

## **Excerpt from the 2010 DOD Annual Industrial Capabilities Report to Congress**

pg. 68-69

Export Controls: Born out of the Cold War in an attempt to restrict technology transfer to the former Soviet Union, export controls (ITAR—International Traffic in Arms Regulations) and the EAR – Export Administration Regulations) may adversely impact the U.S. national security space (NSS) industrial base today. Some companies try to avoid the challenges of export controls by not bidding on military contracts (under the mistaken assumption that export controls do not apply to commercial products) or by not entering export controlled business segments altogether, thereby depriving the NSS industrial base of broader markets, innovation, new technology, and capital. Companies that do sell to the defense sector may sub-optimize their national security products in an attempt to protect their commercial market products. In the vacuum left by U.S. companies in international markets, foreign firms have been energized to fill the void and even create “ITAR-free” products that have no U.S. components that might prevent exporting to third countries. The cost and difficulty of export licensing becomes a competitive disadvantage to lower-tier U.S. firms with fewer financial resources. Specific to the space industrial base, a 2008 study by the Center for Strategic & International Studies (CSIS) stated that the cost of ITAR compliance is about \$50M a year while approximately \$600M is lost annually in revenue due to licensing issues. This study also cited that export controls are the top barrier to foreign space markets for the U.S. space companies. However, another study stated that there was little evidence to prove conclusively that export controls had decreased U.S. satellite industry competitiveness internationally. There is renewed interest from both the U.S. Government executive and legislative branches to reexamine export controls, including controls on satellites. Changes to controls must balance U.S. space industry health and competitiveness with national security considerations. Less restrictive controls could be considered so long as they mitigate other lingering national security concerns. Exports that are not appropriately controlled may undermine national security priorities, such as maintaining the U.S. advantage on the battlefield or prolonging the life of U.S. national security investments in systems and know-how. The Department is participating in two major Export Control reform initiatives: an interagency task force review of the overall Export Control system in support of a Presidential Study Directive, and an assessment with the Department of State in response to PL 111-084, Fiscal Year 2010 National Defense Authorization Act (NDAA), Section 1248, "Risk Assessment of United States Export Control Policy.