and model and analyze alternative scenarios for developing courses of action that will enhance the quality of Army security assistance services while increasing organizational effectiveness.

Department of Navy and U.S. Coast Guard

Introduction

Fixed budgets and increased requirements are commonplace performance challenges in the Department of the Navy (DoN) and the United States Coast Guard (USCG) security assistance community. To answer the challenge across the DoN, the Undersecretary of the Navy in 1999 encouraged Navy Commands to undertake ABC projects to gain better insight into business processes and costs. Meanwhile, the Navy began several Enterprise Resource Program (ERP) pilot projects that included an Activity-Based Costing capability at the major Systems Commands:

- Naval Air Systems Commands (NAVAIR);
- Naval Sea Systems Command (NAVSEA);
- Space and Naval Warfare Systems Command (SPAWAR); and,
- Naval Supply Systems Command (NAVSUP).

The Naval Inventory Control Point International Programs office (NAVICP-OF) began the first security assistance-specific project in 2000 to determine the usefulness of ABC in a FMS business environment.

The DoN and the United States Coast Guard (USCG) Security Assistance Organization PBC effort is three-phased. The first phase expanded the NAVICP effort to Navy IPO HQ and the United States Marine Corps (USMC) Security Assistance Organizations (Headquarters USMC, MARCORSYSCOM, and Security Cooperation and Education Training Command). After successful starts in these organizations, the second phase implemented PBC into the remaining security assistance offices Naval Education and Training Security Assistance Field Activity (NETSAFA), SPAWAR, NAVSEA, NAVAIR, USCG, and the Navy Operational Logistics Support Center (NOLSC). By April 2003, all DoN and USCG FMS organizations had operational PBC systems. Each implementation accommodated the different business processes at each command. Although each organization is at a different level of maturity in PBC, the system is

providing crucial insights into key activity and process costs. Each command is now in the third phase of sustaining and exploiting the PBC data. Initial results in PBC have helped DoN improve budget justifications, allocate resources better, and identify opportunities for process improvement.

Scope and Organization

About 1,000 DoN and USCG personnel provide activity data into the PBC system on a regular basis. A PBC coordinator at each of the participating organizations administers the PBC system and tries to integrate PBC with internal business processes and databases. Coordinators help educate employees and management on how to use the costing data. Across the DoN and USCG FMS enterprise, individual efforts are coordinated by a PBC Working Group, which shares best practices across the DoN and ensures consistency in implementation and data collection. The Security Assistance Council (SAC), comprised of the leaders from each of the DoN and USCG Security Assistance organizations, provides high-level review and monitoring.

How Performance-Base Costing Works

Figure 9 shows how the PBC system works. There are three key steps in producing useful Performance-Based costing data. The first step involves obtaining activity information from each employee. All personnel enter their time via an activity survey or time and attendance system, which includes all activities defined in the organization's activity dictionary. Most commands use a web-based collection tool called the Periodic Activity Survey System (PASS). The second step uses a proprietary software program as a cost model of the organization. This model also calculates and "crunches" the activity information resource data (salary, contracts etc.) from each person, at each command, to provide activity costs for designated cost centers or cost objects (countries, processes, etc.). The third step is to convey the information in an accessible format via the web. This step provides real-time web-based reporting and is the basis for DSCA-wide reporting on overall PBC results. Middle and senior level management view the password-protected cost data for resource management decisions.

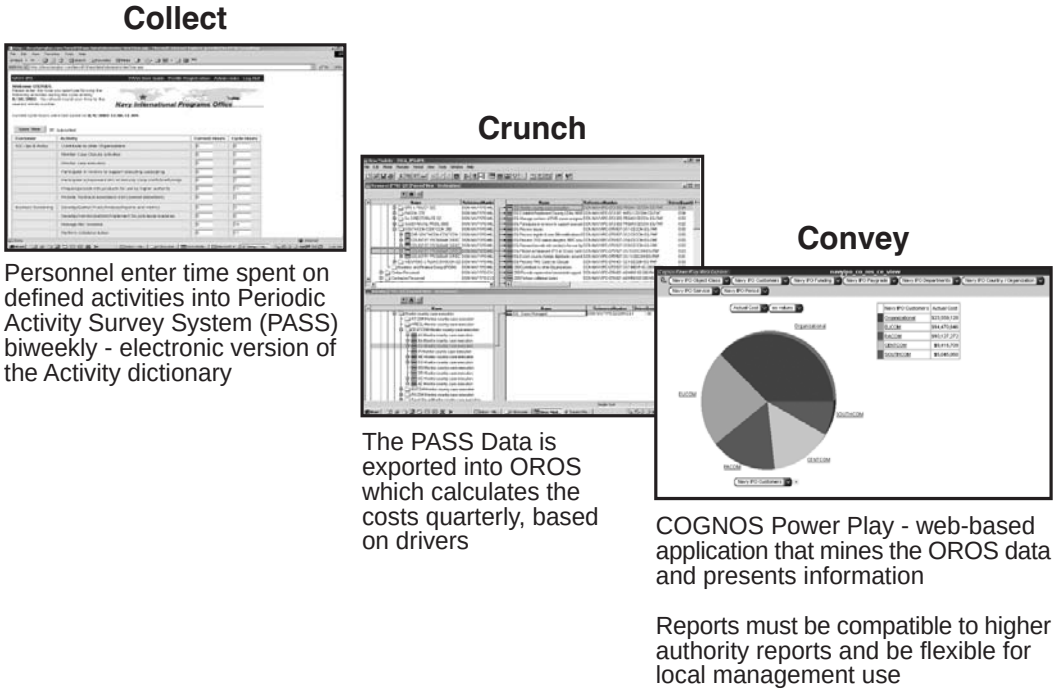


Figure 9

How Performance-Base Costing is Used

While the overall PBC project is still maturing, sufficient data is available for analysis. At this stage in PBC implementation, DoN and USCG security assistance commands have gained greater insight into activity costs. They have been able to more appropriately define command activities. Organizations are beginning to use the PBC data to support budget and program submissions and for internal resource management decisions. For example, in 2004, Navy IPO used PBC data to justify increased funding for managing a new DoD initiative to provide human immuno-deficiency virus and acquired immune deficiency syndrome (HIV/AIDS) material via FMS cases. Navy IPO also made extensive use of PBC data to highlight funding versus requirements gaps and to compare budgets to requirements across the DoN and USCG FMS organizations. Figure 10 shows the actual PBC costs incurred against requirements, compared with the anticipated funding levels for various programs. Where the gray line is above the solid black line, our total costs exceed resources designated to meet those requirements. Other resources must be used to ensure requirements are met. The ability to analyze and present data in this way allows the DoN and USCG to provide further justification for its funding requests, as well as to determine possible areas of cost savings. It is also the only current way to display how budget and program guidance is executed since traditional object class data (labor, travel, other services ADP, etc.) provides little visibility into what activities funds are spent on.

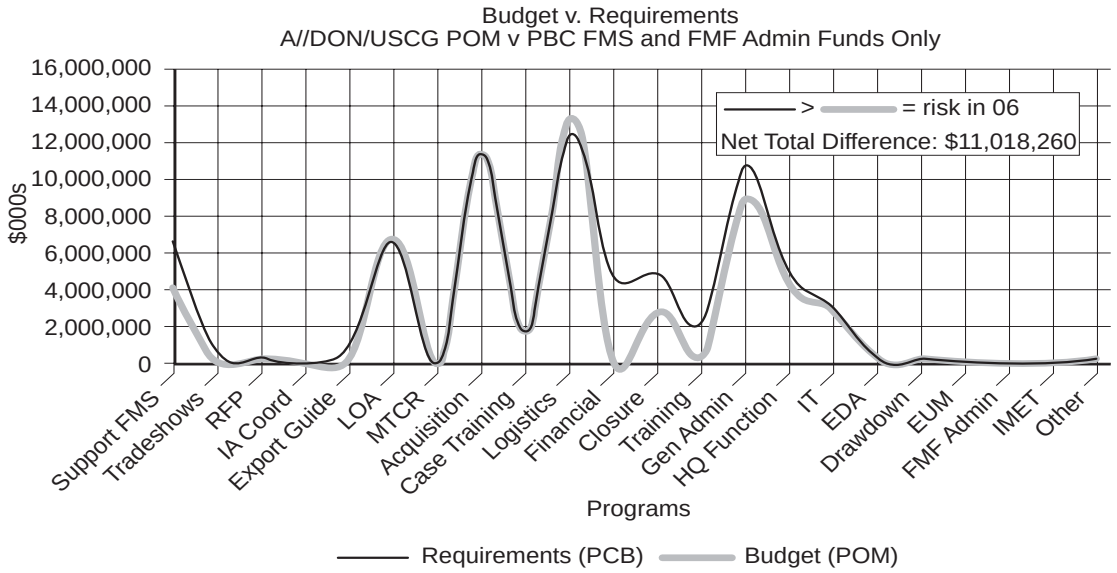


Figure 10 Actual Performance-Base Costing Costs Incurred Against Requirements

Additionally, when combined with non-PBC information on key outputs like number of FMS cases in execution or number of FMS cases closed, Navy IPO can determine which countries consumed the greatest resources in relation to the key outputs. Table 6 shows an example of the reporting possibilities when PBC data is combined with output measures. In this case, an example of an output measure is the number of LOAs implemented in the case development core function. Cost data is compared to output measures specific to the various FMS core functions. This allows the command to identify countries with the greatest and least efficiencies (greatest cost with least output) in processing LOAs. Note in Table 6 that Country 11 had the greatest costs but no LOAs were signed. Managers are able to examine variances between countries that consume resources. For example, countries 2, 3 and 6 all closed 21-23 cases, but costs ranged from $2,335 to $11,234.

Table 6 Planning Budgeting Costing Data Measures

Fiscal Year 2003 Navy IPO Actual	Pre-LOR	LORs	Case Development	LOAs	Case Execution	Open Cases	Cost To Close Case	Case Closed	Other Security	Business Sustainment	Grand Total
Region 1											
Country 1	$53,337.00	9	$24,018.00	5	#34,691.00	26	$1,465.00	0	$80,966.00	$132,165.00	$326,842.00
Country 2	$38,107.00	14	$16,313.00	13	$47,119.00	182	$2,335.00	23	76,576.00	$132,165.00	$312,615.00
Country 3	$18,283.00	23	$25,920.00	42	$53,297.00	310	$4,605.00	23	$70,610.00	$132,165.00	$304,880.00
Country 4	$33,896.00	12	$20,254.00	14	$48,124.00	119	$1,465.00	16	$57,442.00	$132,165.00	$293,346.00
Country 5	$24,299.00	44	$17,491.00	46	$44,3500	220	$4,274.00	31	$66,323.00	$132,165.00	$289,187.00
Region 2											
Country 6	$119,091.00	16	$44,284.00	23	$213,304.00	222	$11,234.00	21	$190,284.00	$158,429.00	$736,626.00
Country 7	$50,268.00	162	$65,60.00	88	$62,968.00	707	$5,458.00	137	$87,733.00	$158429.00	$430,526.00
Country 8	$65,793.00	24	$18,033.00	34	$65,125.00	218	$1,474.00	17	$67,223.00	$158,429.00	$376,047.00
Country 9	$51,261.00	28	$25,906.00	27	$41,740.00	370	$1,474.00	37	$72,460.00	$158,429.00	$351,290.00
Country 10	$44,849.00	10	$14,962.00	3	$31,142.00	43	$1,794.00	1	$44,039.00	$158,429.00	$295,215.00
Region 3											
Country 11	$54,376.00	4	$12,321.00	0	$108,651.00	80	$1,725.00	1	$273,931.00	$584,404.00	$1,035,808.00
Country 12	$45,226.00	16	$22,419.00	11	$37,84.00	40	$3,694.00	4	$115,151.00	$265,932.00	$490,256.00
Country 13	$40,599.00	21	$18,230.00	14	$159,359.00	175	$3,361.00	12	$106,176.00	$132,966.00	$460,691.00
Country 14	$92,766.00	2	$12,439.00	3	$49,637.00	48	$7,064.00	5	$83,216.00	$132,966.00	$378,088.00
Country 15	$33,637.00	40	$18,630.00	34	$49,043.00	343	$1,970.00	93	$35,221.00	$132,165.00	$270,666.00

Other FMS organizations use PBC data aggressively to help improve FMS business processes. For instance:

- NAVICP (NAVICP-OF), in biweekly meetings, looks at outputs instead of simple cost data. NAVICP began a methodical review of its activities and costs focusing on areas of high cost across the command and by department. NAVICP is using PBC data to support a NAVSUP enterprise initiative involving the accumulation of cost data to ensure a common understanding of the process and equal treatment of conditions across the enterprise. The NAVICP International Programs Directorate was able to respond to the call for the NAVSUP Products and Services initiative costing data using its PBC data and alternate drill-downs in their web-based reporting tool to identify a separate roll-up of FMS identified products and services/processes costs. Having an array of cost information by products and services, managers can explore costs more deeply and begin to ask the right questions.

- NAVAIR (AIR 1.4) incorporates PBC data into normal business processes and using data to measure its business plan execution. Areas under review are return on investment, operational improvement success, and deviations between budget planning and budget execution. For example, as geopolitical climate shifts, the focus of international programs may shift amongst the foreign customers in the security assistance arena. PBC data provides a means for gaining an understanding of where there is a return on investment and in whom the community is investing the majority of its time and money. In addition, NAVAIR is planning to use specific activity costs as an indicator of whether or not the various operational improvement efforts it undertakes are successful. For example, if the goal is to reduce the amount of time and money spent on putting together price and availability (P&A) packages, implementing a standardized P&A package throughout Naval Aviation International Programs might facilitate the accomplishment of that goal. If over time, the total cost of developing P&A packages decreases and the value of new FMS cases signed remains constant or increases, this may indicate that the initiative was successful.

- NAVSEA (SEA-63) formed an internal PBC Project Team Working Group and is working towards PBC integration with ongoing Enterprise Resource Planning (ERP) efforts. The purpose of the PBC Project Working group is to evaluate, create and review current business processes and procedures that can benefit in the use of PBC while establishing best practices efforts as a result of PBC resource outputs. NAVSEA's Systems Integrations Branch acts as the Lead for PBC Project Team Working Group and has established an *FMS Management Information Systems Conference* that includes PBC overview presentations and PBC workshops to inform and educated the NAVSEA FMS community on PBC efforts and developments. The first conference was held in July 2004 and subsequent conferences will be held bi-annually to assist in maintaining an informed PBC community. NAVSEA also adopted PBC as a tool used at various levels in the budgeting process. PBC data is reviewed for budget planning, budget reviews and budget execution throughout the planning and budgeting cycle. The NAVSEA FMS budget community uses the PBC system to provide feedback on specific activities to project or case managers to help them improve business processes and incorporate best business practices. Also just as other communities use PBC data to help understand where there is a return on investment and in which customers the community is investing the majority of its time, NAVSEA tracks and analyzes selected activity data elements to determine the cost and time involved in current FMS processes such as gathering of P&A data and the LOA implementation process. Additionally, PBC data is monitored to ensure proper resource allocation across the enterprise resource process. Finally, NAVSEA is examining an initiative for a virtual web based training package that would serve as a "one stop shop" for PBC and PBC training and make continuous training available to the FMS community.

- SPAWAR (SPAWAR 07) uses PBC to make decisions concerning resource allocations by country and to forecast future acquisition costs.
- NETSAFA, USCG and USMC sees better activity alignment and are gaining insight into actual mission costs.
- Navy IPO uses PBC data to analyze FMS resource allocations across its claimants. Using a resource allocation-modeling (RAM) tool, Navy IPO is able to alter assumptions, e.g., the combination of workload (amount of service delivery), budget, PBC cost data, demand elasticity and projections, and capacity information) to project and assess resource shifts. PBC data will assist Navy IPO in its future FMS administrative budget allocations and other resource-related decisions.

Top Floor to Shop Floor Buy-In

Leadership support is crucial to all three phases of the PBC project. In the implementation phases 1 and 2 government employees were understandably skeptical that PBC was just another short-term management idea. Union members were skeptical that management was trying to get more insight into employee activities to justify reductions in force. Contractors supporting the government were hesitant to share labor hour data for fear competitors would have access to their proprietary information. Leadership's steady support and advocacy of the PBC project has helped lead the workforce away from skepticism to understanding and support. Widespread use and reporting of PBC has shown that the data is useful and beneficial to all levels in the organization.

Change Must be Sold

PBC is no longer a fad, and is now a chapter in accounting textbooks. But its application remains very limited across the DoD. The Department of the Navy (DoN) and the United States Coast Guard (USCG) security assistance activities have in many cases spearheaded this new tool within their larger organizations. Being on the cutting edge of new techniques is challenging enough. But, simultaneously changing the business while managing it is especially difficult and required a comprehensive approach to managing the changes required to implement an effective PBC program. Numerous all-hands meetings were held, with several training sessions and continued follow-up sessions. Activity dictionaries listing the key functions and activities performed at each organization are periodically reviewed. Navy IPO has developed a website that lists training opportunities, education on PBC and other DoN PBC resources.

Garbage in = Garbage Out - Accurate Data Entry is Crucial

Without accurate data; there can be no confidence in the analysis or results. Any data system is only as good as the accuracy of the input. Accurate employee activity data and resource data is essential to getting understandable and sensible reports that can assist decision-making. Keeping activity dictionaries refreshed to reflect new requirements and tasks is important. Most errors occur due to a lack of training and supervisory review of data entries.

Actual Use of the Data Increases Buy-In

One of the most effective PBC education tools is the actual use of the data. Demonstrating the why of the process instead of just the how significantly increased buy-in within the organization. The project also received a jump-start when existing data or structure could be used, rather than starting from a blank slate.

Category Changes Make Comparison Difficult

The DoN and USCG have learned that as the PBC models are changed or revised, the more difficult it is to compare results year over year. It is important to do a thorough initial job of developing the activity dictionary to limit the need for changes. If existing data is available, the organization should consider using it first. Knowledgeable administrators are also important in

maintaining the configuration process; to ensure that quarterly updates and analysis are meaningful.

Communication

Meaningful communication both within a PBC implementing organization and with other DoN and USCG organizations is vital to the project. This included both horizontal and vertical two-way communication, between managers and employees, as well as across organizations. Between organizations, it was helpful to share implementation practices, as well as discuss activity dictionary language and functions.

Next Steps

The DoN and USCG security assistance organizations have invested over three years in PBC and are squarely in the sustainment phase of the project. Remarkable progress has been made considering that many PBC (or ABC) projects wither or fail. During the sustainment phase, the focus of effort will be to continue automating the time and resource data collection process and increase analysis of the collected data. Especially challenging will be ensuring the PBC system interoperate with emerging enterprise resource programs and new financial and time-keeping systems, especially at the Navy Systems Commands. Specific next steps are listed below.

- Automating the PBC Models Update Process

Currently, changes to activity dictionaries must be manually checked and updated in the time reporting and model software. Automating this process will make quarterly reports faster to generate, and allow DoN organizations more time to review and analyze the data.

- Standardize Activity Dictionaries

As changes to the program elements are reduced and stability in the program and budget process is achieved activity dictionary standardization across all DoN and USCG security assistance organizations will improve data analysis and enable better consolidated reporting.

- Periodic Activity Survey System (PASS) Updates

PASS version 2.5 final testing has begun. This new version will allow more flexibility to administrators, and greater ease of use for end users.

- Continued Training

Training in the web-based time collection systems (PASS) and the online web-reporting tool Cognos® Power Play will continue to build a larger pool of expert users at participating organizations. A better understanding of how the data is displayed will result in better analysis and use of the collected data.

- Data Analysis

The availability of two years of collected data will allow for increased analysis of performance and costs. This should lead to better-informed budget requests, as well as an opportunity to identify areas for improvement and savings.

Summary

The first two phases of the PBC project are complete and successful. But, PBC by itself solves no problems. The success of the 3rd phase sustainment and exploitation is entirely in the hands of the security assistance community. Costing information visibility and fidelity is quickly improving throughout the DoN and USCG security assistance organizations. But, without a cost-wise approach to activities and an attitude that strives to improve processes, the PBC data will gather dust. In an era of increasing requirements but flat budgets greater efficiency and effectiveness is often the only way to get the job done. Our leadership recognizes that performance-based costing methodologies offer considerable insight into accurate, enterprise-wide costing information. And, our customers recognize that we are more conscious of our costs.

Air Force Introduction

The performance-based costing/management (PBC/M) effort within the Department of the Air Force is beginning to make significant strides in charting process cost for its security cooperation program. The Defense Security Cooperation Agency's PBC project was embraced by the Air Force because its senior leadership believed that PBC would allow the Air Force to respond more proactively to FMS demands.

The base methodology for the DSCA PBC project is ABC. ABC seeks to eliminate the guesswork and estimating of the costs of doing business by carefully assigning resources utilized to activities performed and then assigning those aggregated activity costs to the products or services produced. This approach provides a clear picture of how resources are consumed in an organization, allowing for improved analysis including strategic planning and identification of Business Process Improvement (BPI) opportunities.

Implementation of Performance-Base Costing in the Air Force

The AF PBC effort captures the entire AF security cooperation community in four major models: the Deputy Undersecretary of the Air Force for International Affairs (SAF/IA) model, the Air Force Security Assistance Training Center (AFSAT) model, the Air Force Materiel Command (AFMC) model, and the Air Force Security Assistance Center (AFSAC) model, which are summarized in the AF corporate model, as shown in Figure 11.

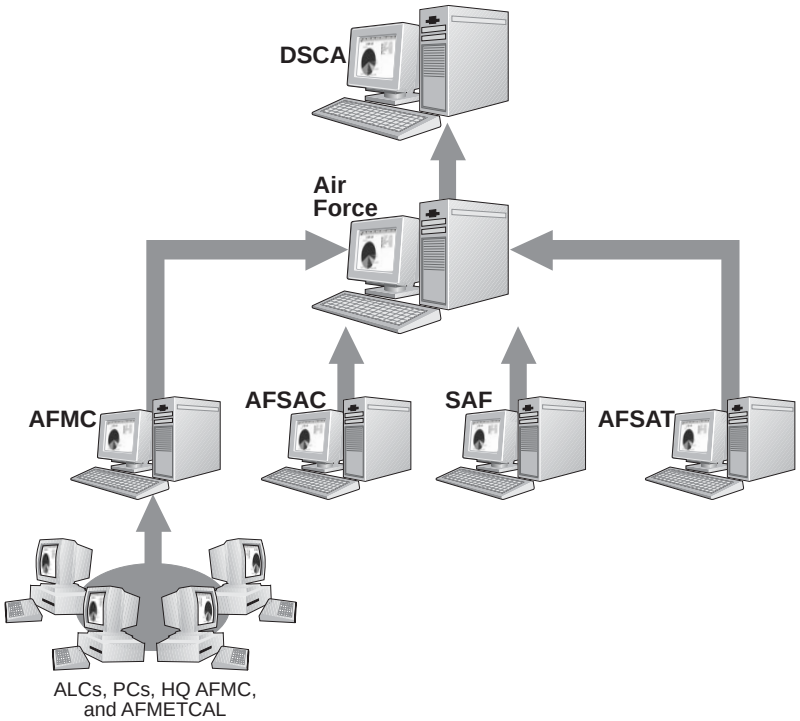


Figure 11 Air Force Performance-Base Costing Architecture

The AF took a staged approach to implementation, first completing static SAF/IA models before beginning the model for AFSAC followed by AFSAT and AFMC. This approach established a working prototype allowing the modeling methods to be refined.

In order to ensure a cohesive PBC effort, the AF chartered an internal steering committee with representatives from each effected organization. The committee was designed to provide program oversight and direction throughout the design, implementation, and sustainment phases of the AF PBC effort.

Expectations

The Air Force expected PBC to make all the costs drivers and activities that dictate resource requirements visible and measurable in order to improve strategic and organizational decision-making while improving budget forecast accuracy. As with the other MILDEPs, the AF needed PBC to support the budgeting cycle and, more recently, the programming cycle.

Additionally, the AF anticipated ancillary benefits of utilizing PBC data in Activity Based Management (ABM) and BPI initiatives internal to the AF. The AF intends to perform detailed analysis of the PBC data to meet these objectives including what-if, output, and capacity analysis. As a result of this analysis, the AF anticipates the following benefits:

- Improved visibility into the effectiveness of resource utilization;
- Insight into the contribution of individual activities to the cost of a process or program; and
- Identification of activities with disproportionately large cost and little added value that could be eliminated or reduced.

Methodology

The Air Force followed a strict adherence to the principles of ABC in the development of the PBC models. The team modeled all aspects of the business of FMS, capturing fully burdened labor costs for civilian, military, and contractor personnel as well as all non-labor costs such as supplies & materials and printing & reproduction (e.g., object classification level).

In order to accurately reflect business processes, the focus was on the activity dictionary because they are the foundation and primary strength of ABC. The creation of the activity dictionary entailed developing an accurate list of activities performed by the organization and their descriptions. In order to allocate labor costs to activities, individual labor resources completed surveys, which established the initial assignment structure in the models. The assignment structure for non-labor resources was determined by interviewing subject matter experts (SMEs). SMEs were also instrumental in assigning activities to cost objects, which are the products or services of the organization. Senior Air Force leadership elaborated on the base requirements of the PBC effort by introducing the following specifications:

- Data was expanded to include all security cooperation funding sources such as FMS Case, and Engineering Services not just FMS and FMF administration.
- Budget cost figures are included in the models to allow further analysis.
- Although the primary cost objects were determined to be the corporate activities at the executive level, the AF added an additional set of cost objects, countries, which was later adopted across the MILDEPS.

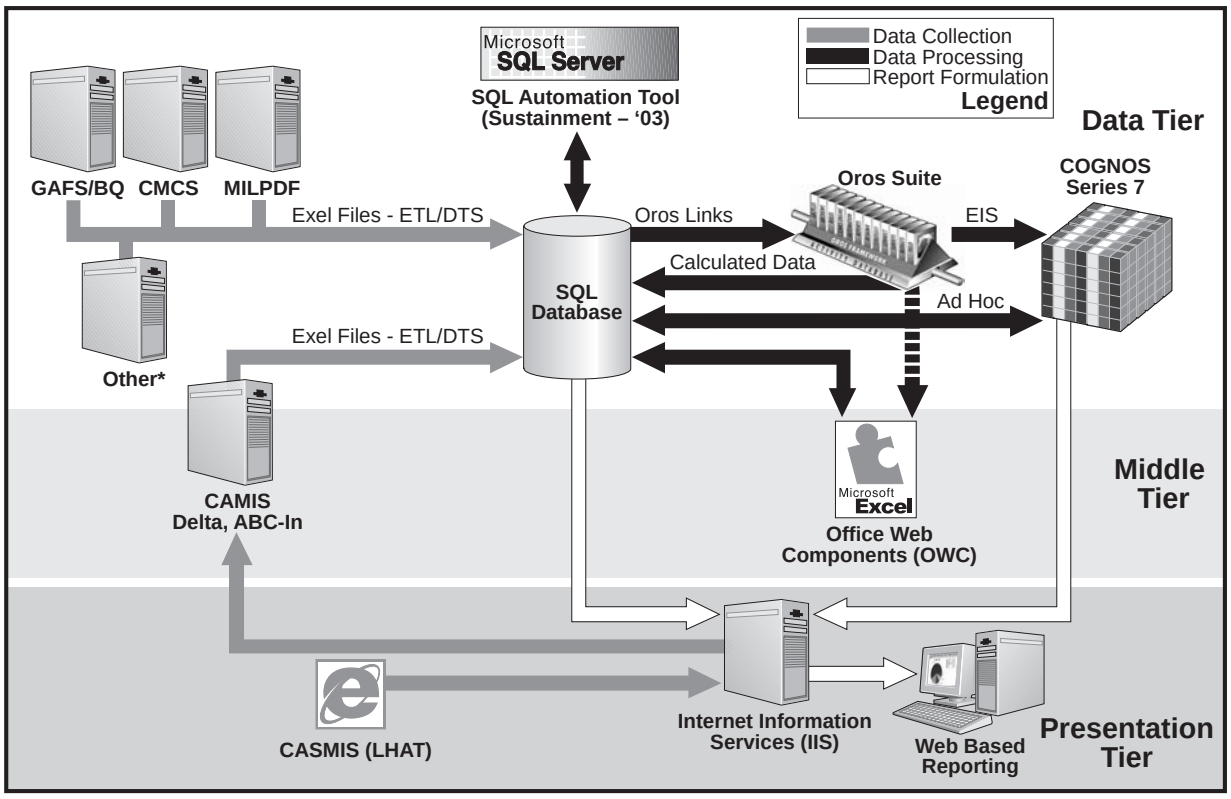
The system was designed with a constant focus on producing data that would support the PBB cycle and that would be useful to operations personnel.

The Air Force Performance-Base Costing Infrastructure

The Air Force created a unique activity dictionary for each of the four organizational models. Each activity within the dictionary relates to one of the standard core functions via one of the corporate activities. DSCA replaced the corporate activities with the program elements in 2003. These program elements and core functions allow for a common language for data comparison across the Air Force and between the MILDEPs.

The Air Force models are detailed to the level of individual resources internal to each organization. This structure allows the relevant organization insight into cost consumption by each security cooperation position and by thirteen non-labor categories. Both resources and activities are modeled into an organizational hierarchy allowing detailed analysis by directorate.

Performance-Base Costing was taken from development to production upon completion of the static models. The production phase encompassed the transformation of the static models to live models, which are currently updated on a quarterly basis. A labor hour accounting tool (LHAT) replaced surveys at the security cooperation dedicated organizations to capture workforce efforts. A web-based reporting structure was implemented to complete the PBCIS. The complete PBCIS begins with the models that are refreshed in the SAS® Oros® ABC software suite, as shown in Figure 12. The data is then exported to the SQL database where it is consolidated before it is fed into the Cognos® Business Intelligence software and published to the PBCIS portal.



OTHER* refers to data which doesn't come from discrete system, typically provided/updated via Microsoft Excel formats.

Figure 12 Air Force High-Level Performance-Base Costing Architecture

How Performance-Base Costing is Being Used in the Air Force

Beginning in fiscal year 2004, the AF constructed its program submission with supporting data from the PBCIS. The AF is currently elaborating on this usage in support of efforts to prepare the FMS administration budget submission to DSCA. SAF/IA is increasing its ability to identify, measure and improve business processes by associating activities with processes, outputs, and eventually unit costs of production.

Within AFMC, the Air Armaments Center (AAC) at Eglin Air Force Base, Florida, utilized PBC data to re-allocate resources across funding streams in an effort to obtain the optimal resource mix. The Air Force Security Assistance Center (AFSAC) has commissioned a series of reports studying data from the PBCIS to support their Six Sigma™ efforts. These reports focus on various FMS processes such as Supply Discrepancy Reporting (SDRs) or Case Closure. The completed reports provide the process owner with greater cost insight into their process.

AFSAC has also used PBCIS reports to support its annual AF manpower study by providing insight into how the workforce expends time.

Lessons Learned and Next Steps

Engaged leadership has been the primary contributor to the success of the PBC project within the AF. From the very first stages of implementation, senior leadership within SAF/IA was engaged and supportive. Throughout the process, as the PBCIS developed and the objectives of the effort were highlighted to the stakeholders, leadership support grew exponentially.

Now that PBC data has matured enough to be utilized for programming and budgeting, management at every level is engaged. Recent efforts on the part of the AF leadership have significantly accelerated the timeliness of quarterly data submissions, increasing date relevance. In the future, the AF will continue to leverage this support and will endeavor to further increase buy-in from the stakeholders.

The AF understands the need for timely, accurate cost and driver data in order to produce quality results. Fidelity of data is a major issue affecting the PBCIS across the MILDEPs. To this end, the AF leadership worked diligently to involve the workforce in the continual improvement of data, particularly regarding time captures. Current efforts such as the implementation of WorkBrain™ a web-based labor hour accounting tool LHAT will provide a reliable, easy-to-use, accurate means of reporting workforce time. The AF intends to have WorkBrain™ operational and available to the dedicated organizations by January 2005 with potential for expansion into AFMC.

Additionally, the AF recognizes the need to further educate and evangelize its workforce regarding the PBC project. While PBC has proven to be a tool flexible beyond its primary objectives, the AF must be careful to convey the understanding that it is not a solution to every AF challenge. For example, while PBCIS has been supportive to manpower efforts, it is not a stand-alone manpower tool and does not have a man-year aspect.

Summary

The PBCIS has proven to be a powerful resource with potential that is even yet untapped. As the AF leadership increases tasking requiring the use of PBC data, the full capabilities of the PBCIS will be realized.

In addition to helping AF leadership to understand the true costs of doing business, PBCIS data has been used to improve program and budget submissions, increase the validity of manpower exercises, and measure BPI efforts. Now is an exciting time for the AF and PBCIS as we are beginning to see real returns on the investment into PBC.

The Defense Security Cooperation Agency

DSCA's implementation of PBC includes the Headquarters, the Defense Institute of International Legal Studies (DIILS), the Defense Institute of Security Assistance Management (DISAM), and the Defense Security Assistance Design Center (DSADC). Recently, the DSCA models expanded to include our overseas components, and will again expand during fall 2004 to include the security cooperation component of the Defense Finance and Accounting Service (DFAS).

Although the implementation of PBC within various components of DSCA is similar to the MILDEPs, the focus remained on the overall project and the corporate infrastructure. However, with the integration of programming, internal budgeting and costing is becoming a prominent subject of discussion and analysis.

To eliminate the use of manual labor hour surveys, DSCA researched a variety of automated systems. Specific objectives of the implementation included the following:

- Automating time and attendance and labor hour tracking in a single application;
- Standardizing data collection across the Agency (i.e., improving PBC back-end data collection efficiency across the various components of DSCA, thus providing data standardization);
- Increasing manager visibility; and
- Increasing cost information (i.e., ability to price program elements, ability to track program vs. budget vs. execution).

The result was a fully web-based application called WorkBrain™. WorkBrain™ allows DSCA component users to quickly access the application via the internet. Once the users access the application, via user name and password, he or she can allocate activity data to their normal time and attendance. Figure 13 illustrated the weekly time sheet, provides a sample view of the WorkBrain™ data entry screen.

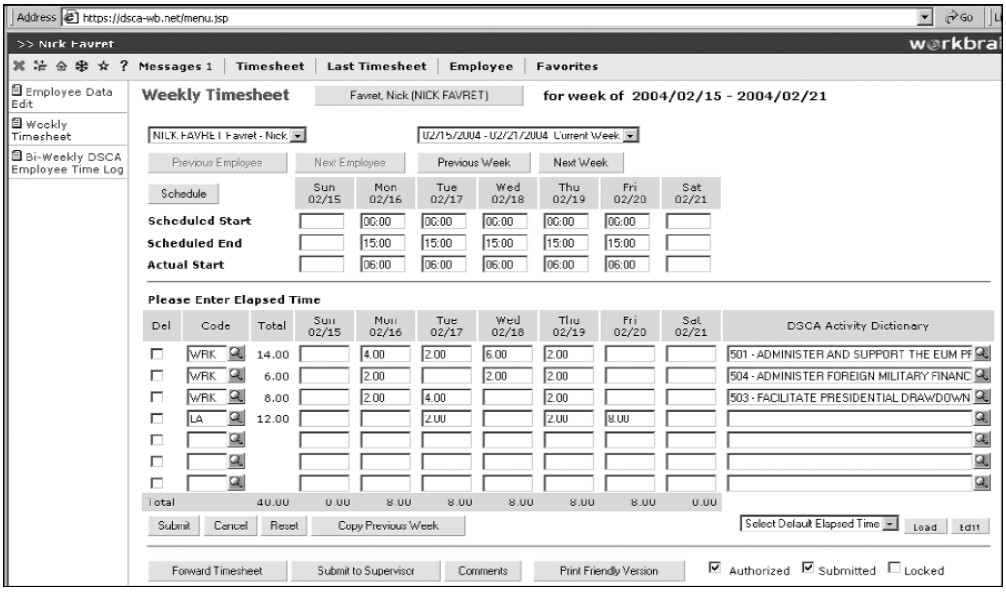


Figure 13 The Weekly Time Sheet

The activities available for allocation in Figure 13 are based on the DSCA's activity Dictionary. DSCA personnel allocate their time with the goal of providing a reasonable description of the activities they performed during a two-week cycle.

The DSCA activity dictionary provides a listing and definitions of the activities to accomplish every task in the Agency. The DSCA activity dictionary represents processes that DSCA personnel perform to accomplish its mission. The level of these activities is designed to provide valuable information to assist in making informed decisions. Many activities and associated tasks are consolidated into higher-level processes. This approach acknowledges that the large activity or Program provides sufficient data for management to make informed business decisions.

The activity dictionary is a key element of any PBC model. They are the interface between the user and the resultant PBC data. In developing an activity dictionary, there is a balance between too general and too specific. If activities are too general, the resultant data provides little value or information to mangers. In essence, the information provided is already known. If activities are too specific or detailed, the resultant data can become diluted, and again provide little information helpful in the decision-making process. As such, activity dictionaries need to be treated as living entities that are reviewed and modified on a regular basis.

DSCA's initial PBC results offer real-time analytical insight into the productivity and performance of the organization. The data that is generated via the WorkBrain™ application allows DSCA Directorates make better decisions and be more accountable to performance targets.

Next Steps

Embracing PBC by assimilating it into the decision-making process is the goal, essentially moving the organization from focusing solely on programming, budgeting, or costing to a more comprehensive focus on goals, objectives, and performance. Managers did not have the tools necessary to make the transition. However, programming, budgeting, costing, and performance measures now provide fact-based information to support the decision-making process. The tools allow managers to make decisions based on requirements, cost and performance data rather than strictly by intuition.

BearingPoint, Incorporated was awarded a contract by the DSCA to build a PBMS for the security assistance community. BearingPoint successfully completed this engagement in April 2003 on time and below cost and is currently hosting and enhancing that system within our information technology facilities. This article discusses the development of the PBMS, lessons learned and next steps.

Implementation Methodology

The contractor BearingPoint was awarded the contract to develop a PBC/M system for the security cooperation community in 2001. The award was based on support we were providing to the Comptroller Shop at DSCA and the PBC proof-of-concept demonstration developed for the Department of the Navy at NAVICP. We began with a static system for verification purposes and then moved to the more complex dynamic system.

The PBC methodology we implemented was accomplished in the following phases:

- Design costing infrastructure;
- Complete detailed planning;
- Create static PBC models;
- Migrate static PBC models to PBM; and
- Mature PBM to PBB.

Design Costing Infrastructure

During this high-level planning phase, we ensured that all model development teams and projects were coordinated and standardized. This ensured that the MILDEPs and DSCA corporate PBC/M models were capable of rolling up comparable data for budget projecting, costing, planning, and other operational and strategic uses. At this point in the engagement, we developed a presentation and briefed senior leadership in the DSCA and the MILDEPs involved in the project in order to obtain high-level agreement and sponsorship. The next step entailed the creation of a design/architecture plan, describing the end-state objectives and requirements of the PBM system, as well as the design of the technical architecture across all models. During this initial phase, we also reviewed commercial off-the-shelf (COTS) software options for each of the needed pieces and helped select:

- Oros® 5.5 (we began with Oros 5.1 and upgraded over the life of the project) to construct the PBC models.
- Cognos® Power Play to report the information.
- SQL Server 2000 database to create an information warehouse to store the data.

The major deliverable of this phase was a high-level project plan to ensure effective project management.

Complete Detailed Planning

During this phase of the engagement, we began to meet regularly with the DSCA and the MILDEPs to enlist organizational support and validate PBC team requirements to help ensure a rapid start for the project and consistency across organizations. Part of this process entailed an introduction to the concept of PBC, wherein we conducted PBC familiarization briefs so that team members understood the overall goals of the project and the tools required for the project. This also served as a way to gain a better understanding of each organization and its challenges. This knowledge assisted in developing a strategy for building each organizational model and establishing reporting requirements for each organization to create PBC reports that would be useful to DSCA and the individual MILDEPs.

Create Static Performance Base Costing Models

During this phase of the project, we began the development of static, or non-automated, PBC models. These models were developed based on modeling sessions held with subject matter experts (SMEs) who were familiar with the processes and activities of their particular organization. These sessions allowed us to gain an understanding of the job functions within the organization that needed to be modeled, the activities performed by that organization and the customers they supported.

As mentioned above, we used Oros® 5.5 to build the models. Oros® facilitated the project's needs in constructing the PBC models because of its modular approach to activity based costing. In addition, Oros® contains robust features that assisted in the development of the PBMS and its reporting capabilities, including:

- Attributes;
- Contribution reports; and
- Oros® Links Engine.

The attribute feature in Oros® acts as a data "tag" or label that allows for the logical grouping of like data, which was instrumental in the creation of robust reports within Cognos®. Contribution reports show the consumption of resources by activity and cost object and the consumption of activities by cost object. Oros® Links Engine facilitates the import and export of data from the model.

Resource Module

The resource module is the logical starting point of the model, which captures the financial resources used within the organization. For this engagement our focus was on the funding directly controlled by the DSCA and distributed to each MILDEP, including all FMS and FMF administration funding resources. Resources in this instance include both people (labor) and non-labor costs, such as equipment. The labor portion of the resource module was designed to mimic the structure of the organization, and captured all individual full time equivalents (FTEs) represented, in most cases, by an individual account. The three main labor categories captured in the model include Civilian, Military and Contractor personnel. The non-labor accounts were set up to include each of the thirteen non-labor categories used by all of the MILDEPs for budgeting purposes, including the following:

- Travel;
- Transportation;
- Rent,
- Communication and utilities;
- ADP rent payments;
- Printing and reproduction;

- Other services (Non-ADP);
- Other services (ADP);
- Base Operating Support ICPS;
- Training;
- Supplies and materials;
- Non-ADP equipment;
- ADP equipment, and
- Supply Descrepancy Reports.

Relying upon the robust contribution feature within Oros®, DSCA was able to track which activities or countries are consuming each resource within the model supported. This data is invaluable in Performance-Based costing data analysis, resource allocation, and identification of inefficiency.

Activity Module

The activity module allows for the capture of work performed within the organization through the consumption of resources. Our personnel conducted numerous interviews with the organizational subject matter experts to develop an activity list for each modeled organization. We stressed the importance of developing an organization-specific activity list with which users could identify and report time against. This led to the creation of an activity dictionary for each organization. In order to maintain a consistent roll-up for the community, the only initial structure that had to be included in each model was the six FMS core functions:

- Pre-LOR;
- Case Development;
- Case Execution;
- Case Closure;
- Other Security Cooperation, and
- Business Sustaining

It was the role of the subject matter experts to instruct us on the relationship between activity and core function within each organization. The activity dictionary and the activities' corresponding core functions comprised the structure of the model and allowed for the development of the static models based on initial surveys of the organizational representatives.

The original activity module structure was eventually further broken down below the core function level to allow for the more logical grouping of data and consistency among the MILDEPs in reporting. In addition, we inserted additional data structure to satisfy data requirements of another organization, the Programming Office, within DSCA. The Programming Office developed a set thirty-four data elements initially called programs, which mapped to the FMS core functions. We were able to add an attribute to gather this data. The programs were further refined in 2003 and consolidated down to twenty-three. These programs are contained in all of the models and can be used to assist in budgeting and planning purposes.

Cost Object

The final module in the models is the cost object module. This module shows the cost to produce a particular product or service or to support a particular customer. This module is the final distribution point for model data. In this instance, DSCA and the MILDEPs decided to include customers, or countries, as the cost objects in order to determine the cost of supporting a particular country. This decision enabled the MILDEPs to manage their resource allocations based on customer demands. For example, if Country X suddenly demanded more support,

management could move more resources over to support that country. The cost objects we used are countries listed in the *Security Assistance Management Manual* (SAMM), and the structure established in the models was based on the combatant commands.

All of the performance-based costing data is pushed out of the models into a database, from which the online analytical processing (OLAP) data cubes are built using Cognos® Impromptu, Cognos® Transformer and Cognos® Power Play. Initially, this was a snapshot in time that is now updated quarterly.

Migrate Static Performance Base Costing Models to Performance-Base Management

This task required us to transform the static PBC models to an active or live model state by updating all the data on a regular basis. It also included developing automated feeds/links where possible, to update the resources (personnel names and salaries) by interfacing between the appropriate legacy system and the PBC Oros® model, developing methods to update the resource drivers (percent of time spent on or against activities by resources) in the Oros® model, procedures for updating volume information, as well as developing automated reports. This is the point in many PBC projects where the engagement fails. We were very deliberate in this phase of the engagement, developing PBMS technical requirements early, performing a dry run, developing a data formatting and structuring strategy, and developing several tools to facilitate these processes, including a staging tool, time update and tracking tool, and server and reporting tools. In addition, we created rules and procedures for refreshing model data (resource salaries and names), changing the structure of the models, updating driver data (personnel time and task/output volumes), and consolidating model data (within MILDEPs and up to DSCA). For several organizations we created web-based data collection tools to maximize the web-enablement of the PBMS. We also created a development environment hosted at our Broadband Solution Center (BSC) in order to establish a technical environment in which we could establish and test the initial PBMS. This environment enabled us to create an information warehouse to stage the data, host the web-based data collection tool, and create the Cognos® Portal environment to display the data through the web.

Mature Performance Base Costing to Performance-Base Management

In this task, we began using the PBC model data to support the PBB process to assist in organizational decision-making. This phase was primarily concerned with maintaining the model and using the system for cost based scenario development to support PBB. Specific steps of this task included:

- Ensuring that affected organizations have a PBM capability and are ready to integrate into PBB.
- Developing periodic reports, timetables, and procedures for MILDEPs to receive data and send it to DSCA for processing and analysis.
- Developing formal reporting validation and reconciliation guidelines and procedures.
- Developing formal PBB system maintenance guidelines and rules for how subordinate models update and refresh data, standard periods of reporting, and standard data sources.
- Developing PBB advanced and ongoing organizational training plans for affected personnel to maximize their effectiveness.

Many of these tasks continue today. What was PBB has now formalized into a planning, programming, budgeting, and execution process. The PBMS supports these efforts today.

Sustainment of the Performance-Base Management System

The proposed initial project supported the hosting of data at each organization and a roll-up to a corporate database for reporting purposes. Early in the process however, DSCA and the

MILDEPs decided to consolidate the system at one central point, thereby cutting down on software and maintenance costs and facilitating easier administration of the system. We set up a development site which meets the needs of DSCA and the MILDEPs: there was ample storage space, a division of data on the server, secure entry based on named users, and it allowed us to gauge the system requirements in order to move into a production environment upon completion of the project. A Cognos® portal was established, wherein all of the MILDEP data was hosted and could be easily accessed by permitted system users. We also used this site to host the information warehouse, as well as the various data collection tools used to update the models on a quarterly basis.

Lessons Learned

Understanding the risks involved in an engagement such as the initial development and present sustainment of the PBMS, we sought to manage risk and ensure the applications developed met the needs of our end-user community. To facilitate risk management, we ensured the following early in the process:

- Involved leadership;
- Involved the end user;
- Managed change; and
- Briefed stakeholders on results.

Involve Leadership Early in the Process

Early in the engagement, our DSCA sponsors met with the leaders of each of the MILDEP organizations to clarify the PBMS project and explain the benefits of the system. These meetings usually resulted in an e-mail to the MILDEP community explaining the goals of the project, leadership's belief in the project and a request made to the end users to participate in the process. Enterprise wide projects such as this often fail because leadership does not support the project or understand the goals or benefits of the project. We addressed these issues in kickoff briefs where we explained the concepts of PBC, the goals, uses and benefits of the project, and requested the active participation and buy-in of leadership.

Involve the End User Early in the Process

Too often projects fail because a contractor imposes a process upon the end users without understanding the organization's work. Stress was placed on empowering the users to develop the dictionary in their language according to their organization, and on encouraging users to provide input. The list of activities was a working document that enabled the initial models to speak to the work performed within the organization. When we built the time capture systems (and trained the end users on those systems), the users were already familiar with their particular activity dictionary. In many cases we required an update to the time and attendance system the one of record and the one that was to be used to update the model. To minimize this burden on the end user, the system generally is web-based, employing the user-defined activity dictionary. This made it easier for the end user to understand and update quickly, and it ultimately provided useful analytical data.

Build It If You Must

As in other systems of this magnitude, if the data collection becomes a significant burden on the users, the project is less likely to be successful or produce meaningful data. One area of particular importance in this project was the updating of survey data in a timely fashion. For the static model, Microsoft® Excel worksheets were used to estimate activity time over the previous year. This data was crucial in building the initial PBC model, from which we were able to brief management within each of the MILDEPs as to how their personnel were spending their time. We need to update the models on a quarterly basis, to allow us to move the modeled organizations

from PBC (taking a snapshot of a period in time) to PBM (updating the model quarterly and briefing management).

In some instances, we relied on existing time capture systems to update models. For example, within some sections of the Air Force user community, we were able to extract data from the Centralized Acquisition and Sustainment Management Information System (CASMIS), a web-based data collection tool built initially to support a variety of acquisition related processes in Program Management Offices for the Aeronautical System Center. The system was adapted and rolled out to the Air Force Security Assistance Center, Air Force Security Assistance Training, and Secretary of the Air Force for International Affairs for time capture purposes. In the Navy sector, we extracted data for NAVSEA by working with a NAVSEA contractor to modify NAVSEA's time and attendance system, the Standard Labor Data Collection and Distribution Application (SLDCADA). Similarly, we worked with the SIGMA enterprise resource planning (ERP) team at NAVAIR to get an extract from their time and attendance system to update the model.

In other instances, we needed to build or purchase time and attendance systems to facilitate and automate the update process. Within the Navy sector, we developed a web-based data collection tool called the Periodic Activity Survey System (PASS). PASS relies upon an active server page (ASP) front end and a SQL Server database back end to collect user survey data. PASS allows each permitted user in a model to have his/her own user profile and password in the system. The end user logs on to PASS and selects the customers he/she supports and the activities conducted to support that customer. Each PASS user updates the survey and saves the data on a daily basis. The PASS cycle is a two-week period that coincides with the federal pay cycle. The activity data is imported quarterly into the models. We developed training manuals for the system and provided training to each user of the system.

In the Army sector, we built the Activity Tracking Online Management System (ATOMS), a web-based data collection tool similar to PASS. We trained the end users of ATOMS and are now getting quarterly data to update the Army models. We implemented a time and attendance application within DSCA, that would also support allocating time to activities, called WorkBrain™.

These automated tools CASMIS, PASS, ATOMS and WorkBrain™ have all been instrumental in the success of the project. Too often organizations that have successfully implemented a PBC model failed to make the transition to a PBMS because those organizations lack the means to update the model on a regular and timely basis. The use of and development of these tools were crucial in the successful delivery of DSCA's PBMS.

Change Management

Change management is the collective set of activities that identify and address the organizational and personnel implications of process and technology change. The objective of such activity is to ensure the realization and sustainability of identified business benefits associated with the process and technology effort. Key activities include the following:

- Assessing the organization's overall readiness for change and the magnitude of change specific to the effort;
- Developing a business case;
- Articulating the project vision; coaching project sponsors/leaders;
- Developing change agent networks;
- Developing and deploying communications and stakeholder management strategies;
- Preparing teams and individuals for change through training on new processes, technologies and behaviors;

- Understanding and planning for impacts to job design and organizational structure, and;
- Establishing baseline performance measures; and monitoring results.

It is a major component of any project that results in changes within an organization. In many cases, these efforts further facilitate many aspects of a project, shortening the life of the implementation phase because users are more educated and more engaged. We used many of these techniques to implement the PBMS successfully.

Brief the Results

We acknowledges the opportunity cost of implementing the PBMS due to the time and effort of MILDEP personnel, who were taken away from their day-to-day operations, to assist in the development of a PBMS. It is therefore key to show results and quick wins as early as possible in the project to maintain buy-in and solicit early feedback on the direction of the project. This meant briefing management through each phase of the project, including when the activity dictionary was initially developed and the static models were built to produce initial results. This allowed us to identify and make changes early on, as necessary, to ensure the overall model structure was acceptable before moving into production and quarterly updates.

Next Steps

With a robust PBMS in place by September 2003 and over three years worth of data for some organizations, we shifted focus to analysis of the data to facilitate the effective use of the data in the decision-making process. Several efforts are ongoing and have been described in the individual MILDEP section. In addition to MILDEP-specific efforts, we analyze the data at a higher level for comparison across MILDEPs. One such effort is PBC+, a natural progression from PBMS.

PBC data alone can show funding requirements, how funds are spent on activities or customers and what services were provided to whom for comparison of like organizations. In combination with other metrics, PBC data can be used as a powerful decision-making tool to develop performance goals, measure results, and make changes. In September 2003, we began its PBC+ effort by downloading a quarterly download from DIFS related to DSCA and the MILDEPs. The importance of the DIFS data was twofold:

- DIFS is the financial system of record used to track, and;
- DIFS maintains records during the life cycle of an FMS case.

This data provided a way to distribute PBC costs to individual FMS cases, showing how resources were being consumed at the case level, and to compare costs across MILDEPs.

With the cooperation and input of the MILDEP and DSCA representatives, the contractor developed weighting criteria in order to redistribute the costs to the case level based on several factors that defined the workload in the quarter:

- Country: MILDEPs rated all countries supported, from 1 being easiest to 5 being most difficult or complicated.
- Blanket and Cooperation Logistics supply Support Arrangement (CLSSA): Blanket and Cooperation Logistics supply Support Arrangement (CLSSA) cases require very little direct work and therefore received a weighting of 0.1.
- System (Generic Code from DIFS): Based on the type of system, the case was given a weight from 1 being the least complicated to 3 being the most complicated.
- Size: This was later abandoned as part of the weight but included in the information for reporting and grouping purposes. Size categories include:
  - XS less than $250 thousand

- S $251 thousand to $1 million
- M $1 million to $10 million
- L $10 million to $100 million
- XL over $100 million

The first three criteria made up 35 percent of the weight. The remaining 65 percent of the weight was based on the value of services delivered during the quarter. Several additional characteristics of the cases were included in the analysis, including size of the case, region and MILDEP. The data was built into a Microsoft® Excel spreadsheet to enable the users to turn on and off the criteria, as shown in Figure 14.

	On	Off			
Country Weight	◉	○			
Blanket or CLSSA	◉	○			
Size Weight	◉	○			
System Weight	◉	○			
					$10,308,353.32
CNTRY_CD	IA	CASE	TypeAssist	CaseType	Total Weight	PBC Cost
	D	PFG	4	DJ	3.166666667	$2,021.80
	D	PFH	4	DJ	6.333333333	$4,043.61
	D	PFL	4	DJ	3.166666667	$2,021.80
	D	QAD	4	DA	9.5	$6,065.41
	D	QAH	6	DM	9.5	$6,065.41
	D	QAI	4	DH	6.333333333	$4,043.61
	D	QAK	6		12.66666667	$8,087.22
	D	QAL	3	DD	9.5	$6,065.41
	D	QAM	3	DR	9.5	$6,065.41
	D	QBT	6	DH	19	$12,130.83
	D	QBU	4	DR	3.166666667	$2,021.80
	D	QBV	4	DB	38	$24,261.66
	D	QBW	4	DL	3.166666667	$2,021.80
	D	QBX	4	DM	19	$12,130.83
	D	QBY	3	DK	3.166666667	$2,021.80
	D	QBZ	3	DR	9.5	$6,065.41
	D	QCA	5	DH	19	$12,130.83
	D	QCB	4	DM	19	$12,130.83
	B	UAA	N	BH	2	$1,276.93
	B	LAC	6	BR	1	$638.46
	B	LAF	6	BR	1	$638.46

Figure 14 Sample of Data Built into a Microsoft® Excel Spreadsheet

In this notional example, there are $10 million in Case Execution costs that are driven to existing MILDEP FMS cases. Relying upon the calculations resident in PBC+, we show that PBC+ has determined a total weight of 3.1667 for case PFG and has allocated $2,021 dollars of the total $10 million in this quarter. Before this analysis was developed, the program manager for case PFG might have a general idea about how much support he/she provided to this country, but with PBC+ we can develop a dollar figure for how much support was provided. In addition to this Excel sheet, the data is also being used to build PBC+ data cubes to display the data with its multidimensional aspects in Cognos© Power Play on the internet. This brings the MILDEPs one step closer to identifying accurate product and customer costs.

Conclusion

The DSCA PBMS has evolved from its early stages of static models with manually entered quarterly user data used mostly by the MILDEPs, to a much more complex system that takes advantage of automated user data updates, as well as driver data from DIFS to provide much more useful and timely information to DSCA headquarters as well. Updating the resource data using automated labor surveys PASS, ATOMS, and WorkBrain™ has reduced the need to interrupt employees' daily routines, and downloads from other systems is providing much more accurate and relevant drivers.

Incorporating the program element structure into the models has provided a very useful data point for DSCA's Programming Division. DSCA has the ability to compare PBB data that was budgeted for each program element to PBC data what was actually consumed by each program element quarterly. In the future, with the further refinement of the PBC+ tool, DSCA and the MILDEPs should be able to see not only how much was consumed by each program element, but they should be able to see what the funding actually paid for in products and services. Having this data should prove to be invaluable when making future funding decisions and budget justifications. The development of products and services will also allow MILDEPs to begin bench marking against one another, develop useful metrics for score carding efforts and identify areas of inefficiency.

Taking these actions to seek maximum efficiency will be imperative to provide a high level of service to DSCA's customers. The foundation has been laid, data sources have become more reliable and users have become more educated about the possible uses of the information provided by DSCA's PBMS.

PBM is a tool that security cooperation organizations use to respond proactively to various fiscal and management demands. DSCA sees PBM as a group of promising and innovative initiatives to improve cost management and performance in the security cooperation community. The objective of the PBC project was to develop and deploy PBC models at each MILDEP and participating organization using a common methodology and common software to allow sharing information and identifying best practices. The information shared in this article demonstrates that we, as a community, met that objective.

These initiatives are beginning to open doors to better cost, performance, and requirements awareness. This new awareness and insight is also prompting managers to ask questions about their operations. Security cooperation organizations are beginning to see benefits from data sharing, and from comparing cost and performance data. The real value of PBM now depends on the participating organizations sustaining its various components and security cooperation managers continuing to embrace the transition to a performance-based environment. Security cooperation managers must be willing and able to use the information to improve operations. Integrating the concept of PBM into the daily business operation will require deliberate effort and continued senior leader involvement.

The article suggests that DSCA and the MILDEPs are at various stages of maturity with their PBM program. Valuable information about policy, process and resources is giving security cooperation organizations the means to prioritize funding and improve performance. One goal for DSCA is to arrive at credible costs for executing and administering security cooperation programs and associated processes, such as FMS LOA development, LOA or case management, and case closure.

Embracing a performance-based environment and assimilating it into the decision-making process is an admirable goal. The functionality and wealth of information available will radically transform the way plans, programs, and budgets are developed, improve managerial decision-making, and support improvements in overall effectiveness and efficiency. PBM represents radical changes in how we do business performance-based, customer-focused, it is a significant shift from managing by intuition to managing with information.

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LEGISLATION AND POLICY

Supporting Human Rights and Democracy: The U.S. Record 2003-2004

By
Lorne W. Craner
Assistant Secretary of State for Democracy, Human Rights and Labor

[The following are excerpts of the testimony presented before the House Committee on International Relations, Washington, D. C., 7 July 2004.]

Earlier this year I was here to introduce the State Department's *Country Reports on Human Rights Practices for 2003*. The basis for that report is that governments should be held to internationally accepted human rights standards and norms. For more than twenty-five years, the United States has been willing because we believe in the power of information to publish the country reports, which some have called a name it and shame it strategy. But what many people around the world do not realize is that we do not just "name and shame," we provide diplomatic support, training and assistance around the world to aid people and strengthen institutions that promote freedom and human rights. That is the story that Supporting Human Rights and Democracy Report lays out.

In the three months since the release of the most recent country reports, much has happened. I would like to begin with the abuses at Abu Ghraib Prison. As an individual, and as the State Department's Assistant Secretary charged with advancing human rights abroad, I have been particularly appalled by the abuses that occurred there. They are unworthy of America. I have been pleased to see the Department of Defense pledge to take action against those individuals involved in such atrocious behavior, and take steps to ensure that similar acts do not occur again. Already, criminal prosecutions are underway, in addition to several different administrative investigations, and positive changes have been announced at Abu Ghraib.

I have been asked if Abu Ghraib robs us of our ability to talk about human rights abroad. It is a reasonable question. How can we talk about human rights if we fail to uphold the highest standards? On May 17, 2004 when Deputy Secretary Armitage first released this new report, he noted that when President Bush expressed his deep disgust and regret about events at Abu Ghraib, it was not just his personal reaction as a man of principle. It was also his reaction as the head of state of a country that holds itself to a higher standard, both at home and in our conduct in the world. We will indeed find and expose the truth, and will hold all who bear responsibility for these shameful episodes fully accountable. And we will do everything in our power to ensure that such actions do not occur again. This is all that we ask other countries to do. In doing so, we are showing the world that we hold ourselves to the same standards of accountability for human rights abuses to which we hold them.

To those who wonder if we still possess the will to press for internationally accepted human rights standards and norms I would point to our actions on Darfur. We have taken strong and decisive action to end the violence there. It is President Bush, Secretary Powell and the U.S. government that are leading actions to end killing, torture and rape in Darfur. Once again, the United States is taking a leadership role. Secretary Powell's recent visit to Sudan gave him the

opportunity to directly convey a message to the government about our concern over the continued human rights abuses taking place in Darfur. We continue to share our concern with the government of Sudan at the highest levels.

As we are all aware, grave violations of international human rights continue in Darfur. There are credible reports of torture, widespread and systematic rape targeting of innocent civilians in villages and internally displaced persons (IDP) camps by the government-supported Jinjaweed militia groups. The immediate priority of the U.S. government is to take action to immediately stop the violence and allow refugees to return to their homes safely. DRL, with vital input from several non-government organizations, has developed an effort to document human rights atrocities in Darfur. The department is scheduled to deploy a state and non-government organizations team by the first week of July to the Chad border to interview refugees and conduct investigations.

Also, as you are aware, the Department publicly identified 7 Jinjaweed commanders and leaders responsible for the violence in Darfur. Our investigations continue and we plan to name others if the atrocities do not end immediately. I would also like to mention that members of the Jinjaweed are feeling the pressure. Two days after the names were made public, Jinjaweed commander Musa Hilal, gave an interview in the *Arabic Press Review* trying to distance himself from the atrocities taking place in Darfur and denying any links to the Jinjaweed.

This — coupled with the myriad human rights programs that the U.S. Government provides all around the world — is why we continue to create a constructive legacy that promotes and protects human rights and democracy. In places like Darfur — and Burma and Zimbabwe and Belarus and elsewhere — who would benefit, and who would pay the price if we self-consciously turned inward and ignored human rights abuses outside of our country?

Today, I am very pleased to formally present to Congress our report on *Supporting Human Rights and Democracy: The U.S. Record 2003-2004*. This report provides examples of how we are engaged worldwide with people and institutions dedicated to advancing freedom, and how we are trying to help others around the world who want the same institutions we have: institutions that protect human rights and punish those who would violate them. The purpose of this report is to answer the question, "What are we doing about all those abuses in the Country Reports?"

Unlike the 196 individual Country Reports, this report highlights U.S. efforts to promote human rights and democracy in (by legislative mandate) those 101 countries and entities with the most serious human rights abuses. We take care to include places of concern for "extra judicial killings, torture, or other serious violations of human rights," as called for in the *Foreign Relations Authorization Act of Fiscal Year 2003*. To make this report consistent with the criteria in the legislation, this year s report also includes a number of additional countries and a few deletions from last year's edition.

Each report typically begins with a summary of the human rights conditions in the country referred to. This snapshot is not a complete picture of everything we know about the human rights conditions in the country; that is the purpose of the mother Country Reports. Next, we provide a short narrative about our human rights strategy, followed by a sampling of the activities we are taking to defend and extend liberty. This report is an overview of our efforts, not an exhaustive account of all U.S. government efforts. It is a representative sample of our human rights activities. To get a truly comprehensive picture it would be necessary to consider other areas too: for example, this Administration's commitment to try to reform the World Bank and other multilateral development banks to make them more effective in improving the world's poor areas.

We employ a wide range of strategies to promote human rights and democracy. In societies that enjoy some measure of openness, we can and do employ a wider range of strategies to

promote human rights and democracy. Many who follow these issues closely will recognize strategies that are "tried and true," that are part of our standard tool kit. Other strategies described in the report are innovative and represent the cutting-edge of democracy and human rights promotion, and we've highlighted some in this report: a school to enhance the leadership skills of East African women so that they can run for political office; the first independent printing press in Kyrgyzstan so that journalists can advance media freedom; halfway houses for former child soldiers in Colombia so that they can get off the battlefield and begin normal lives; a training academy for non-government organizations and others in Yemen to help enhance their democratic process. Our ability to develop a mix of programs unique to each country where we are active is the result of careful study of the human rights situation and ideas generated by our collaboration with local activists and non-governmental organizations in these countries. By combining approaches that encompass the old and new, the tested and experimental, and top-down and bottom-up, we have the capability to address different situations more effectively.

Even with these many challenges, we are fortunate to be living in a world where freedom is advancing, and where we can benefit from acting in combination with other countries that share our commitment to human rights. This volume necessarily focuses on the activities of the United States, but there are many countries around the world that increasingly are involved in the fight against tyranny and oppression. They are beginning to take on the same roles we seek to fulfill: contributing financial and technical support, strengthening the democracy focus of international institutions, and protesting and refusing to turn a blind eye to abuses in their regions and beyond. Using vehicles like the Community of Democracies, we can begin to depend on a synergy of effort, and so can the millions of people who dream of freedom.

In addition to all of the efforts I have already laid out, we also continue to engage and remain active at the United Nations (U.N.) Commission on Human Rights, including this spring. The U.S. delegation worked diligently to make that body a more effective instrument for advancing human rights worldwide. Members of your staffs joined us in Geneva in that effort, and I thank you for letting them participate. They were extremely helpful to us in demonstrating what I've said is one of the great assets of my job, that the Executive and Legislative Branches, Republicans and Democrats, speak with one voice about the importance of human rights and democracy. We look forward in the coming months to discussing with you ways in which we can intensify such collaboration at CHR-61.

In some cases we achieved our objectives at the Commission, evidenced by the passage of resolutions condemning human rights abuses in Cuba, North Korea, Burma, and Turkmenistan. In other cases, we met resistance from countries that would prefer to obscure their records, countries that claim that we have no right to raise concerns about human rights within their borders. But their protests did not, and do not, deter our effort to ensure that human rights are not swept under the rug.

Some ask: "Does it all work?" The answer is obvious: the support we have given for the past quarter century all over the world has helped usher in some of the most dramatic political changes in history. Twenty-five years ago, there were around forty democracies in the world. Today, there are more than 120. In the 1980s in Latin America and in Eastern Europe, the U.S. government sought to ensure that democratic reformers were given the oxygen they needed to bring about changes in countries like Chile, El Salvador, Poland, Taiwan and Hungary.

In the 1990s, the United States supported South Africa's democracy movement, which helped produce a new era of freedom in a country that some believed would descend into chaos. And for the last decade, we've worked with opposition leaders and non-government organizations in places like Cuba and Burma and Zimbabwe, and also in places like Georgia, where last year, the

time and the energy and the heart of our effort, and the effort of so many others, culminated in the peaceful Revolution of Roses.

Many challenges remain, and we in this Administration have not shrunk from taking them on. We do not have unlimited funds, so we use a framework to focus our efforts. We determine whether the conditions exist to obtain the changes we seek. We use human rights reporting to tailor assistance programs. One example of this approach is the U.S. and Middle East Partnership Initiative; another is the Millennium Challenge Account, for projects in countries whose governments rule justly, invest in their people and encourage economic freedom.

Transitions to democratic government and the rule of law happen in numerous ways, sometimes relatively quickly and sometimes very gradually. Underlying this diversity of paths is the universal human aspiration for freedom. Our own experience as a nation and the unfolding of our history may be unique, but our striving for freedom and equality has been animated by values of human dignity shared by people around the world. As the Report notes, in places like Central Asia and the Middle East where doors were closed for so long to anyone wanting to talk about democracy and human rights, we are continuing to press on those issues.

In the last portion of the report, the recent recipients of our annual Human Rights and Democracy Achievement Award are listed, and it is worth mentioning the two winners. Phil Kaplan serves at our embassy in Ankara, where he not only reports on key political developments, but also works with private organizations, the Turkish government and groups from across civil society, to advance the cause of Turkey's commitment to human rights. Until recently, Ted Burkhalter worked in Uzbekistan, where he analyzed developments in civil society, but he also saved lives by pushing for protections and justice for all detainees, and by supporting those who struggle to bring democracy and human dignity to that country. I applaud these officers and the other nominees for their efforts to advance internationally accepted human rights standards and norms, and note that there are many, many other officers in our embassies and posts working hard to advance human rights and democracy.

Time does not permit a full description of the regional sections of the report, but I would like to provide an overview of some of our activities in the various regions. Those interested in more detail should review the report, copies of which we have brought with us today, and which is also available on the State Department website at www.state.gov.

In Georgia, years of U.S. assistance including a parallel vote tabulations was instrumental in proving that the official parliamentary election results last November had been manipulated and did not reflect the will of the people. During the subsequent peaceful demonstrations, the Ambassador urged the government and opposition to avoid violence. The demonstrations remained peaceful and eventually led to President Shevardnadze's resignation and new elections.

In Belarus over the last few years, the National Democratic Institute and the International Republican Institute have provided training focused on leadership and message development, political party strengthening, and coalition building, while the U.S. Embassy and the government of Lithuania have supported and continue to support a series of skill-building workshops and roundtables in neighboring countries for Belarusian democratic leaders and activists. These efforts have begun to pay off. Six of the seven largest political parties, more than two hundred non-government organizations, a number of independent trade unions, regional organizations, youth groups, and members of the business community and civil society have united into a democratic coalition called "Five Plus." Five Plus is the largest Belarusian democratic coalition, and represents the most promising effort in recent years to reach the Belarusian electorate with a modern, responsive and hopeful democratic message.

In the Kyrgyz Republic I am pleased to note that our programs have succeeded in expanding freedom of expression and freedom of speech to the Kyrgyz people. The independent printing press that Freedom House established with United States funding is now printing twenty-eight independent newspapers, enabling media outlets to publish without fear of being denied access to the state-run printing press or having to engage in self-censorship. The network of twenty-four Information Centers for Democracy created by the National Democratic Institute now cover the entire territory of the Kyrygz Republic, enabling local activists to host "town-hall" meetings to discuss current political issues. The information libraries are allowing citizens to have free access to newspapers and to use the Internet, some for the first time ever.

Morocco has taken courageous steps to improve human rights and democracy, most recently through bold changes to the family status code, which significantly increased the rights of women and children in areas such as marriage, property rights and inheritance. Competitive elections, vibrant non-government organizations, and other legislative reforms are other milestones that make Morocco a leader in the region. The United States is active in its support, funding programs that train new parliamentarians, advice on legal reforms and implementation, nurture non-government organizations and campaign against child labor. We have true partners in our efforts in both the Moroccan government and its people.

In Saudi Arabia, the Ambassador and other senior United States officials routinely highlight the need to improve human rights conditions. For example, I visited Saudi Arabia in July 2003 and raised concerns about political reform and human rights, and Ambassador at Large for International Religious Freedom John Hanford visited Saudi Arabia in October 2003 and raised concerns about religious freedom issues with high-level officials. During 2003, we supported men and women journalists to study in the United States, organized in-country training workshops for women journalists, hosted roundtable discussions with journalists, and encouraged editors to expand their coverage of human rights.

Following more than two decades of conflict in Sri Lanka, President Kumaratunga has expressed an interest in re-initiating talks with the Liberation Tigers of Tamil Eelam (LTTE). The United States is providing $1.5 million to train and empower local civil society groups, media organizations, political parties, and stakeholders in peace to participate in national dialogues of peace.

In Afghanistan, the adoption of a constitution on January 4, 2004 and on-going voter registration represents a victory for the central government and a major step along the road towards democracy and stability. In fiscal year 2004, almost $400 million will go toward democracy and governance.

With the turnover of power in Iraq on Monday, June 28, 2004, we are now witnessing the birth of a new Iraq. The Iraqi Interim Government, led by Prime Minister Ayad Allawi, has assumed sovereign authority over Iraq and the Coalition Provisional Authority has dissolved. Mr. Allawi's government will face enormous challenges, particularly in restoring stability and security and leading the nation to elections scheduled for January 2005.

The Iraqis, working closely with the U.N., have already begun preparations for elections, putting in place an independent election commission and planning the administrative and security frameworks that will guide the process. The elected assembly will be responsible for drafting a permanent constitution, which we expect to be ratified by public referendum in the fall of 2005 and to govern the election of a new sovereign government by the end of that year.

In addition, a national conference will be convened this summer to select members of a consultative council. This council will have an important role to play in advising the interim government and bringing together a wide range of Iraqi communities.

Through the Colation Provisional Authority, the United States government has been very active in providing assistance to support a successful transition to a peaceful, lawful, democratic, and sovereign Iraq. We have supported numerous initiatives to bring accountability for past atrocities and to put in place government and non-government institutions to safeguard human rights in the future. These initiatives have addressed mass graves, missing persons, documentation of crimes under the previous regime, and the establishment of an Iraqi Ministry of Human Rights and an independent Human Rights Commission and Ombudsman. We have supported the establishment of an Iraqi Special Tribunal that, in the months ahead, will begin to try key perpetrators of the human rights atrocities and war crimes committed during Saddam Hussein's regime. We have funded programs that have now for months provided technical assistance and consultation to Iraq's emerging political parties to help them compete effectively in the upcoming elections. Together with our colleagues at United States Agency for International Development (USAID), we have also dedicated substantial support to non-governmental groups, enabling them to conduct human rights advocacy, democracy and human rights education and activities in conjunction with the elections. We are working to ensure that an independent and vibrant media operates in Iraq, and we have launched several initiatives, including a U.S. and Iraq women's network, and are on the verge of funding more, aimed explicitly at promoting the economic, political, legal and social status of Iraqi women and girls.

Our role in Iraq has changed with the dissolution of CPA, but our dedication to the promotion of human rights, institutions of freedom and respect for the rule of law will continue through the activities of our Embassy, under the leadership of Ambassador John Negroponte. The many activities described above will continue, in partnership with the Iraqi Interim Government. The advancement of freedom in Iraq is critical to our shared goal of helping Iraq become a secure, stable, and successful independent state with democratic, representative government.

In Nepal, the on-going Maoist insurgency has weakened government institutions and created an environment where rampant human rights abuses occur. In this atmosphere, the United States has initiated a $6 million program to support the rule of law and respect for human rights. We are also working with the National Human Rights Commission in researching and analyzing draft anti-terror legislation and ensuring the right to a fair trial.

The historic Kenyan 2002 general election peacefully ended Daniel Arap Moi's twenty-four years in power. President Kibaki is making good on pre-election promises to fight corruption and provide free compulsorily education and more recently his government has established an independent Human Rights Commission. In 2003 and early 2004, the United States continued to support efforts to strengthen government institution and civil society.

Tackling the Lord's Resistant Army's brutal eighteen-year insurgency in northern Uganda, the U.S. funded a program to expand access to quality education for children at risk of exploitation as child soldiers.

As the Government of Zimbabwe continues its concerted campaign of violence, repression, and intimidation, United States programs are assisting victims of torture and other political violence and funding access to independent media.

The important purpose of this follow-on report to the Country Reports is to show that U.S. support for human rights is more than a once-a-year exercise in identifying abuses. I am reminded of President Bush's words when he said, "The message to those who long for liberty and those who work for reform is that they can be certain they have a strong and constant ally in the United States of America." And likewise, Secretary Powell said in the preface to this report:

> On every continent, we are making important, long-term investments in democracy. We are helping to build democratic institutions. We are working with

non-governmental organizations, faith-based groups, opposition parties, minority communities, women's organizations and labor movements to develop dynamic civil societies. We are promoting good governance to create conditions for economic growth and sustainable development. We are helping to free the flow of information and to ensure free and fair elections. And through our exchange and other programs, we are acquainting rising generations with democratic ideas and processes.

Most importantly, extraordinary men and women around the world take great personal risks to shed light on human rights abuses and press for democratic change, courageous people like Oswaldo Pay· in Cuba, Morgan Tsvangirai in Zimbabwe, and Aung San Suu Kyi in Burma. This report demonstrates our effort to stand in solidarity with these brave souls who are working hard to achieve freedom, not only in democratic societies, but also in repressive ones. They are setting the course of history and we must help them.

This year we have tried to provide a report that is true to the language and the spirit of the mandating legislation that came out of this Committee. We are crafting programs to promote freedom and liberty, and we are making the connection from reporting to policy. Much work remains, and we look forward to working with this Committee to find more and better ways to promote human rights and democracy. We continue to welcome ideas and suggestions for next year.

Partnerships for Peace, Human Rights, and Development

By
Kim R. Holmes
Assistant Secretary of State for International Organization Affairs

[The following are excerpts of the remarks presented to the World Affairs Council of Northern California San Francisco, California, 30 September 2004.]

Our country truly faces new challenges to peace, as well as old problems. Terrorism, Iraq, dirty bombs, ethnic cleansing, human immuno-deficiency virus and acquired immune deficiency syndrome (HIV/AIDS) these are critical issues. The way forward is not always clear. What is clear to everyone is that this nation needs partners in today's world partnerships with other nations and partnerships with international organizations to solve our problems. To us in this administration, there is no more important strategy for securing peace than building strong partnerships. That is also true for protecting human rights, and for promoting sustainable development.

The United States participates in organizations like the United Nations not only to serve and promote American interests and values. We do so as well to fulfill the hopes and dreams of people in all corners of the globe. We enter alliances like the North Atlantic Treaty Organization (NATO) to protect international security. We establish partnerships like the Proliferation Security Initiative to counter the spread of weapons of mass destruction. And we give generously to fight diseases like human immuno-deficiency virus and acquired immune deficiency syndrome (HIV/AIDS). This is not foreign policy window dressing. Partnerships are an essential element of our national strategy. They are as important to us as the Golden Gate Bridge is to the life of San Francisco a bridge bringing people together to solve problems a two-way avenue of exchange and commerce, serving a common purpose and realizing individual dreams.

Please read the President's *National Security Strategy*. Each chapter relates the importance of partnerships to our national interests. It shows how we must work together to face down the threats of terrorism or natural disasters. And how we must cooperate to address the despair caused by failed states, famine, or disease. Partnerships are not panaceas, however, they are effective only when they are rooted in the right principles, have clear purposes, and translate these principles into practice. Tonight, I would like to share with you some of the ways this Administration fosters effective partnerships for peace, human rights, and development.

No Other Path But Partnering

America's position in the world is unmatched. Americans seek not to conquer territory. Instead, we seek to expand freedom. We know that freedom and prosperity are blessings to share. Freedom is not some shop-worn ideology belonging only to us. It belongs to everyone. And for those who think otherwise, I only ask them two questions: Who in this world truly desires to be unfree? Who in this world would you want to be unfree? As complicated as international life may be, no one should doubt that in every heart beats this very longing to be free from oppression, to be free from want and disease, and to be free to express oneself and to choose one's own government.

America's strategy of partnerships is rooted in this transforming power of liberty, as the President calls it. "America," he said, "must stand firmly for the non-negotiable demands of human dignity: the rule of law; limits on the absolute power of the state; free speech; freedom of worship; equal justice; respect for women; religious and ethnic tolerance; and respect for private property."

New Partnerships For Peace

At this time in history, the United States is indispensable to achieve these goals. Some may wish it were not so. Others may envy our position. But no one can deny that these goals will only be realized by other countries and organizations with our help, and with our leadership. In no other area is this demand for American leadership and for our need to partner with other nations more evident than in keeping the peace.

Since the end of the Second World War, it is clear we need new solutions to solve new problems. Traditional hard power alliances to deter state aggression were not set up to deal with terrorists. Many of our traditional organizations do not deter insurgents who want to prevent progress and peace. Neither have they deterred every tyrant or regime that wanted nuclear weapons. Today, most people understand the terrible threat that could be posed by terrorists possessing weapons of mass destruction. The possibility requires new partnerships for peace.

One such partnership came together after September 11, 2001. Since the Global War on Terror began, eighty-four nations have stepped up to work with us to make the world more secure from that threat. Former antagonists collaborate to uproot and destroy al Qaeda and other terrorists. We are partnering, for example, with Pakistan, a state that once supported the Taliban. In the same vein, we are working with Libya to dismantle its weapons of mass destruction. We are working with the European Union, the International Atomic Energy Agency, and others to discourage Iran from pursuing nuclear weapons. We are doing the same with China and others for North Korea.

In the Security Council, we recently spearheaded and achieved a historic resolution on non-proliferation. Among other strong measures, it calls on all states to cooperate to prevent trafficking in weapons of mass destruction. That is exactly what the President's Proliferation Security Initiative is all about. Our partners in this initiative agree to board ships on their way to countries of concern, and seize any materials that could be used to develop nuclear, chemical, or biological weapons.

In Iraq and Afghanistan, coalitions are working with the United Nations (U.N.) and non-governmental organizations (non-government organizations) to help these two states hold their first free elections in the next few months. It is an important step to securing peace. We were pleased that our allies in NATO recently decided to boost assistance to Iraq's security forces. They also will establish a training center in Iraq. Such action is unprecedented. It shows these twenty-six nations understand the link between fighting terrorism and promoting democratic institutions and the rule of law. In today's security environment, we also recognize the threat posed by failed states. It is no accident that three of the safe havens for al Qaeda, the Sudan, Somalia, and Afghanistan were failed states. Such states also provide operational bases for organized crime, are breeding grounds for diseases like HIV/AIDS, and strain the economies of their neighbors. Another area where partnerships are crucial is international peacekeeping. Once the fighting stops, the United Nations and other organizations can help build the peace with peacekeeping and humanitarian operations.

Americans gave $1 billion this fiscal year (which ends today) to support peacekeeping efforts in such places as Kosovo, Liberia, the Congo, Haiti, and Burundi. But we often do more than just give money. We often take the military and diplomatic lead to set up these operations. This is what we did in Liberia. After the all-African force brokered a settlement, a U.S. Marine force assisted the regional peacekeepers on security. We are supporting efforts to develop a civilian police force there as well.

We did the same thing in Haiti. As rebels neared the capital, we worked with our other "Friends of Haiti" at the U.N. with France, Canada, Chile, and Brazil to craft an international response. U.S., French, Canadian, and Chilean troops went in first on an emergency basis. Then

a U.N. approved stabilization force followed. Since the hurricane devastated so much of Haiti, we have sent millions of dollars to the World Food Program to get more food in to the Haitian people, and we are supporting non-government organizations there like the International Federation of the Red Cross as well.

Another important example of partnering on peacekeeping is in the Democratic Republic of the Congo. We are negotiating this week in the Security Council to expand the United Nations peacekeeping mission there to help stem the violence that flares up occasionally in the eastern part of the country. Framing that mission to fit our funding constraints is not easy. Peacekeeping operations are very expensive. Congress is very watchful of our peacekeeping budget. But by working with the United Kingdom and France, we are approaching a compromise that will not only make the U.N. operation in the Congo more effective and flexible, but do so with a much more moderate price tag. As these cases show, peacekeeping operations need careful collaboration during the design stage. They must have clear goals, adequate funding, exit strategies, and take into account reconstruction and reconciliation needs. And since all relevant actors can contribute to these needs, regional support and coalitions of the willing are vital considerations. To that end, we are pleased the G-8 industrialized nations came together to create a new Global Peace Operations Initiative. We have agreed to train 75,000 peacekeepers, initially from Africa, for operations on that continent and elsewhere, if needed. We also will lend this force deployment and logistics support. The crisis in Sudan cannot wait for that force. More urgent measures are needed. That is why we support the African Union's decision to send monitors to Sudan to help bring stability. We hope this force will shine a light on what the government of Sudan is doing to end the atrocities.

We took the lead in the U.N. Security Council on the issue of Sudan. And we are proud that we did so. We expect now that the government of Sudan will comply with the resolutions of the Security Council to stop supporting militia violence against the people of Dafur; to bring those who perpetrate such violence to justice; and to cooperate with the African Union and the international community to allow aid workers to end the misery in that war-torn region.

Partnerships for Democracy and Human Rights

What is true for peace is true for democracy and human rights. Principles, purposes, and practice matter. And what better place to discuss partnerships to advance democracy and human rights than in San Francisco, where the founders of the United Nations met more than a half-century ago to establish a principled partnership steeped in democratic values. Those founders believed democracies share a commitment to peace, human rights and freedom. Secretary-General Kofi Annan put it this way: The founders, he said, "knew that no foundation of peace would be sturdier than democratic government." It is a troubling that, while there are more democracies in the world today than at the time of the U.N.'s founding, the U.N. pays so little heed to the principles of democracy and liberty. There is, I believe, a democracy deficit in the U.N. today. Undemocratic countries like Cuba and Iran have way too much influence over the outcomes of U.N. activities. There are caucuses and groupings to promote every cause under the sun in the U.N. And yet until recently, there has been no caucus to promote democracy. To remedy this shortcoming, we are supporting the development of a Democracy Caucus at the United Nations. It is an outgrowth of the Community of Democracies, a global network of democracies working together to strengthen democratic movements and institutions worldwide. The focus of the Democracy Caucus is to advance democracy, human rights, and the rule of law in U.N. programs and policies. We hope our efforts can improve the character and work of the U.N. General Assembly, for example, and the U.N. Commission on Human Rights.

The purpose of the Commission on Human Rights, of course, is to protect and promote human rights. Yet our efforts to secure good resolutions targeting human rights abusers too often are

stymied by the members nearly 40 percent who are human rights violators. We initiated a Democracy Caucus this spring at the Commission on Human Rights, and we saw it bear fruit. Human rights abusing countries could not stop a resolution calling on the U.N. to establish a focal point for its democracy work. Introduced by Peru, Romania, East Timor, and the United States, the resolution collected seventy-three co-sponsors. That is more than the number of members on the Commission. And it was adopted by a vote of 45 to 0 with 8 abstentions. A small step perhaps but an important step taken for the cause of democracy. We have since reprogrammed $200,000 to the Office of the United Nations High Commissioner for Human Rights to pay for the democracy-coordinating office ushered in by that resolution. We plan to do even more. Just two weeks ago, President Bush, in his speech to the U.N. General Assembly, proposed that a new fund be created at the United Nations to promote democracy. He offered to provide seed money to create a U.N. Democracy Fund. We have been very pleased with the reactions we have heard so far to his proposal. We think of it as a voluntary fund and also a resource bank of expertise, if you will. It could offer to countries in transition to democracy the expertise or training then need to institutionalize the rule of law, or to set up independent courts, a free press, political parties, or trade unions. The broad array of expertise and programs the U.N. has to offer in the areas of democracy, rule of law, and civil society would support international efforts in Iraq and Afghanistan, for example, in support of elections.

One of the reasons insurgents in Iraq are trying to interrupt the elections is because they fear the freedom that elections represent. They know that given half a chance, the people of Iraq will build a free and prosperous nation. They fear that President Bush is right that in fact the people of Iraq not only long to be free, but to govern themselves democratically, as other free peoples do in the world. Just as the people of the Middle East long to be free, so too do the women of this region as do women in other parts of the world. That is why we introduced a resolution at the U.N. to increase the participation of women in elections and politics. It gathered so much support last year that by the time it was adopted at the U.N. General Assembly, it had 110 co-sponsors. Yet, resolutions are not enough. Women need real support on the ground. They need training programs to help them learn how to protect and promote themselves by building a civil society.

In Afghanistan, we have over 200 programs that build on public-private partnerships. Some of them are designed to educate women and girls. Some will improve their access to health care. Others create new economic opportunities. Still others increase their political voice.

Our $10 million Iraqi Women's Democracy Initiative provides training in political leadership, entrepreneurial, and media skills. Its purpose is to help ensure Iraq's women gain their rightful place in the emerging democracy. Our new U.S. and Iraqi Women's Network will broker public-private partnerships to advance women in business, government, and media. As in the cases of women's programs in Iraq, we find that we can be more effective when we, as a government, form partnerships with people in the private sector. We find that their experience, expertise, and insights can multiply the effectiveness of many of our programs. A good example of this is the G-8's Forum for the Future. As part of its Broader Middle East and North Africa Initiative, the G-8 is discussing ways to work with the private sector to strengthen democracy, improve education, and expand opportunity. We are looking at how to enable the private sector to create more jobs. And we are looking at ways to increase public participation and to empower women in that region.

We find that we can also improve our effectiveness by working with international organizations. We are working for example with United Nation Educational, Scientific, and Cultural Organization, which we rejoined last year, to advance literacy and rebuild educational systems in post-conflict areas. We are also collaborating in that forum to promote tolerance and boost civic, math, science, and engineering education. We are sharing scientific advances, and

working to conserve cultural treasures. And we are promoting human rights, like freedom of expression and the press.

We worked with another U.N. body, the International Labor Organization, to secure a new international convention to ban the worst forms of child labor. To date, 150 countries including the United States have ratified that important convention. And we continue to support its International Program for the Elimination of Child Labor (IPEC). Because of IPEC's efforts, many children in Latin America and the Caribbean, in Africa and Asia, and in the Middle East and Europe have been taken out of the workplace and placed in school. And their families have been given new ways to generate alternative income.

Partnerships for Development

Our goals for economic development are clear: We support policies that produce economic growth for all people. We believe that economic freedom, good governance, and the rule of law are the best recipes to eliminate poverty and protect the environment. I could not describe our compassion for the poor better than the President. "We fight against poverty," he explained, "because hope is an answer to terror. We fight against poverty because opportunity is a fundamental right to human dignity. And we fight against poverty with a growing conviction that major progress is within our reach."

Hope, opportunity, human dignity these are what motivate us to contribute to international organizations that try to eliminate persistent poverty and famine. We donated over $2 billion in food aid last year alone. No one else donated more. We are, in fact, the world's largest supporter of the World Food Program. Last year, we donated over $1 billion to its important work. Here again, we need partners. And our partnerships for development must be rooted in purpose and principles just as clearly as they are for peace or democracy and human rights.

In 2002, world leaders meeting in Monterrey, Mexico, reached a consensus about development. They said that more advanced countries should help developing nations, but developing countries must help themselves as well. They cannot merely depend on rich countries providing them aid. They must adopt political, economic, and social policies that nurture an environment for growth, especially if they want to see the flows of private capital and trade that turn their economies around. Only if they take this path can foreign assistance help. President Bush calls this a "new compact for global development." It links greater contributions from developed nations to greater responsibility and greater stewardship of those contributions from developing nations. We work international organizations like the U.N. Development Program and the U.N. Environmental Program to make sure their policies also reflect these principles. But we are doing more. We have introduced a revolutionary new approach to foreign aid that reflects this newly found consensus of Monterrey. The President has launched the Millennium Challenge Account. It will give grants, not loans, to countries that govern justly, invest in their own people's education and health, and have the economic practices that can rightly put foreign aid to good use. Congress funded this program with $1 billion for its first year of operation. Already, sixteen of the world's poorest countries have been selected to participate.

The United States also supports the international program to help Heavily Indebted Poor Countries. Debt is a heavy burden for developing countries, and we are doing something about it. Whereas the twenty-seven countries now in the Heavily Indepted Poor Countries program will have had some two-thirds of their debt forgiven, the United States will forgive 100 percent of the debt they owe us. In the G-8, we are working towards extending this program for two more years. And we are asking international financial institutions to consider our model of giving grants, rather than loans, to developing countries. But even if all the debt is forgiven, all the hard-won progress in African countries is threatened unless people are healthy enough to work and take care

of their families. As all of your know, one of the greatest health scourges today is the pandemic of HIV/AIDS. No other disease does more to wreck the lives of people and create social and economic instability in Africa and other places. That is why President Bush has established our Emergency Plan for AIDS Relief. It is a $15 billion plan for prevention, treatment and care. It brings together all U.S. government HIV/AIDS activities. It fosters partnerships with non-government organizations, faith-based and community-based groups, and businesses. And it focuses resources on the fifteen countries hardest hit by the disease.

Here, again, as was the case with human rights, you can see this practice of public-private partnerships which I would submit is a leitmotif of this administration's approach to solving international economic and social problems. We leverage public-private partnerships in many areas, in fact. In 2002 alone, we established or joined over 200 results-oriented partnerships to promote sustainable development. And they are having quite an impact. Let me give you a few examples. Take our Safe Water System Partnership. Working with health ministries in seventeen developing countries, with United Nations Childrens Fund, the World Health Organization, the World Bank, businesses, and non-government organizations, this program has distributed over eight million bottles of disinfectant. Just one bottle provides one person with enough safe drinking and cooking water for six months. Then there is our Clean Energy Initiative. It has helped sixteen million people in Asia, Africa, and Latin America leave behind their reliance on wood, dung, or crop residue for cooking and heating. And our Partnership for Cleaner Fuels and Vehicles has helped eliminate lead from gasoline in nine Sub-Saharan African countries in just two years.

It is true that the problems of the world are great. But it is also true that the human will to overcome them is greater. Unfortunately, sometimes leaders lack the political will to act. Sometimes they become paralyzed by complexity, or become too timid out of fear great countries are those no matter their size, their military force, or their gross domestic product that act boldly in the face of adversity. That has been the American way now for over two centuries. And in this day and age, facing as we do so many new set of challenges and threats, we know that we must not walk alone.

I know that some think that this administration acts only by itself. That it is too unilateral. As I have shown tonight, the truth is otherwise. Whether it is the many nations joining us in the coalition in Iraq and Afghanistan or the war on terrorism, or the hundreds of programs and millions of dollars this government pours into international programs, this administration values partners who value us and our principles.

Last week, before the United Nations General Assembly, President Bush laid out a broad agenda to advance human dignity and enhance security. He mentioned the defeat of terror, the protection of human rights, the spread of prosperity, and the advance of democracy goals that he said "call us to great work in the world. Each of us alone can only do so much. Together, we can accomplish so much more."

We believe in partnerships. As Secretary Powell has said, "partnership is the watchword of U.S. strategy in this administration." This is not about deferring to others; it is about working with them. It is about offering leadership in great and common enterprises. And that is just what America is doing. That is multilateralism at its best. In the service of American interests and values. And in the service of peace, human rights, and economic growth.

Challenges for European and American Diplomacy in the 21st Century

By
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[The following are excerpts of the remarks presented at Symposium: "A Changing Europe in a Changing World" at Diplomatic Academy Vienna, Austria, June 24, 2004.]

Austria is a proud host of the world's oldest diplomatic training school. Our connection to it is more than rhetorical. Our Embassy to Austria is the former home of the Consular Academy, the successor to the Oriental Academy. In his congratulatory letter last October to Foreign Minister Ferrero-Waldner, Secretary of State Powell wrote:

> The Austrian Diplomatic Academy has played a significant role in the history of European diplomacy, and continues to occupy an important place in fostering good relations among the states of Central Europe, particularly those to Austria's East.

The Diplomatic Academy prepares students for a variety of international careers: in the diplomatic corps, with international organizations and non-governmental organizations, in business and media. Fifty-eight Diplomatic Academy graduates serve as Ambassadors and the Diplomatic Academy has over 100 graduates from Russia and other former Soviet Bloc countries. Through its co-chairmanship of the International Forum of Diplomatic Training, the Diplomatic Academy has reached further afield than Empress Maria Theresa could ever have dreamed, working with institutions from Mexico City to New Delhi to meet the needs of tomorrow's diplomats.

As my classmate, colleague, and friend Kathy Peterson, Director of the Department of State Foreign Service Institute, will happily confirm, Secretary Powell is a strong believer in the importance of training for tomorrow's diplomacy. He says:

> We have to make sure that . . . people are qualified and they have all the skills and we have done our very best to give them the very best training possible for their job.

We want to train 21st Century diplomats to meet 21st Century challenges. I believe this transformation of diplomatic training comes not a moment too soon because diplomacy is changing before our eyes. Our world and our profession is different from the one which existed during the almost fifty years after World War II, when international relations were governed by the Cold War. Europe, the United States, and the rest of the world are today confronted by political, economic, and security opportunities and challenges that the 21st Century diplomat must first confront and then successfully meet. What are these challenges and opportunities? How will a diplomacy for the 21st Century deal with them? Will our diplomats be ready? To answer these questions, we need to think in new ways about our world, analyze the trends we see in ways that recognize they are connected, and then commit to act on them coherently and simultaneously.

Let us first consider four trends that are changing the world and the profession of diplomacy. Then, let us consider the job diplomats will do in this new world. Here are the four trends that define our world and our profession:

The Global War Against Terrorism, and terror's connection to weapons of mass destruction. The attacks on the United States on September 11, 2001 changed America and the world. Innocents from ninety-two different countries died in the World Trade Center attack including 156 victims from twenty-nine European countries. We in the United States have neither forgotten them nor the support we received from our European friends and others worldwide.

- Since September 11, 2001, terrorists have murdered innocents in Bali, Jakarta, Casablanca, Bombay, Mombasa, Najaf, Jerusalem, Riyadh, Istanbul, Baghdad, Karbala, Khobar, and elsewhere.

- The March 11 bombings in Madrid reaffirmed in the most horrible manner that terrorists were willing and able to strike in Europe.

- And so together we fight a network of terrorists operating in more than sixty countries.

- The Global War on Terrorism will shape our lives and policies for years to come. It is a war we must fight together and win. And we will. We must also make sure weapons of mass destruction potential instruments of terror unlike any other never come into the hands of terrorists.

Tom Friedman writes about globalization in *The Lexus and The Olive Tree* that in 1990 there were 800 computer systems linked on the internet. Friedman wrote in a column last June that,

> In the past three years, Google has gone from processing 100 million searches per day to over 200 million searches per day [in approximately 90 languages]. . . VeriSign, which operates much of the internet's infrastructure, was processing 600 million domain requests per day in early 2000. It is now processing nine billion per day.

No change comes without cost. Globalization has its critics. Some say that globalization is good just for wealthy countries. But I say to embrace only self-sufficiency or to deride growth, as some protesters do, is to glamorize poverty. There is also a debate about whether globalization is a firm reality or a reversible trend. What seems to me not debatable is that the way nations, people, and organizations respond to globalization is a matter of choice and policy. The same networks that allow the free flow of commerce and communication can be exploited to facilitate terrorist attacks and proliferation, traffic human beings, and spread HIV/AIDS. And so our goal must be to open the positive opportunities of globalization through the third trend that marks our world: Free Markets and Democracy.

Free markets thrive on the best of individuals and nations. Free markets connect accountability, the rule of law, human rights, and democracy. As Martin Wolf wrote in the *Financial Times* on May 10:

> At present capital flows to developing countries are remarkable for their modesty. But if the commitments to protecting property and allowing capital to move freely were credible everywhere, the movement of capital to poor countries would increase hugely.

According to a 2003 report by Freedom House, there are more free countries today than at any time in history, and the number is approaching a majority. Free countries today account for $26.8 trillion of the world's annual gross domestic product, 89 percent, as compared to partly free countries at $1.5 trillion 5 percent, and not free countries at $1.7 trillion 6 percent. As Martin Wolf continued in his *Financial Times* article:

> As countries grow richer, they are better able to afford higher standards of education, health and public services. As citizens become better informed and more prosperous, they insist on higher standards in public life. . . Meanwhile . . . very low standards of living mean correspondingly limited ability to provide any of the necessary public goods that underpin economic growth.

A study by Paul Collier of the World Bank, which was reported last year by *The Economist*, examined the world's civil wars since 1960 and concludes that the most striking common factor among war-prone countries is their poverty. The poorest one-sixth of humanity endures four-fifths of the world's civil wars. And as *The Economist* reported on May 29: 60 percent of least developed countries suffered conflict in 1990-2001, up from 40 percent in 1978-1989.

The European Commission observed in May 2001:

> Corrupt and autocratic governments . . . generate conflict and instability. . . Democratic, pluralist governments which respect the rights of minorities are less likely to resort to nationalism, violence or aggression, either internally or externally, against their neighbors or further afield.

As President Bush said last November in London:

> It is suggested that the poor, in their daily struggles, care little for self-government. Yet it is the poor, especially, who need the power of democracy.

The role of Europeans and Americans in the world have a unique opportunity to create a better world together and we must make the most of it. As President Bush and German Chancellor Schroeder said in a Joint Statement this past February:

> We renew our determination to work together . . . to achieve a more secure, prosperous, and just world. [We share a] commitment to the values of freedom, democracy and rule of law, and to economic opportunity and prosperity through free and open markets. These are fundamental . . . to our common efforts in meeting the great challenges of a new era: the nexus of threats posed by terrorism, weapons of mass destruction, tyranny, poverty, the lack of opportunity, and violent extremism.

The job 21st Century diplomats have and so the theme of the second part of my talk is to take these four trends and try to connect them and act on them in new ways. What kind of diplomat will meet this 21st Century challenge? I am reminded of a passage from David McCullough's biography of John Adams, our first minister to the Court of St. James and the second American president. One critic of the period wrote of Adams that he is

> "not qualified by nature or education to shine in courts. His abilities are undoubtedly equal to the mechanical parts of his business as Ambassador; but that is not enough. He cannot dance, drink, flatter, promise, dress, swear with the gentlemen, and make small talk and flirt with the ladies; in short he has none of the essential art or ornament which constitute the courtier."

What a job description! And, clearly, one that has no connection with the daily work we do as diplomats. 21st Century diplomats:

- Must recognize that the global trends I have described are connected.
- They must not only be proficient in languages, but in intercultural communication.
- They must have negotiating skills to deal effectively with other governments, international organizations, non-governmental organizations, the private sector, and the media.
- They must understand the important role that public diplomacy plays.
- They must understand the principles of preventive diplomacy and international peace operations.
- They must be good managers, knowing how to get the most from their employees while developing each one of them to their fullest potential.
- They must work with the latest technologies, which will be changing in ways we cannot even imagine.
- And they must perform their duties while serving in dangerous places. As many as 30 State Department officers have given their lives in the line of duty since 1990.

To do all this, I believe 21st Century diplomats will pursue policies that are as simultaneous as the challenges we face. Take, for example, the challenge we face to reduce poverty through

sustainable economic growth by investing in countries that are making simultaneous efforts to rule justly, invest in their people, and promote economic freedom. This is a challenge that the World Bank and regional development banks are taking up as they consider how best to uplift the poorest one-sixth of humanity. It is why President Bush created the Millennium Challenge Corporation, which works with countries that take these steps through substantial, focused assistance. Congress has authorized $1 billion in initial funding and, in May, the Millennium Challenge Corporation named the first sixteen countries eligible to apply for Millennium Challenge Account assistance. President Bush has pledged to increase annual MCA funding to $5 billion a year starting in 2006 a level, Secretary Powell noted earlier this year: [that represents] the most substantial international development assistance effort since the Marshall Plan.

The European Union has taken a similar approach in its development programs in Africa by focusing simultaneously on: economic assistance and integration; protection of human rights, democratic principles, and the rule of law; and conflict prevention and peace-building. Consider the global fight against HIV/AIDS. Fifteen billion dollars in U.S. assistance will be used simultaneously on life-saving prevention, treatment, and care programs. As President Bush has stated, This is the largest, single up front commitment in history for an international public health initiative involving a specific disease. Money is already being spent in 14 focus countries 12 across sub-Saharan Africa and two in the Caribbean.

The European Union's HIV/AIDS program in developing countries provides education, assistance, and healthcare measures.

- 21st Century diplomats will pursue policies that build partnerships.
- The United States remains committed to working with our allies, friends, and partners to create a better world.
- In these times, exceptional partnerships are needed.
- To fight the war on terrorism.
  - •• More than 100 nations have arrested or detained over 3,400 terrorists or their supporters.
  - •• $150 million has been frozen or seized from terrorist-related accounts around the globe.

We work together on global programs like the *Container Security Initiative*, which aims to reduce the possibility that terrorists will plan attacks using maritime cargo containers a key element in the 90 percent of global trade that is transported on the high seas. There is also the *Proliferation Security Initiative* (PSI), a partnership of countries, using their own laws and resources, determined to stop shipments of weapons of mass destruction, delivery systems, and related materials at sea, in the air, or on land. Nearly sixty nations, many represented here, support PSI. And on April 28, 2004, the U.N. Security Council, in response to President Bush's call September 2004, passed Resolution 1540 requiring all countries to pass laws preventing the transfer of any weapons of mass destruction, delivery systems, or related materials to terrorists.

We are also building partnerships to address other transnational issues. The World Conference on Sustainable Development has brought countries together to eradicate poverty. And numerous transnational partnerships have been assembled to fight organized crime, prevent trade in human beings, and combat drug trafficking.

Just this past April 2004, the Organization for Security and Cooperation in Europe (OSCE) concluded its second Conference on Anti-Semitism, leading to the Berlin Declaration condemning acts motivated by anti-Semitism and other forms of religious or racial hatred. The OSCE will also gather in Paris in June 2004 to denounce use of the internet to promote racism,

xenophobia, and anti-Semitism, and again in Brussels during September 2004 to confront racism, xenophobia, and discrimination throughout society. The 21st Century diplomats will pursue policies that emphasize a willingness to act on a shared vision of freedom.

Consider the following cases:

- NATO has been transformed, expanded, and adapted to meet today s opportunities and threats. At the Istanbul Summit next week, NATO will welcome the leaders of the seven new members of the Alliance: Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia. Seven states whose people once suffered totalitarian rule. Seven states which now free are working in Afghanistan and Iraq to help other people be free.

- Together, we are acting to support Afghans as they build a stable and democratic Afghanistan free from terror. Over thirty European countries, the United States, and other important partners have provided over 15,000 troops to the International Security Assistance Force NATO's first operation outside Europe, North America, and Operation Enduring Freedom. The United States has provided over $3.7 billion in economic and security assistance to Afghanistan since 2001 and the European Union has pledged over $1 billion in assistance. There is still much to do. But together, we have rehabilitated 205 schools and 140 health clinics, built roads, and trained thirteen battalions of the Afghan National Army.

- Iraq, too, is moving towards stability, prosperity, and free, fair elections. Recent attacks show there is much to be done. But the unanimous passage of U.N. Security Council Resolution 1546 demonstrates the international community's support for building a democratic Iraq built on a foundation of freedom and rights for all. On July 1, 2004 the Iraqi Interim Government will have the sovereign responsibility for administering Iraq's day-to-day affairs, providing for the welfare of the Iraqi people, promoting economic development, and preparing for national elections. Thirty-one Coalition partner nations have 23,000 soldiers in Iraq to help Iraqis secure this transition. Sixteen of NATO's now twenty-six members, as well as additional European and other partners, have troops on the ground. And it is not simply troops. Last fall's donors conference in Madrid secured pledges totaling more than $32 billion in aid. Over sixty-five nations pledged financial, humanitarian, reconstruction, and military assistance.

- Beyond Iraq, let us look to the future of the Broader Middle East and North Africa. President Bush announced in a speech at the National Endowment for Democracy last November 6, 2003 that the United States has adopted a new policy, a forward strategy of freedom in the Middle East. He went on to note that questions arise:

  •• Are the peoples of the Middle East somehow beyond the reach of liberty?

  •• Are millions of men and women and children condemned by history or culture to live in despotism?

  •• Are they alone never to know freedom, and never even to have a choice in the matter?

I, for one, do not believe it. I believe every person has the ability and the right to be free. Reform in the Middle East and North Africa cannot be imposed from outside. Many leaders in the Middle East and North Africa, in governments and in the economic, academic, and political worlds, have already concluded that reform is essential. Our job is to support that movement for positive change. And we did so with the creation of the Partnership for Progress and a Common Future at the recent G-8 Summit, and will do more this week and next at the U.S. and E.U. Summit in Ireland and the NATO Summit in Istanbul.

Our focus on supporting reform in the Middle East and North Africa is not a substitute for active engagement on an Israeli and Palestinian settlement, but neither can the difficulties in

reaching a settlement be used to justify lack of democratic and economic reform throughout the region.

- We are also alert to opportunities for acting on our shared vision of freedom in other regions of the world.

- In Africa, our shared vision of freedom focuses on conflict prevention and resolution, combating the HIV/AIDS pandemic, increasing economic freedom, strengthening democratic institutions, and increasing women's political participation. We face in Africa simultaneous challenges and opportunities. Over the years, the absence of freedom and democracy has undermined human development. Even a decade a ago, only four African countries were considered free.

Recently, however, Africa has made important progress. According to Freedom House's 2003 report, of the forty-eight countries in sub-Saharan Africa, thirty-two are now free or partly free. But sixteen remain not free, so there is still important work to be done. As part of our commitment to act, we must respond to the crisis in Darfur, where humanitarian assistance is urgently needed to save hundreds of thousands of lives. The government of Sudan must: end the Jingaweit violence; enter a ceasefire with the armed opposition and consent to international monitoring of that agreement; and allow unrestricted humanitarian access. And those responsible for atrocities in Darfur must be held accountable.

- In Latin America, our shared vision of freedom focuses simultaneously on defeating narcoterrorism, reducing corruption, and raising the poor out of their despair by removing obstacles to economic growth. Last October 2004, the OAS Special Conference on Security met in Mexico City. The charter signed says that the security of all states in the hemisphere is affected by both traditional threats and new threats. The conference concluded that, today, these threats are and a successful defense therefore also must be simultaneous and multi-dimensional.

- In Asia, too, our shared vision of freedom simultaneously focuses on improving governance, promoting individual freedoms, bridging the economic gaps across the region, and unifying in the War on Terrorism. At last October's Asia and Pacific Economic Cooperation meeting in Thailand, Asia Pacific Economic Cooperation (APEC) nations agreed that sustainable economic development requires empowering people and strengthening societies.

As 21st Century diplomats, it is our job to pursue foreign policies that defeat our enemies, turn the trends that define our world into opportunities for all of us, and inspire not only our current allies and friends but also those allies and friends yet to be made.

As Austrian President (Thomas) Klestil observed in January 2000:

> The closer Europe and the world move together, the more important becomes an open dialogue throughout the whole international community. . . On the threshold of the third millennium, human suffering is of concern to all mankind and must no longer be regarded as an internal matter. In this framework, the transatlantic dialogue also gains additional importance. . . What is involved are by no means only questions of security but also the future shape of international economic, trade and financial relations, the protection of the environment, and effective responses to social and cultural challenges. Clearly, diplomacy matters more than ever. I can imagine neither a successful United States nor a successful Europe in the 21st Century without a successful diplomacy for the 21st Century.

I would like to let Secretary Powell have the last word on the challenges our profession faces:

> We fight terrorism because we must. We seek a better world because we can, because it is our desire, it is our destiny to do so. That is why we devote ourselves to

> democracy, development, global public health, human rights as well as to the structure of global peace that enables us to pursue our vision for a better world. . . These are not mere high-sounding decorations for our interests. They are our interests. They are the purposes that our power serves.

Conventional Arms Transfers to Developing Nations, 1996-2003

By
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[The following extract provides unclassified background data from U.S. government sources on transfers of conventional arms to developing nations by major suppliers for the period 1996 through 2003. It also includes some data on world-wide supplier transactions. It updates and revises the report entitled *Conventional Arms Transfers to Developing Nations, 1995-2002*, published by the Congressional Research Service (CRS) on September 22, 2003 (CRS Report RL32084). This extract does not necessarily include all the charts and graphs, however, those included will retain their original chart or graphic number so that the reader can cross reference to the complete document. A complete electronic copy is available at http://www.fas.org/man/crs/Rl32547.pdf.]

Summary

This report is prepared annually to provide unclassified quantitative data on conventional arms transfers to developing nations by the United States and foreign countries for the preceding eight calendar years. Some general data are provided on worldwide conventional arms transfers, but the principal focus is the level of arms transfers by major weapons suppliers to nations in the developing world.

Developing nations continue to be the primary focus of foreign arms sales activity by weapons suppliers. During the years 1996-2003, the value of arms transfer agreements with developing nations comprised 63.9 percent of all such agreements worldwide. More recently, arms transfer agreements with developing nations constituted 60.4 percent of all such agreements globally from 2000-2003, and 53.6 percent of these agreements in 2003.

The value of all arms transfer agreements with developing nations in 2003 was over $13.7 billion. This was a substantial decrease over 2002, and the lowest total, in real terms, for the entire period from 1996-2003. In 2003, the value of all arms deliveries to developing nations was nearly $17 billion, the lowest total in deliveries values for the entire period from 1996-2003 (in constant 2003 dollars).

Recently, from 2000-2003, the United States and Russia have dominated the arms market in the developing world, with the United States ranking first and Russia second each of the last four years in the value of arms transfer agreements. From 2000-2003, the United States made $35.8 billion in arms transfer agreements with developing nations, in constant 2003 dollars, 46.8 percent of all such agreements. Russia, the second leading supplier during this period, made over $21 billion in arms transfer agreements, or 27.5 percent.

In 2003, the United States ranked first in arms transfer agreements with developing nations with over $6.2 billion or 45.4 percent of these agreements. Russia was second with $3.9 billion or 23.4 percent of such agreements. In 2003, the United States ranked first in the value of arms deliveries to developing nations at $6.3 billion, or 37.1 percent of all such deliveries. The United Kingdom ranked second at $4 billion or 23.5 percent of such deliveries. Russia ranked third at $3.3 billion or 19.4 percent of such deliveries.

During the 2000-2003 period, China ranked first among developing nations purchasers in the value of arms transfer agreements, concluding $9.3 billion in such agreements. The United Arab Emirates (U.A.E.) ranked second at $8.1 billion. Egypt ranked third at $6.8 billion. In 2003,

Egypt ranked first in the value of arms transfer agreements among all developing nations weapons purchasers, concluding $1.8 billion in such agreements. China ranked second with $1.6 billion in such agreements. Malaysia ranked third with $1.5 billion.

Introduction

The data in the report illustrate how global patterns of conventional arms transfers have changed in the post-Cold War and post-Persian Gulf War years. Relationships between arms suppliers and recipients continue to evolve in response to changing political, military, and economic circumstances. Nonetheless, the developing world continues to be the primary focus of foreign arms sales activity by conventional weapons suppliers. During the period of this report, 1996-2003, conventional arms transfer agreements (which represent orders for future delivery) to developing nations have comprised 63.9 percent of the value of all international arms transfer agreements. The portion of agreements with developing countries constituted 60.4 percent of all agreements globally from 2000-2003. In 2003, arms transfer agreements with developing countries accounted for 53.6 percent of the value of all such agreements globally. Deliveries of conventional arms to developing nations, from 2000-2003, constituted 53.1 percent of all international arms deliveries. In 2003, arms deliveries to developing nations constituted 59.1 percent of the value of all such arms deliveries worldwide.

The data in this new report supersede all data published in previous editions. Since these new data for 1996-2003 reflect potentially significant updates to and revisions in the underlying databases utilized for this report, only the data in this most recent edition should be used. The data are expressed in U.S. dollars for the calendar years indicated, and adjusted for inflation. U.S. commercially licensed arms exports are incorporated in the main delivery data tables, and noted separately. Excluded are arms transfers by any supplier to subnational groups.

Calendar Year Data Used

All arms transfer and arms delivery data in this report are for the calendar year or calendar year period given. This applies to both U.S. and foreign data alike. U.S. government departments and agencies publish data on U.S. arms transfers and deliveries but generally use the United States fiscal year as the computational time period for these data. (A U.S. fiscal year covers the period from October 1 through September 30). As a consequence, there are likely to be distinct differences noted in those published totals using a fiscal year basis and those provided in this report which use a calendar year basis for its figures. Details on data used are outlined in footnotes at the bottom of Tables 1, 2, 8 and 9.

Constant 2003 Dollars

Throughout this report values of arms transfer agreements and values of arms deliveries for all suppliers are expressed in U.S. dollars. Values for any given year generally reflect the exchange rates that prevailed during that specific year. In many instances, the report converts these dollar amounts (current dollars) into constant 2003 dollars. Although this helps to eliminate the distorting effects of U.S. inflation to permit a more accurate comparison of various dollar levels over time, the effects of fluctuating exchange rates are not neutralized. The deflators used for the constant dollar calculations in this report are those provided by the U.S. Department of Defense and are set out at the bottom of Tables 1, 2, 8, and 9. Unless otherwise noted in the report, all dollar values are stated in constant terms. Because all regional data tables are composed of four-year aggregate dollar totals (1996-1999 and 2000-2003), they must be expressed in current dollar terms. Where tables rank leading arms suppliers to developing nations or leading developing nation recipients using four-year aggregate dollar totals, these values are expressed in current dollars.

Definition of Developing Nations and Regions

As used in this report, the developing nations category includes all countries except the United States, Russia, European nations, Canada, Japan, Australia, and New Zealand. A listing of countries located in the regions defined for the purpose of this analysis Asia, Near East, Latin America, and Africa is provided at the end of the report.

Arms Transfer Values

The values of arms transfer agreements or deliveries in this report refer to the total values of arms orders or deliveries as the case may be which include all categories of weapons and ammunition, military spare parts, military construction, military assistance and training programs, and all associated services.

Major Findings

General Trends in Arms Transfers Worldwide

The value of all arms transfer agreements worldwide to both developed and developing nations in 2003 was over $25.6 billion. This is a significant decrease in arms agreements values over 2002, and is the third consecutive year that total arms agreements have declined, Chart 1.

In 2003, the United States led in arms transfer agreements worldwide, making agreements valued at over $14.5 billion, 56.7 percent of all such agreements, up from $13.6 billion in 2002. Russia ranked second with $4.3 billion in agreements 16.8 percent of these agreements globally, down from nearly $6 billion in 2002. Germany ranked third, its arms transfer agreements worldwide standing at $1.4 billion in 2003. The United States and Russia collectively made agreements in 2003 valued at over $18.8 billion, 73.5 percent of all international arms transfer agreements made by all suppliers, Figure 1.

For the period 2000 through 2003, the total value of all international arms transfer agreements about $126.9 billion was lower than the worldwide value during 1996 through 1999 $133.7 billion, a decrease of 5.1 percent. During the period 1996-1999, developing world nations accounted for 67.3 percent of the value of all arms transfer agreements made worldwide. During 2000-2003, developing world nations accounted for 60.4 percent of all arms transfer agreements made globally. In 2003, developing nations accounted for 53.6% of all arms transfer agreements made worldwide Figure 1.

In 2003, the United States ranked first in the value of all arms deliveries worldwide, making over $13.6 billion in such deliveries or 47.5 percent. This is the eighth year in a row that the United States has led in global arms deliveries, reflecting, in particular, implementation of arms transfer agreements made during and in the years immediately following the Persian Gulf War of 1990 through 1991. The United Kingdom ranked second in worldwide arms deliveries in 2003, making $4.7 billion in such deliveries. Russia ranked third in 2003, making $3.4 billion in such deliveries. These top three suppliers of arms in 2003 collectively delivered over $21.7 billion, 75.7 percent of all arms delivered worldwide by all suppliers in that year. Figure 2.

The value of all international arms deliveries in 2003 was $28.7 billion. This is a significant decrease in the total value of arms deliveries from the previous year, a fall of over $13.1 billion, and by far the lowest total for the eight years covered by this report. The total value of such arms deliveries worldwide in 2000-2003, $148.2 billion was a substantial decrease in the value of arms deliveries by all suppliers worldwide from 1996 through 1999, $196.3 billion, a fall of $48.1 billion. Illustrated in Figure 2 and Charts 7 and 8.

Developing nations from 2000-2003 accounted for 53.1 percent of the value of all international arms deliveries. In the earlier period, 1996-1999, developing nations accounted for

66.9 percent of the value of all arms deliveries worldwide. In 2003, developing nations collectively accounted for 59.1 percent of the value of all international arms deliveries Figure 2.

The downturn in weapons orders worldwide since 2000 has been notable. Global arms agreement values have fallen from $41 billion in 2000 to $25.6 billion in 2003. Were it not for a few large military aircraft orders in 2003, the total for that year would have been substantially lower. It has been the practice of developed nations in recent years to seek to protect important elements of their national military industrial bases by limiting arms purchases from other developed nations. Instead they have placed greater emphasis on joint production of various weapons systems as a more effective way to preserve a domestic weapons production capability, while sharing costs of new weapons development. Some traditional weapons producers have been forced to consolidate sectors of their domestic defense industry in the face of intense foreign competition, while other supplying nations have chosen to manufacture items for niche arms markets where their specialized production capabilities provide them with important advantages in the evolving international arms marketplace.

The intensely competitive arms market of today has also led supplying states to emphasize sales efforts directed toward regions and nations where individual suppliers have had competitive advantages resulting from well established military support relationships with the prospective customers. In recent years, the potential has developed in Europe for arms sales to nations that have recently become members of North Atlantic Treaty Organization (NATO). Although there are inherent limitations on these potential sales due to the smaller defense budgets of several of these nations, creative seller financing options, as well as the use of co-assembly, co-production, and countertrade, to offset costs to purchasers, has resulted in some noteworthy contracts being signed. Most noteworthy in 2003 was a $3.5 billion sales agreement between the United States and Poland for the purchase of 48 F-16 C/D Block 52M fighter aircraft. Elsewhere within NATO, Germany in 2003 concluded a $1.7 billion agreement with Greece for 170 Leopard 2 Main Battle Tanks. It seems likely that competition will continue between the United States and other European countries or consortia over the prospective arms contracts within the European region in the years ahead. Such sales have the potential to compensate for lost contracts due to reduced demand for weapons from traditional clients in the developing world.

In recent years, numerous developing nations have reduced their weapons purchases primarily due to their lack of sufficient funds to pay for such weaponry. Even those prospective arms purchasers in the developing world with significant financial assets have exercised restraint and caution before embarking upon new and costly weapons procurement endeavors. The unsettled state of the global economy has influenced a number of developing nations to emphasize the upgrading of existing weapons systems in their inventories, rather than the purchase of newer ones. Given the substantial arms purchases made in the mid-1990s by a number of nations in the developing world, there has been a notable reduction in new arms agreements by these countries, since several of them are engaged in absorbing and integrating previously purchased weapons systems into their military force structures.

At present, there appears to be fewer large weapons purchases being made by developing nations in the Near East, while a relatively larger increase in purchases are being made by developing nations in Asia. Nonetheless, these apparent trends are subject to abrupt change based on the strength of either the international or regional economies. The health of the domestic economies in various nations in the developing world continue to be a very significant factor in their arms purchasing decisions.

Although some nations in Latin America, and, to a much lesser extent, in Africa, have shown interest in updating important sectors of their military force structures, many states in these regions also continue to be constrained by their limited financial resources. Limited seller-

supplied credit and financing seems likely to continue to be a factor that inhibits the conclusion of major weapons deals in these regions of the developing world.

General Trends in Arms Transfers to Developing Nations

The value of all arms transfer agreements with developing nations in 2003 was $13.7 billion, a notable decrease over the $17.4 billion total in 2002. This was the lowest annual total, in real terms, during the eight-year period from 1996-2003. Chart 1, Figure 1. In 2003, the value of all arms deliveries to developing nations $17 billion was a clear decrease from the value of 2002 deliveries nearly $18.7 billion, and the lowest total of the last eight years, Charts 7 and 8, Figure 2.

Recently, from 2000-2003, the United States and Russia have dominated the arms market in the developing world, with the United States ranking first each of the last four years in the value of arms transfer agreements. From 2000-2003, the United States made over $35.8 billion in arms transfer agreements with developing nations, 46.8 percent of all such agreements. Russia, the second leading supplier during this period, made nearly $21.1billion in arms transfer agreements or 27.5 percent. France, the third leading supplier, from 2000-2003 made $3.8 billion or 5 percent of all such agreements with developing nations during these years. In the earlier period from 1996 through 1999, the United States ranked first with $27.5 billion in arms transfer agreements with developing nations or 30.6 percent; Russia made $15.6 billion in arms transfer agreements during this period or 17.3 percent. France made $10.7 billion in agreements or 11.9 percent.

During the period from 1996-1999, most arms transfers to developing nations were made by two to three major suppliers in any given year. The United States has ranked first among these suppliers every year from 1998 through 2003. Russia has been a strong competitor for the lead in arms transfer agreements with developing nations, ranking second every year from 1999 through 2003. Despite the larger traditional client base for armaments held by other Major West European suppliers, Russia's recent successes in securing new arms orders suggests that despite the traditional marketing advantage held by Major West European competitors. Russia is likely to continue to rank higher in the value of new arms agreements than other key European arms suppliers, for the near term. Since Russia's largest value arms transfer agreements in recent years have been with two countries, China and India, continued Russian success in the arms trade with developed nations will depend on its ability to expand its client base. In this regard, Russia has made some strides in Southeast Asia. The Russian government has also stated that it has adopted more flexible payment arrangements for its prospective customers in the developing world, and is attempting to enhance the quality of its follow-on support services to make Russian products more attractive and competitive.

Traditional arms suppliers such as France, the United Kingdom and Germany occasionally conclude large orders with developing countries, based on either long-term supply relationships or their having specialized weapons systems they can readily provide. Nevertheless, the United States continues to appear best equipped to secure new arms agreements with developing nations that are able to afford major new arms purchases. The purchase of new and highly expensive weapons by many developing countries, however, seems likely to be limited in the near term, given the tenuous state of the international economy, and the lack of sufficient funding for such undertakings. The overall level of the arms trade with developing nations, which has been generally declining in the years since 2001, is likely either to remain static or continue to decline in the near term, even though a few wealthier developing nations have been able to make some significant purchases more recently.

Other suppliers in the tier below the United States and Russia, such as China, other European, and non-European suppliers, have participated in the arms trade with developing nations at a

much lower level. Yet these suppliers are capable of making an occasional arms deal of significance. Most of their annual arms transfer agreements values totals during 1996 through 2003 have been relatively low, and are based upon generally smaller transactions of less sophisticated military equipment. It is unlikely that many of these countries will be capable of rising to the status of a major supplier of advanced weaponry on a consistent basis.

United States

In 2003, the total value in real terms of United States arms transfer agreements with developing nations fell notably to $6.2 billion from nearly $8.9 billion in 2002. The U.S. share of the value of all such agreements was 45.4 percent in 2003, down from a 51 percent share in 2002. Charts 1, 3 and 4, Figure 1.

In 2003, the value of U.S. arms transfer agreements with developing nations was primarily attributable to purchases by key U.S. clients in the Near East and in Asia. These arms agreement totals also reflect a continuation of well established defense support arrangements with these and other purchasers worldwide. U.S. agreements with its clients in 2003 include not only some sales of major weapons systems, but also a continuation of the upgrading of some previously provided. The U.S. totals also reflect agreements for a wide variety of spare parts, ammunition, ordnance, training, and support services. Among major weapons systems agreements the United States concluded in 2003 were with the following:

- Egypt for a co-production program involving 125 M1A1 Abrams Main Battle Tank kits for $790 million;
- Saudi Arabia for a number of light infantry vehicles (LAWS) for $316 million;
- South Korea for 3 MK41 Vertical Launch Systems for $191 million;
- Taiwan for a number of Assault Amphibious Vehicles (AAVs) for $150 million;
- Israel for 1 AH-64D Apache Longbow helicopter;
- Oman for 2 Reconnaissance Systems; and
- Pakistan for 6 C-130E aircraft.

The United States also concluded agreements for the sale of various missile systems to nations in both the Near East and in Asia. Among these agreements concluded were with the following:

- Egypt for 414 AIM-9M Sidewinder missiles as well as Harpoon Block II missiles;
- Israel for AGM-114 Hellfire missiles; and
- Taiwan for 144 Standard SM2 III missiles.

Apart from weapons themselves, it must be emphasized that, the sale of munitions, upgrades to existing systems, spare parts, training and support services to developing nations worldwide account for a very substantial portion of the total value of U.S. arms transfer agreements. This fact reflects the large number of countries in the developing, and developed, world that have acquired and continue to utilize a wide range of American weapons systems, and have a continuing requirement to support, to modify, as well as to replace, these systems.

Russia

The total value of Russia's arms transfer agreements with developing nations in 2003 was $3.9 billion, a notable decline from $5.3 billion in 2002, but it still placed a strong second in such agreements with the developing world. Russia's share of all developing world arms transfer agreements decreased, falling from 30.7 percent in 2002 to 23.4 percent in 2003. Charts 1, 3 and 4, Figure 1, and Table 1G.

Russian arms transfer agreements totals with developing nations have been notable during the last four years. During the 2000-2003 period, Russia ranked second among all suppliers to developing countries, making $21 billion in agreements. Russia's status as the second leading supplier of arms to developing nations stems from an increasingly successful effort to overcome the significant economic and political problems associated with the dissolution of the former Soviet Union. The traditional arms clients of the former Soviet Union were generally less wealthy developing countries prized as much for their political support in the Cold War, as for their desire for Soviet weaponry. Many of these traditional Soviet client states received substantial military aid grants and significant discounts on their arms purchases. After the breakup of the Soviet Union in December 1991 these practices were greatly curtailed. The Russia that emerged in 1991 consistently placed a premium on obtaining hard currency for the weapons it sold. Faced with stiff competition from Western arms suppliers in the 1990s, Russian gradually adapted its selling practices in an effort to regain and sustain an important share of the developing world arms market.

In recent years, Russian leaders have made efforts to provide more flexible and creative financing and payment options for prospective arms clients. It has also agreed to engage in counter-trade, offsets, debt-swapping, and, in key cases, to make significant licensed production agreements in order to sell its weapons. The willingness to license production has been a central element in several cases involving Russia's principal arms clients, China and India. Russia's efforts to expand its arms customer base have been met with mixed results. In the early 1990s, Russia developed a supply relationship with Iran, providing that country with Mig-29 fighter aircraft, Su-24 fighter-bombers, T-72 Main Battle Tanks, and Kilo-class attack submarines. Although new Russian sales to Iran were suspended for a period from 1995-2000 in accordance with an agreement with the United States, Russia now asserts its option to sell arms to Iran should it choose to do so. Although discussions have been held between Russia and Iran on prospective future arms purchases, there have not been, as of this date, major new Iranian procurements of advanced weapons systems, comparable to the types and quantities obtained in the early 1990s. Russia's arms sales efforts, apart from those with China and India seem focused on Southeast Asia, where it has had some success in securing arms agreements with Malaysia, Vietnam and Indonesia. Similarly, Russian combat fighter aircraft sales have been made in recent years to Algeria and Yemen. Elsewhere in the developing world Russian military equipment still holds attractions because it ranges from the most basic to the highly advanced, and can be less expensive than similar arms available from other major suppliers.

Yet Russia continues to confront a significant obstacle in breaking into arms markets traditionally dominated by Western suppliers, namely, its perceived inability to provide consistent high-quality follow-on support, spare parts, and training for the weapons systems it sells. There is an almost ingrained reluctance on the part of many developing nations to purchase advanced armaments from a supplier like Russia that is still engaged in reorganization and rationalization of its defense production base, when more stable, well-known, and established sources of such weapons exist. And though Russia may now be embarked on some programs of advanced military research and development, the other major arms suppliers in the West are currently in the process of producing weaponry much more advanced than those programs that may, at some future point, be available from Russia.

Despite these difficulties, Russia continues to have major on-going arms transfer programs involving China and India, which should provide it with sustained business through this decade. Since the mid-1990s, Russia has sold major combat fighter aircraft, and main battle tanks to India, and has provided other major weapons systems though lease or licensed production. China, however, remains a linch pin of Russia's arms export program, particularly in aircraft and naval

systems. Since 1996, Russia has sold China Su-27 fighter aircraft and agreed to licensed production of them. It has also sold the Chinese quantities of Su-30 multi-role fighter aircraft, Sovremenny-class destroyers equipped with Sunburn anti-ship missiles, and Kiloclass Project 636 submarines. Russia has also sold the Chinese a variety of other weapons systems and missiles. Most recently, in 2003, Russia sold China an additional twenty-four Su-30 MKK multi-role fighter aircraft for $1 billion.

Other notable arms sales by Russia in 2003 include: a sale of 18 Su30 MKM multi-role fighter aircraft to Malaysia for $900 million; a sale of 10 Mi-171Sh utility helicopters to Malaysia for $71 million; a sale of 4 Su-30 MK fighter aircraft to Vietnam for $110 million; a sale of 10 Project 12418 Molniya-class missile attack boats to Vietnam for $120 million; a sale of two batteries of S-300 PMU air defense systems to Vietnam for $250 million; and a sale of two Su-30 multi-role fighter aircraft, two Su-27 fighter aircraft, and two Mil Mi-35 attack helicopters to Indonesia for about $192 million.

China

China was an important arms supplier to certain developing nations in the 1980s, primarily through arms agreements with both combatants in the Iran-Iraq war. From 2000-2003, the value of China's arms transfer agreements with developing nations has averaged about $580 million annually. During the period of this report, the value of China's arms transfer agreements with developing nations peaked in 1999 at $2.6 billion. Its sales figures that year resulted generally from several smaller valued weapons deals in Asia, Africa, and the Near East, rather than one or two especially large sales of major weapons systems. Similar arms deals with small scale purchasers in these regions continue. In 2003, China's arms transfer agreements total was $300 million, its lowest agreements total for the entire 1996-2003 period. For most of the mid-1990s on, China's principal focus has not been on selling arms but on advancing a significant military procurement program, aimed at modernizing its military forces, with Russia serving as its principal supplier of advanced combat aircraft, surface combatants, air defense systems, and submarines. Table 1G and Chart 3.

In recent years, few clients for weapons with financial resources have sought to purchase Chinese military equipment, much of which is less advanced and sophisticated than weaponry available from Western suppliers or Russia. China does not appear likely to be a major supplier of conventional weapons in the international arms market in the foreseeable future. Its likely clients are states in Asia and Africa seeking quantities of small arms and light weapons, rather than major combat systems. At the same time, China is an important source of missiles in the developing world arms market. China supplied Silkworm anti-ship missiles to Iran. Credible reports persist in various publications that China has sold surface-to-surface missiles to Pakistan, a long-standing client. Iran and North Korea have also reportedly received Chinese missile technology. Credible reports of this nature raise important questions about China's stated commitment to the restrictions on missile transfers set out in the Missile Technology Control Regime (MTCR), including its pledge not to assist others in building missiles that could deliver nuclear weapons. Given its continuing need for hard currency, and the fact that it has some military products, especially missiles that some developing countries would like to acquire, China can present an important obstacle to efforts to stem proliferation of advanced missile systems to some areas of the developing world where political and military tensions are significant, and where some nations are seeking to develop asymmetric military capabilities.

Major West European Suppliers

The four major West European suppliers France, United Kingdom, Germany, and Italy, as a group, registered a decline in their collective share of all arms transfer agreements with

developing nations between 2002 and 2003. This group's share fell from 6.5 percent in 2002 to 5.8 percent in 2003. The collective value of this group's arms transfer agreements with developing nations in 2003 was $800 million compared with a total of $1.1 million in 2002. Of these four nations, France was the leading supplier with $500 million in agreements in 2003, an increase from $411 million in 2002. A notable portion of the French total in 2003 was attributable to a production arrangement with the United Arab Emirates (U.A.E.) for light corvette vessels. Italy increased its arms transfer agreements with the developing world from essentially nil in 2002 to $300 million in 2003. Germany and the United Kingdom registered effectively no new developing world arm orders in 2003. Charts 3 and 4.

Collectively, the four major West European suppliers held a 17.7 percent share of all arms transfer agreements with developing nations during the period from 1996-2003. Soon after the Persian Gulf war, the major West European suppliers generally maintained a notable share of arms transfer agreements. More recently this share has declined. For the 2000-2003 period, they collectively held 8.4 percent of all arms transfer agreements with developing nations $6.5 billion. Individual suppliers within the major West European group have had notable years for arms agreements, especially France in 1997 and 1998 $5.3 billion and $2.7 billion respectively. The United Kingdom also had a large agreement year in 1996 $3.2 billion, and at least $1 billion in 1997, 1998, and 1999. Germany concluded arms agreements totaling $1.7 billion in 1998, with its highest total at $2.2 billion in 1999. For each of these three nations, large agreement totals in one year have usually reflected the conclusion of very large arms contracts with one or more major purchasers in that particular year.

The Major West European suppliers have traditionally had their competitive position in weapons exports strengthened through strong government marketing support for their foreign arms sales. Since they can produce both advanced and basic air, ground, and naval weapons systems, the four major West European suppliers have competed successfully for arms sales contracts with developing nations against both the United States, which has tended to sell to several of the same clients, and with Russia, which has sold to nations not traditional customers of either the West Europeans or the U.S. The demand for U.S. weapons in the global arms marketplace, from a large established client base, has created a more difficult environment for individual West European suppliers to secure large new contracts with developing nations on a sustained basis. Furthermore, with the decline in demand by key Near East countries for major weapons purchases, the levels of new arms agreements by major West European suppliers have fallen off notably.

Consequently, some of these suppliers have begun to phase out production of certain types of weapons systems, and have increasingly sought to join joint production ventures with other key European weapons suppliers or even client countries in an effort to sustain major sectors of their individual defense industrial bases. The Eurofighter project is one key example. Other European suppliers have also adopted the strategy of cooperating in defense production ventures with the United States such as the Joint Strike fighter, to both meet their own requirements for advanced combat aircraft, and to share in profits resulting from future sales of this aircraft.

Regional Arms Transfer Agreements

A major stimulus to reaching arms transfer agreements with Near East nations was the Persian Gulf crisis of August 1990-February 1991. This crisis, culminating in a war to expel Iraq from Kuwait, created new demands by key purchasers such as Saudi Arabia, Kuwait, the United Arab Emirates, and other members of the Gulf Cooperation Council (GCC), for a variety of advanced weapons systems. Egypt and Israel continued their modernization and increased their weapons purchases from the United States. The Gulf states' arms purchase demands were not only a response to Iraq's aggression against Kuwait, but a reflection of concerns regarding perceived

threats from a potentially hostile Iran. It remains to be determined whether Gulf states' assessments of the future threat environment, in the post-Saddam Hussein era in Iraq, will lead to declines in their arms purchases. However, in recent years, the position of Saudi Arabia as principal arms purchaser in the Persian Gulf has notably receded. In the period from 1996-1999, Saudi Arabia's total arms agreements were valued at $6 billion. For the period from 2000-2003, Saudi Arabia's total arms agreements had declined to $3.4 billion, a decline of over 43 percent. In Asia, efforts in several developing nations have been focused on upgrading and modernizing defense forces, and this has led to important new conventional weapons sales in that region. Since the mid-1990s, Russia has become the principal supplier of advanced conventional weaponry to China, while maintaining its position as principal arms supplier to India. Russia has also made some progress in expanding its client base in Asia with aircraft orders from Malaysia, Vietnam, and Indonesia. The data on regional arms transfer agreements from 1996-2003 continue to reflect that Near East and Asian nations are the primary sources of orders for conventional weaponry in the developing world.

Near East

The Near East has generally been the largest arms market in the developing world. In 1996-1999, it accounted for nearly 44 percent of the total value of all developing nations arms transfer agreements $34.1 billion in current dollars, ranking it first ahead of Asia which ranked second with 36.8 percent of these agreements. However, during 2000-2003, the Near East region accounted for 37 percent of all such agreements $24.6 billion in current dollars, placing it second to Asia in arms agreements with the developing world. Table 1D.

The United States dominated arms transfer agreements with the Near East during the 1996-2003 period with 59.5 percent of their total value $34.9 billion in current dollars. France was second during these years with 12.6 percent $7.4 billion in current dollars. Recently, from 2000 through 2003, the United States accounted for 75.6 percent of arms agreements with this region $18.6 billion in current dollars, while Russia accounted for 8.1 percent of the region's agreements $2 billion in current dollars. Chart 5.

Asia

Asia has generally been the second largest developing world arms market. Yet in 2000-2003, Asia ranked first, accounting for 50.8percent of the total value of all arms transfer agreements with developing nations $33.8 billion in current dollars. In the earlier period, 1996-1999, the region accounted for 36.8 percent of all such agreements $28.6 billion in current dollars, ranking second. Table 1D.

In the earlier period (1996-1999), Russia ranked first in the value of arms transfer agreements with Asia with 35.4 percent $10.1 billion in current dollars. The United States ranked second with 21.6 percent $6.2 billion in current dollars. The major West European suppliers, as a group, made 23.5 percent of this region's agreements in 1996 through 1999. In the later period from 2000 through 2003, Russia ranked first in Asian agreements with 48.8 percent $16.5 billion in current dollars, primarily due to major combat aircraft sales to India and China. The United States ranked second with 20.6 percent $7.1 billion in current dollars. The major West European suppliers, as a group, made 13 percent of this region's agreements in 2000 through 2003. Chart 6.

Leading Developing Nations Arms Purchasers

The U.A.E. was the leading developing world arms purchaser from 1996-2003, making arms transfer agreements totaling $15.7 billion during these years in current dollars. In the 1996-1999 period, the U.A.E. ranked first in arms transfer agreements at $7.6 billion in current dollars. In 2000-2003, however, China ranked first in arms transfer agreements, with a dramatic increase to $9.3 billion from $4.4 billion in the earlier period (in current dollars). This increase reflects the

military modernization effort by China in the 1990s, based primarily on major arms agreements with Russia. The total value of all arms transfer agreements with developing nations from 1996-2003 was $150.6 billion in current dollars. Thus the United Arab Emirates alone was responsible for 10.4 percent of all developing world arms transfer agreements during these eight years. In the most recent period, 2000-2003, China made $9.3 billion in arms transfer agreements (in current dollars). This total constituted 12.8 percent of all arm transfer agreements with developing nations during these years, which totaled $72.9 billion during these years. The U.A.E. ranked second in arms transfer agreements during 2000-2003 with $8.1 billion (in current dollars), or 11.8 percent of the value of all developing world arms transfer agreements.

The values of the arms transfer agreements of the top ten developing world recipient nations in both the 1996-1999 and 2000-2003 periods accounted for the largest portion of the total developing nations arms market. During 1996-1999, the top ten recipients collectively accounted for 62.6 percent of all developing world arms transfer agreements. During 2000-2003, the top ten recipients collectively accounted for 71.7 percent of all such agreements. Arms transfer agreements with the top ten developing world recipients, as a group, totaled $9 billion in 2003 or 65.5 percent of all arms transfer agreements with developing nations in that year. This reflects the continued concentration of major arms purchases by developing nations within a few countries.

Egypt ranked first among all developing world recipients in the value of arms transfer agreements in 2003, concluding $1.8 billion in such agreements. China ranked second in agreements in 2003 at $1.6 billion. Malaysia ranked third with $1.5 billion in agreements. Six of these top ten recipients were in the Asian region, four were in the Near East.

Saudi Arabia was the leading recipient of arms deliveries among developing world recipients in 2003, receiving $5.8 billion in such deliveries. Saudi Arabia alone received 34.1 percent of the total value of all arms deliveries to developing nations in 2003. Egypt ranked second in arms deliveries in 2003 with $2.1 billion. India ranked third with $2 billion. Arms deliveries to the top ten developing nation recipients, as a group, were valued at nearly $17 billion, or 89.4 percent of all arms deliveries to developing nations in 2003. Six of these top ten recipients were in Asia; four were in the Near East.

Weapons Types Recently Delivered to Near East Nations

Regional weapons delivery data reflect the diverse sources of supply of conventional weaponry available to developing nations. Even though the United States, Russia, and the four major West European suppliers dominate in the delivery of the fourteen classes of weapons examined, it is also evident that the other European suppliers and some non-European suppliers, including China, are capable of being leading suppliers of selected types of conventional armaments to developing nations. Tables 3 and 4.

Weapons deliveries to the Near East, historically the largest purchasing region in the developing world, reflect the substantial quantities and types delivered by both major and lesser suppliers. An illustrative summary of weapons deliveries to this region for the period 2000-2003 can be found in Table 5.

Large numbers of major combat systems were delivered to the Near East region from 2000 through 2003, specifically, tanks and self-propelled guns, armored vehicles, major and minor surface combatants, supersonic combat aircraft, helicopters, air defense and anti-ship missiles. The United States and Russia made significant deliveries of supersonic combat aircraft and anti-ship missiles to the region. Russia, the United States, and European suppliers in general were principal suppliers of tanks and self propelled guns, APCs and armored cars, surface-to-air missiles, as well as helicopters. Three of these weapons categories supersonic combat aircraft, helicopters, and tanks and self-propelled guns are especially costly and are an important portion

of the dollar values of arms deliveries by the United States, Russia, and European suppliers to the Near East region during the 2000-2003 period.

United States

- 276 tanks and self-propelled guns
- 46 APCs and armored cars
- 2 major surface combatants
- 2 minor surface combatants
- 26 supersonic combat aircraft
- 14 helicopters
- 374 surface-to-air missiles
- 63 anti-ship missiles

Russia

- 70 tanks and self-propelled guns
- 150 APCs and armored cars
- 30 supersonic combat aircraft
- 50 helicopters
- 880 surface-to-air missiles
- 30 anti-ship missiles

China

- 50 Artillery pieces
- 40 APCs and armored cars
- 1 guided missile boat
- 20 anti-ship missiles

Major West European Suppliers

- 290 tanks and self-propelled guns
- 20 APCs and armored cars
- 4 major surface combatants
- 27 minor surface combatant
- 4 guided missile boats
- 1 submarine
- 30 helicopters
- 90 anti-ship missiles

All Other European Suppliers

- 420 tanks and self-propelled guns
- 220 APCs and armored cars
- 1 major surface combatant
- 9 minor surface combatants
- 20 supersonic combat aircraft
- 380 surface-to-air missiles

All Other Suppliers

- 10 tanks and self-propelled guns
- 120 APCs and armored cars
- 48 minor surface combatants
- 20 helicopters
- 20 surface-to-surface missiles
- 20 anti-ship missiles

The cost of naval combatants is also generally high, and suppliers of such systems during this period had their delivery value totals notably increased due to these transfers. Some of the less expensive weapons systems delivered to the Near East are deadly and can create important security threats within the region. In particular, from 2000-2003, China delivered to the Near East region twenty anti-ship missiles, the major West European suppliers delivered ninety, while the United States delivered sixty-three, and Russia thirty. China also delivered one guided missile boat to the Near East, while the major West European suppliers collectively delivered four guided missile boats, and twenty-seven minor surface combatants. Other non-European suppliers delivered forty-eight minor surface combatants, as well as twenty surface-to-surface missiles, a weapons category not delivered by any of the other major weapons suppliers during this period.

United States Commercial Arms Exports

The United States commercial deliveries data set out below in this report are included in the main data tables for deliveries worldwide and for deliveries to developing nations collectively. They are presented separately here to provide an indicator of their overall magnitude in the U.S. aggregate deliveries totals to the world and to all developing nations. The United States is the only major arms supplier that has two distinct systems for the export of weapons: the government-to-government FMS system, and the licensed commercial export system. It should be noted that data maintained on U.S. commercial sales agreements and deliveries are incomplete, and are not collected or revised on an on-going basis, making them significantly less precise than those for the U.S. FMS program which accounts for the overwhelming portion of U.S. conventional arms transfer agreements and deliveries involving weapons systems. There are no official compilations of commercial agreement data comparable to that for the FMS program maintained on an annual basis. Once an exporter receives from the Department of State a commercial license authorization to sell valid for four years, there is no current requirement that the exporter provide to the Department of State, on a systematic and on-going basis, comprehensive details regarding any sales contract that results from the license approval, including if any such contract is reduced in scope or cancelled. Nor is the exporter required to report that no contract with the prospective buyer resulted. Annual commercial deliveries data are obtained from shipper's export documents and completed licenses returned from ports of exit by the U.S. Customs Service to the Office of Defense Trade Controls (PM/DTC) of the Department of State, which makes the final compilation of such data. This process for obtaining commercial deliveries data is much less systematic and much less timely than that taken by the Department of Defense for government-to-government FMS transactions. Recently, efforts have been initiated by the U.S. government to improve the timeliness and quality of U.S. commercial deliveries data. The values of U.S. commercial arms deliveries to all nations and deliveries to developing nations for fiscal years 1996 through 2003, in current dollars, according to the U.S. Department of State, were as follows:

Fiscal Year	Commercial Deliveries (Worldwide)	Commercial Deliveries (to Developing Nations)
1996	$1,563,000,000	$696,000,000
1997	$1,818,000,000	$1,141,000,000
1998	$2,045,000,000	$798,000,000
1999	$654,000,000	$323,000,000
2000	$478,000,000	$233,000,000
2001	$821,000,000	$588,000,000
2002	$341,000,000	$213,000,000
2003	$2,727,000,000	$342,000,000

Summary of Data Trends, 1996-2003

Tables 1 through 1J present data on arms transfer agreements with developing nations by major suppliers from 1996-2003. These data show the most recent trends in arms contract activity by major suppliers. Delivery data, which reflect implementation of sales decisions taken earlier, are shown in Tables 2 through 2J. Tables 8, 8A, 8B, 8C and 8D provide data on worldwide arms transfer agreements from 1996-2003, while tables 9, 9A, 9B, 9C and 9D provide data on worldwide arms deliveries during this period. To use these data regarding agreements for purposes other than assessing general trends in seller and buyer activity is to risk drawing conclusions that can be readily invalidated by future events precise values and comparisons, for example, may change due to cancellations or modifications of major arms transfer agreements. These data sets reflect the comparative order of magnitude of arms transactions by arms suppliers with recipient nations expressed in constant dollar terms, unless otherwise noted.

What follows is a detailed summary of data trends from the tables in the report. The summary statements also reference tables and/or charts pertinent to the point(s) noted. Where graphic representations of some major points are made in individual charts, their underlying data is taken from the pertinent tables of this report.

Total Developing Nations Arms Transfer Agreement Values

Table 1 shows the annual current dollar values of arms transfer agreements with developing nations. Since these figures do not allow for the effects of inflation, they are, by themselves, of somewhat limited use. They provide, however, the data from which Table 1A (constant dollars) and Table 1B (supplier percentages) are derived. Some of the more noteworthy facts reflected by these data are summarized below.

- The value of all arms transfer agreements with developing nations in 2003 was $13.7 billion. This was a substantial decrease over 2002, but still the lowest total, in real terms, for arms transfer agreements with developing nations for the eight year period from 1996 through 2003. Chart 1.

- The total value of United States agreements with developing nations fell notably from $8.9 billion in 2002 to $6.2 billion in 2003. The United States' share of all developing world arms transfer agreements fell from 51 percent in 2002 to 45.4 percent in 2003. Chart 3.

- In 2003, the total value, in real terms, of Russian arms transfer agreements with developing nations declined notably from the previous year, falling from $5.3 billion in 2002 to $3.9 billion in 2003. The Russian share of all such agreements declined from 30.7 percent in 2002 to 23.4 percent in 2003. Charts 3 and 4.

- The four major West European suppliers, as a group (France, United Kingdom, Germany, Italy), registered a decline in their collective share of all arms transfer agreements with developing nations between 2002 and 2003. This group's share fell from 6.5 percent in 2002 to 5.8 percent in 2003. The collective value of this group's arms transfer agreements with developing nations in 2003 was $800 million compared with a total of $1.1 billion in 2002. Charts 3 and 4.

- France registered a slight increase in its share of all arms transfer agreements with developing nations, rising from 2.4 percent in 2002 to 3.6 percent in 2003. The value of its agreements with developing nations rose from $411 million in 2002 to $500 million in 2003.

- In 2003, the United States ranked first in arms transfer agreements with developing nations at $6.2 billion. Russia ranked second at $3.9 billion. Charts 3 and 4 and Table 1G.

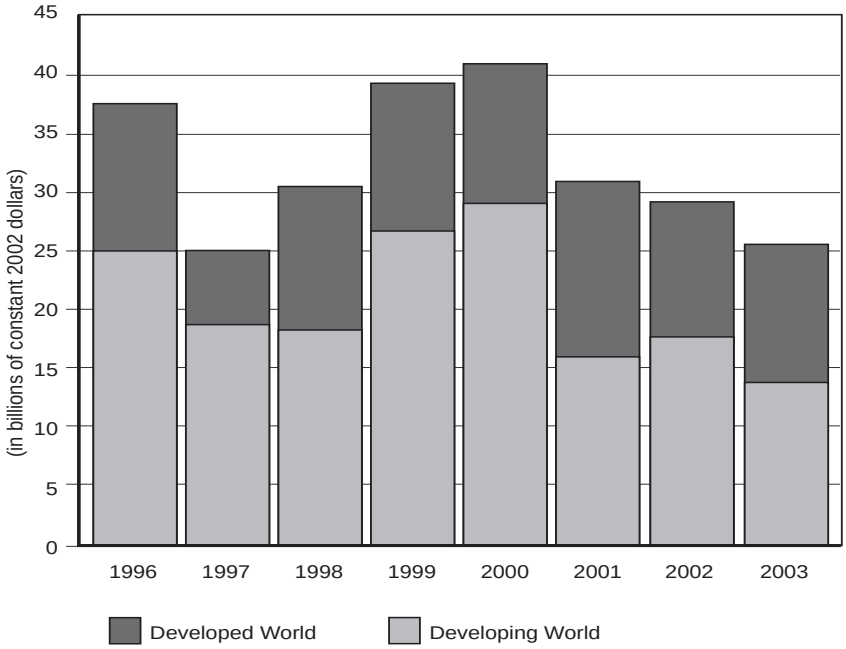

Chart 1. Arms Transfer Agreements Worldwide, 1996-2003 Developed and Developing Worlds Compared

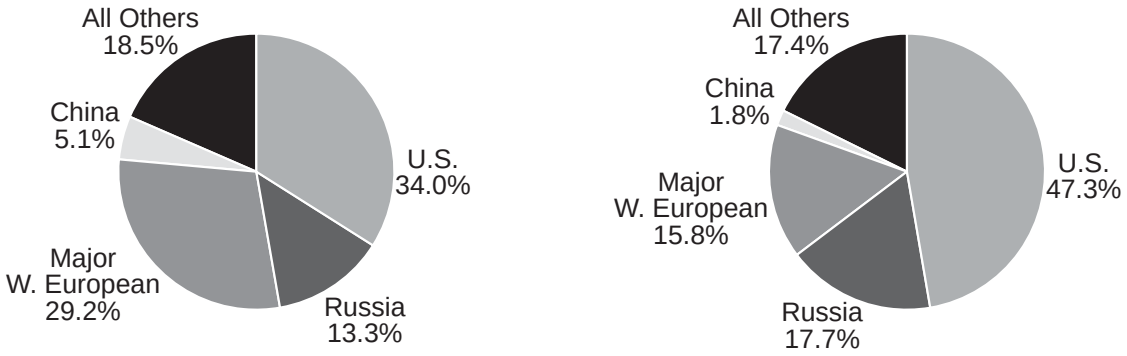

Chart 2. Arms Transfer Agreements Worldwide (supplier percentage of value).

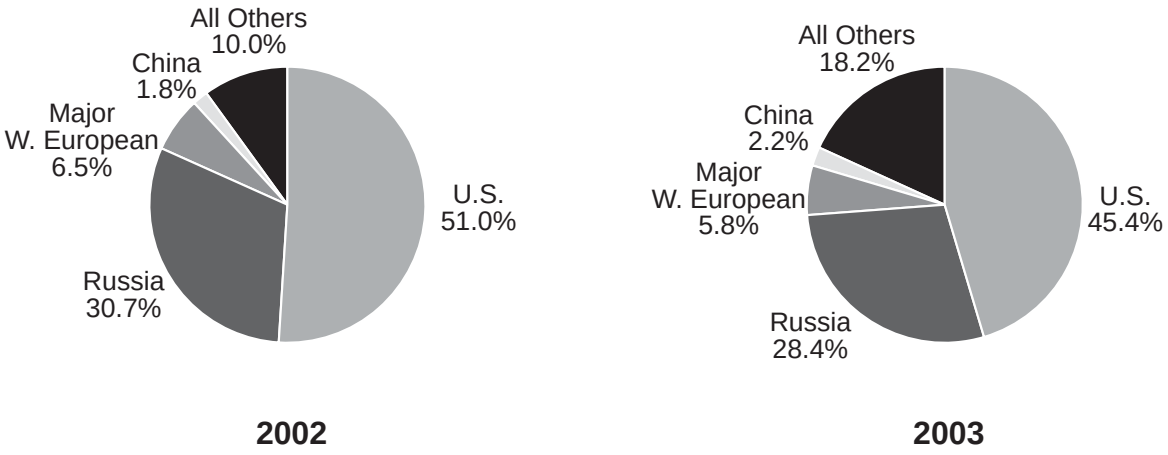

Chart 3. Arms Transfer Agreements With Developing Nations (supplier percentage of value).

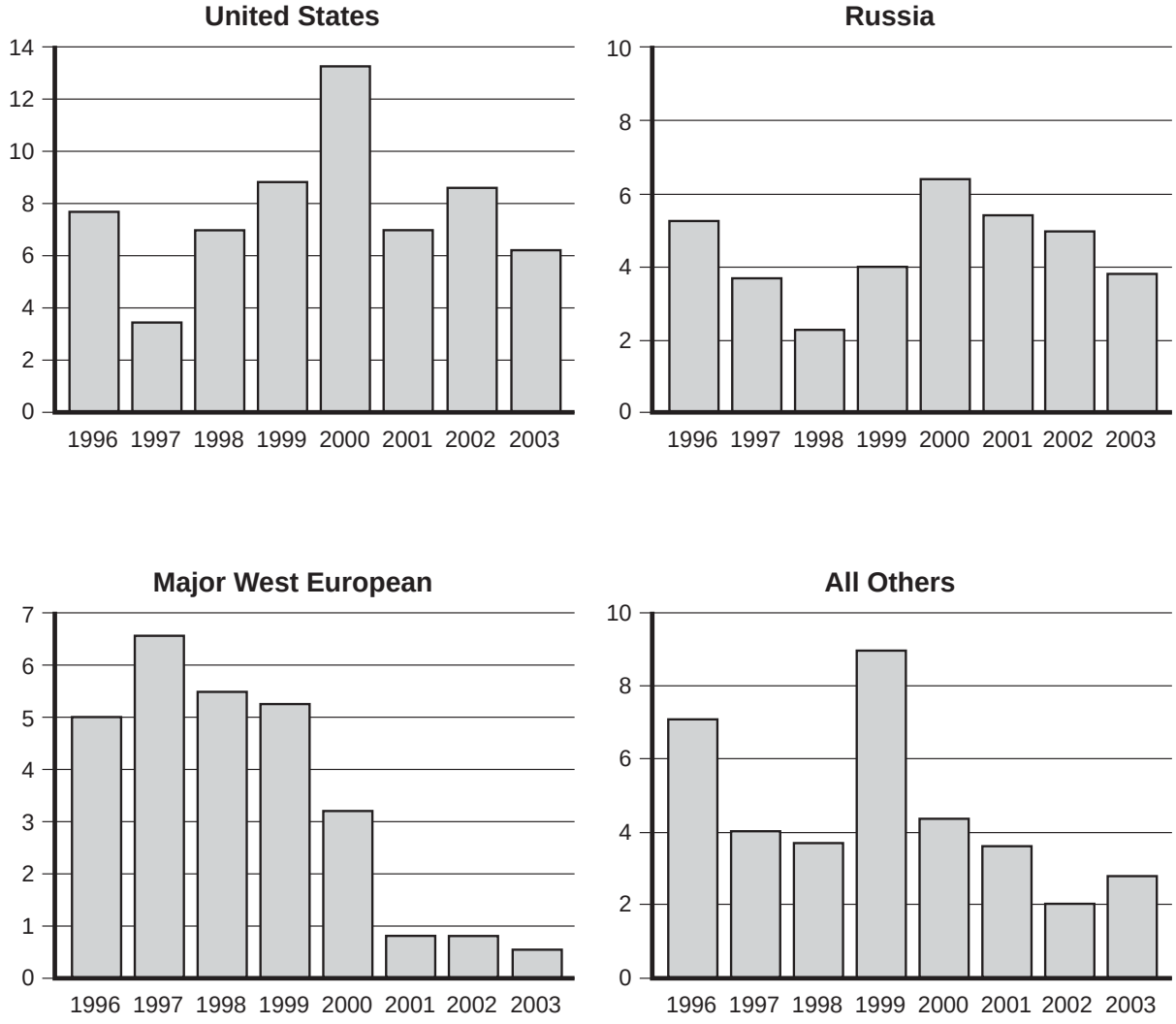

Chart 4. Arms Transfer Agreements With Developing Nations by Major Supplier, 1996-2003 (billions of constant 2003 dollars)

Figure 1. Worldwide Arms Transfer Agreements, 1996 - 2003 and Suppliers' Share with Developing World (in millions of constant 2003 U.S. dollars)

Supplier	Worldwide Agreements Value 1996-1999	Percentage of Total with Developing World
United States	45,405	60.60
Russia	17,766	87.70
France	14,207	75.30
United Kingdom	10,909	62.20
China	6,790	86.50
Germany	11,583	36.20
Italy	2,301	55.30
All Other European	15,577	73.40
All Others	9,190	71.80
Total	**133,728**	**67.30**

Supplier	Worldwide Agreements Value 2000-2003	Percentage of Total with Developing World
United States	59,995	59.70
Russia	22,504	93.60
France	10,213	37.50
United Kingdom	2,104	39.30
China	2,318	100.00
Germany	5,105	23.30
Italy	2,586	24.00
All Other European	15,116	39.40
All Others	6,933	71.50
Total	**126,874**	**60.40**

Supplier	Worldwide Agreements Value 2003	Percentage of Total with Developing World
United States	14,543	42.90
Russia	4,300	90.70
France	1,000	50.00
United Kingdom	100	0.00
China	300	100.00
Germany	1,400	0.00
Italy	600	50.00
All Other European	2,300	73.90
All Others	1,100	72.70
Total	**25,643**	**53.60**

Regional Arms Transfer Agreements, 1996-2003

Table 1C gives the values of arms transfer agreements between suppliers and individual regions of the developing world for the periods 1996-1999 and 2000-2003. These values are expressed in current U.S. dollars.[1] Table 1D, derived from Table 1C, gives the percentage distribution of each supplier's agreement values within the regions for the two time periods. Table 1E, also derived from table 1C, illustrates what percentage share of each developing world

1. Because these regional data are composed of four-year aggregate dollar totals, they must be expressed in current dollar terms.

region's total arms transfer agreements was held by specific suppliers during the years 1996 through 1999 through 2000 and 2003.

Near East

- The Near East has generally been the largest arms market in the developing world. In 1996-1999, it accounted for nearly 44 percent of the total value of all developing nations arms transfer agreements $34.1 billion in current dollars, ranking it first ahead of Asia which ranked second with 36.8 percent of these agreements. However, during 2000 through 2003, the Near East region accounted for nearly 37 percent of all such agreements $24.6 billion in current dollars, placing it second to Asia in arms agreements with the developing world. Tables 1D.

- The United States has dominated arms transfer agreements with the Near East during the 1996-2003 period with 59.5 percent of their total value $34.9 billion in current dollar). France was second during these years with 12.6 percent $7.4 billion in current dollar). Recently, from 2000 through 2003, the United States accounted for 75.6 percent of arms agreements with this region $18.6 billion in current dollars, while Russia accounted for 8.1 percent of the region's agreements $2 billion in current dollars. Chart 5.

- For the period 1996-1999, the United States concluded 68.5 percent of its developing world arms transfer agreements with the Near East. In 2000-2003, the U.S. concluded 67.2 percent of its agreements with this region Table 1D.

- For the period 1996-1999, the four major West European suppliers collectively made 44.4 percent of their developing world arms transfer agreements with the Near East. In 2000 through 2003, the major West Europeans made 18 percent of their arms agreements with the Near East. Table 1D.

- For the period 1996-1999, France concluded 73.1 percent of its developing world arms transfer agreements with the Near East. In 2000-2003, France made 16.7 percent of its agreements with the Near East. Table 1D.

- For the period 1996-1999, the United Kingdom concluded 24.6 percent of its developing world arms transfer agreements with the Near East. In 2000-2003, the United Kingdom made 50 percent of its agreements with the Near East. Table 1D.

- For the period 1996-1999, China concluded 34 percent of its developing world arms transfer agreements with the Near East. In 2000-2003, China made 23.8 percent of its agreements with the Near East. Table 1D.

- For the period 1996-1999, Russia concluded 15.7 percent of its developing world arms transfer agreements with the Near East. In 2000-2003, Russia made 9.9 percent of its agreements with the Near East. Table 1D.

- In the earlier period (1996-1999), the United States ranked first in arms transfer agreements with the Near East with 47.9 percent. France ranked second with 19.9 percent. Russia ranked third with 6.2 percent. The major West European suppliers, as a group, made 25.5 percent of this region's agreements in 1996-1999. In the later period 2000 through 2003, the United States ranked first in Near East agreements with 75.6 percent. Russia ranked second with 8.1 percent. The major West European suppliers, as a group, made 4.5 percent of this region's agreements in 2000-2003. Chart 5.

Asia

- Asia has generally been the second largest arms market in the developing world. Yet in 2000-2003, Asia ranked first, accounting for 50.8 percent of the total value of all arms transfer agreements with developing nations ($33.8 billion in current dollars). In the earlier period, 1996-

Table 1D. Percentage of Each Supplier's Agreements Value by Region

	Asia		Near East		Latin America		Africa		Total	
	1996-1999	2000-2003	1996-1999	2000-2003	1996-1999	2000-2003	1996-1999	2000-2003	1996-1999	2000-2003
United States	25.87%	25.60%	68.53%	67.15%	5.19%	6.76%	0.41%	0.50%	100.00%	100.00%
Russia	73.37%	81.68%	15.67%	9.90%	2.24%	1.98%	6.72%	6.44%	100.00%	100.00%
France	12.90%	80.56%	73.12%	16.67%	7.53%	0.00%	6.45%	2.78%	100.00%	100.00%
United Kingdom	59.65%	50.00%	24.56%	50.00%	0.00%	0.00%	15.79%	0.00%	100.00%	100.00%
China	46.00%	52.38%	34.00%	23.81%	2.00%	0.00%	18.00%	23.81%	100.00%	100.00%
Germany	45.71%	90.91%	11.43%	0.00%	0.00%	9.09%	42.86%	0.00%	100.00%	100.00%
Italy	45.45%	16.67%	9.09%	16.67%	9.09%	33.33%	36.36%	33.33%	100.00%	100.00%
All Other European	14.14%	40.74%	35.35%	24.07%	18.18%	12.96%	32.32%	22.22%	100.00%	100.00%
All Others [Major West European*	32.20%	50.00%	30.51%	22.00%	20.34%	14.00%	16.95%	14.00%	100.00%	100.00%
Total	**36.79%**	**50.82%**	**43.97%**	**36.98%**	**7.00%**	**5.97%**	**12.23%**	**6.22%**	**100.00%**	**100.00%**
	34.18%	72.13%	44.39%	18.03%	4.08%	4.92%	17.35%	4.92%	100.00%	100.00%

*Major West European category includes France, United Kingdom, Germany, Italy**.**

1999, the region accounted for 36.8 percent of all such agreements ($28.6 billion in current dollars), ranking second. Tables 1C and 1D.

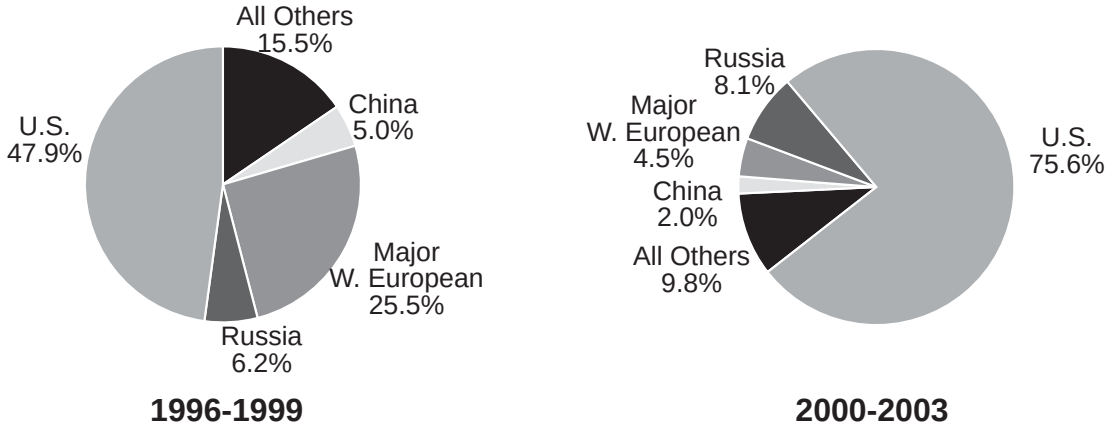

Chart 5. Arms Transfer Agreements With Near East (supplier percentage of value)

• In the earlier period (1996-1999), Russia ranked first in the value of arms transfer agreements with Asia with 35.4 percent $10.1 billion in current dollars. The United States ranked second with 21.6 percent $6.2 billion in current dollars. The major West European suppliers, as a group, made 23.5 percent of this region's agreements in 1996-1999. In the later period from 2000 through 2003, Russia ranked first in Asian agreements with 48.8 percent $16.5 billion in current dollars, primarily due to major combat aircraft sales to India and China. The United States ranked second with 20.6 percent $7.1 billion in current dollars. The major West European suppliers, as a group, made 13 percent of this region's agreements in 2000-2003. Chart 6.

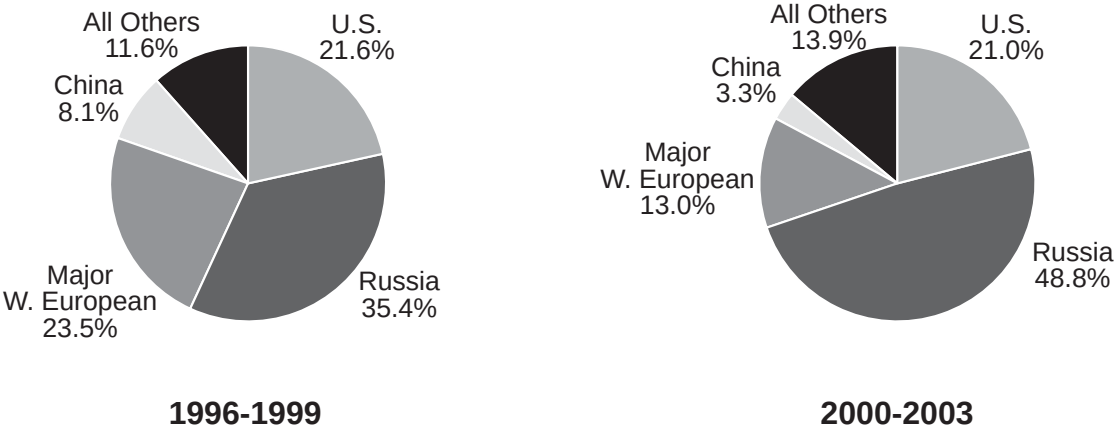

Chart 6. Arms Transfer Agreements With Asia (supplier percentage of value)

Latin America

• In the earlier period, 1996-1999, the United States ranked first in arms transfer agreements with Latin America with 22.3 percent. France ranked second with 12.9 percent. The major West European suppliers, as a group, made 14.7 percent of this region's agreements in 1996-1999. In the later period, 2000-2003, the United States ranked first with 47.1 percent. Russia ranked second with 10.1 percent. All other non-major European suppliers as a group, and

all other non-European suppliers collectively each made 17.6 percent of the region's agreements in 20002003. Latin America registered a significant decline in the total value of its arms transfer agreements from 1996-1999 to 2000-2003, falling from $5.4 billion in the earlier period to $4 billion in the latter.

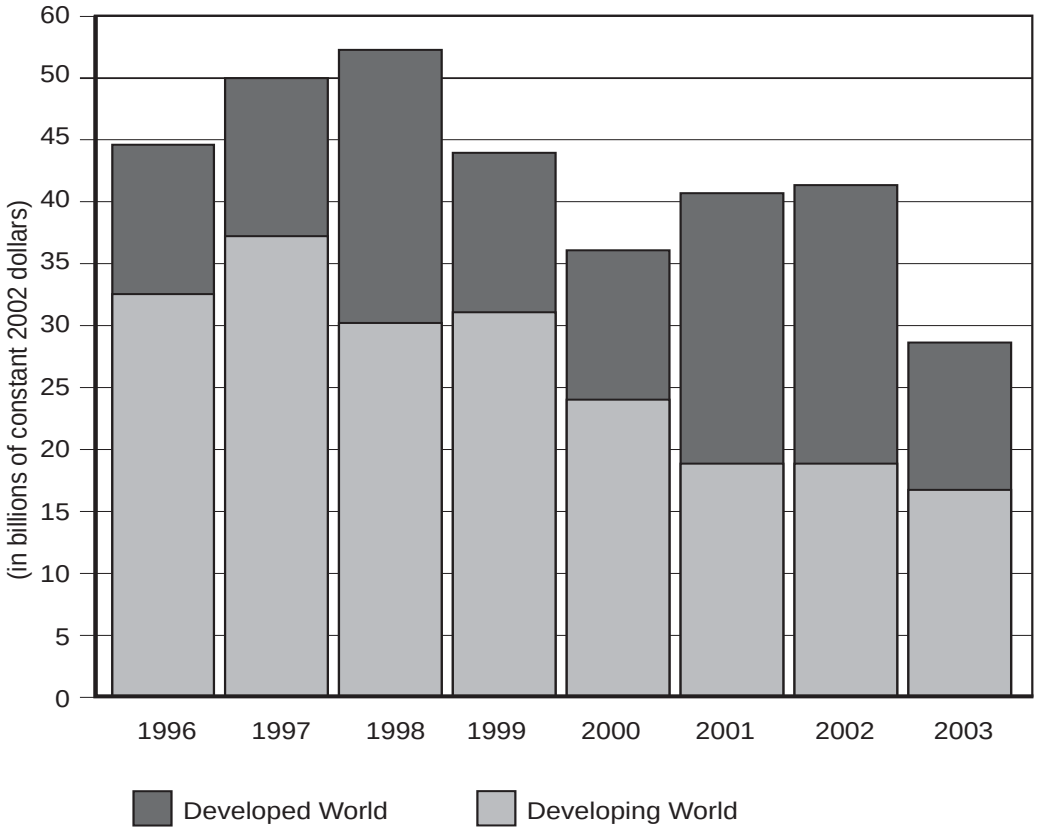

Chart 7. Arms Deliveries Worldwide 1996-2003 Developed and Developing Worlds Compared.

Africa

• In the earlier period, 1996-1999, Germany ranked first in agreements with Africa with 15.8 percent ($1.5 billion in current dollars). Russia, China, and the United Kingdom tied for second with 9.5 percent. The major West European suppliers, as a group, made 35.8 percent of the region's agreements in 1996 through 1999. The United States made 1 percent. In the later period, 2000 through 2003, Russia ranked first in agreements with 31.4 percent $1.3 billion. China ranked second with 12.1 percent $500 million. The major West European suppliers, as a group, made 16.9 percent of this region's agreements in 2000-2003. All other European suppliers collectively made 29 percent $1.2 billion. The United States made 3.3 percent. Africa registered a substantial decline in the total value of its arms transfer agreements from 1996 through 1999 to 2000 through 2003, falling from $9.5 billion in the earlier period to $4.1 billion in the latter in current dollars. The notable fall in the level of arms agreements reflected, to an important degree, that South Africa's substantial new defense procurement program orders were placed during the earlier time period.

Arms Transfer Agreements With Developing Nations, 1996-2003: Leading Suppliers Compared

Table 1F gives the values of arms transfer agreements with the developing nations from 1996 through 2003 by the top eleven suppliers. The table ranks these suppliers on the basis of the total current dollar values of their respective agreements with the developing world for each of three periods: 1996-1999, 2000-2003 and 1996-2003. The facts reflected in this table are the following:

- The United States ranked first among all suppliers to developing nations in the value of arms transfer agreements from 2000-2003 $34.1 billion, and first for the entire period from 1996 through 2003, $57.9 billion.

- Russia ranked second among all suppliers to developing nations in the value of arms transfer agreements from 2000 through 2003, $20.1 billion, and second from 1996 through 2003 $33.5 billion.

- France ranked third among all suppliers to developing nations in the value of arms transfer agreements from 2000-2003, $3.6 billion, and third from 1996 through 2003, $12.8 billion.

- China ranked fourth among all suppliers to developing nations in the value of arms transfer agreements from 2000 through 2003, $2.2 billion, and fourth from 1996 through 2003, $7.3 billion.

- The United Kingdom ranked ninth among all suppliers to developing nations in the value of arms transfer agreements from 2000 through 2003, $800 million, and fifth from 1996 through 2003, $6.6 billion.

Arms Transfer Agreements With Developing Nations in 2003: Leading Suppliers Compared

Table 1G ranks and gives for 2003 the values of arms transfer agreements with developing nations of the top eleven suppliers in current U.S. dollars. The facts reflected in this table are the following:

- The United States and Russia, the year's top two arms suppliers ranked by the value of their arms transfer agreements collectively made agreements in 2003 valued at $10.1 billion, 73.8 percent of all arms transfer agreements made with developing nations by all suppliers, $13.7 billion.

- In 2003, the United States ranked first in arms transfer agreements with developing nations, making $6.2 billion in such agreements, or 45.4 percent of them.

- Russia ranked second and the Netherlands third in arms transfer agreements with developing nations in 2003, making $3.9 billion and $700 million in such agreements respectively.

- France ranked fourth in arms transfer agreements with developing nations in 2003, making $500 million in such agreements, while Poland ranked fifth with $400 million.

Arms Transfer Agreements With Near East 1996-2003: Suppliers And Recipients

Table 1H gives the values of arms transfer agreements with the Near East nations by suppliers or categories of suppliers for the periods 1996-1999 and 2000-2003. These values are expressed in current U.S. dollars. They are a subset of the data contained in Table 1 and Table 1C. Among the facts reflected by this table are the following:

- For the most recent period, 2000-2003, the principal purchasers of U.S. arms in the Near East region, based on the value of agreements were the

U.A.E. $7.1 billion;

Egypt ($6.2 billion),

Israel ($5.1 billion), and

Saudi Arabia ($2.7 billion).

The principal purchasers of Russian arms were:

- Algeria, U.A.E, and Yemen ($400 million each),
- Egypt ($300 million), and
- Iran and Syria ($200 million each).

The principal purchasers of arms from China were

- Egypt and Kuwait ($200 million each), and
- Iran and Yemen ($100 million each).

The principal purchasers of arms from the four major West European suppliers, as a group, were:

- Saudi Arabia($500 million);
- Oman, and the U.A.E. ($300 million each).

The principal purchasers of arms from all other European suppliers collectively were the

- U.A.E. ($300 million);
- Saudi Arabia ($200 million).

The principal purchasers of arms from all other suppliers combined were

- Libya ($300 million), and
- Kuwait and Jordan ($200 million each).

- For the period from 2000-2003, the U.A.E. made $8.1 billion in arms transfer agreements. The United States ($7.1 billion), and Russia ($400 million) were its largest suppliers. Egypt made $6.8 billion in arms transfer agreements. Its major supplier was the United States ($6.2 billion). Israel made $5.2 billion in arms transfer agreements. Its principal supplier was the United States ($5.1 billion). Saudi Arabia made $3.4 billion in arms transfer agreements. Its principal suppliers were: the United States ($2.7 billion), and the four major West European suppliers collectively ($500 million).

- The total value of arms transfer agreements by China with Iran fell from $800 million to $100 million during the periods from 19961999 to 2000-2003 respectively. The value of Russia's arms transfer agreements with Iran fell from $400 million in the earlier period to $200 million from 2000-2003.

- The value of arms transfer agreements by the United States with Saudi Arabia fell notably from the 1996-1999 period to the 2000 through 2003 period, declining from $4.6 billion in the earlier period to $2.7 million in the later period. Saudi Arabia still made 79.4 percent of all its arms transfer agreements with the United States during 2000-2003. Meanwhile, arms transfer agreements with the U.A.E. by the major West European suppliers decreased significantly from 1996 through 1999 to 2000 through 2003, falling from $6.1 billion to $300 million.

Arms Transfers to Developing Nations, 1996-2003: Agreements With Leading Recipients

Table 1I gives the values of arms transfer agreements made by the top ten recipients of arms in the developing world from 1996-2003 with all suppliers collectively. The table ranks recipients on the basis of the total current dollar values of their respective agreements with all suppliers for

each of three periods – 19961999, 2000-2003 and 1996-2003. Among the facts reflected in this table are the following:

• The U.A.E. was the leading developing world arms purchaser from 1996-2003, making arms transfer agreements totaling $15.7 billion during these years, in current dollars. In the 1996-1999 period, the U.A.E. ranked first in arms transfer agreements at $7.6 billion, in current dollars. In 2000-2003, however, China ranked first in arms transfer agreements, with a dramatic increase to $9.3 billion from $4.4 billion in the earlier period. in current dollars. This increase reflects the military modernization effort by China in the 1990s, based primarily on major arms agreements with Russia. The total value of all arms transfer agreements with developing nations from 1996 through 2003 was $150.6 billion in current dollars. Thus the alone was responsible for 10.4 percent of all developing world arms transfer agreements during these eight years. In the most recent period, 2000-2003, China made $9.3 billion in arms transfer agreements, in current dollars. This total constituted 12.8 percent of all arm transfer agreements with developing nations during these years, which totaled $72.9 billion during these years. The U.A.E. ranked second in arms transfer agreements during 2000 through 2003 with $8.1 billion, in current dollars, or 11.1 percent of the value of all developing world arms transfer agreements.

• During 1996-1999, the top ten recipients collectively accounted for 62.6 percent of all developing world arms transfer agreements. During 2000 through 2003, the top ten recipients collectively accounted for 71.7 percent of all such agreements.

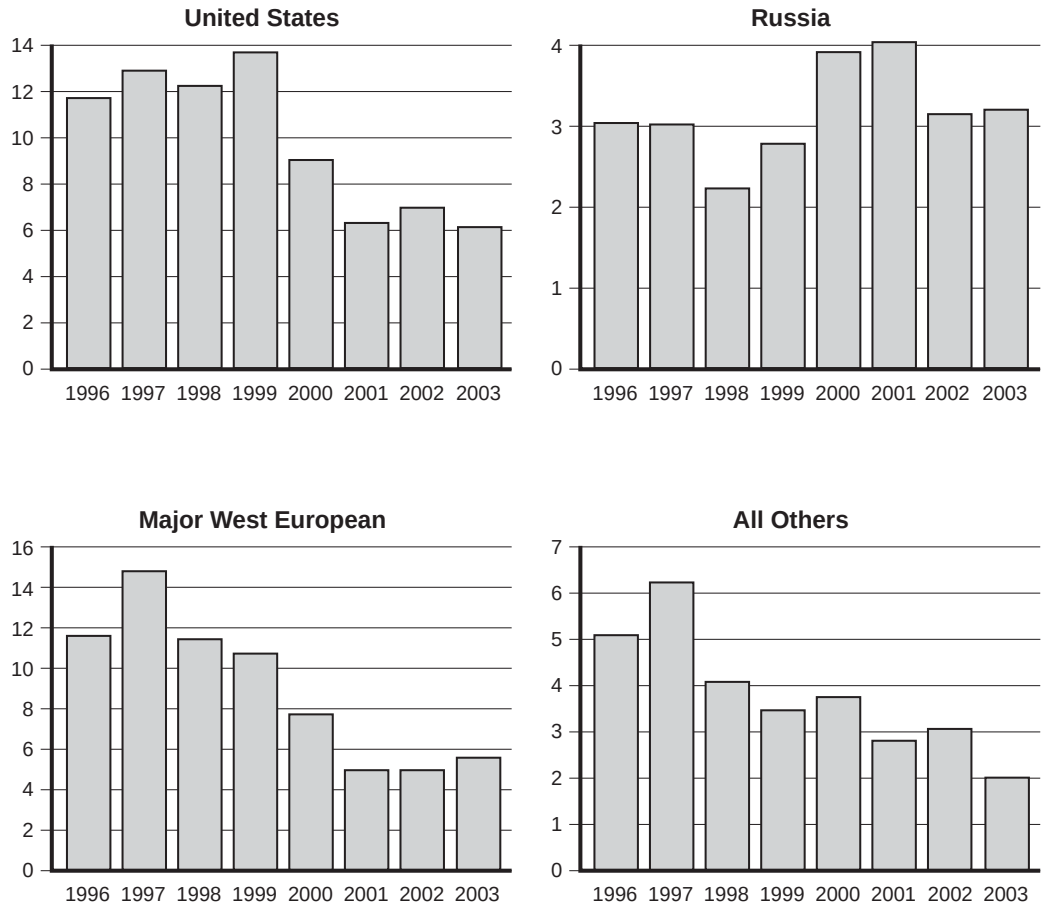

Chart 8 Arms Deliveries to Developing Countries by Major Supplier, 1996-2003 (in billions of constant 2003 dollars)

Figure 2. Worldwide Arms Deliveries, 1996-2003 and Suppliers' Share with Developing World (In Millions of Constant 2003 U.S. Dollars)

Supplier	Worldwide Deliveries Value 1996 - 1999	Percentage of Total to Developing World
United States	91,133	56.30
Russia	12,987	86.60
France	26,161	87.60
United Kingdom	26,543	85.10
China	3,381	93.30
Germany	7,865	29.50
Italy	1,601	86.10
All Other European	16,390	69.50
All Others	10,203	49.10
Total	**196,264**	**66.90**

Supplier	Worldwide Deliveries Value 1996 - 1999	Percentage of Total to Developing World
United States	76,083	38.00
Russia	15,693	91.90
France	7,984	65.90
United Kingdom	21,136	78.20
China	2,824	96.20
Germany	4,177	29.70
Italy	1,363	15.30
All Other European	9,934	50.90
All Others	8,989	48.80
Total	**148,183**	**53.10**

Supplier	Worldwide Deliveries Value 1996 - 1999	Percentage of Total to Developing World
United States	13,648	46.20
Russia	3,400	97.00
France	1,200	43.80
United Kingdom	4,700	85.10
China	500	100.00
Germany	1,200	58.30
Italy	100	0.00
All Other European	2,400	29.20
All Others	1,600	43.80
Total	**28,748**	**59.10**

Arms Transfers to Developing Nations in 2003: Agreements With Leading Recipients

Table 1J names the top ten developing world recipients of arms transfer agreements in 2003. The table ranks these recipients on the basis of the total current dollar values of their respective agreements with all suppliers in 2003. Among the facts reflected in this table are the following:

- Egypt ranked first among all developing nations recipients in the value of arms transfer agreements in 2003, concluding $1.8 billion in such agreements. China ranked second with $1.6 billion. Malaysia ranked third with $1.5 billion.

- Six of the top ten developing world recipients of arms transfer agreements in 2003 were in Asia. Four were in the Near East .

- Arms transfer agreements with the top ten developing world recipients, as a group, in 2003 totaled $13.7 billion or 65.5 percent of all such agreements with the developing world, reflecting a continuing concentration of developing world arms purchases among a few nations.

Developing Nations Arms Delivery Values

Table 2 shows the annual current dollar values of arms deliveries, items actually transferred to developing nations by major suppliers from 1996 through 2003. The utility of these particular data is that they reflect transfers that have occurred. They provide the data from which Table 2A, constant dollars and Table 2B, supplier percentages are derived. Some of the more notable facts illustrated by these data are summarized below.

- In 2003 the value of all arms deliveries to developing nations $17 billion was a notable decrease in deliveries values from the previous year, $18.7 billion in constant 2003 dollars. Charts 7 and 8.

- The U.S. share of all deliveries to developing nations in 2003 was 37.1 percent, slightly down from 37.8 percent in 2002. In 2003, the United States, for the eighth year in a row, ranked first in the value of arms deliveries to developing nations ($6.3 billion) (in constant 2003 dollars), reflecting continuing implementation of post Persian Gulf War era arms transfer agreements. The second leading supplier in 2003 was the United Kingdom, at $4 billion. The United Kingdom's share of all deliveries to developing nations in 2003 was 23.5 percent, up from 18.7 percent in 2002. Russia, the third leading supplier in 2003, made $3.3 billion in deliveries. Russia's share of all arms deliveries to developing nations in 2003 was 19.4 percent, up from 17.1 percent in 2002. The share of major West European suppliers deliveries to developing nations in 2003 was 32.4 percent, up from 27 percent in 2002.

- The total value of all arms deliveries by all suppliers to developing nations from 2000 through 2003 ($78.7 billion in constant 2003 dollars) was dramatically lower than the value of arms deliveries by all suppliers to developing nations from 1996-1999 ($131.4 billion in constant 2003 dollars).

- During the years 1996-2003, arms deliveries to developing nations comprised 61 percent of all arms deliveries worldwide. In 2003, the percentage of arms deliveries to developing nations was 59.1 percent of all arms deliveries worldwide. Figure 2.

Regional Arms Delivery Values, 1996-2003

Table 2C gives the values of arms deliveries by suppliers to individual regions of the developing world for the periods 1996-1999 and 2000-2003. These values are expressed in current U.S. dollars.[2] Table 2D, derived from table 2C, gives the percentage distribution of each supplier's deliveries values within the regions for the two time periods. Table 2E, also derived from table 2C, illustrates what percentage share of each developing world region's total arms delivery values was held by specific suppliers during the years 1996-1999 and 2000-2003. Among the facts reflected in these tables are the following:

Near East

The Near East has generally led in the value of arms deliveries received by the developing world. In 1996-1999, it accounted for 57.2 percent of the total value of all developing nations deliveries ($63.9 billion in current dollars). During 2000-2003 the region accounted for 50.7 percent of all such deliveries ($41.4 billion in current dollars). Table 2D.

For the period 1996-1999, the United States made 63.6 percent of its developing world arms deliveries to the Near East region. In 2000-2003, the United States made 47.4 percent of its developing world arms deliveries to the Near East region. Table 2D.

For the period 1996-1999, the United Kingdom made 81 percent of its developing world arms deliveries to the Near East region. In 2000-2003, the United Kingdom made 91.3 percent of its developing world arms deliveries to the Near East region. Table 2D.

For the period 1996-1999, 46.2 percent of France's arms deliveries to the developing world were to the Near East region. In the more recent period, 2000-2003, 93.9 percent of France's developing world deliveries were to nations of the Near East region. Table 2D.

For the period 1996-1999, Russia made 29.4 percent of its developing world arms deliveries to the Near East region. In 2000-2003, Russia made 9.5 percent of such deliveries to the Near East. Table 2D

In the earlier period, 1996-1999, the United States ranked first in the value of arms deliveries to the Near East with 42.7 percent ($27.3 billion in current dollars). The United Kingdom ranked second with 25.4 percent ($16.2 billion in current dollars). France ranked third with 14.4 percent ($9.2 billion in current dollars). The major West European suppliers, as a group, held 41 percent of this region's delivery values in 1996-1999. In the later period (2000-2003), the United States ranked first in Near East delivery values with 39.6 percent ($16.4 billion in current dollars). The United Kingdom ranked second with 34.8 percent ($14.4 billion in current dollars). France ranked third with 11.1 percent ($4.6 billion in current dollars).The major West European suppliers, as a group, held 46.9 percent of this region's delivery values in 2000-2003.

Asia

The Asia region has generally ranked second in the value of arms deliveries from most suppliers in both time periods. In the earlier period, 1996-1999, 35.8 percent of all arms deliveries to developing nations were to those in Asia ($39.9 billion in current dollars). In the later period, 2000-2003, Asia accounted for 42.6 percent of such arms deliveries ($35.4 billion in current dollars). For the period 2000-2003, Russia made 84.7 percent of its developing world arms deliveries to Asia. Germany made 53.9 percent of its developing world deliveries to Asia. China made 52 percent of its developing world deliveries to Asia, while the United States made 47.3 percent.

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2 Because these regional data are composed of four-year aggregate dollar totals, they must be expressed in current dollar terms.

In the period from 1996-1999, the United States ranked first in the value of arms deliveries to Asia with 34.9 percent ($13.9 billion in current dollars). France ranked second with 26 percent ($10.4 billion in current dollars). Russia ranked third with 13.5 percent ($5.4 billion in current dollars). The major West European suppliers, as a group, held 38.8 percent of this region's delivery values in 1996-1999 ($15.5 billion). In the period from 2000-2003, the United States ranked first in Asian delivery values with 47.1 percent ($16.4 billion in current dollars). Russia ranked second with 33.4 percent ($11.6 billion in current dollars)..

Latin America

In the earlier period, 1996-1999, the value of all arms deliveries to Latin America was $4.3 billion. The United States ranked first in the value of arms deliveries to Latin America with 36.9 percent ($1.7 billion in current dollars). The United Kingdom and Russia tied for second with 7.2 percent ($100 million each in current dollars). The major West European suppliers, as a group, held 18.7 percent of this region's delivery values in 1996-1999. In the later period, 2000-2003, the United States ranked first in Latin American delivery values with 65.8 percent ($1.7 billion in current dollars). Russia and France tied for second with 3.8 percent each. The major West European suppliers, as a group, held 3.8 percent of this region's delivery values in 2000-2003. During 2000-2003, the value of all arms deliveries to Latin America was $2.6 billion, a substantial decline from the $4.3 billion deliveries total for 1996-1999.

Africa

In the earlier period, 1996-1999, the value of all arms deliveries to Africa was over $3.5 billion. Russia ranked first in the value of arms deliveries to Africa with 22.7 percent ($800 million in current dollars). China ranked second with 14.2 percent ($500 million in current dollars).The major West European suppliers, as a group, held 11.3 percent of this region's delivery values in 1996-1999. The United States held 3.6 percent. In the later period, 2000-2003, Russia ranked first in African delivery values with 24.2 percent ($700 million in current dollars). China ranked second with 13.8 percent ($400 million in current dollars). The United States held 3.3 percent. The other non-major European suppliers collectively held 27.6 percent ($800 million in current dollars). All other non-European suppliers collectively held 20.7 percent ($600 million in current dollars). During this later period, the value of all arms deliveries to Africa decreased notably from $3.5 billion in 1996-1999 to $2.9 billion (in current dollars).

Arms Deliveries to Developing Nations, 1996-2003: Leading Suppliers Compared

Table 2F gives the values of arms deliveries to developing nations from 19962003 by the top eleven suppliers. The table ranks these suppliers on the basis of the total current dollar values of their respective deliveries to the developing world for each of three periods – 1996-1999, 2000-2003 and 1996-2003. Among the facts reflected in this table are the following:

The United States ranked first among all suppliers to developing nations in the value of arms deliveries from 2000-2003 ($27.6 billion), and first for the entire period from 1996-2003 ($72 billion).

The United Kingdom ranked second among all suppliers to developing nations in the value of arms deliveries from 2000-2003 ($15.8 billion), and second for the entire period from 1996-2003 ($35.8 billion).

Russia ranked third among all suppliers to developing nations in the value of arms deliveries from 2000-2003 ($13.8 billion), and fourth for the entire period from 1996-2003 ($23.1 billion).

Table 1F Arms Transfer Agreements with Developing Nations, 1996-2003: Leading Suppliers Compared (In Millions of Current U.S. Dollars)

Rank	Supplier	Agreements Value 1996-1999
1	United States	23,838
2	Russia	13,400
3	France	9,200
4	United Kingdom	5,800
5	China	5,100
6	Germany	3,700
7	Sweden	2,400
8	Israel	1,700
9	Ukraine	1,600
10	Belarus	1,600
11	Italy	1,100
Rank	**Supplier**	**Agreements Value 1996-1999**
1	United States*	34,107
2	Russia	20,100
3	France	3,600
4	China	2,200
5	Israel	1,500
6	Ukraine	1,500
7	Germany	1,100
8	Spain	800
9	United Kingdom	800
10	Netherlands	800
11	Italy	600
Rank	**Supplier**	**Agreements Value 1996-1999**
1	United States*	57,945
2	Russia	33,500
3	France	12,800
4	China	7,300
5	United Kingdom	6,600
6	Germany	4,800
7	Israel	3,200
8	Ukraine	3,100
9	Sweden	2,500
10	Belarus	1,900
11	Italy	1,700

Source: U.S. Government.

Note: All foreign data are rounded to the nearest $100 million. Where rounded data totals are the same, the actual rank order is maintained.

* The United States total includes a $6.432 billion licensed commercial agreement with the in 2000 for 80 F-16 aircraft.

Arms Deliveries With Developing Nations in 2003: Leading Suppliers Compared

Table 2G ranks and gives for 2003 the values of arms deliveries to developing nations of the top ten suppliers in current U.S. dollars. Among the facts reflected in this table are the following:

The United States, the United Kingdom and Russia – the year's top three arms suppliers – ranked by the value of their arms deliveries collectively made deliveries in 2003 valued at $13.6 billion, 80 percent of all arms deliveries made to developing nations by all suppliers. In 2003, the United States ranked first in the value of arms deliveries to developing nations, making $6.3 billion in such agreements, or 37.1 percent of them.

The United Kingdom ranked second and Russia third in deliveries to developing nations in 2003, making $4 billion and $3.3 billion in such deliveries respectively.

France ranked fourth in arms deliveries to developing nations in 2003, making $800 million in such deliveries, while Germany ranked fifth with $700 million in deliveries.

Arms Deliveries to Near East, 1996-2003: Suppliers and Recipients

Table 2H gives the values of arms delivered to Near East nations by suppliers or categories of suppliers for the periods 1996-1999 and 2000-2003. These values are expressed in current U.S. dollars. They are a subset of the data contained in table 2 and table 2C. Among the facts reflected by this table are the following:

For the most recent period, 2000-2003, the principal arms recipients of the United States in the Near East region, based on the value of their arms deliveries were Saudi Arabia ($6.3 billion), Egypt ($4.8 billion), Israel ($2.9 billion), and Kuwait ($1.1 billion). The principal arms recipients of Russia were Algeria ($300 million , Iran, Egypt and Yemen ($200 million each). The principal arms recipients of China were Kuwait ($400 million), Egypt ($200 million), and Algeria, and Yemen ($100 million each). The principal arms recipients of the four major West European suppliers, as a group, were Saudi Arabia ($16.6 billion), the U.A.E. ($1.9 billion), Israel and Kuwait ($300 million each). The principal arms recipient of all other European suppliers collectively was Saudi Arabia ($1 billion). The principal arms recipient of all other suppliers, as a group, was Iran ($400 million).

For the period 2000-2003, Saudi Arabia received $23.9 billion in arms deliveries. Its principal suppliers were the United States ($6.3 billion), and the four major West Europeans, as a group ($16.6 billion). Egypt received $5.4billion in arms deliveries. Its principal supplier was the United States ($4.8 billion). Israel received $3.2 billion in arms deliveries. Its principal supplier was the United States ($2.9 billion). The U.A.E. received $2.6 billion in arms deliveries. Its principal suppliers were the four major West Europeans, as a group ($1.9 billion). Kuwait received $2.1 billion in arms deliveries. Its principal suppliers were the United States ($1.1 billion). Iran received $600 million in arms deliveries. Its principal suppliers were Russia ($200 million) and all other non-European suppliers ($400 million).

The value of United States arms deliveries to Saudi Arabia declined dramatically from $16.6 billion in 1996-1999 to $6.3 billion in 2000-2003, as implementation of major orders placed during the Persian Gulf war era continued to be concluded.

The value of Russian arms deliveries to Iran declined dramatically from the 1996-1999 period to the 2000-2003 period. Russian arms deliveries fell from $900 million to $200 million.

Chinese arms deliveries to Iran dropped substantially from 19961999 to 2000-2003, falling from $700 million in 1996-1999 to nil in 2000-2003.

Arms Deliveries to Developing Nations, 1996-2003: The Leading Recipients

Table 2I gives the values of arms deliveries made to the top ten recipients of arms in the developing world from 1996-2003 by all suppliers collectively. The table ranks recipients on the basis of the total current dollar values of their respective deliveries from all suppliers for each of three periods – 1996-1999, 2000-2003 and 1996-2003. Among the facts reflected in this table are the following:

Saudi Arabia and Taiwan were the top two developing world recipients of arms from 1996-2003, receiving deliveries valued at $61.1 billion and $19.4 billion, respectively, during these years. The total value of all arms deliveries to developing nations from 1996-2003 was $188.7 billion in current dollars (see table 2). Thus, Saudi Arabia and Taiwan were responsible for 32.4 percent and 10.3 percent, respectively, of all developing world deliveries during these eight years – together 32.7 percent of the total. In the most recent period – 2000-2003 – Saudi Arabia and China ranked first and second in the value of arms received by developing nations ($23.9 billion and $6.9 billion, respectively, in current dollars). Together, Saudi Arabia and China accounted for 41 percent of all developing world arms deliveries ($30.8 billion out of $75.2 billion – the value of all deliveries to developing nations in 2000-2003 (in current dollars).

For the 2000-2003 period, Saudi Arabia alone received $23.9 billion in arms deliveries (in current dollars), or 31.8 percent of all deliveries to developing nations during this period.

During 1996-1999, the top ten recipients collectively accounted for 74.5 percent of all developing world arms deliveries. During 2000-2003, the top ten recipients collectively accounted for 75.6 percent of all such deliveries.

Table 1G. Arms Transfer Agreements with Developing Nations in 2003: Leading Suppliers Compared (in millions of current U.S. dollars)

Rank	Supplier	Agreements Value 2003
1	United States	6,242
2	Russia	3,900
3	Netherlands	700
4	France	500
5	Poland	400
6	Israel	400
7	Ukraine	300
8	China	300
9	Italy	300
10	Czech Republic	100
11	Spain	100

Source: U.S. Government.

Note: All foreign data are rounded to the nearest $100 million.

Where rounded data totals are the same, the actual rank order is maintained.

Table 1J. Arms Transfer Agreements of Developing Nations in 2003: Agreements by Leading Recipients (In Millions of Current U.S. Dollars)

Rank	Recipient	Agreements Value
1	Egypt	1,800
2	China	1,600
3	Malaysia	1,500
4	Indonesia	900
5	Saudi Arabia	700
6	Israel	700
7	South Korea	600
8	India	400
9	Jordan	400
10	Taiwan	400

Source: U.S. Government.

Note: All foreign data are rounded to the nearest $100 million.

Where rounded data totals are the same, the actual rank order is maintained.

Table 2D Percentage of Supplier's Deliveries Value by Region, 1996-2003

	Asia		Near East		Latin America		Africa		Total	
	1996-1999	2000-2003	1996-1999	2000-2003	1996-1999	2000-2003	1996-1999	2000-2003	1996-1999	2000-2003
United States	32.46%	47.30%	63.56$	47.42%	3.68%	5.01%	0.29%	0.27%	100.00%	100.00%
Russia	58.70%	84.67%	29.35%	9.49%	3.26%	0.73%	8.70%	5.11%%	100.00%	100.00%
France	52.26%	4.08%	46.23%	93.88%	1.01%	2.04%	0.50%	0.00%	100.00%	100.00%
United Kingdom	16.50%	7.69%	81.00%	92.31%	1.50%	0.00%	1.00%	0.00%	100.00%	100.00%
China	46.15%	52.00%	30.77%	32.00%	3.85%	0.00%	19.23%	16.00%	100.00%	100.00%
Germany	50.00%	53.85%	35.00%	30.77%	15.00%	0.00%	0.00%	15.38%	100.00%	100.00%
Italy	80.00%	50.00%	10.00%	0.00%	0.00%	0.00%	10.00%	50.00%	100.00%	100.00%
All Other European	20.00%	25.00%	58.95%	47.73%	10.53%	9.09%	10.53%	18.18%	100.00%	100.00%
All Others [Major West European*	44.44%	48.89%	28.89%	31.11%	11.11%	6.67%	15.56%	13.33%	100.00%	100.00%
Total	**35.77%**	**42.55%**	**57.23%**	**50.68%**	**3.84%**	**3.22%**	**3.16%**	**3.54%**	**100.00%**	**100.00%**

*Major West European category includes France, United Kingdom, Germany, Italy.

Table 2F Arms Transfer Agreements with Developing Nations, 1996-2003: Leading Suppliers Compared (In Millions of Current U.S. Dollars)

Rank	Supplier	Agreements Value 1996-1999
1	United States	44,368
2	United Kingdom	20,000
3	France	19,800
4	Russia	9,300
5	China	2,700
6	Sweden	2,500
7	Germany	2,000
8	Ukraine	1,600
9	Israel	1,300
10	Belarus	1,200
11	Italy	1,200
Rank	**Supplier**	**Agreements Value 1996-1999**
1	United States*	27,646
2	United Kingdom	15,800
3	Russia	13,800
4	France	5,000
5	China	2,600
6	Israel	1,200
7	Ukraine	1,200
8	Germany	1,200
9	North Korea	600
10	Sweden	600
11	Belgium	500
Rank	**Supplier**	**Agreements Value 1996-1999**
1	United States*	72,014
2	United Kingdom	35,800
3	France	24,800
4	Russia	23,100
5	China	5,300
6	Germany	3,200
7	Sweden	3,100
8	Ukraine	2,800
9	Israel	2,500
10	Belarus	1,700
11	Italy	1,400

Source: U.S. Government.
Note: All foreign data are rounded to the nearest $100 million. Where rounded data totals are the same, the actual rank order is maintained.

Table 2G. Arms Deliveries to Developing Nations in 2003:
Leading Suppliers compared
(In Millions of Current U.S. Dollars)

Rank	Supplier	Agreements Value 2003
1	United States	6,299
2	United Kingdom	4,000
3	Russia	3,300
4	France	800
5	Germany	700
6	China	500
7	Israel	400
8	Ukraine	300
9	Belgium	100
10	South Korea	100

Source: U.S. Government.
Note: All foreign data are rounded to the nearest $100 million.
Where rounded data totals are the same, the actual rank order is maintained.

Selected Weapons Deliveries to Developing Nations, 1996 through 2003

Other useful data for assessing arms transfers are those that indicate who has actually delivered specific numbers of specific classes of military items to a region. These data are relatively hard in that they reflect actual transfers of military equipment. They have the limitation of not giving detailed information regarding either the sophistication or the specific name of the equipment delivered. However, these data show relative trends in the delivery of important classes of military equipment and indicate who the leading suppliers are from region to region over time. Data in the following tables set out actual deliveries of fourteen categories of weaponry to developing nations from 1996-2003 by the United States, Russia, China, the four major West European suppliers as a group, all other European suppliers as a group, and all other suppliers as a group. Tables 3 and 4.

Caution is warranted in using the quantitative data within these specific tables. Aggregate data on weapons categories delivered by suppliers do not provide precise indices of the quality and/or quantity of the weaponry delivered. The history of recent conventional conflicts suggests that quality and/or sophistication of weapons can offset quantitative advantage. Further, these data do not provide an indication of the relative capabilities of the recipient nations to use effectively the weapons delivered to them. Superior training coupled with good equipment, tactical and operational proficiency, and sound logistics may, in the last analysis, be a more important factor in a nation's ability to engage successfully in conventional warfare than the size of its weapons inventory.

Regional Weapons Deliveries Summary, 2000 through 2003

The regional weapons delivery data collectively show that the United States was a leading supplier of several major classes of conventional weaponry from 2000 through 2003. Russia transferred significant quantities of certain weapons classes, although generally fewer than the United States or other supplier groups in most regions, during these years.

The major West European suppliers were serious competitors in weapons deliveries from 2000 through 2003 making notable deliveries of certain categories of armaments to every region

of the developing world most particularly to the Near East, Asia, and to Latin America. In Africa, all European suppliers, China and all other non-European suppliers were major sources of weapons delivered.

Regional weapons delivery data reflect the diverse sources of supply of conventional weaponry available to developing nations. Even though the United States, Russia, and the four major West European suppliers tend to dominate the delivery of the fourteen classes of weapons examined, it is also evident that the other European suppliers, and non-European suppliers, including China, are fully capable of providing specific classes of conventional armaments, such as tanks, missiles, armored vehicles, aircraft, artillery pieces, and the various missile categories, surface-to-surface, surface-to-air, and anti-ship, to developing nations, should their systems prove attractive to prospective purchasers. Noteworthy deliveries of specific categories of weapons to regions of the developing world by specific suppliers from 2000 through 2003 included the following countries.

Asia

Russia delivered

- 310 tanks and self-propelled guns,
- 310 APCs and armored cars,
- 5 major surface combatants,
- 2 minor surface combatants,
- 1 submarine,
- 200 supersonic combat aircraft,
- 220 helicopters,
- 1,250 surface-to-air missiles, and
- 190 anti-ship missiles.

The United States delivered

- 88 tanks and self-propelled guns,
- 108 artillery pieces,
- 8 major surface combatants,
- 16 supersonic combat aircraft,
- 81 helicopters,
- 2,557 surface-to-air missiles, and
- 232 anti-ship missiles.

China delivered

- 40 tanks and self-propelled guns,
- 370 artillery pieces,
- 310 APCs and armored cars,
- 2 minor surface combatants,
- 60 supersonic combat aircraft, and
- 490 surface-to-air missiles.

The four major West European suppliers as a group delivered

- 2 major surface combatants,
- 4 minor surface combatants,

- 20 helicopters, and
- 80 anti-ship missiles.

All other European suppliers collectively delivered

- 120 tanks and self-propelled guns,
- 120 APCs and armored cars,
- 1 major surface combatant,
- 22 minor surface combatants,
- 2 submarines,
- 10 supersonic combat aircraft,
- 10 helicopters, and
- 60 surface-to-surface missiles.

All other non-European suppliers collectively delivered

- 130 artillery pieces,
- 80 APCs and armored cars,
- 3 major surface combatants,
- 20 minor surface combatants, and
- 30 supersonic combat aircraft.

Near East

Russia delivered

- 70 tanks and self-propelled guns,
- 150 APCs and armored cars,
- 30 supersonic combat aircraft,
- 50 helicopters,
- 880 surface-to-air missiles, and
- 30 anti-ship missiles.

The United States delivered

- 276 tanks and self-propelled guns,
- 46 APCs and armored cars,
- 26 supersonic combat aircraft,
- 14 helicopters,
- 374 surface-to-air missiles, and
- 63 anti-ship missiles.

China delivered

- 40 APCs and armored cars,
- 1 guided missile boat, and
- 20 anti-ship missiles.

The four major West European suppliers collectively delivered

- 290 tanks and self-propelled guns,
- 4 major surface combatants,
- 27 minor surface combatants,

- 4 guided missile boats,
- 1 submarines,
- 30 helicopters, and
- 90 anti-ship missiles.

All other European suppliers as a group delivered

- 420 tanks and self-propelled guns,
- 220 APCs and armored cars,
- 1 major surface combatant,
- 9 minor surface combatants,
- 20 supersonic combat aircraft, and
- 380 surface-to-air missiles.

All other suppliers collectively delivered

- 120 APCs and armored cars,
- 48 minor surface combatants,
- 20 helicopters,
- 20 surface-to-surface missiles, and
- 20 anti-ship missiles.

Latin America

Russia delivered

- 10 helicopters, and
- 60 surface-to-air missiles.

The United States delivered

- 24 artillery pieces,
- 2 major surface combatants,
- 4 supersonic combat aircraft,
- 25 helicopters, and
- 13 anti-ship missiles.

China delivered

- 10 minor surface combatants, and
- 50 surface-to-air missiles.

The four major West European suppliers collectively delivered

- 30 tanks and self-propelled guns,
- 2 major surface combatants,
- 1 minor surface combatants, and
- 50 surface-to-air missiles.

All other European suppliers collectively delivered

- 120 tanks and self-propelled guns,
- 30 helicopters, and
- 40 surface-to-air missiles.

All other non-European suppliers as a group delivered

- 20 artillery pieces,
- 40 surface-to-air missiles, and
- 30 anti-ship missiles.

Africa

Russia delivered

- 10 tanks and self-propelled guns,
- 20 artillery pieces,
- 9 minor surface combatants, and
- 10 helicopters.

The United States delivered

- 8 other aircraft.

China delivered

- 60 tanks and self-propelled guns,
- 10 APCs and armored cars,
- 9 minor surface combatants, and
- 10 helicopters.

The four major West European suppliers collectively delivered

- 1 major surface combatant,
- 6 minor surface combatants, and
- 10 helicopters.

All other European suppliers collectively delivered

- 150 tanks and self-propelled guns,
- 440 artillery pieces,
- 440 APCs and armored cars,
- 6 minor surface combatants,
- 40 supersonic combat aircraft,
- 40 helicopters, and
- 90 surface-to-air missiles.

All other non-European suppliers as a group delivered

- 60 tanks and self-propelled guns,
- 380 artillery pieces,
- 330 APCs and armored cars,
- 15 minor surface combatants,
- 20 supersonic combat aircraft,
- 60 helicopters, and
- 20 surface-to-air missiles.

Table 3 Numbers of Weapons Delivered by Major Suppliers to Developing Nations

Weapons Category	U.S.	Russia	China	Major West European	All Other European	All Others
1996-1999						
Tanks and Self-Propelled Guns	1,202	340	240	340	1,250	120
Artillery	199	200	180	110	370	970
Armored Personnel Carriers and Armored Cars	1,705	720	120	790	2,170	390
Major Surface Combatants	3	1	1	17	11	2
Minor Surface Combatants	33	5	24	42	92	67
Guided Missile Boats	0	0	9	14	0	3
Submarines	0	5	0	9	0	2
Supersonic Combat Aircraft	386	140	80	110	70	70
Subsonic Combat Aircraft	2	10	0	70	30	30
Other Aircraft	51	30	60	80	150	120
Helicopters	169	240	0	70	120	40
Surface-to-Air Missiles	1,021	1,480	770	1,750	2,460	850
Surface-to-Surface Missiles	0	0	0	0	0	30
Anti-Ship Missiles	266	100	250	170	0	10
2000-2003						
Tanks and Self-Propelled Guns	200	390	100	320	810	90
Artillery	203	30	440	90	590	540
Armored Personnel Carriers and Armored Cars	67	460	360	50	780	530
Major Surface Combatants	12	5	0	9	2	3
Minor Surface Combatants	2	11	21	38	37	83
Guided Missile Boats	0	0	1	4	0	0
Submarines	0	1	0	1	2	0
Supersonic Combat Aircraft	46	230	60	0	70	50
Subsonic Combat Aircraft	15	0	0	30	10	0
Other Aircraft	43	50	90	110	110	110
Helicopters	120	290	10	60	80	90
Surface-to-Air Missiles	2,953	2,190	540	50	570	540
Surface-to-Surface Missiles	0	0	0	0	0	20
Anti-Ship Missiles	308	220	20	170	0	50

Source: U.S. Government

Note: Developing nations category excludes the U.S., Russia, Europe, Canada, Japan, Australia and New Zealand. All data are for calendar years given. Major West European includes France, United Kingdom, Germany, and Italy totals as an aggregate figure. Data relating to surface-to-surface and anti-ship missiles by foreign suppliers are estimates based on a variety of sources having a wide range of accuracy. As such, individual data entries in these two weapons delivery categories are not necessarily definitive.

Table 4 Number of Weapons Delivered by Major Suppliers to Asia and the Pacific

Weapons Category	U.S.	Russia	China	Major West European	All Other European	All Others
1996-1999						
Tanks and Self-Propelled Guns	476	30	100	0	340	0
Artillery	148	60	50	40	40	840
Armored Personnel Carriers and Armored Cars	58	70	120	180	70	90
Major Surface Combatants	1	1	1	12	1	2
Minor Surface Combatants	8	5	17	13	6	49
Guided Missile Boats	0	0	4	0	0	0
Submarines	0	3	0	6	0	2
Supersonic Combat Aircraft	284	80	60	80	0	70
Subsonic Combat Aircraft	0	10	0	60	10	0
Other Aircraft	15	0	40	10	20	40
Helicopters	56	90	0	10	20	0
Surface-to-Air Missiles	148	1,340	350	1,650	100	80
Surface-to-Surface Missiles	0	0	0	0	0	10
Anti-Ship Missiles	201	100	90	60	0	0
2000-2003						
Tanks and Self-Propelled Guns	88	310	40	0	120	20
Artillery	108	10	370	10	90	130
Armored Personnel Carriers and Armored Cars	20	310	310	20	120	80
Major Surface Combatants	8	5	0	2	1	3
Minor Surface Combatants	0	2	2	4	22	20
Guided Missile Boats	0	0	0	0	0	0
Submarines	0	1	0	0	2	0
Supersonic Combat Aircraft	16	200	60	0	10	30
Subsonic Combat Aircraft	15	0	0	30	0	0
Other Aircraft	8	20	30	0	40	50
Helicopters	81	220	0	20	10	10
Surface-to-Air Missiles	2,557	1,250	490	0	60	480
Surface-to-Surface Missiles	0	0	0	0	0	0
Anti-Ship Missiles	232	190	0	80	0	0

Source: U.S. Government

Note: Asia and Pacific category excludes Japan, Australia and New Zealand. All data are for calendar years given. Major West European includes France, United Kingdom, Germany, and Italy totals as an aggregate figure. Data relating to surface-to-surface and anti-ship missiles by foreign suppliers are estimates based on a variety of sources having a wide range of accuracy. As such, individual data entries in these two weapons delivery categories are not necessarily definitive.

Regions Identified in Arms Transfer Tables and Charts

Asia	Near East	Europe	Africa	Latin America
Afghanistan	Algeria	Albania	Angola	Antigua
Australia	Bahrain	Armenia	Benin	Argentina
Bangladesh	Egypt	Austria	Botswana	Bahamas
Brunei	Iran	Azerbaijan	Burkina Faso	Barbados
Burma (Myanmar)	Iraq	Belarus	Burundi	Belize
China	Israel	Bosnia/Herzegovina	Caeroon	Bermuda
Fiji	Jordan	Bulgaria	Cape Verde	Bolivia
India	Kuwait	Belgium	Central African Republic	Brazil
Indonesia	Lebanon	Canada	Chad	British Virgin Islands
Japan	Libya	Croatia	Congo	Cayman Islands
Kampuchea	Morocco	Czechoslovakia/	Côte d'Ivoire	Chile
(Cambodia)	Oman	Czech Republic	Djibouti	Colombia
Kazakhstan	Qatar	Cyprus	Equatorial Guinea	Costa Rica
Kyrgyzstan	Saudi Arabia	Denmark	Ethiopia	Cuba
Laos	Syria	Estonia	Gabon	Dominica
Malaysia	Tunisia	Finland	Gambia	Dominican Republic
Nepal	United Arab Emirates	France	Ghana	Ecuador
New Zealand	Yemen	FYR/Macedonia	Ginea	El Salvador
North Korea		Georgia	Guinea-Bissau	French Guiana
Pakistan		Germany	Kenya	Grenada
Papua New Guinea		Greece	Lesotho	Guadeloupe
Philippines		Hungary	Liberia	Guatemala
Pitcairn		Iceland	Madagascar	Guyana
Singapore		Ireland	Malawi	Haiti
South Korea		Italy	Mali	Honduras
Sri Lanka		Latvia	Mauritania	Jamaica
Taiwan		Liechtenstein	Mauritius	Martinique
Tajikistan		Lithuania	Mozambique	Mexico
Thailand		Luxembourg	Namibia	Montserrat
Turkmenistan		Malta	Niger	Netherlands Antilles
Uzbekistan		Moldova	Nigeria	Nicaragua
Vietnam		Netherlands	Réunion	Panama
		Norway	Rwanda	Paraguay
		Poland	Senegal	Peru
		Portugal	Seychelles	St. Kitts & Nevis
		Romania	Sierra Leone	St. Lucia
		Russia	Somalia	St. Pierre and Mequelon
		Slovak Republic	South Africa	St. Vincent
		Slovenia	Sudan	Suriname
		Spain	Swaziland	Trinidad
		Sweden	Tanzania	Turks and Caicos
		Switzerland	Togo	Venezuela
		Turkey	Uganda	
		Ukraine	Zaire	
		United Kingdom	Zambia	
		Yugoslavia/Federal	Zimbabwe	
		Republic (Serbia/Mont.)		

Transitional Leadership in the Western Hemisphere

By
Roger F. Noriega
Assistant Secretary of State for the Bureau of Western Hemisphere Affairs

[The following are excerpts of the remarks presented at the Center for U.S. and Mexican Studies, University of California at San Diego, July 30, 2004.]

In my capacity as Assistant Secretary of State for the Western Hemisphere, I am a strong proponent of public diplomacy that is, reaching out to promote dialogue between government and civil society both at home and abroad to foster mutual understanding and respect. I must admit that I have it a bit easier than some of my colleagues who head other regional bureaus. In this Hemisphere, we are all heirs to a millennium of Western thought promoting freedom and the dignity of the individual. Our shared values and common traditions provide a crucial foundation for closer political and economic integration.

Promoting that integration in a positive way is what U.S. policy is about especially since the first President Bush launched the far-sighted Enterprise for the Americas Initiative in 1990. In this quest, we recognize the imperative of having strong, democratic, stable partners working with us to defend our common interests and shared values in this Hemisphere and around the world. That is why we are working hard to help the region s elected leaders confront the challenge of making democracy work for the general welfare of all of their people.

In recent months, as I have attended sessions such as these, read op-eds, and listened to speeches, I have seen rise in some circles the perception that Latin America is suffering from "reform fatigue," that market-based economic policies are not delivering the goods, and that people in the region are losing faith in democracy. Regrettably, these assertions are dominating the debate without sufficient challenge. Well, I am here to contest them because such criticisms are, at best, an unbalanced and very partial caricature of what is actually happening in the region.

Assertion 1: Democracy and Economic Liberalization have failed in Latin America.

One only has to recognize where Latin America was just twenty years ago versus today's reality to be able to successfully challenge that assertion. The sometimes violent conflicts of those turbulent days have today become a mutual effort to deliver the benefits of freedom and economic opportunity to every individual, from every walk of life, in every country. After great sacrifices, the vast majority of Latin Americans live today under leaders of their own choosing. The repressive dictatorship of Cuba is the most notable, and tragic, exception. Beyond Cuba, we see an active commitment to building societies based on the rule of law. The region's human rights record is improving daily. Freedom of the press is respected widely and practiced vigorously. Military institutions have downsized and largely withdrawn from the political arena.

Political progress in the region has gone hand in hand with economic reforms. From 1980 to 2000, the value of Latin America s exports to the world increased six-fold. From 1992 to 2003 alone, the value of the region's exports to the U.S. grew 215 percent. The National Union for Democracy and Progress (UNDP's) Human Development Index suggests that since 1980 quality of life has improved in nearly every country in the region and in some cases dramatically.

In Bolivia one of our poorest neighbors, where democracy and the free market model are being tested life expectancy, literacy, infant mortality and gross domestic product per capita all have improved dramatically in this period. Although many countries face difficult economic situations, old demons such as hyper-inflation have been largely tamed; countries are increasingly open to foreign trade and investment. Economic setbacks occur, but are no longer leading inevitably to crises that affect the whole Hemisphere.

There can be no doubt that democracy and economic liberalization have altered the landscape for the better especially over the longer term. Now, one can argue whether progress toward the reduction of poverty and inequality in the Hemisphere has been fast enough (in this relatively brief period of time). I, myself, am far from satisfied and fully understand how much more remains to be done.

At the same time, there is no proven alternative to democracy and sound economic policy certainly not the authoritarianism and populism we have seen fail so many times in Latin America. The only viable course to the real answer to dealing with the scourge of poverty lies in sticking with and deepening democracy and reform not scuttling the progress of the past two decades. And I believe this will clearly be shown as the world economy returns to growth, as it is doing at present.

Assertion 2 : Latin Americans have lost faith in democracy.

This assertion gained some credence after a recent United Nations study suggested that the majority of Latin Americans would prefer dictatorship to democracy should that dictatorship provide to them some personal economic benefits. But most of the air left that bubble after the U.N. admitted to a typographical error in the reporting of the survey results, and others questioned whether the study had drawn some unwarranted conclusions from the original polling data. People in Latin America understand as well as anyone that only democracy, with its combination of political and economic freedoms, can create the right conditions on a scale large enough to lift millions out of poverty. Voter participation rates in two recent Presidential elections in El Salvador in March and Panama in May averaged more than 70 percent. It appears to me that those citizens clearly believe democracy matters.

Nevertheless, polls do conclude that about 70 percent of the region s citizens are dissatisfied with the functioning of democracy an entirely different issue and roughly two-thirds lack confidence in such national institutions as the executive, judiciary, congress, political parties, armed forces and police. In short, Latin Americans have not lost faith in democracy but what they do question the ability of their politicians and institutions of government to deliver the benefits of a better quality of life.

Assertion 3: To combat poverty and hunger, and any other ill, in the hemisphere what is needed is a giant development fund, subscribed to by all donors, who, according to this line of thought, have not done enough?

The United States is the largest donor to the region. However, we in the United States know from long experience that money alone cannot resolve social problems. But let us look at current reality. The U.S. now imports about $240 billion in products from Latin America and the Caribbean each year. The stock of foreign investment in the region totals $270 billion. Remittances from the U.S. to countries in the region amount to close to $40 billion each year. Those numbers dwarf our assistance programs to Latin America, which this year will total about $1.6 billion. And they are incomparably larger than any conceivable aid the region might be able to receive from all the developed nations on earth.

I am convinced that the proper use of U.S. assistance should be to precisely focus upon helping our neighbors take advantage of the inevitably much larger trade, investment, remittance, and general development opportunities of the future as well as use the funds they already have at hand in a much more effective manner.

That is why we support the following:

- Educating citizens so they can thrive in an ever more competitive world;
- Improving investment and property rights regimes;

- Upgrading infrastructure to take better advantage of the region's natural geographic advantages;
- Providing better security and justice for citizens and foreign investors alike;
- Adopting open, outward looking trade policies through global, regional and bilateral trade negotiations;
- Reducing the cost of sending remittances and channeling remittances to productive uses;
- fighting the scourge of corruption;
- Combatting human immuno-deficiency virus and acquired immune deficiency syndrome and improving healthcare; and
- Allowing small entrepreneurs to flourish.

All of these essential measures have two things in common:

- They can not be imposed from the outside and they cannot be replaced by generous foreign donors.
- They are the inescapable responsibilities of national political leaders working cooperatively with civil society.

Assertion 4: Poverty breeds corruption, so Latin America really cannot tackle corruption until the poverty problem is resolved.

This assertion surfaced at a discussion at the OAS General Assembly in Quito in June where we gathered to consider additional anti-corruption measures. Although it certainly is true that high poverty rates and corruption are often linked, the notion that poverty breeds corruption has that formulation exactly wrong. Indeed, I would assert that the poorest people I have met in Latin America are, not coincidentally, the least corrupt. There can be doubt that corruption exacerbates poverty. Corruption undermines democratic governance, fosters criminality, impedes commerce, wastes taxpayer funds, discourages foreign aid donors, repels investors and squanders natural resources that could be used to fuel development. It drains resources from social investment and reallocates resources to the rich and politically powerful who undermine real democratic and economic reform and resist an adequately funded state rather than risk the accountability and competition that comes with it.

In short, poverty should not serve as an excuse for tolerating corruption. Rather, corruption should be more energetically and effectively attacked both as a matter of justice and as a crucial measure to accelerate development.

Trying to Do the Right Thing

I am convinced that most of the region's leaders understand these problems and really are trying to do the right thing governing justly, investing in people, and promoting economic freedom. But as they move into the 21st century, their efforts are often hampered by lingering 19th century political values and institutions that are not always able to effectively promote development, make politicians accountable, and adjudicate the disputes natural to any pluralistic society.

Many formal democratic institutions in Latin America are weak and overly politicized. In some countries, there is not one single official body that can be relied upon to routinely make impartial, apolitical decisions in accordance with the law. Political parties in the region are often bereft of new ideas, too focused on patronage, and too dependent on the skills of one charismatic leader. This is reinforced by electoral systems that are not representative of society and do not

encourage accountability of elected officials to the voters. Politicians owe too much allegiance to the party structures or individual leaders and not enough to constituents.

The poverty and the inequality of income and wealth that characterize much of the region make it difficult for democracy to thrive. Under-funded national governments lack the resources to apply the rules of the game fairly even when leaders have the political will to try. Transitional leadership in tough, competitive times. Building democracy is a long-term effort. After years of struggle and sacrifice, many countries in the region have made enormous progress on problems that are centuries old, but there is still a difficult road ahead.

In today's world, it s simply not enough for countries to be making steady progress in strengthening democratic institutions and building prosperous economies; they have to be making faster progress than others elsewhere around the globe or risk being left behind as possible investment sites and exporters of new products. Good free trade agreements bring great benefits to all participants. But, in order to fully exploit the opportunities presented by freer trade and not be caught in the low wage trap, ongoing structural reforms and innovation are crucial.

I believe that Latin America has no choice but to add these structural items to its reform agenda decentralization, deregulation, strengthening property rights, reforming labor laws, and investing in basic social services, including education and health. Countries that refuse to adjust to new global realities are going to find it virtually impossible to achieve sustainable growth, let alone prosperity.

Heading Down the Home Stretch

Many of the region's generation of democratic pioneers have passed the torch to current leaders. Those leaders will in turn pass the torch to people much like you. The work of your generation of transformational leadership is not going to be easy. It should concentrate upon the mutually reinforcing tasks of perfecting democracy and placing all countries of the region on a sound and competitive economic footing.

Taken together, trust, transparency, effectiveness, inclusiveness, public security, and political consensus to pursue national well-being are what account for the amazing durability of democratic government. These characteristics are the essence of "governing justly and well." Here in the United States, our democracy, of course, is still far from perfect. In our history, we have had to make substantial social and economic adjustments. But our system of government has repeatedly proved itself effective at heading off confrontations and of riding out crises from civil war to Presidential assassinations to natural disasters to terrorist attacks.

Our System is Nothing if not Resilient

Successful democratic governments obviously have to represent all of the people, including those who did not vote for it, historically disadvantaged minorities, and new elements that are always emerging within dynamic societies. Continuous dialogue is necessary to build trust. And trust is the key element in encouraging real political participation, as well as to keep the political pot from boiling over into conflict. Democratic governments also need to publicize their successes. Citizens need to know when their government is effective when new schools are inaugurated or inoculation programs are undertaken.

Last year, the President of Bolivia, Gonzalo Sanchez de Lozada, resigned under pressure. Yet Bolivia had come a significant way out of poverty because of his policies. The problem is, he did not tell anybody about his successes and his plans for social development and the pot boiled over. A corollary: governments need learn to cultivate, work with, and protect responsible media. They can not publicize their successes, counter critics, or expect people to understand the challenges of governing without them.

What More Must Transformational Leaders do to Succeed in Institutionalizing Democracy?

Vigorously prosecute corruption cases. Institutionalize government procedures that promote transparency. Sunlight and fresh air are natural disinfectants. Promote legal or constitutional reforms that better link elected officials to their constituents. Politicians will never behave if they cannot easily be held accountable by the voters or are officially shielded from prosecution.

Close the gap between politicians and voters by decentralizing political power and revenue collection. People do interact with local politicians. Granting municipal governments real responsibility and revenue can tamp down corruption and give people a greater sense of direct participation in the political system.

Foster an impartial, professional, and apolitical judiciary. Nothing mocks democracy more than a corrupt justice system. Some countries in the region have enjoyed great success in judicial reform by, for example, streamlining civil code procedures, introducing computerized case tracking systems, staggering the appointment of Supreme Court justices, and naming judicial councils that oversee hiring, firing, and disciplining judicial employees.

Increase Economic Opportunities for Individuals

It s impossible to wipe out poverty and inequality overnight. But the path to prosperity is built upon affording individuals the opportunity to pull their own weight and create personal wealth to become stakeholders contributing to the greater good. Reduce excessive bureaucracy in business registration, improving access to bank credit, harnessing remittances for productive purposes, and property titling.

Educate Citizens

Encourage a society in which all citizens enjoy access to primary and secondary education, and public universities offer quality, low-cost, modern higher education.

Encourage your private sectors to practice corporate responsibility.

Professionalize the Police Force

Public security is a crucial function of government, and police officers are often the most visible personification for most citizens of the power of any administration. So they must act with efficiency and respect the rights of the people.

Right-size the Military while Redefining Its Core Missions

Militaries still have an important role to play in serving society, but they should focus on such tasks as support for law enforcement, humanitarian and disaster relief, and search and rescue operations.

That is a very long and very tough “to do” list. A number of nations are beginning to address these challenges, and realizing that these are tough reforms to implement, I applaud their efforts and encourage them to carry on, since ignoring these tasks is to risk the enormous progress that Latin America has achieved by adopting democracy and sounder economic policies over the course of the past two decades.

You are here today because you are high achievers and you have demonstrated an interest in public service, public policy, and government. When you return to your countries, I encourage you to carry on the struggle for a better tomorrow for yourselves, your country, and, above all, better societies that your children can and should inherit from your efforts.

U.S. and India Relations: The Making of a Comprehensive Relationship

By
Robert O. Blake, Jr.,
Chargé d'Affaires, U.S. Embassy, India

[The following are excerpts of the speech given at the Army War College, Indore, India, August 23, 2004.]

The military to military relationship between the United States and India is more robust than ever. Without any doubt, our military ties have played a crucial role in the ongoing transformation of the U.S.-India relationship. My visit to Indore and to the Army War College gives me the chance to talk about the deepening relationship between our two countries. My plan is to speak broadly about our bilateral relations, touch on some key themes that your director Lieutenant General R. B. Singh shared with me before my coming, and then leave plenty of time to take your questions - on any subject you may wish to discuss.

The Transforming Relationship

During the past few years, we have seen a fundamental transformation in relations between the United States and India. Observers from both countries have said that relations between our two countries have never been better. I agree. People ask me when this transformation began. Although there have been many key points, I don't think there is a single event that marked the turning point, as much as a realization by our leaders and countrymen that ties between our two countries should not be burdened by the decisions and actions of the past. This transformation, an ongoing one, has its roots in our common values and interests as democratic societies committed to political freedom, tolerance, representative government and the fight against terrorism and other transnational threats such as the spread of weapons of mass destruction, the drug trade, human immuno-deficiency virus and acquired immune deficiency syndrome and trafficking of women and children.

There has been some speculation and even some reporting that as the United States prepares for its Presidential elections in November, our bilateral relationship may lose some of its momentum - or get sidelined by domestic concerns. Let there be no doubt - the U.S. commitment to this bilateral relationship is bipartisan, deep and growing - and this is true no matter what the outcome of the Presidential elections this fall. Whether our country's elected leader is a Republican or a Democrat, the U.S. commitment to our bilateral relationship will remain strong. The relationship between our two countries transcends domestic politics, just as it did during the Clinton and Bush transition in 2001 and the BJP-Congress transition earlier this year. In both instances, the incoming governments reiterated what had been committed to in the previous government, that bilateral relations must continue to grow and expand. In their first conversations with Prime Minister Manmohan Singh and Foreign Minister Natwar Singh, President Bush and Secretary of State Powell found a shared desire to build on the solid foundation developed in recent years. The reasons for this foundation are numerous, and let me take a few minutes to mention some of the highlights.

U.S. and India Bilateral Ties

First, let me set the stage by saying that the United States recognizes the vitality and importance of India to American long-term interests. India's emergence as a rising world power and a mature market economy are significant to the region and the world. We have jointly taken important steps to bridge previous mistrust and to lay the basis for a solid partnership for the 21st century.

Our common interests are growing. We are committed to defeating terrorism. Both of our nations have suffered at the hands of terrorists and recognize the necessity of eliminating this inhuman threat to our people. We are committed to preventing the proliferation of weapons of mass destruction and increasingly we are cooperating to stop their further spread. We both seek a freer and more equitable international trading system. The cooperation between India and the United States was a key factor in the recent agreement on a framework at the World Trade Organization meeting in Geneva.

While we may sometimes differ in our understanding of the pace and sequencing of such liberalization, we recognize that more trade and freer trade are essential for strong economic growth, rising prosperity, regional stability, and the reduction of poverty. To help promote regional stability in South Asia, the U.S. and India meet regularly discuss mutual concerns in Afghanistan, Nepal, Bangladesh, Sri Lanka, and Bhutan. The U.S. also supports continued efforts by India and Pakistan to better their relations.

India and the U.S. seek a permanent and equitable peace in the Middle East. The U.S. continues to consult with India on the evolving political, economic and military situation in Iraq. We both believe that representative government that protects human rights and accommodates diversity is the best hope for progress and stability in Iraq. India and the U.S. share a strong interest in assuring the stabilization and reconstruction of Iraq so that Iraq does not become a platform for the export of terrorism and a source of instability in this vital part of the world.

As our ties mature into a comprehensive relationship, our two nations will benefit from an increasing range of scientific and commercial opportunities that use cutting edge technologies for both civilian and military uses - for education, economic development, and space exploration, to take a few examples. Add to this the already rich tapestry of cooperative bilateral programs in health care, fighting dread diseases such as human immuno-deficiency virus and acquired immune deficiency syndrome, polio and tuberculosis, educational exchanges, agricultural programs, and military training, and it is clear that the opportunities for India and U.S. cooperation are endless.

The Beginning of a Comprehensive Relationship

I have no doubt that close and collaborative relations between America and India will flourish in the next few years. But let me be equally clear that the full potential of our relationship has still to be achieved. This will not happen on its own. The responsibility, and the vehicle to make it all happen, lie chiefly in the creative dynamism of our people and private societies. It is the duty of our governments to make sure we can engage in many fields, look for opportunities to catalyze people-to-people contacts and public and private partnerships, do business together, and trade and invest in each other's futures. You have my personal commitment, as well as that of everyone in the U.S. Mission to India, to work tirelessly to make this happen.

However, the unusual history of U.S. and India relations marked by years of differences and mistrust has left us in this early phase with what I would call a new frontier of opportunity. There is an imbalance in our relations in that the government-to-government element currently outweighs that of our respective private sectors. This is about to change, which is the basis for this new frontier of opportunity. We now have a freestanding nation-to-nation relationship that is limited only by what we do and not do together. What has been declared to be a strategic partnership must now become a comprehensive relationship.

The Military Relationship

Although I am speaking to you today, I suspect many of you will recognize another member of the U.S. Embassy team that has come with me today our defense attaché, Colonel Steven Sboto. What he and his team in the defense attaché and defense cooperation offices have

accomplished over the past several years is quite remarkable. Without doubt, military cooperation remains one of the most vibrant, visible, and proactive legs powering the transformation of U.S. and India relations. This cooperation succeeds because of the Indian and U.S. military establishments' mutual desire to move our relationship forward. There is a growing and I think mutual desire to expand defense cooperation. This is clear from the increasing frequency of training exercises, seminars, personnel exchanges, senior visits, functional visits, unit/ship visits, and the existing and developing U.S. and India military relationships that have emerged over the past few years.

Much of what has been accomplished from the U.S. side has been a result of the U.S. military's carrying out the spirit of President Bush's desires for creating a fundamental shift in U.S. and India relations articulated shortly after he took office. On the Indian side, there has been a tremendous effort to look to expand areas of mutual benefit, to look for partnerships, not antagonisms, and to look for regional collaboration. India's service chiefs have translated this positive direction into a coordinated program of military engagement priorities with the U.S. In sum, military cooperation across the board has seen dramatic improvements in the number and quality of training exercises, seminars, personnel exchanges, senior visits, functional visits, unit and ship visits, subject matter expert exchanges, organizational and agency relationships, technology cooperation, and defense sales.

Military Exercises

Let me highlight just a few examples of this growing relationship. During exercises in Agra in 2002, Indian and American Special Forces paratroopers jumped from Indian and U.S. Air Force aircraft to learn about each other's formation flying techniques and to coordinate dropping ground support cargo. While Special Forces operations are often the stuff of classified information, they are important measures of our cooperation because they also showcase the cutting edge of interoperability, especially as both armies gear up to tackle terrorists and guerrilla and clandestine warfare. Over the past few years, joint exercises in this area have included heliborne operations, counter-terrorism training, mountain warfare, close-quarter combat and jungle warfare. The new age of combat, many believe, will require greater skills in special operations, an area of increasing ties between our two militaries.

On the Navy side, the Indian Navy ships Sharda and Sukanya relieved the USS Cowpens to escort ships in the Straits of Malacca and to protect them against terrorist attacks and pirates on the high seas during Operation Enduring Freedom in April of 2002. This was followed by several joint search and rescue exercises as well as the "Malabar" exercises in the Arabian Sea, which involved ships and helicopters of both countries intercepting suspicious vessels, using anti-submarine warfare, and completing complicated flying operations.

To prove the Air Force is not excluded in this dimension, in February of this year, for the first time since 1963, eight F-15C aircraft from the 19th Fighter Squadron, Elmendorf Air Force Base, Alaska flew to Indian Air Force Station, Gwalior, to participate in a dissimilar air combat training (DACT) exercise. The Indian Air Force fielded Jaguars, MiG-21 Bison, Mirage 2000s and SU-30 K aircraft. In another first, India made the largest strategic deployment of its combat aircraft outside its territory this summer when they participated in the multinational Cope Thunder 2004 exercise in Alaska.

Military Sales

Another cornerstone of inter-operability is achieving a level of compatibility of equipment that enables our countries to "talk" to each other. The more the two countries exercise together, the greater the rationale to provide India with compatible equipment, communications and technologies. The Indian military establishment's desire to buy U.S. equipment through the

foreign military sales (FMS) route and U.S. willingness to sell state-of-the-art equipment to India are a happy convergence. The new defense relationship also means that the political disconnect that hampered American defense sales to India is a thing of the past. With the lifting of sanctions in 2001, only those major defense items on India's wish list valued over sixty-three crore rupees ($14 million) require Congressional notice. A few examples are listed below.

In July 2003, two AN-TPQ/37 Firefinder counter battery radars arrived and have been deployed in India. Two more radars, part of a twelve unit 855 crore rupees ($190 million) sales agreement under FMS, will soon be deployed, having just completed their final quality testing. The second major deal under negotiation is for the P-3 Orion naval reconnaissance plane. U.S. officials describe it as a "3C-plus," meaning the version that would be sold to India would be equipped with the latest avionics, including sensors and computerized command and control and weapons systems. India also plans to buy into the deep submersible rescue vessel system. Meanwhile, GE-404 engines for the Light Combat Aircraft (LCA) have already made their way here. India will also buy Rs. 202 crore ($29 million) worth of Special Operating Forces unique equipment to enhance the counter-terrorism capabilities of its special forces. They may also purchase chemical and biological protection equipment.

Next Step in Strategic Partnership

As these examples illustrate, the relationship between our two militaries is strong and growing. But I don't want to suggest that other areas of our relationship are not. In fact, another area of great promise and one that is of great strategic and commercial importance, is the Next Steps in Strategic Partnership (NSSP) initiative that President Bush and former Prime Minister Vajpayee launched in January of this year. This initiative will include expanded engagement on nuclear regulatory and safety issues and missile defense, ways to enhance cooperation in peaceful uses of space technology, and steps to create the appropriate environment for successful high technology commerce. In order to combat the proliferation of weapons of mass destruction, relevant laws, regulations and procedures will be strengthened, and measures to increase bilateral and international cooperation in this area will be employed. These cooperative efforts will be undertaken in accordance with our respective national laws and international obligations. The NSSP initiative marks an important but complex set of issues that we are making progress on.

Over time, as we continue to collaborate and cooperate on a number of strategic issues such as strengthening export controls and preventing the proliferation of weapons of mass destruction, we will witness a growing set of commercial opportunities in these strategic areas. There is much work to be done but the benefits are great, which is why the highest levels of our two governments are deeply committed. So it is with optimism that I view the future of U.S. and India relations as marked by the NSSP.

Economic Relationship

In the midst of this great and growing relationship, there is one area that needs a push. And as I mentioned in the beginning of my remarks, it is the area that is most symbolic of the comprehensive, people-to-people relationship that I believe our two countries must embrace even more. Here, I speak of the economic relationship between our two countries. With the wave of reforms of the early 1990s, India and the United States began a steady, if at times bumpy, drive towards a closer economic partnership. For example, today, about one thousand American companies are doing business in India, which is fourteen times more than in 1991. Bilateral trade has almost doubled over the last decade, to 18 billion dollars, more than 82 crore rupees. There is no doubt anymore in the U.S. that India is a natural trading partner. In the words of Scott Bayman, the CEO of General Electric India, "there is now a greater recognition of the large

intellectual talent pool in India. I no longer have to 'sell' India." So after this good start, how can we get it to the next level?

The United States, with its open markets and fundamental commitment to private sector leadership, is a willing partner. That is the present reality. The good news here is that India has brought economic growth and development to the top of its priorities. The current election may well demonstrate that in this great democracy there is a political consensus that strong growth sustained over a long period will advance the prosperity of India's people, reduce overall levels of poverty, integrate India more fully into the global economy, and transform India's power status in the world. Achieving a consensus of this sort would be a major achievement. Realizing the objective, however, will not happen without new reforms and continuous efforts that restructure and open India's economy to the global economy at large.

Prime Minister Singh and other Indian leaders have clearly projected their intention to undertake a new generation of economic reforms. There are significant efforts underway to revitalize the US-India Economic Dialogue, including the need to set targets and timelines for accomplishing set objectives. The Economic Dialogue consists of five tracks: trade, finance, energy, environment, and commerce. The objectives of the Economic Dialogue include better coordination of discussions and activities between the two governments, soliciting the support of their respective private sectors, and incorporating their views into government decisions and actions. We expect the Economic Dialogue will be a powerful tool to help move our economic relationship forward. We were particularly pleased by the Government of India's recent announcement that Deputy Chairman of the Planning Montek Singh Ahluwalia and Foreign Secretary Shyam Saran will serve as co-chairs of the Economic Dialogue, and we look forward to a productive working relationship with them.

Fighting Terrorism

The last area I will mention is marked by great resolve and commitment; that is the cooperation that has developed between our two countries in the area of fighting terrorism. As all of you know, September 11, 2001, marked a turning point for the United States in its perception and understanding of terrorism. We appreciate the early support India offered to us in the hours after that terrible attack.

Today, we have come a long way in expanding our cooperation and dialogue with India on terrorism. It is our duty to ourselves, to our nations and to our children, to fight this evil so that our peoples can live peaceful and prosperous lives for generations to come. Those who attack our societies, be it in New York, in Washington, in Mumbai, in New Delhi, or in Jammu and Kashmir, must be stopped. We condemn all terrorist violence, and let there be no doubt, we are with you 100 percent on this issue.

History will attest to the fact that great national partnerships and alliances in the modern world thrive when all elements of government, corporate and civil societies are engaged. History is also likely to record that the 21st century will mark the rise of India as a global power. The United States looks forward to working closely with India both to develop our bilateral relations but also to cooperate to enhance the forces of world integration such as trade, communications and transport while combating the pernicious forces of disintegration such as terrorism and weapons of mass destruction.

Offsets in Defense Trade

Prepared by the U.S. Department of Commerce

[The following material is extracted from the eighth annual report, July 2004, on offsets in defense trade and is prepared pursuant to Section 309 of the *Defense Production Act of 1950*[1] (DPA), as amended. This report covers offset agreements and offset transactions entered into from 1993 through 2002. Some of the footnotes and tables have been omitted from this excerpt; however, the footnotes and table numbers remain the same as in the original document. The complete report is available at the following website: http://www.bax.doc.gov/DefenseIndustrialBasePrograms/OSIES/offsets/8thOffsetsReport.htm.]

Executive Summary

This is the eighth annual report on the impact of offsets in defense trade prepared pursuant to Section 309 of the Defense Production Act of 1950,[1] as amended (DPA). The Department of Commerce's Bureau of Industry and Security (BIS)[2] has been delegated responsibility for preparing the reports required under Section 309. The report analyzes the impact of offsets on the defense preparedness, industrial competitiveness, employment, and trade of the United States. To assess the impact of offsets in defense trade, the Department of Commerce obtained data from U.S. defense firms involved in defense exports and related offsets and supplemented this information with statistics from the Bureau of the Census and the National Science Foundation.

Total offset activity can be measured by the number and value of new offset agreements entered into between U.S. defense contractors and foreign governments.

Offset Activity

Total offset activity can be measured by the number and value of new offset agreements entered into between U.S. defense contractors and foreign governments.

Offset Agreements, 2001-2002. U.S. defense contractors reported entering into 35 new offset agreements with fourteen countries in 2001 and forty-one new offset agreements with seventeen countries in 2002. For 2001, new U.S. offset-related defense export contract values totaled $7.0 billion. New offset agreements attached to these exports had a total value of $5.5 billion, equaling a 78.1 percent offset requirement. For 2002, new U.S. offset-related defense export contract values climbed to $7.4 billion, with new offset agreements attached to these exports having a total value of $6.1 billion, or an 82.3 percent offset requirement.

European nations received offsets equal to 95.8 percent of the total export values in 2001 and 94.3 percent in 2002, down from 111.1 percent in 2000. For non-European nations, though, the average offset requirement was 55.1 percent in 2001 and 77.3 percent in 2002, up significantly from 50.0 percent in 2000.

Offset Agreements, 1993-2002: U.S. companies reported entering into 434 offset agreements with thirty-six countries during the time period from 1993 to 2002. U.S. companies reported export sales of 181 different defense systems or subsystems with a total value of $63.6 billion. Offset agreements related to those export contracts were valued at $41.8 billion, or 65.7 percent of the export contract value. Sales of aerospace defense systems i.e., aircraft, engines, and missiles were valued at $53.6 billion and accounted for nearly 82 percent of the total export contracts.

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1 Codified at 50 U.S.C. app. Section 2099 (2000).

2 On April 18, 2002, the Bureau of Export Administration changed its name to the Bureau of Industry and Security

Over the ten-year period, European countries alone accounted for nearly two-thirds 65 percent of the value of offset agreements but less than half 46 percent of the value of related export contracts. European offset demands continued to increase over the ten year period, although more slowly than the demands from other countries. Between 1993 and 2002, European offset demands as a percentage of exports increased by 16 percentage points, going from 78.3 percent to 94.3 percent; for the rest of the world, the increase was almost 55 percentage points, rising from 22.5 percent to 77.3 percent.

Asian countries are capturing an increasing share of offset agreements and export contracts as well as demanding higher offsets. In 2000, Asia accounted for only 2.8 percent of the value of offset agreements; in 2002, Asian countries accounted for 64.8 percent of the total. In contrast, European agreements secured 78 percent of the total value of offset agreements in 2000, but only 34 percent of agreements in 2002. Furthermore, Asian offset requirements reached 52.3 percent in 2001, and grew to 78.4 percent in 2002. The region's 1993-2000 average offset requirement was only 26.2 percent. The data indicate that the level of the demands from non-European nations as a group is rising as well. For 1993-2000, the average offset requirement for non-European countries totaled only 33.9 percent; for 1993-2002, the average requirement rose to 42.4 percent.

In a country-by-country analysis, Austria led Europe and the rest of the world in terms of its offset requirement percentage. On average, sales of U.S. weapons systems to Austria were associated with offset agreements worth 174.2 percent of the value of the weapon systems. Other countries with offset percentages greater than the value of the weapon systems exported were the Netherlands (120.5 percent), South Africa (116.7 percent), Greece (110.5 percent), and Sweden (103.9 percent).

Transactions

Offset activity can also be measured by the number and value of individual offset transactions carried out in fulfillment of offset agreements during the reporting period.

Offset Transactions, 2001-2002

U.S. companies reported offset transactions with a total actual value of $2.6 billion in both 2001 and 2002. The 2001 figure represents a 53 percent increase from the 2000 total of $1.7 billion, but is only slightly higher than the average annual value of offset transactions $2.3 billion during the ten-year period from 1993 to 2002. The percentage of the value of offset transactions classified as indirect rose during 2001 and 2002, reaching 63.8 percent in 2002, compared with 35.9 percent of the value in direct transactions that year. The remaining 0.3 percent of the value was unspecified.

Offset Transactions, 1993-2002

For 1993-2002, U.S. companies reported 5,903 offset transactions executed in 35 countries. These offset transactions were related to 230 defense systems under existing offset agreements. The actual value of the offset transactions from 1993 to 2002 was $23.5 billion. Indirect offsets accounted for 58.2 percent of the total value of transactions and direct offsets made up 39.1 percent. The remaining 2.7 percent of the value was unspecified.

The multiplier for all transactions during 2001-2002 was 1.265; this means that purchasing countries granted, on average, $1.265 of offset credit for each $1 in actual offset transaction value for those two years. For 1993-2002, the total multiplier was 1.224.

Findings

The Asian share of total export contracts and the region's level of offset demands have experienced dramatic growth in recent years. Individual countries in other non-European regions

of the world are also demanding and receiving increased levels of offsets; non-European reached 77 percent of the value of the sales. At the same time, increases in Western European offset demands are moderating, with requirements in 2001 and 2002 remaining around 95 percent of the value of the agreement, but still well above other regions of the world.

By combining BIS offsets data with aerospace industry data from the Census Bureau's 2001 *Annual Survey of Manufactures* (ASM), the most recent data published, the impact on defense productive capacity can be estimated. According to comparable BIS data for 2001, U.S. defense exports with offset agreements attached totaled $7.0 billion. Using ASM information on value added per aerospace worker, BIS estimates that (assuming 100 percent export content) these exports sustained 42,440 work-years in 2001. In 2001, subcontracting, purchasing, co-production, and licensing transactions (those most likely to shift sales from U.S. suppliers to overseas firms) were valued at $1.9 billion. Dividing $1.9 billion by $165,858 (the value added by each worker in the aerospace industry in 2001) results in the loss of approximately 11,460 work-years in 2001. Based on these calculations, it appears that defense export sales had a net positive effect on employment in the defense sector during the period from 1993 to 2001, although the net positive effect was diminished by the offset agreements. This calculation assumes that industry would not have received these defense export contracts if it had not entered into the related offset agreements. It should also be noted that the above analysis does not include an additional $9 billion of offsets in technology transfer, training, overseas investment, and marketing transactions, because the impact of these transactions on the U.S. defense industrial base is difficult to calculate. Nor does this calculation include consideration of the long-term effect of creating new or enhanced competitors.

Legislation and Regulations

In 1984, the Congress enacted amendments to the DPA, which included the addition of Section 309 addressing offsets in defense trade.[3] Section 309[4] required the President to submit an annual report on the impact of offsets on the U.S. defense industrial base.

In 1992, Section 309 of the DPA was amended, and the Secretary of Commerce was given the responsibility of preparing the report for the Congress, on the President's behalf, and was directed to function as the President's Executive Agent for carrying out responsibilities under Section 309 of the DPA.[5]

Under Section 309, the Secretary of Commerce is authorized to develop and administer the regulations necessary to collect offset data from U.S. defense exporters. The Secretary of Commerce delegated this authority to the Bureau of Industry and Security, which published its first offset regulations in the Federal Register in 1994.[6]

The 1992 amendments to Section 309 of the DPA made other changes to the offset data collection process. The amendments lowered the offset agreement reporting threshold from $50 million to $5 million for U.S. firms entering into foreign defense sales contracts subject to offset agreements. Under the regulations, firms report all offset transactions for which they receive

3 See Pub. L. 98-265, April 17, 1984, 98 Stat. 149.

4. Section 309 of the DPA was amended in 2001 to reflect the change in the name of the House committee to the "Committee on Financial Services of the House of Representatives." See 50 U.S.C. app. Section 2099(a)(1).

5 See Pub. L. 102-588, Oct. 28, 1992, 106 Stat. 4198; see also Part IV of *Exec. Order No. 12919,* 59 Fed. Reg. 29525, June 3, 1994.

6 See 59 Federal Regulation 61796, Dec. 2, 1994, codified at 15 C.F.R. Section 701.

offset credits of $250,000 or more. Every year, U.S. companies report offset agreement and transaction data for the previous calendar year to BIS.

U.S. Government Policy

The U.S. government policy on offsets in defense trade was developed by an interagency offset team. On April 16, 1990, the President announced a policy on offsets in military exports.[7] In 1992, Congress passed the following provision that reflected the substance of the policy announced by the President:[8]

- Recognizing that certain offsets for military exports are economically inefficient and market distorting, and mindful of the need to minimize the adverse effects of offsets in military exports while ensuring that the ability of United States firms to compete for military export sales is not undermined, it is the policy of the Congress that—

  •• No agency of the United States Government shall encourage, enter directly into, or commit United States firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments;

  •• United States Government funds shall not be used to finance offsets in security assistance transactions, except in accordance with policies and procedures that were in existence on March 1, 1992;

  •• Nothing in this section shall prevent agencies of the United States Government from fulfilling obligations incurred through international agreements entered into before March 1, 1992; and

  •• The decision whether to engage in offsets, and the responsibility for negotiating and implementing offset arrangements, reside with the companies involved.

  •• After receiving the recommendation of the National Security Council.

- Presidential Approval of Exceptions. It is the policy of the Congress that the President may approve an exception to the policy stated in subsection

- It is the policy of the Congress that the President shall designate the Secretary of Defense to lead, in coordination with the Secretary of State, an interagency team to consult with foreign nations on limiting the adverse effects of offsets in defense procurement. The President shall transmit an annual report on the results of these consultations to the Congress as part of the report required under section 309(a) of the DPA.

In 1999, the offset policy was supplemented by provisions contained in the *Defense Offsets Disclosure Act of 1999*.[9] Specifically, Congress made the following findings:

- A fair business environment is necessary to advance international trade, economic stability, and development worldwide, is beneficial for American workers and businesses, and is in the United States national interest.

- In some cases, mandated offset requirements can cause economic distortions in international defense trade and undermine fairness and competitiveness, and may cause particular harm to small- and medium-sized businesses.

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7 See April 16, 1990 statement by Press Secretary Fitzwater on offsets in military exports.

8 Congress incorporated this policy statement into law with the *Defense Production Act Amendments of 1992* (Pub. L. 102-558, Title I, part C, Section 123, 106 Stat. 4198).

9 See Pub. L. Not 106-113, Div. B, Section 1000(a)(7) 113 Stat. 1536, 1510A-500 to 1501A-505(1999) (enacting into law Subtitle D of Title XII of division B of H.R. 3427 (113 Stat. 1501A-500) as introduced on Nov. 17, 19999) (found at 50 U.S.C. App. 2099, Note).

- The use of offsets may lead to increasing dependence on foreign suppliers for the production of United States weapons systems.

- The offset demands required by some purchasing countries, including some close allies of the United States, equal or exceed the value of the base contract they are intended to offset, mitigating much of the potential economic benefit of the exports.

- Offset demands often unduly distort the prices of defense contracts.

- In some cases, United States contractors are required to provide indirect offsets which can negatively impact nondefense industrial sectors.

- Unilateral efforts by the United States to prohibit offsets may be impractical in the current era of globalization and would severely hinder the competitiveness of the United States defense industry in the global market.

The Defense Offsets Disclosure Act of 1999 continues with the following declaration of policy:

> It is the policy of the United States to monitor the use of offsets in international defense trade, to promote fairness in such trade, and to ensure that foreign participation in the production of United States weapons systems does not harm the economy of the United States.

Offsets Terminology

There are several basic terms used in discussions of offsets in defense trade. For more definitions and an illustrative example of an offset arrangement, please see the Glossary in Appendix F.

- Offsets - Compensation practices required as a condition of purchase in either government-to-government or commercial sales of defense articles and/or defense services' as defined by the *Arms Export Control Act* (22 U.S.C. § 2751, et. seq.) and the *International Traffic in Arms Regulations* (22 C.F.R. §§ 120-130).

- Contractual arrangements that involve defense articles and services referenced in the sales agreement for military exports. These transactions are directly related to the defense items or services exported by the defense firm and are usually in the form of co-production, subcontracting, technology transfer, training, production, licensed production, or financing activities.

- Contractual arrangements that involve defense goods and services unrelated to the exports referenced in the sales agreement. These transactions are not directly related to the defense items or services exported by the defense firm. The kinds of offsets that are considered indirect include purchases, investment, training, financing activities, marketing/exporting assistance, and technology transfer.

- Co-production: Overseas production based upon a government-to-government agreement that permits a foreign government or producer(s) to acquire the technical information to manufacture all or part of a U.S.-origin defense article. Co-production includes government-to-government licensed production, but excludes licensed production based upon direct commercial arrangements by U.S. manufacturers.

- Licensed Production: Overseas production of a U.S. origin defense article based upon transfer of technical information under direct commercial arrangements between a U.S. manufacturer and a foreign government or producer.

- Subcontractor Production: Overseas production of a part or component of a U.S.-origin defense article. The subcontract does not necessarily involve license of technical

information and is usually a direct commercial arrangement between the defense prime contractor and a foreign producer.

- Overseas Investment: Investment arising from an offset agreement, often taking the form of capital dedicated to establishing or expanding a subsidiary or joint venture in the foreign country.

- Technology Transfer: Transfer of technology that occurs as a result of an offset agreement and that may take the form of research and development conducted abroad, technical assistance provided to the overseas subsidiary or joint venture, or other activities under direct commercial arrangement between the defense prime contractor and a foreign entity.

Statistical Overview

In this part of the report, we provide a general overview of offset statistics collected by BIS for the years 1993 through 2002, along with a review of some of the terms used by BIS to organize the data for analysis. More detailed sections on agreements and transactions will follow in Chapters 4 and 5.

General Overview

A summary of offset activity for 1993 through 2002 is provided in Table 2-1. Data for 2000 have been revised to reflect corrected information provided by reporting firms.

Offset Transaction Types

Table 2-2 presents offset transaction data by type direct, indirect, or unspecified and the percent distribution for each year from 1993 to 2002. As discussed in Chapter 1, direct offset transactions are those that are directly related to the weapon system that is exported. Indirect transactions are not related to the exported system. A transaction is classified as unspecified when there is not enough information available to determine whether it is direct or indirect. The table also shows the total actual and credit values of the transactions for each year. The credit value is normally more than the actual value assigned to transactions; some foreign governments give greater credit as an incentive for certain kinds of offset transactions. This value varies by country and by the kind of transaction (i.e., purchase, technology transfer, investment). The multiplier, also shown in table 2-2, is the percentage difference between the actual value and the credit value. For the 1993-2002 period, the multiplier is 1.224. This multiplier means that, for the database as a whole, the total credit value of the transactions is 22.4 percent more than the actual value. Offset transaction data are more fully discussed in Chapter 5.

Offset Transaction Categories

In addition to classifying offset transactions by type (direct or indirect), offset transactions are identified by various categories, which more particularly describe the nature of the arrangement or exchange. These categories include Purchases, Subcontracts, Technology Transfers, Credit Assistance, Training, Overseas Investment, Co-production, Licensed Production, and Miscellaneous.

Table 2-3 presents a summary of offset transactions by category and type for the ten-year reporting period (1993-2002). Appendix F contains a listing of relevant offset definitions. A brief description of each category follows:

Purchases result in overseas production of goods or services usually for export to the United States. Purchases are always classified as indirect offsets to distinguish them from subcontracts, because purchases are of items unrelated to the exported defense system. The U.S. exporter may make the purchase, or it can be accomplished by brokering and marketing assistance that result in purchases by a third party. For 1993-2002, purchases represented 38 percent of the actual value

of all offset transactions, the largest share of all categories. Purchases had a multiplier of 1.110, which is lower than the multiplier associated with any other category for the period.

Table 2-1 General Summary of Offset Activity, 1993-2002
(all $ in millions)

Offset Agreements

Year	Export Value	Offset Value	Percent of Percent	Companies	Agreements	Countries
1993	$13,957.0	$4,806.7	34.4%	18	30	17
1994	$4,792.4	$2,048.7	42.8%	18	49	20
1995	$7,402.0	$6,034.1	81.5%	19	45	18
1996	$2,987.8	$2,270.7	76.0%	15	50	19
1997	$5,822.8	$3,831.8	65.8%	13	57	19
1998	$3,257.8	$1,846.6	56.7%	11	44	17
1999	$4,681.2	$3,851.4	82.3%	10	45	11
2000	$6,278.3	$5,498.1	87.6%	8	38	14
2001	$7,039.2	$5,497.3	78.1%	11	35	14
2002	$7,406.2	$6,094.8	82.3%	12	41	17
10 Years	**$63,624.9**	**$41,780.3**	**65.7%**	**39**	**434**	**36**

Offset Transactions

Year	Actual Value	Credit Value	Multiplier	Companies	Transactions	Countries
1993	$1,815.1	$2,162.1	1.191	24	440	27
1994	$1,891.1	$2,161.5	1.143	21	550	26
1995	$2,713.7	$3,390.8	1.250	20	670	27
1996	$2,731.5	$3,098.9	1.135	21	623	26
1997	$2,725.5	$3,276.2	1.202	18	577	26
1998	$2,364.8	$2,684.6	1.135	19	582	30
1999	$2,080.4	$2,824.1	1.358	13	512	25
2000	$1,998.5	$2,613.0	1.307	14	601	23
2001	$2,588.1	$3,295.7	1.273	15	620	25
2002	$2,613.0	$3,281.5	1.256	17	728	27
10 Years	**$23,521.5**	**$28,788.4**	**1.224**	**42**	**5903**	**39**

Source: BIS Offsets Database

Note: Due to rounding, totals may not add up precisely. Also, data for 2000 have been revised to reflect corrected information provided by reporting firms.

Subcontracts result in overseas production of goods or services for use in the production or operation of a U.S.-exported defense system subject to an offset agreement. Subcontracts are always classified as direct offsets. During 1993-2002, subcontracts represented 28.5 percent of the actual value of all offset transactions, and 72.9 percent of the value of all direct offsets. At 1.124, subcontracts had the second lowest multiplier of all transaction categories.

Technology Transfer includes research and development conducted abroad, exchange programs for personnel, data exchanges, integration of machinery and equipment into a recipient's production facility, technical assistance, education and training, manufacturing know-how, and licensing and patent sharing. Technology transfer, as that term is used here, is normally accomplished under a commercial arrangement between the U.S. prime contractor and a foreign company. A major subcontractor may also accomplish the technology transfer on behalf of the

Table 2-2 Offset Transactions by Type, 1993-2002
(Dollar Amounts in Millions)

Year	Total	Direct	Indirect	Unspecified	Direct	Indirect	Unspecified
			Actual Value			Percent of Distribution	
1993	$1,815.1	$583.0	$1,106.0	$126.1	32.1%	60.9%	7.0%
1994	$1,891.1	$600.7	$1,129.5	$160.9	31.8%	59.7%	8.5%
1995	$2,713.7	$1,064.1	$1,649.6	NR	39.2%	60.8%	NR
1996	$2,731.5	$1,097.5	$1,553.8	$80.1	40.2%	56.9%	2.9%
1997	$2,725.5	$1,030.3	$1,570.7	$124.4	37.8%	57.6%	4.6%
1998	$2,364.8	$1,464.2	$895.3	$5.4	61.9%	37.9%	0.2%
1999	$2,080.4	$690.2	$1,351.0	$39.1	33.2%	64.9%	1.9%
2000	$1,998.5	$779.9	$1,122.5	$96.1	39.0%	56.2%	4.8%
2001	$2,588.1	$949.1	$1,638.2	$0.8	36.7%	63.3%	0.0%
2002	$2,613.0	$938.7	$1,667.7	$6.6	35.9%	63.8%	0.3%
Total	**$23,521.5**	**$9,197.8**	**$13,684.2**	**$639.5**	**39.1%**	**58.2%**	**2.72%**

Year	Total	Direct	Indirect	Unspecified	Direct	Indirect	Unspecified
			Credit Value			Percent of Distribution	
1993	$2,162.1	$708.2	$1,323.0	$130.9	32.8%	61.2%	6.2%
1994	$2,161.5	$774.1	$1,221.9	$165.4	35.8%	56.5%	7.7%
1995	$3,390.8	$1,257.9	$2,132.9	NR	37.1%	62.9%	NR
1996	$3,098.9	$1,188.7	$1,795.6	$114.7	38.4%	57.9%	3.7%
1997	$3,276.2	$1,171.1	$1,952.3	$152.8	35.8%	59.6%	4.7%
1998	$2,684.6	$1,621.8	$1,055.1	$7.8	60.4%	39.3%	0.3%
1999	$2,824.1	$1,121.8	$1,599.5	$102.8	39.7%	56.6%	3.6%
2000	$2,613.0	$1,135.8	$1,377.7	$99.4	43.5%	52.7%	3.8%
2001	$3,295.7	$1,282.3	$2,010.2	$3.2	38.9%	61.0%	0.1%
2002	$3,281.5	$1,108.2	$2,165.8	$7.5	33.8%	66.0%	0.2%
Total	**$28,788.4**	**$11,369.9**	**$16,634.1**	**$784.4**	**39.5%**	**57.8%**	**2.7%**

Year	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
			Multiplier			Percent of Transactions		
1993	1.191	1.215	1.196	1.038	440	132	300	8
1994	1.143	1.289	1.082	1.028	550	157	383	10
1995	1.250	1.182	1.293	NR	670	203	467	NR
1996	1.135	1.083	1.156	1.432	623	220	397	6
1997	1.202	1.137	1.243	1.228	577	200	371	6
1998	1.135	1.108	1.179	1.450	582	237	342	3
1999	1.358	1.625	1.184	2.629	512	200	295	17
2000	1.307	1.456	1.227	1.035	601	208	383	10
2001	1.273	1.351	1.227	4.000	620	222	397	1
2002	1.256	1.181	1.299	1.124	728	193	531	4
Total	**1.224**	**1.236**	**1.216**	**1.385**	**5903**	**1972**	**3866**	**65**

Source: BIS Offsets Database

NR = None Reported

Note: Data for 2000 have been revised to reflect corrected information provided by reporting firms.

U.S. prime contractor. During 1993-2002, about 36 percent of the value of technology transfers was classified as direct offsets and 61 percent was indirect offsets; for the balance, the type was unspecified. Technology transfers accounted for 13 percent of the actual value of all offset transactions, and the multiplier for technology transfers was 1.368.

Credit Assistance includes direct loans, brokered loans, loan guarantees, assistance in achieving favorable payment terms, credit extensions, and lower interest rates. Credit assistance transactions accounted for 4.9 percent of the actual value of all transactions for 1993-2002. Credit assistance is nearly always classified as an indirect offset transaction, with indirect transactions making up more than 99 percent of the actual value of all credit assistance for the period. The multiplier for credit assistance was 1.137.

Training transactions relate to the production, maintenance, or actual use of the exported defense system or a component thereof. Training may be required in areas such as computers, foreign language skills, engineering capabilities, or management. This category can be classified as either direct or indirect offset transactions; more than 62 percent of the value of training transactions was direct. Training accounted for only 3 percent of the total value of offset transactions between 1993 and 2002. The multiplier for training was 1.609, the second highest for all categories. Overseas Investments include capital invested to establish or expand a subsidiary or joint venture in the foreign country as well as investments in third-party facilities; the latter received the highest multipliers. Overseas investments accounted for just 2.3 percent of the actual value of all offset transactions, and usually were classified as indirect offsets; 75 percent of overseas investment transactions was classified as indirect. These transactions have the highest aggregate multiplier (2.762) of any category of offset transactions.

Co-production is overseas production based upon a government-to-government agreement that permits a foreign government or producer to acquire the technical information to manufacture all or part of a U.S.-origin defense system. Co-production is always classified as a direct offset. It includes government-to-government licensed production, but excludes licensed production based upon direct commercial arrangements by U.S. manufacturers. Virtually all of the co-production reported during the 1993-2002 period was aerospace-related. Co-production accounted for 1.9 percent of the value of offset transactions and had a multiplier of only 1.149, ranking just above the multipliers for purchases and subcontracts.

Past co-production transactions have involved constructing major production facilities in foreign countries (primarily at the expense of the foreign government) for the assembly of entire defense systems, such as aircraft, missiles, or ground systems. Co-production arrangements of this kind generally impose a high cost on the foreign government, including upfront construction and tooling costs and increased unit costs for limited production runs.[10] Some countries negotiate with prime contractors for production or assembly contracts related to future sales to third countries of the weapon system or system components.

Licensed Production is overseas production of a U.S. origin defense article. Licensed production differs from co-production in that it is based on commercial arrangements between a U.S. manufacturer and a foreign entity as opposed to a government-to-government agreement. In addition, licensed production virtually always involves a part or component for a defense system,

10 Primary examples include an Egyptian co-production facility which, since its 1988 inception, has only contracted enough orders to build half of what the government originally planned and a Japanese co-production program that cost the government nearly two times more per unit than an off-the-shelf purchase. See *Military Aid to Egypt: Tank Coproduction Raised Costs and May Not Meet Many Program Goals*, U.S. General Accounting Office, GAO/NSIAD-93-2003, and *U.S. Military Aircraft Coproduction with Japan* U.S. General Accounting Office, GAO/T-NSIAD-89-6.

rather than a complete defense system. Licensed production is the smallest among the offset categories, accounting for only 0.7 percent of the total value of offset transactions; 75 percent of the licensed production transactions (by actual value) was directly related to the weapon systems sold. The multiplier for licensed production was 1.314.

Table 2-3 Offset Transactions by Category and Type,1993 - 2002

Transaction	Actual Values in $ Millions				Percent by Column Total			
Category	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
Purchases	$8,937.4	.0	$8,503.8	$433.6	38.0%	.00%	62.14%	67.81%
Subcontracts	$6,701.3	$6,701.3	.0	.0	28.49%	72.86%	.00%	.00%
Technology Transfers	$3,059.1	$1,093.2	$1,874.3	$91.6	13.01%	11.89%	13.70%	14.32%
Miscellaneous	$1,815.5	$409.1	$1,496.6	$9.8	7.72%	3.36%	10.94%	1.53%
Credit Assistance	$1,142.8	$5.1	$1,137.7	.0	4.86%	0.06%	8.31%	.00%
Training	$705.8	$439.4	$264.5	$1.9	3.00%	4.78%	1.93%	0.29%
Overseas Investment	$550.5	$79.4	$393.6	$77.5	2.34%	0.86%	2.88%	12.11%
Co-production	$455.7	$454.6	.0	$1.1	1.94%	4.94%	.00%	0.17%
Licensed Production	$153.3	$115.7	#13.6	$24.0	0.65%	1.26%	0.10%	3.76%
Total	**$23,521.5**	**$9,197.8**	**$13,684.2**	**$639.5**	**100.00%**	**100.00%**	**100.00%**	**100.0%**

Transaction	Credit Values in $ Millions				Percent by Column Total			
Category	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
Purchases	$9,921.1	.0	$9,476.1	$445.0	34.46%	.00%	56.97%	56.73%
Subcontracts	$7,531.6	$7,531.6	.0	.0	26.16%	66.24%	.00%	.00%
Technology Transfers	$4,183.9	$1,545.3	$4,545.5	$93.1	14.53%	13.59%	15.30%	11.87%
Miscellaneous	$2,470.6	$544.7	$1,853.4	$72.4	8.58%	4.79%	11.14%	9.24%
Credit Assistance	$1,299.9	$70.6	$1,229.3	.0	4.53%	0.62%	7.39%	.00%
Training	$1,135.4	$681.2	$440.9	$13.4	3.94%	5.99%	2.65%	1.70%
Overseas Investment	$1,520.7	$339.8	$1,052.8	$128.2	5.28%	2.99%	6.33%	16.34%
Co-production	$523.7	$522.6	.0	$1.1	1.820%	4.60%	.00%	0.14%
Licensed production	$201.5	$134.1	$36.1	$31.2	0.70%	1.18%	0.22%	3.98%
Total	**$28,788.4**	**$11,369.9**	**$16,634.1**	**$784.4**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Transaction	Multiplier				Number of Transactions			
Category	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
Purchases	1.110	.000	1.114	1.026	3002	0	2960	42
Subcontracts	1.124	1.124	.000	.000	1365	1365	0	0
Technology Transfers	1.368	1.414	1.358	1.017	608	273	330	5
Miscellaneous	1.361	1.762	1.238	7.385	404	83	316	5
Credit Assistance	1.137	13.830	1.081	.000	82	7	75	0
Training	1.609	.550	1.666	7.178	212	98	109	5
Overseas Investment	2.762	4.277	2.675	1.655	85	9	71	5
Co-production	1.149	1.150	.000	1.000	114	113	0	1
Licensed production	1.314	1.160	2.660	1.300	31	24	5	2
Total	**1.224**	**1.236**	**1.216**	**1.227**	**5903**	**1972**	**3866**	**65**

Source: BIS Offset Database

Miscellaneous transactions include activities such as feasibility studies, marketing assistance, export assistance, administrative support, business plan development, and trade conferences, among others. These varied transactions comprise 7.7 percent of the total, and the average multiplier during 1993-2002 was 1.361.

Countries and Regions

Table 2-5 lists the countries, by region, with which U.S. firms reported entering offset agreements. Also shown are the average percentage of offset requirements of new agreements and the average multiplier applied to offset transactions in each country. In some cases, the average offset requirement or multiplier was not reported or could not be calculated; these instances are marked NR. In other cases, the offset requirement or multiplier is withheld to protect company confidentiality; these cases are marked W.

Austria led Europe and the rest of the world in terms of its offset percentage; on average, U.S. weapon system exports to Austria were associated with offset agreements worth 174.2 percent of the value of the weapon system. At the same time, Austria offered the lowest reported multiplier for offset transactions carried out in fulfillment of the agreements.

Other European countries required offset percentages equal to or greater than the value of the weapon systems exported to them. These countries included the Netherlands (120.5 percent), Greece (110.5 percent), Sweden (103.9 percent), Denmark (100 percent), and Finland (100 percent). In the rest of the world, only one country, South Africa, required offsets greater than the price of the weapon systems it purchased; its average offset percentage was 116.7 percent. These six countries offered multipliers of 1 or more for offset transactions.

Portugal required an average offset percentage of 27.9 percent, the lowest of all countries. Its multiplier was also among the most generous, at 2.24 times the actual value of transactions. It should be noted that the average regional offset percentages required by countries in Europe and Asia increased since the previous report on offsets in defense trade. In the previous report, which covered 1993-2000, Europe's average offset percentage was 92.3 percent; with the addition of 2001 and 2002, the average rose slightly to 92.6 percent. In Asia, the average grew from 26.2 percent to 40 percent.

Impact of Offsets on the U.S. Defense Industrial Base

The DPA requires that Commerce determine the impact of offsets on defense preparedness, industrial competitiveness, employment, and trade of the United States. This chapter discusses the impact of offsets on defense preparedness and employment; the impacts on industrial competitiveness and trade of the United States will be discussed in Chapter 6.

Defense Preparedness

Offsets enhance the defense preparedness of the United States in several ways. Exports and the revenue generated by export sales are crucial to producers of U.S. defense systems and, by extension, to U.S. foreign policy and economic interests; almost all purchasers of U.S. defense systems require offset agreements as a condition of the sale. Exports of major defense systems help defray high overhead costs for the U.S. producer and help maintain production facilities and expertise, in case they are needed to respond to a national emergency. Exports also provide additional business to many U.S. subcontractors and lower-tier suppliers, promote interoperability of weapon systems between the United States and allied countries, and add positively to U.S. international account balances.

An offset package, particularly one with a high proportion of subcontracting or purchases ñ can negate some of these benefits. U.S. subcontractors and suppliers are displaced by exports that include subcontract or licensed production offsets. Previous examples indicate that U.S. contractors sometimes develop long-term supplier relationships with overseas subcontractors based on short-term offset requirements.[11] These new relationships can reduce future business

11 See GAO report on offset activities, *Defense Trade: U.S. Contractors Employ Diverse Activities to Meet Offset Obligations,* December 1998 (GAO/NSIAD-99-35), P;. 4-5.

Table 2 - 5 Countries with Offset Agreements and Transactions By Region, 1993-2002

Europe

Country	Percent Offsets	Multiplier
Austria	174.2%	0.84
Belgium	W	1.09
Czech Republic	W	W
Denmark	100.0%	1.27
EPG	27.8%	1.23
Finland	100.0%	1.07
France	84.6%	1.74
Germany	W	1.00
Greece	110.5%	2.60
Italy	93.8%	1.05
Luxembourg	NR	W
Netherlands	120.5%	1.21
Norway	99.5%	1.41
Portugal	27.9%	2.24
Slovenia	W	NR
Spain	88.8%	1.26
Sweden	103.9%	1.15
Switzerland	78.1%	1.01
United Kingdom	92.1%	1.01
Region Total	**92.6%**	**1.21**

North and South America

Country	Percent Offsets	Multiplier
Brazil	W	W
Canada	83.1%	.997
Chile	W	NR
Region Total	**90.8%**	**1.013**

Middle Ease and Africa

Country	Percent Offsets	Multiplier
Egypt	NR	1.00
Israel	49.2%	1.05
Kuwait	30.2%	2.52
Saudi Arabia	34.9%	NR
South Africa	W	W
Turkey	61.5%	1.07
United Arab Emirates	55.3%	2.33
Region Total	**44.0%**	**1.11**

Asia

Country	Percent Offsets	Multiplier
Australia	45.6%	1.03
Indonesia	NR	1.21
Malaysia	37.3%	1.12
New Zealand	W	W
Singapore	58.3%	2.27
South Korea	64.7%	1.45
Taiwan	21.2%	2.21
Thailand	26.5%	1.79
Region Total	**40.0%**	**1.49**

Source: BIS Offsets Database

Notes: NR=None Reported; W=Withheld to protect company proprietary information.

opportunities for U.S. subcontractors, with possible consequences for the industrial base. Offsets can also increase spending and capital investment in foreign countries for defense or non-defense industries.

Employment

While it is difficult to determine precisely the impact of offset agreements and transactions on employment in the U.S. defense sector, BIS has developed an estimate by using employment data collected by the Bureau of the Census. Given that sales of aerospace weapon systems account for nearly 85 percent of the value of defense exports connected with offset agreements, this method appears to provide a reliable estimate.

For 2001,[12] industry reported approximately $7.0 billion[13] in defense export contracts with an offset agreement attached. According to the *Annual Survey of Manufactures*, the value added per employee for the aerospace product and parts manufacturing industry in 2001 was $165,858. Dividing this figure into the defense export sales total results in a total of 42,440 work-years that were supported in that year by defense exports associated with offset agreements.

However, by their very nature, subcontracting, purchasing, co-production, and licensing offset transactions are most likely to shift sales from U.S. suppliers to overseas firms. Other categories of offset transactions, in the short or long run, can shift sales from U.S. suppliers as well. BIS bases its estimate of employment impacts only on the specified types of transactions. For 2001, these transactions were valued at $1.9 billion. Dividing $1.9 billion by $165,858 (the value added by each worker in the aerospace industry in 2001) results in the loss of approximately 11,460 work-years for 2001, assuming the foreign contract could have been won without an offset agreement.

Based on these calculations, it appears that defense export sales had a net positive effect on employment in the defense sector in 2001, although the net positive effect was diminished by the offset agreements. It should be noted that the above analysis does not include an additional $687 million of offsets in technology transfer, training, overseas investment, and marketing transactions, because the impact of these transactions on the U.S. defense industrial base is difficult to calculate. Further, this calculation assumes that industry would not have received these defense export contracts if it had not entered into the related offset agreements.

Offset Agreements Activity, 1993 Through 2002

According to offset data collected from industry covering 1993 to 2002, 39 U.S. firms reported entering into 434 offset agreements with a total value of $41.8 billion. These offset agreements were made with foreign purchasers in 36 different countries and were associated with defense export contracts valued at $63.6 billion. The exports involved 181 U.S. weapon systems. The value of the offset agreements represented 65.7 percent of the total value of the related export contracts during the entire reporting period.[17] The average term for completing the offset agreements was 100 months, or slightly more than eight years.[18] The percentage of offset agreements to export contracts (by value) declined slightly from previous years to 78.1 percent in

12 The year 2001 was used because 2002 Census data on value added was not available during the preparation of this report. See the U.S. Census Bureau website at http://www.census.gov/prod/www/abs/industry.html.

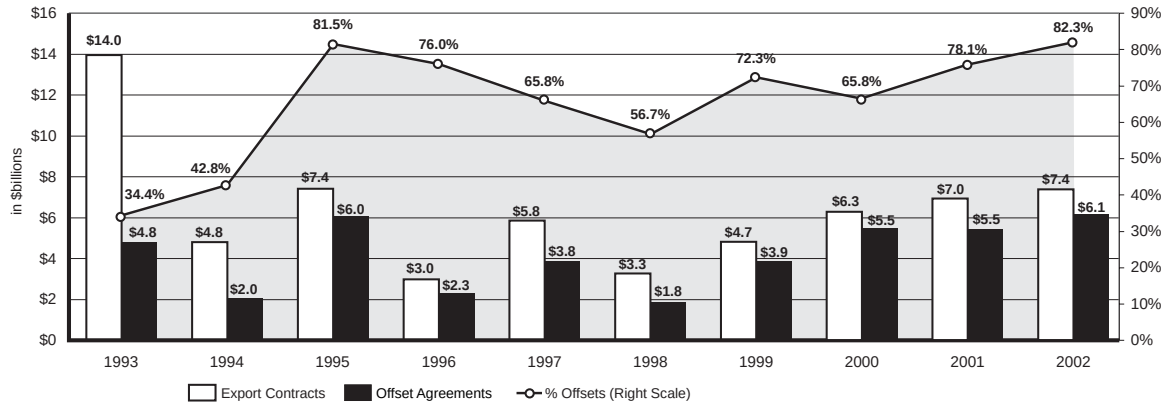
13 The following calculation is based on the assumption that this value represents 100 percent U.S. content in all exports, not necessarily an accurate assumption.

17 The figure of 65.7 percent is weighted to the annual values of export contracts and agreements. An unweighted average can be calculated by averaging the annual percentages of offsets. the unweighted result was 68.7 percent.

18 A weighted average was calculated based on the value and term of each offset agreement.

2001 and then rebounded in 2002 to 82.3 percent. The lowest percentage was recorded in 1993 at 34.4 percent, the highest in 2000 at 87.6 percent.

The annual values of defense export contracts and offset agreements (including offset percentages) are presented in Chart 4-1. In a sharp upward trend, the value of the offset agreements as a percentage of the value of defense export contracts increased an average of approximately 4.75 percentage points per year over the ten-year reporting period.[19]



Source: BIS Offsets Database

Chart 4 - 1 Reported Export Contracts and Offset Agreements Annually, 1993-2002 (in $ billions).

Offsets Concentration

The data reported by U.S. companies show that a small number of companies, countries, and weapon systems dominated offset agreements between 1993 and 2002. The top five U.S. exporters (of 39 companies reporting data on offsets) accounted for 79.5 percent of the defense export contracts and 79.0 percent of the offset agreements during this timeframe. This high level of market concentration reflects the high costs of modern defense systems and the small number of firms that produce them. Due to the complexity and expense involved, only a large, multi-disciplined company could produce and deliver modern defense systems. In addition, each exporter company coordinated the activities of hundreds, if not thousands, of subcontractors and suppliers that contributed to the systems production, as well as the work of thousands of employees.

Offsets also appear to be concentrated in a few purchaser countries. The top five countries (of a total of 36 involved in the reported offset activity) accounted for 58.6 percent of the total defense system purchases and 57.8 percent of the total offset agreements. The top ten countries (of 36 total) represented 73.1 percent of defense system purchases and 74.7 percent of the offset agreements. The fact that relatively few countries accounted for the bulk of offset activity indicates that relatively few countries were in the market for big-ticket defense equipment. By dominating offset activity, these few countries also dominated the impact offsets have on the U.S. defense industrial base. In addition, these countries set a visible standard for offset demands for other countries to imitate.

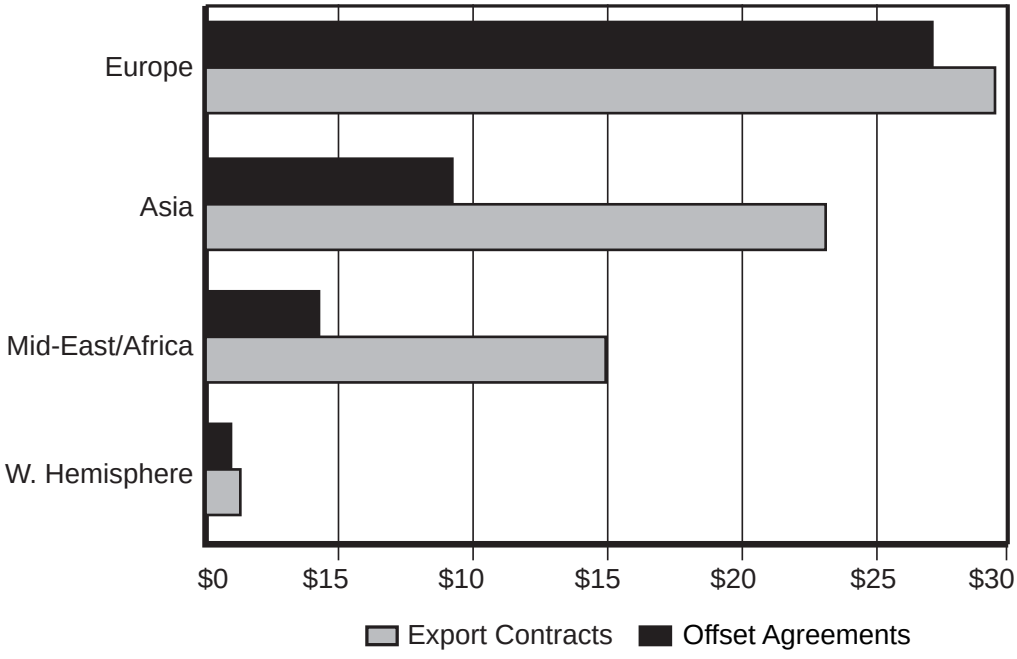
19 the percentage increase was calculated using a linear least-squares function of only the annual percent values.

The data reported by U.S. companies also show that specific defense systems were in high demand overseas. The top five weapon systems (of the 181 weapon systems sold) were aircraft systems. These top five exports accounted for 44.4 percent of the value of all export contracts and 37.3 percent of the offset agreements during the reporting period. The top ten defense systems accounted for 59.3 percent of the export contracts and 56.9 percent of the offset agreements during the reporting period.

Regional Distributions

European countries dominated offset activity during the reporting period. Europe alone accounted for 65 percent of the value of offset agreements during the reporting period, while at the same time accounting for 46 percent of the value of U.S. defense export contracts. Asian countries ranked a distant second in both categories, accounting for over 22 percent of the value of offset agreements and 37 percent of related U.S. export contract values. However, Asia's share of offset agreements is growing. In 2000, Asia accounted for only 2.8 percent of the value of offset agreements. The same year, European agreements comprised 78 percent of total offset agreements. By 2002, those numbers changed significantly: Europe was the source of 33.6 percent of the value of offset agreements (compared to 78 percent in 2000), while Asian offsets had climbed sharply to 64.8 percent (compared to 2.8 percent) of the total.

For the ten-year reporting period, Middle Eastern and African countries also had significant shares, accounting for nearly 10.5 percent of the value of offset agreements and 15.6 percent of the value of U.S. export contract business. Offsets with countries in North and South America (Canada, Brazil, and Chile) were less significant, accounting for approximately two percent of the value of offset agreements and 1.5 percent of the total value of related U.S. defense export contracts. Chart 4-2 illustrates regional totals of U.S. defense export contracts and offset agreements for 1993 to 2002.



Source: BIS Offsets Database

Chart 4 - 2 Regional Totals of Export Contracts and Offset Agreements, 1993-2002 (in $ billions)

Although Europe still accounts for the preponderance of offset agreements by value, non-European countries' offset requirement percentages are increasing significantly. For 1993-2000,

the average offset requirement for non-European countries totaled only 33.9 percent. The past two reporting years alone boosted that percentage nearly 10 percent. Non-European countries accounted for 204 offset agreements that totaled $14.5 billion from 1993 to 2002, half of the European total. The average offset agreement for non-European countries was valued at $72 million and had a term of 78 months.

Overall, Middle Eastern countries and certain countries in the Pacific area generally demand lower offset levels than European countries. Of the 204 offset agreements with non-European countries, 136 (two-thirds) had offset percentages of 50 percent or less. Only 35 (one-sixth) of the offset agreements had percentages of 100 percent or more, and 11 of these had offset requirements in excess of 100 percent. Indeed, one offset agreement had an offset requirement of 333 percent, although this was associated with a relatively small defense export contract.

In general, the data show that countries with developed, technically advanced economies have demanded higher levels of offsets than other countries. As more economies and their military programs advance technically (e.g., Chile, South Africa, South Korea, and Turkey), higher levels of offset requirements are likely to continue. More advanced economies are able to absorb more offsets, both direct and indirect. Typically, their infrastructures are more advanced, and they are more likely than other countries already to have in place a diverse pool of industries among which to distribute offset transactions.

Are Offset Demands Increasing?

The data show not only that offset demands are increasing, but also that more countries outside Europe are demanding these higher offsets. Although historically low, offset requirements outside Europe are rising. Two-thirds of the non-European offset agreements valued at 100 percent or more of the export contract value have occurred since 1998. Of the 35 agreements with offset requirements of 100 percent or more, 13 were with Canada and another six were with Turkey.

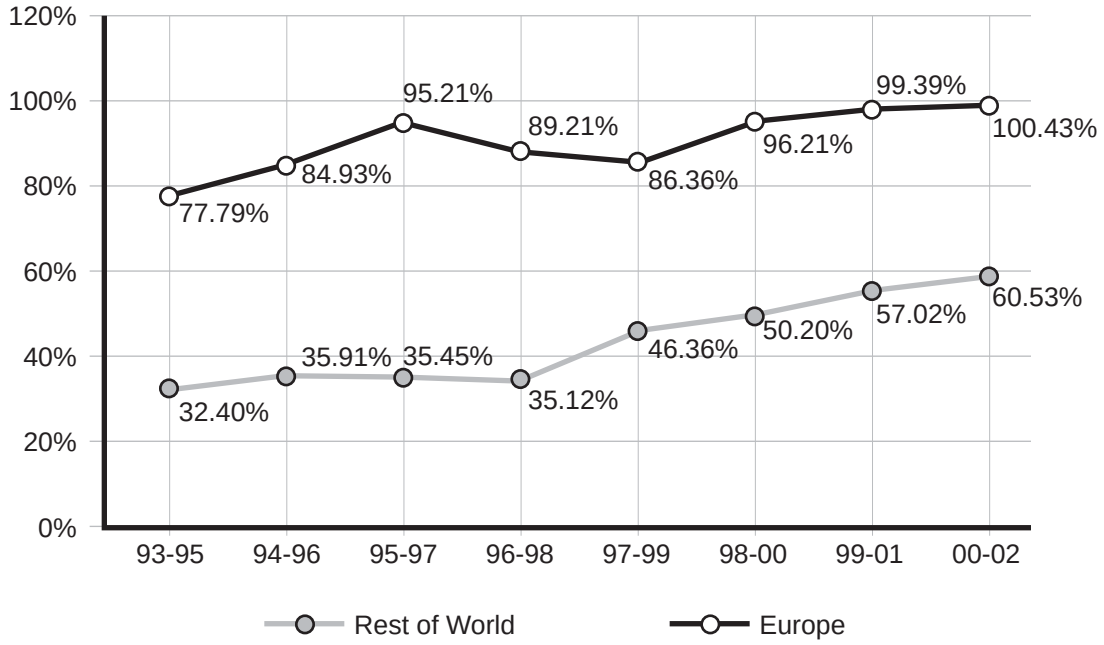
Moreover, in the last three years, countries entering into offset agreements with U.S. firms for the first time have demanded 100 percent or more. Overall, evidence of these increases outside Western Europe began in 1999 when the offset percentage demanded by non-European countries reached an average of 66.8 percent. After a decline in negotiated offset requirements in 2000 and 2001, 2002 offset requirements by non-European countries rose to nearly 80 percent. This level reflects a substantial turnaround from 2001.

Agreements entered into by South Korea and Turkey illustrate the growing trend in non-European offset demands. From 1993 to 1998, the average offset requirement (by value) demanded of U.S. firms by South Korea was 36.5 percent. In contrast, from 1999 to 2002, that average nearly doubled to 71.0 percent. From 1993 to 1998, offset percentages (by value) demanded by Turkey of U.S. firms averaged 52.3 percent. However, Turkey's offset requirements jumped in 1999-2002 to 95.7 percent.

European offset demands also continued to increase over the ten-year period, although more slowly than offset demands in the rest of the world. The trend in offset requirements for European countries increased at an annual rate of 1.6 percentage points. For the rest of the world, the average increase in offset percentages was 5.5 percentage points per year. Based on the three-year weighted averages in Chart 4-3, European offset requirements increased an average of 2.26 percentage points each year in the period, while non-European demands increased 2.81 percentage points. These values are in comparison to the rest-of-world unweighted average of 4.8 percent each year and the weighted average of 2.95 percent.

A reason for the upward trend in defense offset requirements is that the supply of defense systems greatly exceeds the demand for such items. In the last decade, shrinking worldwide

defense expenditures and the overcrowding in the defense supplier sector have forced defense industries in many nations to consolidate. As sales opportunities narrowed, competition for such sales became more intense. Higher-than-normal overhead related to low levels of capacity utilization in defense industries coupled with competitive pressures on prices also have squeezed corporate profits. On the other hand, foreign purchasing governments are under pressure to sustain their indigenous defense companies or to create new ones and, accordingly, are demanding more offsets. Coupled with the recent world economic slowdown, significant public outlays for foreign-made weapon systems become even more controversial, which leads to higher offset demands to deflect political pressure.



Source: BIS Offsets Database

Chart 4 - 3: Percentage Offsets for Europe vs. Rest of World (Weighted Moving Average, 1993-2002).

Offset Transaction Activity, 1993-2002

An offset agreement typically comprises multiple transactions entered into by the selling party to satisfy the requirements of the agreement. Analyzing transactions provides the basis upon which the impacts of offsets on the U.S. defense industrial base are estimated.

During the time period 1993 to 2002, 42 U.S. defense companies reported 5,903 offset transactions with a total value of $23.5 billion. The reported offset transactions were completed with 39 different countries. The offset transactions were conducted in fulfillment of 230 U.S. weapon system exports, some dating from the 1980s. U.S. firms received a total of $28.8 billion in credit toward open offset obligations during the reporting period, yielding a composite multiplier of 1.224 (i.e., credit value divided by offset value). Almost 14 percent of offset transactions (812) earned extra credit (i.e., had a multiplier greater than 1). The yearly value of offset transactions averaged $2.35 billion.

The data in Table 5-2 show that seven countries were the recipients of approximately 63.2 percent of the actual value of all offset transactions. These seven countries had a composite multiplier of 1.099, and each country, with the exception of Spain, had more than $1 billion in

offset transactions during the reporting period. The multipliers for the top seven countries ranged from 1.007 for the United Kingdom to 2.602 for Greece.

Table 5-2 Offset Transactions by Leading Countries Total, 1993-2002

Country	Actual Value	Credit Value	Multipliers
United Kingdom	$4,379,418,474	$4,408,472,682	1.007
Finland	$3,216,337,843	$3,446,007,399	1.071
Israel	$2,470,037,632	$2,588,738,935	1.048
Netherlands	$1,503,777,165	$1,822,252,935	1.212
Switzerland	$1,191,633,656	$1,200,286,037	1.007
South Korea	$1,146,489,676	$1,663,977,863	1.451
Greece	$1,036,652,820	$2,698,232,819	2.602
Total	**$14,944,347,266**	**$17,827,971,670**	**1.193**
Percent of All	**63.53%**	**61.92%**	
All Countries (39)	**$23,521,538,193**	**$28,788,386,498**	**1.224**

Source: BIS Offsets Database

Offset Transactions by Type

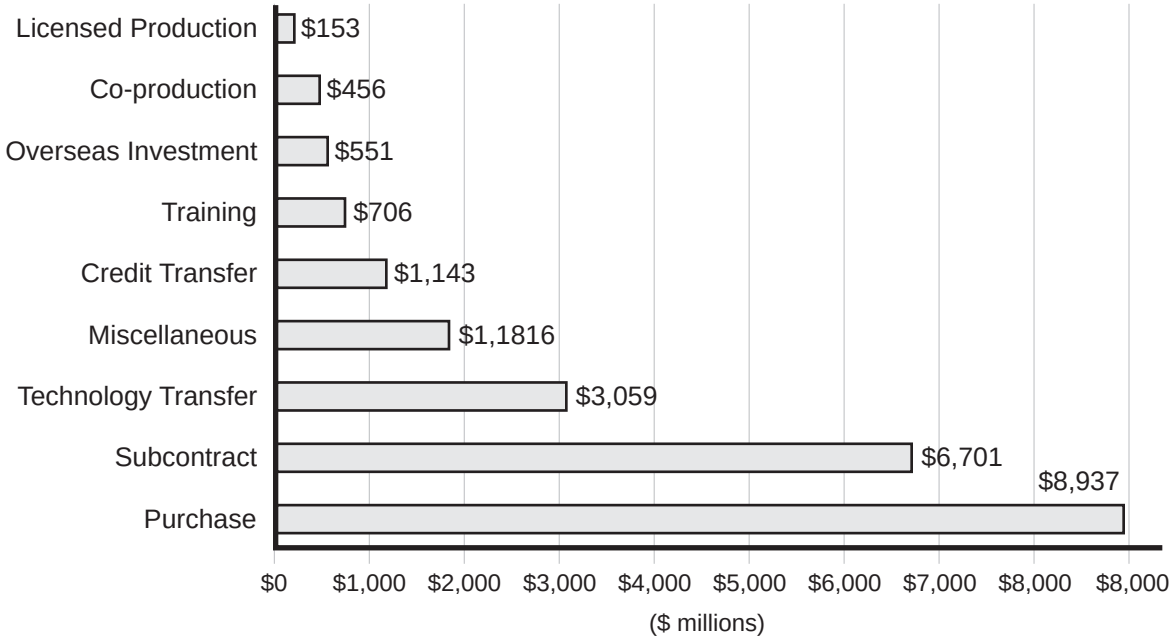
For 1993-2002, direct offsets accounted for 39.1 percent ($9.2 billion) of the total value of offset transactions. Indirect offsets accounted for 58.2 percent ($13.7 billion) of the value of offset transactions. The remaining 2.7 percent ($639.5 million) consisted of transactions that were not specified as direct or indirect. The level of direct offset transactions varied greatly from year to year, based mostly on which countries dominated the offset activity. The same variation held for indirect offsets.

Offset Transactions by Category

Three categories of offset transactions dominated offset activity during 1993-2002: purchases, subcontracts, and technology transfers. These three categories accounted for 79.5 percent of the value of all offset transactions during the timeframe. Purchases (38.0 percent) and subcontracts (28.5 percent) together accounted for almost two-thirds of the value of total offset transactions. Technology transfers made up an additional 13.0 percent. Most of the remaining 25 percent of the value of offset transactions was categorized as miscellaneous (7.7 percent) and credit transfer (4.9 percent). The remaining 7.9 percent of the value of offset transactions was distributed among the other four categories: training, overseas investment, co-production, and licensed production. Chart 5-3 shows the distribution of offset transactions by category.

All thirty-nine countries involved in offset transaction activity were recipients of offset transactions categorized as purchases, which were classified as either indirect or unspecified offsets. These purchases were comprised mostly of manufactured goods and services, including metal castings and forgings, aircraft parts, night vision components, machined parts, electronic components, software, and educational and consulting services. Almost 49 percent of all offset transactions categorized as purchases were aerospace-related.

Twenty-seven countries were recipients of offset transactions classified as subcontracts. Subcontracts are considered direct offset transactions, and the overwhelming majority of subcontracts involved aerospace-related manufactured parts, components, and services. Aerospace-related transactions accounted for 87.4 percent of the total value of all offset transactions categorized as subcontracts.



Source: BIS Offsets Database

Chart 5 - 3: Offset Transactions by Category, 1993-2002 (in $ millions).

Offset Transactions by Category and Type

Analyzing the distribution of offset transactions by category and by type provides further insight into the effects of offsets on the U.S. defense industrial base. For example, subcontracts, co-production, and licensed production accounted for 79.1 percent of the value of all direct offset transactions, and each of these categories resulted in foreign production of goods or services. As a result of such offsets, U.S. suppliers can be dislodged from participation in the manufacture and/or assembly of a U.S. defense system as well as its future maintenance requirements. Offset transactions in these three categories totaled $7.3 billion during the ten-year reporting period, with subcontracts by far the largest portion ($6.7 billion).

Indirect offsets that involved foreign production of goods and services included purchases and a small amount of licensed production. Together, the value of these two categories totaled more than $8.5 billion during the period and accounted for 62.2 percent of the value of all offsets classified as indirect. In total, during the reporting period, $15.8 billion in overseas production ñ or an average $1.58 billion per year, was the result of either direct or indirect offset transactions.

Technology transfers, training, credit assistance, and overseas investment offsets also can enhance the capabilities of foreign producers and make them more competitive in the global market. These categories of offset transactions can be either direct or indirect. Aside from the monetary value, the effects of such transactions can be long-term and overflow into other defense systems in the United States and other countries to the extent that they make foreign manufacturers more competitive.

Aerospace Offset Issues

Given its large percentage of the total value of U.S. military exports, the U.S. aerospace industry is affected by offsets more than any other major economic sector. Indeed, from 1993 through 2002, aerospace-related military exports exceeded $53.5 billion. By comparison, non-

aerospace military exports for the period only reached nearly $10 billion. Because aerospace-related exports make up the majority (85 percent) of export sales associated with offset agreements, the impact of offsets on the aerospace industry is a good indicator of the effect of offsets on the competitiveness and trade of the U.S. defense industrial base as a whole.

During 1998-2000, however, the rate of growth of aerospace exports declined. The growth rate for offset-related exports during the ten-year period shows a trend toward more non-aerospace exports, including maritime, ground transport, and high-tech navigation and radar systems. Indeed, 60 percent of all offsets-related aerospace exports occurred during 1993-1997 and only 40 percent occurred in the last five reporting years. Conversely, more than 70 percent of non-aerospace offsets-related exports were generated in 1998-2002.

Trends in the Import and Export Markets

The following analysis looks at trends in the import and export markets of all aerospace trade, both civil and military, unless otherwise noted. The U.S. maintained a trade surplus in aerospace products during 1993-2002, ranging from a low of $21.6 billion in 1995 to a high of $41.0 billion in 1998. A large growth in imports during 1998-2001, coupled with flat or declining exports, drove down the surplus to $26.0 billion in 2001. The U.S. trade surplus rebounded slightly in 2002 as imports declined sharply, overshadowing a slight decline in exports. Military-related aerospace exports have remained flat since 2000 at a level marginally higher than $9 billion and lower than in 1998 ($12 billion) and 1999 ($11.8 billion).[23]

Primary countries of origin for U.S. aerospace imports over the past decade have included Canada, France, Germany, and the United Kingdom. The import rate of growth varied significantly among the top six sources for U.S. aerospace imports. During the 1993-2001 period (in 2002, imports from each of the six countries declined), annual imports from Germany increased nearly eight-fold, those from Canada almost quadrupled, and import levels from British and French sources doubled. Other countries also posted significant gains during the period, including a nearly four-fold increase in imports from Japan and a 16-fold increase in imports from Brazil. Table 6-1 shows the value of imports of civil and military aerospace products from a list of the major source countries.

Table 6 - 1 U.S. Imports of Aerospace Products by Major Countries of Origin (in $ millions)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Brazil	119	73	110	154	371	917	1,285	1,494	1,973	1,868
Canada	2,072	2,443	2,461	3,233	3,800	4,867	5,087	6,253	7,985	7,003
France	4,249	4,087	3,072	3,043	4,087	5,814	6,313	8,071	8,721	7,591
Germany	478	699	826	1,039	1,187	2,044	2,707	3,364	3,775	2,488
Japan	538	583	671	1,081	1,728	2,148	1,710	1,614	1,986	1,507
United Kingdom	2,523	2,546	2,236	2,634	4,034	5,173	4,968	4,197	4,818	3,600

Source: Aerospace Industries Association, *Aerospace Facts and Figures,* various issues includes civil and military products, cost, insurance, and freight basis.

The rapid increases in aerospace product imports from key sources, specifically Brazil, Germany, and Japan, indicate several trends for the U.S. aerospace industry. First, U.S. aerospace markets, primarily the commercial sector, are increasingly using foreign-made, imported systems

23 See Aerospace Industries Association (AIA), *Aerospace Facts & Figures*, 2003/2004 (and prior editions). Data also available through AIA's website, at www.aia-aerospace.org.

and components. Second, the sources of these improving and more competitive products are becoming more varied internationally. Brazilian, German, and Japanese manufacturers, specifically, are relative newcomers to the sizeable U.S. aerospace market in the last ten years.

The defense trade also feels the effects of these two trends, increasing competitiveness and growing foreign firms. With more high-quality aerospace firms producing goods, there is more competition and a likelihood of fewer sales for existing firms. The resulting more crowded global aerospace market increases the reliance on offsets as a negotiation factor.

Trends in Aerospace

The aerospace infrastructure is becoming more global, more integrated, and at the same time, more competitive. Globalization is exhibited by the wide reach of key firms. For example, European manufacturer Airbus maintains 1,500 suppliers from thirty countries; 250 of these suppliers are located in the United States. By mid-2002, the Airbus A380 team had signed contracts to source landing gear from U.S.-based Goodrich, navigation electronics from Honeywell, and in some versions, jointly developed GE-Pratt & Whitney engines.[25] American competitor Boeing has more than 11,300 suppliers in sixty-six countries and maintains offices in eighteen countries. In June 2003, the company announced that five key supply contracts would go to foreign firms, including three from Japan.[26] Honeywell alone has operations in 100 countries and derives 45 percent of its sales from outside the United States.[27]

As globalization increases, U.S. aerospace manufacturers broaden their global supplier chains seeking both subcontractors and strategic partnerships. At the same time, European counterparts are taking advantage of longer historical relationships in non-U.S. defense markets, thus increasing the competitive environment worldwide.[28] Although the United States continues to maintain its position in first-tier integrator companies, with around half of the global aerospace market, European companies are growing and now command more than one-third of all global aerospace sales.[29]

The market power of these mega-firms can require lower tier suppliers to compete at cost and quality levels on a par with foreign suppliers.[32] Moreover, a global competitive situation arises where European Union firms generate sales and technology levels on a par with the large U.S. companies. Of the top seven aerospace companies by defense sales in 1999, three were these European mega-firms, and one BAE Systems had higher defense sales than any U.S.

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25 From Airbus company overview information, www.airbus.com, and Sally B. Donnelly, "America Helps Build the Bus," *Time*, Vol. 160, Issue 5, 29 July 2002, B14.

26 From Bowing company overview information, www.boeing.com, and company press releases.

27 Remarks from Bob Johnson, president and CEO of Honeywell Aerospace. Reported in "World Aerospace Industry Is One Big Happy Family, Says Honeywell Executive," *Manufacturing and Technology News*, 17 October 2003.

28 Jerry Grossman, "Thinking Global: A Choice or a Mandate?", *Washington Technology*, 27 August 2001.

29 In 2002, the export share of the U.S. aerospace industry accounted for 49 percent of global industry turnover. The European Union aerospace industry accounted for 35 percent of worldwide turnover. Data from AECMA 2002 Facts and Figures. Available at: http://www.aecma.org/Publications/AECMA_Factsn Figures_2002.pdf.

32 From a recent study by A.T. Kearney comparing the aerospace supplier base to the automotive supplier base. The study noted that, reminiscent of the automakers in the mid-1990s, aerospace suppliers are under increasing pressure to compete with rivals in other countries; sometimes required to move sub-tire businesses to non-traditional regions in return for large deals from prime contractors. *Restructuring the Global Aerospace Industry: The Shifting Roles of Suppliers*, A.T. Kearney, 2003.

manufacturer.[33] This increase in viable competition to a once formidable U.S. industry creates much greater competition in third-country markets.[34] Increased offsets are a likely consequence of increased global competition.

Integration - F-35 Joint Strike Fighter

Falling defense spending in both Europe and the United States after the Cold War led to the purchase of fewer weapon systems. Defense companies in both Europe and the United States increasingly targeted each others markets for defense sales. To achieve these sales against a backdrop of political resistance to imports of defense products in both the United States and Europe, aerospace companies on both sides began forming transatlantic alliances. Cross-border integration within the industry continues to grow, with firms which regularly compete for sales in some sectors forming partnerships in others. U.S defense suppliers prefer these partnerships or alliances to mergers, because they

> "allow companies to choose new partners in each market in which they compete, increase capabilities without forming permanent relationships, and enable access to unique technology needed to meet military requirements."[35]

These forms of cross-border collaboration include joint ventures, strategic alliances, co-development programs, and strategic teaming agreements and are almost entirely U.S. and E.U., U.S.-U.S., or E.U.-E.U. aerospace company agreements.[36]

As an example of a co-development program, the F-35 Joint Strike Fighter (JSF) program combines a number of U.S. and European firms, at both prime, Lockheed Martin, Northrop Grumman, and BAE Systems, and subsystem levels, General Electric, Pratt and Whitney, and Rolls Royce, as well as the governments of the United States, the United Kingdom, Italy, the Netherlands, Canada, Turkey, Denmark, Norway, and Australia. Each partnering country has firms contributing to the project at the development level, and each provides public sector annual funding to the program. For example, the Italian government is contributing around $1 billion, while a number of Italian aerospace companies, including Alenia Aeronautica, recently sent engineers and technicians to the main development site in Texas. The British government is contributing $2 billion to the program, and BAe Systems is one of the key industry partners while Rolls Royce and Pratt & Whitney have teamed up to develop the engine propulsion system. Danish and Italian firms recently partnered with a U.S. firm to develop the JSF's gun-related components.[37]

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33 From Company Reports, *Going Global? U.S. Government Policy and the Defense Aerospace Industry,* RAND's Project Air Force, 2002, pg. 5-6.

34 *Going Global? U.S. Government Policy and the Defense Aerospace Industry,* RANDS's Project Air Force, 2002, page 8.

35 *Defense Trade: Contractors Engage in Varied International Alliances,* GAO Report, September 2000, GAO/NSIAD-00-213.

36 Additional cross-border joint corporate efforts, other than the JSF described here, include a Northrup Grumman/EADS strategies alliance to develop surveillance systems and radar technology, an SAIC/Boeing/EADS/France/British-German-Dutch defense research organizations team developed to bid for a North Atlantic Treaty Organization Theater Missile Defense project, and a Thales-Taytheon 50-50 joint venture focusing on air defense and command-and-control centers and air surveillance systems. See *Going Global? U.S. Government Policy and the Defense Aerospace Industry,* RANDS's Project Air Force, 2002; Chapter Five.

37 *F-35 Joint Strike Fighter Team Newsletter*, Issue No. 5 Summer 2003, published quarterly by JSF Operations.

Given the continued need for transatlantic sales and the growing requirement for armed forces interoperability among the United States and its allies, industry experts and defense policymakers on both continents expect this innovative multi-national system of development, testing, and production to continue in future large-scale system procurements. Indeed, these individuals largely see it as a necessity.[38] Such partnerships may also lead to reduced offset demands, as more countries become involved at early stages of development.

Changing Nature of Offsets

The globalization of the industry affects the trade picture that is closely linked to offset transactions and agreements. American aerospace companies conducted five times more trade between their offshore wholly-owned facilities and their European partners in 2000 than they did in 1996.[40]

Moreover the industry recently has begun changing its approach to developing military systems, which may have an impact on the growth of offsets in the future. The multi-national and multi-corporate JSF program has created a situation where governments contribute in the form of development funding and implied future orders in order to receive domestic industrial benefits, such as production of one or more pieces of the F-35 system by a domestic firm. In turn, the U.S. project participants gain technological know-how through this cooperative effort, and the U.S. government is relieved of some of the funding burden. Offsets are not required in this type of arrangement. Such cross-border joint contract, development, and production projects are expected to become much more prevalent in the future as governments look at cost factors and interoperability requirements grow.

Conclusions

The data show that offset demands are on the rise globally. Although offsets with European countries accounted for more than two-thirds the value of total agreements during 1993-2002, offset agreements with non-European countries, especially in Asia, have risen sharply in the past two reporting years, capturing a majority of all new contracts. In a weighted, moving average comparison, European offset demands have increased only 30 percent points from 1993 to 2002, while the rest of the world has nearly doubled its average offset requirements in the same period.

Asian countries are capturing an increasing share of offset agreements and export contracts as well as demanding higher offsets. In fact, Asian countries accounted for about 65 percent of the value of new offset agreements in 2002, up from only 2.8 percent in 2000. In contrast, European agreements represented 78 percent of the total value of offset agreements in 2000, but only 34 percent in 2002. Further, new offset requirements from Asian countries climbed to 52.3 percent in 2001 and jumped to 78.4 percent in 2002.

The aerospace sector continued to attract the majority of offset agreements, accounting for almost 85 percent of the value of defense exports associated with offsets during 1993-2002. Despite the large majority of offset exports involving aerospace-related products over the ten-year period, the rate of growth of these exports declined during the 1998-2002 period, indicating a trend toward more non-aerospace offset-related exports, including maritime, ground transport, and high-tech navigation and radar systems.

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38 See the final report of the Commission on Transatlantic Security and Industrial Cooperation in the 21st Century, *The Future of the Transatlantic Defense Community,* Center for Strategic and International Studies, Washington, D.C., January 2003. John Hamre, former Deputy Secretary of Defense, was the Project Chairman. Report available at: http://www.csis.org/pubs/2003_future.pdf.

40 European Association of Aerospace Industries Statistical Data Report 2000.

BIS estimates that U.S. defense exports with offset agreements required supported 42,440 work-years in 2001. However, the kinds of offset transactions (co-production, subcontracting, purchasing, and licensing) most likely to result in the transfer of work from the U.S. to foreign firms reduce the number of hours supported by 11,460 work-years. Based on these calculations, it appears that defense export sales had a net positive effect on employment in the defense sector, although the net positive effect was diminished by the offset agreements. This calculation assumes that industry would not have received these defense export contracts if it had not entered into the related offset agreements. It should also be noted that the above analysis does not include other kinds of offset transactions, valued at about $687 million, including technology transfer, training, overseas investment, and marketing transactions, or the long-term implications of creating or enhancing competitors; the impact of these transactions on the U.S. defense industrial base is difficult to calculate.

The Department of Commerce neither encourages nor regulates the use of offsets in defense trade and recognizes that offsets can be market distorting. However, it should be recognized that offsets are a part of the current international defense trade environment. In this report, Commerce has not identified any specific recommendations for remedial action concerning offsets in defense trade. No other government agency has offered alternative findings and recommendations. However, in the coming year, under authorities granted under the DPA, Commerce is committed to work with U.S. industry, the Department of Defense, other U.S. government agencies, and foreign governments to analyze the impact of offsets on all parties and seek ways to mitigate their effect on defense preparedness, industrial competitiveness, employment, and trade. The Department's goal is to support the U.S. defense industry and to ensure a robust and vibrant industrial base.

EDUCATION AND TRAINING

Teaching Democracy at the Western Hemisphere Institute for Security Cooperation

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[The views, opinions, and/or findings contained in this report are those of the author and should not be construed as an official Department of the Army position, unless so designated by other official documentation.]

At its biannual meeting in December 2002, the Board of Visitors (BOV) of the Western Hemisphere Institute for Security Cooperation (WHINSEC), which reports directly to the Secretary of Defense, praised the quality of the Institute's human rights program. It went on to recommend increased emphasis on the teaching of democracy so as to bring that part of the program up to the same high standard. As the BOV emphasized, Congress charged the Institute in its founding legislation (10 USC 2166) with providing professional education and training to military, law enforcement and civilian personnel of the Western Hemisphere "within the context of the democratic principles of the Organization of American States (OAS)." The BOV further noted that "promoting democratic values, respect for human rights and knowledge and understanding of U.S. customs and traditions" were specified in the original charge.[1]

The human rights program praised by the BOV has evolved since the founding of the Institute in 2001 and is taught at the beginning of all of the Institute's more than twenty classes. Instruction consists of a minimum of eight hours of human rights training in law, ethics, rule of law and practical applications in military and police operations. Depending on the length of the class, the number of hours of human rights instruction increases proportionally up to the only yearlong class at the Institute, the Command and General Staff Officer Course (CGSOC), which has over forty hours of human rights instruction. Included in this instruction are lectures on international laws and instruments governing human rights, trips to the nearby Andersonville National Historic Site honoring prisoners of war, guest speakers, case studies, conference, and practical exercises.[2]

As the BOV noted, however, the democracy part of the curriculum was less robust and more dispersed. Instead of a single block of eight or more hours of instruction concentrated at the beginning of each course, like the human rights program, it consisted of several loosely connected pieces scattered throughout each course. Further, unlike the human rights program, which is taught by a group of instructors working together within the same division, there was little coordination among the democracy pieces as the persons teaching them came from several different divisions.

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1 *Floyd D. Spence Defense Authorization Act for Fiscal Year 2001*, signed October 30, 2000, Section (10 United States Code 2166). Web site: www4.law.cornell.edu/uscode/22/2347.html on December 7, 2004.

2 Russell W. Ramsey and Antonio Raimondo, "Human Rights Instruction at the U.S. School of the Americas," *Human Rights Review*, April-June 2001, Vol. 2, No. 3, p. 92-116.

Two elements comprised the main features of the democracy program:

- The two-hour block of instruction on the Armed Forces and Democracy, taught by the Department of State Chair for Advanced Studies, stressed the intellectual and constitutional basis of U.S. democracy, due process of law, rule of law and civilian control of the military.

- The Informational Program, initiated by the public law that governs security assistance as set forth in the August 1994 Handbook, is designed to expose international students to U.S. democratic institutions in action, to teach students about the basis of U.S. democracy and to inform them about U.S. customs and traditions.[3] The basic building blocks of this program are class trips to see U.S. democracy in action. All classes make day trips to the nearby cities of Columbus and/or Atlanta to study the distinctions and interfaces between local, state and federal governments. The two longest classes, the forty-nine-week CGSOC and the sixteen-week Captains" Course, also go to Washington, D.C. for a week.

Although all parts of the democracy and informational programs were well taught, well received by students and recognized for their own worth by the BOV, the perception was that the sum was somehow less than the parts. That perception, together with the outstanding success of our human rights program, led the BOV to recommend that the Institute strengthen the democracy program by increasing the focus on inculcating democratic values and civilian control of the military. In so doing, the BOV stressed that human rights is a part of democracy, a very important part, but still less than the whole.

Planning and Implementing the Democracy Program

The Commandant accepted the recommendation of the BOV and, in early 2003, the Institute began a phased series of steps to more closely integrate those pieces into a fully coordinated and enhanced Democracy and Human Rights Program.

The first step was a detailed analysis of the existing programs by the Academic Dean and the Department of State Chair. The analysis made clear that all of the material required by the founding legislation was being taught. The problem was that it was being taught in a variety of venues in the Human Rights Program, in the Armed Forces and Democracy block and in the Informational Program. The obvious solution, particularly given resource constraints, was to integrate all the existing pieces into a single unified program and then enlarge, enhance or modify them as necessary. Development began with a rewritten description of the unified program, now officially titled the Democracy and Human Rights Program, which was posted on the Institute website in April 2003.[4] The new description emphasized the close linkage between democracy and human rights and described the integrated approach of the new program.

The Armed Forces and Democracy block of instruction was rewritten and expanded from two to three hours and linked more directly to the values inculcated in the human rights class. Renewed emphasis was placed on how civilian control of the military grew naturally out of the democratic, constitutional roots of U.S. society and history. The armed Forces and Democracy block follows closely after the human rights instruction at the beginning of each course. Both are followed by a combined one-hour examination to test student understanding of the key concepts taught and to underline the linkage of the two blocks. Each student must receive a minimum grade of 70 percent to graduate from the course and the grade on the democracy and human rights

3 The objectives of the *DoD Informational Program Handbook*, called the Field Studies Program since May 27, 2004) found on December 7, 2004 at the Home Page of the U.S. Army Security Assistance Training website: www-satfa.monore.army.milsatfa.htm under the heading DoD field Studies Program, Introduction to IP, while the entire program is under the heading IP Handbook.

4 *Western Hemisphere Institute for Security Cooperation Course Catalog*, 2002-2003, p. 9-12.

examination is factored into the course grade of all classes at the Institute since May 2003. Initial response to the expanded Armed Forces and Democracy Class, taught by the Department of State Chair, has been enthusiastic with student questions often carrying the class beyond the planned three hours.

The next step was the preparation of one-page guide sheets based on the learning objectives set by the Security Assistance Program. They contain specific historical background and suggested appropriate questions for all places visited during Informational Program trips in the Columbus-Atlanta area, twenty-one guide sheets were initially prepared by the Columbus Police Department.[5] The guide sheets were designed for use by both students and the U.S. instructors who accompany each trip. The intent is to have clear learning objectives for each stop on each trip, together with sufficient background and suggested questions for government officials about the institutions visited, so that students come away with a clear idea of what they saw and heard and why it is important.

Since July 2003, U.S. instructors have been required to accompany, actively teach and keep students focused on the learning objectives for each trip. As part of the preparation for enhancing the democratic experience of the students, all instructors at the Institute receive the Human Rights and Armed Forces and Democracy blocks during the required TRADOC-designed Instructor Training Course (ITC), plus a special two-hour block of instruction in implementing the democracy learning objectives of the Informational Program trips as set forth in the guide sheets. In essence, the Department of State Chair taught the trainers before they instructed students on the U.S democratic and constitutional values for each trip site. To involve instructors and course directors more directly in the Democracy and Human Rights Program, they are required to meet with the Department of State Chair and the Informational Program coordinator prior to each trip to plan in advance which of the twenty-one stops best fit the class and to discuss the learning objectives for those stops. The Course Director also has to include the Informational Program tour plan and objectives in the Course Implementation Brief (CIB) given to the Commandant prior to each course to maintain focus on those objectives.

Equally important, one hour was set aside in every class before each trip to prepare students for what they will be seeing, what we expect them to learn from those observations and suggested questions to be asked at each stop to further enhance understanding and clarify key points. The Department of State Chair usually conducts these briefing classes. During the trip, the accompanying U.S. instructor uses the guide sheet to reinforce the learning objectives and enhance the value of the trip. Following the trip, the Chair conducts a one-hour post-trip class to review lessons learned, answer additional student questions and underline key points. The principle followed to lock in the learning objectives of each stop on the trip is a classroom version of the advice given to beginning speechmakers:

> Tell them what they are going to see and why, show it to them under guided conditions, and then tell them what they saw and why.

Students learn to link their classroom lessons about democracy, federalism and constitutional rights directly to such local and state institutions as the city council, police headquarters or the local newspaper.

The guide sheets and the preparatory and review classroom hours were implemented in July 2003 with the new Command and General Staff Course, the only WHINSEC course with U.S.

5 Event Information Sheet: Columbus Police Department.

students, the largest class at seventy-four and the longest at forty-nine weeks. Other courses beginning in July also incorporated the enhanced Democracy and Human Rights Program.

To underscore the importance of the enhanced program and his commitment to it, the Commandant briefed the assembled Institute faculty and staff at an End-of-Month meeting in June and the Department of State Chair conducted a professional development session (OPD/NCOPD) for all officers and non-commissioned officers a few weeks later before the final kick-off of the program.

The final teaching step was to develop a generic scenario using the democratic principles set forth in the *U.S. Bill of Rights* for incorporation into the practical planning exercises used in many classes at the Institute. The focus for students is on key constitutional rights, such as the rights of citizens to freedom of speech and press, peaceful assembly and redress of grievances, as the keystones of democratic institutions and constitutional freedoms that must be protected during military or police operations. Using the scenario, modified to meet the specific needs of each course, students are required to consider how best to protect these constitutional rights during actual operations. The integration of this material into the exercise forces the student to consider constitutional rights as a necessary part of operational planning. A brief outline of one possible scenario, developed for the counter-drug course but adaptable to other courses, is in the additional notes.[6]

At the end of each course, students are required to take an hour and fill out a seven-page evaluation of all aspects of the course. Among those aspects are questions on the three main parts of the Democracy and Human Rights Program, the Armed Forces and Democracy class, the Human Rights class and the Informational Program trip. Evaluations of more than 2,000 students over nearly three years have shown that students almost universally believe the Human Rights instruction they receive at the Institute will be useful in their professional careers. Evaluations of the Armed Forces and Democracy instruction, involving over students since the integration was implemented, are similarly positive. Responses on the Information Program trip part of the program are also very positive, except for the occasional student who is more concerned about how the logistics of the trip went that what he was supposed to be learning.

While it was a BOV recommendation specific to WHINSEC that spurred the Institute to expand and unify its previously disparate democracy, human rights and informational programs, many of the changes made and the lessons learned would seem applicable to other U.S. Army institutes that teach international students. The key lessons are: build from what already works both to save time and resources; explicitly link the teaching of democratic values with other appropriate instruction, whether it be human rights, field trips or practical exercises; make sure that the Information Program is fully integrated with classroom teaching and practical exercises to avoid the perception that it is somehow separate; provide constant reinforcement in all available venues of democratic values based on U.S. customs and traditions; and, above all, develop an integrated program. Tying the programs together also aids student understanding of how U.S. democratic institutions were formed and how they function today.

The key to the successful implementation of a Democracy and Human Rights Program, including the Informational Program, is the thorough integration of all aspects so that each part reinforces the others in achieving the overall objective of teaching fundamental democratic values. By becoming more effective and efficient, WHINSEC, or any other U.S. Army training institution, will go well beyond the minimum standards set by congressional legislation. It is this

6 Western Hemisphere Institute for Security Cooperation generic scenario for teaching constitutional values (see additional end note).

integration that enables WHINSEC to carry out the true spirit of its founding charge from Congress "to promote democratic values, respect for human rights, and knowledge and understanding of U.S. customs and traditions."[7]

About the Author

Donald B. Harrington has an MA and a PhD in history from the University of Connecticut. After teaching at Waynesburg College in Pennsylvania, he entered the Foreign Service in 1976. He graduated from the National War College in Fort McNair, Washington D.C., in 1992. After retirement in 1999, he served on short assignments for the Department of State in Brasilia, Brazil, Nassau, The Bahamas and Georgetown, Guyana. He was named Dean of Academics and International Affairs at the Western Hemisphere Institute for Security Cooperation in early July 2001.

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New Course Enhances Global Maritime Security

By
Lee Romasco
United States Coast Guard Training Center

How does one enhance maritime security around the world? Building international partnerships through the nation's Security Assistance Training Program is certainly a good place to start. With the successful launch this spring of the first-ever International Senior Officer Staff Course (ISOSC), the United States Coast Guard (USCG) has created an important new venue for sharing ideas and cultivating relationships with our international partners. This customized, all-international senior officer course joins three other mid-grade officer courses now offered by Training Center Yorktown's International Maritime Officers School (IMOS). The new ISOSC serves as a logical follow-on to the prestigious ten-week International Maritime Officers Course that already boasts some 491 graduates from 98 different countries since 1995.

A Captain talks with a CDR of the Netherlands Antilles Coast Guard before addressing the ISOSC class at a special evening dinner session in Newport, Rhode Island.

Teaming with representatives from the Naval War College, the Defense Institute for International Legal Studies, the National Defense University and Coast Guard headquarters program offices, the staff at Yorktown mapped out a course outline aimed at exploring the challenges modern day maritime services wrestle with every day. Adopting an over-arching theme of Maritime Security Transformation, a three-week curriculum was drafted with an eye toward gaining access to the very best possible speakers. The resulting course provides professional military education to senior international officers by examining a wide range of specific improvement initiatives the USCG has undertaken with a special effort to share implementation lessons learned. Participants consisted of twenty international officer and civilian equivalent students, all O5/O6 or above in grade, from the countries of Albania, Argentina, Bangladesh, Bulgaria, Cameroon, Germany, Guinea, Indonesia, Ireland, Lebanon, Malaysia, Netherlands Antilles, Portugal, Tunisia, Uganda and Yemen. To ensure the best possible access to and availability of key speakers, the course traveled to three different locations in three weeks. Representing seventeen countries, the twenty members of the inaugural International Senior Officer Staff Course students gather on the quarterdeck in Connelly Hall at the Naval War College.

Flying into Providence, RI, the class gathered at the Naval War College in Newport for the first week of the course. After a Sunday evening icebreaker event, the class kicked off a week that stimulated thinking about security in the international arena and then laid the course foundation by studying the legal and regulatory drivers that bound our maritime security efforts. Among the featured speakers were Don Phillips, author of *Lincoln on Leadership* and co-author of *Character in Action* with Admiral Loy; Dr. Thomas P.M. Barnett, professor in the Warfare Analysis and Research Department, Center for Naval Warfare Studies at the Naval War College and author of the much anticipated book, *The Pentagon's New Map*; Dr. Judith Youngman, Professor of Political Science at the USCG Academy; and RADM Crowley, the Judge Advocate General and Chief Counsel of the USCG. Stimulating vigorous and thoughtful discussion, special sessions explored advanced level discussions of Rule of Law situations, examined the differences between Homeland Security and Homeland Defense, reviewed the impact of the *Patriot Act* and considered the legal aspects of counter-terrorism related programs.

Representing seventeen countries, the twenty members of the inaugural International Senior Officer Staff Course students gather on the quarterdeck in Connelly Hall at the Naval War College.

After a weekend stop to tour the Coast Guard Activities New York, which included a much appreciated harbor tour aboard USCGC Katherine Walker and a visit to ground zero, the next stop was Coast Guard Headquarters in Washington, DC. Week two started with a review of the U.S. Coast Guard's Maritime Security Strategy for Homeland Security. Using the maritime security risk reduction continuum as a framework, students got an up close look at a full range of Awareness, Prevention, Protection, and Response initiatives currently underway in support of the service's transformation efforts. High-level briefings on Maritime Security Operations, Maritime Domain Awareness, MTSA and ISPS requirements, International Programs, Deepwater, Common Operating Picture initiatives, National Incident Command System, Scenario Planning and the Evergreen Project were provided. The Vice Commandant, VADM Barrett, conducted a high-energy question and answer session with the class to wrap up the week. On Saturday, the class toured the White House as part of a scheduled Informational Program trip designed to introduce visiting international students to American society, institutions and ideals.

On a USCG cutter in New York harbor, members of the ISOSC class pose before Lady Liberty.

The final week of training required the class to fly to Savannah, Georgia to attend the 4th annual Coast Guard Innovation Expo. Having had the opportunity to hear about strategy and program priorities, the Expo allowed students to explore a wide range of tactical applications being used at operational units throughout the service, meet the innovators and ask questions. Panel discussions and hundreds of display booths provided ample opportunity to explore specific areas of interest for each class member. Special sessions were arranged for the class including a dynamic, give and take session with Dr. Steve Flynn of the Council for Foreign Relations and Dr. Phil Williams of the University of Pittsburgh. The class finished up the week with a working breakfast session with the Chief of Staff, VADM Allen. Shortly thereafter, Admiral Allen presided over the International Senior Officer Staff Course graduation ceremony, presenting each student with a hard-earned graduation certificate.

A General of the newly established Yemen Coast Guard, surveys the HITRON helicopter on display outside the Savannah International Trade Center, site of this year's Coast Guard Innovation Expo.

The senior international officer student reaction to this first ever course offering was both very positive and quite revealing. The International Maritime Officers School School Chief, LCDR Rob LeFevers, said it best,

The international students were genuinely surprised at the amount of time, energy and resources the U.S. Coast Guard now dedicates to the maritime security mission.

Chief of Staff, Vice Admiral presents a Captain of the German Navy with his International Senior Officer Staff Course graduation certificate.

Everyone clearly came away with a new appreciation for the different perspectives that were offered, considered, and understood. Students were particularly impressed with the caliber of the Coast Guard speakers and very much appreciated their willingness to share lessons learned and provide candid appraisals of our progress. The knowledge shared and relationships cultivated in this unique course are an important step forward in bringing the international maritime community together to work on the many security challenges that lay ahead.

About the Author

Lee Romasco is the International Program Manager for Resident Training at the U.S. Coast Guard Training Center in Yorktown, Virginia. He is a veteran of over twenty years of active duty service in the U.S. Coast Guard. His private sector work includes serving as deputy project manager for the Florida Seaport Security Study team. He has a BS from the U.S. Coast Guard Academy and a MA in Education in Human Resource Development from George Washington University. **C**

Supporting Tomorrow's Coalitions Today
Defense Security Cooperation Agency Conference 2004

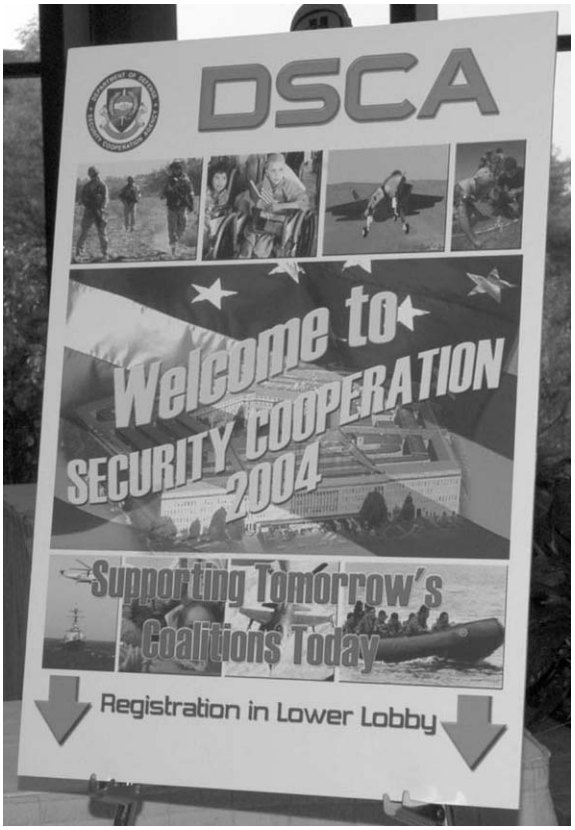
By

Lieutenant Christopher M. Krolikowski, USN,
and
Forrest E. "Ed" Smith
Defense Institute of Security Assistance Management

> There is at least one thing worse than fighting with allies - and that is fighting without them.
>
> - Sir Winston S. Churchill

International Customer Symposium

As a prelude to this year's Security Cooperation 2004 Conference, the Foreign Procurement Group and the International Customers Users' Group co-chaired the International Customer Symposium. This was a special opportunity for foreign government representatives to participate in pre-conference discussions on topics of interest. There were over sixty-five attendees including Department of Defense (DoD) representatives, Foreign Liaison Officers (FLO), Security Assistance Foreign Representatives (SAFR), country representatives of the Foreign Procurement Group (FPG) and the International Customers Users Group (ICUG). The symposium was sponsored and moderated by Jennifer Stewart, FPG Chairperson, LCDR Mehmet Yildiz, ICUG Chairperson, and Glenn Lazarus, DSCA/P2.



Security Cooperation 2004 Welcome Poster

The presentation and discussions focused on policies and issues of particular interest to foreign military sales (FMS) customers. Symposium topics included DoD military transformation; transportation and export procedures; FMS process transparency; Cooperative Logistics Supply Support Arrangement (CLSSA) program; and Information Technology (IT) systems. All interested DoD organizations and agencies including the military departments (MILDEPs), International Logistics Control Offices (ILCOs) and contractors were invited to attend and provide their perspectives and reactions on these topics.

Robert Downes from ODUSD Readiness and Training gave a presentation on activities within DoD Transformation that might impact our international customers. Brion Midland (DSCA/P2) opened discussion on Transportation issues with a background on the relevant General Accounting Office (GAO) reports, the formation of the Interagency Working Group and the current status of solutions to several of the transportation and customs issues. Mark Smith,

DTSA/ISP, Dave Quinn, Department of State PM/RSAT, Kathy Robinson, DSCA/P2, and Robert Rawls, Customs and Border Protection, Homeland Security, headed up a lively panel discussion.

Participating Foreign Customers

Steve Harris, DSCA/P2 and Frank Cevasco, Cevasco International, LLC provided briefings on Transparency in FMS Transactions and Transparency in Pricing. Daniel Nielsen, Deputy Director, Defense Procurement and Acquisitions (AT&L) chaired the panel on FMS Transparency, which included Steve Harris, Frank Cevasco and Joel Johnson (AIA). Kathy Robinson from DSCA/P2 updated the attendees with a CLSSA presentation. Other panel members were Selden von der Hoff and Jim Stapleton from DLA and Andrew Burt from the Canadian Embassy.

Beth Baker from DSCA/IT updated the group on the Case Execution Management Information System (CEMIS) and Security Cooperation Information Portal (SCIP) with a briefing on the current status of those programs. The other panel members were Mark Scher, DSCA/IT CIO, Tom Sippel, SCIP PM, and Kathy Robinson. This year's symposium offered the opportunity for networking, exchanging of views on security assistance policies, and sharing of best practices with colleagues from other countries and the U.S. government.

Security Cooperation 2004

DSCA hosted its annual conference 14 through 15 October 2004 at the Hilton Mark Center, Alexandria Virginia. The theme of the conference, "Supporting Tomorrow's Coalitions Today", was very appropriate as it truly captured the fundamental nature of security cooperation's mission and current impact on world situations and circumstances. Each conference speaker supported the premise set forth by DSCA by providing interesting insights on coalition building from the different organizations involved in the security cooperation arena.

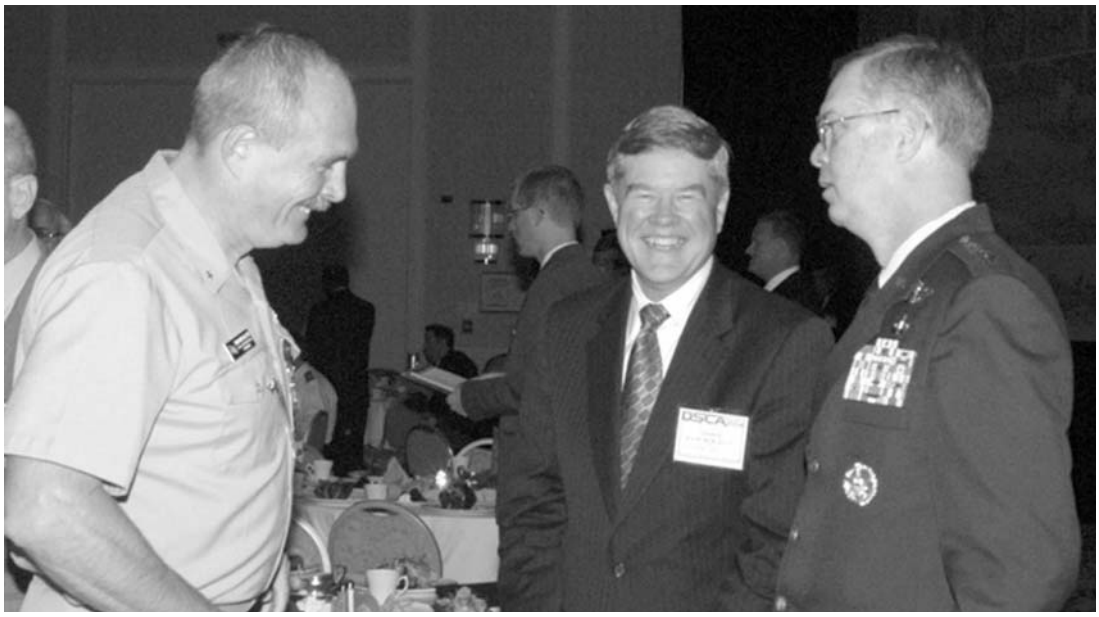
Defense Security Cooperation Agency's Director addresses the security cooperation audience.

Assuming command of DSCA in August 2004, Lieutenant General Jeffrey B. Kohler, USAF, Director of DSCA, welcomed the largest group of attendees ever for the DSCA conference. He addressed the crowd of over 600 security cooperation personnel on Thursday morning by defining and reinforcing the mission of supporting U.S. national security objectives. The Director explained that DSCA's security

cooperation strategy is to ensure the regional and country priorities of the DoD's *Security Cooperation Guidance* are consistent with the theater strategies of Combatant Commanders. He then briefly showed how the U.S. government is not only leading coalitions, but also supporting other countries participation in coalitions, such as Operation Enduring Freedom (OEF), Operation Iraqi Freedom (OIF), the Liberian Task Force, etc., through the Foreign Military Financing Program (FMFP) and International Military Education and Training (IMET). Lt Gen Kohler concluded with a positive outlook on the future of security cooperation. He believes the security cooperation profession is healthy, effective, and responsive as it has reached a recent high-water mark of an estimated 13.5 billion dollars in foreign military sales for fiscal year 2004. Yet, he emphasized that the community must continue to improve the way it does business for the sake of every stakeholder involved.

The first guest speaker, RADM William D. Sullivan, USN, Vice Director for Strategic Plans and Policy (J-5), Joint Staff, provided a view on the use of security cooperation in planning for today's operational environment. According to RADM Sullivan, recent coalition building efforts, especially OEF and OIF, have provided valuable lessons that will be used in future endeavors. He emphasized the idea that the allies that have been made in the past now make up present coalitions and, ultimately, the friends made now will be part of the coalitions that are built in the future.

RDML Craig O. McDonald, USN, Chief, Office of Defense Representative Pakistan, traveled halfway around the world in order to speak at the Security Cooperation 2004 Conference. He brought a rare perspective from the frontline of OEF. He was able to provide specific examples how through security cooperation, the U.S. has been able to increase Pakistan's military capability, thus promoting interoperability and overall self-defense. His illustrations of a strong relationship between Pakistan and the U.S. prove that security cooperation is truly a force multiplier and it justly advances U.S. national security objectives.



Principal speakers at the Defense Security Cooperation Agency 2004 Conference share a conversation.

Defense Institute of Security Assistance Management faculty provides course information at the Institute's display.

Just before the first day's lunch break, Edward Ross, Director Middle East, Asia, North Africa Directorate, DSCA, and Jeanne Farmer, Director Europe, Russia, Americas, and Sub-Saharan Africa Directorate, DSCA, shared the stage to offer up lessons learned from previous security cooperation efforts and practical applications for coalitions to come in the future. They began by defining the following U.S. strategic goals:

- Protecting the American homeland,
- Disrupting and attacking terrorist networks,
- Countering ideological support for terrorism, and;
- Supporting coalition partners.

Edward Ross and Jeanne Farmer illustrated how DSCA supports the aforementioned goals through specific real world examples in each one of their respective regions.

One of the most thought provoking and entertaining moments of the conference was Thursday's working lunch. General (Retired) Joseph W. Ralston, USAF, shared three brief anecdotes with the audience. While serving as Commander, U.S. European Command, Supreme Allied Commander Europe, North Atlantic Treaty Organization, and Vice Chairman of the Joint Chiefs of Staff, General Ralston had the opportunity to meet and deal with many world leaders. Each one of the three stories he shared involved his interaction with a foreign leader during a world event, and each leader was the recipient of U.S. military education and/or training. As a result, General Ralston's relationship with each leader was affected by that training experience. Ultimately, the anecdotes emphasized the value of IMET as an important tool in achieving U.S. national security objectives.

The afternoon began with a rotation of three thirty minute breakout presentations. In the first session, Steve Harris, DSCA, and Richard Kwatnoski, Office of the Under Secretary of Defense (A,T&L) discussed the "Security Cooperation Tool Bag". The tool bag consists of all of those programs and projects that the DoD has used to meet new challenges in building friendships and coalitions with many countries around the world. During the second session, Greg Bergersen, DSCA, described the challenges and requirements in sharing Command, Control, Communications, Computer, Intelligence, Surveillance, and Reconnaissance (C4ISR) capabilities with U.S. allies and within coalitions. He emphasized that C4ISR is more than just hardware and software. As a result, a methodical process must be used to assess, integrate, and

implement C4ISR capabilities amongst U.S. allies. In the third and final session, Mr. Ernie Liberatore, Secretary of the Air Force, International Affairs (SAF/IA), brought together panel experts from the Department of State (DoS) and DoD to discuss and answer questions about technology transfer processes. The panel stressed the importance of the timelines involved with release, export license review, National Disclosure Policy Committee (NDPC), MILDEP export policy, and other specific technology transfer processes. Many moving parts make up these processes and, thus, proper management is essential.

The rotating breakout sessions also allowed the attendees to mingle amongst the numerous displays and demonstrations that were on hand for all two days of the conference. DSCA set up a booth to demonstrate the SCIP. The display showed how the FMS customer and DoD personnel can view FMS case data from a tri-service perspective and perform such functions as submitting requisitions and Supply Discrepancy Reports (SDRs) on-line via a web-browser. The Humanitarian Demining Training Center (HDTC) setup a display to provide information on pre-deployment training for the Special Operations Forces and other DoD and U.S. government elements conducting mine action training for nations affected by landmines and other explosive remnants of war. This type of training directly supports the Secretary of Defense's Security Cooperation Guidance. The Defense Institute of International Legal Studies (DIILS) booth provided information on resident courses and Mobile Education Teams (MET) that teach Military Law, Justice Systems, and the Rule of Law through both. DIILS has reached out to and trained personnel in 108 different countries. The Defense Institute of Security Assistance Management (DISAM) had a display to promote the professional education, research, and support of both U.S. government and foreign security assistance personnel. DISAM helps to promote U.S. foreign policy through international affairs personnel professional development. The mentioned organizations were just a handful of groups that had displays and demonstrations present at Security Cooperation 2004.

To end the first day, Dr. Robert H. Trice, Senior Vice President Corporate Business Development, Lockheed Martin Corporation, gave a compelling presentation on the defense industry as a coalition partner. He compared the defense industry market to other industry markets to give a perspective of the role that the defense industry plays in U.S. economics. He applauded the U.S. government and the relationship it has formed with defense industry but urged the U.S. government to continue to improve the business processes that the defense industry must abide by in supporting security cooperation and U.S. national security objectives.

The Ambassador of Colombia.

His Excellency Luis Alberto Moreno, Ambassador of Colombia, opened Day 2 of the conference. He shared a customer's perspective on Security Cooperation and coalition building. He made the point that the Global War on Terrorism (GWOT) is being fought in Iraq and Afghanistan, but the U.S. is also fighting terrorism in other places around the world. The Colombian government has successfully teamed with the U.S. government to combat the terrorist group, Fuerzas Armadas Revolucionarias de Colombia (FARC). He put emphasis on the fact that the two governments have combined to use security cooperation for the people of Colombia, but the job is far from over.

Colombia and the U.S. must continue to work together to make a more positive effect in South America and the world.

Dr. Joseph E. Goldberg, of the National Defense University, followed the ambassador. He focused on the terrorism and insurgency as threats to coalitions and overall stability. He pointed out that the U.S. government defines terrorism as a transnational issue because it cannot be satisfactorily addressed by a single state alone. As a result, coalitions are the best resource in combating terrorism at the transnational level. The problem with this approach is that not all states agree with the U.S. government definition of terrorism. He, therefore, concluded that coalitions that fight terrorism are often limited to those nations that share a common national interest and require continuous maintenance.

Robert W. Maggi, Managing Director, Directorate of Defense Trade Controls (DDTC), DoS, spoke to the relationship between DDTC and effective coalitions. He shared the fact that current standards for export license review are being met and can be validated by subjective measurement criteria. Additionally, he mentioned new processes, specifically a near real-time information management system, are being introduced to continue to streamline the export license review process.

The last guest speakers of the conference, Major General Craig D. Hackett, USA, Commanding General, United States Army Security Assistance Command (USASAC), RDML Mark R. Milliken, USN, Director Navy International Programs Office (IPO), and Major General John L. Hudson, USAF, Assistant Deputy Under Secretary of the Air Force, International Affairs (SAF/IA), shared the stage together in a panel format. The three MILDEP leaders discussed security cooperation at the service level. They described their security assistance organizations within each MILDEP. Each service director spoke to the how they are using security cooperation to meet DoD, DSCA, and their individual Department's strategic plans and goals. Moreover, they identified trends that they are seeing from present security cooperation efforts and lessons learned from current world situations. Finally, the directors discussed how each MILDEP is involved in the development of innovative solutions to address security cooperation community's challenges.

Lieutenant General Kohler wrapped up the conference by stressing that the job is never finished. The security cooperation community is on the right track, but can always make improvements. It is up to security cooperation personnel to be proactive and develop professionally in order to meet foreign customer needs and achieve U.S. national security objectives. Because the world's landscape changes so quickly, problems within the security cooperation world must be tackled immediately to keep existing coalitions alive and preserve allied relationships for coalitions of the future.

Additional information about the "Security Cooperation 2004: Supporting Tomorrow's Coalitions Today," including presentations and pictures, can be found at the DSCA website http://www.dsca.mil/.

About the Authors

Lieutenant Christopher Krolikowski is an Instructor and the Research Database Administrator at the Defense Institute of Security Assistance Management. Upon graduation from Tulane University in 1999, he was commissioned as a Surface Warfare Officer in the United States Navy. Prior to DISAM, LT Krolikowski served as Ship's Navigator, USS HIGGINS (DDG 76) and Fire Control/Gunnery Officer, USS CARON (DD 970). Additionally, he is currently pursuing a MBA from Wright State University. LT Krolikowski contributed to the Security Cooperation 2004 portion of the article.

Forrest E. "Ed" Smith has an extensive background in security assistance programs and training. He is currently an Associate Professor of Security Assistance Management at DISAM.

He has also held positions as a Logistics Analyst for DSAMS Training and Field Support, Chief, Arabian Programs Branch, Air Force Security Assistance Center (AFSAC), Chief, Cost Sharing Branch, Assistant Chief of Staff (J-4), Yongsan, Korea, AFLC Security Assistance Program Liaison Officer to PACOM, and Security Assistance Program Manager, International Logistics Center (ILC). He was awarded a Master's of Science in Logistics Management from the Air Force Institute of Technology, and a Bachelor's of Business Administration, Business and Finance from the University of Massachusetts. He contributed the International Customer Symposium portion of the article.

RESEARCH AND CONSULTATION

Is there a security assistance procedure, requirement and/or program guidance which is [or has been] presenting a significant problem in accomplishing your security assistance function? If so, DISAM would like to know about it. If you have a specific question, we will try to get you an answer. If it is a suggestion in an area worthy of additional research, we will submit it for such research. If it is a problem you have already solved, we would also like to hear about it. In all of the above cases, DISAM will use your inputs to maintain a current "real world" curriculum and work with you in improving security assistance management.

Contact DISAM Research via our web page, http://www.disam@dsca.mil/research/research.htm or submit pertinent questions and/or comments by completing the remainder of this sheet and return it to:

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Telephone: DSN 785-2994 or Commercial (937) 255-2994
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1. Question/Comment:

2. Any Pertinent References/Sources:

3. Contact Information:
   Name:
   Address:
   Telephone Number

4. Additional Background Information: