

A/S Shapiro
Remarks to Defense Trade Advisory Group
November 9, 2011

Sam, thank you for that kind introduction and thank you for all the hard work you have put in as chair of the Defense Trade Advisory Group. I also want to recognize the other members of the DTAG for their efforts and the invaluable service that you provide to me and the Department. I understand that representatives from several of our foreign partners have joined us today from the United Kingdom, Canada, the Netherlands, and Sweden. Welcome to the State Department.

I hope your sessions today have been productive and I look forward to the reports from the three working groups. Your insights are invaluable to the Export Control Reform effort and greatly aid our work.

Today, I want to update you on the Bureau of Political Military Affairs' efforts in two different areas: First, our advocacy for the U.S. defense industry abroad; and second, our efforts to counter piracy off the Horn of Africa.

As many of you know, this Administration has made it a top priority to promote U.S. business abroad. We view the American defense industry as an integral part of our efforts to advance U.S. national security and foreign policy.

In accordance with the Arms Export Control Act and the Foreign Assistance Act, the Secretary of State oversees and authorizes all arms sales to ensure they advance U.S. foreign policy. By implementing the Secretary of State's authority, the Bureau of Political-Military Affairs, which I lead, plays a critical role in enhancing global security, as well as our bilateral defense relations.

Despite the tough global economy, demand for U.S. defense sales abroad remains robust. For four consecutive years, U.S. Foreign Military Sales or FMS have exceeded \$30 billion. Foreign military sales increased by approximately 9% from last year. The other component of U.S. arms sales, Direct Commercial Sales or DCS, is also increasing.

Based on the first three quarters of this year, we anticipate that by the end of the year, the State Department will have received and reviewed over 85,000 DCS cases – the largest *ever*.

I believe the efforts of this Administration are contributing to this upward trend. But before I talk to the specifics of *how* we are supporting the American defense industry, let me first explain *why* we are doing so.

First and foremost, U.S. defense sales advance our interests and support our global partnerships. When a country buys an advanced U.S. defense system through our FMS, DCS, or Foreign Military Financing programs, they aren't simply buying a product, they are also buying into a relationship. These programs both reinforce our *diplomatic* relations and establish a long-term *security* relationship.

What is generally underappreciated is that the complex and technical nature of advanced defense systems frequently requires constant collaboration and interaction between countries over the *life of that*

system – decades in many cases. This may include training and support in the use of the system, assistance in maintenance, and help to update and modernize the system throughout its life-cycle. This cooperation therefore helps build bilateral ties and creates strong incentives for recipient countries to maintain good relations with the United States.

Second, U.S. defense cooperation helps promote stability. In today's interconnected world, the most urgent threats to global and regional stability stem not only from powerful states, but also from ones that are weak or are unable to adequately secure their sovereign territory. Our defense cooperation is helping to better equip countries across the globe to deal with new and emerging challenges. For instance, our security assistance to Mexico helped equip them with helicopters to tackle the drug traffickers menacing the country. Additionally, the sale of 18 F-16s to Iraq provides the Iraqi government with an important capability to defend its sovereignty. It also materially and symbolically cements a long-term security relationship with the United States.

Questions are sometimes raised about how we ensure against unintended uses of equipment. But I can tell you that we heavily scrutinize all arms sales. Defense sales and transfers are thoroughly reviewed by the Political-Military Bureau here at the State Department on a case-by-case basis to ensure that all potential defense sales meet the requirements of the Conventional Arms Transfer (CAT) Policy. This policy mandates that any arms transfer support both our national security, as well as meeting the legitimate security needs of the recipient country. During these reviews we make sure that the release of U.S. systems and technology does not undercut our national interests including our commitment to human rights, disrupt regional stability, or pose a threat to our military's technological advantage. We also have monitoring to ensure that all systems once provided are operated consistent with a clear set of acceptable end uses. These efforts ensure that all arms transfers are in line with U.S. foreign policy and advance **both** our interests **and** our values.

Third, our efforts support jobs here at home. The export of defense articles makes up a significant portion of the U.S. economy. The total value of authorized Direct Commercial Sales per year is now roughly \$145 billion, or about one percent of GDP. When countries buy our defense systems they are not only buying the most advanced and highest quality systems. They are also buying American products, which supports jobs here at home and helps the American economy.

Finally, ensuring we have a robust defense industrial base is critical to our national security. An industrial base that is allowed to atrophy is extremely hard to reconstitute. That is why it is so critical to maintain a robust U.S. defense industrial base that is the global standard for innovation and quality. Foreign sales are critical to ensuring this.

But now that I have explained some of the reasons *why* we support our defense industry, let me turn to some of the steps we are taking to support our defense industry abroad.

First and foremost is the President's Export Control Reform Initiative. You have been deeply involved in various aspects of this effort almost from the beginning and your work in the DTAG has directly supported decisions we are making now.

The goals of our export control reform efforts are ultimately about making sure that our system protects the things it needs to protect. This will allow the U.S. Government to focus its limited resources on safeguarding and monitoring the most sensitive items. Our reform efforts will also allow us to streamline access to export controlled items for our close allies. This will help improve interoperability with our allies, as well as bolster our defense industrial base. We seek to facilitate exports to allies and partners by eliminating approximately 3,000 dual-use licenses and tens of thousands of licenses for munitions parts and components annually.

To accomplish this, we are focusing our efforts in the near term on the re-write of the U.S. Munitions List, or USML, and the Commerce

Control List, or CCL, to create clear bright lines between munitions and dual-use items. While a tiered list that is structurally aligned with the CCL remains the ultimate goal, we adopted recommendations to not “tier” the revised categories at this time.

As many have commented on our plans, determining controls of items in one category based on controls of items in other categories would be confusing and would be more difficult for companies to re-calibrate their internal systems. Equally important, the tiering would delay implementation of any category until all categories were complete. This would have imposed an unacceptable delay in implementation that would deny exporters the near term benefit of the reform. Our current approach is also intended to ease companies’ ability to transition with us to a new list structure.

Our work is focused now on the removal of the majority of parts and components from the USML to the CCL in these categories. They also will remove some end items, including unarmored military vehicles,

cargo and utility aircraft, auxiliary surface vessels, and commercial communications satellites from the USML. However, changing the jurisdiction for these satellites will require legislation.

We are working category by category, using objective rather than subjective criteria, to create that bright line between the USML and the CCL. We are making progress in this effort. USML Category VIII (8), which covers Aircraft, is now out for review as a proposed rule. A revised Category VII (7), which covers Military Vehicles, will also be out shortly for review and other categories, including VI (6), XIX (19) and XX (20), will quickly follow. Commerce is publishing the corresponding CCL categories at the same time to preclude gaps or overlaps in jurisdiction coverage.

As is probably evident, reforming our export control system is a massive undertaking. But we are making substantial progress and our efforts will greatly benefit both American industry and our national security.

Now let me turn to perhaps the most direct way in which we are supporting our defense industry abroad. And that is we aggressively advocate for them. It is no longer just our Ambassadors who promote U.S. defense trade in a given country. We here in Washington keep a very close eye on advocacy opportunities and recognize the need for action wherever our regional security interests and U.S. business interests overlap. Secretary Clinton, Undersecretary Ellen Tauscher, other senior State Department officials, and I, regularly advocate on behalf of U.S. bidders on foreign government and foreign military procurements. We do so when we meet with officials on our travels abroad, on the margins of international conferences, and in regular diplomatic correspondence to foreign government officials.

As you may have noticed, the Defense Department is not the only face of the U.S. government at major defense trade shows. Today, the State Department is increasingly making its presence known at these important events. I have attended two major air shows this past year in India and Paris. And I plan on attending the Dubai Air Show this

coming weekend. At the Paris Air Show, for example, I met with many key leaders of our defense industry to discuss their export plans and ways the State Department can assist these efforts. PM's Deputy Assistant Secretary, Beth McCormick, has also represented the State Department at other trade shows, including IDEX in Abu Dhabi and DSEI in London. From fighter aircraft to air defense systems, we are collaborating with U.S. industry to provide advanced U.S. equipment to help our allies maintain and strengthen their defense readiness and foster reliable interoperability.

Our advocacy efforts around the globe are far too numerous to list, but let me give you a few more examples of our efforts:

This past February, I attended Aero India to advocate for U.S. defense sales. While India unfortunately did not down-select a U.S. aircraft for its Medium Multi-Role Combat Aircraft competition, I believe our relationship with India is much more than one sale. We seek a stronger strategic partnership with India, including the promotion of Indian

acquisition of U.S. defense equipment. This effort has led to India's acquisition of ten C-17 aircraft and a request for six more C-130J aircraft. I have also advocated for our tenders in the Attack Helicopter and Heavy Lift Helicopter competitions. We are hopeful that both will be selected.

This past May, I also travelled to Brazil to conduct the first U.S.-Brazil Political-Military talks in five years. During these talks and throughout my trip, I advocated for the sale of the F-18 Super Hornet as part of the Brazilian Air Force FX-2 competition. I also emphasized our commitment to release very sensitive technology to Brazil as part of the proposal, as we believe this sale would significantly bolster our bilateral relationship.

We in the Obama administration are firmly committed to promoting U.S. business abroad, and as you can tell we are logging the frequent flier miles to prove it.

Finally, I want to provide a brief update on our efforts to counter piracy off the Horn of Africa. This is another area where we are working very closely with industry. Commercial shipping vessels transiting off the coast of Somalia are frequent targets for pirates. The lives of innocent seafarers have been lost and crews are often held hostage for many months in appalling conditions. The monetary total of ransoms demanded runs into hundreds of millions of dollars a year, with the total cost of piracy to the global economy estimated to be in the billions.

With so much water to patrol it is difficult for international naval forces in the region to protect every commercial vessel. Working with industry, we recently established a national policy encouraging countries to allow commercial ships transiting high-risk waters to have armed security teams on board. The reason for this is simple: to date no ship with an armed security team aboard has been successfully pirated. We believe that the expanded use of armed security teams by commercial vessels is a major reason why we have seen a decline in the number of

successful pirate attacks this year. Therefore, we have recently demarched countries to permit the use of privately contracted armed security personnel on commercial vessels. And we are also working with industry and transit countries to make it less onerous for privately contracted security personnel to transit foreign ports with weapons intended for the self-defense of ships.

We have also shifted our efforts to focus on the pirate leaders and organizers ashore. The focus ashore is essential, as piracy has evolved into an organized transnational criminal enterprise conducted for profit. It is increasingly clear that the arrest and prosecution of pirates captured at sea – often the low-level operatives involved in piracy – is insufficient, on its own, to meet our longer term counter-piracy goals. To maintain the momentum and space for action gained by naval operations, we have begun an effort to identify ways to disrupt these criminal networks and to determine the means to dismantle their financial networks.

Before I close, as you all know, this will be the last Plenary for the current DTAG. And I would like to express my appreciation to Chair Sam Sevier, Vice-Chair Joyce Remington and all the DTAG members for their dedication in reforming defense trade. This has been a very busy two years for the group and one of the most successful since DTAG began. I was especially pleased to see the breadth of the active participation, regardless of the member's location. The next DTAG certainly has some very big shoes to fill.

With that, I am happy to take your questions.

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