
U.S. Policy Regarding Third Country Sales

By

H. Diehl McKalip
Director, Security Assistance Operations
Defense Security Assistance Agency

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In May of last year, a committee of the United States Congress held a day-long hearing on the subject of the foreign production of American military small arms. The Committee focused on a report by the United States General Accounting Office (an investigative activity of the Congress) that studied questions regarding a memorandum of understanding (MOU) between the governments of the United States and a Pacific country for the production of an American-designed rifle in that country. The MOU set particular guidelines as to the number of rifles that could be produced and prohibited sales to third countries without the prior approval of the United States Government.

Since the last amendment of the MOU, the General Accounting Office reported that the foreign production facility had manufactured rifles and spare parts in excess of the agreed level. There was also evidence presented of a third country sale which was made without the consent of the United States.

The Committee's reaction was strongly negative, and the Departments of State and Defense were directed to reappear at a future date to indicate what had been done to take action regarding the specific allegations in the rifle case, and to remedy the apparently insufficient oversight of off-shore production programs.

I will not render an opinion on the specific allegations in the rifle case. Our government obtained the cooperation and assistance of the foreign government in obtaining a full explanation, to include an accounting of all rifle and spare parts production. I do sense, however, that trust between two good friends was damaged. Our Congress demanded that the foreign production of U.S.-origin defense articles be controlled and, if appropriate, offenders be punished. While not of the same magnitude as other, more publicized affairs, this was seen as another leakage of American technology by those more interested in commercial gain than mutual defense concerns.

Revelations such as the rifle matter, regardless of the outcome, undermine the foundation of American policy in the Pacific region--security through cooperation. *American law and policy are very clear; there will be no retransfer of U.S.-origin defense articles, services, or technology without the prior approval of The United States Government.* Military sales agreements state this; memoranda of understanding governing coproduction or licensed production state this; and export licenses permitting the shipment of commercially purchased military goods and services state this. It is a moral commitment between friends, not subject to legal manipulations.

Many Pacific nations over the last 10 to 15 years have created defense industries which are capable of producing most of the material required for a modern military establishment. The United States is proud to have played a role in this industrialization process and intends to continue

to do so. It has created, however, a problem similar to that confronting our own defense industry--underutilization. The cure for this underutilization increasingly appears to be foreign sales.

Foreign military sales, at best, should supplement the requirement for a national defense industry. The United States has a defense industry for the primary reason of providing for the defense of our nation. Currently there is about a \$150 billion annual defense procurement budget. Foreign sales (commercial and government-to-government) are between \$15 and \$20 billion a year. These sales are important to our production base, but they are not the solution to underutilized industry. This is something all must recognize. No country's defense industry operates without a substantial subsidy from its citizens. This is one cost of freedom and independence.

All of our close friends and allies are treated the same with regard to third country sales of military equipment of American origin. Therefore, any nation may be permitted to engage in the third country sale of U.S.-origin defense articles and services. We do not favor one ally over another. Our government believes this policy serves the common defense needs of all countries and contributes to maintaining the defense industries of our friends and allies, an especially important aspect of national security.

It would be the contention of many of our friends that we are overly restrictive in approving and monitoring their efforts to market items in their inventories or produced by their defense industries that have some U.S. content or technical basis. It is a tough process by which the United States Government evaluates such requests. While not ignoring the importance of these transfers to other nations and to their defense self-sufficiency, the evaluation must also be mindful of our own interests: limiting the proliferation of weapons systems to various countries and regions of the world; controlling access to sensitive, state-of-the-art technology; sustaining our own defense industries; and recognizing our economic and employment needs.

In summary, the United States Government will continue to control third country sales or transfers of U.S.-origin defense articles and services and technology. Requests for sales will be reviewed on a case-by-case basis. The review will consider our view of the recipient, the sensitivity of the technology proposed to be transferred, the impact of such production on our joint defense commitments, and the effect on the American defense industrial base. There is no bias against such sales by foreign industry, but they must be justifiable.

Finally, the future is now; cooperative and joint arrangements are becoming commonplace and must address this reality. Arrangements must be agreed to which control the production and transfer of military equipment, and they must be scrupulously observed.