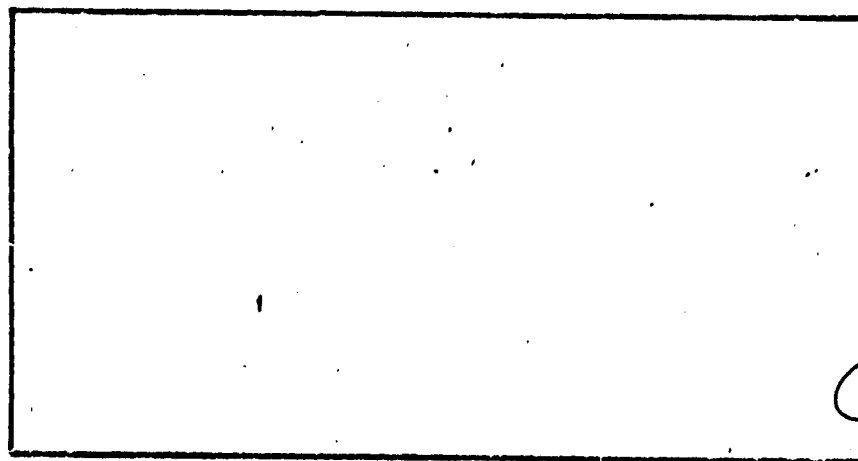


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DEFENSE SYSTEMS MANAGEMENT SCHOOL



PROGRAM MANAGEMENT COURSE INDIVIDUAL STUDY PROGRAM



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INDUSTRY SURVEY:
ATTITUDES TOWARDS DOD/INDUSTRY
INTERFACE UNDER FMS

STUDY PROJECT REPORT
PMC 75-2

John W. Montgomery
Rockwell International Corporation

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STUDY PROJECT REPORT

INDIVIDUAL STUDY PROGRAM

Defense Systems Management School

Program Management Course

Class 75-2

16 DSMS-PMC-75-2

by

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John W. Montgomery
Rockwell International Corporation

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Study Project Advisor
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DISCLAIMER

This study project report represents the views, conclusions, and recommendations of the author and does not necessarily reflect the official opinion of the Defense Systems Management School, the Department of Defense, or Rockwell International Corporation.

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EXECUTIVE SUMMARY

The purpose of this report is to present the results of a survey on industry attitudes with respect to the conduct of business under the Foreign Military Sales (FMS) Act of 1968 and the Department of Defense/Industry interrelationships required under this Act. The distinction between foreign direct sales and FMS is discussed. Foreign Military Sales has accounted for \$14 Billion in the last three years and estimates for 1975 range from 8 to 11 Billion. This newly expanded market, which has expanded by a factor of four since 1971, has the potential of amplifying issues in the DOD/Industry interface.

conducted This survey was conducted by utilizing structured interviews *were* with a key executive involved in the FMS activity of five representative aerospace firms in the Washington, D. C. area. Aerospace firms account for over 60% of the total FMS market. The stated reasoning behind their responses is also included where appropriate. In the interest of candor and frankness, the firms are not identified.

The survey was broad in scope and covered the general interface areas of: (1)

- a. Marketing; (2)
- b. DOD/Industry Management; (3)
- c. U. S. Government Regulatory Control; and (4)
- d. Domestic Political Environment. The following are among

An additional category was included to characterize each firm's involvement in FMS and direct sales. The firms contacted had sales which account for approximately 10% of the current year FMS market.

the major issues as seen by the interviewers;

Results of the study indicate major issues existant in the majority view of the firms solicited. These are:

1. Inadequate cost/profit allowance;
2. Need for more effective organizational structure within the Armed Services;
3. Need for revised in-country Military Assistance Advisor Group (MAAGs) charter and military/civilian mix, and
4. Need to include, by fundamental policy, logistics planning effort by contractors in initial FMS contracts;
5. Need for better administrative guidance in the approval chain associated with munitions control procedures

6. Need for separate but intensified efforts to inform the Congress as to the nature and benefits to the Domestic Economy and US Foreign Policy of Foreign Military Sales

A brief summary of some current government activity addressed to the topics of this paper is presented. A recommendation for future studies is also included.

ACKNOWLEDGEMENTS

The author would like to express his appreciation for the outstanding assistance received from numerous people associated with Foreign Military Sales within industry, the US Air Force, and the Defense Systems Management School (DSMS) Staff without whose cooperation this survey task would have been significantly more difficult.

Special acknowledgement is given to my study advisor Mr William A. Cullin who proposed the topic and provided guidance and support during the various phases of the survey effort and to the Faculty of DSMS for their assistance in the design of the questionnaire.

I wish to particularly express my thanks to those members of the Foreign Military Sales segment of the Aerospace Industry, who so willingly contributed their time and experience as respondents to this survey. The frankness and candor which they volunteered was the necessary fundamental ingredient in the conduct of this survey study project.

I also wish to express my thanks to Lieutenant Colonel Guy Hellwege, DCS, USAF, for his outstanding assistance in identification of the US Industry population involved in Foreign Military Sales from which the sample was taken.

Finally, I wish to convey my gratitude to Mrs Susan Patrick whose patience and dedication were essential to the success of my efforts.

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SECTION I

INTRODUCTION

General

The purpose of this report is to present the results of a survey on industry attitudes with respect to the conduct of business under the Foreign Military Sales (FMS) Act of 1968 and the Department of Defense (DOD)/Industry interrelationships required under this Act.

It is important to distinguish at the outset the fundamental methods by which the US industrial community can supply any Military Equipment, construction or services to Foreign Markets.

The three broad categories are direct (commercial) sales, sales under the FMS Act of 1968, and other forms of Foreign Assistance.

For the purpose of this survey, a direct sale is one which is consummated directly between a US contractor and a Foreign Government. A sale under the Foreign Military Sales (FMS) Act establishes DOD interposition between the US contractor supplying the military goods or services and the Foreign Government and the subsequent DOD monitoring and management of contractual effort by the US contractor.

Background

The export of Military goods and Services are specifically controlled by the International Traffic in Arms Regulations

(ITAR), which has its foundations in the 1930s and is administered by the Executive Branch of the US Government through the State Department (1:657). All direct sales of military goods and services fall within the purview of the ITAR regulations. The DOD also plays a role in such licensing to prevent the export of high technology or types and quantities which are viewed to be not in the best interest of the US National Security.

Foreign Military Sales under the FMS Act are a portion of the United States Foreign Aid Program.

That portion of United States Foreign Assistance which is bilateral in nature and which seeks to enhance the Military Defense capability of a recipient country is administered by the US Department of Defense as part of the "Security Assistance" concept basic to the Nixon Doctrine. Security Assistance Programs fall into three general categories: Support Assistance, Grant Military Assistance (MAP), and Foreign Military Sales (FMS).

Of the three, two are completely military in nature -- the MAP and FMS programs -- and thus under Defense Department Administration, in coordination with the Department of State (2:73).

In the case of MAP, the Military Assistance is given away as opposed to FMS which are sales for cash or on credit with payment within ten years. Within DOD an individual sale to a foreign country of military material and/or services is treated separately and is referred to as

a case. In certain instances, the logistics support or training may be broken out separately in which instance there would be two or three "cases" involving one particular sale.

A sale rendered under FMS is usually initiated after preliminary discussion between the foreign government and industry or the US Government. The foreign government then approaches the US Government with an official request. The sale is formalized by a Letter of Offer and Agreement (LOA) between the US and the foreign government. This LOA specifies, among other things the price and quantity of the item(s) procured, the delivery schedule, and the payment terms. The US Government in turn lets a contract to the US firm which is to supply the above equipment. It administers this contract in behalf of the foreign government like any other domestic purchase by the US Government until the contract is fulfilled. The US Government is in essence the purchasing agent for the foreign government (3:6).

By law, the US Government is biased to go the direct route whenever possible (4). However, of late, the magnitude of Foreign Military Sales has increased substantially. The reason for this dramatic increase appear to be four fold. The first would be the Nixon Doctrine, wherein the United States disavowed its role as the world's policeman and encouraged its allies to be more self-reliant. The second

would be the desire of the part of foreign governments to take advantage of the US Government's willingness to stand behind the products sold under FMS as opposed to unfavorable initial experience with other countries such as the USSR in the case of Egypt. The third is the US Government's willingness under FMS to manage the procurement of complex equipment thereby making up for their potential naivete in this area. The fourth is that many of the items desired by foreign governments contain government furnished equipment (such as engines for aircraft) and therefore must be supplied under the FMS Act (5:1).

In the twenty year period from 1950 thru 1971, FMS sales (cash and credit) amounted to some \$14.717 Billion (2:96). In the period following introduction of the Nixon Doctrine, FMS Sales for 1972, 73, and 74 amounted to \$14.25 Billion which almost equals the total of the prior 20 years (6:VI). In addition, the level of FMS Sales for Government fiscal year 1975 varies from \$8 to 11 Billion alone. Foreign Military Sales have become therefore a major factor in the US Government's foreign policy and economic arena.

Need for Evaluation

The fact that a major new market has expanded to the extent the Foreign Military Sales area has in the last four years would imply the potential for problems occurring in the Defense Industry/DOD interface. Although considerable attention has been devoted to Foreign Military Sales (FMS) over the past ten years, it has been almost invariable from the perspective of the Department of Defense. Some studies have also been conducted from the buyer's viewpoint (5), but after an extensive literature search, it is the author's conclusion that few have been undertaken from the ultimate seller's perspective, US Defense Industry. It is with this deficiency in mind that this study of industry attitude toward the DOD/industry interface under the Foreign Military Sales Act was undertaken.

Objective

The objective of the study is to investigate in a general fashion those aerospace segments of the US Defense Industry involved in foreign sales under the FMS Act to determine what issues, if any, the defense industry perceives to exist with regard to their interaction with DOD. It is hoped that the issues identified by this study will aid in current efforts to define revised procedures and policies on the part of the US Government and DOD to further enhance US foreign policy and economic influence abroad thru the leverage of Foreign Military Sales.

Limitations

This study was confined to a general overview of the FMS area of DOD/Industry interaction. Where appropriate issues which affect both direct and FMS category sales have been included. These areas include the interaction of the Military Assistance Advisory Groups (MAAGs) with respect to their influence on foreign sales involving military equipment and the International Traffic in Arms Regulations (ITAR) as administered by the State Department. The subject of agent or contingent fees and recent proposed legislation relating to renegotiation and excess profits for Foreign Military Sales were not addressed. In this survey the firms interviewed were from the aerospace portion of the Defense Industry.

SECTION II
STUDY METHODOLOGY

The purpose of the section is to discuss the methodology utilized in conducting this study survey.

In general, the survey was conducted by selecting a representative sample of firms from the aerospace segment of the industrial community involved in FMS and interviewing a high level key member in those firms, who was known to be involved in that company's FMS activities.

Population and Sample Identification and Selection

The initial source for the identification of firms involved in the defense industry was the World Aviation Directory (7) from which 150 firms were identified which had some interest in foreign sales of military goods and services. From the above list of firms, 28 firms were selected which had offices in and around the Washington, D. C. area. From the 28 firms, five were selected with a bias towards those which were suspected to have either a balanced mixture of FMS and direct or a majority of sales in the FMS category. A key executive known to be involved in that firm's Foreign Military Sales activities was contacted and interviews scheduled.

As the above activity was conducted with major assistance from US Air Force personnel it was suspected that the sample

population would be very heavily bias in favor of US Air Force service procurements. This was, in fact, not the case as is discussed in section three.

In order to assure frankness and candor in responding to the survey, it was agree between the author and the companies selected for interview, that they shall remain unnamed and shall not be specifically identified in any manner in this report.

Interview Design Approach

In order to achieve uniform and consistent results from the interviews, a questionnaire was developed. The purpose of the questionnaire was to provide a common framework or structure for the discussions with the industry representatives; to assure that all potential issues were covered; and provide some comparable consistency in the interview responses.

For the design of the questionnaire a data search was conducted by use of the Defense Documentation Center (DDC) and the Defense Logistics Studies Information Exchange (DLSIE) to identify the data on file which was related to Foreign Military Sales, Military Assistance Program, and Military Assistance over the last ten years.

A total of 160 reports, theses, or essays were identified which dealt with some aspect of the above subject matter. However, a detailed review of the abstracts disclosed that the majority dealt with military assistance or other forms of grant-aid. A significant portion dealt with the Southeast Asian area of the Foreign Market which would logically follow from US involvement in the Vietnam War. None were identified which dealt with issues regarding the Industry/DOD Interface per se. However, some of the more recent papers did reflect topics resulting from the impact of the sudden increase in Persian Gulf sales under the FMS Act and management issues arising internal to DOD as a consequence.

In addition, conversations were held with representatives of the National Security Industry Association (NSIA), Council of Defense and Space Industry Associations (CODSIA) and Aerospace Industries Association (AIA). Discussions with the NSIA and CODSIA prior to conducting the survey indicated that their efforts in behalf of industry were being expended in the area of contingency or agent's fees (FMS or direct) in the foreign sales area. Discussions with representatives of the AIA subsequent to conducting the survey confirmed certain issues identified during the sample interviews as well as initiatives being undertaken for rectification. This is discussed in Section IV of the study report.

Informal discussions were also held with working level members of the Armed Services and industry with recent experience

in FMS contracts to provide additional background data for structuring of the questionnaire.

Based on the above body of information and the author's 13 years of experience in the Aerospace Industry, a series of hypotheses were constructed with respect to the type of problems or issues that might exist in the DOD/Industry interface under FMS contracts.

These hypotheses were phrased in the form of questions with a range of responses solicited. The questions were broken down into four general categories:

- a. Marketing
- b. DOD/Industry Management Interface
- c. US Government Regulatory Control
- d. Domestic Political Environment

They were also ranked to go from the specific to the general in each category to prevent any biasing in subsequent answers (8:37). Effort was expended with the assistance of members of the Defense Systems Management School Staff experienced in design of questionnaires to remove as much bias as possible from the questions themselves, as well as the wording of responses and ranges in order to limit distortion in the responses of the sample interviews.

For key questions in the survey latitude was given for a response outside the range given as well as opportunity for explanation and amplification of the response. This was done to insure that significant issues or responses outside

the range were not discounted in the event that some of the hypotheses proved faulty or misstated.

An additional section, one, was added in order to characterize the firm represented by the interviewee as to extent of current and future anticipated involvement in FMS. The firms Armed Services mix in FMS dealings was also solicited. The resulting questionnaire is included as Appendix A to this report.

SECTION III

SURVEY RESULTS AND ANALYSIS

The purpose of this section is to identify the results of the survey and provide some insight into the reasoning behind the responses to some of the key questions. A discussion of the potential issue underlying some of the questions is also included for clarity.

Firms Involvement in FMS vs Direct

All firms interviewed were currently involved in both FMS and direct sales of military goods or services to foreign governments. In the following discussion "sales" is an order received, but not necessarily delivered, i.e., increase in backlog. For their current company fiscal year their direct sales ranged from approximately \$11 million to \$200 million and their FMS sales ranged from \$11 million to far in excess of \$200 million. For the majority of firms interviewed, the direct sales represented less than 5% of their current company fiscal year (CFY) sales. Among the others percentages ran as high as 31 to 40% for this CFY. In the FMS category percentages for the current CFY ran from less than 5% to as high as 31 to 40% with the majority less than 20%.

Projecting into the future, the majority of firms anticipated about the same level of involvement on a percentage of total sales basis over the next five years. Of the remaining firms, one anticipated a shift from FMS to

direct, the other anticipated an increase in FMS category sales, on a percentage of total sales basis, over the next five years.

Looking at aggregate totals for the firms interviewed, their direct sales amounted to approximately \$260 million to \$420 million and their FMS sales amounted to \$1,500 million to \$1,600 million for their respective company fiscal years. Although no attempt has been made to reconcile respective CYFs to a particular government fiscal year for direct comparison, it is the author's opinion that the FMS business of the firms contacted represents a respectable portion of the FMS sales market and could be higher than 10% of CFY 1975 FMS sales abroad.

In light of potential or contracted sales of the F-14, F-15, F-16, and AWACS, as well as HAWK and LANCE missiles and the Navy Patrol Frigate, together with other weapons systems, it would appear that FMS will continue to be a respectable portion of the US Defense Industry business base in this decade. This would appear to be supported by the sample taken. Further, the sample population anticipates holding a significant portion of that FMS business.

With regards to product mix, those interviewed produced, in aggregate, items in the ground and shipboard electronics, missiles, airborne sub-systems, and aircraft categories. Products tended to be of a high or current technology nature which would explain the significant involvement in FMS as opposed to direct sales.

Also included in the categorization question was one intended to determine the inter-service mix in each firms FMS sales, (question 8 Appendix A, p A-2). As was mentioned previously, there was a concern on the part of the author that the survey would be heavily bias in favor of US Air Force procurements. Survey results, however, indicated a heavy aerospace products bias as discussed above, but a service mix of 17% Army, 28% Navy, and 55% Air Force in aggregate. It is therefore the author's opinion that the results of this survey do not stem solely from the policies and practices under FMS as implemented by one service. Further, those which had a fairly even mix between the services felt that in general the services were all pretty much the same (question 9, Appendix A, p A-3).

Marketing

This series of questions in the survey was intended to identify those issues relating to the marketing of products abroad which evolved from doing business under the FMS Act.

Regards question 11 (Appendix A, p A-3), the firms were asked about flexibility in determining price/profit levels and delivery schedules under FMS. The potential issue perceived here was one of a conflict between the pricing and availability a firm might negotiate on its own after extensive marketing in a foreign country for a particular product under direct sales as opposed to the constraints placed upon them by the US Government, after the same type of extensive

marketing under FMS. It should be noted that except for certain rare instances when there is no domestic competition for a particular foreign customer's need, such as the AWACS aircraft program in Europe, US Industry must take the marketing initiative to interest the foreign government in its product. All of the marketing initiatives are company funded and non-reimbursable. Only after the foreign government has determined what it wants and approaches the US Government to act as intermediary does the US Government become involved in the actual sale. When the US Government does become involved under FMS, significant differences and constraints are imposed that are not applicable to a direct sale.

In response to this question, all firms felt there was not sufficient flexibility to determine price/profit and delivery schedules. They acknowledge the need for DOD to regulate the export of US weaponry due to the implications of US foreign policy and interests abroad. Also in many instances the items on a given production line may be mixed between Foreign and Domestic delivery.

However, the majority felt that there was a definite lack of understanding on the government's side of the interface at the working level relative to the difference between an FMS and a domestic contract. Contracting officers tend to negotiate the fee on FMS contracts just like a domestic contract despite the additional latitude provided in the Armed Service Procurement Regulations (ASPR). Although this latitude is permitted under the ASPR, it is felt that it is

seldom given adequate consideration by the working level US Government contracting officers.

The entire question of the applicability of the ASPR clauses as currently constituted to FMS contracts is felt to warrant reconsideration.

Regards question 12 (Appendix A, p A-4), firms were asked to what degree the Embassies and Military Assistance Advisory Groups (MAAG), in those countries where they exist, affect their Foreign Military Sales endeavors. The majority felt that the MAAGs were in general of great benefit. None felt they were detrimental in any way. However, the degree of assistance varied from country to country and seemed very much people-oriented. It was felt that the Government individuals attitude towards industry, i.e., "Pirates with black patches over their eyes" vs "businessmen trying to make an honest buck for their respective companies", had a great deal to do with degree of assistance provided. It was felt that they could do more to assist, but not without violating the current standing policy by DOD of maintaining an evenhanded disengagement until the foreign country elects to come forward on its own regarding a particular sale.

In question 13 (Appendix A, p A-4), the firms were asked to what degree the FMS Act affected the operations of their foreign subsidiaries, if any. Those which had foreign subsidiaries indicated there was no affect.

On question 14 (Appendix A, p A-4), the firms were asked about their opinions concerning the benefit that would derive from having DOD publish an immediate announcement of Foreign Military Sales opportunities in some publication like the US Commerce Business Daily. The majority felt that they knew what was going on in their areas of interest and that such an activity was not required.

In fact, it was suggested that such an action on the part of the Government might be counter-productive and might prove potentially embarrassing to their future customers by airing out their strategic needs in public. It would also probably result in sudden introduction of new suppliers into the loop causing chaos to their company financed non-reimbursable marketing activities. It would have, in the majority view, an adverse effect.

On question 15, (Appendix A, p A-4), the firms were asked to what degree the Armed Services and/or DOD were involved in the identification of potential FMS sales opportunities. All indicated that FMS sales opportunities were seldom identified in this fashion. On occasion an opportunity might drop in their lap, but the majority of the cases resulted from active salesmanship on their part prior to US Government notification of a desire to buy by the foreign government.

On question 16, (Appendix A p A-4), the firms were asked to rank order those factors considered strongest to weakest

for entering the Foreign Military Sales market. The strongest factor was determined to be the sustaining and expansion of current sales levels. Profit attractiveness and diversification of their business base were about equally rated as second. The profit attractiveness finding correlates with the findings on question 11.

One firm felt that the potential amortization of IR&D was a fourth ranked motivator. It is significant to note that all are currently in FMS because they want to be, although one firm indicated that their original entry was by direction of the Government, which they willingly accepted.

DOD/Industry Management Interface

This series of questions was intended to identify those issues relating to the management interrelationships between DOD and its components (The Armed Services) and industry under FMS.

Regards question 17 (Appendix A, p A-5), the subject of allowance of waivers for hardware deviation from specification requirements was explored under FMS as compared to domestic contracts with regards to Armed Services procurement manager treatment. The issue tested here was whether FMS contracts were treated in a more cavalier fashion because these were for foreign use or, more likely, treated much more stringently because of concern regarding the difficulty in persuading the foreign buyer that a particular deviation was in fact insignificant or the long logistic pipeline involved in correcting problems

later. All firms responded that FMS contracts were treated about the same as domestic procurements, i.e., no noticeable difference. It was pointed out, however, that in those instances where the foreign government had requested custom-tailoring for a non-US standard installation or modification, more stringent compliance was required by the US procuring service due to the uncertain ground resulting from such customization requirements.

Regards question 18 (Appendix A, p A-5), the firms were questioned concerning the difficulty experienced in communicating with foreign customers under the current DOD and State Department directives for performance of FMS contracts. The majority of firms felt that communications were reasonably easy to establish. An issue was raised regarding ITAR (export licensing) control of information prior to establishing a sale thru the FMS channel. This will be discussed under US Government regulatory control.

Question 19 (Appendix A, p A-5), concerned the degree of involvement of DOD/Armed Services involvement in the definition of quantity and delivery schedule in negotiating for the sale of military goods or services under the FMS Act. All firms indicated to a great extent. In retrospect, the question should have been reversed to determine the extent, if any, industry played in determining quantity and delivery

schedules. The interviews disclosed, that due to production phasing with domestic buys and the international politics of quantities, industry is in a support role in determining the above once the Letter of Offer machinery is set into motion.

Question 20 (Appendix A, p A-5), concerned the responsibility for logistics support after delivery of the equipment to the customer under FMS. The majority felt that logistics support should be a joint responsibility between the government and the contractor. The remaining firms felt that it should be the government's sole responsibility. Upon looking at the rationale behind the above responses it became evident that it was a function of the firm's product and the specific aspects of logistics support under discussion.

All firms expressed a desire to assure that their products were properly supported once they are deployed. The majority felt that logistics support planning by the contractor should be made an integral part of the original case which is not the general situation today. For those products which properly fall under the cooperative logistics support program by the US Air Force, spares were thought to be best supplied by the US Government. This is due to the fact that private industry cannot compete price wise with the economic advantage a foreign country gains in being a member of a common pool logistic support program that buys in quantity and whose costs are distributed among member nations.

Technical services, on the other hand, such as training and maintenance support in-country were felt by the majority to be better performed by US industry representatives. This was due to the contractor's closer familiarity with the product being supplied to the foreign customer and the thought that US provided in-country support should be non-military due to its being a substitute for an indigenous capability that does not as yet exist within certain developing foreign countries.

Question 21, (Appendix A, p A-6), concerned the effectiveness of the MAAGs and the areas where improvement in effectiveness could be achieved. The majority felt that the MAAGs were in general acceptable as currently constituted. A majority also felt that they would like to see the MAAGs play a more active role in assisting US industry in foreign market sales endeavors. For increasing effectiveness it was suggested that improved direct communication with US industry in-country sales representatives and more familiarity with the weapons systems acquisition process would be of great benefit.

Question 22 (Appendix A, p A-6), dealt with the degree of Assistance of DOD/Armed Services/MAAGs in dealing with foreign competitors. Two firms felt they helped to a great degree, one to some degree, and two felt that they were neither helpful nor detrimental. This response is in general agreement with the response to question 21 above. Only in those

very rare instances when only one US product is in contention with foreign competition does the DOD/Armed Services/MAAGs extend very helpful assistance. When more than one US firm is involved the MAAGs adopt a policy of complete disengagement, while still desiring some measure of control as to what is transpiring. The opinion was expressed that there should be some method of establishing even-handed support to compete with the foreign industry/government teams in foreign competition. It was indicated by several firms that the MAAGs should be chartered to be more aggressive in promoting US products abroad. It was expressed that a change to civilian personnel outside the military career type pressures could enhance effectiveness.

Question 23 (Appendix A, p A-6) concerned industry's opinion of the effectiveness of US Armed Service Program Managers as the managers of foreign country procurement of US products. A majority felt that they were very effective. It was noted that this tended to be personality oriented and that in the majority of the cases, the domestic and FMS program managers were the same. This was thought to be highly beneficial.

Question 24 (Appendix A, p A-7) concerned the degree to which DOD and/or the Armed Services exercise control over Foreign Military Sales contracts throughout the entire program. The majority felt that control was exercised to a great degree.

It was observed by a few that occasionally a service may backoff of controlling FMS contracts in favor of domestic contracts due to resource limitations. The potential issue underlying this question dealt with just this situation caused by the manning restriction placed on the Services to stay within ceilings despite the very significant increase in FMS over the last three years. The author felt that domestic contracts would receive more attention under scarce resource restrictions. Although some evidence was found this was not a universally experienced phenomena.

Question 25 (Appendix A, p A-7) was concerned with the ranking of problems when they occurred under FMS contracts. The most frequent problem by far was in the Primary Costing and Availability (P&A) area. The issue was the long time between submittal of data to the US Government in support of a Letter of Offer and the time a contract was received from DOD in behalf of a foreign government.

Instances of up to seven months have been experienced by some firms. In today's rapidly changing economic environment it is virtually impossible to hold a price good for that length of time. The second most common problem was divided between follow-on maintenance and technical problems. Both of these stemmed, when they occurred, from customized changes requested by the foreign government. The third most

common problem was evenly ranked between funding payment problems and communications difficulties with foreign customers. Inadequate government acquisition management quality was not selected in any instance.

Question 26 (Appendix A, p A-7) dealt with the issue of US Government competing with US industry for the role of systems managers for foreign governments. The majority felt that the US Government was not competing with industry.

Question 27 (Appendix A, p A-8) dealt with the issue of the effect of FMS on the receipt of prompt payment. While all firms responding felt that the FMS Act assured prompt payment and was beneficial to some extent, there was disagreement with those policies which apply ASPR type progress payments. This will be discussed more fully in the summary, Section IV.

US Government Regulatory Control

The questions in this section were intended to deal with the regulatory control aspects of the policies and practices of the US Government/DOD on US industry when doing business under the FMS Act.

Question 28 (Appendix A, p A-8) deals with the extent of the effect of the munitions control procedures resulting from ITAR on Foreign Sales both direct and under FMS. The responses varied from "Beneficial to some extent" to "adversely to a great extent". The consensus is adversely to some extent.

The majority felt that they had lost sales opportunities on occasion, not due to the inappropriateness of the item being considered for export, but due to the long delays in the processing of applications for export licensing.

The firms acknowledged the need for controls to protect US foreign interest, however, the number of personnel, 30 to 40 required to review and approve certain applications seems excessive. Further, the lack of clear delineations of administrative responsibilities for conducting this review, namely from which aspect does each person review the application and what are the specific objectives to be accomplished by his review, seem to be lacking. The impression given is that all thirty or forty can review the application from any aspect he chooses whether it be in his area of expertise or not. Another issue mentioned was the apparent high velocity of personnel changes in the approval cycle which tends to increase the delays and consequent difficulties.

Question 29 (Appendix A, p A-8), concerned industry's opinion of DOD/Armed Services involvement in Foreign Military Sales efforts, ignoring the conditions of the Foreign Military Sales Act. The majority felt that DOD/Armed Services involvement was helpful to some extent or to a great extent and felt that Foreign Military Sales were better with them than without them. A minority felt that their presence was detrimental to some extent because of the administrative layering which

slowed down the responsiveness and defocused the efforts within the services in establishing and managing cases for FMS.

Question 30 (Appendix A, p A-8) concerned which US Government agency the firm would contact initially for information on export licensing requirements for sale of a first line technology item, i.e., new state-of-the-art. The responses were evenly split between State Department and the Department of Defense. The issue under examination was to determine if there was a bias to check with the Department of Defense first regarding what position they would likely adopt prior to going to the State Department. As discussed above, some firms did, but not a majority.

Domestic Political Environment

The purpose of this section was to identify those issues which were thought to exist in the DOD/Industry interface with Congress.

Regarding Question 31 (Appendix A, p A-9), the firms were asked their impression as to whether the Congress and the American public understand and appreciate the potential foreign policy and domestic benefits of Foreign Military Sales. All firms responded "no." Although they recognized that considerable discussions within Congress have taken place in recent months, it was still felt that the benefits and consequences both domestic and foreign were not fully appreciated. The view

was expressed that when the United States gave away arms under grant aid the concern was not nearly as vocal as today when we are now selling it for profit. There is a sensation that when a profit is made on Arm Sales, there is a new moral issue in conflict with such sales that didn't exist under grant aid.

Question 32 (Appendix A, p A-9) concerned whether or not there was a greater need to increase government/industry coordination and cooperation in the area of expounding the need for and benefits of Foreign Military Sales to Congress and the American public. The sense of the majority response to this question was that there is greater need to increase the dialogue with Congress on the benefits of FMS but the majority felt it should be independent of any actions taken by the DOD. It was felt that there would be a strong suspicion of collusion by the "Military/Industrial Complex" on the part of Congress and such efforts quite properly should be separate and independent.

In particular it was felt that the House International and Senate Foreign Relations committees should be further informed as to the benefits derived, to give them a better perspective in their deliberations on this matter. It was felt that industry, on its own initiative, should form a new or add a committee to an existing association dedicated to

the foreign export market for military goods and services.
Such an institution would provide a more proper forum for the
necessary dialog between Industry and the Congress.

Summary Questions

The purpose of the following set of questions was to identify any major issues left uncovered by the survey and to allow each firm to rank their highest priority issue in the DOD/Industry interface from their particular perspective.

Question 33 (Appendix A, p A-9) concerned a preference for a different role by US Government/DOD/Armed Services, if any, in Foreign Military Sales and what that role should be. Since a range of responses was not provided, the responses are summarized for each firm. Firm One* declined to state an opinion.

Firm Two recognized that the US Government must be involved because the foreign government's want that US Government guarantee. He felt they wouldn't buy any system that wasn't in the US inventory. The centralization of FMS functions under the Defense Security Assistance Agency (DSAA) within DOD itself is felt to be proper in today's environment. However, it was stated that the current organizational structure within the services was not in tune with the evolutionary changes that have taken place in the foreign market. In the past, the US was selling equipment abroad which was pretty much off-the-shelf and therefore of a product nature. Today we find ourselves selling systems to foreign customers

*Not ranked in any specific order.

which are still in full scale development and hence not as yet off the drawing boards, let alone the inventory shelf.

There are also requirements for developing existing components and adapting current technology into entirely new systems to supply the specific needs of a foreign country. This is best exemplified by the Iranian communication's satellite system being studied by AT&T under FMS (9:13) and there are others. He felt that this will be a significant portion of future FMS activity.

The current service FMS function however is spread out throughout the entire service organizational structure. It functioned adequately, though slowly, in an off-the-shelf product environment which is amenable to the existing highly bureaucratic organizational modeled structure. This organizational structure cannot adequately cope with the horizontal information flow required in the dynamic outside environment of developing and new development systems.*

The revised role therefore should be for the DOD/Services to recognize the advent of the Weapon Systems Acquisition management class of FMS procurement and staff with more people familiar with Weapon Systems Acquisition in a centralized function higher up in the service structure, than the dispersed administrative logistician organization found today.

* The Author would like to point out that this is in exact agreement with modern management organizational theory (10:229).

The third firm also acknowledged the strong need for government and DOD in FMS. He felt that the role of DOD should be changed to feature more of an aggressive attitude in the foreign market place and to work more closely with Industry. It was suggested that to achieve this more aggressive role, DOD civilian personnel might be better employed. The reason behind the need for switching to predominately civilians within DOD for FMS was the restrictions regards career officers and engagement to any degree with Industry in a foreign sales team. These civilians could be selected from Industry, so that they better understand salesmanship and marketing. This new organization should be higher up in the service organization, detached from Industry to properly execute the advisarial monitor role of the US Government, but more knowledgeable of Industry's marketing problems.

The fourth Firm echoed the theme that there should be more of an aggressive joint approach to sales efforts abroad. He felt that the Government and Industry should act more as a team in dealing with foreign competitors.

The fifth firm forsees a need for a change in DOD in the next few years to more of a monitor and less of a management function. This will require a new role somewhere between direct with virtual nonengagement and FMS with total engagement in the Weapon System Acquisition Management sense. The requirement for this new role will spring from the experience

gained by foreign countries during the current round of FMS equipment purchases for which they are dependent on the US Government for acquisition management expertise. In their second round there is foreseen a shift to predominately direct sales. This new role will require a more centralized organization higher in the service structure with a new charter.

Question 34 (Appendix A, p A-9), allowed each firm an opportunity to express their views on the single most pressing issue between US Government/DOD/Armed Services and industry that should be addressed to enhance the effectiveness of Foreign Military Sales and direct sales. Again because of the discussion nature of the solicited response a summary of each follows.

Firm One expressed concern over the current controversy surrounding agent or contingent fees for foreign sales, direct and FMS, and the possible direction new legislation might take. Because of the effect on direct and FMS of this legislation and his firm's desire to "go one step further" in complying with the sense and intent of Congress, he felt that this issue was the most pressing due to its many possible outcomes, some possibly overly reactive and restrictive.

Firm Two ventured three key issues in descending order of priority. Number one was viewed to be timing and need to

* This would be the next logical evolutionary step envisioned by the Nixon Doctrine on the road to total selfsufficiency by our allies.

streamline the organizational structure in the State Department and the Armed Service organizations to make them more responsive to needs and opportunities that arise in the foreign market. Number two is to give DOD/Services a mandate to take the initiative in promoting products, systems, and services and not sit back and wait for a foreign government to come forward to express a need. The MAAGs in particular are currently prohibited from doing this by regulations which state their role to be one of purely authenticating the need. This stance implies that US industry must take the initiative with the potential customer to define and refine this need. And yet, in past years, MAAGs have objected when Industry went in to assist the foreign government in defining the needs and the best means of satisfying their needs without controls. It was felt that MAAGs should become either a part of the solution to the potential foreign customers problems or step out of the way.

The third issue was viewed to be, again, the disparity between the current product logistician's type organization existant today in the services and the change in the market place to developing and new development systems for foreign customers. It was emphasized that the normal weapon systems acquisition management cycle was seven to eight years in the US today for a simple domestic system. When you remove the customer 10,000 miles and put the requirement into the current

dispersed FMS organizational structure which the foreign customer doesn't know and go thru normal procedures, his problems may never get solved. In many cases the foreign customer has the cash and wants his new system right now. He felt Industry should be allowed to pick up the ball and run with it under some DOD surveillance.

Firm Three expressed the concern that DOD/Services need to take more of an active role in the marketing of US military products.

Firm Four expressed the primary need to streamline ITAR procedures and to provide administrative guidance to the reviewers relative to their responsibilities for review of a particular export license package.

Firm Five repeated the previously stated concern that the services need to be reorganized to come to grips with the developing and new development system requirements which have arrived on the Foreign Military Sales scene.

It should be noted that two of the five firms expressed an acute need for service reorganization to more effectively deal with the newly emerging character of FMS.

SUMMARY

Key Issues

The results of this survey indicate that important issues do, in fact, exist in the DOD/Industry interface. The major issues identified were in the areas of:

1. Cost/profit under FMS
2. Service organizational structure
3. MAAG charter and composition
4. Logistics considerations under FMS
5. Munitions control procedure administration
6. Congressional liaison

In the area of allowable costs and profits it was the consensus of the firms interviewed that more leeway should be allowed in the definition of allowable costs and that consideration should be given to permit industry to achieve higher profits on FMS category sales which would be more in line with direct sales profits. Further an education process needs to be undertaken within DOD to make the working level DOD contracting officers and program personnel better informed of the latitude and the reasoning behind why that latitude should be exercised under existing Armed Services Procurement Regulations (ASPR).

As was alluded to in section two, it was discovered after the survey that the Aerospace Industries Association (AIA) had in fact undertaken certain initiatives in the area of cost and profit. These initiatives were begun in November 1974

with a letter to the Deputy Secretary of Defense, William P. Clements, Jr., from the AIA requesting a review and revision of FMS policies and practices (11). The initiatives involved first the area of allowable costs such as interest, bidding and proposal, independent research and development, equipment leasing and rental, and advertising which are recognized by the Internal Revenue Service (IRS) as legitimate costs of doing business but not on DOD contracts. Secondly the area of payment schedules was raised in that ASPR permits only 80% progress payments to be negotiated. It should be noted that for the 20% unpaid balance due, US industry is in effect paying the interest charges and subsidizing the foreign country in reversed foreign aid. Thirdly, the area of profits was raised for reconsideration to permit FMS profit rates more in line with direct contract rates, i.e., up to 50% higher. It should be noted that costs and profits on direct contracts average 8-9% above those obtainable on FMS contracts (12).

In the second area the current organizational structure of the services appears inadequate to meet the new environment and character of Foreign Military Sales. The current service organizations are diffuse and administrative in nature. This suited the prior product market nature of FMS. With the change to developing and new development of total system efforts, the FMS function needs to be elevated to a very high organizational level, such as reporting to the Vice Chief of Staff.

This new organization needs to be staffed by personnel oriented to system definition and development with experience in weapon system acquisition management. These service organizations should have clearly defined authority and responsibility to keep the ball rolling.

Many US Government committees and study groups are known to be engaged in the study of FMS policies and practices at the current time within DOD and the Services. Within DOD, the OSD "Defense Contractor Relations Executive Committee," chaired by Dr. Currie, DDR&E, is looking into FMS as it impacts the DOD/industry interface. Within the services, the Air Force has the De Luca Study, the Broadwater Study, and an FMS Committee newly established in the Air Force Board Structure at Headquarters, USAF have FMS considerations as part of their charters (13:8). The survey indicates that no revised policies have as yet been implemented.

In the third area, the current charter and civilian/military composition of the Military Assistance Advisory Groups (MAAGs) in US Foreign Embassies warrant change in the view of the firms interviewed. A charter which would permit the MAAGs to be more aggressive in supporting industry, particularly in defining customer needs and system concept development to satisfy these needs appears warranted. In line with this revised charter it is felt that civilians might better function in this role due to the perceived

potential for military career limitations. This inhibitative concern is thought to stem from any close association with industry, albeit in a foreign competitive market situation.

In the fourth area, it was the majority opinion that logistics support planning should be established as a fundamental part of all initial FMS contracts, which is not uniformly the situation today. As has been experienced in the past on US domestic weapon systems acquisition, neglect of this area in initial planning invariably leads to difficulties later on. There is a current trend within DOD to emphasize logistics planning early on in all domestic Weapon Systems Acquisition. It is felt to be no less important in FMS contracts for the same reasons. This is substantiated in a recent study by a member within the Armed Services (14:45).

In the fifth area it was the majority opinion that the administration of the munitions control procedures are in great need of some administrative guidance to facilitate the assignment of responsibilities for each aspect of review of export licensing requirements. The number of personnel involved should be reviewed for possibly excessive administrative layering. A concerted effort should be made to increase the tenure of the personnel in the machinery of export licensing review and approval.

In the sixth area of Congressional liaison, it was the majority opinion that more needs to be done in advocating the

benefits of FMS to Congress, but that these efforts should be independent.

Although this study was confined to the Aerospace segment of the Defense Industry, which accounts for over 60% of the annual Foreign Military Sales transacted on a government to government basis (13:7), similiar issues have been identified in the non-aerospace segment. Similiar issues were raised at an Army Materiel Command (AMC) sponsored conference in Atlanta, Georgia, Atlanta II Conference, wherein industry was afforded an opportunity to raise any concerns for response and/or action in the AMC procurement practices area including FMS. Question 59 raised by industry covered the areas of allowable costs and progress payments. Question 60 concerned a desire on the part of industry to see more sales go into the direct channels because of the increasing delay in the FMS channel. This is perceived to be do to inability to cope with the backlog of orders resulting from the organizational structure and apparent low priority (15:18-19).

Recommendations for Future Study

The first two issues addressed above appear to be undergoing intensive review both within and without DOD. A follow up study would appear to be warranted in the future as the results of these studies become known. A detailed study of the current munitions control procedures with a

view towards specific recommendations for improvement is also indicated.

It is hoped by the author that this survey will serve in some way to focus attention on some of the important issues existing in the DOD/industry interface, which if rectified, can enhance US Foreign Military Sales endeavors.

APPENDIX A
QUESTIONNAIRE

FOREIGN MILITARY SALES
INDUSTRY SURVEY

FOREIGN MILITARY SALES
INDUSTRY SURVEY

Interview Definitions:

For purpose of this questionnaire, a direct sale is that sale consumated directly between US Contractors and foreign governments. Foreign Military Sales (FMS) establishes Department of Defense (DOD) contractual involvement with foreign governments and the subsequent DOD monitoring/managing of contractual effort by US contractors.

I General

1. Is your firm currently engaged in supplying any Military Equipment, construction and/or Services to Foreign Governments either as a prime or as a sub-contractor?

_____ Yes

_____ No

II Your Firms Involvement in FMS vs Direct

2. Please select your category of current company sales direct to foreign military establishments including equipment, construction and/or services.

_____ 0\$	_____ 21-50 mil \$ (US)
_____ Less than 5 mil \$ (US)	_____ 51-100 mil \$ (US)
_____ 5-10 mil \$ (US)	_____ 101-150 mil \$ (US)
_____ 11-20 mil \$ (US)	_____ 151-200 mil \$ (US)
_____ Greater than 200 mil \$ (US), please estimate range plus or minus 10%. (US) estimate _____ mil \$	

3. Please select your category of current company fiscal year (FY) sales to the US Government for Foreign Military Sales including equipment, construction, and/or services.

_____ 0 \$	_____ 21-50 mil \$ (US)
_____ Less than 5 mil \$ (US)	_____ 51-100 mil \$ (US)
_____ 5-10 mil \$ (US)	_____ 101-150 mil \$ (US)
_____ 11-20 mil \$ (US)	_____ 151-200 mil \$ (US)
_____ Greater than 200 mil \$ (US), please estimate to within plus or minus 10% _____ mil \$	

4. What percentage of your current company FY year total sales do you anticipate will be in the direct sales to foreign governments category including equipment, construction, and/or services?

<input type="checkbox"/> 0%	<input type="checkbox"/> 21-30%
<input type="checkbox"/> less than 5%	<input type="checkbox"/> 31-40%
<input type="checkbox"/> 5-10%	<input type="checkbox"/> greater than 40%
<input type="checkbox"/> 11-20%	

5. What percentage of your current company FY year total sales do you anticipate will be in the FMS category including equipment, construction, and/or services?

<input type="checkbox"/> 0%	<input type="checkbox"/> 21-30%
<input type="checkbox"/> less than 5%	<input type="checkbox"/> 31-40%
<input type="checkbox"/> 5-10%	<input type="checkbox"/> greater than 40%
<input type="checkbox"/> 11-20%	

6. What is your average anticipated percentage of sales direct to Foreign Military Establishments including equipment, construction, and/or services to total company sales over the next five years?

<input type="checkbox"/> 0%	<input type="checkbox"/> 21-30%
<input type="checkbox"/> less than 5%	<input type="checkbox"/> 31-40%
<input type="checkbox"/> 5-10%	<input type="checkbox"/> greater than 40%
<input type="checkbox"/> 11-20%	

7. What is your average anticipated percentage of Foreign Military Sales including equipment, construction, and/or services to total company sales over the next five years?

<input type="checkbox"/> 0%	<input type="checkbox"/> 21-30%
<input type="checkbox"/> less than 5%	<input type="checkbox"/> 31-40%
<input type="checkbox"/> 5-10%	<input type="checkbox"/> greater than 40%
<input type="checkbox"/> 11-20%	

8. From your firm's perception, which service provides the best FMS management practices. (Rank in order one thru three with one most acceptable or no opinion.) Please specify any key issues.

<input type="checkbox"/> Army	<input type="checkbox"/> Air Force
<input type="checkbox"/> Navy	<input type="checkbox"/> No opinion

8A. Key issues relating to service management practices:

9. Please indicate the approximate percentage of FMS for your company among the three major services.

_____ % Army + _____ % Navy/Marines + _____ % Air Force = 100%
_____ Have no FMS Sales (Check if applicable)

10. In what category would you place the majority of your anticipated Foreign Military Sales over the next five years?

- | | |
|----------------------------|------------------------------|
| _____ Ground Systems | _____ Support Systems |
| _____ Airborne sub Systems | _____ Training Services |
| _____ Missile Systems | _____ Computers/Software |
| _____ Munitions | _____ Technical Assistance |
| _____ Space Systems | _____ Other (please specify) |
| _____ Aircraft | |

III Marketing

11. Do you feel there is sufficient flexibility in determining price/profit levels and delivery schedules in FMS?

_____ Yes _____ No _____ Does not apply

11A. If no, what are your specific recommendations?

12. In your firm's opinion, the Embassies/Military Assistance Advisory Groups (MAAGs) in foreign countries are of _____ to your Foreign Military Sales endeavors.

- | | |
|---|--|
| <input type="checkbox"/> Great benefit | <input type="checkbox"/> Great detriment |
| <input type="checkbox"/> Some benefit | <input type="checkbox"/> Does not apply |
| <input type="checkbox"/> Some detriment | |

13. To what degree does the Foreign Military Sales Act effect your firm's foreign based subsidiaries in their dealings with foreign governments in military sales?

- Interferes to a great extent
- Interferes to some extent
- No effect
- Beneficial to some extent
- Beneficial to a great extent
- Not aware of provisions of the FMS Act.

14. Does your firm feel it would be beneficial to have DOD publish an immediate announcement of potential Foreign Military Sales opportunities?

- | | |
|------------------------------|-----------------------------|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No |
|------------------------------|-----------------------------|

15. From your firm's standpoint, to what degree are the Armed Services and/or the Department of Defense involved in the identification of potential FMS targets?

- | | |
|--|---|
| <input type="checkbox"/> To a great extent | <input type="checkbox"/> None at all |
| <input type="checkbox"/> To some extent | <input type="checkbox"/> Does not apply |

16. From your firm's viewpoint the factors considered the strongest to weakest motivation factor for entering the Foreign Military Sales market are (rank one thru five, one is the strongest)

- Profit attractiveness
- Diversification of business base
- Direction from US Government/DCD/Services
- Sustain/expand current sales levels
- Other (please specify)

IV DOD and Industry Interface

17. With respect to allowance of waivers for specification deviations, our firm feels that US Service Acquisition authority treats FMS contracts _____ compared to domestic contracts.

- _____ a. With complete inflexibility
- _____ b. More stringently
- _____ c. About the same
- _____ d. Less stringently

18. Your firm feels that routine FMS DOD/contractor communications with our Foreign customers are _____ to establish, in light of current DOD and State Department directives.

- _____ a. Does not apply
- _____ b. Reasonable
- _____ c. Not properly coordinated between industry, DOD and the country
- _____ d. Not properly coordinated between industry, DOD and the country and taking too long
- _____ e. Taking too long

19. To what degree are the Defense Department and/or the Armed Forces involved in the definition of the quantity and delivery schedule in negotiating for the sale of military equipment under the foreign Military Sales Act?

- | | |
|-------------------------|----------------------|
| _____ To a great extent | _____ None at all |
| _____ To some extent | _____ Does not apply |

20. Your firm feels that logistics support should be _____ after delivery of the equipment to the customer under FMS.

- _____ a. The contractor's sole responsibility
- _____ b. A joint responsibility between government and contractor
- _____ c. The government's sole responsibility
- _____ d. Of no concern to government or contractor

20A. Please provide rationale for above response.

21. In your firm's opinion the effectiveness of the Embassies/MAAGs could be enhanced by (rank in order of importance one thru seven with one the most important or no opinion.)

- No opinion (need not rank)
- Acceptable as currently constituted (Need not rank)
- Assignment of personnel with longer tenure in the military service
- More familiarity with the in-country language and customs
- More familiarity with weapon systems acquisition management
- More familiarity with my firm's capabilities
- Improved direct communications between MAAGs and my sales representatives
- Other (please specify) _____

22. The involvement of DOD/Armed Services/Embassies/MAAGs _____ your firm's efforts in dealing with foreign competition. (Please select one) Please specify where appropriate the extent of interfaces with specific examples.

- Helps to a great extent
- Helps
- Interferes with
- Interferes to a great extent with
- Does not apply to
- Extent of interfaces: _____

23. Government managers are _____ as FMS country program managers of your product.

- Very effective
- Effective
- Ineffective
- Very ineffective

23A. Please provide rationale for above response.

24. To what degree does the DOD and/or Armed Services exercise control over your Foreign Military Sales contracts throughout the entire program?

To a great extent None at all
 To some extent Does not apply

25. In the execution of your Foreign Military Sales contracts the following problems occur most frequently to least frequently (note one thru eight, one is most frequent. Rank only those which apply.)

- Primary costing (P&A data) problems
- Funding/payment problems
- Delivery problems
- Technical problems
- Contractual language/terms and conditions problems
- Government Acquisition Management quality inadequate
- Communication difficulties with foreign customers
- Other (please specify)

26. In its role as FMS program manager for foreign governments, do you feel that the DOD/Services are competing with US Industry as systems managers?

Yes No

Please comment: _____

27. To what degree does your firm feel that the Foreign Military Sales Act affects prompt payment to the contractor?

- _____ a. Interferes to a great extent
- _____ b. Interferes to some extent
- _____ c. Beneficial to some extent
- _____ d. Beneficial to a great extent
- _____ e. Does not apply

V Regulatory Control

28. To what degree do munitions control procedures have an effect on Foreign Sales either FMS or direct?

- _____ a. Adversely to a great extent
- _____ b. Adversely to some extent
- _____ c. Beneficial to some extent
- _____ d. Beneficial to a great extent
- _____ e. No opinion

29. Ignoring the conditions of the Foreign Military Sales Act for the moment, our firm feels that the involvement of DOD/ Armed Services is _____ to your Foreign Military Sales effort.

- _____ Helpful to a great extent
- _____ Helpful to some extent
- _____ Detrimental to some extent
- _____ Detrimental to a great extent

30. What United States Government agency would you contact first for information on export licensing requirements for a sale of a new first line technology item, i.e., new state-of-the-art?

- _____ Commerce Department
- _____ State Department
- _____ Department of Defense
- _____ Other (please specify) _____

VI Political Considerations

31. Does your firm feel that the Congress and the American public understand and appreciate the potential foreign policy and domestic benefits of FMS?

_____ Yes _____ No _____ No opinion

32. Does your firm feel that there is _____ to increase government/industry coordination and cooperation in the area of expounding the need for and benefits of Foreign Military Sales to Congress and the American public?

_____ Greater need _____ No further need

32A. Specific recommendations: _____

33. Does your firm favor a different role by the US Government/DOD/Services in foreign Military Sales and if so, what should that role be?

34. What in your view is the single most pressing issue between US Government/DOD/Armed Services and industry that should be addressed to enhance the effectiveness of your Foreign Military Sales and direct sales?

35. Additional comments, use additional pages if necessary.
(Please refer to question numbers if related to previous
questions).

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DEFENSE SYSTEMS MANAGEMENT SCHOOL

STUDY TITLE: INDUSTRY SURVEY: ATTITUDES TOWARDS DOD/INDUSTRY
INTERFACE UNDER FMS

STUDY PROJECT GOALS:

To identify those issues perceived from industry's perspective that exist in the DOD/Industry interface as a consequence of conducting business under the Foreign Military Sales Act (FMS).

STUDY REPORT ABSTRACT

The report discusses the results of a survey to determine industry's attitudes towards DOD/Industry interface when conducting business under the Foreign Military Sales Act (FMS) of 1968. This survey was conducted by utilizing a structured interview with a key executive involved in the FMS activity of five representative aerospace firms. Survey was broad in scope and covered the areas of marketing, management, US Government regulatory control, and domestic political environment. Key issues identified include cost/profit under FMS, Armed Service organizational structure, MAAG charter and organization composition, logistics considerations under FMS, munitions control procedure administration and Congressional liaison. Some of the current Government studies and committees addressed to FMS issues for the DOD/Industry interface are identified. Recommendations for future studies are included.

KEY WORDS

MATERIEL DISTRIBUTION FOREIGN MILITARY SALES AEROSPACE INDUSTRIES
MILITARY ASSISTANCE

MILITARY INDUSTRIAL COMPLEX

NAME, RANK, SERVICE

John W. Montgomery, Rockwell

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