

Ed Ross; Principal Director of Operations, U.S. Defense Security Cooperation Agency

Few Washington professionals have been more intimately involved in the policies and procedures governing U.S. defense trade than Ed Ross, the Pentagon's point man on arms sales and security cooperation for the past 13 years.

As principal director of operations for the U.S. government agency administering Foreign Military Sales (FMS), Ross has been at the nexus where grand strategy and amorphous bureaucracy converge into concrete, increasingly competitive procurement programs.

During his tenure, which spans four U.S. defense secretaries and five DSCA directors, Ross and his team of regional deputies and country program officers have inked more than \$100 billion in FMS deals in more than 170 countries. In parallel, he's shepherded reforms aimed at strengthening cooperation with U.S. industry and rendering the FMS process more transparent and responsive.

Ross plans to retire in December, but not before seeing the agency through the second-best year in FMS history with an anticipated \$21 billion in new contracts for 2007. Looking back, Ross said he's proud that more countries are opting to buy front-line American systems through the government's revamped FMS system. Not only do such sales support U.S. war fighters and the U.S. industrial base, he says, but they foster long-term partnerships with friends and allies worldwide.

Q. Ten years ago, it seemed like the FMS system was choking on its own bureaucratic red tape. Many dissatisfied customers were opting for direct commercial deals while others were threatening to take their business overseas. How do you explain the turnaround?

A. When I came here in 1994, people in the department were already aware of problems and had begun working on needed reforms. We had big customers, like the Saudis, who had big concerns, and we realized we needed to reinvent the system. So when *Defense News* published its series of stories on the problems in 1997, it got more people at the higher levels focused on the problems and provided the impetus to get in there and fix things.

Q. Such as?

A. One of the things adopted in the early days was to allow customers to observe contract negotiations, but only in aspects of the program that did not involve proprietary things. But most importantly, we made a conscious, institutional effort to replace "take it or leave it" attitudes one used to find with a "can do" approach that perhaps wasn't there as much before.

Q. What else?

A. Our customers made it clear they want to negotiate price directly with the contractor. We discovered that in some cases we can allow the customer to negotiate a not-to-exceed price with the company and incorporate that into the FMS [contract].

This allows the customers to have the best of both worlds: He enjoys all the benefits of a government-to-government program and he gets to negotiate directly with the contractor on price. We've learned this is especially important for democratic countries where lawmakers and oversight authorities are becoming increasingly involved in defense acquisitions to make sure their country obtains the best value for money.

Q. Is this now a standard option for FMS customers?

A. Because this option is very labor-intensive, and the contractor has to be willing to do it, it is not relevant for all FMS cases. So we haven't done it a lot, but when we have, we've demonstrated that it can be done quite successfully.

Q. What about the government's consent to a blend of FMS and commercial items in the same package? Have these hybrid bids helped boost U.S. competitiveness in international competitions?

A. Yes. And we do a lot of that. We're trying to be as flexible as we can, and we're finding that the so-called hybrid approach allows the U.S. government and U.S. contractors to maximize the amount of time we have to respond to [a request for proposal]. With most high-stakes international programs, you need to deal with two circles, both of which involve issues of releasability and export licensing. One circle is what the customer wants and the other is what we're willing to give them, and the goal is to achieve the most overlap. We think we can secure much more overlap through the FMS system, while on easier issues, the customer can move forward through direct commercial channels. The UAE package [a \$6.4 billion, 80-aircraft F-16 deal signed in 1998] is an excellent example of the hybrid approach. We provided about \$2 billion in weapon systems, while the rest was sold commercially.

Q. The decision to raise FMS surcharges from 2.5 percent to 3.8 percent of contract value was controversial. What do customers get in exchange for higher fees?

A. The FMS surcharge increase was only one of seven initiatives aimed at providing greater transparency and service. In addition, we eliminated several other fees, such as the 5 percent surcharge for nonstandard items and the 3.1 percent fee for logistics support costs, which becomes effective Oct. 1. Now, when a customer reads the [letter of offer and acceptance], he knows exactly what services he's receiving. If he needs extra resources, they can be added in a manner that is transparent and understood.

So we've made progress in demonstrating that the surcharge change is not just a straight increase, but part of a package of reforms. And our customers are finding that the impact of this rate increase is not as onerous as they may have anticipated.

Q. What else does the surcharge provide?

A. When I came here we had 17 to 19 program directors to cover the world, which for us is more than 170 countries. Today we have 32 country directors, half of whom are uniformed military people who know their respective services, know the system and know the various operational theaters.

We also established a 26-person case-writing division at Wright Patterson Air Force Base who write cases for us every day. Before, people in the Army, Air Force and Navy would do this job, and often our priorities didn't match service priorities. Today, we can better determine priorities and provide standard products more responsive to the customer.

Q. Has billing also become more responsive?

A. In most cases, we've done away with flat payments and can now actually tailor payments according to how much really has to be obligated in any given month. All that makes for a much more responsive, transparent billing process.

We've also gone from demanding termination liability up front to what we call a standby letter of credit. Now, a country that meets certain requirements no longer has to put all that money in the trust fund up front. Instead, he gets a standby letter from a U.S.-approved bank that means the country is good for it if the program is terminated and liability costs are involved.

Q. How, if at all, has the bureaucracy managed to expedite the traditionally cumbersome tech transfer review process which so often discourages countries from buying U.S. systems?

A. Interagency cooperation is improving, but there will always be natural tension in our system that requires time to work itself out. You've got a part of the bureaucracy that exists to put the brakes on tech transfer and deny anything that could possibly pose a future threat to our war fighters. The other side looks at such transfers in terms of building partnerships and strengthening coalitions. So it takes awhile for the system to come up with a solution acceptable to our internal bureaucracy, to Congress and to the customer.

Do we get there while the door is still open and while we still have opportunity to get a program going? I'd say we manage to get there — sometime at the very last minute, but we get there.

Q. Do you anticipate less interest in FMS as countries become more technologically savvy and confident in their ability to manage complex acquisition programs?

A. That's the old worldview. Many used to think that countries without a sophisticated acquisition system really needed the U.S. government to come in and manage programs for them. But look at Australia. This is a country that moved away from FMS and opted for its own system about 10 years ago. But now they're coming back, and it's not because they aren't savvy and sophisticated, but because they realize there are certain advantages to FMS.

Q. Such as?

A. Countries realize we're not in the business of transferring hardware, but in transferring capabilities. It's not the F-16, F/A-18 or the C-17, but the entire package and the capabilities they represent. Countries that stick with us are interested in much more than the platforms or specific weapon systems. They're interested in strengthening the partnership, deepening the military-to-military cooperation and coordinating activities with our commanders.

Q. What's your prognosis for the future of the FMS program?

A. As long as we can continue to provide the entire partnership package, and as long as global terrorism and other threats continue to unite us in a shared sense of purpose, I don't see the FMS system going away anytime soon.

So while it might have looked to many a decade ago that FMS was on its way out, in fact the opposite is true. If you look at the charts, and disregard the exceptional peak in 1993, when we recorded more than \$30 billion, annual FMS sales have generally ranged from \$10 billion to \$13 billion. That's where the number has been for a long time. But last year, FMS jumped to more than \$20 billion and this year, we'll record even more. So the best proof that the FMS system has withstood the test of time is in those numbers.

By [Barbara Opall-Rome](#)

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PHOTO BY M. SCOTT MAHASKEY

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DSCA PROFILE

■ Employees: 232

■ FMS Sales

Growth:

2007 — \$21 billion (estimate)

2006 — \$20.9 billion

2005 — \$10.6 billion

2004 — \$13.5 billion

2003 — \$13 billion

2002 — \$12.5 billion

2001 — \$13.3 billion

2000 — \$12.1 billion

Best Sellers:

Among the U.S. systems attracting international attention are F-16, F-15, F/A-18E/F fighters; C-17 airlifters; Aegis combat system; SM-2 Standard Missiles; Patriot PAC-3 air/missile defense system; UH-60 Black Hawk utility/assault helicopters; AIM-120 AMRAAM and Javelin anti-tank missiles.

SOURCE: Defense News research

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