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Improving Arms Sales, Technology Transfer, and Defense Industrial Cooperation with Allies and Partners

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Improving Arms Sales, Technology Transfer, and Defense Industrial Cooperation with Allies and Partners

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Abstract

This paper examines barriers to effective international arms sales between the United States and its allies and partners. U.S. allies and partners frequently face barriers to receiving advanced technologies and military equipment because of cumbersome policies and regulations around Foreign Military Sales (FMS) and International Traffic in Arms Regulations. They also face delays in acquiring vital weapons systems and challenges related to integrating U.S. technologies into their armed forces. To illuminate these challenges, the Center for Strategic and International Studies will be presenting results from the first ever survey of member states of the Defense MOU Attaches Group (DMAG), the set of nations who have Reciprocal Defense Procurement Agreements with the United States. The survey identifies challenges and enablers allies and partners undergo when doing business with the United States. Topics span selling/receiving arms to/from the United States, complex and rigid U.S. export control policies, country-specific security and defense industrial goals, processes that enable technology transfer and weapons sales, and the utility of defense cooperation agreements and programs.

The implications and relevance of this project for the larger acquisition community lie in streamlining international defense procurement procedures, which is of paramount importance given today's global threat environment. The National Defense Industrial Strategy highlights the importance of working with allies and partners in one of its four strategic priorities, Economic Deterrence. While Foreign Military Sales offer the potential for allies to greatly increase their military power and for the United States to strengthen the overall bilateral relationship, the United States has a complex set of rules governing arms sales and dual-use technologies that are often too rigid and complex. These regulations, while important to ensure advanced U.S. military technology does not fall into the hands of hostile actors, also slow international acquisition processes to a point that threatens U.S. deterrence strategy and, by extension, the international, rules-based order.

Introduction

As the United States and its allies and partners face a more dangerous and uncertain world, the strategic imperative for cooperation has intensified. One of the greatest strengths of the United States has always been the nations' connections with allies and partners. This is underpinned by robust defense industrial cooperation, which strengthens partnerships, increases interoperability, and fills gaps in U.S. industrial capacity and capability. Working with allies offers an opportunity to surge production and contributes to deterrence. However, and in spite of the benefits, there are challenges limiting cooperation. Particularly for the nation's allies

and partners, buying from the United States and working with U.S. industry on co-development and co-production can run into a wide range of regulatory and other types of barriers. While certain military capabilities, such as intelligence sharing, may be done with a relatively narrow set of nations, defense industrial cooperation offers a way of building connections to a broader range of allies.

This paper takes a fresh look at the question of the challenge of defense industrial cooperation through a direct survey of some of the United States' closest industrial partners, those with a Reciprocal Defense Procurement Agreement Memorandum of Understanding (RDP MOU). These agreements allow foreign industry to be considered domestic sources, granting the U.S. Department of Defense (DoD) greater and easier access to ally and partner technologies and supply chains. The survey covered a range of questions on the reasons for and the challenges with cooperation.

Survey respondents confirmed that building domestic capacity, deterring the threat, ensuring interoperability, and building regional capacity were all important goals, with building domestic capacity their main interest. The Technology Security and Foreign Disclosure (TSFD) and International Traffic in Arms Regulations (ITAR) were noted as particularly challenging processes when doing business with the United States, be it importing arms, co-developing or co-producing defense goods, or transferring technologies. However, respondents recognized that their home country processes added friction too. Document markings like Controlled Unclassified Information (CUI) and NOFORN were highlighted as challenges, with additional discussions revealing that the lack of clarity in how to dispute these markings was a source of frustration. RDP MOUs are widely acknowledged as being key facilitators for doing business with the United States; however, the exemptions they grant to participating countries are often not recognized by, or are even opposed by, U.S. program offices, U.S. congressional members, and the executive branch.

While none of these findings are particularly surprising, the survey approach extending a sample beyond the United States' largest and closest partners confirmed that the challenges are persistent. They also offer an initial baseline against which can be used to measure the impact of future changes in policy. As the United States faces a more dangerous world where near peer competitors are investing in and expanding the capacity of their own industrial bases, working with allies offers an effective way to strengthen partnerships and increase deterrence.

Background: The Goals and Challenges of Defense Industrial Cooperation

Defense industrial cooperation offers participating nations many benefits. As a subset of broader security cooperation efforts, defense industrial cooperation strengthens alliances and partnerships through the relationship building integral to working together on research and development and production and enhances military interoperability because of operating common platforms. A recent Defense Innovation Board report offered that cooperation is increasingly important because "The United States is no longer the leading source of progress across critical areas of defense related technology innovation, such as 5G, hypersonic, and electronic warfare, while our allies and partners increasingly lead in other areas, including semiconductors, directed energy, and quantum science. Cooperation is urgently required to ensure access to advanced technology" (Defense Innovation Board, 2024). Cooperation can improve supply chain resilience through the development of additional suppliers and can also build domestic defense industries as they participate in joint efforts that may have the potential for additional customers. The "build allied" advantages means that the United States and its allies and partners seek appropriate opportunities for defense cooperation. For other nations in particular, working with the United States has been desirable because of the opportunities to strengthen ties and benefit from advanced technology (McGinn, 2023).

However, any cooperation among nations with different priorities, political systems, funding cycles, and laws and regulations can be challenging to successfully accomplish. The desirability of working with the United States means that those challenges of working with that nation have been highlighted as examples of why it is so hard to execute. Some contractors have successfully de-coded the puzzle, but bureaucratic red tape creates high barriers to entry for domestic industry, let alone foreign industry. A few notable barriers include International Traffic in Arms Regulations (ITAR), Technology Security and Foreign Disclosure (TSFD), and Foreign Military Sales (FMS). We highlight these and other structural barriers in this research.

Given the number of frameworks and processes covered in the research, it is useful to start with brief definitions of frameworks for cooperation and regulations that create challenges. Table 1 summarizes the frameworks.

Table 1. Frameworks for Cooperation

Acronym	Full Name	Description
RDP MOU	Reciprocal Defense Procurement Memorandum of Understanding	Allows foreign industry to be considered a domestic source of defense equipment
SOSA	Security of Supply Arrangement	Bilateral agreements for prioritized contract performance
NTIB	National Technology and Industrial Base	Framework for enhancing defense integration and R&D collaboration
NDPP	NATO Defense Planning Process	Framework that aims to harmonize alliance force and capability planning activities
MIEA	Master Information Exchange Agreement	Framework for sharing technical and operational data
QA	Reciprocal Government Quality Assurance	Mutual recognition of quality assurance processes
DEF	Defense Exportability Features	Early incorporation of exportability features into defense systems
FCT	Foreign Comparative Testing	Program to test and evaluate foreign technologies

The frameworks and supporting processes facilitate cooperation, but there are also a number of processes, regulations and controls that challenge working together. Table 2 lists the U.S. export and arms sales regulations used to manage technology transfer and safeguard U.S. technology. It also includes the processes that handle delivering defense products to a partner nation, along with markings that can prevent partners from accessing information relevant to cooperation. Several of the more processes are also described in more detail below.

Table 2. U.S. Regulations and Processes

Acronym	Full Name	Description
ITAR	International Traffic in Arms Regulations	Governs defense items and services exports
TSFD	Technology Security and Foreign Disclosure	Governs technology transfer and information sharing
FMS	Foreign Military Sales	Government-to-government process for defense equipment sales
DCS	Direct Commercial Sales	Commercial-to-government process for defense equipment sales
ACEA	Arms Control Export Act	Provides authority for FMS and DCS, implemented through ITAR
EAR	Export Administration Regulation	Regulates export of dual-use items
CMMC	Cyber Maturity Model Certification	Cybersecurity standards for defense contractors
EDA	Excess Defense Articles	Program for transferring surplus U.S. military equipment
TPT	Third Party Transfer	Process to transfer U.S.-origin defense articles to third parties
IEA	Information Exchange Annexes	Specific agreements under MIEA for data exchange
NOFORN	Not Releasable to Foreign Nationals	Information classification restricting foreign access
CUI	Controlled Unclassified Information	Safeguards sensitive but unclassified information
USML	U.S. Munitions List	Catalog of defense articles regulated by ITAR
CCL	Commerce Control List	Catalog of dual-use items regulated by EAR

Value of Improving Arms Sales

Streamlining the arms sales process is critical to advancing the goals of defense industrial cooperation outlined above. Reducing bureaucratic inefficiencies and accelerating delivery timelines ensures that partners will receive the capabilities they need at the earliest opportunity. This strengthens alliances by reinforcing the United States as a reliable and responsible security partner. Efficient arms sales processes not only facilitate the fielding of U.S. platforms, weapons systems, and technologies to partner nations, but ensure that the United States is reaping the benefits of partner state-developed technologies. This improves interoperability and reduces friction during multinational operations, enhancing coordination and force effectiveness in complex operating environments.

Cooperation through arms sales also bolsters supply chain resilience by integrating additional suppliers and production lines across allied and partner nations. Supply chain

diversification reduces dependency on single-source suppliers, decreases risks associated with domestic supply chain bottlenecks, and ensures continuity of material during crises. Overcoming barriers to cooperation and improving the structure and execution of arms sales is a critical component to defense industrial cooperation and collective security.

Notable Challenges

International Traffic and Arms Regulations: ITAR governs defense items and services to ensure sophisticated military technology—such as what is found on the U.S. Munitions List (USML)[1]—does not fall into the hands of U.S. adversaries or hostile actors. ITAR serves as the implementing framework for the Arms Export Control Act (22 U.S.C. 2778), which is overseen by the State Department's Bureau of Political-Military Affairs (U.S. Department of State, n.d.-b). ITAR is fundamental to safeguarding U.S. technologies and weapons systems but may also create risks to U.S. and coalition military readiness (Defense Innovation Board, 2024). ITAR regulations have contributed to a risk averse culture which has led to hesitancy in sharing technology even with its closest allies and partners. It prevents the United States from quickly proliferating advanced technologies to its friends and can impede U.S. warfighters from gaining access to advanced allied capabilities when foreign companies desire to avoid ITAR processes.

Technology Security and Foreign Disclosure: TSFD, similar in purpose to ITAR, manages the tradeoffs between building allied capabilities and safeguarding national security. TSFD policies aim to balance the risks associated with transferring sensitive and highly classified U.S. technology and information with the benefits of international cooperation (DAU, 2018). Navigating TSFD processes or "pipes" is challenging yet necessary for engagement with friendly nations. DoD program management offices (PMOs) must clear various TSFD pipes to include allied participation, which include International Cooperative Programs, FMS, DCS, and International Contracting (McGinn, 2023). U.S. industry is typically required to acquire TSFD approvals prior to requests for export approval, which strains PMOs and U.S. industry when pursing international cooperation efforts (McGinn, 2023).

Selling to Allies and Partners: Foreign Military Sales (FMS) is a process through which eligible foreign governments may purchase defense equipment and services from the U.S. government. FMS is a government-to-government process, whereas Direct Commercial Sales (DCS) is a commercial-to-government process. FMS is the largest U.S. security assistance program, aimed to help protect the economic health and security of allies and partners (DAU, n.d.-c). The Department of State determines what countries are eligible for FMS programs, while the Department of Defense executes the programs (Defense Security Cooperation University, n.d.-b).

In an FMS program, the foreign government is responsible for all of the costs associated with the sale. Purchased items can either come from DoD stockpiles or from new procurement, in which the DoD then enters a contract with a U.S. defense contractor to produce the items purchased. A single FMS case can contain hundreds of individual line items, span multiple commands and military departments, and take years or decades to fully deliver. FMS utilizes both Title 22 and Title 10 funds, each with its own set of rules. For some complex FMS programs, Congressional review and approval is required, which can significantly delay the FMS process. The threshold values for a sale to require Congressional oversight has not been adjusted in the last two decades, resulting in more cases subject to Congressional review now

[1] The USML includes a range of military items, such as firearms, explosives, military vehicles, aircraft, and classified technical data. The United States Munitions List, U.S. Code of Federal Regulations, Part 121, https://www.ecfr.gov/current/title-22/chapter-I/subchapter-M/part-121

than when the Arms Control Export Act (ACEA) was first implemented in 1976 (House Foreign Affairs Committee, 2024).

Tools to Overcome Challenges: The United States has a variety of specific agreements with allies and partners to enhance defense industrial cooperation. Defined in the U.S. Code, the National Technology and Industrial Base (NTIB) framework is aimed at enhancing collaboration in defense production, innovation, and supply chain with Canada, the United Kingdom, Australia, and New Zealand (Congressional Research Service [CRS], 2023). Security of Supply Arrangements (SOSA) are bilateral agreements allowing the U.S. and partner departments of defense to request "prioritized performance of contracts from companies in SOSA-signatory nations, and for SOSA signatories to request the same from U.S. firms" (CRS, 2021).

RDP MOUs are the broadest of these agreements, designed to promote rationalization, standardization, and interoperability with ally and partner nations. They grant the United States and allied countries reciprocal access to their respective defense markets. These agreements streamline procurement processes to enhance effective defense cooperation and establish transparency and openness to competition. RDP MOUs relax provisions from the 1933 Buy American Act that require the U.S. government to purchase supplies and finished goods domestically, otherwise requiring a waiver to buy internationally (Defense MOU Attaches Group, n.d.). Each agreement generally contains similar provisions, such as granting each party increased access to the other's defense procurement system, "removing barriers to trade, providing reciprocal treatment to industrial enterprises of the other country, or waiving 'buy national' laws" (GAO, 2024).

Assessing the Challenge of Cooperation

Research on defense cooperation very often focuses on a narrow set of allies with defense substantial trade with the United States. To get a broader perspective, the CSIS research team drew on the group RDP MOU nations using a survey that sought to identify the challenges and enablers countries experience when doing business with the United States. Topics spanned selling arms to and receiving arms from the United States, U.S. export control policies, country-specific security and defense industrial goals, processes that enable technology transfer and weapons sales, and the utility of defense cooperation agreements and programs.

The survey was completed by representatives from member states of the Defense Memoranda of Understanding Military Attachés Group (DMAG), with the support of DMAG leadership. The DMAG is a group comprised of defense officials and attachés from countries that have RDP MOUs or equivalent agreements with the United States. As of 2025, 28 countries have RDP MOUs with the United States: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovenia, Spain, Sweden, Switzerland, Turkey, and the United Kingdom. Of these, 23 are members of NATO. South Korea, Brazil, and India are in ongoing RDP MOU negotiations with the United States. Given its DMAG "observer" status, South Korea was part of the sample population. Brazil and India are not.

Thirteen nations provided responses to the questions, and many offered additional optional comments. While survey responses were limited to one per country, that does not mean that each response was answered by only one country representative. In many cases, entire acquisition teams contributed to ensure the response reflected their country's broader approach rather than individual perspectives. However, variability inevitably exists due to

differences in participants' experiences, expertise, and roles. As a result, while responses may represent a national viewpoint, they should not be interpreted as an official country position.

There have been calls from experts in recent years to increase available data in the realized benefits and challenges that procurement agreements bring to U.S. allies and partners. This survey seeks to help fill this quantitative information void by offering a dataset on U.S. bureaucratic processes that facilitate—or hinder—defense industrial cooperation. The results also offer a baseline against which future policy changes can be assessed.

Allied Country Defense Industrial Priorities

Survey recipients were asked to rate four key defense industrial cooperation goals on a scale from one to five—one being not important and five being extremely important.[2] The goals include building domestic industry capacity, deterring the threat, ensuring interoperability, and developing regional capabilities.

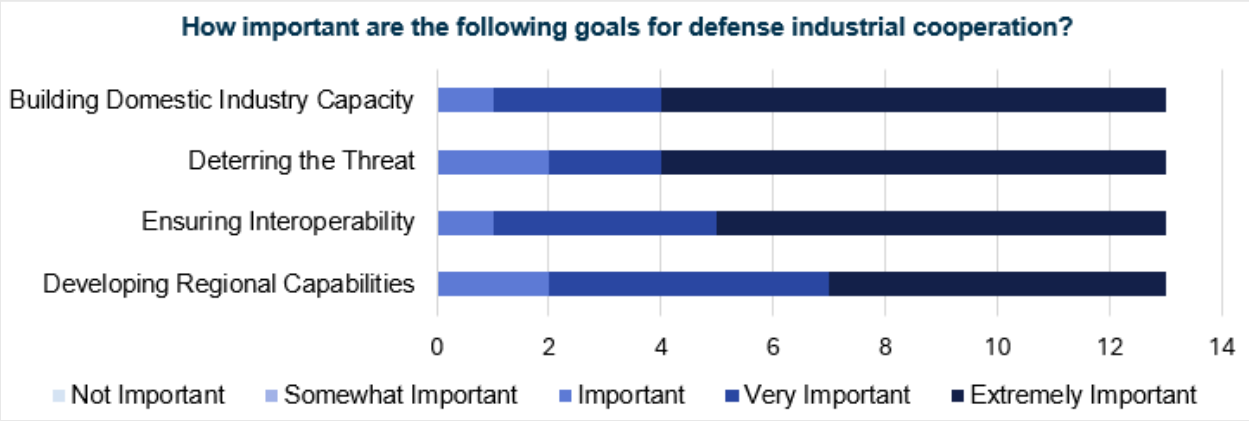

Figure 1. Goals for Defense Industrial Cooperation

All four goals were rated as at least important by all respondents; no participant rated any of these four goals as either not important or somewhat important. Building domestic industry capacity, deterring the threat, and ensuring interoperability were rated as extremely important by most, with nearly half rating developing regional capabilities as extremely important.

Defense industrial cooperation priorities are directly linked to operational requirements, meaning countries must ensure they can produce and sustain defense critical defense systems to meet their strategic needs. In some cases, this necessity leads to domestically indigenizing sovereign defense capabilities, even if it comes at the expense of international collaboration. As a result, respondents noted investments may pivot away from cooperative efforts and toward developing domestic industries and capacity that can independently support long-term defense readiness.

Respondents whose neighbors pose a direct threat to their national security note the importance of defense collaboration with allies as essential to extended deterrence, and a strong and integrated defense industrial base strengthens deterrence posture.

A country's size, natural resources, geographical location, and topography influence defense needs. Certain weapons systems or defense services are more conducive to specific terrain—a landlocked country has less need to heavily invest in naval capabilities, for instance. And smaller countries with long coastlines may invest in advanced undersea capabilities and

[2] Questions rated on a five-point Likert scale were categorized as the following: not important, somewhat important, important, very important, and extremely important.

specialty systems. This creates a strong, but niche, defense industrial base in specific domains, which can lead to strong dependencies on larger allies like the United States for key military platforms like fighter jets. Despite continued investment into developing domestic capabilities, allies with limited resources and specific geographies view regional and U.S. cooperation as a key supplement to defense industrial areas of national strategic importance. Thus, these allies may view developing regional capabilities as more favorable than others that have more independent defense industrial bases.

Legislative offsets were also noted as a priority among discussions with the DMAG and other defense acquisition stakeholders. Legislative offsets refer to the benefits—such as the economic, industrial, or technological advantages—that purchasing countries obtain if acquiring defense systems from the United States (Kenlon, 2020). These conditions of purchase pertain to both government-to-government or commercial sales of defense articles or services, and "compensation can include mandatory co-production, licensed production, subcontractor production, technology transfer, and foreign investment"(Bureau of Industry and Security, n.d.). Certain U.S. allies and partners legally mandate offsets to ensure economic and industrial benefits when purchasing defense systems from abroad.

U.S. Export Control Challenges

U.S. export control processes have been long cited by allies and partners as complex, slow-moving, and opaque (Corben & Greenwalt, 2023). These challenges can create uncertainty for foreign buyers, complicate defense cooperation procedures, and, in some extreme cases, incentivize partners to seek alternative suppliers.

Survey respondents were asked to rate seven key U.S. export control processes on a scale from one to five—one being not challenging and five being very challenging. The seven processes include ITAR, Export Administration Regulations (EAR), Foreign Military Sales (FMS), Direct Commercial Sales (DCS), Excess Defense Articles, TSFD, and Cybersecurity Maturity Model Certification (CMMC).

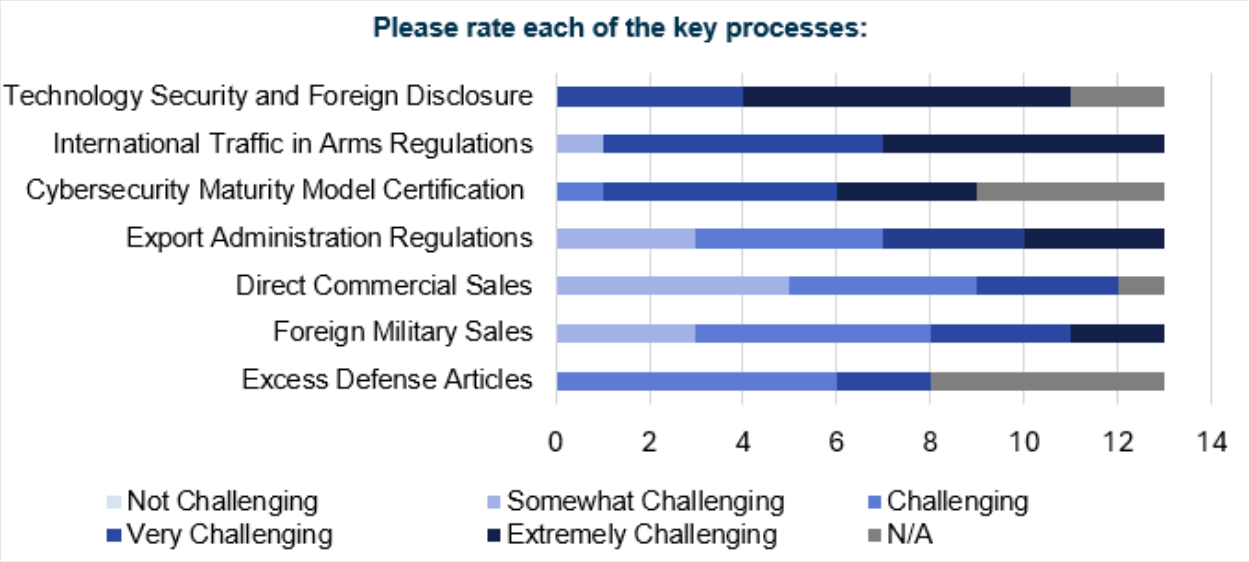

Figure 2. How Difficult Are Processes?

As shown in Figure 2, respondents deemed TSFD and ITAR to be among the most challenging hurdles to international procurement from the United States. No respondent rated any of these processes as not challenging.

ITAR is a complex export control system marked by bureaucratic red tape that U.S. allies and partners continuously express frustration over. ITAR processes are often perceived as too stringent and not conductive to the current era of geopolitical competition. DMAG respondents recognized the purpose and importance behind ITAR but simultaneously critiqued its rigidity and prolonged lead times. Because ITAR is such an expansive bureaucratic process, respondents noted that guidance from various U.S. authorities may be different or even conflicting. These barriers impede defense industrial cooperation and ultimately jeopardize U.S. and allied defense posture and readiness.

While ITAR does create significant challenge to international defense cooperation, it is part of a broader framework for partnerships. The Directorate of Defense Trade Controls (DDTC), responsible for administering ITAR, plays a role in facilitating collaboration by reviewing, and then subsequently approving, export licenses. Through this process, the DDTC ensures that defense technologies are transferred in a controlled and responsible manner, while simultaneously supporting co-development and co-production efforts with international partners. ITAR helps balance national security concerns with opportunities for technology innovation and collaboration with partner nations.

Some respondents offered additional nuance to the TSFD and ITAR processes. TSFD may be relatively opaque with a lack of clarity around which authorities do what or the pipeline of approval. However, it is not always a very challenging process. They felt ITAR suffers from the opposite problem—that it is a challenging process despite knowledge of the steps required for compliance.

Respondents noted that even though key U.S. export control and technology transfer processes are viewed as at least somewhat challenging, that does not mean that they are wrong or misguided. There is an understanding amongst ally and partner nations that these regulations exist for a reason despite their complexity. Allied nations have their own complex export control regimes that share the same objective of U.S. protection policies: to prevent sensitive technology and information from falling into the hands of unfriendly nations. There was no call by survey respondents to eliminate U.S. processes, but rather that a more transparent, streamlined system with predictable lead times could enhance cooperation and the benefits to both nations.

Given the difficulty of ITAR procedures and the various stakeholders involved, the research team asked DMAG how well they understand ITAR processes. Figure 3 shows the results.

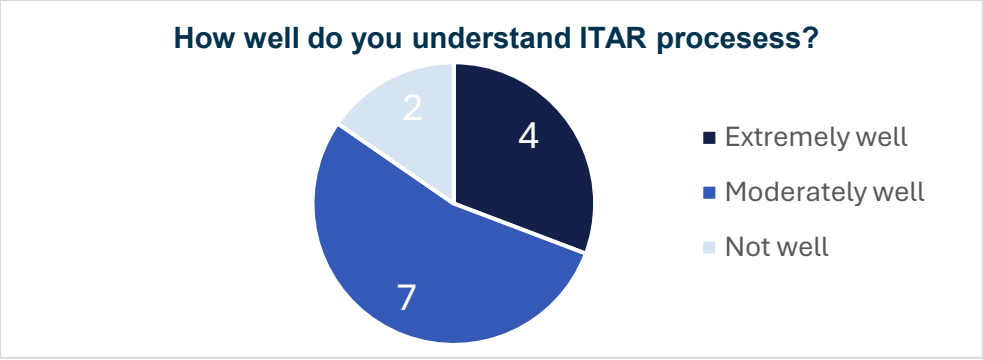

Figure 3. Knowledge of ITAR Processes

Most—but not all—respondents understand ITAR processes moderately well. The DMAG respondents—defense cooperation attaches and defense officials—are familiar and

relatively well-versed in export control processes by nature of their profession, and it may be of strategic concern for the United States that only four respondents reported a confident understanding of its requirements.

One specific challenge of ITAR was raised in the comments. Specifically, when a foreign company manages to sell to the DoD, they often will set up production in the United States to manage the volumes. “But every product will be improved over time and new functions might be added. In this scenario the knowledge created in the US subsidiary will not flow back to the mother company due to ITAR. This is not a problem for the company. But it reduces interoperability and interchangeability.”

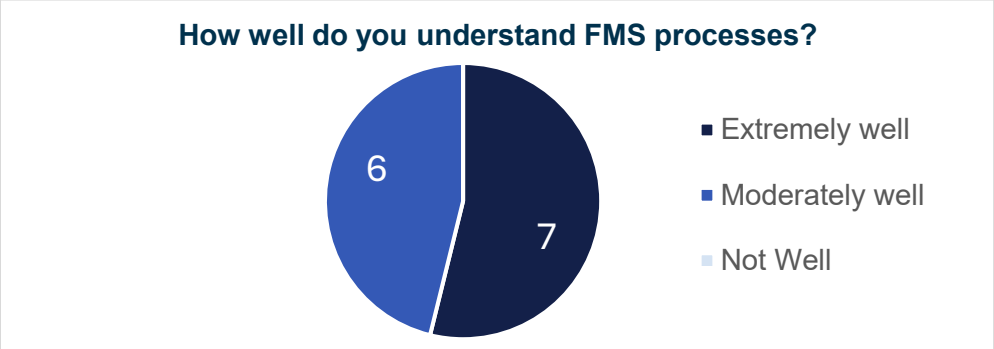

Figure 4. Knowledge of FMS Processes

Unlike ITAR, all respondents reported understanding FMS processes. Although FMS is not directly linked to international cooperation, as it primarily involves one nation’s government purchasing defense systems from the U.S. government, it serves an important role in helping nations achieve their domestic defense industrial goals. FMS enhances interoperability by allowing partner forces to operate using the same systems. FMS can improve regional capabilities by equipping partner nations with advanced technologies that bolster their defense readiness. This serves to enhance deterrence posture as partner nations are better equipped to defend against emerging threats. FMS may also stimulate the growth of a partner nation’s defense industrial capacity by facilitating local production of the acquired system upon license approvals.

The FMS process can be complex and cumbersome, which is why the Defense Security Cooperation University (DSCU) offers a foundational level FMS course that explores the essential components to military sales and transfers between the United States and partner nations. Students learn how to “plan, execute, and sustain the many complex and interrelated aspects of sales and transfers under the FMS program” (DSCU, n.d.-a). One respondent noted that this FMS course is no longer available for individuals in their office, meaning a growing number of foreign FMS officers lack a basic understanding of FMS processes in defense cooperation offices.

Foreign defense attachés lacking an adequate understanding of the FMS acquisition process not only impedes their home country’s ability to acquire U.S. defense systems efficiently, but also negatively impacts the United States directly. Delays in the acquisition process, or even reduced purchases of U.S. defense systems, result in the United States exporting fewer defense products and providing fewer services, which reduces industry sales and hampers the ability of the United States to interoperate with its allies and partners.

FMS is a complex process, and the literature indicates a variety of specific challenges. The survey included a question asking respondents to rate the challenges of a variety of FMS processes.

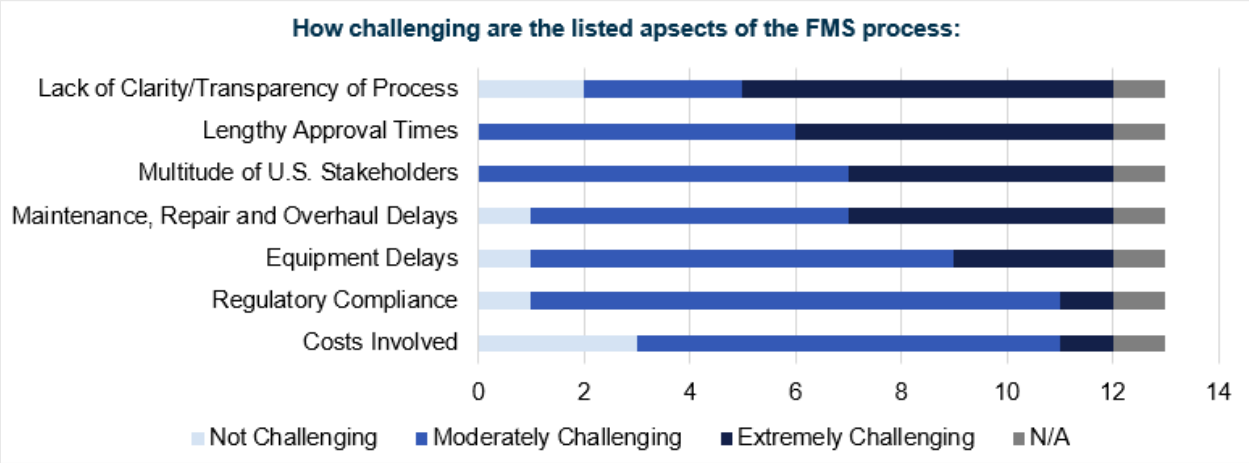

Figure 5. FMS Process Challenges

Most respondents rated the lack of clarity and transparency of the FMS process as the most challenging, closely followed by lengthy approval times and the multitude of U.S. stakeholders involved in the process. Most respondents rated equipment delays, regulatory compliance, and costs involved as moderately challenging. The costs associated with the FMS process were identified as the least challenging factor.

In the optional written section, respondents noted a few other challenges that were not listed. First, long periods of time are required for case closure despite service completion. FMS case closure occurs when "all material has been delivered, services have been performed, other requirements of the LOA have been satisfied, known financial transactions (including collections) have been completed, and the purchaser receives a final statement of account" (Saum-Manning et al., 2024). Prompt case closure minimizes the amount of administrative effort required for an unnecessary open case, which diverts resources from other priorities. Prolonged case closure, a common frustration among primary FMS customers, delays the release of excess purchaser funds (Defense Security Cooperation Agency, n.d.). This practice may erode the long-term willingness of partner nations to engage in our arms sales process, especially if certain material or systems can be purchased elsewhere. Secondly, a lack of workforce capacity within the defense industry can lead to increased costs for the production and delivery of defense systems. A workforce that does not meet demand may force partner nations to face higher prices and acquisition delays.

Challenges with coordination were also noted, in particular a fragmented approach when it comes to working with allies. The United States reviews every FMS case on a country-by-country basis, and NATO allies lack a centralized authority to streamline FMS coordination. This fragmented approach limits opportunities to optimize FMS outcomes for the broader strategic goals of the alliance. Exploring whether there are groups of countries for which FMS cases can be reviewed together could streamline the process for the United States and speed acquisition by allies.

One respondent noted that on occasion, borderline cases tended to linger as they are being reviewed, which they felt was because of U.S. government hesitation to rapidly decline case requests and rather opt for extensive deliberations to provide alternatives. They suggested

that sometimes a faster decision, even if it was negative, would be preferred because it would reduce uncertainty.

Feedback from participants also raised the consideration that current thresholds for Congressional notifications also often hinder the efficiency of the export process. When the U.S. government plans to sell defense equipment, services, or technology to a foreign country, it must submit a notification to Congress that allows lawmakers a designated period to review the proposed sale (CRS, 2024). The requirement for Congressional notification on all sales, regardless of their scale or impact, can create unnecessary delays and administrative burdens, especially on standardized exports that the United States has historically been exporting to its allies and partners. Many of these notifications pertain to sales that are not sophisticated nor strategically sensitive. This slows down the acquisition process without significantly enhancing oversight or national security. It may be beneficial to recuse the notification thresholds to exclude routine transactions of small value. Moreover, thresholds should be updated regularly to account for inflation (Saum-Manning et al., 2024).

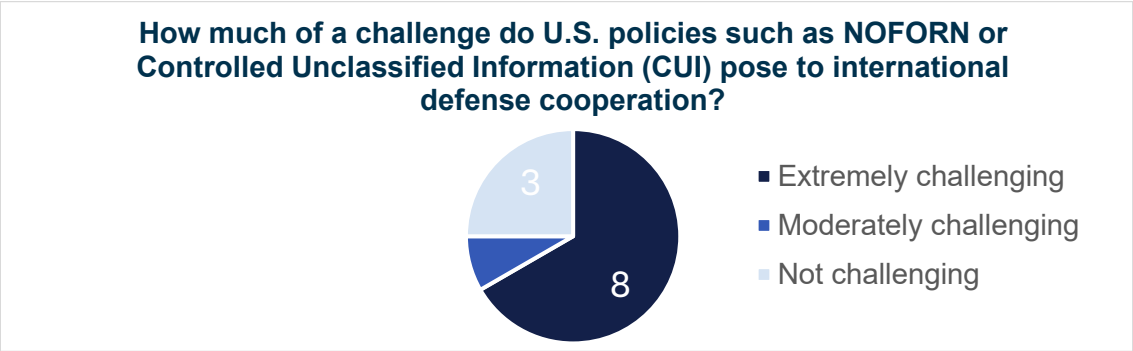

Figure 6. The Challenge of NOFORN and CUI

The challenge of U.S. categorization of information as Not Releasable to Foreign Nationals (NOFORN) or controlled unclassified information (CUI) markings was consistently mentioned as a barrier throughout the duration of this study in both discussions and survey responses, as displayed in Figure 6. These categorizations markings can create barriers to foreign partners' access to information and can hinder procurement or co-production processes. These restrictions can lead to delays in equipment delivery, licensing processes, and may negatively impact interoperability between allied forces.

Respondents note that NOFORN and CUI limit the ability of foreign contractors to compete for opportunities. In some cases, the information is made available, but without sufficient time for foreign contractors to develop a bid. One implication is that while it may increase U.S.-content, it may mean that the DoD is not accessing best-in-class technical solutions. Reforming protectionist policies demands not only regulatory changes, but cultural change to support systematic alteration in the way the DoD approaches classification markings. While the use of NOFORN to obstruct competition is illegal, respondents felt that it remained overused and hence impeded cooperative defense industrial efforts.

Respondents also noted Master Information Exchange Agreements (MIEAs), and subordinate Information Exchange Annexes, are extremely useful. MIEAs establish a reciprocal, balanced exchange of R&D between participating parties and authorize specified IEAs (*U.S./ROK Master Information Exchange Agreement*, n.d.). IEAs exchange R&D pertaining to specific technology or weapons development areas.

Ally and Partner Nation Export Control Challenges and Enablers

The challenge that regulations represent is not unique to the United States. All nations have regulations that have some impact on defense cooperation. Figure 7 reports the results of a comparison, with most respondents believing that working with the United States is no different or harder than working with other nations. Every nation has its own individual export control and technology transfer challenges, and export control challenges are not limited to just the United States.

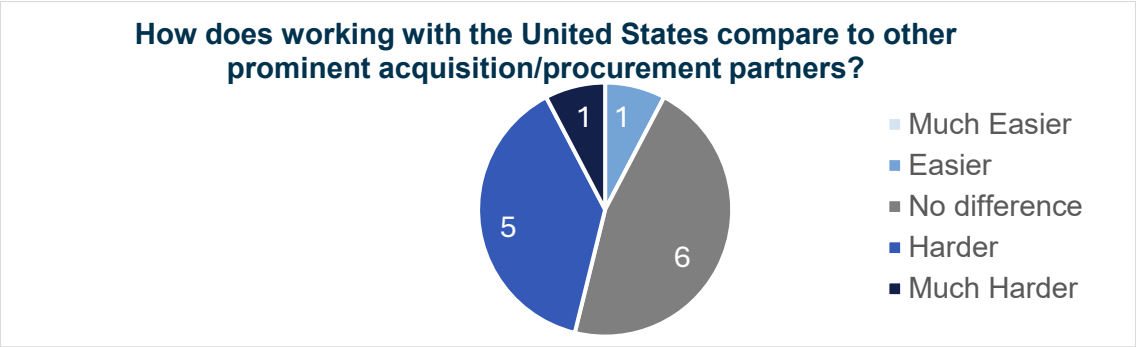

Figure 7. Comparing the United States to Other Partners

That said, the United States is the sole supplier of a number of advanced capabilities. This makes cooperation with the United States, and an understanding of its export control processes, mandatory for those who wish to acquire certain U.S. designed and produced weapons systems. And it means that U.S. regulations have an outsized impact on partners.

U.S. allies and partners also have their own set of export control and technology transfer processes that can hinder—but also enable—information sharing and arms sales. Survey respondents have varying perceptions of their home country's export control processes, but provided useful feedback on what mechanisms could help—or not help—facilitate their international procurement processes.

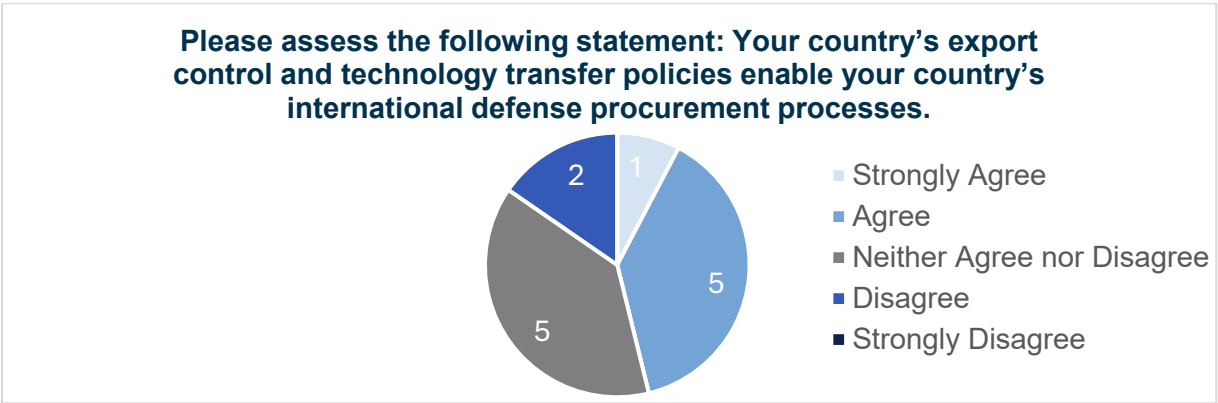

Figure 8. Assessment of Home Country Export Controls

Figure 8 offers a take on this. Most respondents are neutral or agree that their home country export control and technology transfer policies enable procurement processes.

Figure 9: The Impact of Home Country Export Controls on Doing Business With the United States – Significant Challenge

As shown in Figure 9, respondents are reasonably mixed on whether their own export controls pose a challenge to doing business specifically with the United States, but only three agreed that the challenge was on their side.

To gain further nuance on respondents' perspectives of their home country's export controls, the research team also asked whether their domestic export controls generate "friction" for their procurement and cooperation processes, so something less than a "significant challenge."

Figure 10. The Impact of Home Country Export Controls on Doing Business With the United States – Friction

Figure 10 shows that most respondents recognized that respondents are more likely to agree that their export control and technology transfer policies add friction to their procurement or cooperation processes.

The research team asked respondents to rate certain processes or agreements based on how beneficial they would be to facilitating trade defense trade with the United States, with the results reported in Figure 11. These are the Defense Production Act, AUKUS, reclassifying items from the USML to the Commerce Control List, and the NTIB. There was significant agreement that most of these would be useful.

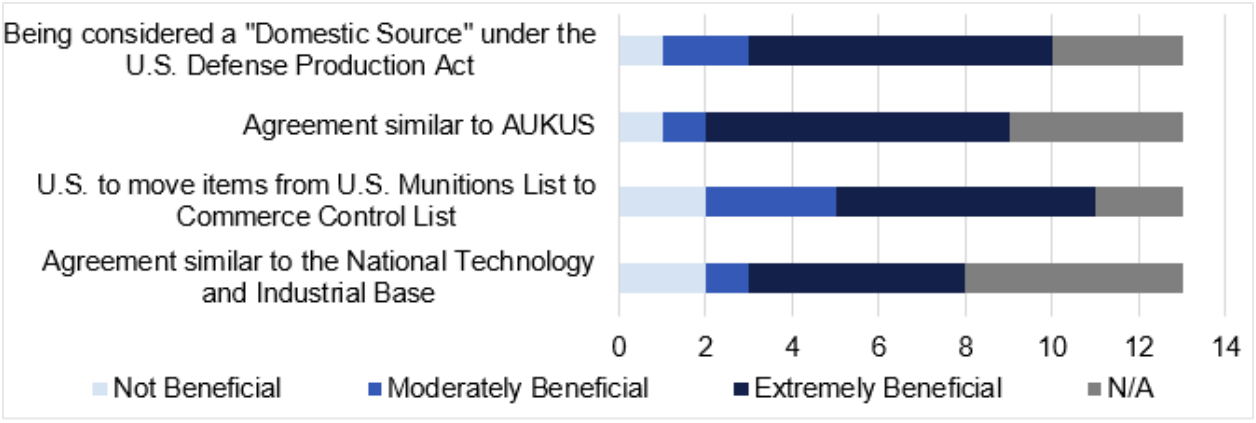

Figure 11. What Could Make Trade Easier?

Defense Production Act

Being considered a domestic source under the DPA was rated among the most beneficial programs by respondents. The DPA, passed in 1950, grants the president the authority to influence domestic industry and expand and expedient certain material required for national defense during emergency mobilizations (FEMA, 2024). Domestic industry may be called upon to expand the production and supply of material critical to national security or emergencies—President Donald Trump utilized the DPA to order General Motors to produce more ventilators and 3M to produce N95 masks during the Covid-19 pandemic, for instance (Siripurapu, 2021).

Title III of the DPA, the Expansion of Productive Capacity and Supply, authorizes "incentives to include loans, loan guarantees, direct purchases and purchase commitments, and the authority to procure and install equipment in private industrial facilities" (CRS, 2023b). Along with U.S. industry, Canada has been considered a domestic source since 1992 (DoD, 2024a). The FY2024 National Defense Authorization Act designated the United Kingdom and Australia to also be considered domestic sources and therefore eligible for DPA funds (National Defense Authorization Act, 2023). This means Canada, the United Kingdom, and Australia enjoy certain U.S. government benefits under certain conditions when able to provide essential defense materials and goods.

Though the DPA includes Canada, the United Kingdom and Australia as domestic sources, the degree to which the U.S. government can direct a foreign firm to produce under the DPA is more nuanced than with a purely domestic firm. The DPA primarily provides incentives (loans, guarantees, etc.) to encourage production, and the United States would be likely to work through diplomatic channels to encourage a foreign firm to increase production of critical goods during a crisis (Office of the Assistant Secretary of Defense, Industrial Base Policy, n.d.). The Defense Priorities and Allocation System (DPAS) implements Title I of the DPA under the Department of Commerce, and applies to all entities physically in the United States, regardless of foreign or domestic ownership (Department of Commerce, n.d.). However, foreign companies and foreign subsidiaries of U.S. companies are outside DPAS jurisdiction; therefore, the U.S. government cannot order an Australian, Canadian, or British firm to produce goods if it is not physically located in the United States (Department of Commerce, n.d.). The DPA provides a framework and financial tools for crisis production, but it requires a collaborative approach. There is a distinction between being considered a domestic source under the DPA and having an RDP MOU with the United States. The latter ensures allied and partner industry are considered domestic sources, waving obstacles associated with the Buy American Act and facilitating smoother access to U.S. defense contracts. But domestic sources under the DPA are

utilized during times of national crisis, as firms are incentivized—and ordered—to produce a certain amount of goods or material necessary for national security or during times of crisis. This serves as a mechanism to rapidly mobilize the defense industrial base to ensure the United States has access to vital resources when traditional free-market principles are not sufficient.

An Agreement Similar to AUKUS

AUKUS is a trilateral security partnership between the United States, the United Kingdom, and Australia. It is designed to promote further information sharing and technology transfer and better integrate and diversify security-related supply chains and industrial bases (DoD, n.d.). AUKUS has two pillars, the first being to support the Royal Australian Navy in acquiring nuclear-powered submarines. The second pillar is focused on advanced technologies, including cyber, artificial intelligence, quantum, and undersea capabilities (DoD, n.d.).

To implement these two pillars, efficient procurement strategies between AUKUS member nations was required. Once their defense information protection systems, such as strengthening cybersecurity measures and harmonizing classification standards, were aligned with those of the United States, information sharing and technology transfer were simplified. This was reflected in the revisions made in the EAR and ITAR.

In April 2024, the BIS amended the EAR to facilitate license-free trade with Australia and the United Kingdom in furtherance of the AUKUS objectives. It removed certain "license requirements, expanded license exemptions, and reduced the scope of end-use and end-user-based license requirements for exports, reexports, and transfers (in-country) to or within Australia and the United Kingdom" (Federal Register, 2024b). The BIS estimates that $7.5 billion in trade with Australia and the United Kingdom were subject to these previous license regulations (Bureau of Industry and Security, 2024).

The DDTC made similar changes to ITAR that enable the license-free transfer of commercial defense trade for Australia and the United Kingdom. With certain limitations, authorized users between AUKUS members require no license or other approval for the "export, reexport, retransfer, or temporary import of defense articles, the performance of defense services, or engaging in brokering activities"(Exemption for Defense Trade and Cooperation among Australia, the United Kingdom, and the United States, 2024). This rule also allows for an expedited export licensing process for defense articles or services to Australia, the United Kingdom, and Canada.

One DMAG participant likened AUKUS membership to having a "fast pass" or "carpool lane" through ITAR, streamlining defense cooperation with the United States. However, for other nations seeking privileges comparable to those enjoyed by the United Kingdom and Canada, reform is necessary not only within the U.S. system but also within their own domestic frameworks. Certain nations expressed a desire to be a part of AUKUS pillar two, even if with specific technologies only, such as hypersonic, missile, and undersea capabilities.

Moving Items From the USML to the CCL

ITAR governs the U.S. Munitions List (USML), which is a list of defense-related articles, services and technologies designated as critical to U.S. national security. The Directorate of Defense Trade Controls (DDTC), within the U.S. Department of State, is responsible for administering ITAR. The DDTC must approve export licenses for items on the USML in order to prevent U.S. adversaries from obtaining advanced technologies critical to U.S. military advantage.

The Commerce Control List (CCL) is a list of dual-use items that have military but also commercial applications. The Export Administration Regulations, enforced by the Bureau of Industry and Security within the U.S. Department of Commerce, governs the CCL. Items on the

CCL are typically less restricted than their counterparts on the USML and only sometimes require a license (unlike items on the USM list which always do). CCL items requiring licenses include sensitive technologies such as semiconductors and aerospace components.

In further conversations with the DMAG, countries expressed this solution of moving items from the USML to the CCL was an underrated solution to complex U.S procurement procedures.

National Technology Industrial Base

The NTIB is an agreement between the United States, Australia, the United Kingdom, New Zealand, and Canada that establishes joint national security and dual-use research and development initiatives as well as production and maintenance related activities (CRS, 2023a) While some respondents offered that it would be extremely beneficial, it was noted that NTIB has done little more than enabling limited information exchange. NTIB lacks funding and does not change standing policy, which limits its contributions to improved defense industrial cooperation processes. It does not address the inefficiencies baked into various export control regimes—such as ITAR, EAR, FMS, the Canada ITAR waiver for unclassified goods control, and the Australia-UK Defense Trade Treaties—that foreign companies are subjected to depending on where they are based, some of which are located in all NTIB countries. Ensuring compliance to these various regulations requires “an army of lawyers and clerks, burning up a significant amount of resources” (Greenwalt, 2019).

Benefits of Cooperation

One reason nations seek to engage in defense industrial cooperation with the United States is to “uplift” their domestic industry. Selling to the United States was viewed as extremely important to home country industry by all but one of the respondents, as shown in Figure 12.

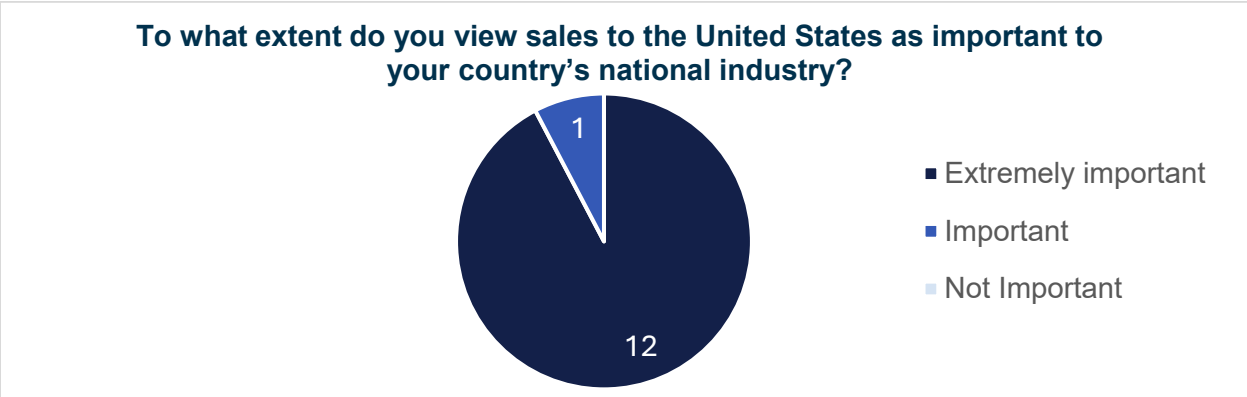

Figure 12. Uplifting Domestic Industry

These findings are unsurprising given the United States has the largest arms market in the world, making the United States a critical enabler to partner nation industrial development strategy. Beyond the sheer size of the market, there are other advantages. Selling to the United States serves as a forcing function for nations to align their modular standards to those of the United States, making it more likely to be a steady customer for domestically produced defense products and services. If partner nations build for exportability with operating systems that are compatible with those of the United States, the option to at least export to the United States will always be there. This allows partner nations to deploy systems that are interoperable with U.S. systems, strengthening coalition and joint operation efforts. Second, the United States has a high trust value; that is, it acts in good faith to honor agreements and will reciprocally provide high-quality, dependable, and compatible defense products and services to its partner nations.

Other identified factors make the United States a less valued customer. Survey respondents noted that they may feel compelled to purchase from elsewhere if newly developed capabilities were made available by European Union member states or other allied nations, especially if that country's export processes and technology transfer policies were easier to navigate. Countries also face pressure to spend domestically; investing in internal capabilities and capacity means a more independent and indigenized industrial base. These incentives may include the desire to foster local innovation, reduce reliance on foreign suppliers, decrease unemployment rates by boosting job opportunities, and develop and maintain technologies critical for safeguarding national security. Other respondents noted the importance of speed—and an oft-cited shortcoming of allied procurement of U.S. systems (Chindea et al., 2024).

During the discussing roundtable, participants mentioned that a drastic shift in U.S. trade policy with punitive tariff measures could lead to considering other sources of acquiring defense capabilities.

Defense Cooperation Agreements and Programs

There are a variety of defense cooperation agreements and programs that serve to enhance defense industrial cooperation and more easily facilitate technology transfer, including RDP MOUs, SOSAs, and NATO membership. While RDP MOUs are critical enablers to defense industrial cooperation and grant qualifying countries broadened access to the U.S. defense market, there remains institutional and regulatory hurdles that RDP MOU member nations are subjected to despite their contractual exemptions.

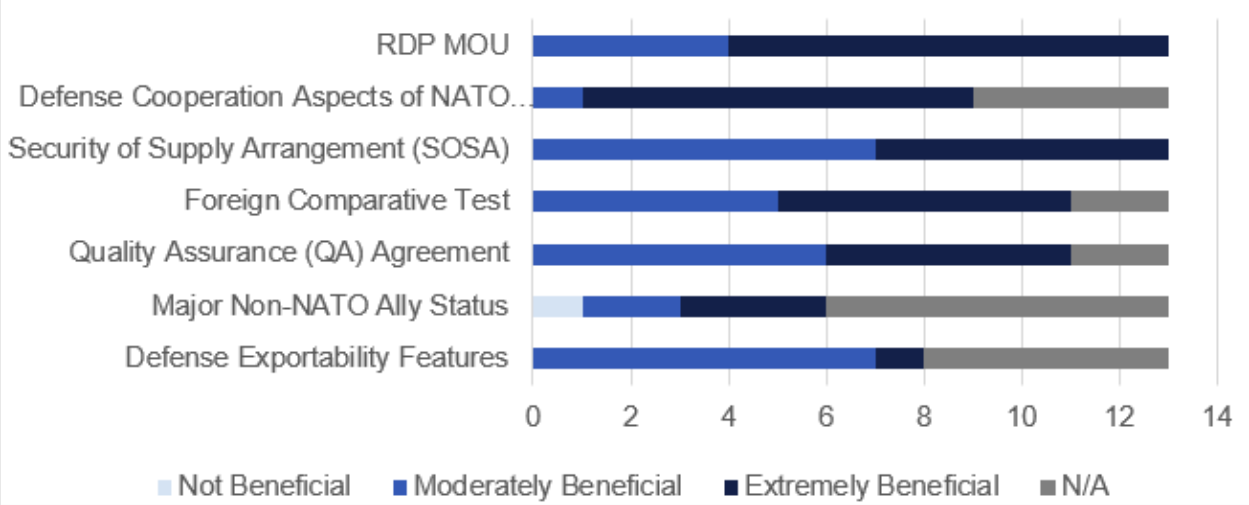

Figure 13. Value of Different Kinds of Agreements

Respondents were asked to rate defense cooperation agreements and programs on the basis of how much each benefits their home country's ability to do business with the United States. RDP MOUs were rated as the most beneficial, with nine respondents rating RDP MOUs as extremely beneficial. It should be noted that this may be a case of selection bias, since potential respondents were identified as being part of an organization comprised of RDP MOU-holding countries and that the sample that chose to respond to the survey may be more invested in the agreement.

Second to RDP MOUs, the defense cooperation aspects of NATO were positively viewed by all survey respondents. NATO has a set of programs to enable nations to work together on acquisition. There have been several joint acquisition programs, including NATO Alliance Ground Surveillance, NATO Sea Sparrow Consortium, and NATO Multinational Multi

Role Tanker and Transport Fleet (McGinn, 2023). In 2021, NATO established the Defence Innovation Accelerator for the North Atlantic (DIANA) to integrate and deliver new technologies to NATO forces. DIANA primarily focuses on "big data, artificial intelligence, autonomy, quantum, biotechnologies and human enhancement, energy and propulsion, novel materials and advanced manufacturing and aerospace" (NATO, n.d.).

NATO also has the NATO Defence Planning Process (NDPP) which allows Allies to harmonize their force and capability planning activities. It facilitates the interoperability of forces and ensures they are properly equipped and supported to undertake missions without compromising the readiness of Allies' national militaries (NATO, 2022a). NDPP is responsible for identifying requirements for NATO forces and supports capability development and acquisition (NATO, 2022a). NATO also has the NATO Support and Procurement Agency (NSPA), which delivers capabilities, logistics support, and procurement frameworks to member nations (NATO, 2022b). It also supports the weapons system lifecycle management (NATO, 2022b).

Security of Supply Arrangements (SOSAs) were viewed as generally beneficial. SOSAs allow the United States and participating nations to request priority supply of defense goods and services (Office of the Under Secretary of Defense for Acquisition and Sustainment – Industrial Base Policy, n.d.). For instance, the United States can request foreign industry to prioritize delivery under DoD contracts, subcontracts, or orders, and vice versa (Office of the Under Secretary of Defense for Acquisition and Sustainment – Industrial Base Policy, n.d.). SOSAs allow for streamlined procurement processes and may be viewed more favorably by U.S. program offices having already established a security of supply framework. They ensure partner nations are prioritized when supply shortages or geopolitical tensions arise (Office of the Under Secretary of Defense for Acquisition and Sustainment – Industrial Base Policy, n.d.). However, SOSAs are voluntary or "best effort" frameworks and therefore more about confidence building (DoD, 2024b). This diminishes their utility as binding international agreements obligate signatories to invoke the terms of the agreement.

Foreign Comparative Testing (FCT) was also viewed favorably. The FCT program allows the United States to satisfy its defense needs more quickly and cost efficiently by testing the technologies developed by allies and partners with high Technology Readiness Levels to better equip U.S. operational forces and satisfy U.S. defense needs (*Foreign Comparative Testing*, n.d.). This accelerates U.S. government acquisition from foreign industry, circumventing traditional acquisition pathways that typically include domestic capability development and lengthy and costly R&D investments (Foreign Comparative Testing, n.d.). FCT allows the United States to test partner national technologies, capabilities, and weapon systems prior to definitively procuring these systems, following a "try before you buy" model (Foreign Comparative Testing, n.d.). This approach allows roughly a third of foreign vendors to either directly partner with U.S. industry or at the very least establish a U.S. presence (Foreign Comparative Testing, n.d.). As of January 2024, 1,297 technologies from partner nations were assessed, and 307 technologies were procured/acquired into U.S. forces (Foreign Comparative Testing, n.d.).

The United States has Reciprocal Government Quality Assurance (QA) agreements with six countries: Czech Republic, Finland, South Korea, Poland, Romania, and Slovak Republic. QA agreements ensure defense products and services meet U.S. military specifications through a set of standardized procedures for testing, inspection, and certification. This reduces the risk of defective parts in critical defense systems and streamlines defense procurement processes—products certified under nations who have a QA with the United States are more readily accepted by the United States and its partners who share interoperability standards with the United States.

Defense Exportability Features (DEF) is the practice of encouraging DoD program management to design and develop exportability features early in a program's lifecycle. Designing for exportability earlier in the program's lifecycle can facilitate exports, for example by incorporating technology protection earlier in the design process to avoid expensive retrofits and costly and time-consuming redesigns to meet export control and partner-specific requirements (DAU, n.d.-b). DEF facilitates business with the United States by making U.S. defense systems more export-friendly, reducing costs for foreign buyers, and improving interoperability with allies and partners. DEF also simplifies FMS processes by pre-engineering exportable versions of systems, reducing delays caused by technology transfer restrictions.

Challenges of RDP MOUs

While the intent of RDP MOUs may be to facilitate defense trade, many respondents offered that U.S. government stakeholders were less supportive of their function. Most respondents did not think the "Buy America" exemptions are well recognized within program offices, as shown in Figure 14. Furthermore, Figure 15 shows about half of the respondents think acquisition program offices are leery of the "Buy America" exemptions they offer.

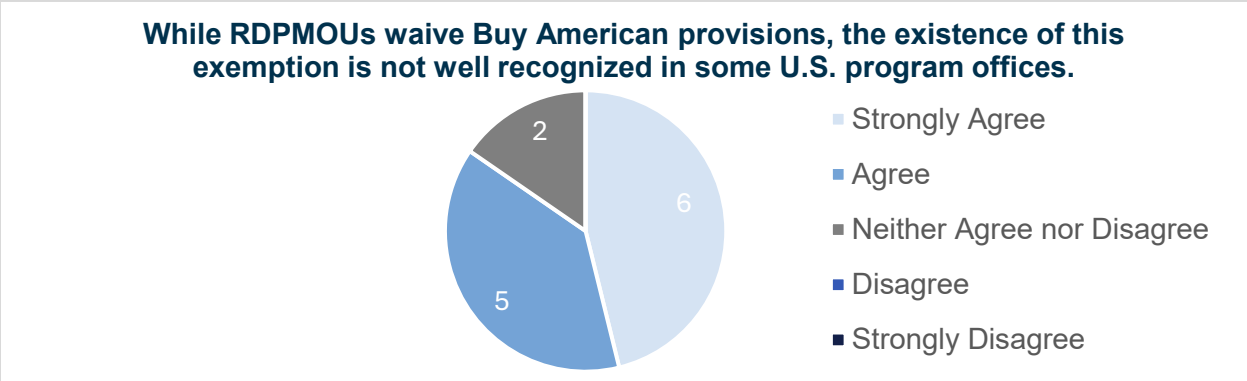

Figure 14. Perspective on Program Offices – Recognition

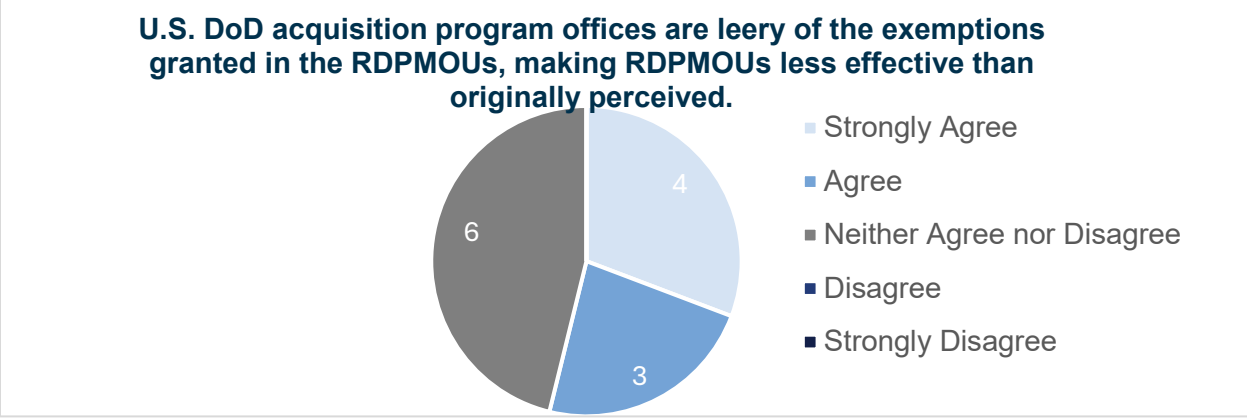

Figure 15. Perspective on Program Offices – Leery of the Exemptions

There are a variety of potential reasons for this. There may be misconceptions among acquisition contracting officers as to what exactly RDP MOUs are. And respondents suspect that program offices find it easier to default to purchasing U.S. goods and services. As one interviewee noted, "no one gets fired for buying American."

The 2024 National Defense Industrial Strategy fails to mention RDP MOUs, demonstrating a lack of awareness and understanding of the benefits RDP MOUs provide the

United States (Joint Chiefs of Staff, 2024). However, there have been welcome changes made in the Defense Federal Acquisition Regulation Supplement (DFARS), which are responsible for implementing RDP MOU exemptions (GAO, 2024). In recent years, the DFARS have become more inclusionary of RDP MOU provisions and have more systematically integrated these agreements into the broader defense acquisition framework (Federal Register, 2024a).

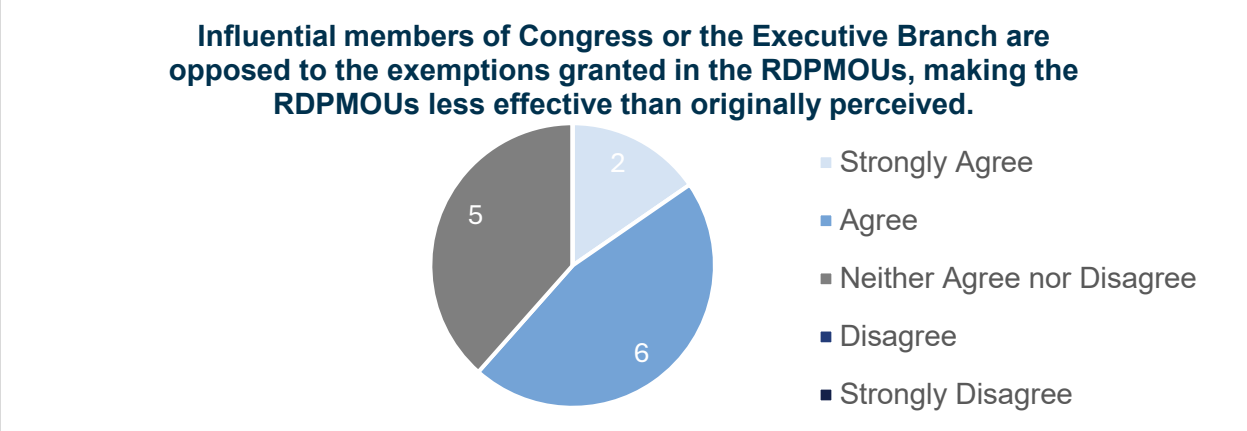

Figure 16. How Do Partners Think Congress Views RDP MOUs

According to Figure 16, participants generally are neutral or agree that Congress or the Executive Branch are opposed to the exemptions granted in the RDP MOUs. Congressional debates are frequently centered on protecting American industry without recognizing that these international agreements consider signatory country defense industrial bases as complementary to, rather than competitive with, U.S. defense manufacturing. This may lead legislators to undermine the cooperative defense industrial relationships that enhance mutual security capabilities.

Section Three: Insights and Conclusions

A lack of defense industrial integration between the United States and its allies means that potential improvements in capability are not identified and executed, which contributes to vulnerabilities that potential adversaries can exploit to wield their influence across the global strategic landscape. The United States is not prepared to solely ramp up production to meet current demand in the near term, and some capabilities may take a decade or longer to build. Without an integrated defense industrial base, allied nations will be less effective in the development, production, and sustainment of critical military capabilities—and ultimately, struggle to fight together. Partner countries may turn to non-allied nations, or even adversary suppliers, to support their basic defense needs.

Arms sales and technology transfer play a large role in ensuring the United States and its allies are properly equipped to build competitive advantage. Though export controls are required—and necessary—for any state that has a defense industry, they are designed to protect a nation's technological advancements and intellectual property. They form the hallmark of ensuring sophisticated weapons systems do not fall into the hands of hostile actors. However, complex and lengthy export control processes may limit important partnerships that underpin deterrence.

There is a compelling business case to also be made for deeper U.S. defense industrial base integration with allies and partners. Integration extends beyond traditional arms sales and technology transfers to include co-production and co-development. While these collaborative ventures can be complex and often require higher upfront investment, they offer long-term

financial benefits after achieving economies of scale and ultimately reducing per-unit costs. Additionally, deeper defense industrial collaboration positions the United States to profit from arms sales to partner nations.

The survey found that countries with an RDP MOU with the United States are hopeful that the agreement will help uplift their own industrial bases through increased cooperation and sales. A lack of consistency across administrations was identified as a limit here, with a survey response of, "As the government changes every four years, new policies such as the National Defense Industrial Strategy promoted by the current government often lose their momentum. Therefore, a defense industry cooperation policy that can be sustainably kept is needed." There is a persistent tension in the United States between "Build American" regulations and industrial cooperation. This is even more salient given the Trump administration's focus on tariffs as an instrument of economic policy. Every administration should remember that the benefits of cooperation, which can include increased sales as well as closer ties and enhanced interoperability, should not be forgotten in the face of the pressure to onshore.

Standing in the way of cooperation are a variety of regulations, which are designed for important functions like limiting technology proliferation to adversaries, but do create delays and uncertainly. ITAR and TSFD are the most challenging export control processes. Document markings of CUI and NOFORN should be carefully managed to ensure that they do not needlessly limit competition. Periodic reviews of the policies themselves to ensure that they are appropriately limiting technology proliferation without causing undue delay would be useful. There is also an incomplete and uneven understanding of U.S. government regulations on the part of allies and partners, including those who are DMAG participants. As these individuals play an enhancing bilateral defense cooperation, this knowledge gap may lead to unnecessary delays. Formal training offered by the United States could help facilitate both arms sales and cooperation. Strengthening the requirement to design for exportability in appropriate systems would also facilitate defense trade.

Another option to reduce the regulatory burden relates to the fact that every bilateral arrangement requires a separate review, even if two close allies are buying the same equipment. Allies working as a group to procure U.S. systems or the United States combining reviews could both be a structural solution to speed the processes. As one survey respondent suggested "The US should encourage allies to work together when they procure the same systems. If the same system is sold to several nations in a region, all NATO-members, the US should not wait for Third Party Transfer (TPT) requests for them to be able to cooperate but rather encourage this and push out that license. This will increase the total allied capability." Creating a joint structure for FMS reviews is another option.

RDP allies were consistent in their feedback that MOUs are not particularly well understood at program offices, which limits the ability of the DoD to draw on the expertise of allies. A recent Defense Innovation Board report addressed this directly, suggesting "all DoD program managers should be trained on the RDP MoU and additional Buy American waivers and exemptions. In addition, the office that negotiates these waivers must be empowered to inform and educate the DoD contracting and acquisition workforce on the proper use of these existing authorities" (Defense Innovation Board, 2024). Consistent education as part of required acquisition certifications would address this challenge.

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