



May 29, 2018

The Honorable Mike Pompeo
Secretary of State
U.S. Department of State
2201 C Street NW
Washington, DC 20520

Dear Secretary Pompeo:

On behalf of the more than 340 member companies of the Aerospace Industries Association (AIA), we would like to thank you for your unwavering support for America's aerospace and defense industry and its workers. The Trump Administration has distinguished itself by committing to bold change, and we applaud the National Security Strategy, the National Defense Strategy, and recent National Security Presidential Memorandum Regarding Conventional Arms Transfer Policy (NSPM-10). Through these efforts, the government has clearly articulated the guiding principles of a National Security Cooperation Strategy needed to advance critical American national security interests while growing high-skill, high-wage jobs through continued U.S. leadership in the global defense marketplace.

Our industry is competing against our adversaries in a global defense marketplace where every export opportunity is a zero-sum, time sensitive competition with an enduring impact on American influence, security and our defense industrial base. AIA and our member companies believe the ultimate key to the success of U.S. security cooperation is to increase the speed of review, approval and advocacy for defense exports that advance America's foreign policy, national and economic security interests.

In response to the Administration's call for inputs to the NSPM-10 action plan, AIA submitted detailed proposals (see attached summary documents) that we believe will help align the fragmented interagency security cooperation system to enhance efficiency and transparency. In particular we recommend:

- The development and implementation of a plan to expedite the specific transactions that achieve U.S. security cooperation priorities.
- The creation of senior-level oversight mechanisms for the interagency security cooperation enterprise to ensure accountability for the rapid review and approval of priority defense exports, and to ensure that NSPM-10 implementation achieves its goals.

We hope that you will consider carefully our proposals in the NSPM-10 action plan, and remain engaged with industry to operationalize and institutionalize NSPM-10. AIA and its member companies are committed to remaining engaged with the Administration well beyond the 60-day deadline for the initial action plan so that we can see these vital reforms come to fruition. We also support legislative actions to enable the benefits of NSPM-10's implementation, and to ensure the overall security cooperation system is properly resourced.

Thank you for your leadership and your attention to this critical national security matter.

Very sincerely and respectfully,

Handwritten signature of Thomas A. Kennedy in black ink.

Dr. Thomas A. Kennedy
Chairman and CEO
Raytheon Company
Chairman, AIA

Handwritten signature of William M. Brown in black ink.

William M. Brown
Chairman, President and CEO
Harris Corporation
Vice Chairman, AIA

Handwritten signature of Eric K. Fanning in black ink.

The Honorable Eric K. Fanning
President and CEO
Aerospace Industries Association

Aerospace Industries Association of America, Inc.

Conventional Arms Transfer Policy Background

ISSUE:

Advancing U.S. foreign policy and national security objectives requires strong and capable international allies and partners to offset competitors' efforts to supplant our leadership. To address this need, the United States requires a National Security Cooperation Strategy dedicated to building critical security, political and economic relationships internationally. We also require an agile and sophisticated transfer process for defense goods and services.

BACKGROUND:

The Security Cooperation Enterprise is tasked with reviewing and approving defense transfers to U.S. allies and partners and involves several agencies and offices spread across the U.S. government. The most critical measure of its success is whether the system helps our partners be ready, resilient, and relevant to deter or defend against common adversaries, consistent with U.S. foreign policy objectives. By that measure, the enterprise is not as effective as it could be.

Even with this inefficient organizational structure, the enterprise provides a positive impact on the U.S. economy – in 2017, \$20 billion in U.S. defense exports created almost \$52 billion in positive economic impacts for our nation, translating into more than 200,000 high quality American jobs. But increasing demand for American defense products has strained the government's current review and approval process, resulting in an overburdened and fragmented process beset by avoidable delays. Worse, no one department or agency is solely responsible or accountable for the review, complicating attempts to streamline the process.

The current Security Cooperation Enterprise is not adequately staffed or organized to fulfill the requirements of U.S. national security in a timely manner. Whenever countries are forced to wait for a favorable determination to receive a U.S. defense solution, it impedes their ability to address our common interests. To meet the foundational imperatives of the 2018 National Defense Strategy, there must be a paradigm shift that maximizes benefits from "outpartnering" our adversaries.

That means providing our allies and partners an expedited approval and delivery process to obtain U.S.-made equipment. This will promote time-sensitive foreign policy and national security objectives and enhance interoperability with U.S. forces. A new way forward is increasingly important in what has become a time-sensitive, zero-sum game for influence in the global security arena where every sale won or lost has an enduring impact. It's a win for our allies, who want to align with American values and security interests, and a win for the U.S. defense industry and American workers.

While we will be providing additional detailed policy and process reform recommendations going forward, AIA has two primary recommendations for Security Cooperation Enterprise Reform:

1 The Administration should implement a National Security Cooperation Strategy that:

- > Identifies Priorities for Building Partner Capacity as a Component of U.S. National Security Strategy
- > Aligns U.S. Industry Programs and Technology Development with Security Cooperation Priorities
- > Streamlines Technology Review and Contracting for Priority Security Cooperation Transactions
- > Promotes the Competitiveness of American Defense and Security Technologies in Priority Regions

2 The U.S. Government should develop an interagency monitoring mechanism with a lead U.S. Government agency accountable for tracking, expediting, and addressing policy or process obstacles to delivering capabilities selected by international customers enabled by priority security cooperation transactions.

Conventional Arms Transfer Policy

Summary of Aerospace and Defense Industry Recommendations for Government Action



1 National Security Cooperation Strategy – *Industry recommends augmenting the mandate provided in National Security Presidential Memorandum 10 and policy established in the National Security Strategy and National Defense Strategy with a plan to advance specific priorities for building partner capacity.*

- **Recommendation:** Fully operationalize and institutionalize the Presidential Memorandum by creating a plan that identifies specific priorities for capabilities and the associated current and potential transactions necessary for building and sustaining partner capacity.

2 Security Cooperation System Accountability – *Industry recommends the creation of a mechanism for greater accountability for the performance of the entire security cooperation enterprise at the highest levels of the U.S. Government, to ensure the security cooperation system remains both focused and responsive to the plan for advancing U.S. priorities and partner requirements.*

- **Recommendation:** The U.S. Government should identify a mechanism for emphasizing, tracking and expediting the review and approval of agreements that advance the security cooperation plan.

3 Enhanced Advocacy and Promotion – *Industry recommends the full and coordinated weight of the U.S. Government be used to ensure U.S. companies have the best opportunities for success in overseas markets in an increasingly competitive defense market environment.*

- **Recommendation:** Establish mechanisms for post-mortem tracking of international competitions for sales as well as preparation for advocacy at air and trade shows and other strategic engagements.
- **Recommendation:** Mandate permanent representation by relevant U.S. government actors – including State, DSCA, DTSA, and other relevant agencies – on a permanent basis in the Advocacy Center of the Commerce Department.

4 Enhanced Advocacy and Promotion: Defense Export Financing – *Industry recommends the development of a workable defense export financing mechanism that could be used by partners and allies to acquire U.S. defense articles and services on favorable financing terms.*

- **Recommendation:** Develop a repeatable and predictable credit mechanism to finance defense purchases.

5 Foreign Military Sales (FMS) System Reforms: Contracting – *Industry recommends contracting reforms leading to shorter timelines and more flexible contracting vehicles for FMS customers.*

- **Recommendation:** Increase training for contracting officers managing FMS-related contracts.
- **Recommendation:** Implement statutory changes to the FMS process from the 2017 NDAA such as Section 811 on Undefined Contract Actions, Section 830 on Firm Fixed Price Contracts and Section 1297(b) on Price and Availability.

6 Foreign Military Sales (FMS) System Reforms: FMS-only – *Industry recommends reforms to FMS-only transactions to take pressure off the FMS system and better utilize the direct commercial sales (DCS) process.*

- **Recommendation:** Establish DCS as the default designation, with specific, consistent and detailed criteria that clearly identify when an item is slated as “FMS only.”

7 Foreign Military Sales (FMS) System Reforms: Non-Program of Record/non-standard items – *Industry recommends reforms to support non-program of record solutions.*

- **Recommendation:** Empower Military Departments with dedicated structures and resources to handle non-program of record matters and develop transparent policy to complete these types of sales on a fair, efficient and consistent basis.

8 Licensing – *Industry recommends continued reforms to the defense export licensing process.*

- **Recommendation:** Review and clarify authorization and logistics processes associated with transfers under FMS, both original exports and returns, for items found on the Commerce 600 series list.
- **Recommendation:** Further reevaluate the interpretation of the “presumption of denial” of exports of Category I UAS systems and articulate requirements to overcome the “presumption of denial.”
- **Recommendation:** Pursue revisions to the Missile Technology Control Regime to account for market and technology dynamics affecting U.S. competitiveness and market share.
- **Recommendation:** Expand the mandate of the 2017 NDAA regarding the National Technology Industrial Base to capitalize on already established relationships with our most trusted partners and “reduce the barriers to seamless integration.”

9 Licensing: Program Licensing – *Industry recommends the creation of an effective “program licensing” framework to facilitate defense trade opportunities with partners and allies.*

- **Recommendation:** Establish a program licensing framework among the Departments of State, Defense and Commerce covering pre-approved transactions among pre-approved companies.

10 Offsets / Industrial Participation – *Industry recommends enhanced coordination on customer offset programs to ensure partner nation offset policies do not hinder the overall defense trade relationship or harm U.S. bilateral relationships.*

- **Recommendation:** Develop principles that define appropriate offset requirements set by foreign partners and allies with industry input.

11 Arms Transfer and Technology Release – *Industry recommends reform of the arms transfer and technology release review process to account for both the increasing pace of development of commercial technology, as well as the technological progress made by foreign competitors.*

- **Recommendation:** Assess Military Department technology release determinations in the context of how a proposed transfer satisfies each Combatant Command’s in-theater capability shortfalls, consistent with the broader U.S. security cooperation plan and priorities.
- **Recommendation:** Integrate a “blue team” approach to the review process and/or develop training modules for key allies and partners to enhance foreign technology controls consistent with U.S. requirements.