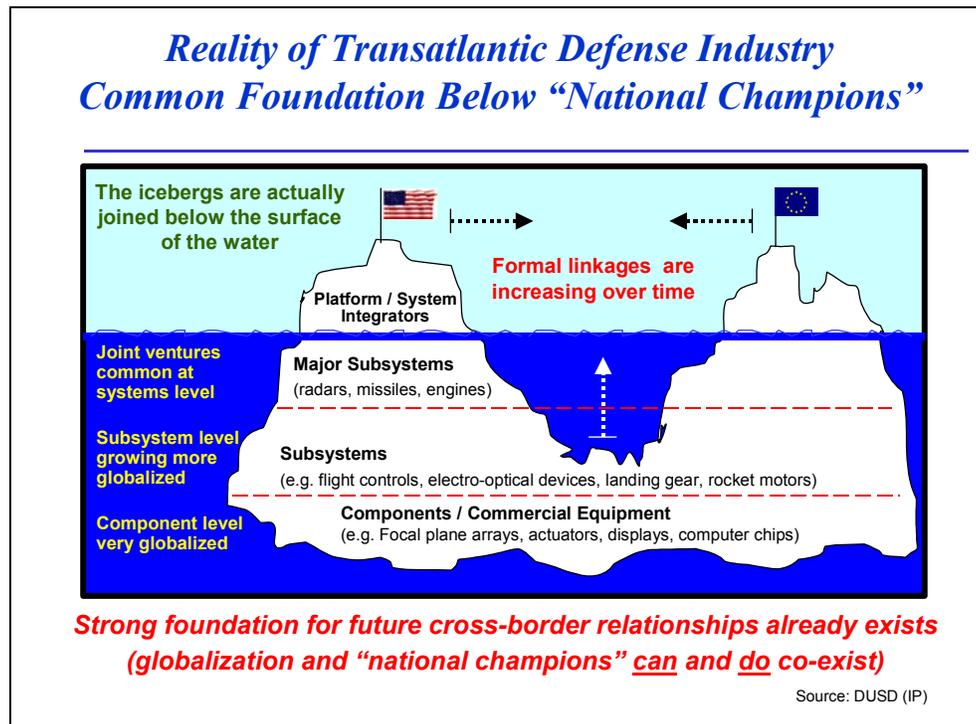


**“Transatlantic Defense Cooperation: The New Environment”**  
**UK-US Defense Industry Seminar – A Commentary**  
By Professor Bernard F. Griffard

**Partners in Transformation**

Congress established the Army industrial base on April 2, 1794 when it appropriated funds for the building of arsenals. Over the succeeding 209 years the relationship between industry and the Army has undergone many evolutions. Today, after a decade of change and consolidation, the defense industry and the Army, for better or worse, are partners in Transformation. It is a partnership that extends beyond the geographical borders of the United States. As illustrated in the Figure below, although the major US systems integrators are American companies, the industrial base within which they operate has an increasingly global footprint. On the positive side, this situation



**Globalization of the Defense Industrial Base**

expands the available technology base. The down side is that technology flows both ways, resulting in technology transfer regulation and export controls. Overly restrictive regulations can impact both on the effectiveness of future coalition interoperability and on the vitality of the defense industrial base. When faced with reduced defense spending, companies depend on overseas sales to turn a profit. At the same time governments are very jealous of losing a technological edge, and politicians are reluctant to spend money

that does not result in a value added locally, statewide, or nationally. Providing the Army’s future leaders with an understanding of this situation and what groups are stakeholders is key to reducing their frustration level as they operate in this environment. An excellent source of information on this topic was the recent United Kingdom-United States (UK-US) Defense Industry Seminar conducted at the Sheraton Premiere Hotel, Vienna, VA on February 23-25, 2003.

## Transatlantic Defense Cooperation

Co-sponsored by the Office of the Undersecretary of Defense for Acquisition, Technology, and Logistics (USD (AT&L)), the National Defense Industrial Association (NDIA) and the British Defence Manufacturers Association (DMA), the seminar brought together high-level British and American government acquisition policy officials and private sector companies to discuss “Transatlantic Defense Cooperation: The New Environment”. The seminar keynote duties were shared between the Honorable Edward C. “Pete” Aldridge, USD (AT&L), and his British opposite number, Lord “Willy” Bach of Lutterworth, Undersecretary of State and Minister of Defense Procurement, UK Ministry of Defense. Both speakers identified best value, the technology base, and market access as the principal concerns of national acquisition policies.

<b>UK – US Defense Industry Seminar</b>	
<b>Roster Of Key Government Attendees</b>	
<u>US</u>	<u>UK</u>
<ul style="list-style-type: none"> <li>• Honorable Edward C. “Pete” Aldridge, USD (AT&amp;L), DoD</li> <li>• Lt Gen Lawrence P. Farrell, Jr., USAF, Ret., President, NDIA</li> <li>• Honorable John A. Shaw, DUSD (International Technology Security), DoD</li> <li>• Ms. Lisa Bronson, DUSD (Technology Security Policy and Counterproliferation), DoD</li> <li>• Ms. Deidre Lee, Director, Defense Procurement and Acquisition Policy, DoD</li> <li>• Ms. Lisa A. Davis, Principal Assistant DUSD (Industrial Policy), DoD</li> <li>• Mr. Al Volkman, Director, International Cooperation, DoD</li> <li>• Mr. Matthew S. Borman, Deputy Assistant Secretary of Commerce, Bureau of Industry and Security, DOC</li> <li>• Mr. Gregory Suchan, Principal Deputy Assistant Secretary of State, Bureau of Political-Military Affairs, DOS</li> </ul>	<ul style="list-style-type: none"> <li>• Lord “Willy” Bach of Lutterworth, Undersecretary of State and Minister of Defense Procurement, UK MOD</li> <li>• Sir Robert Walmsley, Chief of Defence Procurement, UK MOD</li> <li>• MG Alan Sharman, CBE (Ret.), Director General, DMA</li> <li>• Ms. Shuna Lindsay, Minister Defence Materiel, British Embassy, Washington, DC</li> <li>• Mr. Mike Jenner, Director, General Defence Export Services Organization, UK MOD</li> <li>• Mr. Mike O’Shea, Director, Export Control and Non-Proliferation, UK Department of Trade &amp; Industry</li> <li>• Mr. Richard Jones, Attaché, Defense Equipment Policy &amp; Trade, British Embassy, Washington, DC</li> </ul>

In his opening remarks, Mr. Aldridge stressed US acquisition policies were not aimed at building a “Fortress America”. When operating in the international defense milieu the US must balance improvement in national security against the risk of illegal technology transfer. In most cases the improvement to national security should outweigh the risk. Though foreign partnerships are the most common vehicle for sharing US procurement dollars with off-shore companies, Mr. Aldridge emphasized that the US views them as a means to an end, rather than, as the European Community (EU) sees it,

an end in themselves. To reinforce his point, Mr. Aldridge held up the joint strike fighter (JSF) program as the poster child for international defense cooperation. The JSF's merit-based participation allows Lockheed Martin to develop synergies and leverage their partner's competencies. In contrast, Mr. Aldridge questioned the efficacy of the EU programs to pursue a competing global positioning system (GPS) and a separate airlifter that appear to be based solely on the desire to buy a European product. Although Mr. Aldridge's remarks could be taken as an effort to sell more C-17s, he left the strong impression that such programs do not enhance allied interoperability, and, in view of the low level of defense spending among the EU countries, make little fiscal sense.

Lord Bach admitted that the US was a hard market for British companies to crack, but stressed that UK-US dissimilarities in the defense procurement arena were differences of emphasis vice differences of opinion. Of the UK's three areas of procurement emphasis - best value, technology base and market access - it is the latter that is the greatest concern. He emphasized that national industries have evolved into public competition companies with international footprints. A point of contention was the treatment of foreign-owned companies. All defense businesses that offer value (jobs, taxes, etc) and have offices in the UK, no matter their ownership, are treated as British companies with regards to competition for contracts. Lord Bach made it clear that the UK would like to see the US level the playing field by treating British-owned companies operating in America with the same largesse. It was a great sore point that given the UK and US "special relationship", that under current foreign military sales (FMS) rules the British are treated just like everyone else. In the UK view, defense cooperation should run both ways, not just from the US outwards.

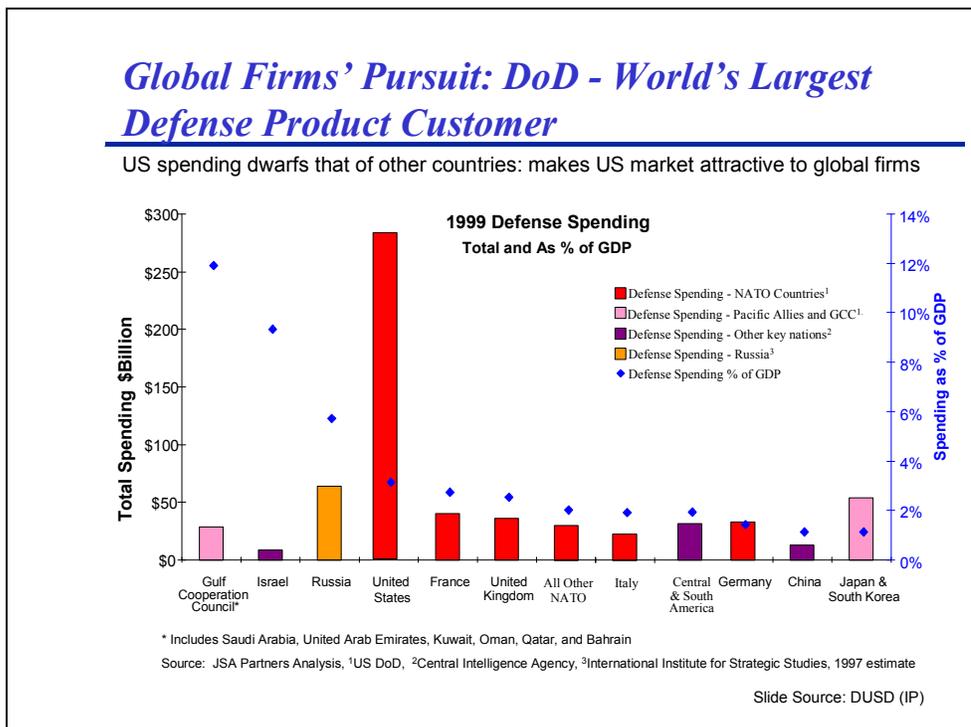
### **Transatlantic Friction**

Throughout the remainder of the seminar mixed UK-US panels addressed the issues of Managing Defense Procurement, Globalization and Transatlantic Defense Cooperation, and Competing in the Transatlantic Marketplace. In all cases panelists were candid and willingly sparred with their transatlantic partners over the broad issues outlined in the keynote addresses. It was apparent, in the eyes of the British and probably the rest of the EU, that the processes overseen by the US export control triad of DoD, DOS, and the Department of Commerce were somewhat Byzantine. In the introduction to discussions on Export Controls and Technology Transfer, panel moderator Mr. Jeffrey Bialos, Deputy Undersecretary of Defense for Industrial Affairs during the Clinton Administration, stated the problem clearly and concisely, "Export controls are subject to geopolitical and political conditions". No matter the level that good intentions are expressed, no one person or agency can "level the playing field" when it comes to defense manufacturing and international technology transfers.

While recognizing the extent of globalization and the necessity for transatlantic defense cooperation, Ms. Lisa Bronson, Deputy Undersecretary of Defense, Technology Security Policy and Counterproliferation, US DoD, identified five guidelines used to shape US technology security policy. First, the US must address the apparent dichotomy

of taking aggressive actions to retain its technological edge while at the same time working to narrow the technology gap versus our allies. Second, it is in the self-interest of the US to increase interoperability in order to improve coalition effectiveness and to widen the pool of available countries that can participate as coalition partners. Balancing these first two issues with the third guideline, increased scrutiny of exports, is proving a difficult challenge. Fourth, if the US is to widen its supplier base as recommended in the recent USD (ALT) study, “Transforming The Defense Industrial Base: A Roadmap”, the rules must be modified to facilitate the exploitation of commercial technology. And, finally, all actions taken must contribute to maintaining the health of the defense industrial base. Though not what our transatlantic partners may have wanted to hear, this point was clear, the US will continue to scrutinize defense and dual use technology exports because such actions are in our self-interest.

The US Department of State panelist, Mr. Gregory Suchan, Principal Deputy Assistant Secretary of State, Bureau of Political-Military Affairs, informed the seminar that there was a political crisis of the will among our Allies. As ad hoc coalitions replace legal alliances and become the main instrument for force projection in the 21<sup>st</sup> century, the US will find allies where they can. It is in the United States’ best interests to improve interoperability across the roster of possible coalition partners. However, in Mr. Suchan’s analysis, export controls are not the major impediment towards interoperability. The problem is the low level of defense spending of US Allies. It is difficult to achieve integration if you do not invest in the equipment and training. This imbalance in defense investment is graphically portrayed in the Table below.



Establishing a foothold in the US defense market and sharing in the procurement dollars spent is critical to the transatlantic defense industry. As a direct result of the investment shortfalls identified by Mr. Suchan, US defense spending dwarfs the requirements generated by the EU. The resulting competition to get a piece of the US pie is increasingly intense and can lead to acrimony between the US and its Transatlantic trading partners.

### **The Highway to Interoperability**

Both the UK and the US see the highway to interoperability as a two-way street; while the British envision it as having the same number of lanes in both directions, the United States is building a four-lane road with three lanes going east and only one headed west. The low level of defense spending among the EU nations has eroded the trust once shared between the US and its Allies. It will be difficult in today's world environment to effect a relaxation in the current export control regime until positive actions are taken by our transatlantic partners to rebuild that trust.