Defense Acquisition and Contracting Approaches: Implications for Foreign Military Sales

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Overview

Major Themes

- Foreign Military Sales (FMS) is fundamentally a **mature production and sustainment system**, where outcomes are shaped by how standard FAR-based contracts interact with industrial base structure and institutional constraints
- Improving FMS requires **internal reform of domestic acquisition contracting practice**, since so-called "innovative" pathways like OTA and MTA have limited relevance to how FMS is actually executed

Objectives:

- To explain how Federal Acquisition Regulation (FAR)-based contracting structures shape FMS performance, using Federal Procurement Data System (FPDS) information to show how contract type, vendor composition, and system maturity drive outcomes
- Identify reform opportunities within existing domestic acquisition contracting mechanisms

The Role of FMS

The U.S. FMS system sits at the core of **modern security cooperation**, serving as a primary mechanism for the United States to:

- Equip its allies
- Strengthen partnerships
- Advance strategic interests abroad

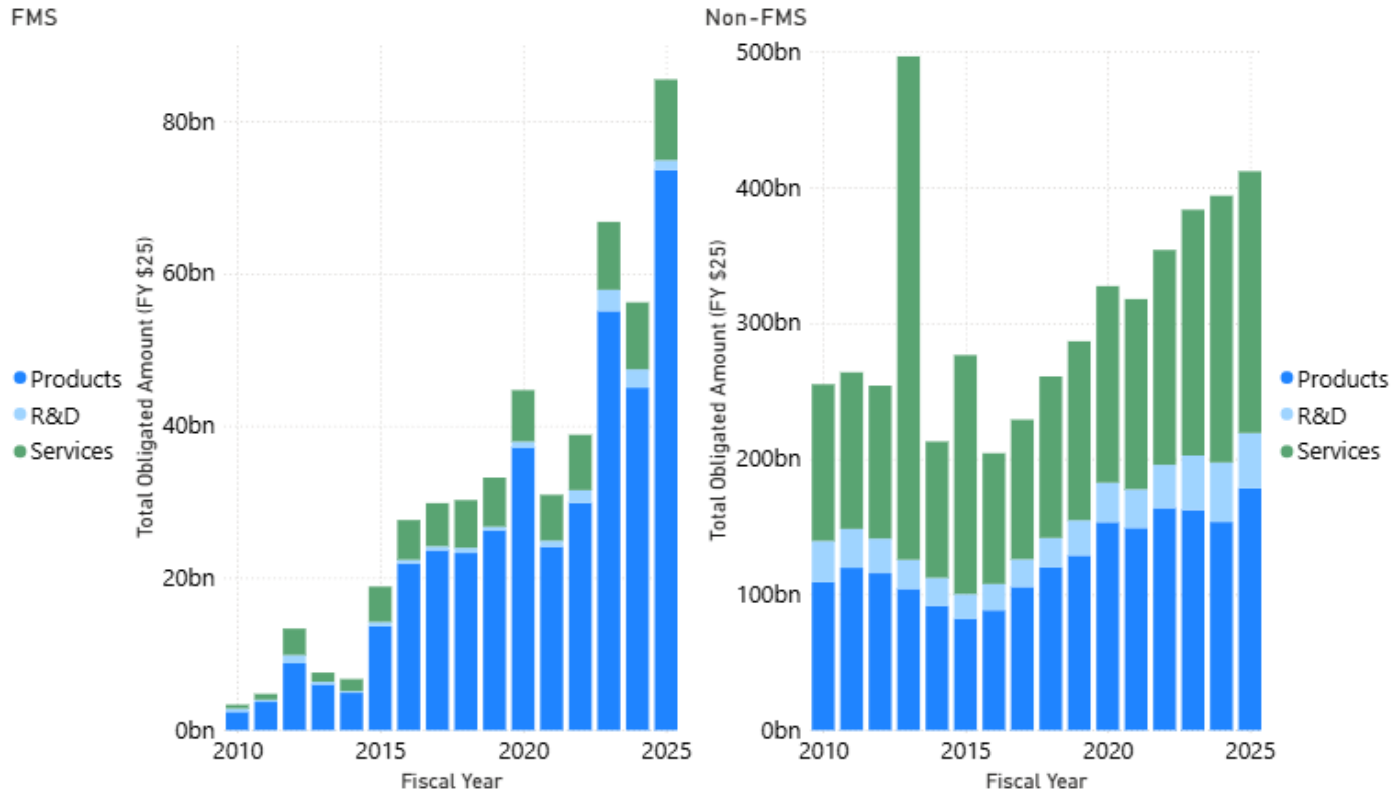
HOWEVER

The FMS system continues to face persistent criticism for:

- Long delivery timelines
- Bureaucratic complexity
- Limited flexibility

The Shift in Project Focus

Total Amount Obligated by Product, Service, and R&D



- **Empirical structure of FMS is FAR-driven**: FMS activity is concentrated in mature systems, meaning it is governed by established FAR-based contracting instruments
- **Limited relevance of innovation pathways:** MTA and OTA are designed for prototyping and experimentation, which are largely absent in FMS
- **Contract structure is the primary explanatory variable:** Differences between FMS and non-FMS can be attributed to how standard instruments are applied

We shift the focus from acquisition innovation pathways to FAR-based contracting because FMS outcomes are driven by how existing contracting tools are used, not by whether new acquisition authorities are available

Three Key Contributions of This Study

- **1:** FMS performance is not a function of acquisition pathway innovation, but an outcome of how established FAR-based contracting instruments are selected and applied

- **2:** FMS contracting is structurally concentrated in mature production and sustainment activities governed primarily by Firm-Fixed Price and related contract types

- **3:** Variation in FMS outcomes is better explained by contract structure, vendor composition, and system maturity than by the adoption of alternative acquisition authorities such as OTA and MTA

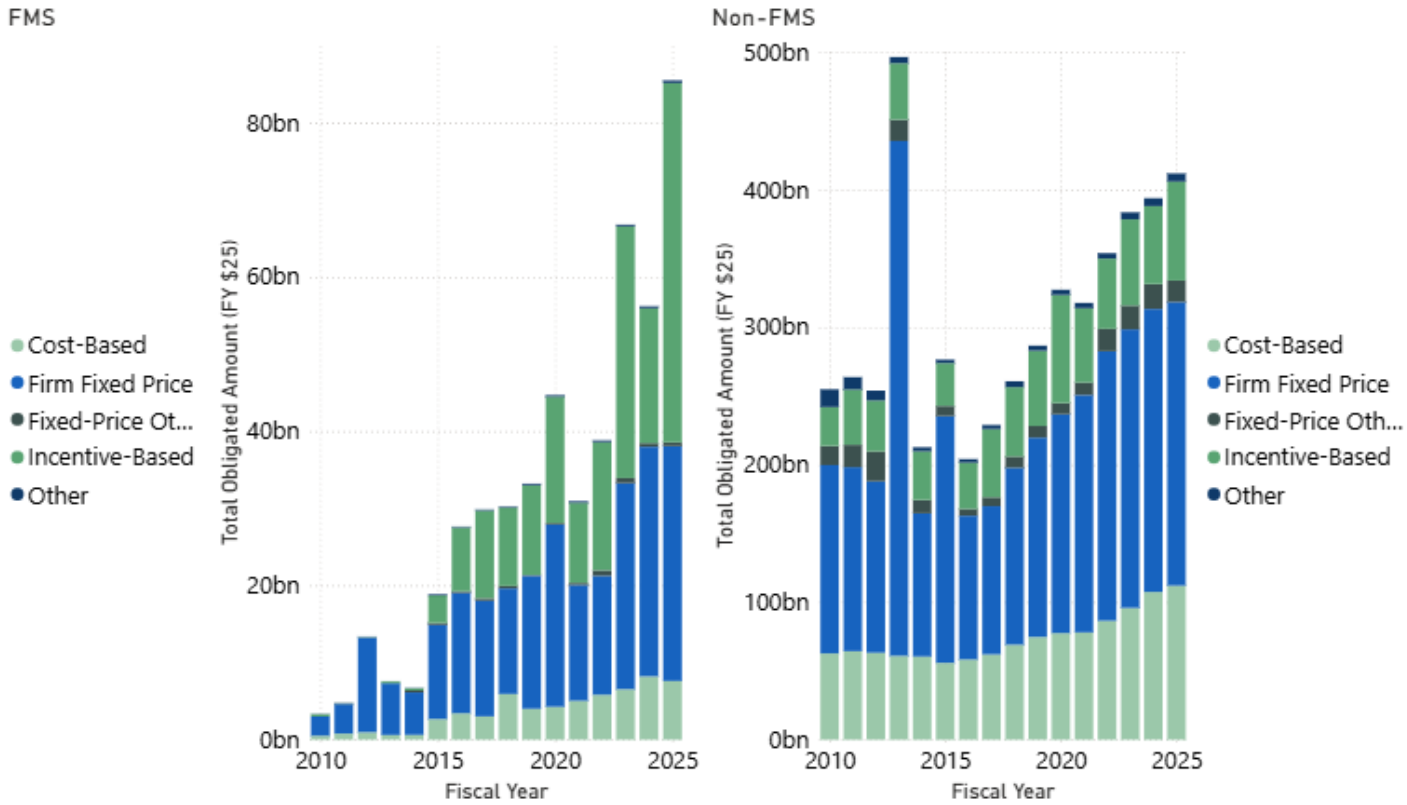
Methodology

- This study employes a mix-methods approach, utilizing both quantitative and qualitative analytics
    - **Quantitative Approach:** comparative analysis of contract structures across FMS and non-FMS activity, focusing on contract type, contract vehicles, platform portfolios, vendor size, and time trends with data from the Federal Procurement Data System (FPDS)
    - **Qualitative Approach:** Case-based vignettes using DSCA and program-level documentation to contextualize FPDS patterns and assess how contracting structures operate in real program execution
    - **Comparative Framework:** FMS vs. non-FMS procurement used as the primary analytical contract to isolate how institutional environment and system maturity shape contracting behavior

Contract Type Distribution

- **FMS contracting is structurally concentrated in Firm-Fixed Price (FFP) instruments,** reflecting a strong emphasis on cost certainty, standardized deliverables, and risk transfer to contractors, with only modest growth in incentive-based contracts over time.
- **Non-FMS procurement exhibits a more diversified contract mix,** with greater dispersion across contract types, despite FFP dominance, that reflects broader mission variation and use-case heterogeneity rather than inherently greater efficiency or flexibility

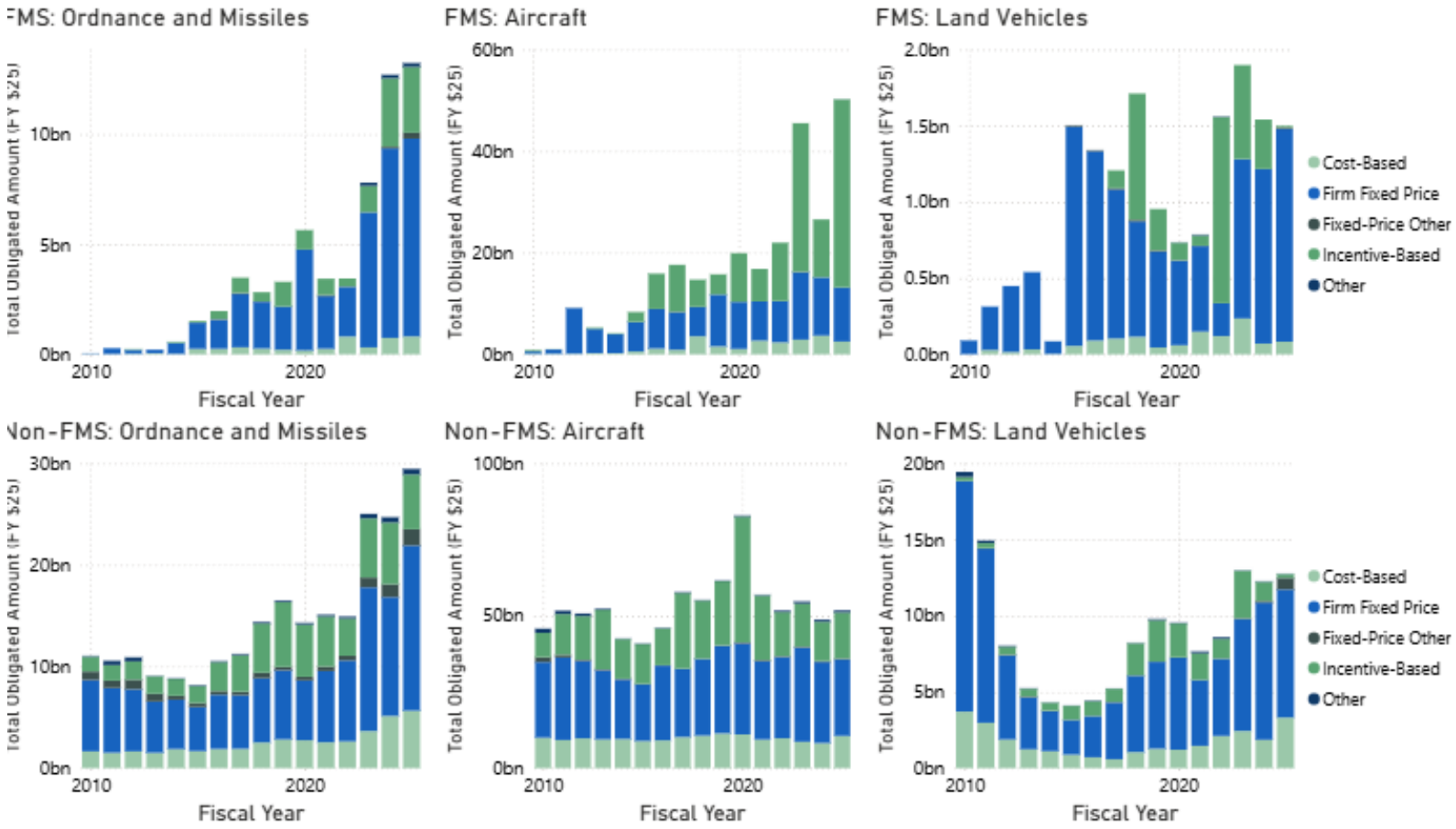
Figure 2: Total Amount Obligated by Contracting Method



Implication for reform: improvements in FMS performance are more likely to come from optimizing how FFP-heavy structures are negotiated, priced, and executed, rather than shifting towards fundamentally different contract type distributions

Platform Portfolio Differences

Figure 3: Total Obligated Amount by Contracting Method for Various Platforms



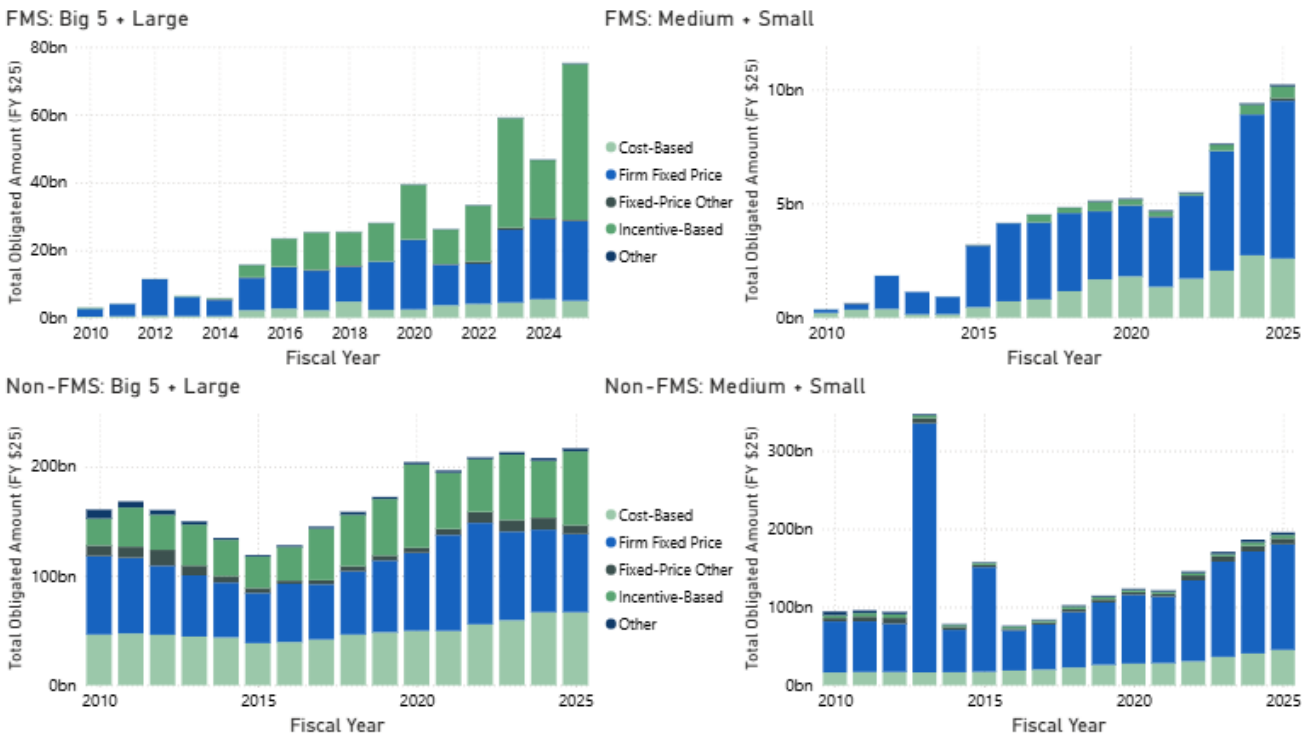
- **Contracting patterns are broadly consistent across platform portfolios (aircraft, land systems, and missiles) with FFP contracts dominating in both FMS and non-FMS contexts**
- This reinforces the overall standardization of defense procurement
- **Variation across platforms in limited,** with aircraft showing with most diversity
- **FMS is defined by production-oriented contracting norms**

Overall Finding: system type introduces only modest differences; contracting behavior is primarily shaped by the institutional context of FMS vs. non-FMS execution rather than platform-specific complexity

Vendor Structure

- **FMS contracting is highly concentrated among large prime contractors,** reflecting the scale, integration demands, and compliance requirements of international defense procurement, while non-FMS activity shows slightly greater dispersion across the vendor base
- **Across vendor tiers, FMS exhibits a more mixed use of contract types**—particularly greater use of incentive-based structures among large primes and selective flexibility among medium vendors—compared to more FFP-dominant patterns in non-FMS procurement

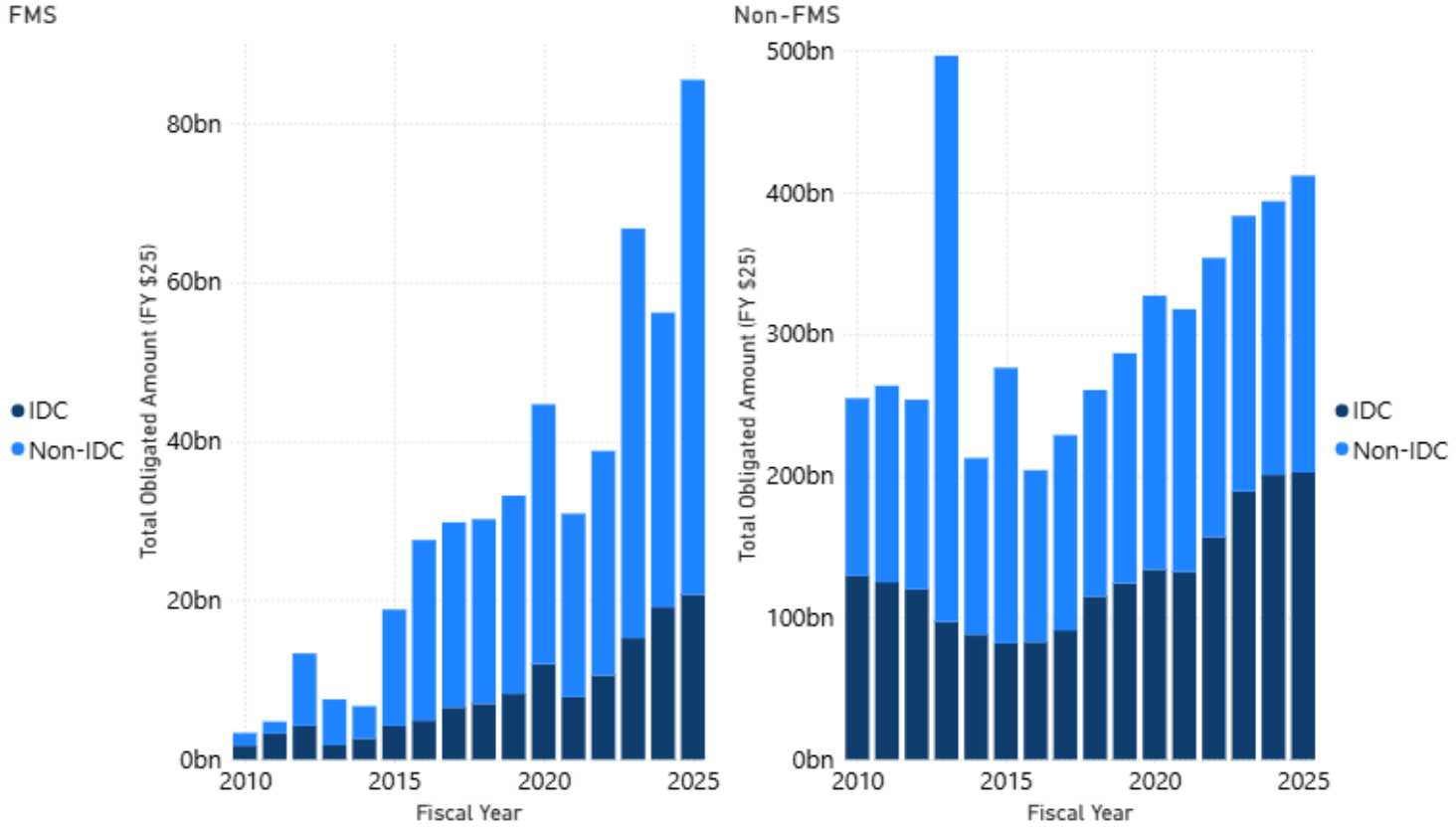
Figure 4: Total Amount Obligated by Contracting Method for Various Vendor Sizes



Industrial Base structure reinforces contracting behavior: large primes dominate FMS execution, while contract type variation is greatest where complexity increases, but remains within a largely FFP-centered system

IDIQ/IDC Strucure

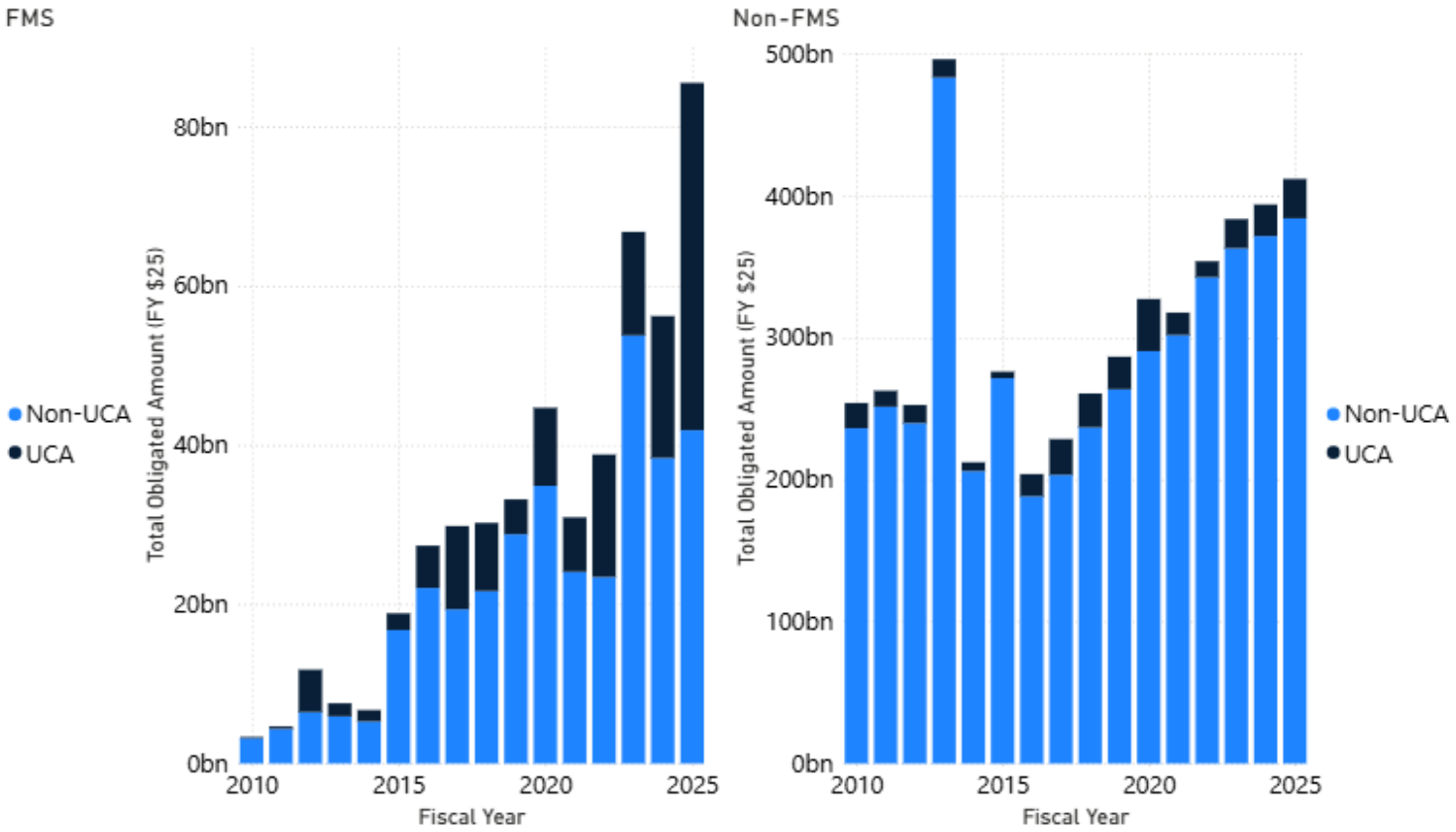
Figure 5: Total Amount Obligated by Indefinite Delivery Contract (IDC)



- **IDIQ/IDC contracts are widely used across both FMS and non-FMS procurement,** functioning as core FAR-based mechanisms for managing recurring procurement and sustainment requirements
- **Their prevalence indicates that contracting flexibility is already embedded in the acquisition system,** rather than being unique to FMS or dependent on alternative acquisition pathways

The Role of UCAs

Figure 6: Total Amount Obligated by UCA Classification



- **UCAs represent a small but visible share of obligations in both environments**, with slightly higher usage in FMS during periods of elevated procurement activity.
- **Despite their "contingency" role, UCAs remain marginal overall**, reinforcing that most execution relies on fully definitized, standard FAR-based contracting instruments.

Policy Implications

What Actually Drives Outcomes:

- **Policy misdiagnosis:** Overemphasis on adopting acquisition "innovation pathways" (OTA/MTA)
- **Evidence from FPDS:** These tools are structurally peripheral to FMS contracting activity
- **Core driver:** Outcomes are shaped by contract design within the FAR system
- **Reality of FMS:** Dominated by production, sustainment, and execution of mature systems

Implications for Reform:

- **Focus improvement efforts on existing tools**
  - Strengthen **FFP pricing and cost realism**
  - Enhance **incentive contract design to better align performance**
  - Leverage **IDIQ structures for sustainment flexibility and responsiveness**
- **Deprioritize:**
  - Expanding new acquisition pathways
- **Shift emphasis to:**
  - **Execution efficiency within the existing FAR-based contracting framework**

Conclusion

Key Takeaways

- **FMS performance is primarily shaped by:**
  - The structure and selection of FAR-based contracts
  - The composition of the industrial base, particularly reliance on large prime contractors
  - The maturity of the systems being procured (production and sustainment vs. development
- **Less influenced by:**
  - The adoption of acquisition reform tools or “innovation pathways” such as OTA or MTA

Meaningful improvements in FMS outcomes will come from optimizing how existing contracting mechanisms are designed and executed—not from adopting new acquisition pathways

Next Steps

- **Shift in approach:** Move from descriptive FPDS analysis to **program-level assessment**

- **Case study selection:**
  - Fighter aircraft: F-15, F-16, F/A-18, F-35
  - Rotary wing: UH-60
  - Missiles: AMRAAM, PAC-3

- **Key metrics examined:**
  - Delivery performance and schedule stability
  - Pricing behavior and cost outcomes
  - Contract modification frequency
  - Sustainment flexibility

- **Link contract structure to real-world execution outcomes across major FMS programs**

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