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## Direct Commercial Sales Authorizations for Fiscal Year 2003

The following is an excerpt of the Report by the Department of State, pursuant to Section 655 of the *Foreign Assistance Act*. The complete report can be found at the following web site [www.prndtc.org](http://www.prndtc.org).

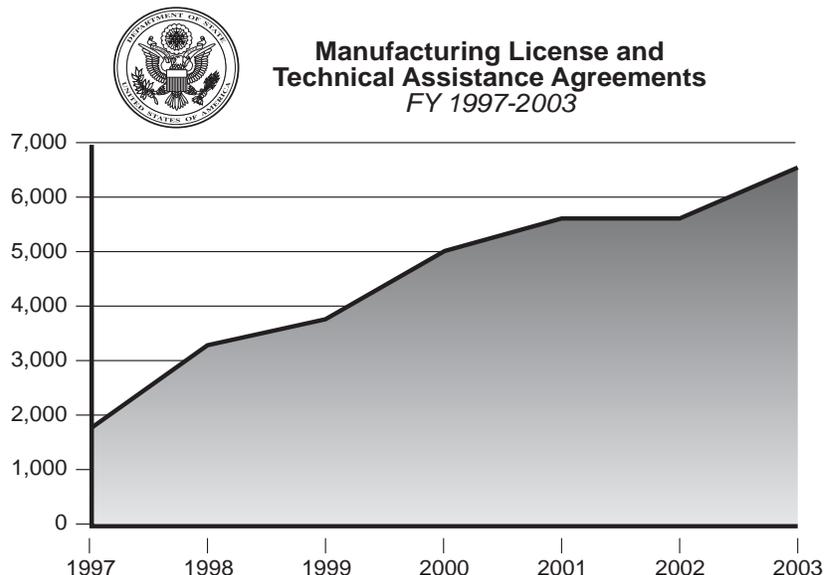
### Overview

This report covers defense articles and defense services licensed for export during fiscal year 2003 under Section 38 of the *Arms Export Control Act*. It is provided pursuant to Section 655 of the *Foreign Assistance Act* 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. 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 reports just 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 Fiscal Year 2003 was approximately 35,000. The number of manufacturing license agreements and technical assistance agreements submitted was 6,608. See Figure 1.



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 \$18 billion in licenses authorizing the export of defense articles, while Part 2 provides aggregate information by country on authorizations for defense services (i.e., agreements) totaling \$44 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 fiscal year 2003 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 2003 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, reflect a large portion of the dollar value of all authorizations furnished under Section 38 (i.e., the overall direct commercial sales

<b>Defense Articles Authorized</b>	<b>Fiscal Year 2001</b>	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2003</b>
Japan	\$2.6	\$3.0	\$3.6
United Kingdom	\$3.3	\$2.6	\$1.8

program). 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.

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 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 domestic possession of which is unlawful under 18 USC 922, that were licensed for export during fiscal year 2003.

<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 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.