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ARMS SALES BUREAUCRACIES OF THE FOUR MAJOR ARMAMENTS EXPORTING
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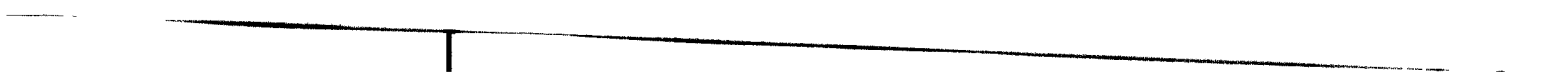
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ARMS SALES BUREAUCRACIES OF THE FOUR MAJOR
ARMAMENTS EXPORTING COUNTRIES

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POTENTIAL CHANGES IN THE STRUCTURES
OF THE WORLD ARMS TRADE

APPROVED BY: D. A. Grant, Director
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ABSTRACT

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/ This paper synthesizes data provided by various sources in the open literature on arms trading by the four countries most involved in this activity - that is, Britain, France, the United States and the Soviet Union. In each case, a schematic representation of structures involved has been rendered. //

ARMS SALES BUREAUCRACIES OF THE FOUR MAJOR
ARMAMENTS EXPORTING COUNTRIES

Introduction

1. The countries which trade internationally in armaments tend to do so for essentially the same reasons. When differences exist they are differences of degree rather than differences of kind. A recent study of the arms trade has identified two major types of policies which encompass the reasons why various states participate in armaments trading. Armaments policies are characterized as being either hegemonic or industrial.¹ Hegemonic policies are essentially those in which a nation uses its ability to trade and to deal in weapons systems to advance its political influence over recipient states or the regions in which recipient states are located. Arms supplies may increase a donor's political power either by bettering relations, by influencing political leaders in recipient states or by enabling local forces which are sympathetic to the interests of an arms donor to perform more effectively.² Industrial policies, on the other hand, are concerned less with political considerations than they are with commercial and financial interests. Donors pursue industrial arms trading

¹Stockholm International Peace Research Institute (hereafter SIPRI), The Arms Trade With the Third World, New York, Humanities Press, 1971, pp. 19-34.

²Ibid., p. 19.

policies in order to cover costs of research, development and production of advanced weapons systems when home markets are not sufficiently large to entirely make up for initial and on-going expenditures.³

2. At present, there is no donor which practices an arms sales policy which is exclusively either hegemonic or industrial. Policies are inevitably a mixture of both types with one or the other being the predominant issue. In the competition between the superpowers, hegemonic arms sales policies are mainly seen. Arms trading policies reflect the ideological antipathies which exist between the two superpowers and weapons are either sold or given as military aid primarily to extend political influence. At the same time, the superpowers have indigenous demands for their arms which are large enough to make an industrial arms policy a limited concern. European countries, however, which maintain advanced armaments industries do not have sufficiently large internal demands for sophisticated advanced weapons systems. Therefore, industrial policies are of much greater importance to these states. European countries tend to be more concerned about financial returns than political influence in most cases.

3. Since the close of World War II the number of states selling weapons, the quantity and quality of weapons sold and the financial pay-off for the seller have all increased dramatically. Post-war sales may be separated into two major categories whether arms were sold for political influence, profit or both. From the end of the war until about the middle of the 1950's most sales consisted of the major states which had participated in World War II getting rid of surplus stock from the war. Once these stocks were largely sold off, and new

³Ibid., pp. 29-34.

generations of weapons were sought it became increasingly clear that countries which wished to have sophisticated weapons could, and, in many cases, would be required to underwrite the costs of research, development and production of these new weapons by sales to clients who were unprepared or unable to engage in this early work. Consequently, the sale of very modern weapons to clients from about the middle of the 1950's to the present comprises the second category of arms sales in the post World War II era.

4. In order to control the sale of weapons it has become clear to the selling nations that some method had to be devised to ensure that armaments that were sold would not be used by powers and in circumstances contrary to the international political interests of the donor state. Consequently, each state which is in a position to sell armaments has organized a bureaucratic structure which has the sole purpose of controlling armaments sales by both state and private armaments producers and at the same time attempts to control the final or end-use to which sold weapons will be put. In some cases, the problem of "end-use" has not been adequately controlled by the selling states. But by-and-large the system of licensing and "end-use" certificates has functioned to exercise adequate control over the inappropriate end-use of military materiel.

5. Bureaucratic structures used in the sale of armaments tend to follow a pattern which is one designed essentially to achieve capital benefits without incurring political losses. Usually, higher levels of government concerned with political issues are not automatically brought into the process and licensing in many cases occurs after it has been decided at lower bureaucratic levels that a reasonable capital return is likely. In all cases, however, provision is made for the participation of the highest levels of authority in the process of completing an arms deal when it appears that political issues must be considered along with financial ones. Both the superpowers

operate in this manner as do the major powers such as France, and Britain. As states appear further down the scale of international power, the problem of a conflict of financial and political interests becomes less likely if only because the less powerful states may be attempting to resell obsolete and poor quality military equipment. Only if such resales threaten to upset the political interests of a major arms dealer is the issue of resale likely to become a political problem.

6. The above preamble leads to the subject of this paper which is to discuss in some detail the bureaucratic structures used by the superpowers and two major powers in transacting arms deals. To some degree, definitional problems arise at this point in terms of identifying superpowers and major powers as they relate to the arms trade. For the purpose of this study the top four arms trading nations will be considered -- that is, the United States, the Soviet Union, France, and the United Kingdom. This restriction does not mean to deny that other nations sell armaments but rather is used to focus attention on those nations which participate most actively in these transactions. Potential large-scale arms traders of the future such as Japan, the People's Republic of China and West Germany have not been considered. But it is recognized that these countries could become major sources of armament sales very rapidly. Countries of Eastern Europe will not be treated since they are essentially adjuncts of the Soviet process.

Arms Trading Bureaucracies:

The United States

7. The United States is a major armaments exporter for mainly political purposes and has established a very elaborate bureaucratic structure for the purpose of selling or giving weapons to clients. It has been claimed that there are at present forty-one branches or sub-branches of the American government engaged in exporting armaments.⁴

8. The present American system began with Executive Order 10973 of 1961 which delegated control of armaments exports from the President to the Office of the Secretary of State.⁵ Specific implementation of exports is governed by the Office of Munitions Control (OMC) in the State Department which ensures only that armaments on a Munitions List are sold.⁶ In this manner, deals between private armaments dealers in the United States and foreign powers are controlled by the American government. The OMC functions as a licensing body and attempts to ensure control over the end-use of any weapons sold. But the OMC has no control over government transactions either as direct sales, grants or as licensing procedures.

9. Government deals are worked through the Pentagon and the department of the Secretary of Defense. The Defense Department buys old weapons from the American army, air force or navy and sells them to clear inventories, grants manufacturing licenses or simply gives armaments to clients who need them.

⁴G. Thayer; The War Business: The International Trade in Armaments; New York, Simon & Shuster, 1969, p. 189.

⁵Ibid., p. 97.

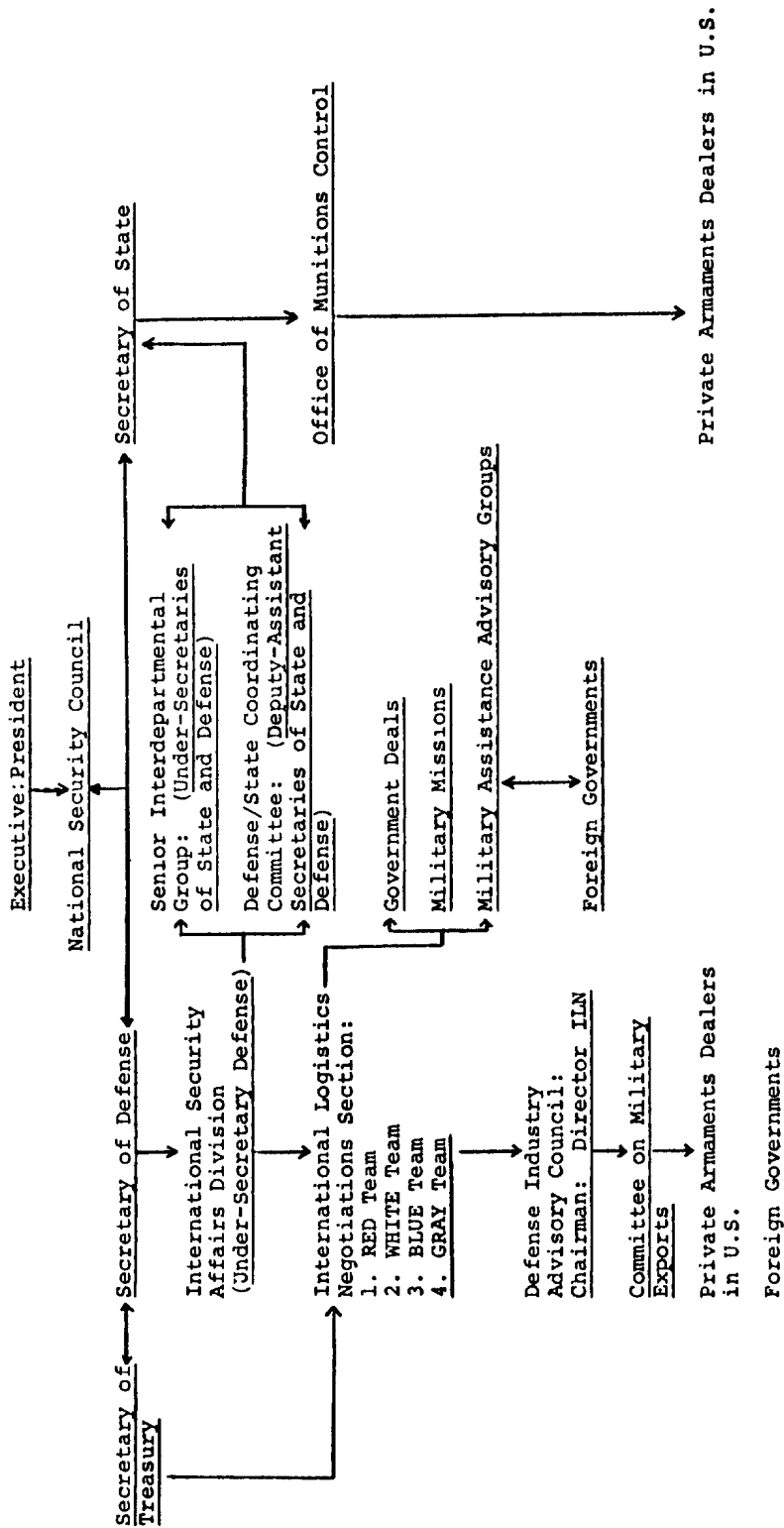
⁶Ibid., p. 97.

The legal basis for all this activity is to be found in three pieces of legislation -- the Military Defense Assistance Act of 1949, the Mutual Security Act of 1951 and 1954 and the Foreign Assistance Act of 1961.⁷

10. In detail, the procedure for government armaments deals includes the Department of the Secretary of Defense, the Department of the Secretary of State and the Office of the President. The President is consulted if deals are politically sensitive. Otherwise, he has little to do with armaments exports. Final decisions on the political advisability of deals are made by the Secretary of State with the views of Defense and State being aired within the National Security Council (NSC). Political information on possible clients is passed from country desks in Department of State and Military Attachés and Military Assistance Advisory Groups (MAAG) abroad to the Senior Interdepartmental Group (SIG) on which sits the Under-Secretaries of State and Defense. The Defense/State Coordinating Committee (DSCC) on which sit the Deputy-Assistant Secretaries of State and Defense actually set the details of any deals. Thereafter, the International Security Affairs Division of Defense passes the deals on to be implemented by the International Logistics Negotiations Section (ILN) which is subdivided into four regional teams: i) Red Team covers sales to Canada, the Far East, Scandinavia, NATO infrastructure and France, ii) White Team sells to West Germany, iii) Blue Team sells to Latin America, Italy, Spain and the Benelux Countries and iv) Gray Team sells to the United Kingdom, Switzerland, Austria, and the Middle East. Such is the structure which is used to conclude American government armaments deals.

⁷Ibid., p. 181.

CHART 1
AMERICAN ARMAMENTS EXPORTING STRUCTURE



* Data taken from G. Thayer, The War Business: The International Trade in Armaments, New York, Simon & Shuster, 1969, pp. 97, 179, 181-194. Stockholm International Peace Research Institute (hereafter SIPRI). The Arms Trade With the Third World, New York Humanities Press, 1971, pp. 135-178.

11. Liaison between foreign armed forces and the American Department of Defense is carried out by the Military Assistance Advisory Groups. At the private level the Committee on Military Exports which is part of the Defense Industry Advisory Council (DIAC) keeps private dealers in touch with potential clients.

12. The financial aspects of sales such as interest rates, credit and other financial terms are handled by a number of agencies which report to the International Logistics Negotiations Section such as The National Advisory Council on International and Financial Problems, the Export Review Board, the Treasury Department and the Export/Import Bank.⁸

The Soviet Union

13. Information on the arms trading bureaucracy of the Soviet Union is less readily available. The system used by the USSR is much more centralized than its American counterpart with the political and military aspects of any decision to sell arms being handled in the politburo. While credit terms given by the USSR tend to be comparatively good, the Soviet Union uses its arms trade as much to gain needed foreign currency as it does to exert political influence. Consequently, the Russian style in arms trading is rather more like that of major European powers which are concerned with financial as much as hegemonic returns.

14. Since all industry in the USSR is state owned, the structures needed to organize arms deals appear to be reduced in part because there is no need to contact and control private as well as government arms dealers.

⁸See Chart 1, p. 7.

15. Policy on arms trading is formulated in the politburo with essentially the Ministry of Defence and the Ministry of Foreign Affairs commenting on the political advisability of selling weapons to specific clients. It seems probable that in all cases, there is some input by most of the leading members of the politburo and thus the Soviet system appears to be more clearly controlled from the top than in the American or European systems.

16. Financial aspects of deals are handled by the Ministry of Trade. Terms of the deal such as credit and interest rates are decided in consultation with the two other ministries within the Politburo.

17. The implementation of deals in terms of sales, shipments and transfer agreements seem to be handled by the Chief Engineering Directorate (CED) in Moscow.⁹ It is not clear to which Ministry the CED belongs but it is likely that it is located in the Ministry of Trade. Information on clients is apparently delivered by the Glavnoye Razvedovatelnoye Upravleniye (GRU) while the operational control of policies in terms of shipping security, and correct end-use and delivery seems to be handled by the Komitet Gosudarstvennoy Bezoposnosti (KGB).

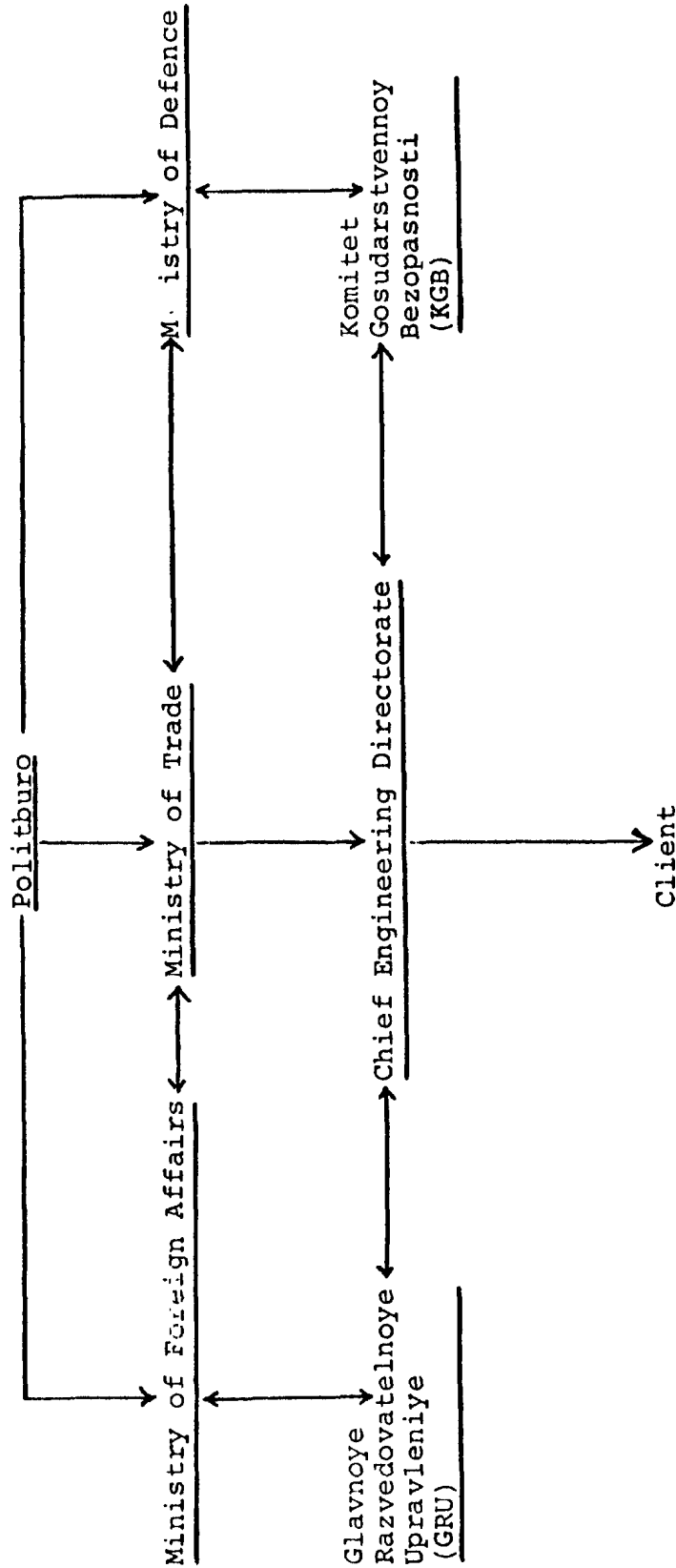
18. It is unclear, given the rôle of the KGB, as to the exact position of the CED in the Soviet arms trading bureaucracy. Since the KGB controls delivery of armaments, it is possible that the CED may be to some degree under the control of and part of the KGB; but this claim is purely speculative.¹⁰

⁹See "The Arms Dealers: Guns for All", Time Magazine, 105(9), 3 March 1975, p. 28.

¹⁰See Chart 2, p. 10.

CHART 2

SOVIET ARMAMENTS EXPORTING STRUCTURE



* Data from SIPRI, op. cit., pp. 180-181; "The Arms Dealers: Guns for All", Time Magazine, 105(9), 3 March 1975, p. 28, Thayer, op. cit., p. 331.

France

19. The nationalization of the French armaments industry with an emphasis on export sales has led to the development of an extensive bureaucracy which functions to expedite the sale of armaments abroad. Chart 3 provides a schematic representation of the bureaucratic relationships among the various French agencies which are responsible for selling weapons internationally. The basic laws which provide the foundation for such sales are to be found in décret-loi of 18 April 1939, article 13 which indicates that licences must be granted to exporters for such sales.¹¹ A subsequent law passed on 14 August of the same year established a list of items requiring licences.¹² The Délégation Ministérielle Pour l'Armement (DMA) is the agency most directly associated with arms sales. The DMA along with the Direction des Affaires Internationales (DAI) decide whether an application for export fits within French armament policy. Once this process has been gone through, the Commission Interministerielle d'Etudes des Exportations de Matérielle de Guerre on which sit the Ministers of Finance, Foreign Affairs, Interior, War, Navy, Air and Defence decides on the political acceptability of any proposed export deal.¹³ Only if a decision is delicate politically, is the matter referred to the President.¹⁴ If the Commission Interministérielle decides in favour of an arms deal, the DMA sets down the guidelines for the bargain and reports

¹¹The Arms Trade With the Third World, op. cit., p. 253.

¹²Ibid., p. 253.

¹³Ibid., pp. 253-255 and Thayer, op. cit., pp. 277-278.

¹⁴Thayer, op. cit., p. 277.

directly to the Minister of Defence on developments.¹⁵ The DAI fits into the process by promoting sales on behalf of the government as does the sales bureau of the DMA.¹⁶ The DAI appears to be essentially a sales coordination agency which rationalizes deals made by government interests, private firms and semi-private firms such as Société Française de Matériel d'Armement (SOFMA), the Office Française d'Exportation de Matériel Aéronautique (OFEMA) and the Office Général de l'Air (OGA) to prevent these actual exporting agencies from competing against each other thus causing confusion and a possible loss of revenue for the French government.

20. Profits from sales go directly to the Treasury of the French government. Surplus goods are sold by the semi-autonomous Service de Domaine which operates within the Treasury.¹⁷ As with other deals, the profits from surplus goods sales go directly to the Treasury.

21. A fundamental problem for all nations which export arms including the French is that of controlling the end-use of weapons that are sold and ensuring that weapons go to the recipient which has been indicated on the export licence. The licence is given after the arms deal has been approved by the Minister of Defence along with other interested Ministers such as the Minister of War, Air or Navy depending on the nature of the weapons to be exported.¹⁸ Licences are only issued to

¹⁵The Arms Trade With the Third World, op. cit., p. 253.

¹⁶Ibid., p. 254.

¹⁷Thayer, op. cit., p. 278.

¹⁸The Arms Trade With the Third World, op. cit., p. 253.

firms which are authorized to export arms with stated recipients and end-use being guaranteed by an exporter's deposit which is returned three months after the delivery date with a certificate from the French Consul in the recipient state indicating that the arms have arrived correctly.¹⁹ In the long run, the problem of controlling end-use is as difficult for the French as for any armaments exporter. The only method of control ultimately is the threat that improper resale of French weapons will lead to a recipient being excluded from future arms deals.

22. The DAI promotes sales for the French government and guides sales promotion and terms of sale for the three semi-private agencies of SOFMA, OFEMA and the OGA.²⁰ Sales promotion is also aided by the sales bureau of the DMA. The DMA also provides on limited circulation a catalogue of weapons for sale entitled Exposition de Matériel d'Armement Terrestre which guides buyers as to weapons available.²¹ Together these agencies promote the export of weapons to a select list of possible buyers.

23. Credit agreements reached at Berne, Switzerland in 1934 are still used by the French in their sale of weapons with customers being given credit at 7 per cent for an initial period of five years with the possibility of a three year extension.²² More recent evidence suggests that the French may be altering this format and credit in some cases may be

¹⁹ Ibid., p. 253.

²⁰ Ibid., p. 255.

²¹ Thayer, op. cit., p. 279.

²² The Arms Trade With the Third World, op. cit., p. 255.

extended over a period of fifteen years at 4 per cent.²³ Barter deals are not surprisingly generally rejected unless some highly valuable strategic material such as uranium is involved since a major function of the arms trade for the French is to obtain capital.

The United Kingdom

24. The legal basis for the sale of weapons in the United Kingdom is the Import, Export and Customs Power (Defence) Act of 1939. British sales bureaucracy operates within this legal framework in selling arms in both government and private deals. The Strategic Ministerial Committee is the highest element in the British structure and it operates to promote or prohibit arms deals which are politically sensitive. Membership in the Committee includes the Minister of Defence, the Foreign Minister, the Minister of Trade and the Minister of Aviation Supply. Given the principle of collective cabinet responsibility in the British system, it is probable that on very sensitive deals which may directly influence the fate of the government the Strategic Ministerial Committee may include most of the existing Cabinet.

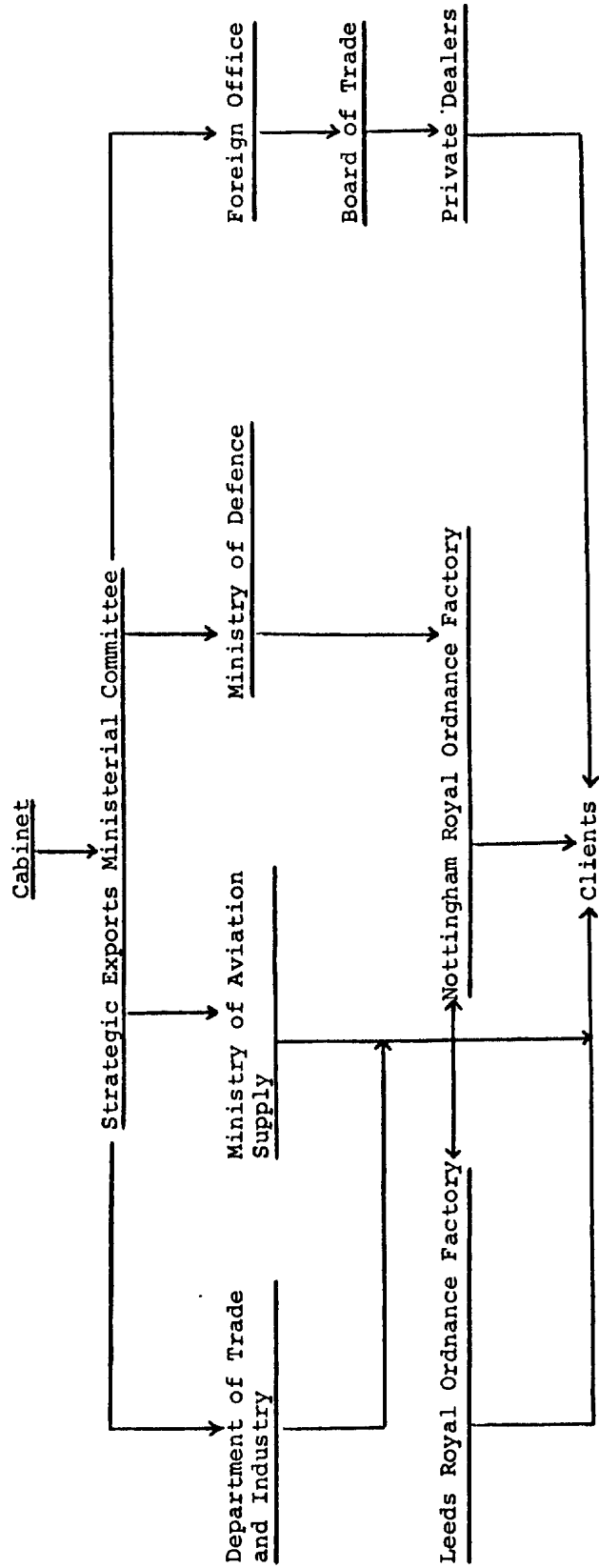
25. Normally, private deals which are politically sound are managed by the Board of Trade in consultation with the Minister of Defence and the Foreign Minister. The Board of Trade issues licences and "end-use" certificates to private dealers.

26. For official sales by the British government, the Minister of Defence and the Foreign Minister are joined by the Department of Trade and Industry and the Ministry of Aviation Supply. Sales promotion of army equipment is carried out by the

²³To Amend the Foreign Military Sales Act, Hearings Before the Committee on Foreign Affairs, House of Representatives, 91st Congress, 2nd Session, Feb. 5 & 17, 1970.

BRITISH ARMAMENTS EXPORTING STRUCTURE

CHART 4



* Date from SIPRI, op. cit., pp. 225-226.

Leeds and the Nottingham Royal Ordnance Factories. Sales promotion of naval and aviation equipment is done by the Admiralty and the Ministry of Aviation Supply. Aerospace and electronic equipment is sold by the Department of Trade and Industry.²⁴

CONCLUDING REMARKS

27. The four nations examined in this paper are at present the principal sellers and exporters of armaments. But if contemporary trends continue, it is likely that other states may begin to close the gap between the lowest major exporter and the highest minor exporter. If the United States continues to reduce its profile abroad as a result of foreign policy alterations and domestic political considerations, regional powers such as Japan and/or West European states may feel a greater need to develop and produce increasingly sophisticated weapons systems. A probable side effect of potential increased interest in better weapons would be an increased sales effort to offset rising costs of research, development and deployment. All major countries have in existence the necessary bureaucratic expertise required to promote the sale of weapons on the international market. All that is required now is the political, financial and military impetus to encourage an increased interest in countries which do not yet sell arms on a scale that can match that of the four major exporters.

²⁴ SIPRI, op. cit., pp. 225-248.

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