

REPORT BY THE DEPARTMENT OF STATE PURSUANT TO SEC. 655 OF THE FOREIGN ASSISTANCE ACT

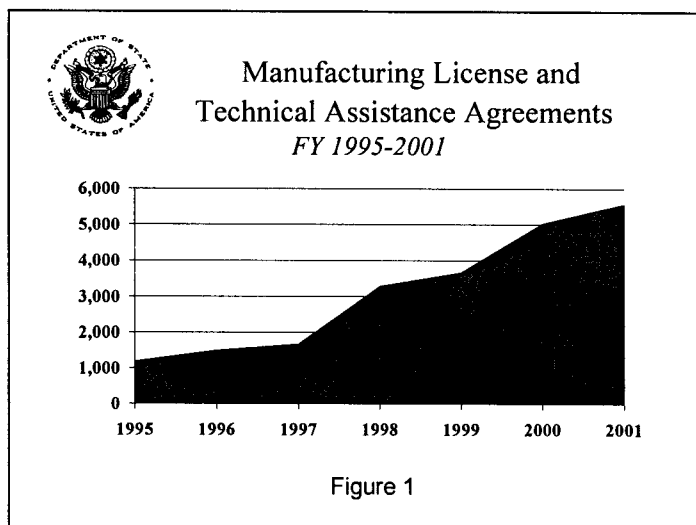
Direct Commercial Sales Authorizations for Fiscal Year 2001

Overview

This report covers defense articles and defense services licensed for export during Fiscal Year 2001 under Section 38 of the Arms Export Control Act. It is provided pursuant to Section 655 of the Foreign Assistance Act and, as required by that Section, the report shows the aggregate dollar value and quantity of defense articles and defense services authorized to each foreign country.

In accordance with subsection (d) of Section 655, this report is also being made available to the public on the Internet through the Department of State, Office of Defense Trade Controls at www.pmdtc.org.

In view of the growing role of manufacturing license agreements and technical assistance agreements, this year's report has a separate section that distinguishes more clearly between authorizations pertaining to defense articles and those associated with defense services. While the overall number of export licenses authorized under Section 38 has remained relatively constant at approximately 40,000 per annum since 1997, the number of manufacturing license agreements and technical assistance agreements submitted within that overall number has risen steadily each year since the mid-1990s (*figure 1*).



This trend appears to reflect the growing complexity of commercial defense trade as international joint ventures, co-production, licensed

manufacturing and offset arrangements involving offshore assembly or procurement increasingly characterize major sales.

Part 1 of the report details approximately \$17 billion in licenses authorizing the export of defense articles, while Part 2 provides aggregate information by country on authorizations for defense services (i.e., agreements) totaling \$35 billion. Importantly, the value of authorizations provided under Section 38 for defense articles and defense services does not correlate to the value of articles actually transferred during this same time frame. Most munitions licenses issued for articles shown in Part 1 are valid for four years and may be used throughout their period of validity to carry out the authorized export transactions.

Similarly, manufacturing license and technical assistance agreements set forth in Part 2 of the report cover a wide range of programmatic activities for multi-year periods (generally exceeding the four-year validity period of defense article export licenses). Because the scope of the Department's regulatory authority over such agreements continues for as long as these multi-year agreements remain in effect, authorizations furnished in Fiscal Year 2001 also include certain activities occurring in prior years. Such *post hoc* reporting generally is due to instances where the State Department directed an audit of an agreement (including the value of articles produced) in order to ensure compliance with the Arms Export Control Act and, in particular, the oversight by Congress mandated in Section 36 of the Act¹ with respect to major sales and manufacturing abroad of significant military equipment.

The results of such audits frequently disclose higher values than previously reported or initially projected by U.S. defense firms owing to a variety of factors, including extensions in the validity of agreements well beyond the original time frame envisaged.

Authorizations under Section 38 in Fiscal Year 2001 continued to center principally on a relatively small number of friends and allies of the United States. During this period defense trade with two major allies, the United Kingdom and Japan, reflect a large portion of the dollar value of all authorizations furnished under Section 38 (i.e., the overall DCS program). In past years, the United Kingdom and Japan have been the largest cooperative partners of the United States in relation to defense trade carried out under Section 38 (*table 1*).

¹ Sales of major defense equipment valued at \$14 million or more or other defense articles and defense services valued at \$50 million or more, and technical assistance and manufacturing license agreements involving the manufacture abroad of significant military equipment, require notification to Congress before an export license may be issued.

Table 1

<u>DEFENSE ARTICLES AUTHORIZED</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Japan	\$3.1	\$3.6	\$2.6
United Kingdom	\$2.9	\$2.5	\$3.3

U.S. Munitions List Categories

The categories of the U.S. Munitions List referenced throughout this report are as follows:

Category I	Firearms
Category II	Artillery Projectors
Category III	Ammunition
Category IV	Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs and Mines
Category V	Explosives, Propellants, Incendiary Agents, and Their Constituents
Category VI	Vessels of War and Special Naval Equipment
Category VII	Tanks and Military Vehicles
Category VIII	Aircraft and Associated Equipment
Category IX	Military Training Equipment
Category X	Protective Personnel Equipment
Category XI	Military Electronics
Category XII	Fire Control, Range Finder, Optical and Guidance and Control Equipment
Category XIII	Auxiliary Military Equipment
Category XIV	Toxicological Agents and Equipment and Radiological Equipment
Category XV	Space Systems and Associated Equipment
Category XVI	Nuclear Weapons Design and Test Equipment
Category XVII	Classified Articles, Technical Data and Defense Services Not Otherwise Enumerated
Category XVIII	[Reserved]
Category XIX	[Reserved]
Category XX	Submersible Vessels, Oceanographic and Associated Equipment
Category XXI	Miscellaneous Articles
