

**U.S. DEPARTMENT OF STATE
DEFENSE TRADE ADVISORY GROUP
Minutes of the December 17, 2003, Plenary Session
Harry S. Truman Building
Washington, DC**

NOTE: Participants' remarks have been paraphrased.

Opening Remarks by Michael T. Dixon

(**Michael T. Dixon**, the Executive Secretary of the Defense Trade Advisory Group (DTAG), convened the plenary session at 9:04 a.m., by welcoming those attending.) On July 18, 2003, I was appointed the Executive Secretary of DTAG. 2003 has been a very active year for the Bureau of Political-Military Affairs and activities involving defense trade controls. (Mr. William Robinson's death on December 15, 2003 was respectfully acknowledged. Mr. Robinson was the former director of the Office of Munitions Control and was a distinguished military officer and diplomat.)

The Office of Defense Trade Controls Management (DTCM) administers DTAG and has enhanced the human resources to support DTAG with full dedication in defining and completing the work at hand. Members were asked [in the weeks leading up to the plenary, via written communication] to confirm their interest in continuing their service and we received a gratifying unanimous response. An open invitation to submit new membership applications was conducted after publishing a notice in the Federal Register. In the near future, the results of that effort and the Membership responses will be presented to Assistant Secretary Bloomfield for his consideration.

Built upon the success of DTCM's Government DTAG predecessors and Members' hard work, DTAG is an advisory committee that is fully compliant with the Federal law and regulations. We invite all to visit DDTC's website [www.pmdtc.org] for periodic updates and links to the FACA website. We have explored in some detail ways to improve U.S. Government interaction and communications with DTAG that ensure adherence to the letter and spirit of "Sunshine Laws." To ease the security complications of future scheduling of plenary sessions, we are researching the potential use of other facilities outside the Department. Eventually, these alternatives will be presented to PM Bureau leadership to consider. I invite Assistant Secretary for Political-Military Affairs Lincoln P. Bloomfield, Jr. to offer opening remarks.

Bloomfield: Opening Remarks on PM Bureau's Activities

(A/S Bloomfield remembered Mr. William Robinson's legacy and distinguished career with the U.S. Government.) Mr. Robinson was also a neighbor and friend. I welcome those who took the time to attend this meeting and express my gratitude to you for helping the PM Bureau to do a better job.

The Bureau's key issues are military transformation, counter-proliferation of dangerous conventional weapons, Iraq, and Afghanistan. There are three purposes that shape the wide-ranging actions we are taking in these areas.

- First, to help U.S. forces and our coalition partners to work together more effectively in conducting military and post-conflict stabilization and reconstruction operations. Because of the importance of this objective the PM Bureau has devoted tremendous efforts over the past year to negotiate and win Congressional approval of arrangements with the UK and Australia regarding exemptions for certain ITAR controlled items.
- Second, to improve U.S. and allied capabilities for meeting other challenges to our common security, in particular reducing the amount of weaponry in countries that are wracked by internal conflict or at risk of becoming failed states and thus a source of terrorism, organized crime, and weapons proliferation.
- Third, to gain the support of friends and allies for the realignment of our global military posture to improve the capabilities of U.S. and friends and allies to deal more effectively with new threats.

I'd like to highlight what we are doing in the area of conventional weapons proliferation and defense trade and transformation. Since September 11th we have been preoccupied with the proliferation of low-end conventional weapons, especially MANPADS that have migrated from factories and stockpiles in the former Soviet Union, along with the technological know-how to produce them, to state and non-state actors alike willing to pay for the weapons and the expertise. We have unearthed thousands of these weapons in Iraq at unsecured locations and in amounts well in excess of what Iraq needed for its own defense – including weapons that undoubtedly were procured on the international grey arms market. We likewise discovered large weapons caches in Liberia and Afghanistan. In all

three places, as well as in scores of other countries, we have discovered that these are not U.S.-made weapons.

To address this problem, we are pursuing a two-pronged strategy of threat reduction and counter-proliferation and restraints on the arms export policies of states where this is significant leakage of illicit arms on the gray market. PM has been at the forefront of efforts to destroy excess weapons in other countries – for example, Bosnia. Since 2001, PM programs were instrumental in the destruction of over 400,000 small arms/light weapons and over 44 million rounds of ammunition from excess and illicit stockpiles worldwide. Through our public diplomacy and outreach efforts we have helped focus global attention on the unique and deadly threat posed by MANPADS to civil as well as military aviation. And as a top USG priority, in countries where there is a high risk of MANPADS proliferation to terrorists we have helped to eliminate excess stockpiles, collect weapons outside of government control, improve stockpile security procedures, and strengthen export controls.

We have also been encouraging other countries to impose laws like the United States to cover their citizens brokering arms between countries and to impose new laws on small arms/light weapons. To better organize ourselves to carry out these tasks, we have created a new “Office of Weapons Removal and Abatement.” Its mandate is to lead State Department and USG efforts to remove land mines and to reduce and control stockpiles of small arms/light weapons and MANPADS.

Bloomfield: DDTC Developments

Turk Maggi, the Managing Director of Defense Trade Controls (DDTC), Ann Ganzer, Director, Office of Defense Trade Controls Policy and I attended the recent NATO conference chaired by Lord Robertson. This new executive management team in DDTC is made up of the same people who advise me on policy. Greg Suchan, the Deputy Assistant Secretary for Defense Trade Controls, is a senior foreign service officer who knows the ITAR regulatory function and is also very experienced in policy matters. Now there is the position of a Managing Director of Defense Trade Controls, dedicated to the regulatory function and to making the trains run on time. Within DDTC there are four offices: Office of Defense Trade Controls Licensing, Office of Defense Trade Controls Compliance, Office of Defense Trade Controls Management, and Office of Defense Trade Controls Policy.

Since 1992, this is the first realignment of management for defense trade controls. The new structure will help ensure that companies can do business requiring our authorization without the government role unduly slowing down the process. Legislative efforts are being pursued to provide sufficient resources for DDTC. New technology is resulting in electronic licensing, electronic registration and the Automated Export System.

We want to thank those of you who took part in the Beta testing of this electronic system. The revolution in information technology will allow us to work better and that technology is affordable. Secretary of State Powell wants us to be productive with IT initiatives. IT is improving our knowledge as to what is going on and the Automated Export System will profile what is actually being exported. Electronic licensing will be the model of IT innovation for the Department.

Effective changes are being made with regard to clearing out the barn of old pending cases that are also known as “dinosaurs.” In applying National Security Council (NSC) guidance, commodity jurisdiction cases are being processed faster. A clock is being applied to these cases with the staffing agencies so commodity jurisdiction decisions will be made in a timely manner. Licensing review times have gone down. We intend to avoid undue delay on any case. There is an outreach effort that will be staffed to respond to applicants’ questions regarding their cases. Compliance efforts are better than ever before in DDTC. They have a good record and the sheriff in DDTC never misses, but is always very fair. In FY03 there were about 50 arrests and 40 indictments, about \$75 million assessed in civil fines, and the imposition of significant remedial compliance measures for arms export violations. You are encouraged to get your compliance game up and we will work with your company on its practices. The Department of Justice takes the Arms Export Control Act seriously, just as we do. We want to work with you regarding your compliance program in a manner like preventative medicine.

I want to thank Bill Schneider for his leadership with the DTAG.

Remarks by DTAG Chairman William Schneider

DTAG members are extraordinary people who are committed to providing policy and regulatory support to the PM Bureau. Industry advises the State Department, Congress, and DOD in ways and purposes the statute should be implemented for it to go well. The policy and regulatory review in NSPD-19 are

important initiatives. There are significant changes in information processing and technology that will result in a new dynamic, regulatory process. The NSPD-19 review is continuing. I ask A/S Bloomfield how the DTAG could contribute and turn over the discussion on NSPD-19 to him.

Bloomfield: NSPD-19

NSPD-19 has consumed a large chunk of the PM Bureau's time and energy over the past year. Its fundamental goal is to ensure that U.S. defense export control policies and practices serve broader U.S. foreign policy and national security objectives. We put everything on the table during this review. PM's role in the licensing process came under close scrutiny and many far-reaching measures were considered. Throughout the deliberations our focus was on changes in defense trade policy that could improve coalition warfare capabilities, strengthen defense and security relationships with allies, friends, and coalition partners, foster closer defense industrial relations with European and Pacific allies, and bolster the U.S. defense industrial base.

U.S. defense trade policies are not, of course, the only obstacles to improving interoperability and coalition warfare capabilities. Many of our allies, for example, have failed to maintain adequate levels of defense spending on weapons research, development, and procurement – or they allocate far too many resources to maintain Cold War capabilities that are no longer relevant to the dangers we face. They also squander far too much money on building wasteful, duplicative systems. As a result they are not able to shoulder their fair share of the burden in meeting common threats to our shared interests. They need to embrace the purpose of forming a partnership with the United States to tackle the challenges emanating from the greater Middle East – principally the threats of terrorism and WMD proliferation – and allocate the resources that are needed to carry out this mission.

We also concluded in NSPD-19 that promoting transformation, especially of NATO, and forming more effective international partnerships to deal with new threats also required special emphasis in U.S. and allies defense export policies. The United States has kept a tight hold on sharing sensitive military technologies with friends and allies, which has often made it more difficult to meet interoperability needs and other coalition warfare requirements. Our cautious approach to technology sharing reflects our concern that many foreign export control and technology security systems would not afford adequate protection for the technology we would share.

President Bush has not yet made final decisions on NSPD-19. However, while I can't get into the details, several general conclusions seem clear. First, it will not reduce controls. Second, we will make the export licensing process faster, simpler, and more transparent and predictable. Third, we will achieve a better fit between our goals of promoting transformation, security partnerships, and coalition warfare capabilities and U.S. technology export policies. I expect that we will improve technology sharing with our allies. But we will expect them to strengthen their export controls and technology protection regimes, and to build stronger partnerships with us in the area of export control compliance. We also expect them to take concrete actions on defense transformation so that they make optimal use of the advanced technology we share to advance our common interests.

In offering such partnerships, we will give our friends and allies greater incentives to make real commitments on force transformation while bolstering their export control systems. And we will create new opportunities for international armaments cooperation and for the U.S. defense industry while offsetting the trend toward restrictive market access practices.

Remarks by DTAG Chairman: Transformation

(**Chairman William Schneider** pointed out DOD's forward thinking on transformation and some of the innovative steps that have been taken to promote the transformation of Allied military forces in parallel with our own. For example, DOD provided much of the impetus for NATO's decision to establish Allied Command Transformation and for the transformation initiatives approved at the November 2002 NATO Summit in Prague, in particular the creation of a NATO Response Force, which will serve as the catalyst for improving the force projection capabilities of Allied forces. In addition to NSPD-19, there is an ongoing review of missile defense policy with our allies (NSPD-23), which encompasses the extraordinarily sensitive issues such as the export of UAVs - [unmanned aerial vehicles]. U.S. aviation developments in general expand export policy opportunities. There is a need for modernization of export control functions.

Remarks by Managing Director for Defense Trade Controls

(**Turk Maggi** acknowledged how helpful DTAG has been in DDTC's accomplishments.) The bottom line is to make things work in a slightly different way.

In calendar year 2003, DDTC had 54,163 cases come in and 54,213 go out, valued at \$94 billion. That is up 20% from 2000. Cases are averaging eight (8) calendar days for non-staffed cases and 48 calendar days for referred cases. We try to be consistent, transparent, and accessible. We have a standard for commodity jurisdiction cases of 50 days with a commitment for timely review from Commerce and DOD. If the case is escalated, it would be 90 days. We are focusing on completing our oldest cases. A resource infusion is planned for compliance. Industry needs to be dedicated to submitting quality applications.

With the electronic processing system, I estimate seven (7) calendar days for non-staffed cases and 42 days for staffed cases. IT will cut down on "mail room" time. Also renovations in DDTC SA-1 premises will add 22 more seats inside the office space. These new spaces will be allotted to compliance officers, licensing officers, and phone answering outreach. The goal is that 90% of all calls will be answered on the first call and this answering cell will answer the remaining within 48 hours. Remember to consult www.pmdtc.org. (Professor Ed Whittaker was introduced as the new Science Adviser whose presence means a substantial addition to DDTC's knowledge base of technology issues.)

I have been visiting counterparts in allied countries and factories. We want to better understand how they operate and how we can work with them. In protecting technology from unauthorized disclosure, DDTC has become increasingly concerned with physical security and cyber security. The public will soon not be allowed to bring into DDTC cell phones, palm pilots or anything electronic.

On January 15th D-Trade will be available for DSP-5s and TAAs for any registered U.S. person. We are thankful to the 32 companies that participated in the pilot program and helped us shape this eventual paperless system. The submission will be received by the D-Trade server and then go to the licensing officer for review. The application is organized with pull-down menus and will result in fewer errors on the application. We anticipate to be fully integrated this summer. Licensing officers will see the case on their desk along with background material, registration information, watchlist information, the AES information, and whether the item is in the country's inventory. The case will be electronically referred to DOD and DOS regional bureaus. We prefer if supplemental information is in searchable PDF format. Within State, the information will be sent over the SIPRINET. Cases will be electronically sent to DOD on NIPRNET, which has security on its system. CD-ROMs will be mailed out on D-Trade, two

video teleconference sessions for 100 sites will be set up for training on D-Trade, and training will be conducted at an SIA conference. In the future there may be a supplemental fee if a company continues to submit paper. There will be batch processing. Customs will receive an extract of the license. (Questions were answered throughout the explanation of D-Trade.)

Remarks by DAS Suchan

We have negotiated ITAR exemption agreements with the governments of Australia and the UK. Exemptions can only be used for exports to the governments and certain companies in the country that will enter into special undertakings to protect US technology. The foreign government also has to make certain undertakings in licensed trade and change its export controls. Furthermore, there must be law enforcement cooperation between our countries. UK and Australia must institute controls on intangible transfers of technology. We have been working with the House and Senate on legislation for the Australia and the UK ITAR exemptions.

The U.S. Munitions List review is ongoing. Nine categories have been completed and four more categories will be completed soon. It should surprise no one that we have not removed more items from the U.S. Munitions List because other governments control the same things, except for commercial satellites.

Discussion

(There was a question whether the Hill would be willing to expand the exemption countries beyond Australia and the UK. Japan was brought up as a country with a complex regulatory process.)

Bloomfield: Our goal with the partnership agreement with the UK is that less human resources will be involved in the export of low-end replacement parts and resources can be devoted to marginal cases.

(A suggestion was made to articulate the exemptions for Australia and the UK as pertaining to preapproved companies in those countries as opposed to just saying "exemption" for Australia and the UK.)

(A concern was aired about the jurisdiction issues between the Export Administration Regulations (EAR) and ITAR. It was noted that possibly the DTAG could undertake such a study. The President's Export Council is reviewing this same issue. Although sometimes there are conflicting State and Commerce views regarding proper licensing, the exporter is held accountable for export violations.)

Bloomfield: I would be willing to have industry help in describing the outcome of commodity jurisdiction decisions, that would not compromise proprietary interests, that would be released to the public so they would know the jurisdiction of a particular item.

(DAS Suchan articulated the problem of ITAR-controlled items being placed in commercial items. This is not a good practice. He invited DTAG views on this issue.)

(Another concern was the use of modern technology to prevent companies from transferring technical data overseas without proper authorization from the DOS.)

Bloomfield: If the DTAG would like to write a standard for using modern technology to control companies from transferring technical data overseas without proper authorization from DOS, the government would consider it.

(Practitioners and industry representatives have encountered people in the defense export business that are not aware of PM/DDTC and have not registered, as required by law.)

Maggi: PM/DDTC is open to any suggestions to learn who these people are.

(One suggestion put forth is contacting the American Association of Exporters.)

(A question was asked about the consideration of radiation hardened chips used in microprocessors in conjunction with the USML review. PM/DDTC is reviewing this issue as part of the U.S. Munitions List review and has consulted with the semi-conductor industry and DTSA on that matter.)

Closing Remarks

A/S Bloomfield is grateful for the partnership with DTAG and believes the government benefits from DTAG's efforts. We want to hear constructive criticism.

Chairman William Schneider looks forward to more DTAG meetings and the modernization of the process reforms for the arms transfer functions.

(Chairman Schneider adjourned the meeting at 11:52 am.)