

## Defense Trade Policy

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Remarks to the Society for International Affairs Conference  
Washington, DC  
November 8, 2004

Thank you and good morning.

Timing is everything. SIA [Society for International Affairs] has, quite masterfully, timed this event after November 3, so that we may all take stock of the election results and look ahead. So to the SIA organizers I say: congratulations for that. The only problem is, President Bush and Secretary Powell have not yet worked through to the issue of defense trade policy, such that I can give you a first look at the second Bush Administration's handling of this important issue.

The best I can offer this morning is a series of observations and pertinent facts that, in my view, position the Administration for an approach that advances our national interests. I'd like to offer comments on four major players whose actions really matter to our defense industrial base and hence our nation's future security. These major players are: the U.S. Government, the Congress, allied governments, and – lest you thought I forgot – you, the U.S. defense industry.

### The U.S. Government

What can we say about the Administration? Let me start with something the election post-mortem analysts seem to agree upon: that President Bush is tough on terrorism. Having worked on political-military issues for nearly four years in the State Department under Secretary Powell's energetic leadership, I can tell you that the fight against terrorism is our top priority. Even my own bureau within the Department has been operating 24/7 since three days after 9/11, 2001.

We've arranged the base access, overflight, and landing rights for U.S., allied and coalition forces for Operations Enduring Freedom and Iraqi Freedom. We have managed the flow of security assistance funding to partner countries worldwide and maintained a network of ambassador-level political advisors – POLADS – with the service chiefs, NATO, and all the geographic and functional combatant commanders as well as task forces in the Balkans, Afghanistan and the Horn of Africa.

Indeed, our friend and colleague, Turk Maggi, has joined the ranks of the POLADS. After leading a team to Baghdad last month and straightening out the legal arrangements for a robust supply of weapons to the training effort of the Iraqi security sector, has now signed on for more wartime duty. Today and for the next year, Turk is serving as our POLAD to the commander of the U.S. joint task force in Bagram, Afghanistan.

Since September 2001, we have reviewed and cleared – usually within a matter of hours rather than days – hundreds of deployment and operations orders, ensuring that important missions will be accomplished in an appropriate manner.

And we have overseen the negotiating effort around the world for bilateral agreements protecting Americans from being turned over to the International Criminal Court without our consent – an effort that is very close to reaching 100 bilateral agreements.

We have been at the forefront of the effort to consult with allies in Europe and Asia on the Pentagon's new Global Defense Posture, and are similarly in the lead on the Global Peace Operations Initiative, an effort to improve readiness of up to 75 peacekeeping battalions around the world over 5 years, which was announced at the Sea Island G-8 Summit and featured by President Bush in his UN General Assembly speech this September.

Finally, I should mention that I and my bureau have gone long distances to all corners of the world to get rid of

shoulder-fired missiles that could fall into terrorist hands. In the past year alone, we have destroyed close to 10,000 of these "MANPADS."

My point? The people in the State Department who are working overtime to ensure that our military forces and their warfighting allies are prepared and able to get to the front lines of the fight are the same people making sensitive arms transfer and licensing decisions.

I raise this because it is important for defense exporters to have a sense of what drives the policy process. You have seen the military services take a particularly strong interest in technologies like night vision, electronic counter-measures, and other capabilities that give American soldiers and airmen a decisive advantage in combat.

You have seen a concerted effort by DOD and State officials as well as the White House to respond to the voices of our allies and coalition partners asking us to pay attention to their own modernization and interoperability needs.

I am talking about countries that agreed to send troops and share the risks with American forces in Afghanistan and Iraq; countries that put up very large financial commitments and joined with the U.S. to develop and build the Joint Strike Fighter; countries that agreed to change their laws and pass treaties accepting significant new controls in order to connect their key defense industries to ours through a license exemption arrangement. In other words, countries that have made a clear strategic decision that their own security strategy is to work as our partners, through thick and thin.

I think it is worth noting that for those allied and coalition governments, sticking with the United States has not always been the easiest course politically. They are democracies, and they face tough opposition in their parliaments to spending more on defense, and committing troops to risky duty in wars which have not enjoyed unanimous support among their people.

And yet, these countries have stepped up to a share of the security burden post-9/11 – just as we have asked them to do. Our future plans for transformation and the new global defense posture will clearly work best with the strong participation and support of other allies and friends. These considerations are very much at the heart of our policymaking on defense trade. Defense trade policy is security policy, and is a foundation stone of the war on terrorism.

Congress

Which brings me to the role of Congress.

You might think the Administration would like nothing more than to be left alone by Capitol Hill on defense trade, but this is not so. We in the Executive Branch do best when Congress takes its oversight role seriously. That way, if we exercise our authorities in an unwise manner, there is a useful corrective.

The fact that we operate in the spotlight of Congress's oversight keeps us on our toes, ready to subject our actions to the scrutiny of a separate but equal branch of the government. To cite one legislator, I think Senator Lugar, the Chairman of the Senate Foreign Relations Committee, sets a very laudatory example of exercising oversight in this area while keeping in focus the bigger picture of foreign policy as we confront the new dangers of this century.

In the second Bush Administration, my hope for Congress is two-fold:

First, I hope that the leadership in Congress will make a special commitment to stand with the President and support him on defense trade policy, bearing in mind that this Administration is solidly focused on national security imperatives with all the decisions we make.

And second, whenever Congress is reviewing the course of action chosen by the Administration in the defense trade area, if consultations with staff do not resolve the Hill's concerns, the members need to engage directly.

I also believe that any time the Executive Branch is asked by the Hill to modify its preferred approach to a sensitive defense trade or arms transfer issue, the decision to pursue an alternative approach must involve the members themselves in fulfillment of their oversight responsibilities.

I say this in the interest of public accountability, recalling that the Executive Branch operates under healthy scrutiny, where its actions can be investigated by the Congress's General Accounting Office, its papers can be recovered by the public under the Freedom Of Information Act, and its officials can be asked to defend their decisions in a public hearing.

## Allied Governments

Let me turn to the third major group of actors affecting the defense trade picture – allied governments. It is a fact that most of our allies have a tradition where defense exports are viewed as a sector of commerce, one that historically has not been subject to strong governmental restraint, outside of the nuclear and related arms control regimes. There are exceptions, such as Japan with its post-WWII constitutional constraint on exporting weapons. Sweden is very rigorous in its defense export controls.

But the U.S. insistence on regulating every item on the Munitions List exported to any destination or end user, for any purpose, sets a standard that generally has not been matched by our security partners.

That said, these same partners have been trusted with highly sensitive intelligence, and their forces have received the same operational briefings as our soldiers, sailors, airmen and marines heading into hostilities. As a political matter, we have shown by our actions that we trust many allies with our soldiers' very lives. And in turn, those governments have proven reliable in safeguarding this information.

This reality informs our approach to defense trade. No country is immune from the risk of diverting our defense goods and technology once exported. The task at hand is to work closely with partner governments to reduce the risk and to police the flow of approved exports and transfers together, in partnership.

This is exactly the approach we have begun to pursue in the State Department with the creation of an Office of Defense Trade Policy, and far more overseas face-to-face, regulator-to-regulator engagement than has ever occurred before. The Administration is concerned about the European Union's interest in ending the arms embargo it imposed on China after the Tiananmen Square events of 1989.

It is important for European governments to keep a close eye on the regulatory view from Washington. As we think about sharing warfighting technology with our European allies, it is fundamental that we be assured of no possibility that these capabilities could migrate onward into the Chinese military. East Asia is a region where the U.S., Japan and others are exerting great efforts to maintain stability in the face of tense relations across the Taiwan Straits.

We have had a continuous and high-level dialogue with the European Union members, which has been useful in reminding many of them how much a positive defense trade relationship with the United States supports their own national security goals for the years ahead. We'll stay on this issue.

## Defense industry

Finally, I want to say a few words to and about the U.S. defense industry. Those of you with experience working license approval issues going back five or more years will know that the Administration has fundamentally changed how we regulate defense exports. If I may single out one official, Lisa Bronson and her colleagues in DOD have made significant management reforms.

In the State Department, we have realigned the defense trade office; increased the executive ranks and staff; established a response team that fields dozens of queries a day without slowing down the licensing officers; rolled out D-Trade this past February, the fully integrated electronic defense trade control system; stepped up end-use checks around the world under the Blue Lantern program; and brought large and sensitive compliance cases to closure, many providing for remedial action that will discourage any repeat of the violations, so that the government can maintain confidence in our defense industry.

We have other, forward-looking initiatives that have not been brought to fruition as of this juncture.

## Conclusion

Time will tell if the Administration, the Congress, allied governments and the U.S. defense industry can come together on sensible approaches that permit us to field sophisticated and interoperable capabilities, and to control technology sensibly in the digital age.

There are questions being raised about whether corporate America will move defense-manufacturing jobs overseas, and whether allies are more interested in acquiring our warfighting technology in order to exploit it commercially than to share future security burdens and risks with us.

There are questions about Congress's approach to the kind of collaborative arrangement we will need to design and field theater missile defenses with key allies, and other major weapons that may become priorities among ourselves and key security partners.

I don't know, in summary, how this will come out. There is little doubt that the Administration will call issues as they see them, from the standpoint of national security priorities. Congress, as I have said, has the opportunity to strengthen the President's hand in an area where our future armed forces members will thank them.

Allies who look to the U.S. as their key security partner will be, in my view, far more forthcoming in their exertions toward our common security goals if Washington can speak with a clear, united voice on the areas where we support aggressive collaboration and those we do not.

That leaves you, the defense industry. There are some potent forces at play that could change the terms of your engagement with traditional partners. I have touched on protectionism, fears of leakage to China, and uncertain congressional support in some quarters.

My advice is to think strategically. Look far into the future. Make compliance with our laws and regulations a fundamental building block of your R&D, manufacturing and marketing operations. Focus on the warfighters, how they fight, how they win, and what they will need down the road.

And please, work with my team to make your licensing operations fully electronic.

I thank you for your kind attention.

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