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## Fact Sheet On Defense Procurement Reforms

[The following report was released by the White House, Office of the Press Secretary, on June 19, 1992.] [A related message from the Defense Security Assistance Agency is included in the Security Assistance Community (DoD) section of this Journal.]

As part of his continuing regulatory reform initiative, the President today announced an important change in federal defense procurement policy that will ease the transition by American businesses and workers to the post-Cold War era. When fully implemented, the new policy will enable American firms to compete more effectively for billions of dollars of additional business, and will preserve tens of thousands of American jobs.

The end of the Cold War and the accompanying down-sizing of the U.S. military have created dislocations in the American economy. To excel in this new environment, and avoid significant layoffs, many defense-oriented companies have tried to redirect their efforts toward commercial products—for example, by commercializing military technologies.

One obstacle to a successful transition is the Defense Department's "recoupment of non-recurring costs" rule. This rule was originally adopted in the early 1960s as a way of sharing weapon development costs with U.S. allies. It requires contractors to pay fees to the Government on non-Government sales of products and technologies developed under Government contracts—as well as commercial spinoffs of those technologies. In today's environment, the rule operates like a sales tax imposed only on U.S. companies: it hurts American workers by making it more difficult for their employers to compete for business, both in the U.S. and abroad.

This burden on American workers and businesses is no longer justified in light of the historic political changes during the past three years. Accordingly, the President today announced a new policy that will result in the elimination of all recoupment fees as expeditiously as possible.

1. **The Policy.** The new policy—developed by the Department of Defense and OMB's Office of Federal Procurement Policy, in consultation with the council on Competitiveness, the President's Export Council, and the Department of State—will be implemented as follows:

- By administrative action, the Department of Defense will immediately abolish recoupment fees on all products other than "Major Defense Equipment" (MDE) exported for military uses.

- This action will eliminate recoupment fees on all non-military products, including spinoffs and derivatives of military products. Recoupment would no longer be required if, for example, a company decided to use aircraft cockpit display technology in making dashboard displays for automobiles.

- It will also eliminate recoupment on military products that are either not classified as MDE or not exported for military uses. Thus, for example, recoupment will no longer be required on the sale of aircraft engines for use on commercial airliners.

- The Department's action will eliminate recoupment under all new non-MDE contracts and, to the extent permitted by law, under all existing non-MDE contracts as well.

- In addition, the Administration will work with Congress to achieve the elimination of recoupment fees on MDE exported for military uses.

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•• The Arms Export Control Act currently requires the Department of Defense to collect recoupment fees on sales of MDE through the Foreign Military Sales Program, which accounts for most MDE sales.

•• The Administration will work with Congress to lift this requirement, and to find mutually acceptable budget offsets.

2. **Benefits of the New Policy.** The new policy will produce several important benefits.

• *It will make U.S. companies more competitive against foreign suppliers*, which typically are not subject to recoupment requirements. The new policy will enhance the ability of American firms to compete for billions of dollars of business that they might otherwise lose. It will also eliminate paperwork and administrative costs associated with the present policy, which according to industry estimates, exceed \$40 million per year.

• *It will facilitate efforts by defense-oriented companies to shift toward commercial activities.* The new policy will give defense contractors an incentive to develop products and technologies with larger markets. It will also eliminate costly tracking requirements that would otherwise discourage contractors from consolidating military and commercial operations. Such consolidations will facilitate the transfer of technology and ideas within companies, and will allow enhanced economies of scale and scope.

• *It will contribute to U.S. national security* by strengthening defense-oriented U.S. companies. The new policy will also reduce defense costs by encouraging defense contractors to incorporate commercial technologies into military products. Eliminating recoupment will not affect national security controls, such as export licensing requirements, which will continue to ensure that sophisticated U.S. technologies do not fall into the wrong hands.

• *It will preserve tens of thousands of American jobs* in high-technology firms located throughout the country.