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# Defense Security Cooperation Reform

By

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[The following is a reprint of the speech given by James M. Bodner at the Defense Security Cooperation Reform Conference, in Washington, DC, on 10 June 1999. ]

Today's conference represents a milestone, not only in our efforts to reinvent the way the Department of Defense manages Foreign Military Sales-but also in Secretary Cohen's broader goal of bringing "best business practices" and greater efficiency to DoD's support to the warfighter.

Across the Department, we have been looking at ways to stimulate innovation to maintain our technological edge, reduce product cycle times and costs, and promote interoperability for coalition warfare, which was a key theme at the NATO Summit in April.

**A critical component of these efforts is reinventing the FMS system.** To do so, we have tapped the industrial community through groups such as NDIA which is cosponsoring today's event; the Aerospace Industries Association; the American League for Exports and Security Assistance (ALESA); the Electronics Industries Association (EIA) and others. We also have reached out to international customers for their views on how we could make FMS more responsive to their needs. The American Bar Association has assisted as well.



In his keynote speech, James M. Bodner, Principal Deputy Under Secretary of Defense for Policy, stressed that a new model of security cooperation must be built to respond to the changing global requirements and a changing defense market.

Thanks to active participation by all of you on the front lines, we are forging a security cooperation model for a changing security environment and a changing marketplace. With your help, we are making FMS more customer-friendly, more agile, and more transparent.

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As General Davison outlined this morning, we have begun implementing several of the recommendations from the white papers on process transparency and on pricing and cost recovery. The arms transfer process white paper is nearing completion. Over the coming months, DSCA will be developing a white paper on metrics and business process reengineering. We are also hard at work on improving how DoD handles its part of the national disclosure and export licensing processes. And we are working with State Department on these same issues.

Two significant policy changes have come about as a result of the white papers. First, international customers will be given greater opportunity to participate in the FMS contracting process, and we are in the midst of changing the DFARs accordingly. Second, Under Secretaries Slocombe and Gansler have signed a policy memorandum encouraging increased partnering between DoD and industry so we are in a better position to form a united U.S. front in international competitions. A third policy change, which should be issued within the next few weeks, will allow international customers visibility into how we develop the Letter of Offer and Acceptance. This will give customers a much better sense of the difference between the contractor price and the FMS price. They will know, at the time the LOA is drafted, what the standard and non-standard “add-ons” are, and this will clarify greatly for them what their money is buying.

And, as you have read in the trade press, we have been carefully examining the FMS administrative fee, which has long been set at three per cent. We are currently consulting with Congress. I anticipate that we will have a favorable announcement in the near future once we complete those consultations.

The intellectual spadework on FMS reinvention by those represented in this room offers a solid start to what will be an iterative project.

My staff had proposed that I tell you that “we must all be patient: the FMS system has been built over decades and will not change overnight.” I think that is wrong. We must be impatient precisely because a system built up over decades will change only under continuing pressure. Our customers have exerted pressure from below, and the leadership of the Defense Department has been pressing from above—the result has been significant progress, for which Lieutenant General Michael S. Davison and his deputy, Mr. Bob Keltz, deserve great credit.

But the impatience should and will continue. FMS is too valuable a tool to allow it to become ineffective.

### ***Why is FMS so valuable?***

For the U.S. government, FMS is a critical element supporting our national security and foreign policy objectives.

Our defense strategy is summarized: shape, respond and prepare. We actively shape the international security environment. We maintain the capability to respond to a range of missions from refugee crises to peacekeeping operations to major theater war. And we are preparing now for an uncertain future.

FMS is one of our most effective means of shaping the environment, providing us a relatively inexpensive way of promoting regional stability, military cooperation, and interoperability. FMS

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has facilitated vital military relationships between the United States and our allies and friends. These relationships inspire confidence in America's commitment to their country or region, and enhance their broader bilateral relationship with us.

***For our international customers, FMS brings tremendous benefits as well.***

With FMS, customers do not simply buy defense goods and services; they invest in a strong relationship with the U.S. government and U.S. armed forces. Many nations view these relationships as the primary reason to acquire U.S. systems, and to do so through FMS.

The total package FMS offers, from training to follow-on services, ensures that countries can operate and maintain the weapons we sell them. This in turn means that when U.S. forces deploy, our partners are better able to muster the military capabilities to work effectively with us, rather than being hobbled by mismatched equipment, communications, and doctrine. In the Persian Gulf, for example, the combination of U.S. training, hardware sales, ongoing services and infrastructure development has strengthened the militaries of our regional partners. It also has helped ensure that U.S. forces can be rapidly introduced into the region and work with and be supported by regional partners when necessary.

***For U.S. industry, FMS provides a structure that ensures American companies get paid.***

Even in the midst of unforeseen circumstances, such as the Asian financial crisis, we have been able to work with countries in the region through our government-to-government relationship to resolve accounting or other issues. We are working similar arrangements with our Middle East partners who have had to make significant adjustments to their programs because of depressed oil prices. Our top priority, in all such cases, is to ensure that customer programs remain stable and their military capabilities remain intact.

From a policy perspective, FMS clearly is an indispensable tool. But let me underscore that FMS is a means to an end, not an end in itself. It is intended to help ensure our friends and allies have the necessary military capabilities to address conflicts, humanitarian crises and natural disasters, and-in extremis-to prevail over any adversary we might face together on the battlefield.

Yet, the rapid pace at which the U.S. armed forces are advancing is enlarging the gaps between our military capabilities and those of our allies and friends. We have taken the growing gaps with allies quite seriously and undertook an intensive effort last year that led to the Defense Capabilities Initiative endorsed by NATO heads of state in April.

Let me bring us back to where I began my remarks by placing our FMS reinvention in the broader context of Secretary Cohen's effort to reform DoD to meet the challenges of the coming century. If our objective is to ensure the superiority of our military capabilities over potential adversaries, there are two approaches we need to pursue in our dealings with other countries. First, since we typically will fight in coalitions, we want to be able to share technology and information in order to enhance coalition military capabilities. FMS is an important tool for achieving this. Second, we want to prevent the unintended leakage of technology and information to potential adversaries. Export controls are one of our tools toward this end.

What we have found, and what many of you have experienced, is that neither tool is as effective as it should be to achieve our objective. Too often, FMS procedures have impeded

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exchange between the U.S. and its partners. And too often export controls have focused on form rather than substance, taking a blanket approach rather than securing what really needs to be protected.

We are exerting considerable effort to fix FMS. We will need assistance from other agencies to fix our export control system.

Some sound advice on fixing our approach to export controls comes from the recent Cox Report. The Report calls on us “to establish a mechanism to identify, on a continuing basis, those controlled technologies and items that are of greatest national security concern” (Recommendation 30), and to streamline current licensing procedures for all other technologies to “provide greater transparency, predictability and certainty” (Recommendation 32).

Let me close by noting that we fully appreciate that FMS is not the only game in town. Whether it is commercial sales or sales by other governments, FMS has competitors who are offering customers more choices. Savvy international buyers are working the system in new, sophisticated ways. They often move from seller to seller extracting as much as possible in terms of technology, price and offsets. They increasingly want customized arrangements that meld the best parts of direct commercial purchases with the benefits and security of traditional government-to-government sales.

The FMS system has to adjust to this fast paced, global business environment. The U.S. may have the largest military R&D infrastructure as well as the budget and operational requirements to support procurement of next generation systems. And U.S. defense systems will likely continue to dominate the high-end of the defense market. But, our FMS policies and practices must be, and are being, adapted for FMS to remain competitive.

### **About the Author**

Mr. James M. Bodner is currently the Principal Deputy Under Secretary of Defense for Policy, the second ranking official in the Office of the Under Secretary of Defense for Policy. Previously he was the special assistant to the Secretary and Deputy Secretary of Defense. Mr. Bodner worked in the office of Senator Cohen from 1983 until the Senator became Secretary of Defense. From 1985 to 1997, Mr. Bodner was a Legislative Assistant and the principal advisor to Senator Cohen on foreign policy, national security, and science and technology. He was also the senator’s staff designee to the Senate Armed Services Committee. From 1983 to 1985, he was a Staff Assistant to Senator Cohen on the same issues. Mr. Bodner received his B.S. in biophysics from the University of Michigan in 1982. He was a research assistant in the Biophysics Research Division at the University of Michigan from 1982 to 1983.