The DISAM Journal

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of International Security Assistance Management

Supporting Worldwide Partnerships

THE DISAM JOURNAL OF INTERNATIONAL SECURITY ASSISTANCE MANAGEMENT

Once again we have a wide range of coverage within the DISAM Journal. This edition's feature article discusses the various responsibilities of the Air Force Security Assistance Center. It particularly notes the strategy, and diligence in using its workforce of world-class professionals to foster and facilitate access, interoperability, and coalition partnerships. Brigadier General Jeffrey Riemer penned this prior to his recent departure from the Air Force Security Assistance Center to become the Director of Operations for Headquarters, Air Force Materiel Command. He notes the integration of Balanced Scorecard principles to advance the unit's mission accomplishment. At this writing we welcome Major General (Select) Arthur J. Rooney Jr. as the new Air Force Security Assistance Center Commander.

Our legislation and policy section runs the spectrum of international affairs in general to the specifics of South America, South Asia, and Europe. These articles, contributed from key leadership at the State Department, including Secretary of State Colin Powell, further span the subjects from the very general to particular U.S. relations with countries in these regions to policies involving Humanitarian and Mine Actions and Counterdrug Activities. All contribute to the Global War on Terrorism, especially noting the efforts to embed biometrics within passports and visas, a subject you are likely to hear about on current evening news reports.

We pay tribute to one of our finest. Mr. John Auffrey was recently killed during a robbery in his hotel room as he visited Liberia (from his home base in Namibia). He was there as a member of a U.S. team assessing the establishment of a new Liberian national army. John was a class act. I had the honor of meeting and getting to know him when he attended DISAM's Advanced Training Course a little over a year ago. Information concerning Mr. John Auffrey is provided on page 83 of this Journal. John will definitely be missed.

Regardless of your role in the security assistance community, there are probably questions about practices, efficiencies, and results anticipated and/or achieved. DISAM is now providing a service, via its website, for those types of questions to be maintained in a research data base. They are available to personnel and students participating in Global Master of Arts Program II (GMAP) and various Professional Military Education programs the Department of Defense. These students are in degree-granting programs, and we have long been remiss in having any repository of topics and abstracts for students to use in approaching their research that play in the area of security assistance and security cooperation. For more information take a look at DISAM's own Lieutenant Chris Krolikowski's article on page 95 of this Journal.

The ongoing Global Master of Arts Program (GMAP II) class recently completed their first trimester of the program. In keeping with our partnership with the Fletcher School of Law and Diplomacy, take a look at perspectives of the program's status, including comments from some of the students, in this edition of the Journal. If you are interested in this program, take a few minutes to check out the info on our website, and follow up with a phone call to the applicable contact point.

We also take a look at DSCA's implementation plan for the Case Execution Management Information System. This five-page article, written by Kathy Robinson of DSCA, provides a good synopsis of the past, present, and future of this system's integration effort.

As always, thanks for your support of DISAM's programs and your input is important to us as we strive to provide the courseware and flow of information to support your professional and personal development.

RONALD H. REYNOLDS
Commandant

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FEATURE ARTICLE

The Air Force Security Assistance Center

By
Brigadier General Jeffrey R. Riemer
Commander, Air Force Security Assistance Center

[Editor's note: Since these series of articles about the Air Force Security Assistance Center were submitted, Major General (S) Arthur J. Rooney Jr. has assumed command of the Air Force Security Assistance Center.]

The Air Force Security Assistance Center (AFSAC) celebrated its 25th anniversary in July 2003. The *DISAM Journal* (Volume 26 No. 3, p. 113) printed an article describing the anniversary ceremonies.

Brigadier General Jeffrey R. Riemer stated the following at the 25th anniversary celebration:

> The Air Force Security Assistance Center exists to strengthen our National Security and the National Security of our international customers, by facilitating access, interoperability, and coalition partnerships. Our mission, in the AFSAC, is to develop and execute international agreements. We are working diligently to become world-class professionals fostering global partnerships, and we intend to achieve this vision by delighting our customer, linking our resources to the vision, reengineering our process and strengthening our organization.
>
> The Air Force Materiel Command Commander's (AFMC) intent has been adapted as a strategic theme to guide us toward our vision. For us to be world-class professionals fostering global partnerships, we need to create an expeditionary mindset and culture within our workforce; we mst strive to be innovative, adaptive, responsive; easy to do business with; and effective efficient.
>
> We have been working extremely hard to develop a common set of tools within the AFSAC to support the ongoing transformation with AFMC as well as the Air Force and Department of Defense. We have chosen the Balanced Scorecard as a methodology for strategy implementation. To drive waste out of our processes we are applying Six Sigma techniques; and for those processes that need total revamping, we are applying Dr. Hammer's process reengineering methods.
>
> I am proud of our people and their accomplishments and honored to have been the commander of the Air Force Security Assistance Center.

Commander, Air Force Security Assistance Center

The history of the AFSAC can be traced to the formation of the International Logistics Center which was founded on 1 May 1978 as a special organization under the Air Force Logistics Command, The Air Force Logistics Command has been merged with the Air Force Systems

command and renamed the Air Force Materiel Command (AFMC). In 1992 the International Logistics Center was re-designated as Air Force Security Assistance Center under AFMC. The AFSAC was created to provide centralized logistics and case management support for security assistance within the Air Force.

The New Commander Air Force Security Assistance Center

Case management in the Air Force has historically been assigned to the Deputy Under Secretary of the Air Force for International Affairs (SAF/IA), the AFSAC, and the Air Force Security Assistance Training Squadron (AFSAT). Traditionally, SAF/IA managed acquisition cases, the AFSAC managed sustainment cases and AFSAT managed all training cases. In the spring of 1999, SAF/IA began to transfer acquisition case management to the AFSAC.

Case management transfer has progressed fairly smoothly since 1999. System sales cases have received a high level of interest because of their complexity, and political sensitivity. Representatives from the AFSAC and SAF/IA Divisions met in early 2003 and developed a Concept of Operations (CONOPS) document. The CONOPS was signed in June 2003 and spells out case writing and management responsibility for system sales cases and identifies how to process Letters of Request (LOR) for new cases and amendments or modifications. SAF/IA retained the option to write and manage high visibility cases through the first program review before transitioning case management to the AFSAC.

Over 600 cases have already transferred with eleven cases remaining to be transferred. The AFSAC wrote its first aircraft system sale case in September 2003. SAF/IAR country directors continue to be very involved with country representatives in identifying requirements for system sales in partnership with system program offices, the AFSAC command country managers and case managers, and training managers in AFSAT. Additional training and an operating instruction remain to be completed under the CONOPS, but the AFSAC continues to receive implemented cases and to write and manage new ones. Improvements in standardization and responsiveness have resulted from consolidating this workload in the AFSAC.

Air Force Security Assistance Center's Process Improvements

Automated Supply Discrepancy Report Processing

The Supply Discrepancy Report (SDR) process flows from the foreign military sales (FMS) customer to the AFSAC for distribution to sources of supply and back through the AFSAC to the customer. The AFSAC works with all AFMC Centers, the Defense Logistics Agency (DLA) and other services to adjudicate over 6,500 SDRs annually. The current process is very labor and paper intensive and lends itself to automation.

The AFSAC is working with the Materiel Systems Group to provide an automated solution that will electronically process SDR data, store it in a central repository and monitor its progress via a workflow/status notification system. In June 2003, Air Force Materiel Command provided venture capital to use the FMS SDR process as a prototype for a web-based, seamless, paperless system that will provide on-line status, automated querying of supply systems and a repository for

all SDR records. The Supply Discrepancy Report–automated is scheduled for implementation in late 2004.

Operational Management Process

Case Operations (CO) provides the basic production activity of the AFSAC in Letter of Offer and Acceptance (LOA) Data, FMS Cases/Amendments/Modifications, requisition submission and followup, Supply Discrepancy Reports, and specialized support. CO keeps and uses extensive metrics in managing these processes. Direct management of the function processes are handled by the two division chiefs, COM for the case management functions, and COS for the supply management functions. The major tool for control of these processes is the CO Operational Business Performance Indicators (OBPIs). The Case Management OBPIs are listed below.

Center Executive Director

- Average processing times for LOA documents. The indicators show the processing times for the three major phases of the life cycle of an FMS case, LOR, LOA document preparation and FMS customer acceptance. Separate measures are maintained for the three types of LOA documents; basic case, amendments, and modifications.
- Funding document preparation. This OBPI measures the percent of reworks required.

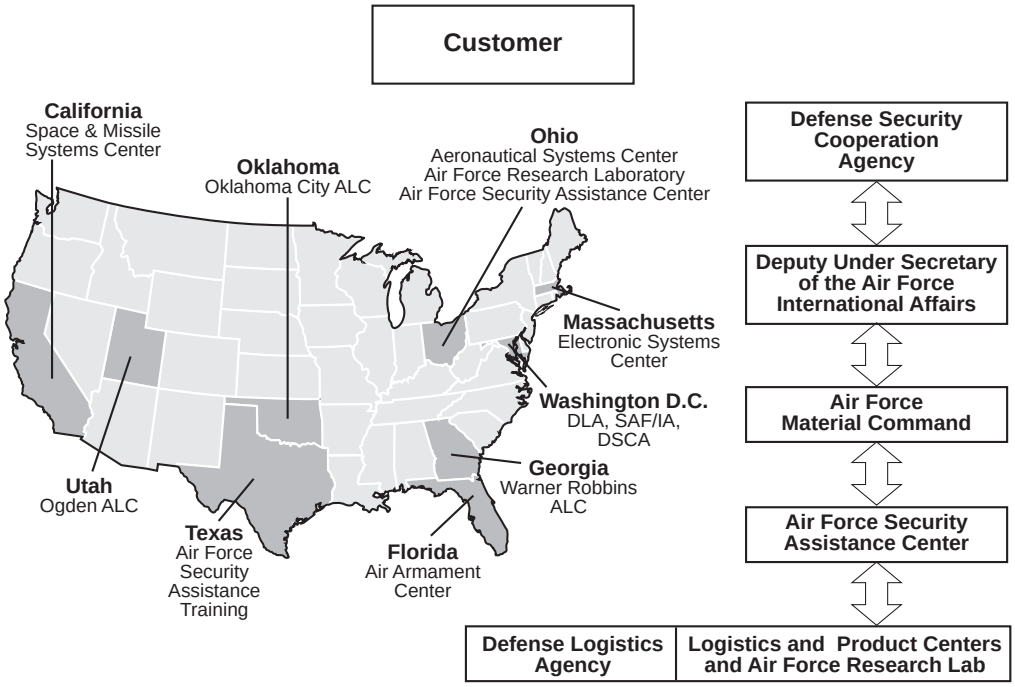


Figure 1. Foreign Military Sales Relationships

The supply management OBPIs are listed below:

- Number of over-aged open requisitions not in a positive support posture;
- Number of over-aged NMCS requisitions;

- Parts and Repair Ordering System and Worldwide Warehouse Redistribution Services turn around times for materiel and repair, and;
- Number of open and aged supply discrepancy reports.

The CO OBPIs are consistent with and complement both the Balance Scorecard and Command Business Performance Indicators (BPIs). CO uses CorVu software to review and update these indicators.

Parts Repair Ordering Service Expansion

The Parts Repair Ordering Service (PROS II) is a third generation specialized support program established to procure nonstandard and hard to support standard supply and maintenance requirements for the FMS customers. The PROS II contractor, Lear Siegler Logistics International (LSLI), performs the functions of a source of supply, procuring spare parts, maintenance services, and managing task orders.

The contract is indefinite delivery/indefinite quantity (ID/IQ) with an estimated program value of $2B over five years (three base years and two one-year options). The PROS II Award Fee Plan motivates the contractor to perform well. The AFSAC/CC serves as the Fee Determining Official for award fee administration. The PROS II PMO is responsible for program oversight, contract surveillance, and database configuration. The PMO collects a 2 percent program fee, not to exceed $4000, for each requisition. The fee provides funds for the semi-annual award fee and funds operations of the PMO.

The PROS Tri-Service initiative encompasses supporting the U.S. Air Force, Army, and Navy nonstandard FMS requirements under a single contract and PMO at the AFSAC. The Army plans to use PROS for non-standard supply support for requirements over $2500. Infrastructure was completed in September 2003 for the U.S. Army to pass FMS requisitions to PROS. In January 2004, representatives from the PROS PMO and LSLI, the PROS contractor, provided PROS training to sixty U.S. Army Security Assistance Command (USASAC) Country Managers and Foreign Liaison officers.

Efforts to support U.S. Navy FMS requirements through PROS officially started in August 2003. Navy is planning to use PROS for nonstandard FMS supply support only. Interim support with less than a full-up system interface will be available September 2004 to support U.S. Navy urgent requirement. Long-term support, with full-up interface, should be in place by March 2005.

Centralization of Supply Technicians

Supply technicians process and follow-up on requisitions for FMS case workload, including grounded aircraft requisitions (NMCS.) Historically, this group of technicians also become a source for promotion into journeymen logisticians for case manager and command country manager positions. Since October 2003, the AFSAC/CO has focused on providing better training and opportunities to broaden experience so this critical resource pool can be prepared for current and future workload.

In October 2003, all supply technicians across the AFSAC were reassigned to the Supply Performance and Analysis Branch and then matrixed back to the country management, SDR and program offices. This matrix process provides flexibility to move employees from one user organization to another without changing job assignments. It is a win/win for the individual as well as for the AFSAC and our customers since individuals receive standardized training, have an opportunity for multi-faceted functional experience, and can draw on a resource pool for problem resolution.

Training sessions have been scheduled for supply technicians on various topics. Rotations and/or shadowing within the home office and between the home office and user organizations

provide experience or familiarization in all facets of the AFSAC supply support. This process provides open lines of communication between organizations for supply support issues. Supported offices benefit from a cadre of well-trained supply technicians, assistance during work surges, and minimal downtime when filling vacancies.

Personnel from the home office were recently matrixed to the AFSAC/COSD to process a backlog of supply discrepancy reports. Vacancies in user organizations are filled from a pool of fully proficient supply technicians from the COSC home office so that critical positions have been filled within days rather than the normal weeks to months. As part of the AFSAC Workforce Shaping effort, recruitment of outside hires, veterans, and college students provide a valuable source to meet current needs and future plans.

Worldwide Warehouse Redistribution System Continues Expansion

The Worldwide Warehouse Redistribution System (WWRS) is a web listing service designed to redistribute excess, internationally owned, non-Significant Military Equipment (Non-SME) acquired through FMS, in fully functioning serviceable condition to other FMS and Department of Defense (DoD) customers on a fee for service basis. The program began in April 1998 as an approved Air Force Reinvention Lab Initiative with the AFSAC Project Office performing all logistics and financial transactions manually

In June, 2001, the Defense Security Cooperation Agency declared WWRS a permanent program and tasked the PMO to explore the possibility of becoming tri-service. In March 2002, the first U.S. Navy transfer was initialized. In June 2003, the first Army Apache transfer occurred.

WWRS provides an alternative method of support for aging aircraft, exchanges material for funds, and provides an automated method for the FMS customer to liquidate excess. Seventeen FMS sellers list $1.1 billion in inventory on the WWRS web Site. By the summer of 2004, forty-four customers (forty foreign, plus U.S. Air Force, U.S. Army, U.S. Navy, and U.S. Marines) have received 6,016 orders valued at $23.31 million. The average turn around time is 58.2 days with average customer savings at 21.9 percent below DoD Stock list price on items that are often out of production and not available from any other source.

Labor Hour Account Tool

AFSAC currently uses the Centralized Acquisition and Sustainment Management Information System (CASMIS) as our Labor Hour Account Tool (LHAT) to support budget preparation and provide activity based costing data for management decisions. The LHAT is a data collection tool AFSAC employees used to better understand how much time they are spending by performing various tasks. The LHAT administrators are working with the AFSAC/IA and the AFSAC/FM, as well as the Deputy Under Secretary of the Air Force for International Affairs (SAF/IA) and BearingPoint contractor teams to ensure effective and efficient transition to the Defense Security Cooperation Agency supported replacement tool, Workbrain, scheduled for January 2005.

Strategic Planning

The AFSAC's Balanced Scorecard[1] (BSC) process provides a solid methodology for managing strategic initiatives. The AFSAC's transformation into a premier international organization requires that we institutionalize sound business practices. To reach our vision of "World-class Professional Fostering Global Partnership," everyone must embrace a common set

1 Details concerning the Balanced Scorecard Process is explained in greater detail in the *DISAM Journal*, Spring 2004, Volume 26 No. 3, p. 113.

of goals. The AFSAC's success and how we grow as a leader in the FMS field is directly related to how the strategic process is managed.

The AFSAC used the tenets of AFMC's Commander's intent as the foundation for building a lasting performance management process. Using the BSC methodology, the AFSAC incorporated these principles as themes for the organization to develop its BSC process. The balanced scorecard is a conceptual framework for translating an organization's strategic objectives into a set of performance indicators distributed among four perspectives. The themes established are listed below.

- Expeditionary mindset and culture,
- Innovative, adaptive, and responsive,
- Easy to do business with, and
- Effective and efficient.

These four strategic themes have guided all of our behavior across our customer, resource, internal, and organizational perspectives. Our strategy for success is to delight our customers, link our resources to the vision, reengineer our internal business processes, and strengthen our organization.

Through the balanced scorecard, our organization monitors customer satisfaction, business process results, efforts to improve processes, motivate, and educate employees, and enhance information systems. These performance objectives, and the supporting performance measures associated with them, are considered the core for assessing our system health and strategic performance.

The AFSAC's challenge is to optimize the workforce to support our mission and increasing workload. We must attract, develop, and train the right mix of people (both new and current) to satisfy our customers' needs. We must exploit our new technology and pursue business improvement opportunities to enable our highly competent people to continuously exceed our customers expectations. Full implementation of BSC this fiscal year enables us to strategically align and fine-tune our focus according to current and future environments to meet the evolving challenges of tomorrow.

Air Force Security Assistance Center Organizations

Commander's Action Group

The Commander's Action Group (CAG) is comprised of five people who execute staff actions to support the command section. CAG responsibilities include review of correspondence, briefings, reports, operating instructions; establishing and tracking suspenses, packages and action items; performing protocol functions and activities; and execution of commander's calls, recognition ceremonies, command post briefings, special and recurring staff meetings, and visits to the AFSAC by outside organizations and our foreign customers. Recent CAG accomplishments include installation of the AFSAC television to improve the communication process throughout the organization. Constantly-revolving and frequently-updated broadcasts include safety, security and mission related items, in addition to announcements of upcoming events and photos from those past. Live broadcasts are also available for the Commander's

Director of Staff

use. The CAG is also responsible for change-of-command ceremonies and other high level ceremonies involving the AFSAC organization.

Facilities Office

The AFSAC Facilities Office has two individuals who provides infrastructure support and act as the AFSAC's primary point of contact with various base offices. They serve as the center's real property building manager, base support agreement manager, safety manager, communication management officer, equipment custodian, disaster preparedness manager, physical security manager, resource manager for base operating costs manager. Highlights of this team include recent completion of a three-year phased facility renovation ($780K) and a systems furniture replacement program ($1.7M) that will benefit the AFSAC workforce for the next ten to fifteen years.

Security Program Office

The AFSAC's Security Program provides security support for the AFSAC and acts as primary interface with the Wright-Patterson Air Force Base Security Forces Administration and Protection Program Office. The AFSAC Security office, with assistance from representatives in each of the other directorates, administers the following programs:

- Operation Security,
- Personnel Security,
- Information Security,
- Industrial Security and
- Physical Security.

The security manager serves as the AFSAC focal point for security related issues such as *Privacy Act*, disaster preparedness, crime prevention and fraud, waste and abuse and also acts as the Antiterrorism/Force Protection liaison between the AFSAC and the 88 Security Squadron Forces. Training the workforce and keeping them apprised of security requirements and issues falls to this office.

Program Executive Officer Program Execution Group

Recent formal audits and informal reviews revealed problems in the FMS program execution because of the lack of an integrated FMS view and lack of standardization and communication. In January 2004, AFMC/CC established an international Program Executive Officer (PEO) concept position. This Program Executive Officer Program Execution Group supports the AFSAC/CC in his role as FMS PEO. A Concept of operations is being drafted for signature by the Assistant Secretary of the Air Force for Acquisition (SAF/AQ), SAF/IA and AFMC/CC to address the FMS portion of all Air Force PEO programs.

The Information Technology Directorate

In the corporate world, the goal of a good information technology department is to facilitate process reengineering to ensure the business units are efficient and effective. Such is the case for the AFSAC's Information Technology (IT) Directorate. This directorate consists of fifty-nine government civilians, contractors, and military personnel with skills ranging from analysts to planners to programmers.

The IT Directorate has a mid-term strategic plan to bring more flexibility to case and country management through digitization of various processes. Contained within this plan is a priority scheme listing twenty-three major projects and programs. Key among them is support of the Defense Security Cooperation Agency's development of the new Case Execution Management

Information System (CEMIS), automation to facilitate the SDR process, automated on-line letters of request. The SDR automation project is an example of the AFSAC's underlying philosophy to improve processes for organizations outside of the AFSAC. The results of the SDR automation project will be used by the non-FMS Air Force as well as the Department of Defense. The team is developing it with the capabilities necessary for use as a tri-service tool.

Director of Information Technology

The IT Directorate is also using Six Sigma skills to improve its own capabilities to deliver customer service faster as well as to deliver products and services within a rapid application development framework. These projects will help IT meets its bottom line desire to make IT more innovative, responsive, effective and efficient. Some of the IT's projects are listed below.

- Report.web - The programming team implemented this program as a new capability to deliver Security Assistance Management Information System (SAMS) print products electronically to international customers worldwide. The tool has saved approximately $30K on printing and mailing costs in fiscal year 2003.
- Track-It - this program allows the customer to submit computer related problems through e-mail.
- Automated Letters of Request - The team developed an automated web-based LOR tool to ease submission coordination and collaboration elctronically on LORs with country and case managers.
- PROS II program processed over 97,000 requisitions valued at more than $800M. The program also expanded and is now able to support the U.S. Army foreign military sales requirements.

Case Operations Directorate

The Case Operations (CO) Directorate provides core operational functions for the AFSAC and is the single point of contact for dealing with our suppliers. The CO develops and writes cases, implements/executes/manages, and performs logistical closure of FMS cases for the AFSAC. It accomplishes this mission by focusing on core activities including case writing, case management, requisition management, and adjudicating supply discrepancies. CO is also the program manger for the Parts Repair and Ordering System (PROS) and the Worldwide Warehouse Redistribution Service (WWRS). CO develops supply metrics and performs analysis on how well the USAF is providing support to our FMS partners.

Director of Case Operations

The Case Management Division (COM) is responsible for development, implementation and ensuring execution of all acquisition and sustainment cases, except for those managed by AFSAT (training). The COM currently manages over 3,000 cases and 13,000 case

lines. In the course of an average year, COM also writes approximately 350 new cases, 260 case amendments and 520 case modifications. The division has five branches: one to write the cases, three to manage them and one that manages and implements the functionality of the Defense Security Assistance Management System (DSAMS), and the Case Management Control System (CMCS).

- Technical Support Branch

The Technical Support Branch manages and implements the functionality of the Defense Security Assistance Management System (DSAMS), and the Case Management Control System (CMCS). This branch also manages the FMS Sole Source Program, Contractor Engineering Technical Services, and the AFSAC operational use of the Automated Business Services System (ABSS) to provide financial support for specific areas of FMS case execution.

- Articles Branch

The Articles Branch manages sustainment cases for munitions, CAD/PAD, support equipment and spares. It also provides specialized support for North Atlantic Treaty Organization Air Borne Warning and Control System, Presidential Determination support, excess defense articles and selected Egyptian cases.

- Systems Branch

The Systems Branch (COMT) manages acquisition cases for communications and electronic equipment, aircraft, missiles and special support, as well as consolidated/special support cases. See information below on the Case Transfer Process.

- Services Branch

The Services Branch manages sustainment cases for Contract Engineering Technical Services, repair and return maintenance, services and publications. It also provides specialized support for selected Egyptian and Israeli cases.

- Letter of Offer and Acceptance Preparation Branch

Letter of Offer and Acceptance Preparation Branch (COMW) manages the LOA data process and writes both draft and final LOA documents, including the basic document, amendments and modifications in DSAMS, quality checks the completed results, oversees coordination, tracks all actions in the LOA cycle and maintains LOA metrics. In addition, the branch executes changes to LOA policy and directives for the Command.

- Supply Management Division

The Supply Management Division is responsible for all centralized FMS supply management activities. FMS requisition management focuses on getting materiel shipped and billed, ensuring items are placed on contract in a timely manner, and/or canceling requirements in a timely manner so the customer can pursue alternate sources if required. Additionally, the division is responsible for adjudicating over 6,500 FMS SDR per year and conducts supply performance and analysis trend data to determine how well the U.S. Air Force is satisfying the FMS customer's requirements. The Supply Management Division also has program management responsibility for the Parts Repair and Ordering System (PROS) and Worldwide Redistribution System (WWRS), which are two AFSAC developed and managed programs.

- Supply Performance and Analysis Branch

The Supply Performance and Analysis Branch performs centralized requisition management for FMS requisitions. The ultimate goal is to make sure the customer's requirements are satisfied in a timely manner. Requisition management includes inputting requisitions, working expedite and non-mission cable supply requests with the source of supply, inputting and

managing the Presidential Determination requisitions, working expedite and following up on problem requisitions to ensure they are supported in the most expeditious manner possible, canceling unsupportable requirements, reinstating requirements that are 'lost' in the system and any other action required to keep the requisitions moving through the support cycle. Requisitions management also includes researching and reconciling requisition billing and financial problems.

The branch compiles, portrays and reports statistical information as to how well the Department of Defense is supporting the FMS customer, researches automated data system concerns and works with the appropriate authority to resolve such concerns. These efforts include collecting data to document system problems/deficiencies as well as developing Oracle queries and other data gathering and organizing tools for the workforce. The office also provides data to process owners for purposes of process performance measurements.

COSC develops partnerships and establishes working relationships with suppliers and their respective agency's headquarters logistics groups and international affairs offices. This office serves as the AFSAC voice to Department of Defense agencies involved in supplying materiel support and order fulfillment processes (e.g., Air Logistic Centers, Defense Logistics Agency, General Services Administration, Army, Navy, etc.).

The COSC is also responsible for hiring, training and managing all supply technicians. The branch supports other organizations within the AFSAC by matrixing supply technIcians to support their efforts/workload.

- Supply Discrepancy Reports Branch

The SDR Branch adjudicates all FMS SDRs submitted against USAF FMS cases. The primary responsibility of the AFSAC/COSD is to ensure all Air Force customer-submitted SDRs for billing and/or supply adjustments are properly handled and resolved in a timely manner. To accomplish this challenge, the AFSAC/COSD oversees and maintains the Air Force FMS SDR program. COSD validates submitted SDRs and communicates with both the customer and the supplying activities. They track the status of SDRs from original receipt through closure. The tracking system provides statistical data for the FMS customer and the AFSAC management. The current process uses the Air Force legacy system, the Security Assistance Management Information System (SAMIS) and Microsoft Office tools to perform these responsibilities. COSD prepares documentation for SDRs that reach the contested stage, to be submitted through our local legal office to SAF/IA and Defense Security Cooperation Agency for resolution. In addition, COSD prepares and provides procedural and technical guidance for customers, the AFSAC and Department of Defense personnel.

- Specialized Support Branch

The Specialized Support Branch (COSP) serves as the Program Management Office (PMO) for the Parts and Repair Ordering System II (PROS II) program.

Worldwide Warehouse Redistribution Services Project Office

This project office serves as the PMO for the Worldwide Warehouse Redistribution Services (WWRS) FMS excess materiel redistribution program. The PMO is responsible for the implementation of WWRS operations, policy, procedures, and program enhancements.

Global Management Directorate

The men and women of the Global Management Directorate are the world-class professionals that provide the primary customer country interface for developing and executing international agreements. Their teamwork with other Air Force and Department of Defense organizations ensures the integrated full-spectrum country customer support necessary to foster global security partnerships.

Colonel Jeffrey Caton, USAF
Director of Global Management

Global Management Directorate Mission

Command Country Management builds a critical link between the air forces of friendly and allied nations and the U.S. Air Force, providing assistance in defining requirements to meet customer needs and U.S. national security objectives. The Global Management (GB) directorate provides the primary country customer interface for developing and executing international agreements. To accomplish this mission, GB is structured for an integrated and full-spectrum range of country customer support. Key to this process are the Command Country Managers (CCMs), who ensure support for all FMS contracts as well as other security assistance and international activities for a particular country, in essence, the CCM acts as a country's portfolio manager for the Air Force Materiel Command. CCMs are responsible for all formal interfaces with the customer, from the initial phases of a LOR, to the development of the LOA, and on through a variety of program reviews and visits to countries as well as visits by foreign officers.

Director of Global Management

Organization and Interfaces

The Global Management Directorate provides the single face to the customer through closely coordinated teamwork with other the AFSAC directorates and with external organizations. Team members include AFMC system program offices (SPOs) and air logistics centers (ALCs), as well as Air Force and Department of Defense security assistance agencies. CCMs manage FMS cases through reviews, visits, reports, and correspondence. They also coordinate the activities of supporting organizations to ensure timely resolution of problems and action items.

The staff of SAF/IA collaborates on the management and oversight of FMS cases. CCMs collect and organize information about program scope, performance, and status of finances, which they report to the appropriate SAF/IA Country Directors. They also integrate new FMS case workload with existing programs, and identify concerns to the Country Directors.

Most CCMs are funded through FMS case administrative surcharge fees. CCMs supporting North Atlantic Treaty Organization customers are funded through appropriate operations and maintenance funds. The Global Management Directorate also has personnel that are funded by specific FMS cases, at the request of the country customer, to perform duties that are beyond the normal scope of CCMs. An example of case-funded personnel are the program support managers (PSMs), who provide financial management support to security assistance programs managers who, in turn, are responsible for the day-to-day execution of a specific program (e.g., F-16) for a given country customer. PSMs also help validate new requirements, resolve security assistance related issues, and support country program reviews. By integrating security assistance needs

with an experienced team of Air Force professionals, Global Management is privileged to present a winning team to our country customers.

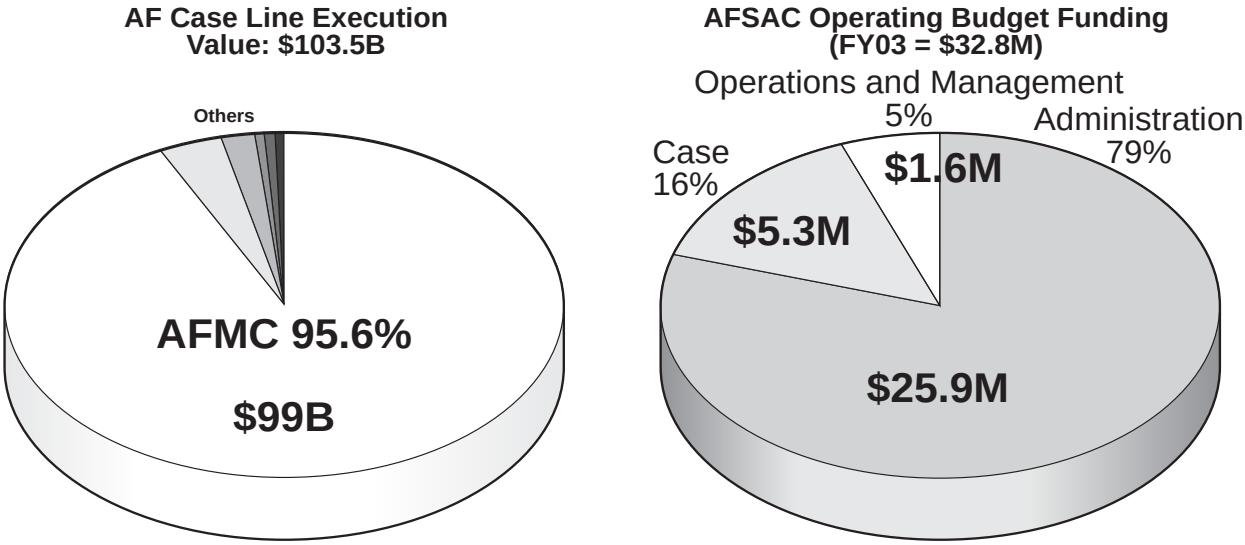


Figure 2. The AFSAC Financial Highlights of Fiscal Year 2003

Scope of Activities

In fiscal year 2003, GB managed the development and execution of 3,250 open cases valued over $99 billion for AFMC. The Global Management directorate manages the FMS portfolios with over 90 customers supporting over 6,600 aircraft, as well as air armament, command and control, and space and missile systems and subsystems. Global Management supports a diverse fleet of aircraft with over 170 different models. The resulting acquisition and sustainment requirements represent quite a challenge. For example, Global Management supports aircraft ranging from as far back as the C-47 of the 1940s; up through the F-4, F-5 and C-130 of the 1960s and 1970s; continuing with our present aircraft such as the F-15, F-16, and the C-17; and toward the future with the Joint Strike Fighter via FMS partnerships.

The Global Management Directorate supports customers in the areas of responsibility for each of the five U.S. geographic Combatant Commanders, U.S. European Command, U.S. Central Command, U.S. Pacific Command, U.S. Southern Command, and U.S. Northern Command.

The Global Management Directorate Foreign Military Sales Support for Ongoing Operations

The Global Management directorate fosters an expeditionary mindset and culture within its workforce, resulting in their ability to support ongoing U.S. military operations. Global Management facilitated Operation Enduring Freedom by providing a total of 77,161 items via 503 requisitions for six coalition partners. This included a $39 million F-16 support agreement signed with Pakistan in August 2003, as well as an agreement for six TPS-77 radars. During Operation Iraqi Freedom (OIF), GB and the AFSAC team processed a high priority foreign military sales action with the United Kingdom to support the ALR-56M Defensive Aids Suite for their C-130 aircraft. This agreement was signed in just twenty-three days, which led to aircraft upgrade in time for OIF. The AFSAC team also ensured Australia was provided mission essential equipment such as 896 chemical suits; $319,000 of U.S. Air Force munitions; and rapid request for 8000 incendiary grenades that was accomplished in only six days vice the 120-day requirement.

Foreign Liaison Officer Interface

Foreign Liaison Officers (FLOs) from twenty-four countries are assigned to the AFSAC and supported by Global Management directorate. FLOs are foreign government members assigned by their countries to work with the AFSAC team — thirty-three officers, five warrant officers, seven enlisted personnel and sixteen contractors make up this extremely professional logistics group. The FLOs are administratively assigned to Global Management directorate and have offices within the AFSAC on Wright-Patterson Air Force Base, Ohio. Since the FLOs work for their individual countries, their exact duties vary, but all concentrate on FMS support, although many also work with direct commercial purchases on behalf of their Air Force.

- The AFSAC-FLO Reengineering Working Group (RWG) is a team co-chaired by the Global Management Director and the FLO community at the AFSAC with the purpose to review and to analyze the FMS system and related processes. The collective aim of the AFSAC and the FLO community is to address issues of concern and to constantly seek improvements to the FMS process and the AFSAC-FLO interface. The mission of the RWG is to work towards establishing superior systems, methods and practices to enhance the FMS support provided by the AFSAC to friendly foreign forces (customers) through an open consultative RWG forum.

- The AFSAC also works with its FLO community to sponsor a variety of social events to build working relationships through esprit de corps. On 6 May 2004, the FLOs won the 21st Annual AFSAC International Soccer Match, besting the AFSAC team by a score of 6 to 2.

- On behalf of the AFMC Commander, GB leads the AFSAC in organizing the annual AFMC International Ball, which was founded twenty-four years ago to formally honor those countries with FLOs assigned to Wright-Patterson Air Force Base, Ohio. The 2004 AFMC International Ball will be held on Saturday, 23 October 2004 marking the 25th anniversary of this event. As a matter of tradition, the AFMC Commander offers a toast to the senior-ranking FLO among all countries to celebrate the relationship between the U.S. and all FMS customers.

The International Affairs Directorate

The International Affairs Directorate (IAD) is the Command staff agency for all international activities, including foreign military sales and security assistance policy, foreign disclosure, and peacetime engagements. The AFSAC/IA represents the AFSAC commander as Air Force Materiel Command's (AFMC's) corporate leader for international business, and is the HQ AFMC liaison to international Department of Defense agencies, North Atlantic Treaty Organization, foreign embassies/defense ministry officials and the United States and foreign industry.

International Affair's mission is to effectively promote, integrate, and support all international activities within AFMC. In executing an AFMC international mission, IA ensures command activities reflect and further the U.S. Air Force international strategy. At the same time, IA assists field organizations with execution of Command international programs. Part of the mission is to serve as an honest broker, ensuring command international resources and funding are properly accounted for. The Directorate is composed of three divisions:

- AFMC Foreign Disclosure and Litigation Division (IAD),
- AFSAC Foreign Disclosure Division (IAF), and
- Security Assistance Policy Division (IAS).

The Foreign Disclosure Division

The IAD is the AFMC Command-level Foreign Disclosure Policy Office (FDPO). The FDPO is responsible for determining and delegating disclosure authority to the field Foreign Disclosure Offices (FDO), formulating and issuing Command disclosure policy, and certification of field

commander-designated representatives. IAD provides direct support to HQ AFMC on all foreign disclosure issues, has oversight of and provides site visits to twenty-six field-level FDOs, and augments the HQ AFMC Inspector General Team in performing Unit Compliance Inspections. Ensures that all AFMC personnel who have any involvement with international programs, foreign representatives, foreign governments or U.S. citizens representing a foreign entity, must be aware of their responsibilities to safeguard and protect critical U.S. military information and technology. This applies to any proposed method of exchange.

Director of International Affairs

The IAF is mandated by *Presidential Executive Order 12958* to be involved with international programs to ensure U.S. Air Force international business is conducted according to the *National Disclosure Policy* (NDP-1). IAF interprets the *National Disclosure Policy* for the release of Classified Military Information and Controlled Unclassified Military Information to foreign governments in support of official approved U.S. Air Force international programs. Foreign Disclosure supports the AFSAC by:

- Providing disclosure review and release authority for LORs, LOAs, and Price and Availability (P&A) Data requests to FMS customers.
- Providing approval authority for the AFSAC Foreign Visits and Foreign Liaison Officer Programs.
- Reviewing Air Force classified and unclassified military information/briefings/documents prior to meetings/discussions with foreign nationals during overseas travel and foreign visits to the AFSAC.
- Conducting the AFSAC Foreign Disclosure Processes Familiarization Training to the AFSAC employees
- Maintaining a Delegation of Disclosure Authority Letters (DDL) Library used in making disclosure determinations.

The Foreign Disclosure Office interfaces with and coordinates disclosure decisions with AFMC Field FDOs, other Major Command FDOs, and SAF/IAPD. Foreign Disclosure ensures the proper release of U.S. military information and equipment to foreign military sales customers during the LOR/LOA process and official contact with foreign government representatives.

Command Foreign Disclosure Accomplishments

- Program Office Foreign Disclosure Training Module. In order to provide timely instruction, guidance, and information to both Acquisition Project Managers and Sustainment Product Directorate Managers, the AFSAC/IAD has completed a Foreign Disclosure Training Module specifically designed for organization adaptation. This module allows non-foreign disclosure specialists to fully understand all applicable regulations and laws needed to protect both Controlled Military Information (CMI) and Controlled Unclassified Military Information (CUMI). The module is personal computer-based and allows program personnel to review disclosure guidance at their own pace. To assess whether a full understanding of the information presented has been achieved, a test is also provided. Upon completion of the test, a certificate of completion is printed for file maintenance in the individual's personal records.

• Foreign Disclosure Training Class. With constant turnover in FDOs within AFMC, the AFSAC/IAD identified the need to develop and administer a formal training class for all new FDOs within the command. This three-day class provides the basic tools needed for a new FDO to come up to speed and be able to provide support to their applicable organizations. This training, when coupled with the SAF/IAPD FDO Training class, has significantly reduced the learning curve of new FDOs within the AFMC community. The class is taught on a quarterly basis and is open to program offices and product directorate personnel for attendance. Likewise, the AFSAC/IAD has worked with DISAM to conduct this class in conjunction with the International Program Security Requirements class here at Wright Patterson. This allows both FDOs and program personnel alike to minimize training expenditures while expanding their knowledge of foreign disclosure regulations and requirements.

• AFSAC/IAD performed a through review of the existing AFI 16-201, along with the related AFMC Supplement 1 to AFI 16-201, and initiated a complete rewrite of the Supplement. The Supplement was released in 2003 with planned updates on an annual basis. The next planned update will occur in the August/September 2004 time frame. The AFMC Supplement 1 to AFI 16-201 provides the most up-to-date guidance and policy needed for enforcement of disclosure related issues within the command. It also provides templates and guidance needed by both Foreign Disclosure Officers and Program Offices to perform day-to-day interaction with foreign nationals.

• IAD has worked hand-in-hand with our Air logistic Centers to bring down the backlog of technical order release requests from our various FMS activities. By working with LEAN teams at the centers, an improvement to the foreign disclosure release requirements has been implemented. This effort has also highlighted the need of all program offices to work closely with their local FDOs to prevent backlogs in the future. JCAL, a joint technical order distribution system, has also incorporated the many process improvements highlighted by the LEAN teams efforts.

• IAD has requested and been granted by SAF/IAPD to establish an SAF/IAPD Internship Program. This program allows Foreign Disclosure Officers within AFMC the ability to live the life of SAF/IAPD Foreign Disclosure Officers. By attending a week-long visit at SAF/IAPD, local FDOs are afforded the insight and knowledge of how policy is generated at the Air Force level, how development of Delegation of Disclosure Authority Letters is accomplished, how *International Traffic and Arms Regulations* exemptions are processed, and how National Disclosure Policy meetings are conducted. This insight gives the local FDO a better understanding of current and planned policy and how it relates to disclosure of information to foreign governments at their local level.

• IAD has worked with twenty-seven local Foreign Disclosure Offices to highlight to senior management both manpower and grade structure short falls. Within the last twenty-four months, twelve vacancies have been filled and several existing positions are being considered for upgrade. With assistance from IAD during Staff Assistance Visits, the importance of maintaining a healthy Foreign Disclosure Office at local sites within AFMC was illustrated. IAD has provided several documents to local FDO activities to assist in the upgrade of their personnel. Likewise, documentation needed to fill needed vacancies was provided to local management for their selection process. IAD has worked diligently with local management and personnel offices to highlight the need for continued support of their local FDOs.

• During a SAF/IAPD Staff Assistance Visit to IAD, a suggestion to change the current the AFSAC/IAD structure from one of stove piped expertise to a matrixed application was made. This application has required all our Major Command FDOs to expand their skills to cover all relevant aspects of foreign disclosure since each Major Command FDO now is expected to have

a top-to-bottom understanding of all aspects of release activity within the Command. This effort has enhanced customer support and has allowed for backup coverage in the absence of personnel while either on leave or temporary duty. It has also made field visits more productive.

- IAD in conjunction with AFRL/IA and SAF/IAPQ has redefined the process by which International Arm Cooperation Agreements are completed with the Air Force. Extensive coordination occurred between local technical points of contact, local Foreign Disclosure Officers, AFRL/IA staffing personnel, Major Command Disclosure specialists and SAF/IAPQ Integrated Product Team Leads to effect changes to AFI 16-110 and related local Supplements. Pending release of these documents, interim guidance has been completed and staffed to the appropriate offices so as to ensure a smooth coordinated and complete product is provided to SAF/IAPQ for signature with our foreign government counterparts.

- IAD developed documentation packages for forty-two new, revised, or extended International Arms Cooperation (IAC) agreements. Typical IAC packages include Statement Summary of Intent (SSOI), Project Agreement/ Arrangement (PA), and Delegation of Disclosure authority Letter (DDL). IAD supported HQ AFMC FDOs and field FDOs in development of new or revised DDLs for IAC agreements and tracked progress of DDLs via a spreadsheet as part of the IAC package. The spreadsheet information includes announcement of ICAT action dictating a foreign disclosure requirement, development of draft DDL as part of the IAC package, staffing/ signature of IAC package, signature, approval, and distribution of the IAC agreement, and AFMC redelegation of approved DDL to local FDOs.

- The stand-up of the IAF has proven to be a much needed and successful implementation. As the center focal point for review of foreign military sales activity, IAF developed effective coordination and review processes with field disclosure offices as well as higher headquarters. Since the inception of the function in February 2003, this office has processed over 450 LORs and LOAs, nearly 200 foreign visit requests, and over 125 document reviews with an average turn time of four days, 60 percent less than the Air Force requirement. IA-F also launched a critical training program and has conducted seven courses for over 100 personnel to day. This office has become a center of excellence within the command for disclosure review of FMS business activities.

- The Security Assistance Policy and Litigation Division

The IAS staffs and disseminates security assistance policy and policy changes generating from SAF and/or AFMC field organizations. IAS provides Command oversight for FMS manpower, verifying and validating requirements as the central focal point. IAS requests Security Assistance Program Manager assignments from the appropriate field activities and coordinates the selection with AFMC mission assignment personnel. IAS performs as USAF OPR for FMS transportation policy/operational issues and provides approval authority for transportation plans involving the movement of classified materiel to FMS customers. IAS acts as USAF OPR to the Department of State Iranian Litigation team, providing comprehensive logistics support (case, program and administrative management). IAS acts as OPR for international affairs audits, Congressional inquiries, and Inspector General reports from a command and the AFSAC perspective. IAS, as delegated by Deputy Under Secretary of the Air Force for International Affairs, has the responsibility for oversight of day-to-day Technical Coordination Program and International Engine Management Program activities. IAS has the command responsibility for international affairs involvement in the Product Support Mission Area.

The Iran Litigation team, AFSAC/IAS is the focal point within the Air Force for providing support to the Department of State for issues pertaining to the former Iranian foreign military

sales program. The Iranian program was one of the largest FMS programs until relations with the country were terminated as a result of the hostage crisis in November 1979. Since then, the AFSAC has maintained a staff of employees to close down Iran's FMS program and provide assistance in defending legal disputes brought forth against the United States by Iran. This unprecedented legal battle (known as B/1 Claims 2 and 3) is being heard before a special claims tribunal established at The Hague, Netherlands. The Department of State has taken the lead in providing a unified response to legal claims against the Army, Navy and Air Force. However, they depend on the military services to provide evidence and support needed for the litigation process. The Air Force alone is responsible for providing documentation, evidence, and expertise to support 370 cases valued at over $2.5 billion. In order to defend U.S. Air Force interests, the Air Force litigation team has traveled from coast to coast and searched through literally millions of documents for pertinent information. Relevant documents are imaged and encoded into a massive database and eventually submitted as evidence to support U.S. actions in managing the former Iranian FMS program. The litigation team is currently in the process of preparing a response to Iran's latest rebuttal brief that was filed in November 2002.

IAS has a small team solely dedicated to providing assistance to the security cooperation community in the transportation of FMS materiel. Customer assistance covers the spectrum of transportation modes such as air, ocean, surface, and rail. The office team researches and resolves transportation problems for case and country managers, DoD shippers, system program offices, Air Logistics Centers, freight forwarders, foreign liaison officers, and higher headquarters. Most problems are the result of erroneous or missing documentation. The FMS transportation team is currently developing training programs for the AFSAC, system program offices and Air Logistics Center personnel to improve awareness of FMS transportation requirements and processes. Recently the AFSAC visited FMS freight forwarders in the Baltimore and Washington, D.C. area to identify on-going problems and to exchange information.

International Affairs Security Assistance Policy Division Accomplishments

- The technical order (TO) index for foreign customers was expanded to include country standard technical order and M symbol catalog data and access to monthly TO status information.

- Provided online TO Index information for approximately 68,000 TOs to customers worldwide.

- In March 2004, the TO index on the AFSAC Online was enhanced to enable FMS customers to view the status of their TO requirements. Customers are now able to view information concerning TO shipments and backorders online. In the past this information was available only on printed products that were mailed out monthly.

- The International Affairs Directorate is the Air Force Materiel Command lead for the Defense Security Cooperation Performance Base Budgeting and Performance Based Costing[2] initiative. PBC was established to capture security cooperation activity cost for use in development and allocation of the FMS administrative surcharge budget. The U.S. Air Force elected to record all security cooperation activity, from all funding sources, to enable the data to be used for activity based management and output cost calculation, as well as for the FMS budget. AFMC comprises over 85 percent of the U.S. Air Force PBC structure. There are approximately 2400 personnel at nine AFMC locations, including the AFSAC making PBC entries. Beginning in fiscal year 2004 FMS outputs were identified and linked to PBC activities. The AFSAC

2 The Performance Base Budgeting and Performance Based Costing article was printed in the *DISAM Journal*, Winter 2001-2002, Volume 24 No. 2, pp. 57-64. It is available electronically at the following web address - http://www.disam.dsca.mil/pubs/INDEXES/t-z.htm#w.

Commander directed IA to establish baseline costs and costing methodologies for key FMS outputs.

The primary use of the detailed cost analysis is to provide detailed output windows that enable the AFSAC process owners to identify processes and sub-processes with the highest potential return for process improvement. Additionally, process improvement and six-sigma initiative success will be measured against output cost change. To date, four output cost analysis and methodologies have been completed and coordinated with the process owners. An additional four are in development. By the end of fiscal year 2004, the AFSAC expects to have ten key FMS output cost analysis completed. Although in the early stages, our intent is to fully utilize the data collected via the Defense Security Cooperation Agency PBC program and employ an activity based management decision-making process. We are continuing to refine the AFMC PBC model. Costing data will be a key component in linking resources to strategy, process improvement, and becoming more effective and efficient.

- AFSAC is the AFMC advocate for FMS requirements in the $100M U.S. government development of Enhanced Technical Information Maintenance System (ETIMS). The AFSAC facilitated interaction between the USAF program office for the ETIMS and FMS technical order customers in March 2004 to ensure FMS unique requirements for technical order management and distribution are incorporated into ETIMS. ETIMS is being developed by the U.S. Air Force to manage technical orders and facilitate electronic distribution of weapon system technical data.

- The Technical Coordination Programs (TCPs) and International Engine Management Programs (IEMPs) provide direct case funded technical and engineering support for the FMS countries that choose to participate. There are currently ten TCP programs or groups and two IEMP programs or groups. These programs are administered by the AFSAC/IA to provide overarching policy guidance and operational assistance as needed. The first Technical Coordination Group (TCG) was established in 1976 for the F-4. The program has grown significantly over the years. Today, TCGs support a myriad of weapon systems F-16, F-5, T-38/T-38, F-4, E-3, C-130, F-15, LANTIRN, Precision Guided Munitions such as Maverick, Paveway, and Tactical Missiles such as AIM-7, AIM-9 and AGM-88 missiles. The total population of FMS aircraft and missiles technically supported through the TCG mechanism is 3,807 aircraft and 30,602 missiles respectively. The IEMP supports a variety of engines F100, F110, J85, T56, TF30, TF33, J69, and J79. The total number of FMS engines is 9,186. FMS membership in the TCP and IEMP programs varies depending on the particular weapon system. To participate, FMS countries pay a pro rata share of TCP/IEMP operating costs that includes both organic and contractual support based on the percentage that their inventory represents in comparison to the worldwide membership total. Membership benefits include a wide range of technical support services including on-call technical assistance, maintenance management advice, spares support assistance, deficiency reporting, system modification recommendations, etc.

- Business Performance Indicators (BPI). Since the end of fiscal year 2002, the AFSAC has managed the business performance indicator (BPI) process, applicable to both supply and product centers, based on recommendations of an the AFSAC-led integrated process team (IPT). The IPT used previously established BPIs, customer recommendations, and Defense Security Cooperation Agency mandated performance measurements as a baseline for determining the what to measure. New measurements that generated from this effort include BPIs for on-time SDR processing, FMS administration budget allocation vs. execution, load processing time, and on-time manpower requirements package processing. These measurements were added to existing sustainment support measurements for on-time programmed stock shipments, overage requisitions, on-time repair/replace shipments, and overage repair/replace requisitions. Starting with second quarter fiscal year 2004, the on-time shipment BPIs were deleted and a new BPI on

technical orders overdue for shipment information was added. The AFSAC has been following an IPT recommended quarterly reporting process whereby the AFSAC obtains and compiles BPI data, sends BPI data to center focal points for review and comments, incorporates center comments into BPI slides, and sends BPI packages to center Commanders and Defense Logistics Agency. The BPIs include stretch goals with the intent that the centers pursue creative strategies at their level and identify issues beyond their control for the AFSAC to consider. All BPIs show a positive trend toward the objectives set. We attribute some the progress to center level improvement efforts as well as the AFSAC level procedural changes made in response to center recommendations. The following are some of the most significant BPIs:

- FMS Manpower VTC Updates was a self-initiated action item from the fiscal year 2003 AFMC/FMS Administrative Surcharge Manpower Review that took place at Eglin Air Force Base, Florida. The AFSAC/IAS scheduled VTCs as a collaborative forum for the manpower community to continue exchanging information about command FMS manpower policies, procedures and developments. It is a continuing part of the transformation process General Riemer initiated with the institution of the Command FMS Manpower Requirements Team. Representatives from the AFSAC, HQ AFMC, the ALC's and the product centers participate in these quarterly or more frequent electronic meetings. Of foremost interest in these VTCs have been the FMS administrative budget, civilian pay, and FMS administrative manpower. Feedback from the centers about the VTCs has been strongly positive and encouraging of further sessions in the near future. The VTCs have constructively focused the efforts and direction of the AFMC FMS manpower community.

- Asset Release and Edit Controls. Over the past year, the AFSAC has improved asset release and edit controls in response to findings contained in two related General Accounting Office audits. (*Improved Air Force Controls Could Prevent Unauthorized Shipments of Classified and Controlled Spare Parts to Foreign Countries*, July 2003, and *Foreign Military Sales: Air Force Does Not Use Controls to Prevent Spare Parts Containing Sensitive Military Technology from Being Released to Foreign Countries*, September 2003.)

- The first audit found the AFSAC controls of blanket order requirements to be inadequate, potentially placing classified and controlled spare parts at risk of being shipped to countries not authorized to receive them. The following actions were taken in response:

  - The Security Assistance Management System (SAMIS) was modified to ensure requisition validations are based on the complete national stock number;
  - Policy was developed and procedures implemented to recover classified or controlled items that are erroneously shipped;
  - Established an annual update process for edit control entries;
  - Established annual testing for data system modifications; and,
  - Established and implemented new guidance for documentation of decisions to override system edits.

The new control procedures require foreign disclosure release determination, restrict who can input data system overrides, and requires waiver approvals for overrides to be documented both electronically and in hard copy.

In response to the second audit, the AFSAC has established new SAMIS edits to ensure coverage for classified items and significant military equipment (SME) national stock numbers as identified in the *Military Articles and Services List* (MASL). We are currently seeking to establish additional edits by establishing federal supply class and other supply code linkages to category descriptions of items containing sensitive military technology. While implementing

these new data system edits and release control procedures, we are seeking innovative ways to maintain compliance while still meeting customer needs.

- An FMS Manpower Requirements Team (MRT) has been established in IA to oversee AFMC's FMS manpower program and provide FMS manpower policy guidance to AFMC centers. To effect this change, the FMS manpower requirements process was transferred from the AFMC manpower organization to the MRT, thereby placing the process within the command's FMS functional organization. Concurrently, Deputy Under Secretary of the Air Force for International Affairs implemented the Security Assistance Manpower Requirements System (SAMRS), an electronic, web-based application for creating and processing FMS Manpower Requirements Packages (MRPs). Since establishment of the MRT and implementation of SAMRS, the command has submitted 131 MRPs to Deputy Under Secretary of the Air Force, with all but seven being approved without questions a 95 percent success rate! At Defense Institute of Security Assistance Management's request, MRT members are now guest speakers during the Air Force seminars of the Case and Financial Management courses at DISAM, providing an informational briefing about SAMRS and other current FMS manpower issues. Members of the MRT also represent AFMC on the Air Force Security Assistance Manpower Integrated Process Team (MIPT), which is reviewing all Air Force FMS manpower positions. The primary goal of the MIPT is to ensure that all Air Force FMS positions are properly coded and funded from the correct funding source.

Financial Management Directorate

In April 2002, the Air Force Audit Agency (AFAA) completed a joint Under Secretary of the Air Force Financial Management and Comptroller (SAF/FM) and International Affairs (SAF/IA) requested Management Advisory Service and provided the following recommendations:

- AFMC/FM should increase FMS oversight;
- AFSAC should create an FM Directorate to implement FMS FM policies and procedures, and;
- AFSAC/FM be the central source for cost data; and provide complete financial data.

The new the AFSAC/FM Directorate was established in August 2002 and Phase I of FM implementation was completed in March 2003 with the filling of the Director's position.

The New Financial Management Directorate

Phase II, the operationalization of the new FM Directorate, started in May 2003. The guiding principles and primary areas of responsibility for the AFSAC/FM were identified and a six spiral approach was created to focus on key Air Force Audit Agency recommendations:

- Compliance with the CFO Act to establish financial reporting and end of year financial statement certifications, management control program, financial related audits, and financial systems operations and CFO compliance certifications.
- Functional responsibility for financial personnel management career development and management of FM series personnel. As the FM functional skill manager, all 5XX series personnel will be assigned to FM. Financial analysts will be matrixed/collocated based on best operational sense and to define clear lines of authority and

Director of Financial Management

responsibility. Personnel performing more than 50 percent financial responsibilities will be coded to FM series and positions will be reviewed for potential conversion to FM series. Personnel performing less than 50 percent will be identified for tracking and provided training and development, as required and included in FM networking communications. The directorate will generate and approve FM training requirements, provide subject matter expertise to review and approve FM training/instructional documentation and support FM training as required throughout the AFSAC.

- AFSAC authority for all financial management policy, procedures and instructions. The directorate will collaborate with HQ AFMC/FM on development and approval of all financial policies and guidance. The AFSAC/FM will also be the lead for AFMC surcharge and the AFSAC budget development.

- Performance of all funds control activities, which will include establishing controls over obligation authority and verifying availability of funds prior to obligation.

- Financial analysis and support to decision making by adopting a process focused, integrated, open to close perspective.

FM identified the following five spirals for the Phase II implementation:

- Realign internal financial management core competencies;

Phase II efforts began with the transfer of policy development and determinations in August 2003. Shortly thereafter, CLSSA and Materiel Systems Division (MSD) pricing change and analysis transferred to the AFSAC in October 2003.

Efforts to establish a Cost Analysis Division (FMC) to perform in-house cost capabilities and become the single source of cost data began in early fiscal year 2004. The official announcement of the AFSAC Cost Analysis Division was made 15 June 2004.

The Cost Division is responsible for: cost analysis; financial and critical feeder system technical support; CFO compliance reporting and oversight; Performance Based Cost and budgeting responsibility; financial management policy; professional development and training; and strategic planning. The AFSAC/FMC is an active participant in the AFSAC and AFMC IPTs for IT, strategic planning, and system integration.

AFSAC/FM was given the responsibility to manage the command budget development based on the performance based budget concept adopted by Defense Security Cooperation Agency effective with fiscal year 2004 budget. Spring 2004 marked the AFSAC participation in the development of the fiscal year 2006 Air Force FMS Administrative Program Objectve Memorandum (POM).

- Realign internal FMS Case financial management responsibilities;

Two critical areas were identified as performing inherently financial management functions outside the FM organization. One area was PROS financial management where FM matrixed a position to CO to provide additional financial management analysis capability for the PROS program.

The other area was the tri-annual dormant unliquidated obligation (ULO) review. FM also matrixed a position as part of an ULO team established to resolve problem ULOs. Increased emphasis on the dormant obligation review will facilitate the AFSAC/FM's commitment to providing quality funds stewardship. These efforts, along with increased FM participation in the annual case review process, case/country reviews, and customer service issues will assist in growing the focus and responsibility of FMO from case closure to oversight of case execution through out the lifecycle of the case.

- Collaborate with HQ AFMC/FM on policy, integration, and oversight issues;

A memorandum of understanding defining the roles and responsibilities between the AFSAC/FM, the AFSAC/IA and HQ AFMC/FM is currently being coordinated. The focus is to ensure consistent application of procedures and financial policy interpretations/determinations across the command.

- Establish partnership with Defense Finance and Accounting Service.

Defense Finance and Accounting Service currently provides on-site Mission Accountant Support to the AFSAC to facilitate problem resolution of FMS issues between the Air Force and DFAS. Two additional DFAS Mission Support Accountants are scheduled to be in place by 1 October 2004. This support has greatly improved the working relationships between the AFSAC and DFAS in resolving accounting issues.

The return of delivery reporting responsibility to the Air Force and AFMC is still in negotiation between DFAS and Deputy Under Secretary of the Air Force for International Affairs. When the date of transfer is formally agreed to, the AFSAC/FM will be postured to assist in developing an implementation plan and take on the additional responsibility. This will greatly improve the AFSAC's ability to close open FMS cases in a more timely manner.

- Assess overall the AFSAC/FM structure and professional development health needs.

Phase II will close with a review of two key areas:

- Working interfaces between the AFSAC organizations and
- The overall FM structure and health.

This will be an opportunity to increase efficiency and effectiveness through additional matrixed or dedicated FM support within the AFSAC and ensure the FM manpower and training needs are being fulfilled. The estimated completion date for Phase II is 1 October 2004.

The Way Ahead for the Financial Management Directorate

The AFSAC/FM organization will continue to grow to meet the FMS financial needs of the AFSAC and the command. It is an organization that is transforming the way the Air Force provides financial management services to develop and manage international agreements. The new the AFSAC/FM organization provides great opportunities for financial managers to further develop and broaden their financial management skills. Our FM mission statements were recently updated to reflect the AFSAC/FM mission to include the new Cost Directorate.

The Financial Management Directorate provides authoritative security assistance financial information, direction and services to develop and execute international agreements. The AFSAC comptroller organization provides expert technical budget, accounting and cost support; funds control and financial stewardship/oversight; and resource-based decision-making support to the AFSAC and AFMC senior leadership, and as required, to Deputy Under Secretary of the Air force for International Affairs and the Defense Security Cooperation Agency. FM develops and manages the FMS surcharge operating budgets for the AFSAC and AFMC centers. It also provides financial analysis and case closure expertise to the Command Country Managers and Case Managers within the AFSAC as well as to the financial managers at the product and logistics centers in support of the FMS customers to ensure an AFMC integrated international program financial perspective.

- Financial Analysis Division

The Financial Analysis Division provides budget and execution support for center level operational and revolving funds. FMA is responsible for programming and budget guidance

interpretation; center execution strategy; budget allocation and execution management. FMA manages TDY salary expense reimbursement from cases funds, administration of the AFSAC temporary duty orders and travel cards, Government Purchase Card management, and provides Presidential Determinations financial support. FMA is also responsible for FMS customer support and is the liaison for DFAS billing issues.

- Case Funds Management and Analysis Division

The Case Financial Analysis Division is the authoritative source for case financial operations and execution in support of Air Force FMS activities. FMO provides case financial management and support to FMS country, case, and line managers throughout the lifecycle of the case from Pre-LOA activity through case execution, interim and final closure. This includes ensuring the integrity of financial data provided to the FMS customer and supporting various supply, logistical and financial management reviews. FMO provides case financial reconciliation support to AFMC, AFSPC, AMC, ACC, AETC and SAF; and is the office responsible for certifying all Air Force cases for closure.

- Cost Analysis Division

The Cost Analysis Division is responsible for providing financial cost and benefit analysis, economic analysis support; return on investment cost estimating technical support and analysis and validation of cost information provided from FMS financial systems and other critical feeder systems. Lead FM Division for the AFSAC responsibilities encompassing the following:

•• Performance Based Budgeting and Performance Based Costing integration and implementation;

•• Integration and analysis of financial data for periodic financial cost performance reporting requirements as directed by the AFSAC/CC or higher Headquarters, such as FMS non-recurring cost reporting;

•• Balanced scorecards, or various annual/quarterly cost status reviews;

•• Researches and resolves cost issues in support of FLO support;

- Interfaces with activities outside the AFSAC on FM system modernization initiatives;

•• Financial compliance and reporting programs, such as *Chief Financial Officer Act*, Management Control Program Statement of Assurance, the AFSAC end of year financial certification and reporting;

- Resolution of financial audit issues;

•• Financial management policy support, interpretation, and revisions within the AFSAC and integration and coordination within HQ AFMC/FM and AFSAC/IA.

•• Identifies and validates FMS unique financial training requirements;

•• Focal point for FM transformation, special projects, and other consolidation and integration requirements as assigned by the AFSAC/FM Director.

Visit our website at https://rock.afsac.wpafb.af.mil/www/mil/FM/FM.html to learn more about us as we continue on the path of providing world-class financial management fostering global partnerships between U.S. government and foreign forces in support of U.S. national security.

The Air Force Security Assistance Personnel Directorate

Base-wide Reduction in Force over the past ten years has limited the hiring and retention of new employees, creating an experienced but aging workforce. Because of this, concerns exist regarding the bow wave of employees becoming eligible for retirement within the security assistance community here at the AFSAC. For example, 48 percent of the current employees will

be eligible for retirement by the end of fiscal year 2010. When these very valuable and experienced employees go out the gate, they will also take a vast amount of security assistance corporate knowledge with them. This corporate knowledge has to be captured and then taught to the next generation of Air Force security assistance world-class professionals. One of the ways that we decided upon for capturing this valuable information was in the creation of the the AFSAC Schoolhouse.

Director of Personnel

The AFSAC Schoolhouse consists of two parts.

- Create a curriculum that would consist of courseware that would capture the Air Force specific security assistance tasks executed at the AFSAC. This courseware would also complement and not duplicate the curriculum that was already being taught at the Defense Institute for Security Assistance Management (DISAM).
- The AFSAC Schoolhouse courses would be an integral part of the job series specific curriculums, which would include both DISAM and the AFSAC Schoolhouse courses. For example, a core curriculum for a Logistical Management (346 series) Case Manager would include the following, but would not be limited to; DISAM courses Security Assistance Management CONUS (SAM-C), Security Assistance Case Management (SAM-CM), Security Assistance Financial Management (SAM-CF), and the AFSAC Schoolhouse course Case Management Learning Program (CMLP).

The AFSAC Schoolhouse has created courses that tie-in to the main security assistance functions performed at the AFSAC. The main functions that courses have been created for are; country management, case management, and supply management. The Country Management Learning Program (CCMLP) teaches the tasks associated with the country management function. Some of the tasks covered are; LOR validation, foreign disclosure, congressional notification, Manpower Request Packages (MRPs) and Manpower and Travel Data Sheets (MTDS), sole source requests, transportation plans, Defense Security Assistance Management System (DSAMS). The Case Management Learning Program (CMLP) teaches the tasks associated with the case management function. Some the tasks covered in this course are; case variances and notices, case initialization, Letter of Offer and Acceptance Data (LOAD) validation, payment schedules, DSAMS, program directive implementation, custom commitments, modifications and amendments, case closure and reconciliation. The Supply Management Learning Program (SMLP) teaches those supply tasks associated with the supply management function. Some of the tasks covered in this course are; MILSTRIP, Security Assistance Management Information System (SAMIS), Researching Supply Data, Supply Requisitioning, Determining Supply Status, Parts and Repair Ordering System (PROS), Worldwide Warehouse Redistribution Services (WWRS), Supply Discrepancy Reports (SDRs), and etc.

In addition to teaching the Air Force specific security assistance courses, the AFSAC Schoolhouse also teaches an the AFSAC Orientation course to all its employees. The AFSAC Schoolhouse has also taken on the responsibility of teaching all newly assigned FLOs. The FLO community has some unique training requirements, since they now find themselves living in a foreign country. Many of the things we take for granted, they may find very strange and confusing.

The AFSAC Schoolhouse conducts continuing education seminars. The schoolhouse is already teaching such topics as the AFSAC Online, LOR Automation, Foreign Disclosure and

Releasability, and DSAMS familiarization. There are future plans to offer the following seminars; FMS transportation, manpower packages, congressional notification, SAMIS familiarization, PROS, WWRS, Cooperative Logistics Supply Support Arrangement/ Material Repair Requirements List (CLSSA/MRRL), and SDR Automation.

As we look forward to the future, the AFSAC Schoolhouse will continue to make improvements in its courseware, and when appropriate implement new teaching technologies like distance learning (DL) and computer-based training (CBT). All of this will allow the AFSAC Schoolhouse to continue to strive and achieve its goal of becoming the Air Force and Air Force Materiel Command's FMS schoolhouse.

LEGISLATION AND POLICY

Lincoln Bloomfield's Remarks Concerning International Affairs

By
Lincoln P. Bloomfield, Jr.,
Assistant Secretary of State for Political-Military Affairs

[The following are excepts of the remarks presented to the Society for International Affairs, London, United Kingdom, June 3, 2004.]

The Changed Threat

Today marks a period in our history when our nations have been very busy, for going on three years now, adapting to global challenges we have never before faced. Policies and security structures that had kept us free and at peace for decades have, in an instant flash of catastrophic terrorism, been recognized to be insufficient, even obsolete. We have retooled our national security approaches on the fly, as it were, urgently seeking relief from our newfound vunerabilities and leverage to exert in the post September 11, 2001 international security environment.

Observers may differ about what the future will bring, and how best we should address its challenges. But no one can deny that violent forces fueled by hatred have been unleashed against ordinary people freely going about their daily lives in open, democratic societies, on several continents.

The terrorists' violence defies our deterrence, mocks our strength, and revels in doing harm to peoples and institutions we have long regarded as non-combatant and apolitical even neutral in wartime. It is the innocence of these victims that defines this asymmetric terrorist threat; and if there was ever a notion that some societies or countries, by remaining silent and standing aside from the Global War On Terrorism, could be exempted from the extremists' program of violent provocation, it must now be acknowledged and recognized that such a notion is demonstrably wrong.

I came into this position in the U.S. administration three years ago, believing that the strong and credible U.S. military establishment and alliance structure that had so successfully contested and outlived Soviet communism for five decades was still needed in the 21st century. In early 2001, major war did not seem to be an imminent prospect, and so it was possible to think about saving a little defense budget money on immediate needs and instead gearing modernization efforts to longer-term transformation.

Our crystal ball in those early months of the administration simply did not show what was about to happen, and the immediate burdens it would place on our own and our allies' forces. But notwithstanding the operations to remove dangerous regimes in Afghanistan and Iraq, it still seems, in 2004, that conventional war waged between national military forces over empire, resources or territory is not nearly as likely as it was during the Cold War although we must continually pay attention to the Korean Peninsula and the Indian-Pakistani relationship, among other potential hot spots.

Hearts and Minds

The central fact behind the collapse of the Soviet Union and Warsaw Pact was not a battlefield defeat, but rather the catastrophic loss of credibility of the communist state among its own people. These people compared the unmet Soviet promise of a good life to the thriving model of democracy, individual rights and economic freedom increasingly found elsewhere. In other words, the Cold War was ultimately won, or lost if you prefer, based on hearts and minds.

What September 11, 2001 brought to the fore was the realization that, having survived one existential threat over the last half century, we now find ourselves in the midst of a new struggle, whose full dimensions are yet to be measured, with an entirely different ideological underpinning. Unlike the Cold War, this time no one threatens to subjugate us. Our enemies have no serious political demands. They define themselves by opposition to everything we represent. This is not a winner-take-all adversary, as in the tradition of imperial powers. This time, we are faced with a grim new form of zero sum game between ourselves and terrorists, measured in blood.

And so we adapt law enforcement, intelligence and military tools to secure our homelands and find the terrorists where they live. But no matter how effectively we use force against them, there is only one way truly to make this terrorism danger recede and that is to turn our adversaries away from a destructive ideology and try to calm their hatred. Once again, it seems, we are caught in a generation-long struggle for the hearts and minds of a large segment of the world's population, centered this time among the Arab and Islamic young generation. I believe it is important to talk about hearts, minds, credibility, commitment, and conscience when we are talking about achieving the piece in the modern age. All that separates 5,000 al Qaeda terrorists from 500,000 al Qaeda terrorists is the level of anger and hopelessness among their potential recruits. And at the same time, all that separates a mighty multinational coalition from a go-it-alone U.S. military adventure is the allied level of confidence in America's wisdom and reliability as a security partner.

These are political and psychological factors. They are profoundly important to our security. Perhaps our best weapons in this terrorism struggle notably include our words, foreign aid, and promotion of reform. Yet, let us be clear that military capabilities are still very relevant, even if our enemies attack with different weapons, different tactics and an entirely different ethical and moral ethos than our own.

New Logic of Arms Transfers

Surely all of you have taken note of a shifting focus of defense planning that points to an evolution in the international armaments marketplace. No longer do we pursue foreign policy influence by providing our more advanced defense systems and services to less-developed countries on the basis of their relevance to a geopolitical competition between ourselves and other great powers. Instead, the new security focus indeed, the new security imperative must be to ensure that our principal allies and coalition partners, those who share the burden of fighting these dangerous extremists, have the advanced capabilities they need to prevail at the lowest possible cost in blood and treasure. I submit that the logic of defense trade is shifting along with the tide of history. There are fewer cross-border hostilities, and still fewer conventional military wars. Standing armies have generally been downsizing around the world over the last decade, and we see reduced overall acquisition of conventional weapons systems worldwide a drop in arms procurement of more than 37 percent since the mid-1990s in the developing world alone.

And yet, particularly since September 11, 2001, we find that we absolutely need highly capable military forces allied and coalition forces as well as American, and the more the better to deter and defeat threats all over the world. Strategic planners in the defense industry should consider these new realities in their business decisions.

What are the salient features of this 21st century strategic landscape? Well, we start with the reassuring fact that many countries see their interests if not always their day-to-day policies as closely aligned with the United States, and are inclined to work together effectively on behalf of shared purposes. Foremost among these, of course, are our European allies beginning with the United Kingdom, as well as our Pacific allies led by Japan and Australia.

There are, at the same time, other countries whose strategic orientation is either uncertain or, in some respects, at odds with ours, as a function of political values, security perspectives, and domestic public opinion. One cannot point to an overt anti-western bloc; indeed, even governments in the Arab and Islamic World generally maintain positive relations with the West. But think about the problems from which this region suffers: poor governance; absence of the rule of law; underdeveloped civil society, political participation and economic opportunities; social pressures from demographic growth; a growing income gap; high unemployment; corruption; crime; and weak education systems. The list goes on.

It is sad and ironic that while public opinion in the Middle East tends to blame the United States for their own troubles, the best hope for change in many of these countries is the agenda of reform and democratization being promoted by the United States along with the United Kingdom and many others. But my point is that supplying sophisticated arms on a large scale in the volatile and troubled Middle East is not terribly relevant to their situation.

Focusing on Our Warfighters

We are the ones who need the warfighting edge. Where three years ago we might have thought we had a decade to retool our forces and alliances, today we find ourselves in a race against time to suppress the terrorist forces, and to cool the level of popular rage and frustration before we suffer much more from the Islamic extremist contagion. I believe defense industry has already pointed the way forward to the area with the greatest relevance to our strategic situation, and hence the greatest business potential namely, high-technology systems collaboration to achieve allied interoperability in the field.

We have seen a push toward interdependence in arms production, as half of recent U.S. arms imports have come from five of the ten other largest defense exporters, whose defense imports, in turn, are mainly from the United States. Today's twenty-six North Atlantic Treaty Organization members plus Australia and Japan spent a combined $563 billion on their militaries in 2002, or 72 percent of total world military expenditures. Since 1999, developed countries' arms imports have averaged 13 percent annual growth, while developing countries' imports declined 6 percent.

The conclusion is pretty obvious: our strategic needs are converging with business trends. The future lies not in maximizing sales of defense systems to all willing buyers, but rather in focusing on our warfighters and collaborating to build the systems that will assure their effectiveness in all circumstances against the deadly extremist threat.

Export Licensing Developments

If you have been in the defense industry either in Europe or the U.S. for a few years, you will know that the American defense export licensing system has come in for its share of complaints over the years. Many of you in Society for International Affairs will also be aware of several steps taken by the Department of State, and the administration at large, to overcome legitimate concerns about how U.S. regulations were being carried out.

We have taken a rigorous look at the Department of State licensing process from one end to the other. We have put a new, bigger and more senior leadership and management team in charge and some of these Defense Trade Controls (DDTC) executives are here today to participate in

discussions. Earlier this year, we inaugurated D-Trade, our fully electronic licensing capability, which will bring great new efficiencies to the process. It is a big step forward.

Our licensing staff is double what it was just five years ago. The new DDTC leadership team is building an outreach office that is already providing timely, courteous service to hundreds of callers per week. Our team is pulling out all the cases that have been unresolved for more than 100 days, and trying to resolve them. The large backlog they inherited is shrinking steadily.

And alongside these process improvements, we have broken new ground in licensing policy:

- We created the first-ever Global Project Authorization for the Joint Strike Fighter.
- We picked up the ITAR exemption negotiation with the United Kingdom, which had bogged down after talks were launched under the previous administration.
- By making the decision at senior political levels that we would depart from the formula mandated by U.S. legislation, so as to reflect the legal and regulatory authorities available to our British counterparts, this Administration carried the talks through to create a very promising new channel for accelerated defense industry collaboration.

This arrangement benefits from an active compliance partnership with London that we think will set a new standard for how to manage defense trade controls in cooperation with other governments. Of course, as many here know, we are still in serious discussion with our Congress and hope to persuade them of the merits of this important arrangement so as to bring it into force.

But the overall point here is that the Administration has paid a lot of attention to defense trade and export licensing, recognizing that if properly managed we can curb irresponsible and dangerous exports of weapons and technology, and at the same time advance very important objectives for our common defense.

Defense Trade Policy – A Priority

Indeed, the White House has been continually engaged in this area of national security. It has led the review of the *U.S. Munitions List* a process that has been progressing steadily over the past three years. Most importantly, it has been conducting a Presidential review of defense trade policy generally. I and my colleagues from the Pentagon and Commerce Department have become accustomed to telling audiences over the past year or two that the review has not yet reached the President's desk and that remains the case today. But let me say that this review is important to the Administration, and is receiving priority attention. So please bear with us as the final contours take shape.

What I can say is that there is more to our thinking than the proposition that we need to make our export control process run well. On that score, however, we have taken the time to consider a vast amount of analysis and a long menu of proposals reflecting past experience. We are very serious about making the defense trade controls process, led by the Department of State but involving other departments and agencies as well as foreign governments, operate in a modern, efficient manner.

We think high-level policy should be reflected in working-level regulatory decisions. And we believe allies looking to improve their own defense capabilities in cooperation with the United States should receive priority attention. That is one reason I created a policy office within our Directorate of Defense Trade Controls, led by Ann Ganzer, who is with us today. The United States already does place a very high priority on promoting alliance modernization goals, and interoperability.

We are very much aware that the road map set out by North Atlantic Treaty Organization for European and U.S. defense industries points to transatlantic transformation, which requires

improving our common capabilities in force application, battlefield awareness, command and control, protection, and focused logistics. This is how we keep the new 21st century threats away from our homelands. The upcoming North Atlantic Treaty Organization Summit in Istanbul will signal the renewed relevance of an expanding NATO to our common security strategy.

Challenges for Industry

But as I think you all know, we face real challenges in bringing this vision fully into being in the area of defense trade and industrial collaboration. Some of the initiatives under consideration by President Bush will hopefully advance the process. But the first challenge our transatlantic industries face, in my view, is adjusting their business plans and strategies to reflect the national security vision I have outlined this morning. By that I mean building more sophisticated, proprietary capabilities for the home team of allied warfighters, and placing less reliance in your business plans on longer-term production and export for a wide international market.

The second challenge is perhaps an inevitable by-product of a world pressed into crisis-response by September 11, 2001 and the Global War on Terrorism. In historical terms we are just at the beginning of our international security response to this problem. We find our forces stretched very hard, working with allies and partners to deter aggression on the Korean Peninsula, maintain stability in the Pacific Rim including the Taiwan Straits, finish the job of stabilizing the Balkans, responding to the recent crises in Liberia and Haiti, and of course helping fifty million Afghans and Iraqis find their way to legitimate self-government and reconstruction in a secure environment.

It should not surprise anyone that there are hard questions being asked in Washington, including in the U.S. Congress, about whether the transfer abroad of our premier defense systems, and more so, advanced technologies, will truly advance our national security. One of my responsibilities is to answer those concerns, and we have been doing a lot of that on Capitol Hill in recent weeks. There is no getting around the importance of effective controls on defense goods services and technologies after they have been exported. And those countries and companies overseas that work best with us in assuring that our legal obligations are met, will clearly find the most receptive response to their requests for American defense exports. But there is, frankly, a deeper challenge even than the goal of enhancing our transatlantic technology management cooperation and practices. We are far from a consensus view within our own political systems on what the defense industrial role should be in supporting our international security strategies.

Within the European Union, there is talk of changing policy on the sale of lethal weapons to China. As my American colleagues here will attest, such a move would have real consequences for the way defense exports to Europe are viewed in Washington.

And within our own political system, we hear hard questions about whether globalization within the defense industry is a benefit or a liability to U.S. security. The extent of foreign defense industry's role as a key supplier to the Pentagon is coming under intense scrutiny in our Congress.

Obviously there is a reverse flow of exports from American companies to allied defense establishments. But you can see how some in Washington can view both imports and exports as a liability, the one as a threat to our own industrial base, and the other as a risk of losing our prime technologies.

How Do I Answer These Challenges? More Importantly, How Do You Answer Them?

If I can leave you with one message this morning, it is that defense industry needs to put some facts on the table. You need to show governments how your business plans support the transformation vision while protecting crown-jewel war-winning capabilities. And, you need to

demonstrate that the globalized pattern of trade supports a healthy U.S. industrial base, and provides a better return on the defense dollar than a more restrictive trade pattern.

I have been hearing people say for more than three years that industry is a key foundation of defense and I believe this. At a time when the threat to our security is changing so much, and our security institutions are evolving so fast, our defense industry needs to sharpen its vision, and its path forward, to claim its rightful place in our long-term strategy to secure the peace and defend our freedom.

Offsets in Defense Trade

Prepared by U.S. Department of Commerce

[The following material is extracted from the seventh annual report (July 2003) on offsets in defense trade prepared pursuant to Section 309 of the *Defense Production Act of 1950*[1] (DPA), as amended. This report covers offset agreements and offset transactions entered into from 1993 through 2000. Some of the footnotes and tables have been omitted from this excerpt; however, the footnote and table numbers remain the same as in the original document. The complete report is available at the following web site: http://www.bax.doc.gov/DefenseIndustrialBasePrograms/OSIES/offsets/7thOffsetsReport.htm.]

Executive Summary

The Department of Commerce's Bureau of Industry and Security (BIS),[2] has been delegated responsibility for preparing the reports required under Section 309. This report is prepared after analyzing offset data reported to the Department of Commerce by U.S. defense firms, in compliance with regulations established under Section 309 of the DPA. To assess the impact of offsets in defense trade, the Department of Commerce obtained data from U.S. defense firms involved in defense offsets.

1993-2000 Offset Activity

Total offset activity during 1993 to 2000 can be measured by the number and value of new offset agreements entered into between U.S. defense contractors and foreign governments, and the number and value of individual offset transactions carried out in fulfillment of offset agreements during the eight-year reporting period.

Offset Agreements, 2000

U.S. defense contractors reported entering into twenty-five new offset agreements with ten different countries in 2000. The new offset agreements had a total value of $5.1 billion, and accounted for 89.7 percent of total U.S. defense export contract values ($5.7 billion). In comparison with the previous seven years, offset agreements as a percentage of total defense export contract sales were highest in 2000.

In 2000, European nations received offsets equal to 116 percent of the total export values, the highest offset percentage on record for any single year of the eight-year reporting period. For non-European nations, the offset percentage was 50 percent in 2000.

Offset Agreements, 1993-2000

U.S. companies reported entering into 345 offset agreements with thirty-two countries during the time period from 1993 to 2000. U.S. companies reported export sales of 177 different defense systems or subsystems with a total value of $48.6 billion. Offset agreements related to those export contracts were valued at $29.8 billion, or 61 percent of the export contract value. Sales of aerospace defense systems (i.e., aircraft, engines, and missiles) were valued at $42.8 billion and accounted for nearly 90 percent of the total export contracts.

On a regional basis, Europe accounted for only 47 percent of total U.S. defense export contracts, while new offset agreements with Europe accounted for more than 70 percent of total offset agreements (by value). Asia and the Middle East each accounted for 14 percent of new offset agreements, and the Americas accounted for two percent. Non-European countries accounted for approximately one-third of new offset agreements (by value) but 53 percent of the

1 Codified at 50 U.S.C. app.§ 2099 (2000).
2 On April 18, 2002, the Bureau of Export Administration changed its name to the Bureau of Industry and Security.

total value of defense export contracts. While the non-European nations had higher defense export contract totals, Europe had a much greater offset impact on U.S. industry because of the higher offset percentages required by European purchasers.

Offset Transactions, 2000

U.S. companies reported offset transactions with a total actual value of $1.7 billion – down eight percent from the 1999 total of $1.8 billion, and the lowest total actual transaction value reported in any of the eight years. A decrease in offset transactions in 2000 was anticipated because of a drop in defense sales and offset agreements in previous years. However, increasing levels of defense sales (and higher related offset percentages) in 2000 likely will lead to more new offset agreements and, thus, an increase in offset transactions in the future.

Offset Transactions, 1993-2000

During the reporting period, U.S. companies reported 4,425 offset transactions executed in thirty-five countries. These offset transactions were related to 227 defense systems under existing offset agreements. The actual value of the offset transactions from 1993 to 2000 was just under $18 billion.

Conclusions

The defense environment changed in the 1990s, reflecting both the general retrenchment of military expenditures and tougher offset policies and enforcement worldwide. In recent years, offsets have become more important in winning procurements and, ultimately, in access to foreign markets by U.S. companies. Offset agreements with values exceeding 100 percent of the total export contract value are occurring regularly; in fact, 100 percent seems to be the baseline.

From the U.S. perspective, Europe is clearly the central focus of offset activity, dominating both new offset agreements and the number of offset transactions with U.S. companies. Because 90 percent of offset agreements are aerospace-related, concerns about the competitiveness of U.S. aerospace prime contractors and the aerospace infrastructure have increased.

Using data submitted by industry and data from the Bureau of the Census, BIS estimates offsets maintained 41,666 work-years annually in the U.S. defense industry between 1993 and 2000. However, the data reported by U.S. companies also show that offsets displaced 9,688 work-years annually in the lower-tier companies that are suppliers or subcontractors to large U.S. defense companies.

The U.S. aerospace trade surplus fell from its all-time high of $40 billion in 1998 to approximately $27 billion in 2000. Imports of aerospace products have increased rapidly in the last decade for a number of reasons, including offsets. Offset agreements calling for aerospace subcontracting arrangements lead to increased imports, to the extent that they result in U.S. prime contractors importing subcontracted parts and systems rather than relying on domestic sources. Aerospace-related imports have increased regardless of the state of the market and despite the fact that the United States spends more on aerospace research and development than any other nation.

In the coming year, using authorities granted under the DPA, the Department of Commerce is committed to work with U.S. industry, the Department of Defense and other agencies, and foreign governments to analyze the impact of offsets on all parties. The Department of Commerce does not encourage or regulate the use of offsets in defense trade, and recognizes that offsets are market distorting. However, we also recognize that offsets are a part of the current international defense trade environment. We will seek ways to mitigate the negative effect of offsets on competition. Our goal is to support the U.S. defense industry and to ensure a robust and vibrant industrial base at all levels.

Background

Legislation and Regulations

In 1984, the Congress enacted amendments to the DPA, which included the addition of Section 309 addressing offsets in defense trade.[3] Section 309 of the *Defense Production Act* (DPA) 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[4] and the Committee on Banking, Housing, and Urban Affairs of the Senate.

Initially, the Office of Management and Budget coordinated the interagency process of preparing the report for the Congress. Other agencies involved in the process included the Departments of Commerce, Defense, Labor, State, and Treasury, and the Office of the

U.S. Trade Representative

In 1992, Section 309 of the DPA was amended, and the Secretary of Commerce was given the responsibility of preparing the report for the Congress, on the President's behalf, and was directed to function as the President's Executive Agent for carrying out responsibilities under Section 309 of the DPA.[5]

Under section 309, the Secretary of Commerce is authorized to develop and administer the regulations necessary to collect offsets data from U.S. defense exporters. The Secretary of Commerce delegated this authority to the Bureau of Industry and Security, which published its first offsets regulations in the *Federal Register* in 1994.[6]

The 1992 amendments to Section 309 of the DPA made other changes to the offset data collection process. The amendments lowered 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. Under the regulations, firms 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. The data elements collected each year from industry are listed in Section 701.4 of the Department's offset regulations.

The Official U.S. Government Policy

The official U.S. government policy on offsets in defense trade was developed by an interagency offset team. The policy was announced by the President in April 1990, in a statement issued by the White House Press Secretary.[7] In 1992, it was set forth as a Policy of Congress as follows:

- 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

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

4 Section 309 of the *Defense Production Act* was amended in 2001 to change the name of the House committee to the "Committee on Financial Services of the House of Representatives." The annual report must be provided to the Committee on Banking, Finance, and Urban Affairs of the Senate as well. See 50 U.S.C. app. § 2099(a)(1).

5 See Pub. L. 102-558, Oct. 28, 1992 , 106 Stat. 4198; see also Part IV of Executive Order No. 12919, *59 Federal Regulation 29525* (June 3, 1994).

6 See 59 *Federal Regulation 61796*, December 2, 1994 , codified at 15 C.F.R. § 701.

7 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).

exports while ensuring that the ability of United States firms to compete for military export sales is not undermined, it is the policy of the Congress that:

•• 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.

In 1999, the offset policy was supplemented by provisions contained in the *Defense Offsets Disclosure Act of 1999*.[8] Congress made the following findings:

- 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.

- In some cases, United States contractors are required to provide indirect offsets which can negatively impact nondefense industrial sectors.

8 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 November 17, 1999) (found at 50 U.S.C. Appx. § 2099, History; Ancillary Laws and Directives).

- 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.

Offsets Terminology

There are several basic terms used in discussions of offsets in defense trade.

- **Offsets**

Compensation practices required as a condition of purchase in either government-to-government or commercial sales of defense articles and/or defense services as defined by the *Arms Export Control Act* (22 U.S.C. §2751, et seq.) and the *International Traffic in Arms Regulations* (22 C.F.R. § 120-130).

- **Direct Offsets**

Contractual arrangements that involve defense articles and services referenced in the sales agreement for military exports. These transactions are directly related to the defense items or services exported by the defense firm and are usually in the form of co-production, subcontracting, technology transfer, training, production, licensed production, or financing activities.

- **Indirect Offsets**

Contractual arrangements that involve defense goods and services unrelated to the exports referenced in the sales agreement. These transactions are not directly related to the defense items or services exported by the defense firm. The kinds of offsets that are considered indirect include purchases, investment, training, financing activities, marketing/exporting assistance, and technology transfer.

- **Co-production**

Overseas production based upon government-to-government agreement that permits a foreign government or producer(s) to acquire the technical information to manufacture all or part of a U.S. origin defense article. Co-production includes government-to-government licensed production, but excludes licensed production based upon direct commercial arrangements by U.S. manufacturers.

- **Licensed Production**

Overseas production of a U.S.-origin defense article based upon transfer of technical information under direct commercial arrangements between a U.S. manufacturer and a foreign government or producer.

- **Subcontractor Production**

Overseas production of a part or component of a U.S.-origin defense article. The subcontract does not necessarily involve license of technical information and is usually a direct commercial arrangement between the defense prime contractor and a foreign producer.

- **Overseas Investment**

Investment arising from an offset agreement, often taking the form of capital dedicated to establishing or expanding a subsidiary or joint venture in the foreign country.

- **Technology Transfer**

Transfer of technology that occurs as a result of an offset agreement and that may take the form of research and development conducted abroad, technical assistance provided to the subsidiary or joint venture of overseas investment, or other activities under direct commercial arrangement between the defense prime contractor and a foreign entity.

Countries and Regions

For ease of analysis, and in some cases to protect company confidentiality, countries and country groups actively requiring offsets in connection with purchases of U.S. defense systems during the 1993-2000 period were divided into four geographic regions:

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

The countries found in each region are listed in Table 1-1.

Table 1-1 Purchasing Countries and Groups Requiring Offsets Agreements, by Region

Europe	**Middle East and Africa**
Austria	Egypt
Belgium	Israel
Czech Republic	Kuwait
Denmark	Saudi Arabia
EPG - The European Participating Group	South Africa
(Belgium, The Netherlands, Norway)	United Arab Emirates
Turkey	
Finland	**North and South America**
France	Brazil
Germany	Canada
Greece	
Italy	**Asia**
Luxembourg	Australia
North Atlantic Treaty Organization	Indonesia
The Netherlands	Malaysia
Norway	New Zealand
Portugal	Singapore
Slovenia	South Korea
Spain	Taiwan
Sweden	Thailand
Switzerland	
United Kingdom	

Source: U.S. Department of Commerce/BIS Offsets Database

Statistical Overview

Each year BIS gropples with classifying transactions correctly. In some cases, companies do not provide enough information to BIS so that it may correctly categorize the transactions. The result is a growing category called miscellaneous, which is now the fourth largest category of offsets after technology transfer.

Miscellaneous offsets include marketing assistance, various studies, administrative costs, such as office expenses and travel, grants of various kinds, and many other incidentals, all valued at $1.6 billion. Further review indicated marketing assistance includes brokering and advertising, although the specific action is not always clear. Brokering means a foreign purchase by a firm other than the exporter and would normally be classified as a purchase (indirect offset). A study could be reclassified as technology transfer, although both the exporter and the foreign entity may benefit. BIS will continue to try to resolve these ambiguities for next year's report.

A summary of offsets activity for 1993 through 2000 is provided in Table 2-1.

Table 2-1
General Summary of Offsets Activity
(in $ millions)
Offset Agreements

Year	Export Value	Offset Value	Percent Offset	Companies	Agreements	Countries	Defense Systems
1993	$13,957.0	$4,806.7	34.44%	18	30	17	27
1994	$4,792.4	$2,048.7	42.75%	18	49	20	38
1995	$7,402.0	$6,034.1	81.52%	19	45	18	33
1996	$2,987.8	$2,270.7	76.00%	15	50	19	32
1997	$5,822.8	$3,831.8	65.81%	13	57	19	42
1998	$3,257.8	$1,846.6	56.68%	11	44	17	34
1999	$4,681.4	$3,851.4	82.27%	10	45	11	36
2000	$5,653.1	$5,072.6	89.73%	7	25	12	18
Total	**$48,554.3**	**$29,762.7**	**61.30%**	**37**	**345**	**32**	**177**

Offset Transactions

Year	Actual Value	Credit Value	Multiplier	Companies	Transactions	Countries	Defense Systems
1993	$1,815.1	$2,162.1	1.191	24	440	27	60
1994	$1,891.1	$2,161.5	1.143	21	550	26	57
1995	$2,713.7	$3,390.8	1.250	20	670	27	69
1996	$2,731.5	$3,098.9	1.135	21	623	26	72
1997	$2,725.5	$3,276.2	1.202	18	577	26	59
1998	$2,364.8	$2,684.6	1.135	19	582	30	65
1999	$2,080.4	$2,824.1	1.358	13	512	25	63
2000	$1,671.5	$1,942.0	1.162	13	471	24	60
Total	**$17,993.5**	**$21,540.3**	**1.197**	**40**	**4425**	**35**	**226**

Source: BIS Offsets Database

Types of Offset Transactions

Table 2-2 shows offset transactions by type of offset, as well as the percentage distribution of each type of offset for each year from 1993 to 2000. Table 2-2 also shows the total actual and credit values of the offset transactions for each year. The percentage difference between the actual

value and the credit value for an offset transaction is the multiplier, which is shown at the bottom of Table 2-2.

Table 2-2
Offset Transactions by Type

Year	Total	Direct	Indirect	Unspecified	Direct	Indirect	Unspecified
			Actual Value			% Distribution	
1993	$1,815.1	$583.0	$1,106.0	$126.1	32.12%	60.93%	6.95%
1994	$1,891.1	$600.7	$1,129.5	$160.9	31.76%	59.73%	8.51%
1995	$2,713.7	$1,064.1	$1,649.6	NR	39.21%	60.79%	NR
1996	$2,731.5	$1,097.5	$1,553.8	$80.1	40.18%	56.89%	2.93%
1997	$2,725.5	$1,030.3	$1,570.7	$124.4	37.80%	57.63%	4.57%
1998	$2,364.8	$1,464.2	$895.3	$5.4	61.92%	37.86%	0.23%
1999	$2,080.4	$690.2	$1,351.0	$39.1	33.18%	64.94%	1.88%
2000	$1,671.5	$577.7	$997.7	$96.1	34.56%	59.69%	5.75%
Total	**$17,993.5**	**$7,107.8**	**$10,253.7**	**$632.0**	**39.50%**	**56.99%**	**3.51%**

Year	Total	Direct	Indirect	Unspecified	Direct	Indirect	Unspecified
			Credit Value			% Distribution	
1993	$2,162.1	$708.2	$1,323.0	$130.9	32.75%	61.69%	6.05%
1994	$2,161.5	$774.1	$1,221.9	$165.4	35.81%	56.53%	7.65%
1995	$3,390.8	$1,257.9	$2,132.9	NR	37.10%	62.90%	NR
1996	$3,098.9	$1,188.7	$1,795.6	$114.7	38.36%	57.94%	3.70%
1997	$3,276.2	$1,171.1	$1,952.3	$152.8	35.75%	59.59%	4.66%
1998	$2,684.6	$1,621.8	$1,055.1	$7.8	60.41%	39.30%	0.29%
1999	$2,824.1	$1,121.8	$1,599.5	$102.8	39.72%	56.64%	3.64%
2000	$1,671.5	$577.7	$997.7	$96.1	34.56%	59.69%	5.75%
Total	**$21,540.3**	**$8,511.3**	**$12,255.3**	**$773.7**	**39.51%**	**56.89%**	**3.59%**

Source: BIS Offsets Database
NR = Non Reported

The credit value is a value that some foreign governments provide as an incentive for certain kinds of offset transactions. This value varies greatly by country and by the kind of transaction (i.e., purchase, technology transfer, investment, etc.), but is normally more than the actual value. For the entire database, the multiplier is 1.197, which means the credit value is 19.7 percent more than the actual value.

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 the following:

Purchases	Subcontracts	Technology Transfers
Credit Assistance	Training	Overseas Investment
Co-production	Licensed Production	Miscellaneous

Table 2-3 presents a summary of offset transactions by category for the eight year reporting period (1993-2000). A brief description of each category follows:

Table 2-3
Offset Transactions by Category and Type

Transaction Category	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
	Actual Values in Dollars Millions				Percentage by Column Total			
Purchases	$6,340.8	.0	$5,973.2	$367.6	35.24%	.00%	58.25%	58.16%
Subcontracts	$5,040.0	$4,980.1	.0	$59.9	28.01%	70.07%	.00%	9.48%
Technology Transfers	$2,188.5	$876.1	$1,222.1	$90.2	12.16%	12.33%	11.92%	14.28%
Miscellaneous	$1,584.4	$252.4	$1,322.2	$9.8	8.81%	3.55%	12.89%	1.55%
Credit Assistance	$1,138.1	$4.0	$1,134.1	.0	6.32%	0.06%	11.06%	.00
Training	$674.1	$417.8	$254.4	$1.9	3.75%	5.88%	2.48%	0.29%
Overseas Investment	$460.3	$48.7	$334.1	$77.5	2.56%	0.69%	3.26%	12.26%
Coproduction	$439.1	$438.0	.0	$1.1	2.44%	6.16%	.00%	0.18%
Licensed Production	$128.3	$90.7	$13.6	$24.0	0.71%	1.28%	0.13%	3.80%
Total	**$17,993.5**	**$7,107.8**	**$10,253.7**	**$632.0**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Transaction Category	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
	Actual Values in Dollars Millions				Percentage by Column Total			
Purchases	$6,753.7	.0	$6,381.7	$372.0	31.35%	.00%	52.07%	48.08%
Subcontracts	$5,351.4	$5,287.7	.0	$63.7	24.84%	62.13%	.00%	8.23%
Technology Transfers	$2,949.6	$1,240.3	$1,617.6	$91.8	13.69%	14.57%	13.20%	11.86%
Miscellaneous	$2,191.1	$481.0	$1,637.6	$72.4	10.17%	5.65%	13.36%	9.36%
Credit Assistance	$1,291.9	$66.2	$1,225.7	.0	6.00%	0.78%	10.00%	.00%
Training	$1,078.0	$637.4	$427.2	$13.4	5.00%	7.49%	3.49%	1.73%
Overseas Investment	$1,304.7	$247.2	$929.3	$128.2	6.06%	2.90%	7.58%	16.56%
Coproduction	$443.4	$442.3	.0	$1.1	2.06%	5.20%	.00%	0.14%
Licensed Production	$176.5	$109.1	$36.1	$31.2	0.82%	1.28%	.29%	4.04%
Total	**$21,540.3**	**$8,511.3**	**$12,255.3**	**$773.7**	**100.0%**	**100.0%**	**100.0%**	**100.00%**

Transaction Category	Total	Direct	Indirect	Unspecified	Total	Direct	Indirect	Unspecified
	Multiplier				Number of Transactions			
Purchases	1.065	.00	1.068	1.012	2,131	0	2,107	24
Subcontracts	1.062	1.062	.000	1.063	1,029	1,015	0	14
Technology Transfers	1.348	1.416	1.324	1.017	441	193	224	4
Miscellaneous	1.383	1.906	1.239	7.392	358	75	278	5
Credit Assistance	1.135	16.558	1.081	.000	79	6	73	0
Training	1.599	1.526	1.679	7.038	181	80	96	5
Overseas Investment	2.835	5.076	2.782	1.654	65	3	56	5
Coproduction	1.010	1.010	.000	1.014	112	111	0	1
Licensed Production	1.376	1.203	2.656	1.301	30	23	5	2
Total	**1.197**	**1.197**	**1.195**	**1.224**	**4,425**	**1,506**	**2,859**	**60**

Source: BIS Offsets Database

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. During the time period from 1993 to 2000, purchases represented 35.2 percent of the value of all offset transactions. Purchases had a low multiplier of 1.065. The U.S. exporter does not always make the purchase. They can also involve brokering and marketing assistance that result in purchases by a third party.

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. They are typically a contractual arrangement between the U.S. prime contractor and a foreign producer. During the reporting period, subcontracts represented 28 percent of the value of all offset transactions, and 70 percent of the value of all direct offsets. Like purchases, subcontracts had a low multiplier 1.062.

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, 40 percent of technology transfers were classified as direct offsets and 60 percent were classified as indirect offsets. Altogether, technology transfers accounted for approximately 12 percent of the value of all offset transactions. The multiplier for technology transfers was 1.348.

Credit assistance includes direct loans, brokered loans, loan guarantees, assistance in achieving favorable payment terms, credit extensions, and lower interest rates. Approximately 6.3 percent of the value of total offset transactions during the period from 1993 to 2000 (or $1.14 billion) were characterized as credit assistance. Credit assistance is nearly always classified as an indirect offset transaction. (Only $4 million of the credit assistance transactions were classified as direct offsets during the reporting period). The multiplier for credit assistance was 1.135.

Training relates 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, although more than 60 percent of the value of training during the reporting period was classified as a direct offset transaction. Training accounts for only 3.75 percent of the total value of offset transactions. The multiplier for training was 1.599.

Overseas investments arising from offset agreements have the highest aggregate multiplier (2.834) of any category of offset transactions, indicating the desire of foreign governments to garner foreign investment. However, overseas investments account for only 2.7 percent of the value of all offset transactions, which may reflect its undesirability to U.S. prime contractors. It is also interesting to note that 43 of the 64 overseas investment transactions reported for 1993 through 2000 received no extra credit at all (i.e., had a multiplier of 1 or less). Overseas Investments sometimes took the form of capital invested to establish or expand a subsidiary or joint venture in the foreign country, but investments in third-party facilities also were reported (and such investments received the highest multiplier). Overseas investments usually were classified as indirect offsets; only 10 percent of overseas investment transactions were classified 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 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. All co-production reported for 1993 to 2000 was for component parts or equipment used in larger defense systems, and virtually all co-production reported during this period was aerospace-related. During the reporting period, co-production accounted for 2.4 percent of the value of offset transactions and had a multiplier of only 1.010 the lowest among all offset transaction categories.

Past co-production transactions have involved duplicating major production facilities in foreign countries (at the expense of the foreign government) for the assembly of entire defense systems, such as aircraft. Co-production arrangements of this kind generally impose the highest cost penalty on the foreign government of any category: after co-producing the items directly related to the defense system purchased, the production facilities can sit idle for lack of contracts to fulfill. Some countries pressure prime contractors for assembly contracts related to future sales to third countries.

Licensed production is overseas production of a U.S.-origin defense article. Licensed production differs from co-production in that it is based on direct 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 0.7 percent of the total value of offset transactions. The multiplier for licensed production was 1.376.

Countries and Regions

For ease of analysis, and in some cases to protect company confidentiality, countries actively requiring offsets in connection with defense export sales during the 1993-2000 period were categorized into four geographic regions: Europe, North and South America, the Middle East and Africa, and Asia. The countries found in each region, together with the aggregate percentage offsets required and the multiplier for each country, are shown in Table 2-5.

Table 2-5
Countries with Offset Agreements and Transactions By Region

Country	Percent Offsets	Multiplier
	Europe	
Austria	W	1.000
Belgium	W	1.002
Czech Republic	W	W
Denmark	100.0%	1.114
Finland	W	1.071
France	W	1.722
Germany	100.0%	1.000
Greece	111.4%	2.129
Italy	98.5%	1.000
Luxembourg	NR	W
Netherlands	124.1%	1.280
Norway	99.7%	1.363
Portugal	27.9%	2.186
Slovenia	W	NR
Spain	91.6%	1.273
Sweden	103.9%	1.141
Switzerland	77.9%	1.008
United Kingdom	90.0%	1.007
Regional total	**92.3%**	**1.156**
	Middle East and Africa	
Egypt	NR	W
Israel	50.8%	1.037
Kuwait	30.3%	W
Saudi Arabia	34.9%	1.000
South Africa	W	NR
Turkey	58.8%	1.086
United Arab Emirates	55.3%	2.333
Region Total	**44.0%**	**1.139**
	Asia	
Australia	35.1%	1.045
Indonesia	NR	1.213
Malaysia	37.3%	1.118
New Zealand	W	W
Singapore	W	2.352
South Korea	40.8%	1.412
Taiwan	20.6%	2.306
Thailand	24.9%	W
Region Total	**26.2%**	**1.499**
	North and South America	
Brazil	W	W
Canada	89.7%	1.010
Region total	**90.8%**	**1.013**

Notes NR = Non Reported
W = Withheld to Protect Company Proprietary Information.
Source: BIS Offsets Database

Impact of Offsets on the U.S. Defense Industrial Base

Defense Preparedness

Offsets enhance the defense preparedness of the United States in several ways. 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, should they be 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 undo or reduce many of these benefits.

However, offsets also can have negative effects on the nation's defense preparedness and the broader U.S. economy. Viewed in isolation, offsets often reduce spending in the United States and increase spending and investment in foreign countries. U.S. subcontractors displaced through direct offsets by foreign suppliers are among the groups most directly affected by offsets. Such direct offsets create foreign competitors for U.S. industry and run the risk of increasing the proliferation of technology to third countries. Moreover, with indirect offsets outpacing direct offsets 60 to 40 percent, the defense industrial base may not bear the full impact of offsets.

Employment

Offsets also affect employment levels in the defense sector. Although it is difficult to precisely determine the impact of offset agreements and transactions on employment in the U.S. defense sector, BIS has developed a reliable estimate by using employment data collected by the Bureau of the Census. Given that sales of aerospace weapon systems account for nearly 90 percent of the value of defense exports connected with offset agreements, this method appears to provide a reliable estimate.

For the period from1993 to 2000, industry reported approximately $48.6 billion in defense export contracts with an offset agreement attached. According to the *Annual Survey of Manufactures*,[9] the value added per employee for the aerospace product and parts manufacturing industry in 2000 was $145,802. Dividing this figure into the defense export sales total results in a total of 333,329 work-years that were supported over the eight-year period by defense exports associated with offset agreements, or approximately 41,666 work-years annually.

However, by their very nature, subcontracting and purchasing offset transactions are most likely to shift sales from U.S. suppliers to overseas firms. Other categories of offset transactions, in the short or long run, can shift sales from U.S. suppliers as well. To be conservative, BIS bases its estimate of employment impacts only on subcontracting and purchasing transactions. Between 1993 and 2000, subcontracting transactions were valued at $5 billion and purchasing transactions were valued at $6.3 billion, for a total of $11.3 billion for the period, or an average of $1.41 billion per year in displaced sales. Dividing $1.41 billion by $145,802 (the value added by each worker in the aerospace industry in 2000) results in the loss of approximately 77,502 work-years over the eight-year period, or 9,688 work-years annually. Based on these calculations, it appears that offset agreements and transactions had a net positive effect on employment in the defense sector during the period from 1993 to 2000.

9 See the U.S. Census Bureau website at http://www.census.gov/prod/www/abs/industry.html.

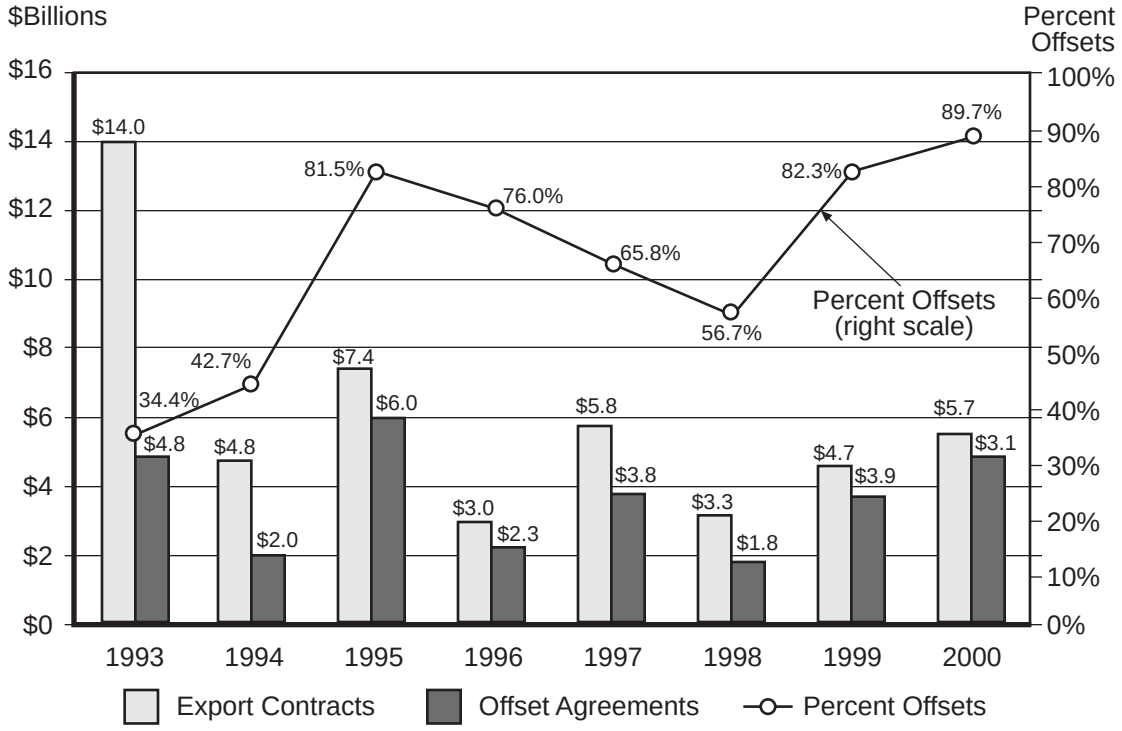
Offset Agreements Activity 1993-2000

Overview

From 1993 to 2000, 37 U.S. firms reported entering into 345 offset agreements with a total value of $29.8 billion. These offset agreements were made with foreign purchasers in 32 different countries and were associated with defense export contracts valued at $48.6 billion. The exports involved 177 U.S. weapon systems. The value of the offset agreements represented 61.3 percent of the total value of the related export contracts during the entire reporting period.[10] The average term for completing the offset agreements was 111 months, or slightly more than nine years.[11] The percentage of offset agreements to export contracts (by value) reached a new high in 2000 of 89.7 percent, eclipsing the previous high of 82.3 from 1999. The lowest percentage was recorded in 1993 at 34.4 percent.

The annual values of defense export contracts and offset agreements (including offset percentages) are presented in Chart 4-1. In a sharp upward trend, the value of the offset agreements as a percentage of the value of defense export contracts increased an average of approximately six percent per year over the eight-year reporting period.[12]

Chart 4 - 1 Reported Export Contracts and Offset Agreements Annually, 1993-2000 (in $ billions)



Source: BIS Offsets Database

10 The figure of 61.3 percent is weighted to the annual values of export contracts and agreements. An unweighted average can be calculated by averaging the annual percentages of offsets. The unweighted result was 66.1 percent.

11 A weighted average was calculated based on the value and term of each offset agreement.

12 The percent increase was calculated using a linear least-squares function of only the annual percent values.

Offsets Concentration

The data reported by U.S. companies show that a small number of companies, countries, and weapon systems dominated offset agreements during the reporting period. The top five U.S. companies (of thirty-seven companies reporting data on offsets) accounted for 80.5 percent of the defense export contracts and 81.4 percent of the offset agreements during the reporting period. This high level of market concentration reflects the high costs of modern defense systems and the small number of firms that produce them. Due to the complexity and expense involved, only a large, multi-disciplined company could produce and deliver modern defense systems. In addition, each exporter company 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.

Offsets also appear to be concentrated in a few purchaser countries. The top five countries (of a total of 32 involved in the reported offset activity) accounted for 58.4 percent of the total defense system purchases and 55.6 percent of the total offset agreements. The top 10 countries represented 78.7 percent of defense system purchases and 79.2 percent of the offset agreements. The fact that relatively few countries accounted for the bulk of offset activity indicates that relatively few countries were in the market for big-ticket defense equipment. Most countries cannot afford these systems. By dominating offset activity, these few countries also dominated 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 data reported by U.S. companies also show that specific defense systems were in high demand overseas. The top five weapon systems (of the 177 weapon systems sold) were all aircraft. These exports accounted for 45.6 percent of the value of all export contracts and 39.2 percent of the offset agreements during the reporting period. The top 10 defense systems accounted for 61.5 percent of the export contracts and 59.4 percent of the offset agreements during the reporting period. These data show once again that big-ticket items such as aircraft constituted the bulk of offset activity.

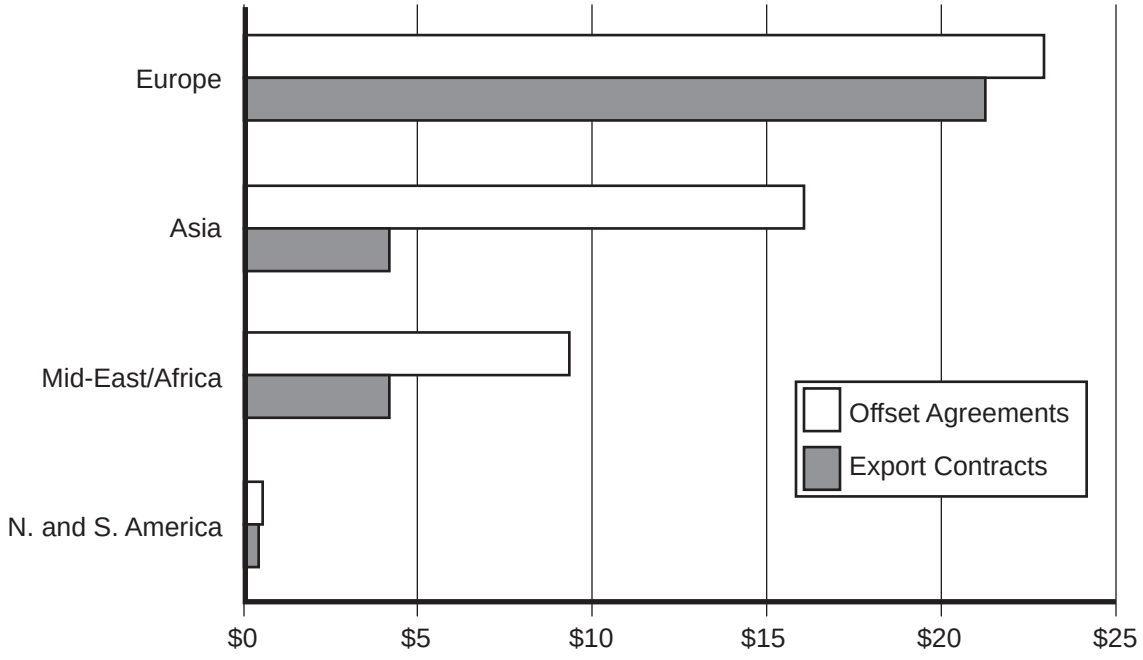
Regional Distributions

European countries dominated offset activity during the reporting period. Europe alone accounted for more than 70 percent of offset agreements during the reporting period, while at the same time accounting for less than 50 percent of the value of U.S. defense export contracts. Asian countries ranked a distant second in both categories, accounting for only 14 percent of offset agreements and 33 percent of related U.S. export contract values. Middle Eastern and African countries also had significant shares, accounting for nearly 14 percent of offset agreements and 19 percent of U.S. export contract business. Countries in North and South America (Canada and Brazil) were less significant, accounting for approximately one percent of the value of both offset agreements and related U.S. defense export contracts. Chart 4-2 shows regional totals of U.S. defense export contracts and offset agreements for 1993 to 2000.

Are Offset Demands Increasing?

The data appear to show that offset demands are not only increasing, but more countries outside of Europe are demanding greater offsets. One reason for this is that the supply of defense systems greatly exceeds 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. Overcapacity still plagues the defense sector, including in the United States, as governments have been slow to retrench.

Chart 4 - 2
Regional Totals of Export Contracts and Offset Agreements
1993-2000 (in $ billions)



Source: BIS Offsets Database

However, as sales opportunities narrowed, competition for such sales became more intense. Because one element of competitiveness is the offset package, U.S. suppliers are forced to offer greater offsets to win sales. In addition, foreign purchasing governments are under pressure to sustain their indigenous defense companies and, accordingly, are demanding more offsets. Higher than normal overhead related to low levels of capacity utilization in defense industries coupled with competitive pressures on prices have also squeezed corporate profits. While the need to export has grown stronger, so has the exporters' willingness to meet foreign purchasers' offset demands.

In recent years, the world economy has been sluggish, with historically higher unemployment in the last decade notably in Europe and Japan. These conditions drained national treasuries and, therefore, significant public outlays for foreign-made weapon systems become are controversial, which leads to higher offset demands to deflect political pressure.

In addition, many countries now have formalized their offset requirements by establishing a minimum percentage for offsets at which to begin negotiations. In these situations, competing firms must design a winning offset package based on the desirability of the defense system, their ability to deliver offsets, and past offset performances. Many U.S. defense systems, such as aircraft and missiles, have an edge in the international market because of their superior performance capabilities. This alone may make U.S. exports the first choice of the foreign purchasing government and may actually help keep offsets at or near a minimum. However, the actual content of the offset package often is very desirable and helps close the deal. By this logic, less desirable weapon systems would pay an offset premium, thereby driving up offsets and

further enhancing the foreign government's bargaining position with respect to all potential sellers.

Offset demand in Eastern European countries is another factor leading to a rise in overall offset percentages. Poland's announced intention to purchase a fighter aircraft with a requirement of offsets of up to 200 percent of the value of the contract underscores a desire on the part of Central and Eastern European countries to use offsets as a policy tool for economic development. While this percentage is high, developmental offsets (i.e., those calling for direct investment, credit assistance, and technology transfer) usually warrant higher multiplies, which soften the real impact of offsets on the U.S. defense industrial base. Nonetheless, it appears offset demands in Central and Eastern Europe will be high in the future.

In conclusion, Western Europe may be nearing a ceiling in offset demands, which moderates the degree offsets can be increased. The rest of the world has plenty of room to grow and has shown signs of demanding more offsets. With Western European producers providing more competition to U.S. firms in the future, offsets are almost certain to increase in other regions of the world.

Aerospace Offset Issues

Offsets affect the U.S. aerospace industry more than any other major economic sector. These offsets have been documented in detail in previous offset reports.[18] Since aerospace-related exports made up the majority of export sales and related offset agreements reported, the impact of offsets on the aerospace industry is a good indicator of the effect of offsets on the industrial competitiveness and trade of the United States as a whole.

Imports of aerospace products into the United States have increased rapidly in the last decade for a variety of reasons, one of which is the increase in aerospace-related offsets. Aerospace-related imports have increased in both strong and weak economies and despite the fact that the United States spends more on defense and commercial aerospace research and development than any other nation. As shown in Chart 6-1, aerospace imports increased from $12.2 billion in 1993 to $28 billion, an all time high in 2000. Aerospace exports dropped from an all time high of $64.1 billion in 1998 to $54.7 billion in 2000.

The U.S. aerospace trade surplus reached an all time high of $40 billion in 1998, but then declined to approximately $27 billion in 2000. In the same two-year cycle, aerospace imports grew by nearly 21 percent.[19]

Importance of Export Markets

To highlight the importance of the export market for U.S. aerospace companies, more than half of the unit sales of newly built military aircraft were exported during the eight-year reporting period of 1993 to 2000. Table 6-1 compares aircraft acquired by the U.S. Department of Defense for use by the armed services with military aircraft exports. During the eight year reporting period, Defense Department acquisitions exceeded exports in only one year 1994. In 1997, military aircraft exports were more than double U.S. acquisitions. Overall, during the reporting period, military exports were nearly 57 percent of total unit sales.

18 See e.g., "U.S. Department of Commerce Report," *Offsets in Defense Trade*, October 1999, pages 35-55.

19 See Aerospace Industries Association publication, *Aerospace Facts and Figures*, 2001/2002 (and prior editions)

Chart 6-1
International Trade in Aircraft, Aircraft Engines, and Parts
1993-2000 (in $ billions)

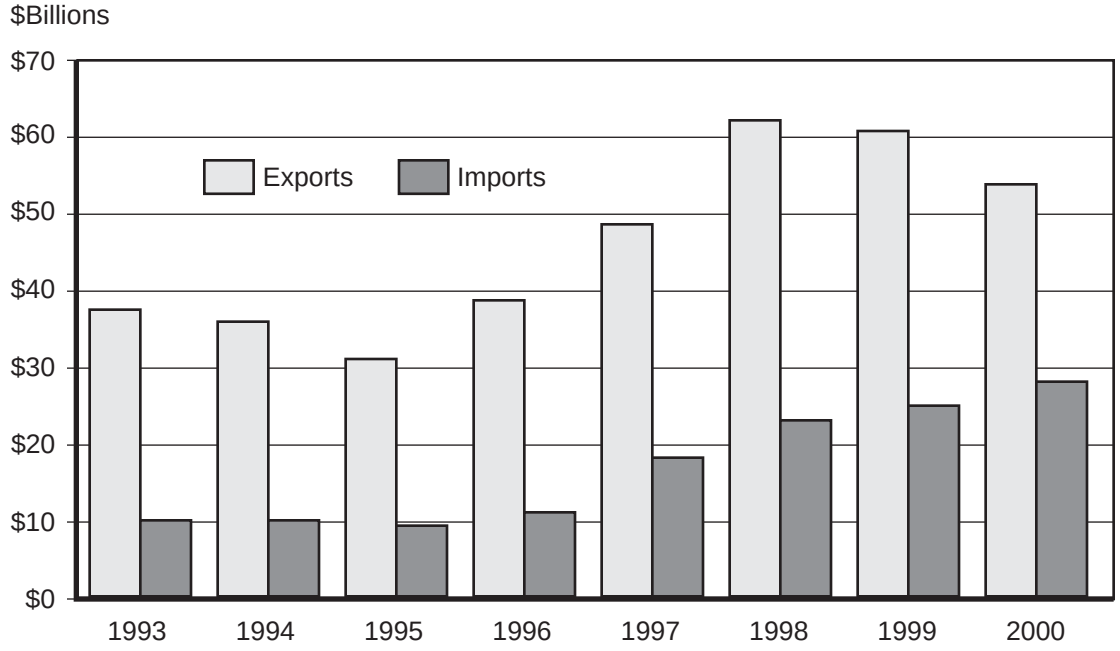


Table 6-1
Importance of Defense Aircraft Exports
(Number of Newly Constructed Aircraft)

	Total Military Aircraft Acquisition		Military Aircraft Exports			Export as Percent of
Year	Total	U.S. Defense	Total	FMS	Direct	Total
1993	955	437	518	146	372	54.2%
1994	764	418	346	69	277	45.3%
1995	811	354	457	108	349	56.4%
1996	558	242	316	106	210	56.6%
1997	488	151	337	181	156	69.1%
1998	418	149	269	175	94	64.4%
1999	359	133	226	114	112	63.0%
2000	333	138	195	42	153	58.6%
Totals	**4,686**	**2,022**	**2,664**	**941**	**1,723**	**56.9%**

Note: FMS = Foreign Military Sales.
Direct = Direct Exports by U.S. Defense Firms.
Source: Aerospace Industries Association, *Aerospace Facts and Figures*, various issues.

Trends in Aerospace

The aerospace infrastructure is becoming more global. Although the United States continues to maintain its position in first-tier integrator companies, global sourcing at the second and lower tiers is rising rapidly as an acceptable option, more so in the commercial area than in the military. In the last decade, some of the advantages of local sourcing, such as cost reductions in

communications and transportation, have faded. In addition, many important aerospace technologies are available worldwide. Many European firms are technically comparable and some superior to U.S. firms in the production of various critical components, including gearboxes, ball screws, bearings, fasteners, forgings, investment castings, aluminum, diesel engines, machine tools, ejection seats, and steel. Other important trends in the U.S. aerospace industry are as follows:

- The U.S. aerospace industry which occupies a major industrial and strategic position in the U.S. economy is not a growth sector. The constant dollar value of aerospace production actually declined 18 percent relative to the Gross Domestic Product and 14 percent relative to all U.S. manufacturing from 1993 to 2000.

- U.S. prime contractors are becoming more specialized in the research, design, integration, and final assembly of aircraft. More work and responsibility is being shifted to major sub-assemblers, who have their own set of suppliers. The competition among major sub-assemblers, who provide major sub-components such as gas turbine engines, electrical systems, hydraulics, and cockpits, is fierce and leading to more global sourcing outside of the United States.

- U.S. aerospace parts and components suppliers showed virtually no growth in productivity over the last 15 years. This is likely a result of declining sales, under-utilized capacity, antiquated defense procurement processes, and pricing pressures from overseas competitors, as well as pressure from customers.

- Most new aerospace business is outside the United States. For the next 5-10 years, approximately two-thirds of the commercial aerospace market is forecast to be outside the United States . This will almost certainly lead to greater foreign sourcing and will pressure lower-tier U.S. suppliers to consider selling internationally.

- Foreign ownership of U.S. aerospace part and component suppliers continues to increase. Foreign ownership usually leads to more imports initially, at least until the foreign owner becomes established in the United States.

Aerospace Offsets

The following points highlight the effects of offsets on the aerospace industry during the 1993 to 2000 reporting period:

- The U.S. aerospace industry represents the major target of offset activity. Aerospace system export contracts totaled $42.8 billion (89 percent of all exports related to offsets) and accounted for $25.9 billion of the offset agreements (87 percent of the agreement total).

- Transactions involving aerospace products and services totaled (at least) $11.27 billion, or 62.6 percent of the value of all transactions for the eight-year reporting period. (In addition, 10-15 percent of the transactions classified as unspecified may also be aerospace items.)

- Approximately 58 percent ($6.53 billion) of the aerospace transactions were classified as direct offset transactions; 37 percent ($4.15 billion) were indirect; and five percent ($586 million) were unspecified. Also, 42 percent ($4.75 billion) of the offset transactions were categorized as subcontracts; 26 percent ($2.95 billion) as purchases; and 14 percent ($1.56 billion) as technology transfers. These three categories combined accounted for 82 percent of the total value of aerospace-related offset transactions.

- Aerospace parts trade has expanded rapidly and the U.S. aerospace industry maintains a surplus in parts trade. Imports of parts and components for aircraft and aircraft engines into the United States more than doubled, from $5.8 billion in 1993 to $11.8 billion in 2000. This includes

both civilian and military items. Exports of parts and components also grew, from $13.8 to $23.7 billion an expansion of 72 percent during the reporting period.

- Offsets impacted both military and commercial aerospace markets. Aerospace subcontractor companies normally supply both military and commercial parts.

- Offsets played a significant role in the increase of aircraft and engine parts imports. Military part and component imports rose 82 percent from $2.23 in 1993 to $4.1 billion in 2000. The eight-year total was $25.4 billion. Over the same period, aerospace subcontracts (direct offsets) totaled $4.75 billion (i.e., 18.7 percent of the total military parts imports).

- An additional $2.95 billion of aerospace offsets were purchases (indirect offsets). Adding purchases and subcontracts together, the resulting figure of $7.69 billion represents 10.75 percent of total part and component imports of $71.5 billion (civilian $46.1 billion and military $25.4 billion) for the period.[20]

- Offsets may permanently displace U.S. companies in certain circumstances. It is a fallacy to think of offsets as one-time events that end once an offset agreement is completed. A foreign offset recipient can continue selling product in the United States long after the initial offset transactions are completed. In addition, technology transfers, training, credit assistance, and other offset transactions can bolster the capabilities of foreign vendors and contribute to imports as well, but to an extent that is not yet known. In sum, it appears that the total impact of aerospace offsets is greater than the nominal value of the offsets.

Foreign vendors also can use offsets to gain entry into the U.S. market to supplement markets in their home countries. This expands their sales base and helps them compete, potentially displacing American suppliers in both commercial and military markets.

Defense downsizing increased the average age of military aircraft in the U.S. fleet. This shifted subcontractor work toward replacement and repair parts. Offset agreements associated with the purchase of off-the-shelf aircraft provide an opportunity for foreign vendors to supply parts and components (direct offsets) for aircraft destined for the host country, and an additional opportunity to compete in the existing U.S. (and foreign) replacement markets (indirect offsets).

Conclusions

The defense world changed in the 1990s, reflecting both retrenchment of military expenditures and tougher offset policies and enforcement by governments worldwide. Offsets have risen to a more prominent status in determining competitions and ultimately access to foreign markets. Offset agreements exceeding 100 percent are occurring with increasing frequency and, in one case, exceeded 300 percent. From the U.S. perspective, Europe is clearly the central focus of offset activity, dominating both offset agreements and offset transactions with U.S. companies. Because 90 percent of offset agreements are aerospace-related, concerns about U.S. prime contractors and the aerospace infrastructure have increased.

BIS estimates that during the period, offsets maintained an average of 41,666 jobs per year in defense system exporting industries but cost 9,688 jobs per year in the lower-tier supplier base. Based on these conservative calculations, offset agreements and transactions had a net positive effect on employment.

20 The $2.95 billion in indirect offsets includes military and civilian applications, although the split is not known. If treated as all civilian, the ratio to total civilian imports is still only about 6 percent. This implies that the majority of civilian imports are manufactured by competitive foreign firms, many of whom may have benefited from offsets in the past.

The U.S. aerospace trade surplus fell from its all time high of $40 billion in 1998 to about $27 billion in 2000. Imports of aerospace products have increased rapidly in the last decade for a number of reasons, including offsets. Aerospace-related imports have increased in both up and down market cycles despite the fact that the United States spends more on aerospace research and development than any other nation a factor that should make U.S. products very competitive in world markets.

In this report, Commerce has not identified any specific recommendations for remedial action concerning offsets in defense trade. No other government agency has offered alternative findings and recommendations. However, in the coming year, using authorities granted under the DPA, Commerce is committed to work with U.S. industry, the Department of Defense and other agencies, and foreign governments to analyze the impact of offsets on all parties and to seek ways to mitigate their effect on competition. Our goal is to support the U.S. defense industry and to ensure a robust and vibrant industrial base.

Passports and Visas with Embedded Biometrics and the October Deadline

By
Colin L. Powell
Secretary of State

[The following are excerpts of the testimony before the House Judiciary Committee,Washington, D.C., April 21, 2004.]

Mr. Chairman, members of the Committee, thank you for the opportunity to testify on the progress of those countries participating in our Visa Waiver Program (VWP) toward producing passports with embedded biometrics by October 26, 2004. I am here to explain the Administration's request for an extension of this deadline. Moreover, I want to report on the Department of State's progress in implementing our own biometric programs for U.S. passports and visas.

President Bush's number one priority is the security of our homeland. Secretary Ridge and I share that commitment. Secretary Ridge is responsible for our visa policy and I am responsible for its implementation.

The inclusion of biometrics in international travel documents is a critical step in upgrading security for America. And in protecting travelers, it is imperative that we improve our ability to verify the identities of prospective travelers to our country, especially individuals who might be terrorists, criminals, or others who present a security risk.

The *Enhanced Border Security and Visa Entry Reform Act* (EBSA) established October 26, 2004, as a deadline. By that date, VWP countries must begin issuing their nationals only passports that incorporate biometric identifiers that comply with the International Civil Aviation Organization (ICAO) standards. Also by that date, all VWP travelers must enter the U.S. with a machine-readable passport.

In May 2003, ICAO decided to make facial recognition technology the standard passport biometric, leaving VWP countries only seventeen months to bring a biometric passport from design to production. Such a process normally takes years. The EBSA does not provide a waiver provision and very few, if any, of the twenty-seven participating VWP countries will be able to meet this legislatively mandated deadline. Although the governments of the VWP countries share a commitment to this step forward, many are encountering the same challenges that we face in our own effort to introduce embedded biometrics to the U.S. passport.

The challenge provided to the international community by section 303 of the EBSA is a daunting one. Meeting it has taken VWP countries and the U.S. to the cutting edge of existing technologies. As a consequence we are confronted by complex technological issues. Among these are the security of the passport data, the interoperability of readers and passports, and the reliability of the chips imbedded in the passports will they last for the life of the passport, for example, which in most cases is ten years. We and our VWP partners are steadily resolving these issues, but studying them and then achieving success in dealing with them takes time. Moreover, we want to get the science as right as possible before we spend dollars, implement, and depend on these new measures to enhance our security.

This concern for taking the necessary time to get things right has not kept us from working aggressively with the VWP countries. We have urged them to issue biometric passports by the October 26, 2004 deadline. Moreover, we believe that success in this international effort to provide better security for our citizens requires U.S. leadership.

That is why in the ICAO working groups, for example, we led in advocating the successful inclusion of biometrics in travel documents. In the G-8, we strongly advocated support for ICAO leadership in biometrics and we participate actively in a special working group on biometrics established by the G-8 ministers of Home and Justice Affairs. At every opportunity around the world, State Department officials seek to educate VWP government representatives, journalists and citizens from these countries about the requirements and deadlines. In addition, VWP countries have sent representatives to Washington and we have had full and open discussions on the issues.

As a result, VWP countries are making progress toward complying with the biometric requirement, but I doubt whether any will meet the October 26 deadline. None of the larger countries for example, Japan, the United Kingdom, France, Germany, Ireland, Italy or Spain — will begin issuing passports with standardized biometrics by that deadline. Japan and the United Kingdom say they will begin in late 2005. Others may not come on-line until well into 2006.

Under these circumstances, we believe there are compelling reasons to extend the October 26, 2004 deadline to November 30, 2006. This extension would enable our allies to resolve the scientific problems and to develop the more secure, biometrically enabled documents that the original legislation mandated. Equally important, by providing this additional time we can be confident that the solutions developed by our partners in the VWP program will work effectively and be interoperable with similar systems installed throughout the world. It is in our interest to ensure global interoperability, to enhance not just our own border security but the security of our citizens overseas and of other citizens worldwide. Rushing a solution to meet the current deadline virtually guarantees that we will have systems that are not interoperable. Such a result may undercut international acceptance of this new technology as well as compound rather than ease our overall challenge.

Failure to extend the deadline will have other serious consequences as well. Since travelers from VWP countries with passports issued on or after October 26, 2004 without biometrics will need visas to travel to the United States, we estimate that the demand for non-immigrant visas will jump by over five million applications in fiscal year 2005. This represents a 70 percent increase in our non-immigrant visa workload. There are no easy solutions to handling this tremendous increase in our workload. True, this is a temporary problem because the workload will progressively decrease as VWP countries begin mass production of biometric passports. But in the interim, we would need to implement plans for a massive surge in visa processing, which would involve extra expense, diversion of personnel from other vital functions, and extending service hours, perhaps even to around-the-clock 24/7 visa processing at some posts. Even with a Manhattan Project approach, we cannot be sure that we could meet the demand without creating backlogs and long waits for appointments. We are already working hard on public diplomacy outreach to address some of the negative perceptions and misunderstandings concerning tightened U.S. visa policies. Even longer wait times would make it even more difficult to convince people worldwide, particularly youth, that America welcomes them and wants them here, to go to our schools, visit our museums and learn our language.

The delays resulting from this increased nonimmigrant visa demand will also discourage travel to the U.S. as visitors vote with their feet and choose to travel elsewhere, or defer their travel to the U.S., hurting relations with some of our closest friends and allies, and harming the American economy.

In fact, we judge that the added economic costs will be substantial. VWP travelers, who tend to spend more than other visitors, contribute billions of dollars to our economy each year. One out of every eight jobs in the U.S. civilian labor force is employed in some segment of the travel and tourism industry. We want to avoid unnecessary harm to this vital industry.

I want to be clear that extending the deadline is only part of our answer. We will also continue to pursue vigorous diplomatic efforts at the highest levels to ensure that the VWP countries remain committed to introducing biometric passports. Over the next few months, the Department of State will participate in the VWP country reviews led by Secretary Ridge's Homeland Security Department and we will take every opportunity to remind governments of the importance of meeting the new deadline should it be extended. We will ensure that they all understand that if they fail to meet the extended deadline we will have no alternative but to begin requiring visas for travelers from those countries. Further, to continue to tighten our security posture, the Department of Homeland Security (DHS) will enroll all VWP travelers in U.S.-VISIT the program that tracks the entry and exit of foreign visitors by using electronically scanned fingerprints and photographs. Secretary Ridge will describe this program in detail for the committee.

As I noted earlier, we believe that embedding biometrics in U.S. passports, to establish a clear link between the person issued the passport and the user, is an important step forward in the effort to strengthen border security. Our plan is to introduce contact-less chips to U.S. passports electronic chips on which we will write the bearer s biographic information and photograph. In December of this year, the program should produce the first biometric U.S. passports using ICAO's standard of facial recognition. Further, under this program we will complete the transition to the biometric passport by the end of 2005. It is important to note that we are encountering the same challenges as the VWP countries in developing our own biometric passport and will be unable to meet the deadline mandated for them.

That said, we are making good progress in our own biometric efforts. For example, we began deployment of our Biometric Visa Program on September 22, 2003, at five pilot posts. The program is now operational at more than 125 visa-adjudicating posts worldwide and will be operational at all visa-adjudicating posts by October 26th 2004, as mandated by law. This biometric program includes both non-immigrant and immigrant visas.

Under the Biometric Visa Program, consular officers electronically scan the fingerprints of the visa applicants at the visa interview windows as part of the visa interview process. These fingerprints are checked electronically against the DHS fingerprint database. If there is no match, then the visa applicant's fingerprints are stored in the U.S.-VISIT databases. If the fingerprints do match any in the fingerprint database, no action can be taken on the visa application until a consular officer reviews the information. If and when a visa is issued, the applicant's bio-data, photo and fingerprint data are sent to DHS's U.S.-VISIT system. When the visa applicant arrives at a port of entry, the DHS officer will use the fingerprint data to match the visa in the U.S.-VISIT databases, and will compare the visa holder's fingerprints with those on file. This one-to-one fingerprint comparison ensures that the person presenting the visa at the port of entry is the same person to whom the visa was issued. To ensure the integrity of visas issued prior to the introduction of biometrics (currently some 20 million), we have also upgraded our visa datashare program for use in the initial inspection under U.S.-VISIT. This means that U.S.-VISIT has access to the photograph that was previously captured on most visas currently in circulation providing us with a critical enhancement during primary inspection even though fingerprints are not available. An additional security measure of the Biometric Visa Program is that consular officers now interview all visa applicants with the exception of children, the elderly, and diplomats. We are working hand-in-hand with our colleagues in DHS to ensure that we have a system that allows legitimate travelers to be on their way as expeditiously as possible while, at the same time, it identifies those who pose a threat so we can prevent them from entering our country or arrest them if the situation warrants such action.

As I said, ensuring the security of our borders is our number one priority. But protecting our democracy and the special, welcoming society we have always been demands that we remain an open nation. America must continue to be a magnet for enterprising minds from around the world and the preferred destination of millions of tourists. We must also continue to add new richness to our unique mosaic to enhance our cultural diversity and further enlighten our tolerance. And we must continue to be that shining beacon on the hill for people around the world.

In my confirmation hearing before the Senate Foreign Relations Committee in January 2001, I pointed out that America is a country of countries, with a citizen in her ranks from every country in the world. I said that there is no country we do not touch and no country that does not touch us. For me these are not just words. I am a direct beneficiary of this connectedness and of our country's historic openness. So I believe passionately that we must deny the victory to terrorists that changing the very nature of our democracy would represent.

But I am also a realist. I know that while we maintain our openness we must also enhance our security. I know too that enhancing our security was a principal purpose of the *Border Security Act*. What I am requesting of you today is that you and the members of your committee recognize that the deadline of October 26, 2004 is not only unrealistic, it is counterproductive. Moreover, I am requesting that we fix this problem by extending the deadline to November 30, 2006.

Department of State Issues Request for Applications for Humanitarian Mine Action Grants

By
Department of State, Office of the Spokesman

[The following are excerpts of a media note from Washington, D.C., April 9, 2004.]

The Office of Weapons Removal and Abatement in the Department of State's Bureau of Political-Military Affairs is issuing its first ever, open Request for Applications for grants to advance humanitarian mine action.

Grant applications will be accepted from domestic and foreign non-governmental organizations, academic institutions, and international organizations in six specified areas. The Department of State is prepared to provide up to $4.2 million dollars in funding support for this process.

The six categories being considered for grant applications in 2004 are:

- Community-based mine risk education in Sudan;
- Strategic planning training course and curriculum development for national mine action plans;
- Development of abandoned ordnance and hazardous ordnance site survey methodology;
- Development of training methodology and curriculum to fully enable host-nation program management capabilities to achieve a mine-safe end state;
- Review of Office of Weapons Removal and Abatement-sponsored indigenous humanitarian mine action capacity-building efforts; and
- Private sector engagement to raise public awareness of and support for humanitarian mine action and destruction of abandoned ordnance.

Grant applications for unsolicited projects may also be submitted. Depending on the quality of the proposals and changes in programming assumptions, the Office of Weapons Removal and Abatement reserves the right to make no awards.

Information on the application review, grant award process, how to develop and submit a grant application, suggested grant formats, and related mandatory application forms can be found at www.state.gov/t/pm/wra/c11811.htm on the Office of Weapons Removal and Abatement's website.

To learn about the U.S. Department of State's humanitarian mine action programs and small arms and light weapons abatement efforts around the world, visit www.state.gov/t/pm/wra.

United States Policy and the Andean Counterdrug Initiative

By
Robert B. Charles
Assistant Secretary of State for International Narcotics and Law Enforcement Affairs

[The following are excerpts of a testimony before the House Government Reform Committee Subcommittee on Criminal Justice, Drug Policy, and Human Resources, Washington, D.C., March 2, 2004.]

Thank you for the invitation to discuss the Andean Counterdrug Initiative (ACI) and the Department of State's continued efforts in this critical region. The initiative represents a significant investment by the American people in a region that produces the vast majority of the drugs arriving in the United States.

If this initiative was targeted just at saving some of the 21,000 lives lost to these drugs last year, it would be the right thing to do. But there is more to this bipartisan, multi-year initiative than even that noble aim. It is also a bulwark against the threat of terrorism in Colombia, Bolivia, Peru, Brazil, Venezuela, Ecuador, and Panama. In short, it is a regional hemispheric and national security program, with direct implications, for homeland security and for our well being here in the continental United States. One need only look as far as Haiti to see that drug money, and the instability that follows it, can be institutionally corrosive, to the point of breakdown. In Colombia, and elsewhere in the hemisphere, the link between drug money and terrorism is incontrovertible.

All of this reinforces the wisdom of Congress in empowering the State Department, and the Bureau for International Narcotics and Law Enforcement (INL) in particular, to protect Americans and our allies in this hemisphere by strengthening the rule of law, building law enforcement and justice sector capacity, cultivating non-drug sources of income, and stopping heroin and cocaine from being produced and shipped to our shores.

In the future, as in the past, strong congressional support will be critical to fully achieving the endgame. The endgame is a hemisphere in which drug-funded terrorism, corruption of struggling democracies by drug traffickers along with drug violence and drug abuse from the streets of Bogot· to the streets of Baltimore, are reduced dramatically. We are making real progress toward that end state, and the Andean Counterdrug Initiative is a major part of that palpable progress.

Let me pause here to say something unexpected. Management of these programs is also essential. Congress provides the money, but we at INL must provide the proper management for these program dollars. I have a special duty, as custodian of these dollars; to make sure they go where they are intended. Accordingly, I have ordered a top-to-bottom program review of the entire stable of INL programming, put penalties in government contracts, moved from cost-plus to performance contracts, insisted that bonus justifications match awards, imposed new performance measures, moved to multiple contracts where possible, sat with senior executives of these contracts, and begun reviewing past financial practices. All of this is good government and basic oversight. It will make sure that dollars in the ACI account go where they are intended to stop drug production and drug-funded terrorism before those menaces arrive on U.S. soil, in our towns, in our counties, in our schools.

The investment we have made is bearing fruit drug production is down, traffickers are being arrested and extradited, legitimate jobs created, and the rule of law expanded. Our security, development, and institutional assistance to the judicial and law enforcement sectors are having a positive impact. The job is only half done, but the results are coming in and we are approaching what may well be a tipping point.

Background

The strategic centerpiece of the ACI is INL programming in Colombia, the source of 90 percent of all the cocaine reaching the United States. Colombia also provides upwards to 70 percent of the heroin reaching our streets, and it also is a leading supplier of cocaine to Brazil, Europe, and points East. Besides being a producer of raw materials for cocaine and heroin, Colombia is a major manufacturer of refined drugs. And it is the world headquarters for major criminal and narco-terrorist organizations. What we do in Colombia affects us in United States, but also affects regional security and the growth of economic opportunities for those who wish to live in democracies free from drugs and terror.

ACI Program Successes

Over the past two years, long awaited ACI funds have hit the ground, and they are making a difference. With INL support, the Colombian government has eradicated both coca and heroin poppy at a pace that should begin to seriously deter future growing, even as it wipes out larger and larger percentages of the crops that currently become cocaine and heroin. The physical risks associated with this program have been great, but the strategy is proving both successful and justified. The Colombians and we have lost assets as well as personnel to the enemy. Three hostages, who are still in Colombia, though not INL employees, are a continuing reminder that we are dealing with a dangerous group of terrorists who do not respect the rules or principles of civil society.

In 2003, INL and the Colombians, working closely together, sprayed 127,000 hectares of the coca crop at 91.5 percent effectiveness, for a net of 116,000 hectares of coca eradicated. At the same time, alternative programs in Colombia resulted in the manual eradication of an additional 8,441 hectares. Similarly, we sprayed 2,821 hectares in the opium regions while 1,009 hectares were manually eradicated.

In 2002 our efforts reduced coca cultivation by 15 percent and poppy cultivation by 25 percent. With final 2003 estimates still pending, we can nevertheless see the beginning of the long-predicted trend. Our efforts have brought us close to the tipping point where sustained suppression of illegal crops and alternative employment incentives together will convince growers that further cultivation is a futile proposition.

Predictably, it is also true that the work is getting more dangerous. In 2003, INL aircraft took more than 380 hits, and we lost four planes. So far this year, we have taken twenty-nine hits on our assets. We are fully reviewing our air wing operations to make the most effective use of our resources and to plan for the future. Security of our air fleet is our highest priority. We have increased intelligence coordination and protective measures to make sure each spray mission is as safe as humanly possible under the difficult circumstances. If it is not safe to launch a mission, the mission does not fly. Protecting the lives of the brave pilots who fly this program is our highest priority. Getting results of their outlay of bravery is the second, but sustaining the mission is first.

This year, as of February 29, 2004, we have sprayed over 29,000 hectares of coca and 691 hectares of poppies. This exceeds by 84 percent the amount of coca eradicated during the same timeframe in 2003. Our eradication goal for this has been initially set and is ambitious in the area of both coca and opium poppy. We have worked out a spray program in full coordination with the Colombian police and armed forces. Depending on the 2003 final spray results, we will review our spray targets for this year and adjust accordingly because killing coca and deterring future cultivation is the twin aim. And we aim to succeed.

After 2004, we expect to enter a maintenance phase of spraying smaller, more isolated coca fields, instead of the larger fields we have sprayed since our program began. The endgame will

then involve a ramp down to maintenance levels as the comprehensive effort to stabilize, eradicate coca, empower people, and restore the rule of law is achieved.

Please make no mistake: In Colombia the ACI funds have been vital to strengthen democracy and security. We have helped fund the establishment of police in 158 municipalities, many of which had not seen any government security presence in years. For the first time in history there is now a police presence in all 1098 of Colombia's municipalities. This is an enormous step forward. To demonstrate the hunger for security, San Mateo is a municipality that last had a real Colombian National Police presence in June 1999, when the Revolutionary Armed Forces of Colombia (FARC) killed the seven San Mateo police. In April of 2003, though, our program installed a new forty-six man police department, and San Mateo school children formed a human corridor and cheered as the police passed by. San Mateo declared the day a holiday, and fireworks were set off throughout the day. There is both hope and appreciation afoot and the U.S. Congress, through leadership and support for the ACI, can take considerable credit for that development.

The results are there: In 2003, Colombia's murder rate dropped by 20 percent, to its lowest figure since 1986. Colombia's illegal armed groups committed seventy-three massacres in 2003, as compared to 115 in 2002. The number of victims affected by those massacres dropped 38 percent from 680 in 2002 to 418 in 2003. Also in 2003, 2,043 cases of kidnapping were registered 32 percent fewer than in 2002. Finally, 846 terrorist incidents were reported in 2003, a 49 percent drop over the 1,645 reported in 2002.

On the interdiction side we continue to work closely with Colombia's armed forces and the police. Colombian forces seized 70 metric tons of cocaine base and cocaine hydrochloride (HCl) in 2003. In addition, 126 metric tons of cannabis were seized.

The Air Bridge Denial program, which began last August, is starting to become effective. Since August 2003, 10 planes suspected of drug trafficking were forced down and eight were destroyed. In 2003, the program also resulted in 6.9 metric tons of drugs seized regionally. And as of March 1, 2004, the Colombian Air Force and its regional partners have already seized one metric ton of illicit drugs. But the key here is not the number of planes destroyed. Our goal is to effectively deter the use of Colombian airspace by traffickers while protecting civil aviation.

I emphasize the need to continue to work regionally. Success in Colombia can have a ripple effect for better or worse. To be sure, the ripple effect is positive, our programs in countries bordering Colombia have also kept drug cultivation there at record low levels, increased the effectiveness and coverage of drug interdiction programs, strengthened the judiciary's ability to prosecute, and expanded economic opportunities for the poor.

ACI's administration of justice programs are designed to enhance the rule of law to shift to a more effective criminal system, protect witnesses, increase asset seizure, and protect citizens' human rights. ACI support established 34 justice and peace houses to increase access to justice for the urban and rural poor. These casas de justicia (justice houses) have handled over 1.8 million cases, easing the burden on the over-taxed, inefficient judicial system. ACI funding for administration of justice also created nineteen oral trial courtrooms and trained over 6,000 lawyers, judges and public defenders in new oral legal procedures designed to reduce impunity and quicken the judicial process.

In Peru and Bolivia, we have held the line on drug production so that there has not been the balloon effect. Drug cultivation in both countries has declined 70 percent over the past five years. In Ecuador, our program along the northern border to boost security and enhance economic development has prevented any significant cultivation of drug crops in that country. Interdiction are up throughout the area. In 2003, Peru's efforts resulted in the destruction of close to 3,762 kilograms of cocaine base, 3,250 kilograms of coca paste, and 134 metric tons of coca leaf. We

hope that a new drug interdiction coordination center, which we are working to establish with the Government of Peru, will assist in that effort. In Bolivia, interdiction seizures in 2003 are up to three times as high as those for 2002 with 152 metric tons of leaf and 12.9 metric tons of cocaine captured.

In Bolivia, by the end of 2003, at least 25,000 Bolivian farm families received alternative development assistance conditioned on creation of coca-free areas. As a result, the wholesale value of legitimate and legal agriculture leaving the Chapare exceeded $25 million. This represents a 25 percent increase over 2002 levels. In Peru we have also funded a key program, the "Culture of Lawfulness" a school-based program that teaches ethics to thousands of children in junior high school. If we can mold these young people, we can help foster a civic belief that drugs and corruption are wrong. Again, this is a measure of progress. Cultural education and trust in a stable, drug-free future will take time.

In Panama, we are meanwhile funding programs to tighten port security and enhance that country's ability to investigate and prosecute financial crimes via their Financial Intelligence and Analysis units. Our increased cooperation recently reaped rich results with the expulsion of key Colombian traffickers to the United States. These are a few examples of key programs that are working in the region.

Andean Counterdrug Initiative Program Challenges

We expect our efforts in Colombia to have significant results in the next two years, allowing Colombia to move toward full rule of law and increasingly balanced economic development. As I noted above, we are working regionally to prevent spillover effects to neighboring countries. However, we face some serious challenges in this effort.

The first is a lack of sustained activity in terms of forced eradication programs in Bolivia and Peru. As a result, in the Yungas region of Bolivia, cultivation increased 26 percent last year to 23,550 hectares.

Despite great success in the Chapare region, where cultivation dropped 15 percent from June 2002 to June 2003, the Yungas cultivation resulted in an overall increase for the country of 17 percent to 28,450 hectares. The Yungas area poses formidable political and logistical challenges to a large eradication program, but we must nevertheless, support efforts to tackle the problems in concert with the government of President Mesa.

In Peru, forced eradication programs are essentially limited to areas near labs, national parks, and new cultivation. While efforts to include a new voluntary program did help lead to a decrease in cultivation by 15 percent last year, it is very clearly forced eradication which will more quickly hurt the industry.

Growing local demand for drugs in the region is another incipient problem. These countries are painfully aware that drug consumption is on the rise, and they have launched new programs in response with U.S. support. Brazil, by some estimates, is the world's second largest consuming nation for cocaine. Brazil has initiated programs that address its growing domestic demand as well as more aggressive programs to protect its borders from use by drug traffickers. We are engaged with the government of Brazil in discussions on the major challenges it faces, and are vigorously supporting Brazil's new demand reduction emphasis.

In fiscal year 2005, our counternarcotics programs in Colombia will need to build upon the historic successes of the last few years. The relationship between drugs and terrorism in Colombia is well understood. As President Uribe grapples with dismantling narco-terrorist groups, we will keep our focus on the drug industry that is funding the terrorists.

Road Ahead

On balance, we will need to continue to work regionally in this Hemisphere, engaging with the key producing and transit countries in the ACI. So long as drugs continue to flow from the area, further efforts are needed to destroy the industry in all its forms. The traffic undermines democracy and the rule of law and, as noted, is also feeding increased demand for drugs in the region.

Given poverty rates in the region, farmers will continue to be tempted to cultivate drug crops unless they have alternative ways for feeding their families. We will therefore work collaboratively toward viable, economic options for Andean farmers and others now caught in the coercive web of the violent and illegal drug trade.

I am encouraged to see Andean-based efforts to regionalize counterdrug activity. With increased international cooperation and strengthening of the law enforcement agencies among our friends abroad, Congressional-supported INL programs will bring us closer to protecting our Andean neighbors, as well as enhancing our own national security. We will continue to methodically reduce the international flow of drugs and cripple the trafficking industry whose profits feed violence, violate the basic rule of law, stir hopelessness, and incite terrorism.

Our fiscal year 2005 planning continues the pursuit of vigorous eradication and interdiction efforts to disrupt and destroy the production and transport of drugs destined for U.S. and other markets. Our request includes sustained funding for programs that will build strong government institutions capable of detecting, arresting and prosecuting processors and traffickers as well as the terrorists that thrive with them. We intend to turn over responsibilities to host nations, including counternarcotics training, equipment acquisition and operation and maintenance.

That said, I want to return to Colombia the centerpiece of our ACI activities. We are approaching a predicted, but long-awaited tipping point. We have local, regional, hemispheric, and bipartisan U.S. leadership that finally sees the potential for and is willing to press for lasting change. Congress is an enormous part of this emerging picture. Our success is also a result of the vision, commitment, and energy of Colombian President Uribe. I underscore his importance to our efforts and the need for sustained support during the remaining years of his presidency. We are here because of all those who helped conceive and push forward U.S. support to ACI and also because of our strong partnership with President Uribe, whose policy goals are in exact alignment with our own.

Concluding Remarks

Drugs and crime undermine democracy, rule of law, and the stability required for economic development. The drug trade continues to kill our young people, and the bulk of the drugs arriving in the United States still come from the Andean region. The drug trade also funds terrorists in this Hemisphere and other regions. These are the stark realities.

Set against them is our methodical ACI program, in its many parts. And that program is producing results. Projects in Colombia, Bolivia, Peru, Ecuador, Brazil, Venezuela, and Panama are integrated. I am making sure that our assets are being used in the most effective manner and that performance criteria for projects are strengthened in order to better measure results. We have reached a tipping point in Colombia for the first time we may be close to delivering a lasting blow to narco-terrorists. Sustained support for President Uribe is essential. I appreciate this Committee's strong commitment to our efforts and look forward to exchanging views on how to carry this effort into the future. In all of this, there is a real mission. And in the mission, there is the real potential for lasting results that will change our world for the better.

Overview of U.S. Policy Toward Taiwan

By
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[The following are excerpts of the testimony at a hearing on Taiwan, House International Relations Committee, Washington, D.C., April 21, 2004.]

I welcome the opportunity to provide an overview of U.S. policy toward Taiwan, as well as the Administration's assessment of relations across the Taiwan Strait, the current situation in Taiwan, and the challenges that lie ahead.

This month we mark the 25th anniversary of the *Taiwan Relations Act* (TRA). The TRA, along with the three U.S. and China Joint Communiqués and our one China policy, form the foundation for the complex political and security interplay among China, Taiwan, and the United States.

Looking back over the past three decades, I think we can congratulate ourselves on crafting a policy that has been the key to maintaining peace and stability in the western Pacific while helping to ensure Taiwan's prosperity and security. Without denying the challenges and difficulties that remain, I can confidently report that because of the leadership of seven U.S. Presidents and active participation of the Congress, our relations with both China and Taiwan economic, political, cultural, and social are far closer and deeper than most would have ever predicted.

Equally important, our policy and the TRA have made vital contributions to easing tensions between Taiwan and the Peoples Republic of China (P.R.C.) and creating the environment in which cross-Strait people-to-people exchanges and cross-Strait trade are flourishing and creating, we hope, the necessary conditions for peaceful resolution of cross-Strait differences.

Core Principles

It is useful to reiterate the core principles of our policy:

- The United States remains committed to a our China policy based on the three Joint Communiqués and the *Taiwan Relations Act*;
- The U.S. does not support independence for Taiwan or unilateral moves that would change the status quo as we define it;
- For Beijing, this means no use of force or threat to use force against Taiwan. For Taipei, it means exercising prudence in managing all aspects of cross-Strait relations. For both sides, it means no statements or actions that would unilaterally alter Taiwan's status;
- The U.S. will continue the sale of appropriate defensive military equipment to Taiwan in accordance with the *Taiwan Relations Act*, and;
- Viewing any use of force against Taiwan with grave concern, we will maintain the capacity of the United States to resist any resort to force or other forms of coercion against Taiwan.

Our foremost concern is maintaining peace and stability in order to advance U.S. interests, spare the region the dangers of war, safeguard Taiwan's democracy, and promote China's constructive integration into the global community as well as the spread of personal freedom in China. Because the possibility for the United States to become involved in a cross-Strait conflict is very real, the President knows that American lives are potentially at risk. Our one-China policy

reflects our abiding commitment to preserve peace in the Taiwan Strait so long as there are irreconcilable differences.

Status Quo Message Aimed at Both Sides

The President's message on December 9, 2003 during P.R.C. Premier Wen Jiabao's visit reiterated the U.S. government's opposition to any unilateral moves by either China or Taiwan to change the status quo. This message was directed to both sides.

The President and the senior leadership of this administration consistently make clear to Chinese leaders that the United States will fulfill its obligations to help Taiwan defend itself, as mandated in the *Taiwan Relations Act*. At the same time we have very real concerns that our efforts at deterring Chinese coercion might fail if Beijing ever becomes convinced Taiwan is embarked on a course toward independence and permanent separation from China, and concludes that Taiwan must be stopped in these efforts.

Democracy in Taiwan

The 2004 presidential election was a testament to Taiwan's vibrant democracy. More than 80 percent of eligible Taiwan voters turned out to participate in a free and fair selection of their next President. Although the margin of victory was razor-thin only one-fifth of one percent and the attempted assassination of President Chen and Vice President Lu marred the election campaign's final days, the people of Taiwan behaved well and with restraint. We are confident that both sides will use the established legal mechanisms to resolve any questions about the outcome of the election. This matter is Taiwan's internal affair. We applaud the success of democracy in Taiwan and the dedication of Taiwan's people to the rule of law. This position is consistent with the deeply held values of the American people. Taiwan is a most complex and, in some ways, inconsistent polity. Its economic participation in the mainland Chinese economy is at an unprecedented level, yet it is now undeniable that Taiwan identity has emerged as a political and social issue on the island that figures in election campaigns. However, reliable polling also consistently demonstrates that a clear majority of Taiwan residents prefer the continuation of the status quo to either independence or reunification. The U.S. strongly supports Taiwan's democracy, including the right of its people to elect their leaders and make the full range of decisions about their security, economy, foreign relations, and other issues. But we do not support Taiwan independence. A unilateral move toward independence will avail Taiwan of nothing it does not already enjoy in terms of democratic freedom, autonomy, prosperity, and security. Realistically, such moves carry the potential for a response from the P.R.C. a dangerous, objectionable, and foolish response that could destroy much of what Taiwan has built and crush its hopes for the future. It would damage China, too. We, in the United States, see these risks clearly and trust they are well understood by President Chen Shui-bian and others in Taiwan.

While strongly opposing the use of force by the P.R.C., we must also acknowledge with a sober mind what the P.R.C. leaders have repeatedly conveyed about China's capabilities and intentions. The P.R.C. refuses to renounce the use of force regarding Taiwan despite our consistent representations stating they should do so. P.R.C. leaders state in explicit terms that China considers Taiwan's future a vital national interest and that the P.R.C. would take military action in the event Taiwan declares independence. While we strongly disagree with the P.R.C.'s approach, and see military coercion as counter-productive to China's stated intent to seek a peaceful outcome, it would be irresponsible of us and of Taiwan's leaders to treat these statements as empty threats.

The P.R.C. military modernization and the increasing threat to Taiwan indicate to us that Beijing is preparing itself to react in just such a possibility. We encourage the people of Taiwan to regard this threat equally seriously. We look to President Chen to exercise the kind of

responsible, democratic, and restrained leadership that will be necessary to ensure a peaceful and prosperous future for Taiwan.

There are uncomfortable realities, yet they are facts with which we must grapple. As Taiwan proceeds with efforts to deepen democracy, we will speak clearly and bluntly if we feel as though those efforts carry the potential to adversely impact U.S. security interests or have the potential to undermine Taiwan's own security. There are limitations with respect to what the United States will support as Taiwan considers possible changes to its constitution. We are uncertain about the means being discussed for changing the constitution. We do no one any favors if we are unclear in our expectations or obfuscate where those limitations are. The President's policy regarding our opposition to unilateral changes to the status quo will be reinforced in this dialogue with Taiwan about its political evolution.

Taiwan is a success story for democracy in Asia and around the world. We feel strongly that others can benefit from knowing more about Taiwan's achievements. We will explore with our friends in Taiwan how they may be able to promote their story to a global audience, and how we can help to make Taiwan's instructive example available to all countries that are attempting to institute democratic reforms. We can only do this, Taiwan can only do this if it avoids unilateral steps that risk destroying all that it has accomplished.

The United States and Cross-Strait Differences

The United States is not a direct participant in the dispute between the P.R.C. and Taiwan, but we have a strong interest in doing all we can to create an environment that is conducive to a peaceful resolution. Resuming the dialogue between the two sides is an important first step. A large part of that effort consists of our promoting a strong bilateral relationship between the United States and the P.R.C., and a strong unofficial relationship between the United States and Taiwan. We desire and need good relations with both, and believe this positions us best to assist the two sides in getting to the negotiating table on mutually agreeable terms. Indeed, we believe both sides desire and need good relations with one another.

The process of cross-Straits dialogue and contact has moved fitfully over the last fifteen years. In the late 1980s, the prospects for cross-Strait reconciliation and dialogue began to take shape with the lifting of martial law in Taiwan and the opening up the mainland Chinese economy and society. The Nationalist government on Taiwan not only lifted the ban on visits to the Mainland for family reunions, but also allowed the distribution and publication of P.R.C. books and initiated discussion on future cross-Strait trade and investment links.

The 1990s ushered in a decade of incremental consensus-building. Both sides agreed in 1992 that there was one China, but left each side free to express their interpretation of the concept. This ambiguity and decision to reserve differences cleared the way in 1993 for the first high-level meeting in Singapore between heads of the two private intermediary organizations — Taiwan's Straits Exchange Foundation (SEF) and the P.R.C.'s Association for Relations Across the Taiwan Strait (ARATS).

Lower-level talks continued on a fairly regular basis until they were suspended by Beijing in 1995 after President Lee Teng-hui visited the U.S. The Lee visit prompted China to overreact and launch missile tests and military exercises along the Taiwan Strait. The United States responded quickly to the impending crisis, emphasizing our deep concern to Beijing in diplomatic channels and directing the movement of two aircraft carrier battle groups into the waters off Taiwan. Beijing's heavy-handed response was one factor that helped secure Lee's win in Taiwan's first presidential election by universal suffrage in 1996.

Unofficial exchanges resumed in 1997 through informal meetings between personnel of the two sides' unofficial representative organizations. Direct SEF-ARATS contacts resumed in April

1998, and the SEF Chairman Koo Chen-fu visited the Mainland in October 1998. Koo and ARATS chairman Wang Daohan agreed to further dialogue on political, economic, and other issues, and Wang agreed to make a return visit to Taiwan. His visit, however, was cancelled following statements made by President Lee to the Voice of Germany radio on July 9, 1999 that relations between the P.R.C. and Taiwan should be conducted as "state-to-state" or at least as "special state-to-state relations." ARATS immediately rejected Lee's statement and called it a serious violation of the 1992 consensus.

In March 2000, Democratic Progressive Party candidate Chen Shui-bian became the first opposition party candidate to win the presidency. His victory resulted in the first-ever transition of the presidential office from one political party to another, validating Taiwan's democratic political system. During his May 20, 2000 inauguration, President Chen called for resuming the cross-Strait dialogue without any preconditions. President Chen stated that such talks should be conducted on the basis of the spirit of 1992 . He also pledged the following:

- Not to declare independence;
- Not to change Taiwan's official designation as the Republic of China;
- Not to insert the state-to-state theory into Taiwan's constitution, and;
- No plebiscite or referendum on sovereignty issues.

President Chen also agreed not to abolish the Guidelines for National Reunification and the National Unification Council. The P.R.C., however, has insisted that President Chen must recognize the one China principle before official talks can resume.

Despite the differences between Taiwan and the P.R.C., unofficial contact between the two sides has grown significantly. Taiwan continues to relax restrictions on unofficial contacts with the P.R.C., and cross-Strait interaction has mushroomed. In January 2001, Taiwan formally allowed the three mini-links (direct trade, travel, and postal links) from two small islands very close to the mainland to Fujian Province. The following year, President Chen defined the status quo as being one country on each side of the Taiwan Strait, once again sparking criticism from Beijing and his domestic opponents.

Our position continues to be embodied in the so-called "six assurances" offered to Taiwan by President Reagan. We will neither seek to mediate between the P.R.C. and Taiwan, nor will we exert pressure on Taiwan to come to the bargaining table. Of course, the United States is also committed to make available defensive arms and defensive services to Taiwan in order to help Taiwan meet its self-defense needs. We believe a secure and self-confident Taiwan is a Taiwan that is more capable of engaging in political interaction and dialogue with the P.R.C., and we expect Taiwan will not interpret our support as a blank check to resist such dialogue.

In the final analysis, the Taiwan issue is for people on both sides of the Strait to resolve. This is the only way a peaceful and durable solution can be found and it is a vital element in guaranteeing long-term peace and stability in East Asia. Taiwan faces many challenges in the years ahead, and recurring crises with Beijing can only interfere with the central tasks of promoting democracy, ensuring economic growth, advancing the popular welfare, and enabling Taiwan's security. Beijing likewise faces daunting challenges in overcoming poverty and backwardness, establishing the rule of law, and beginning a process of political reform and opening up. China would gain nothing from a conflict. It would undermine a historic transformation through which China has become a respected member of the international community. War in the Strait would be a disaster for both sides and set them back decades, and undermine everything they and others in the region have worked so hard to achieve. We continue

to urge Beijing and Taipei to pursue dialogue as soon as possible through any available channels, without preconditions.

In the absence of a political dialogue, we encourage the two sides to increase bilateral interactions of every sort. Clearly, there would be economic benefits for both sides by proceeding with direct aviation and shipping links. The increasing people-to-people contacts may also ease tensions. It is also time that the two sides begin exploring confidence building measures that reduce the chance for military miscalculation and accidents, and improve the quality of communications in the event of a crisis. Any such mutual reassurance mechanisms should be truly mutual, and not a one-way pass for the other side.

U.S. Taiwan Security Relationship

The United States is committed to make available defensive arms and defensive services to Taiwan in order to help Taiwan meet its self-defense needs. A secure Taiwan is more capable of engaging in political interaction and dialogue with the P.R.C.. The United States has provided Taiwan with a significant quantity of defensive weapons over the last twenty-five years, and during that challenging period has been Taiwan's most reliable and often only supplier of weapons.

The P.R.C. has explicitly committed itself publicly and in exchanges with the United States over the last 25 years to a fundamental policy "to strive for a peaceful resolution to the Taiwan question." If the P.R.C. meets its obligations, and its words are matched by a military posture that bolsters and supports peaceful approaches to Taiwan, it follows logically that Taiwan's defense requirements will change. However, the post-1999 P.R.C. program of military modernization, including deployment of a steadily growing number of short range ballistic missiles (SRBM) targeted on Taiwan, undermines confidence in China's commitment to deal with the cross-Strait situation peacefully and requires a measured response on our part, under the TRA, to provide appropriate defensive military equipment to Taiwan. China's missile deployments against Taiwan are increasing by 50-75 missiles per year. As Secretary Powell stated last month during a public speech, "China's military build-up opposite Taiwan is destabilizing. We urge a posture more conducive to the peaceful resolution of existing disputes."

Taiwan's implementation of the *National Defense Law* and the revised *Ministry of National Defense Organization Law*, which brought Taiwan's military command and administrative structures clearly under civilian control, was a signal achievement long sought by the United States. We continue to urge the full implementation of civilian control over the military and the development of civilian expertise on security and military affairs.

After years of steadily declining budgets, Taiwan's political leadership has stated that they are committed to spending more on defense. Over the past ten years, Taiwan's defense budget as a percentage of gross domestic product has dropped from 4.75 percent to 2.6 percent. Taiwan's fiscal year 2004 defense budget is NT $260.00 billion (U.S.$7.62 billion). This is up from NT $251.5 billion in 2003. However it still does not allow purchase of big-ticket items approved by the U.S. for sale to Taiwan since 2001.

Recent major acquisitions that Taiwan has made include the purchase of four KIDD-class destroyers in 2003. These destroyers will fill gaps in the Taiwan Navy's fleet air defense and Anti-Submarine Warfare (ASW) capabilities. The destroyers are being refurbished now and will be delivered to Taiwan in 2005.

We also just notified Congress last month of a possible sale to Taiwan of two long-planned Ultra High Frequency long range Early Warning Radar systems. The estimated cost of these radars is U.S. $1.776 billion. The radars will give Taiwan early warning and detection of ballistic

and cruise missiles, as well as aircraft. These systems will be a vital component of Taiwan's air and missile defense architecture.

Taiwan's Ministry of National Defense is engaged now in the process of developing a special budget request that will enable Taiwan to acquire priority capabilities in missile defense and Anti submarine warfare (ASW).

Taiwan's political and military leaders have formally recognized Taiwan's military needs to reform, moving away from a military dominated by ground forces to one that emphasizes jointness and is better suited to the task of defending against the PLA's increasingly modern air and sea forces. In support of Taiwan's efforts the United States is engaged in a range of interactions with Taiwan's defense and military leadership consistent with the framework of U.S. policy, focused on acquisition of priority capabilities in areas such as Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR), air/missile defense, anti-submarine warfare (ASW), and other planning and training exchanges. Our security assistance policy and arms sales to Taiwan are helping Taiwan build and maintain a self-defense capability that is flexible, joint, responsive to civilian control, and sufficient to meet the threat from Beijing.

It is important to note that our security relationship is not limited exclusively to ensuring the security of Taiwan. Taiwan is a strong partner in war on terror, which contributes in a very direct way to U.S. and global security. We hope to conclude the Container Security Initiative agreement with Taiwan soon. We also deeply appreciate the immediate and heartfelt response of the people and the government of Taiwan after the attacks of September 11, 2001 and the contributions of Taiwan to reconstruction of Afghanistan and Iraq.

Taiwan in International Organizations

The United States continues to be a strong supporter of Taiwan's participation in international organizations, either as a member, when possible, or in an appropriate form when membership is not possible. We actively support observer status for Taiwan in the World Health Organization (WHO).

We want to find a way forward for Taiwan's participation in the World Health Assembly that will receive broad support among WHO member states. In order for this effort to succeed, the focus has to be on the importance of including Taiwan as part of global efforts to safeguard public health. In that regard, we encourage Taiwan's efforts as an active player and a responsible member of the international community on health issues. During the past three years, we have worked intensively with Taiwan representatives in Washington, Taiwan, and Geneva in order to advance the goal of participation by Taiwan in the WHO. We have held annual strategy meetings, most recently in early April 2004, to hear Taiwan's plans and to work together with Taiwan on how best to advance Taiwan's legitimate interest in contributing to the work of the WHO. Taiwan's problem obtaining observer status is certainly not due to a lack of U.S. commitment.

We hope the P.R.C. will adopt a more constructive view and will join in an effort that shows genuine compassion for the people of Taiwan. Although WHO observership explicitly does not require statehood and several WHO observers are not nations, the P.R.C. has actively lobbied to block even the placement of consideration of Taiwan's observership on the World Health Assembly agenda. This is a mistake that only alienates the people of Taiwan. The question of Taiwan's participation in the WHO deserves a full vetting by the international community, and Taiwan can certainly count on the United States to vote in favor of including the Taiwan observership issue on the World Health Assembly agenda should the issue come to a vote. We hope to move beyond that question, and look forward to supporting an appropriate resolution, and ultimately voting in favor of Taiwan's candidacy for observership.

Taiwan: A Global Economic Player

In recent decades, Taiwan has successfully weathered an enormous economic transition. Fifty years ago, the island was primarily agricultural. By the 1970s, it had become a major exporter of labor-intensive goods such as shoes, textiles, and plastics. Today, Taiwan is a world leader in information technology products and its economy is increasingly oriented towards knowledge-based services. Taiwan's economic growth is an area which has brought the two sides of the Strait closer together and has made Taiwan a major economic player on the world stage.

During the past twenty years, per capita GNP in Taiwan has grown from about $7,400 in 1980 to an estimated $13,000 today. Entrepreneurial talent, coupled with forward-looking government programs, have enabled hi-tech industries to emerge, placing Taiwan companies in the top rung of semiconductor producers and information technology product manufacturers. The majority of the world's notebook computers, for example, are made by Taiwan firms an industry that did not even exist fifteen years ago. Taiwan is the world's third-largest holder of foreign currency reserves, America's eighth-largest trading partner, and the world's seventeenth-largest economy. The island has achieved its economic stature despite few natural resources and a relatively small domestic market. High levels of education and a dedicated work force have been among the major drivers of Taiwan's impressive economic development.

Development of the Cross-Strait Economic Boom

Despite the outbreak of Severe Acute Respiratory Syndrome (SARS) and ongoing political tensions, China became Taiwan's top trading partner in 2003, even without the presence of direct cross-Strait transportation. Japan and the U.S. dropped to second and third place, respectively. Trade between Taiwan and China reached $46 billion last year, up nearly 25 percent over 2002. Almost one-quarter of Taiwan's exports went to China, while P.R.C. imports made up 8.6 percent of Taiwan's total imports. Taiwan's trade surplus with the P.R.C. grew by 13.4 percent last year.

The P.R.C. is also the number one destination for investment by Taiwan business people. Taiwan's Ministry of Economic Affairs approved $35 billion of Mainland investments between 1991 and 2003. Most private analysts believe the actual figure to be around $70 billion when undeclared projects are included along with money flows from Taiwan investments channeled through third locations. In 2003, Taiwan approved investment of $4.59 billion in the P.R.C. Estimates of the number of Taiwan citizens living full-time in the P.R.C. run from 500,000 to as many as one million.

These robust cross-Strait economic ties began less than two decades ago. From 1949 until 1987, Taiwan had banned trade, investment, transportation, and communications with the P.R.C.. Beginning in 1987, Taiwan residents were allowed to visit the P.R.C. in increasing numbers, and to invest so long as they went through a third location such as Hong Kong. As wage and land costs in Taiwan were soaring, labor-intensive Taiwan industries such as textiles, footwear, and plastics began departing the island for cheaper labor and land in the P.R.C. and Association of South East Asian Nations (ASEAN) countries. Much of Taiwan's investment in the P.R.C. reflects the normal cycle of business transition, from import substitution to export-led growth, from labor-intensive products to more capital- and technology-intensive goods, and from doing all operations in Taiwan to moving production off-shore to take advantage of an increasingly global economy. The advantages to Taiwan businesses of working in China were obvious, given the low cost labor, land, and other inputs that have also attracted other foreign investors. Linguistic and cultural affinities gave Taiwan businessmen immediate advantages compared with non-Chinese investors, while for its part, the P.R.C. welcomed its Taiwan compatriots to invest and trade in the mainland.

Taiwan's trade with and investment in the P.R.C. soared, although it is difficult to calculate exact figures because people, goods, and finance flow across the Strait indirectly, because both

sides keep different statistics, and because a proportion of Taiwan investment in the P.R.C. continues to go unreported. Whatever the exact figures may be, the trend has been clear. According to Taiwan statistics, two-way trade reached $25.8 billion in 1999. Only $4.5 billion of that was imports to Taiwan from the P.R.C., since Taiwan has restricted imports from the mainland. In the mid-1990s, Taiwan launched its no haste, be patient and go south investment policies aimed at slowing the flood of Taiwan investment in the P.R.C. and directing it elsewhere. Despite these policies, the rate of growth of Taiwan's investment in Southeast Asia slowed steadily, and there was an increase on average of 23 percent per year in realized investment in the P.R.C. in the mid-to-late 1990s. Approximately 40 percent of Taiwan's outward investment is now in the P.R.C.

The Three Links

Taiwan and China have yet to establish the "Three Links" direct trade, transportation, and postal services across the Taiwan Strait although as the cross-Strait economic relationship grows, the economic incentives to establish direct links will grow. In 2001, the "mini links" were created to allow travel and trade between Taiwan's offshore islands of Kinmen and Matsu and China's Fujian Province. Activity via the "mini links" has grown rapidly, but it remains a small part of overall trade. In early 2003, Taiwan permitted its air carriers to ferry Chinese New Year passengers back and forth across the Strait by way of "indirect charter flights" that touched down briefly in Hong Kong or Macau. Taiwan and China did not repeat the charter flights during the 2004 Chinese New Year, in part because the two sides could not agree on the terms for meetings to discuss how P.R.C. carriers might also participate.

In addition to concern about over-dependence on a potential adversary, Taiwan worries that direct cross-Strait links could speed the hollowing out of Taiwan's economy and create problems of unemployment in Taiwan. While Taiwan's concerns about over dependence and hollowing out cannot be dismissed, these issues need to be seen in the broader context of global interdependence. Cross-Strait trade is not occurring in a vacuum, and both sides are connected to world trade. Even though approximately 25 percent of Taiwan's exports go to the P.R.C., most of those goods end up re-exported from China to developed country markets.

For example, if the P.R.C. were to adopt economic sanctions against Taiwan business due to a cross-Strait political crisis, much of the damage would fall on China itself, not just Taiwan. According to one 1997 study by a Taiwan's Chung-hua Institute for Economic Research, if Taiwan's exports to China were disrupted by one dollar, China's exports produced by Taiwan invested companies would decline by five dollars. The negative impact on regional and global supplies, particularly in IT products where Taiwan continues to be a world leader, would be devastating. These factors may have been one reason why in 1995-1996, when cross-Strait tensions erupted and the P.R.C. launched missile tests, China did not match its military threats with economic sanctions against Taiwan businesses. As a corollary, predictions that Taiwan businessmen invested in the mainland would pressure their government to make political concessions to China in 1995-1996 and 1999-2000 have also not proven correct, although some did urge their political leaders in Taipei to be cautious.

The Global IT Highway Runs Across the Strait

The IT global supply chain offers important insight into the relationship between globalization and cross-Strait trade. The P.R.C. surpassed both Japan and Taiwan to become the world's second- largest information hardware producer in 2002, after the United States. Much of this was due to the steady migration of Taiwan industrial investment across the Strait. Taiwan is now second only to Japan as a source of total imports to the P.R.C., with a 12 percent share. Nearly three-quarters of those imports from Taiwan to the P.R.C. are production inputs for

assembly and processing that are then re-exported. While China now ranks as a major player in global IT production, according to numerous private estimates, more than 50 percent of Mainland China's information technology production is generated in facilities run by Taiwan companies. Thus, China's production in the IT sector depends on Taiwan, not the other way around. Taiwan's foreign direct investment could be said to be an important component of China's economic development and political stability.

Taiwan's Economic Future

Economic relations with the P.R.C., which have been steadily liberalized in recent years, also will be a major factor in Taiwan's economic prospects. Diversification of foreign direct investment is always a prudent practice, as is a realistic attitude toward China's economic potential. With these principles in mind, Taiwan investment in the P.R.C. can be a win-win-win solution for Taiwan, the P.R.C. and the world economy as a whole. The island's role in world trade is even more critical for Taiwan's future overall competitiveness. Taiwan has emerged as a ranking international economy and an industrial powerhouse. As one of the Asian tigers, it has benefited from good policy, sound economic fundamentals, a good educational system, an outstanding workforce, and the suppleness of Taiwan's industrial structure, which is dominated by small- and medium-sized firms. Today, Taiwan's leaders are looking to new sectors such as biotechnology, optoelectronics, and nanotechnology as areas where Taiwan can maintain its world-class reputation and create new opportunities for growth. Taiwan's Challenge 2008 National Development Plan calls for an additional $16 billion, over six years, beyond existing commitments to improve infrastructure, facilitate research and development, and create new jobs.

In order for the Challenge Plan to succeed, Taiwan will have to address both international and domestic market factors. It needs to continue with reform of the financial system, improve the investment climate, and continue to implement WTO accession commitments. Taiwan's record of intellectual property rights (IPR) piracy and protectionism for domestic producers and service providers in recent years has left much to be desired. In an increasingly knowledge-based economy, Taiwan will have to do more to protect intellectual property. Taiwan also needs to do more to enhance its attractiveness as a destination for more foreign direct investment. Such changes will position Taiwan to continue to play a major role in the international economy as well as to be an important economic partner of the United States.

Our Economic Partnership

Today, Taiwan is the eighth-largest trade partner of the United States. Taiwan bought $17.48 billion in U.S. goods in 2003, while the U.S. imported $25.9 billion from Taiwan last year. It is our sixth-largest market for agricultural products, and ninth largest export market overall. We continue to encourage Taiwan to improve its protection for intellectual property, through strengthening both law and law enforcement, improve market access and transparency for rice imports, meet its multilateral and bilateral commitments on pharmaceuticals, and firmly establish an open market for telecommunications services. Taiwan has taken encouraging steps on IPR enforcement in the past year. While more remains to be done in all these areas, we hope Taiwan will continue and strengthen its efforts. This will in turn brighten prospects for stronger U.S.-Taiwan economic ties under our existing Trade and Investment Framework Agreement, and, if appropriate, future consideration of a possible free trade agreement.

Conclusion

The Taiwan Relations Act has been a tremendous success, and we endeavor to make sure that success is sustained in the future. We have built a strong unofficial relationship with Taiwan that emanates from a foundation of shared values and mutual interests. Our interactions with Taiwan are to our mutual benefit in the economic sphere, in bilateral security interests, and global

security. Taiwan is a good friend to the United States, as we are to Taiwan. As such, Taiwan can count on sustained U.S. support as it addresses its many important challenges. This very much includes Taiwan's efforts to develop its democracy. And we expect Taiwan to respect our interests in stability embodied in the *Taiwan Relations Act*. On that basis of mutual acknowledgement of and respect for our interests, the road ahead is promising.

United States Interests and Foreign Policy Priorities in South Asia

By
Christina B. Rocca
Assistant Secretary of State for South Asian Affairs

[The following are excerpts of the statement before the House Committee on International Relations, Washington, D.C., June 22, 2004.]

September 2001 placed a South Asia riven by conflict and division at the front lines of the global war on terrorism. Not quite three years later, with the support of the American people, the Congress, and the Administration, the region stands at the verge of potential breakthroughs. The next few years will provide a crucial opportunity for the United States to help South Asia become a peaceful, democratic and prosperous region, free from terror and nuclear threat. We are winning and consolidating the peace in Afghanistan and while not a focus of my testimony today, success in Afghanistan is critical to long term regional stability. Our commitment to assist Pakistan's full transformation into a modern and moderate Islamic democracy remains a pillar of our long-term strategy in the war on terrorism. As India increases its global reach, we are working to build an effective strategic partnership. Strong U.S. engagement is vital to ensure that Bangladesh does not fall back into poverty and fall victim to extremism. Due to its location, aspirations and capabilities, the future of Sri Lanka is assured, if it can achieve a lasting peace, and our long term strategic interests dictate that we pursue this goal. A fragile democracy is at stake in Nepal, where a Maoist insurgency has unraveled the weak political and economic threads that held it together, and the United States must help South Asia avoid the potential humanitarian crisis and instability this could cause as well as the presence of another failed or authoritarian state.

Over the last year, and especially in recent months, the momentum for positive change has increased. Pakistan continues as a major ally in the war on terrorism. Al Qaeda and Taliban operatives continue to be captured there, and the government has intensified its operations around the country and near the western border. Pakistan's economy has moved from crisis to stabilization and growth, and the impasse between President Musharraf and the legislature was resolved in December with his agreement to step down as head of the army at year's end. The public exposure of A.Q. Khan's activities and investigations by various governments has severelydisrupted his black market proliferation network. It is now in the process of being dismantled. It appears that Pakistan is taking these investigations seriously. The recent rapprochement between India and Pakistan has enabled a new composite dialogue and given a new boost to regional cooperation meetings in stark contrast to the threat of a possible nuclear confrontation in 2002. The United States and India are also working to formally expand strategic cooperation while deepening their partnership across multiple fronts. The suspension of Sri Lankan peace negotiations last year did not end the ceasefire or informal cooperation between the government and the Liberation Tigers of Tamil Eelam. In Bangladesh and throughout the region, we continued to advocate and assist progress towards accountable democratic governance, sustainable development, and mutual understanding in order to address the underlying causes of extremism and instability.

An Ever-Growing Partnership with India

With the newly elected government taking office in India, we are continuing cooperation on regional and bilateral issues. In January 2004, we announced our Next Steps in Strategic Partnership (NSSP), an initiative designed to deepen our U.S. and India relationship. Expanded cooperation under the NSSP on civilian nuclear activities, civilian space programs, high

technology trade, and an expanded dialogue on missile defense will bring significant economic benefits to both sides, and improve security in South Asia and beyond. The United States and India share a fundamental commitment to democracy. We hope to work more closely together to promote democracy, especially in problematic countries like Burma.

Our bilateral Defense Planning Group, joint exercises, and military exchanges have greatly increased security cooperation. A High Technology Cooperation Group is advancing trade and investment. U.S. assistance programs, including our Economic Support Fund (ESF) initiative targeting areas of special concern to the government, are helping India to complete financial, trade energy, water, and agriculture reforms to improve economic stability and reduce poverty. Our programs also promote better access to education, justice, and services by women and vulnerable groups. In addition, our programs strengthen law enforcement capability. Our health programs support the prevention of human immuno-deficiency virus and acquired immune deficiency syndrome (HIV/AIDS), tuberculosis and other diseases, and increased child survival issues also addressed though a bilateral Global Issues Forum whose concerns range from trafficking in persons and human rights abuses to environment, science and health. We will also be working to strengthen the economic and commercial side of our relationship, which is growing, but not nearly as fast as it could.

Pakistan: Frontline State in the War on Terrorism

In Pakistan, all our policies and programs support our primary goal of helping Pakistan reach its objective of becoming a moderate, prosperous state, and preventing terrorism directly through security programs and also through democracy, development and outreach programs that combat extremism and instability. In other words, the funding we are requesting for Pakistan in fiscal year 2005 directly helps the United States in the Global War Against Terror and Operation Enduring Freedom.

As our Foregn Military Financing programs facilitate the capture of al Qaeda and Taliban remnants and strengthen our military ties with Pakistan, we help tackle the conditions that breed terror by providing substantial amounts in ESF for macroeconomic stabilization and growth, and support for social sector programs. The government's ongoing pursuit of structural reform, prudent economic policy initiatives, and effective macroeconomic management have impressed the International Monetary Fund (IMF) and donor community. As we assist this positive momentum with ESF, we also continue to support grassroots economic development and health programs visible to ordinary Pakistanis through U.S. Agency for International Development (USAID) programs. We are also providing substantial support to the Pakistani government's efforts to pursue education reform, including for madrassahs, aimed at preparing young Pakistanis to gain employment and compete in the global marketplace.

A return to full democracy in Pakistan is central to long term stability. National elections in October 2002, although flawed, restored a Prime Minister, a National Assembly and four Provincial Assemblies, and President Musharraf has indicated he will step down as head of the military by the end of 2004. After a prolonged impasse, Parliament is beginning to function, and a devolution program has begun to revitalize local government. U.S. democracy programs and exchanges are assisting the development of accountable, responsive democratic institutions and practices, including effective legislatures and local councils that respond to citizens and that play a positive role in governance. Our programs also support much needed political party reform, the development of an independent media that provides balanced information, and effective civil society advocacy. We are also vigorously engaging educators, the media, and civil society leaders, as well as younger, non-elite Pakistanis in communities resistant to democratic values.

Terrorist attacks in Pakistan over the last year, including two attempts on President Musharraf's life, remind us that progress hangs in the balance, while underscoring the need to shut down terrorist organizations and the networks that support them; something the government is working to do. Seventy-seven Pakistani soldiers have lost their lives in anti-terror operations in the tribal areas since the beginning of the year. Other security personnel have been killed in Karachi and elsewhere, and numerous Pakistani civilians have been murdered in terrorist attacks. We offer our sincere condolences to the families and friends of those lost on the Pakistani front of the Global War on Terror.

Regional Stability: Non-proliferation and Indo-Pakistan Ties

Given the realities we face in South Asia, we are also focused on preventing actions that would undermine the global non-proliferation regime and regional stability. Thus we are working to prevent an open ended nuclear and missile arms race in the region, discourage nuclear testing, and prevent onward proliferation to other countries. Our actions with both India and Pakistan are consistent with our obligations under the *Non-proliferation of Nuclear Weapons* (NPT) and with our commitment to the Nuclear Suppliers guidelines. We are working with both to strengthen non-proliferation export controls through our Export Control and Border Security (EXBS) program. In Pakistan, the government has just introduced a bill into Parliament that, if enacted, would significantly strengthen Pakistan's existing export control regime.

A stable South Asia is an important interest we share with the nations of the region. The recent agreement between India and Pakistan to pursue a wide-ranging composite dialogue with the objective of reaching a peaceful settlement on all bilateral issues, including Kashmir, is a real breakthrough. We are encouraged by the confidence-building measures agreed upon in recent months, and hope they will be implemented quickly. India is also conducting a dialogue with the Kashmiri All Parties Hurriyat Conference. We will continue to watch closely and encourage positive steps. Our public diplomacy funds are used to help facilitate deeper ties and understanding.

Supporting a Moderate Bangladesh

Democratic Bangladesh, with the fourth largest Muslim population in the world, is a valued partner in the war on terror, a moderate voice in regional and international fora, and a leading contributor to United Nations (U.N.) peacekeeping missions. Bangladesh's economy remains stable. Yet political rivalries and one of the most significant corruption problems in the world threaten democratic stability and impede economic growth. The challenges that lead to extremism poverty, lack of education, and endemic corruption, combined with porous borders and lack of public faith in elected government have increased the attractiveness of radical alternatives. Bangladesh recently passed legislation authorizing an anti-corruption commission, which we hope will be effective. Regional International Narcotics Control ad Law Enforcement funds support anti-corruption efforts and law enforcement capacity. U.S. democracy programs seek to increase the accountability and transparency of democratic institutions, thereby assisting to defuse bitter rivalries and support civil society advocacy groups such as Transparency International Bangladesh. To promote sustainable development, our programs continue to improve basic education, foster scientific cooperation, assist economic growth and trade, combat trafficking in persons and increase health services for women and children.

Sri Lanka and the Maldives

In 2003, peace talks that began a year earlier between the Sri Lankan government and the separatist Liberation Tigers of Tamil Eelam (LTTE) guerillas were suspended. By October 2003, the LTTE had proposed an interim administration in predominantly Tamil areas as a way to re-engage, but a standoff between the Prime Minister and President prevented consideration of their

proposals. In November 2003 the President suspended the Parliament. Elections called for April 2004 increased representation by the President's party, and brought the appointment of a new Prime Minister. The President has stated that talks with the LTTE are her top priority. Meanwhile, the ceasefire is holding, and an informal peace process continues, bringing increased interaction among the ethnic communities and growing trade and economic opportunities. As we press the government and LTTE to return to the talks, our programs are providing both an incentive to peace and a boost to reconstruction and reconciliation in war-torn areas. Our nationwide development and health programs support the government s economic growth and anti-poverty efforts, while our democracy programs promote human rights and political reintegration and reconciliation. Regional INCLE funds support law enforcement institutional capacity and reform, and counternarcotics coordination. We will not remove our designation of the LTTE as a terrorist organization until it has firmly and decidedly given up terrorism and such policies as the recruitment of children as soldiers. I should also mention the Islamic island nation of Maldives, where we are encouraged by the proposed sweeping constitutional changes designed to strengthen democratic institutions and human rights and head off radicalism.

Nepal and Bhutan

We have worked closely with the United Kingdom and India to support Nepali democracy in its confrontation with the Maoists. Our assistance includes military equipment badly needed by the army, economic and development assistance to address root causes of insurgency and anti-terrorism training for the army and police. While the government needs to be able to counter the Maoist armed threat, this conflict cannot be resolved solely through military force. The preservation of Nepal's system of constitutional monarchy and multi-party democracy is key to defeating the challenge. Political rivalries have undercut resistance to the Maoists, and the King and the parties must unify urgently to confront the insurgents. The King's recent appointment of Mr. Deuba as Prime Minister and call for elections within a year is a welcome development, but all must work harder.

In 2003, the Maoist insurgents in Nepal ended a seven-month ceasefire and resumed military attacks and terrorist activity, leading us to impose financial sanctions against the Maoists as a terrorist organization. The United States, India, the United Kingdom, and others stand with the government, but we also share the view that there is no military solution to the conflict. As we continue to provide security assistance for the government of Nepal, we are making our concerns known regarding suspension of the electoral process and numerous human rights abuse allegations against the government security forces and Maoists alike.

East of Nepal and between India and China is Bhutan a small country seriously pursuing a peaceful transition to a constitutional monarchy. It is in our interest to support this democratization process. Despite its small size, Bhutan, too, struggles against instability. During the past year, its military has taken action against Indian Maoist groups who had sought to use it as a base of operations against northeastern Indian states. We are encouraging both Bhutan and Nepal to resolve a long-festering problem of 100,000 refugees in Nepal who claim Bhutanese citizenship. This is a humanitarian problem that can and should be solved.

Other Issues of Regional Concern

As we pursue the above priority policy goals, our ongoing programs also address other issues of regional concern. Our diplomatic efforts and programs aimed at combating trafficking in persons have been refocused and intensified to raise the performance of South Asian governments in accord with criteria in the *Trafficking Victims Protection Act*. We are combating human immuno-deficiency virus and acquired immune deficiency syndrome (HIV/AIDS) throughout the region as well as in India, where the numbers are the largest. Corruption lies at the nexus of the

governance and economic failures in South Asia. Our development, democracy and law enforcement programs combat corruption by promoting transparency, accountability and efficiency, including through strengthened private sector, civil society and independent media involvement. Finally, we remain ever mindful of the plight of women throughout South Asia, and our programs across the board have integrated components to improve literacy, education, health, and economic and legal rights for women and girls.

I have only been able to touch our priority concerns about stability and security in South Asia. On the whole, while the region faces many challenges, I believe there is reason for confidence that the countries and people of South Asia will be able to build a secure, peaceful and prosperous future.

Fifty Years of Formal United States and European Union Relations and European Union Accession

By
Colin L. Powell,
Secretary of State

[The following remarks were presented at the reception in honor of fifty years of formal United States and European Union (E.U.) relation and accession, May 1, 2004.]

I often remark to my audiences and my colleagues that I never thought as Secretary of State that I would be working this closely with the European Union. I am a North Atlantic Treaty Organization (NATO) guy. I started my military career as a young second lieutenant in infantry in Germany along the Fulda Gap, and twenty-eight years later I went back to the Fulda Gap as a corps commander, and so I commanded forty troops at the Fulda Gap and I commanded 80,000 troops at the Fulda Gap.

And it was, you know, pretty consistent over that time. When I went to Germany in 1958 as a second lieutenant, they drove me up to the Fulda Gap and they said, "Lieutenant, you ever hear about the strategy of containment?" "Uh-huh, uh-huh." "Well, this is where it starts." "And you see that tree over there?" "Uh-huh." "You see that tree over there?" "Yeah, uh-huh." "Well, that's your zone, lieutenant." "And when the Russian army comes, stop it." "Do you understand?" "Uh-huh, uh-huh." I can handle that.

And twenty-eight years later when I went back, there was a tree that was a little farther to the left and farther to the right, but it was the same strategy over a twenty-eight-year period of time, even though I had not gone Vietnam for a couple years; I served in Korea. Everything was quite familiar when I got back to Germany and to the Fulda Gap. And now I have discovered that the Fulda Gap is really now a store that sells Levi's and other kinds of impedimenta. It is a tourist attraction.

And I was privileged to be part of that Administration, the Reagan Administration, and then, of course, the Bush 41 Administration. When we saw Gorbachev come along with glasnost and perestroika and we watched the end of the Soviet Union. And at that time my Russian colleagues I am now Chairman of the Joint Chiefs of Staff would come and visit me and say, "Well, you know, the Soviet Union is over, the Warsaw Pact's gone, and therefore NATO has no further purpose, so why don't you get rid of NATO? We got rid of the Warsaw Pact, and we'll start all over with something new."

And I said, "You know, it is a great idea, I would love to do it. The only trouble is, people keep trying to join NATO and it is hard to shut down a club when people are trying to get in." So, amazing — I mean, think of it. This grand alliance that was created at the end of the 1940s to fight Soviet imperialism, Soviet attempts at hegemony over all of Europe, when it finally got into the late 1990s, it was not getting smaller in the absence of this reason for being in the first place, it was getting bigger. And who was joining? Those we had been fighting or getting ready to fight all those years.

And I have great fun with my Eastern European colleagues. The first time I ever got them all together Hungary, Bulgaria, Romania, Czech Republic, Slovak Republic all together, the Baltics, the Balkans, everybody was there, and they were in a big room in a big circle and we were all talking. And I gave my stock speech and then I listened to all these nations talk about freedom and democracy and, you know, I stared at them. And when it came back to me again I asked for the floor again and I said, "I cannot tell you how moved I am by your presentations, because just nine years ago you were all on my target list." And here we are. And amazingly this grand

alliance continues to grow. Why does it grow? Because it is connected to North America. Not only is there a European component to the expansion of NATO, but it is connected to North America. It is connected to Canada and the United States, and they want to be part of a transatlantic community.

Now, what I have discovered over the last three years is that my horizon had to expand because it is not just the twenty-six nation NATO alliance that is so important, but just as important is the European Union. We are not a member of the European Union, but I will tell you what, I spend more time with my European Union colleagues and working on issues that are in common between the United States and the European Union than I do with my NATO colleagues, even though I'm not a part of this.

Whether it is in the Quartet deliberations we had the other day, working on Middle East issues, all the other things we do, I am on the phone constantly with Javier and with Chris Patten and whoever the Presidency is that particular time.

I think that expresses once again the necessity of having strong transatlantic relations. We are a European power, a European nation just as much as we are a North American nation. We are linked in so many ways: by history, by tradition, by commerce, by shared values. And those shared values will continue to bring us closer and closer together.

I really did want an opportunity to encourage this celebration, and I hope that you enjoy yourself here because, as I think I have demonstrated, it is something I feel very, very strongly about. We are here to celebrate, really, two related accomplishments: the 50th anniversary of the establishment of an official European Commission presence here in Washington, D.C. and the historic enlargement of the European Union just six days ago.

I say related accomplishments because American support for the project of European integration, from its very beginnings, has been critical to the European Union's capacity to form, to take shape, to succeed, and now to expand. Every American President, from Harry Truman to George Bush 43, has supported Europe's great project, this grand project, and we have done it correctly and rightly, for the very best of reasons. The United States should not claim too much credit for the European Union's accomplishments because European Union expansion is, above all, a European achievement. And I know that it took an enormous amount of work by all hands to bring it about. So congratulations to all of our friends across the pond for what you have accomplished.

But no serious observer would discount the broad shaping role that the United States has played in Europe over these last five decades, not only in security but especially, I might add, and say, in the area of economics. No serious observer could imagine the European Union's May 1st expansion, except for the triumph of liberty in the Cold War, which created the conditions for such expansion. And no serious observer could begin to account for that triumph without reference for the role played by the United States.

As I mentioned, we, too, have been and will remain a European power, and we, too, have worked for the European Union's achievements. That is why the European Union's success is America's success, and that is why we Americans stand second to none in claiming our right to celebrate with you this afternoon. Actually, this celebration is an extended one, as it should be. I was fortunate to be in Brussels in November with Ambassador Schnabel, who is with us today, as we marked the 50th anniversary then of the first U.S. diplomatic representation to the European coal and steel community. And I recognize, as I look around the room, several faces from Brussels who were there in November and who have followed this rolling celebration now to Washington, D.C. And, you know, if I search hard enough, I am sure I can find enough auspicious anniversaries related to this 50-year period so you could keep having parties day after

day after day. I do not mind. I like a party. I also noticed all of you got your drinks before I showed up.

But I would be remiss if our assembly today did not connect us back to our achievements. What, after all, are we really celebrating? Full employment for diplomats? Yes. Matter of fact, yes. There is nothing wrong with that. I approve. But, clearly, we are doing more than just that. We are using particular events, some fifty years old, some just a few days old, to stand for something much broader, something much more significant. What we are really celebrating are alliances of the heart, both within Europe and between Europe and America. We are celebrating aspects of a common civilization, one whose roots go back millennia, whose expressions are gloriously diverse, yet whose deepest principles are universal. We are celebrating our confidence in the future, not just in Europe and not just in the transatlantic world but in the whole world. Above all, we are celebrating the triumph of hope. For who would have guessed in previous centuries that a continent for so many hundreds of years had been awash with blood and war would now be on the cusp of a Europe truly whole, free, and, we pray, forever at peace?

There is still a ways to go before we reach that final objective, that final goal. The European Union, we hope, is not yet finished expanding, but with this latest expansion and with unstinting American support for it, we are now past the tipping point. We will achieve that goal. We can see that Europe whole, free and at peace right ahead of us. We can almost taste it, and so can other European peoples who long to be part of this great crusade of yours. That is good for Europe, good for America. That is good for the world.

If I may, let me leave you with one last thought: Actually, not my own thought, but the thought of the man for whom this room is named, the very remarkable Benjamin Franklin. This is, perhaps, the most beautiful room in this Department and the most beautiful room, certainly, on this floor. And I hope in the course of the evening you will wander into the other rooms, all named after one of our founding fathers. This is where we have special occasions such as we have tonight. I do the Kennedy Center Honors here where I give awards to the most important artists in American life. I receive heads of state here. We have lunches for heads of state and foreign ministers. We recognize our young people who we are swearing in to the Foreign Service. I swear them in here to remind them of the history and the values that are represented in these rooms and represented in the lives of our founding fathers.

So this particular room, the best of them all, the most beautiful of them all, is named after Mr. Benjamin Franklin. During the heady days of the American Revolution, Ben Franklin pleaded above all for unity among the American colonies. "United we stand, divided we fall," he warned. "If we do not hang together," he then said, "we most certainly will hang separately." Fortunately, America heeded Mr. Franklin's advice and went on to form a more perfect union. More perfect. Not perfect yet, but getting more perfect with each passing day. Unfortunately, a later generation had to fight a terrible war to preserve that union and keep us moving down that path for the more perfect union.

Europeans, too, have fought their share of terrible battles before reaching their day of unity. We share this sobering experience in common. And that common experience in building our respective unions ought to recall Mr. Franklin's warning to all of us within the transatlantic partnership. United we, too, will stand, and stand forever. Divided we may or may not fall, but we will certainly saddle ourselves with avoidable burdens.

When Europe and America work together, there is no difficulty that cannot be overcome, no challenge that cannot be brought to heel. We do not always agree on particulars. We do agree on our common purpose in advancing human dignity the whole world over; and we do agree on our essential means to do it: Freedom above all under the rule of law.

With so much essential in common, posterity will never forgive us if we ignore Mr. Franklin's advice. But we will not ignore his advice, I am sure. And so I am prepared to predict that we are bound to celebrate our common achievements together again many times, stretched long and far into the future. But this celebration is now back in the hands of my good friend, Al Larson. I congratulate you on this celebration of a remarkable partnership, a remarkable achievement, the presence of the Commission here, for the past fifty years.

SECURITY ASSISTANCE COMMUNITY

John Auffrey - Rest in Peace

The security assistance community suffered a tragic loss on May 23, 2004, when Mr. John Auffrey was killed during a robbery of his hotel room in Monrovia, Liberia. Mr. Auffrey, based out of the U.S. Embassy in Windhoek, Namibia, was visiting war-torn Liberia as part of a U.S. government delegation to assess the establishment of a new Liberian national army. He was stabbed to death when a group of unidentified men attempted to rob him in his hotel room. Mr. Auffrey, age 44, was the security assistance program administrator at the American Embassy in Namibia. He was a two-time Defense Institute of Security Assistance graduate, from both the Overseas Course in 2001 and the Advanced Training Course in 2003.

John Auffrey was born in 1960 in Ionia, Michigan and moved with his family to Colorado in 1968. He graduated in 1982 from Colorado College in Colorado Springs where he studied Russian. After graduation, he worked as a county administrator in Colorado, served in the Peace Corps in Sierra Leone, and taught school in Michigan. In 1992, he accepted a position as a social studies teacher at Windhoek International School in Windhoek, Namibia. While there, he met and married his wife Helen Brandt, a Namibian citizen, who was also a teacher and noted artist. During his tenure, Mr. Auffrey received special recognition in a national teachers competition for his first-place essay on the Namibian constitution. In 2001 he was hired at the U.S. Embassy in Windhoek as the security assistance officer, under the European Command guidance.

Because of suspended programs in Namibia, the European Command asked Mr. Auffrey to stand up its security assistance program in Sao Tome earlier this year, a mission which he accomplished superbly. In May, he became one of four civilians who accompanied thirty U.S. military personnel to Liberia to set up a new Office of Defense Cooperation in support of the European Command "Liberia Train and Equip" program. Mr. Auffrey was staying at the Mamba Point Hotel in the diplomatic enclave of Monrovia when assailants entered his hotel room, robbed him of valuables, and killed him. Mr. Auffrey's body was later flown by a United States Air Force aircraft back to Windhoek, where a memorial service was held.

John Auffrey was widely regarded by friends and acquaintances as a friendly, likeable, and professional security assistance officer. His sister, Mary Auffrey of Golden, Colorado, said of her brother, "He was generous, bright, nonjudgmental, a guy who worked for peace and had his life ended in violence." In addition to Mary, Mr. Auffrey is survived by his wife Helen, his parents, five other sisters, and two brothers.

Both the Auffrey family in Colorado and the U.S. Embassy in Namibia have reportedly been swamped with flowers and sympathy cards. His family has requested that any further expressions of condolences be through donations to the HIV/AIDs center which John helped (via the Humanitarian Assistance Program) at the following address:

U.S. Embassy, Namibia
Attn: De Ark c/o Mr. Robert Kennedy
14 Lossen Street
Auspannplatz
Windhoek, Namibia

EDUCATION AND TRAINING

Global Master of Arts Program Well Underway

In March 2003, recognizing the need to provide its key international affairs personnel with the political, economic, and cultural tools they need to find better, more innovative solutions to the challenges in global security, the Defense Security Cooperation Agency (DSCA) and the Fletcher School of Law and Diplomacy at Tufts University launched a special section of the Global Master of Arts Program (GMAP) for Department of Defense's civilian and military staff. Global Master Arts Program combines three two-week long residencies with 33 weeks of internet-mediated study. The current class is represented by participants from the Air Force, the Navy, and the Army. Understanding that real solutions to any problem require the collaborative effort of all interested parties, DSCA also asked Fletcher to open the program to foreign government officials, aid workers, development specialists, defense contractors, and other professionals whose work is related to or affected by issues of security.

Lieutenant General Tome H. Walters Jr., former Director of DSCA, spearheaded this initiative. The memorandum of understanding, signed by General Walters and the Fletcher School's Dean Stephen Bosworth, describes the anticipated result:

> The goal of this educational approach will be a cohesive team of international affairs professionals from various organizations, backgrounds and cultures working, learning, and networking to reach their combined goal of earning an advanced degree in International Affairs. The benefit to the international affairs community as a whole will be employees with better knowledge, skills, and personal networks leading to more efficient and effective solutions to challenges facing their respective organizations.

The Global Master of Arts Program II's interdisciplinary curriculum includes courses in Leadership and Management, International Negotiation, International Politics, International Finance, Transnational Social Issues, International Trade Economics and Investment, Security Studies, and International Organizations.

The Global Master of Arts Program II draws its faculty from the same world-class group of thinkers and practitioners that lead GMAP I and the Fletcher School's on-site degree programs. Their experience and expertise in the fields of law, politics, economics, and security studies is unsurpassed.

The current GMAP II students, began their academic year with a reading period in March 2004. During the initial residency on the Tufts campus, they balanced intensive classroom time with lectures by General Dr. Klaus Reinhardt, the Former Commander of Kosovo Force, His Excellency Daniel Ayalon, Ambassador of Israel to the United States, and Robert Kaplan, correspondent for *The Atlantic Monthly*. Since then, they have alternated two-week residencies with internet-mediated coursework. They will complete their program requirements and thesis by March 2005.

Group photo of Global Master of Arts II students.

Current students had the following to say about the program:

> The GMAP II experience made an interminable impact on my perception of the world past, present, and future. The residency and caliber of guest speakers, the readings, lectures, videos and discussions all opened my eyes and caused me to view world events as well as job-related policy changes and directives differently. Seeing how the different areas of international studies relate to each other really brought the global perspective together for me even in my daily work. Every sacrifice was worth the reward of global education, friendships, and a broadened viewpoint. I formed friendships some of which I know will last a lifetime, and I have already called on some of them for job-relation issues. Dean Nutter and The Fletcher School have broken the code for this type of distance learning program. GMAP II is exceeding abundantly above anything I could have imagined, and I am honored to have been a participant.
>
> Program Management Department Head,
> Naval Education and Training Security
> Assistance Field Activity

> GMAP II will enable me to anticipate and respond to the uncertainties of a changing social, political and economic world. The in-depth understanding of the international arena acquired through GMAP will assist with effective decision-making in just about every realm.
>
> Program Manager for the U.S. European Command

> GMAP II, with its DoD specific component, is providing me with an invaluable education and network to help support my role at Pratt and Whitney. The interaction between public and private sector professionals is enhanced through the phenomenal academic leadership of the Fletcher School. The program's focus on real world issues like "transformation," and "globalization," is providing immense benefit. The investment and return to my company is well served by my enhanced knowledge and

understanding of our shrinking world, not to mention the contacts and resources, that will continue to make an impact after the program's completion.

Pratt and Whitney,
Military Aftermarket Services Specalist

We have not yet completed the first term but already the diverse and thought provoking program content, faculty that are world class yet extremely easy to talk to and, most importantly, learn from and the superb caliber of my classmates – especially my teammates have provided a perspective that has already proven useful in my advice to senior principals within the United States government. This program empowers one to use a multi-disciplinary macro-view approach to many of the issues facing those of us in government service today. My previous military experiences and training were extremely valuable but relatively tightly focused. GMAP has put many more tools in my toolkit.

Deputy Chief, Pacific Division, Deputy
Undersecretary of the Air Force, International Affairs

Recruitment of DoD sponsored applicants is coordinated through the Army, Navy, Air Force and Defense Security Cooperation Agency. Recruitment for the next intake (Class of 2006) will begin in January of 2005. For more information on the application process, please visit: http://www.disam.dsca.mil/GMAPII/GMAPII.htm.

Applicants from other U.S. government agencies, foreign governments, international organizations, and the private and non-government sectors should apply directly to the Fletcher School's GMAP office. Inquiries can be made to Ms. Alice Wei, Program Assistant at (617) 627-2429 or e-mail address alice.wei@tufts.edu. Interested candidates from these groups are highly encouraged to the Class of 2005 (beginning in March 2005). Applications are currently being accepted and will be reviewed on a rolling basis until January 2005.

Case Execution Management System - A New Direction

By
Kathy Robinson
Defense Security Cooperation Agency

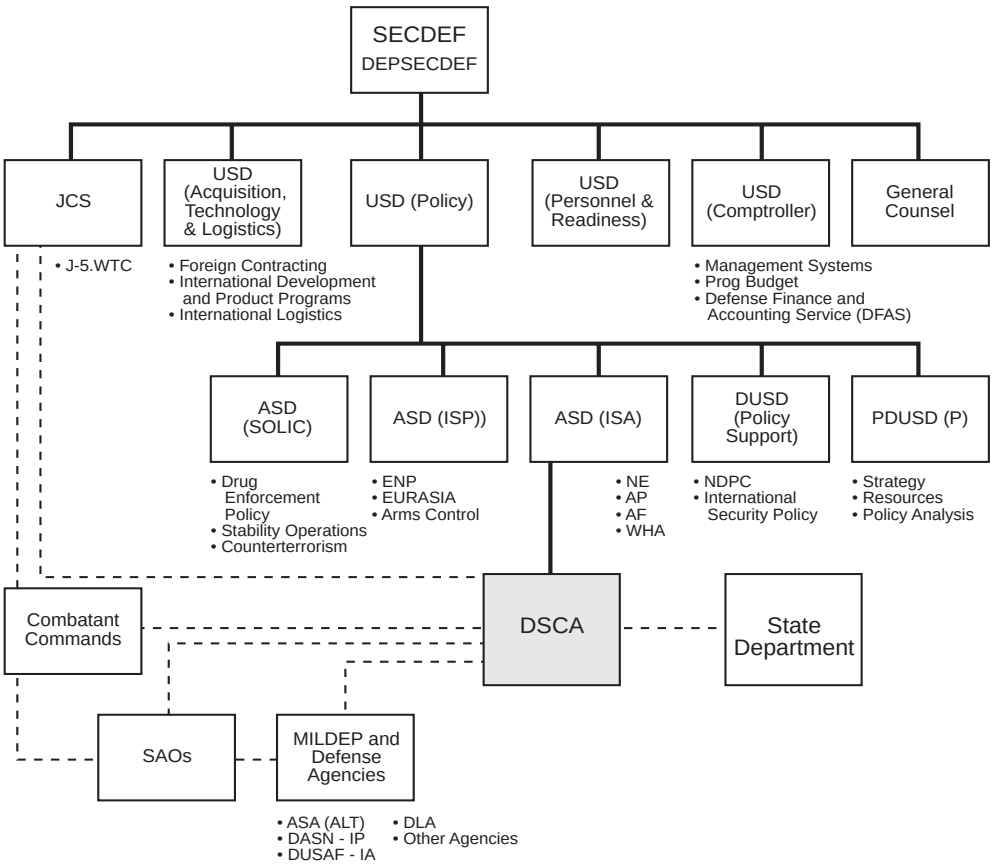
Introduction

Security assistance is a group of programs, authorized by law, that allows the transfer of military articles and services to friendly foreign governments. Security assistance transfers may be carried out via sales, grants, leases, or loans, and are authorized under the premise that if these transfers are essential to the security and economic well-being of allied governments and international organizations, they are equally important to the security and economic interests of the United States (U.S.). Security assistance programs support U.S. national security and foreign policy objectives.

Organization

The Defense Security Cooperation Agency (DSCA) is a separate agency within the Department of Defense (DoD) under the direction, authority, and control of the Under Secretary of Defense for Policy.

Department of Defense Organization Chart For Security Cooperation



DSCA directs, administers, and supervises the execution (to include closure) of all security assistance programs for the DoD. DSCA is the DoD focal point for government-to-government arms transfers, budget, legislative, projections, forecasting, and other security assistance matters.

DSCA conducts international logistics and sales negotiations with foreign allies, provides financial management, develops and implements security assistance policy, and assists U.S. industry in exporting military equipment and services.

Responsibilities

While DSCA is the DoD focal point for security assistance, the military departments (MILDEPs) execute the programs. Case execution is the core phase of the foreign military sales (FMS) business, and is critical to the mission of DSCA. It includes detailed logistics and financial business processes to support the execution of cases, the ordering and delivery of the defense article or service to the international customer, and the accompanying payment.

A case manager at the MILDEP is responsible for the logistics and financial condition of the case. A case manager's charter is to ensure the customer's requirement is delivered as ordered, in a timely manner, within the Letter of Offer and Acceptance (LOA) value and certify the case for closure within a reasonable period of time. Standard case execution functions performed during this process include, but are not limited to, planning and organizing the execution tasks, directing appropriate funding, tracking funds distribution, and managing subsequent order processing, fulfillment, delivery reporting, case payment and disbursement, and closure.

Legacy Systems

The existing case execution information systems used by the MILDEPs are aging, expensive to maintain, and fail to meet many of the current user requirements. These requirements include providing timely and accurate tri-service multi-country information not only to various offices within the Department of Defense, the Department of State, and Congress for key decision-making, but also to the security assistance leaders for more effective management in support of the security assistance mission. The requirements also include providing international customer satisfaction in an increasingly complex global environment. All of these systems use the Military Standard Systems (MILS) such as Military Standard Requisitioning and Issue procedures (MILSTRIP), Military Standard Billing System (MILSBILLS), Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP) or a combination thereof.

The current unclassified case execution information systems (independent single service systems) are:

- The Centralized Integrated System for International Logistics (CISIL) – Army (Developed in 1976);
- The Management Information System for International Logistics (MISIL) – Navy (Developed in 1976);
- The Security Assistance Management Information System (SAMIS) – Air Force (Developed in 1983);
- The Case Management Control System (CMCS) – Air Force (Developed in 1989);
- In addition, there are other security assistance satellite systems involved in case execution. These systems augment the technology available in the legacy systems by adding a web-based capability, the ability to order and/or repair nonstandard parts for FMS customers, and other special services listed below.
    - Simplified Nonstandard Item Acquisition Program (SNAP).
    - Parts and Repair Ordering System II (PROS II).
    - Air Force Security Assistance Center (AFSAC) On-Line.
    - Navy E-Business Suite.

•• Supply Tracking And Reparable Return/Personal Computer[1] (STARR/PC).

Initially the systems were destined to be replaced by the continuation of the development of the Defense Security Assistance Management System (DSAMS), which is the system used throughout the community to prepare and implement foreign military sales LOAs. However, in October 2000, DSCA cancelled further development of DSAMS for case execution, thus requiring the MILDEPs to continue using their existing legacy systems until an alternate plan was established.

The legacy systems suffer from the classical problem of being unique, outdated, and not capable of combining data into a single source of information. Currently, each MILDEP relies on separate systems and internal data that are tailored specifically for its specific case execution needs and in most cases are not compatible or interoperable with the processes used by another MILDEP or the international customer. Legacy security assistance case execution systems require improvements to support the security assistance program manager, case manager, executive level oversight, and international customer needs. There is a lack of DoD-wide standardized case execution processes, standardized data, accessibility to a shared database, and provision of a total country (tri-service) view. They do not adhere to DoD technical architectures and standards that are mandated by the DoD Technical Architecture Framework for information management. Also, they do not take advantage of modern, commercially available technology and have become very difficult and costly to maintain. In particular, most of the case execution systems reside on hardware and use software developed with 1970s through 1980s development techniques and languages, and lack adequate system documentation. These limitations will become progressively more constraining and costly over time. For these reasons, the legacy systems are being replaced and will not migrate to the new Defense Logistics Management System (DLMS).

A New Direction

In January 2001 DSCA outlined a new effort known as the Case Execution Management Information System (CEMIS), the development of which followed a disciplined formal acquisition process in accordance with the DoD Directive 5000.1 and DoD Instruction 5000.2. Throughout fiscal year 2002 requirements teams gathered on a regular basis, with representatives from the MILDEP FMS community whose expertise covered all facets of case execution, logistics, acquisition, financial, systems development, and overall corporate knowledge. The teams identified requirements for CEMIS ranging from those that currently exist and should be retained for CEMIS, to new requirements needed to improve and enhance service to our international customers, as well as meet the increased demands brought about by the continuously-evolving automation needs throughout the world. One of the first requirements identified was the need for CEMIS to be built in accordance with the latest data exchange standards. This was also required to be in compliance with DoD Directive 8190.1 that mandated no new systems would be built in the MILS. Additionally, the new requirements could never be satisfied within the confines of the 80-character MILS format.

Concurrent with CEMIS requirements development, the security assistance community was also gathering data to design a system that would be a short-term solution prior to CEMIS deployment. This system became known as the Security Cooperation Information Portal (SCIP), drawing in and consolidating data from the aforementioned legacy systems plus DSAMS. Since

1 STARR/PC was designed using both MILSTRIP and MILSTRIP-like (e.g., XD) transactions that need to be mapped in the Defense Logistics Management Standards. STARR/PC is a personal computer-based system for FMS customers to use for requisition and Supply Discrepancy Reporting inputs and processing, and also contains freight tracking capability.

SCIP uses current legacy system data, SCIP is also built in MILS. The MILDEP websites will eventually be collapsed into SCIP. Once CEMIS achieves DLMS compliance, SCIP will also convert to DLMS.

The CEMIS Solution

After the teams completed the requirements identification process at the macro foot level, an analysis of alternatives was conducted to determine the best way to meet the requirements that the teams had developed. After a thorough analysis of six different alternatives, DSCA chose the Re-Host and Modernize option.

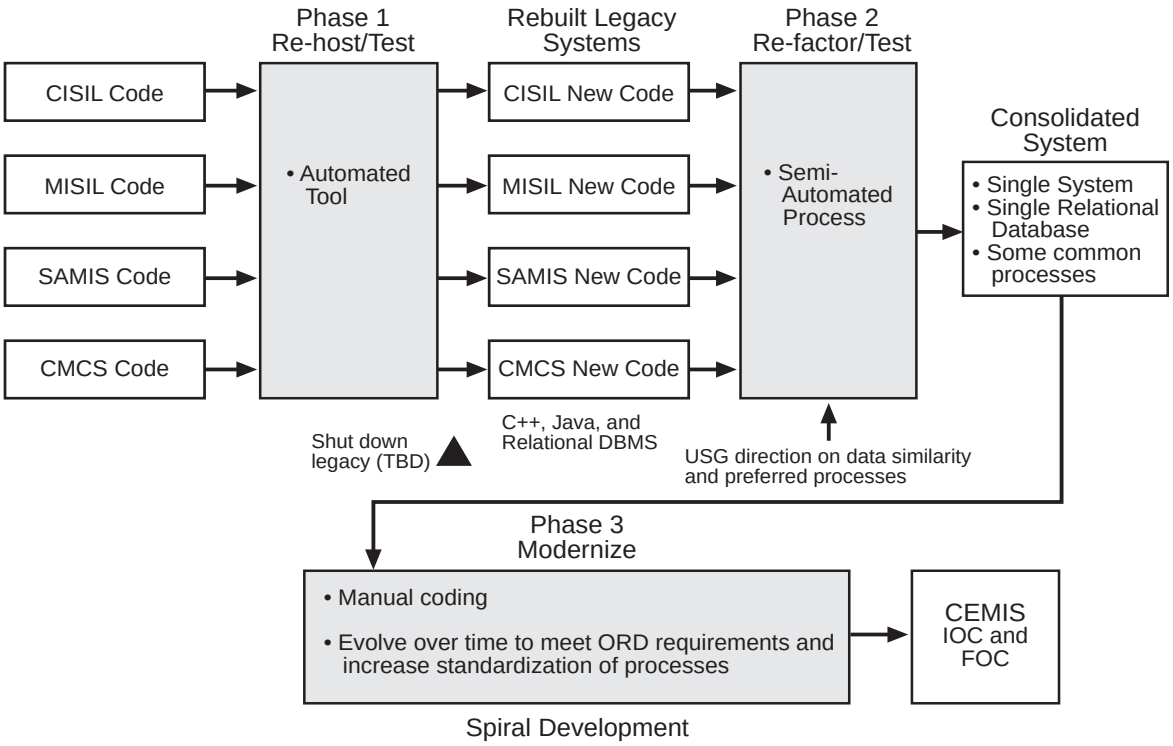
The CEMIS re-host effort translates/converts existing code and functionalities from the DSCA portfolio of legacy case execution systems into a single case execution system, utilizing a single Oracle database and operating on a modern platform with modern language(s). This methodology, distilled from six alternatives studied in the CEMIS analysis of alternatives (AoA), preserves the existing business rules while positioning the security assistance community for future enhancements, to include the migration to the DLMS. The single system, CEMIS, is envisioned as a business management information system for planning, organizing, directing, and controlling security assistance case execution. The system will integrate case execution business practices with domestic acquisition, logistics, and financial infrastructures, and will provide program status and information to the security assistance global community. CEMIS will facilitate the transition of the legacy security assistance systems to a single data-managed database system using standardized processes and shared data to accommodate a total community profile. CEMIS compliance will overcome the legacy systems limitations, and will optimize, streamline, and integrate the unique automated systems, subsystems, and databases into a single system for use across all three MILDEPs. It will improve the corporate decision-making process and end-user productivity through reduction of redundant databases, data transmission, and redundant tasks.

As an overview, the re-host portion converts the current legacy systems from their existing languages and databases (shown below) into new, more modern, languages (Java or C++) and a relational database such as Oracle. Phase One of the Re-Host effort consists of a 4 to 4 simultaneous conversion of the legacy systems into the new language and database.

Service	System	Languages	SLOC	Database	Hardware
Air Force	SAMIS	Natural 1, ANSI Cobol 85	1.5M	ADABASE	OS390/MVS
Air Force	CMCS	ANSI Cobol 85, JCL, FOCUS, REX (MVS)	1.5M	FOCUS	VM
Army	CISIL	ANSI Cobol 85, JCL, M204	1.5M	Flat Files (VSAM, M204)	
Navy	MISIL	ADSO, Assembler, ANSI Cobol 85	1.5M	IDMS	OS390/MVS

The source code will be translated from the four legacy case execution systems, containing multiple languages and different database, to four case execution systems using the same target programming language(s), database management system (i.e., Oracle) and operating in the same-targeted environment. Target date to begin is fiscal year 2005.

The Re-host and Modernized Three-Step Strategy



Once the source languages for the four legacy case execution systems have been successfully translated and converted to four systems with the same source language(s), database architecture and hardware platform, phase two, begins. The four systems will be consolidated into a single case execution system. This consolidation phase will include re-factoring (eliminating, replacing, and rewriting code) to improve the software architecture and design, code efficiency and maintainability. The result will be one fully integrated system that will be used by each MILDEP, thereby standardizing many of the processes each MILDEP uses for case execution. Target date to begin is fiscal year 2006.

Transition to DLMS

After successful completion of CEMIS Re-Host phases one and two, the modernization effort will begin. It is during this phase that the DLMS ASC X12/XML migration will take place. One of the primary reasons for conducting the re-host project is to position us for the modernization phase, and allow us to add the new capabilities identified during the CEMIS requirements determination phase. This is an extremely important body of work that will bring us into compliance with the DLMS mandate. By this time the individual MILDEP legacy systems will have been turned off and completely replaced by one integrated, standardized system. Other business functions will benefit from conforming to DLMS ASC X12/XML such as foreign military sales transformation and business process reengineering initiatives, freight tracking capabilities, and end use monitoring requirements, to name just a few. Additionally, as the critical feeder system to MILDEP core accounting systems, CEMIS will include internal controls and financial reporting as specified in *A Guide to Federal Requirements for Financial Management Systems* that permits the security assistance community to be fully compliant with the statutory requirements of the *Federal Financial Management Improvement Act* (FFMIA), the *Federal*

Managers Financial Integrity Act (FMFIA) and *Chief Financial Officer Act* (CFO). Target date to begin is fiscal year 2007.

Training

As indicated above, CEMIS Re-host will take place in several phases before concluding in the phase known as modernization. Initially there will be minimal training required for the CEMIS development staff in DLMS techniques and format usage. The re-host process will not alter current business logic or processing code, and it is intended that all internal and external interfaces will remain as they are today. As a result, the need for a continued translation capability will continue until such time as CEMIS enters the modernization phase, and interfaces are written in a DLMS-compliant format. Approximately one year prior to the beginning of the modernization phase, CEMIS developers will be properly trained in the development and use of DLMS formats, and will be made aware of existing translation code available within the Department of Defense, predominantly at Defense Automatic Addressing System Center, to aid in writing new DLMS-based code.

Testing

CEMIS testing will take place in accordance with a Test and Evaluation Master Plan (TEMP) currently under development specifically for the CEMIS project. Test transactions will be established for each condition, which cause the creation of DLMS transactions that will pass externally. Using traditional testing methods, the CEMIS development team will define transactions, establish the necessary pre-established conditions, and confirm individual test results.

Foreign Military Sales - Unique Aspects

Security assistance is a key policy tool for our national security objectives. It strengthens alliances and partnerships through close relationships with more than 180 customer countries and international organizations, having varying degrees of automation capability. Few, if any, international customers are currently using sophisticated X12 or XML transactions. The majority employs MILS-driven systems. While the more technically advanced customers will likely migrate to DLMS, and many are already transitioning to more sophisticated Enterprise Resource Planning systems, a great many will continue to use MILS for various reasons. Therefore, even when the U.S. systems migrate, communication with the international customer systems, regardless of the means of exchange used, must continue.

In order to do so, it is critical that translation capabilities continue between foreign military sales countries and DoD organizations, either via the Defense Automated Addressing System Center (DAASC) or some other means. The Defense Security Cooperation Agency and the MILDEPs will encourage all international customers to transition to the new formats. In fact, over the past several years, DSCA has already briefed several international customer groups on the reduced level of data they will receive if they choose to remain in MILS. However, in the end, it is the customers'decision.

Summary

The security assistance community welcomes the transition from MILS to DLMS for the numerous benefits and increased capabilities associated with the migration. It would be impossible to satisfy the new requirements identified for CEMIS using the MILS format.

After migration to DLMS, CEMIS will fully support DoD security assistance programs by incorporating standardized business processes and state-of-the-art data management tools to utilize resources more efficiently and effectively. It will incorporate flexible, state-of-the-art data management tools to accommodate changing business processes throughout the systems life

cycle. Further, CEMIS will provide to the security assistance community (to include international customers) greater visibility of, and access to, case execution performance information. It will be an integrated system that plans, organizes, directs, controls and measures the acquisition, delivery, and funding of foreign military sales case material and services, and related security assistance programs. The Defense Security Cooperation Agency will oversee this plan. Below are the point-of-contact, organization name and mailing address, phone and fax numbers, and email address):

Defense Security Cooperation Agency Mailing Address

Defense Security Cooperation Agency
201 12th Street
Arlington VA 22202

DSCA Points of Contact:

Kathy Robinson (DSCA/Policy Plans & Programs Directorate)
Phone: 703-601-4368
Fax (703) 604-6540
E-mail: kathy.robinson@dsca.mil

Tom Sippel (DSCA/Information Technology Directorate)
Phone (717) 605-9295
Fax: (717) 605-9315
E-mail: tom.sipple@dsadc.dacs.mil

The Defense Institute of Security Assistance Management Expands Their Website to Promote International Affairs Workforce Professional Development

By
Lieutenant Christopher Krolikowski, USN
Defense Institute of Security Assistance Management

Making a wrong decision is understandable.
Refusing to search continually for learning is not.
Philip Crosby, Reflections on Quality

In recent years, the Defense Security Cooperation Agency (DSCA) has established a number of programs to help advance the professional skills of the Department of Defense's (DoD) International Affairs workforce. On-going initiatives include the Global Masters of Arts Program (GMAP) Tufts University's Fletcher School; Level I, II, and III Certification requirements; and the Military Departments' Internship Programs. These enterprises were put in place for DoD personnel to improve their knowledge, skills, and personal networks in order to find quick and effective solutions to the challenges of an ever-changing world international affairs arena. To facilitate the professional development opportunities presented by DSCA, the Defense Institute of Security Assistance Management's (DISAM) has added two new features to its website.

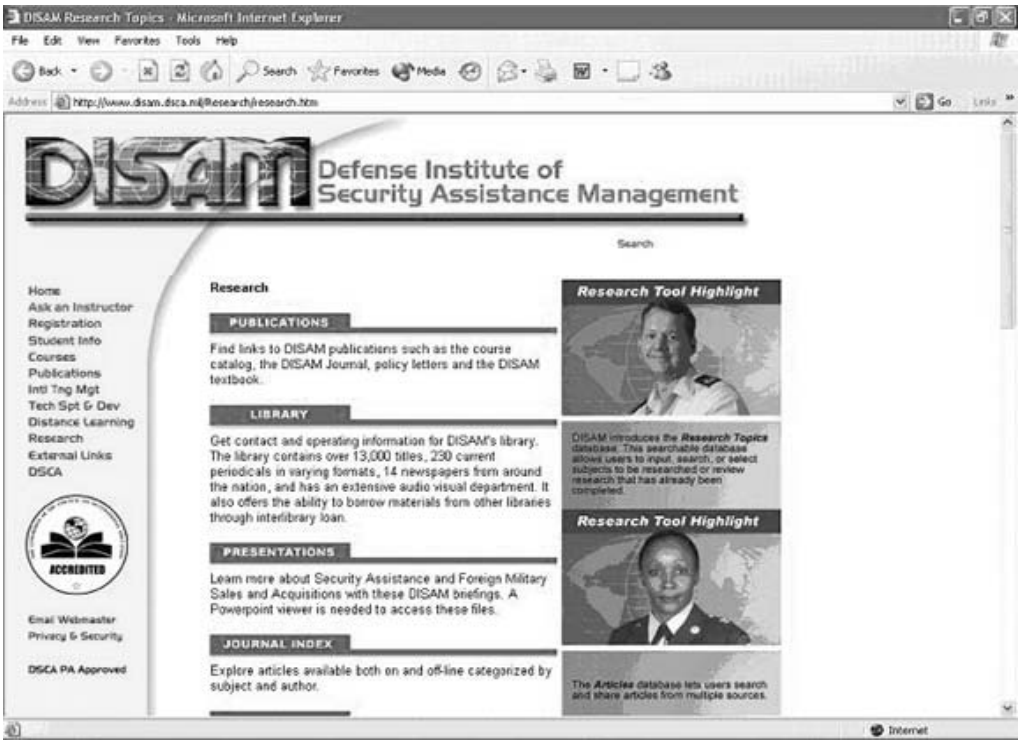


Figure 1. The DISAM Research Webpage

When accessing the DISAM website at http://www.disam.dsca.mil and clicking on the research link, a new menu appears listing the available information for use, such as publications and regulations, periodical listings, DISAM course presentations, and the ever useful Ask an Instructor database. All of these features have been present and utilized often, but DISAM has added two new facets for users; the ability to submit research papers and published articles for

others to view and make use of, as well as the ability to submit, search, or select an international affairs topic for comprehensive research. The goals of the new features are to aid in the professional development of security assistance personnel and foster an atmosphere of education and research within the field.

The Articles database allows users to submit, search, and share published and unpublished articles of interest in the security assistance community. Each article has a summary for easy review and is searchable by several elements including keywords, author, and publication. Some current articles that can be found are a Department of State briefing on Human Rights, Foreign Policy Implications of the U.S. Intervention in Somalia, and the Navy's Case Execution Performance Tool (CEPT). The articles come from many sources, including the *DISAM Journal*, United State's government press releases, the *Tufts Journal of International Affairs* and other credible University and non-governmental publications. This database is intended to be a tool to link the security assistance workforce with the relevant publications that discuss current world issues and their impact on international affairs.

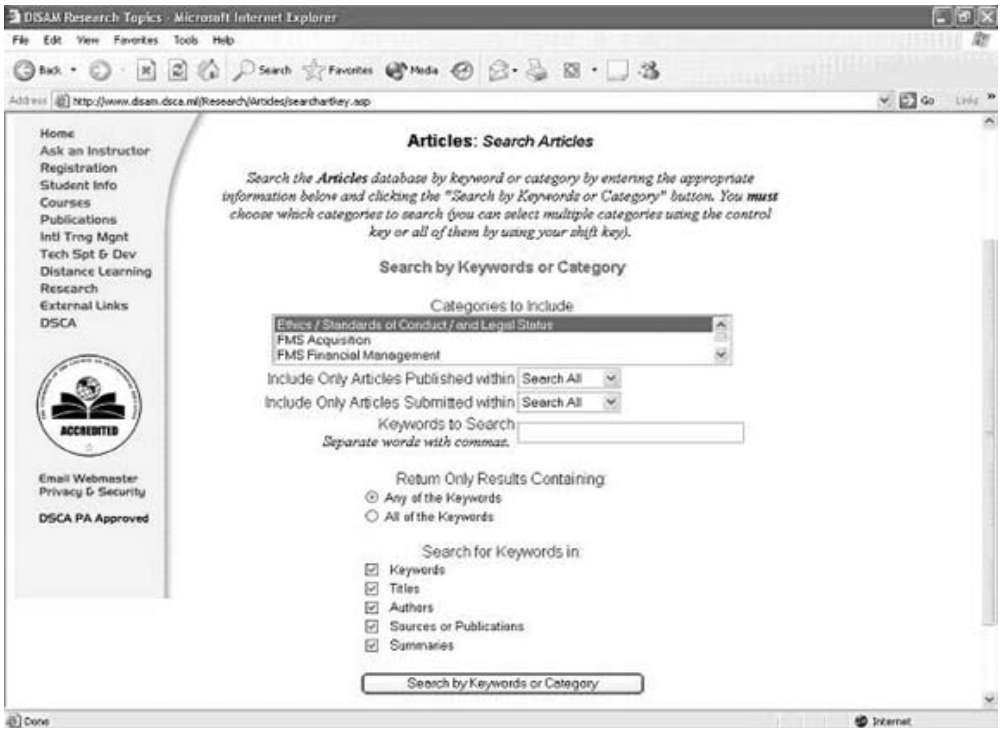


Figure 2. Articles Database Search Webpage

Users have the ability to input an abstract for International Affairs colleagues to research. Users can also search and select one of these abstracts on which to conduct research. Additionally, website browsers can explore research that has already been completed. Ultimately, the database is the conduit between researchers and desired research topics, providing a place to exchange in-depth analysis and research in the international affairs arena. Current abstracts available for research include security assistance organization (SAO) entitlements, the Impact of the Informational Program for International Students, and U.S. Army International Programs Reorganization. It should be noted that while DISAM maintains the research database to facilitate studies on topics of interest to the international affairs community, neither those who submit topics to be researched, nor DISAM, are to be considered research sponsors or advisors unless prior coordination has been accomplished.

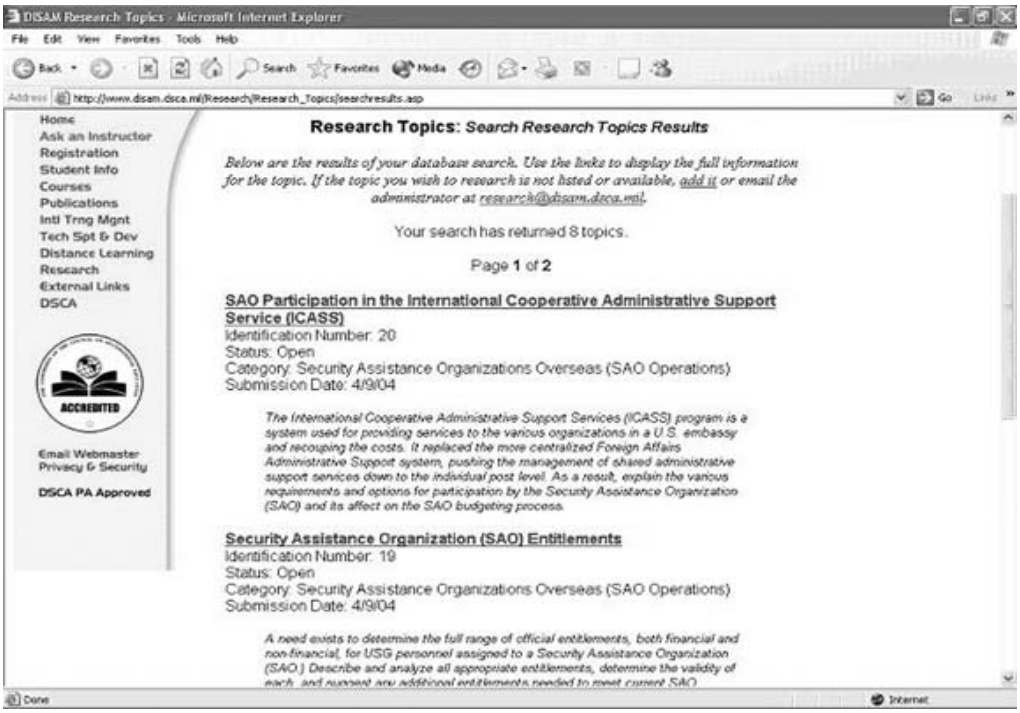


Figure 3. Research Topics Database Search Results Webpage

By utilizing the resources from various organizations, backgrounds, and cultures submitted to the website, international affairs professionals can expand their knowledge base and broaden their expertise in the general processes of international affairs. The ultimate vision of the new databases is to improve the overall quality and professionalism of the Department of Defense's international affairs workforce through continuous learning and shared education.

About the Author

Lieutenant Christopher Krolikowski is an instructor and the research database administrator at the Defense Institute of Security Assistance Management. Upon graduation from Tulane University in 1999, he was commissioned as a Surface Warfare Officer in the United States Navy. Prior to DISAM, LT Krolikowski served as Ship's Navigator, USS HIGGINS (DDG 76) and Fire Control/Gunnery Officer, USS CARON (DD 970). Additionally, he is currently pursuing a MBA from Wright State University.

The Defense Institute of Security Assistance Management Mobile Education Team Visits Tajikistan

By
Gary Taphorn
Defense Institute of Security Assistance Management

During the week of July 12, the Defense Institute of Security Assistance Management (DISAM) team of instructors conducted a five-day Security Assistance Management Planning course for military officers and civilian government employees in the Republic of Tajikistan. The visit was hosted by the Tajik Ministry of Defense, which provided classroom facilities at its Military Institute (the equivalent of the U.S. Military Academy) on the outskirts of Dushanbe, the capital of Tajikistan. The DISAM team was headed by Dr. Craig Brandt, Deputy Commandant, and included two other instructors, Mr. Ed Smith and Mr. Gary Taphorn. Because of the relatively new introduction of English language training in the Tajik military, the course was conducted in the Russian language, using simultaneous translation, and with the help of two very capable and professional local interpreters Ms. Venera Bagdalova and Ms. Marina Kadyrova. Previous work by the American embassy had translated the DISAM PowerPoint presentations into Russian, so the students were able to both read and listen in Russian. Mr. Parviz Kurbanov, the foreign service national administrative assistant in the security assistance office, provided superb support to the DISAM team throughout its visit.

The class was opened, and the DISAM team welcomed, by Major General Hakimjon Alovidinovich Hafizov, Director of the Military Institute, and Major Mark Handy, Chief of the Security Assistance Office in Dushanbe. The fifteen personnel who attended the course were from three branches of the Tajikistan government – the Ministry of Defense, the Committee for State Border Protection, and the National Guard. The official security assistance relationship at this time extends only to the Ministry of Defense. However, the Security Assistance Office at Dushanbe, headed by Major Handy, was able to include students from the other two organizations as part of a plan to broaden the security assistance relationship in the future.

The course focused on an overview of security assistance, including blocks of instruction on U.S. legislation and policy, process, logistics, finance, and training. In a U.S. embassy press release after the course, Major Handy stated the following:

> The training will enhance the ability of selected Tajik ministries and organizations to fully utilize all aspects of security assistance. The end goal is to support military reform and modernization, democratization, interoperability, and systems upgrade.

The graduation ceremony on Friday, July 16, was attended by General Hafizov and his Deputy Director, Colonel Tohir Tiloev, as well as by the U.S. Embassy Deputy Chief of Mission, Mr. Thomas Armbruster, and the U.S. Defense Attaché, Major Taft Blackburn.

Like other member countries of the former Soviet Union, Tajikistan is a fledgling democracy. After declaring its independence in 1991, the country promptly deteriorated into a bloody five-year civil war between the old-guard elites and a coalition of democratic reformers, Islamic activists, and other disenfranchised groups. The war resulted in the deaths of tens of thousands of persons and the displacement of more than half a million. By 2000, a power-sharing peace accord was implemented and normalcy returned to the country. Tajikistan is now rebuilding itself with an integrated government.

Chief of the Military Institute, opened the class which was held at the Tajikistan facility.

Translators (right) were indispensable for communicating with the students.

A representative from the Tajik National Guard, the Tajik Ministry of Defense, the Chief of the Tajik Military Institute, a representative from the American Embassy, and a U.S. Defense Attache, spoke at the graduation ceremony.

A Defense Institute of Security Assistance Management instructor presents a certificate of appreciation to the administrative assistant of the Tajikistan Office of Defense Cooperation, for his efforts in setting up the course.

Tajikistan is a small country with a population of a little over six million people. While two-thirds of the people are ethnic Tajiks, a sizeable minority 23 percent are Uzbek, while Russians comprise about four percent of the population. Tajik was designated the sole official language in 1994, but Russian remains widely used in government and business. Unlike some of the other emerging Central Asian republics, Tajikistan was not blessed with oil, uranium or other valuable natural resources. It is heavily dependent on exports of cotton and aluminum and is now recovering from a severe drought which resulted in a shortfall of food production. Tajikistan has borders with four other countries, including China to the east and Afghanistan to the south. Although it has no common border with Russia, it continues to be the home base for a Russian motorized rifle division, which helps maintain stability and also is largely manned by Tajik soldiers. Tajikistan is a transit country for narcotics flowing north from Afghanistan into Russian and European markets.

Although the United States began a foreign assistance program to Tajikistan shortly after its independence in 1991, military assistance did not begin until 2002. Tajikistan is now concluding the third year of its International Military Education and Training program and has also begun receiving funding under the Department of Defense Counterterrorism Fellowship Program in 2004. The approximately one million dollars in fiscal year 2004 Foreign Military Finance allocated to Tajikistan has been programmed to address shortfalls in tactical communications. Other U.S. government funding under the Export Control and Related Border Security Program is helping the Tajik Committee for State Border Protection improve its border security.

Tajikistan has assisted the U.S. in Operation Enduring Freedom by allowing U.S. forces access to its airspace and airport facilities in Dushanbe. The Tajik military is in the process of developing a ten-year plan, to transform its ground forces from a largely motorized (mechanized) force to light infantry capable of securing its own borders and conducting operations in mountainous terrain. Although U.S. military assistance will remain limited, it should make a significant contribution in Tajikistan's commitment to modernize its military and increase the professionalism of its forces.

About the Author

Gary Taphorn is an assistant professor at DISAM. He is the regional seminar director for the Middle East and Central Asia, and the functional coordinator for security assistance office operations.

RESEARCH AND CONSULTATION

Is there a security assistance procedure, requirement and/or program guidance which is [or has been] presenting a significant problem in accomplishing your security assistance function? If so, DISAM would like to know about it. If you have a specific question, we will try to get you an answer. If it is a suggestion in an area worthy of additional research, we will submit it for such research. If it is a problem you have already solved, we would also like to hear about it. In all of the above cases, DISAM will use your inputs to maintain a current "real world" curriculum and work with you in improving security assistance management.

Contact DISAM Research via our webpage, http://www.disam.dsca.mil/research/research.htm or submit pertinent questions and/or comments by completing the remainder of this sheet and return it to:

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1. Question/Comment:

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3. Contact Information:
   Name:
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