

Strategy Research Project

The Criticality of Foreign Military Sales to the Army of 2020

by

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United States Army War College
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USAWC STRATEGY RESEARCH PROJECT

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Abstract

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Budgets through this decade may be insufficient to achieve both force readiness and the stated Army 2020 modernization plan. Can the Army further mitigate modernization funding risk by increasing foreign military sales effectiveness? In this context, sales effectiveness is achieved by way of better aligning existing or emerging allied requirements with U.S. modernization plans and production capacity. This paper establishes a working hypothesis. It contends that by maintaining or increasing sales, while improving the effectiveness of those sales through information sharing and by actively focusing allies on programs where we have common needs and available capacity, the investment focus gained will reduce the risk to modernization and the industrial base. This strategy does not supplant our primary motive of improving our ability to operate within alliances and with coalition partners thereby shaping the international environment to prevent or win our nation's wars.

The Criticality of Foreign Military Sales to the Army of 2020

In adjusting our strategy and attendant force size, the Department will make every effort to maintain an adequate industrial base and our investment in science and technology. We will also encourage innovation in concepts of operation...the imperative to sustain key streams of innovation that may provide significant long-term payoffs.

—President Barack Obama¹

Introduction

Foreign Military Sales (FMS) generated \$113 billion in international agreements from 2008-2011 and have enabled a higher level of integration with our allies and coalition partners.² This paper suggests a way sales could be improved, thereby enhancing international security cooperation, while simultaneously aiding in mitigating funding risk to our modernization programs and industrial base. To seize the opportunity the Army must organize by establishing policy and strategy designed to aggressively pursue mutually beneficial sales between allies and the U.S.

Reflecting on the success seen in recent sales and personal experience highlights an opportunity and sets expectations for increased future FMS, but begs the primary research question: Can the Army further mitigate modernization funding risk by increasing foreign military sales effectiveness? In this context, sales effectiveness is achieved by way of better aligning existing or emerging allied requirements with U.S. modernization plans and production capacity. Based upon the evidence of the beneficial impacts to existing Army modernization programs such as the Apache helicopter program, this paper establishes a working hypothesis. This hypothesis conceptualizes that by maintaining or increasing sales, while improving the effectiveness of those sales through information sharing and by actively focusing allies on programs where we have

common needs and available capacity, the investment focus gained will reduce the risk to modernization and the industrial base. This mitigation would be a second order effect of supporting our primary motive of improving our ability to operate within alliances and with coalition partners thereby building partner capacity and shaping the international environment to prevent or win our nation's wars.

The working hypothesis provides an end that aids in framing a potential strategic approach. This conceptual strategy may be a blinding flash of the obvious, but is it really? The Army's primary approach to measuring successful FMS is in dollars per program. Often reports containing these measurements are followed by supporting commentary such as, "the sale resulted in achieving economic order quantity." In general, modernization program successes derived from FMS can largely be attributed to luck rather than by design. Selling more is not always the answer. What is missing is a focus on what needs to be sold to best sustain Army modernization programs, while simultaneously advancing our national interests. Seeking out and making sales where a program has a production gap, unused capacity, needed modernization, or where a key requirement is not fully funded is an unexamined strategic approach. Can key leader emphasis on making the *right* sales not just *more* sales bring about a new view of how we can successfully manage modernization programs? If this concept shows potential as a viable approach that could produce consistent returns with little downside, then why not seize this opportunity and explore its benefits? This hypothetical approach is not a modernization funding shortfall panacea, but rather a complementary strategy that is intended to reduce program risk while nesting neatly into the Army vision for the future.

The Budget Problem

In late 2011, the Army Chief of Staff (CSA), General Ray Odierno, proclaimed that the U.S. Army's roles are to prevent conflict, shape the international environment, and win the nation's wars. The prevent, shape, win construct are elements of a clear and concise vision for the Army, but the realities of our nation's economic situation make the work of designing effective supporting strategies extremely difficult.³ The Department of Defense (DoD) is bracing for over \$ 979 billion in federal deficit reduction measures that will likely take effect in 2013.⁴ The Under Secretary Defense for Acquisition, Technology, and Logistics (USD, AT&L) stated that the Budget Control Act of 2011's (BCA P.L. 112-25) automatic cuts trim roughly 11 percent from each of the Defense Department's 2,500 budget lines.⁵ A cut in this fashion will make it impossible for DoD to prioritize the cuts resulting in unknown second and third order effects on programs. Regardless of size of the funding decrement or what legislative form it takes, it is most likely that defense spending will decrease over the next decade. The Service Chiefs have been publicly raising concern regarding the potentially detrimental effects of decisions made in response to these budget cuts. The constraints imposed upon the Service Chiefs will result in a force readiness versus modernization budget decision.⁶ It is reasonable to expect the Army will fund readiness of the force to the maximum extent possible.

The modernization programs in jeopardy are in all stages of a product's life cycle. Unfortunately, the trade space involved with these strategic resourcing decisions could be very limited. As directed by the President, personnel accounts will be off limits for the 2013 budget reduction. In an October 2011 testimony to Congress, the Army's G8 and Military Deputy to Assistant Secretary of the Army for Acquisition, Technology, and

Logistics stated that these budget cuts, "... will have a disproportionate impact on modernization programs in the near term since they can be terminated or down sized rapidly unlike manpower adjustments."⁷ Additionally, since 2008, the Defense Department has cancelled approximately 50 significant weapons programs avoiding costs of approximately \$300 billion dollars.⁸ The importance of this fact is evident in the USD AT&L, Frank Kendall's, recent statements pointing towards little or no room left for projected cuts within the Department of Defense that will not impact essential programs.⁹ Some of these essential programs are already in production and may be in the process of fielding. These key leader statements point towards insufficient funds to achieve both force readiness and modernization. Moreover, anchoring manpower accounts while allowing an imbalance to occur relative to readiness and modernization points to a potential future hollow Army. It is imperative for Army strategic leaders to consider what is in the realm of the possible to balance the equation. It is unlikely that a single solution exists to solve this problem of insufficient modernization funds, but potentially a wider array of smaller risk mitigating solutions may be cobbled together as an adequate countermeasure. This paper will endeavor to present one such potentially significant solution.

Army Modernization

Why is a significant slowing or stopping of modernization important to the Army of 2020? The "American Way of War" utilizes technology to offset quantitative and sometimes asymmetric advantages of our opponents. This advantage may not be sustainable without continued investment in force modernization.¹⁰ While surely understanding the implications of that assertion, the Army's leadership has outlined in the 2012 Army Posture Statement a key assumption that we have no peer match to our

Army. Based upon the position that we are the best-equipped fighting force in the world, the Army's leadership has deemed acceptable a strategy of incremental modernization focused on delivering capability only as the situation dictates.¹¹ Supporting this strategy is the Fiscal Year (FY) 2013 modernization plan. It reflects the complexity and dire situation faced when resourcing for today's fight, while attempting to prepare for the future. The modernization plan acknowledges that shifts had to be made from programmed future capabilities to current requirements due to constrained resources.¹² This shift in funding is evidence that modernization is already being impacted by the budget decrements.

Senior leaders often loosely define modernization as new technology to counter emerging threats.¹³ They are generally thinking about big systems for big problems. This definition is limited and does not capture the full importance of modernization to the Army's future battlefield effectiveness. In reality, modernization of systems often includes the "blue collar" work of correcting obsolescence, improving sustainability, and enhancing maintainability or is a solution used when a major component supplier exits the market. These reasons for modernization are not uncommon and highlight a risk accepted by the Army's intended approach of correcting budget shortfalls by funding readiness, while reducing modernization investment. As an example of producing needed capability while simultaneously accomplishing "blue collar" modernization, the Block III Apache (designated August 2012 as the AH-64E) is a modernization program that does bring new capability to the fight, but capability was not what got the program funded. In fact, senior Army leadership has been extremely happy with the current Block II AH64-D Apaches wartime performance. However, it was the fact that the Apache's

long-term sustainability, affordability, readiness, and future battlefield relevance was dependent upon a modernization program that got the multi-billion dollar program funded. Recapitalization of the entire fleet of these battle worn airframes was not an acceptable option. Without modernization, it is unlikely that Apache would be able to adequately support the Army beyond the year 2020. This addendum to the generally accepted definition of modernization better explains why the Army needs continued modernization not only to bring new systems to bear on new problems, but simply to set the conditions for future success by enabling effective sustainment, ensuring the future availability of key systems and to incrementally improve the current force. Through the next decade, reducing investment in modernization will not be a simple trade to accommodate readiness or personnel needs. The investment decisions made today concerning system's modernization will determine whether the Army can sustain a ready and relevant force for the Army of 2020 and beyond.

The Industrial Base Concern

The Army's leadership has established the first order effect of these cuts are potentially immediate and will continue to impact the Army's readiness and capability to modernize throughout the following decade. This problem has a second order effect: maintaining the strategic resource of our industrial base. What do we stand to lose due to the impending budget cuts? In the same testimony to Congress mentioned above, Army senior leaders stated that preservation of critical industrial base sectors of capability must be taken into consideration in order to ensure we have the capability to source our military's critical needs from industry within our own borders.¹⁴ The greatest concern is the immediate effect of an abrupt significant decrease in spending on defense during an economic downturn. Technical, manufacturing, supply chain and

retail support job skills will evaporate without a viable job market to offset these losses. It would be expected that a healthy economy would absorb these losses by providing other opportunities, but our economy is not currently healthy. Based upon the proposed decrement in spending businesses and economists contend that 1,010,000 defense industry related jobs may be lost by 2014.¹⁵ This corporate downsizing will result in an aggregate 1 percent decrease in gross domestic product that same year, while national unemployment would increase .7 percent. Of those jobs, 130,000 will be manufacturing positions. The National Manufacturers Association prediction is the states most affected by the Budget Control Act (BCA) will be California, Texas, and Virginia, each of which may lose greater than 100,000 jobs. The risk to our industrial base is in the loss of skilled employees, but also the weakening of already low-density industries such as shipbuilding, rotary wing aircraft manufacturing, and armored vehicle production. The defense industries response to defense cuts of this magnitude, as seen in the 1990's, is mergers to gain efficiencies.¹⁶ Mergers with international firms have become popular allowing greater access to U.S. markets for those firms, but results in fewer choices to induce competition or support Buy American mandates. Without sufficient funding for development, production, or system sustainment through reset and remanufacturing the industrial base will readily right size leaving us with even fewer options for future contracts. The current economic environment poses great challenges for Army modernization and the American industrial base, but within this quagmire exists opportunity. This opportunity originates from our current and proposed future efforts to support our allies' military equipment needs.

Linking Opportunities to Needs

As the U.S. military reduces the size of its standing forces and in some cases its presence in countries around the world it is important to consider the net benefit of engagement through security cooperation with our allies and potential coalition partners. This engagement produces military-to-military contacts and subsequently enables significant sales of U.S. manufactured arms. In 2011, the U.S. sold through the FMS program greater than \$66 billion dollars worth of military gear to allies.¹⁷ The total Department of Defense FMS portfolio value of items sold but not delivered is \$385 billion representing engagements with 224 countries.¹⁸ In 2012, the Army completed international agreements for the sale of over \$17 billion in helicopters, training, and ground support equipment in a single sale.¹⁹ These sales facilitate important international ties that bind the U.S. with our allies. Each sale of U.S. manufactured gear contributes to higher levels of interoperability, builds partner capacity, and generates a more effective alliance or coalition fighting force for the regions combatant commander.

This contribution supports the Army's vision for the future. In his 2012 posture statement, the CSA defines the role of the Army as prevent, shape, and win. Shaping is focused on making the combatant commanders effective within the international environment by setting the conditions for "assuring our friends and containing our enemies."²⁰ The effort placed on security cooperation directly supports the CSA's shape task by engaging our allies and providing an avenue for them to "build the capacity to defend themselves" through the acquisition of U.S. equipment.²¹ FMS is the security cooperation function that enables this to happen and represents an opportunity that may simultaneously benefit force modernization.

The Army's strategic leadership is facing an uncertain future, but they can count on one thing with a high level of certainty: the Army's budget will decrease. While tough decisions will have to be made regarding resourcing the force for readiness and modernization, taking action now by employing a variety of mitigation strategies will enable us to better posture for the unknown threats of the future. How will the Army's leadership balance this readiness and modernization equation for the Army of 2020? With the examination of evolving budgets and the FMS revenue stream, opportunities generated by FMS investment beg further consideration in “how” leadership might contribute to balancing this equation. An opportunity exists to utilize this revenue stream more efficiently and effectively. The strategic rationale for considering FMS as a mitigation tool is based on its already proven contributions to the Army. Those contributions include empowering allies, enhancing the Army's capability to modernize through direct investment, and supporting the industrial base through exports.²² To meet the immediate demands of national security, readiness is an ever present imperative for the Army and it will generally trump modernization in near to mid term strategic investment decisions. Budget decrements will affect modernization more significantly than readiness in the near future. Given the strong demand for U.S. military equipment and decreasing defense budgets, this paper highlights the criticality of FMS to the Army of 2020 and considers the opportunity provided in the FMS revenue stream.

Foreign Military Sales

Why examine FMS as a potential mitigating tool for the risk associated with decrements to Army modernization? First, examine the worldwide markets potential. The Congressional Research Service (CRS) reports the 2011 overseas weapons sales by the U.S. (all services) exceeded \$66 billion out of a global arms market valued at \$85

billion.²³ Some international sources put the potential worldwide arms market value at greater than \$400 billion.²⁴ CRS contends that the incredible 2011 U.S. sales distort the value of the global arms market, as U.S. sales increased by 91.7 percent from 2010 to 2011.²⁵ While this increase may be a statistical outlier, this same year the U.S. captured considerable arms sale market share previously held by Europe and Russia.

Additionally, the purchases come predominately from nations in the Middle East and Pacific Rim regions that have indicated they have appetite for more equipment to meet their needs. This data may be pointing to a new norm produced by the evidence that U.S. systems are superior to others as seen through twelve years of war and fueled by the uncertain future nations in these regions face. With the evidence of strong sales, a high level of future interest in U.S. weapons, and an arms market valued at up to \$400 billion a significant opportunity exists for FMS as a mitigation tool.

The strategic rationale for considering FMS as a mitigation tool is based on its already proven contributions to the Army. The FY13 Army budget request for Research, Development, and Acquisition (RD&A) was \$25.598 billion.²⁶ The BCA is expected to impact each of the Army's budget lines with an 11 percent decrement resulting in a notional \$2.816 billion FY 13 decrease. In comparison, the United States Army Security Assistance Command (USASAC), which has primary responsibility for Army FMS, reports that in August of FY12 \$18.3 billion in Army managed systems had been sold globally.²⁷ That same month USASAC reported the total value of on order, but not delivered equipment was \$60.3 billion for aggregate sales awaiting fulfillment of \$78.6 billion dollars. The reported FY12 USASAC sales represent a comparative 71 percent of the FY13 Army budget request for RD&A. In consideration of the CRS concern that FY

11 sales are an anomaly, employing a simple sensitivity analysis by decrementing the USASAC FY 12 FMS by 50% to \$9.15 billion, sales would then conservatively represent 37 percent of the FY 13 Army budget request. Even at this reduced level, FMS contributions to Army programs exceed the expected decrement to the Army RD&A budget caused by the BCA. Additionally, reinforcing the potential of FMS, USASAC's forecasted pending sales exceed \$12 billion per year for the FY 13-16 period.²⁸ This simple comparison establishes that the magnitude of FMS income as compared to the Army's potential budget decrement is significant.

FMS infuses investment into U.S. weapons programs benefiting research, development, and production of Army systems, as well as, training, and sustainment programs. The Apache Block II and III full rate production program provides an excellent example of the benefit gained by the U.S. through this infusion of investment. FMS represents 36 percent of the Apache program's production planning between FY 12-18.²⁹ Additionally, this FMS investment brings new research and development dollars supporting Longbow radar advancements that support an allied country's unique requirements. A total package is included with these sales consisting of training, parts, maintenance support, simulators, and ammunition. Those research and production investments greatly benefit the Army program by ensuring production capacity optimization, improving unit price by increasing order size, and by delivering new capability the U.S. did not have to fund. Simply continuing to increase these sales will result in a net benefit to Army programs and the industrial base, but an opportunity exists to utilize this revenue stream more efficiently and effectively. To meet the needs of Army 2020 and to sustain our industrial base, our security cooperation enterprise will

need to compete more intensely for arms contracts to ensure we continue to enjoy the benefits of security cooperation.³⁰

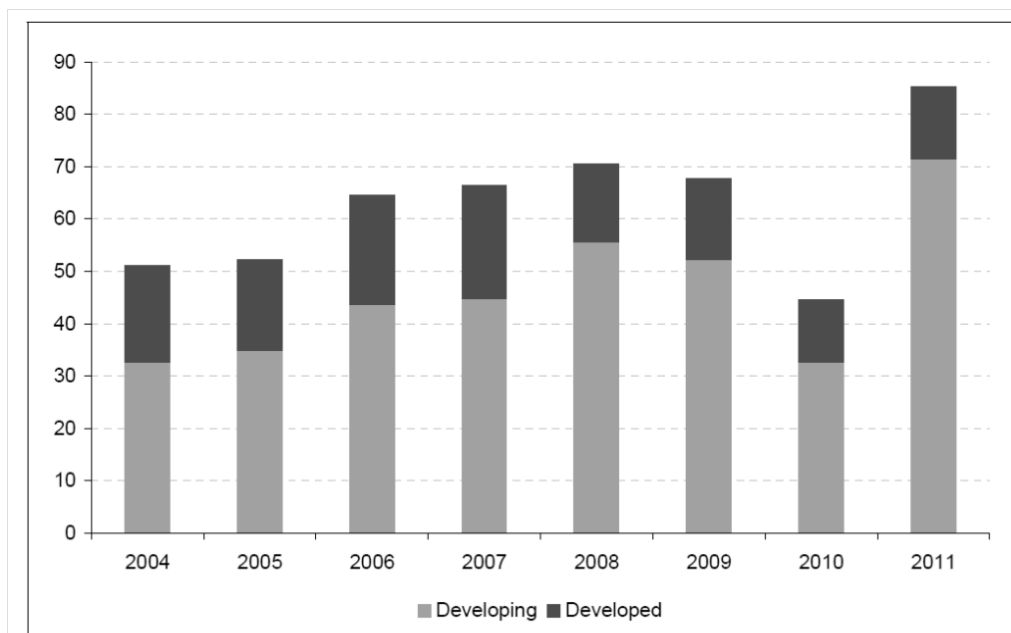


Table 1. Arms Transfer Agreements Worldwide in billions of dollars³¹

The opportunities exist for increased sales in the upcoming years, but only if the Army chooses to aggressively pursue them. This fact is highlighted by missed opportunities such as the recent Russian sale of \$4.2 billion of weapons to Iraq.³² Iraq is a key regional U.S. partner and has the benefit of a large State Department presence in country, but it opted for Russian systems to meet their requirement for attack helicopters and anti-aircraft systems. Was this an example of not aggressively pursuing a sale where the U.S. could readily meet Iraq's stated requirement? Regardless of the reason, a missed sales opportunity was the outcome in a country where significant U.S. resources have already been invested over the past decade. It would be reasonable to expect that the relationship developed with the Iraqi military and a valid need to facilitate additional force cooperation and integration would have aided the U.S. in gaining this sale. Organizing the team to go after the sale may have changed the outcome. In

October 2012, the Iraqi Defense Minister offered the opportunity for future purchases. He stated Iraq desires both Apache helicopters and U.S. anti-aircraft weaponry.³³ Will the Army make this sale and potentially benefit in both multinational interoperability and U.S. modernization plans? In order to address this question, a discussion of security cooperation and specifically the FMS process including how to modify it to succeed in producing effective sales is warranted.

The FMS Process

The primary policies creating U.S. Security Cooperation and its subordinate component, the FMS process, are the U.S. Foreign Assistance Act of 1961 and the Arms Export Control Act of 1976 (AECA). The agencies working within the process utilize the Security Assistance Manager's Manual (SAMM), designated as Defense Security Cooperation Agency (DSCA) Manual 5105.38-M as guidance on program execution.

Security cooperation entails all DoD interactions with foreign defense establishments that promote US security interests and enhance the military capabilities of our allies.³⁴ The promotion of interests is accomplished through two primary programs: security assistance where U.S. provides funding and FMS where the foreign customers pay for the gear themselves. Congress has given DoD legal authority codified in *United States Code*, Title 10 (10 USC) to pursue a wide range of cooperative military programs with other countries.³⁵ Security Cooperation is an overarching term that defines and encompasses a variety of programs, including FMS.

A critical player in the FMS process is the DSCA assigned Security Cooperation Office or Officer (SCO). DSCA is responsible for overseeing the Department of States international sales of military equipment and services. The SCO supports FMS through

close coordination with the host nation's military, the Ambassador, and the Geographic Combatant Commander (GCC). The SCO functions as a contributing member to each of these office's staffs. The SCO's duties include promotion of rationalization, standardization, and interoperability (RSI) of armaments and providing the host country information needed to make decisions concerning security cooperation and decisions related to FMS programs.³⁶ An element of the SCO's mission that is important to improving sales and making the right sales is his responsibility to encourage the host country to establish and depend on its procurement mission in the U.S.³⁷ The SCO pursues RSI objectives in accordance with CJCSI 2700.01A, *International Military Agreements for Rationalization, Standardization, and Interoperability (RSI) between the United States, Its Allies, and Other Friendly Nations*. This policy sets a goal for the SCO based upon the U.S. interest of achieving interoperability with partner nations worldwide.³⁸ To promote RSI the SCO analyzes the requirements of the host nation, the GCC, and considers the diplomatic objectives of the Ambassador always seeking to find linkages that may be satisfied with U.S. equipment, services and training. When the SCO successfully meets this goal, he supports interoperability, builds partner capacity and as a result of his actions advocates for the U.S. industrial base.

The SCO is not a one-man team. The Army's security assistance representatives, Project Management Offices (PMO), and even the Original Equipment Manufacturers (OEM) are critical to the task organized FMS team. The SCO and the supporting team's combined efforts will be critical in successfully increasing FMS, and in mapping host nation emerging requirements to U.S. modernization needs or available production capacity in a timely manner.

FMS is a fundamental tool of foreign policy used at the discretion of the President. The FMS process consists of preliminary discussions, requirement definition, procurement request, a United States Government (USG) offer, foreign nation acceptance, funding/contract implementation, program oversight/execution, and program closure.³⁹ The President in accordance with the AECA makes the determination prior to initiation of this process that a prospective purchaser is eligible to participate in the military sales program.⁴⁰ Once initiated, the FMS program is conducted through Federal Acquisition Regulation based contracts or agreements between the USG and the foreign purchaser.⁴¹ These government-to-government agreements to sell and transfer defense articles and services are called Letters of Offer and Acceptance (LOAs) which occur at the foreign nation acceptance phase identified above.⁴² The LOA provides the international agreement, and the authority for the U.S. to procure equipment for the allied nation and the contract represents the actual sale of the items. The time elapse between an agreement and a contract can exceed one year. The USG receives the equipment from the manufacturer and then transfers it to the allied nation.

The focus of this paper's recommendation is the activity prior to the LOA where early engagement based upon emergence of foreign nation's requirements can result in a U.S. sale and early alignment of common needs and available capacity.

A recent change in security cooperation policy better enables the enterprise to support engagement with foreign customers prior to the LOA and even prior to the initial customer request. This initial request is called a Letter of Request (LOR). Previously, the SAMM limited the use of administrative funds for pre-LOR activity to \$25,000 or 1/4 work-year (greater of the two). This policy greatly affected the ability of the security

cooperation enterprise to properly resource and adequately address a foreign customer's early questions and concerns. These early engagements and transfer of information effectively create the body of knowledge used by the country to establish its base requirement and inevitably to make a purchase decision. The change in policy recognizes the criticality of this early engagement with the customer and provides for additional financial resources provided by DSCA equating to 8 percent of the total fiscal years administrative budget not to exceed \$ 1 million without approval.⁴³ The approach requires the implementing agencies to forecast the pre-LOR and case development efforts required for the budget year. This key change in DoD policy will enable effective early coordination by the Army with foreign customers and supports the sales strategy proposed by this paper.

Examining how FMS customers, PMOs, and the security assistance enterprise operate today helps highlight a potential solution. This single perspective is not meant to be an indictment of the security assistance enterprise, but rather a general observation of the enterprises performance including the PMO's contribution. First, FMS customers push their requirements to SCOs, or other security cooperation team members and then are subjected to the USG's FMS process timelines. FMS customers like the security of the USG handling program management, but generally are not pleased with the time required to deliver the equipment. Throughout the process, the security assistance enterprise works to answer questions regarding price, availability, and system capability based upon the PMO's input. Second, PMO's find it difficult to plan and efficiently coordinate for FMS requirements. Once the FMS requirement makes it through the process and becomes a funded requirement the PMO can respond to the demand by

contracting. It is very difficult to nest these requirements into a program and often times the PMO reacts rather than adequately planning for FMS. Examples of this situation begin with contracting when the timing of FMS requirements may or may not synchronize with major USG procurements. This may result in higher costs to the customer due to an inability to include the FMS buy within the USG contract. Additionally, FMS procurements not synchronized with Army production may result in production lines under or over capacity. Because of the latter, a lack of sufficient production capacity results in drawn out deliveries to the FMS customer. Early enterprise wide knowledge of FMS participation could improve production tooling planning facilitating more efficient production to meet demands. Once on contract, FMS requirements can produce positive economic order quantity results, but due to the PMO often being uncertain of commitment by the customer, it rarely can be a well-integrated component of a program plan. An example of the uncertainty created is an FMS agreement not being signed well into the contracting process or just prior to negotiations with the OEM, which without a firm commitment increases the likelihood that a PMO will not negotiate an option to support the requirement. Last, the security assistance enterprise coordinates the FMS customer's requirement as pushed to them and manages the program through delivery. The enterprise effectively manages programs, but are by design primarily in the receive mode both from the customer in the form of requirements and from the PMO as program status. There is un-realized potential in the FMS enterprise, because of this push/react model. A team focused on pulling information from the environment to support decisive sales engagement could tap into

this potential. A team that seeks and makes the right sales is a key element of improving the effectiveness of Army FMS.

Stakeholders

To be a stakeholder in this case, the organization must have a "stake" in maintaining or increasing Army foreign military sales, while improving the effectiveness of those sales by focusing allies on programs where we have common needs and available capacity. The common interests of allied and U.S. force interoperability reduce the risk to U.S. modernization and the industrial base are overarching in nature. The stakeholders defined here would be focused on operationalizing the increased sales strategy. They include Army Material Command, USASAC, each Army Command Security Assistance Management Directorate (SAMD), DSCA's SCO per country, GCCs, Acquisition Program Executive Offices (PEO), PMO, and the OEM. This paper proposes that USASAC is the supported organization that will organize stakeholder efforts to implement the recommendations.

The primary interests, initiatives, and incentives that bring these organizations and commands together vary, but they share the common interest of shaping to make each U.S. combatant commander effective within the international environment by setting the conditions for "assuring our friends and containing our enemies."⁴⁴ A primary interest for the security cooperation community is pre-LOA coordination between USASAC, PEO, PMO, and the OEM. USASAC is pursuing initiatives to better coordinate activities amongst stakeholders to ensure enterprise efficiency and effectiveness in engagements with the foreign nation as a customer. The PEO and PMO share interest in finding ways and means to execute their modernization mission and in maintaining a healthy industrial base. The PEOs and PMOs are concerned with

resourcing development activities, maintaining production capacity, and sustaining systems throughout their life-cycle. The OEM's interests are customer satisfaction, self-preservation, and as a business, they are incentivized to increase corporate value for shareholders. All of these activities would be pointless if it were not for the GCC's interest of creating interoperable alliances and coalitions that complement and reduce the burden on U.S. forces. The stakeholder's interests, initiatives, and incentives display important overlap and key system linkages that could be exploited by crafting a cross enterprise team to counter the impacts of reduced RD&A spending.

Analysis and Recommendations

The Army's role is to prevent, shape, and win in a period of inevitably decreasing budgets. To meet that mission, it is possible that Army leaders will maintain readiness at the expense of modernization until a budgetary equilibrium is achieved. These realities and potentialities help define the lens used for a strategic scan of the environment for this analysis. As previously highlighted in this paper, the current scan renders key information regarding a growing global FMS arms market, increasing U.S. arms sales, and stakeholders with common interests in shaping the international environment. How can consideration of these variables through critical thought regarding systems and linkages render a strategy that benefits both the U.S. and its allies? Common interests and risks to stakeholders highlight the benefit of a focused Army security cooperation enterprise policy of organizing to increase sales. A supporting strategy employing the tactics of seizing the initiative through business intelligence, targeting sales opportunities, and making sales that support the common needs of both allied requirements and U.S. modernization would support that policy.

To mitigate funding impacts to modernization, foreign military sales need to be effective. In this context, sales effectiveness is achieved by way of better aligning existing or emerging allied requirements with U.S. modernization plans and production capacity. Given that not all sales are for equipment or for systems that the U.S. intends to procure more of, maintaining or increasing FMS does not necessarily translate to securing the future of Army modernization. For that reason, a simple policy of increasing sales is not enough. If the enterprise could maintain or increase sales, while improving the effectiveness of those sales by focusing allies on programs where we have common needs and available capacity, then the Army could potentially reduce the risk to modernization and the industrial base. To be effective, sales must align existing or emerging allied requirements with U.S. modernization plans and production capability needs through FMS as often and as early as possible. The unrealized potential in FMS to a modernization program is derived from a sale with this type of alignment. This alignment requires information or business intelligence to arm decision makers for action. This task could be accomplished by cross leveling key information between commands enabling targeted marketing and sales engagements based upon knowledge of identified allied, and U.S. common needs. These common needs may include opportunities within developmental, production or sustainment programs. Utilizing existing resources, a cross enterprise team can implement this strategy. Essential to this cross enterprise team is to know your customer, know your needs, know your capability to support, and aggressively go after the sale. The end result should contribute to the shaping of the international environment for the GCC.

An example of a variation of this approach being applied occurred in the 2010-2011 timeframe. The Army competed with the Russians for a \$17 billion dollar Saudi Arabian National Guard (SANG) aviation program. A small team of cross enterprise personnel lead by the SCO equivalent from the Office of the Program Manager, Saudi Arabian National Guard (OPM SANG) aggressively pursued the requirement and successfully made the sale in October 2011.

The SANG program immediately and positively affected Army programs. In November 2011, a sale of Apache helicopter sensors coordinated by OPM SANG directly supported modernization. The term sale in this context means OPM staff working under an existing LOA aided the combined security cooperation team in aligning a requirement, and funding with a new production contract. This proactive engagement took an international agreement established in October 2011 from paper requirement to on contract sale in November 2011 benefiting Saudi Arabia and meeting a U.S. need simultaneously. The team that executed this sale consisted of representatives from OPM Aviation staff, PEO Aviation, PM Apache, AMCOM SAMD, Army Support Center contracts and the OEM. By focusing the security cooperation enterprise on an opportunity through proactive information sharing across the team, PM Apache was able to get on contract early. This combined buy resulted in achieving an economic order quantity advantage saving Saudi Arabia an estimated \$35 million.⁴⁵ Additionally it mitigated a potential production line gap while securing Saudi Arabia early access to this needed capability. This sale was gained through aggressive action resulting in benefit to an ongoing modernization program, while contributing to the shaping of the GCC region by providing for equipment that complements U.S. forces.

To accomplish similar sales feats on a regular basis, the enterprise must perceive and pursue sales in a different manner. The enterprise can implement this change by taking a pushed requirement based system and altering it to a dynamic push and pull based system. This system would still receive customer requirements and support them as necessary, but would also seek to pull information by design from the environment putting the information (business intelligence) into an operational picture. At the DoD level of security cooperation community, this could be accomplished through a policy of aggressively seeking mutually beneficial sales. The policies defined end is to shape the international environment to support the GCC. A second order effect of this policy would be mitigating the impacts of decreased RD&A budgets. Within USASAC, with or without a new DoD level policy, the security cooperation enterprise can employ a strategy focused on increased sales that nests within the applicable statutes, and existing DoD policies.

What shape does this strategy take? What if you, as a member of the USASAC team, were aware of an emerging FMS requirement and simultaneously aware of a common modernization need or available production capacity that could meet that need? Take into account the recent push by the executive branch, Department of State and DSCA to advocate military sales to our allies, and to make the FMS process more flexible and responsive.⁴⁶ This effort includes new policies that better financially resource teams during pre-LOR engagement. A strategy employing existing personnel resources as the means task organized into a multifunctional, cross enterprise integrated planning and execution team that employs continuous environmental scanning, working to map emerging FMS customer requirements to common USG

needs or capacity, could answer this type of question. The strategy could be implemented using a variation of standard commercial business practices by employing a team that would function similar to a corporate marketing research and sales team seeking market wide business intelligence and acting upon it. They would identify customer needs whether they are realized, emerging, or yet to be discussed (ideally pre-LOR) and merge them with known or emerging USG requirements. Then the combined team would apply the existing resources of the security assistance enterprise to close the sale in a manner benefiting the FMS customer, and the Army. A key task accomplished by this cross enterprise team is the cross leveling of critical information to enable timely command action. The strategic objectives this team would pursue are increased sales, improved effectiveness of sales by channeling them to high need areas, and shaping the international environment by enabling a higher level of systems integration with potential coalition partners. The contribution to shaping the international environment for the GCC in a time of austerity supports the CSA's vision and is the strategic end.

What are the leadership actions required by USASAC and its enterprise members to achieve the objectives of increased and more effective sales? First, lead change by emphasizing to the enterprise the additional task of capturing business and selling. This form of selling is not passively taking orders, but rather actively seeking out sales for the purpose of meeting common needs in a timely fashion. This task results in a fundamental change in the purpose and intent of existing implementing agency's FMS engagement teams and in itself is the crucial element of the proposed strategy. Second, formalize the process of gathering both customer requirements and information

regarding U.S. modernization needs or production capacities. Then seek to map customer requirements to those needs in common with the U.S. The assimilation of this information becomes business intelligence to the enterprise. This process should endeavor to clearly map foreign military requirements to available project office/OEM production capacity, or modernization program requirements to support leadership resource decisions and program planning. Third, create an infrastructure to cross level business intelligence throughout the enterprise arming the team with information that supports action. Last, the enterprise must act in a timely manner using its business intelligence to focus the effort. To do this the command should establish a task-organized team sourced from the enterprise to support early customer engagement (Pre-LOR). As derived from the prior OPM-SANG success, the command should resource the team to support quick requirement definition and business capture. By collecting business intelligence and focusing a team on sales opportunities beneficial to both the customer and the U.S., the enterprise is effectively employing the business practice of targeted marketing. The output of the process is increased sales opportunities that will meet combined U.S. and allied needs and generate modernization resources in support of the Army 2020 modernization plan.

Today, teams similar in organization to the one proposed carry out FMS tasks routinely. The critical difference is in the proposed team's task and purpose as defined above. The team does not need to be a standing element, but rather a task-organized team that should be equipped to aggressively compete for the opportunity to support the requirement. The task-organized team should have members that can contribute to the task. This team should be small and fully capable of providing the answers needed by

the customer to support their purchases decision. The membership should be multidisciplinary representing those skills needed to answer customer questions, develop a requirement, and make the sale by developing an acceptable LOR or international agreement in the form of an LOA. Personnel from each of these disciplines should be considered for the team: soldier user of the system, security assistance, project management, contracts, logistics, and engineering. The team lead must be business minded and charged with keeping the team focused on capturing the business. The team is stood up for a specific sales opportunity. Once the intent is met, the team is dissolved and the enterprise network continues to scan for sales opportunities.

How will leadership measure the effectiveness of this recommendation? The current metric of total FMS by commodity is only minimally adequate to measure the effectiveness of a strategy that emphasizes the cultural shift from taking orders to making sales. In addition to this metric, establish a metric of sales to need to measure the effectiveness of the targeted sales efforts. One aspect of effective sales is meeting a common need by selling available production capacity. As a notional example to illustrate this metric in use, consider the Apache helicopter program. Cold restart costs for aircraft production are high so as part of an enterprise targeted marketing plan the Army actively seeks a foreign military sale to include in its production plan. The Apache production program is going cold between two large U.S. production contracts. The OEM has capacity to produce seven aircraft per month, but has a threshold production requirement of two aircraft per month to keep the production line warm. A gap of six months needs to be filled; a sale of 12 aircraft (2 aircraft per month x 6 months) would

successfully bridge the contracts. The Army wants to protect this capacity. The sale of that production capacity to meet the threshold would represent a means of measuring success. By determining, the sales required to meet the threshold capacity identified above and by then measuring against actual sales made that meet that requirement a useful metric is established. It provides the enterprise with the awareness it needs to decide and take action by measuring sales success in support of this modernization program. The sale to need metric focuses the enterprise on supporting modernization. This metric can measure sales of unused production capacity, achieving economic order quantities by selling remaining capacity, creating linkage between U.S. contracts when funding is sporadic, and where production is cold - keeping it warm. Additionally, it is versatile enough to measure sales of depot level maintenance capacity sold supporting a common need in sustainment. The timing and use of this metric is critical. Pre-contract planning and milestone based execution is preferred, but situations will occur requiring the leadership to triage a program mid-stream (i.e. post U.S. contract). This metric is still useful in those cases when supported by an acceptable contract modification plan. To make this approach effective, early engagement is crucial. Additionally, these sales will help maintain a healthy strategic industrial base by keeping production lines running that support modernization of our systems.

How do you test this recommendation? A low risk approach is to identify a program in a multi-year production contract with production line capacity remaining. Put in place the recommendations from above then build a sales package based upon the residual production capacity. Measure results using the sales to need metric. This approach will help understand the effectiveness of bringing this informed, matrixed

team, to bear on the problem. The bottom line is to confirm through testing that by providing the information across the enterprise and coordinating the stakeholders to secure sales where and when you need them is an effective strategy.

The effective employment of this recommendation will leverage an allied customer's resources to our mutual benefit thereby introducing a mitigation strategy that is intended to complement the Army's overarching strategic plan designed to reduce the negative effects of decreased RD&A budgets. Based upon the evidence of the beneficial impacts to existing Army modernization programs such as the Apache helicopter program, this paper establishes a policy concept and a feasible strategy. This strategy seeks to maintain or increase sales, while improving the effectiveness of those sales. Effective sales are gained by introducing foreign customers to programs where we have common needs and available capacity. The investment gained in these areas will reduce the risk to modernization and the industrial base. This mitigation is the second order effect of supporting our primary motive of improving our ability to operate with coalition partners thereby shaping the international environment to prevent or win our nation's wars.

Conclusion

Army strategic leaders must address the problem of decreasing budgets. Budgets through this decade may be insufficient to achieve both force readiness and the stated Army 2020 modernization plan. With that in mind our leaders will have to make risk based resource decisions today to ready and outfit the Army of 2020. These decisions will be tempered with a desire to balance the equation between readiness and modernization. A single solution does not exist to solve this modernization funding

problem, but as highlighted in this paper the foreign military sales revenue stream does represent a mitigating opportunity.

A significant amount of foreign investment is infused into our Army programs every year through FMS. This opportunity can be exploited by pursuing three strategic objectives. First, focus on maintaining or increasing sales to reduce the impact caused by decreasing budgets on Army modernization and the industrial base. Second, make sales more effective. To be effective, a sale just for the sake of a sale is not enough. The sale must effectively draw from available production capacity or meet a common modernization need. Therefore, the sale must seek to align existing or emerging foreign customer requirements with U.S. modernization and production needs. By aggressively hunting down common needs and effectively placing the sale where the Army needs it, risk is reduced for modernization programs. Last, by pursuing increased and effective sales, this provides an opportunity to strategically shape the international environment. This occurs by way of increased security cooperation engagement, partner capacity, and the integration of militaries through common systems and training. This is FMS' fundamental purpose and the natural outcome from security cooperation, but further leveraging and maximizing this outcome will be critical to the Army as our forward presence recedes and our force structure gets smaller. It is in our interest to have allies or coalition members trained and equipped in a manner that helps ensure their success in war, and when necessary, complements our forces during combined operations.

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