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**The Black Market in American Arms:
Its Effects on American National Security and the Prospects for Control**

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I. Introduction: Definitions and Terms

Like all major actors on the world stage, the United States exerts international power and influence through the sale of weapons. Indeed, since World War II American arms transfers have played a critical role in determining the outcomes of various regional conflicts and in maintaining the global balance of power. Yet, as the volume of arms sales grew, the ability of the U.S. government to direct and control them correspondingly declined. In large part, this loss of control reflects the rise of private arms dealers and the parallel expansion of clandestine trading networks. This paper will examine the rapid expansion of the black market in American weapons during the 1980s, its effects on U.S. national security, as well as the prospects for curbing illegal arms sales through domestic and international reforms.

Let us begin by determining what constitutes illegal arms sales. Professor Michael Klare of the University of New Hampshire offers the following definition: "Black market sales encompass arms transfers that are knowingly conducted in violation of established law and procedure, and that entail a high risk of apprehension and punishment for those caught engaging in such transactions."¹ In the United States, black market arms sales often include the resale of weapons stolen from government arsenals. They also include the transfer of weapons improperly obtained from legitimate dealers and defense contractors.

¹ Klare, Michael T. "Secret Operatives, Clandestine Trades: The Thriving Black Market For Weapons." *The Bulletin of the Atomic Scientists*, April 1988, p. 18.

In addition to these explicitly illegal transactions, a parallel trade has developed on the fringe of the law--the so-called "gray market" in American weapons. The gray market typically involves products with both civilian and military applications. Such dual-use items include communication and transport equipment. For example, a country ineligible to import a particular type of computer from the United States for military purposes may purchase the item under the pretext that it will be used only for educational research. Gray markets also develop when government oversight agencies bend existing export rules or interpret them loosely, depending on the circumstances at hand. The potential for abuse is readily apparent.

Although the black and gray markets in American weapons overlap to a considerable extent, this paper will focus primarily on black market sales, i.e. those transactions which take place in clear violation of existing laws. While gray market sales are by no means insignificant, they are, by definition, much more difficult to identify and quantify. What little concrete data on the illegal sale of American weapons are available relate almost exclusively to black market activities.

II. Dimensions of the Black Market in American Weapons

Before examining the effects of the illegal trade in American arms, we must first determine its parameters. How large is the market? What kinds of weapons are involved? Who are the arms smugglers, and what are their motives? Who purchases American weapons illegally, and how do they obtain them? The answers to these questions reveal a highly-developed, clandestine trading system in American weaponry which is merely one component of an international arms-smuggling network.

Calculating size of the black market in American weapons is largely a matter of guess-work. As with any illegal activity, the few available statistics measure only the number of cases which have been reported, not the full extent of the market. The U.S. Customs Service compiles the most comprehensive statistics on black market arms transfers which are available under the Freedom of Information Act. From fiscal year 1982 through fiscal year 1988, the Customs Service reported 6,625 seizures of illegal arms exports valued at \$460.9 million.²

The guess-work comes in determining what percent of the total market in illegal American arms is intercepted by the Customs Service. If the rate of interception is comparable to that for illegal drugs, the Customs Service data would account for only *ten percent* of the total market. Assuming a ten percent interception rate, the market value of illegal American arms sales, based on Customs Service data, totaled \$4.6 billion from 1982 through 1988, an

² Laurance, Edward J. "The New Gunrunning." *Orbis*, Spring 1989, p. 228. See Appendix A for a reprint of the Customs Service data.

average of more than \$650 million per year. Measuring the world market in illegal arms is equally hazardous. Michael Klare estimates its total value at \$5-10 billion annually.³

Whatever the actual size of the illegal market in American arms, it is vital to determine what types of weapons are involved. Again, accurate statistics are scarce. The U.S. Department of Justice has provided a list of "significant export control cases" from 1981 through 1988, which breaks down arms export violations into five broad categories: small arms, equipment destined for embargoed nations, technology, support materials, and major weapons systems.⁴

Small arms and ammunition account for approximately 11 percent of the Justice Department's prosecutions. Nevertheless, they probably constitute a substantially greater share of the total volume of illegal arms shipments, simply because they are relatively easy to conceal and the smugglers are less likely to be caught. While small arms transfers are substantial in terms of sheer numbers, the types of weapons involved rarely pose a significant threat to American national security. For this reason, illegal shipments of small arms will not be considered in great detail in this paper.

Arms shipments to embargoed countries and illegal technology transfers together account for 43 percent of the Justice Department's prosecutions. These two phenomena are closely related. Embargo cases involve the transfer of weapons or dual-use items to states like South Africa and Chile. Similarly,

³ Klare, 1988, p. 16.

⁴ Laurance, p. 228. See Appendix B for a reprint of the Justice Department figures.

technology cases include violations of the strategic embargo against the Soviet Union and other East Bloc nations. Both types of smuggling undermine American policies toward specific countries or regions, though oftentimes such policies address separate issues like nuclear proliferation.

This paper will focus primarily on the two remaining types of arms smuggling cases: support material and major weapons systems. The Justice Department reports that just under one-third (31 percent) of its prosecutions involve the smuggling of spare parts and other support material. The market for spare parts has exploded during the past decade, fueled in part by the epidemic of conventional wars in the Third World. Needless to say, the depletion of spare part stockpiles due to smuggling seriously threatens American national security.

Of even greater concern is the smuggling of major weapons systems, which account for 15 percent of Justice Department prosecutions. As we will see, arms traffickers have attempted to smuggle such sensitive items as fighter aircraft, helicopters, transport planes, main battle tanks, and various kinds of missiles over the past decade. While these types of weapons naturally attract the lion's share of media attention, they are far more likely to be intercepted prior to leaving the country. Nevertheless, those major weapons systems which are illegally exported clearly jeopardize U.S. security interests.

What kind of people smuggle American arms abroad? Broadly speaking there are two categories of arms smugglers: those who finance and facilitate the flow of arms, and their accomplices who actually steal and transport the weapons. Sadly, U.S. citizens account for the majority of both types of

smugglers. Civilian employees of American military bases steal weapons and spare parts from government arsenals, while unscrupulous businessmen purchase them and ship them abroad, usually at astronomical mark-ups. Foreign nationals also play a key role in the trade. Some operate within the U.S., but most prefer the safety of an international smuggling center like London or Cyprus. Foreign middlemen often provide transport for weapons once they have left the United States.

Greed and financial gain motivate most arms traffickers, but factors like ethnicity and ideology also play a role. For example, Customs Service officials have implicated Iranian expatriates in a number of schemes to smuggle American weapons and spare parts to Iran during its bloody, eight-year war with Iraq. A *Los Angeles Times* investigation revealed that Iranian agents routinely pressured and intimidated Iranian citizens living abroad into smuggling for their homeland. Such pressures included everything from patriotic appeals to threats against family members still residing in Iran.⁵

Loyalty to another state or cause is by no means limited to foreigners. For example, many Irish-Americans opposed to British rule in Ulster donate money to NORAI, an organization which funds the political arm of the terrorist Irish Republican Army. In June of 1986 an American couple was apprehended in France while attempting to smuggle surface to air missiles to the Irish National Liberation Army, an IRA splinter group.⁶ Cuban-Americans, inspired by their antipathy toward Fidel Castro, helped supply

⁵ Rempel, William C. and Green, Larry. "London Center of Iran Arms Smuggling." *The Los Angeles Times*, September 3, 1985, p. 1 and 18.

⁶ *The Washington Post*, June 13, 1986, p. 24.

black market weapons to the Nicaraguan contra rebels.⁷ They were instrumental in maintaining the flow of small arms and ammunition after American military aid was cut off.

Smugglers of American arms rely on two key sources of supply: loosely-guarded military storehouses and the open market.

Some weapons and most spare parts are stolen directly from Department of Defense warehouses, both in the United States and abroad. In 1986 the General Accounting Office reviewed 347 reports written by various military auditing agencies. From these reports, the GAO concluded that security is sufficiently lax to permit easy penetration of the Pentagon supply system from the outside. In one particularly damning report, the Inspector General for the Army admitted that his office is incapable of determining how much ammunition and explosives are stolen from the Army each year.⁸ Altogether, the Pentagon estimates that it loses or misplaces no less than \$1 billion worth of equipment annually due to antiquated computers and unprofessional accounting practices.⁹ Determining what percent of this equipment is actually stolen from the outside is anyone's guess.

Internal security poses an equally vexing problem for the Pentagon. In its 1986 survey, the General Accounting Office found numerous instances of employee theft in all branches of the armed forces. While most internal theft involves clothing, medical supplies and other non-lethal items, at least some

⁷ Klare, 1988, p. 19.

⁸ U.S. General Accounting Office. *Problems in Accountability and Security of DOD Supply Inventories*, Report No. NSIAD-86-106BR, May 23, 1986.

⁹ Brinkley, Joel. "Black Market Sales Rise in Arms Stolen From U.S. Military Bases." *The New York Times*, September 29, 1985, p. 30.

of it can be attributed to arms smuggling. For example, in 1985 the Justice Department convicted Sgt. Keith Anderson of stealing C-4 plastic explosives from Fort Bragg, North Carolina. Anderson explained that he obtained the explosives by checking them out for a training exercise.¹⁰ Officials at Fort Bragg remained oblivious to the smuggling of these and other items, including land mines and artillery, until civilian authorities uncovered the thefts.

Arms smugglers need not limit themselves to Pentagon warehouses when stealing American weapons; scores of foreign countries also stockpile American-made military equipment. Consequently, many arms smugglers prefer to steal American weapons from foreign depots and warehouses. Israel, which owns one of the largest overseas arsenals of American-made arms, is a favorite target of black marketeers. Normally, the resale of such weapons to a third party requires the permission of both the Israeli and American governments. However, smugglers can avoid this rule by presenting falsified resale certificates to customs agents.¹¹

The other main source of supply for arms smugglers is the open market. In many instances, the easiest way for a smuggler to obtain weapons is to purchase them from middlemen who deal directly with the manufacturers. Legitimate arms dealers simply buy weapons up front, export them under a false pretext, and later deliver them to their illegal clients. In recent years, many defense contractors have suffered from slumping Third World

¹⁰ Ibid. p. 30

¹¹ Lachica, Eduardo. "U.S. Charges 17 in Conspiracy to Send \$2 billion in Aircraft, Weapons to Iran." *The Wall Street Journal*, April 23, 1986, p. 2.

demand, increased international competition, and Western-imposed arms embargoes.¹² As a result, some financially-troubled manufacturers are willing to sell excess inventory to unscrupulous middlemen and turn a blind eye to subsequent resales of their products on the black market.

The principal purchasers of illegal weapons are the so-called "pariah states," subject to American as well as international arms embargoes. Among them are the countries identified by the State Department as supporting international terrorism: Iran, Libya, Syria, Cuba, North Korea, and South Yemen. Congress formally banned the sale of arms to terrorist states in 1986.¹³ Primarily because of its lengthy war with neighboring Iraq, Iran was by far the most frequent illegal recipient of American military hardware during the past decade. South Africa also trades on the black market, but unlike other outcast nations, it does so primarily to obtain blueprints and technology for developing its own weapons.

Non-governmental purchasers of illegal arms include terrorists organizations, guerilla armies, and other insurgent groups. For obvious reasons, such groups cannot buy arms on the open market and must resort to clandestine sources to satisfy their needs.

¹² Klare, 1988, p. 16.

¹³ Felton, John. "House Panel Moving to Plug Loopholes That Permitted U.S. Arms Sales to Iran." *Congressional Quarterly*, April 23, 1988, p. 1077.

III. The Process of Arms Smuggling

Analysts divide the black market in American arms into two distinct categories: the resale of stolen weapons, and the export of weapons or dual-use items under quasi-legal pretexts.

As we have seen, most stolen weapons and equipment are pilfered from loosely-guarded government warehouses. Smugglers typically fly small quantities of stolen weapons out of the country in private aircraft, following the drug-trafficking model. Surprisingly, some smugglers also employ commercial transport, using little more than a mislabeled shipping container to disguise stolen weapons. Obviously this technique works best with relatively inconspicuous contraband like spare parts. Whatever mode of transit they choose, arms traffickers always channel stolen weapons through a maze of intermediate destinations and bogus trading companies in order to avoid detection.

The notorious F-14 parts smuggling ring is a prime example of the traffic in stolen weapons and equipment. In order to obtain critical spare parts for Iran's air force, Iranian businessman Saïd Inanlou set up a dummy trading corporation in London. Inanlou recruited an American accomplice, Franklin Agustin, with personal contacts in the San Diego naval community. Offering cash payoffs provided by Inanlou, Agustin established a ring of civilian employees willing to steal F-14 parts from the local naval warehouse. Oftentimes, the warehouse workers "simply took the parts off the shelf and carried them home at the end of the day."¹⁴

¹⁴ Klare, 1988, p. 22.

Agustin collected the stolen F-14 components, labeled them as "auto parts," and shipped them via commercial transport to Inanlou's company in London. Inanlou's employees then repackaged the parts before transporting them to Iran. San Diego law enforcement officials cracked the smuggling ring in the summer of 1986, much to the chagrin of U.S. Navy supply managers who failed to recognize the threat to their spare parts stockpiles. Warehouse supervisors concentrated on protecting civilian-oriented goods like clothing and pocket knives, assuming there was no black market for F-14 parts.¹⁵ The Navy eventually charged seven individuals with participating in the smuggling ring, including an enlisted seaman assigned to the aircraft carrier *Kitty Hawk*.

"Legally" purchased weapons follow a slightly different pattern from those which are stolen. Private arms dealers and other middlemen serve as the conduit between American defense contractors and illegal purchasers like Iran. Middlemen buy weapons and dual-use items directly from the manufacturer under a false, but apparently legal, pretext. The easiest method is to obtain a fraudulent "end-user certificate" to convince the Customs Service that the weapons will be shipped to a legal destination. Middlemen prefer to export the weapons through trading companies based in friendly nations like Britain or Japan, which have few restrictions on the purchase American armaments. Eventually, the weapons are routed to the real purchaser via circuitous paths. The arms merchants need never inform the

¹⁵ Shaw, Gaylord and Bunting, Glenn F. "Pentagon Supply System: America's Soft Underbelly?" *The Los Angeles Times*, September 1, 1985, pp 1, 20-22.

manufacturer of the weapons' ultimate destination, and some unscrupulous contractors undoubtedly prefer *not* to know.

The 1985 Hughes helicopter case illustrates how legally exported military equipment ends up in the wrong hands. From 1983 to 1985, West German businessman Kurt Behrens purchased 82 civilian helicopters from Hughes Aircraft through his legitimate trading company, Delta-Avia Fluggerate. Because the helicopters in question were easily convertible to military uses, U.S. law prohibited them from being exported to unfriendly countries. Accordingly, Behrens shipped small batches of the helicopters to such innocuous initial destinations as Japan, Belgium, and the Netherlands. Later, they were diverted to North Korea. The Commerce Department uncovered one instance in which Behrens shipped 15 helicopters to Antwerp, then trucked them to Rotterdam, where they were placed on a Soviet freighter bound for Hong Kong. The Soviets secretly delivered the helicopters to North Korea.¹⁶

Five American middlemen employed a similar strategy when smuggling Lockheed transport planes to Libya in 1986. A pair of Libyan nationals in West Germany first contacted the Americans in 1983 in hopes of obtaining battle gear. When this deal collapsed, the Libyans requested transport aircraft instead. The American middlemen purchased two Lockheed L-100-30 model transport planes in the name of a West German trading company set up by the two Libyan agents. Lockheed officials were told the planes would be delivered to Bolivia. In fact, the middlemen shipped the planes from the

¹⁶ *The New York Times*, February 3, 1985, p. 1.

factory in Marietta, Georgia, to Newfoundland, France, and eventually to Tripoli.¹⁷

Foreign ports provide key transport hubs for the illegal trade in American arms. Without these secure bases from which to buy and ship weapons, arms merchants and other middlemen could not function.

For example, during the Iran-Iraq war London served as the primary conduit for Iranian arms smuggling. Home to a large population of Iranian expatriates and located halfway between Washington and Teheran, the British capital provided the ideal base for Iranian agents. Moreover, London trading companies, like Swiss banks, still maintain a long-standing tradition of secrecy and discretion, two qualities cherished by arms dealers.

However, London's most important advantages were British export and customs laws, which differ considerably from those of the United States. American officials typically indict suspected arms traffickers on loosely-defined conspiracy charges. Unlike the U.S., Britain does not have a broad conspiracy law, and British officials refuse to extradite citizens or residents of Britain for crimes not recognized under British law.¹⁸ American prosecutors also were frustrated by the fact that Britain refused to prohibit the sale of spare parts to Iran, even though it did not allow Iran to purchase new weapons from British firms. Despite American pressure, the British government generally tolerated spare parts shipments, provided they did not reach Iran directly from British territory.¹⁹

¹⁷ *The New York Times*, July 24, 1986, p. 17

¹⁸ Rempel and Green. p. 18.

¹⁹ *The Economist*. September 19, 1987, p. 49.

Cyprus and Bulgaria also served as key arms smuggling centers during the 1980s. In both countries, the illegal arms market was closely linked with the international narcotics trade.

Torn by civil war and a partial Turkish occupation, Cyprus sits at a strategic crossroads in the eastern Mediterranean. The island's proximity to the Middle East makes it an ideal staging ground and meeting place for smugglers of all types. U.S. Drug Enforcement Administration officials believe that Lebanese citizens smuggle heroin and hashish grown in the Bekka Valley to the West through Cyprus. The proceeds go to buy black-market armaments for Lebanon's competing guerilla factions. Former Lt. Col. Oliver North took advantage of Cyprus's location when he negotiated the American arms-for-hostages deal with Iran. North used the island as a transit link between Washington and Beirut during several of his secret missions.²⁰

Bulgaria occupies the center of the principle land route connecting Europe and the Middle East. Like Cyprus, the Bulgarian capital of Sofia attracts a cosmopolitan crowd, including many smugglers. During the early 1980s Sofia developed a reputation as the principle distribution point for the shipment of black-market arms to terrorist organizations in the Middle East and Western Europe.²¹ Many, but by no means all, of these weapons were of East European origin. In addition, narcotics traffickers made Sofia their headquarters for smuggling heroin into West Germany, Europe's largest

²⁰ Tyler, Patrick E. "Smugglers, Gunrunners, Spies Cross Paths in Cyprus." *The Washington Post*, March 12, 1987, p. 36.

²¹ Kamm, Henry. "Plot on Pope Aside, Bulgaria's Reputation Rests on Smuggling." *The New York Times*, January 28, 1983, pp 1, 3.

heroin market. Presumably Bulgaria's communist leadership tolerated, if not actively encouraged, these illicit activities to the extent that they undermined Western interests. Whether or not a democratic Bulgaria will continue as a center for smuggling remains to be seen.

IV. The State of the Trade: Why Have Illegal Arms Sales Grown Over the Past Decade?

For a variety of reasons, arms smuggling and arms smugglers have prospered throughout the 1980s. At first glance, one might blame the increase in arms trafficking on isolated events like the Iran-Iraq war. While such conflicts unquestionably aggravate the problem, institutional factors also are at work. This combination of short-term events and long-term trends suggests that illegal arms sales will continue to plague the United States and the rest of the world community for the foreseeable future.

Perhaps the greatest stimulus for the illegal arms market in recent years has come from a series of conventional conflicts in the Third World. During the 1980s, protracted conventional wars have raged in Lebanon, Afghanistan, Central America, the Persian Gulf, and various parts of Africa. According to Michael Klare, "Each of these conflicts generated a significant demand for arms and ammunition that could not always be met through normal military channels."²²

Of these regional conflicts, the Iran-Iraq war did the most to boost illegal American arms sales. Under the Shah, Iran acquired a \$17 billion cornucopia of American military hardware, including 80 F-14 fighter aircraft.²³ When the Shah fell, American military aid came to an abrupt halt, leaving the new government bereft of the requisite parts and equipment needed to maintain

²² Klare, Michael. "Deadly Convergence: The Perils of the Arms Trade." *World Policy Journal*, Winter 1988-1989, p. 149.

²³ Shaw, Gaylord, and Rempel, William C. "Billion-Dollar Iran Arms Search Spans U.S., Globe." *The Los Angeles Times*, August 4, 1985, p. 14.

the sophisticated weaponry in its arsenal. After the outbreak of war with Iraq in 1980, Iran turned in desperation to the black market to meet its spare parts needs.

Iran's black market activities stand out for two reasons: the sheer number of weapons involved, and the huge amounts of money Iran was willing to pay for them. Operating mainly out of London, Iranian agents scoured the globe for all types of conventional armaments. Among the American equipment successfully smuggled to Iran were spare parts for howitzers and combat tanks, as well as components for the F-4, F-5, and F-14 fighter jets. Unsuccessful smuggling attempts included such items as infrared night-vision glasses and protective suits for use in chemical warfare.²⁴ In 1986, the Customs Service cracked a smuggling ring which plotted to ship \$2 billion worth of American arms to Teheran. The U.S. District Attorney for New York described the ring's shopping list as "mind-boggling": 18 F-4 jet fighters, five Hercules transport planes, 46 Skyhawk fighter bombers, more than 1,000 guided missiles, and 3,750 anti-tank missiles.²⁵

Initially, at least, Iran spared no expense in its attempts to procure American weapons. Surviving records of individual purchase orders run into the hundreds of millions of dollars. According to *The Los Angeles Times*, "tape-recorded meetings with Iranian agents show them boasting casually about having access to \$500 million each for different groups of arms purchases."²⁶ In many cases the commissions on such orders were so large

²⁴ *Ibid.*, p. 14.

²⁵ Lachica, Eduardo, April 23, 1986, p. 2.

²⁶ Shaw and Rempel, August 4, 1985, p. 14.

that Iran had to pay its Western accomplices with discounted crude oil from the Iranian National Oil Company. Such hefty commissions reflect the astronomical mark-ups demanded by the arms dealers, often 1,000 percent or more for some especially scarce items. As its resources dwindled, Iran began to approach American contractors directly in the hope that they would smuggle their products for only 100 to 200 percent more than the retail price.²⁷

Another regional conflict which increased black market sales of American weapons is the decade-long war in Afghanistan. U.S. military aid to the Mujahedeen guerillas, particularly in the form of Stinger surface-to-air missiles, helped to turn the war into a stalemate and convince the Soviet Union to withdraw its troops. In retrospect, however, the United States may regret sending sophisticated Stingers to guerillas who routinely barter on the black market. Some of the missiles already have leaked out of Afghanistan; in 1987 Iran reportedly paid Afghan dealers \$100,000 apiece for spare Stingers²⁸

A second catalyst for black market arms sales in the 1980s has been the Third World debt crisis. Nations whose oil revenues plummeted during the middle of the decade no longer can afford to purchase costly new weaponry from American defense contractors. Consequently, legal exports of American weapons were cut in half between 1983 and 1986.²⁹ Many developing countries made do with the weapons they already had, while others bought

²⁷ Hughes, David. "U.S. Uncovers Extensive Efforts to Procure Weapons for Iran." *Aviation Week and Space Technology*, February 1, 1988, p. 86.

²⁸ *The Economist*, December 17, 1988, p. 44.

²⁹ Grier, Peter. "U.S. Arms Exports Show Sharp Decline." *The Christian Science Monitor*, March 22, 1988, p. 1.

second-hand equipment through the black market or other unofficial channels. As Third World governments try to stretch the life-spans of their existing military hardware, the demand for black-market spare parts and other support equipment has skyrocketed. One senior Pentagon manager explained, "We've got a situation that we've never had before, in that things like F-14 parts, [and] Phoenix missile parts had no real appeal for criminals up until the last few years..."³⁰

Even when developing nations do purchase new weapons, they are likely to demand that the price be offset by the supplier. Offsets allow purchasers to reduce the hard currency price of a weapon system in exchange for various concessions. They include a Byzantine array of indirect compensation, technology transfers, and even barter arrangements. According to Stephanie Neuman, developing nations are now almost as likely as our Western allies to demand price offsets when purchasing American weapons.³¹ However, the U.S. government refuses to offset prices on bilateral arms sales with other governments. Consequently, American manufacturers must negotiate their own offsets directly with foreign officials. The sheer complexity of these offset arrangements increases the scope for corruption and abuse at every level.

As result of these trends, bilateral weapons transfers, conducted directly between one government and another, no longer dominate the arms trade as they did in years past. The decline of the bilateral arms market parallels a vast expansion in the number of private arms bazaars and exhibitions. These fairs

³⁰ Shaw and Bunting, p. 21.

³¹ Neuman, Stephanie G. "Coproduction, Countertrade, and Barter: Offsets in the International Arms Market." *Orbis*, Spring, 1985, p. 200-201.

provide manufacturers and their potential clients with a confidential atmosphere in which to mingle and bargain. In addition, arms bazaars magnify and legitimize the role of middlemen, many of whom dabble in smuggling the side.³² The net result is a boost for "alternative" suppliers operating on the margins of the law.

Finally, the black market in weapons has grown in tandem with the illegal drug trade. Over the past two decades, narcotics smugglers have developed a fast, efficient transport network to distribute their contraband worldwide. More importantly, the major drug cartels have the financial capacity to smuggle large quantities of weapons and ship them to clients who prefer to make black market purchases.³³ Arms smugglers increasingly have taken advantage of this clandestine trading system. Therefore, the line separating illegal arms sales from the narcotics trade has blurred to a greater extent than ever before.

Colombia's Medellin cartel epitomizes the convergence of drug trafficking and gunrunning. In order to intimidate and immobilize the the Colombian government, leaders of the cartel purchased stolen guns and ammunition from the United States. Not surprisingly, the cartel paid its American suppliers with Colombian cocaine, using Mexico as the conduit for this two-way trading system. With the assistance of the U.S. Drug Enforcement Administration, Mexican authorities launched a crackdown in February of 1988. They seized more than 360 AK-47 assault rifles, over 145,000 rounds of ammunition, and an variety drugs and other weapons from warehouses

³² Laurance, p. 231.

³³ Laurance, p. 231.

along the U.S./Mexico border.³⁴ The dual nature of the Medellin cartel underscores the extent to which the illegal arms trade has become an international epidemic.

Another measure of the black market's global impact is its capacity to corrupt governments. While the Iran-contra scandal stands out in American minds, foreign officials also have succumbed to the lure of the illegal arms market. In France, the chairman of the Luchaire company implicated Charles Hernu, a former Socialist defense minister, in a scheme to export munitions to Iran. Despite the official French embargo, Luchaire exported half a million artillery shells to Iran between 1983 and 1986, allegedly with the full knowledge and approval of Hernu and President Mitterand. According to the chairman of Luchaire, Hernu accepted as much as \$500,000 in kickbacks, some of which was diverted to Socialist Party coffers.³⁵

Arms scandals even plague Sweden, a neutral nation which prohibits the sale of weapons to countries that are at war or are located in "zones of conflict" like the Middle East. In 1986, Bofors, Sweden's largest defense contractor, admitted that it illegally shipped guided missiles to Bahrain in 1978. However, former Bofors President Martin Ardbo claimed the Swedish government fully approved of this sale.³⁶ A government spokesman denied Ardbo's allegations, but the subsequent suicide of the man in charge of regulating Swedish arms sales added fuel to the charges of official corruption.

³⁴ Branigan, William. "Mexico Cracks Major Arms, Drug-Trafficking Ring." *The Washington Post*, February 26, 1988, p. 25.

³⁵ Markham, James M. "Arms Scandal Puts Mitterand on Defensive." *The New York Times*, November 8, 1987, p. 5.

³⁶ Echikson, William. "Swedes Grapple With Dilemma of Talking Peace, Selling Arms." *The Christian Science Monitor*, September 3, 1987, p. 9.

Meanwhile, the Swedish press reported that Bofors may have smuggled arms to Oman, Libya, and Iran, and may have bribed the Indian government to win a contract for howitzers.

Bofors executives defended their actions as a matter of economic survival. Like all manufacturers, arms makers need to maintain a minimum level of production to make a profit. Given the small domestic market for armaments, Swedish firms must export their surplus weaponry. These economies of scale create a catch-22 for the Swedish government: if Sweden is to maintain a viable domestic arms industry it must tolerate arms exports which may undermine many of its traditional foreign policy objectives. To some extent, this dilemma confronts all Western governments. If current trends toward conventional disarmament in Europe continue, Western defense contractors will find themselves even more dependent on exports to the Third World.

V. Illegal Arms Sales and American National Security

If arms smuggling has increased over the past decade, to what extent has it affected American national security? Are illegal arms sales essentially benign, or do they genuinely undermine our foreign policy objectives?

The most obvious problem with black market weapons is that they are used to arm our adversaries. Provided a hostile nation is willing and able to pay the price, it can purchase all but the most sensitive conventional weapons and virtually any kind of spare part through the black market. Iran is the classic example. As we have seen, other adversaries like North Korea and Libya also have obtained American-made military equipment through the black market. Even more alarming is the possibility that terrorist groups could obtain such sophisticated weaponry as surface-to-air missiles, either directly through an arms merchant, or indirectly through a patron state like Iran or Libya.

Black market arms sales also harm American interests by impairing our intelligence gathering capabilities. When operating overseas, the American military depends on intelligence to accurately assess the technological capabilities of hostile forces. But even the best intelligence cannot account for arms purchased clandestinely. The less information available about a potential enemy, the greater the risk to American servicemen. For example, when the U.S. Navy escorted oil tankers in the Persian Gulf it was unable to gauge the readiness of Iran's Air Force and air defenses.³⁷ In this case,

³⁷ Laurance, p. 233.

illegally purchased spare missile parts undermined American naval planning and endangered the lives of U.S. servicemen.

The illegal arms market also impairs America's ability to control international conflict, a key foreign policy tool. In times of crisis, the United States reserves the right to curtail arms sales to particularly unstable countries in order to prevent, or at least contain, conventional wars. In 1983, for example, the U. S. government launched "Operation Staunch," a program aimed at halting all international arms shipments to Iran. By establishing this embargo the United States hoped to end the Iran-Iraq war. Instead, the black market supplied Iran with enough spare parts and new equipment to sustain its war effort more than *five years* after the U.S. announced its embargo.

Despite the many shortcomings of Operation Staunch, some analysts insist that the illegal arms market has not deprived America of its ability to control international conflicts. Writing in 1987, Stephanie Neuman noted that because of American pressure, "Iran has been unable to acquire any modern major weapons since the beginning of the war."³⁸ In other words, Operation Staunch succeeded by limiting the Gulf war to a relatively low technological level of combat. James Lederman credits Operation Staunch for gradually squeezing Iran's sources of supply to a trickle and forcing Iran to negotiate a cease-fire in 1988.³⁹ Indeed, the war might have ended sooner if the U.S.

³⁸ Neuman, Stephanie G. "Arms and Superpower Influence: Lessons From Recent Wars." *Orbis*, Winter 1987, p. 723.

³⁹ Lederman, James. "'Operation Staunch' Forced Khomeini's Hand." *The Wall Street Journal*, July 22, 1988, p. 18.

government hadn't violated its own arms embargo during the Iran-Contra affair.

Whatever its effects on America's ability to control conflict abroad, the illegal arms market clearly damages American military preparedness at home. Every piece of equipment stolen from Defense Department warehouses and smuggled overseas depletes critical weapons stockpiles. For example, the San Diego smuggling ring's theft of F-14 spare parts severely curtailed the number of F-14 training exercises. According to federal prosecutors, during one twelve-month period no fewer than 328 F-14 missions were scrubbed due to lack of computer and navigational equipment.⁴⁰ The Reagan administration's clandestine sale of Hawk missile components to Iran in 1986 temporarily wiped out 15 types of spare parts and nearly eliminated 46 more.⁴¹ These two instances highlight the extent to which illegal arms sales can jeopardize the readiness of America's armed forces.

Finally, illegal arms harm American security by disrupting our diplomatic relations with the countries involved. In 1988, the State Department asked Qatar, a tiny Persian Gulf principality, to return 12 Stinger missiles it had obtained on the black market. Qatar refused, prompting the Senate Appropriations Committee to freeze U.S. military relations with that country until it returned the missiles.⁴² Another diplomatic row erupted after arms

⁴⁰ Schachter, Jim. "Figure in Navy Arms Thefts Seeks Plea Change." *The Los Angeles Times*, November 26, 1986, p. 21.

⁴¹ Tumulty, Karen. "Arms Sales to Iran Depleted Spare Parts." *The Los Angeles Times*, October 14, 1987, p. 4.

⁴² Sciolino, Elaine. "Qatar Rejects U.S. Demand For Return of Illicit Stingers." *The New York Times*, June 28, 1988, p. 2.

traffickers smuggled 82 Hughes helicopters into North Korea. Seoul's ambassador to the United States demanded compensation for any damage done to South Korea's strategic position.⁴³

Considering the events of the past decade, illegal arms sales have posed substantial--though by no means insurmountable--obstacles to the conduct of American foreign policy.

⁴³ Lachica, Eduardo. "Seoul Envoy Seeks Compensation for Helicopters." *The Wall Street Journal*, April 18, 1985, p. 34.

VI. Previous Efforts At Limiting the Illegal Arms Trade

When examining earlier attempts at controlling the illegal arms trade, one must bear in mind that black market sales were not considered a major foreign policy problem until quite recently. Consequently, most domestic legislation relates to the control of American weapons transfers in general, not to the prevention of black market transactions. In fact, the urge to regulate American arms exports is itself so recent that the first comprehensive legislation passed less than 15 years ago.

The primary mechanism passed by Congress to regulate the sale of American weapons is the Arms Export Control Act of 1976. Like other post-Vietnam legislation, it restricts the foreign policy prerogatives of the executive branch and expands the scope for congressional oversight. The act begins with the rather vague precondition that government arms sales shall be approved only "when they are consistent with the foreign policy interests of the United States."⁴⁴ It goes on to outline lengthy procurement and payment procedures as well as provisions mandating congressional notification of all government arms sales above \$25 million.

The Arms Export Control Act suffered from two major flaws. First, it included a number of concessions to the executive branch in the form of loopholes which allowed the President to initiate arms sales without informing Congress, as long as he considered them "vital" to the national interest. Congressional leaders claimed that President Reagan took advantage

⁴⁴ U.S. Government Printing Office. *The Arms Export Control Act*. Washington, D.C., August 25, 1976, p. 2.

of such loopholes during the Iran-contra affair. Second, and most importantly, the act applied only to U.S. government sales, not to private transactions. When Congress passed the act in 1976, bilateral, government-to-government sales still dominated the international arms market. However, the rise of private arms dealers over the past fifteen years effectively undercut many of the original goals of the legislation.

In the wake of the Iran-contra affair, Rep. Howard Berman (D-CA) and Rep. Henry Hyde (R-IL) jointly offered a number of amendments to the Arms Export Control Act. One amendment specifically prohibits government arms sales to states which sponsor international terrorism. It also extends this ban to any commercial transactions involving U.S. citizens and corporations, provided there is any "reason to know" the weapons will reach a terrorist state.⁴⁵ Violators are subject to fines of up to \$1 million and prison terms of up to 10 years.

Additional amendments close certain loopholes in the original act. One of them permits the President to waive the provisions of the act "for reasons of national security," provided he informs Congress 15 days prior to doing so. In "exceptional circumstances when time is of the essence," the President can waive the 15-day requirement, as long as he informs Congress of his actions 24 hours in advance. A further amendment requires congressional notification any time a country which purchases weapons from the U.S. government is given permission to sell them to a third party. Despite some

⁴⁵ U.S. Government Printing Office. *Antiterrorism Policy and Arms Export Controls: Hearing and Markup Before the Committee on Foreign Affairs on H.R. 3651*. Washington, D. C., March 17, 1988, and April 19, 1988, pp 78-81.

objections from the administration, the Berman-Hyde amendments passed the House by a voice vote on May 24, 1988, with overwhelming bipartisan support.⁴⁶

International agreements specifically to prevent illegal arms sales are virtually nonexistent. A few attempts have been made to restrain the international arms trade, but even these efforts have been only partially effective.

From 1977 to 1978 the United States and the Soviet Union conducted a series of Conventional Arms Transfer Talks (CATT) in conjunction with other bilateral arms control negotiations. The two sides reached some preliminary agreements on terminology and other technical criteria, but they accomplished little else.⁴⁷ The negotiations eventually collapsed, partly because the superpowers could not agree on which regions of the Third World the proposed treaty would cover. Even if the CAT negotiations had succeeded, it seems unlikely that they would have checked the rise of black market arms sales in the 1980s.

The only successful international attempt at regulating the sale of armaments is the Missile Technology Control Regime (MTCR) established in 1987. The purpose of this multilateral Western agreement is to prevent the proliferation of missiles capable of carrying nuclear payloads. The MTCR broke new ground in terms of coordinated, multinational action, but it is by

⁴⁶ Felton, John. "House Votes to Tighten Arms-Sale Law." *Congressional Quarterly*, May 28, 1988, p. 1462.

⁴⁷ Hammond, Paul Y., et al. *The Reluctant Supplier: U.S. Decisionmaking for Arms Sales*. Cambridge, MA: Delgeschlager, Gunn & Hain, Publishers, Inc., 1983, pp 175-177.

no means perfect. For example, the agreement leaves enforcement mechanisms up to the individual signatories rather than outlining joint procedures. Moreover, the accord applies only to the United States and the six Western nations who signed it.⁴⁸

⁴⁸ Klare, Winter 1988-1989, p. 162.

VII. What Further Steps May Be Taken to Control Illegal Arms Sales?

In the wake of the Iran-contra affair, Congressmen Berman and Hyde updated the Arms Export Control Act to meet the needs of the late 1980s and beyond. Thanks to their efforts, loopholes in American laws no longer provide a refuge for arms traffickers. Accordingly, future domestic initiatives to combat illegal arms sales should focus primarily on prevention and better enforcement of existing controls, not new legislation.

Professor Edward J. Laurance of the Naval Postgraduate School in Monterey, California, suggests that United States government should begin by redefining its declaratory policy on arms sales. In his opinion, such formal policy statements are not mere words, but do indeed influence the attitudes of arms manufacturers and the bureaucrats who regulate them. Laurance believes that future U.S. policy should place renewed emphasis on the *control* of arms sales. However, he insists that "control" should be defined not in terms of fewer overall sales, but rather in terms of more careful evaluation of arms transfers on a case by case basis.⁴⁹

Of course, such individualized scrutiny depends upon the adequate staffing of enforcement agencies like the State Department's Office of Munitions Control (OMC). While the Commerce Department regulates export license applications for the sale of dual-use items, the OMC must evaluate applications for all commercial arms sales. Unfortunately, the increased volume of applications over the past 15 years has overwhelmed the

⁴⁹ Laurance, p. 236.

OMC's tiny staff. According to a 1987 General Accounting Office report, the OMC's 30 employees evaluated over 49,000 applications during fiscal 1986, rejecting only two percent of them.⁵⁰ In testimony before the Senate Government Affairs Committee, the director of the OMC admitted that his staff had to process applications so quickly that they didn't even have time to determine if a potential exporter had a criminal record.⁵¹

Increased staffing would improve the OMC's performance. However, the General Accounting Office concluded that much of the OMC's caseload could be automated, provided enough money is allocated to purchase the requisite computer system. Laurance suggests that the OMC be reorganized along the lines of the Defense Technology Security Agency.⁵² Since its establishment in 1981, this Defense Department agency has successfully thwarted the export of strategic technology.

In general, the process of preventing illegal arms exports suffers from a lack of inter-governmental coordination. With the workload divided between various agencies, cooperation ought to be routine. Yet, the OMC failed to check the names of its applicants against lists of dubious exporters prepared by the Commerce Department, the Customs Service, and the Pentagon. For example, while OMC staffers knew of fewer than 30

⁵⁰ U.S. General Accounting Office. *Licensing Reviews for Exporting Military Items Can Be Improved*. Report No. NSIAD-87-211, September, 1987, p. 9.

⁵¹ Thornton, Mary. "Weapon Exporters Licensed Routinely." *The Washington Post*, February 21, 1989, p. 10.

⁵² Laurance, p. 236.

questionable companies, the Defense Department maintained listings of hundreds of such firms.⁵³

Finally, the Department of Defense must plug the holes in its inventory management system which facilitate the scandalous pilfering of equipment from U.S. military warehouses. The current system depends on 1960s-era software that is older than many of the soldiers who use it. A new computer system should eliminate most of the sloppy bookkeeping, but it will not be complete until 1991 at the earliest.⁵⁴ In addition, the armed forces must improve the quality of their support personnel. Congressional investigators were shocked to discover that 21 inventory control workers at a Norfolk, Virginia, naval depot could neither read nor write.⁵⁵ Obviously, the Pentagon needs to screen potential security personnel more carefully and should consider increasing their pay to make them less susceptible to bribery.

Analysts agree that even the best domestic reforms will not succeed unless they are reinforced by international efforts to curb the illegal arms trade. Michael Klare suggests a revival of the Conventional Arms Transfer Talks as a starting point for limiting all international arms transfers. Klare insists that the CATT process must be expanded to include all major arms exporters.⁵⁶ However, in light of recent trends toward disarmament in the developed world, many Western defense contractors may find themselves increasingly dependent on sales to developing countries. Nations like Britain and France,

⁵³ Goshko, John M. "Arms-Export Controls Called Dangerously Loose." *The Washington Post*, September 11, 1987, p. 23.

⁵⁴ Shaw and Bunting, p. 20.

⁵⁵ Shaw, Gaylord. "Navy Thefts Spark Fear for National Security." *The Los Angeles Times*, July 17, 1985, p. 19.

⁵⁶ Klare, Winter 1988-1989, p. 161.

whose economies depend partly on military exports, may very well reject any attempts to impose international controls on the arms trade.

A more realistic approach would be to negotiate international prohibitions on the production and sale of particularly offensive or destabilizing weapons. Some obvious candidates for global bans include cluster bombs as well as chemical and biological weapons. Most arms-exporting nations and most defense contractors would accept such an approach. There is, of course, a danger that multi-national bans or embargoes on such weapons would only serve to increase the rewards for smugglers willing to trade them on the black market.

Another option would be to expand the Missile Technology Control Regime to include the Soviet Union and other key missile producers. In the fall of 1988, U.S. and Soviet diplomats held their first in-depth discussions on reducing ballistic missile exports to the Third World. While the two superpowers reached no agreements, they did identify common interests in preventing the proliferation of long-rang missiles capable of carrying nuclear payloads.⁵⁷ Reaching the same consensus with Third World missile exporters, like the People's Republic of China, will be far more difficult. Some developing nations will perceive an expanded MTCR to be just as discriminatory as the nuclear Non-Proliferation Treaty. In the meantime, the current MTCR signatories should consider joint verification and enforcement procedures to strengthen the regime.

⁵⁷ Gordon, Michael R. "U.S. and Soviets Discuss Curbing Missile Exports." *The New York Times*, September 27, 1988, p. 1 and 14.

Perhaps the best solution to the illegal arms trade is to attack the problem directly. Michael Klare has proposed that the world's largest arms exporters jointly establish a black market arms transfers control regime, based on the MTCR model. The regime should establish uniform procedures for regulating arms exports, as well as strict security standards for arms storage facilities.⁵⁸ Standardized export regulations will prevent arms smugglers from taking advantage disparate national laws, as Iranian agents did when operating between London and the United States.

In addition, the participants in a black market control regime could pool their resources for joint intelligence and police operations aimed at apprehending and convicting arms traffickers. Cooperative efforts of this nature already exist to combat terrorists and narcotics dealers. Sustained international efforts may not eliminate arms smuggling, but they should reduce its frequency to a more acceptable level. Such a goal is in the common interests of both superpowers and all other major arms producers.

⁵⁸ Klare, Winter 1988-1989, p. 163.

VIII. What Conclusions Can Be Drawn About the Black Market in American Arms?

Throughout the 1980s illegal arms sales flourished to a greater extent than ever before. During this time, a half dozen contemporaneous conflicts, from the Persian Gulf to Central America, conspired to fuel the smugglers' trade. In addition to these transitory events, institutional forces also magnified the black market: the decline of the bilateral arms trade; the increasing demand for offsets; the rise of private arms dealers; and the intermingling of arms trafficking with the drug trade. All of these long-term trends suggest that the potential for gunrunning remains strong, even if the immediate demand for black-market arms has waned.

Judging from the experience of the past decade, illegal arms sales do pose significant threats to American security interests. In addition to arming our adversaries, the black market impairs our intelligence-gathering capabilities and compromises our ability to control conflict in the rest of the world by regulating the flow of armaments. The pilfering of arms and spare parts from Pentagon warehouses depletes U.S. stockpiles, thereby jeopardizing the readiness of our armed forces. Finally, the illegal sale of American-made weapons needlessly strains our diplomatic ties with the nations involved. The problems associated with black market arms are not acute, but they do merit our attention to prevent them from raging out of control in the future.

Relatively modest improvements in domestic oversight and administration will reduce the volume of illegal arms transactions. Again, the emphasis should be on enforcing the regulations already in place, rather

than on drafting new legislation. For example, the State Department's Office of Munitions Control would benefit from increased staffing, automation, and better coordination with other export-control agencies. New computer technology and better screening of security personnel should permit the Department of Defense to improve its miserable standards of bookkeeping and supply management. If nothing else, experience has taught military supply officers to guard against spare parts theft.

Of course, the United States cannot combat the illegal arms trade without international assistance. Yet, the prospects for multilateral action remain uncertain. Most developed nations will agree that containing the proliferation of destabilizing missiles or nuclear technology is in the common interest of all concerned. But what about the sale of tanks, artillery, fighter aircraft, and other staples of the international arms trade? Efforts to control black market arms sales will not succeed if they are perceived as a threat to heretofore legitimate arms transfers.

On the other hand, the potential for international cooperation has never been greater. In the immediate future, a number of global security issues, from nuclear proliferation to chemical weapons and the drug trade, will increasingly dominate the foreign relations of the developed world. American diplomats should not hesitate to link progress in combatting these international scourges with efforts to control the illegal arms trade. In doing so, they can take advantage of the "new thinking" in Soviet foreign policy to build a post-Cold War relationship with the U.S.S.R. based upon parallel security interests.

IX. Appendix A

Illegal Arms Exports 1982-1988*

	FY82	FY83	FY84	FY85	FY86	FY87	FY88	Total
Number of Seizures	765	1,444	1,159	750	802	1,044	361	6,625
Value of Seizures (in millions of U.S.\$)	55.6	86.3	85.6	74.8	51.6	75.9	31.1	460.9
Detentions	2,481	3,620	2,329	947	1,062	(NA)	(NA)	10,439
Arrests	195	110	121	184	116	96	69	891
Indictments	171	63	178	425	158	105	101	1,201
Convictions	134	80	92	67	117	45	60	595

Note: FY stands for fiscal year. Data for 1988 include only the first six months.

*Source: U.S. Customs Service data published in "The New Gunrunning" by Edward J. Laurance, p. 228.

X. Appendix B

Significant Export Control Cases 1981-1988*

Types of Cases	1981	1982	1983	1984	1985	1986	1987	1988	Total
Small Arms	1	2	2	4	5	2	3	1	20
Embargo	1	1	1	1	4	0	1	0	9
Technology	5	4	10	22	10	6	9	1	67
Support	0	4	5	7	16	9	7	6	54
Major Weapons	1	1	3	2	5	6	9	1	26
Total Cases	8	12	21	36	40	23	27	9	176

*Source: Data from Export Control Enforcement Unit, Internal Security Section, Criminal Division, U.S. Department of Justice as printed in "The New Gunrunning" by Edward J. Laurance, p. 228.

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