
Defense Trade and Cooperation

By

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I must say that I am especially pleased to be with you today. I believe it is gatherings such as these that provide for the key exchange of ideas that are needed for the future. We are obviously in very exciting times. There are major changes in the nature of the military challenges that we confront—changes due to the regional and limited type of conflicts that we now face.

We now face economic aspects of the new challenges as well. No where is this more apparent than in the Partnership for Peace—PfP—nations. Many of these nations would like to modernize their defense forces with equipment from the U.S. and other Western European countries as a prelude to eastward expansion of NATO. But these countries face tremendous economic pressures to limit purchases as they develop market driven economics. We and our allies face the same economic pressures. It is these pressures that create a strong economic incentive for greater armaments cooperation.

Just last week, I returned from a series of meetings with my counterparts from the Czech Republic, Switzerland, and Hungary. Prior to that, I held a similar set of bilateral discussions with my counterparts from Romania and Poland. In all cases, there are opportunities for seeking deeper cooperative relationships, including defense trade, with these new partners. It is also important to focus on our allies in NATO and the Pacific. We have devoted considerable time to this.

In the post-Cold War world, we no longer face a single galvanizing threat such as the former Soviet Union. Instead, there is increased likelihood of our forces being committed to limited regional military actions—coalition operations—in which allies are important partners. Actually, it is the convergence of two trends—the increasing likelihood of committing forces to coalition operations and reduced defense budgets—that makes the case for greater armaments cooperation with friends and allies.

Deploying U.S. forces in coalition operations with the forces of other nations places a high premium on interoperability. In this environment, it is important to ensure that U.S. and allied command and control systems are compatible and to be able to sustain the combined force through a common logistics support structure. U.S. assistance in the form of collaboration on logistics initiatives, structuring a defense resource management system, or employing our system engineering and integration skills to help chart a path ahead for implementing C3I [command, control, communications and intelligence] architectures are recurring themes in my bilateral discussions with other national armaments directors.

Defense trade—either on a government-to-government basis through foreign military sales or through a more direct industry-to-industry route—will also contribute greatly to improved interoperability. It also supports our other armaments cooperation goals as well.

In addition to the economic and military reasons I have just cited, the United States seeks cooperation with its friends and allies for political reasons as well—these programs help

strengthen the connective tissue—the military and industrial relationships that bind our nations in a strong security relationship. The interwoven political dimensions of defense trade and armaments cooperation are becoming increasingly important in a less predictable international security environment.

The DoD has taken a number of actions—like changing our policy requiring the use of military unique specifications—to reform our acquisition system and better leverage our commercial industrial base. These actions also tend to break down the barriers to international armaments cooperation and defense trade. For example, we have adopted the ISO [International Standards Organization]-9000 series of standards as an alternative for MIL-Q [military quality standard]-9858. This change makes it easier for international businesses to work with us and for our industry to be more competitive in the international marketplace.

In addition to changes in our policies requiring the use of unique military specifications, we have taken a look at several of our policies and processes as well as several upcoming major system acquisitions to ensure the selection approach is consistent with our commitment to maintain an open market for all suppliers. Our objective is to look at every opportunity to consider fully and fairly the systems of our friends and allies that address similar U.S. need. Our motivation here is really selfish—we want “best value for the dollar” in a environment of dwindling resources.

On Feb. 24, 1995, I signed a policy memorandum to the secretaries of the military departments and the service acquisition executives to promote consistency and fairness in dealing with our friends and allies. To promote these goals, I implemented some changes to our process.

First, the services are not permitted to use “other than competitive procedures” or exclude sources for “mobilization base reasons” on contracts over \$50 million unless I have given prior approval.

Second, the service acquisition executives will implement an approval process for assuring that determinations for contracts less than \$50 million awarded to develop or maintain the industrial mobilization base are made only in exceptional circumstances when there is a clearly demonstrated need for such a restriction.

We are removing the bureaucratic barriers within the department that were associated with the processing and review of international agreements for cooperative research, development, production, logistics support and loans of defense equipment. We are now enjoying the benefits of a new, streamlined procedure—put in place in late 1994—for processing these agreements. The new process has shortened average review time for a typical memorandum of understanding from 130 days to 30 days. It is this kind of real change that is removing impediments to armaments cooperation and that will pay big dividends in fostering new cooperative programs.

Earlier, I said we were looking at the potential for international collaboration on several upcoming major system acquisitions. To help promote new cooperative arrangements, I directed the Armaments *Cooperation Steering Committee—the senior armaments cooperation policy and oversight body* within the Department of Defense—to implement a more disciplined process for identifying new opportunities for international armaments cooperation.

Over the past six months, this steering committee has launched two significant initiatives. The first initiative deals with the formation of four International Cooperative Opportunity Groups, or ICOGs, to identify and recommend specific new opportunities for armaments cooperation. The goal is to plan in advance to create opportunities earlier in the acquisition process. The second initiative is directed at “modernizing” the Defense Cooperation Arma-

ments function within the Office of Defense Cooperation (ODC) at U.S. embassies around the world.

Turning first to the ICOG initiative, it was formally launched in October of 1995. As I said earlier, four ICOGs were established in the following areas: major systems (in their early phases); science and technology programs; advanced concept technology demonstrations; and technology disclosure process.

The first three ICOGs are seeking to identify programs as candidates for potential cooperation based on the factors that create a successful cooperative program. These factors include:

- The degree of requirements commonality;
- The extent to which the technologies, strategies and budgets of the potential partners are complementary;
- The potential for international industrial teaming; and
- The perceived benefits and risks associated with execution of an international program.

Each of these first three ICOGs has compiled an initial list of programs nominated by the military services and by the ODCs at our embassies around the world. These lists are being discussed with selected allies to identify those programs with maximum cooperative potential.

The fourth ICOG is specifically addressing improvements in the technology disclosure process. Some of this group's preliminary findings are that the department's disclosure decision making process was sound, but that it would be useful to convene a set of individual system and technology reviews. At the present time, the Defense Science Board is examining the department's current software release practices—in particular, the practice of restricting the transfer of relevant software source code when a military system is exported.

Each of the ICOGs is benefiting directly from the input of the ODC personnel assigned to our embassies around the world. In performing their Defense Cooperation in Armaments—or DCA—mission, the ODCs provide the ICOGs with a direct linkage to the ministries of defense in their host countries and to the commander in chief (CinC) staffs in both the European and Pacific commands.

Our ODCs are attuned to the requirements of the CINCs and the realities of the defense industrial base in their area of responsibility. We currently have 52 personnel assigned worldwide, split between the European and Pacific theaters. With these personnel, we have a valuable resource to tap in furthering armaments cooperation.

In light of the changing national security landscape, both in government and industry, the steering committee's second major thrust is to evaluate how to more effectively use our DCA resources and better align our personnel to take advantage of emerging opportunities in post-Cold War environment.

As we realign our DCA personnel to take international cooperation into the 21st century, we need to extend our time horizon five, 10 or 20 years ahead, and envision the international environment of the future. To address this challenge, the Defense Science Board is examining the issue of a future model for armaments cooperation and defense trade.

The DSB task force on international armaments cooperation—also launched in October 1995—is specifically chartered to identify:

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- A model for 21st century armaments cooperation that preserves effective competition;
 - Methods for preserving effective two-way access to critical military technologies;
 - Methods to assure maximum leveraging of the commercial industrial base; and
 - Approaches for maximizing the involvement of the CinCs in international cooperative efforts.

It is becoming clear to me, as the department places increasing emphasis on international armaments cooperation, that it is important to involve our international partners at an early stage in the formation of a new program. One of our primary mechanisms for promoting early engagement has been through the NATO Cooperative R&D [research and development] Program. This program has planted important seeds for international cooperation, many of which are thriving today.

Through this program, U.S. funds are matched by the contributions of allied partners. The program is intended to facilitate international cooperation to reduce cost, increase interoperability, and provide access to the best technology—where ever it is available.

Over the years, we have taken steps to improve the program. When the NATO Cooperative R&D [Program] was first initiated, the emphasis was on common development of major defense systems. With smaller defense budgets in the U. S. and elsewhere, the program now emphasizes cooperative development of common subsystems and technologies across common interfaces for incorporation in U.S. and allied systems. This has proved to be a more practical approach towards cooperative development.

The NATO Cooperative R&D Program has been adjusted in the Fiscal Year 1997 budget request to place greater emphasis on enhancing coalition operations—a good example is the effort to explore concepts for an allied combat identification system for reducing the danger of friendly fire incidents.

The Defense Export Loan Guarantee program is a second mechanism for promoting armaments cooperation and defense trade—one that we are currently implementing in the Defense Department today to comply with the provisions of the FY 1996 Defense Authorization Act. As many of you in this audience are already aware, other nations have export assistance programs that support the defense sector. In the U.S., the Export-Import Bank is prohibited by law, with limited exceptions, from financing defense articles and services.

This new DoD program will provide U.S. defense industry with access to government loan guarantees for defense exports. Under the law DoD has authority to issue up to \$15 billion of loan guarantees. Eligible countries include NATO and major non-NATO allies, non-communist Pacific Rim nations and Central European emerging democracies. This DoD program is intended to mirror similar programs of the U.S. Export-Import Bank and is to be supported totally by fees collected from users.

We are currently developing the Defense Export Loan Guarantee Program in consultation with other DoD activities, OMB [Office of Management and Budget], Treasury, and other government agencies. Defense industry associations also are providing advice. We are in the process of developing initial program guidelines. Our goal is to make the program work with minimum burden on defense exporters, the foreign customers, financial institutions and the DoD. We intend that the program will be available to support exports through either the Department of State munitions license process or the foreign military sales [FMS] process.

My view is that this program should provide a relatively simple loan guarantee function, a tool for exporters. Any policy decisions beyond that are normally addressed through the State Department munitions license or the FMS [foreign military sales] sales process, and would not be duplicated here.

In summary, we face demanding challenges. Challenges create opportunities. I have concluded, as I know many of you have, that in this new environment we must use new and creative approaches. Where it involves our industrialized allies—a growing group, I must say—the new approach must include cooperation at earlier stages of the acquisition cycle. We must engage these allies at the outset of our programs, early in the concept definition phase. Then we must find an industrial role for them in the design and development of the equipment. If we wait until we have finished development, we will be just another competitor out there. We need partners, not just customers.

There is certainly ample opportunity for partnership. Our focus in the past has been on Europe, and rightly so, but we may be overlooking some opportunities in the Pacific. We are now focusing on the industrial potential of Japan, which is devoting very substantial resources to defense acquisition. We operate more major items of equipment in common with Japan than with any other ally. There is [also] Korea, where dramatic strides have been taken to build modern, high technology industries. These will not be traditional markets in the sense that we will just make sales and deliveries—but these countries will favor working with U.S. industry if we make it reasonably attractive to do so.

There is mutual recognition that we must reach out and exploit technological advances being made both at home and abroad. Industry-to-industry partnerships will play a key role, as they form the underpinning for international cooperation. Creating these partnerships will be central to defense trade in the future. The U.S. Department of Defense is taking steps to create an environment where these partnerships can flourish.

Armaments cooperation—true cooperation—is a complex and challenging business. I hope I have portrayed a vision that you can appreciate and will help make a reality.