



Chapter 6: U.S. Defense Industrial and Technological Base Programs

Mission

The Bureau of Industry and Security (BIS) is the focal point within the Department of Commerce for issues related to the competitiveness of the U.S. defense industrial and technological base. In partnership with industry and other government agencies, BIS implements programs to ensure that the U.S. defense industrial and technological base has the capacity and capability to meet current and future national security requirements. BIS supports the U.S. defense industrial and technological base by securing timely delivery of critical products to support approved national defense and emergency preparedness programs, by conducting analyses of vital defense sectors, and by promoting U.S. defense exports.

Accomplishments in Fiscal Year 2002

Supporting Homeland Security and National Defense Requirements

BIS supported homeland security and national defense requirements through the administration of the Defense Priorities and Allocations System (DPAS). The DPAS program has played an important role in the U.S. Government’s response to the terrorist attacks of September 11. BIS has successfully secured the timely availability of industrial resources to meet approved national defense and homeland security requirements.¹

In Fiscal Year 2002, BIS worked closely with U.S. industry and the Department of Defense through the DPAS program to facilitate the increase in production of defense articles needed to support Operation Enduring Freedom. Noteworthy examples include:

- Ensuring the supply of special ballistic material to produce lightweight body armor vest plates for U.S. Army and U.S. Marine Corps troops, including those deployed to Afghanistan, while minimizing the effect of the program on the U.S. supplier’s ability to satisfy law enforcement and foreign military commercial orders for the material;
- Expediting the production and delivery of sensing equipment for both the Predator and Global Hawk unmanned aerial vehicles that directly support intelligence and combat operations in Afghanistan for the U.S. Air Force;
- Securing the delivery of guidance system components for precision guided munitions, such as the Joint Direct Attack Munition and Joint Stand-Off Weapon “smart bombs,” which have been the U.S. Air Force’s preferred munitions for use in Afghanistan; and
- Participating in the Department of Defense’s Priorities and Allocations Industrial Resources group chartered to assist in resolving industrial resource conflicts and supply issues associated with operational requirements.

¹Title I of the Defense Production Act of 1950, as amended, (50 U.S.C. App. § 2701 *et seq.*)(DPA) authorizes the President to require preferential acceptance and performance of contracts or orders over other contracts or orders to meet approved defense and energy program requirements that are necessary or appropriate to promote the national defense, and to allocate materials, facilities, and services as needed to meet those requirements. Authority for establishing priorities and allocations of industrial resources is delegated to the Department of Commerce, and within the Department, to BIS/SIES to implement this authority through the DPAS. Additionally, the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. § 5121, *et seq.*)(Stafford Act) amended the definition of “national defense” in section 702(13) of the DPA in 1994 to include emergency preparedness activities conducted pursuant to Title VI of the Stafford Act. Thus, based on a program determination and approval by the Federal Emergency Management Agency, DOC can also authorize priority ratings under the DPAS to support approved emergency preparedness activities.

In support of homeland security initiatives, BIS, in cooperation with the Federal Emergency Management Agency, authorized two Federal agencies to use the DPAS to ensure the timely delivery of industrial items for civilian emergency preparedness programs. BIS granted authority for the use of priority ratings for the following items to further homeland security programs:

- Supporting the procurement of up to 1,800 explosive detection system machines by the Transportation Security Administration, an agency within the U.S. Department of Transportation.
- Supporting data processing and communication equipment deliveries for the Federal Bureau of Investigation's \$380 million Trilogy Program designed to upgrade its nationwide data processing and communication infrastructure.

BIS also used the DPAS program to support the Department of State's \$6.5 billion Embassy Security Protection Program, and assisted other U.S. Government agencies and U.S. industry to obtain high security storage cabinets and facility guard booths, ensuring that the most urgent homeland security requirements received priority.

Monitoring the Strength of the U.S. Defense Industrial and Technological Base

BIS conducted several major activities in Fiscal Year 2002 to monitor the strength of the U.S. defense industrial and technological base. On October 29, 2001, the Secretary of Commerce submitted a report prepared by BIS to the President pursuant to Section 232 of the Trade Expansion Act of 1962. The report found that iron ore and semi-finished steel – products used in manufacturing finished steel – are important to U.S. national security, but concluded that imports of these two items do not threaten to impair U.S. national security. These analyses, reached in consultations with the Department of Defense and other

U.S. Government agencies, took into account the events of September 11, 2001 and subsequent military operations. The report summarized the findings of a nine-month investigation, which was requested by Representative James Oberstar (MN) and Representative Bart Stupak (MI).²

In August 2002, BIS launched an assessment of the U.S. biotechnology industry. BIS partnered with the Technology Administration within the Department of Commerce, as well as other agencies of the U.S. Government, to obtain comprehensive data on the scope of domestic commercial and research activities in the biotechnology sector. The assessment, based on a survey of more than 3,000 companies, will address the economic health and competitiveness of U.S. companies that engage in this critical industry sector. In September 2002, BIS also initiated an assessment for the U.S. Army of the munitions power sources industry, which supplies the Department of Defense with batteries used in a variety of precision guided munitions. BIS conducts these studies in furtherance of its responsibilities to maintain and enhance the defense industrial and technological base.

In addition to these new analyses, BIS continued to work closely with the Department of Defense, other government agencies, and U.S. industry on several ongoing industrial and technological base studies. These include an assessment of the air delivery (e.g., parachute) industry for the U.S. Army, as well as assessments of the maritime research and education institutions and the shipbuilding and repair industry supplier base for the U.S. Navy. At the request of the U.S. Air Force, BIS also surveyed high-technology companies to gauge their willingness to work with Department of Defense agencies on research and development to produce new devices and systems for military applications. The survey sought to uncover problems that these firms encounter when entering into research and development partnerships with the Department of Defense (e.g., paperwork requirements, ownership issues).

²The Section 232 investigation was separate from the investigation conducted by the U.S. International Trade Commission under Section 201 of the Trade Act of 1974. The Section 232 investigation was focused on the narrow issue of the effect on national security of imports of two particular products – iron ore and semi-finished steel. The Section 201 proceeding covered many types of steel imports and addressed the broader issue of whether these imports were a substantial cause of serious injury to competing U.S. producers.

BIS's defense industrial and technological base responsibilities extend beyond the analysis of specific industry sectors. In Fiscal Year 2002, BIS reviewed 49 cases submitted to the interagency Committee on Foreign Investment in the United States (CFIUS) to ensure that foreign acquisitions of U.S. companies do not threaten U.S. national security. BIS examined 151 proposed memoranda of understanding and other types of international cooperative agreements that the Department of Defense proposed to execute with allied governments to assess their commercial implications and potential effects on the international competitiveness of U.S. industry. In addition, BIS reviewed 95 proposed transfers of excess defense equipment to foreign governments through the Department of Defense's Excess Defense Articles program, and provided recommendations to ensure that these transfers would not interfere with U.S. industry's ongoing sales or marketing activities.



Working with interagency partners, BIS successfully advocated for the sale of F-15 fighter aircraft to the Government of South Korea, a contract worth approximately \$4.5 billion.

BIS also continued work on its sixth and seventh reports to the Congress on the impact of offsets in defense trade on U.S. defense preparedness, industrial competitiveness, employment, and trade. Offsets are mandatory compensation required by certain foreign governments when purchasing U.S. weapons systems. Offset practices include co-production, countertrade, technology transfer, and foreign investment.

Public/Private Partnerships

Supporting the U.S. Defense Industry's International Competitiveness

BIS continues to team with other U.S. Government agencies to help American defense companies successfully compete in the highly competitive global defense market. The Department of Commerce advocates on behalf of U.S. companies for foreign defense contracts, and works closely with the Departments of State and Defense to engage foreign decision makers on the strategic, military, and economic issues associated with major defense procurements.

In Fiscal Year 2002, working with interagency partners, BIS successfully assisted U.S. companies to obtain four substantial contracts to supply foreign governments with defense articles worth approximately \$7.8 billion. These acquisition programs included fighter aircraft and naval combat systems to South Korea, attack helicopters to Kuwait, and aircraft electro-optical equipment to Australia. These sales help maintain the U.S. defense industrial and technological base and preserve high-technology employment. BIS also actively supported U.S. industry's proposals to satisfy several nations' fighter aircraft requirements with several multi-billion dollar procurement decisions expected in Fiscal Year 2003.

BIS continued to work closely with the Department's global network of commercial offices, including Export Assistance Centers across the United States, to identify defense trade opportunities for U.S. industry, support U.S. defense trade exhibitions overseas, and provide export counseling to U.S. companies exploring new emerging market opportunities, such as defense requirements in South Asia.

Supporting the U.S. Maritime Industry

BIS has partnered with the U.S. Coast Guard to promote the export of an array of assets being developed through the U.S. Coast Guard's \$17 billion Integrated Deepwater System Program (Deepwater) to modernize over the next two decades its aging fleet of ships, aircraft, sensors, communications, and logistics infrastructure. During Fiscal Year 2002, BIS participated with the Deepwater

team in maritime trade events in Africa, Europe, and Asia to promote the sale of Deepwater assets to foreign navies, coast guards, fisheries, and environmental agencies. These sales would bolster interoperability with allied and friendly nations, and create business opportunities for U.S. industry at the prime contractor and subcontractor levels.

In Fiscal Year 2002, BIS and its partner organization, the U.S. Navy's Best Manufacturing Practices program, also introduced the Department of Transportation and other agencies participating in the Marine Transportation System initiative (MTS) to the concept of a best practices program for U.S. ports.³ MTS initiative to address the security, environmental, infrastructure, competitiveness, and safety challenges facing individual port authorities across the country. If initiated, this program would benchmark "best practices" for port security, as well as training, infrastructure enhancement, natural development, and economic growth, for the 350 ports in the United States.

Strengthening International Cooperation

Supporting Allied Defense Requirements

BIS, in consultation with the Department of Defense, worked with U.S. industry through the DPAS program to satisfy allied operational requirements in support of Operation Enduring Freedom and other defense needs. The DPAS actions taken included:

- Accelerating production and delivery of communications and navigation system equipment from U.S. suppliers for Germany, Turkey, and the United Kingdom; and
- Assisting the United Kingdom with its procurement of Apache Helicopter subsystems and weapons.

In Fiscal Year 2002, BIS continued to represent the



Working with interagency partners, BIS successfully advocated for the sale of Apache helicopters to Kuwait, a contract worth approximately \$1 billion.

United States on the NATO Industrial Planning Committee, which addresses industrial base issues associated with NATO's defense and civil emergency planning. In June 2002, NATO's North Atlantic Council approved a document drafted by BIS, which establishes an agreement among all NATO Members on security of supply for industrial resources. This agreement, based on the principles and procedures of the BIS-administered DPAS, recommends that the NATO nations enter into bilateral and multilateral agreements on security of supply. In February 2002, the Department of Defense, with BIS support, entered into a bilateral security of supply agreement with the United

Kingdom. This agreement complements the NATO Security of Supply Initiative.

BIS's advocacy and Deepwater export promotion efforts have also supported the interests of the Department of Defense and the U.S. Coast Guard in standardization and interoperability with the armed forces of allied and friendly nations.

³Nineteen Federal departments and agencies are working together through the MTS initiative to address the security, environmental, infrastructure, competitiveness, and safety challenges facing individual port authorities across the country.

Goals for Fiscal Year 2003

Building upon this year's accomplishments, BIS will continue to partner with industry and other government agencies to ensure that the U.S. defense industrial and technological base meets current and future U.S. national security requirements. Goals for Fiscal Year 2003 include:

Supporting National Defense Requirements and Homeland Security

- BIS will continue to work closely with U.S. industry and interagency partners through the DPAS program to support the production and delivery of industrial resources needed to meet national defense and homeland security requirements.
- BIS will complete the assessment of the U.S. biotechnology industry. The final report will provide companies with data that will help them benchmark their activities against the international biotechnology industry.
- BIS will publish assessments of the air delivery and munitions power sources industries for the U.S. Army; assessments of the shipbuilding and repair industry supplier base, and maritime research and education institutions for the U.S. Navy; and the study on research and development partnerships for the U.S. Air Force.
- BIS will introduce electronic surveys for its industry assessments, leveraging technology to enhance data collection and processing efficiency, and to reduce paperwork burdens on industry respondents.

- BIS will forward its sixth and seventh reports on off-sets in defense trade to the Congress, and will initiate its eighth offsets report. With the publication of these two reports, BIS will have collected and analyzed data on offset agreements and transactions from 1993-2000.

Public/Private Partnerships

- BIS will continue to work with U.S. industry and interagency partners to support and promote the sale of U.S. defense products overseas, help maintain the U.S. industrial base, preserve high-technology employment, and further the U.S. interest in standardization and interoperability with the armed forces of allied and friendly nations. Export promotion activity for the Deepwater program will focus on Southern Africa and the Persian Gulf regions.

Strengthening International Cooperation

- BIS will continue to support the Department of Defense in negotiating bilateral security of supply agreements with allied and friendly nations. Using the recently signed security of supply agreement with the United Kingdom as a model, the Department of Defense has initiated bilateral negotiations with other nations, including Australia, Italy, the Netherlands, Norway, and Sweden.