Advance security cooperation enterprise reforms to prioritize and expedite building of full-spectrum partner capability

Security cooperation enabled by U.S. defense industry exports is a foundational component of the U.S. National Security Strategy. U.S. defense exports advance our security objectives overseas, support the projection of American “soft power” and sustain a peaceful and stable international order by supplying full-spectrum capabilities to our allies and partners. Indeed, the export of a defense capability can strengthen a strategic relationship with an ally, build the foundation for an emerging regional partnership or provide a critical deterrent to military conflict.

Defense trade funds U.S. economic security and technological innovation. Every dollar spent by other countries on U.S. defense systems helps fund innovation and lowers unit costs at a time when domestic budgetary pressures are putting pressure on the U.S. military’s purchasing power and the resilience of the American defense industrial base. In addition, our foreign allies and partners become more able to operate jointly with U.S. forces or advance our common security objectives on their own.

The U.S. Security Cooperation Enterprise is under significant stress. Industry supports the review process that ensures transfers of defense technologies do not adversely impact our warfighters’ battlefield edge and are consistent with U.S. foreign policy objectives. At the same time, the U.S. Foreign Military Sales (FMS) system managed $33.6 billion in sales in 2016, and has been hitting historical highs in dollar value in recent years. With 140 new security cooperation requests a month, requirements are straining a system not designed for the volume, tempo or scale of demands currently placed on it.

In the current global security environment, we must focus attention on identifying where and how we need to grow our security, political and economic influence on our allies and partners through defense exports even as our competitors race to supplant our leadership.

While the U.S. has historically been the “partner of choice,” foreign competitors are aggressively trying to usurp this role. France announced it had doubled its annual defense sales agreements from 2014 to a record figure of $17.5 billion in 2015. In addition, countries like Russia and China are aggressively expanding their defense export activity to bolster their influence around the world.

The President needs to accelerate and expand on Security Cooperation Enterprise Reform (SCER) initiatives. SCER must first establish a clearly articulated doctrine that guides a comprehensive National Security Cooperation Strategy (NSCS) with sufficient interagency coordination, resources and training as well as appropriate collaboration and communication with U.S. industry.

As part of a National Security Cooperation Strategy (NSCS), the administration must begin a regular classified consultation with U.S. industry about the priority capabilities our allies need to help advance our full spectrum foreign policy, security, humanitarian and maritime interests.
The Dynamics of the Current Global Defense Marketplace

Unlike the United States, most countries do not possess an effective strategy development process, a deliberate budget cycle, a professional acquisition corps or a systems life-cycle manager. Their security cooperation requests are growing in complexity, number and urgency, and do not match the pace or capacity of our review and approval process. This confluence of circumstances creates frustration that increasingly causes our partners and allies to consider capabilities other countries have to offer.

At the same time, foreign governments are increasingly more reliant on defense export opportunities to ensure the survivability of their domestic manufacturing base. Our competitors employ a “whole of country” approach that reaches to the highest political levels to capture global market share and influence. Their efforts represent a direct challenge to American efforts to shape the global security environment and sustain the technological edge of the U.S. defense industrial base.

The Case for Reform

Recent reform efforts have made incremental improvements to the Security Cooperation Enterprise. However, the absence of clear doctrine and strategy, combined with an under resourced system, limit the effectiveness of these initiatives. The requisite standard of timely interagency coordination for identifying and executing security cooperation priorities remains elusive. Absent mutually understood priorities, U.S. industry strategic investment and business development activities lag desired objectives, resulting in customer delays, increased costs, and, in several instances, lost sales to foreign competitors.

Talking Points

The President should accelerate and expand on Security Cooperation Enterprise Reform (SCER) efforts that establish a doctrine that will best support our partners and allies and govern the transfer of defense systems. This initiative should ensure there are sufficient resources, training and coordination across the interagency and with U.S. industry to develop and execute a National Security Cooperation Strategy that:

> Identifies Priorities for Building Partner Capacity as a Component of U.S. National Security Strategy: Identify and expedite the transfer of defense systems and platforms necessary to achieve stated strategic and tactical objectives in designated priority countries and regions.

> Aligns U.S. Industry Programs and Technology Development with Security Cooperation Priorities: Expand consultation and cooperation with U.S. manufacturers to ensure industry’s ability to produce competitive and exportable defense systems, including non-Program of Record (non-POR) solutions, and industry’s engagement with foreign partners and allies are informing and aligned with U.S. security cooperation priorities.

> Streamlines the Technology Review and Contracting Process for Priority Security Cooperation Transactions: The U.S. military and defense industrial base will benefit substantially from reforms to FMS contracting, greater clarity in the policies and processes for Technology Security and Foreign Disclosure (TSFD) reviews and Unmanned Aircraft Systems (UAS) exports, and better licensing caseload management techniques for the export of items on the U.S. Munitions List (USML).

> Promotes the Competitiveness of American Defense and Security Technologies in Priority Regions: Support and expand U.S. policies, procedures and government engagement with partners and allies that maximize the competitiveness of U.S. defense companies in priority foreign markets.
2017 AIA Strategic Priorities:
Restore a Fully Functioning Export Import Bank

Promote the full functionality of the U.S. Export-Import Bank

The U.S. Export-Import Bank is America’s Export Credit Agency (ECA).
The Ex-Im Bank is a “lender of last resort” that works directly (or indirectly with U.S. banks) to support the export activities of U.S. companies of all sizes. The Bank is able to help exporters by protecting against buyer nonpayment, providing financing for a foreign buyer’s purchase, helping companies sell to foreign customers on credit terms, and allowing exporters to borrow against export-related assets.

Ex-Im Bank was created to support American jobs by facilitating the export of U.S. goods and services. By financing the export of American goods and services, Ex-Im Bank has supported 1.4 million private-sector, American jobs in the past seven years, including 109,000 jobs in FY 2015 alone. Nearly 90% of Ex-Im Bank transactions support small businesses.

Ex-Im Bank is an independent, self-sustaining federal agency that consistently generates a surplus for the U.S. Treasury while responsibly managing risk in its portfolio. The fees and interest the Bank charges for its services generated a surplus of $431.6 million above and beyond all costs for American taxpayers in 2015. Ex-Im Bank’s active default rate was 0.261% as of March 2016. Ex-Im Bank is committed to effective risk management and maintains prudent reserves to cover potential losses—seventeen times greater than the Bank’s current default rate.

Ex-Im Bank support is a valuable asset in sustaining the U.S. aerospace industry’s global competitiveness and innovation. For many aerospace companies and their suppliers, the livelihood of workers and their families depends on U.S. exports. Sales to foreign customers of passenger and business aircraft, helicopters, satellites, and the numerous parts, components and services needed to maintain and operate these systems are a cornerstone of our industry. In fact, 58 percent of the value of U.S. aerospace exports comes from supply chain companies. These exports are particularly valuable as a revenue stream for small and medium sized companies that are also trying to navigate U.S. budget cuts affecting their opportunities in the defense and space sectors.

With every passing day that the U.S. Export Import Bank is not operating at full capacity, businesses from the United States are denied new export opportunities overseas, damaging local economies and limiting American jobs.

The Ex-Im Bank is supported by a robust bipartisan majority in Congress, but is not operating at full capacity. Substantial bipartisan majorities in both the House and Senate voted to approve a multi-year reauthorization of the Ex-Im Bank to ensure that it could continue its mission of promoting economic growth and jobs through exports. While the Ex-Im Bank is back in operation and accepting new applications, it is prohibited from approving transactions more than $10 million (including major aerospace export opportunities) because of the lack of a quorum on the Bank’s Board of Directors.

Congress and the Administration must work together to restore and protect the full functioning of the U.S. Export-Import Bank by ensuring the Bank’s Board of Directors has the quorum needed to review and approve transactions worth more than $10 million and to manage its portfolio of transactions effectively.
The Dynamics of the Current Global Aerospace Marketplace

The aerospace and defense industry accounted for 9.5 percent of all U.S. exports, and is the nation’s second largest exporting industry. U.S. exports achieved a record $107.1 billion in the first three quarters of 2016. These sales represent sustained growth of high-skill, high-wage American jobs and innovation at every level of the supply chain.

Our industry’s civil aviation and space exports are in high demand in emerging economies that are growing trade linkages with the United States. For instance, the Asia-Pacific Region accounted for 37 percent of total U.S. aerospace and defense exports in 2015. This economic engagement also provides the U.S. with an opportunity to extend its influence in countries and regions critical to our national security and foreign policy interests.

The Case for Ex-Im Bank Quorum

As major commercial aircraft sales and satellite sales usually exceed the $10 million dollar threshold, foreign customers who can no longer access Ex-Im Bank financing for U.S. aerospace systems can and will turn to our foreign competitors and foreign Export Credit Agencies to fulfill their requirements. Our foreign competitors already benefit from significant government support in terms of subsidies, regulatory relief and aggressive advocacy and engagement in key markets to increase their market share and global influence at the expense of our own. Thirty transactions worth more than $20 billion to U.S. companies are currently stalled because of the lack of a quorum in the Bank’s Board of Directors.

Talking Points

Congress and the Administration must work together to restore a full quorum for Ex-Im Bank’s Board of Directors so that the Bank returns to full capability and our industry’s potential foreign customers regain confidence that the Bank will return to normal operations. To achieve success, we call for actions that:

> Restore Quorum on a Temporary Basis Until the Normal Board of Directors Nomination Process is Completed. Until the new Administration has a chance to put forward its nominees for the Ex-Im Bank Board, the Bank must be allowed to operate as normal even though it may not have a standard quorum of three Board members in place for a full term.

> Identify and Expedite the Review and Approval of Nominees for the Ex-Im Bank Board. The Ex-Im Bank Board is normally a bipartisan group of five members tasked with managing the agency’s portfolio risk and implementing policies and reforms to maximize the agency’s effectiveness. All five seats should be filled as soon as possible.

> Protect the Bank’s Ongoing Operations and Prepare for Successful Reauthorization in the Future. The bipartisan majority in Congress that re-authorized the Bank must work with the Administration and industry to ensure greater awareness of the importance of the Bank to our nation’s foreign policy, national security and economic vitality.