• Introduction
• How Washington Works
  – One Perspective
  – Budget implications
  – National Strategy and its budget impacts
• FMS
  – US Government considerations
  – Industry Perspective
  – What is FMS?
  – The process
It’s not about the money.
It’s ALL about the money.
• How much is actually available on an annual basis?
• How do US Government agencies determine where they spend their money?
HOW WASHINGTON WORKS – Requirements Determine Spending

- National Security Strategy
- National Defense Strategy and Supporting Documents
- Joint Concepts
- Military Services Strategy

Export Classification: No Technical Data
HOW WASHINGTON WORKS - US Defense Department PPBE

- PPBE is DOD’s 4 year resource allocation process
  - **Planning** establishes strategic priorities and capabilities required to achieve the strategy.
  - **Programming** applies resources to programs that provide the capabilities required to achieve the strategic priorities.
  - **Budgeting** properly prices the programs, develops justification and an execution plan.
  - **Execution** performs the approved plan.

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HOW WASHINGTON WORKS – US government perspective of FMS

- Security Cooperation
- Security Assistance
- Combined Exercises
- Train & Educ.

Humanitarian Assistance

Global Train and Equip (BPCs)

- FMS/FMF
- IMET
- EDA
- Drawdown
- MAP
- Leases
- MilCon

10 USC
(DoD-controlled)

22 USC
(DoS-controlled, DoD-managed)

Militia-to-Militia Contacts

Int’l Arms Coop’n

Export Classification: No Technical Data
The Foreign Military Sales (FMS) program is a form of security assistance authorized by the *Arms Export Control Act* (AECA) and is a fundamental tool of U.S. foreign policy.

Under Section 3, of the AECA, the U.S. may sell defense articles and services to foreign countries and international organizations when the President formally finds, among other things, that to do so will strengthen the security of the U.S. and promote world peace.
FMS – What does it mean in practical terms

- FMS case is a Government-to-Government arrangement
- Buyer-Seller relationship
- US procures equipment and services IAW standard acquisition practices
- The US can neither make nor lose money on the case
- Sales are reviewed to ensure that they are consistent with US policy
- Major sales notified to Congress in advance

USG is not a party to offset agreements

Export Classification: No Technical Data
FMS – Why Industry is interested

THE 10 LARGEST ARMS IMPORTERS

2013–17

- India
- Saudi Arabia
- Egypt
- UAE
- China
- Australia
- Algeria
- Iraq
- Pakistan
- Indonesia

Volume of transfers (billions of SIPRI trend-indicator values)

Source: SIPRI Arms Transfers Database (12 March 2018)
FMS: Is FMS the only path?

- **FMS – Foreign Military Sale** – industry sells product to USG, who resells it to foreign country via contract-like agreement (Letter of Offer and Acceptance, or “LOA”)
  - Fundamental tool of U.S. foreign policy
  - Standard acquisition rules – less risk – contractor somewhat removed from customer
- **DCS – Direct Commercial Sale** – country buys directly from industry
  - Closer to customer
  - USG not a party to the transaction, other than licensing
  - Not always an option—some sensitive items deemed “FMS only”
- **Hybrid** – combination of DCS and FMS
  - FMS for components restricted by U.S. policy or customer desire
  - DCS for remainder

USG is neutral regarding buyer’s preferred technique
FMS ADVANTAGES AND DISADVANTAGES

**ADVANTAGES**

- With few exceptions, this is route for US aid-funded customers (FMF)
- Good for complex systems with major support tail
- Sometimes only approved path due to sensitivity, political risk
- DOD (DSCA) advocacy with State (release) Congress (approval)
- Often better alignment with US capability roadmaps

**DISADVANTAGES**

- Government fees can increase end price
- Government offers Letters of Offers and Acceptance (LOA’s) perceived as opaque vs. contractor data
- Slow contracting process between LOA and delivery can be time consuming

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Planning & Definition Phase

- Requirement Definition/Budget
- RFP

Competitive Phase

- Proposal/Downselect
- Review proposal(s)

Acquisition Phase

- Final Negotiation
- Agree on final T&C
- Payment Per T&C

FMS Customer

- Draft & Release
- Review proposal(s)

OEM Supplier(s)

- Public domain mktg
- Full mktg campaign

Department of State (Embassy)

- Prepare and submit proposal (P&A, Offset, IC, other T&C) respond to questions

Department of State (DDTC)

- Sign Contract

Department of State (Pol/Mil)

- Submit to State

DOD (DTSA, OSD Policy, COCOMs)

- Execute Contract Production/Delivery

Congress

- Congressional Notification

- Review and approval of all necessary licenses
- Classified / Unclassified Technical Assistance Agreements
- May be extensive “pre-consult” period

Congressional Review

30 calendar days to oppose with joint resolution

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DIRECT COMMERCIAL SALES ADVANTAGES AND DISADVANTAGES

ADVANTAGES

- Many customers prefer this due to perceived cumbersome, slow FMS
- Good for mature, “off shelf” systems, where industry has solid control of supply chain, support infrastructure
- Does not include US Government Administrative Surcharge

DISADVANTAGES

- Limited DOD advocacy with State Department, Congress, especially if there is US competition
- Industry must successfully handle political, contractual risk
- Unique configurations can lose out on economies of scale with US program.
FMS LICENSING REQUIREMENTS CAN BE TIME CONSUMING

- U.S. defense articles, services, or information must pass through two gates
- LOA constitutes an export license, but offset agreements often require additional licensing

**Bottom line:** Access + Protection = export approval

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