

THE DEPARTMENT OF COMMERCE'S NATIONAL DEFENSE CONVERSION PROGRAM

The Department of Commerce, through the Bureau of Export Administration (BXA) has developed a comprehensive assistance program for U.S. industry in response to the dramatic reduction of defense spending. This program, an important part of the Department's overall efforts in defense conversion, consists of four main areas: defense diversification seminars, a needs assessment program, international diversification market assessment guides and defense trade advocacy. The components of this strategy linked together provide a wide variety of short and long term assistance to address the immediate and emerging needs of the defense industrial base. Each program is briefly described in the sequence of addressing the short, medium and long-term needs of U.S. defense firms.

International Diversification and Defense Market Assessment Program: This program is structured to provide information that will address an immediate need to determine new markets for dual-use and defense products. In this way, the market assessment program offers current information to U.S. firms through the development of international diversification and defense market assessment guides. These guides provide a variety of information to U.S. manufacturers regarding non-traditional dual-use and defense markets in the Pacific Rim, Europe, the Middle East, and the Western Hemisphere. Each chapter within these guides offer comprehensive information on how to do business in targeted countries, as well as specific commercial and defense trade opportunities open to U.S. firms in these markets. These guides are designed for small U.S. businesses that are new to exporting. The market assessment program has been developed to help U.S. firms maintain revenue from alternative domestic or international markets which, in turn, will allow time to implement diversification or conversion programs.

Defense Trade Advocacy: The Bureau of Export Administration, with its strong historical relationships to both the Department of Defense and Department of State, is placed in an advantageous position to serve as an advocate for the U.S. defense industry in its efforts to successfully compete for overseas procurements. Within this role, BXA generates high level government-to-government advocacy on behalf of U.S. industry. The agency also serves as industry ombudsman in the interagency community, interjecting economic and competitiveness considerations as well as overall industry concerns into U.S. arms transfer determinations.

Defense Diversification Seminar Program: An integral part of the Commerce Department's national program, the diversification seminar series, while available to all firms, specifically targets small and medium size defense manufacturers. These seminars are designed to provide firms with the informational tools needed to take advantage of domestic as well as global business opportunities. Seminar topics areas include: technology transfer; accessing and commercializing federal R&D; federal, state and private sector financial assistance; international marketing assistance; marketing to the U.S. and state governments; and regulatory requirements for defense exports. The first seminar program, called the 1994 Resource Matching Program was held in California and due to its success, BXA has expanded this program to reach defense firms in all areas of the U.S. that have been adversely impacted by defense cuts. In FY95, the California program was expanded to include seminars held in Arizona, New Mexico, Utah, Washington and

Oregon. Concurrently, the Bureau of Export Administration launch its Eastern regional seminar program in the Northeast where seminar programs were held in Connecticut, Rhode Island, and Pennsylvania. Other expansion sites in FY97 include Texas, Massachusetts, and Alabama. This program is crafted and specialized to meet the unique requirements of each state. The seminar program provides the information necessary for U.S. firms to begin the development of an appropriate diversification or conversion strategy.

Needs Assessment Program: The Bureau of Export Administration's Needs Assessment Program entails a longer term focus by providing specialized, firm-specific diversification assistance. Within this program, firms are requested to complete a short questionnaire which assesses their current diversification efforts as well as determining what kinds of assistance would be most useful. An interagency response team has been assembled which will then work with individual firms, providing a coordinated response to individual firms' needs. The team includes representatives from various agencies within the Department of Commerce, the Department of Energy's National Laboratories, the Export Import Bank, the Small Business Administration, the Department of Labor and various state agencies.

These four areas that make up the core of the Commerce Department's national defense conversion program can be effectively utilized by U.S. firms that are at virtually any phase of defense diversification or conversion. For additional information about these programs, please contact the following BXA office:

Office of Strategic Industries and Economic Security
Room 3876
U.S. Department of Commerce
Washington, D.C. 20230

Tel: (202) 482-4695
Fax: (202) 482-5650
e-mail: jisbell@bxa.doc.gov **or**
orji@bmpcoe.org

THE ROLE OF THE COMMERCIAL OFFICER AND THE COMMERCIAL SERVICE

The primary role of the Commercial Officer and the U.S. Commercial Service (CS) of the Department of Commerce is to assist U.S. companies in entering foreign markets. The CS offers a variety of market information and sales related services aimed at assessing a company's export potential, identifying markets, and selecting potential buyers and representatives abroad.

The Commercial Service is a worldwide network of export specialists located in 47 domestic offices and at U.S. Embassies in 77 countries. Under a strong Congressional and Executive Branch mandate to assist small and medium size firms to export and expand into foreign markets, the CS promotes U.S. commercial interests abroad.

International trade specialists located in the CS district offices throughout the United States are often the first stop for companies looking at foreign markets. Domestic offices can supply information and data about specific foreign markets, explain and provide a variety of specialized CS services, and assist in the export process. Some of the services available are briefly described below:

Agent Distributor Service

The Agent Distributor Service (ADS) identifies potential agents, distributors, and representatives in a foreign country. The U.S. company provides promotional and technical materials concerning its product to an export specialist in a CS district office in the United States. Within 90 days, the client receives a list of up to six prospective contacts. The CS offices abroad will assist in making appointments and introductions upon request. The fee for this service is \$125 per request.

Market Research

CS district offices in the United States have market information on all foreign markets. The Country Marketing Plan, prepared annually by each CS office abroad, provides an overview of the commercial environment, market opportunities for U.S. products, and other useful information. Furthermore, these offices have current information on commercial trends abroad and new trade opportunities. Fees for this service vary.

Single Company Promotions

CS offices at U.S. Embassies can plan and host promotions for specific U.S. companies entering a new market. The charge for this service is cost reimbursement.

Trade Missions, Trade Shows, and Matchmakers

CS offices worldwide and other units of Commerce's International Trade Administration (ITA) in Washington organize, promote, and manage trade missions, U.S. exhibitions at

international trade fairs, and Matchmaker programs. The Matchmaker program is a service that combines the advantages of a trade mission and private export counseling. The charge for this service is cost reimbursement.

Comparison Shopping Service

The Comparison Shopping Service provides concise answers to a list of 12 questions directed at evaluating the suitability of a product to a foreign market. This service also identifies the competitors, price, promotion and distribution systems, as well as trade barriers. The charge for this service ranges from \$500 to \$1,500, depending on the market requested.

Additional services and counseling are available from Commercial Officers and the CS. For more information regarding specialized services contact your local CS district office (listed in the local telephone book under Department of Commerce), the U.S. Embassy, or write to the Director General of the Commercial Service at the following address:

Director General
U.S. Commercial Service
Room 3802
International Trade Administration
U.S. Department of Commerce
Washington, D.C. 20230

THE ROLE OF THE OFFICE OF DEFENSE COOPERATION AND THE SECURITY ASSISTANCE OFFICE

The term "Security Assistance Office" (SAO) is a generic term encompassing DoD elements located in a foreign country that are responsible for Foreign Military Sales (FMS) and associated services, including training, sales management, program monitoring, evaluation of the host government's military capabilities and requirements, administrative support, and liaison functions. The SAO also promotes standardization and interoperability of host country and U.S. equipment, and promotes armaments cooperation between the United States and its friends and allies. Many SAOs have independent status within the U.S. embassies and are referred to as Offices of Defense Cooperation (ODC); some have armament cooperation contingents.

Administration policy on the SAO/ODC role in support of defense sales overseas has changed dramatically over the last few years. Starting in 1981, the Reagan Administration progressively replaced the previous restrictive guidelines with a policy that fully supports U.S. defense sales overseas. In August 1988, the DoD issued supplementary guidelines addressing the roles that SAOs and ODCs should play in assisting U.S. defense industry sales. Consequently, part of the SAO and ODC mission is to support the marketing efforts of U.S. companies while maintaining strict neutrality between U.S. competitors.

Providing Country Information

Upon request, and subject to such factors as availability of resources and country sensitivity, the SAOs or ODCs can provide industry representatives with the following kinds of unclassified information:

- Data on the defense budget cycle in the host country, including the share of that budget devoted to procurement. Data on the country's current FMS and Military Assistance Program budgets.
- Information on the national decision-making process, both formal and informal, and on decision makers in the Ministry of Defense and military services.
- Information on the national procurement process, to include bidding procedures, legal or policy impediments to procurement from U.S. sources, and other information necessary for the U.S. commercial competitor to deal effectively with the country.
- Estimates as to the kind of equipment the country currently needs to fill defense requirements and that it is likely to need in the future, as well as procurement plans for this equipment as known and appropriate for disclosure.
- Information regarding the marketing efforts of foreign competitors.

- Information on major in-country defense firms and their products. This can assist U.S. firms in identifying possible subcontract support services or exploring teaming, licensing, or other cooperative arrangements.

Appointments

The SAOs/ODCs can also facilitate appointments in the host country Ministry of Defense (MoD) and military services. In order to avoid the impression of SAO/ODC endorsement of a given item or service, making calls for appointments with country officials will normally be done by the industry representatives involved in a marketing effort, unless the host country prefers to work directly with SAOs/ODCs.

Thirty days prior to the proposed visit, industry representatives should provide to the SAO/ODC the following information:

- A synopsis of equipment and services proposed for sale.
- Current export license information, including restrictions and provisos.
- Dates of planned in-country travel/country clearance request.
- Non-proprietary information already provided to the host country, or other contacts concerning the equipment in question.
- Specific support (e.g., briefings, appointments) requested.

U.S. Competitors

Unlike most other countries that sell defense equipment, the United States is likely to have more than one producer of a given weapons system. SAOs/ODCs will maintain neutrality between such competitors. When more than one U.S. competitor is involved, the SAO/ODC should still be able to explain to host country personnel why the purchase of a U.S. system would be to the country's advantage. If asked by a representative of one U.S. company, the SAO can acknowledge whether and when other U.S. vendors have come through the country, but he cannot divulge any marketing strategy or other proprietary information of any U.S. competitor.

Commercial Versus FMS Sales

DoD policy generally has no preference whether a foreign country fills its valid defense needs through FMS or commercial channels. DoD tries to accommodate preference for direct sales, if such a preference is indicated by the contractor, unless the host country requests to make the purchase through FMS or the specific item is restricted to FMS. DoD policy also provides that price quotes will not normally be provided for comparison of FMS and direct sales.

U.S. firms should also have a working knowledge of the major differences between FMS and direct commercial sales. A DoD publication entitled [A Comparison of Direct Commercial Sales and Foreign Military Sales for the Acquisition of U.S. Articles and Services](#) is available through the following office:

Commandant
Defense Institute for Security Assistance Management
DISAM/DIR, Bldg. 125, Area B
Wright Patterson Air Force Base, OH 45433-5000
Tel: (513) 255-2994/3669

Follow-Up

Prior to departing, visiting U.S. contractors should debrief the SAO/ODC and other relevant members of the country team on their experiences in-country. The SAO/ODC will provide any known reactions from host country officials or subsequent marketing efforts by foreign competitors. Embassy staff will also be alerted about obtaining reactions from host country officials and sharing these with industry representatives.

For detailed information on the role of the SAO in support of U.S. defense sales overseas, refer to DoD 5100.38-M within the Security Assistance Management Manual. This can also be obtained from the Defense Institute for Security Assistance Management.

THE RECIPROCAL PROCUREMENT MEMORANDA OF UNDERSTANDING

Background

To promote rationalization, standardization, and interoperability of defense equipment within the North Atlantic Treaty Organization (NATO), Congress enacted the Culver-Nunn Amendment to the fiscal year (FY) 1977 Defense Authorization Act, which authorized the Secretary of Defense to waive the Buy American Act of 1933. Under this authority, the Department of Defense (DoD) negotiated and signed reciprocal procurement Memoranda of Understanding (MOUs) with most NATO countries. A second piece of legislation, the Roth-Glenn-Nunn Amendment to the FY83 Defense Authorization Act, Public Law 97-252, reaffirmed the U.S. commitment to NATO cooperation.

As a result of the Camp David Accords of 1979, DoD also negotiated similar but more limited agreements with Israel and Egypt. These agreements were revised in 1987 and 1988, respectively, and were elevated to the status of reciprocal procurement MOUs. For national security considerations, MOUs were also negotiated with Switzerland, Australia, and more recently, Sweden.

MOU Provisions

An MOU is a bilateral agreement between the DoD of the United States of America and the Ministry of Defense of an allied or friendly country. It calls for the waiver of "buy national" restrictions, customs, and duties in order to allow the contractors of the signatories to participate, on a competitive basis, in the defense procurements of the other country. The goal is to promote standardization and interoperability of defense equipment so we may better support each other in wartime.

To comply with the MOUs, the United States waives the Buy American Act, the Balance of Payments Program, and customs and duties on DoD procurements for products originating in the countries with which we have signed such an agreement. Similarly, the allies must waive their "buy national" restrictions.

Not all restrictions are waived by the MOUs. DoD, for instance, restricts to U.S. and Canadian sources procurements of any items determined to be vital in case of national mobilization or emergency. In addition, DoD restricts to U.S. sources certain procurements that include classified information or sensitive technology, procurements set aside for small businesses, and any other items restricted by law or regulation. The allies restrict similar items although, in some cases, their restrictions are not as well defined.

The MOU Countries

The United States has negotiated and signed 21 reciprocal MOUs with partner countries listed in the following chart.

MOU PARTNER COUNTRIES		
<u><i>NATO</i></u>	<u><i>NON-NATO EUROPE</i></u>	<u><i>OTHER</i></u>
Belgium	Austria	Australia
Canada	Finland	Egypt
Denmark	Sweden	Israel
France	Switzerland	
Germany		
Greece		
Italy		
Luxembourg		
Netherlands		
Norway		
Portugal		
Spain		
Turkey		
United Kingdom		

Present Realities

The MOUs have generally served the best interests of the United States and have been a good foundation for armaments cooperation. However, relationships with our defense trading partners have changed and we must adjust to an economically integrated European market. Moreover, pressures for increased allied burden sharing come at a time of European perceptions of a reduced military threat. We must ensure that the MOUs continue to foster armaments cooperation while preserving business opportunities for U.S. industry in foreign markets.

DoD continues to review these MOUs to reflect the current security and foreign policy environment. Where necessary, we will amend them to assure reciprocity for U.S. industry seeking business in the defense markets of our allies, just as they guarantee opportunity for the industries of our allies in the U.S. defense market.

Additional information or copies of the MOUs can be obtained from the following office within the Department of Defense:

Foreign Contracting
OASD(P&L)FC
Office of the Secretary of Defense
Room 2A326, The Pentagon
Washington, DC 20301
Tel: (202) 697-9351

U.S. EXPORT CONTROL REGULATIONS

The U.S. Government controls the export of many of the defense items, dual-use items, and technology mentioned in this guide. U.S. exporters are responsible for compliance with these regulations. The U.S. Department of State controls the export of defense items under the International Traffic in Arms Regulations (ITAR). The U.S. Department of Commerce controls the export of dual-use items under the Export Administration Regulations (EAR).

For information on the export of defense articles, including technical data and technical assistance, U.S. firms should consult with the following offices within the Department of State:

Office of Defense Trade Controls
PM/DTC, SA-6, Room 200
Bureau of Political-Military Affairs
U.S. Department of State
Washington, D.C. 20522-0602
Tel: (703) 875-7050
Fax: (703) 875-6647

Office of Export Control Policy
PM/EXP, Room 2421
Bureau of Political-Military affairs
U.S. Department of State
Washington, D.C. 20522-7815
Tel: (202) 647-4231
Fax: (202) 647-4232

For information on dual-use export controls, U.S. firms should consult with the following offices within the Department of Commerce:

Strategic Trade and Foreign Policy Controls:

Foreign Policy Controls Division
Bureau of Export Administration
U.S. Department of Commerce
P.O. Box 273, Room 2620
Washington, D.C. 20044
Tel: (202) 482-4252
Fax: (202) 482-6088

Commerce Classifications:

Office of Exporter Services
Bureau of Export Administration
U.S. Department of Commerce
P.O. Box 273, Room 1099D
Washington, D.C. 20230
Tel: (202) 482-4811
Fax: (202) 482-3617