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# THE DISAM JOURNAL OF INTERNATIONAL SECURITY ASSISTANCE MANAGEMENT

*I believe we have something for everyone in this issue of The DISAM Journal. Our feature article details defense cooperation with the nation of India. The folks in the Office of Defense Cooperation (ODC), India, the Defense Institute of International Legal Studies (DIILS), and DISAM have put together an all-inclusive look at our programs with India, noting particularly how the relationship between our two countries continues to grow and impact a multitude of areas including the Global War on Terrorism, peacekeeping, and human immuno-deficiency virus and acquired immune deficiency syndrome. In rounding out the emphasis on India, successive articles highlight DIILS and DISAM military education teams and the Honorable Mr. Robert O. Blake's comments on U.S. and Indian Economic Cooperation.*

*In looking at the broad spectrum of the upcoming fiscal year 2006 International Affairs budget, we have included excerpts of Secretary of State Dr. Rice's comment to the Senate Appropriations Subcommittee on State, Foreign Operations and Related Programs extracted from a 12 May 2005 hearing. Additional State Department inputs to the Journal feature regional issues dealing with Plan Colombia, Israel, East and South Asia, and Asia-Pacific economic cooperation as well as topical articles of small arms and light weapons and direct commercial sales authorizations. The Department of Commerce Bureau of Industry and Security provides insights in offsets in defense trade, offsets being an issue of continuous discussion in Security Cooperation circles.*

*Dr. Craig Cobane's perspective on provincial reconstruction teams adds to the various roles that U.S. teams play in the international arena. He looks most specifically at what these teams have done and continue to do in Afghanistan.*

*Take note of an award by the Government of Djibouti to Major Patrick Anderson, (USA) our former security assistance officer in that country. We add our community's congratulations to those expressed by Ambassador Ragsdale for his efforts. This is a single example of the important role each security assistance officer plays in his or her assignment worldwide, regardless of the country in which they serve!*

*The Defense Security Cooperation Agency (DSCA) has created a newsletter for their website called "DSCA Partners Newsletter". The first volume was posted to the DSCA web on 17 August 2005 and the purpose of the newsletter is to better inform the Security Cooperation community. DISAM has and will continue to print excerpts from the "Partners Newsletter". The newsletter can be found in its entirety at the following website: <http://www.dscamilitary.com/newsletter/default.htm>.*

*As always, we thank you for your support of DISAM. We appreciate your readership of the Journal and solicit your comments and ideas. Please contact us at for details and additional information or if you are interested in submitting an article for publication!*



**RONALD H. REYNOLDS**  
*Commandant*



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# ***THE DISAM JOURNAL***

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# *FEATURE ARTICLE*

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## **Defense Cooperation with India - Expanding Again**

**By  
Major Greg Winston, USA  
Office of Defense Cooperation, New Delhi, India**

### **Introduction**

South Block is part of one of New Delhi's most impressive and imposing building complexes. In this century old red sandstone structure, decisions on the future of the Indian military are made. Two years ago personnel from the Office of Defense Cooperation (ODC) in India had little reason to visit this facility. One measure of the recent transformation in the Indo-United States (U.S.) defense supply relationship is that the South Block guards now know all ODC personnel by name. It was not always this way.



Defense cooperation with India has gone through a cycle of boom and bust over the past forty years. From a high point in the early 1960s with hundreds of personnel, the Office of Defense Cooperation, previously known as the Defense Supply Advisor, almost closed down completely on at least two occasions, one of which followed India's nuclear tests in 1998. Luckily that did not happen, because today ODC New Delhi is a busy and rapidly growing office.

When Lieutenant Colonel Scott Denney learned he would be going to India to head up the ODC three years ago, he anticipated a relatively relaxed assignment, with plenty of time for golf. Today his golf game is no better than when he arrived, and it does not appear as though it will be improving anytime soon. The ongoing transformation in India and U.S. relations began during the watch of the Honorable Robert Blackwill, U.S. Ambassador to India, and continues unabated today under the leadership of former financier Ambassador David Mulford. What happened in between, and the current state of security cooperation programs with India, are the subjects of this article.

### **India Overview**

The Indus Valley civilization, one of the oldest in the world, dates back at least 5,000 years. Aryan tribes invaded the region from the northwest about 3500 years ago and their merger with the earlier inhabitants created the classical Indian culture. Arab incursions starting in the 8th century and Turkish in the 12th were followed by European traders, beginning in the late 15th century. By the 19th century, Britain had assumed political control of virtually all Indian lands. Non-violent resistance to British colonialism under Mahatma Gandhi and Jawaharlal Nehru led to independence in 1947. At that time, the subcontinent was divided in two: the secular state of India and the smaller Muslim state of Pakistan. A war between the two countries in 1971 further

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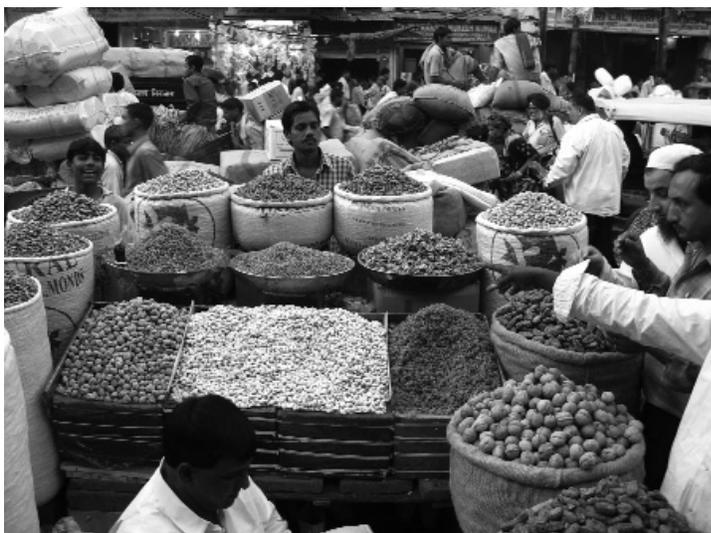
resulted in the creation of Bangladesh from East Pakistan. Despite impressive gains in economic investment and a booming high technology sector, fundamental concerns for India include the ongoing dispute with Pakistan over Kashmir, overpopulation, environmental issues, poverty, and ethnic and religious strife.

India is roughly one-third the size of the U.S., with a geography and climate even more varied than that of the U.S., with the Himalayan mountains rising to the north, dense jungles in the east, the deserts of Rajasthan to the west, plains in center and more lush forests in the coastal areas of the south. The diversity of the country is astounding, with entirely different cultures, diets, and languages contained in a nation that has enjoyed more than five decades of democracy. India's population is approximately 1.1 billion (second only to China) with the following religious breakdowns:

- Hindu 81.3 percent;
- Muslim 12 percent (the world's second largest Muslim population);
- Christian 2.3 percent;
- Sikh 1.9 percent, (additional groups including Buddhist, Jain); and
- Parsi 2.5 percent.<sup>1</sup>

Although Hindi is the national language and primary tongue of 30 percent of the people, there are fourteen other major official languages spoken by more than one million people. English is also spoken throughout India and is the lingua franca of national politics, the military and commerce.

India is the world's most populous democracy, with a government consisting of a central



**Spices on sale in Old Delhi**

parliament and state legislatures, balanced by judiciary and executive branches. Each arm functions independently, although they are intertwined and operate under a national constitution. The President is the supreme commander of all Indian armed forces, but it is the Prime Minister that wields the real power. Under India's parliamentary system, coalition parties are the norm, one effect of which is to moderate governing parties and seek consensus on all issues. The Congress Party defeated the BJP in May 2004, taking control of parliament as part of the national elections that take place every five years.

India's economy encompasses all levels from traditional village farming and handicrafts to a wide range of modern industries and support services including a world class high technology industry. Since 1991, government controls have been reduced on imports and foreign investment, and privatization of government monopolies such as electrical power is proceeding slowly. The economy has grown at an average rate of 6 percent since 1990, reducing poverty by about ten

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<sup>1</sup> Central Intelligence Agency. *World Fact Book*, <http://www.cia.gov/cia/publications/factbook/geos/in.html>.

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percentage points in the process. India contains large numbers of well-educated English speakers, which has enabled it to become a major exporter of software services and workers.

India is committed to improving its defense posture as well, and has allocated a large portion of its budget to make this goal a reality. Defense spending in the 2005 national budget year is approximately \$18.7 billion, an increase of almost 8 percent over the previous year. Of this amount, approximately \$7.7 billion has been allocated for capital expenditures, which includes upgrades and new acquisitions.<sup>2</sup> While major recent purchases such as the British Hawk jet trainer, the Israeli Phalcon radar system and the Admiral Gorshkov jump ramp aircraft carrier have taken a sizeable portion of available funding, money is still available for major systems acquisitions.

India's broad strategic goals entail an ambitious modernization program across all of its armed services. The Air Force will receive the lion's share of funding, with plans for new combat aircraft, airborne warning and control systems, and missiles. The Army is destined to get additional tanks and new artillery. The Navy will eventually deploy new Russian-built warships, along with indigenously produced ships, aircraft carriers and submarines. Although India is clearly eager to boost its own arms industry, for the foreseeable future, many "big ticket" items will continue to come from abroad.

### **Overview of the Indian Military**

The security challenges facing India are varied and complex. Listed below are some of the challenges:

- The nation is bordered by nations with nuclear weapons China and Pakistan and a history of conflict.
- Border disputes with these neighbors remain unresolved and lead to periodic tension.

The country has experienced four major conventional wars and an undeclared war at Kargil in 1999.

- The country is engaged in a series of internal low intensity conflicts as well as radical terrorist organizations in Kashmir.<sup>3</sup>

Since the breakup of the Soviet Union, maintenance problems have arisen from poor supply of spares from Russia. To confront these challenges, India fields a capable and professional military that is South Asia's largest power. With a primary mission to defend the country's frontiers, the Army, and to a lesser extent, the Navy and Air Force have in the past two decades also become more involved in internal security duties in Kashmir and in the Northeast part of the country to combat the threats described above. The "Kargil War" (fought in the disputed area of Kashmir in India's Northwest) resulted in the Indian Army abandoning its drive to downsize by 50,000 troops and in fact, a new Army Corps was established to defend the Kargil sector. Current military strength figures are shown on the next page.

Sustaining current military modernization programs and maintaining troops in Kashmir (estimated at 500,000 personnel), at the Siachen Glacier (the world's highest battlefield at more than 18,000 feet), and in India's Northeast border areas is complex and expensive in terms of lives and financial resources.

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2 Indian Ministry of Defence website, <http://mod.nic.in/aboutus/welcome.html>.

3 Indian Ministry of Defence website, <http://mod.nic.in/aboutus/welcome.html>.

<b>Service</b>	<b>Personnel</b>	<b>Major Equipment</b>	<b>Units</b>
Army	1,100,000	3,988 Main Battle Tanks, 4,175 Pieces of Towed Artillery	36 Divisions, 18 Independent Brigades
Navy	53,000	75 Ships, 1 Aircraft Carrier, 19 Submarines	3 Regional Commands
Air Force	145,000	701 Combat Aircraft, 60 Attack Helicopters, 220 Transporters <sup>4</sup>	35 Combat Squadrons

### Indian Security Planning Priorities

India's security environment brings out four key elements fundamental in determining its security planning priorities. The four key elements are listed below:<sup>5</sup>

- The Indian armed forces have a two front obligation, requiring them to safeguard the borders with Pakistan and China.

- India is not a member of any military alliance or strategic group, consistent with its policies of maintaining an independent deterrent capability.

- India's armed forces are more involved in internal security functions than most countries, requiring a commensurate force structure.



- India's interests in the North Indian Ocean highlight the need for a blue water naval capability.

### Indian Ministry of Defense

The President of India is the titular supreme commander of the armed forces of the country. The Ministry of Defence (MoD) provides policy framework and resources to the armed forces, enabling it to discharge its responsibility for ensuring the territorial integrity of the nation. An Integrated Defence Staff somewhat akin to the U.S. Joint Staff has recently been created although a decision regarding the designation of a Chief of Defence Staff (CDS) on par with the service chiefs and our Chairman of the Joint Chiefs of Staff has not yet been made.

4. *Indian Defense Yearbook 2004*, Natraj Publishers, January 2004, pp. 276-278.

5. Indian Ministry of Defence website, <http://mod.nic.in/aforces/welcome.html>.

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## **Indian Involvement in United Nations Peacekeeping Operations**

The Indian military has been a very active participant in United Nations (U.N.) peacekeeping operations ever since independence in 1947. India was one of the founding members of the U.N. and has consistently shown great interest in and commitment to the initiatives of the world body towards maintaining global peace and security. Indian excellence in U.N. peacekeeping operations is well known. The nation has participated in thirty-eight out of fifty-eight U.N. peacekeeping missions so far, with nearly 68,000 Indian peacekeepers having served under the U.N. flag.<sup>6</sup> To date, 109 Indian peacekeepers have been killed in the line of duty. At the peak of U.N. commitments in 1994, India had 6,000 peacekeepers deployed worldwide and currently ranks as the number three troop contributor.

To provide a level of training equal to this level of commitment, India established the Center for U.N. Peacekeeping (CUNPK) in New Delhi in September 2000. This well respected training institution fulfills the training and concept-related requirements of India's U.N. peacekeeping obligations, while enabling future peacekeepers to benefit from India's vast peacekeeping experience.

### **Importance and Role of India vis`a vis the United States**

The U.S. has undertaken a transformation in its relations with India based on a conviction that U.S. interests require a strong partnership with this South Asian nation. As the two largest democracies, India and the U.S. are both committed to political freedom protected by representative government. India and the U.S. also share a common interest in the free flow of commerce, especially through the sea-lanes of the Indian Ocean and have a joint interest in fighting terrorism and creating a stable Asia.

In the *National Security Strategy of May 2002*, President Bush highlighted India's potential to become one of the great democratic powers of the twenty-first century and noted that his administration has worked hard to transform the relationship accordingly. India is the world's largest democracy, with an expanding population of more than one billion and a rapidly growing middle class. India's burgeoning role both within South Asia, and on the world stage, makes it a nation of great interest for the U.S. India's rapid response to the recent tsunami disaster is but one illustration of its mounting stature. Although differences remain, today the U.S. views India from the perspective of a growing world power with which it has common strategic interests.<sup>7</sup> Relations between India and the U.S. have never been better and military cooperation has been at the forefront of this transformation over the past several years.

The relationship between the U.S. and Indian militaries is also strong and growing. The next steps in strategic partnership (NSSP) initiative launched by President Bush and former Prime Minister Vajpayee in January 2004 will include expanded engagement on civilian nuclear regulatory and safety issues, ways to enhance cooperation in civilian uses of space technology, steps to create an appropriate environment for successful high technology commerce, and dialogue on missile defense. The NSSP initiative has great strategic and commercial importance and is part of a complex set of issues both sides are working on.

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6 Indian Center for United Nations Peacekeeping website, <http://www.usinfindia.org/cump.htm>.

7 U.S. National Security Strategy, <http://www.whitehouse.gov/nsc/nss8.html>.

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## **Office of Defense Cooperation, New Delhi – Organization**

All this interaction has had a spillover effect that has increased ODC's workload exponentially and led to substantial personnel expansion. In the summer of 2002, ODC New Delhi consisted of one Army Lieutenant Colonel, two foreign service nationals (FSNs) and a secretary. Over the past two years the office has expanded to include two additional Army majors, Major Greg Winston, who handles Army and peacekeeping and counter-terrorism programs and Major Steve Hedden who handles Air Force matters and the Defense Cooperation in Armaments Program. U.S. Navy Lieutenant Commander John Foy, who handles Navy and Coast Guard programs, and an additional FSN driver have also joined the team. In March Navy Captain Doug Harris came aboard to head up the ODC and an Air Force major will arrive in August. Two additional FSNs will be hired during the coming year to assist long serving military Programs Specialist Harsh Chugh. While this is indeed a big jump in staffing, the current office size pales in comparison with earlier organizations.

### **Defense Cooperation with India - Background**

In early 1960s, the security assistance mission to India was headed by an Army Major General who managed a joint staff of more than 100 personnel. Many of the impressive embassy housing compound facilities in use today were built to support that large military contingent. This heavy presence was the result of India's urgent requests for military assistance following a war with China in 1962. India needed help quickly and the U.S. responded. However, this large force began a sharp downward spiral following the 1965 war between India and Pakistan, when aid to both nations was sharply curtailed. It was during this period that an inexorable shift to mostly Soviet and Russian equipment began, a process that did not end until the early 1990s, when India initiated an expansion of its defense supply sources to include more western equipment. In between was a long period of relatively little engagement between the U.S. and India, especially with regard to defense relations and security assistance. Sanctions following India's nuclear tests in May of 1998 were lifted in September 2001, leading to the current state of renewed partnership.

### **Office of Defense Cooperation Mission**

The Office of Defense Cooperation New Delhi's mission is to:

Serve as the nodal agency for all security assistance programs to India in support of the vision, goals and programs of the Ambassador, the Defense Security Cooperation Agency and United States Pacific Command.

This mission statement reflects the fact that the ODC New Delhi, like similar organizations everywhere, serves multiple masters.

### **Current Programs**

The ODC New Delhi has several tools at its disposal to accomplish this mission and help advance relations between the U.S. and India. They are listed below and will be discussed in some detail:

- Foreign Military Sales (FMS);
- International Military Education and Training (IMET);
- Grant Aid Programs;
  - Enhanced International Peacekeeping Capabilities (EIPC);
  - Counter Terrorism Fellowship Program (CTFP);
  - Human Immuno Virus and Acquired Immuno Deficiency Syndrome (HIV/AIDS);

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- Bilateral Forums;
    - Security Cooperation Group (SCG);
    - Senior Technology Security Group (STSG);
    - Joint Technical Group (JTG); and
  - Other Security Assistance (trade shows, personnel exchanges, and exercises).

### **Foreign Military Sales**

Historically FMS sales to India have not been strong. While there has always been a degree of interest in U.S. military equipment, Indian arms purchases from the U.S. have in the past been limited for a variety of reasons. For most of India's independence the Soviet Union and then Russia met the bulk of India's defense equipment needs. This situation began to change in the past several years as India looked to expand its supply base, and today defense cooperation is a vibrant, visible and expanding aspect of the transformed U.S. and India relationship. Military sales to India have increased from zero in early 2001 to more than \$214 million today, with that figure poised to rise even higher.

The fundamental shift in the U.S. and India defense supply relationship began after the U.S. lifted sanctions against India in September 2001. That step was closely followed by the first major FMS sale to India, a combined lease and purchase of AN/TPQ-37 Firefinder weapons locating radar systems. The first two leased systems were delivered to India in July 2003, just six months after the Letter of Offer and Acceptance (LOA) was signed. Delivery of production radar systems began in 2005. Other major active FMS cases include a Special Forces equipment case, a Sea King helicopter spare parts support case and a submarine deep sea rescue vehicle case.



**Handover of leased AN/TPQ-37 Firefinder Radar - July 2003.**

Today's atmosphere of India and U.S. collaboration has led to numerous requests for pricing and availability information for U.S. military equipment and there are several FMS cases in the pipeline. U.S. Navy teams have briefed the Indian Navy on the P-3C Orion maritime surveillance aircraft and other systems.

The Indian Air Force (IAF) also offers great potential for engagement as well. Most recently it requested information on a multi role fighter aircraft, 126 of which will be procured to replace their aging MiG-21s. U.S. firms have recently been cleared to compete for this sale. The Indian Air Force has also expressed interest in acquiring a self protective suite (SPS) for its VIP aircraft.

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There have been numerous other IAF requests for pricing data on various types of avionics and munitions as well, and there is currently an LOA with the Ministry of Defence for parachute equipment for the Indian Army. The Indians are also interested in a missile defense system and have recently been briefed on the Patriot system. Other requests for information or pricing data include avionics, radar systems, munitions and NBC equipment.

The pending obsolescence of much of India's Soviet-origin equipment will create major new opportunities for foreign suppliers, including the U.S. While eager to purchase what it believes is superior technology and higher quality military equipment, India also seeks licensed production and technology transfer to the maximum extent possible. The fact that the U.S. would



**U.S. and Indian soldiers examine Special Forces equipment during a joint exercise in September 2003.**

like to expand high-technology trade with India has served as an additional impetus for enhanced interaction.

India's immense pool of talented professionals in all fields, combined with an advanced manufacturing capability, makes the production of nearly any military equipment possible. As a result, the defense deals concluded with India increasingly include a provision for technology transfer and licensed production. A typical acquisition program would include the first systems as outright purchases, with a gradual transition through assembly eventually resulting in

indigenous production in many cases. Those competitors most willing to meet Indian desires in this regard will be at an advantage. The DCS are used along with FMS to meet India's growing requirements for U.S. defense equipment.

### **International Military Education and Training**

IMET has historically been a very active program for the ODC. In fact, during the sanctions period this was the only security assistance activity taking place. The IMET continues to be very successful, with a \$1.4 million budget (the highest ever) for fiscal year 2005 to send approximately forty-five Indian military students to the U.S. for training.

The IMET program is arguably the most valuable long-term program run by the U.S. government in India. Indian military officials continually express a desire for more technical and post-graduate training at the Naval Post-Graduate School and other advanced training institutions. In the coming years, ODC plans to increase the number of technical courses offered to India while also maintaining the popular professional military education (PME) and management courses.

IMET has played an undeniable role in our growing military engagement and the benefits gained by an Indian officer through exposure to U.S. military institutions and training and vice versa cannot be overstated. Indian officers selected for participation in the IMET program are the cream of the crop and typically emerge at the top of their classes in the U.S. The ODC has been

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notified of numerous Indian distinguished graduates through the years as part of the IMET program. In fact, many of the senior positions within the Indian military ranks today are filled by IMET graduates. For example, Admiral Arun Prakash, Chief of Indian Naval Staff and Chairman, Chiefs of Staff Committee is a U.S. Naval War College graduate.

### **Grant Aid Program**

In addition to IMET, ODC administers several grant aid programs, all of which build goodwill and enhance interoperability with the Indian military to varying degrees. These are discussed in some detail below.

- **Enhanced International Peacekeeping Capabilities Program:**

Over the past two years ODC has implemented two LOAs to allocate \$800K in Enhanced International Peacekeeping Capabilities (EIPC) grant aid received by India. EIPC is funding from the Department of State to help countries improve their capacity to train peacekeepers, and to enhance existing peacekeeping training centers. This program contributes to the ability of nations like India to participate in voluntary peacekeeping and humanitarian operations that reduce the burden on U.S. personnel and resources.

In India's case, \$500K worth of EIPC funding has been used to purchase equipment (computers, radios, simulation software, video cameras, DVC facilities, etc.) to improve the capabilities of India's Peacekeeping Center. The first major equipment package was delivered in April 2005. India already has the premier peacekeeping training institution in South Asia and this equipment will make it even better.

The remaining \$300K was used to open a blanket order training case to train Indian peacekeeping personnel in the U.S. and to support peacekeeping seminars. So far approximately \$100K has been expended for this purpose.

- **Counter Terrorism Fellowship Program:**

In fiscal years 2004 and 2005 India received \$200K under the Department of Defense (DoD) Counter Terrorism Fellowship Program. This money is being used to send Indian personnel, both military and civilian to the U.S. for counter terrorism related training as well as to bring mobile training teams (MTTs) to India.

The CTFP is a DoD program created under the fiscal year 2002 *Defense Appropriations Act* to provide counter terrorism training to international officers from selected countries. The training is provided at DoD schools and select regional centers. In fiscal year 2004, CTFP money was used to send ten Indian officers to the U.S. for training and to bring two mobile training teams to India. In August 2004, some U.S. Coast Guard personnel conducted an MTT for twenty Indian Coast Guard officers in the port city of Chennai on the subject of maritime crisis management and in September 2004, the Defense Institute of International Legal Studies conducted a *Legal Aspects of Counter Terrorism* seminar in New Delhi. A third Coast Guard MTT on *Waterside Port Security* was held in Mumbai in April 2005 and a *Cyber-Terror* MTT will take place in New Delhi in September 2005. These are in addition to individual counter terrorism training missions that have already been planned. PACOM will also use CTFP funds to organize an India and U.S. counter terrorism seminar to be held in India later this year.

- **HIV/AIDS Program:**

This year ODC took over administration of a \$600K military HIV/AIDS prevention program which is being used to purchase testing equipment and provide HIV/AIDS training to the Indian military.

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An additional \$300K has been requested for next year. This money will be used by the Indian Armed Forces Medical Service (AFMS) to:

- Enhance its current HIV/AIDS prevention capabilities;
- Sustain HIV/AIDS awareness and education campaigns;
- Institute a blood screening program;
- Provide force wide counseling and testing;
- Improve HIV surveillance;
- Operate and maintain critical HIV/AIDS laboratory facilities; and
- Build a cadre of officers that can address and further HIV/AIDS policy and programs, including civil-military cooperation.

Under the HIV/AIDS program, the Indian AFMS co-hosted a conference with USPACOM in August 2004, which demonstrated that the Indian military is a willing partner in the fight against HIV and AIDS. A well attended peer-to-peer HIV/AIDS workshop was also held in New Delhi in April of this year. In the future PACOM will seek to leverage AFMS's growing level of HIV/AIDS expertise and experience.

### **Bilateral Forum**

The ODC is responsible for several bilateral groups that meet on an annual or bi-annual basis. The SCG is the primary forum to address defense cooperation related matters with the Government of India. This bi-annual group is co-chaired by the Defense Security Cooperation Agency and the Joint Secretary and Acquisition Manager (Land Systems) in the Ministry of Defence. The Senior Technology Security Group meets annually to discuss matters related to high technology in an effort to address potential technology security issues as they develop. The Joint Technical Group focuses on scientific exchanges and defense cooperation in armaments issues and is co-chaired by representatives from India's Defence Research and Development Organization (DRDO). The Senior Technology Security Group meets bi-annually to address technology release and export control issues.

### **Other Security Cooperation**

#### **Defense Cooperation in Armaments Program**

In an effort to demonstrate U.S. commitment to the defense supply relationship, ODC launched a Defense Cooperation in Armaments program with India's DRDO in July 2002. DRDO is responsible for the development of indigenous military equipment and upgrades of existing equipment for the Indian military. In February 2004, DRDO signed a Master Information Exchange Agreement (MIEA) with the U.S. allowing for the exchange of information between DRDO and DoD labs and scientists. Both sides expect to sign the first two Information Exchange Annexes (IEAs) on the subject of enhancement of human performance on the battlefield shortly. Other areas of potential information exchange currently being pursued are related to the fields of materials and modeling and simulations. India and the U.S. are also nearing completion of a Research Development Testing and Evaluation (RDT&E) Agreement. Under this enabling agreement, both sides will seek to capitalize on the success of the data shared under the IEAs and enter into future project agreements, sharing cost, risk, and benefits in the process.

#### **Aero India 2005**

Aero India is the largest aerospace trade show in South Asia. After the recent pronouncements by senior GOI leaders regarding their desire to expand the defense supply

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relationship, the ODC made a major effort to garner high-level support for this event. Held at an Indian Air Force base in Bangalore, Aero India 2005 was a major success, with more than 140 U.S. personnel participating, including several flag rank officers. On display and generating extensive positive media attention were a P-3C Orion Maritime Patrol Aircraft, a C-130J, two F-15E Strike Eagles and a KC-135 Tanker. Also highly visible was a tri-service DoD technology exhibit and various U.S. defense contractors.

### **Foreign Area Officer In-Country Training Support**

ODC also coordinates and provides all administrative support for the Army officer who attends India's Defence Services Staff College (DSSC) at Wellington every year. This remote school is the equivalent of the U.S. Army's Command and General Staff College (CGSC), but is a joint service institution. Attendance is a key part of the U.S. Army's South Asian Foreign Area Officer In-Country Training (ICT) program in India. During and after the ten-month-long course, the FAO trainee travels throughout India and the rest of South Asia in an effort to broaden his or her experience base and enhance usefulness as a future South Asian FAO. Two members of the ODC team and two embassy defense attachés are DSSC graduates.

### **India Defence Services Staff College and U.S. Army's Command and General Staff Instructor Exchange**

India and the U.S. are in the final stages of implementing a permanent instructor exchange between these two institutions, with only the final administrative details remaining to be worked out.

### **Military Exercises**

Interaction in a variety of joint exercises over the past three years has further increased Indian interest in U.S. equipment. During the past year alone there have been twelve major exercises involving all services and more are planned for the coming year. These exercises have exposed Indian military personnel to some of the sophisticated military hardware available from the U.S.

During exercises in Leh in 2003, Indian and American Special Forces paratroopers jumped together to learn about each other's formation flying techniques and to coordinate dropping ground support cargo. These Special Forces operations are important measures of our cooperation because they 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.

Regarding Naval interaction, the Indian Navy ships Sharda and Sukanya relieved the USS Cowpens to escort ships through 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" series of exercises in the Arabian Sea, which involved ships and helicopters of both countries rehearsing the interception of suspicious vessels, using anti-submarine warfare, and completing complicated flying operations.

In February of 2004, fighter aircraft from the U.S. and India participated in a dissimilar air combat training exercise together for the first time since 1963. The Indian Air Force fielded Jaguars, MiG-21 Bison, Mirage 2000s and SU-30 K aircraft, and the U.S. fielded F-15Es. In another first, India conducted the largest strategic deployment of its combat aircraft outside its territory in the summer of 2004, when it participated in the multinational Cope Thunder 2004 exercise in Alaska. Similar exercises are planned for later this year.

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The Indian Army and the U.S. Army Pacific Command (USARPAC) have also co-hosted several peacekeeping exercises over the past several years. In February 2003, Exercise Shanti Path was held in New Delhi for 140 participants from fourteen countries. In July 2004, India co-hosted the Multinational Planning Augmentation Team (MPAT) Tempest Express Seven Exercises with 120 participants representing twelve countries. Some of these connections later proved invaluable in helping coordinate tsunami relief efforts. USARPAC will conduct the next peacekeeping command post exercise (CPX) with the Indian Army in Hawaii in July 2005.

### **Challenges of Defense Cooperation with India**

While the momentum of the current relationship is undeniably positive, challenges remain. Foremost is a waning perception within the MoD that the U.S. may not be a politically reliable defense supplier based on Indian experience with U.S. sanctions over the years. The sanctions that followed the nuclear tests in 1998 left a particularly negative impression on some within the Indian defense establishment because they cut off military supplies from not just the U.S., but also from third party sources that contained U.S. components.

Another challenge to greater defense cooperation with India is MoD's lack of familiarity with the FMS process. This is the result of decades of Indian interaction with other suppliers (primarily the former Soviet Union and now Russia) that used totally different supply procedures. To educate Indian defense personnel and policy makers with the FMS process, ODC has arranged and conducted two very successful week-long DISAM FMS seminars, in 2002 and 2004. Both have been well received and attended by very senior defense acquisition personnel.

Not only are the Indians still learning about our procedures, but in some ways the Indian defense procurement system is different than and does not always mesh perfectly with ours. One example of this is the typical requirement for potential defense suppliers to provide their equipment for a trial evaluation on a no-cost, no-commitment basis. This is something that FMS does not offer and creative solutions to potential impasse situations like this are needed. Compromise, where permitted under U.S. export control legislation, is sometimes an option, with hybrid FMS and direct commercial sales (DCS) another angle.

Finally, FMS must compete for Indian business while abiding by U.S. export control and technology release regulations that do not constrain our competitors. This can slow our processing of Indian requests and has the potential to give India the false impression that the U.S. is not eager to do business.

The current challenge for ODC is to prevent these procedural disconnects from stunting our fledgling defense sales relationship. Because India has so little experience with FMS, the cases being considered right now have genuine potential to profoundly affect India's perception of our system, for better or worse. One recommendation that has been made by numerous defense professionals is that MoD establish a full time office at their embassy in Washington to focus on FMS and DCS cases, along the lines of those countries with larger and more established FMS relationships. We are hopeful that the Indians will act on this suggestion soon.

### **Conclusion**

As Defense Secretary Donald Rumsfeld said during his visit to India in December 2004:

the India and the U.S. military relationship is a strong one and . . . something that we intend to see further knitted together as we go forward in the months and years ahead.

The future for India and the U.S. relations is bright and the Office of Defense Cooperation New Delhi is proud to be helping lay the foundation for what will undoubtedly evolve into an

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even stronger defense partnership. This is an exciting time to be working in defense cooperation with India.

**About the Author**

Major Greg Winston is the Army Programs Officer in the Office of Defense Cooperation in New Delhi, India. He is an Armor Officer and Foreign Area Officer specializing in South Asia who is two years into his second tour in India, having previously attended DSSC.

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# Security Assistance Cooperative Approaches to Counterterrorism

By  
**Kevin H. Govern,**  
**Assistant Professor of Law**  
**United States Military Academy, West Point, New York**

[The Defense Institute of International Legal Studies (DIILS) sent their Mobile Education Team (MET) to New Delhi, India in 2004 to present a seminar.]

The Department of Defense Regional Counterterrorism Fellowship Program recently funded an especially productive and memorable DIILS MET Seminar to New Delhi, India on the *Legal Aspects of Combating Terrorism*. The seminar took a look at a range of responses to terrorism, including international law, domestic law enforcement, and the use of military force. The week's instruction included detailed, substantive legal instruction on, and lively, practical discussions of:

- Definitions of modern terrorism;
- Law and legal responses to terrorism; and
- Interagency and multinational approaches to counterterrorism.

This dedicated effort to enhance India's stability, its multifaceted approach to security concerns, and to advance U.S. and Indian relations, is significant because of India's role in world culture, economics, and international security. Home to a 5,000 year old civilization, India is the world's largest democracy. Its 1.049 billion inhabitants, 15 percent of the world's population in the second most populous nation, reside on a landmass roughly 1/3 the size of the U.S. Its armed forces, with over a million troops, are supported with 2.3 percent of India's Gross Domestic Product (GDP). India's armed forces have encountered various national security threats since gaining independence from the British Empire in 1947. After the Sino-Indian border disputes of 1962, both China and India have concluded thirteen rounds of joint working sessions to resolve their disputes. Armed standoffs and conflict with Pakistan have arisen in 1965, 1971, and have continued as a stalemate since 1997 with respect to disputed Kashmir, Indus River water sharing, and the Rann of Kutch terminus. Various tensions and disputes also exist between India, Nepal and Bangladesh over borders. India's counterinsurgency and counterterrorism efforts have been directed against groups threatening Indian and global security.

India and the U.S. share a common interest in maintaining peace and stability in Asia, an intent to counter international terrorism and counter insurgency, to maintain freedom and security of the sea lanes in the region, the prevention of proliferation of weapons of mass destruction, and maintaining a bi-lateral strategic relationship. Between 2001 and 2002, India and the U.S. have:

- Concluded a Mutual Assistance Treaty on law enforcement and counterterrorism;
- Held two meetings of the Joint Working Group on Counterterrorism;
- Formed the Defense Policy Group;
- Launched initiatives to combat cyber terrorism;
- Supported information security; and
- Promoted military-to-military cooperation.

India has also participated with the U.S. in four combined military exercises in as many years, as well as contributing to Asia-Pacific Center for Security Studies (APCSS) and National Defense University (NDU) Near East and South Asia (NESAS) Center for Security Studies Executive

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Courses and Counter Terrorism Fellowship Programs. In fiscal year (FY) 2004, the U.S. Department of State funded some \$2,367,604 of foreign military training, a sizeable portion (\$1,890,000) of which funded international military education and training (IMET) to bring Indian students to U.S. military command and staff colleges and war colleges, as well as various other officer training courses. High level visits between Indian and U.S. leaders from 2002 through 2004 have also helped advance in former Indian Prime Minister Vajpayee's words "the next steps in the U.S. and India strategic partnership."

Contributing towards those partnership capabilities, interests, and goals, DIILS is a joint organization that reports directly to the Defense Security Cooperation Agency (DSCA). It is the foremost Expanded International Military Education and Training (E-IMET) provider of METs. Since being established in late 1992, DIILS has presented programs worldwide to over 22,500 military and civilian personnel in ninety-two countries. These programs are accomplished through a multi-phased approach to establishing and maintaining a rapport between DIILS and the host country. Initially, an assessment visit to the host country helps DIILS gain insight into the issues confronting the host country. Subsequent planning includes an opportunity for a host nation to send civilian and military delegations to the U.S. for a planning and orientation visit designed to help develop the host country's desired MET curriculum. During such planning visits, the host country's delegates also learn more about U.S. history, culture, and civilian and military legal systems.

The DIILS Seminar in the host country helps advance the developing relationship between the U.S. and the host country and initiates appropriate institutional development via mutually planned, developed, and presented course materials in the desired language (through DIILS-provided translation). Aside from the DIILS MET to New Delhi, India, past week-long seminars have addressed:

- Operational law;
- Developing a professional military;
- Importance of the noncommissioned officer in the military;
- Legal and ethical concerns in public agencies;
- Environmental law;
- Domestic military operations;
- Interoperability and status of forces agreements (SOFAs);
- Legal aspects of combating terrorism;
- Law of the sea;
- Peace operations;
- Role of the inspector general; and
- Legal aspects of military media relations, trial methods and oral advocacy.

DIILS MET teams, in conjunction with host country participants, present structured substantive presentations in conjunction with combined facilitation of discussion groups, so that each participant has an opportunity to delve into and exchange ideas on contemporary legal and operational concerns. In so doing, the host country's military commanders, staff and lawyers, as well as civilian officials in attendance also gain unique interagency opportunities for dialogue. Follow-on DIILS seminars, constituting more than 60 percent of those conducted by DIILS, can follow precedent of previous courses or can be tailored to a host country's particular interests and desires.

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In addition to METs, DIILS has a busy resident course program. Resident seminars in Newport, Rhode Island range from two to eleven-week courses on:

- International Law of Military Operations;
- Military Law Development Program;
- Peacekeeping for Decision Makers; and
- Conducting Military and Peacekeeping Operations.

DIILS also partners with other DoD institutions to provide rule of law and legal education to international students. In all resident and non-resident programs, DIILS strives to provide timely, relevant and practical legal education to its international participants.

Unlike DIILS' traditional programs that fall under E-IMET, this seminar to New Delhi was part of the U.S. effort to strengthen the ability of friends and allies to combat terrorism through the Regional Defense Counterterrorism Fellowship Program (CTFP), funded and administered through the Assistant Secretary of Defense for Special Operations and Low Intensity Conflict (ASD SO/LIC). The DIILS MET seminar's week-long focus on the legal aspects of terrorism and counterterrorism commenced with a combined opening ceremony led by the American Deputy Chargé d'Affairs Robert Blake, Jr., Major General Nilendra Kumar, the Indian Army Judge Advocate General, and the MET's senior member, Rear Admiral (LH) John Crowley, the U.S. Coast Guard's Judge Advocate General. Accompanying Rear Admiral Crowley was a three-member joint team including USAF Lieutenant Colonel David Dales, the Chief of International Law at Pacific Air Forces, Hickam Air Force Base, Hawaii, Army Lieutenant Colonel Kevin Govern, Assistant Professor of Law, U.S. Military Academy, and USAF Major Al Rees, Country Program Manager, DIILS.

Over forty attendees traveled from across the capitol city as well as across the nation. They included uniformed Indian Army, Navy, Air Force, and Coast Guard senior staff, commanders and judge advocates, ranging in rank from Lt General Girish, The Director-General of Discipline, Ceremonial and Welfare for the Indian Army, to the grade of Captain. Also in attendance were senior civilian representatives from the Ministries of the Defense, Exterior, and Interior; to include Mssrs. Kapoor and Ekka, Under-Secretaries from the Ministry of Defense.

Indian participants provided for the seminar's stimulating exchanges of ideas, frank and open discussions, and sharing unique insights into common concerns. Current events, discussed in the context of law and the military, includes the following:

- U.S. approach to military commissions;
- Abu Ghraib prisoner abuse courts-martial;
- India's desire for a permanent seat on the United Nations Security Council; and
- Varying notions of the United Nations as law-giver and law-enforcer.

Particular note was the revelation that India would repeal its cornerstone counterterrorist legislation - the *Prevention of Terrorism Act 2002* - with the intention of reinforcing the *Unlawful Activities Prevention Act 1967* and various other laws to prevent and fight against terrorist acts. Much learning and exchange of ideas also took place outside of organized seminar times, such as during "tea-breaks," curry lunches, and warm, collegial Indian hospitality functions sponsored by the Indian Army Judge Advocate General's Staff and the U.S. Embassy's Office of Defense Cooperation. All involved held the same hopes that new-found colleagues and friends might visit each in the very near future, and that the exchange boded very well for U.S. and Indian relations continuing on the path of cooperative exchange, development, and accomplishment.

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## The Defense Institute of Security Assistance Management Sends a Mobile Education Team to India

By  
**Virginia K. Caudill**  
Defense Institute of Security Assistance Management

The United States is transforming its bilateral relationship with India, an emerging global power that has provided crucial support for the war on terrorism. India and the United States also share a commitment to the global spread of democracy. We seek a greatly expanded and highly visible partnership with India on multiple strategic and programmatic fronts, and will continue the further expansion of our military, political, and economic relationships through a joint Defense Planning Group and high profile dialogues on economic issues, strengthening export controls, and important international issues.



**DISAM professor, middle is assisted by a Lieutenant Colonel for the Office of Defense Cooperation, presented a graduation certificate to the Ministry of Defense of India, a graduate of the Executive Seminar.**

### **2004 Congressional Budget Justification – Foreign Operations**

In December of 2001, representatives of the Ministry of Defence from the Government of India and their counterparts in the United States Department of Defense convened the first meeting of a newly formed India and U.S. Security Cooperation Group (SCG) to explore and understand mutual areas of security cooperation, particularly those pertaining to the sale of defense articles and services. One of the initiatives discussed in subsequent meetings of the SCG addressed the continuing need for bringing together knowledgeable members of the Arms Transfer Communities to discuss processes and procedures. An important step in that direction was to enlighten the participants of the Ministry of Defense (MoD) in India regarding the processes and procedures of U.S. foreign military sales (FMS). The Defense Security Cooperation Agency (DSCA), acting as the Department of Defense (DoD) chair on the SCG, recommended that their education component, the Defense Institute of Security Assistance Management (DISAM) be requested to conduct a course in New Delhi for the military acquisition professionals in the Indian MoD.

To this end, a Mobile Education Team from the Defense Institute of Security Assistance Management (DISAM) was requested by the MoD and dispatched to New Delhi in July of 2002. The team was led by Dr. Mark Ahles, Director of International Studies at DISAM. The other instructors were Mr. Robert Hanseman and Mr. Michael Layton. They conducted a one week

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executive overview of Security Assistance Management which included classes on Legislation and Policy, FMS Process, Acquisition, Logistics and Financial Management. The participants in the seminar realized the rationale for the U.S. government legal requirements leading to the mutual protections offered by FMS agreements, as well as the other potential advantages of using the U.S. Defense purchasing system for military sales.

At the fourth meeting of the SCG in 2004, it was confirmed that a team of professors from DISAM would conduct additional courses in New Delhi in order to provide more in-depth information and train additional personnel. The DISAM Team consisted of Ms. Virginia Caudill, Director of Management Studies, who was accompanied by associate professors Mr. Tom Dop, and LCDR Ed McFarland, USN. The team was originally prepared to depart in May 2004, but the class was postponed until September 2004 because of the elections.

The DISAM instructors conducted a one-day Executive Level Seminar for twenty three senior military and civilian members of the Ministry of Defence. The executive seminar was designed specifically for those country officials involved in oversight, integration and management of the security assistance and defense sales process into overall country planning and requirements. The instruction focused on the legal requirements and processes for FMS in order to incorporate the customer requirements into the U.S. System for effective planning and program management. Other material presented included overviews of the FMS acquisition rules within the U.S. DoD procedures, logistics and sustainment support, and financial management of international military sales.



**The Joint Secretary and Acquisition Manager, Ministry of Defense, Government of India and Official Representative to the India and U.S. Security Cooperation Group receiving the DISAM plaque from the Chargé d'Affaires, U.S. Embassy India.**

In addition, DISAM conducted a Security Assistance Planning and Resource Management Course for thirty-six civilian and military representatives of the MoD. This course was specifically intended for the country officials directly involved in the functions and management of the international sales programs. The curriculum included the planning and resource processes of requirements generation, budgeting, acquisition and sustainment within a security assistance relationship. The two-week course included detailed operational and application details. The schedule of individual classes began with an introduction of the general policies of the Security Assistance Programs, and then progressed into analysis of the documents and requirements for an effective program.

A representative from the Office of Defense Cooperation (ODC) in India attended every class and contributed to the instruction by citing specific country examples. DISAM encouraged the Security Assistance Officers (SAO) to participate in their classes and the ODC members took maximum advantage of the opportunity to meet with students and discuss country affairs. This level of ODC participation clearly enhanced the educational objectives of the courses.

In addition to the ODC academic assistance, LTC Scott Denney, ODC Chief, opened and closed both classes. LTC Denney further augmented the instruction in both courses by providing a lecture on the operations of the ODC in India, explaining the office set-up and functions. **The**

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Deputy Chief of Mission from the American Embassy, Mr. Robert Blake, gave opening remarks for the Executive Session and assisted in the distribution of diplomas in the Planning and Resource Management Course.

The team from DISAM would like to extend their appreciation to Mr. Harsh Chugh, a long time employee of the Office of Defense Cooperation in India, and international training manager and budget officer. In addition to setting up the course, and taking care of student enrollment, Mr. Chugh began communicating with DISAM as soon as the military education team was confirmed, making sure all administrative requirements for an effective course were in place. The instructors were able to concentrate on the academic elements, knowing that Mr. Chugh would have everything else taken care of.



**The DISAM Team Members and ODC Cooperation India  
from left to right:**

**DISAM Associate Professor**  
**ODC Training and Budget Officer**  
**DISAM Director of Management Studies**  
**DISAM Associate Professor**  
**Office of Defense Cooperation Chief**  
**Office of Defense Cooperation**  
**Office of Defense Cooperation**  
**Office of Defense Cooperation**

### **About the Author**

Virginia K. Caudill is the Director of Management Studies at the Defense Institute of Security Assistance Management where she has been an associate professor for almost sixteen years. She came to DISAM with over fifteen years of security assistance experience in program management, acquisition, logistics and financial management with the United States Air Force. She has a Master of Arts degree in public administration and international programs from the University of Dayton, in Dayton, Ohio and a Bachelor of Arts in Spanish Language and Linguistics from the University of the Americas in Mexico. She is also a former Peace Corps volunteer.



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# ***LEGISLATION AND POLICY***

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## **Expanding the United States and India Economic Cooperation**

**By  
Robert O. Blake, Jr.  
Chargé d'Affaires, United States Embassy India**

[The following remarks were presented at the 13th Annual Meeting of the American Chamber of Commerce, Maurya Sheraton Hotel, New Delhi, India, April 28, 2005.]

I have been asked to speak today about expanding United States and India economic cooperation. It has been the theme of several high-level contacts between Indian and United States leaders in recent weeks. The United States commitment to develop deep economic and commercial ties with India has never been stronger. In March 2005 Secretary of State Condoleezza Rice visited New Delhi to underscore the importance of developing those ties. That visit, along with one by Minister of External Affairs Natwar Singh to Washington earlier this month, marked a notable watershed in further expanding the strategic partnership between the United States and India. Our two ministers agreed that it is time to broaden and accelerate our strategic relations on a number of fronts:

- Secretary Rice and Minister Singh launched a strategic dialogue between our two countries;
- They established a joint working group to discuss how the United States and India can expand cooperation in space;
- They agreed to accelerate progress in the next steps in the Strategic Partnership Initiative by combining Phases two and three; and
- They formally announced an energy dialogue to be headed by U.S. Secretary of Energy Sam Bodman and Deputy Planning Commission Chairman Montek Singh Ahluwalia.

The energy discussions will address energy security, renewable energy, and for the first time the civilian use of nuclear power. We also are revitalizing the economic dialogue by introducing a CEO Forum. This will give the private sector greater input into the process. In New Delhi recently, U.S. Secretary of Transportation Norman Mineta and Civil Aviation Minister Praful Patel signed the *Open Skies Agreement*. This will empower the private sectors in both countries to expand and improve air service.

Last week the Planning Commission Co-Chairman Dr. Montek Singh Ahluwalia met in Washington with U.S. Energy Secretary Bodman on laying the foundation for the High Level Energy Dialogue. Dr. Ahluwalia also met with Dr. Allan Hubbard, the top economic official in the White House, on advancing the Economic Dialogue. They plan another such meeting in the near future.

On April 21, Lieutenant General Jeffrey B. Kohler, Director of the Defense Security Cooperation Agency (DSCA), visited Delhi to begin discussions about the capabilities of Lockheed Martin's F-16 fighter and Boeing's F-18. Both aircraft are under consideration in India's important Multi-Role Combat Aircraft tender.

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On Monday of this week in New Delhi we hosted a sixty-five member trade and education delegation from the state of Virginia, led by Virginia Governor Mark Warner. On the calendar ahead, we look forward to a visit to the U.S. this June by Minister Nath, to advance our Trade Policy Forum and meet with Commerce Secretary Gutierrez and U.S. Trade Representative Portman, assuming he is confirmed. President Bush has invited Prime Minister Singh to visit the U.S. We expect that visit will take place in July. We hope the first meeting of the Economic Dialogue's CEO Forum will take place before that event. In late summer, we expect Treasury Secretary John Snow to visit India for a cabinet-level session of the Economic Dialogue. Finally, late this year or early next year, President Bush will visit India. That is quite an agenda. It marks an intense level of high-level contacts. The objective of all these contacts is to deepen American strategic and economic ties with India and to put them on a sustainable commercial basis so that the private sectors in both countries can unlock the full potential of their productive energies.

We also want to join with India to open up new fields, areas in which historically there has been little or no commercial or technical exchange, such as space research, civil nuclear energy, and the joint production of weapons systems. This is new ground for all of us policy makers, government officials, businesses, and trade associations like the American Chamber of Commerce.

Even as we look ahead to new opportunities, we will also use our high-level dialogues to address the trade and investment issues of the past. These are the so-called legacy issues. They include disputes involving specific companies, such as the U.S. investors in the power sector. They also include more general policy issues, such as government subsidies for fertilizer and liquefied petroleum gas (LPG) and non-tariff barriers and non-transparent standards. These practices restrict trade and investment opportunities for U.S. companies.

The Government of Prime Minister Singh is committed to market-oriented reforms. Last week the Prime Minister said in Jakarta:

We are committed to be more open economy, society and the winds of change are creating a situation for growth of India. We want to see the growth rate go up to 7.5 per cent in the future.

That sounds like a clear call for additional economic reforms. We encourage the United Progressive Alliance (UPA) Government to move forward with the next generation of economic reforms. Further reform would benefit Indian consumers by increasing their choice of goods and services. And they would establish the policy framework needed to pursue new opportunities with the U.S. in a variety of high-tech fields and sunrise industries. Let me give a few examples of areas needing further reform.

First, tariffs. I am glad the Minister is here and I know he will not mind if I speak frankly as good friends do. India has made important progress in lowering the peak rate. This year it is 15 percent, compared to 40 percent in 1999. But tariffs still have room to come down, especially to achieve the government's goal of aligning them with the tariff structure in the Association of Southeast Asian Nations (ASEAN) countries. Even as tariff rates have fallen, other forms of protection appear to have gone up. The government imposes sanitary and phyto-sanitary rules, technical standards, and registration rules, sometimes in non-transparent ways. For example, the government recently imposed sanitary measures that have stopped imports of pet food, poultry, and dairy products from the United States. Moreover, tariffs on agricultural imports remain very high by world standards. The average tariff on most foodstuffs is about 40 percent. According to the International Monetary Fund (IMF), only four countries on a list of 134 emerging markets have higher agricultural tariffs. Thus, despite the reduction in tariff rates, India still has a

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restrictive trade regime. Because trade is restricted, Indian consumers have fewer choices and pay higher prices.

The situation with Foreign Direct Investment (FDI) is a similar story: although progress has been made, India still imposes restrictions on many types of FDI. To the outside observer, it appears as though the investment door is half open and half closed. The recently released roadmap for FDI in the banking industry is an example. It features a five-year delay before the door is open to FDI. And there is no full guarantee that will happen. The five years is intended to give domestic banks time to become more efficient so that they can meet the challenges of global banking. It is unclear under what circumstances any domestic bank would be allowed to merge with a foreign partner.

Indian banks are small and undercapitalized. They need foreign capital to grow. The delay in preventing foreign capital from entering India will be costly in terms of slower growth, fewer jobs, and less innovation in banking services. It will hinder India's emergence as a global economic power. India's banking industry and its entire financial sector has matured to the point where it can accommodate a faster pace of reform. This would facilitate the delivery of credit and other types of financial services to small-scale enterprises and to households with modest incomes.

These are large segments of the economy. They are untapped markets. When they need credit, they typically rely on family and the informal financial sector for loans. Only the private sector can pull these segments of society into the formal banking system. Liberalized foreign investment in banking would accelerate that process. Liberalizing FDI in banking would have another positive effect, it would help India finance its infrastructure needs.

India cannot be a world economic power without world-class infrastructure. It is as simple as that. There are many factors that have led to the inadequacy of infrastructure in India. One of them is the lack of a long-term debt market. In the United States, we have credit markets where borrowers can find financing for thirty years or longer for development projects. India does not yet have such a market.

To stimulate the creation of that market, the government should allow the private sector to increase the number and the different types of financial players. The creation of a long-term bond market depends on banks, insurance companies, pension funds, mutual funds, Foreign Institutional Investors, venture capital funds, even retail investors. They all have different incentives and different time horizons for their investments.

Policies that restrict the numbers and the types of financial players tend to result in shallow credit markets that are unable to provide long-term financing. Liberalizing FDI in banking as well as in insurance and pension fund management will bring in more capital, stimulate the creation of the long-term credit market, and provide financing for long-term infrastructure needs.

The retail industry is another example of an area needing reform. When I arrived in India in 2003, there was virtually no public discussion about opening up the retail sector to foreign investment. Although retailing is still off limits for FDI, today there is a public discussion about liberalizing that policy. India should allow foreign investors to participate directly in retailing, as well as in related industries like accountancy, real estate, and law practice. It would be a driver of economic growth. It would offer Indian consumers a wider variety of goods and services at lower prices. And it would have a truly transforming effect on the economy, unifying existing market fragments into a national whole.

Because of a variety of tax policies and government restrictions, India's market is fragmented. Allowing foreign retailers to enter would introduce "supply chain" business models. This would create a truly national market in terms of both the price and the quality of goods. Today,

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international retail giants like Wall Mart buy billions of dollars worth of goods in India and sell them to foreign consumers abroad through their own outlets. However, the government prohibits these same companies from selling the same goods to consumers in India! That does not make sense.

Years ago the retail industry was closed in such markets as Mexico and China. But after U.S. retailers entered, they passed along cost savings to the consumer of up to 30 percent on many goods. For those with modest incomes, lower retail prices effectively means an increase in their disposable income. Opponents sometimes argue that opening retail would hurt local producers. But an editorial in the *Indian Express* on Monday pointed out that the presence of big local retail malls has not hurt local kirana stores. The same editorial noted that FDI in retail would be a boon to the exchequer because foreign retailers would pay the taxes that are currently evaded by thousands of informal retailers in the cash economy. In summary, the U.S. is launching a comprehensive relationship with India on economic, commercial, and strategic issues. This year will likely be remembered as a watershed year in U.S. and India relations.

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# The President of the United States Fiscal Year 2006 International Affairs Budget

By  
**Dr. Condoleezza Rice**  
Secretary of State

[The following are excerpts of the statement presented to the Senate Appropriations Subcommittee on State, Foreign Operations and Related Programs, Washington, D.C., May 12, 2005.]

The President's *Fiscal Year (FY) 2006 International Affairs Budget* for the Department of State, United States Agency for International Development (USAID) and other foreign affairs agencies totals \$33.6 billion. I would like to take this opportunity to thank the members of this committee for their support and leadership in the passing the *FY 2005 Emergency Supplemental*. This urgently needed funding will support immediate political, economic, humanitarian, and operational needs that will allow us to meet new challenges and seize new opportunities to build a better, safer, and freer world. The supplemental international affairs funding of \$5.8 billion will ensure that we are able to respond speedily and effectively to the needs of our steadfast coalition partners in the War on Terror, to newly elected governments in Afghanistan, Iraq, the Palestinian territories and Ukraine who need our stabilizing assistance to move forward with reforms, to those seeking democracy assistance in Belarus and Lebanon, and to the men, women and children uprooted by war, as in Sudan, or swept up in natural disasters, such as the recent East Asia tsunami. The supplemental funds will also cover the extraordinary security and support costs of operating our current embassy in Baghdad, and the construction of a secure new embassy compound for our mission, as well as \$60 million for the security and operations of our embassy in Kabul.

I will begin my testimony on the *FY 2006 Budget Request* with an overview of President Bush's foreign policy mission, which we seek this Committee's support to advance. In the long term, as President Bush said:

The only force powerful enough to stop the rise of tyranny and terror, and replace hatred with hope, is the force of human freedom.

Through diplomacy, the United States can create new possibilities for freedom and fresh hope across the globe. We must deal with the world as it is, but we do not accept it as it is. In places like Afghanistan and Ukraine, Iraq and the Palestinian territories, Lebanon and Georgia, people's desire for freedom and a better future is redefining what many thought possible in these societies.

President Bush has charged the men and women of the Department of State (DoS) with helping to create a balance of power in the world that favors human liberty, and that is exactly what we are doing. Together with our democratic partners around the world, we are advancing a forward strategy of freedom.

Our cooperation with international partners is dramatically evident in Afghanistan, where last month I saw first-hand the progress that country has made towards stability, reconstruction, and democracy. The Presidential election last year was an inspiration to the world. Next September, Afghanistan's citizens, men and women alike, will again go to the polls, this time to elect a parliament. Afghanistan still faces many challenges, including the narcotics trade that could undermine its strides on so many fronts. We are committed to a comprehensive counter-narcotics strategy and a long-term reconstruction strategy because we believe in the future of a new, democratic Afghanistan an Afghanistan that is no longer a haven for terrorists and tyrants, but a partner in security and freedom.

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To build on the positive momentum in Afghanistan, President Bush has requested nearly \$1.1 billion in total U.S. funding, including \$956 million in foreign assistance support. This money will be used to invest in security, health, education, clean water and free market infrastructure, which together create conditions for sustained growth, opportunity, and to continue the fight against drugs.

This is also a very important year for Iraq, as the Iraqis write their constitution and hold national elections in December. When President Bush traveled to Europe in February, he and his counterparts not only turned the page on Iraq, they wrote a new chapter. All twenty-six North Atlantic Treaty Organizations (NATO) allies are now contributing to the NATO Training Mission in Iraq. The European Union (E.U.) announced its willingness to co-host an international conference with the United States to encourage and coordinate international support for Iraq. We have followed up on this initiative with the European Commission, the European Parliament, E.U. member states, other countries around the world, and the Iraqi government. Today, in the midst of a tough security situation, Iraqis at all levels from the town council in Fallujah to the President of the country are engaging in the democratic process and they need and deserve our support.

For Iraq, President Bush has requested \$457 million of support for FY 2006, including \$360 million to continue work already begun under the *Iraq Relief and Reconstruction Fund*. These monies would be targeted towards helping the new Iraqi leadership create a functioning democracy and a justice system governed by the rule of law. This funding also will help the Iraqi government deliver basic services to its people, collect revenues, generate jobs and develop a free market system capable of joining the global economy.

We and our democratic allies are putting the power of our partnership to work not only in Afghanistan and Iraq, but all across the Broader Middle East and North Africa. Efforts to encourage democratization, economic reform, the growth of civil society and opportunity for all through education are critical to shaping a stable and prosperous future for this strategically important region. Recognizing this, through the G-7 [the G-7 countries are Canada, Germany, France, Italy, Japan, the United Kingdom and the United States] we have established the Forum for the Future, a new partnership between the democratic world and nations of this vast region, and we are committed to ensuring that the Forum plays a central role in advancing indigenous reform efforts in this vast region extending from Morocco to Pakistan.

In early March 2005 in London, I participated in an important conference of major donors, including regional states, to help the Palestinian people advance their political, security and economic reforms and build infrastructure for self-government. The World Economic Forum in Jordan is expected to give further impetus to political and economic reform in the region. The path of reform in the Broader Middle East will be difficult and uneven. Freedom's work is the work of generations. But it is also urgent work that cannot be deferred. From Morocco to Bahrain to Afghanistan, we are seeing new protections for women and minorities, and the beginnings of political pluralism. We have seen an opening toward broader participation in the first-ever municipal elections in Saudi Arabia. President Mubarak announced Egypt's intention to open up competition in Egypt's presidential elections. In the Palestinian territories and in Iraq we have witnessed remarkably free and successful elections. And in Lebanon we have witnessed the dramatic popular demonstrations for freedom and against the continued manipulation of the government and politics by outsiders.

The will of the people of Lebanon to make their own decisions and throw off the mantle of oppression is clear. The people of Lebanon have an enormous opportunity to bring about peaceful change with elections. We and many others support them by insisting on the withdrawal of all foreign forces from Lebanon, as required by United Nations (U.N.) Security Council

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Resolution 1559, and by supporting free and fair elections. In support of these hopeful trends across the region toward freedom and democratic government, the FY 2006 budget request proposes enhanced funding for diplomatic and assistance activities in the Middle East, North Africa and other countries with significant Muslim populations. The request includes \$120 million for the Middle East Partnership Initiative for reform, \$40 million for the National Endowment for Democracy to expand efforts to promote democracy in the Broader Middle East and North Africa region, \$180 million for Muslim outreach through educational and cultural exchanges, and increases for a wide range of other public diplomacy and broadcasting initiatives geared toward Muslim publics, particularly young people.

Of course, the process of reform in the Broader Middle East is not detached from what must happen between the Israelis and Palestinians toward realizing President Bush's vision of an independent Palestinian state living side-by-side in peace with the State of Israel.

The Palestinian elections, and the Israeli withdrawal plan for Gaza and parts of the West Bank, have created a unique opportunity for peace. In fact, when I met with both Prime Minister Sharon and President Abbas they had the same opening line:

This is an opportunity for peace we must not miss.

President Bush has announced an additional \$350 million to help the Palestinians build infrastructure and sustain the reform process over the next two years, including the \$150 million in the FY 2006 budget. I would like to thank the Congress for supporting the President's efforts by providing the \$200 million included in the *FY 2005 Supplemental*. This is an important show of support for President Abbas. Our FY 2006 budget request also contains \$2.5 billion in assistance to Israel, which continues our longstanding strategic partnership and supports regional democracy and security.

Even as we work with allies and friends to meet the great challenge of advancing freedom and peace in the broader Middle East and North Africa, we will seize other important opportunities to build a world of peace and hope. For example, the U.S. led *Global War on Terrorism* has put Pakistan and India on the same side against extremism. We have de-hyphenated our relationship with Pakistan and with India, building strong, independent ties with each. At the same time that our relations with India have been moving forward we have the best relations with Pakistan that perhaps we have ever had, deepening our cooperation with Pakistan in the war on terrorism, supporting President Musharraf's modernization efforts and the liberalization of Pakistan's economy.

During my March trip to Pakistan and India, on behalf of President Bush I congratulated both countries for the steps they have taken toward warmer relations with each other. In Islamabad, I discussed the need to chart a democratic path for Pakistan, including the holding of national elections in 2007. With India, the world's largest democracy, we are cooperating on a global strategy for peace, and on defense, energy and growth. A few weeks ago, India's Foreign Minister met with President Bush and they discussed ways we might accelerate our cooperation still further and we look forward to a July visit by Prime Minister Singh.

The future of Asia is very dynamic. Our alliances and relationships in Asia starting with our critical strategic and economic ties with Japan will be profoundly important in creating a stable, prosperous, democratic region and world. Much of Asia's dynamism comes from an emerging China whose economy has become an engine of regional and global growth. This new factor in international politics requires us to incorporate China more fully into the global system. We are working with China in context of its World Trade Organization (WTO) commitments to address outstanding concerns related to that ongoing integration effort, particularly on issues such as intellectual property rights, financial sector reform and improved market access.

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We believe that we and our allies and friends can help foster an environment in which a rising China acts as a positive force. We want China as a global partner, able and willing to match its growing capabilities to its international responsibilities. And we believe that China must eventually embrace some form of open, genuinely representative government if it is to realize the full talents of the Chinese people and fully reap the benefits and meet the challenges of a globalizing world.

Last month, I participated in the NATO Ministerial meeting, held for the first time in Lithuania, one of NATO's newest members. I just accompanied President Bush on his visit to another new NATO ally, Latvia, where he had a very positive and constructive meeting with the leaders of Latvia, Lithuania and Estonia. The expansion of the North Atlantic alliance to twenty-six members including the three Baltic states marks the further advance of democracy and freedom throughout Europe. From Riga, we stopped in Maastricht, Netherlands, to pay tribute to those who served and sacrificed in the World War II and to those who are standing with us today in defense of democracy and freedom in places like Iraq and Afghanistan.

From The Netherlands, the President and I traveled to Russia to mark the 60th anniversary of the end of World War II. The visit and ceremonies in Moscow were an opportunity to thank those who so bravely fought for the victory over fascism. President Bush continued his dialogue with President Putin about U.S. and Russian relations and about Russia's future. In his recent State-of-the-Union address, President Putin stressed his commitment to democracy and we look forward to seeing how his words get translated into deeds. President Bush also met with civil society leaders and emphasized that a democratic, vibrant, prosperous Russia is in everyone's interests.

We then went to Georgia, where we witnessed the enthusiasm of a new democracy first hand. And President Bush underscored to President Saakashvili our support for the independence, territorial integrity and strengthening of that young democracy. The seeds of democracy in Georgia, which truly blossomed from the Rose Revolution of November 2003, served as an inspiration a year later to those in Ukraine who refused to accept a stolen election. The political transformation within Ukraine has meant a new dynamic in Ukraine's relationship with the U.S. and our allies. At the NATO Ministerial last month, the alliance extended an invitation to Ukraine to begin an intensified dialogue on membership issues, raising NATO's cooperation with Ukraine to a new level. All of us welcomed the new leader of Ukraine, Viktor Yushchenko, to Washington. We recognize that he has a lot to do to reform his country, and we have a strong interest in ensuring the success of a democratic Ukraine.

In Kyrgyzstan, the change of government precipitated by popular discontent over election fraud and government corruption will be followed by new presidential elections July 10, 2005. These elections offer Kyrgyzstan the opportunity to establish new democratic benchmarks for Central Asia. Working closely with our Organization for Security and Cooperation in Europe (OSCE) partners, we will provide assistance to ensure the elections are conducted freely and fairly. Beyond the elections, we look forward to working with a legitimately elected government to establish the basis for prosperity and stability for Kyrgyzstan and the region.

Several weeks ago, I visited Brazil, Colombia, and El Salvador and took part in the Community of Democracies Meeting in Santiago, Chile. Our efforts in the hemisphere, in Africa and across the developing world are designed to help strengthen fellow democracies so that they can deliver the benefits of democracy to their citizens and help them escape poverty. Our policy is also guided by the principle that leaders who are elected democratically have a responsibility to govern democratically. We are working in partnership with developing nations to fight corruption, instill the rule of law, and create a culture of transparency that will attract the trade and investment crucial to poverty reduction.

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At the Monterrey Summit in 2002, all nations agreed that economic growth is essential to fighting poverty, and that development assistance works best when it goes to countries that adopt growth-oriented policies. This concept underlies the President's revolutionary Millennium Challenge Account initiative. We seek \$3 billion for the third year of the Millennium Challenge Corporation, which helps countries that govern justly, adopt sound economic policies and invest in the welfare of their people. We also seek \$2.4 billion in development, child survival and health assistance. The FY 2006 budget exceeds the President's 2002 commitment for overall growth in core development assistance by requesting a total of \$19.8 billion, \$8.2 billion more than in 2002. We will also help countries enhance their capabilities to protect their citizens from traffickers and terrorists.

Our FY 2006 request includes \$735 million for the Andean Counter Drug Initiative to consolidate gains made in recent years in eradication, interdiction and alternative development. We are requesting \$5.8 billion in assistance to our front-line partners in the *Global War on Terror*. Through the provision of equipment and training, this assistance will help give military, police and other security forces the tools they need to destroy terrorist cells, disrupt terrorist operations, strengthen border controls, and prevent attacks. This assistance will also help advance economic growth and democratic reform, providing new opportunities for their citizens and addressing the hopelessness that terrorists seek to exploit. The request includes:

- \$698 million for Pakistan;
- \$559 million for Colombia;
- \$462 million for Jordan;
- \$213 million for Kenya; and
- \$159 million for Indonesia.

When they engage effectively, multilateral institutions can multiply the strength of freedom-loving nations. We are requesting \$1.3 billion in support for the multilateral development banks, with which our bilateral assistance missions partner abroad to reinforce effective economic reform strategies. In addition, we are seeking \$100 million in debt relief for the Heavily Indebted Poor Countries initiative, an effort we are pursuing in concert with the G-7 countries, [Canada Germany France, Italy, Japan, the United Kingdom, and the United States] other key lending countries, and the international financial institutions. We are requesting nearly \$1.3 billion for U.S. obligations to 47 international organizations, including the U.N., and a little over \$1 billion to pay projected U.S. assessments for U.N. peacekeeping missions. And we are seeking \$114 million to enhance the peacekeeping capabilities of non-U.N. forces, with a particular focus on Africa.

We are encouraged by the African Union's (A.U.) leadership in addressing conflicts across the continent, specifically its mission in Darfur. The A.U. military commanders in Darfur are doing vital work in providing security for millions of displaced people. We welcome the A.U.'s decision to double the size of its Darfur mission to enhance its ability to protect civilians, and we appreciate your help through the supplemental to support this expanded mission. We fully appreciate the urgency of the situation and we encourage the A.U.'s consultations with NATO on potential logistical assistance that would enable the A.U. forces to expand quickly and sustain their operations.

Meanwhile, we are doing all we can to ensure that the displaced people get the basic humanitarian supplies they need until such time as secure conditions are established that enable them to return to a normal life. And we are pressing for prompt implementation of the North-South Comprehensive Peace Agreement, because that accord creates a possible political

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framework for resolving conflicts in Darfur and other regions of Sudan. At the same time, we are working to orchestrate an international message to the Government of Sudan:

They are responsible for conditions in Darfur and must cooperate to stop the killing and create a path for peaceful reconciliation.

Thanks to Congress's strong backing, last month at the Oslo Donors' Conference to support the peace agreement, we were able to pledge \$853 million to help Sudan in FY 2005. Most recently in the Supplemental, Congress provided additional support to help meet the needs of implementing the *Comprehensive Peace Agreement* in the south of Sudan and keep humanitarian supplies flowing to Darfur. I thank you for your generosity and look forward to further strong congressional support for Sudan through the FY 2006 Budget. Given the enormity of the humanitarian, security, and political challenge, your continued backing is critical. Sudan is but one, terrible example of the broader challenge we face. Chaos, corruption and cruelty reign can pose threats to their neighbors, to their regions, and to the entire world. And so we are working to strengthen international capacities to address conditions in failed, failing and post-conflict states. President Bush has charged us at the Department of State with coordinating our nation's post-conflict and stabilization efforts and we are asking for \$24 million in operating funds for the new Office of the Coordinator for Reconstruction and Stabilization housed in the Department. I also appreciate the \$7.7 million Congress has provided in supplemental funds for start-up and personnel costs for the Office of the Coordinator. The FY 2006 budget proposes a \$100 million Conflict Response Fund to quickly address emerging needs and help deploy trained and experienced civilian personnel immediately to an unstable region.

The United States must stay at the forefront of the global campaign against human immunodeficiency virus and acquired immune deficiency syndrome (HIV/AIDS), providing half of the global assistance to fight this scourge. The President is requesting \$3.2 billion in total U.S. funding for care, treatment and prevention efforts. We will demonstrate the compassion of the American people in other ways as well. Through our continued support of international and non-governmental organizations, we will ensure that America remains the world's most generous food and non-food humanitarian assistance provider. We seek \$3 billion in food aid and famine relief and non-food humanitarian assistance, including support for fragile states. In all of these endeavors, the primary instrument of American diplomacy will be the dedicated men and women of the Department of State. We would welcome your help as members of the full committee in ensuring that our people are well equipped for the challenges ahead in terms of training, technologies and safe workplaces. Secretary Powell and his team made important progress in these areas and we must build on the foundation they established. We are requesting \$1.5 billion for security-related construction and physical security and rehabilitation of U.S. embassies and consulates, and \$690 million to increase security for diplomatic personnel and facilities. We have a solemn obligation to protect the people of our diplomatic missions and their families, who serve at our far-flung posts in the face of a global terrorist threat.

We must strengthen the recruitment of new personnel. We are seeking \$57 million for 221 new positions to meet core staffing and training requirements. And as we seek out new talent, we also seek to further diversify our workforce in the process. We send an important signal to the rest of the world about our values and what they mean in practice when we are represented abroad by people of all cultures, races, and religions. Of course, we also must cultivate the people we already have in place by rewarding achievement, encouraging initiative, and offering a full range of training opportunities. That includes the training and support needed to make full use of new technologies and tools, and we are asking for \$249 million for investment in information technology.

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Public diplomacy will be a top priority for me, as I know it is for this Committee, and the FY 2006 request includes \$328 million for activities to engage, inform and influence foreign publics. America and all free nations are facing a generational struggle against a new and deadly ideology of hatred. We must do a better job of confronting hostile propaganda, dispelling dangerous myths, and telling America's story. In some cases, that may mean we need to do more of what we are already doing, and in other cases, it may mean we need new ways of doing business.

If our public diplomacy efforts are to succeed, we cannot close ourselves off from the world. We are asking for \$931 million to improve border security and for an increase of \$74 million over FY 2005 for educational and cultural exchange programs, bringing the total to \$430 million in FY 2006. We will continue to work closely with the Department of Homeland Security to identify and prevent terrorists and other adversaries from doing harm, even as we maintain the fundamental openness that gives our democracy its dynamism and makes our country a beacon for international tourists, students, immigrants, and business people. We will keep America's doors open and our borders secure.

This time of global transformation calls for transformational diplomacy. More than ever, America's diplomats will need to be active in spreading democracy, reducing poverty, fighting terror and doing our part to protect our homeland. And more than ever, we will need your support if we are to succeed in our vital mission for the American people.

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# Offsets in Defense Trade

By

**United States Department of Commerce, Bureau of Industry and Security**

[The following material is extracted from the ninth annual report, March 2005, on offsets in defense trade and is prepared pursuant to Section 309 of the *Defense Production Act of 1950*<sup>1</sup> (DPA), as amended. This report covers offset agreements entered into and offset transactions carried out from 1993 through 2003 and their implications for the U.S. industrial base. The Department of Commerce's Bureau of Industry and Security (BIS)<sup>2</sup> has been delegated responsibility for preparing the reports required under Section 309. It also reports of the progress of the newly formed Interagency Team on offsets in defense trade, which is chartered to engage in consultations with foreign governments on eliminating the adverse effects on offsets in defense trade. Finally, the report summarizes the results of Commerce's August 2004 *Supplemental Offsets Report to Congress*. 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.bis.doc.gov/DefenseIndustrialBasePrograms/OSIES/Offsets/Offsets%209%20Final%20Report.pdf>.]

## Executive Summary

This is the ninth annual report on the impact of offsets in defense trade prepared pursuant to Section 309 of the *Defense Production Act of 1950*,<sup>3</sup> as amended. 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 other sources.

## 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 in connection with a U.S. defense-related export.

Offset Agreements 2003: U.S. defense contractors reported entering into 32 new offset agreements with 13 countries in 2003. New offset agreements had a total value of \$8.9 billion, and were attached to defense export contracts totaling \$7.3 billion. The offset requirement equaled 121.8 percent of the value of the defense exports.<sup>4</sup>

European nations received offsets equal to an average of 148.8 percent of the total export values in 2003, up from 94.3 percent in 2002. Without the large sale mentioned in footnote<sup>4</sup>, the average for Europe would fall to 103.9 percent for 2003. For non-European nations, the average offset requirement was 48.4 percent in 2003, down from 77.3 percent in 2002.

Offset Agreements 1993-2003: U.S. companies reported entering into 466 offset agreements with 36 countries during the time period from 1993 to 2003. U.S. companies reported export sales totaling \$70.9 billion. Offset agreements related to those export contracts were valued at \$50.7 billion, or 73.8 percent of the export contract value, up from 65.7 percent for 1993-2002.

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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.

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

4 One large weapon system export in 2003 with an offset percentage of more than 150 percent skewed the data for that year. Without this export and its related offset agreement, the average offset percentage for 2003 for the world would fall to 75.1 percent (from 121.8 percent with the sale).

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Sales of aerospace defense systems (i.e., aircraft, engines, and missiles) were valued at \$59.6 billion and accounted for 84 percent of the total export contracts.

Over the eleven-year period, European countries alone accounted for 69.6 percent of the value of offset agreements, but less than half (49.1 percent) of the value of related export contracts. European offset demands continued to increase over the eleven-year period. Between 1993 and 2003, European offset demands as a percentage of exports increased by 70.5 percentage points, going from 78.3 percent in 1993 to 148.8 percent in 2003;<sup>5</sup> for the rest of the world, the increase was almost 26 percentage points, rising from 22.5 percent to 48.4 percent. Overall, 73.3 percent of offset agreements (by number) with European countries totaled 100 percent or more of the value of the weapon system export during the period.

By comparison, Middle Eastern countries and most countries in the Pacific area generally demand lower offset levels than European countries. Of the 219 offset agreements with non-European countries, 150 (68.5 percent) had offset percentages of 50 percent or less. Only sixty-nine of the 219 offset agreements (31.5 percent) had percentages of more than 50 percent. Eleven of the sixty-nine (15.9 percent) had offset requirements in excess of 100 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. Austria was followed closely by a number of Eastern European countries with offset requirements well above 100 percent. 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 (110.0 percent), and Sweden (103.9 percent).

Offset requirement trends are more representative when viewed as a moving, weighted average.<sup>6</sup> A moving average smoothes out the yearly fluctuations in weapon system sales and related offset agreements. The weighted world trend in offset percentages rose from 52.9 percent to 94.1 percent. For the eleven-year period European offsets had a 35.2 percentage point increase (from 77.8 percent to 113.0 percent); the rest of the world nearly doubled its offset requirements, from 32.4 percent to 60.3 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 2003:

U.S. companies reported offset transactions with a total actual value of \$3.6 billion in 2003, the highest value reported for the eleven-year period, up from \$2.6 billion in 2002. The 2003 figure represents a 38.5 percent increase from the 2002 total. The percentage of the value of offset transactions classified as indirect rose during 2003, reaching 68.6 percent, up from 64.0 percent in 2002. This was the highest percentage classified as indirect transactions for all years in the period. Direct transactions accounted for 31.2 percent of the value of transactions in 2003, the lowest level of direct transactions over the eleven-year period. The remaining 0.2 percent of the value was unspecified.

- Offset Transactions 1993-2003:

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<sup>5</sup> Ibid.

<sup>6</sup> Here, the value of export contracts and offset agreements is totaled for each successive three-year period, beginning with 1993-1995, followed by 1994-1996, and so forth; then the offset percentage is determined. This leads to nine three-year observations over the eleven year reporting period (1993-2003).

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For 1993-2003, U.S. companies reported 6,593 offset transactions executed in 46 countries. The actual value of the offset transactions from 1993 to 2003 was \$27.1 billion. Indirect offsets accounted for 61.1 percent of the total value of transactions and direct offsets made up 38.1 percent of the value. The remaining 0.8 percent of the value was unspecified.

The categories of Purchases, Subcontracts, and Technology Transfers accounted for the majority of offset transaction activity during 1993-2003; for that eleven-year period, they accounted for 79.9 percent of the total value of offset transactions. Purchases accounted for 39.6 percent of the total value, and subcontracts accounted for 26.6 percent. The value of technology transfer offset transactions was 13.8 percent of the total value. The categories of Miscellaneous, Credit Transfer, Training, Overseas Investment, Co-production, and Licensed Production made up the remaining 20.1 percent of the total value of offset transactions.

The majority of offset transactions fell in the manufacturing sectors; manufacturing-related transactions accounted for \$21.9 billion, or 80.8 percent of all transactions. Service-related transactions accounted for \$3.2 billion, or 11.8 percent of the total. Financial, insurance, and real estate industries accounted for an additional 4.8 percent of the total value of transactions during the period.

### **The Role of Multipliers**

Multipliers are incentives used by purchasing countries to stimulate particular types of offset transactions. Prime contractors receive added credit toward their obligation above the actual value of the transaction when multipliers are used. In a small number of cases, a negative multiplier is used to discourage certain types of offsets. In Europe, 83 percent of transactions (by number) have no multiplier involved for the prime contractor when fulfilling the offset commitment. For North and South America, 85.5 percent of transactions (by number) have no multiplier involved; for Asia, the figure is 76.6 percent, and 87.9 percent for the Middle East and Africa.

For the small percentage of transactions that did have multipliers, Overseas Investment and Training transactions were most widely used: 44.3 percent of Overseas Investment transactions and 39.3 percent of Training transactions had positive multipliers. The categories of Purchases and Subcontracts together accounted for 73.4 percent of the 6,593 transactions reported over the eleven-year period, but only 8.4 percent of transactions in each of these categories had positive multipliers applied.

### **Interagency Offset Team**

In December 2003, President Bush signed into law a reauthorization of, and amendments to, the DPA. Section 7(c) of P.L. 108-195 amended Section 123(c) of the DPA by requiring the President to designate a chairman of an interagency team to consult with foreign nations on limiting the adverse effects of offsets in defense procurement without damaging the economy or the defense industrial base of the United States, or United States defense production or defense preparedness. The statute provides that the team will be comprised of the Secretaries of Commerce, Defense, Labor, and State, and the United States Trade Representative. On August 6, 2004, the President formally established the Team with the Department of Defense (DoD) as chair. The Secretaries and the U.S. Trade Representative delegated membership on the team to appropriate officials within their departments.

On September 15, 2004, the Defense Department activated a working group to support the consultation process of the interagency team. The working group met three times in 2004:

- September 30;
- November 4; and

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- December 7.

The interagency team met on December 8 to review the efforts of the working group. The interagency team reviewed and approved the terms of reference for the team and the working group, a top-level plan of work, and a submission for this annual report to Congress.

The goals of the Interagency Team and Working Group are as follows:

- Establish a plan of work to fulfill the requirements of the statute.
- Identify and define meaning of “effects” of offsets in defense procurement.
- Identify potential strategies for limiting “adverse effects.”
- Identify foreign nations and other parties, both domestic and foreign, for consultation.
- Develop methods and objectives of consultation.
- Develop schedule for and engage in consultations.
- Provide annual report to Congress describing meetings and the results of consultations.
- Submit to the President any recommendations that may result from these consultations.

### **Findings**

In the *Eighth Report to Congress on Offsets in Defense Trade*, Commerce reported that Europe’s already high offset requirements were rising, but at a slower rate. In 2003, however, Europe’s average offset percentage rose significantly to 148.3 percent across North Atlantic Treaty Organization (NATO) and non-NATO countries.<sup>8</sup> Non-European nations, meanwhile, returned to historical offset levels, ranging between 40 and 50 percent of the value of the sale. In 2003, non-European offset percentages averaged 48.4 percent.

In 2003, direct offset transactions (related to weapon systems sold) accounted for just 31.1 percent of the value of all transactions, the lowest percentage for the eleven-year period. Similarly, indirect offsets (not related to weapon systems sold) were 68.9 percent of the value of all transactions, which was the highest percentage for the period. Whether direct or indirect, the great majority of offset transactions fell in the manufacturing sectors; \$21.9 billion, or 80.8 percent of all transactions were manufacturing related.

Multipliers are applied to only a small number of offset transactions. For Europe, transactions with a multiplier greater than 1 only accounted for 8.4 percent of the value of all European transactions; the Middle East/Africa, 6.9 percent; Asia, 5.3 percent; and North and South America, 1.5 percent. For each region, multipliers of less than 1 and transactions with no multiplier together accounted for over 90 percent of the value of transactions. It should be noted that transactions with multipliers less than 1 further add to the costs of fulfilling offsets, as countries for certain transactions give less than full credit for offset transactions completed.

BIS estimated the impact on defense productive capacity by combining BIS offsets data with aerospace industry data from the Census Bureau’s 2002 Economic Census (2002 is the most recent data published). BIS estimates that 2002 U.S. defense export contracts (\$7.4 billion) with offset agreements attached supported 47,122 work-years. This calculation is based on the supposition that this value represents 100 percent U.S. content in all defense exports, which is not necessarily an accurate assumption.

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<sup>8</sup> One large weapon system export in 2003 with an offset percentage of more than 150 percent skewed the data for that year. Without this export and its related offset agreement, the average offset percentage for 2003 would fall to 75.1 percent (from 121.8 percent with the sale).

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Applying the same value added figure used above (\$157,173) leads to the loss of 25,450 work-years associated with the agreements entered into in 2002. Based on these calculations, it appears that 2002 defense export sales had a net positive effect on work-years in the defense sector, although the net positive effect was diminished by the offset agreements. It should be noted that the above analysis does not include an additional \$338.3 million in 2002 of 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 effects of creating new or enhanced foreign competitors.

### **Purpose of Report**

DPA Section 309(b)(1) requires BIS to identify the cumulative effects of offset agreements on “the full range of domestic defense productive capability with special attention paid to the firms serving as lower-tier subcontractors or suppliers” and “the domestic defense technology base as a consequence of the technology transfers associated with such offset agreements.” To address the effects of offsets on defense productive capability, this analysis compares 2002 offset transactions dealing with transportation equipment to 2002 value added data for this industry, as reported in the Census Bureau’s most recent Economic Census.<sup>10</sup> Over time, the lost current and future opportunity of offset transactions can negatively affect capacity utilization and, ultimately, domestic productive capability. Value added, in turn, is a measurement of the productive capability of an entire industry, encompassing productivity of labor, efficient capital use, and full production capacity.

No other U.S. government agencies have assessed the impact of offsets on the domestic defense productive capability. Although the Department of Commerce is authorized by the *Defense Production Act* to make recommendations for appropriate remedial action, at this time no recommendations are provided.

## **1 Background**

### **1.1 Legislation and Regulations**

In 1984, the Congress enacted amendments to the DPA, which included the addition of Section 309 addressing offsets in defense trade.<sup>11</sup> Section 309 required the President to submit an annual report on the impact of offsets on the U.S. defense industrial base to the Congress’s then-Committee on Banking, Finance, and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate.<sup>12</sup>

The 1992 amendments to Section 309 of the DPA also reduced 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. Firms are also required to report all offset transactions for which they receive 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.

### **1.2 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.<sup>15</sup>

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10 This industry was chosen because it was involved in the most frequent and the highest level of offset transactions for 2002. The year 2002 was chosen as a sample because it was the most recent available data for value added from the Economic Census during the preparation of this report.

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

12 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. B 2099(a)(1).

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

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In 1992, Congress passed the following provision, which closely reflects the policy announced by the President:<sup>16</sup>

- In General. 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, the following is the policy of the Congress:

- 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.

- Presidential Approval of Exceptions. It is the policy of the Congress that the President may approve an exception to the policy stated in subsection (a) after receiving the recommendation of the National Security Council.

- Consultation. 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.

Provisions in the *Defense Offsets Disclosure Act of 1999*<sup>17</sup> supplemented the offset policy:

- 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.

- 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.

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<sup>16</sup> Congress incorporated this policy statement into law with the *Defense Production Act Amendments of 1992* (Pub. L. 102-558, Title I, Part C, § 123, 106 Stat. 4198).

<sup>17</sup> See Pub. L. No. 106-113, Div. B, § 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, 1999) (found at 50 U.S.C. App. 2099, Note).

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- 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.

#### **1.4 Countries and Regions**

Countries and country groups actively requiring offsets in tandem with purchases of U.S. defense systems during the period of 1993-2003, as reported by industry, were divided into four geographic regions:

- Europe;
- Africa and the Middle East;
- North and South America; and
- Asia.

This was done for ease of analysis and in some cases to protect company confidentiality. The countries found in each region are listed in Table 1-1 found on the next page.

### **2 Statistical Overview**

This chapter provides a general overview of offset statistics collected by BIS for the years 1993 through 2003 along with a review of some of the terms used to organize the data for analysis.

The following data points are used to organize and analyze the information collected:

- Offset Agreement:
  - Year;
  - Country;
  - Weapon System;
  - Export Contract Value;
  - Agreement Value - percent; and
    - Agreement Value to Export Value.
- Offset Transaction:
  - Year;
  - Country;
  - Referenced Weapons System;
  - Recipient;
  - Actual Value;
  - Credit Value;
  - Multiplier (credit value - actual value);

<b>Table 1-1: Purchasing Countries and Groups with Offset Agreements (by Region, 1993-2003)</b>	
<p><b>Europe</b></p> <p>Austria Belgium Czech Republic Denmark The European Participating Group (EPG) (Belgium, The Netherlands, Norway) Finland France Germany Greece Italy Lithuania North Atlantic Treaty Organization Netherlands Norway Poland Portugal Romania Slovenia Spain Sweden Sweden/Norway Switzerland United Kingdom</p> <p><b>Source: BIS Offsets Database</b></p>	<p><b>Middle East and Africa</b></p> <p>Israel Kuwait Saudi Arabia South Africa Turkey United Arab Emirates</p> <hr/> <p><b>North and South America</b></p> <p>Brazil Canada Chile</p> <hr/> <p><b>Asia</b></p> <p>Australia Indonesia Malaysia New Zealand Singapore South Korea Taiwan Thailand</p>

- Type
  - Category;
  - Description; and
  - Industry Identification.

## 2.1 General Overview

A summary of offset activity for 1993 through 2003 is provided in Table 2-1.

## 2.2 Types of Offset Transactions

Table 2-2 presents offset transaction data by offset type (direct, indirect, or unspecified) and the percent distribution for each year from 1993 to 2003. 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 weapon system. A transaction is classified as unspecified when there is not enough information available to determine the whether it is direct or indirect.

<b>Table 2-1 General Summary of Offset Activity, 1993-2003</b>						
<b>(\$ millions)</b>						
<b>Year</b>	<b>Export Value</b>	<b>Offset Value</b>	<b>Percent Offset</b>	<b>Companies</b>	<b>Agreements</b>	<b>Countries</b>
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
2003	\$7,284.9	\$8,872.0	121.8%	11	32	13
<b>11 Years</b>	<b>\$70,909.6</b>	<b>\$50,652.2</b>	<b>71.4%</b>	<b>39</b>	<b>466</b>	<b>36</b>
<b>Offset Transactions</b>						
<b>Year</b>	<b>Actual Value</b>	<b>Credit Value</b>	<b>Multiplier*</b>	<b>Companies</b>	<b>Transactions</b>	<b>Countries</b>
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	\$3,390.9	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	\$2,616.0	\$3,284.5	1.256	17	729	27
2003	\$3,565.5	\$4,010.6	1.125	16	689	30
<b>11 Years</b>	<b>\$27,090.0</b>	<b>\$32,802.0</b>	<b>1.211</b>	<b>42</b>	<b>6,593</b>	<b>46</b>
Source: BIS Offsets Database						
Note: Due to rounding, totals may not add up precisely.						
*Multipliers are used only in a small percentage of the total number of transactions. See Chapter 5 for further discussion.						

Table 2-2 also shows the total actual and credit values of the transactions for each year. The credit value is sometimes more than the actual value assigned to transactions; some foreign governments give greater credit as an incentive for certain kinds of offset transactions. This incentive 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 1993-2003 period, the multiplier is 1.211. This multiplier means that, for the database as a whole, the total credit value of the transactions is 21.1 percent more than the actual value. However, it is important to note that a significant majority of transactions do not include multipliers or have multipliers that provide less than actual credit for the transaction. Offset transaction data and multipliers are more fully discussed in Chapter 5.

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### 2.3 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 eleven-year reporting period (1993-2003). Appendix I 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 the purchases are of items unrelated to the exported defense system. The U.S. exporter may make the purchase, or they can also involve brokering and marketing assistance that result in purchases by a third party. For 1993-2003, Purchases represented 39.6 percent of the actual value of all offset transactions, the largest share of all categories. They made up 64.7 percent of the value of indirect offsets.

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 the 1993-2003 reporting period, Subcontracts represented 26.6 percent of the actual value of all offset transactions, and 69.9 percent of the value of all direct offsets.

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 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 U.S. prime contractor. During the reporting period, 34.9 percent of Technology Transfers were classified as direct offsets and 62.3 percent were indirect offsets; the balance was unspecified. Technology Transfers accounted for approximately 13.8 percent of the actual value of all offset transactions.

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 4.4 percent of the actual value of all transactions for 1993-2003. Credit Assistance is nearly always classified as an indirect offset transaction, with indirect transactions making up 99.6 percent of the actual value of all Credit Assistance for the period.

Table 2-2 Offset Transactions by Type, 1993-2003 (\$ millions)								
Year	Actual Value				% Distribution			
	Total	Direct	Indirect	Unspecified	Direct	Indirect	Unspecified	
1993	\$1,815.1	\$584.2	\$1,167.1	\$63.9	32.2%	64.3%	3.5%	
1994	\$1,891.1	\$600.7	\$1,186.1	\$104.3	31.8%	62.7%	5.5%	
1995	\$2,713.7	\$1,064.1	\$1,649.6	NR	39.2%	60.8%	NR	
1996	\$2,731.5	\$1,097.5	\$1,632.5	\$1.4	40.2%	59.8%	0.1%	
1997	\$2,725.5	\$1,030.3	\$1,673.8	\$21.4	37.8%	61.4%	0.8%	
1998	\$2,364.8	\$1,464.2	\$900.5	\$0.1	61.9%	38.1%	0.0%	
1999	\$2,080.4	\$690.2	\$1,378.7	\$11.4	33.2%	66.3%	0.5%	
2000	\$1,998.5	\$779.9	\$1,210.7	\$7.9	39.0%	60.6%	0.4%	
2001	\$2,588.1	\$949.1	\$1,639.0	NR	36.7%	63.3%	NR	
2002	\$2,616.0	\$941.7	\$1,673.0	\$1.3	36.0%	64.0%	0.1%	
2003	\$3,565.5	\$1,113.0	\$2,447.0	\$5.6	31.2%	68.6%	0.2%	
<b>Total</b>	<b>\$27,090.0</b>	<b>\$10,314.9</b>	<b>\$16,557.8</b>	<b>\$217.3</b>	<b>38.1%</b>	<b>61.1%</b>	<b>0.8%</b>	
Year	Credit Values				% Distribution			
	Total	Direct	Indirect	Unspecified	Direct	Indirect	Unspecified	
1993	\$2,162.1	\$709.3	\$1,384.1	\$68.7	32.8%	64.0%	3.2%	
1994	\$2,161.5	\$774.1	\$1,278.6	\$108.8	35.8%	59.2%	5.0%	
1995	\$3,390.9	\$1,257.9	\$2,132.9	NR	37.1%	62.9%	NR	
1996	\$3,098.9	\$1,188.7	\$1,874.3	\$36.0	38.4%	60.5%	1.2%	
1997	\$3,276.2	\$1,171.1	\$2,055.4	\$49.7	35.7%	62.7%	1.5%	
1998	\$2,684.6	\$1,621.8	\$1,060.3	\$2.5	60.4%	39.5%	0.1%	
1999	\$2,824.1	\$1,121.8	\$1,632.0	\$70.3	39.7%	57.8%	2.5%	
2000	\$2,613.0	\$1,135.8	\$1,469.2	\$7.9	43.5%	56.2%	0.3%	
2001	\$3,295.7	\$1,282.3	\$2,013.3	NR	38.9%	61.1%	NR	
2002	\$3,284.5	\$1,111.2	\$2,171.9	\$1.3	33.8%	66.1%	0.0%	
2003	\$4,010.6	\$1,215.5	\$2,783.2	\$12.0	30.3%	69.4%	0.3%	
<b>Total</b>	<b>\$32,802.0</b>	<b>\$12,589.5</b>	<b>\$19,855.2</b>	<b>\$357.3</b>	<b>38.4%</b>	<b>60.5%</b>	<b>1.1%</b>	
Year	Multiplier*				Number of Transactions			
	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
1993	1.191	1.214	1.186	1.076	440	133	303	4
1994	1.143	1.289	1.078	1.043	550	157	388	5
1995	1.250	1.182	1.293	NR	670	203	467	NR
1996	1.135	1.083	1.148	25.714	623	220	401	2
1997	1,202	11.137	1.228	2.327	577	200	373	4
1998	1.135	1.108	1.177	19.976	582	237	344	1
1999	1.358	1.625	1.184	6.154	512	200	307	5
2000	1.307	1.456	1.214	1.000	601	208	392	1
2001	1.273	1.351	1.228	NR	620	222	398	NR
2002	1.256	1.180	1.298	1.000	729	194	534	1
2003	1.125	1.092	1.137	2.151	689	179	506	4
<b>Total</b>	<b>1.211</b>	<b>1.221</b>	<b>1.199</b>	<b>1.644</b>	<b>6593</b>	<b>2153</b>	<b>4413</b>	<b>27</b>
Source: BIS Offsets Database NR = Non Reported Due to rounding, totals may not add up precisely. *Multipliers are used only in a small percentage of the total number of transactions (see Chapter 5 for further discussion).								

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; by value, 58.7 percent of the value of Training transactions during the reporting period was direct and 41.0 percent was indirect. Training accounted for only 2.5 percent of the total value of offset transactions between 1993 and 2003.

Transaction Category	Actual Values in \$ Millions				Percent by Column Total			
	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
Purchases	\$10,717.1		\$10,717.1		39.6%		64.7%	
Subcontractors	\$7,210.1	\$7210.1			26.6%	69.6%		
Technology Transfers	\$3,724.3	\$1,298.6	\$2,321.6	\$104.1	13.7%	12.5%	14.0%	47.9%
Miscellaneous	\$2,016.7	\$361.8	\$1,645.1	\$9.8	7.4%	3.5%	9.9%	4.5%
Credit Assistance	\$1,191.3	\$5.1	\$1,186.2		4.4%	0.05%	7.2%	
Training	\$665.7	\$390.6	\$273.2	\$1.9	2.5%	3.8%	1.6%	0.9%
Overseas Investment	\$694.0	\$215.5	\$401.0	\$77.5	2.6%	2.1%	2.4%	35.6%
Co-production	\$716.0	\$716.0			2.6%	6.9%		
Licensed Production	\$154.8	\$117.2	\$13.6	\$24.0	0.6%	1.1%	0.1%	11.1%
<b>Total</b>	<b>\$27,090.0</b>	<b>\$10,314.9</b>	<b>\$16,557.8</b>	<b>\$217.3</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Transaction Category	Credit Values in \$ Millions				Percent by Column Total			
	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
Purchases	\$11,735.9		\$11,735.9		35.8%		59.1%	
Subcontractors	\$8,133.7	\$8,133.7			24.8%	64.6%		
Technology Transfers	\$4,868.1	\$1,671.0	\$3,085.0	\$112.1	14.8%	13.3%	15.5%	31.4%
Miscellaneous	\$3,031.6	\$869.6	\$2,089.5	\$72.4	9.2%	6.9%	10.5%	20.3%
Credit Assistance	\$1,348.5	\$70.6	\$1,277.9		4.1%	0.6%	6.4%	
Training	\$1,173.4	\$639.2	\$520.9	\$13.4	3.6%	5.1%	2.6%	3.7%
Overseas Investment	\$1,519.2	\$281.1	\$1,109.9	\$128.2	4.6%	2.2%	5.6%	35.9%
Co-production	\$790.1	\$790.2			6.3%			
Licensed Production	\$201.5	\$134.1	\$36.1	\$31.2	0.6%	1.1%	0.2%	8.7%
<b>Total</b>	<b>\$32,802.0</b>	<b>\$12,589.5</b>	<b>\$19,855.2</b>	<b>\$357.3</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Transaction Category	Multiplier*				Number of Transactions			
	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
Purchases	1.095		1.095		3414		3414	
Subcontractors	1.128	1.128			1464	1464		
Technology Transfers	1.307	1.287	1.329	1.077	687	303	374	10
Miscellaneous	1.503	2.404	1.270	7.388	452	96	351	5
Credit Assistance	1.132	13.843	1.077		87	7	80	
Training	1.763	1.636	1.906	7.053	227	107	115	5
Overseas Investment	2.189	1.304	2.768	1.654	98	19	74	5
Co-production	1.103	1.104			132	132		
Licensed Production	1.302	1.144	2.662	1.300	32	25	5	2
<b>Total</b>	<b>1.211</b>	<b>1.211</b>	<b>1.199</b>	<b>1.644</b>	<b>6593</b>	<b>2153</b>	<b>4413</b>	<b>27</b>

Source: BIS Offsets Database  
Note: Due to rounding, totals may not add up precisely.  
\*Multipliers are used only in a small percentage of the total number of transactions. See Chapter 5 for further discussion.

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 2.6 percent of the actual value of all offset transactions; 57.8 percent of Overseas Investment transactions were classified as indirect and 31.1 percent as direct.

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

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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 1993-2003 period was aerospace-related.

Co-production accounted for 2.6 percent of the value of offset transactions. 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 up front construction and tooling costs and increased unit costs for limited production runs.<sup>18</sup> 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, rather than a complete defense system. Licensed Production is the smallest among the offset categories, accounting for only 0.6 percent of the total value of offset transactions; 75.7 percent of the Licensed Production transactions (by actual value) were directly related to the weapon systems sold.

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 7.4 percent of the total.

## **2.5 Countries and Regions**

Table 2-5 is a compilation of the average offset requirements and multipliers for all countries requiring offsets in connection with defense export sales during the 1993-2003 period. The multipliers presented are averages; as mentioned earlier, a significant majority of transactions do not include multipliers or have multipliers that provide credit that is less than their actual value. The countries are divided into four regions: Europe, North and South America, the Middle East and Africa, and Asia. The notation none reported (NR) is used when the offset requirement or multiplier cannot be calculated or was not reported; and withheld (W) is used to protect company confidentiality.

Austria had the largest offset percentages; on average, U.S. weapon systems exports to Austria were associated with offset agreements worth 174.2 percent of the value of the weapon systems. It is interesting to note that Austria also offered the lowest reported multiplier (0.84 a negative multiplier) where multipliers were granted for the offset transactions carried out in fulfillment of the agreements.

Austria was followed closely by a number of Eastern European countries with offset requirements above 100 percent. Other European countries also required offset percentages equal to or greater than the value of the weapon systems exported to them. These countries included

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18 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 Co-production Raised Costs and May Not Meet Many Program Goals*, U.S. General Accounting Office, GAO/NSIAD-93-2003, and *U.S. Military Aircraft Co-production with Japan*, U.S. General Accounting Office, GAO/T-NSIAD-89-6.

the Netherlands (120.5 percent), Greece (110.0 percent), Sweden (103.9 percent), Denmark (100.0 percent), and Finland (100.0 percent).

<b>Table 2-5 Countries with Offset Agreements and Transactions by Region, 1993-2003</b>					
<b>Europe</b>			<b>Middle East and Africa</b>		
<b>Country</b>	<b>% Offsets</b>	<b>Multiplier*</b>	<b>Country</b>	<b>% Offsets</b>	<b>Multiplier*</b>
Austria	174.2%	0.84	Egypt	NR	1.00
Belgium	80.1%	1.08	Israel	49.2%	1.04
Czech Republic	W	W	Kuwait	30.4%	2.48
Denmark	100.0%	1.17	Saudi Arabia	34.9%	NR
EPG**	27.8%	1.23	South Africa	116.7%	1.00
Finland	100.0%	1.07	Turkey	57.1%	1.06
France	84.6%	1.81	United Arab Emirates	55.3%	2.33
Germany	99.9%	1.00	<b>Region Total</b>	<b>45.1%</b>	<b>1.49</b>
Greece	110.0%	2.51	<b>Asia</b>		
Italy	93.8%	1.02	<b>Country</b>	<b>% Offsets</b>	<b>Multiplier*</b>
Lithuania	W	NR	Australia	45.6%	1.02
Luxembourg	NR	1.00	Indonesia	NR	1.21
NATO	55.8%	1.0	Malaysia	37.3%	1.12
Netherlands	120.5%	1.21	New Zealand	W	2.97
Norway	99.5%	1.39	Singapore	58.3%	2.25
Poland	W	W	South Korea	63.7%	1.33
Portugal	27.9%	1.99	Taiwan	21.7%	2.04
Romania	NR	W	Thailand	26.6%	1.60
Slovenia	W	NR	<b>Region Total</b>	<b>39.9%</b>	<b>1.69</b>
Spain	88.4%	1.23	<b>North and South America</b>		
Sweden	103.9%	1.13	<b>Country</b>	<b>% Offsets</b>	<b>Multiplier*</b>
Switzerland	78.1%	1.01	Brazil	W	W
United Kingdom	92.6%	1.01	Canada	83.1%	1.00
<b>Region Total</b>	<b>101.2%</b>	<b>1.24</b>	Chile	W	W
			<b>Region Total</b>	<b>84.2%</b>	<b>1.70</b>
Source: BIS Offsets Database					
Notes: NR = Non Reported					
W = With held to protect company proprietary information.					
*Multipliers are used only in a small percentage of the total number of transactions. See Chapter 5 for further discussion.					
**EPG = European Participating Group (Belgium, The Netherlands, and Norway).					

The percent offset averages for the Middle East/Africa and Europe increased since the previous report on offsets in defense trade; since the last report that covered 1993-2002, the Middle East and Africa's percent offset average for the reporting period increased from 44.0 percent to 45.1 percent for 1993-2003. For Europe, the average offset percentage grew from 92.6 percent for 1993-2002 to 101.2 percent for 1993-2003.

The regional offset averages for Asia and North and South America both decreased since the previous report on offsets in defense trade; Asia's average went from 40.0 percent for 1993-2002 to 39.9 percent for 1993-2003. North and South America's average fell from 90.8 percent to 84.2 percent for 1993-2003.

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### 3 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.

#### 3.1 Defense Preparedness

The relationship of offsets to the defense preparedness of the United States is complex. 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 can negate many of these benefits. U.S. subcontractors and suppliers are displaced by exports that include subcontract or licensed production offsets. More than 80 percent of offset transactions reported fell in the manufacturing sectors of the U.S. economy. Previous incidents indicate that U.S. contractors sometimes develop long-term supplier relationships with overseas subcontractors based on short-term offset requirements.<sup>19</sup> These new relationships can reduce future business 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, helping to create or enhance current and future competitors.

#### 3.2 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 2002, industry reported approximately \$7.4 billion in defense export contracts with an offset agreement attached.<sup>20</sup> According to the Economic Census, the value added per employee for the aerospace product and parts manufacturing industry in 2002 was \$157,713. Dividing this figure into the defense export sales total results in a total of 47,122 work-years that were supported by defense exports associated with offset agreements.<sup>21</sup>

For 2002, the \$7.4 billion in defense export contracts had a related \$6.1 billion in offset commitments. Although it takes on average almost seven years of offset transactions to fulfill an offset agreement, in order to more accurately assess the impact of offset transactions on work-years, we compared the export contract to the prime contractor's offset obligation at the time of the sale.

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

20 The value added data was taken from the 2002 Economic Census, Manufacturing Industry Series (see <http://www.census.gov/econ/census02/index.html>). The year 2002 is the most recent year for which value added data was available.

21 This calculation is based on the supposition that this value represents 100 percent U.S. content in all exports, which is not necessarily an accurate assumption.

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Subcontracting, purchasing, co-production, and licensing offset transactions are most likely to shift production and sales from U.S. suppliers to overseas firms. Other categories of offset transactions, technology transfer, training, overseas investment, and marketing, in the short or long run, can shift sales from U.S. suppliers as well; however, their impact is more difficult to calculate. Therefore, BIS bases its estimate of employment impacts only on subcontracting, purchasing, co-production, and licensing offset transactions.

Assuming that the offset obligations entered into in 2002 have the same proportions as past offset transactions, then the subcontracting, purchasing, co-production, and licensing portions would account for approximately 66 percent of the total, or about \$4 billion. Applying the same value added figure used above (\$157,173) leads to the loss of 25,450 work-years associated with the agreements entered into in 2002.

Based on these calculations, it appears that 2002 defense export sales had a net positive effect on employment in the defense sector during 2002, although the net positive effect was diminished by the offset agreements. It should be noted that the above analysis does not include an additional \$338.3 million of 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.

## **4 Offset Agreements, 1993-2003**

### **4.1 Overview**

As was shown in Table 2-1, during the eleven-year period from 1993 to 2003, thirty-nine prime contractors reported that they had entered into 466 offset agreements valued at \$50.7 billion. The agreements were signed in connection with defense weapon system exports totaling \$70.9 billion to thirty-six different countries. The value of the offset agreements represented 71.4 percent of the total value of the related export contracts during the entire reporting period. The average term for completing the offset agreements was eighty-three months, or just under seven years. Sales of aerospace defense systems (i.e., aircraft, engines, and missiles) were valued at \$59.6 billion, 84 percent of all export contracts. In 2003, the percentage of offset agreements to export contracts (by value) reached its highest point during the eleven-year period: 121.8 percent.<sup>23</sup> The lowest percentage was recorded in 1993 at 34.4 percent.<sup>24</sup>

### **4.2 Concentration of Offset Activity**

The data reported by U.S. firms show that a small number of companies, countries, and weapon systems dominated offset agreements between 1993 and 2003. The top five U.S. exporters of thirty-nine companies reporting data on offsets accounted for 82.3 percent of the value of defense export contracts and 85.0 percent of the value of offset agreements during this eleven-year period. This market concentration reflects the high costs of developing and manufacturing defense systems and the small number of firms that have the financial and productive resources to produce them. Each prime contractor 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.

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23 One large weapon system export in 2003 with an offset percentage of more than 150 percent skewed the data for that year. Without this export and its related offset agreement, the average offset percentage for 2003 would fall to 75.1 percent (from 121.8 percent with the sale). This export also affected the average offset percentage for the entire period. With this sale and offset, the average offset percentage for 1993-2003 is 71.4 percent; without it, the percentage is 66.2 percent.

24 A similar event occurred in 1993, when two large exports with low offset percentages skewed the average offset percentage downward.

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Similarly, offsets and related defense system exports appear to be concentrated in a few purchaser countries. The top five countries with a total of thirty-six involved in the reported offset activity, accounted for 56.2 percent of the value of defense systems purchased and 60.1 percent of the value of offset agreements during 1993-2003. The top ten countries of thirty-six total represented 79.1 percent of defense system purchases and 80.1 percent of the offset agreements. In turn, these countries also accounted for the majority of 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. The weighted average of the offset percentage required by the top five countries is 66.0 percent.

According to data provided by U.S. prime contractors, the top five weapon systems exported were aircraft systems. These top five exports accounted for 43.1 percent of the value of all export contracts and 43.4 percent of the offset agreements during the reporting period. Nine of the top ten defense systems were aerospace-related; the top ten accounted for 57.0 percent of the export contracts and 59.5 percent of the offset agreements during the eleven-year period.

### **4.3 Regional Distributions**

European countries accounted for the majority of offset activity and weapon system exports during the eleven-year reporting period. Europe accounted for 69.6 percent of the value of offset agreements and 49.1 percent of the value of U.S. defense export contracts. Asian countries ranked second in both categories, with 18.7 percent of the value of offset agreements and 33.5 percent of related U.S. export contract values.

In 2003, however, the Middle East and Africa played a larger role than did Asia. For the first time, the Middle East and Africa share of offsets and sales was greater than Asia's. The region accounted for 20 percent of weapon systems exports and 8.7 percent of the value of new offset agreements. In contrast, Asia made up just 6.9 percent of the value of defense exports and 2.0 percent of the value of new offset agreements.

### **4.5 Are Offset Demands Increasing?**

The data show not only that offset demands are increasing over time, but also that more countries outside Europe are demanding these higher offset percentages. 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 thirty-six agreements with offset requirements of 100 percent or more, thirteen 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, emulating their European counterparts.

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 2003, that average nearly doubled, to 69.6 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 rose in 1999-2003 to 60.1 percent.

European offset demands also continued to increase over the eleven-year period, although more slowly than offset demands in the rest of the world. Offset requirements for European countries increased at an annual rate of 6.4 percentage points. For the rest of the world, the average increase in offset percentages was 5.5 percentage points per year. European offset requirements increased an average of 3.2 percentage points each year in the eleven-year period, while non-European demands increased 2.5 percentage points.

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Offset requirement trends are more representative when viewed as a moving, weighted average.<sup>25</sup> A moving average smoothes out the yearly fluctuations in weapon system sales and related offset agreements. The weighted world trend in offset percentages rose from 52.9 percent to 94.1 percent. In the same eleven-year period that European offset percentages rose by 35.2 percentage points (from 77.8 percent to 113.0 percent), the rest of the world nearly doubled its offset requirements, from 32.4 percent to 60.3 percent.

Defense offset requirements have increased as the supply of defense systems has exceeded 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 (defense and commercial) and, accordingly, are demanding more offsets. Significant public outlays for foreign-made weapon systems become even more controversial, leading to higher offset demands to deflect political pressure and increase domestic economic development. In a growing number of cases, defense purchases are being driven by the competitiveness of the offset package offered rather than the quality and price of the weapon system purchased.

### **5 Offset Transaction Activity, 1993-2003**

An offset agreement typically requires the prime contractor to complete multiple transactions over a period of years 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. For the purpose of analysis, offset transactions are grouped by type (i.e., direct, indirect, and unspecified), and then grouped again into of the nine categories: purchases, subcontracts, technology transfer, credit assistance, training, overseas investment, co-production, licensed production, and miscellaneous.

#### **5.1 Overview**

From 1993 to 2003, 42 U.S. defense companies reported 6,593 offset transactions with forty-six countries totaling \$27.1 billion. The values of offset transactions by type are reflected in Table 5-1. U.S. firms received a total of \$32.8 billion in credit (see Table 5-2) toward open offset obligations during the reporting period. The yearly value of offset transactions averaged \$2.46 billion.

U.S. companies reported offset transactions with a total actual value of \$3.6 billion in 2003, the highest value reported for the eleven-year period, up from \$2.6 billion in 2002. The 2003 figure represents a 38.5 percent increase from the 2002 total. The percentage of the value of offset transactions classified as indirect rose during 2003, reaching 68.8 percent, up from 64.0 percent in 2002. This was the highest percentage of indirect for all years in the period. Direct transactions accounted for 31.1 percent of the value of transactions in 2003, the lowest level of direct transactions over the eleven-year period. The remaining 0.1 percent of the value was unspecified.

Table 5-2 shows the countries receiving the most offset transactions, by actual value during 1993-2003, along with the actual and credit values and multipliers for the transactions, and the

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<sup>25</sup> Here, the value of export contracts and offset agreements is totaled for each successive three-year period, beginning with 1993-1995, followed by 1994-1996, and so forth; then the offset percentage is determined. This leads to nine three-year observations over the eleven-year reporting period (1993-2003).

portion of transactions granted multipliers. The nineteen countries listed in Table 5-2 were the recipients of approximately 96.3 percent of the actual value of all offset transactions from 1993 to 2003. The multipliers for the countries listed ranged from 0.998 for Canada to 2.508 for Greece.

For the reporting period of 1993 to 2003, the United Kingdom and Finland were the two largest recipients of offset transactions, with total actual values of \$5.0 billion and \$3.2 billion, respectively. The two countries combined accounted for 30.4 percent of the total actual value of offset transactions during the reporting period.

However, the United Kingdom and Finland accounted for 25.9 percent of the total credit value, because their multipliers were lower than those of some of the other countries.

<b>Table 5-1 Offset Transactions Analysis Offset Transaction Comparisons</b>	
<b>Data Element</b>	<b>All Transactions</b>
Total Value	\$27,090,039,493
Direct Offsets	\$10,314,928,359
Indirect Offsets	\$16,557,825,885
Unspecified Offsets	\$217,285,249
<b>Percent Distribution</b>	
Percent Direct Offsets	38.1%
Percent Indirect Offsets	61.1%
Percent Unspecified Offsets	0.8%
Source: BIS Offsets Database	

<b>Table 5-2 Offset Transactions by Countries with Highest Total Actual Value Total, 1993-2003</b>				
<b>Country</b>	<b>Actual Value</b>	<b>Credit Value</b>	<b>multiplier</b>	<b>Percentage of Transactions With Multiplier &gt;1</b>
United Kingdom	\$5,008,303,563	\$5,037,424,541	1.006	1.0%
Finland	\$3,228,137,843	\$3,457,807,399	1.071	22.9%
Israel	\$3,003,051,089	\$3,125,982,392	1.041	5.6%
Netherlands	\$1,675,325,707	\$2,009,865,606	1.200	10.0%
South Korea	\$1,600,049,256	\$2,129,274,493	1.331	21.0%
Greece	\$1,360,944,494	\$3,413,544,611	2.508	43.3%
Switzerland	\$1,198,226,265	\$1,206,881,646	1.007	1.5%
Canada	\$1,133,186,265	\$1,131,126,557	0.998	1.8%
Australia	\$1,123,016,982	\$1,146,113,610	1.021	2.7%
Italy	\$1,114,412,777	\$1,139,903,777	1.023	4.9%
Spain	\$1,055,111,613	\$1,295,616,711	1.228	30.6%
Turkey	\$878,787,871	\$930,518,635	1.059	8.2%
Taiwan	\$824,028,358	\$1,679,148,369	2.038	43.3%
Germany	\$724,241,540	\$724,241,540	1.000	0.0%
Norway	\$708,482,461	\$983,947,765	1.389	25.7%
Denmark	\$455,207,245	\$534,119,249	1.173	14.3%
France	\$438,046,928	\$794,754,494	1.814	46.6%
Malaysia	\$294,807,399	\$329,507,399	1.118	12.0%
Belgium	\$256,995,553	\$278,442,931	1.083	2.4%
<b>Total</b>	<b>\$26,080,363,210</b>	<b>\$31,348,221,725</b>	<b>1.202</b>	<b>12.0%</b>
<b>All Countries (46)</b>	<b>\$27,090,039,493</b>	<b>\$32,802,032,552</b>	<b>1.211</b>	<b>13.0%</b>
Source: BIS Offsets Database				

The fifth column in Table 5-2 shows the percentage of the number of each country's transactions with multipliers greater than one, in other words, offset transactions for which the credit value received was greater than the actual value. France led, with 46.6 percent of the transactions having multipliers greater than one, followed by Greece and Taiwan, both with 43.4 percent. However, these countries are not typical. For all countries, only 13 percent of the transactions had a multiplier greater than one. Conversely, almost 87 percent of the number of transactions had no multiplier (or had a negative multiplier) applied. For the nineteen countries listed in Table 5-2, the overall percentage of transactions with multipliers greater than one was 12 percent, lower than the percentage for all countries (13 percent).

### 5.3 The Role of Multipliers

Multipliers can make it easier for prime contractors to fulfill their offset obligations. However, further inspection of multipliers by region provides a better understanding of how infrequently multipliers are being utilized by purchasing nations to reward prime contractors for certain types of offset transactions. Table 5-3 highlights the use of multipliers by region as a percentage of the number of all transactions for the 1993-2003 period. In Europe, for example, 83 percent of transactions by number have no multiplier involved for the prime contractor when fulfilling the offset commitment (multiplier = 1). For North and South America, 85.5 percent of transactions by number have no multiplier involved; for Asia, the figure is 76.6 percent, and 87.9 percent for the Middle east and Africa.

<b>Table 5-3 Multipliers by Region, by Number 1993-2003</b>			
<b>% Multipliers &lt; 1</b>	<b>% Multipliers = 1 (No Multiplier)</b>		<b>% Multipliers &gt; 1</b>
Europe	1.5%	83.0%	15.6%
Mid - East and Africa	2.2%	87.9%	9.9%
Asia	1.8%	76.6%	21.6%
North and South America	8.9%	85.5%	5.6%

Source: BIS Offsets Database

In reviewing European multiplier data further, 15.6 percent of the European transactions (by number) have a multiplier greater than one applied to them, and an additional 1.5 percent of transactions with Europe have a multiplier of less than one applied. Multipliers of less than one mean that prime contractors are only credited a portion of the total actual value of a transaction. In Asia, 21.6 percent of the transactions by number have multipliers greater than one applied, while 1.8 percent of transactions have multipliers of less than one. For the Middle East and Africa, only 9.9 percent of transactions have multipliers greater than one applied, while 2.2 percent of transactions have multipliers of less than one. In North and South America, 8.9 percent of transactions by number receive less than full credit.

## 7 Report of the Interagency Team on Consultation with Foreign Nations on Limiting the Adverse Effects of Offsets in Defense Procurement

### 7.1 Background

In December 2003, President Bush signed into law a reauthorization of, and amendments to, the DPA. Section 7(c) of P.L. 108-195 amended Section 123(c) of the DPA by requiring the President to designate a chairman of an interagency team to consult with foreign nations on limiting the adverse effects of offsets in defense procurement without damaging the economy or the defense industrial base of the United States, or United States defense production or defense preparedness. The statute provides that the team will be comprised of the Secretaries of Commerce, Defense, Labor, and State, and the United States Trade Representative.

**Table 7-1 Composition of the Interagency Team and Working Group**

<b>Department</b>	<b>Principal</b>	<b>Working Group Member</b>
Commerce	Assistant Secretary for Export Administration	Director, Office of Strategic Industries and Economic Security
Defense	Under Secretary of Defense (Acquisition, Technology and Logistics)	Director, International Cooperation
Labor	Deputy Secretary of Labor	Senior International Economist
State	Principal Deputy Assistant Secretary for Economic and Business Affairs	Economic and Commercial Officer, Office of Multilateral Trade Affairs, Bureau of Economic and Business Affairs
United States	Assistant U.S. Trade Representative (WTO and Multilateral Affairs)	Director, International Procurement

The law requires the interagency team to meet quarterly, and to send to Congress an annual report describing the results of the consultations and meetings. The report is to be included as part of the annual assessment to Congress of *Offsets in Defense Trade* that is prepared by the Department of Commerce's Bureau of Industry and Security. On August 6, 2004, President Bush formally established an interagency committee, hereafter referred to as the interagency team, as in the statute, chaired by the Secretary of Defense. The Secretaries and the U.S. Trade Representative delegated membership on the team to appropriate officials within their departments. Within the Department of Defense, chairmanship has been delegated to the Under Secretary of Defense for Acquisition, Technology and Logistics.

On September 15, 2004 the Acting Under Secretary of Defense (Acquisition, Technology and Logistics) activated a working group to support the consultation process of the interagency team. The working group met three times in 2004: September 30, November 4 and December 7. The interagency team met on December 8 to review the efforts of the working group. The interagency team reviewed and approved the terms of reference for the team and the working group, the following top-level plan of work, and this annual report to Congress for 2004.

## **7.2 Plan of Work**

The top-level plan of work will involve the following steps:

- During the 1st Quarter CY 2005, the interagency team will:
  - Develop an offset consultation strategy, which will include the U.S. government's objectives and detailed plan of work to achieve those objectives.
  - Identify domestic and foreign entities for consultation, and
  - Commence consultations with domestic entities, and possibly foreign entities.
- During the 2nd Quarter CY 2005 and continuing beyond, the interagency team will implement the plan of work through continuing consultations with the identified foreign and domestic entities on limiting the adverse effects of offsets in defense procurement.

## **7.3 Terms of Reference**

The interagency team and working group developed the following terms of reference to guide their work. They include the composition of the interagency team and working group; the operation of the team and group; and the goals of the team and group.

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### **Operation of the Interagency Team and Working Group**

- The Department of Defense will chair the interagency team and working group.
- The Department of Defense will provide administrative support to the interagency team and working group.
- The interagency team will meet quarterly; the working group will meet as often as the chairman deems necessary.
- A quorum for a meeting of the interagency team or working group will be three of the five members.
- The interagency team and working group will operate by consensus, but dissenting views of a principal may be presented in the annual report.
- The interagency team will provide an annual report to Congress describing the results of meetings and consultations.
- The Department of Commerce principal will ensure that the report is included in their annual assessment to Congress on offsets in defense trade.

### **Goals of the Interagency Team and Working Group**

- Establish a plan of work to fulfill the requirements of the statute.
- Identify and define meaning of effects of offsets in defense procurement.
- Identify potential strategies for limiting adverse effects.
- Identify foreign nations and other parties, both domestic and foreign, for consultation.
- Develop methods and objectives of consultation.
- Develop schedule for and engage in consultations.
  - Provide annual report to Congress describing meetings and the results of consultations.
- Submit to the President any recommendations that may result from these consultations.

## **8 Conclusions**

Eleven years of Commerce Department data highlight the sustained increase in foreign governments' offset demands relating to defense trade. European nations continue to lead the world in offset requirements, accounting for 69.6 percent of the value of offset agreements, but less than half (49.1 percent) of the value of related export contracts. Between 1993 and 2003, European offset demands as a percentage of the value of exports increased by 70.5 percentage points, going from 78.3 percent to 148.8 percent; for the rest of the world, the increase was almost 26 percentage points, rising from 22.5 percent to 48.4 percent. Overall, 73.3 percent of offset agreements (by number) with Europe totaled 100 percent or more of the value of the weapon system export during the period.

By comparison, Middle Eastern countries and most countries in the Pacific area generally demand lower offset levels than European countries. Of the 219 offset agreements with non-European countries, 150 (68.5 percent) had offset percentages of 50 percent or less. Only sixty-nine of the offset agreements (31.5 percent) had percentages of more than 50 percent, and eleven of these (15.9 percent) had offset requirements in excess of 100 percent.

An examination of the role of multipliers granted by foreign governments in crediting offset transactions leads to the conclusion that they are used infrequently. In Europe, 83 percent of transactions (by number) have no multiplier involved for the prime contractor when fulfilling the

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offset commitment. For North and South America, 85.5 percent of transactions (by number) have no multiplier involved; for Asia, the figure is 76.6 percent, and 87.9 percent for the Middle East and Africa.

U.S. companies reported offset transactions with a total actual value of \$3.6 billion in 2003, the highest value reported for the eleven-year period. The percentage of the value of offset transactions classified as indirect rose during 2003, reaching 68.6 percent, the highest percentage of indirect for all years in the period. Direct transactions accounted for 31.2 percent of the value of transactions in 2003, the lowest level of direct transactions over the eleven-year period.

The offset transaction categories of purchases, subcontracts, and technology transfers accounted for the majority of offset transaction activity during 1993-2003: for that eleven-year period, they accounted for 79.9 percent of the total value of offset transactions. The majority of offset transactions fell in the manufacturing sectors; \$21.9 billion, or 80.8 percent of all transactions were manufacturing-related.

BIS estimates that 2002 U.S. defense export contracts (\$7.4 billion) with offset agreements attached supported 47,122 work-years. This calculation is based on the supposition that this value represents 100 percent U.S. content in all exports, which is not necessarily an accurate assumption.

For 2002, the \$7.4 billion in defense export contracts had a related \$6.1 billion in offset commitments. Subcontracting, purchasing, co-production, and licensing offset transactions are most likely to shift production and sales from U.S. suppliers to overseas firms. Therefore, BIS bases its estimate of employment impacts only on subcontracting, purchasing, co-production, and licensing offset transactions. Assuming that the offset commitments have the same proportion as the offset transactions for 2002, then the subcontracting, purchasing, co-production, and licensing portions would account for approximately 66 percent of total, or about \$4 billion. Applying the same value added figure used above (\$157,173) leads to the loss of 25,450 work-years associated with the agreements entered into in 2002.

Based on these calculations, it appears that 2002 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. It should be noted that the above analysis does not include an additional \$338.3 million of 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.

While Commerce has not identified any specific recommendations for remedial action concerning offsets in defense trade for this report, the Department is playing an active role in the newly-formed interagency offset team and related working group (see Chapter 7). The team was formed to consult with foreign nations on limiting the adverse effects of offsets in defense procurement without damaging the economy or the defense industrial base of the United States, or United States defense production or defense preparedness. The team has developed a comprehensive action plan and will rely on Commerce's extensive offset database to provide background information on the countries chosen for consultations.

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## Small Arms and Light Weapons

By

**Ambassador Robert G. Loftis**

**Acting Deputy Assistant Secretary of State for Political-Military Affairs**

[The following are excerpts of the remarks presented to the Organization of American States Small Arms and Light Weapons Meeting, Washington, D.C., April 12, 2005.]

The destabilizing accumulation and illicit trafficking of small arms and light weapons (SA/LW) has proven a major obstacle to peace, economic development, and efforts to rebuild war-torn societies. Terrorist groups, insurgents and drug traffickers acquire arms primarily through illegal diversion, theft and smuggling, rather than through legitimate transfers. The United States supports in all aspects the 2001 *United Nations (U.N.) Program of Action (POA) on the Illicit Trade of Small Arms and Light Weapons*. We believe that small steps by individual countries and collective steps by regional and subregional organizations will go a long way toward establishing norms and practices that lead to the Program's effective implementation. With the U.N. Biennial Meeting of States in July and the 2006 Review Conference before us, we should pursue innovative and effective ways to implement the provisions of the *U.N. Plan of Action*. The Organization of American States (OAS) has made important contributions towards reducing the problem of illicit weapons proliferation and the U.S. encourages the organization and all its member states to continue to work in this area.

The entry-into-force of the *Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition and Explosives (CIFTA)* in 1998 made the OAS a leader in multilateral efforts to address the problem of illicit weapons trafficking. As a CIFTA signatory, the U.S. supports the Convention and OAS member states' efforts to aggressively implement it consistent with the implementation of the plan of action.

Effective export and import controls and their enforcement are the keystones to any successful effort to mitigate the problems of illicit trade in small arms and light weapons. The adoption by the OAS of the Inter-American Drug Abuse Control Commission (CICAD) model regulations on the control of transnational movement of firearms is an important step forward. However, these regulations must be adopted and enforced by member states in order to be effective. The U.S. encourages all member states that have not done so to implement control systems that contain reliable and meaningful mechanisms for the licensing and transfer of small arms and light weapons. The CICAD model regulations are especially important because they contain provisions regarding small arms brokering. As the OAS-Busby investigation demonstrated, licensing and regulating arms brokers is central to combating illicit arms trafficking. Both exporting and importing countries also need to exercise due diligence in authenticating end-user certificates to ensure that exported arms are destined for a legitimate end-user.

In addition, purchasing countries should make sure their import systems are transparent and provide maximum cooperation with the export control officials of exporting countries in certifying legitimate shipments. Unregulated arms brokers are additional sources of weapons for the black market.

Strict import and export controls are particularly important in regards to man-portable air defense systems (MANPADS). Although an incident has not happened yet in this region, even one attempt to shoot down a civilian airliner could have devastating psychological and economic impacts on the entire Western Hemisphere. It is crucial to our collective security that all states take focused steps to mitigate the threat from MANPADS. The OAS is the perfect venue in which

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to enhance regional cooperation to address the MANPADS threat and adopt Asia Pacific Economic Cooperation (APEC) like MANPADS guidelines for the hemisphere.

Many MANPADS already are not under government control and are widely available to non-government actors. Many more may be vulnerable to transfer to terrorists, insurgents and other criminals because they are inadequately secured or because they are not subject to stringent national export standards. The small size and relatively light weight of MANPADS makes them easy to transport and conceal and very attractive weapons for terrorists.

In many cases MANPADS are a national liability, rather than a national asset. The cost of properly securing and maintaining national stocks of aging MANPADS often far outweighs their military utility. Therefore, the U.S. encourages all states to adopt APEC-like guidelines on control and security of MANPADS stockpiles and offers its assistance to interested states. We already have worked with some states in the region to control, secure, and reduce their MANPADS and welcome requests for assistance from additional states.

The U.N. Second Biennial Meeting of States in July 2006 affords us all the opportunity to focus our attention on implementing the *U.N. Plan of Action*. We think the focus of the meeting should be on assessing implementation of the Plan of Action to date, and looking ahead to the U.N. POA Review Conference in July 2006. The Biennial Meeting of States is neither the time nor place for introduction or negotiation of new initiatives.

At the final two-week session of the Open-Ended Working Group on the Marking and Tracing of Illicit Small Arms And Light Weapons in June, we will have the opportunity to finalize an international instrument that will facilitate monitoring of arms trafficking. The successful negotiation of this instrument will bridge the gap between existing legally binding law enforcement instruments to combat illicit trafficking in firearms and the *U.N. Plan of Action*. Today's comprehensive presentation by the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) highlights the importance of effective marking and tracing in the fight against illicit trafficking.

The U.S. believes that this instrument should be practical and effective, enabling the timely and reliable identification and tracing of illicit small arms and light weapons, and should not counter already existing commitments in other fora including the OAS. Our preference is for an instrument that can be swiftly and effectively implemented by all states.

Recognizing that surplus SA/LW can be destabilizing and harmful for the entire continent, member states are urged to limit purchase levels to the minimum required to support legitimate defense needs and to refrain from excessive purchases that might fuel arms races and increase the possibility of these weapons being diverted to non-state actors.

Given the close links between terrorism, organized crime and drug trafficking, the illicit trade in small arms and light weapons has the potential to affect any country in the world at any time; it is not limited to regions of conflict, instability, or poverty. Focused efforts to identify and curb the sources and methods of the illicit trade via robust export controls, law enforcement measures, and efforts to expeditiously destroy excess stocks and safeguard legitimate stocks from theft or illegal transfer are the best ways to attack the problem.

The U.S. continues to offer its assistance so that states party to CIFTA can implement that agreement and the *U.N. Plan of Action*. We encourage other states in a position to do so to render financial technical assistance in small arms and light weapons destruction and stockpile management and security, export controls, and law enforcement training. Working together, we can further our mutual goal to reduce the illicit spread of small arms and light weapons and reduce the danger these weapons pose to our citizens, peacekeeping forces and soldiers in our hemisphere and around the world.

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## **Plan Colombia: Major Successes and New Challenges**

**By**

**Roger F. Noriega**

**Department of State Assistant Secretary for Western Hemisphere Affairs**

[The following are excerpts of the statement presented to the House International Relations Committee, Washington, D.C., May 11, 2005.]

U.S. policy toward Colombia supports the Colombian government's efforts to defend and strengthen its democratic institutions, promote respect for human rights and the rule of law, intensify counter-narcotics efforts, foster socio-economic development, and address immediate humanitarian needs. We seek to help Colombia end the threats to its democracy posed by narcotics trafficking and terrorism. The success of our policy is due in no small measure to the continuing bipartisan support we have received from the Congress for our programs in Colombia. I would like to offer a brief update on the successes that Plan Colombia is having in these areas and offer my perspective on the challenges that still face us.

While there has been steady progress towards our goals, it has also come at a cost in both American and Colombian lives, with Colombians from all sectors of society paying a high price for their determination to end the scourges of narcotics trafficking and terrorism and to build a better society. We recognize this. February 13, 2005 marked the two-year anniversary of the seizure by the Revolutionary Armed Forces of Colombia (FARC) of three American contractors after their plane crashed, as well as the murder of their American pilot and Colombian colleague. We appreciate the continued efforts made by the Colombian government for their recovery. Our hostages' safe recovery remains a high priority for both governments.

I must also mention a serious matter that is still unfolding. We continue to monitor the investigation by Colombian and U.S. authorities into developments in May 2005 in which U.S. military trainers on temporary duty in Colombia were alleged to be involved in trafficking in ammunition. All affected agencies take these allegations very seriously; we recognized what is at stake. We and the Colombian government intend to get to the bottom of it.

Colombia is a successful democracy that is increasingly taking control of its own future. Its success in doing so is making it a force for progress and stability in the troubled Andean region. Despite Colombia's many security problems, it is a vibrant democracy, whose legitimacy is unquestioned and which serves as a model for what can be achieved under adverse conditions. In spite of continued violence, there is no question that the country's democratic traditions are solid and widely-respected. Our investment supporting Plan Colombia has contributed to this and is increasingly paying off.

All who have met with President Uribe in Washington or Bogota, included members of this Committee, know the great progress he has brought about and also recognize the unique, reliable partner we have in him. His strength of character, courage, and vision have provided the foundation for this success.

The news from Colombia over the past three years is a story of steady progress in several key areas. Violent crime is at the lowest level in sixteen years. Statistics for 2004 indicate that compared with 2002, homicides have fallen by 30 percent, massacres (the killing of three or more persons at one time) by 61 percent, kidnappings by 51 percent, and acts of terrorism by 56 percent. If public safety is a measure of well-being, most Colombians are better off today.

Drug crop eradication, narcotics interdiction, and related arrests are at record-high levels. The aerial eradication program in Colombia sprayed a record 136,551 hectares (more than 300,000 acres) of cocaine and over 3,000 hectares (7,000 acres) of opium poppy in 2004. Over 170 metric

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tons of cocaine were interdicted in Colombia and at sea, and more than 200 cocaine hydrochloride labs destroyed during 2004.

The United States Agency for International Development managed alternative development projects are providing economic incentives for individuals and communities to abandon illicit crops. Other programs support institutional development and humanitarian assistance, and are helping the Government of Colombia to reinforce the core functions and values that strengthen civil society. The U.S. Justice Department programs are helping Colombia strengthen and modernize its judicial system through code reform, support for human rights units, and training for prosecutors, judges and police investigators.

President Uribe shares our commitment to bringing any terrorist or criminal to justice who has been, or may be, indicted for crimes against the United States and U.S. citizens. He has pledged to take no action that precludes extradition of such leaders. Indeed, extraditions are at record levels. Since President Uribe took office in August 2002, his administration has extradited 217 fugitives for large-scale narcotics trafficking, drug-related money laundering, racketeering, murder and terrorism offenses. In spite of impressive progress and real successes, there are still continuing challenges.

Human rights are central to our policy in Colombia and remain an area where there are still serious problems. We have not been reticent in making those concerns known. While there is no question that there has been significant improvement in the human rights performance of the Colombian military overall, we still need to see more progress on the specific human rights criteria which Congress has asked the Secretary of State to review and certify. We are presently reviewing the five statutory criteria related to human rights and severing ties with paramilitaries to determine if certification can be made.

Colombia is a key trade partner for the United States and our ties will only expand as we conclude negotiations for an *Andean Free Trade Agreement*. Negotiations are progressing but have not yet finished. We are addressing those issues that remain, including the treatment of agricultural products.

The Colombian government's efforts to undertake peace initiatives with the illegal armed groups are critical to sustained success. An ambitious demobilization effort has removed approximately 5,000 paramilitaries from combat. In close consultation with Congress we have released \$1.75 million in fiscal year (FY) 2004 funds to provide support for the monitoring of demobilized paramilitaries, orientation and reference centers for the reintegration process, strengthening of the judicial processing, and inter-institutional coordination throughout the demobilization process. We will ensure that any further support is consistent with the law, and we will consult with Congress on any such plans.

We expect that these legal concerns will be resolved satisfactorily, and we will then be better positioned to both review and determine our overall policy on supporting Colombian demobilization and reintegration, as well as to consult more fully with Congress on our programs.

During the April 27, 2005 visit to Colombia, Dr. Rice our Secretary of State noted that we have agreed to explore with the Colombians options to improve the already excellent defense relationship that exists. We expect that our cooperative and vigorous follow-up to recent incidents involving U.S. military personnel will contribute to maintaining that positive relationship.

### **Where Do We Go from Here?**

Strong, bipartisan support from the Congress has been an integral part of our shared success with Colombia. Our future assistance will center on solidifying the gains Colombians have made,

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with our support, under Plan Colombia. Secretary Rice's visit highlighted our close working relations with Colombia and the unusually complex series of issues that exist with Colombia and its neighbors. With over forty million people, Colombia is South America's second most populous country. It is facing up to long-standing political, security, social, and economic problems, exacerbated by the explosive growth of coca and opium poppy cultivation during the late 1990's in which guerrilla and paramilitary forces became deeply involved. There is no single explanation for the wide range of Colombia's troubles, but they are rooted in the traditionally limited government presence in large areas of the interior, a history of civil conflict and violence, and deep social inequities.

To address these problems, the Colombian government announced its Plan Colombia in 1999, a six-year program with a balanced and wide-ranging strategy. The Uribe Administration (which took office in 2002) confirmed its full commitment to the goals of Plan Colombia.

Plan Colombia, by all measurements including those already cited above, has had exceptional success in pursuing the goals it established, with support from the United States and the international community, but the job is not finished and we need to ensure that the progress made so far in counter-narcotics and counter-terrorism continues. Efforts to address the deeper causes of Colombian problems must continue. We must staunch the flow of cocaine to our shores, and that means targeting the suppliers as well as the consumers. Arguably, our interests in Colombia are even greater now than they were six years ago, at the start of Plan Colombia. Not only is the government of Colombia our counternarcotics and counterterrorism partner, it also is our valued ally to maintain stability in the region, particularly in the face of external, anti-democratic forces. Colombia must remain strong, and become even stronger to resist the anti-democratic forces which threaten to emerge in the 21st century.

The Colombian government has not yet announced a continuation for Plan Colombia. Nevertheless, anticipating its sunset in late 2005, the Colombian government has begun planning a follow-on strategy that would build on and consolidate the progress achieved to date in four major areas:

- Combating terrorism, narcotics trafficking and international organized crime;
- Economic and social reactivation;
- Strengthening institutions and the justice system; and
- Peace negotiations, demobilization and reintegration of illegal armed groups.

The United States agrees with these priorities and has told the Colombian government that we will seek continued support from Congress through the Andean Counterdrug Initiative (ACI) and other funding vehicles as Colombia determines its future plans. We have made no decisions about specific funding assistance levels beyond FY 2006, but will continue working with the Congress as planning is further developed.

Three of the four areas described by the Colombian government represent a continuation of programs we are already supporting. The fourth, that of peace negotiations, demobilization and reintegration of illegal armed groups, is the result of progress made by Plan Colombia. Because of the pace at which peace negotiations with the paramilitaries have developed, the role of the United States in the process has not yet been fully determined and, as already noted, with resolution of outstanding legal concerns, will be the subject of further consultations with Congress.

Our assistance in support of Colombia's counter-narcotics and counter-terror operations has strengthened the government's hand, but the Uribe Administration has clearly taken responsibility and ownership in both areas and is substantially increasing the resources committed to them,

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while maintaining social and economic development funding. President Uribe has made good on his promise to President Bush to devote a greater share of his budget to security. Overall, real spending on defense has increased every year. According to the most recent Ministry of Defense and Ministry of Finance figures, Colombian spending on defense grew over 30 percent between 2001-2004, and will continue to grow in 2005.

It is important to also describe the increasing success we have had in obtaining European support for Colombian counter-narcotics, alternative development and justice sector reform programs. A detailed report is being sent to the Congress, including to this Committee, that confirms significant European Union and individual European countries' assistance, not only to Colombia but also to the entire Andean region.

We had, of course, all hoped that by now the United States could begin to decrease the funding needed for Colombia. But in truth, the Uribe Administration offers an unexpected opportunity to consolidate and continue progress. The Administration has presented an FY 06 budget, the first for post-Plan Colombia that reflects our commitment to continued support and essentially seeks funding at the same level as in FY 05, the last year of Plan Colombia, for ACI and a somewhat reduced amount in FMF.

Secretary of State Rice, speaking in Bogota on April 27, 2005 said it very clearly. "You do not stop in midstream on something that has been very effective." Plan Colombia's ending must not signal the end of our support for Colombia.

Many of Colombia's challenges do not stop at Colombia's borders and require a regional solution. We have supported Colombia's successful efforts to secure the United Nation Security Council and Organization of American States (OAS) resolutions condemning terrorism and calling on member states to crack down on terrorists operating out of their own countries, as we have supported Colombia's efforts to improve security of its borders.

Even though we have seen no serious "balloon effect" due to the success of Plan Colombia, we also recognize the increasing regionalization of narcotics trafficking. Beyond narcotics trafficking, there are common problems across the Andes that require a broad approach, but we also understand that problems manifest themselves differently in each country. We are developing an approach through the Andean Counterdrug Initiative (ACI) recognizing these challenges, as well as the broader issues of the need for sustained support for democratic institutions, including social and economic progress.

We will work with Colombia's neighbors, and especially Bolivia, Ecuador, Peru and Panama, as we build on current programs. Overall goals will include:

- Support for programs that help countries to consolidate democracy;
- Assert control over their entire national territories and extend government services to their citizens;
- Eliminate drug production, trafficking and terrorism; and
- Support human rights, the rule of law and provide sustainable alternatives to illicit drugs including increased trade, investment and economic growth.

Our near-term task is to help consolidate the significant gains made and help Colombians face the challenges that remain. This is for the greater good of the United States, as well as for the good of all Colombians, and all other countries in the region.

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# Remarks Presented to the American Israel Public Affairs Committee's Annual Policy Conference

By  
**Dr. Condoleezza Rice**  
Secretary of State

[The following are excerpts of the remarks presented to the American Israel Public Affairs Committee's Annual Policy Conference, Washington Convention Center, Washington, D.C., May 23, 2005.]

Let me begin by saying that Israel has no greater friend and no stronger supporter than the United States of America. For over half a century, American Israel Public Affairs Committee (AIPAC) has strengthened the religious, cultural and political bonds that unite our two great nations, and I thank you for that. The United States and Israel share much in common. We both affirm the innate freedom and dignity of every human life, not as prizes that people confer to one another, but as divine gifts of the Almighty. As Thomas Jefferson once wrote, "The God that gave us liberty and life gave them to us at the same time." Moral clarity is an essential virtue in our world today and for sixty years cynics and skeptics have proven that we have been looking to false choices in the Middle East. They have claimed that we must choose either freedom or stability, either democracy or security. They have said that the United States could either uphold its principles or advance its policies.

By trying to purchase stability at the price of liberty, we achieved neither and we saw the result of that on a fine September morning. That is why President Bush has rejected sixty years of false choices in the Middle East. And as he said last week at the International Republican Institute, "The United States has a new policy, a strategy that recognizes that the best way to defeat the ideology that uses terror as a weapon is to spread freedom and democracy."

The President holds the deep belief that all human beings desire and deserve to live in liberty. This idea, of course, did not immediately find favor. Many continued to defend the false choices of the past. But we knew then and we know now America's message is clear, our principles are sound and our policies are right, and today the nations of the world are finally joining with the United States to support the cause of freedom.

We measure our success in the democratic revolutions that have stunned the entire world: vibrant revolutions of rose and orange and purple and tulip and cedar. The destiny of the Middle East is bound up in this global expansion of freedom. The days of thinking that this region was somehow immune to democracy are over. Working with our G-8 partners, the United States has created the Broader Middle East and North Africa Initiative to build partnerships with people in the region who are working for greater liberty.

The flagship of this bold new policy is the Forum for the Future, an unprecedented international venue to amplify the voices of reform that are redefining the region. Together, we will tackle the urgent goals of the forum that include the following: political openness, economic liberty, educational opportunity and the empowerment of women.

Today, nations all across the world are speaking a common language of reform and they are helping citizens throughout the broader Middle East to transform the parameters of debate in their societies. The people of this region are expressing ideas and taking actions that would have been unthinkable only one year ago.

Some in the Arab media have even asked why the only real democracies in the Middle East are found in the occupied lands of Iraq and the Palestinian territories. What an incredible thought.

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Today, citizens in the region are demanding that their governments respond to this simple, audacious question.

And many states will have to answer their people's call for genuine reform. Jordan and Bahrain and Qatar and Morocco are all taking steps to introduce greater openness into their political systems. Egypt has amended its constitution with electoral reform. And even Saudi Arabia has held multiple elections. And just last week (May 2005), remarkably, the Kuwaiti legislature granted its women citizens the right to vote. Kuwait's recognition that it must include all of its people in political life is, hopefully, an example that its neighbors will follow. In Lebanon, hundreds of thousands of citizens have demanded an end to the foreign suffocation of their country. With strong international support, led by the United States and by France, and with an explicit mandate from the United Nations Security Council, Syria has gotten the message loud and clear that it is not welcome in Lebanon. The Syrian regime has withdrawn its decades-long military presence. And at the end of this month, the Lebanese people will go to the polls and set a new course of action. But we cannot rest. Syria must also remove its intelligence forces and allow the Lebanese people to be free.

To be sure, a vital source of inspiration for all of these reformers comes from the people of Iraq, who defied threats of murder to vote in free elections in January. They declared with one voice that the will of the people, not the whim of a dictator, would determine Iraq's future. They declared with that same voice that no Iraqi regime would ever again torture its people, invade its neighbors, attack its neighbors and offer financial incentives to Palestinian homicide bombers.

Today, Iraq has a transitional government that will soon begin framing a new national constitution. Free nations everywhere have rallied to Iraq's side. There is a coalition of thirty countries helping the Iraqi people to defend themselves from murderers and terrorists. The North Atlantic Treaty Organization (NATO) is training Iraq's army officers, police forces and civilian administrators. And next month, at the request of Iraq's new government, the United States and the European Union (E.U.) will co-host an international conference to build greater support for democracy, prosperity and security.

Now, I speak to these reform efforts because the United States looks to a future and has a vision of a day when Israel is no longer the sole democracy in the Middle East. This aspiration shapes the very heart of our approach to the Israeli-Palestinian conflict as well. For four years, President Bush refused to meet with Yasser Arafat. He did so because Arafat valued neither Israel's security nor his own people's liberty. There were those who ridiculed this principled decision as if the refusal to negotiate with a man who aided and abetted terrorism somehow revealed a lack of concern for peace. America and Israeli had tried before to gain peace where democracy did not exist and we are not going down that road again. Instead, President Bush advanced a vision of two democratic states: Israel and Palestine living side by side in peace and security. And today, the Palestinian people are trying to meet this democratic challenge. In January 2005, they voted in historic elections for a leader who rejects violence as a path to peace. President Abbas has committed to both freedom and security and President Bush has offered his hand in friendship, just as he promised he would.

In three days, when they meet together here in Washington, they will build a relationship that is one that is based on the good faith that only democratic leaders can bring. The President will be clear that there are commitments to be met, that there are goals to be met, but that democracy is a goal that is unassailable and incontrovertible.

Prime Minister Sharon has also recognized that Israel is gaining a legitimate partner for peace and he has made courageous decisions that could change the course of history. Beginning in August 2005, Prime Minister Sharon will implement his plan to withdraw from Gaza and parts

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of the West Bank. Israel's disengagement strategy presents an unprecedented and incredibly delicate opportunity for peace and we must all work together to capitalize on this precious moment. To strengthen our present opportunities, all nations must meet their obligations. Israel must take no actions that prejudice a final settlement or jeopardize the true viability of the Palestinian state. And Israel must help to create the conditions for the emergence of that democratic state. The Palestinian Authority must advance democratic reform and it must dismantle all terrorist networks in its society. Arab states must end incitement in their media, cut off all support for terrorism and extremist education, and establish normal relations with Israel.

To nurture our present opportunity, President Bush proposed and the Quartet nations endorsed the appointment of James Wolfensohn as Special Envoy for Gaza Disengagement. Jim Wolfensohn will help the Israelis and Palestinians coordinate on non-military aspects of their disengagement, including disposition of assets and revitalization of the Palestinian economy. To protect our present opportunity, President Bush has sent General William Ward to help the Palestinians reform their security services. General Ward is also coordinating all international security assistance to the Palestinians, including training and equipment. To expand our present opportunity, the United States has greatly increased our financial assistance to the Palestinian people. We are pledging \$350 million to help the Palestinians build the free institutions of their democratic state. This is an unprecedented contribution to the future of peace and freedom in the Middle East. Yes, this past year has brought forth a dramatic shift in the political landscape of the Middle East. But this moment of transformation is very fragile and it still has committed enemies, particularly the government of Iran, which is the world's leading sponsor of terrorism.

The United States has focused the world's attention on Iran's pursuit of weapons of mass destruction. And along with our allies, we are working to gain full disclosure of Iran's efforts to obtain nuclear weapons. The world must not tolerate any Iranian attempt to develop a nuclear weapon. Nor can it tolerate Iran's efforts to subvert democratic governments through terrorism. The Middle East is changing and even the unelected leaders in Tehran must recognize this fact. The energy of reform that is building all around them will one day inspire Iran's citizens to demand their liberty and their rights. The United States stands with the people of Iran.

President Bush has declared that advancing the cause of freedom is the calling of our time and in the broader Middle East, his policies are expanding the scope of what many thought possible. With our support, the people of the region are demonstrating that all great human achievement begins with free individuals who do not accept that the reality of today must also be the reality of tomorrow. Of course, there will always be cynics and skeptics who hold the misguided belief that if they can not see their goal, then it cannot be possible. They will try to elevate their cynicism by calling it realism and they will criticize all who echo the stirring words of Theodore Hertzl, "If you will it, it is no dream."

In 1776, cynics and skeptics could not see an independent America, so they doubted that it could be so. They saw only thirteen colonies that could never hang together and would surely hang separately. But there were others who had a vision, a vision of the United States as a free and great nation, a democracy, and one day, a complete multiethnic society. With perseverance, the American people made that vision a reality. In 1948, cynics and skeptics could not see the promise of Israel, so they doubted it, said it could never be fulfilled. They saw only a wounded and wandering people beset on all sides by hostile armies.

But there were those who had another vision, a vision of a Jewish state that would shelter its children, defend its sacred homeland, turn its desert soil green and reaffirm the principles of freedom and democracy. With courage, the Israeli people made that vision a reality.

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Today, cynics and skeptics cannot see a democratic Middle East, so they doubt that it is a realistic goal. They focus only on the despotism that has shaped the region's past and still defines much of its present. But ladies and gentlemen, make no mistake, freedom is on the march in Afghanistan and Iraq and in Lebanon and in Georgia and Ukraine and Kyrgyzstan and in the Palestinian territories.

Yes, it is hard and progress is uneven. There are violent men who will stop at nothing to prevent democracy's rise. Yet people all across the Middle East today are talking and demonstrating and sharing their vision for a democratic future. Many have given their very lives to this noble purpose. The United States and Israel must defend the aspirations of all people who long to be free. And with our unwavering support, we can help to make the promise of democracy a reality for the entire region. But there were those who had another vision, a vision of a Jewish state that would shelter its children, defend its sacred homeland, turn its desert soil green and reaffirm the principles of freedom and democracy. With courage, the Israeli people made that vision a reality.

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# **The Bush Administration's Second-Term Foreign Policy Toward East Asia**

**By  
Evans J. R. Revere,  
Department of State Acting Assistant Secretary for East Asian  
and Pacific Affairs**

[The following are the remarks presented to the Center for Strategic International Studies Conference, Washington, D.C., May 17, 2005.]

## **Overview**

No one here needs to be persuaded of the importance of East Asia to the United States and the importance of the U.S. to East Asia. Our engagement with this vital region covers the entire spectrum from security, trade and investment to disaster relief, coordination of development aid, disease control and an ever growing network of non-governmental connections among our societies. The United States has been an Asia-Pacific player for two centuries. We will remain so.

For the past sixty years, in particular, the United States has played a vital role in helping Asians to achieve their success. And this, too, must and will remain so. We have helped to keep the peace; have kept open the door to our market, even in tough economic times; and have stood strongly with Asian reformers at critical junctures in the region's many enormously successful transitions to democracy.

Several major military powers are in East Asia, as is one of the world's biggest security problems North Korea which poses both a powerful conventional threat and has a nuclear weapons program opposed by all countries in the region.

On the economic side, East Asia features some of the world's most powerful and strongly growing economies. Three of our top ten trading partners are in the region:

- China (3rd);
- Japan (4th); and
- The Republic of Korea [South Korea] (7th).

Enhancing our economic, trade, and investment relations is one of the most promising means for encouraging further positive growth and development, and for bringing out the best in our relationships in the region. With this as background, I am pleased to have this opportunity to offer a few thoughts on our foreign policy in East Asia. And since the focus of this conference is Korea, let me begin on the Peninsula.

## **Korea**

Despite significant differences in terms of history, geography and culture, the U.S and South Korea alliance now more than half a century old has been remarkably enduring and beneficial for both nations. That alliance that partnership is just as important now to both our countries as ever.

Over the past fifty years, the South Korea has raised itself from the depths of wartime devastation and shaken off the shackles of authoritarian rule as it has transformed itself into a fully democratic nation committed to human rights, the rule of law, and economic prosperity for all its people. The blossoming of democracy also has had profound effects on Korean attitudes toward external relations with the Democratic Peoples Republic of Korea [D.P.R.K., North Korea], with Korea's neighbors, and with the United States. From the Washington perspective, we see a more confident and assertive foreign policy in Seoul, one aimed at making sure that

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Korea never again suffers the fate it did a century ago. For all of us who understand Korea's complex, difficult history, Seoul's aspiration is a natural one. As our South Korean friends seek to redefine their place in the world, they can do so confident that one major factor is very different from the past. Unlike a century ago, today South Korea has a strong alliance partnership with the United States a power that serves as a guarantor of South Korea's independence and freedom. America is proud to play such a role.

Our alliance with the South Korea is not without its share of challenges, but if we look back over the recent past, there is much to be optimistic about in terms of what we are accomplishing together. Today, South Korean and American forces are serving together to ensure a promising future for Iraq and Afghanistan; our two governments have concluded agreements on U.S. troop deployments; and, working together, we have made progress in the economic and trade sphere that may even allow us to start Free Trade Agreement (FTA) negotiations.

### **Operation Iraqi Freedom**

The South Korea was one of the early contributors to Operation Iraqi Freedom, and now has 3,400 troops in country, making it the third-largest coalition partner in Iraq. The South Korean government has committed \$60 million for Iraq's reconstruction and pledged an additional \$200 million in assistance through 2007. The Iraqi people and the United States are grateful for South Korea's contributions to build a new and free Iraq. And let me also say that we and the people of Afghanistan are equally appreciative of Korea's willingness to contribute personnel and assistance to rebuild that country.

### **Future of the Alliance and Security Policy Initiative**

Late last year, our two governments concluded the two-year Future of the Alliance (FOTA) process, with agreements on base relocations including the historic return of the Yongsan Garrison and other U.S. redeployments within and from the Peninsula. This was a joint effort to restructure, modernize, and rationalize our force structure and basing arrangements and, at the same time, to make the U.S. troop presence in South Korea less intrusive to the South Korean public. We have set out on a path that will result in a stronger U.S. deterrent posture, one that can endure into the future. As a key element of this, the United States set in motion an \$11 billion program of force enhancements on the Peninsula and in the region to strengthen our deterrent capability in support of South Korea.

Our two governments have now established the Security Policy Initiative (SPI), a consultative mechanism for implementing those agreements and addressing new security issues. One issue we have been discussing is "strategic flexibility," the concept that U.S. forces, wherever they are located in South Korea, elsewhere abroad, or in the United States need to be able to respond flexibly to security challenges, wherever they occur.

It is important to keep in mind that strategic flexibility is not a one-way street. Strategic flexibility is the same doctrine that enables additional U.S. forces to come to South Korea from anywhere in the world in the event of a contingency, forces that enable us to honor our treaty commitment to defend South Korea.

### **Free Trade Agreement, Mad Cow Disease, and Intellectual Property Rights**

In the realm of economic and trade relations, the United States and South Korea enjoy very broad and mutually beneficial ties. As in any complex relationship, we have outstanding issues, but we have enjoyed a constructive dialogue in addressing differences when they occur. Notably, we are considering the possibility of negotiating a Free Trade Agreement, with a decision on that possibility expected by the end of this year.

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I am also pleased to note that the South Korean government has made a commitment in principle to lift the ban on U.S. beef imports expeditiously. Meanwhile, we have made good progress on intellectual property concerns, and as a result of the South Korean efforts on intellectual property rights (IPR), we have now been able to move South Korea off the *Priority Watch List* to the *Watch List*. Finally, our two governments are cooperating closely on several initiatives within Asia-Pacific Economic Cooperation (APEC) during Korea's chairmanship this year.

### **North Korea [Democratic Peoples Republic of Korea]**

As I said earlier, our alliance is not without its challenges. Foremost among them is how to deal with North Korea and the nuclear issue. Joe DeTrani will speak in detail later in the conference on this subject, so I will make my remarks brief. The U.S. administration understands the special nature of South Korean feelings regarding the North and the desire to avoid destabilization on the Peninsula. We also well understand that popular attitudes towards the North have evolved since the historic South-North Summit of 2000. And we know that people in South Korea strongly desire to pursue peaceful, diplomatic means to resolve the North Korea nuclear issue.

### **That is precisely the U.S. position, as well.**

We believe the Six-Party Talks are the best means for resolving the nuclear issue diplomatically. The essence of our approach was spelled out by Secretary of State Rice, who said in her confirmation hearing:

We have made clear to the North Korean regime that the President of the United States has said that the United States has no intention to attack North Korea, to invade North Korea, that multilateral security assurances would be available to North Korea, to which the United States would be party, if North Korea is prepared to give up its nuclear weapons program, verifiably and irreversibly.

Our diplomacy, and that of the South Korean government and others, has sought to drive home to Pyongyang the message that brinkmanship and threats only lead to further isolation. As Secretary Rice has said, "The world has given North Korea a way out, and we hope they will take that way out."

If North Korea dismantles its nuclear programs, multilateral efforts can provide opportunities for better lives for the North Korean people. And resolving the nuclear issue can open the door to improved relations with the United States, North Korea needs to understand that it is increasingly an isolated, out-of-step country that is a threat to peace and prosperity in a region where most of the trends are going in the opposite direction, that is, to greater regional cooperation; openness to transnational flows of goods, capital, people, technology and investment; and integration with the world.

### **China**

There is a small cottage industry churning out articles portraying China's reemergence in all matter of ways. The question of how China intends to use its growing power is important: China has rapidly integrated itself into the global economic system. Like India, it has moved into a key position in the global supply chain. Its military capabilities are growing. And like all emerging powers, it must choose whether and how to adapt to the international system it has sought to join over the past thirty years.

Let me restate our policy clearly: As Secretary of State Rice said on her recent trip to Asia, we want a confident and prosperous China that can play a constructive role in the world. But we also expect a rising China to rise, too its global responsibilities and to show it is doing so through

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its actions. This means working individually, jointly with us, and cooperatively with others in support of shared interests.

Indeed, as Secretary of State Rice has said, we and our allies and friends can help foster an environment in which a rising China acts as a positive force. In a nutshell,

We want China as a global partner, able and willing to match its growing capabilities to its international responsibilities.

There will naturally be areas where we disagree for example, on Taiwan and human rights. But there are areas where we must and are finding ways to cooperate North Korea, counterterrorism, global growth to ensure peace, stability and prosperity in the East Asia and around the world. While America has been joined by China as an engine of growth in the region, we need to ensure open and transparent markets. As China continues to incorporate itself more fully into the global system, we intend to work with China bilaterally and in the context of its World Trade Organization (WTO) commitments to address outstanding concerns related to that ongoing integration effort, particularly on issues such as intellectual property rights, financial sector reform and improved market access.

China's dynamic economy offers growth possibilities for the entire Asian region. This in turn increases China's interconnections with other Asian nations, as well as its regional political influence. China's primary security interest is in stability in Asia. It is the policy of the U.S. to encourage China's integration into regional economic and security structures, in the aim of fostering closer relations between China, its neighbors, and other regional powers including the U.S. It has never been the policy of the U.S. to restrict or contain China.

As I noted earlier, there are, of course, issues that affect our relationship with China, particularly Taiwan. Our one-China policy is clear and unchanged. We oppose any attempt by either side to unilaterally change the status quo. We believe that dialogue is conducive to peaceful resolution and urge both sides to continue to expand recent steps toward a more productive relationship. And in the interests of peace and stability we stand by our obligations under the three communiques and the *Taiwan Relations Act*.

I know that many of you are interested in the recent visits of opposition party leaders to the PRC. So are we. Those have been positive developments. Meanwhile, we continue to urge China to meet with the duly elected representatives of Taiwan to engage in a dialogue that can best meet the aspirations of people on both sides of the Strait.

## **Japan**

Japan's success during the past half century rising from the ashes of a terrible war to global prosperity, responsibility, and international standing has been historic and inspiring. Japan, our bilateral security partner for more than fifty years, has now become a key partner in the global war on terror, and in the search for peace in the Middle East. The people of Japan have provided generous humanitarian aid to Iraq, and made key contributions to the success of Iraq's elections, as well as to political and economic development Afghanistan. And Japan has deployed Self-Defense Forces to perform humanitarian missions for peace and stability in Iraq. In sum, Japan has begun to step up in a more concerted way to its wider global responsibilities. We welcome this. Japan has earned an honorable place among the nations of the world by its own efforts. That is why the United States unambiguously supports a permanent seat for Japan on the United Nations Security Council.

We believe the United States and Japan can do even more together. Our two countries provide about 40 percent of all government assistance to developing countries throughout the world. And that is why Secretary of State Rice, during her trip to Japan in March 2005, proposed a Strategic

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Development Alliance for our two countries to sit down and regularly, systematically focus our efforts to advance these common objectives in countries where we are already working side by side across the globe. The United States and Japan relationship continues to evolve in other ways, as well. On both the regional and global levels, the U.S. and Japanese alliance is modernizing. Defense realignment discussions are ongoing. But the heart of the U.S. and Japanese alliance, the broad partnership not just the military alliance remains constant: a shared commitment to peace, freedom, and market-based economic prosperity.

### **Regional**

For a long time there was only limited progress in developing regional institutions in Asia. This has begun to change, partly because of the end of the Cold War, but also because of the expansion of intra-regional trade patterns, Asian reactions to the 1997-1998 financial crisis, and generational change, among other factors. Despite troubling historical animosities, Asians are working together in unprecedented ways. We welcome this first, because many issues are transnational and can only be addressed through coordinated, collective action. These range from problems like terrorism and transnational crime to opportunities like reducing trade barriers stopping the spread of infectious diseases and protecting the environment. Regional arrangements also hold the promise of further increasing Asia's influence on the world stage. As you know, the U.S. has been deeply involved in APEC and the Association of Southeast Asian Nations (ASEAN) Regional Forum, and in working to bolster those organizations' effectiveness. In recent years, however, I have to note that we have seen movement toward more Asia only organizations, including the newest proposal to hold an East Asia Summit this coming December 2005 in Kuala Lumpur. We do not view such proposals as automatically inimical to U.S. interests; we do not need to be in every room and every conversation that Asians have with one another. We do, however, have to ensure the strongest possible continuing U.S. engagement in the region and continue to believe that the strategic and economic geography through which Asians can best build on their success is via trans-Pacific partnerships and institutions. And so we are working hard to strengthen these trans-Pacific partnerships; to make them more effective programmatically; to pursue a robust economic, trade and security agenda in multilateral structures; and to remind Asians of the role these groupings continue to play in their success. As I mentioned at the outset, the U.S. has helped the Asia and Pacific region for two centuries and we will remain an important part of helping the region to achieve its highest aspirations.

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# United States Policy Goals for Asia Pacific Economic Cooperation 2005

By

**Lauren Moriarty**

**United States Senior Official for Asia-Pacific Economic Cooperation**

[The following are excerpts of the remarks presented to Korea Asia-Pacific Economic Cooperation (APEC) Year Forum and Business Executive Roundtable, Reston Hyatt Regency, Reston, Virginia, February 18, 2005.]

Last year, we got good work done in APEC; this year, we plan to build on that progress. We have distributed the text of a speech I gave in December 2004 [see full text of December 2004 speech at: <http://www.state.gov/p/eap/rls/rm/2004/39297.htm>.] at the Asia Society that summarized what we accomplished last year. One thing that speech does not capture is the work we have done to strengthen APEC as an institution and encourage implementation of APEC commitments and initiatives. We will continue to work on that this year.

As we gear up for the first APEC meetings of the year, including the first Senior Officials Meeting, it is particularly important that we get your views and suggestions about how APEC and the business community and can work together to enhance the prosperity and security of the region. In 2005, the U.S. priority objectives for APEC are:

- To increase the prosperity of the region through strong support for trade liberalization and facilitation, especially through support to advance the World Trade Organization's (WTO) Doha Development Agenda;
- To strengthen the security of the region by continuing to implement the Bangkok Commitments on Security and improving the security of trade and travel in the APEC region;
- To deepen the work APEC has done to increase transparency and fight corruption in the region; and
- To enhance the protection and enforcement of intellectual property rights.

Complementing these priorities are, of course, other objectives, including digital, health and tsunami-related initiatives. Our U.S. goals for APEC mesh well with the goals Korea has articulated as APEC host. We are looking forward to working together very closely with our Korean hosts and with the U.S. business community to advance these goals and make APEC an even more effective institution. As always, a key element of our work in each of these areas will be cooperation with Asia-Pacific Economic Cooperation Business Advisory Council (ABAC) and with the broader business sector. Let me start by suggesting five areas for cooperation.

- First, are there major initiatives on which we can cooperate? For instance, last year's APEC Anti-Corruption Initiative was a wonderful example of the public and private sectors working on an issue to produce a package much more valuable than the sum of its parts. Leaders made a political commitment to fight corruption. They agreed on a course of action to implement that political commitment. Seven APEC economies pledged a total of more than \$10 million to fund implementation of the course of action. And ABAC members made a parallel commitment to conduct their business according to the highest ethical standards. Wow! What a package! How can we extend that this year? Together, can we think of other packages that will have the same big punch?

- Second, some of you have heard about the 2001 "Shanghai Model Port Project" or the 2003 "Bangkok Efficient and Secure Trade Project." We hope to launch one or more such public-private demonstration projects in 2005. What ideas do you have?

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- Third, are there specific tsunami reconstruction projects in which we can cooperate in APEC?

- Fourth, my colleagues and I want to hear your views on how APEC can help improve the business climate in the region and the bottom line for your business. How can we work with you in APEC working groups and dialogues to make that happen?

- Fifth, and to answer in part my own question, the U.S. government welcomes private sector participation in official APEC meetings, as appropriate. Take the case of APEC's work on trade facilitation last year. The private sector contribution to that dialogue was excellent. We hope to replicate this type of cooperation this year.

Trade liberalization and facilitation remain top U.S. goals in APEC in 2005. The most important goal for the United States this year in APEC will be to have APEC do everything it can to advance the Doha Development Agenda. The June APEC Trade Ministers Meeting will come at a critical time in preparations for the WTO Ministerial in Hong Kong. The APEC Leaders and Ministers Meetings in November will come just weeks before the WTO Ministerial Meeting in Hong Kong. APEC Trade Ministers, whose economies account for almost half of world trade, can lay groundwork at their June meeting for the Hong Kong WTO Ministerial. APEC Ministers and Leaders meeting in November can help pave the path to success in Hong Kong.

The U.S. government has some specific ideas on how APEC can support progress in the Doha Development Agenda. Other ideas will emerge over the course of the year as we see how negotiations progress.

The Geneva APEC Caucus can help transfer APEC's contributions to Geneva. Last year, Chile invigorated the Caucus; this year, Ambassador Kim, this year's Chair of the APEC Senior Officials' Meeting, has already met once with the Geneva APEC Caucus. As the United States works through APEC to advance the Doha Development Agenda and liberalize trade, we will also strive to facilitate trade, eliminating, where possible, the unnecessary red tape that bogs businesses down.

We will continue to push for the negotiation and conclusion of high-standard free trade agreements and regional trade arrangements in the region, building on the FTA Best Practices APEC agreed on last year. As Wendy and the rest of the interagency team and I work on our trade initiatives in 2005, we are delighted to know that Mike Ducker of FedEx will chair the Asia Pacific Economic Cooperation Business Advisory Council (ABAC) Working Group on Trade and Investment Liberalization and Facilitation. We look forward to working with all of you on the very high priority of trade liberalization and facilitation.

## **Security**

Strengthening the security of the region remains another top goal of the United States for APEC 2005. In 2005, we plan to:

- First, focus on implementing the security commitments APEC has already undertaken. We will also help to build the capacity of APEC economies to implement those commitments. For example, last year, APEC agreed on export control guidelines. This year, the United States will sponsor an expert-level workshop on export controls.

- Second, propose that APEC develop guidelines on secure handling of radioactive sources. We can facilitate the use of radioactive materials in medicine and industry if we can help ensure that radioactive materials can be used safely, without harm to the public or danger of falling into the wrong hands.

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- Third, continue to promote secure trade and travel. For example, the United States supports work in the APEC Sub-Committee on Customs Procedures to develop a framework to secure containers and ensure the security and integrity of supply chains.

### **Transparency and Anti-Corruption**

The third major U.S. goal for APEC in 2005 is to increase transparency and fight corruption. In 2004, APEC Leaders made an historic commitment to ensure transparency and fight corruption. They outlined a course of action to:

- Deny safe haven to officials and individuals guilty of corruption, those who corrupt them, and their assets;
- Implement anti-corruption policies and practices consistent with the United Nations (U.N.) Convention Against Corruption;
- Implement the APEC Transparency Standards;
- Encourage collaboration to fight corruption and ensure transparency; and
- Develop innovative training and technical assistance programs to fight corruption and ensure transparency.

Members of the ABAC made a parallel commitment to conduct their own business affairs in accordance with the highest ethical standards. In 2005, the United States will work in APEC to get an APEC Anti-Corruption and Transparency Task Force up and running so we can start implementing this course of action. In addition, as part of a Korean symposium on fighting corruption, the United States will sponsor an expert-level workshop on the denial of safe haven and asset recovery issues. The fight against corruption is an area ripe for active cooperation with business. Moving forward, I encourage all of you to think about specific ways to incorporate the issue of corporate governance into the APEC anti-corruption agenda.

### **Intellectual Property Rights**

Business executives routinely list piracy of intellectual property as one of the greatest challenges their companies face in the Asia-Pacific region. In response to this concern, the United States has made intellectual property rights (IPR) its fourth major goal in APEC for 2005. To reduce trade in counterfeit and pirated goods, the United States will work in APEC to develop:

- Guidelines for inspection, seizure and destruction of goods and equipment used in cases of import, export and trans-shipment of counterfeit and pirated goods;
- Guidelines to ensure that supply chains are free of counterfeit and pirated goods; and
- Model cross-border enforcement mechanisms.

We will work to ensure that the Internet and e-commerce are not used to facilitate trade in infringing and counterfeit goods. We will support APEC work that encourages economies to put in place appropriate legal regimes and enforcement systems to curtail trade in infringing and counterfeit goods. We will also seek to encourage the cooperation and build the capacity to improve protection of intellectual property rights. Like anti-corruption, IPR protection and enforcement is a natural area for close, concrete cooperation with the private sector. We look forward to getting your ideas and proposals.

### **Other United States Goals in 2005**

Because I am trying to keep my remarks brief, of necessity, I have talked only of our top goals. As you know, however, the U.S. continues to work a host of issues in APEC that result in real, positive changes and improvements to your bottom line: harmonization of standards; data privacy standards, and many others.

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Digital issues are a prime example. Given the degree to which Korea is wired, the United States plans to continue to work in APEC to promote liberalization of broadband principles, technology choice, and regulatory frameworks for convergence. The e-security agenda could include the development of:

- Comprehensive legal frameworks to combat cybercrime;
- Greater wireless security;
- Electronic evidence laws;
- Electronic evidence best practices; and
- Public and private partnership to provide training in anti-cybercrime techniques.

I can not overstate how much we welcome the business sector's input regarding these and other initiatives.

### **APEC's Response to the Indian Ocean Tsunamis**

As we talk of public-private partnerships, I would like to say a few words about APEC's response to the disastrous Indian Ocean earthquake and tsunamis. I certainly do not have to explain to this group the enormity of the disaster. Many of the companies represented in this room today contributed generously to relief and reconstruction. Indeed, the U.S. private sector has led the world in its response to the tragedy. The National Center for APEC website features an overview the response to the tsunamis from the private sector and non-government organizations. The Chronicle of Philanthropy reported that private U.S. contributions, both cash and in-kind, have surpassed \$800 million.

The U.S. government has also responded generously. President Bush pledged an initial \$350 million, and has now asked Congress to provide a total of \$950 million to help fund tsunami relief and reconstruction. APEC, too, wants to help. We want to do so in a way that leverages APEC's unique strengths, adds real value, and avoids duplication of effort with the many other public and private organizations involved in post-tsunami reconstruction and rehabilitation. Let me share with you some preliminary ideas that the United States will discuss with our APEC partners and we will accomplish the following:

- Update and expand the existing APEC Emergency Preparedness website.
- Consider how one could inventory relief supplies like lift capacity and heavy equipment that could be available from the private sector in an emergency and what legal frameworks would need to be in place to use them.
- Develop best practice guidelines for how small and medium-sized enterprises can prepare for and recover from emergencies, including how to develop a financing strategy and business recovery plan.
- Deliver workshops in risk and crisis management with special emphasis on the tourism sector.

Other APEC economies will also have ideas, but, in any case, post-tsunami reconstruction will have a prominent place on the APEC 2005 agenda. I ask for your ideas and input as to how to maximize APEC's impact and avoid duplication of the already considerable international effort in this area, and, in particular, your suggestions on how APEC and ABAC can cooperate on post-tsunami reconstruction and rehabilitation.

### **Conclusion**

In conclusion, the United States has set ambitious goals for APEC 2005, we will work hard to:

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- Increase the region's prosperity through trade liberalization;
  - Strengthen its security;
  - Fight corruption; and
  - Enhance the protection and enforcement of intellectual property.

And we will continue to work in other areas of importance to the business community, as well, to improve the business climate in the region and boost your bottom lines. We look forward to working closely and productively with the business community on all these fronts and to ensuring that the "Year of the Rooster" is an auspicious one for the APEC economies and their peoples.

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# United States Policy Toward South Asia

By

**Christina Rocca**

**Department of State Assistant Secretary for South Asian Affairs**

[The following are excerpts of the statement before the House International Relations Subcommittee for Asia and the Pacific, Washington, D.C., June 14, 2005.]

This is our first opportunity since the start of the second Bush administration to review what has been accomplished in the past four years and discuss our goals for the future. We now have an exciting window of opportunity to work with our partners in South Asia and make truly historic progress. Our goal is to move forward firmly and irreversibly on paths to stability, democracy, moderation and prosperity.

President Bush came to office in 2001 recognizing the growing importance of South Asia to the United States. He directed that the United States build stronger relationships with all of the countries in the region. This has been accomplished; the United States now has very active and productive relationships with every country in South Asia. During his second administration, the President has made clear his intention that we build on these already strong relationships and move to the next level. There are significant challenges to overcome, but the rewards for South Asia and the United States definitely make the effort worthwhile.

As we pursue our bilateral goals, our relationship with each South Asian country stands on its own, and I will review these relationships shortly. We also take a regional approach on some issues, for example seeking to improve stability by encouraging states to overcome their differences. Since greater prosperity and economic interdependence would buttress stability and moderation, we seek strong economic growth in South Asia through greater intra-regional trade and cooperation in areas such as energy. We are supportive of the efforts by the South Asian Association for Regional Cooperation (SAARC) countries to establish the South Asian Free Trade Area (SAFTA). We are providing assistance to these efforts through a United States Agency for International Development (USAID) funded high-level team of researchers who are working with counterparts in the region to produce a SAFTA study to support the process.

Stronger democratic institutions are a central goal for us in South Asia. All South Asians are familiar with democracy, and most have some degree of experience with it. But democratic institutions are seriously challenged in parts of the region. The United States is helping develop democratic tools such as the rule of law, independent media, grass roots activism, good governance and transparency through which these nations can address the fundamental problems of extremism, security, and development. Their success will bolster stability throughout the region. Progress in South Asia will have global consequences.

## **India**

This is a watershed year in the United States and India relations. Since Secretary Rice's trip to New Delhi in March a series of visits by senior officials from both countries, including Minister of External Affairs Natwar Singh, have underscored the importance of our developing stronger ties. Prime Minister Manmohan Singh will be coming to the United States in July and President Bush has said he hopes to visit India soon. We are accelerating the transformation of our relationship with India, with a number of new initiatives. We are engaging in a new strategic dialogue on global issues, and on defense and expanded advanced technology cooperation. We are continuing our dialogue on the global issues forum, which includes discussion of how we can jointly address such issues as democracy, human rights, trafficking in persons, environment and sustainable development, and science and advanced technology. The United States and India

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have begun a high-level dialogue on energy security, to include nuclear safety, and a working group to strengthen space cooperation. Our defense relationship is expanding and we are revitalizing our economic dialogue. The United States relationship with India and our commitment to develop even deeper political, economic, commercial and security ties have never been stronger.

As Secretary Rice has said, we see India becoming a world power in the 21st century, and our dialogue with India now touches on broad issues around the region and the world. The United States is supportive of India's growing role as a democracy that is stepping onto the world stage to take on global responsibilities. India joined the United States as a charter member of the core group of countries formed to coordinate tsunami relief, and played a prominent role in providing immediate aid to affected South Asian countries. We are consulting closely with the Indians on how to help the Nepalese resolve their current political crisis, and India has been supportive of the peace process in Sri Lanka.

The U.S.-India Economic Dialogue initiative is focused on enhancing cooperation in four areas: finance, trade, commerce and the environment. The April 2005 signing of a landmark Open Skies civil aviation agreement shows our shared commitment to strengthening our economic relationship. We are supporting India as it moves forward with financial, trade, energy, water, and agriculture reforms designed to sustain and elevate India's impressive rate of growth and reduce poverty. Reforms in these areas would allow pursuit of new opportunities with the United States in a variety of high-tech fields and would allow Indian consumers a greater choice of goods and services. Additionally, we are establishing a forum of U.S. and Indian chief executives to discuss specific and innovative ways to improve economic ties.

Building this stronger economic and commercial relationship between the U.S. and India faces challenges, however. Our exports have increased, but significant tariff and non-tariff barriers that remain are a problem for U.S. businesses interested in India's market. We will use our high-level dialogues to address differences in trade and investment issues. In the area of intellectual property protection, India's 2005 enactment of a new patent law to provide patent protection for pharmaceuticals and biotechnology inventions is a promising advance for both Indian and U.S. companies. We need to build on this effort so that India's intellectual property laws and enforcement efforts against piracy and counterfeiting become world-class, contributing to further economic development and enhancing consumer choices and creativity in India. To help accomplish our mutual economic objectives for the Indian people we also need to devote our near-term attention to additional trade disputes involving specific companies, such as U.S. investors in the power sector. We also need to deal with more general "policy" issues, such as Indian government subsidies for fertilizer and liquid propane gas (LPG) and non-transparent standards.

## **Pakistan**

Over the past three years, Pakistan's leaders have taken the steps necessary to make their country a key ally in the war on terrorism and to set it on the path to becoming a modern, prosperous, democratic state. As a result of forward thinking and acting, Pakistan is now headed in the right direction.

Pakistan has supported U.S. operations in Afghanistan. Pakistan is rooting out al Qaeda and its terrorist allies in its tribal areas at the cost of more than 200 of its own soldiers. It has killed or captured several hundred foreign terrorists and militants. Pakistani law enforcement is waging a counter-terrorism campaign in other parts of the country detaining several hundred suspects including Khaled Sheikh Mohammad, Abu Zubaydah, and recently Abu Faraj al-Libbi.

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We are seeing Pakistan's continued cooperation in building a stable and democratic Afghanistan and countering nuclear proliferation. In the past year, Pakistan's relations with Afghanistan have improved. President Musharraf and President Karzai are working toward a more cordial personal relationship. Trade between the two countries continues to grow dramatically, and they can jointly reap enormous benefit by Afghanistan serving as a land bridge between Central and South Asia and the world beyond. Pakistan is cooperating with the international community's efforts to dismantle the A.Q. Khan network and is sharing with us information from its own investigation, including information received from Dr. Khan. We expect this cooperation to continue.

Democratization is another focal point of our relationship. We expect Pakistan's 2005 local and 2007 general elections to be free and fair throughout the entire process. This is a message that we will continue to emphasize, as we believe that democracy, freedom and rule of law are the best counters to hatred, extremism, and terrorism. In the last four years, Pakistan's economy has moved from crisis to stabilization and now to significant growth. Providing the promise of a better future for Pakistanis will be a very important part in the country's success in overcoming extremism. Expanded economic relations between the United States and Pakistan are important to our overall relationship. We are negotiating a bilateral investment treaty with Pakistan to strengthen our commercial and economic relationship.

We will continue our efforts to improve intellectual property protection, as a means of strengthening rule of law, fostering economic progress and attracting foreign investment in Pakistan. We are encouraged by the Government of Pakistan's raids of and arrests associated with several private operations that were adversely affecting the United States and Pakistani interests. Pakistan's commitment to sustaining enforcement and following through with prosecutions against piracy and counterfeiting, as well as continuing to modernize its IP regime, is important to Pakistan's development objectives, as well our long-term economic relationship.

The centerpiece of the U.S. commitment to a long-term relationship with Pakistan is the President's pledge to work with Congress to provide Pakistan with \$3 billion in military and economic assistance from 2005 through 2009. The security assistance will bolster Pakistan's capabilities to fight the war on terror, including neutralizing al Qaeda remnants in the tribal areas, as well as meet Pakistan's legitimate defense needs. Our economic assistance supports Pakistan's efforts to strike at the root causes of extremism by reforming and expanding access to public education and health care and by alleviating poverty through development.

We have announced that we intend to move forward with the sale of F-16 fighter aircraft to Pakistan. This sale sends a clear signal of our determination to stand by Pakistan for the long haul. The sale meets Pakistan's legitimate defense needs, making Pakistan more secure without upsetting the current regional military balance. As a result, it will be easier for Pakistan to take the steps necessary to build a lasting peace with all its neighbors.

### **India and Pakistan**

President Musharraf and Prime Minister Singh have taken bold steps to push forward with reconciliation between their countries, contributing to overall stability in the region. We continue to encourage the wide-ranging dialogue between India and Pakistan to settle the issues that divide them including Kashmir. Indian Foreign Minister Natwar Singh's 15-17 February 2005 visit to Islamabad resulted in an agreement to start a bus service across the Line of Control in Kashmir. This dramatic breakthrough involved difficult compromises by both sides. It is having a real impact on the lives of average Kashmiris allowing resumed contacts between long-separated populations.

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Since then India and Pakistan have continued to engage each other at the highest levels. During President Musharraf's successful visit to Delhi April 16-18, he and Prime Minister Singh issued a joint statement concluding that the peace process was irreversible and agreeing to work on additional transportation links. The two countries hold regular talks to resolve differences and build confidence. We continue to encourage both sides to maintain this positive momentum brought about by their statesmanship.

### **Sri Lanka and Maldives**

Our primary goal in Sri Lanka is to help that country end more than a decade of bloody conflict between the government and the Liberation Tigers of Tamil Eelam (LTTE). The United States continues to support Norway's facilitation of a peace settlement in Sri Lanka. The ceasefire of 2002 is holding, although violence is ongoing and the peace process has stalled. This is due in part to divisions within the Sri Lankan government and the absence of trust between the government and the LTTE, which continues to use assassinations and suicide bombers, underscoring their character as an organization wedded to terrorism and justifying their designation as a Foreign Terrorist Organization.

Recovery from last December's tsunami preempted the peace process as the primary concern of both parties for the past several months. With Norwegian assistance, the parties have been negotiating an agreement to regulate the distribution of tsunami reconstruction aid. This agreement, a joint mechanism is an opportunity to build trust between the parties and is therefore an important contribution to the peace process should it come to fruition. President Kumaratunga has publicly committed herself to signing the Joint Mechanism, but she faces serious challenges from members of her government who oppose the mechanism. The United States firmly supports her plan to sign the Joint Mechanism and remains prepared, along with other donors, to help Sri Lanka address urgent post-conflict reconstruction needs. The goal of peaceful reconciliation will need to help guide our post tsunami reconstruction assistance.

Like Sri Lanka, the Maldives was also devastated by the tsunami. The United States has been a major donor of relief in Maldives and is committed to help with reconstruction. We strongly support the reform process in Maldives that will open the political process to party activities. We believe that such a process will insure greater stability and moderation and support for the United States in the global war on terror.

### **Bangladesh**

The United States engages the Bangladesh government on a range of important issues, including democracy and human rights, fighting corruption and countering extremism. Democratic Bangladesh, with the fourth largest Muslim population in the world, stands as a leading contributor of troops to United Nations peacekeeping missions worldwide and as a valued partner in the war on terror. Its gross domestic product growth of above five percent is satisfactory, but could be significantly better. Regrettably, political rivalries, failures of governance, widespread corruption and rising extremism threaten democratic stability and drag down economic growth. Nevertheless, while Bangladesh faces many challenges, we believe it has the potential to build a secure, peaceful and prosperous future and we are supporting these efforts.

We have a variety of ongoing activities designed to assist Bangladesh reach that potential. We have development programs aimed at increasing accountability and the transparency of Bangladesh's democratic institutions. We support civil society advocacy groups such as Transparency International Bangladesh. We are encouraging all parties to fully participate in the Parliamentary elections scheduled for 2006-2007 and emphasizing the need for those elections to be free and fair.

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Unfortunately, widespread corruption hurts Bangladesh's potential for foreign direct investment and economic growth. We are pleased that the Bangladesh government established an Anti-Corruption Commission, but this organization needs to take action. Only action against corrupt individuals will demonstrate that corruption has no place in the future of Bangladesh.

Bangladesh's widespread poverty, educational shortcomings, endemic corruption, porous borders and lack of public faith in elected government risks increasing the attractiveness of radicalism. Extremist groups operate in the country more openly. The government acted against two of them this past February but more must be done. We have cautioned the government about the dangers posed to Bangladesh by extremism. Human rights are also a regular topic for our dialogue with Bangladesh. We commend the Bangladesh government for measures taken to protect the rights of Ahmadiyahs, although much more can and must be done following renewed attacks on their places of worship. We have expressed concern about extra-judicial murders, so-called cross-fire killings done by the Rapid Action Battalion.

### **Nepal and Bhutan**

We remain very concerned about Nepal. The Maoist insurgency continues to undermine political stability and prospects for development. On 1 February 2005, King Gyanendra's dismissal of the government, the curbing of civil liberties and arrests of hundreds of political activists seriously set back Nepal's democracy and eroded even further the unity of legitimate political forces in opposition to the Maoists. While some of these restrictions have since been rolled back, it is essential that the King's government fully restore civil liberties and that the legitimate political parties join it in addressing the insurgency and Nepal's serious developmental problems. An important step forward would be the beginning of a dialogue between the King and political parties to restore multi-party democratic institutions under a constitutional monarchy. Such reconciliation is crucial.

The United States firmly supports Nepal's efforts to counter the Maoist insurgency. A Maoist takeover would have profoundly negative effects both in Nepal and in the region. The Maoists must renounce violence and engage in a political process to resolve their grievances. U.S. assistance to Nepal overwhelmingly focuses on its profound development needs. Since 1 February 2005, we have continued our non-lethal security assistance. Our lethal security assistance remains under review.

Bhutan has embarked on a process of transition to constitutional monarchy and wide-scale political reforms. We applaud and support this undertaking, which should lead to improvements in civil liberties and government accountability. We continue to work with the governments of Bhutan and Nepal to resolve the plight of the more than 100,000 refugees from Bhutan who have been in camps in Nepal for a decade. We want both sides to resume discussions as soon as possible to find a way forward. We also want the Government of Bhutan to begin repatriation of the eligible refugees soon. In addition, we are working closely with United Nations High Commission for Refugees and non-government organizations to assure the welfare of the many resident and transiting Tibetans in Nepal.

### **Conclusion**

There are many challenges as well as opportunities for the United States in South Asia. There have been many positive developments recently, particularly in India and Pakistan, which give us reason for optimism. At the same time, there are areas of real concern, such as Nepal. But I feel confident in saying that much of South Asia already is fulfilling some of its great potential to be a source of stability, moderation and prosperity, although much remains to be done for it to fully realize its promise. We have every intention to encourage and assist this process wherever we can.

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## Direct Commercial Sales Authorizations for Fiscal Year 2004

The following are excerpts of the report published by the Department of State, pursuant to Section 655 of the *Foreign Assistance Act*. To view the report in its entirety go to the following web site: [https://www.pmdtc.org/docs/rpt655\\_2004.pdf](https://www.pmdtc.org/docs/rpt655_2004.pdf).]

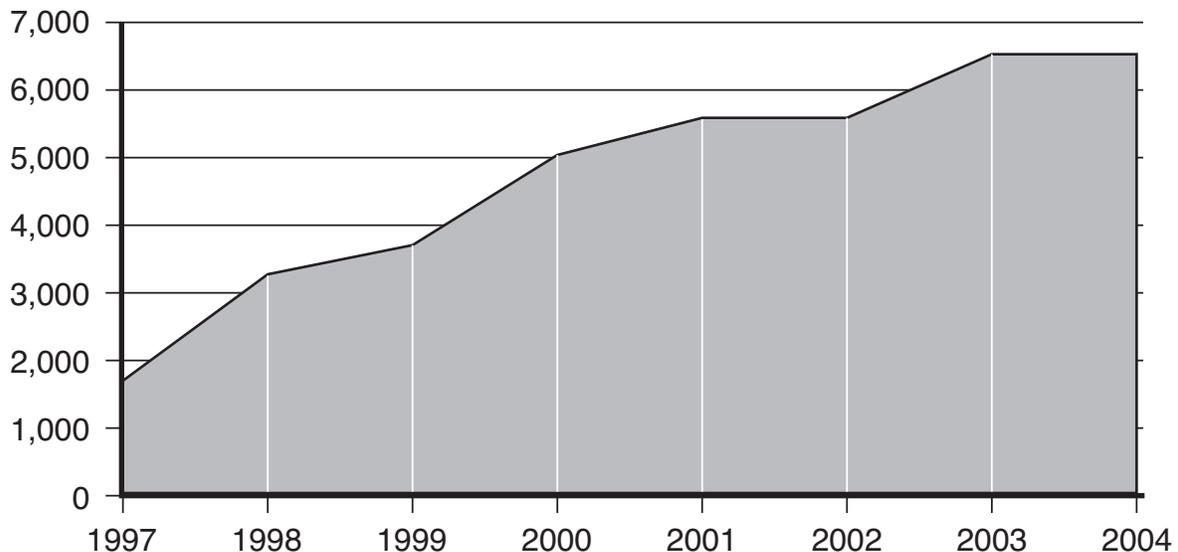
### Overview

This report covers defense articles and defense services licensed for export during fiscal year (FY) 2004 under Section 38 of the *Arms Export Control Act*. It is provided pursuant to Section 655 of the *Foreign Assistance Act*, as amended, and, as required by that Section, the report shows the aggregate dollar value and quantity of defense articles and defense services authorized to each foreign country or designation. Sometimes the column for the quantity is blank or 0. The quantity on a license may not be a specified number because of instances where the applicant used the word lot or various left the quantity blank; listed multiple commodities with different quantities; or did not quantify the commodity of technical data.

A separate portion is a report on authorizations for semi-automatic assault weapons. In accordance with subsection (d) of Section 655, this report is also being made available to the public on the internet through the Department of State, Directorate of Defense Trade Controls at [www.pmdtc.org](http://www.pmdtc.org).

In view of the growing role of manufacturing license agreements and technical assistance agreements, this year's report has a separate section that distinguishes more clearly between authorizations pertaining to defense articles and those associated with defense services. The overall number of permanent export license applications submitted under Section 38 in FY 2004 was approximately 32,000. The number of manufacturing license agreements and technical assistance agreements submitted was 6,535.

**Manufacturing License and  
Tehcnical Assistance Agreements  
FY 1997-2004**



This trend appears to reflect the growing complexity of commercial defense trade as international joint ventures, co-production, licensed manufacturing and offset arrangements involving offshore assembly or procurement increasingly characterize major sales.

Part 1 of the report details approximately \$22.4 billion in licenses authorizing the export of defense articles, while Part 2 provides aggregate information by country or designation on authorizations for defense services (i.e., agreements) totaling \$44.7 billion. Importantly, the value of authorizations provided under Section 38 for defense articles and defense services does not correlate to the value of articles actually transferred during this same time frame. Most munitions licenses issued for articles shown in Part 1 are valid for four years and may be used throughout their period of validity to carry out the authorized export transactions.

Similarly, manufacturing license and technical assistance agreements set forth in Part 2 of the report cover a wide range of programmatic activities for multi-year periods (generally exceeding the four-year validity period of defense article export licenses). Because the scope of the Department's regulatory authority over such agreements continues for as long as these multi-year agreements remain in effect, authorizations furnished in FY 2004 also include certain activities occurring in prior years. Such post hoc reporting generally is due to instances where the State Department directed an audit of an agreement (including the value of articles produced) in order to ensure compliance with the *Arms Export Control Act* and, in particular, the oversight by Congress mandated in Section 36 of the Act<sup>1</sup> with respect to major sales and manufacturing abroad of significant military equipment.

The results of such audits frequently disclose higher values than previously reported or initially projected by U.S. defense firms owing to a variety of factors, including extensions in the validity of agreements well beyond the original time frame envisaged.

Authorizations under Section 38 in fiscal year 2004 continued to center principally on a relatively small number of friends and allies of the United States. During this period defense trade with two major allies, the United Kingdom and Japan, and with the United Arab Emirates reflect a large portion of the dollar value of all authorizations furnished under Section 38 (i.e., the overall direct commercial sales program). The \$3.8 billion total for the United Arab Emirates in fiscal year 2004 reflects the sale of F-16 aircraft spare parts (valued at \$3.6 billion) which was notified to Congress under Section 36(c) of the *Arms Export Control Act*. In past years, the United Kingdom and Japan have been the largest cooperative partners of the United States in relation to defense trade carried out under Section 38 (Table 1).

<b>Defense Articles</b>	<b>Fiscal Year 2000</b>	<b>Fiscal Year 2001</b>	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2003</b>	<b>Fiscal Year 2004</b>
Japan	\$3.6	\$2.6	\$3.0	\$3.6	\$2.8
United Kingdom	\$2.5	\$3.3	\$2.6	\$1.8	\$1.7

Part 3 is a separate statement, pursuant to P.L. 107-228, that covers defense articles that are firearms controlled under category I of the United States Munitions 1 Sales of major defense equipment valued at \$14 million or more or other defense articles and defense services valued at

<sup>1</sup> Sales of major defense equipment valued at \$14 million or more or other defense articles and defense services valued at \$50 million or more, and technical assistance and manufacturing license agreements involving the manufacture abroad of significant military equipment, require notification to Congress before an export license may be issued. In the case of a member country of the North Atlantic Treaty Organization (NATO) or Australia, Japan or New Zealand, sales of major defense equipment valued at \$25 million or more or other defense articles and defense services valued at \$100 million or more require notification to Congress before an export license may be issued.

\$50 million or more, and technical assistance and manufacturing license agreements involving the manufacture abroad of significant military equipment, require notification to Congress before an export license may be issued. In the case of a member country of the North Atlantic Treaty Organization (NATO) or Australia, Japan, or New Zealand, sales of major defense equipment valued at \$25 million or more or other defense articles and defense services valued at \$100 million or more require notification to Congress before an export license may be issued.

List that shows the country, aggregate dollar value and quantity of semi-automatic assault weapons, or spare parts for such weapons, the manufacture, transfer, or possession of which is unlawful under 18 USC 922, that were licensed for export during fiscal year 2004.

<b>U.S. Munitions List Categories</b>	
Category I	Firearms, Close Assault Weapons and Combat Shotguns
Category II	Guns and Armament
Category III	Ammunition and Ordnance
Category IV	Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs, and Mines
Category V	Explosives and Energetic Materials, Propellants, Incendiary Agents, and Their Constituents
Category VI	Vessels of War and Special Naval Equipment
Category VII	Tanks and Military Vehicles
Category VIII	Aircraft and Associated Equipment
Category IX	Military Training Equipment
Category X	Protective Personnel Equipment
Category XI	Military Electronics
Category XII	Fire Control, Range Finder, Optical and Guidance and Control Equipment
Category XIII	Auxiliary Military Equipment
Category XIV	Toxicological Agents, Including Chemical Agents, Biological Agents, and Associated Equipment
Category XV	Spacecraft Systems and Associated Equipment
Category XVI	Nuclear Weapons, Design, and Testing Related Items
Category XVII	Classified Articles, Technical Data, and Defense Services Not Otherwise Enumerated
Category XVIII	Directed Energy Weapons
Category XIX	[Reserved]
Category XX	Submersible Vessels, Oceanographic and Associated Equipment
Category XXI	Miscellaneous Articles

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# ***DEFENSE SECURITY COOPERATION AGENCY PARTNERS***

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Defense Security Cooperation Agency  
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2800 Defense Pentagon  
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Phone: 703-601-3670

[The following are excerpts of the Defense Security Cooperation Agency (DSCA) quarterly newsletter, *Defense Security Cooperation Agency Partners*, Volume 1, Issue 1. To view the DSCA newsletter in its entirety go the DSCA's homepage at: <http://www.dsca.mil/>.]

## **From the Defense Security Cooperation Agency Director**

Welcome to our first issue of *Partners*. As I travel from the Pentagon to diverse regions of the world, you constantly ask me for news from the rest of the security cooperation community, and not just from Washington, D.C.

You want to know about what your peers and colleagues are doing around the world. You need to know how your individual missions tie in with the Defense Department's larger security cooperation vision.

By helping you stay connected to the larger community, *Partners* will fill some of that void. We will publish quarterly, but that can not happen without your support. We need your input. Your ideas, articles, and suggestions are all welcome. Information on how to contact us is at the end of this issue.

Again, I welcome you to *Partners* and know you will find some useful information in this issue.

## **New Missions Drive Changes at Defense Security Cooperation Agency**

July 1, 2005, DSCA realigned several mission areas to improve overall flexibility and responsiveness in meeting emerging worldwide requirements.

Programs such as Humanitarian Assistance and Mine Action (HAMA), the Counterterrorism Fellowship Program (CTFP), Training and Equipment, and Enhanced End-Use Monitoring have changed the nature of the work done in DSCA.

According to Lieutenant General Jeff Kohler:

The rapid expansion of non-traditional security assistance justified a review, and last February 2005, I met with the senior DSCA staff to discuss the way ahead.

As a result DSCA had reorganized several directorates to enhance services in all mission areas.

- First, DSCA combined two former regional directorates.



- Europe, Russia, Americas and Sub-Saharan Africa and Middle East, Asia, North Africa into a single flexible unit. Aggregating all country program directors under a single unit will enhance capacity to respond easily to urgent needs around the globe.

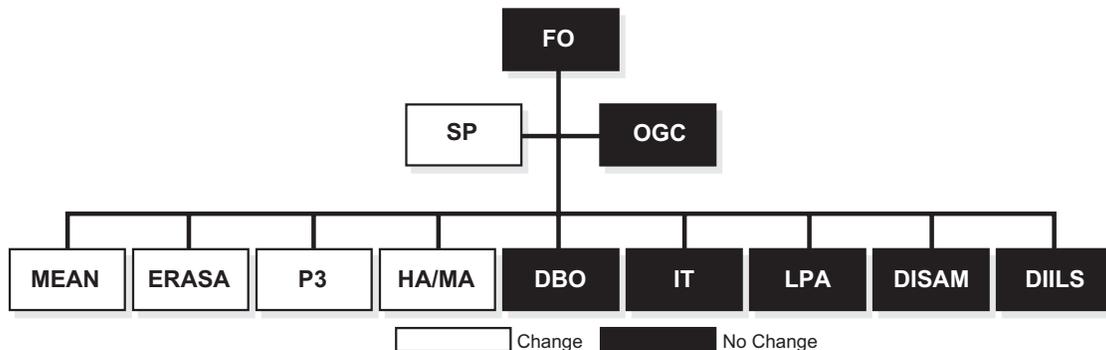
- Second, the Policy, Plans and Programs Directorate was replaced by two new directorates.

- The Programs directorate consolidates missions with a functional, worldwide focus. The new directorate oversees programs such as HAMA, Weapons, International Training, and End-Use Monitoring.

- The Strategy Directorate will develop strategic plans, policy and requirements to meet new Security Cooperation challenges related to the Global War on Terrorism. Functions will include resource programming, policy formulation and process evaluation.

The rest of the DSCA organization did not change.

### DSCA Organization Before July 2005



FO – FRONT OFFICE (DIRECTOR, DEPUTY)

SP – OFFICE OF STRATEGIC PLANNING

OGC – OFFICE OF GENERAL COUNSEL

MEAN – MIDDLE EAST, ASIA, NORTH AFRICA DIRECTORATE

ERASA – EUROPE, RUSSIA, AMERICAS, SUB-SAHARAN AFRICA DIRECTORATE

P3 – POLICY, PROCESSES, PROGRAMS DIRECTORATE

HA/MA – HUMANITARIAN ASSISTANCE AND MINE ACTION DIRECTORATE

DBO – DIRECTOR BUSINESS OPERATIONS

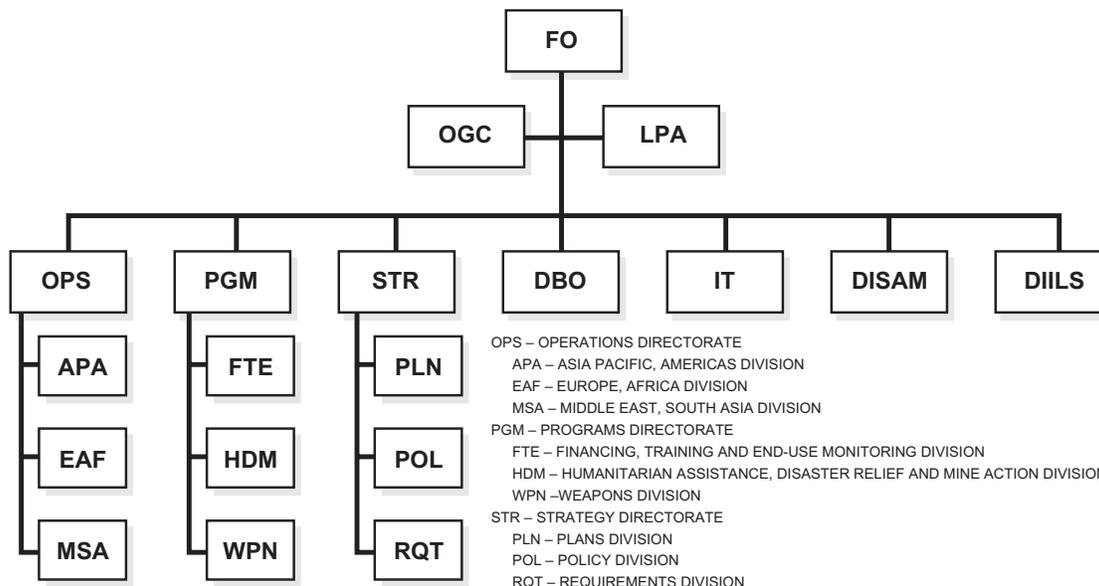
IT – INFORMATION TECHNOLOGY DIRECTORATE

LPA – OFFICE OF LEGISLATIVE AND PUBLIC AFFAIRS

DISAM – DEFENSE INSTITUTE OF SECURITY ASSISTANCE MANAGEMENT

DIILS – DEFENSE INSTITUTE OF INTERNATIONAL LEGAL STUDIES

### DSCA Organization After July 2005



OPS – OPERATIONS DIRECTORATE

APA – ASIA PACIFIC, AMERICAS DIVISION

EAF – EUROPE, AFRICA DIVISION

MSA – MIDDLE EAST, SOUTH ASIA DIVISION

PGM – PROGRAMS DIRECTORATE

FTE – FINANCING, TRAINING AND END-USE MONITORING DIVISION

HDM – HUMANITARIAN ASSISTANCE, DISASTER RELIEF AND MINE ACTION DIVISION

WPN – WEAPONS DIVISION

STR – STRATEGY DIRECTORATE

PLN – PLANS DIVISION

POL – POLICY DIVISION

RQT – REQUIREMENTS DIVISION

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## **The United States Resumes Foreign Military Sales to Indonesia**

May 25, 2005 the United States announced resumption of transfers of non-lethal defense articles and services to the Government of Indonesia. These transfers include foreign military sales (FMS) and excess defense articles (EDA). These non-lethal articles and services were previously authorized only for direct commercial sales (DCS).

There is no U.S. funding associated with the potential transfers, Indonesia must use its own national funds. Foreign military financing (FMF) is currently limited to the Indonesian Navy and is subject to a Secretary of State reporting requirement. A bill currently being considered in the U.S. Congress would, if enacted, restore unrestricted FMF for Indonesia in fiscal year 2006.

These transfers, as well as full International Military Education and Training (IMET), were discontinued in 1999 after reports of human rights abuses by Indonesian military forces and militia on East Timor. Secretary of State Condoleezza Rice restored full IMET to Indonesia in January 2005. The country is slated to receive \$600,000 in IMET in fiscal year 2005.

Indonesia will also receive \$400 million set aside by the U.S. government for earthquake and tsunami relief.

Indonesian President Susilo Bambang Yudhoyono was in Washington for a White House visit when the announcement on FMS was made. He was voted into office during successful, democratic elections in his country last year.

The United States and Indonesia share a strong commitment to fight terrorism. An integral part of this effort is Indonesia's participation in the Counterterrorism Fellowship Program (CTFP). Since 2002, this DoD program has facilitated education and training opportunities for the Indonesian military officers, ministry of defense and security officials, to focus specifically on counterterrorism courses, seminars, and English language training to enhance cooperation in the Global War on Terrorism effort.

President Yudhoyono is a graduate of many U.S. military training programs, including the U.S. Army Airborne Ranger Training, and the US Army Jungle Warfare School. He also attended the U.S. Army Command and General Staff College in 1991.

Indonesia is the world's fourth largest country with the world's largest Muslim population. Indonesia's contribution to the Global War on Terrorism is a vital U.S. interest.

### **Foreign Operations Funding Bills Move Forward**

On 28 June, the U.S. House of Representatives passed HR 3057, the fiscal year 2006 *Foreign Operations, Export Financing and Related Programs Appropriations* bill. This annual legislation provides funds for FMF, IMET, PKO, and other international programs. The overall funding levels contained in the bill are constrained due to the tight budget environment.

For FMF programs, the bill supports \$4,442,300,000 (\$146,300,000 or 3.2 percent less than the President's Budget (PB) request). It fully funds the requests for:

- Israel (\$2,280,000,000);
- Egypt (\$1,300,000,000); and
- Jordan (\$206,000,000).

The bill provides only

- \$220,000,000 for Pakistan (\$80,000,000 below the PB); and
- \$4,400,000 for Turkey (vice \$25,000,000 in PB).

The bill includes no restrictions on FMF for Indonesia.

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The House supported the PB request of \$86,744,000 for IMET, and contains no restrictions on IMET for Indonesia. However, the bill prohibits all funding for Saudi Arabia.

The Senate Appropriations Committee completed its markup of its version of HR 3057 on 30 June 2005. This legislation includes robust FMF funding of \$4,603,600,000 (\$15,000,000 above the PB). In a separate provision, the bill adds \$25,000,000 of FMF and earmarks it for the Philippines, bringing the overall FMF funding in the bill to \$4,628,600,000 or \$40,000,000 above the PB.

The bill fully funds the FMF requests for Israel, Egypt, Jordan and Pakistan. However, the Senate restricted FMF for Indonesia to the Navy and includes language making any other use of FMF for Indonesia subject to certifications by the Secretary of State. The bill and the accompanying report include numerous earmarks and country-specific restrictions.

- The Senate fully funds the PB request for IMET.
- The Senate has not announced the timetable for floor consideration of this bill.

Members in both houses and parties debated the wisdom of continuing FMF for Egypt. Citing Egypt's record on human rights and democracy, several members opined that Egypt should have some of their military assistance shifted to nonmilitary aid. An amendment introduced on the House floor to shift \$750,000,000 from FMF to Child Survival and Health accounts was defeated.

The full text of HR 3057 is available at: <http://thomas.loc.gov/home/approp/app06.html>.

### **Saudis Visit Non-Lethal Weapons Program**

USASAC PAO Members of the Joint Non-Lethal Weapons Program (JNLWP), Quantico Marine Base, Va., provided a weapons orientation and briefing to Maj. Gen. Sulaiman Mohammed Fahad Zuair, Director General of the Military Procurement Directorate for the Saudi National Guard and his staff in May.



**Army Major explains the components of a high-tech vehicle with non-lethal weapons capability to Major General, Director of the Military Procurement Directorate for the Saudi National Guard.**

Army Brigadier General Clinton Anderson, Program Manager, Saudi Arabian National Guard Modernization Program organized the orientation. The session was designed to familiarize the Saudis with many non-lethal weapons systems and their use under U.S. domestic law, existing treaties and international law, to include the laws of war.

The JNLWP is a Department of Defense activity that provides warfighters a family of non-lethal weapons systems with a range of optional non-lethal capabilities across the full spectrum of threats and crises.

These weapons are explicitly designed and primarily employed to incapacitate personnel or materiel, while minimizing fatalities, permanent injury to personnel, and undesired collateral damage to property and the environment. "Many of the systems displayed are currently in use in Afghanistan and Iraq," said Marine Colonel Dave Karcher, director of JNLWP.

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The types of available systems, as well as the demand for training, has increased dramatically since the program began in 1996.

According to Colonel Karcher:

We hold twelve resident classes a year at Fort Leonard Wood, Mo., and our average through-put is about 400 students. We currently have 160 U.S. Marines, 200 Soldiers, 25 Air Force personnel, 5 members of the U.S. Coast Guard and 4 international students going through the course. Attempts are being pursued to expand the program due to the increased demand.

Air Force Major Troy Roberts stated the following:

Orientations like these are very important JNLWP capabilities and requirement specialist. This is technology we can share to enhance our interoperability with friends and allies. These systems help minimize the amount of force required to restrain or diffuse any opposition.

### **Personnel Movement in International Affairs**

16 May 2005, the President nominated Ambassador Eric S. Edelman to be the next Under Secretary of Defense for Policy. Edelman is currently the U.S. Ambassador to Turkey. If confirmed, he will replace Douglas Feith. His confirmation hearing was 29 June 2005.

Brigadier General (USA) Clinton T. Anderson, Program Manager, Saudi Arabian National Guard Modernization Program, was selected to become the Commanding General of the United States Army Security Assistance Command, Fort Belvoir, Virginia. He will replace Major General (USA) Craig D. Hackett in September 2005.

15 June 2005, Brigadier General (USAF) (Select) Richard T. Devereaux, Commander 100th Air Force Refueling Wing, Royal Air Station Mildenhall, England, became the Director Regional Affairs, Office of the Deputy Under Secretary of the Air Force for International Affairs. He replaced Brigadier General (USAF) Ronald D. Yaggi, who retired 1 June 2005.

Lieutenant General (USA Ret) Edwin P. Smith has been selected to become the Director of the Asia-Pacific Center for Security Studies in Honolulu, Hawaii. He will assume command in August 2005. He will replace Lieutenant General (USMC Ret) H.C. "Hank" Stackpole.

Captain (USN) Robert W. Wedan, Jr. has been selected to become the Director for the Defense Institute of International Legal Studies (DIILS). He will assume command on 15 July 2005 at the DIILS headquarters in Newport, Rhode Island. He will replace Colonel (USA) Paul P. Holden, Jr.

1 June 2005, Robert Joseph was sworn in as the Under Secretary of State for Arms Control and International Security. He replaces United Nations Ambassador John R. Bolton.

### **The Defense Institute of International Legal Studies Goes to Iraq**

The U.S. military is taking a lead role in bringing modern government contracting and procurement education to Iraqi government agencies. Building a sound government procurement system within Iraqi institutions is critical to the transition of the security mission in Iraq.

In May 2005, the Defense Institute of International Legal Studies (DIILS) participated in a *Building Iraq Contract Capacity* course sponsored by the Multi-National Security Transition Command-Iraq (MNSTC-I), the Iraq Reconstruction and Management Office, and the Joint Contracting Command-Iraq. This was DIILS' first contracting and procurement seminar in Iraq.

In order to ensure that the training was tailored to Iraq's needs, DIILS worked closely with the MNSTC-I legal staff. The Defense Acquisition University and the Air Force Judge Advocate General staff were also brought in as adjunct faculty. The course provided a top-level overview of program management, integrated product teams, and the role of the contracting officer in government agencies.

Iraqi representatives from the Ministries of Defense, Interior, and Oil, the Commission on Public Integrity, and the Joint Contracting Command-Iraq participated.

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In June 2005 DIILS and MNSTC-I worked on a follow-on seminar.

DIILS provides expertise in over 320 legal topics of Military Law, Justice Systems, and the Rule of Law, with an emphasis on the execution of Disciplined Military Operations through both resident courses and mobile education teams. Participants from 126 nations have taken part in DIILS Mobile Education, Resident, and Model Maritime Service Code programs.

### **New Relationship with Regional Centers**

This Fall 2005, DSCA begins a new relationship with the five Department of Defense Regional Centers for Security Studies.

Starting 1 October 2005, DSCA takes on most administrative responsibility for the Centers, overseeing and coordinating program-ming, budgeting, and man-power. The regional combatant commanders will maintain operational control.

The Department of Defense (DoD) has requested legislation to consolidate and streamline the various existing authorities under which the Centers now operate. The new authority would standardize the management, oversight, and administration of the Centers.

This is all part of Secretary Rumsfeld's initiative to transform the five Regional Centers for Security Studies into a global collaborative program. Ryan Henry, Principal Deputy Under Secretary of Defense for Policy said the following:

#### **U.S. Centers for Regional Security Cooperation**

George C. Marshall European Center for Security Studies  
Garmisch, Germany; established in 1993

Asia-Pacific Center for Security Studies  
Honolulu, HI; established in 1995

Center for Hemispheric Defense Studies\*  
Washington, D.C.; established in 1997

Africa Center for Strategic Studies\*  
Washington, D.C.; established in 1999

Near East South Asia Center for Strategic Studies\*  
Washington, D.C.; established in 2000

\*In partnership with the National Defense University

By aligning the centers more closely, we will achieve synergies that will far outstrip the sum of their individual messages.

The regional centers serve as one of DoD's key strategic communication tools to explain U. S. government security policy in the world and to obtain feedback on U.S. policies from other countries. The centers draw their participants from the civilian and military leadership of allied and partner nations.

The DoD's legislative proposal would also allow the centers to expand their participant base to include individuals from non-governmental organizations, legislative institutions, and the international media.

Regional center activities include education, research, and outreach. The centers conduct multilateral in-residence courses, in-region seminars, and conferences that address global security challenges, such as

- Terrorism and proliferation; and
- Regional security issues.

They host bilateral workshops on strategic planning and defense resource management, and conduct timely research on security issues in their respective regions.

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## ***SECURITY ASSISTANCE COMMUNITY***

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### **Major Patrick Anderson, United States Army Receives an Award from the Government of Djibouti Award Presented by United States Ambassador to Djibouti Marguerita Dianne Ragsdale**

First I have to say how delighted I was to hear that the Government of Djibouti was recognizing the invaluable contributions of Major Patrick Anderson, (USA) to the strong and vibrant relationship between our two countries. Thank you, your Excellency, for bestowing on us such a great honor. The medal you have awarded Major Anderson is not only a great honor for him, but an honor as well for my Mission, the American military and the United States of America as a whole. Exemplary service by men like Major Anderson nurtures the bonds between nations and promotes the common good of peace, security and mutual understanding.

I want to thank you, your Excellency, and the government of Djibouti for recognizing with this medal the hard work and dedication of Major Anderson. The years since he arrived here in Djibouti have been a time of accomplishment and progress. We have seen an ever-strengthening bond of friendship and cooperation between our two nations, which has resulted in a better way of life for many. We still have much to do. The American government remains committed to assisting the Djiboutian government, its military and its people.

I would like to take this opportunity to thank Major Anderson for his tireless efforts to serve the American government and to assist the Government of Djibouti: Patrick, your commitment, counsel and vision have been invaluable to the U.S. Embassy in Djibouti and to me personally. Thank you for sharing your knowledge, ideas and opinions. Thank you for playing an active role in the Embassy community. Thank you for your dedication and commitment to do the best possible job for your military and your country. Thanks also to your family for their many sacrifices, which help make your service possible.

Your Excellency, I have faith that the relationship between Djibouti and the United States will continue to prosper and grow. As Major Anderson prepared to leave Djibouti, we are very much reassured that the positive contributions he has made to this relationship will be long - remembered by all of us assembled here today.



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# *PERSPECTIVES*

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## **Provincial Reconstruction Teams and Security Assistance: Comments on an Evolving Concept**

**By  
Dr. Craig T. Cobane**

**American Association for the Advancement of Science Defense Policy Fellow**

### **Introduction**

After a quick victory, toppling the Taliban and sending its al Qaeda allies into hiding, the U.S. led coalition in Afghanistan found itself in charge of a country devastated by over two decades of conflict. The country needed extensive reconstruction in every aspect of society and lacked a trained indigenous work force to assist in the stabilization process. The task of rebuilding Afghanistan was made even more difficult by an active insurgency, large numbers of armed militiamen and a quickly developing narco-trafficking industry. In order to assist in the stabilization of Afghanistan, the United Nations (U.N.) Security Council passed, on 20 December 2001, the U.N. Security Council resolution 1386 establishing an International Security Assistance Force (ISAF) to aid the Afghan Interim Authority in the maintenance of security in and around Kabul. By summer, 2002, 5,000 peacekeepers from nineteen countries were providing security in a 250 square kilometers area around Kabul. As a result of its success in enhancing security in Kabul, there were numerous calls for ISAF to expand its presence out into the countryside to provide security for humanitarian and reconstruction efforts.

Among those calling for ISAF to move beyond Kabul were then Afghan Chairman Hamid Karzai, the United Nations (U.N.) Secretary General Kofi Annan, the U.N. special representative to Afghanistan, Lakhdar Brahimi, and many in the international organizations and non-governmental organizations community. Their desire was to see an expansion of ISAF to key locations and major transport routes outside of Kabul to assist in the reconstruction process and to support disarmament, demobilization and reintegration of militia forces not under the control of central government. The key impediment for reconstruction, according to the non-government organization community and others, was the lack of security throughout the country. International security



One of several ISAF projects providing assistance in humanitarian and reconstruction efforts in Afghanistan.

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assistance force troops were needed to assist the Afghan National Army soldiers (ANA) and Afghan National Police (ANP), who were still being trained, in providing security. The non-government organization community was calling for a peacekeeping force on par with the North Atlantic Treaty Organization (NATO) mission in Kosovo. A 2003 RAND report noted there were twenty peacekeepers per thousand people in Kosovo. To reach a comparable number in Afghanistan would require 500,000 peacekeepers. That number was totally unfeasible and impractical.

Development of the Provincial Reconstruction Teams (PRTs) concept successfully addressed Afghanistan's security environment, reconstruction needs and political requirements. This article documents and explores the development, implementation and overall effect of PRTs in Afghanistan.

### **Provincial Reconstruction Teams Origins and Mission**

The summer of 2002, called for an increased ISAF presence collided with a reluctance on the part of the international community to provide more troops, a lack of international political will and a U.S. government desire to keep western troop levels in Afghanistan as low as possible. The traditional model of creating security equates more troops with increased security, but Afghan history demonstrates this model does not always hold true. Drawing upon lessons from the Soviet experience, U.S. policy makers were determined to not aggravate Afghans' sensitivity and low tolerance of occupying armies. Afghan history is replete with examples of how large occupying

armies led to a coalescing of the country's fractious tribes against a common enemy. In this environment, the goal was to expand the ISAF effect, without expanding ISAF itself.



**Two members of the Afghanistan Provincial Reconstruction Team.**

The early success of small six-person Civil Affairs teams, working with Special Forces personnel, scattered across Afghanistan to conduct limited 'heart and minds' reconstruction projects and work local Afghan security forces to provide security, developed further into a concept initially termed Joint Regional Teams (JRTs). The concept, unveiled in November 2002, was intended to assist in stabilizing the country in order to facilitate reconstruction efforts. By January 2003, at

the request of President Karzai, the name was changed to Provincial Reconstruction Teams (PRTs). Karzai argued for the name change; first, because Afghanistan is a country of provinces, not regions, a term associated with warlords, and second, the name should reflect its primary missions, reconstruction and capacity building. The first PRT in Gardez formally opened 1 February 2003, and within two years there were nineteen PRTs in Afghanistan, under the North Atlantic Treaty Organization (NATO) ISAF or U.S. command through Combined Forces Command-Afghanistan (CFC-A) and the Operation Enduring Freedom Mission.

Provincial Reconstruction Teams are civil military teams, composed of about 70-100 personnel, the German PRT at Konduz has upwards to 400 personnel. Although relatively small, through flexibility and cooperation, the PRT's civilian military partnership is intended to fulfill three critical missions:

- Enhance security;

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- Extend the reach of the Afghan central government; and
  - Facilitate reconstruction.

Military personnel provide force protection, information and psychological operations, medical, logistics, and communications functions. In addition, civil affairs officers conduct village assessments, identify potential reconstruction and humanitarian projects, and provided logistical support. Additionally, military observer teams serve a patrolling function and mentor Afghan security forces. The other component of the PRT is civilian. Civilian diplomats, assistance experts, and in some places, agricultural and police experts are part of the PRT contingent. It is a goal to have at least one member from the U.S. Department of State and one from the U.S. Agency for International Development in each PRT. At non-American PRTs, development experts from the lead nations are present e.g., Department for International Development (DFID) in United Kingdom PRTs. At most PRTs, Afghan Ministry of Interior Colonels are also present. The PRTs were intentionally designed to adapt to the needs and political condition of the area; able to morph and adjust into any environment they were assigned. Because no two provinces have identical political, developmental and security requirements, no two PRT are identical in terms of on the ground strategies.

It must be noted, each province provides very different challenges for PRTs. Some PRTs, in the southeastern portion of Afghanistan, are in zones of active combat against insurgents whereas at other PRTs, for example the United Kingdom PRT in Mazar-e-Sharif, the primary security issue is factional violence. Some PRT locations are full of active information operations (IO) and non-government organizations, others have almost no IO and non-government organization presence at all. Each PRT, therefore, has to be flexible in addressing the wide range of issues in their province.

### **Enhancing Security**

In the role of enhancing security, PRTs are not intended to directly implement major security sector activities; they lack the size and military assets to disarm local militias or play a direct role in the disarming militia groups. Their primary tools for enhancing security are dialogue and liaison. PRTs are intended to be a visible international presence in the province and their main element of force protection was their ability to reach back and call in coalition air support. The reach back ability provided PRTs a significant deterrent capability. The PRTs were designed to be proactive in facilitating security reconstructions efforts: mentoring deployed Afghan National Police (ANP) and Afghan National Army (ANA), providing situational awareness to Afghan authorities and international actors, and providing liaison functions to prevent factional violence, i.e., green on green conflict. It was through the trust build up over time through dialogue and rapport that allowed PRTs to shape the security environment in a manner allowing for a successful disarmament, demobilization and reintegration (DDR) process.

In most some provinces, one of the main problems confronting PRTs was the local police and military leadership in the police and military. Many of the local leaders were holdovers from the pre-Karzai and warlord eras. Additionally, the nature of the Afghan security environment confronted each PRT with a very different set of local circumstances and an array of unique personalities. This required PRT personnel to be flexible and think creatively in addressing the security problems in their provinces. Sometimes PRT addressed these issues through diplomacy, negotiations and liaison, but other times it took the presence of the PRTs' military component, to get the cooperation needed to address the security issue.

In early 2004, the PRT in Jalalabad needed to deal with several local warlords including:

- A corrupt chief of police;

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- Chief of the border patrol; and
  - Commander of the Northern Alliance's Army Corps in the region.

To begin working on improving the local security environment, including the removal of illegal checkpoints, the PRT leadership organized a Provincial Security Task Force (PSTF) consisting of the three warlords, the U.N. Mission in Afghanistan (UNAMA) representative, the provincial governor's office and PRT leadership. The PRT task was to get cooperation from warlords who did not trust one another and had little reason to work together. The PRT leadership used persistent negotiations and subtle pressure to accomplish its goal of improving the province's overall security environment.

To accomplish its task, the PRT first needed to get the main players talking. Several weeks of negotiation were required to get everyone to agree PSTF meetings should be attended by principles, not their representatives, and any decisions made by the group were binding. The several weeks were well spent, for it provided the PRT leadership an opportunity to build rapport and a level of trust with the warlords. It also allowed the various actors to buy into the PSTF, investing their reputations in the process. Once the ground work was set, more sensitive issues could be addressed.

Before tackling the main issue of illegal checkpoints, the PRT leadership addressed a less contentious topic, the creation of an emergency response unit. The need for an emergency response unit was demonstrated; when a truck bomb exploded in downtown Jalalabad and no one, not even an ambulance, responded to the incident. The first organization on the scene was UNAMA, who arrived almost an hour after the event. Not only was the lack of an emergency response unit a problem in itself, but it also demonstrated a complete lack of local governmental capacity. The development of an emergency response unit took nearly two months of negotiations, both at the PSTF and in numerous one-on-one meetings. The big issue was each warlord wanted their group to be in charge of the unit. The PRT leadership made clear that an emergency response unit in the city of Jalalabad was not the responsibility of the Border Police or an Army Corps; it was the responsibility of the local police. The major impediment to an agreement was the lack of trust each warlord has for the others. No warlord wanted a rival to have complete control of the unit; it could give them an advantage in some possible future conflict. The impasse was not overcome until each warlord was allowed to assign a representative to the emergency response unit.

After several months of working on smaller, albeit important, issues the PRT leadership was ready to address the checkpoint issue at the PSTF. A modicum of trust had been built up between the key actors, and each had invested time and personal prestige in making the PSTF successful. The PRT leadership first negotiated an agreement among the principals that there should be only four checkpoints for Jalalabad. To reduce the opportunities for cheating, each of the warlords would have a representative be present at each checkpoint. The key to getting the agreement was the personal relationship developed between the PRT leadership and the individual warlords. The PRT negotiators made it clear the presence of illegal checkpoints was a leadership issue. The warlords' lack of leadership demonstrated to everyone they were not interested in law and order or bettering the lives of their people. Sitting at the PSTF, each warlord wanted to be perceived as a leader, who takes care of their community, and community; and by playing upon their pride, patriotism and personal desire to be seen as a true leader, the PRT leadership was able to eliminate illegal checkpoints from the Jalalabad area.

Another way PRTs promote security is through conducting presence patrols which creates situational awareness important for them and the political and military leadership in Kabul. One example of this was in Gardez, the location of the first U.S. PRT. At the time of the PRTs

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establishment, the province's major problem was illegal checkpoints and roadblocks. It was clear the checkpoints were the work of men under the control of provincial police chief and the divisional commander of the old Afghan army, both of whom were corrupt. The checkpoints were used to raise money to pay their private militias. Over time, the PRT worked with provincial governor Raz Mohammad Dalili, a trusted appointee of Karzai, to get the two officials transferred to Kabul to prevent them from continuing to play the role of spoiler in the province. After reassigning the corrupt police chief to another area, and to assist in facilitating the change of police chief, Karzai then sent an elite police unit to assist in the transfer process. When the new police chief arrived with his Karzai provided escort, a standoff ensued and a firefight nearly broke out between the escort unit and the departing police chief's private militia. One of the primary factors in preventing an escalation of the standoff was the presence of PRT soldiers some distance behind Karzai's police unit, to act both as a deterrent and to demonstrate U.S. support for the central government.

Another role PRTs play in enhancing security is providing support for the DDR of militias. Although the PRTs themselves do not possess the numbers or firepower to confront and disarm militias directly, their presence provides a modest incentive for local commanders to cooperate. In essence, PRTs are the grease, not the wheel in the DDR process. Additionally, PRTs assist in facilitating IO and non-government organization and Afghan led reconstruction projects providing jobs for demobilized combatants.

PRTs play an important role in reducing factional green on green conflicts. In the fall of 2003, members of the British PRT in the northern city of Mazar-e Sharif helped the Afghan government negotiate a cease-fire between the feuding militia faction of ethnic Uzbek General Abdul Rashid Dostum and ethnic Tajik commander Mohammed Atta. Several previous cease-fires between the rivals had collapsed, but the new deal backed by the presence of the British military observers at the PRT seems to be holding. Similar results have been achieved other by other PRTs.

The goal of PRTs in the security realm is to promote an atmosphere of security to facilitate civilian reconstruction efforts. Additionally, by assisting in the creation of a stable security environment, through mentoring ANA and ANP, PRTs promote another mission; facilitating central government authority outside of Kabul. In short, the PRTs mission is a multifaceted security assistance mission, which varied from province to province.

### **Extending the Reach of the Afghan Central Government**

The second mission of the PRTs, extending the reach of central government beyond Kabul, is vital to convincing Afghans to support the transitional government. Additionally, it has helped to develop Afghan administrative and governing capacity. During the early portion of the Afghan Interim Administration Administration, the central government ministries had little or no authority outside of the capital. Many of the provinces were run as private fiefdoms of the local warlord. Two decades of conflict had destroyed governing infrastructure and pushed almost all highly education Afghans into exile. The PRTs were charged with assisting in the process of building governing capacity at the local and provincial level. As with the security mission, they were not intended to be the primary tool of developing government capacity, but are designed to be flexible and creative in assisting the process.

One method used by PRTs to facilitated the reach of central government and develop governing capacity was through selecting reconstruction projects. For example, if a local or provincial official approaches a PRT requesting a school in a particular village, the PRT checks to see if the school is on the Ministry of Education priority list. If so, immediate approval of the project is given. If it is not on the priority list, the provincial official could negotiate with the central ministry in Kabul to get the location added to the national priority list. Once confirmed,

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the PRT begins the process of contracting for the project. Not only does the process help develop ties between provincial leaders and Kabul, it also ensures the central ministry has allocated resources to properly staff and sustain the school over time.

Another attempt at developing government capacity and extending the reach of the central government was the creation of the PRT Executive Steering Committee (ESC), chaired by Minister of Interior Ali Jalali. The PRT ESC plays an active role in shaping the PRT's priorities. The ESC expresses the government's recommendations for priority PRT sites. The ESC also plays a valuable role in providing guidance and a forum for NATO ISAF, CFC-A and IOs and non-government organizations, to communicate with the Afghan government officials related to the PRTs security and reconstruction missions. The PRT ESC creates intergovernmental dialogue, which is crucial to the development of a functioning government. The PRT ESC efforts also helps create effective, meaningful, and more coordinated reconstruction initiatives.

### **Facilitating Reconstruction**

The PRT reconstruction efforts are influenced by the local security environment. PRTs are envisioned as providing limited reconstruction and humanitarian activities in their areas of operations. As originally conceived, PRTs manage their reconstruction efforts dependent upon the local security situation. If the security situation is safe and non-government organizations could operate, then PRTs would invest less effort, but in more non-permissive environments, where non-government organization could not operate safely, PRTs take on a more active role in reconstruction efforts. In permissive environments, PRTs focus primarily on local capacity building, political liaison, assisting non-government organizations as needed, while those in or near combat zones focus less on these efforts and stress the overall stabilization mission. In no case, are the military elements of a PRT envisioned as the driving force for reconstruction, recognizing they lack the expertise, experience and resources of civilian agencies such as the Department of State, U.S. Agency for International Development, IOs and non-government organizations.

As testament to the U.S. government's desire that PRTs not compete or replace civilian reconstruction efforts, the original eight PRTs were located in the same area as UNAMA field offices. This allowed PRTs to work closely with UNAMA to coordinate and de-conflict various reconstruction efforts. Unfortunately, UNAMA has not expanded the number of its field offices as the number of PRTs has expanded, making it more difficult to coordinate with various IOs and non-government organizations working in the PRTs area of operations.

### **Conclusions**

The PRT concept is a unique and successful solution to a political and security environment requiring a complicated balance between security and reconstruction, while maintaining a light footprint. Additionally, PRTs are active in shaping the security environment, addressing the security issues in their provinces and providing security assistance and mentoring to the developing ANA and ANP. Their economy of force and interagency approach to stabilization and reconstruction operations allows these small units to provide security and stabilizing effect to greater extent than their numbers would normally justify. Instead of simply acting as a force multiplier, PRTs function admirably as stability multipliers. Additionally, PRTs have lived up to their design by being very flexible tools, which have evolved depending upon the local situation. PRT played a substantial role in the stabilization and development trajectory of Afghanistan as the Afghans assume increased responsibility for governance, security and reconstruction. In sum, they have been a valuable model for thinking about and learning from the integration of civilian and military capabilities to facilitate both security assistance and stability operations in ambiguous or non-permissive environments.

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### **About the Author**

Dr. Craig T. Cobane was an American Association for the Advancement of Science (AAAS) Defense Policy Fellow (2004-2005). He was assigned to the Office of the Under Secretary of Defense for Policy, Special Operations and Low Intensity Conflict in the office of Stability Operations (OUSD(P) SO/LIC Stab/Ops). He is currently the director of the University Honors program and Associate Professor of Political Science at Western Kentucky University, Bowling Green, Kentucky. Dr. Cobane is the author of over sixty articles and essays. He is currently editing the two-volume *North Atlantic Treaty Organization: An Encyclopedia of International Security*.



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# ***EDUCATION AND TRAINING***

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## **Transforming the Department of State to Meet the Challenges of the 21st Century**

[The following are excerpts of a fact sheet authored by the Office of the Spokesman, Washington, D.C., July 29, 2005.]

Secretary of State Rice announced her intention to reorganize the Department of State Arms Control and International Security bureaus to better address the modern threat from weapons of mass destruction. The Secretary also announced intended changes to refocus the Department of State on the President's mission to promote democracy.

### **Arms Control, International Security and the Changing Threat**

The existing structure of the Department's international security bureaus reflects another time, a time when our nation concentrated on negotiating strategic arms control agreements, often over the course of many years, and focused almost exclusively on the Soviet Union as the greatest threat to our security. At that time, the U.S. and our allies faced an enemy that possessed thousands of nuclear weapons and a large and powerful conventional threat that divided Europe between democratic and authoritarian countries. Today, as President Bush has said, the threat to our nation has changed. Instead of a single predictable adversary to deter, we face shadowy non-state networks, such as the A.Q. Khan network, that could seek to help terrorist organizations and rogue states acquire weapons of mass destruction.

The reorganization of the International Security and Arms Control bureaus will focus the Department's national security efforts on combating weapons of mass destruction through both effective counter and nonproliferation efforts. We must change the focus of our diplomacy by concentrating the efforts of the many professionals in these bureaus on preventing the spread of weapons of mass destruction (WMD) and missile capabilities and on protecting against WMD threats from hostile states and terrorists. Some of the most important changes include:

- Creation of the Bureau for International Security and Nonproliferation. The merger of the Arms Control (AC) and Nonproliferation (NP) bureaus into a new bureau to be called the Bureau for International Security and Nonproliferation (ISN). This bureau will take the lead in counter and nonproliferation initiatives and negotiations. It also will feature a new office to focus on the nexus between WMD and terrorism, the preeminent threat we face as a nation. It will be the principal focal point in the Department of State for promoting the President's agenda, including the Proliferation Security Initiative, the Global Partnership Against Weapons and Materials of Mass Destruction, the United Nations Security Council Resolution 1540, and efforts to strengthen the nuclear nonproliferation regime including:

- International Atomic Energy Commission;
- Additional Protocol;
- Enrichment of uranium;
- Reprocessing of plutonium; and
- Nonproliferation assistance as envisioned in the Nunn-Lugar Cooperative Threat Reduction Initiative Program.

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- Verification, Compliance, and Implementation Bureau. The mandate of the Department's Verification and Compliance Bureau will be expanded and it will be renamed the Verification, Compliance, and Implementation Bureau. This bureau will assume responsibility for the implementation and verification of important treaties that protect American security, such as the Strategic Arms Reduction Treaties (START), Intermediate-Range Nuclear Forces (INF), Open Skies, and other arms control treaties.

- Strengthening the Political-Military Affairs Bureau. We will add additional personnel freed up by the AC-NP merger to the Political-Military Affairs Bureau (PM) to employ against urgent security issues such as MANPADS and defense trade controls.

### **Institutionalizing Democracy Promotion**

The United States supports the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in our world. Functioning representative governments with the rule of law, economic opportunity and other tenets of a free society do not make fertile recruiting grounds for terrorists, do not produce massive outflows of refugees, do not cause famine, and do not war with other democracies. Advancing freedom requires comprehensive and tailored strategies to ensure that we are analyzing each unique situation, learning from successful and unsuccessful transitions to democracy, and using all of the tools at our disposal to address the many facets of democratization.

The Department is taking a range of steps to institutionalize its democracy promotion efforts at a high level, through the launching of several initiatives, which will result in the strengthening of the Department's assets from within. Some changes include:

- Rename the Under Secretary for Global Affairs, the Under Secretary for Democracy and Global Affairs. This name change underscores the importance the Secretary places in advancing the President's Freedom Agenda.

- Launch a comprehensive review of the United States' democracy promotion strategies and the associated funding with the goal of enhancing and intensifying our activities in this area.

- Create a new Deputy Assistant Secretary for Democracy. The Bureau of Democracy, Human Rights and Labor will get a new Deputy Assistant Secretary to streamline and centralize our democracy promotion efforts.

- Create a new Advisory Committee for the Secretary to get the best expert advice on democracy promotion. Often, non-government organizations, civil society and experts outside the government from academia and other areas have invaluable, on the ground experience that we need to tap into.

- Transfer reporting responsibilities of the Bureau of International Narcotics and Law Enforcement to the Under Secretary for Political Affairs.

This transfer will forge a closer link between International Narcotics and Law Enforcement and regional bureaus, while allowing the Under Secretary for Democracy and Global Affairs to focus more intensively on her expanded democracy promotion responsibilities. The Under Secretary's responsibilities for programs related to democracy and human rights, including the Office to Monitor and Combat Trafficking in Persons and the Human Smuggling and Trafficking Center, will remain unchanged.

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# Military Education and Training

By  
**Dr. Ronald H. Reynolds**  
and  
**Charles E. Collins Jr.**

## **Defense Institute of Security Assistance Management**

The United States Department of Defense and its armed services annually conduct education and training programs for the international military community, as well as for civilian officials within foreign governments and non-governmental organizations. The benefits reach well beyond the sharing of skills and knowledge; they provide future foreign leaders with a glimpse of United States (U.S.) culture and values, and U.S. military personnel with appreciation and understanding for the cultures, military environments, and values of other nations. As the U.S. continues to join forces with other nations in the fight against terrorism, the respect and understanding that U.S. personnel and their counterparts develop for each other in these settings can enhance future joint cooperation, planning, and missions.



**General of the Supreme Allied Commander, Europe, discusses North Atlantic Treaty Organization transformation with participants of Marshall Center's Leaders of the 21<sup>st</sup> Century Program and Executive Program 3 November 2004.**

Several years ago, an international student at the U.S. Air Force Squadron Officer School asked how the United States benefited from providing his international military education. We said then, and would do so again today, the U.S. military education and training programs provide numerous benefits.

- There is the benefit of comradeship that American and international students develop setting the foundation for future contacts once students assume positions of power and influence within their respective militaries and government agencies.
- U.S. personnel and their international counterparts also gain valuable knowledge about and exposure to each other's cultures and military environments as a result of their shared educational experiences. Such knowledge is key to building the cooperation needed to prosecute the *Global War on Terrorism*.
- Training is often connected to the procurement and maintenance of future weapons systems. Here the concept of interoperability is critical, as allies must increasingly work with the same or very similar, compatible equipment. Training replicates the same requirements that will be used later in the field.

### **Varied Opportunities**

The U.S. military services offer a variety of technical training and professional military education programs as well as graduate studies and specialized education and training programs. Many of these programs are open to the international military community as well as civilian

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leadership within foreign governments and non-governmental organizations. In fiscal year 2003, according to the annual *Foreign Military Training Joint Report to Congress*:

About 69,500 individuals from 158 countries participated in 18,487 different events worth a total value of approximately \$491 million.

These figures cover resident and non-resident programs within the Department of Defense's service schools, including those at such regional centers as the George C. Marshall Center in Garmisch, Germany.

Many of these courses invite foreign participants to join their U.S. counterparts; others are designed specifically for international officials. All course offerings stem from several basic principles. A great deal of training is offered in connection with the sale of U.S. equipment. For instance, training for pilots, jet engine mechanics, and logistical and other support personnel often accompanies the sale of aircraft to another country. The Army, Navy, Air Force, Marine Corps, and Coast Guard all allocate and monitor the training of international students within their areas of operation.

U.S. Army photo by Spc. Adrian A. Lugo, WHINSEC Public Affairs Office.



**Students from Latin America attend the Peace Operations Course that covers the military's humanitarian operations during natural disasters at the Western Hemisphere Institute for Security Cooperation.**

Professional Military Education (PME) is conducted primarily through resident courses. This involves officer

programs at each of the service war and staff colleges as well as noncommissioned officer (NCO) courses at training institutions for NCOs.

Non-resident courses are offered to fulfill country-specific education and training requirements. Schools send Mobile Education Teams (METs) or Mobile Training Teams (MTTs) to provide large-scale training. Sending a small number of U.S. instructors to a country costs less than bringing a large number of international students to the United States. The Defense Institute of Security Assistance Management (DISAM) provides instruction abroad in the mechanisms and use of international military training (IMT), foreign military sales (FMS), and other security assistance programs that benefit a country. The Defense Institute for Medical Operations in San Antonio, Texas, conducts courses dealing with disaster response, medical first responders, and healthcare resource management. Specialized areas of graduate studies and continuing education offered by the Air Force Institute of Technology and the Naval Postgraduate School in Monterey, California. Other specialized technical training may even be contracted out to private companies, especially when it deals with equipment the United States no longer is using. Looking to the future, computer-based training (CBT) and advanced distributed learning (ADL) are expected to be integrated into international training and education programs, posing additional policy, technology, and language challenges.

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The combatant commands are responsible for U.S. military operations and interests in a particular region of the world and hold an annual Training Program Management Review in the spring to consider the training requirements for each country within its respective area of responsibility for the upcoming U.S. fiscal year (which begins October 1). Each military service is represented at the review, as are the the Department of State, DSCA, and agencies with training oversight from the combatant commands.

### **English Proficiency**

Since most instruction is conducted in English, an English Comprehension Level (ECL) test score may be required of a student. The individual school establishes the required ECL score, and the test is composed and maintained by the Defense Language Institute English Language Center (DLIELC) at Lackland Air Force Base in San Antonio, Texas. It is administered by DLIELC to their resident students bound for further training in the U.S. as well as by Security Assistance Officers (SAOs) in host countries to their prospective students. In-country administration determines the requirement for a student to attend a DLI resident English course. Many students do not attend resident language training at DLIELC.

Some courses are conducted in Spanish at the following schools:

- Western Hemisphere Institute for Security Cooperation at Fort Benning Georgia;
- The Inter-American Air Forces Academy at Lackland Air Force Base in San Antonio, Texas; and
- The Navy Small Craft Instruction and Technical Training School at the Stennis Space Center, Gulfport, Mississippi.

The Defense Language Institute provides materials for the American Language Course that may be purchased and used in-country for personnel preparing to attend schools in the United States. As mentioned earlier, the school also has a resident course designed to bring students to the appropriate level needed to take subsequent courses. In addition, the Defense Language Institute has a course designed to teach international personnel how to teach English. Included are courses to enhance specialized knowledge of terminology pertaining to aviation, or to prepare students to pass the Test of English as a Foreign Language (TOEFL), a requirement for graduate studies programs.



**International students at the Defense Language Institute English Language Center, Lackland Air Force Base, Texas.**

### **Funding Sources**

Any country, unless otherwise prohibited from involvement in U.S. programs, can use its own defense budget funds to pay for education or training. FMS, under the provisions of the *Arms*

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*Export Control Act*, covers the sale of defense articles, services, and training to eligible foreign governments and international organizations.

For developing nations, grant funds allocated by the U.S. government provide additional education opportunities. There are two primary grant programs that can be used for education and training. One is International Military Education and Training (IMET), created in 1976. IMET funding has grown in recent years, almost doubling from approximately fifty million dollars in the late 1990s to more than ninety million dollars in fiscal year 2004, and spread among approximately 130 countries.

Expanded International Military Education and Training (E-IMET) is a subcategory within IMET focuses funding on training programs for military and civilian personnel to promote responsible defense resource management, foster respect and understanding for civilian control of the military, and improve military justice systems and procedures in accordance with internationally recognized standards for human rights. A key ingredient of Expanded IMET is its inclusion of non-ministry of defense officials as well as representatives of non-government organizations from other countries. Previously, there was no authorization for these two categories of personnel to attend U.S. courses sponsored by the Department of Defense.



**The Defense Institute for Medical Operations trains Turkish medics to safely transport critically ill and injured Patients via waiting helicopter.**

An additional major program is FMF, whose dollars are allocated to fewer countries, and in more varying amounts, than those of IMET. Additionally, programs such as the International Narcotics and Law Enforcement Affairs Program, the Counter-Terrorism Fellowship Program, the Aviation Leadership Program, and various agreements in effect with the U.S. Coast Guard provide training funds. The Department of Defense and Department of State have made long-term commitments to these military education and training programs, and are dedicated to their success.

### **About the Authors**

Dr. Ronald H. Reynolds is Commandant of the U.S. Defense Institute of Security Assistance Management at Wright-Patterson Air Force Base, Ohio.

Charles E. Collins Jr., is associate professor in the Directorate of International Studies at the Defense Institute of Security Assistance Management at Wright-Patterson Air Force Base, Ohio.

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# Mobile Education Team to the United Arab Emirates

By  
Bob Van Horn

## Defense Institute of Security Assistance Management Instructor

A DISAM Mobile Education Team (MET) led by Deputy Commandant Dr. Craig Brandt conducted DISAM's Foreign Purchaser Planning and Resource Management Course (SAM-F-MET)<sup>1</sup> in Abu Dhabi, United Arab Emirates (UAE), 20 April-5 May 2005. Greg Sutton, Director of Research and editor of *The DISAM Journal*, and instructor Bob Van Horn rounded out the MET.

As with all METs, the genesis of this mission was a call-up message from the U.S. Security Assistance Organization (SAO) in country<sup>2</sup>, in this case the United States Liaison Office (USLO) in the American embassy in Abu Dhabi. DISAM and USLO worked together for several months on a variety of issues, such as adapting the SAM-F-MET curriculum to specific UAE needs, identifying special support requirements, and shipping teaching materials. This detailed and collegial coordination effort proved essential to the success of the MET. By mid-April the MET was ready to deploy.

Because of commitments elsewhere and the MET teaching schedule, team members did not travel to Abu Dhabi together, but rather filtered in and out over a period of days, the first arriving in UAE on 20 Apr 2005 and the last departing on 5 May 2005. With USLO's assistance, MET members set up the teaching venue on 21-22 April 2005 and then taught the course 23 April through 4 May 2005. Team members also visited USLO and the UAE General Headquarters (GHQ) to discuss security assistance issues, especially training management. Additionally, Dr. Brandt conducted a short seminar on security assistance management with twenty senior Emiri officers (one flag officer, with the remainder senior field grades).

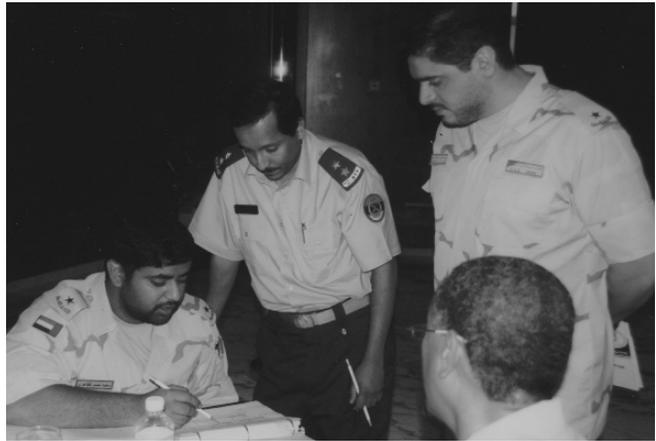
The MET teaching venue was the magnificent UAE Armed Forces Officers Club on the outskirts of Abu Dhabi. This beautiful structure, with its marble floors and walls, lovely furnishings, superb athletic facilities, museum, and indoor waterfalls, is by far the finest officers club any of the MET members has seen anywhere in the world. More to the point, the classroom allocated for the MET was a well-equipped and comfortable learning environment. UAE GHQ and the officers club staff provided outstanding computer, projector, and other equipment and technical support.

The twenty-nine students who attended the course included representatives of all services of the UAE armed forces as well as one civilian who works at the UAE Ministry of Defence. Active student participation in class led to many frank and open discussions about U.S. foreign military sales (FMS) policies and procedures. MET members enjoyed these exchanges and it appeared that the Emirati participants found them useful as well.

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1 A description of the SAM-F-MET and all other DISAM courses is located on DISAM's website at [www.disam.dsca.mil](http://www.disam.dsca.mil). Once at the DISAM homepage, simply click on the link to "Courses". The web address for the SAM-F-MET course description, including scheduling procedures, is at <http://www.disam.dsca.mil/pubs/web%20Catalog/SAm-F-MET.htm>.

2 See Chapter 13 of Army Regulation 12-15/SECNAVINST 4950.4A/AFI 16-105: *Joint Security Assistance Training (JSAT)* for procedures to request and coordinate Mobile Training Teams (MTTs) and METs. The JSAT website is [http://www.army.mil/usapa/epubs/pdf/r12\\_15.pdf](http://www.army.mil/usapa/epubs/pdf/r12_15.pdf).



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In addition to the material covered in class, UAE GHQ staff were especially interested in FMS training management issues, particularly the international versions of the Security Assistance Network (I-SAN) and the Training Management System (I-TMS). MET members visited with training managers in their offices at GHQ (another beautiful structure!), demonstrated some of the functionality of DISAM's International Training Management website<sup>3</sup>, and explained how UAE could get access to I-SAN and I-TMS. Staff officers also expressed interest in attending resident training management courses at DISAM and in inviting another MET focused on training management to Abu Dhabi.

MET members believe that they achieved the purpose of their visit to UAE, and all agree that this is due in large part to the great cooperation from USLO. As mentioned above, good coordination early in the planning process laid the groundwork for success. Additionally, although at least three other major events requiring intimate USLO involvement occurred during the MET's visit, USLO was most gracious in offering time and other support to the MET. MAJ Jeff Wyatt, USLO Program and Training Officer, even helped teach the course by presenting a briefing on USLO as part of the program of instruction and also participated in the graduation ceremony. Special thanks also to SFC Debra Advent and SFC Teresa Lovick.

#### **About the Author**

Bob Van Horn has been an instructor at the Defense Institute of Security Assistance Management since August 2004. He served in the U.S. Army from 1973-1994 as an Armor Officer and a Foreign Area Officer (China). While in the Army, his security assistance tours included Chief, Army programs, Office of the Defense Representative, U.S. Embassy, Islamabad, Pakistan, and Chief, Performance Evaluation Group, Logistics and Security Assistance Directorate (J44), Headquarters, U.S. Pacific Command, Camp Smith, Hawaii. After retiring from the military service in 1994, he worked for a short time as the Director, Trade Development, Kansas Department of Commerce and Housing in Topeka, Kansas. In July 1997, he joined the security assistance office in the American Institute in Taiwan (AIT), located in Taipei, Taiwan, where he served till July 2004. His academic degrees include an MBA from the University of Kansas, a Master's Degree in Political Science from the University of Arizona, and a BS in Economics from Iowa State University.

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<sup>3</sup> To reach the International Training Management website from the DISAM homepage, click on the link to 'Intl Tng Mgt' or go directly to <http://www.disam.dsca.mil/itm>.

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## Recent Military Education Teams Bosnia and Herzegovina

A DISAM team consisting of instructors, Dr. Craig Brandt, Mr. Gary Taphorn and Mr. Bob Hanseman, deployed to Bosnia in April 2005.



Three general officers – engaging in discussion during a class break. Bosnia is now establishing a national-level Ministry of Defense and the two entity level defense staffs (for the Bosnia-Croat federation and for Republika Srpska) are scheduled to be phased out.



Students listening to a simultaneous translation of a DISAM class presentation. DISAM frequently makes use of local interpreters on its Mobile Education Teams. The student at right previously attended North Georgia College and State University in the United States.



Deputy Commandant of DISAM, presenting a lecture. The course was conducted at a hotel in suburban Sarajevo.



Students on their graduation from the DISAM Foreign Purchaser Course in April 2005. Bosniaks, Croats and Serbs were all represented in the student body. Students included a number of officers and civilians who are assigned to the new national-level Ministry of Defense and Joint Staff.

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## MET to European Command Headquarters



DISAM classes were conducted in the Swabian Special Events Center at Patch Barracks in Stuttgart, the site of EUCOM headquarters. The MET was held 13-22 June 2005.

A member of the EUCOM J-4, enjoys a meal with the students at a gasthaus in Stuttgart.



DISAM instructor with the students in the logistics track. After the one-week F course, the class was divided into specialization tracks for the second week.

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The graduation photo of the multinational F class held during the first week. The second week of the course was devoted to offering emphasized logistics, finance, and information technology. Forty-two students were trained in the four classes.



DISAM instructor taught the information technology track during the second week of the course. This specialization course focused on using the Training Management System (TMS) and the International Security Assistance Network (ISAN).

The graduates of the finance track held during the second week. Although the course was sponsored by EUCOM, it was open to all security assistance customers. Because of the finance track, Singapore took advantage of the course to send many of its specialists to join their European counterparts.



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## Oman MET

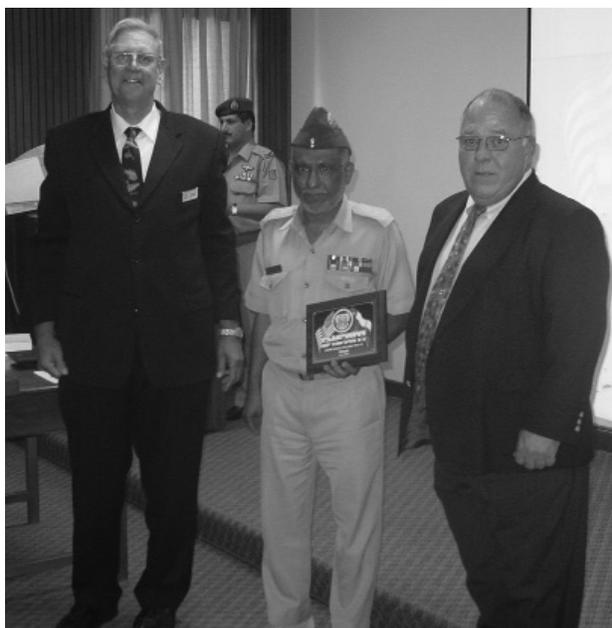
From 4-15 June 2005, DISAM taught a two-week Foreign Purchasers Course at the Education Center of the Royal Air Force of Oman (RAFO). Instructors Bob Hanseman, John Clelan, Ken Martin and Gary Taphorn conducted the course and also presented two executive-level briefings to senior officers of the Omani armed forces.





Omani Colonel, Assistant Resource Advisor of the Ministry of Defense, presents a plaque to DISAM instructor on the behalf of the ministry. Omani Colonel was instrumental in inviting the DISAM team to Oman.

Omani officers enjoying a break between class sessions. The MET was conducted at Ghala Camp near Muscat. Although the Royal Air Force of Oman served as host, students for the MET came from all branches of the Omani armed forces.



DISAM instructors present a DISAM plaque commemorating the MET to an Omani officer.

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## Australia MET

In June 2005, DISAM sent a MET to Australia for three weeks, conducting intensive instruction for three classes. Two classes were held in Canberra; while the third was conducted in Melbourne. The DISAM team consisted of instructors Bill Rimpo (team chief), Don McCormick and Major Orlando Vilches, USAF.



DISAM instructor provides assistance during the financial exercise as other students relax in the background. During each week of instruction the class divided into two groups, each focused on logistics or finance. The finance group was evicted from the classroom due to the larger size of the logistics group and had to take up accommodations in the cafeteria, a distinctive plus for a group of distinguished students.



DISAM instructor tackled the grueling logistics specialty course during the third week of the MET. As the students diligently struggled with the logistics exercise, Major Vilches takes the time to discuss related topics with a student.



A group of students from the Australian MET. A unique feature of the Melbourne class was the addition of several students from New Zealand.





