

**REPORT BY THE DEPARTMENT OF STATE
PURSUANT TO SECTION 655 OF THE FOREIGN ASSISTANCE
ACT OF 1961, AS AMENDED**

Direct Commercial Sales Authorizations for Fiscal Year 2006

Overview

This report covers defense articles and defense services licensed for permanent export during Fiscal Year 2006 under Section 38 of the Arms Export Control Act, as amended. It is provided pursuant to Section 655 of the Foreign Assistance Act of 1961, as amended. The report shows the aggregate dollar value and quantity of defense articles and defense services authorized to each foreign country, including any international organizations operating in each country. Sometimes the column for the quantity is blank or 0. The quantity on a license may not be a specified number because of instances where the applicant used the word “lot” or “various” or the item is not quantifiable (e.g., technical data). An exporter’s shipments are tracked by both quantity and dollar value; therefore, in instances where a definitive quantity of items is not specified, the license is only valid until the dollar value is reached.

In accordance with subsection (c) of Section 655, this report is also being made available to the public on the Internet through the Department of State, Directorate of Defense Trade Controls, at www.pmdtdtc.state.gov.

The overall number of permanent export license applications authorized under Section 38 in Fiscal Year 2006 was 35,991. The number of authorizations for manufacturing license agreements, technical assistance agreements, and amendments was 5,656.

Part 1 of the report details approximately \$19.8 billion in licenses authorizing the permanent export of defense articles, while Part 2 provides aggregate information by country, including any international organizations operating in that country, on authorizations for defense services (i.e., agreements) totaling \$46.8 billion. Authorizations applicable to multiple countries are included under the designation “Various” in Parts 1 and 2. Importantly, the value of authorizations provided under Section 38 for defense articles and defense services does not precisely 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 2006 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 2006 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 direct commercial sales 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*).

Table 1

<u>DEFENSE</u> <u>ARTICLES</u>	FY2002	FY2003	FY2004	FY 2005	FY2006
Japan	\$3.0B	\$3.6B	\$2.8B	\$2.9B	\$3.3B
United Kingdom	\$2.6B	\$2.8B	\$1.7B	\$2.2B	\$1.9B

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, or in the case of a defense article that is a firearm controlled under category 1 of the United States Munitions List, \$1,000,000 or more, require notification to Congress before an export license may be issued. In the case of a member country of the North Atlantic Treaty Organization (NATO) or Australia, Japan, or New Zealand, sales of major defense equipment valued at \$25 million or more or other defense articles and defense services valued at \$100 million or more require notification to Congress before an export license may be issued. Approval of technical assistance and manufacturing license agreements involving the manufacture abroad of significant military equipment requires advance notification to Congress.

U.S. Munitions List Categories

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

Category I	Firearms, Close Assault Weapons, and Combat Shotguns
Category II	Guns and Armament
Category III	Ammunition/Ordnance
Category IV	Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs, and Mines
Category V	Explosives and Energetic Materials, 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 and Training
Category X	Protective Personnel Equipment and Shelters
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, Including Chemical Agents, Biological Agents, and Associated Equipment
Category XV	Spacecraft Systems and Associated Equipment
Category XVI	Nuclear Weapons, Design, and Testing Related Items
Category XVII	Classified Articles, Technical Data, and Defense Services Not Otherwise Enumerated
Category XVIII	Directed Energy Weapons
Category XIX	[Reserved]
Category XX	Submersible Vessels, Oceanographic, and Associated Equipment
Category XXI	Miscellaneous Articles
