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DEFENSE SYSTEMS MANAGEMENT COLLEGE



PROGRAM MANAGEMENT COURSE INDIVIDUAL STUDY PROGRAM

WHAT EVERY PROGRAM MANAGER
NEEDS TO KNOW ABOUT FMS

STUDY PROJECT REPORT
PMC 77-1

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WHAT EVERY PROGRAM MANAGER
NEEDS TO KNOW ABOUT FMS

Individual Study Program
Study Project Report
Prepared as a Journal Article

Defense Systems Management College
Program Management Course
Class 77-1

by

Charles W. Allport
Lt Col USAF

May 1977

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This study project report represents the views, conclusions and recommendations of the author and does not necessarily reflect the official opinion of the Defense Systems Management College or the Department of Defense.

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DEFENSE SYSTEMS MANAGEMENT COLLEGE

STUDY TITLE: WHAT EVERY PROGRAM MANAGER NEEDS TO KNOW ABOUT FMS

STUDY PROJECT GOALS:

Consolidate experience and observations. Define the environment and management system boundaries a program manager can currently expect in FMS.

STUDY REPORT ABSTRACT:

The article distills current experience to provide program managers insight into common FMS problems. It is based on experiences in one of our major middle east customer countries which were gained from a vantage point outside the normal administrative structure that allowed candid observation of the Military Advisory and Assistance Group, individual programs, contractors, and especially the customer's interfacing infrastructure. The observations reflect real events and situations that caused serious problems.

The objective is not to provide a detailed checklist but rather to stimulate consideration of factors during the formulation phase which will aid in the definition of realistic programs. Attention is given to boundary factors such as the customer's objective and decision structure, contractor behavior, motivations, responsibilities, and key assumptions.

SUBJECT DESCRIPTORS: Foreign Military Sales

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EXECUTIVE SUMMARY

Foreign Military Sales programs involve management aspects beyond the elements common to the normal acquisition process. The record shows that these elements are often not initially considered and as a result many of the same problems repeatedly plague programs.

This article distills current experience to provide program managers insight into some of the common problems areas. The objective is not to provide a detailed checklist but rather to stimulate consideration of factors during the formulation phase which will aid in the definition of realistic programs. Attention is given to the boundaries of the FMS management system - the environment, the players, the motivations, and the management elements that take on disproportionate importance in the FMS arena.

The common thread is that our norms, standards, and motivations are insufficient to define many FMS situations. The best approach is not to assume but to seek recent experience.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
KNOWING THE RULES	2
THE BUYERS OBJECTIVE	4
DIRECT SALES VS FMS	6
FUNCTIONAL BALANCE	8
CRITICS AND CONSULTANTS	9
THE BUYERS DECISION STRUCTURE	10
CULTURAL FACTORS	11
CONTRACTORS	13
RESPONSIBILITIES OF AN AGENT	13
SUPPORT IMPLICATIONS	14
ACCOMMODATIONS AND SERVICES	16
CONFIGURATION	18
THE BOTTOM LINE	19
BIBLIOGRAPHY	20

Foreign Military Sales is where the action is - the new frontier for program managers! If dollar volume is your measure, FMS has it. New agreements in Fiscal 1976 for \$8.6 billion raised the DOD to-be-delivered total to \$31.7 billion. (5,12)¹ To put this in perspective, the total fiscal year 1976 DOD procurement authorization was \$21.4 billion (13,256), Business Week reported that more than 20% of the US aerospace industry's total yearly income now comes from foreign sales (4,34), and US News estimates that every billion dollars of sales abroad generates 31,000 direct American jobs. (1,25)

The management of a FMS program is based on the fundamental principles that govern all development and acquisition efforts. In addition, however, there seem to be considerations that take on special significance, attract high level visibility, generate a disproportionate number of problems, and thus require a great deal of extra program manager effort and attention. The record shows that intuition is apparently not a very good guide and that many of the same problems or circumstances plague numerous programs.

This article highlights some of these considerations. It is based on experiences in one of our major middle east customer countries which were gained from a vantage point outside the normal administrative structure that allowed candid observation of the Military Assistance Advisory Group (MAAG), individual programs, contractors, and especially

¹This notation will be used throughout the paper for sources of quotations and major references. The first number is the source listed in the bibliography. The second number is the page in the reference.

the customer's interfacing infrastructure. The observations reflect real events and situations that caused serious problems. They are certainly not all inclusive and have varying degrees of applicability for other settings. There is no pretense to provide the approved solution - the objective is to stimulate questions which will help program managers operate in the FMS arena.

KNOWING THE RULES

The voluminous set of Public Laws, DOD directives and instructions, and service regulations form the basic guidance within which the program manager must function. These documents, however, cover only one perspective and are only a fraction of the total "rules of engagement" that openly and subtly constrain the FMS interaction.

The basic question is WANT vs NEED - do we provide the system, support, and training exactly as and on the schedule requested or do we exercise judgment as to what our experience would indicate to be best for the cash paying customer? The answers to these questions are often not clearly stated nor understood even by the key MAAG personnel and thus cause major physiological debate on the structure of a FMS program throughout the review and approval chain and can detract from an efficient implementation effort.

A part of this definition problem is caused by the relatively short tenure of MAAG personnel and the frequent shifts of incountry operating policy the turnover generates. Enthusiasm, initiative and the GI "can do" spirit on the part of MAAG personnel can play a strong role for or

against a program. Learning their biases and channeling their energy are musts for the program manager.

The most fundamental and important facet of the US policy definition problem is that the basic prerogative doesn't belong to the DOD! The Department of State is the keeper of the master plans and the Ambassador and his country team the front line defenders and implementors. The two departments may have different objectives and interpret the situation differently but the State Department's foreign policy position is certainly the departure point and should be prior knowledge for the program manager before he attempts to put together a sales package or sell it through the Ambassador.

The second phase of "knowing the rules" is passing the word. The effectiveness, confidence, and especially the morale of the in-country personnel who implement the program - be they MAAG, program advisors, or contractors - is strongly related to how well they understand their mission and their limitations or bounds. They should know the objective, how much latitude they have, and if there are restrictions. The things they can't do, subjects they can't talk about, the capabilities of the system they can't reveal or services of the US they can't offer - should be specifically spelled out. This is very basic management and elementary advice but nevertheless a serious recurring problem. An OSD audit survey of in-country FMS personnel showed that more than 75% felt that they weren't properly briefed and didn't know their objective and prerogatives.

THE BUYERS OBJECTIVE

The request or requirement received from the foreign buyer is the basis for definition of the program. There are however, several additional factors most probably not contained in the formal request that can be extremely valuable in scoping the effort and anticipating potential problems.

Why does the buyer want the equipment or system? Of course the majority of items contribute to a military capability but that may not be the total or even the primary purpose for the acquisition. Nation building and technology transfer are two catch phrases that cover a family of activities and objectives that may be very pertinent to an FMS case. Many of our current customers - especially in the middle east - are involved in massive transformation efforts where near term oil revenue is being used to establish an economic base that will provide long term industrial and social stability. One of the major elements of this effort is the transition of the national population, much of which may be illiterate and small village orientated, into a modern industrial work force. The mobilization, training, and relocation capability inherent in military service can be effectively used to quickly funnel large numbers of people through this process. Likewise military units can be sent to areas where new development is desired much more quickly than mobility can be induced in the civilian sector. Many of our current FMS programs are being used to satisfy both of these development objectives and are being manned largely with recruits and being employed at new bases and posts established in sparsely populated regions. Providing a

system to an existing unit on an existing station is a completely different program than providing the same equipment to either new men or a new location. They are so different, in fact, that schedules, the type of contract with the US producers, support arrangements, and management margins should be varied to fit the situation.

What about co-production? If industrial development is a buyer goal he may very well later be interested in at least a selfsufficient maintenance if not a full production capability. Although this may not be part of the initial case, if the buyer has previously shown this tendency, the program manager should include that factor in his early planning and program structure.

The desire for self sufficiency can also come from another source. Arms dealer, including the US, have taught their customers some very hard lessons. Buyers may have strong fears of embargo and parts unavailability which manifest themselves as very rapid delivery rates and large initial spares lay in. If possible the program manager should separate these delivery concerns from the incountry implementation schedule. One current FMS case is structured around a unit build up rate twice that used by the US Army when they converted to the new system from one of its earlier models. This is inspite of the fact that the FMS employment is to newly formed units, composed of new recruits, and deployed to new locations constructed as part of the program. The significant point is that when the incountry program fell badly behind schedule the buyer still refused to allow a slow down of hardware deliveries despite an offer of later items from the production line at no increase in cost and

the need to place the items in substandard storage. Obviously delivery and deployment were separate buyer objectives but unfortunately the US program manager incurred substantial cost and "wasted" critically scarce US advisors trying to keep them connected.

Interfaces are another critically important baseline. The buyer may align his military functions differently than we do. The US is currently delivering US Navy aircraft and US Army air defense systems to the Air Force and US Navy helicopters to the Army of one of our FMS customers. The problem of country to country transfer is thus compounded by interservice differences. Conceptual differences in training methods, tech data format, logistics ordering procedures, and maintenance concept must be resolved. Fitting a US Navy aircraft into a logistics and maintenance system based on US Air Force concept while retaining the capability to interface back into the US Navy supply system can require a significant amount of effort. Nonstandardization between different US service systems, as in these cases, is however tame compared to the problems of interfacing with non US equipment and systems.

DIRECT SALES VS FMS

Purchase via the direct sale or FMS method is a tradeoff for the customer, the contractor, and the US. The sale of arms is competitive, lucrative and risky. Variable costs and unpredictable business environments temper the selection of the procurement mode.

A Direct Sale involves an American contractor who with the permission but not the assistance of the US government enters the free market.

There is no Armed Services Procurement Regulation (ASPR) to guide, protect or constrain; business rules may vary greatly; the buyer and seller must both beware. The direct purchase method also has definite advantages for both parties. It can provide a system quicker and at lower cost without the burden of US government bureaucracy and can result in greater contractor profits. These advantages account for the fact that from 1970 to 1975 close to 20% of US arms deliveries to foreign countries were accomplished via the Direct Sale mode. (5,16) The International Security Assistance and Arms Export Control Act of 1976 which requires all sales for major items over \$7 million or with a total program value over \$25 million to be FMS, will lower this percentage but not totally remove the motivation to use the Direct Sales mode. (7,4)

The direct approach is wanting when something deviates from the expected. The success of a direct venture is highly dependent on how well the program is defined and understood by both parties. Unfortunately the ledger is full of cases where the undertaking was neither detailed or comprehended. Unhappy customers and expelled, unpaid contractors often drag the US government into a mess after the fact to protect political and national interests.

The FMS procurement mode reduces many uncertainties. The FMS system make the US a prime contractor and a guaranter to both parties. The customer makes its agreement with the US. The US service department then implements the program by placing a contract and imposing our normal acquisition policies and controls. Collecting from the customer

becomes a government to government obligation and payment of the contractor a US government obligation.

The major disadvantage of FMS is the requirement for large numbers of military and government civilian personnel to administer, implement, and provide continuing long term support for the cases.

FUNCTIONAL BALANCE

US service acquisition procedures are characterized by checks and balances. The appetites and weaknesses of the operational, engineering or development, and logistics communities are moderated by their interaction at many levels of our management structure. The result normally being a balanced program with viable objectives and minimum risk. If we choose to accept an imbalance to achieve a particular goal the shortchanged function at least has knowledge of the handicap and can concentrate on actions which will minimize the problem.

Observing the acquisition processes in FMS customer countries brings a greater appreciation for the value of functional balance. In many cases the FMS requirement is operational or is pushed by a technology appetite or is a political decree. It usually doesn't reflect a balanced military staff position, may often be without the knowledge of the military organization which will operate the new system, and almost always is without adequate logistical consideration.

The program manager must very carefully evaluate a requirement and its origin. As much as possible known inadequacies in the customer system should be compensated for during the preparation of the proposed

case. Additionally the program manager's task may vary significantly dependent on the user's knowledge and competence in the subject area.

CRITICS AND CONSULTANTS

An FMS case is a government to government agreement. Therefore once the proposal has cleared the service and OSD (DSAA/ISA) it needs only satisfy the other government. Wrong! There are many different players on the receiving end with various types of expert knowledge and as many different motivations, loyalties and positions of influence. The official US representatives - the MAAG and the country team - carry important votes. If the proposal doesn't consider and accommodate their concerns or if they perceive it to be nonresponsive - knowing that a better capability or option exists but not understanding why it isn't being offered - objections may come back through the US chain of command or may be informally passed to the customer government. The support and loyalty of the US incountry personnel is very important and can not be taken for granted. They must be informed on the product and sold on the proposed management approach.

The customer government representatives may be low on the acquisition learning curve, not familiar with US rules and procedures, and accustomed to a different set of business practices but they will almost certainly have in their hire individuals - many of them Americans - who know the business. The proposal must communicate to the customer and thus span any language and/or knowledge barriers but it must also stand the critique of experts. Services have suffered considerable embarrassment and loss

of credibility because they responded directly to an incomplete requirement and then were criticized by the customer - prompted by American consultants - for proposing an illogical and unsound business proposition. Proposed cases, if they don't present a complete and sound package, should state assumptions or document and make recommendations about the missing elements. The macro view is as important as the necessary details.

THE BUYERS DECISION STRUCTURE

An understanding of the chains of command and decision structure within a customer country is very helpful in both defining and administering a program. The point is made because the mechanisms encountered often have characteristics quite different from our own.

The prime distinguishing factor is usually centralization. All important decisions are made or require ratification at the top. The organization also probably has very few layers between the acquisition representative and the top level. This can mean that program information enters at a high government level where it is viewed in a broad perspective of international and general financial policy. This type of structure can be difficult because it in effect eliminates middle level managers and divides all problems into two categories - very little and very big. Relatively simple actions may go undone because individuals at the working level don't have or won't exercise the authority to make things happen but don't want to raise it as a problem exposing their impotence. On the other hand even the smallest problem suddenly becomes very big and can take off in any direction when it is put into the hands of the top level.

A small number of management layers and individuals with ready and regular access to the top decision maker also provides a very fertile change environment. An improvement, additional feature, or program change once sold to a key individual can quickly go straight to the top without filtering or lateral coordination. A decision made or change directed in this way is usually extremely difficult to turn around. With this volatile situation marketing activity by the contractor must be monitored very carefully.

The compartmentalization and segmentation of forces is another characteristic that generates unfamiliar relationships and atypical decision structures. For political, traditional, patronage, family or other reasons the military forces may be segmented by service or region. Operational commanders may be virtual warlords and organizations such as a joint staff powerless. The decision and command line may informally jump several layers on the formal organization chart. Additionally, it is not uncommon to find parallel systems with little cross service cooperation even though considerable economies could be achieved by consolidation or coordination.

CULTURAL FACTORS

All of us are aware that cultural differences exist and that not everything can be viewed through a set of eyes calibrated to the American way, yet the degree of impact and the subtle ways programs are impacted seem to be a continuing surprise. The debrief of an FMS manager doing business even in Europe but especially in the middle or far east will almost always contain this factor near the top of his problem list.

The mention of an American work ethic usually brings smiles. The exposure to a culture where such a motivation does not operate, however, can be quite sobering. We have basically been ingrained with the concept that hard work brings it reward and is therefore honorable and desirable. Doing business in an environment where it is more honorable to gain a reward by not working than by working changes the perspective considerably.

Responsibility is another aspect of behavior we take for granted. We expect to have it, actively seek it, and couple it with authority to make things happen at a succession of management levels. American managers - especially military managers - are problem orientated, are schooled to view a problem as an opportunity, and tend to fix something that is wrong. This attitude does not apply to all cultures. Often problems not only aren't sought but are avoided. Personal responsibility is disdained. Decisions are made orally by groups so that individual responsibility is diluted and blame not easy to fix. Managers tend to wait for things to happen rather than cause things to happen. Concurrence may not be real agreement but instead a mix of deference and discretion not to directly confront the idea. Actions other than a smile and nodding head are necessary to indicate goal acceptance and commitment.

Motivation is learned out of a different book. Motive-goal-behavior patterns don't follow the rules we expect. Family ties and pressures for example are extremely strong and in many cases would come at the top of a middle-east motivation list. Failure also casts a heavy shadow and is itself a strong motivator. Risk avoidance is common because of the social as well as professional implications of failure.

CONTRACTORS

The behavior of US contractors seems to be more extreme or at least less constrained in the foreign areas. Cost plus percent of cost proposals, double dipping on expenses, assignment of contract obligations to subsidiaries registered outside the US to avoid liability, and exorbitant rates were all observed in a single country. This shouldn't suggest that all contractors are unscrupulous but that an unconstrained profit motive is very strong and many markets very permissive. These practices are more excessive in the direct sales arena but, ASPR notwithstanding, they are certainly not absent from FMS operations. The absence of auditor assistance and a lessened concern associated with someone else's money can even cause laxness among US administering personnel.

Marketing is a very active contractor function. Grumman, for example, keeps a staff of ninety in Teheran and Hughes Aircraft maintains offices in nearly a dozen foreign capitals (2,45) Many contractor representatives have taken up residence in the foreign country and by virtue of previous position and longevity gain considerable prestige and influence.

RESPONSIBILITIES OF AN AGENT

FMS procedures are based on the principle that a general and conceptual government agreement is made so that the acquisition expertise of the US government can then be used to contract for the desired product. The US agency or department becomes the agent or broker. The responsibilities clearly associated with an agents' function in the US business community

are unfortunately sometimes not fully carried out in implementing the FMS process. It should be quickly added that in many instances the problem is not one of negligence but of insufficient manpower. Just as program managers are cautioned against knowingly taking on an impossible or grossly underfunded development effort, the admonishment here is for neither a program manager nor service department to undertake FMS programs they are not prepared to and capable of supporting. The shortcomings in cases where that has happened are readily visible to the customer and are measured in units of trust and image far more valuable than dollars. The statutes that govern FMS (9,254), DOD posture statements (13,185), testimony before Congress (6,448) and other various policy pronouncement all emphasize that the justification for this business is the increase of stability and furtherance of National Security Objectives via strengthened relations with the foreign customers. The economic and industrial benefits are purely collateral and secondary.

Unfortunately the file is full of examples where responsibilities were not fulfilled, the customer shortchanged or overcharged, and the relationship tarnished.

SUPPORT IMPLICATIONS

FMS transactions are not cash and carry. The development and long term support implications are considerable. In fact, as reported by Deputy Defense Secretary Robert Ellsworth, during the Fiscal 1950-75 time period 60% of the total arms for foreign countries bill was for support services and support equipment such as spare parts (8,11).

The requirement for the long term commitment of people is not only a military manpower problem but now also a policy matter that has received considerable media and Congressional attention. The Humphrey Foreign Assistance Subcommittee of the Senate Foreign Relations Committee reported that there are currently 24,000 US advisors and members of their families in Iran alone and that the number may rise to as high as 60,000 by 1980. (14,23) Iranian business currently represents approximately one fourth of the FMS to be delivered account. Even though support ratios may vary greatly, the number of personnel needed to support the other three fourths which is going to sixty-six other countries could become very large. The supply of personnel qualified to support many of the specific items is quite limited and may not satisfy all of the needs. The demand for some technicians has already driven the contract asking price to over \$140,000 for a man year.

Spares are the second half of the long term support problem. Follow on spares support is one of the major motivations a foreign customer has for buying via the FMS procedures. Likewise, its the US reputation for support that has distinguished us from other arms sources - especially the French and Soviets who have a notoriously poor followup record. Our good service, however, doesn't come without considerable effort from the program manager. A concept - joint purchase and stockage, consolidated buying, direct ordering from the contractor, or some other arrangement must be determined. Leadtimes for procurement and stockage must be planned for, and US forces/FMS customer priorities must be established. Although some economies may be realized from increased lot

sizes on common items the FMS requirements are usually placed on the US logistics system as an extra burden or additional duty. Detailed program manager attention is required to insure that the necessary support arrangements are planned, activated, and then operated effectively.

ACCOMMODATIONS AND SERVICES

A program manager is normally not concerned with the housing, feeding, and support of his people. FMS is an exception! Accommodations for the incountry administration and support personnel can be a major cost driver, morale factor, and contract negotiation issue. Early consideration of the support factors and definition of how they will be accomplished is prudent since the basic feasibility of incountry support concepts will be strongly influenced by the availabilities and restrictions.

It is important to remember that whether the case is implemented by military, government civilians or contractors, they all work directly for the US in its role as the "prime contractor"-not for the buyer government and therefore the conditions of their employment are a program manager concern and must be defined in his contracts.

Agreements with the customer country, the MAAG and Embassy, and the implementing contractors involved are necessary to define accommodations and services. The agreement with the buyer - reflected directly in the FMS case or a separate document picked up by reference - is the baseline. Subjects that need to be covered can be identified by checking with a program manager or contractor currently doing business in the country. Normally the list includes (1) housing - its cost, location, government

provided or on the economy, and its degree of "Westernness"; (2) length of tour-travel/moving allowances, extension bonuses, cost of early departure and replacement; (3) customs and import allowances - how much can be brought in, excluded items, firearms, taxes, incountry resale, and assistance in delivery and bureaucratic processing; (4) cars and driving - driving privileges, insurance requirements, diplomatic immunity or limitation of liability; (5) personnel - standards of conduct, travel, benefits, US income tax offset, dependents, restrictions on background, faith, or origin; and (6) liability - implications of duty and off duty accidents, misconduct, or damage. The second major agreement is with the US incountry authorities - the MAAG and Embassy - on the restrictions they impose and the services they provide. The key issues are usually related to contractor personnel access to US mail, commissary, dependent school, medical, and retail sales operations. An important subset is retired military working for contractors. The retiree's "right" to these services in foreign areas is dependent on the local commander's determination of availability. This is becoming a sensitive policy issue since in some FMS areas the service to retirees/contractors exceeds that to the "active duty" US government personnel they were established to support.

The third agreement-the contract with the US contractor(s) is easy if the details have been worked out with the customer and US authorities. The major problems occur when a program manager agrees to an item assuming it will be provided incountry or allows a pricing assumption that indirectly invokes privileges.

CONFIGURATION

Configuration documentation and control take on more than normal importance in FMS. Long supply lines, a fertile change environment, security considerations, and the US image are just a few of the factors that make it very important to define the product, keep it under control, and teach the customer the virtue of such discipline.

The first step is strategic rather than administrative. It needs to be made very clear what capability and configuration is being offered. Prompted by a combination of Aviation Week and contractor marketing the customer very likely has a good idea of the present and even of potential future system performance. An offer of less than the total without some good rational and high level coordination has resulted in problems. Even worse is the case where the customer thinks he's getting the whole package but a cryptic and undefined set of references on the Letter of Offer actually promise something less. It's very interesting and frustrating to compare the several pages of specifications necessary to define an article in US acquisition circles with the meager line or two that often appear on the FMS case to describe a multimillion dollar FMS article. The biggest portion of this hurdle is intra-DOD coordination and release clearance. Sometimes service department separation or functional isolation results in policies that have poor logical basis. In one case the Navy and Air Force each cleared one set of data formats while restricting another. The actions, however, were 180° out of phase - what the Navy restricted the Air Force released and vice versa. In another case, after ECM pods were made available the threat data necessary to set them

for employment was restricted - even though the foreign customer had participated in the intelligence collection effort.

The difficult logistics support problem can be aided or impacted by the ECP policy. Of course, the more desirable is to lock the FMS configuration to its US counterpart and the easiest time to sell that concept is as part of the initial program package.

THE BOTTOM LINE

The positive factors that are distilled from watching the successes and failures are not surprising to a good manager. Assumptions are very critical and must be based on the right facts - intuition can be misleading. The myraid of factors, long leadtimes, and the shortage of personnel make detailed planning and a sensitive control feedback system extremely important. Bad news doesn't get better with age, nor does an ambiguous contract achieve a difficult task. Contractors need to be given specific tasks but it may be more important to specifically document, describe, and schedule the tasks to be accomplished by the customer. The real impact of "GFE" failures in manpower input, construction, local procurement, and training isn't readily apparent if the requirement is waffled. The concepts of Total Package Procurement and Integrated Logistics could have been designed to solve FMS problems - it is the support aspects that are overlooked, cause problems, and require the greatest effort.

The single most valuable aid for a program manager facing a new FMS program is recent experience. The fool repeats his mistakes; the common man learns from his mistakes; the wise man learns from the mistakes of others.

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