



Benefits to the U.S. of International Defense
Trade
Presentation to Military/Performance Textiles
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*Jennifer Stewart, Ph.D.
Chairman of the Foreign
Procurement Group*



Topics

- About the international networks
- U.S. defense trade balance
- Defense trade creates U.S. jobs
- Foreign Military Sales (FMS) contributes to prosperity and national security
- International involvement in U.S. military programs reduces costs, contributes to excellence and innovation
- Foreign technologies enhance U.S. capabilities
- Foreign trade does not impact security of supply
- U.S. voices in support of global defense trade
- In summary



The International Defense Materiel Networks

- Defense MOU Attachés Group (DMAG)
 - 21 U.S. allies with reciprocal defense procurement Memorandum of Understanding (MOUs) with the U.S. Department of Defense facilitating bilateral defense trade cooperation
- Foreign Procurement Group (FPG)
 - 33 countries who purchase from the U.S. government via the Security Assistance program and/or buy commercially from U.S. suppliers



DMAG Member Nations

Australia

Austria

Belgium

Canada

Denmark

Egypt

Finland

France

Germany

Greece

Israel

Italy

Luxemburg

Netherlands

Norway

Portugal

Spain

Sweden

Switzerland

Turkey

United Kingdom



FPG Member Nations

1999 – 17 members, 2009 – 33 members

Argentina

Australia

Austria

Belgium

Brazil

Canada

Chile

Denmark

Egypt

Finland

France

Germany

Greece

Indonesia

Israel

Italy

Japan

Korea

Netherlands

New Zealand

Norway

Pakistan

Poland

Portugal

Saudi Arabia

Singapore

Spain

Sweden

Switzerland

Taiwan

Turkey

UK

Yemen



Work of the International Networks

- The Defense MOU Attachés Group and the Foreign Procurement Group have developed a number of presentations and white papers as input to initiatives to promote international defense trade and modernize export controls
- These include:
 - Conference on Myths and Facts of Global Defense Trade and Cooperation – co-organized with CSIS (April 2005)
 - Briefings to Departments of Defense and State, Government Accountability Office, Defense Industry Associations, Heritage Foundation, etc.



Work of the International Networks (cont'd)

- Greater use of ITAR exemptions (2006)
- Redefining “agent” for FMS Retransfers (2006)
- An Integrated International Export Controls Regime (Sept 2009)
- Examples of issues with U.S. Export Controls (August 2009)
- A paper of proposals on the 2009 Defense Trade Controls Performance Improvement Act (June 2009)



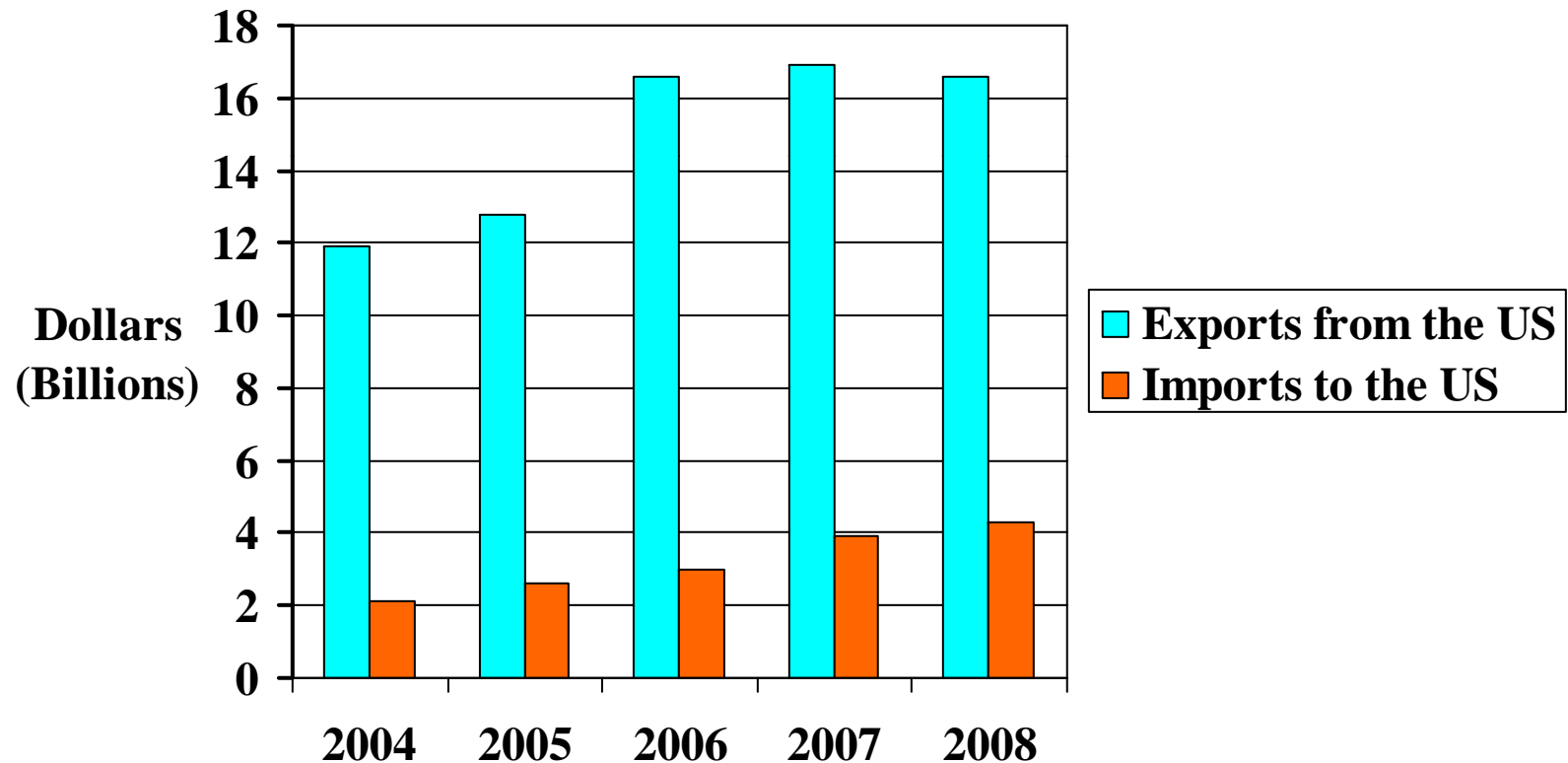
U.S. Defense trade Balance (1)

- The following table mines the Department of Commerce's census data using the following end use codes (includes Foreign Military and Direct Commercial Sales)*
- **Exports:** Military aircraft, complete (code: 50000), Aircraft launching gear, parachutes, etc (code: 50010), Engines and turbines for military aircraft (code: 50020), Military trucks, armored vehicles, etc. (code: 50030), Military ships and boats (code: 50050) Tanks, artillery, missiles, rockets, guns & ammunition (code: 50040), Military apparel and footwear (code: 50060), Parts for military-type goods (code 50070)
- **Imports:** Military aircraft and parts (code: 50000), Other military equipment (code: 50010)

**Source: Department of Commerce Census website – figures retrieved 7th May 2009.*



U.S. Defense trade balance (2)



Source: www.census.gov May 2009



Defense trade creates U.S. jobs (1)

- The following table shows U.S. jobs sustained by defense trade exports from 2004-2008
- Calculated using this equation:
 - the delta after subtracting imports from exports divided by \$186K (as the annual average value of one man-year)

Source: Offsets in Defense Trade, Thirteenth Study by DOC's Bureau of Industry and Security (Dec 2008)



Defense trade creates U.S. jobs (2)

Calendar Year	Delta (Exports minus Imports) (\$ billions)	US man years sustained (@ \$186K/year)
2004	\$9.8	52,700
2005	\$10.2	54,840
2006	\$13.6	73,120
2007	\$13	69,900
2008	\$12.3	66,130



Only a fraction of significant DoD purchases are from non-U.S. suppliers

- Total value of DoD contracts in 2007 = \$ 316 billion
- \$18.6 billion (5.9 %) was awarded to foreign entities:
 - Of which, 40% was expended on fuel, services, construction and subsistence
- Looking at DoD contracts for defense items and components only:
 - DoD purchased \$104.3 billion from U.S. suppliers, of which \$1.57 billion (1.5%) went to foreign sources

Source: Report on Foreign Sources of Supply FY 2007 by ODUSD (IP) Sep 2008



Foreign Military Sales (FMS) contributes to prosperity

- FMS is a multi-billion dollar business that involves sales of U.S.- origin defense articles and technology to over 150 nations
- Contributes to American prosperity by improving the U.S. balance of trade position, sustaining highly skilled jobs in the defense industrial base, extending production lines and lowering unit costs for key weapon systems



The FMS business

- FMS Sales Agreements
 - \$19B (FY07)*
 - \$32.3B (FY08 as of 08/31/08)**
- FMS Deliveries
 - \$12.6B (FY07)*
- Open Cases
 - 12,262/ \$274.3B (08/08)**
- Work years sustained
 - 7,900 of which 4,200 are directly funded by foreign customers

**Source: DSCA website, Data & Statistics Apr 2009*

***Source: DSCA presentation at ComDef 2008*



FMS promotes U.S. national security

- Also security cooperation because:
 - Sales further national security and foreign policy objectives by strengthening bilateral defense relations, supporting coalition building, and enhancing interoperability between U.S. forces and militaries of friends and allies.
 - Entering into a major FMS program represents the beginning of a long-term relationship with the U.S. military.
 - This includes access to joint training and doctrine and increased opportunity for interoperability should U.S. and foreign forces need to operate together in military operations.



International involvement in U.S. military programs reduces costs, contributes to excellence and innovation (1)

Top 10 programs with international involvement:

1. C-130 Hercules: 67 partner countries, including 8 with C-130Js
2. F-16 Fighting Falcon: 24 partner countries
3. CH-47 Chinook: 16 partner countries
4. C-17 Globemaster: 15 partner countries
5. Patriot Missile: 14 partner countries



International involvement in U.S. military programs reduces costs, contributes to excellence and innovation (2)

6. Evolved Seasparrow Missile: 12 partner countries
7. Joint Strike Fighter: 8 partner countries
8. F-18 Hornet: 8 partner countries
9. Aegis Combat System: 108 Aegis-equipped ships, deployed in 5 navies; 6 partner countries
10. Advanced Extremely High Frequency Satellites: 3 partner countries



Foreign technologies enhance U.S. capabilities (1)

- Some of the best technologies adopted by DoD originate abroad
- DoD's Foreign Comparative Test (FCT) program selects key foreign technologies to meet identified needs
- The FCT Program during the last 29 years:
 - Led to an estimated cost avoidance of \$7.6 Billion
 - Accelerated fielding of kit to U.S. forces by 5-7 years (ave.) in research, development, test and evaluation
 - Led to vendor teaming with U.S. industry in 33 states



Foreign trade does not impact security of supply (1)

Foreign Sources of Supply FY 2007 Report: ODUSD (IP)

- *The Department is not acquiring military materiel produced overseas to the detriment of national security or the U.S. defense industrial base. Focused analyses have shown that the Department employs a small number of non-U.S. suppliers and that the use of those suppliers does not negatively impact the long-term economic viability of the national technological and industrial base. The record indicates there has been no difference in reliability between the Department's U.S. and non-U.S. suppliers.*



Foreign trade does not impact security of supply (2)

Strategic Materials Protection Board Report (OUSD AT &L) Dec 2008

- *“Reliable foreign suppliers are usually acceptable, and in fact are encouraged to allow the Department to obtain a wider competitive cost and technology base.”*
- *“Foreign dependence does not necessarily mean foreign vulnerability.”*
- Most “specialty metals” are not “materials critical to national security” and therefore do not require domestic source restrictions.



U.S. voices on global defense trade

- NDIA's President's perspective (March 2009)
- U.S. Chamber of Commerce report on "Defense Trade : Keeping America Secure and Competitive" (March 2007)
- Recommendations from the GAO Supplier Base Forum (March 2006)
- The Heritage Foundation's report on "The Military Industrial Base in an Age of Globalization" (August 2005)



U.S exports generate trade surplus and increase U.S. market share (1)

NDIA's President's Perspective (March 2009):

- U.S. aerospace exports generate a trade surplus
 - E.g., U.S. aerospace industry exports worth \$98 billion in 2008 gave that sector a positive trade balance on the order of \$60 billion.
- Many foreign systems contain significant U.S. content thereby increasing U.S. market share even further
 - E.g., the Gripen fighter produced in Sweden has 45 % U.S. content. When one includes the weapons on the



U.S exports generate trade surplus and increase U.S. market share (2)

Gripen, the U.S. content grows to 55 %. The Joint Cargo Aircraft that is produced by Alenia in Italy has 55 % U.S. content. And when production shifts to Florida as a prelude to sale to the U.S. Air Force, that U.S. content grows to 65 %.

- Products made in the U.S, by foreign defense companies generate jobs:
 - E.g., Alenia is investing more than \$100 million to build a Florida plant, and at rate production, will employ more than 600 workers in northern Florida. Alenia, with approximately \$3 billion in revenues, buys annually more than \$500 million in goods and services from U.S. suppliers.



The international defense marketplace - an incredible opportunity (1)

U.S. Chamber of Commerce Report on “Defense Trade : Keeping America Secure and Competitive” (March 2007):

- The United States has nothing to fear from competition in the international defense marketplace; rather, it remains an incredible opportunity to create American jobs, ensure that our weapons systems are second to none, and advance our national interests.



The international defense marketplace - an incredible opportunity (2)

- U.S. defense exports are essential in supporting our nation's broad foreign policy goals and objectives.
- In the context of international defense cooperation, defense trade serves as a critical element of U.S. security policy.
- Defense trade enables the U.S. government to achieve long-term partnerships with foreign militaries acquiring U.S. weapons systems, further strengthening these relationships.



How the U.S. can benefit from globalization while protecting sensitive technologies (1)

Recommendations from the GAO Supplier Base Forum, March 2006 (GAO-06-533SP):

- Focus on keeping US products competitive globally instead of maintaining and protecting the U.S. industrial base.
- Adjust the export control paradigm to reflect differing national security relationships.
- Better identify the risks of foreign dependency.



How the U.S. can benefit from globalization while protecting sensitive technologies (2)

- Create a strategy that brings the defense community together to define and determine key technologies and capabilities to focus on and then collectively take action in those areas.
- Change the acquisition culture to embrace a global export environment and approach the global marketplace more optimistically.
- Adjust policies to reflect the ambiguous nationality of emerging multinational companies.



The military industrial base in an age of globalization

Heritage Foundation (August 2005)

- The military industrial base on which the U.S. depends is global.
- Assured access to the global industrial base is necessary for long-term national security.
- Not all trading partners are equal. America's closest allies should be considered reliable trading partners for nearly all defense materials.
- The military industrial base requires an amalgam of approaches to ensure both access to vital goods and services and reasonable prices.



In summary

- International defense trade benefits the U.S. economically, increases military capability, enhances national security, and strengthens partnerships with friends and allies.
- However, the U.S., as do other countries, understandably looks to favor its own supplier base.
- In the current economic climate, there is risk of escalating such domestic preference.
- If the U.S. were to put up more barriers to defense trade, and other countries were to retaliate, the above benefits stand to be lost.