DEFENSE PRIORITIES SYSTEM

HEARINGS

BEFORE THE

JOINT COMMITTEE ON DEFENSE PRODUCTION

CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

FIRST SESSION

ON

THE DEFENSE PRIORITIES SYSTEM AND THE ASSOCIATED SPECIAL PRIORITIES ASSISTANCE PROGRAM

MAY 22 AND 23, 1975

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THURSDAY, MAY 22, 1975

JOINT COMMITTEE ON DEFENSE PRODUCTION,
Washington, D.C.

The joint committee met at 2:30 p.m. in room S–407 of the Capitol Building; Senator William Proxmire, vice chairman of the joint committee, presiding.

Senator PROXMIRE. The hearing will come to order.

Chairman Patman unfortunately has to be away on official business in Texas. He asked me to conduct today's hearings in his absence. Our inquiry today addresses the Defense Priorities System and the associated Special Priorities Assistance Program.

Both were established under the Defense Production Act of 1950 to speed the performance of contracts for military and atomic energy production or construction, military assistance, stockpiling, space, and directly related activity.

This is the first comprehensive review of the Defense Priorities System in the 25 years since the authorizing legislation was enacted. Further hearings are planned in the future on other titles of the Act and on other programs instituted under its authority.

Before calling on our first witness, let me make a few general observations about systems that accord preferential treatment or are discriminatory in nature.

I take it as a principle that, whenever such a priority system is set up for whatever purpose, it will become an invitation to abuse if it is not carefully and consistently policed. It is just basic human nature to take advantage of such priority or preferential mechanisms. Priorities mean power, the power to get things ahead of others, to preempt the needs of others. Thus, there will always be a temptation for agencies, firms, and individuals to obtain preferential treatment for their projects or their contracts, whether or not they so qualify. This is especially true when the priority system may be exploited to overcome deficiencies in planning and management.

We must insure, therefore, that such priority mechanisms are carefully established and scrupulously regulated in order to prevent their misuse. Self-policing is an inadequate guarantee against perversion of the system's intent. Where the national defense is at stake, we cannot be too careful in guarding against abuses which, if they grow great enough, may end by subverting the system itself.

In the particular case at hand, the chairman of the Joint Committee and I are convinced that repeated broadening of the priority ratings may be having this effect. We note, for example, that the Defense Production Act defines national defense, in part, as programs

"for military or atomic energy construction and production." Yet, we see ratings applied to many contracts unrelated either directly or indirectly—to military production or to military construction.

Finally, in view of the probable need to establish priority systems for other vital national interests, such as energy production, I believe it is imperative that we put our existing priority mechanism in good order, so that it may be a model for similar actions.

These hearings will inquire into current interpretations of the legislature authority, into the management and administration of the Defense Priorities System, and into the impact which the system may be having on the economy. That means we have a great deal of terrain to cover.

I notice the chairman has asked that written presentations be submitted for the record. Please be brief and concise in responding to inquiries so we may cover the issues contemplated.

The first witness will be General Leslie Bray, Jr., Director of Preparedness, followed by the Honorable Donald Johnson, Deputy Assistant Secretary of Commerce for Domestic and International Business.

STATEMENT OF LESLIE W. BRAY, JR., DIRECTOR, OFFICE OF PREPAREDNESS, GSA; ACCOMPANIED BY MR. JOHN TAIT AND MR. RONALD PIASECKI, FEDERAL SUPPLY SERVICE, GSA

General Bray. I am accompanied today by two representatives from the Federal Supply Service of our parent organization, the General Services Administration, Mr. Tait and Mr. Piasecki, to respond to inquiries you may have.

I have provided for your committee a written statement which we provided a couple of days beforehand, which I am prepared to forego and summarize briefly for you orally, or, if you prefer, I am prepared to go to the questions and answers, whichever is your pleasure.

Senator Proxmire. If you summarize the statement, it may be helpful.

General Bray. I appreciate the opportunity to testify before you today. As Director of the Office of Preparedness, I am charged with coordinating executive branch activities performed under the Defense Production Act.

I have attempted to make myself familiar with the rules and regulations and legislative history which are related to the Act. This is wise legislation and it has served a vital purpose. The views on its use have changed from time to time but it has served a purpose in Korea in the fifties and through the sixties in the Vietnam war where it was used to insure the production needs of our forces. It was used during all these times to provide a readiness base.

I think there are several reasons for having the system in being. One is that which I have indicated. You need a mechanism understood by all of the agencies in the Government as well as industry who can work with it and understand the rules and regulations in peacetime so that you don't have to go through a lengthy training process in a time of emergency, if it is needed.

I do think that the use of priorities has slackened somewhat over the last 10 years.

It has had a recent slight upturn. Notwithstanding, the overall decrease in the use of priorities, the ratings that have been used recently are more noticed for several reasons. There have been changes due to the energy crisis, lowering of production, and shortages of many things. This makes the review you are conducting timely and an important thing to do.

In looking at these activities there are two things to consider: First, in the definition of the Act, are those things considered as meeting the requirements of national defense? There are four things explicit in the Act: Military and atomic energy production and construction, military assistance, stockpiling, and space. Those are specific.

There is one catch-all that says "directly related activities." I would like to explore some of the meanings of "directly related activities." That is one of the areas that I have found it necessary to provide specific guidelines on.

In addition to the matter of the definition of national defense, I would like to point out our reading of title 1 of the Defense Production Act indicates that the President is authorized to require priority execution of one contract over another and to allocate materials when it is considered "necessary and appropriate" to meet national defense.

I believe strongly the meaning of the definition of national defense should not be that it is always necessary or appropriate to provide priorities under the law under title I.

There are considerations that need to be reviewed each time. My job as chief executive in this matter is to maintain a proper balance and to be impartial adjudicator between the matter of necessity for priority and the appropriateness of it, as it pertains to the impact upon our economy and the consumer.

I have attempted to exercise this authority with the help of the committee at times. We have had many turndowns but we do have many programs that call for the use of priorities at this time. One recently approved program regarded the extension of priority to the construction of portions of the Alaskan pipeline project.

There are other programs, as you know, that legislation right now is being considered on, priority and allocation legislation. For example, one is in the energy program.

I was pleased to see your amendment to the Senate bill to tie together some of the proposed legislation authorities so there would be consistency in the application of them.

Subject to your further guidance, I plan to continue to review and revise the criteria and the guidance we have provided to the Federal agencies. As a summary, I feel that the law as it is presently written has been reviewed, as you know, many times, by the committees in the past 25 years. In my review of the legislative history, one point is clear. That is the desire to keep the law broad and flexible. I think the broad, flexible nature of the law is vital. That doesn't mean in being flexible it shouldn't be subject to change, either in application or direction from this committee or others. I feel that the guidance you provide to the executive branch and our own review of it is an appropriate way to make sure the abuses of this Act are held to a minimum.

That summarizes my statement, Mr. Chairman.

Senator PROXMIRE. Thank you for your summary, General Bray. [The complete statement follows:]

TESTIMONY OF LESLIE W. BRAY, JR., DIRECTOR, OFFICE OF PREPAREDNESS, GSA, BEFORE THE JOINT COMMITTEE ON DEFENSE PRODUCTION, MAY 22, 1975

Mr. Chairman and members of the committee, I appreciate this opportunity to appear before you and assist your review of Defense Production Act programs. I understand that your attention today is on the use of Title I authorities of the Act and on the administration of the Defense Priorities System and the Defense Materials System (known as the DPS and DMS), and I will direct my remarks to these.

As Director of the Office of Preparedness, I am charged by the Administrator of General Services under Executive Orders 10480 and 11725 with coordinating executive branch activities performed under the Act. During the one and a half years I have had this responsibility, I have acquainted myself with the various uses of the Act and have established certain guidelines for administering its authorities with the view to carrying out the Congressional intent and to better direct those authorities toward changed conditions existing in the Nation and the world.

Let me say by way of preface that I believe the Act was and is wise legislation, that it has served a vital purpose in supporting our national defense needs, and that its authorities have not been exceeded or abused in any way detrimental to other national interests, even though the basis for its use has been viewed from different perspectives over time. For example, after Korea in the late Fifties it was seen as a means for strengthening the mobilization base of the Nation and its programs, in part, as training mechanisms in preparedness for total war. Through the Sixties and to the height of U.S. military involvement in Vietnam it was seen and used as a means for assuring direct production needs of our armed forces. The training aspect was continued, and so long as no serious problems of material shortages and production delays existed in the economy this was viewed as a routine and significant element of preparedness.

In the Seventies the situation has been changing. The energy situation and general lowering of production have been accompanied by shortages of many things, most notably steel and its heavier products for which there have been competing demands in oil exploration, in shipbuilding, in consumer durable goods, and in ordnance. Similarly, though not quite so crucial, there have been shortages in chemicals and their products, with competing demands in fertilizer, in plastics manufacture, in sanitation, and in ammunition. Our use of Defense Production Act priorities and allocations has not increased over the prior period. Actually, from the height of the Vietnam conflict in 1967–68 to 1971–72 there was a sharp drop in rated shipments both in absolute quantities and in relation to total market shipments of materials (in steel from 5.1 percent down to 2.2 percent) due to slackening military activity and to cutbacks in the application of priorities to programs for which no further national defense needs were being served. And though there has been a slight upturn in priorities use in the last two years (from 2.2 percent against market shipments of steel in 1972 to about 2.7 percent at year-end 1974) the degree of influence on the market has never been large in relation to total economic activity. The fact of priorities, has, however, become more noticed by certain elements of the private sector by reason of actual shortages and competing demands.

Section 101(a) is the only part of the Title which has been used recently and therefore the one warranting your attention today. That part authorizes the President "(1) to require that performance under contracts or orders . . . which he deems necessary or appropriate to promote the national defense shall take priority over performance under any other contract or order . . . and (2) to allocate materials and facilities in such manner . . . as he shall deem necessary or appropriate to promote the national defense." The term "national defense" is the key term here and it was to its definition that the Congress gave special attention in 1953 when it discussed and inserted the language which is now contained in Section 702(d) of the Act, i.e., "national defense means programs for military and atomic energy production or con-

struction, military assistance to any foreign nation, stockpiling, space,[1] and directly related activity."

In all applications of the authority there has been the clear understanding that the definitional constraint on the possible uses of priorities lay in the two broad categories which these words distinguish, i.e., first, military and atomic energy and the other explicit programs mentioned, and second, those programs that might fall within the meaning of "directly related." As to the latter, the Congress left little doubt as to what it means when the words were entered during Senate floor discussions (Ferguson and Capehard exchange, 99 Cong. Rec. 5091–92 (1953), May 19, 1953. To paraphrase: the President was not to be left open to pressures for priorities on the part of every known and conceivable industry that might in some way relate to national defense. On the other hand, he would not be denied the right, for example, to allocate materials for the building of machinery with which to mine certain critical resources or to allocate materials to any industry that might be deemed necessary to the support of the military establishment.

Now, a word about actual programs. The programs authorized priority support within the first definitional category are and have been those listed in the Department of Commerce DMS and DPS Regulations 1 as most recently revised and published in 39 FR 23008–031 on June 25, 1974. They cover Department of Defense primary programs including aircraft, missiles, ships, tanks, weapons and ammunition, the Atomic Energy Commission programs for construction and for operations and maintenance, certain NASA space program requirements represented through the Department of Defense, programs for military purchases in the U.S. by Canada under reciprocity arrangements and by other friendly foreign nations when certified by the Department of Defense, and other special assistance programs directly stemming from these which are reserved to the control of the Bureau of Domestic Commerce in the Department of Commerce.

So far as I know, there has been little past questioning of the necessity or appropriateness of priority support to any of these basic programs on the part of the Executive or the Congress. The second category of programs includes those identified as "directly related" to the first category. Last year, in response to questions posed to me by Honorable Wright Patman, I reviewed programs which had been authorized priority ratings about which there might be some question as to their defense relationship under the terms of the Act. I found that:

(1) In 1968 we granted priority support to the construction of a Voice of America transmitting station in Greece. This was a single project and support ceased with the completion of the station.

(2) In 1964 we authorized priority ratings for AID counterinsurgency operations in direct support of military programs in Southeast Asia. This support was phased down with no authorizations since June 1972.

(3) Since 1950 we have supported the FAA program for navigational and air safety facilities required jointly by our military and civil aircraft. Since 1966 the level of this support has been limited to procurements not to exceed $13 million annually.

(4) After Korea we supported procurement of civil carriers aircraft production on the basis that a strong civil air transport system was needed to augment the Civil Reserve Air Fleet which would become part of the military air transport system. In June 1971 this support was terminated as no longer justified on the basis of national defense.

(5) In April 1966, President Johnson authorized FAA to use the DX or top priority rating to develop two prototype supersonic transport aircraft. In March 1971 the Government withdrew its sponsorship of this program.

(6) Since 1963, priority ratings have been authorized for use by GSA for procurement of a specified list of common stock items to meet requirements of the Department of Defense, the Atomic Energy Commission, the National Aeronautics and Space Administration and the Central Intelligence Agency. GSA's Federal Supply Service has advised the Committee separately on this program. I have recently taken certain actions with respect to it that I will address presently.

First, let me return to my interpretative review of the law. There is no question but that this is enabling rather than mandatory legislation. And in

[1] Added in 1970.

this connection, I call your attention to the words in the above cited Section 101(a) to the effect that the President may use the authority as he determines it to be "necessary" and "appropriate." Now the definitional parameters of what programs come within the sphere of consideration for priorities support are those stated earlier. But it has been my view that none of these should be automatic recipients of support. They should be subjected to two tests:

(1) are they necessary to promote the national defense?

(2) are they appropriate to promote the national defense?

Taking as outside examples programs that are clearly military within the definition, I can conceive of certain ones that may not warrant priorities at a particular time as not being necessary to promote national defense. And we need not take easy or frivolous examples such as the purchase of recreational equipment or instruments for the military band. (These might very well be important morale elements under certain circumstances.) But take a more difficult one such as faced by my predecessor General George Lincoln in 1971. The Civil Reserve Air Fleet (CRAF) program is clearly military related and, since it involves earmarking aircraft for transfer to military airlift operations in time of mobilization, it had been considered necessary to promote national defense. But in General Lincoln's judgment, in the face of burgeoning carrier aircraft production and ready availability of such aircraft to the military in event of emergency, priorities for their production were no longer necessary.

Let us next consider the criteria test of "appropriateness." And here I have a fairly recent case put before me. As many of you know, there has been a rather serious shortage in oil country tubular goods. In the face of this shortage, the Federal Energy Administration had worked with producing companies to assure that independent oil producers got an equitable share of such goods under commercial quotas. Now the Navy, under prompting by the Congress, accompanied by funding, had a firm schedule to meet in upgrading production facilities at the Elk Hills Naval Petroleum Reserve. Oil country goods were required and Navy wanted compliance with its priority ratings for these goods. To enforce them at the expense of the independent oil producers and thereby jeopardize our energy self-sufficiency program would clearly not have been "appropriate." In this case a solution was worked out, with Navy rescheduling to smooth out its peak demands, and the companies arranging to meet Navy's important needs without hurting the independents' quotas.

Both the criteria of necessity and appropriateness have much to do with economic impact at a particular time. Except to have a training mechanism in being, it is not necessary to provide priorities if the defense needs are forthcoming from a healthy industry or from an existing surplus of products. Similarly, save for the insurance benefits of a system in being, it would not be appropriate to provide defense priorities if the impact of the order would be such as to interfere with other overriding national needs. Seeking a proper balance between the output of the industrial economy and the needs of conflicting national programs at a particular time is the reason for our continuing review. An impartial adjudicator is required in such matters, as the present law and system provide.

I have sought to exercise this role, as I believe my predecessors have, with the best national interest in mind and with the full cooperation of this Committee as it exercises its oversight role. The major programs in which I have exercised my role thus far are open for your examination.

In the Maritime Ship Construction Program, I have approved the Defense recommendation that very large crude carriers (VLCC) and other oil tankers above 150,000 tons, not be accorded priority for construction materials, first, because their vulnerability for wartime use makes their necessity for military support questionable, and, second, because their high demands for steel plate in competition with both energy development and direct defense programs make the appropriateness of priorities questionable at this time.

In the Federal Supply Classification of common service item procurement by the Federal Supply Service of GSA and by the Defense Supply Agency of DOD, I have also acted to limit both the items and the proportions allowed under ratings. Excluded are important categories of laundry and dry cleaning equipment, construction and building materials, furniture and appliances, office machines and supplies, musical instruments, recreational equipment, and toiletries. Defense had reviewed and presented arguments against dropping from ratings some of these, primarily on the basis that many include important items of troop supply. But in my judgment, the case for neither

necessity or appropriateness can correctly be made; and, save for allowing special assistance in cases where real problems arise, they will no longer be procurred on priority ratings.

I have turned down numerous requests for priority support to new programs, including a request to revive support to the commercial aircraft construction effort previously terminated by George Lincoln. For example, in recent representations to the Council of Economic Advisers, I decided against Defense Production Act priorities support for ammonia plant construction. These plants are important both to our farm fertilizer production and ammunition production for defense. But the problem is one of insufficiency of natural gas with conflicting important demands which cannot be corrected by priorities and its support is therefore inappropriate.

The one new program to which Title I has been applied in recent months is the construction of the Trans-Alaska Pipeline and North Slope oil development. This action was taken jointly by me and the Federal Energy Administrator. FEA sponsored the support as part of its Project Independence. The program was found to relate to national defense in a vital way, not only with respect to meeting the Nation's energy goals but also for assuring defense needs in any future emergency involving our Mideast oil imports. It thus fell within the criteria of necessity and appropriateness. The action was taken only after extensive interagency study and discussions with the Congress.

It is perhaps unlikely that Title I of the Defense Production Act will be used in support of other energy programs since it appears that the Congress will provide for materials priority authority in energy legislation of its own or in response to the President's requested energy legislation. I have only one request to make in this regard, and Senator Proxmire's recent action in transferring such authority from S. 622 to the Defense Production Act shows that you are fully aware of this. That is, that all priorities authorities, for whatever purpose, be made compatible with those in the Defense Production Act so as to preclude confusion in administration of these different laws.

Subject to such new guidance as you may give as a result of this review, I plan to continue to decide the issues of priority support and allocation according to the strict criteria I have proposed. I believe such exercise of this trust obviates the need for extensive changes to this valuable Act. And though the future may bring about new or different criteria and procedures based on conditions at the time, I do not think the writing of new constraints into the law is the way to assure proper administration. Careful exercise of the role of oversight by the Joint Committee, as it was foreseen in its creation in this same law and as it is being pursued today, should continue to be the most effective safeguard against abuse.

Senator PROXMIRE. We appreciate your view of the Act's title I provisions and the history of its use.

I would like to address one point in your testimony that I believe is crucial to a proper understanding of the Act. In defining national defense the framers of the legislation saw this term as applying, among other things, to military or atomic energy production or construction programs. I stress the words production and construction because I notice that the implementing directives—Defense Mobilization Order 8400.1 and Defense Priorities System Regulation One—omit the words *production* and *construction* and speak only of military and atomic energy programs. Can you explain this omission in the implementing directives?

General BRAY. I cannot explain how the omissions were implemented. The words under which this was administered stretch over the period of 20-odd years. I have not found in my review in our files a specific paper or explanation as to why the words *production* and *construction* were omitted. I will be glad to give you my perception as to how they may have been omitted, based on the legislative history.

Senator PROXMIRE. What is the authority for omitting it?

General BRAY. I can only review the legislative history. I can point out in several of the years under which the Act was reviewed by the committee back in the 1961, 1958 or 1959 time period several instances where this committee talked about the purpose of the Act being required to meet military needs and meet military contracts, in which the words production and construction were not in their construction of it either.

I can only surmise that the language as I read in the original hearings, plus in the legislative review of it over the years, has not concentrated on the words production and construction per se. Yet, there would be an interpretation if the purpose of this was to provide that we promote national defense in general terms. There are many aspects of national defense that stretch beyond production and construction.

Senator PROXMIRE. I call your attention to this limitation to production and construction programs, to the Act's being entitled "the Defense Production Act," and to the focus on industrial production that is explicit in the other titles of the Act. Now, is it your view that the legislation was intended to apply to all military procurement programs or just to these involving or directly related to military production or construction?

General BRAY. The intent of the law was to be broad enough to permit it to be used in military programs and atomic energy programs without the limitation on production or construction. I don't mean I think it should automatically or in all cases be applied to all. I think the intent was, in my review of the legislative background, that is remain broad and flexible enough to permit that application when it was in the national interest.

Senator PROXMIRE. Do the DPS regulations contain any explicit tests or criteria for determining in a precise way what is military production or construction or directly related activity?

General BRAY. Not production or construction, but with regard to directly-related military activity, it does.

Senator PROXMIRE. I am interested in your mention of tests which you apply to determine whether a program qualifies for defense priority ratings.

Are these tests aimed only at decisions about directly-related activities, or do you apply them to decisions on military and atomic energy production and construction?

General BRAY. The explanation I provided says I think the test as to whether or not a project should be applied priority would consist of three steps, the first of which is to determine whether it meets the definitional requirements of the law in section 702(d). Those are the five categories I mentioned awhile ago. Qualification under the definition of the provision, however, in my judgment does not provide an adequate basis for determining that a priority should be extended to it. I think it clears the way to apply the second level of examination: Is it necessary? What would be the consequences if you didn't do it? What would be the impact on national security? That is the consideration that should be applied.

The third consideration is: Is it appropriate? What is the impact on the national economy as a whole? What is the impact on the con-

sumer? What is its impact on other priority programs of high import?

What I'm giving you is my philosophy and my view as to how I think the law ought to be administered and applied.

Let me respond directly to your question as to how it has been applied and how it is applied now: The test I just gave to you is a test we provide on those, shall we say, special cases that really fall in the directly-related activity. Those are the ones referred to my office, such as the Alaska Pipeline or maritime projects of that nature.

With regard to those other direct programs, such as direct military and atomic energy programs of construction and production, military assistance to foreign nations, stockpiling and space, my review of the way the act has been administered over a good number of years has been that evaluation as to the necessity and appropriateness, as I expressed it, has not been explicitly applied in the normal application of the priority projects.

As a matter of fact, the general rule, under the Defense Priority System, has been a blanket application of the defense priorities to all of the Department of Defense programs that qualify under the definitional aspects, with certain specific exceptions provided for.

I think, Mr. Chairman, what I'm saying, is this was not necessarily wrong in the past 25 years. I think the Congress intended the law to be broad and flexible enough to permit that.

Senator PROXMIRE. I believe in a broad and flexible law. The difficulty, of course, is, you can have too much flexibility and too much breadth. After all, the Congress shouldn't delegate this colossal amount of power—we are talking about who is first in line to get materials, and who is first in line for procurement. Under almost any circumstances, this is great power. Perhaps I should try to get from the Comptroller General a reading on production and construction and its significance here, so that we have a clearer picture.

Are the tests or studies codified in the administrative regulations for the Defense Priority System?

General BRAY. Not the ones I specifically mentioned.

Senator PROXMIRE. Are they in the Defense Mobilization Order 8400.1?

General BRAY. Some are, but not to the degree and explicitness that I mentioned in my statement.

Senator PROXMIRE. How can the Congress be sure the tests or studies will survive your incumbency?

General BRAY. I think times are changing and have changed. I think it is time we no longer consider blanket application. I realized that several months ago and undertook a program to tighten it up. We are in the process of implementing changes that will not permit blanket application across-the-board to all of the defense programs purchased by the Department of Defense or Federal Supply Service. Those changes we are in the process of implementing and granting will be codified, published in the Federal Register, and will be available for examination by all the groups you have mentioned.

Senator PROXMIRE. Have other claimant agencies using the system developed similar criteria for judging what is rateable and non-rateable?

General BRAY. No.

Senator PROXMIRE. Do you see a need for making such tests and criteria explicit in the DPS regulations?

There is another interpretive point that I would like to raise. The Act also defines national defense as including military assistance to any foreign nation.

I think we all understand what has customarily been meant by military assistance—that is, a program of equipment and training grants or loans. But today we are reducing our military assistance program while we are heavily increasing straight cash and credit arms sales under the Foreign Military Sales Program. My question is—are defense-rated contracts and orders being used to obtain military hardware for resale to foreign governments on a straight cash or credit basis?

General BRAY. I would not say on a cash or credit basis per se. The defense programs that are rated are those programs which are approved by the Department of State and by the Department of Defense as being foreign sales to military governments of interest to the United States. Those are given ratings. Other direct sales that are consummated between foreign countries and the manufacturers themselves do not qualify and are not provided such ratings.

Senator PROXMIRE. How about the F–5? It is not used by our military. It is sold for use abroad. It gets priority. It gets the advantage of special consideration on procurement. How does that justify?

General BRAY. Let me say at this point, our F–5 program is an approved foreign assistance program, deemed by our government and Department of State and Defense as being of value and assistance to our own national security, not withstanding the F–5 per se is not a weapons system in most of our structure. The new F–5 is included in the structure of the Air Force for the first time. The basis for its rating is that it is an approved military foreign assistance program as opposed to a country going to a manufacturer such as Northrop and executing a straight contract.

Senator PROXMIRE. That sounds as if there is a broad inclusion here. The F–5 hasn't been one of our own weapons until recently. It is one we by and large sell or provide for other countries. It has priority over the demands of our own economy, some of which may be quite essential.

General BRAY. I make two points in that regard. I think in the Department of Defense right now there is an evaluation made in considering foreign military sales to see whether the foreign military systems programs would compete with our own military production programs. Obviously, if there is concern that our own military programs are going to be hindered by the provision of this sort of priority, then the Department of Defense very likely would assume it is not appropriate to provide a priority for them. I would like to go one step further.

Senator PROXMIRE. Who is doing the studying? Can we get a hold of that?

General BRAY. The Department of Defense makes that evaluation. They have a couple of cases under review, where a proposed priority for foreign military sales programs may conflict with one of our ongoing programs. You have raised an issue and one which is not adequately covered in our procedures.

Senator PROXMIRE. Who applied rating to the F–5, and when?

General BRAY. Sir, I don't have the date. The system that is established to do that would mean that the Defense Department would apply the priority under a delegation of authority from the Department of Commerce.

Senator PROXMIRE. The Defense Department applied it under delegation by the Department of Commerce. Do you know what the reasoning was in that case?

General BRAY. No, sir, not in that specific case.

Senator PROXMIRE. Do you review DOD decisions on this use of ratings?

General BRAY. Not on that one.

Senator PROXMIRE. On others, you do?

General BRAY. On some. Normally, our review does not include a review of the Department of Defense judgment as to whether or not it is a valid military sales program. It is done by DOD in consultation with the Department of State. If there is an unusual aspect of it, it would be referred to our office for adjudication.

Senator PROXMIRE. Let me proceed further. Can you give me the details of some of these programs? You need not bother addressing our reciprocal program with the Canadian Government, with which I am familiar. Nor am I interested in commercial arms sales, where foreign governments purchase items direct from U.S. manufacturers. I am concerned with those cases where the Defense Department sells items from its inventory or purchases hardware for the purpose of resale. By what authority were priority ratings extended from the military assistance program to the Foreign Military Sales Program?

General BRAY. The general authority stems from the regulations coming out of the law in which, as you know, the second provision under national defense was military assistance to foreign nations. The definition says national defense as used in this act means military assistance to foreign nations.

Senator PROXMIRE. The Defense Department takes that initiative and makes this decision?

General BRAY. As initiative, the portion of the program was delegated to them—that portion of it for implementation.

Senator PROXMIRE. We are talking about the Secretary of Defense, who made the decision?

General BRAY. The Office of the Secretary of Defense. I don't presume to know what level.

Senator PROXMIRE. It came down in the name of the Secretary of Defense?

General BRAY. Yes, sir.

Senator PROXMIRE. Did you give us a date on when the decision was made first to extend the military assistance program ratings to the Foreign Military Sales Program? Was it Secretary Schlesinger or Laird?

General BRAY. I think it has been in existence in the administering of the law almost from the start.

Senator PROXMIRE. Since 1950?

General GRAY. Yes, sir. I'm sure the degree has varied from time to time.

Senator PROXMIRE. Do they give priority ratings to CIA, NSA, DIA, and other intelligence agencies?

General GRAY. Yes, sir.

Senator PROXMIRE. What programs?

General BRAY. Details of the programs I cannot tell you. Generally, NASA, as an agency, itself, was included or assumed to be under the title, "space," which was a specific authorization included in the definition of national defense.

The CIA was included as an intelligence agency contributing to national security, as well as DIA—Defense Intelligence Agency—which would be considered a part of the Department of Defense as a military program. The judgment was made and, again, I can't tell you when.

Senator PROXMIRE. I mean NSA, National Security Agency not NASA.

General BRAY. I don't know on NSA. I do know it's covered with CIA. It is also applied to NSA. Again, I would presume——

Senator PROXMIRE. In those categories, who would decide?

General BRAY. The Department of Defense.

Senator PROXMIRE. Do you review those grants or ratings?

General BRAY. Not as individual actions, unless there is some issue involving adjudication.

Senator PROXMIRE. Do you think this extension of priority ratings to the military sales program is a legitimate extension of the meaning of the Act?

General BRAY. Yes, sir, I think it is a legitimate extension. I think it is a legitimate interpretation. I think there should be limits placed on it. I think the time has come when we need to do further evaluation.

Senator PROXMIRE. It seems the problem is, it, in effect, gives the arms exporters the first pick of scarce resources and productive capacity for sale to foreign buyers. It gives them unfair advantage over other exporters.

General BRAY. I agree. Those programs that have been judged necessary and appropriate to promote national defense are the only ones that should be given that sort of advantage. There should be more exercise in which of the foreign sales programs qualify under this particular act. All of them should not automatically be included. There should be evaluation as to impact on the rest of the national defense programs, as well as the civilian programs, if such a provision is used.

Senator PROXMIRE. In your statement, you refer to the Defense Production Act as enabling rather than mandatory legislation. Why then does section 6 of DPS Regulation One require mandatory use of priority ratings?

General BRAY. I think the Act as it was intended is broad enough to permit that. I do not think in today's world that is the proper application of it. I have already taken action to the appropriate departments requiring they undertake a revision of that portion to the DPS.

Senator PROXMIRE. Will you furnish to the committee any correspondence or anything you can, and any reaction you have gotten, that would change that situation? [See Exhibits 1 and 2]

General BRAY. Yes, sir.

Senator PROXMIRE. What would happen if the priority system were terminated?

General BRAY. If it were terminated, there would be two major impacts. First of all, the Defense Department would be vitally affected and, therefore, they would have extreme difficulty in meeting the weapons systems' programs, in meeting the defense of our nation.

Secondly, there would be an impact on a broader base of whether the nation has a mechanism in being in which we could, in times of emergency or mobilization, have a system understood by industry and the people administering it, so you don't start from scratch.

Senator PROXMIRE. There isn't any question that all of us want to think our defense establishment is ready and prepared and can act, that it has the equipment when it is needed and can act as promptly as possible. Is this whole procedure essential to achieve that objective? Having had this on the books for 25 years, and it causing great difficulty for some people in business and delays for people in our economy, we should have, after 25 years, a clear understanding of the extent to which it is necessary.

Maybe it is, and maybe it isn't.

General BRAY. In my view, we do not necessarily have to maintain the system in the scope as we have it now.

Senator PROXMIRE. I see your standby notion. Your notion is, in order for standby to be effective, it has to be used. If it is sitting in mothballs, it may take awhile to get going. Wouldn't the priority system be more efficient if it were used like a rifle instead of a shotgun or machine gun? The priority system could be thoroughly justified if, when you had something that was a clear priority, you applied it. It seems to me it now applies to everything.

General BRAY. We need movement in that direction. We have taken action within the last few months in joint studies with DOD and the Department of Commerce and the GSA to try to look at and exempt some classes and groups of supply to prevent that shotgun treatment now. That is the first step.

I am in the process of issuing directives that will exclude commodities purchased by the DOD.

Senator PROXMIRE. If, as you suggest in your testimony, defense priority support is withdrawn for the purchase of such common stock items as mattresses, paint, and hammer handles, do you feel the national defense or our military preparedness will suffer?

General BRAY. In my judgment, it will not suffer.

Senator PROXMIRE. It was used recently with respect to toilet paper.

General BRAY. It was used across-the-board. I agree, it is time to impose restrictions on that.

Senator PROXMIRE. We want to be sure this is done. We would like to have the documentation as soon as we can to see if that is the fact.

General BRAY. I was hoping to be able to bring this today to give it to you as an accomplished fact. We are going to do it. I consider I have adequate authority under the executive order to provide this direction and guidance. I want to take into consideration the views of other people, obviously, and do it in a prudent manner. We are going to do it. We are going to be delayed 2 or 3 days, and we will

furnish to this committee our implementing directives. [See Exhibits 3 and 4]

I do want to go further: That is not the limit of our intent to provide further improvements. In the area of technology I want to move toward trying to devise a system that will spotlight those specific items or classes that need priority, rather than handle them in any sort of aggregated basis, and I think we can move in that direction.

Senator PROXMIRE. We understand from the General Accounting Office that contractors and suppliers are not complying with DPS regulations, either out of ignorance, out of willful negligence, or because there are no sanctions or penalties for noncompliance. Does this suggest that operation of a comprehensive defense priorities system in peacetime is failing to have the desired effect of ensuring responsiveness by industry under mobilization conditions?

General BRAY. No, sir. Generally speaking, the compliance of industry with our directives is very good. There are examples that can crop up. I think we have mechanisms. I think the law is clear enough. I think we have a means to enforce it. I am just as much or more concerned, Mr. Chairman, with the failures of some contractors to comply immediately—the failure to comply immediately usually results in an action which, by consultation with them, results in their getting in line quickly to comply with the directive.

The other area I'm concerned about is those areas in which a contractor may be abusing the system by using it in a manner which we did not intend. That to me, is a more difficult system to audit and monitor, which is the subject of noncompliance.

Senator PROXMIRE. Do you have examples of where the contractors abused the system?

General BRAY. Yes, sir, there are several. I suggest the Department of Commerce can respond more specifically. I do know we had one court case in which a contractor was fined by a Federal judge for failure to comply.

I'm sure the Department of Commerce can elaborate further on instances of noncompliance.

Senator PROXMIRE. Let me read you from General Accounting Office report the portion that gives me difficulty. It says on page 7,

> Most of the special priority assistance requests did not appear to be of sufficient urgency to warrant treatment. 30 percent did not appear to involve priority problems. 50 percent represented questionable priority problems and 20 percent appeared to be valid special priority assistance questions.

Further, and this is what I was getting at in the last question,

> In 73 of the 100 cases in our sample, contractor did not receive the needed materials by the date specified.

According to conclusions one and two of the General Accounting Office study, it sounds as though special priorities assistance is being administered loosely. The result is to weaken the system. In three quarters of the sample cases here, it didn't get effective results. Materials were delivered late. The whole point of the system is to get materials on time.

General BRAY. There is always room for improvement in the compliance system.

Senator PROXMIRE. There is a lot of room for improvement, if three-quarters are late.

General BRAY. Either the schedule wasn't being met or the user felt it was not going to be met. Those particular special assistance cases are a very, very small percentage of the instances in which priorities were applied. It says in well over 98 or 99 percent of the cases, the priority system was meeting its requirements.

In those instances where it was not, it referred to special assistance. It is not surprising in those cases; 73 percent of those were for failure to meet the schedules. It is part of the enforcing or policing system. The fact that 73 people didn't meet their schedule, out of the thousands of instances to which the priority system is being applied, is really a small percent of noncompliance.

Senator PROXMIRE (Reading from GAO statement). We centered our survey on the questions sent to Commerce, because they were supposed to be the most urgent or hard to solve cases. We selected a random sample of 100 requests involving $9 million worth of materials which were needed on programs valued at about $4 billion.

It is that 100 requests, random sample, in which 73 did not receive the materials on the dates specified?

General BRAY. If they didn't have a problem, they wouldn't have been referred for special assistance.

Senator PROXMIRE. Do you feel there is a possibility that over-use of the system in peacetime might be counterproductive, that it might vitiate its use in wartime? Rather like the experience of the boy who cried wolf, no one will respond to it when it is truly required.

General BRAY. Yes, sir. I think it is incumbent on all of us—I think flexibility doesn't mean increased use. It means decreased use in periods of time where decreased use is pertinent and more appropriate. We do need to reassess and apply our standards more rigidly and no longer go along with a blanket application.

I'm concerned about the overuse and cry-wolf aspects of the priority system.

Senator PROXMIRE. You state in your testimony, General Bray, that you have acted to limit the types and quantities of common service items procured with priority ratings by the Federal Supply Service and by the Defense Supply Agency. You singled out for special mention such everyday items as laundry and drycleaning equipment, musical instruments, toiletries, office supplies and furniture. I certainly agree that purchase of these items with defense priority ratings is not in conformance with the intent of the Act.

Yet the Federal Supply Service reported to this committee that it is still buying the same 48 Federal supply classes under DOK–1 priority ratings as originally authorized by a GSA order in 1972. These classes include the very ones you mentioned, as well as such items as floor coverings, draperies, advertising signs, and smoker's articles. What has happened to your exclusions, General Bray? Is a new GSA order revising eligible classes forthcoming? When?

General BRAY. It is forthcoming: [Note: order issued June 19, 1975. See Exhibit 3] We hope to have it out within a week. I was hoping to have it out by the time the statement got to you. When I said it had been done, I'm saying we are in the immediate coordination process and expect to have it out immediately. Obviously, the GSA Federal Supply Service has not changed their system, until we get the new directive to them.

Senator PROXMIRE. How were the classes originally validated for priority procurement?

General BRAY. They do obviously qualify under the definitional requirements of national defense. In years past, there was a judgment made that all categories of national defense programs or military programs, by meeting that definitional requirement were given blanket priorities. That is what we're in the process of changing.

Senator PROXMIRE. What test did you use to determine which classes of common service items should lose their priority support and are the criteria available to the users of the system?

General BRAY. Yes, sir. I think, first, we assumed and correctly so, I think, that they meet the definitional test as being a defense program. As far as the necessity of the first test applied to those, was it necessary? If we did buy office furniture or shovels, why was it necessary to promote national defense? That is the test by which most of the common user items should be dropped out, unless there can be a clear reason shown as to why it is necessary to promote national defense. If that cannot be done, we should not include it.

Senator PROXMIRE. Why should any of these routine consumables receive defense priority support? What is the relation of draperies and musical instruments to defense industrial production?

General BRAY. I don't think there is any. We are involved in levels of judgment. Undoubtedly, somebody made a judgment that all military programs are necessary and proper.

Senator PROXMIRE. It is hard to understand how at any time draperies would be considered key for national defense.

General BRAY. Undoubtedly, there must have been a judgment where all military programs were necessary and appropriate. We are changing it by groups and classes of supply. I agree, in the groups and classes left in, of the hundreds of items, we should go through and pick out items that shouldn't be done. I hope our system will be refined with computer systems, where if a great majority of a class or group meet the requirements we could still eliminate the items that didn't. Right now, we are eliminating groups. I hope to refine it better. Until we do, I, or you, or anybody else could go into a group and find an example or two in a particular group to raise questions on. The rest of the group may be thoroughly validated.

Senator PROXMIRE. Will you give us a list of exclusions and inclusions [see Exhibit 3]? We understand that your efforts to exclude certain common procurement classes from blanket rating authority have met with opposition from the Department of Defense and from the Joint Chiefs of Staff in particular.

Can you explain to us the nature of their objections? Are they valid ones?

General BRAY. I consider the views of the Department of Defense, including ASD and JCS, important to consider in the evaluation. I consider the Department of Commerce and Federal Supply Service views to be pertinent views. The judgment, according to executive order, as to how the decisions are made rests with my office. I don't consider that the Department of Defense is in opposition. They have

given me views. I have considered some of those views. [Correspondence relating to cases subsequently submitted to the Joint Committee.]

Senator PROXMIRE. They have objected or not objected?

General BRAY. They have disagreed, in a sense. They think there is adequate rationale to include some of the ones I wanted to exclude. I have reviewed the objections they have come along with, some of them, and I have advised them I will implement the exclusions anyway, with the understanding, if further study or execution shows there is a clear need or necessity or appropriateness, we can take the action to insert it again.

Senator PROXMIRE. The best thing you can do is to go as public as possible with it. If we, and the American people and business know about it, you will get healthy, wholesome reaction. I think people understand you don't need toiletries and draperies in the national defense. On the other hand, you do need certain kinds of equipment, certain kinds of hardware and to procure supplies of various kinds, especially those in short supply. These should be given a top priority for the military.

I'm informed that the Office of Preparedness is coordinating an interagency study of priority procurement by the Defense Supply Agency and the Federal Supply Service. Are the findings of this study available yet? Will you be able to provide a copy of this study for the hearing record?

General BRAY. We will provide them for the committee [No formal study was prepared. Correspondence relating to the development of DMO–12 (Exhibit 3) was provided as Exhibit 5.] Whether they will be in time for this particular hearing, I don't know, but we will get a copy for the committee for your review.

Senator PROXMIRE. The committee has also been informed that both the Federal Supply Service and the Defense Supply Agency have been selling to nondefense agencies items procured with priority-rated defense orders, even though this is expressly forbidden in the regulations.

Can you tell me why items purchased under defense ratings are being provided to such organizations as the Smithsonian Institution, the Tennessee Valley Authority, the Panama Canal Co., the Postal Service and the Government Printing Office?

General BRAY. In the execution of the authority provided to the Federal Supply Service to provide ratings on those particular 48 classes of supply, they would purchase as common service items, there were limitations placed on it by the Department of Commerce that say that the dollar value of the ratings could not exceed the dollar values of the items sold to the rateable agencies, so to speak. The wording of that was such, and the application of it was such, Mr. Chairman, when you visualize the Department of Defense—some of the common user items don't come to GSA or Federal Supply Service, and they say, "Go ahead and buy this item," but they requisition on stocks in hand. If the Federal Supply Service has it in stock, they will supply, obviously, the Department of Defense or whoever wants it and sell it to them.

In replenishment of the stock, in many instances, what the Federal Supply Service did was to utilize that total dollar limitation of not

exceeding the dollar limitation in an aggregrate sense, and that it did permit, the way they were interpreting it, to buy specific rated items and sell to agencies not qualified under the Defense Production Act. When we became aware of that, and when we became aware that the Federal Supply Service had advanced computer programs capable of solving that problem, we issued instructions on the classes they are justified in buying. They cannot exceed the purchases on that particular item. They can only sell the items to the rateable agencies. The Federal Supply Service agree it has a capability of doing this in the new computer and this capability will correct that deficiency.

Senator PROXMIRE. They have not corrected it as of yet?

General BRAY. It is part of the directive we are including in the exclusion of the classes, too, that will be out in a matter of days.

Senator PROXMIRE. This all really represents a subversion of the system regulations on grounds of convenience, which seems to be the big villain in a lot of this. Again, will you supply us with the documentation on this, so we know precisely what you have done and the reaction to it? You say the action will be taken in the next week or so.

The committee has received from the Energy Research and Development Administration—successor to the Atomic Energy Commission—a statement for the hearing record on their use of the Defense Priorities System. ERDA reports that it too, is using blanket priorities support not only for the atomic energy production and construction programs provided for in the Act, but also for nonnuclear programs and for the procurement of office furniture and supplies and similar common consumable items [see Exhibit 6.] From this I conclude that all of the so-called defense agencies are using the priorities system for virtually all of their routine procurement, except where expressly forbidden.

Can you tell me how the use of priority ratings is justified for nonnuclear energy programs when the Act specifies only atomic energy production and construction and directly related programs? Isn't this flatly illegal?

General BRAY. I think there needs to be evaluation in each case as to whether or not that particular program was related to national defense as defined. There is no way in which I think automatic or blanket application should be provided, but similar to the Alaska Pipeline, again, we were able to make a close direct relationship between the construction of the Alaska Pipeline and, in my judgment, national defense. I think you can do the same sort of thing with some of the ERDA or atomic energy programs, as well.

In regard to the other items, office furniture, it is clearly my intention to provide the same exclusions to them, we will provide for the Department of Defense and Federal Supply Service.

Senator PROXMIRE. Keep us informed on that too. We would like to know when you do that. It seems if it is true that they are using priorities for routine procurement, that it is not legal and not proper. Can you assess the impact of this priority procurement of consumables for which there is a large civilian market, as well as civilian impact? I'm trying to put it in perspective. We all know we have a $1.5 trillion economy. Even a multibillion-dollar program isn't big. But

when you are talking about steel plate or copper or some other metals, the procurement may be a big proportion and have a profound effect. Would you give me the economic impact of this priority procurement of consumables?

General BRAY. Mr. Chairman, it is a difficult area and a very important one. I agree with. I could say it is a minimal impact, because the amount of production that we are putting under ratings, as opposed to our total economy, is 1 or 2 or 3 percent. That would be a gross understatement of impact.

I don't contend that. I think there is a rippling and cascading effect that goes into higher levels. You run into aggregation. I could give you figures on aggregating impact and be misleading on precise components of it. In steel—the aggregating impact on steel doesn't appear to be all that great. The impact upon certain types of rolled sheet steel, low temperature, a highly specialized thing, can be dramatic.

Senator PROXMIRE. You are right on target on this. This is what I'm interested in. Have efforts been made to gather data on the effect of wholesale priority procurement on sectors of the market where there is heavy civilian, as well as military involvement? [Office of Preparedness Economic Studies relating to the use of the Defense Priorities System for the Alaska pipeline, for ammonia production, and for asbestos production were submitted to the Joint Committee. See Exhibit 7. No studies concerning defense and civilian competition for finished common consumable items were made available.]

General BRAY. One of our other responsibilities of the Office of Preparedness deals with the strategic stockpiles of materials. We are doing extensive computer methodology and econometric handling to get better ideas of where the impact and cascading effect is being caused.

Senator PROXMIRE. Do you have work done we could have?

General BRAY. Yes, sir, in terms of what our methodology is, we can apply specific instances where we have applied that methodology in a specific case, where we have applied it to special cases. We have not normally applied it to the totality of our overall priority program. That doesn't mean we don't want to do work in the area, and we are trying to improve the capability. [A Federal Preparedness Agency (formerly Office of Preparedness) report titled "A Study of the Effect of Lead-Times, Substitution, and Civilian Austerity on the Determination of Stockpile Objectives" and dated July 15, 1975, was subsequently submitted to the Joint Committee.]

Senator PROXMIRE. Are you satisfied by the self-policing and management aspects of DPS?

General BRAY. No, I think the system will require something other than self-policing. I have discussed with representatives of the Department of Defense the need for a spot auditing system to go down and trace that the contractors and subcontractors are not abusing or utilizing the system in a manner not consistent with our objectives.

Senator PROXMIRE. What about the automatic application of ratings?

General BRAY. I don't think they should be given. In a particular class, I don't think they should not be given. I think you are implying a broad blanket application and that I don't think——

Senator PROXMIRE. How do you apply it? If you apply it to missiles, that sounds logical and it would be appropriate.

General BRAY. In some of the classes there is a judgment that you go ahead and apply a blanket to a thing that falls under this class. In some of the other classes, we are saying, do not apply it. In still others, don't apply it, even on a special assistance basis. That is the kind of judgment we are trying to work out.

Senator PROXMIRE. Do you see a need for more careful monitoring of the Defense Priorities System in regard to your agencies and contractors and suppliers, and shouldn't abuse capabilities be scrutinized?

General BRAY. Yes, sir. I think we need to monitor it closely. I think we have made some steps. I have outlined a couple of additional things we need to do. I think the action of this committee, as a watchdog committee, is useful and helpful. It is the sort of thing we need to have in preventing abuses of this system.

I have no panacea that says flatly, if we do this, we will solve the abuses. We need to be alert, philosophically, and in every way attuned to what it is we want the Act to provide and what it is we don't want it to do.

Senator PROXMIRE. You are a most impressive man. You are articulate and intelligent and well informed in this whole field.

I must say I am impressed by your demeanor as a witness. It shows a great deal of competence. What troubles me about the situation is you have taken 1½ years to reach a point of beginning reform of the DPS. Why is that? Why did it take so long?

General BRAY. I don't have a good answer for that, Mr. Chairman. I think we should have done better, too. I am not satisfied with that performance. It is a reflection, as you well know, of bureaucracies and individuals and changing philosophies. This is a changed philosophy. We have been talking about a philosophy that existed for 25 years. It takes momentum and time. It is not given as an excuse, but given for a better understanding of it. I do think with the momentum we have going now, it is not going to take as long or will be as difficult to get things started and, not only started, but get them achieved, as we have in the past.

Senator PROXMIRE. One of the difficulties here is if the system isn't reformed by its managers, the Joint Committee may be compelled to recommend to the respective committees in House and Senate, legislative remedies.

I think you have made a strong case, we should have as much flexibility and as much capacity for a competent administrator like you to act and get these results. It would be better to proceed that way. The alternative is to pursue the legislative route. You tend to freeze things into concrete when you put them into law. I hope we won't have to do that.

Thank you, General Bray. We appreciate your appearance. You have been an excellent witness.

Senator PROXMIRE. Our next witness is a man I got to know very well when he was head of the Veterans Administration and I was head of the subcommittee responsible for the Veterans Administration budget.

Donald Johnson.

STATEMENT OF DONALD JOHNSON, ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS; ACCOMPANIED BY SAMUEL SHERWIN, ARNOLD MARVIN, AND WALLACE BROWN

Mr. JOHNSON. Thank you, Mr. Chairman. It is a pleasure to see you again at this time in this capacity.

I would like to introduce to you first of all, to my immediate left Samuel Sherwin. His bureau has responsibility for title 1 activities in the Defense Production Act. To my right is Arnold Marvin. He has the day-to-day responsibility for the program. I also have with me Wallace Brown, from the office of the Assistant General Counsel for Domestic and International Business.

I ask your permission to insert into the record the statement submitted to the committee and I will summarize it.

Senator PROXMIRE. Fine. We appreciate that and the statement will be presented in full.

[The complete statement follows:]

TESTIMONY OF DONALD E. JOHNSON, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS

Mr. Chairman, this is a particularly opportune time for me to appear before this Committee to discuss with you the role of the DIBA in the administration of the Title I authorities of the DPA, particularly the Defense Priorities System. As Deputy Assistant Secretary for Domestic and International Business, I have been delegated, by Department Order, the responsibilities delegated to the Secretary in Executive Order 10480 and other Orders relating to mobilization and emergency preparedness.

I am increasingly aware of the magnitude of these responsibilities not only because of their relationship to the nation's defense posture but also because of the impact of the systems on the civilian economy. I recognize also the potential impact of other authorities recently enacted regarding material allocations.

All of us in the Department who are responsible for the operation of these systems are cognizant of the need to constantly review our procedures and regulations, as well as the "priorities" that we should consider in administering this important program. Our current prime responsibilities are to operate the Defense Priorities System and the Defense Materials System, which together direct the flow of materials and products to the nation's defense and related programs. I trust that this discussion with you today will assist us in focusing on our "priorities" and thereby cause us to better service critical national program needs with as little adverse impact on American industry and the civilian economy as possible.

One of the major missions of our Bureau of Domestic Commerce is the administration of the Defense Priorities System. The system is designed to operate automatically and is generally self-policing. The regulations require specific actions on the part of the recipient of a rated order whether it be a prime contractor or a sub-contractor at any level of performance. They provide also specific bases for rejection of an order. The customer generally demands compliance with the regulations by his sub-contractors. If a supplier cannot or will not comply with the requirements of a rated order, the contractor can initiate a request for Special Priorities Assistance. His request is routed through the contract management channels of the agency which has authorized the rating. That agency is required to attempt to resolve the problem, but if it cannot, the request is sent to the Bureau of Domestic Commerce for appropriate assistance or compliance action necessary to obtain the required deliveries.

The Bureau of Domestic Commerce has operated the DPS and DMS for many years and has a highly developed system of regulations and procedures to achieve the intent of the DPA. The authority for the priorities and allocations system derives from Title I of the Defense Production Act of 1950, as

amended and flows through Executive Order 10480 and Defense Mobilization Order 8400.1 to the Secretary of Commerce and Department Order 40–1 delegates those functions to the Deputy Assistant Secretary for DIBA. A series of regulations and orders constitute the Defense Priorities System and the Defense Materials System.

Defense Priorities System Regulation 1 implements Section 101(a) of the Defense Production Act by requiring that acceptance and performance of rated orders shall have priority over non-rated orders "National Defense" programs are identified by program symbols in Schedule I of the regulation together with the defense agencies authorized to use the symbols. All agencies and programs have equal preferential status. The regulation provides for two levels of priority. The basic level, designated DO, applies to all authorized programs except those of highest priority. The higher priority description, DX, may only be used by the Defense Agencies after specific approval by the National Security Council. Priority Orders carrying DX ratings may not exceed 25% of the value of all rated procurements. In fact, this authority has been closely controlled at a fraction of that percentage. DX rated orders must be given preferential treatment over rated orders identified by the prefix DO and over all unrated orders. Directives that may be issued by the Department of Commerce on a case by case basis can supersede DO rated contracts and even DX rated contracts.

Rating authority has been delegated by the Department of Commerce to DOD, AEC (ERDA), the Federal Supply Service of GSA and to other entities authorized by the Office of Preparedness to apply defense ratings to their contracts for specified programs. Authority to use defense ratings on contracts for the Trans-Alaskan Pipeline and Oil gathering system on the North Slope is limited to specific categories of items that have been identified as critical to timely completion of the project. In defense agencies every qualified contract is assigned the proper rating symbol to identify the contract as a rated defense order and to identify the program such as aircraft, ships, or munitions. Authorized programs and their respective symbols are listed in Schedule I of Defense Priority System Regulation 1 and in Schedule II to Defense Materials System Regulation 1. The regulations require each recipient of a rated contract to give preferential treatment in producing the item or items on the contract over non-rated production in the facility necessary to meet the required delivery schedule of the rated contract. The regulations provide also for each subcontract or purchase order issued pursuant to a rated contract to carry the same program identification symbol as the original contract and receive the same preferential treatment by the sub-contractor or supplier.

Defense Materials System Regulation 1 (DMS Reg. 1) implements Section 101(a) of the Defense Production Act with regard to allocation of materials. The regulation identifies steel, copper, aluminum and nickel alloys as controlled materials and specifies the procedures to be followed in placing orders for such materials. Total defense requirements as reported by claimant agencies to the Office of Preparedness are measured against a base period industry shipment schedule and that percentage or a quantity of material calculated from that percentage is assigned to each producer on a pro rata basis. Producers must accept controlled material orders within prescribed lead times up to the quantity of their set-asides and must accept DX controlled material orders even though the set-asides have been booked. A primary purpose of the set-asides is to distribute defense orders equitably among all producers.

An indication of effectiveness of the automatic features of the program is the low number of Special Assistance Requests compared to the literally millions of rated orders emanating from procurement actions by the claimant agencies. In 1974, 1,883 such requests were received by BDC. Of those, about 79% were resolved through directive action, about 5% were returned to sponsoring agencies for further processing and the balance were closed by a letter of understanding with the supplier that an agreed delivery date would be met.

I believe we are all equally aware that the Defense Priorities System does not increase the production of materials and equipment—it only reorders the supply of available items and use of production capacity. This reordering under government aegis impacts in varying degrees on industry and the civilian economy.

During the many years that the Department has administered this program we have experienced many business activity cycles as well as periods of critical defense needs. The Priorities System has, of course, its sharpest impact on

industry and the civilian economy when heavy military requirements are coupled with strong public demand and the system must divert significant amounts of material and equipment to a war effort. But the system has had greater visibility and some increased impact during periods of high business activity and an apparent lower need to meet military requirements. The business community, in this situation, quite naturally wants to devote all its capacity to meeting the demands of the marketplace and tends to regard the Priorities System as more burdensome than during periods of clear military need or lower market demand. We have an obligation during high business demand cycles to ensure the availability of materials and equipment for our defense requirements but to make every effort to spread defense requirements equitably among all producers.

A recent case in point was the tight supply situation in 1974 for oil country tubular goods. Drilling contractors and producers had difficulty obtaining needed pipe and at the same time the Navy was unable to obtain sufficient tubular goods to develop the Elk Hills Naval Petroleum Reserve. The Navy's needs totaled about 7,000 tons a quarter, or about 1% of U.S. production. This small percentage was magnified by the high demand and the eight major producers were reluctant to divert material from historic customers.

Commerce and the Office of Preparedness met with individual producers to work out a method for meeting the needs of the Navy while minimizing the impact on commercial demands. It was agreed that each producer should supply an equal share of the requirements. It was also decided that a set-aside would not be used for this purpose. For the first two quarters of 1975, three suppliers have accepted orders voluntarily and five as a result of directives. For third quarter requirements, five are supplying voluntarily and three by directive. We do not believe that the Navy requirements created an undue strain on the civilian supply of tubular goods. Clearly the diversion of 1% of the production during a shortage period had an impact but we have concluded from the high drill rig activity during the period that the shortage of OCTG in general did not curtail civilian drilling activity.

The use of Priorities has been strictly limited to national security needs since the inception of the program. Sec. 101(b) of the Act prohibits control of the general distribution of materials in the civilian market unless specific findings are made. For example, this section was used in 1954 for the distribution of titanium and in 1957 for the distribution of argon gas. This sparing use is in keeping with a traditional desire to interfere in the civilian marketplace only in dire emergencies.

Recent enactments of Congress such as The Federal Nonnuclear Energy Research and Development Act and the Safe Drinking Water Act contain material allocations and priorities authority for other public interest. Executive agencies have been meeting to develop delegations of authority which will provide for administration of priorities in a manner which will not create confusion and resentment in the business community with a subsequent breakdown of all systems.

My colleagues and I will be happy to answer any questions you may have.

Mr. JOHNSON. I am aware of the magnitude of the responsibilities delegated to us not only because of their relationship to the Nation's defense posture but because of the impact of the systems on the civilian economy. I recognize the impact of the other authorities recently enacted regarding material allocations.

All of us in the Department who are responsible for the operation of these systems are cognizant of the need to constantly review our procedures and regulations, as well as the priorities that we should consider in administering this important program. Our current prime responsibilities are to operate the Defense Priorities System and the Defense Materials System, which together direct the flow of materials and products to the Nation's defense and related programs. I trust that this discussion with you today will assist us in focusing on our priorities and thereby cause us to better service critical national program needs with as little adverse impact on American industry and the civilian economy as possible.

The Bureau of Domestic Commerce has the principal responsibility for the operation of the system and my statement discussed in some detail the operation of the rating system and special assistance program. I believe we are equally aware that the Defense Priorities System does not increase the production of materials and equipment but reorders the supply of the available items and use of production capacity. This reordering under Government aegis impacts on industry and the civilian economy. Use of priorities has been limited to national security needs since the inception of the program. Section 101(b) of the Act prohibits the control of general distribution of materials in the civilian market. This section was used in 1954 for the distribution of titanium and in 1957 for argon gas. This is in keeping with the traditional desire to interfere in the civilan marketplace only in dire emergencies. Recent enactments of the Congress such as the Federal Non-nuclear Energy Research and Development Act contain material allocations and priorities authority for other public interest. Executive agencies, as you have learned from the previous witness, have meetings to develop delegations of authority to provide for administration of priorities in a manner which does not create confusion and resentment in the business community with a subsequent breakdown of all systems.

My colleagues and I would be happy to answer your questions.

Senator PROXMIRE. Thank you, Mr. Johnson, for your summary testimony. I understand your office has the major responsibility for the operation and management of the Defense Priorities System under the policy guidance of the Office of Preparedness in the General Services Administration.

Is that a fair description?

Mr. JOHNSON. Yes, sir.

Senator PROXMIRE. You mentioned you are cognizant of the need to constantly review our procedures and regulations. I know that you issued a revised Defense Priorities System regulation No. 1—the basic directive for the system—just under a year ago.

Would you describe the major changes this regulation made, what was its primary thrust?

Mr. MARVIN. The major changes, sir, were to simplify the administration both in the government and particularly within industry. Also, to bring together many of the amendments that had been issued together over a good many years and consolidate them in a new regulation that was much easier to read and handle.

Senator PROXMIRE. Whom did you consult in making the alterations in the regulations? Was this committee informed of the contemplated changes before they were promulgated?

Mr. MARVIN. They were published in the Federal Register, the usual procedure for notifying people of a proposed notice of rulemaking. Several thousand copies of the Federal Register printing of the proposed rules were obtained by Commerce and distributed throughout all major industries. An appropriate time was allowed for comments by interested parties. Copies of the proposed regulations were provided to the Congress, I believe, at the same time. We considered all comments we received, and rewrote the regulations, taking them into consideration. We then published them in final form.

Senator PROXMIRE. Doesn't simplified administration mean the ratings are more automatic and more extensive?

Mr. MARVIN. That was not affected at all. We did reduce in some cases the control on industry, particularly in the DMS system. In the controlled materials part, we had, in the past, provided allotments of controlled materials to contractor and subcontractor levels while under the news regs we make allotments only to the government agencies. We no longer require individual companies to report on their use of the controlled materials. We do get reports from the producers of the controlled materials on their filling of controlled material orders. We felt that for our purposes this was a satisfactory check on the use of those materials.

Senator PROXMIRE. Mr. Johnson, as the primary administrator of the Defense Priority System, are you satisfied with the performance of the defense agencies that operate under the authority delegated by you?

Mr. JOHNSON. We have been making considerable input with General Bray.

Senator PROXMIRE. Do you perform any followup evaluation to make sure the agencies are policing themselves and if not why?

Mr. MARVIN. We have agreement with the Department of Defense that they will conduct audits of certain contractors to determine the use of the system by those contractors. The Special Priorities Assistance procedure provides somewhat of a measure of compliance with the DPS because the volume of requests indicates the extent to which contractors are unable to get what they need in a timely manner under the regulations. It does come to our attention in that way.

Senator PROXMIRE. How do you follow up to see that the Defense Department is doing an adequate job?

Mr. MARVIN. In the past the policy established by the Office of Preparedness has allowed the Defense Department to rate everything they procure under authorized programs with a few exceptions, which you are, I am sure, aware of.

Senator PROXMIRE. Are you satisfied with the operation of the Special Priorities Assistance program?

Mr. MARVIN. No, sir. We have attempted, during this past year in which I have been acting director of the Office, to improve the performance considerably by everybody involved. We have reviewed special assistance cases as they are submitted to us to evaluate the quality. In a number of cases, we have had agencies which have, we felt, misused the system, come in and discuss the situation and we have told them why we didn't like the way they were doing things and attempted to educate them on the correct way to do it. We have done the same thing with contractors we felt were not using the system properly.

Senator PROXMIRE. Overall, by and large, in the recent months, particularly, are you confident it is not being overused as a forum for special pleading in view of last year's sharp upsurge in Special Priorities Assistance cases?

Mr. MARVIN. I feel that the authority that has been given in the past to use the system overall, and I am talking now about rating essentially all procurement, has indicated that it would be very dif-

ficult to abuse the system from a standpoint of rating—putting a rating on an order and, of course, the mandatory use in our regulations which you brought up earlier. We have required in the regulations that once a rating is put on a prime contract, it must be passed through all tiers of subcontracts so it will preclude some weak link down the line from holding up the entire contract for production and assembly of an independent item. If you look at it from that standpoint, there has been no abuse. If you look at the special assistance cases, the "Request for Special Assistance," which has amounted to some 4,000 or so cases submitted within the DOD area, we agree with the GAO findings that there have been abuses and some of these we have uncovered and returned to the sponsoring agency. We have tended to take a viewpoint that the important aspect of these cases is to meet the requirement for the particular product and we tend to lean in this direction to meet that objective.

Senator PROXMIRE. You were here when I was questioning General Bray on the General Accounting Office finding. I think he indicated you gentlemen in the Department of Commerce may be able to give us answers on what seems to be a breakdown in the special priorities mechanisms. Such problems as 30 percent of cases examined did not involve priorities problems; 50 percent of cases represented questionable priorities problems; cases where contractors placed larger orders than required as a hedge against future needs; cases where contractors sought to buy large quantities of materials to beat price increases even though your regulation clearly prohibits the use of priorities to influence prices; cases which involved priority support for items such as latex paint, plastic hammer handles, and mattresses; cases where contractors used priorities to overcome their own negligence in submitting timely orders; and cases where contractors and suppliers failed to meet even the most basic requirement of putting ratings, quantities, or delivery dates on their orders.

Mr. SHERWIN. You have to recognize that the GAO sampling took place in a high shortage period of our economy. During that period special assistance cases were impacted by this, particularly in view of the fact it was peacetime as well. It was this environment as you look back to fiscal 1974 when this survey was done that you had this particular type of situation.

Senator PROXMIRE. It would seem to me under those circumstances that the finding is particularly shocking. If this were in a situation such as the present where you don't have shortages of great significance, I could understand why there wasn't so much concern. Where you *do* have shortages, it's particularly important that the ratings only be applied to *genuine* priority situations. Otherwise, the impact on the economy is much more serious. Today it seems if you give a wrong priority the effect is unfortunate and I think we shouldn't do that. The economic impact would be less because there are few shortages. At that time the effect would be more severe and therefore the impact is more damaging.

Mr. SHERWIN. I agree with you completely. During a period of tight supply, which that was, the application of the priority system, particularly since it was substantially peacetime, should have been applied with far more rigor. But you should also recognize that dur-

ing the last few years there has been both in industry and in the government a rather large and rapid turnover of people who know the system, who have grown up with the system and know how the system does function. The training period, as I review the history of it—wasn't here at the time—the replacement of the people knowledgeable in this system was a major problem in the administration of it as well.

Mr. JOHNSON. We recognize this problem. We may not fully agree with the magnitude as represented by this sample. There were misuses during that period of time as well as others. The Commerce Department, particularly our division, believes that education is the key to answer this problem to the proper use of the priority system. Mr. Marvin and Mr. Sherwin have been directed to conduct extensive training seminars, and we believe we will be able to whip the problem.

Senator PROXMIRE. There is no question that the GAO did expose what appears to be a bad situation. You say you are going to conduct training sessions or seminars for claimant agencies or contractors. Do you conduct those seminars now?

Mr. JOHNSON. We are conducting some now with plans for expansion——

Senator PROXMIRE. How often are they conducted?

Mr. MARVIN. We have conducted specific seminars. For example, when the Alaska pipeline and the oilfield programs were authorized, we conducted detailed basic seminars with all of the prime contractors and major subs involved in this program. We have conducted other meetings or seminars with contractors and with groups, either at their request or when we felt there was a specific problem that was showing, that was surfacing, that was recurring in particular. Then we call the people in.

Senator PROXMIRE. When was the last training session?

Mr. MARVIN. Within the past 2 months.

Senator PROXMIRE. How often do the training sessions take place?

Mr. MARVIN. They have been ad hoc.

Senator PROXMIRE. How many have there been?

Mr. MARVIN. We have conducted them at different levels. We have National Defense Executive Reserve training that covers this entire program.

Senator PROXMIRE. Have you had 3 or 5 or 10 or 12? How many?

Mr. MARVIN. About 10 of those in the past year.

Senator PROXMIRE. You have training programs in the field?

Mr. MARVIN. We have worked with DOD. We planned to have a number of meetings with the DOD people themselves and with their major contractors throughout this year and because of budget problems at DOD as well as our own, they were delayed. We are now planning those for the coming fiscal year.

Senator PROXMIRE. Where was the last DPS training session held? Las Vegas? [Laughter]

Mr. SHERWIN. The National Defense Executive Reserve training was in Las Vegas. We have one scheduled the end of next week in Chicago.

Senator PROXMIRE. Do you provide periodic circulars to users of the system to inform them of its proper use?

Mr. MARVIN. We have not provided circulars as such. We have other documents. Following the reissue of the regulations last July 1, we started to work on a revision of a book known as the yellow book, which is a summary in layman's language of what the system is all about. This has bogged down because of the workload of processing priority of cases.

Senator PROXMIRE. This is the principal document you use to inform the people in the field?

Mr. MARVIN. It is one that everybody could have on his desk that would give a pretty good idea of what is involved in the system.

Senator PROXMIRE. It has gotten bogged down? What do you mean?

Mr. MARVIN. We started the rewriting of the book. It is in process. It has not been published to date.

Senator PROXMIRE. When will it be published?

Mr. MARVIN. Three months or so into the fiscal year. [Publication is now expected in 1976.]

Senator PROXMIRE. How is this operating without adequate information?

Mr. MARVIN. Through DOD procurement channels for the most part. DOD disseminates copies of the regulations. They distributed over 10,000 copies of the regulations to everyone in the procurement business.

Senator PROXMIRE. How can you be sure the system is working properly, operated properly at the working level?

Mr. MARVIN. With 10 million or more defense contracts issued in the past year, the fact that we get only something under 2,000 requests for special assistance indicates to us that the system is operating essentially correctly.

Senator PROXMIRE. Why can't you have something like regular circular letters that are sent out, looseleaf so the plant managers and others could bring the data up to date rather than have a new book published and have to go through that trauma which may take months?

Mr. MARVIN. There are not enough changes in the system to warrant that kind of periodic or regular action. When we do make a change in the regulations, for example when we authorized the F–2 rating for the North Slope oil field this was published in the Federal Register as a change in the regulations and we feel it gets to the right people.

Senator PROXMIRE. How do you protect against misapplication of rating, against abuses if there is no consistent program for educating users of defense priorities?

Mr. MARVIN. We have depended, in the past, for the most part on industry itself. For one thing, on one side there is a penalty, rather severe, $10,000 and 1 year in jail.

Senator PROXMIRE. Has it been enforced?

Mr. MARVIN. We had one company convicted of violating the system. They procured something illegally.

Senator PROXMIRE. What happened to them?

Mr. MARVIN. I don't know what the final outcome was. It was a chemical company.

Senator PROXMIRE. Anybody go to jail?

Mr. JOHNSON. I don't believe anybody went to jail but there was a $5,000 fine involved on each of two counts.

Senator PROXMIRE. How big a company was it?

Mr. JOHNSON. I'm not sure.

Senator PROXMIRE. We are talking about billions of dollars. With a big company that is not even a slap on the wrist. If there has been one instance that has been successfully examined and then nobody was given a substantial penalty——

Mr. SHERWIN. Mr. Chairman, only through education and audit can we enforce the provisions of the Act and we intend to follow through on just that.

Senator PROXMIRE. I agree with that, but you have to have sanctions, too. If you have something that involves this much power and profit, you can't expect people to respond strictly on the basis of information and education. Many will, most will, the overwhelming majority will. But something like this that can be abused is enormously difficult for competitors and the economy. We must have an effective enforcement method so that the people abiding by the law will have assurance they will not suffer. We know that tax laws are not fairly enforced in some countries. There is enormous wholesale violation. The majority of the people seem to violate them in European countries. Where enforcement is vigorous and there are penalties and people go to jail, people abide by the law because it is fair. We need more than to rely on education. Especially when the information going out is late, and people don't have a yellow book. Under these circumstances we have a failure in education and failure in enforcement.

Mr. SHERWIN. I agree with your thoughts. Certainly there has to be enforced compliance as well. It's something we have to obey.

Senator PROXMIRE. Is there a requirement for agencies operating the system on delegated authority to train or educate their contracting personnel or suppliers? Any requirement for this?

Mr. SHERWIN. I believe not, sir. I believe we carry a general responsibility for training.

Senator PROXMIRE. Why shouldn't that be a requirement? With the hundreds or thousands of firms involved here and the limits on what you can do, why shouldn't we require firms to do this, especially firms of substantial size?

Mr. JOHNSON. It has been considered to be inherent in the delegation. You raise an excellent point. As you well know, I have just gotten myself involved in this activity. As Mr. Sherwin mentioned, compliance is one of those things we worked on diligently. You raised an excellent point of delegated responsibility for education and training.

Senator PROXMIRE. You speak of the Defense Priority System as self-policing. What methods do you have for self-audits or spot checks to see how it works? It seems to me it's not working at all.

Mr. SHERWIN. As it is presented now it doesn't appear to be self-policing. We are digging deeply into that. The GAO report is an informative one to me personally.

Senator PROXMIRE. You see it's hard to have confidence that automatic self-regulating systems are free of abuse or misuse if no checks are made on the performance or operation. What in your estimation would be the effect of terminating the priority system entirely? Mr. Johnson.

Mr. JOHNSON. I agree with the answer which General Bray gave to you. I believe that the priority system is essential both as standby and for national defense requirements and the common good for those few times that the priority system has been implemented in an emergency. It certainly, I think, is necessary to have this kind of statute on the books.

Senator PROXMIRE. What if, instead, the blanket, mandatory peacetime use of defense priorities were ended and only the special assistance mechanisms were retained to process those cases where truly vital programs are affected by shortages and bottlenecks?

Mr. JOHNSON. The fact that we move into peacetime doesn't really affect the necessity for the maintenance of a system. As we move into this period, it appeals to me that there is a need to modernize and upgrade the national defense establishment. It may be necessary because of the high technology that is being used today in weapons systems and delivery systems that a priority system will be needed and will have to be implemented in order to achieve the national goal.

Senator PROXMIRE. That may or may not be the case. Supposing we kept the system as far as going after truly vital programs and limiting it to that?

Mr. SHERWIN. The first administrative problem you run into is the selection of the truly vital program. That is an important "must" which now, according to the legislation we have or legislation being considered, would include such things as chlorine and anhydrous ammonia. Proper selection and proper ordering of those priorities is an important administrative decision.

Senator PROXMIRE. We have to make that judgment anyway. We have agreed—it seems to me the case General Bray and I were making on draperies, for example—you can't apply this to everything. Why shouldn't the priority system be sharp?

Mr. SHERWIN. Rifle approach.

Senator PROXMIRE. That's right. Go after the truly vital areas where you need prompt procurement in order to meet our essential needs rather than provide for everything.

Mr. JOHNSON. General Bray answered that and we have contributed a great deal to the final judgments which he will make. As I I was saying, sir, the approach General Bray will be using with the publication and implementation he promised within the week is the first major step toward the goal you are setting and as he discussed there will be a refinement within groups and certain sections as time goes along so that you reach that point where there is a sharp focusing on the absolute priority needs.

Senator PROXMIRE. I hope so, but I think we should take a hard look at this thing since it appears we are in the mood in the executive and legislative branch to look this over. The whole country is more concerned about the cost of national defense than we have been in any peacetime that I can recall. This may be a good time to consider whether the retention of the blanket priority system is necessary for the national defense or is merely a luxury which is a substitute for hard thinking and tough decisions. What compliance measures is the Bureau of Commerce taking at this time? The GAO survey indicates that the

responsibility for priority requests and issuing compliance directives is divided into two offices, Office of Business Research and Analysis and Office of Industrial Mobilization. My question is on the compliance measures.

Mr. MARVIN. Compliance is a broad program. It starts with education and it ends with taking someone to court. A good part of it, of course, is related to the request for special assistance because the origin of a request for special assistance implies that somebody is not complying with the system. When that comes in and it is processed there is a compliance action. We contact the suppliers in the case. We educate them on the program, on the system, and attempt to get compliance. We issue a directive which again is aimed at compliance.

Senator PROXMIRE. Do you have a compliance officer?

Mr. MARVIN. We do not have a compliance officer right at the moment, no, sir.

Senator PROXMIRE. Do you expect to have one in the near future?

Mr. MARVIN. We will be recruiting one in the near future.

Senator PROXMIRE. How can you operate without a compliance officer? It's like having a town without a sheriff when the boys get to know that, you know, they raise all kinds of hell.

Mr. JOHNSON. That's when you have special deputies sometimes.

Senator PROXMIRE. You don't have those, or do you?

Mr. JOHNSON. Some of the work is assumed by others who are familiar with the system. We do not have a compliance officer and they have been instructed to recruit for an individual who may have or should have experience in compliance work.

Mr. MARVIN. The compliance activity has been handled by the acting director of the division involved in the system and on my own part, sir.

Mr. SHERWIN. Mr. Chairman, in response to your question, may I add that OBRA endeavors within the Bureau of Domestic Commerce to deal with the basket cases.

Senator PROXMIRE. Office of Business and Analysis.

Mr. SHERWIN. Yes, sir. They have their contacts with industry. They attempt to do this with mutual impact on the economy, particularly in a tight supply situation. If they can't accomplish it, then that would go back to Office of Industrial Mobilization.

Senator PROXMIRE. Now, do you feel that is an efficient way to operate?

Mr. SHERWIN. I have that under deep study now. I would rather reserve my answer. I don't know.

Senator PROXMIRE. One of the problems that is there seems to be a potential conflict of interest in Office of Business Research and Analysis. It is charged with collecting the data and processing the data and also with special priority requests?

Mr. SHERWIN. To answer your question specifically, I do not believe there is a conflict.

Senator PROXMIRE. I should say there is a conflict in administration.

Mr. SHERWIN. Not as long as we want to accomplish this purpose of getting defense and other needs served with minimal impact, I think this is a good first approach, where it has fallen down administratively perhaps in our shop has been the movement from the soft approach to the hard approach.

Senator PROXMIRE. Since the Office of Industrial Mobilization has a major responsibility for operating under the Defense Priority System, shouldn't it have the responsibility for handling Special Priority Assistance cases with inputs from other Commerce elements as necessary?

Mr. SHERWIN. We do endeavor to do this in my short incumbency. Certainly in foreign assistance areas we involve IEPR——

Mr. JOHNSON. The International Economic Policy and Research Staff.

Senator PROXMIRE. I'm glad you translated that.

What accounts for the Commerce Department's inability to process special priority cases in turnaround time of 10 days? GAO claims the average time is 26 days or more. Even with special assistance many requests do not meet the original deadlines.

Mr. SHERWIN. Recently I have been taking a survey of special assistance cases. I call them basket cases. When they came to us they were the difficult ones, the ones that can't be resolved. I have three now running over 20 days. I have it broken down 1 to 5, 5 to 10 et cetera. Those three are all specification problems between the contracting agency and the subcontractor. Those are things that don't get resolved quickly. Those are the kinds of things you get into and that is why I call them basket cases.

Senator PROXMIRE. The average handling time is 26 days. You don't get called in unless you have a basket case?

Mr. SHERWIN. If you are referring to the 26 days in terms of the survey, this was a period of time of high impact and tight supply that the survey looked at. Industry was looking to profit and loss in basically a peacetime economy. Yes, there was a resistance, I expect. Having been in industry at the time, I would have acted with resistance at that time.

Senator PROXMIRE. The GAO survey reflects that most of those cases are not basket cases but they are priority cases. So far I haven't been able to confirm the statistics. It says 73 of 100.

Mr. SHERWIN. I'm not sure I agree. We are awaiting the report and want to study it in greater detail.

Senator PROXMIRE. I am concerned that the GAO disclosure that the special assistance matters are not being handled by the defense agencies themselves according to regulations but are being shifted to Commerce, where they cause this logjam. The GAO survey reveals that: the General Services Administration resolved none of its cases; the Air Force resolved 3 percent of its cases; the Maritime Administration resolved 17 percent of its cases; and yet the Defense Supply Agency resolved 63 percent of its cases; and the Energy Research and Development Administration resolved 85 percent of its cases. How do you account for the wide variance here? Why are some agencies failing to do their job while others seem able to resolve these problems without creating a jam in your bureau? When you have resolution of 85 percent by ERDA and no resolution by GSA, that is a huge difference in performance.

Mr. SHERWIN. I would defer it until we get into the details of the GAO report when we receive it, sir. I don't know the answer to that.

Senator PROXMIRE. Doesn't it indicate——

Mr. MARVIN. I mentioned earlier that part of our training during this past year has involved all the AEC prime contractors and most of their procurement people in a series of these separate meetings. This has had a significant impact. It also indicated AEC interest in educating their people because they asked us to do this and we made a special effort to do it. They have a much smaller group of contractors they are concerned with.

Senator PROXMIRE. Don't you have a way to get the lax agencies on the ball? Can you kick them in the tail and get them to work? They have responsibility and they ought to do a job.

Mr. MARVIN. We agree with that and that is part of the intended training program that didn't come off this past year.

Mr. SHERWIN. It is more than a training program. It is a recognition of the prerogatives——

Senator PROXMIRE. It sounds in the case of GSA that they don't know what their job is. You have practically the same thing with the Air Force—3 percent. It might have been better if they struck out entirely. I am interested in your views, Mr. Johnson, on the question I put to General Bray earlier.

That is, how do you account for the fact that all of the implementing directives for the priorities system omit the crucial language from the Defense Production Act that defines national defense primarily as "relating to military or atomic energy *production* and construction?"

Mr. JOHNSON. I cannot answer that. I have not researched it. I do not know what records are available in the Commerce Department. I turn to Mr. Brown.

Mr. BROWN. Mr. Marvin may want to comment on this. The delegation of authority to the Department of Commerce is contained in Defense Mobilization Order D 8400.1. Our regulations can't be broader than the authority we have been given. I think what is intended is to bring into the regulations possibly in a shorthand form, the other aspects of the definition in 702(d) of the Act of the term "national defense" because our regulations cover the final product. That final product might not be the type of object that you would generally consider as being constructed. For example, we don't look at a valve as being constructed but our regulations cover such items so that contractors are able to produce a final product, such as aircraft. I don't think there is a violation of the congressional intent by omitting those two words.

Senator PROXMIRE. It is your view that the Act provides preference for *all* military and atomic energy procurement or is its primary intent to provide a preemptive mechanism for contracts that relate to industrial *production* for military and atomic energy purposes?

What I am trying to get at is whether the extension of the applicability of priority ratings resulted from a conscious and authoritative decision or whether it grew up merely as a result of expediency and convenience to the users.

Mr. BROWN. I don't believe it was just expediency. It was developed as a necessity. In order to, for example, fulfill a rated contract that would purchase weaponry you must get to all layers and all tiers of contractors. Certainly by using the words "construction" or "production" I don't think you get to each and every tier.

Senator PROXMIRE. With the use of the word "production" you get every tier in the process of producing almost anything you can imagine that would be appropriate here, won't you?

Mr. BROWN. Yes, Sir.

Senator PROXMIRE. Why are those words omitted?

Mr. BROWN. I cannot specifically answer your question.

Mr. MARVIN. I can't say why they were omitted other than in general, to follow on Mr. Brown's comment, the general interpretation of production, is as you have said, that it includes anything that is manufactured and "construction" is in there as a separate word indicating things that are constructed such as buildings, bridges, roads, whatever may be involved with that sort of thing. It does include in that interpretation anything that the Department of Defense buys under authorized programs.

Senator PROXMIRE. I have read in the testimony statistical data that shows the relatively small proportion of materials production set aside for defense needs under the Defense Materials System.

Do you have an equivalent data for the economic impact of the Defense Priorities System? For example, can you tell us the aggregate cost to business or to consumers of delays occasioned by preemptive buying under military priorities?

Mr. SHERWIN. We can make the statistics available to you. I don't have them at hand. [Statistics have not as yet been furnished. See Exhibit 8.]

Senator PROXMIRE. Should Commerce try to monitor the impacts on civilian orders of rated military orders?

Mr. SHERWIN. I believe we do on an ongoing basis. When the Elk Hills oil situation arose we had a particular area. We were in the middle of that and worked with each and every one of the suppliers and had proper allocations on a proportionate basis so that the total requirements up to 1 percent of the total production were used and schedules were adjusted accordingly so the impact would be minimal. The Office of Business Research and Analysis follows that.

Senator PROXMIRE. Before we adjourn today's hearing. I want to return to a point which I raised in my opening statement and which you raised in your prepared statement, Mr. Johnson. This is the issue of priority systems established or contemplated by the Congress for other national needs, such as energy production or pure waters.

Would you say that, in its present state, the military priorities system gives us high confidence that these other priority mechanisms will be effective and free of abuse?

Mr. JOHNSON. The record has been good overall.

Senator PROXMIRE. Has been good?

Mr. JOHNSON. There is need for improvement. There are definite steps being taken for that improvement. I believe there should be confidence that in these other specified areas that there can be a system that will work.

Senator PROXMIRE. Is it your feeling that the other priority systems can be integrated with the Defense Priority System which extends right across the breadth of our economy? Aren't there chances of real conflict?

Mr. JOHNSON. They need to be integrated fully so judgments can be made as to what the real priorities are if there should become conflicts between demands for specific items.

Senator PROXMIRE. There is bound to be. What changes do you think are needed to put the Defense Priorities System in order?

Mr. JOHNSON. I think we have heard articulated this afternoon particularly by General Bray, the things, the recognition of the factors that need to be corrected and the steps now being taken.

Senator PROXMIRE. In your quarterly report to the Joint Committee, Mr. Johnson, will you please inform us what measures you are taking to resolve some of the system's problems we have discussed here today? It would be a useful way to keep abreast of the improvements in the system until we can hold hearings on the progress of the Defense Priorities System probably a year from new.

Mr. JOHNSON. Yes, sir. [See Exhibits 9 and 10.]

Senator PROXMIRE. Gentlemen, thank you very much.

The committee will stand recessed.

[Whereupon, at 4:30 p.m., the hearing was adjourned.]

DEFENSE PRIORITIES SYSTEM

FRIDAY, MAY 23, 1975

JOINT COMMITTEE ON DEFENSE PRODUCTION,
Washington, D.C.

The joint committee was reconvened, pursuant to adjournment, at 10 a.m. in room 5302 of the Dirksen Senate Office Building; Senator William Proxmire, vice chairman of the Joint Committee, presiding.

Present: Senators Proxmire and Sparkman.

Senator PROXMIRE. The hearing will now reconvene.

As I mentioned yesterday, Chairman Patman is away on official business. He has asked me to conduct this hearing in his absence.

Our inquiry will again address the Defense Priorities System and the associated Special Priorities Assistance program.

These hearings will inquire into current interpretations of the legislative authority, into the management and administration of the Defense Priorities System, and into the impact which the system may be having on the economy. That means we have a great deal of terrain to cover.

Yesterday we were privileged to hear from Gen. Leslie Bray, Jr., Director of Preparedness and Hon. Donald Johnson, Deputy Assistant Secretary of Commerce for Domestic and International Business.

I know that Chairman Patman has asked the witnesses to submit written testimony for the record. The policy of the Joint Committee is that oral summaries or presentations be limited to no more than 15 minutes. I also ask that you try to be brief and concise in responding to queries, so that we may cover all the issues contemplated.

I want to thank both of our witnesses for appearing today. The first witness this morning will be Mr. Richard W. Gutmann, Director of Procurement and Systems Acquisition Division of the General Accounting Office. He will be followed by the Honorable Jacques Gansler, Deputy Assistant Secretary of Defense for Materiel Acquisition.

Mr. Gutmann, will you please begin your summary of your statement.

STATEMENT OF RICHARD W. GUTMANN, DIRECTOR, PROCUREMENT AND SYSTEMS ACQUISITION DIVISION, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY JOHN FLYNN, DEPUTY DIRECTOR OF THE PROCUREMENT SYSTEMS ACQUISITION DIVISION AND DEAN SCOTT, SUPERVISORY AUDITOR, WASHINGTON REGIONAL OFFICE

Mr. GUTMANN. Good morning, Mr. Chairman, and Senator Sparkman.

On my right, Mr. Chairman, I have John Flynn, who is a Deputy Director of the Procurement Systems Acquisition Division and under whose general supervision this survey we will discuss this morning was conducted.

On my left is Mr. Dean Scott, Supervisory Auditor from our Washington Regional Office, who more directly supervised this work.

With your permission, Mr. Chairman, I would like to submit the full text of this statement.

Senator PROXMIRE. The full text will be printed in the record.

[The complete statement follows:]

STATEMENT OF RICHARD W. GUTMANN, DIRECTOR, PROCUREMENT AND SYSTEMS ACQUISITION DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Chairman and members of the committee, we are pleased to have this opportunity to comment on our survey of the Special Priorities Assistance Program of the Defense Priorities System and Defense Materials System. My testimony today will summarize the results of our work to date.

Title I of the Defense Production Act of 1950, as amended, provides priorities and allocations authority for defense related programs. The Act (1) requires that contracts or purchase orders for defense-related programs be accepted and performed; (2) authorizes the allocation of certain controlled materials to promote the national defense; and (3) requires the development of preparedness programs in order to reduce the time necessary to mobilize in the event of a national emergency.

In 1973 and 1974 while reviewing Government acquisitions of major civil and military systems, we noticed an increased frequency of contractors having problems in obtaining materials. We also noted an increased reliance by the Department of Defense and defense contractors on the priorities and allocations provisions of the Defense Production Act to obtain needed materials. As a result, we decided to make a limited survey to see how well certain key features of the priorities and allocations system were working.

Before discussing our more detailed findings, we would like to make some rather broad conclusions from our survey.

1. We believe some form of priorities and allocations system is necessary in order to insure availability of resources for defense programs.

2. We note that in considering S.622, the Standby Energy Authorities Act of 1975, an amendment was approved to avoid a duplicate allocation system for energy projects which could conflict with the defense priorities and allocations system. The effect of the amendment is to broaden the system established under the Defense Production Act to include domestic energy needs, while at the same time providing authority to reconcile different priorities claims on a basis that will best serve the total national interest. We believe that this is a sound step. It seems to us that it would be chaotic to establish separate, independent priorities and allocations systems for all of the programs vital to the national interest.

As requested by the Committee Chairman, in the remainder of my statement, I will discuss the operations of the Special Priorities Assistance Program of the Defense Priorities and Allocations System in some detail.

The General Services Administration, Office of Preparedness, provides the overall policy guidance and direction for implementation of the Act, and has delegated the administration of basic Title I provisions to the Department of Commerce. Commerce administers the priorities and allocations under Title I of the Act through a body of regulations and orders called the Defense Priorities System and Defense Materials System. These regulations and orders provide guidance for industry and the defense-related agencies who are required to use the systems. The Defense Materials System applies only to the allocation and control of four basic materials (steel, aluminum, copper and nickel).

The Defense Priorities System applies to all other defense-related procurement.

Under these systems it is mandatory that defense agencies show a defense priority rating notation of "DX" or "DO" on contracts and purchase orders in support of military, atomic energy, and space programs for research and development, construction and hardward procurement. "DX" ratings are used on contracts and purchase orders for the most urgent defense programs, as determined by the President, and have "first" priority. "DO" ratings are used on all other defense-related procurement.

All rated contracts and purchase orders are required to be accepted and the material delivered by the contractor or supplier in preference to non-rated or commercial orders when conflicts between rated and non-rated orders arise. Each contractor or supplier receiving rated contracts or purchase orders is required to put the rating notation on all purchase orders initiated to obtain materials for a rated defense contract or order. Industry and agencies must comply with all Defense Priorities and Defense Materials Systems regulations and orders or face criminal penalties.

Usually materials are routinely provided to meet the delivery dates specified in the rated orders. However, when a problem does arise, special priorities assistance provisions can be used to resolve conflicts or deal with a supplier's refusal to accept a rated order. This is where the Act's powers are most visible. Special assistance is supposed to be requested only for the essential quantities needed when a program delay will result from a late delivery or refusal of a purchase order.

The request for special priorities assistance is initiated by the Government agency, contractor or supplier having delivery or order refusal problems. Resolution of the problem is attempted by the sponsoring agency. If the agency is unsuccessful, the request is sent to the Department of Commerce which has final responsibility for resolving the problems involved in such requests. Commerce acts on the requests by issuing (1) Federal directives, which order a supplier to accept and/or deliver on a rated order, or (2) a Letter of Understanding, outlining a delivery schedule agreed to by the supplier.

During fiscal year 1974, Commerce received 1,547 special assistance requests, compared to 491 in fiscal year 1973. Commerce resolved about 70 percent of the requests through use of a Federal directive. The remaining 30 percent were resolved through Letters of Understanding or were returned to the sponsoring agencies or were closed with no action. The agencies and Commerce spent approximately $35 million to operate the Special Priorities Assistance Program in fiscal year 1974.

Agency records showed that about 4,200 special priorities assistance requests were initiated during fiscal year 1974. The agencies resolved many of these cases but during the year forwarded 1,547 to Commerce for further processing. We centered our survey on the requests sent to Commerce because they were supposd to be the most urgent or hard to resolve cases. We selected a random sample of 100 requests involving $9 million worth of materials which were needed on programs valued at about $4 billion. The following comments are based upon our evaluation of this sample. While many of the problems seem minor, in my opinion, when viewed collectively they indicate a need for improvement in the management and administration of the program.

OVERALL SURVEY FINDINGS

Each year millions of defense contracts and related purchase orders are issued by defense-related agencies, contractors, and suppliers to procure items needed for national defense. Only a small fraction, however, require special priorities assistance.

Most of the special priority assistance requests we reviewed did not appear to be of sufficient urgency to warrant special priority treatment.

30 percent did not appear to involve priorities problems.

50 percent represented questionable priorities problems.

Only 20 percent appeared to be valid special priorities assistance requests. Further, in 73 of the 100 cases in our sample, contractors did not receive the needed materials by the dates specified.

We found that the second goal of the Defense Priorities and Defense Materials regulations, maintenance of an adequate mobilization mechanism, was not being accomplished. In many cases industry officials were unaware of their responsibilities. Further, some Government and industry officials did not have a sufficient working knowledge of the systems to fulfill mobilization objectives specified by the Office of Preparedness and Commerce.

We also found that the basic regulations and procedures for processing special priority assistance requests were sound but problems arose in their implementation. Commerce and DOD officials told us that replacing knowledgeable people having priorities and materials allocation experience who have left Government service, has been a key problem in the management and operation of the systems.

We noted specific problems regarding: the misuse of special priorities assistance powers; the processing of special priorities assistance requests; and compliance and enforcement of the priorities and materials systems procedures.

Misuse of Special Priorities Assistance

The following are a few examples of the misuses we found of the special priorities assistance program by contractors or defense-related agencies and suppliers:

—Twenty-seven special priorities assistance requests in our sample were of questionable urgency. Some were for what appeared to be nonessential items, such as latex paint, plastic hammer handles, and mattresses. Agency criteria require that a special priorities assistance request be only for essential quantities of materials for a program of "high relative military urgency and that production will actually be interrupted if the material is not obtained by the date specified. Recently the GSA-Office of Preparedness has ordered a study of the use of defense ratings for standard stock items procured by GSA and DSA.

—Two contractors were trying to procure large quantities of materials in advance of price increases even though agency regulations specify that contractors not use special priorities assistance to request more material than absolutely needed, nor specify delivery earlier than needed. Moreover, Commerce told us that special priority assistance is not intended to be used in matters involving price.

—Eight contractors placed special priorities requests against suppliers who refused to deliver because the ordering contractors could not meet the payment terms of the suppliers.

—Twenty-nine contractors and agencies delayed placing orders for long production-time items and then used special priorities assistance to try to expedite delivery.

—Two DCAS officials told us that contractors used special priorities assistance to avoid the possibility of alienating suppliers that they were dependent upon for materials for their non-defense work.

—Contractors and suppliers were not placing adequate information on orders. For instance, contractors would issue purchase orders without priority ratings, thus giving the recipient no knowledge of the priority status of the order. We reviewed 80 purchase orders relating to the special priority assistance requests in our sample. Fifty-six were not properly rated.

—Twenty-one suppliers rejected purchase orders for improper reasons. Some suppliers refused to accept rated orders because the ordering contractors were not regular customers or on the suppliers allocation plan.

—Twenty suppliers were not putting rated orders ahead of their commercial orders.

DOD instructions and letters require agencies to report violations of the defense priorities and materials systems regulations since Commerce has the authority to enforce compliance. However, according to a DOD official, only a few formal reports have been received during the last 2 years.

Although the Department of Commerce and sponsoring agencies have issued joint letters to thousands of firms describing use of the defense priorities and materials systems, some agency officials told us that suppliers do not really want to know about the systems. The only real contact suppliers have with the systems occurs when delivery delays cause a contractor or agency to request special priorities assistance.

Problems in processing special priorities assistance requests

Commerce and most Government agencies involved in processing special priorities assistance requests had stated turn-around-time policies of 10 days or less. We found that on the average it took 66 days to process a request, from the time the applicant (a Government contractor or agency) signed the request until the Department of Commerce took action. The agencies' average processing time was 40 days, while Commerce's was 26 days.

Although not specifically required in agency instructions, records on most of the work that was done on requests at lower levels was not forwarded up the line. The next processing level, in effect, started all over in trying to resolve the problem. In some instances, Commerce would have to completely rework a request. Because much information was not forwarded, valuable time was used in obtaining data already available at lower levels.

At the Department of Commerce, special priorities assistance requests are handled by two offices. One office processes the requests to the point of issuing Federal directives where the second office issues the directives and follows up for compliance. This separation of functions has led to coordinating problems and lengthening the processing time.

Further we found that 86 of the 100 special priorities assistance requests we reviewed could have been resolved by the sponsoring agency or defense contractor and should not have been forwarded to Commerce.

We found that the percentage of priorities requests resolved was as high as 85 percent but varied greatly between and within agencies. The appendix to this statement is a chart which provides more detail. The majority of agencies, however, resolved less than half of the requests received. Within an agency one unit resolved 85 percent, whereas, another unit in the same agency did not resolve any. Some processing levels, including the agency headquarters, forwarded every priority request to the next agency level or Commerce. We also found that higher levels made little attempt to identify and correct inadequate processing by lower levels. Most agency processing instructions did specify, however, that the agencies attempt to resolve priorities requests before sending them to Commerce.

Problems in compliance and enforcement of the priorities and materials systems procedures

Directives issued by Commerce are legally required to be accepted and complied with by contractors. In our sample 50 percent of the directives were not complied with. Specified delivery schedules were "slipped" by as much as 4 months without proper authorization.

Commerce did not adequately follow up and enforce directed deliveries. In 42 cases in our sample no shipping information was in the file, even though the recipient is supposed to notify Commerce of shipment, by letter, within 3 days after each shipment has been completed. Commerce officials told us that their limited staff could not follow up on all shipments and process the large volume of special priorities assistance requests received.

In two or three instances Commerce had threatened legal action against suppliers violating the terms of Federal Directives, but no action was taken against any violator.

Commerce is the only agency authorized to take legal action to enforce its directives and it is primarily responsible for providing guidance to Government agencies regarding proper use of special priorities assistance. The problems and misuses of special priorities assistance I have noted, indicate that more could be done by Commerce to insure proper and effective use of the Special Priorities Assistance Program. In our sample of 100 cases, Commerce

returned only 3 to the sponsoring agencies with the notation that the cases did not represent valid special priorities assistance requests. As I pointed out earlier, we believe the majority did not qualify to be processed as priority requests and could have been resolved by the sponsoring agencies.

Special priorities assistance can be effective

We noted some instances where the system was instrumental in obtaining timely delivery of critical materials for defense programs. In 31 percent of our sample, the supplier's original quoted shipment date was improved by weeks or months, although not necessarily meeting the contractor's required date.

RECOMMENDATIONS

The recommendations we are presently considering primarily concern actions Commerce and the agencies should take in order to "tighten up" the Special Priorities Assistance Program in order to improve its effectiveness.

DEPARTMENT OF COMMERCE

The Department of Commerce should:

—obtain compliance with Federal directives and enforcement of defense priorities and defense materials systems procedures,

—emphasize that the agencies have authority for resolving special priorities assistance requests and eliminating improper use of special priorities assistance. If this were done, Commerce could redirect some of its resources from processing special priorities assistance requests toward compliance and enforcement activities. Thus the number of special priorities assistance requests would drop, more timely processing would result, and when Federal directives are issued, compliance would be more certain.

—consider realigning its organization to provide more responsive special priorities assistance request processing. One organization should be given the authority and responsibility for complete processing of requests and issuance of Federal directives,

—include in defense priority and defense material systems instructions, more detailed information so that agencies and industry are better informed on the proper use of the system.

SPONSORING AGENCIES

The sponsoring agencies should:

—fully utilize their authority and require thorough attempts to resolve requests at all levels and eliminate requests which are not true priorities problems.

—consider eliminating some of the special priorities assistance processing levels. Excessive levels cause diffusion of authority and responsibility for resolving priorities assistance cases and greatly delay final resolution,

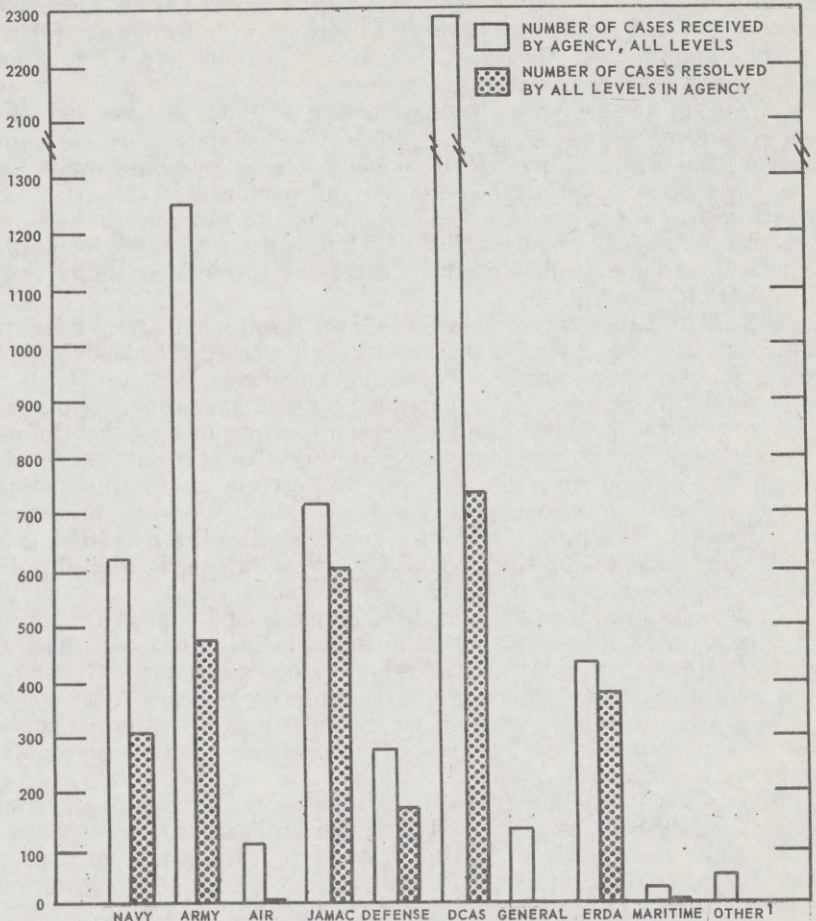
—report all priorities and materials systems violations. When a pattern begins to develop for a particular contractor or supplier, the agency involved should immediately investigate the situation and try and resolve it, rather than continue to send the cases to Commerce,

—augment Commerce efforts to improve industry understanding of the priorities and materials system in general, particularly regarding the special priorities assistance functions.

Mr. Chairman, at the present time it is clear that the priorities problem has not reached crisis proportions. However, we believe that accomplishment of the foregoing improvements in management of the priorities system would better prepare the country to meet a crisis should one occur. This would be particularly important if Congress should decide to create an expanded priorities system to provide for appropriate allocation of a wide range of scarce resources to meet a variety of vital national needs.

CASES RESOLVED BY AGENCY

APPENDIX



	NAVY	ARMY	AIR FORCE	JAMAC	DEFENSE SUPPLY AGENCY	DCAS	GENERAL SERVICES ADMIN.	ERDA	MARITIME ADMIN.	OTHER[1]
PERCENT RESOLVED	49%	38%	3%	85%	63%	32%	0%	85%	17%	0%

LEGEND: JAMAC – JOINT AERONAUTICAL MATERIAL ACTIVITY COMMAND

DCAS – DEFENSE CONTRACT ADMINISTRATION SERVICE

ERDA – ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

[1] CANADIAN NATIONAL DEFENSE

Mr. GUTMANN. I will summarize it briefly for you.

We are pleased to have this opportunity to comment on our survey of the Special Priorities Assistance Program of the Defense Priorities System and Defense Materials System. My testimony today will summarize the results of our work to date.

Title I of the Defense Production Act of 1950, as amended, provides priorities and allocations authority for defense-related programs. The act: (1) requires that contracts or purchase orders for defense-related programs be accepted and performed; (2) authorizes the allocation of certain controlled materials to promote the national defense; and (3) requires the development of preparedness programs in order to reduce the time necessary to mobilize in the event of a national emergency.

In 1973 and 1974 while reviewing Government acquisitions of major civil and military systems, we noticed an increased frequency of contractors having problems in obtaining materials. We also noted an increased reliance by the Department of Defense and defense contractors on the priorities and allocations provisions of the Defense Production Act to obtain needed materials. As a result we decided to make a limited survey to see how well certain key features of the priorities and allocations system were working. We were also aware of Assistant Secretary Mendolia's concern with the extended lead-time requirements for the acquisition of certain parts and supplies which, of course, tends to require added stockage.

In his memorandum of June 1974 he cautioned that if this is not carefully watched it could result in the acquisition of excess supplies, and he also pointed out the utilization of the two systems, the priorities and allocations systems of the Defense Production Act.

As a result of these situations we decided to make a limited survey to see how well the key features of the priorities and allocation systems were working.

Before discussing the detailed findings we would like to point out certain broad conclusions we have drawn from the survey to date.

We believe some form of priorities and allocations system is necessary in order to insure availability of resources for defense programs.

We note that in considering S. 622, the Standby Energy Authorities Act of 1975, an amendment was approved to avoid a duplicate allocation system for energy projects which could conflict with the defense priorities and allocations system. The effect of the amendment is to broaden the system established under the Defense Production Act to include domestic energy needs, while at the same time providing authority to reconcile different priorities claims on a basis that will best serve the total national interest. We believe that this is a sound step. It seems to us that it would be chaotic to establish separate, independent priorities and allocations systems for all of the programs vital to the national interest.

As requested by the committee chairman, in the remainder of my statement I will discuss the operations of the Special Priorities Assistance Program of the defense priorities and allocations system in some detail.

The system has been previously well described by other people that have appeared before you during these hearings.

I might point out that under the systems in use it is mandatory that defense agencies show a defense priority rating notation of DX or DO on contracts and purchase orders in support of military, atomic energy, and space programs for research and development, construction, and hardware procurement.
sistance Program of the defense priorities and allocations system in

DX ratings are used on contracts and purchase orders for the most urgent defense programs, as determined by the President, and have first priority. DO ratings are used on all other defense-related procurement.

All rated contracts and purchase orders are required to be accepted and the material delivered by the contractor or supplier in preference to non-rated or commercial orders when conflicts between rated and non-rated orders arise. Each contractor or supplier receiving rated contracts or purchase orders is required to put the rating notation on all purchase orders initiated to obtain materials for a rated defense contract or order. Industry and agencies must comply with all defense priorities and defense materials systems regulations and orders or face criminal penalties.

Usually, materials are routinely provided to meet the delivery dates specified in the rated orders. However, when a problem does arise Special Priorities Assistance provisions can be used to resolve conflicts or deal with a supplier's refusal to accept a rated order. This is where the Act's powers are most visible. Special assistance is supposed to be requested only for the essential quantities needed when a program delay will result from a late delivery or refusal of a purchase order.

The request for Special Priorities Assistance is initiated by the government agency, contractor, or supplier having delivery or order refusal problems. Resolution of the problem is attempted by the sponsoring agency. If the agency is unsuccessful, the request is sent to the Department of Commerce which has final responsibility for resolving the problems involved in such requests. Commerce acts on the requests by issuing (1) Federal directives, which order a supplier to accept and/or deliver on a rated order, or (2) a "Letter of Understanding," outlining a delivery schedule agreed to by the supplier.

During fiscal year 1974, Commerce received 1,547 special assistance requests, compared to 491 in fiscal year 1973. Commerce resolved about 70 percent of the requests through use of a Federal directive. The remaining 30 percent were resolved through "Letters of Understanding" or were returned to the sponsoring agencies or were closed with no action. The agencies and Commerce spent approximately $3.5 million to operate the Special Priorities Assistance Program in fiscal year 1974.

Agency records showed that about 4,200 Special Priorities Assistance requests were initiated during fiscal year 1974. The agencies resolved many of these cases but during the year forwarded 1,547 to Commerce for further processing. We centered our survey on the requests sent to Commerce because they were supposed to be the most urgent or hard to resolve cases. We selected a random sample of 100 requests involving $9 million worth of materials which were needed on programs valued at about $4 billion. The following comments are based

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upon our evaluation of this sample. While many of the problems seem minor, in my opinion, when viewed collectively they indicate a need for improvement in the management and administration of the program.

A little, briefly, about the survey findings. First I would like to explain what our technical terminology of what "survey" means to us. A survey or a preliminary survey is undertaken in an area where we generally have not had a great deal of experience in the past or in a situation like this where a system has not been exercised to any great extent in the past but shows promise for being exercised to a greater extent in the future.

Preliminary work is exploratory in nature to enable us to decide whether there are indeed some issues or problems that would justify a more in-depth or full-scale review or audit.

Now with respect to our survey findings, each year millions of defense contracts and related purchase orders are issued by defense-related agencies, contractors, and suppliers to procure items needed for national defense. Only a small fraction, however, require Special Priorities Assistance.

Most of the Special Priority Assistance requests we reviewed did not appear to be of sufficient urgency to warrant special priority treatment: 30 percent did not appear to involve priorities problems; 50 percent represented questionable priorities problems related to some methodology in handling the requests that were not proper; only 20 percent appeared to be valid Special Priorities Assistance requests.

Further, in 73 of the 100 cases in our sample, contractors did not receive the needed materials by the dates specified.

We found that the second goal of the defense priorities and defense materials regulations, maintenance of an adequate mobilization mechanism, was not being accomplished. In many cases industry officials were unaware of their responsibilities. Further, some Government and industry officials did not have a sufficient working knowledge of the systems to fulfill mobilization objectives specified by the Office of Preparedness and Commerce.

We also found that the basic regulations and procedures for processing Special Priority Assistance requests were sound but problems arose in their implementation. Commerce and DOD officials told us that replacing knowledgeable people having priorities and materials allocation experience who have left Government service has been a key problem in the management and operation of the systems.

We noted specific problems regarding the misuse of Special Priorities Assistance powers, the processing of Special Priorities Assistance requests, and compliance and enforcement of the priorities and materials systems procedures.

At this point I think it may be desirable for me to refrain from enlarging upon these problems in order to leave more time for questioning. As I mentioned, the field supervisor is here to respond to your questions dealing with the details.

Senator PROXMIRE. Let's go to the questions. If you feel at the end of the question period you would like to supplement, you can do that. As I understand it, what you are appearing on this morning is the Special Priorities Assistance Program which is a subsystem and rela-

tively small but critical part of allocation and priority system. It should result in a super-priority in which there should be results when it is applied. Whatever is required should be provided as promptly as possible under the circumstances. The priority should be respected and recognized.

You cite instances of contractors and agencies delaying placement of orders for long production time orders and then using the SPA requests to expedite delivery. Why do they do this? Are there economic benefits for them?

Mr. GUTMANN. Sir, we really have not been able to get behind that particular activity into the question of their motivation. Speculating, I really don't see how there can be much of an economic motivation. Certainly not during a period of rising prices.

Perhaps Mr. Scott has something to add to that based on his review.

Senator PROXMIRE. Mr. Scott.

Mr. SCOTT. Mr. Chairman, regarding the first part of the question, "Why do they do this?" the basic problem, as near as we can determine, emanates from the procurement problems in either the government agencies issuing rated contracts or orders or their contractors and suppliers. What often happened, as evidenced in the cases we reviewed, is a contractor or government agency would forget about issuing a purchase order, particularly for a long production time item, then realizing his back is literally against the wall, he will turn to Special Priorities Assistance to compensate.

Senator PROXMIRE. You say forget about it. It is a matter of incompetence and inability to plan and execute their responsibility properly.

Mr. SCOTT. I think it is a matter of oversight.

Senator PROXMIRE. Lack of oversight.

Did you find instances of contractors using SPA requests to get price breaks on their materials?

Mr. SCOTT. We found a few instances where this occurred.

Senator PROXMIRE. Does this violate regulations?

Mr. SCOTT. Yes, it does.

Senator PROXMIRE. What are the penalties.

Mr. SCOTT. $5,000 or $10,000 fine and a year in prison.

Senator PROXMIRE. Were the violations reported?

Mr. SCOTT. To our knowledge, they have not been.

Senator PROXMIRE. Did GAO discover contractors ordering more materials than specified by their rated contracts and then stockpiling them for future use on nonrated projects?

Mr. SCOTT. We could not determine that the contractors were ordering more materials than specified for a particular contract. What we found were cases where a contractor would be ordering more materials than he needed for a particular point in time to fill a rated contract.

Senator PROXMIRE. Explain how contractors used the SPA to avoid the possibility of alienating suppliers that they were dependent upon for materials for their nondefense work. Does this indicate the system poses an undue hardship on industry in peacetime?

Mr. SCOTT. Basically our survey period encompassed what would be assumed to be the most tight materials situation in recent years. As a result, many companies of very basic products had their customers on allocation plans. A customer would get a rated order.

Realizing if he issued the rated order on his supplier the supplier would, in turn, reduce his allocation of that material for his commercial works.

This customer would initiate a Special Priorities Assistance request realizing that the Government, in effect, could do his bidding and he could go back to his supplier and say it is a rated order, the government says this, the government says that. I had nothing to do with it. Based on the limited information we obtained, that is how that aspect works.

Senator SPARKMAN. I'm not sure I understand this fully. You are speaking now of special priorities going to small business concerns; is that right?

Mr. SCOTT. No, sir, I don't believe so.

Senator SPARKMAN. You started the question about the use of small business.

Senator PROXMIRE. This isn't a strictly business problem. It is a matter of priorities for defense contracts.

Senator SPARKMAN. I realize that. I thought your original question had to do with small business.

Senator PROXMIRE. I didn't intend it to.

Senator SPARKMAN. I misunderstood, then. I thought it was a small business set-aside. I misunderstood the question.

Senator PROXMIRE. This is the difficulty with this thing. It is a very perplexing kind of situation. We have a conflict between wanting priority for the defense establishment and the needs of the nondefense sector. It can represent a colossal interference with the nondefense part of our economy and the defense people can get there in front and sometimes that means costly delay in the area of nondefense orders.

We want to make sure this is done fairly and objectively with a minimum of disruption. We find on the basis of what you have been able to tell us today in your report is very disturbing.

Mr. SCOTT. Regarding the second part of your question, did we identify economic hardship as a result of the use of Special Priorities Assistance in the manner we referred to previously, because our survey was limited in scope, we could not put our finger on concrete examples where there was undue economic hardship on the part of supplier or contractor.

Senator PROXMIRE. The most troubling part of your testimony and report is that this is a super-priority Federal directive to be used under circumstances where it is essential from a defense standpoint. You mention, in spite of that, contractors failed to comply with 50 percent of the Federal directives.

Did your survey uncover the reasons for wholesale noncompliance?

Mr. SCOTT. Basically the reason was the lack of primary enforcement—the only enforcer of a federally directed order is the Department of Commerce, the Office of Industrial Mobilization. Because of the deluge of Special Priority Assistance requests they were receiving during the survey period, they didn't have the staff to follow up directed shipments much less take action against those violating the Federal directives.

Senator PROXMIRE. Yesterday we had General Bray and Mr. Johnson. They say they recognize they haven't done a good job or a good

job hasn't been done. They are determined to improve it. Do you find evidence that they are making progress and correcting the situation?

Mr. SCOTT. At this point in time, Mr. Chairman, based on our limited evaluation, there have been few improvements.

Senator PROXMIRE. Few improvements?

Mr. SCOTT. Yes.

Senator PROXMIRE. Are most of the abuses cited by the GAO survey in violation of agency regulations?

Mr. SCOTT. Yes, sir.

Senator PROXMIRE. Can you cite the regulations and penalties?

Mr. SCOTT. Yes, sir. Section 103, title I of the act * * *

SEC. 103. Any person who willfully performs any act prohibited, or willfully fails to perform any act required, by the provisions of this title or any rule, regulation, or order thereunder, shall, upon conviction, be fined not more than $10,000 or imprisoned for not more than one year, or both.

follow up to that Defense Priorities System Regulation 1 as revised July 1, 1974, section 28, entitled: "Violations",

(a) Any person who willfully violates any provision of this regulation, or who willfully furnishes false information or conceals any material fact in the course of operation under this regulation, is guilty of a crime and upon conviction may be punished by fine or imprisonment, or both.

Senator PROXMIRE. Yesterday the testimony was the Department of Commerce could find only one instance where there was any penalty imposed. Nobody had gone to jail. There was a $5,000 penalty imposed on a corporation. They couldn't tell me the size of the corporation. It could have been severe, but more likely it was not even a wrist tap. Why this lack of compliance in enforcement?

Mr. SCOTT. I believe the people in the Department of Commerce were more interested in, as a matter of policy, getting the cases processed and getting action out of the Department of Commerce. It was a snowball effect. You process 10 this week and you have 20 next week, which meant with a limited staff you couldn't follow up with the 10 you processed this week.

Senator PROXMIRE. It sounds as if there is an understanding there will be no enforcement of this. With a 50-percent lack of compliance, it seems not to work.

Mr. GUTMANN. We would be inclined to agree with that. We recognize, of course, as I'm sure you do that, going to court, taking a case to justice, proving a case is difficult and time consuming and not extraordinarily successful. As an alternative, we believe the Congress might want to consider providing for a fixed penalty that can be assessed by the administrator without the necessity of taking a supplier or contractor to court and proving a violation. This would place the responsibility on the management of the system to decide whether or not there has been a violation. If some penalties were assessed in this fashion, I believe this would have a salutory effect on the suppliers and contractors involved. We have not fully examined the legal ramifications of this. We, too, are concerned with the number of violations and the very few proceedings or punishment devices.

Senator PROXMIRE. Have you examined whether or not this is practical? My instinctive feeling is for the administrator being able

to impose a penalty; the person being penalized would have every right to go to court.

Mr. GUTMANN. Yes, and yet there is at least one instance where a penalty, more or less fixed penalty or rate of penalty can be applied and that is for late filing of tax returns.

We in GAO recommended with respect to the Renegotiation Act that a penalty be assessed for late filing of reports required.

Senator PROXMIRE. Would you have in mind a penalty that would be related to the size of the contract? If there are hundreds of millions of dollars involved, and an urgent situation, a company might take a $5,000 penalty in its stride.

Mr. GUTMAN. Yes, sir, indeed. Certainly the penalty has to be large enough in relation to the potential advantages to the contractor through avoiding compliance to be a successful deterrent.

Senator PROXMIRE. I hope you will develop that and let us know as soon as you can.

Are the processing problems described by GAO a direct result of the separation of functions between the Office of Business Research and Analysis and the Office of Industrial Mobilization?

Mr. SCOTT. Mr. Chairman, certainly, the lengthy processing time for the Department of Commerce as contrasted to the stated turnaround time is a product of this problem here. As we attempted to describe in our prepared statement, the OBRA organization actually processes about 95 percent of the cases received during the survey period. The Office of Industrial Mobilization had not been sufficiently staffed to handle the caseload. You have a problem down there that we identified. The OBRA analysts are primarily responsible for another task, that task being the collection of statistics and what-have-you. Processing cases is a part-time job on the part of many of them. Of course, the case would come back to the Office of Industrial Mobilization for the issuance of a Federal directive or letter of understanding.

I believe that the processing problems in the Department of Commerce were largely a result of this separation. I believe that with one office having the authority over the processors as well as the people initiating the Federal directive you may not reduce the length of processing time, but you may improve the quality of the processing.

Senator PROXMIRE. Did your study indicate a fix of responsibility for this failure of the system to work effectively in either group?

On the basis of what you just told us, is this a result of the division of authority?

Mr. SCOTT. Primarily the division of authority.

Senator PROXMIRE. What do you recommend to remedy the situation? You recommend a single office. Where should it be?

Mr. SCOTT. In the Office of Industrial Mobilization and should be chaired by an individual thoroughly knowledgeable of and having experience in priorities allocation.

Senator PROXMIRE. Taken away from Commerce?

Mr. SCOTT. I don't think so, sir.

Senator PROXMIRE. There is a problem here. Commerce does have acceptance by industry and great understanding of it and a high degree of competence.

Mr. SCOTT. The Office of Industrial Mobilization, as far as we can find, fairly represented the government's interest in matters involving Special Priorities Assistance requests to the extent they could.

Senator SPARKMAN. Let me ask a question. I have been reading part of your statement you had not read. I notice your discussion, your recommendations, and I notice you say "The recommendations we are presently considering primarily concern actions Commerce and the agencies should take in order to 'tighten up' the Special Priorities Assistance Program in order to improve its effectiveness." Then, later, your first recommendation is a good and strong one, to "obtain compliance with federal directives and enforcement of defense priorities and defense materials systems procedures." Then you stress "that the agencies have authority for resolving special priorities assistance requests and eliminating improper use of special priorities assistance." Still later you say "If this were done, Commerce could redirect some of its resources from processing special priorities assistance requests toward compliance and enforcement activities."

It seems you are pointing out there that the present weakness is a lack of enough manpower or time to do both and, therefore, the enforcement part is left lacking; is that right?

Mr. SCOTT. That's right, sir.

Senator SPARKMAN. You believe it ought to be tightened up so as to make certain that this enforcement responsibility will be effectively carried out?

Mr. SCOTT. Mr. Chairman, if I could expand on the point of processing problems. Part of it occurs in the Department of Commerce. A good portion of it occurs in the agencies themselves.

Senator SPARKMAN. You say Commerce and other agencies.

Mr. SCOTT. What we found there was that oftentimes sponsoring agency officials for one reason or another felt that they did not have the authority to handle the case, that only the Department of Commerce had the requisite authority to handle the cases and sent them to Commerce for processing. Our recommendation here to the sponsoring agencies appears on the next page. We recommend that the sponsoring agencies use the authority that they have to resolve these requests. Certainly they should attempt to screen from the total number they receive those which are valid and send to Commerce only those that do represent urgent problems.

Senator SPARKMAN. Real problems.

Mr. SCOTT. That's right.

Then the Department of Commerce can get on with the business of compliance and enforcement which we point out was almost nonexistent during the survey period.

Senator SPARKMAN. They seem to be good recommendations.

Senator PROXMIRE. You indicate that in many cases industry officials are unaware of their responsibilities and generally do not have a sufficient working knowledge of the system.

Why is this so and, in view of this, are they also unaware of the SPA?

Mr. SCOTT. We identified that industry unawareness of the basic regulations and especially the special priorities processing procedures available to them was caused by a couple of things.

One, of course, is a lack of education on the part of those who are using the system and enforcing the system; the Department of Commerce and the sponsoring agencies—Department of Defense, ERDA, et cetera.

Secondly, there are some small enterprises out there who are at some time or another a recipient of a rated purchase order from a fourth or a fifth tier customer and given the hundreds of thousands of business establishments in the country, it would be an almost impossible job to make each and everyone aware of the volume of regulations called the Defense Priorities and Defense Materials Systems. What we suggest to correct at least part of the situation is when a contract is awarded by a sponsoring agency that the prime contractor be thoroughly informed regarding his responsibilities.

We found, Mr. Chairman, that many of the purchase orders issued did not have a rating on them. You, as a supplier receiving a purchase order generally, would not know that it was a defense order. If everyone in the chain of command would take the time to emphasize and explain to the next person down the line that this is a defense rated order, that these are your responsibilities, we believe this problem of education would be largely overcome.

In terms of going to industry and merely holding sessions saying this is DPS and these are your requirements, I'm not certain it would be totally effective. Education requires a many pronged approach.

Senator PROXMIRE. What is the effect and nature of the Federal directive?

Mr. SCOTT. As it states on the Federal directive——

Mr. GUTMANN. What was the question?

Senator PROXMIRE. What is the effect and nature of the Federal directive?

Mr. GUTMANN. It is simply a letter to the company from the Department of Commerce that states you are hereby directed to ship so and so and such and such by a certain date. You are further directed to notify the priorities officer, Office of Industrial Mobilizations, et cetera.

Senator PROXMIRE. This direct letter or command from the Federal government is used under rare circumstances, presumably.

Mr. GUTMANN. Yes, sir.

Senator PROXMIRE. I understand it has been used. Your evidence is that direct letter or command from the Federal Government has been used for items of questionable urgency. Have Federal directives been used for such things as latex paint?

Mr. SCOTT. We found certain limited instances, Mr. Chairman.

Senator PROXMIRE. You give other examples.

Mr. SCOTT. Apart from the latex paint or mattress example, it was not used for the plastic hammer handles example. A Federal directive was not issued.

Senator PROXMIRE. That is a relief.

Mr. SCOTT. Based on our sample, we found instances where stock items for depot stock were requested. We did not determine the true urgency or need for a certain number of the depot stock items. There may be urgency. We cannot say this morning. Federal directives were issued. In terms of questionable urgency, we did find a number were resolved with Federal directives.

Senator PROXMIRE. Do they preempt urgent DX rated projects?

Mr. SCOTT. We did not find any examples of that, but I would not rule it out as a possibility.

Senator PROXMIRE. It is apparent from the chart attached to your testimony that the military branches and GSA are performing very poorly in processing the SPA requests.

Why is this so when ERDA and the Joint Aeronautical Material Activity Command are doing such a good job?

Mr. SCOTT. Basically, Mr. Chairman, it gets to the point I made earlier, that point being the particular agency official's understanding of his job and the impression of the authority he has to resolve in the Special Priority assistance request. In terms of ERDA it is a more compact organization than the Department of Defense. Also they have many fewer levels to process the assistance cases through than the other agencies.

Senator PROXMIRE. What are those offices costing the Government to operate?

Mr. SCOTT. $3.5 million to $3.6 million in total cost. $1.6 million was in the Department of Commerce and the remaining in the agencies.

Senator PROXMIRE. Do we need them from the taxpayer's standpoint?

Mr. SCOTT. We need some of them, but I'm not sure we need all of them. To enable Commerce to do a better job of compliance, the agencies have to do a better job of screening the cases before they send them to Commerce. The agency should emphasize the authority they have to resolve the cases and consider realining or reducing the levels through which the cases are processed.

Senator PROXMIRE. Thank you for your testimony, gentlemen. I want to commend the GAO for having the foresight to look into the problem. I thank your staff for the assistance they have given the committee.

Mr. GUTMANN. Thank you, Mr. Chairman.

Senator PROXMIRE. Our next witness is Mr. Jacques Gansler, Deputy Secretary of Defense, Materiel Acquisition.

STATEMENT OF JACQUES S. GANSLER, DEPUTY ASSISTANT SECRETARY OF DEFENSE (MATERIEL ACQUISITION)

Senator PROXMIRE. You can summarize your statement if you wish. Your entire statement will be in the record.

[The complete statement follows:]

TESTIMONY OF JACQUES S. GANSLER, DEPUTY ASSISTANT SECRETARY OF DEFENSE (MATERIEL ACQUISITION)

Mr. Chairman and members of the committee, I appreciate this opportunity to appear before you and participate in your review of the use of the authorities contained in Title 1 of the Defense Production Act of 1950, as amended.

As the Deputy Assistant Secretary of Defense (Materiel Acquisition), I am responsible for the acquisition and modification of acceptable weapon systems, subsystems and equipment which can be effectively produced from the industrial resources of the United States and its Allies. There are many programs and functions that support this primary mission, and among these is the management of Department of Defense (DoD) participation in activities conducted under Title 1 of the Defense Production Act of 1950, as amended.

Mr. Chairman, I will address my remarks from the three points of view to which your Committee hearings are oriented: administration and operation of the Defense Priorities System; application and interpretation of the Defense Production Act, and the impact of the priorities system on the economy.

Government officials who have testified earlier have described how important this time-tested legislation has been in the past and in the present to support national defense programs. The Act continues to serve its purpose of supporting our national defense needs. It is the cornerstone of the present legal structure for insuring preparedness to meet crises requiring the mobilization of the nation's industrial and material resources. It is vital in peacetime to assure deliveries against current defense contracts and orders. It also provides an established administrative mechanism that can be expanded and extended should the need arise—and we have had occasion to rely on this feature in the past.

If we did not have the authorities of the Act, especially those contained in Title 1, we would have had in the past and in the present, and would have in the future, very serious problems in obtaining timely deliveries of the materials, products and systems essential to maintaining the readiness of our Armed Forces. Equally important is the cost of lateness.

Operations under the Defense Materials System and the Defense Priorities System usually result in timely deliveries of orders placed by defense agencies and prime and subcontractors.

Special priorities assistance is a management-by-exception procedure used where the normal operations of the priorities system do not suffice to accomplish timely deliveries. Special assistance actions may be instituted by companies in the industrial chain who hold rated orders, or by affected Department of Defense components to resolve critical resource shortages and bottlenecks. These actions flow through Military Department or defense agency channels to the Bureau of Domestic Commerce.

The volume of special assistance cases processed to the Bureau of Domestic Commerce provides an index of the difficulty experienced by procurement activities in obtaining support for our programs, even with priorities.

The surge of defense orders in the 1965 to 1969 time frame found that the priorities system was suddenly needed. Despite its obvious availability, many people responsible for its functioning in both Government and industry were unfamiliar with its provisions and unskilled in its operations. Over the past two years, a similar situation has confronted the Government.

During the height of the Southeast Asia action, the monthly special priorities assistance actions processed by the DoD to the Bureau of Domestic Commerce reached a monthly peak of 542 cases in mid-1966, with a high monthly average of almost 500 cases during March through October 1966.

During the first six months of 1973 we noticed that despite the existence of priority rated contracts and orders, the number of special priorities assistance cases processed to the Bureau of Domestic Commerce increased sharply.

This was the first indication that the material shortages that have greatly concerned all of us, were occurring. Thus, from a normal peacetime work load of about twenty to twenty-five cases to the Bureau of Domestic Commerce each month, this activity rose sharply from 37 cases in February 1972 to a peak of 163 in June 1974. There were some variations during February through June 1974, but this was the peak period in the shortages. After that date—again with some monthly ups and downs—the trend has been sharply downward, with a low of 41 cases in March of 1975.

General Bray, the Director of the Office of Preparedness, has stated that he believes that the authorities of the Act have not exceeded or abused in any way detrimental to other national interests, even though the basis for its use has been viewed from different perspectives over time. I share this belief.

You have heard from previous witnesses where Title 1 authorities are vested and how the priorities system operates nationally. Bureau of Domestic Commerce Delegation 1 conveys priorities and allocations authorities to the Secretary of Defense.

Within the DoD, the Secretary of Defense has delegated these authorities to the Assistant Secretary of Defense (Installations and Logistics) and in turn, they have been redelegated to the Secretaries of the Military Departments and the Director of the Defense Supply Agency. Successive redelegations vest the basic authorities to apply priority ratings to applicable contracts and orders in DoD contracting officers.

Rating authority is also delegated to other DoD components; namely, the Defense Communications Agency, the Defense Nuclear Agency, the Defense Advanced Research Projects Agency, and the Defense Civil Preparedness Agency (DCPA). DCPA uses priority ratings for communications and warning equipment, and shelter equipment; for example, research and development for ventilation and generating equipment.

The DoD is authorized to place ratings for these Claimant Programs on applicable contracts and orders: A–1 Aircraft; A–2 Missiles; A–3 Ships; A–4 Tank—Automotive; A–5 Weapons; A–6 Ammunition; A–7 Electronic and Communications Equipment; B–1 Military Building Supplies; B–8 Production Equipment (for defense contractor's account); B–9 Production Equipment (Government-owned); C–2 DoD Construction; C–3 Maintenance, Repair and Operating Supplies (MRO) for DoD Facilities; C–8 Controlled Materials for Defense Industrial Supply Center; and C–9 Miscellaneous.

We are not authorized to apply ratings to contracts and purchase orders that fall into other claimant programs, such as the D-series, which includes privately-owned production or construction projects required to fill defense priority orders.

Since 1959, Bureau of Domestic Commerce regulations have required that all applicable contracts and orders within Approved Claimant Programs be rated, with some limitations. Civilian-type items procured for resale in Military Exchanges and services per se are not rateable. Bureau of Domestic Commerce regulations do not authorize the use of ratings under their priorities system for certain commodities, including petroleum, ores and subsistence; usually because they fall within the jurisdiction of other resource agencies, such as the Departments of Interior and Agriculture.

Priorities applied to our prime contracts and direct purchases flow down through the industrial tiers for most products and materials required to perform the contract or order, unless the rating chain is broken by some who participate in the system. Thus, the rating system operates essentially automatically in terms of the "flowdown" through the industrial sectors.

Each military service and the Defense Supply Agency designates personnel by name to the Office of the Assistant Secretary of Defense (Installations and Logistics) and the Bureau of Domestic Commerce. These representatives are empowered to request, through special assistance actions, adjustment of vendor deliveries to relieve an urgent shortage situation. When they learn of a conflict, shortage or bottleneck from their contractor, vendor or supplier, they may request the Bureau of Domestic Commerce to work out satisfactory deliveries by review of his order board to seek authority to direct or divert shipments to meet required delivery dates.

There are six offices authorized to deal directly with the Bureau of Domestic Commerce on priorities matters. Army has two, Air Force has one, Defense Supply Agency has one, Navy has one, and my office has one. The operation of the DoD special assistance activity, therefore, is decentralized. If conflicts occur with other rated orders, the Bureau of Domestic Commerce checks the request with the supplier, and may refer the conflicts to my office for resolution. The representatives of the DoD departments or agencies involved in the conflict are called in and we try to resolve the conflict by validating need dates, reducing requirements to bare minimums and determining the urgency of the programs involved at that point in time.

The two principal types of special assistance directive actions taken by the Bureau of Domestic Commerce are advancement of delivery dates of items and materials, and placement of rated orders when a supplier is unwilling to bid or accept a contract.

Recent examples of directive actions on our behalf by the Bureau of Domestic Commerce include Defense Supply Agency orders for clothing, fuel de-icer, steel and other metal orders, automotive anti-freeze and petrochemicals.

I have described essentially how the priorities system works for direct DoD programs.

If we wnat to support ratings for projects or programs beyond DoD rating jurisdiction, we must recommend to the Bureau of Domestic Commerce or the Office of Preparedness, as appropriate, that such ratings be granted because they are needed in direct support of our programs.

Thus, the DoD may recommend, if appropriate, that the Bureau of Domestic Commerce grant priority ratings for certain direct commercial orders placed by friendly foreign nations for their military programs, upon request of that

country of their authorized representatives in the U.S. These actions have been included in the C–6 claimant program designation.

We also may sponsor priorities for programs or projects of certain Federal agencies whose programs may have a direct defense relationship, for example, Maritime Administration ships that would be needed by the Navy in event of mobilization. These program actions are referred to the Office of Preparedness with our certification and/or our comments and recommendations as to defense relationship. Based on Office of Preparedness approval or disapproval, we delegate authority to rate a program or project, or advise the sponsor that the request was denied.

The Office of Preparedness has in general properly looked to the DoD for certification or non-certification to establish whether a particular non-DoD program is directly related to military programs. We provide certification where such a direct relationship can be established by the DoD. However, whether a particular non-DoD program is directly related to "national defense" cannot always be readily established by the DoD alone, particularly where that program is the responsibility of another agency.

To illustrate. We know that steel is used in defense products. Should a particular company receive Defense support for priorities for expansion because a small percentage of its production finds its way directly or indirectly into defense products? We may consume about six percent of national steel output. Steel is a basic industry. Basic industry is within the purview of the Department of Commerce. Considering overall national steel production and the number of producers, DoD cannot alone necessarily determine whether the particular company should have a priority as against any other steel company. This is a matter primarily for other agencies of the Government to determine, in consideration of the impact of supply and demand on the various economic sectors involved.

Where a program appears to have little or no discernible relationship to military programs, or when we do not have the information to make a reliable judgment as to whether the effort "promotes the national defense," we believe that DoD cannot certify or comment on such a relationship.

We believe that assumption of such information or speculation in this regard is not a proper basis for the DoD to make any determination or recommendation as to the direct relationship to the national defense or to the extent the national defense may or may not be promoted.

Arguments can be made in connection with almost any effort in the nation involving the manufacture and utilization of products and materials that such effort will contribute in some degree to the national defense. In considering the legislative history of the 1953 amendments to the Act and the narrowing of the definition of the term "national defense" in the Act at that time, it is our opinion that efforts which only indirectly relate to the national defense cannot be certified or supported for ratings by the DoD. We believe that we have properly followed both the terms of the statute and the intent of the Congress as reflected in the legislative history in this regard.

We recognize that there are many programs of important national interest that fall within the purview and responsibilities of other departments and agencies of the Government. Where we have been unable to certify or to identify a direct relationship of another agency's program to the national defense (as that term is defined in Section 702(d) of the Act), we have recommended to the Office of Preparedness that the views and positions of the responsible agencies be considered in the Office of Preparedness evaluation.

The lack of DoD certification or support does not preclude the Office of Preparedness from making an independent determination to grant or withhold priorities support based on information from other interested agencies.

As an example of the limited application of the Act to direct military needs, during the past year it has been alleged that the Navy or the DoD has applied a more restrictive standard for recommending priorities for merchant ships to the Office of Preparedness, in effect, to eliminate competition with Naval shipbuilding. The factual basis for departing from a "traditionally routine approach" was passage of the 1970 amendment to the Merchant Marine Act of 1936, which for the first time, allowed construction differential subsidy payments to new types of ships of no direct use to the military.

This background has been fully explained in Admiral Holloway's testimony before the Seapower Subcommittee (see Volume III, page 1504, "Hearings before the Seapower Subcommittee of the Committee on Armed Services" (H.A.S.C. No. 93–82)).

The DoD, through the Military Departments, provides priorities support for certain Foreign Military Sales to friendly nations within the context of the definition of "national defense" as that term is defined in Section 702(d) of the Defense Production Act. That definition includes the phrase, ". . . military assistance to any foreign nation . . .", as being an integral part of "national defense." We do not actively attempt to sell our systems to friendly nations, but may respond when a nation seeks to purchase our systems, if this is in accordance with, and reflects, established U.S. foreign policy.

When Foreign Military Sales are undertaken, we establish schedules so as to have minimal impact on the deliveries of weapons to our own Armed Forces, thus setting relative priorities of U.S. and foreign sales through the delivery schedules established. Ratings are applied to U.S. military department contracts for the systems involved.

These Foreign Military Sales are not the same as the few direct foreign military commercial purchases I mentioned earlier, for which we may seek Bureau of Domestic Commerce priorities support, on a case-by-cases basis, under the DO–C6 rating and claimant program designation.

I would like to address a few aspects of the impact of the priorities system at this point.

Its predominant use and value is that it helps to minimize weapon system costs by avoiding delays in delivery of material, thereby reducing leadtime and price impacts on schedules. It is also essential to the resolution of delivery problems for programs or projects which are not integral parts of primary weapon systems.

Last year the Navy had severe problems in obtaining "oil country tubular goods" for development of Naval Petroleum Reserve Number 1, Elk Hills, California and exploration drilling of Naval Petroleum Reserve Number 4, Prudhoe Bay, Alaska. The required amount of material—about 27,000 tons—represented approximately 1 percent of projected national production of oil well casing and tubing.

In the fall of 1974, after six months of having Navy's rated steel orders flatly rejected by most steel mills, Navy sought priorities assistance action from the Bureau of Domestic Commerce. The Bureau of Domestic Commerce, in coordination with the Office of Preparedness and the DoD, held individual informal meetings with seven of the eight major producers of oil country tubular goods to obtain their views concerning support for the Navy's program. A decision was made to support the program at the rate of 7,000 tons of oil country tubular goods per quarter, for CY 1975.

Currently, all producers of these materials are accepting defense rated orders. Navy adjusted its needs administratively to minimize industry impacts by modifying specifications for types and grades of pipe and tube required, accepting late deliveries and rescheduling drilling activities and delivery schedules for the Alaskan steel requirements.

It has been said that defense requirements have had an excessive impact on industry or the economy. In most non-weapon system cases the Department of Defense is a small user. It has been stated that defense needs for anhydrous ammonia had a severe impact on agricultural needs for the product. In 1974 our ammunition manufacture consumed less than one-half of one percent of the national capacity to produce anhydrous ammonia. If we take Bureau of Domestic Commerce data describing the total output of liquid and gaseous ammonia, our 1974 consumption for ammunition production was less than one-tenth of one percent of total national output of the product. Similarly, our 1974 needs for soda ash and caustic soda represented less than three-tenths of one percent of the national output of each of these products.

Chlorine is properly a subject of interest since there has been concern as to its availability for purification of public water supplies. Our purchases of liquid chlorine and chlorine gas represented less than one-tenth of one percent of the national output of that product.

Mr. Chairman, in reply to your letter of March 24, 1975, concerning our consumption of scarce and critical materials, we sent you on May 6, 1975, an analysis of consumption estimates and patterns covering a list of materials presently in the stockpile. Among other things, this analysis showed: national consumption of the materials in 1973, DoD consumption as percent of national consumption, and direct DoD consumption as a percent of total DoD consumption. The total DoD consumption may be summarized as follows: Seven materials showed 5% or less of national consumption, thirteen were between 6% and

9% of national consumption, and four were between 11% to 13% of national consumption. A few of the latter class of these materials, such as cobalt, are used primarily in aerospace and other areas of military interest.

The data we sent to you also traced consumption patterns through various industrial sectors of the economy. Again, with the possible exception of some materials whose use is oriented primarily to defense industry needs, defense consumption represented a relatively small portion of overall national consumption patterns.

DoD consumption is concentrated in a relatively few sectors. A study of the average percent of DoD consumption for 66 materials in 17 industrial sectors shows that there were only seven sectors where our consumption exceeded five percent. Our heaviest concentration was in one sector—Aircraft and parts—and here, in this defense-oriented industry, our average was only slightly more than eleven percent.

I spoke about the sharp increase in special assistance cases between 1972 and 1974, and mentioned that the number of cases filed with the Bureau of Domestic Commerce is a reasonable index of the difficulty in getting timely placement and deliveries of our contracts and orders. The profile of special assistance activity follows very closely the trends in industrial production. This is evident in Industrial Production Indexes for Products and Materials, based on Federal Reserve Board data.

Another analogy is the relationship of increased materials and product leadtimes, and the volume of special assistance activity. In real or apparent shortage situation, the number of special assistance cases initiated increases largely because they become necessary to overcome increased leadtimes and market resistance to rated orders.

The general increased rate of priorities assistance activity that we experienced over the past two years was due to many factors. Among these were actual materials shortages, increased resistance to the acceptance of defense orders by contractors and suppliers in peacetime (primarily because commercial orders are more profitable and defense orders are for one year only), and reluctance of industry to meet new economic demands for expansion as a result of high interest rates.

The priorities system poses a dilemma for the Government and perhaps, a paradox for the Congress. In peacetime and when major shortage conditions do not exist, the priorities system operates automatically with little or no impact, However, in times of war, crisis or shortages, the priorities system is required to overcome delays in shipments which would otherwise impact both defense readiness and defense costs.

In the past two years we have experienced industrial materials resource problems and economic conditions of an extraordinary nature. There has been an unusually large turnover of industry and government personnel who were knowledgeable in priorities system operations. New priorities systems regulations were issued last year by Bureau of Domestic Commerce, changing the previous priorities system.

In 1970, 203 man-years were spent by the DoD to process 464 special assistance cases to Bureau of Domestic Commerce out of an undetermined large number of actions originating in industry and in the field.

In FY 1974 the DoD placed 10,338,052 procurement actions totaling $40.1 billion. Rateable DoD procurement actions totaled about $30 billion. Many of these procurements require deliveries extending over a number of years. Special assistance actions handled in the field numbered slightly more than 4000. We processed 1310 residual cases to Bureau of Domestic Commerce with an expenditure of only 116 man-years. These man-years do not represent actual numbers of people. For the most part, they reflect fractional portions of time spent by many individuals in this activity. I am frank to admit that with a program of this size, there are bound to be problems of an administrative nature in the priorities system, and some mistakes undoubtedly have occurred. However, I believe they are relatively rare and I do not believe that these have harmed the national interest.

I would agree that the Government should tighten up the priorities system to make it more effective for current and possible wartime use. We are working closely with Office of Preparedness and Bureau of Domestic Commerce in efforts to make it work better. I do not believe that the statute needs to be changed to update the system or to remedy administrative or technical problems. I think it is flexible enough to accomodate changes that may be required in the priorities system, without major revision.

In closing, let me paraphrase a statement made recently by Secretary Schlesinger. Recent events have shown that we must be prepared, but we can only be as prepared as society permits. The Defense Production Act, in times of crisis or shortage, assists us in achieving the level of preparedness authorized by Congress, in the desired time and for the minimum cost impact.

Mr. GANSLER. This is Mr. Levitt who is the Director of Production Resources. That is one of the functions that falls under my responsibility. I have overall responsibility for acquisition of systems and subsystems for Defense procurement. My objective is to get the necessary equipment at a minimum cost.

The prepared remarks I did submit try to address the hearing from the three viewpoints you asked about: the administration and preparation of the Defense Priority System, the application and interpretation of the Defense Production Act, and the impact of the priorities on the economy.

I would like to highlight a few of the points.

I feel that the Defense Production Act is critical to the Department of Defense not only in time of emergency and shortages, but in peacetime as well. One of the primary objectives of its full operation in peacetime is the rapid response achieved, particularly in times of shortage and crisis. Looking back in history it is estimated that something on the order of 12 months would be required to set up an in-training program if a fully operational system were not in being.

But equally important to peacetime is the schedule and cost of the procurement and our equipment as a deterrent as authorized by Congress. This act as it exists assures timely delivery of equipment. Without it we would have late delivery of materials and products and systems essential to our defense. Of great interest to us is the fact that our cost would be significantly increased in peacetime if we did not have the Act. For example, over the last 2 years there have been significant increases in leadtimes due to shortages. Without the Act, not only would the cost have gone up because of inflation, but we would have significantly increased cost due to the leadtime impact on the cost.

The volume of special assistance cases processed to the Bureau of Domestic Commerce provides an index of the difficulty experienced by procurement activities in obtaining support for our programs, even with priorities. The surge of defense orders in the 1965 to 1969 time frame found that the priorities system was suddenly needed. Despite its obvious availability, many people responsible for its functioning in both Government and industry were unfamiliar with its provisions and unskilled in its operations. Over the past 2 years, a similar situation has confronted the government. During the first 6 months of 1973 we noticed that despite the existence of priority rated contracts and orders, the number of Special Priorities Assistance cases processed to the Bureau of Domestic Commerce increased sharply. This was an early indication that the material shortages that have greatly concerned all of us were occurring. Thus, from a normal peacetime workload of about 20 to 25 cases sent to the Bureau of Domestic Commerce each month, this activity rose sharply from 37 cases in February of 1972 to a peak of 163 cases in June 1974. After that date the trend has been downward.

The two principal types of special assistance directive actions taken by the Bureau of Domestic Commerce are advancement of delivery

dates for items and materials needed by the Department of Defense, and placement of rated orders when a supplier is unwilling to bid or accept a contract.

Recent examples of directive action include Defense supply orders for fuel de-icers, antifreeze, and petrochemicals.

If the DOD wants to support ratings for projects or programs beyond DOD—rating jurisdiction—and we did not rate all things of interest to the Department of Defense—we can recommend to the Bureau of Domestic Commerce or the Office of Preparedness that such ratings be granted because they are needed in direct support of the Defense posture.

The Department of Defense may recommend, if appropriate, that the Bureau of Domestic Commerce grant priority ratings for direct commercial orders placed by friendly foreign nations for the military programs upon request of the country or authorized representative from the United States. Only those programs felt by the U.S. State Department to be in the national overall defense interest are considered. Relative priorities are established through the delivery schedule of these programs. Detailed impact analysis is performed prior to a recommendation. These actions are included in the C6 claimant program designation.

We also sponsor priorities for programs and projects of certain Federal agencies whose programs may have a direct defense relationship; for example, the Maritime Administration ships that would be needed by the Navy in a time of emergency. Based on the Office of Preparedness approval or disapproval, we delegate authority to rate a program or advise the recommending agency that the request was denied.

Arguments can be made in connection with almost any effort in the Nation involving utilization of materials that such effort will contribute to some degree to the national defense. Considering the legislative history of the Act, it is our opinion that efforts that only indirectly relate to the national defense cannot be certified or supported by the DOD. We believe we have properly followed the terms of the statute and the intent of Congress as reflected in the legislative history in this regard.

We recognize there are important programs of national interest that fall within the purview of other departments and agencies of the government. Where we have been unable to certify a direct relationship of our agency programs to the "national defense" as that term is defined in section 702(d) of the Act, we have recommended to the Office of Preparedness that the views and position of the responsible agencies be considered in the Office of Preparedness evaluation.

The lack of DOD support does not preclude the Office of Preparedness from making an independent determination to grant or withhold priorities support.

It has been alleged that the Navy or Department of Defense has applied a stricter standard for recommending priorities for merchant ships to the Office of Preparedness. The factual basis for departing from a "traditionally routine approach" was the passage of the 1970 amendment to the Merchant Marine Act of 1936. This amendment allowed construction of differential subsidy payments for new types of ships of no direct use to the military.

The DOD, through the military departments, provide priority support also for Foreign Military Sales to friendly nations within the context of the definition of "national defense" as the term is defined in section 702(d) of the Act. It includes the phrase "* * * of military assistance to any foreign nation * * *." as being an integral part of "national defense." This is done when it corresponds to the established U.S. foreign policy.

These Foreign Military Sales are not the same as the few direct commercial military purchases by friendly foreign nations which I mentioned earlier which are treated on a case-by-case basis for DO–C6 ratings.

Rather, these Foreign Military Sales are basically military assistance and they are funded fully by the recipient country.

I would like to address a few aspects of the impact of the priority system. I would like to emphasize its predominant use and value is that it helps to minimize weapon system cost by avoiding delays in delivery of material, thereby reducing leadtime and price impact on schedules. It is also essential to the resolution of delivery problems for programs or projects which, while not integral parts of primary weapons systems, are essential to the overall defense posture.

It has been said that the defense requirements have had excessive impact on industry or the economy. I question this. In most non-weapons cases the Department of Defense is a small user. It has been stated that Defense needs for anhydrous ammonia had a severe impact on the agricultural needs of the product. In 1974 our ammunition manufacture consumed less than one-half of 1 percent of the national capacity to produce anhydrous ammonia.

Chlorine also was a subject of interest. There was concern about its availability for purification of public water suppliers. Our purchases of liquid chlorine and chlorine gas represented less than one-tenth of 1 percent of the national output of that product. According to Bureau of Domestic Commerce figures, municipal water treatment plants require about 5 to 6 percent of the national output of chlorine. The rest flows in the free market.

We have sent data to your committee showing the share of the DOD usage on many critical materials. In almost all cases this is less than 5 percent. In a few cases where there is a heavy industrial involvement with a military sector, this went to 11 to 13 percent. An example was cobalt.

We believe that the defense procurements do not have a significant impact on the commercial sector.

The increased rate of priority system activity was due to many factors. Among these were material shortages. Of greater and growing concern to us was the increased resistance to the acceptance of defense orders by contractors and suppliers in peacetime with or without rated orders primarily because the commercial orders are more profitable to them and defense orders are for 1 year only. We have seen reluctance to make new developments.

In summary, the priority system poses a dilemma. In peacetime and when major shortage conditions do not exist, the priority system operates with little or no impact on the economy. In times of peace or war, crisis or shortage, the priority system is required by the Defense Department to overcome delays in shipment that would impact defense readiness and defense cost.

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In 1970, 203 man-years were spent in processing 474 special assistance cases. In 1974, a year of extreme shortage, the DOD placed 10 million separate procurement orders totaling approximately $40 billion. Rateable procurement action totaled about $30 billion. Special assistance actions handled in the field only came to a little over 4,000. Of those, we processed only about 1,300 residual cases to the Bureau of Domestic Commerce.

Of over 10 million cases we had something like 1 case in 10,000 that were processed and that was in a year when lead times were tripling in terms of deliveries. We did it with one-half as many people as we had in 1970. I am frank to admit in a program of this size there will be problems of an administrative nature. I believe mistakes are relatively rare and I do not believe they have harmed the national interest.

I agree that the government should tighten up on the priorities system. We are working with the Office of Preparedness and Bureau of Domestic Commerce. I do not believe the statute needs to be changed to update the system. I think it is flexible enough to accommodate changes that may be required in the priority system without major revision.

In closing I will emphasize that the Defense Production Act assists us in achieving the level of preparedness authorized by Congress in the desired time with minimum cost impact.

Senator PROXMIRE. Senator Sparkman has to leave. I will yield to him. He has a couple of questions to ask.

Senator SPARKMAN. There are two short questions. First, I want to get it clear. You refer to the Bureau of Domestic Commerce. That is in the Commerce Department, isn't it, and not the Defense Department?

Mr. GANSLER. The Commerce Department.

Senator SPARKMAN. I read your statement and I didn't see where you stated your position exactly on the necessity for amendments. I gather you do not believe that the Defense Production Act needs amending.

Mr. GANSLER. We believe it is flexible enough as it is written to allow changes and updating of the system in adjusting to the times. We feel there should be changes, but we feel that it can be done within the Act as it now exists.

Senator SPARKMAN. Thank you very much.

Senator PROXMIRE. The difficulty is that you, representing the Department of Defense, understandably want everything you can get. If the Department of Defense could dictate their budget, (if the generals and admirals got everything they wanted for every program,) we would have a $150 billion to $200 billion defense budget. Yet, we have to make tough decisions. We have to recognize that the economy has other priorities and defense has to be fitted into these overall priorities.

But now it is the sector of our society that gets an opportunity to get first in line for scarce resources. This does have a serious impact on the economy. It can have a serious impact on the economy. It amounts to billions of dollars procurement, $20 billion or $30 billion a year. It is true, as we pointed out yesterday, we have a $1.5 trillion economy. Defense spending, as a percentage of total

GNP, may seem small, but in certain sectors it goes up to 11 and 13 percent. Because of the shortages we have at times this can cost those who are not in the defense sector some time, and time is money. It can also cost them an opportunity to get the materials they want if they are in truly short supply.

I want to move quickly into an area which General Bray raised yesterday. That is the question of Defense Agency reluctance to limit the application of military priority ratings on common procurement items such as children's and infants' apparel or musical instruments and phonographs. Most people would agree when it comes to an important steel component necessary to a missile or weapon system; most people say it would have first priority. It is hard to understand why you include children's and infants' apparel, musical instruments, and take a priority on that. Why should you be first in line there?

Mr. GANSLER. We have been trying to work out a list with General Bray of the classes and cases for which it appears we can give up on the priorities and do essentially what you are suggesting, which is to take some classes of items and remove them from the priorities system.

Senator PROXMIRE. I would be inclined to go the other way. You ought to have a rifle shot. You ought to zero in on the things you have to have and do away with everything else. Why shouldn't you just confine your priority to that which obviously you can justify as being weapons you have to have.

Mr. GANSLER. Basically about 95 percent of our orders are military equipment related in terms of weapons and/or subsystems to specifically directly related items that you would agree are military needs. It is the other 5 percent, those items the GSA buys and rates. That is 5.3 percent that we are concerned about here—the things you are listing. You said musical instruments. That is not rated. Some of the other items you listed are rated.

Senator PROXMIRE. The evidence we have is that musical instruments are rated.

Mr. GANSLER. By GSA, but not by the Department of Defense. They are rated by GSA. Your suggestion of starting to list things that are ratable, and justifiably so by your definition, would take 95 percent of the items. It is the other items that fall into the marginal category and there are within the classes certain things which should be rated.

General Bray gave us a list of 19 items, classes he recommended we consider dropping the priorities. We could accept 11 of those. There were some that didn't appear obvious from the title of the things that are included. When the Joint Chiefs went through the list, rocket propulsion materials were listed under "Fuels and Lubricants." Because of the way the classes were broken down, it was not obvious what was in the category by looking at the title. There was one category, group 99, which includes message center equipment, but it is called miscellaneous. There are clearly problems in trying to take general classes.

Senator PROXMIRE. As I say, this Senator would agree there are areas that should get a priority. We will come to whether that amount is correct. I think we would argue whether it is 95 percent or less than

that. At any rate, this law has been on the books for 25 years and we still don't have that limitation. Until we started holding these hearings there was no evidence there would be any movement in this direction at all. Now, we are told you are considering some. General Bray suggested 19 and you might have 11. This isn't very vigorous or encouraging action. I recognize that, if the Defense Department is going to get priorities, the priorities should be to that which can be clearly justified.

Mr. GANSLER. If you take the $40 billion worth of procurement, $30 billion is rated; 25 percent of the defense procurements are not rated.

Senator PROXMIRE. Why not rate *items* of supply instead of *classes?*

Mr. GANSLER. The reason the Commerce regulation says rate essentially all of the $30 billion is because of the administrative burden. As the GAO pointed out, one of the big problems is the number of special assistance cases coming up in the past year. In a time of shortage you are processing the special assistance cases. If you were to remove a large number of the classes or do it by specific items, you are putting on a large administrative burden. It then passes to the lower levels. It gets passed to industry and subcontractors and so forth. If you had it on selected items, you then pass the judgment factor on down.

Senator PROXMIRE. You skip the judgment factor.

Mr. GANSLER. Senator, those items you chose to not rate. In other words, when you start doing the selection process it would be those that fall into the small percentage of the total of the United States. You would include those that are critical to us, and those are the ones for which there is significance.

Senator PROXMIRE. Would you judge why a high priority system is needed for any Department now? Right now we have a pretty slack economy. We cannot point to an industry that is not operating well below capacity. We have a surplus of manpower, as you know, heavy unemployment.

Mr. GANSLER. Today, in a nonsupply problem economy, the priorities do not have a significant impact. As soon as the economy changes, the system, being in place, starts to operate fully.

We found it in the 1973–74 time period. Titanium went from 20 weeks of shipment time to 60 weeks in a short time period, in a time period shorter than we could have put the system to work in.

Senator PROXMIRE. You justify on a case of standby?

Mr. GANSLER. That is what we are doing.

Senator PROXMIRE. What would happen if the Defense Priorities System were terminated?

Mr. GANSLER. It would be catastrophic due to the cost if we again become supply limited. The point you raise of the cost impact due to schedule would be catastrophic for the Defense Department.

Senator PROXMIRE. How much would the cost go up? 5 percent? 3 percent? 10 percent?

Mr. GANSLER. I hesitate to give an answer. It would depend on how it was implemented.

Senator PROXMIRE. If you are saying the cost would go up greatly, somewhere, sometime, it must be paid. It means the cost to the pri-

vate sector because they have to get farther back in line; they have to wait or forego things that are truly short if there are things now.

So you are saying the cost would be great. If you give this up, it means the cost on the part of the private sector for waiting in line must be——

Mr. GANSLER. The schedule impact is not one of a cost that comes from someplace else. It is due to the fact you planned on delivery to arrive at a certain time. Priority comes in if they are late. If you are planning on building an airplane in 2 years and the parts don't arrive, that is when the priority takes place, because then your parts would come to you before someone else.

Senator PROXMIRE. We needed a shower door in our house. They brought the shower door that was too big. My wife got on the phone and raised the dickens. They took people off working on other shower doors and they would work on this shower door because we had already waited five times as long as they said it would take. Won't this be the same thing in the Defense Department?

Mr. GANSLER. You planned, from your cost effectiveness, for the shower door to arrive on the first day. Your wife was home on that day and at that time.

Senator PROXMIRE. Five weeks later it had not arrived and when it came it was too big.

Mr. GANSLER. There was a point when it did not arrive in time when someone makes the priority judgment between the Senator and another person.

Senator PROXMIRE. I didn't call, but my wife did.

Mr. GANSLER. The purpose of the priority is, in the event of a shortage, the Defense Department receives priority.

Senator PROXMIRE. Why couldn't we reserve priorities solely to those cases that require Special Priorities Assistance?

Mr. GANSLER. The basic case is we place 10 million orders. On the order of three-quarters of those are rated. It is that rating that allows us to get the military equipment without the special priorities assist- us to get the military equipment without the Special Priorities Assistance. In the event we have no rating, we would come for Special Priorities Assistance constantly; 1 out of every 10,000 orders went to Commerce. In normal peacetime that load is less. It is 1 out of 50,000 orders that have to go to Commerce. If we didn't have the Act, everything of a defense nature would become a Special Priorities Assistance case. The Special Priorities Assistance is a special case with a priority.

Senator PROXMIRE. It is hard to buy in view of the fact that the Defense Department is late on everything, late repeatedly. You can find no weapons systems that comes in on time. You don't have that in the private sector. The record of the performance and timing is better in the private sector.

Mr. GANSLER. The data I have seen on public works in the private system does not indicate that.

Senator PROXMIRE. There is one portion of your testimony that is in singular contrast with the testimony of other witnesses. You assert that the prime function of the DPS is to save money for the Defense Department. Others have characterized it principally as an expediting and preparedness mechanism. You well know that I am not adverse to saving money especially in our costly military programs.

But there is little support evident in the Defense Production Act for your interpretation. Can you tell me how you arrived at this interpretation of the Defense Priorities System? Can you tell me whether this represents the management philosophy of the Department of Defense regarding this system?

Mr. GANSLER. In my testimony what I said was it was of equal importance to us, the cost as well as the management preparedness. We have to have the Defense Production Act priorities in the wartime case. The peacetime readiness of this system for mobilization is one of the reasons for its existence.

In addition, during peacetime, what we find is that it allows us to get the equipment faster, particularly when there are shortages. It allows us better readiness in terms of the equipment and it gives us lower cost equipment on schedules that would be otherwise adversely impacted.

Senator PROXMIRE. How much lower?

Mr. GANSLER. Significantly lower in 1973 and 1974 and no lower in 1975. In 1975 the existence of the priority doesn't buy as much at all because there is no supply shortage. In 1973 and 1974 we would have had drastic impacts.

Senator PROXMIRE. You say you saved money in 1973 and 1974. I argue there is no way you can save money without the cost being higher for the people who are displaced in line, who had to go to the back of the line and wait for Defense orders to be filled.

Mr. GANSLER. During a time of shortage those people were suffering as in time of war they would be suffering.

Senator PROXMIRE. I don't think you would save in the economy. The taxpayer has to pay in taxes because the defense costs were higher or he paid because there was a shortage.

I can see it from the standpoint of preparedness, from the standpoint of being sure we have the right weapons when we need them. But I can't see, on the cost standpoint in the economy as a whole, how you make saving anywhere anytime.

Mr. GANSLER. On the point of readiness, that is achieved; on the point of cost, it is savings to the Department of Defense and not the total economy as a whole.

Senator PROXMIRE. Why aren't you as aggressive about saving the taxpayers' money in other areas such as our 5,700-man military musical force? Incidentally, I note that the Defense Department is providing good support to the musicmakers by applying defense priorities to the purchase of musical instruments and sheet music. [See Exhibit 5.]

Mr. GANSLER. For musical instruments—that is supplied by the GSA. I have no comments on that for the record, but I can comment——

Senator PROXMIRE. Why can't the Defense Department take a strong position? I am sure if they had, that would have ended years ago.

Mr. GANSLER. That was one of the items I recommended to General Bray be dropped.

Senator PROXMIRE. We haven't seen it dropped yet.

I am asking all our witnesses, Mr. Gansler, how they view the language of the Defense Production Act which limits the meaning of

the term "national defense" primarily to "military or atomic energy *production* and construction programs."

I think there has been a serious omission in deleting the words "production and construction" from the implementing directives. This omission takes the Defense Priorities System out of the industrial production and construction area for which it was intended and allows it to be applied across the board. No witness has yet been able to enlighten us on the authority or reason for this deletion. Can you shed any light on the matter?

Mr. GANSLER. Let me get the Act. The paragraph you are referring to, says "The term 'national defense' means programs for military and atomic energy production or construction, military assistance to any foreign nation, stockpiling, space, and directly related activity." That is the full paragraph which you are quoting. That is paragraph (d) under section 702.

Senator PROXMIRE. That's right.

Mr. GANSLER. The transference of that portion from the Act to the Commerce regulation, as you point out, omits the words "production or construction." It is our understanding that the intent of the total paragraph (d), including the "directly related activity" portion, does provide a match with the Commerce regulation.

Senator PROXMIRE. You have dropped the words and it seems you have broadeded the Act. Don't you think dropping the words makes a difference in interpretation of the Act?

Mr. GANSLER. Department of Defense doesn't write the regulation. That is the Commerce Department's job. I think there are judgmental considerations in terms of paragraph (d).

Does "directly related activity" relate to production and construction or directly related activity of national defense?

I could interpret it the latter way and, therefore——

Senator PROXMIRE. It is a Defense Production Act and the legislative history indicates it is concerned with the production and construction. It has been broadened to include general procurement. Are you aware of the authority for this shift in emphasis?

Mr. GANSLER. Not specific authority. The hearings in 1953 that did cover the amendment did discuss and interpret the national defense and did talk specifically, as I recall it, about the question of directly related and indirectly related and tried to define what was directly related. In that discussion it became clear to us that we were doing what was the intent of the Congress.

Senator PROXMIRE. I will ask Mr. Kincade to comment.

Mr. KINCADE. You are referring, I believe, to the May 19, 1953, colloquy between Senators Ferguson and Capehart on the Senate floor. As we read that exchange, the specific cases they mention as hypothetical ones that they wanted to tie in under "directly related activity" are cases of military-related industrial production, not general military procurement.

They speak of mining, for instance; the allocation of equipment for the purpose of mining strategic materials.

There is no language we can find in that 1953 colloquy or in the legislative history that allows the Act to extend to military procurement across the board. Rather, the priorities provisions and the

National Defense definition clearly limit its application to industrial production and construction for military or atomic energy purposes.

Mr. GANSLER. I have no knowledge other than those hearings, the actual Act itself and the way in which the regulations have been written.

Senator PROXMIRE. We are concerned with this broadening and we think the basis of the Act which had a specific, limited purpose and purpose which almost everybody can applaud, has been broadened in a way that can be seriously questioned and may be damaging to the economy.

The Defense Supply Agency has reported to this committee that it has purchased items under rated support for 23 Federal civil agencies, some of which include AID, D.C. Government, Labor Department, Panama Canal Company, State Department, and Smithsonian Institution. [See Exhibit 11.]

How do you justify these sales to what appear to be "nonratable" agencies? What is the authority for this?

Mr. GANSLER. First of all, much of what is bought for them is nonrated equipment, in fact. I don't know if you have the difference, but there is a comparison of that data that shows they do buy, for example, fuel which is a nonrated item.

The total procurement they make which they supply to other Government agencies is total DSA supplied to nondefense agencies which comes out to be 1.2 percent of the DSA procurements. Of that, less than half of it is actually rated. So something on the order of .5 percent of the DSA total procurement, are rated items for other agencies. You are talking about one-half of 1 percent of the DSA items.

Senator PROXMIRE. You have to pick up the abuses in areas; as they go along, they accumulate.

Mr. GANSLER. The total they buy could accumulate.

Senator PROXMIRE. These include $855,000 worth of clothing to Labor Department, $430,000 worth of clothing to AID, $110,000 worth of clothing to NASA, $55,000 worth of clothing to Transportation. [See Exhibit 11.]

Mr. GANSLER. I can't comment on this.

Mr. LEVITT. DSA buys everything in bulk. They buy to satisfy all of their customers' needs. These customers represent just 0.5 percent of the total sales to customers. They rate the total procurement when they go and buy. These customers requisition from their stocks. To separate this would require separate procurement for this array of customers and all other customers who represent much more, or 99 percent of their business.

Administratively it is not proper. It would cost more to have separate contracts.

Senator PROXMIRE. The simplest thing in my mind is not to put anything under a rating. Why you have to have clothing under a rating to begin with is beyond me.

Mr. GANSLER. We are weeding these out.

Senator PROXMIRE. The Justice Department was sold $57,000 worth of rated electronics. What were these electronics for? How do you justify them? What are their implications for the national defense?

Mr. LEVITT. If an item is stocked by DSA, it is cheaper to order them from DSA, to buy it in bulk.

Senator PROXMIRE. I wonder if administrative convenience is adequate reason to distort or divert the priorities system.

Mr. GANSLER. When we buy electronics parts, the vast majority are for military electronics equipment, missiles, and that sort of application. We buy the parts for spare parts as well as spare subsystems. They put these into stock and a small percentage of these may be requested by another agency.

The application of your question—I don't know the use of it. It is taken out of stock. When we order 99 percent of them for valid military application, that is the point where the administrative point we are raising comes in. We are still a small user of electronic parts in the United States. We have trouble getting people to supply us these parts today. We have to set up separate lines to get parts. That is how hard it is.

I don't think we are having a major impact on the economy, but the economy is having an impact on us.

Senator PROXMIRE. What kind of control do you exercise over the ratings requested by the Central Intelligence Agency, and the Federal Aviation Administration? Are their programs or requests automatically rated?

Do you make any attempt to judge their relation to the national defense?

Shouldn't you screen these requests as the controlling authority for them?

When a program appears to have little or no discernible relationship to military programs, you try to make a reliable judgment as to whether the effort promotes the national defense; is that correct?

Mr. GANSLER. The ones rated by the agencies fall specifically under the Act. For example, the FAA has radar and has control centers jointly used by the Air Force. Those are the sort of things that fall under the Act. FAA rating authority is limited to the research, development, and construction of the national airspace system and supporting units program, covering the types of things I just mentioned. This is the limit of FAA automatic rating authority.

The NASA application fits specifically under the Act where it says "Space."

Senator PROXMIRE. They are automatically rated, then, or given a priority automatically?

Mr. GANSLER. Yes. Those that would fit under the Act.

Senator PROXMIRE. Regardless whether they are related to national defense?

Mr. GANSLER. It is assumed by the Act that they are related to national defense. The act doesn't distinguish military space versus other space. We apply the Act as Congress wrote it and it says all space.

Senator PROXMIRE. I would think that NASA is not a military space program.

Mr. GANSLER. That's correct.

Senator PROXMIRE. The aspects of the space program are in the Defense Department.

Mr. GANSLER. There are joint programs, the Space Shuttle, for example.

Senator PROXMIRE. It is hard to picture the Space Shuttle as much of a defense program in view of the fact you expect the Soviet Union and China, for that matter, to participate.

Mr. GANSLER. In that case I am not defending the Act but applying the Act. "Space" is called out without specifying whether it means military or nonmilitary applications.

Senator PROXMIRE. Corps of Engineers' military projects are rated; is that correct?

Mr. GANSLER. Yes.

Senator PROXMIRE. In fiscal year 1974 a $732,915 contract was let by the Corps for walkways and landscaping at the amphitheater area of the Arlington National Cemetery. This contract is rated DO–C2. How do you justify this? [See Exhibit 12.]

Mr. GANSLER. I don't, sir, but it is a part of the approved C–2 claimant program under the existing priorities system; and this is one I have under review for possible revision.

Senator PROXMIRE. Are procurements for the military PX's and commissaries rated?

Mr. GANSLER. No, PX's are not.

Senator PROXMIRE. Can you assure us that they haven't been? Do you have adequate checks on them?

Mr. GANSLER. We have found slippages and we believe it is a rare case. But where we have found it, we have taken corrective action.

Senator PROXMIRE. Do you try to determine the type of procurement?

Mr. GANSLER. When I say we review things for their application to defense, those are things procured for other agencies or industrial cases or those things not procured by the Department of Defense, those listed as ratable, and there are some that may or may not be in that list——

Senator PROXMIRE. What I read from the list provided by DSA were rated: Army, Navy, and Air Force. DSA are the purchasers of each of these. [See Exhibit 11.]

Mr. GANSLER. The majority of those fall into the category of those classes that I suggested to General Bray could be dropped. I believe from your list they are in those classes. This is the updating we have been talking about.

Senator PROXMIRE. As you know, Mr. Gansler, the Defense Production Act defines national defense as including "military assistance to any foreign government." Is there a difference, in your view, between Foreign Military Sales and the Military Assistance Program?

Mr. GANSLER. One is fully funded and one is not.

Senator PROXMIRE. Why are they shown as separate programs in the Defense Department budget documents?

Mr. GANSLER. At the request of Congress.

Senator PROXMIRE. Is there authority in legislation for placing Foreign Military Sales in the Military Assistance Program?

Mr. GANSLER. Foreign military sales are those items sold by the Department of Defense as contrasted to direct commercial sales; the Foreign Military Sales are military assistance, the difference being they are fully funded.

Senator PROXMIRE. My reason for asking the questions is we are having difficulty determining the authority and rationale for giving defense priority ratings for contracts for weapons and military equip-

ment for which the Defense Department purchases for resale to foreign governments.

Can you justify this for foreign governments when it is a straight business deal and not part of the Military Assistance Program?

Mr. GANSLER. They are not done as straight business deals. The Foreign Military Sales Programs, as contrasted to commercial sales——

Senator PROXMIRE. You mean, for example, if Remington Arms Co. sells something to a government in Africa, for instance, or South America?

Mr. GANSLER. That would be what I characterize as a direct military sale.

Senator PROXMIRE. But a great deal, most of our Foreign Military Sales are conducted by the Defense Department.

Mr. GANSLER. That's correct.

Senator PROXMIRE. If they sell F–5 planes to the Shah of Iran, it gets priority rating, and it gets put ahead of the needs of the U.S. economy.

Mr. GANSLER. The objective of the Foreign Military Sales done by the Department of Defense is for military assistance. It is not done for cash flow. The objective is in the association with military assistance; the State Department says it is an action which is part of the overall defense posture.

Senator PROXMIRE. All weapons receive the priority support if they are military sales by the Defense Department.

Mr. GANSLER. Military assistance receives the same rating. There is a distinction made. We do review carefully the impact these would make on the U.S. defense position and also on the economy.

Senator PROXMIRE. What good does that do if you give it automatic rating?

Mr. GANSLER. The conclusion is one of evaluating the relative schedules. The impact is schedule impact. What we can do by comparing the impact of Foreign Military Sales and defense needs, we can put them in relative priorities.

Senator PROXMIRE. What about the F–5?

Mr. GANSLER. The F–5 does not compete.

Senator PROXMIRE. It is not used by us but sold to foreign governments.

Mr. GANSLER. We have the F–5–E, but not the F–5–F.

Senator PROXMIRE. What priority rating does the F–5–F have?

Mr. GANSLER. It has the DO rating.

Senator PROXMIRE. It has priority rating even though it is sold to foreign governments?

Mr. GANSLER. The indication by the State Department is that those sales are part of the overall defense posture. In evaluating the overall defense posture, that is an important part of it in regard to the State Department position.

Senator PROXMIRE. You are doing this under the C–6 rating category; is that so?

Mr. GANSLER. The C–6 is for direct military sales through commercial channels. The other ones, which are the military assistance cases are procured along with our own programs.

One of the advantages to us is, by the common buy, we do reduce the cost to ourselves. If we would buy something for a foreign gov-

ernment and simultaneously for the United States, we would schedule them differently; and since we buy them as a single buy we get a cost reduction for the United States by having the joint buying power.

Senator PROXMIRE. You buy the weapons under the ratings control codes. It makes it hard for you to justify the purchase for military assistance which Commerce controls.

Mr. GANSLER. Where we are applying it, it is for the category called aircraft. If it is a Foreign Military Sales of the aircraft, it would fit under that aircraft code. It is a military program.

Senator PROXMIRE. How can you justify these Foreign Military Sales purchases as qualifying for priority ratings under the military assistance category when they are not even covered by the military assistance priority rating code? This is rather technical, I know, but isn't there a serious anomaly in either your reasoning or in your procedure?

Mr. GANSLER. I don't see the anomaly. Perhaps it is a technical one I don't recognize. The basis of the sale in this case is that it has been a State Department decision that that foreign military sale is a direct part of the overall defense posture. It is combined with ours, but as I point out, with practical attention to the relative scheduling of the programs and the priority applied to the program as part of the U.S. defense posture.

Senator PROXMIRE. Let me take a minute. The State Department, then, or somebody in the State Department—Dr. Kissinger would be busy——

Mr. GANSLER. He gets involved in a lot of them.

Senator PROXMIRE. Dr. Kissinger is involved in a great many important things. Somebody else we don't know makes a tremendously important decision here: whether or not a priority is given to a contract for a weapon being sold to Iran or Africa or a South American country on the notion that this is vital for our own national defense. It is not really subject, in all practical likelihood, to much review by the Secretary of State or President of the United States or congressional committees or the leadership of Congress.

Mr. GANSLER. Any letter of offer for a proposed Foreign Military Sale over $25 million does go to the Congress.

Senator PROXMIRE. Maybe it would be wise to knock out priorities for weapons for foreign governments and let them take the same position as American industry has to take in obtaining resources and productive capacity.

Mr. GANSLER. That, more properly, as I indicate, would be a question for the State Department and not us.

Senator PROXMIRE. I will ask Mr. Kincade to proceed.

Mr. KINCADE. We are trying to establish a record here. When we began discussing the matter of Foreign Military Sales, the Senator asked several questions which tried to elicit your view that these purchases for resale were part of Military Assistance Programs. Then we asked: Were foreign governments procuring these weapons under the military assistance code provided for in the Act and in the regulations? You said no, the Defense Department is not procuring the items for foreign governments under the military assistance priority rating code, but under the national defense priority rating code.

It seems that under the regulations of the system or the provisions of the Act, you have to have it one way or the other, but you can't have it both ways. You can't be procuring them under the national defense rating code on the one hand for use in military assistance programs on the other.

There is an anomaly in your reasoning as to which code Foreign Military Sales come under or in your procedures as to the code under which you are buying weapons for resale.

If they are for foreign military assistance, they should be under priority rating code C–6. If they are for national defense, they would be under priority codes A–1 through A–6. But we question that you could do it under A–6.

Mr. GANSLER. The distinction you are drawing and I am not, is, are those things for U.S. defense? You are saying things for the U.S. defense, by the State Department and our own understanding, are those that may well be held by the foreign friendly allies.

Mr. KINCADE. I understand that. I am going to earlier testimony that you view Foreign Military Sales as indistinguishable from and a subset of the general Military Assistance Program.

Mr. GANSLER. Our understanding at least of the legislative history in this area is clear. Basically the purpose of Foreign Military Sales and Military Assistance are identical. I think we are still saying that, and I think I am having trouble seeing the distinction you are drawing between the two. One is funded and that is the difference.

Mr. KINCADE. If Foreign Military Sales are part of Military Assistance Program and they appear that way to Secretary Schlesinger, as aid to other nations, then why isn't Defense procuring the items for resale under the C–6 code, "direct defense needs of friendly foreign governments"? What you are saying certainly is that it is for national defense and military assistance, but DPS regulations establish separate authorized program identifications for these two purposes. We think there is a distinction there, at least in terms of the priority procedures and rating codes.

Mr. GANSLER. We are drawing a distinction. It may be a technical one. I am trying to explain how we distinguish them. We use the C–6 code for the direct commercial sales. They are reviewed on a case-by-case basis where the Department of Defense is not authorized to make a decision but a recommendation. The other category is the combined foreign buying with the United States. We use the category for which that is applicable. That is the distinction we draw. There is a distinction in that the U.S. Government in the case of sales and military programs——

Senator PROXMIRE. Let me suggest at this point—this is technical and very important. We would be best served if you would submit a memorandum stating what is the position on this matter. Mr. Kincade has done a fine job of indicating the dilemma. You can clarify it in the memorandum.

[The requested information follows:]

HOW DOD HANDLES FOREIGN MILITARY SALES

U.S. defense articles and services are exported to foreign governments in three ways. Under the Foreign Assistance Act, we provide these items as grant aid. Under the Foreign Military Sales Act, we sell them. Finally, defense items are sold to foreign governments through commercial channels; that is, the

transaction takes place directly between a U.S. firm and the foreign government.

Grants and sales under the Foreign Assistance Act and the Foreign Military Sales Act are handled by the Department of Defense. It is clear from current and past legislation as well as from legislative history that these transactions, whether grant or sale, are for the same purposes. These purposes are to further U.S. foreign policy objectives, to enhance the defensive position of allied and friendly foreign countries, and to strengthen collective security arrangements in which the U.S. has engaged with other countries.

To insure that sales made and grant programs administered by the DOD are consistent with the purposes stated above, such sales and grant programs are approved by the Department of State, which, by law, is charged with responsibility for determining whether a sale or grant program should be made. It is our view that these sales and grants are military assistance as that term is used in the definition of "national defense" in Section 702(d) of the Defense Production Act. They are an essential part of our overall security program and are given priority for production along with production for our own armed forces.

In integrating defense procurement for foreign countries with that for our own forces, the Department of Defense (DOD) establishes relative priorities, insures optimum production rates, and achieves the lowest possible unit costs.

We use our delegated rating authority and Authorized Program identifications for DOD military procurements, including procurements for foreign military sales and grants. This principle is followed where the DOD programs, executes and administers these procurements. The Authorized Program Identification (Claimant) codes we apply in these instances are mentioned on page 5 of my prepared statement.

Since direct commercial sales procurements for foreign nations are not handled by the DOD, the system for assigning priority ratings for defense production does not automatically pertain. These commercial transactions do, however, require State Department approval in the form of an export license issued under International Traffic in Arms Regulations. In issuing these licenses, the State Department consults with the Department of Defense which has the opportunity to object on the grounds of security considerations. Should the U.S. contractor experience difficulty in meeting his production schedules for direct commercial sales, he is entitled to seek Special Assistance on a case-by-case basis through or on behalf of the foreign government involved.

The C–6 or C–4 Authorized Program Identification (Claimant) codes are applicable to these case-by-case special priorities assistance rating actions. The DOD does not rate these cases. On pages 7 and 8 of my prepared statement, I mentioned that we recommend to the Bureau of Domestic Commerce (BDC) that a rating be placed on special assistance rating cases for commercial sales involving approved foreign direct defense needs appropriate for our sponsorship.

If the special assistance application on a direct commercial sale to a foreign country (outside of U.S. Government agency procurement) involves production resources per se, the DOD may recommend that the C–6 suffix be applied. If the special assistance application involves foreign purchase of a Munitions List item outside of U.S. Government agency procurement, the DOD may recommend that the C–4 Authorized Program identification be applied.

The current Defense Materials System (DMS) and Defense Priorities System (DPS) represent a distillation of a few effective and closely related principles and elements which have evolved through successive trial and error modification and simplifications of a series of national economic production and distribution control systems used during mobilization, war, emergency and peacetime conditions.

The DMS and DPS essentially have been limited in application to the programs of the two principal Claimant Agencies; the DOD (and its "associated agencies") and the AEC, now ERDA. These systems provide a priority for contracts and orders supporting defense procurement programs and quantitative measures which establish allocations of controlled materials and industry set-asides to support the priorities that have been issued.

ORIGINS AND SYSTEM RATIONALE FOR DOD APPLICATION OF RATINGS TO ITS PROCUREMENTS, INCLUDING FOREIGN MILITARY SALES

A balanced production material flow is guided by four principal elements: (1) "Authorized Programs," for which controlled materials requirements for contracts and orders supporting claimant agency programs are forecasts in

advance (2) The claimant agency allotment principle (review of the controlled materials requirements and issuance of program determinations or allocations to the Claimant Agencies by the Federal Preparedness Agency (FPA)); (3) The "vertical allotment" principle wherein Claimant and subclaimant agencies provide for the allotment of controlled materials to prime consumers, and in turn for their secondary consumers. This is done in order to meet the claimant agency program requirements; (4) Establishment of industry set-asides by BDC to insure that controlled materials are available to back up rated orders issued and that the rated order load is equitably distributed among controlled materials producers.

Under present BDC Regulations, the allotment cycle remains within the Government. It can be extended once again to industry as necessary, particularly during emergency or mobilization conditions.

The claimant agency and vertical allotment principles were developed to: (1) Enable the agency having the primary or entire responsibility and know-how for procuring the product or program being produced, to guide production of that product; (2) Give the total impact of any product or category of product on material supply and to develop procedural and substantive consistency in requirements and allotments, recognizing the relationship of intermediate and common commercial component products in the vertical chain. In the case of military items or weapon systems, identified as Class A products, the DOD controlled materials requirements are derived insofar as possible from contract bills of materials covering the Class A items involved.

For the above reasons, the DOD is responsible for: (1) Determining controlled materials requirements for all Class A products that it procures, whether for direct DOD programs or for foreign military sales and assistance programs; (2) Placing ratings and the appropriate Authorized Program Identification code specified by Defense Materials System Regulation 1, Defense Priorities System Regulation 1, and in accordance with BDC Delegation 1 to the DOD. Thus, under this system when the DOD department or agency implements its procurement program, it is responsible and accountable under the claimancy principle, for placement, management and execution of the program on a timely basis. This includes controlled materials requirements forecasting and providing for the allotment of controlled materials to contractors producing the weapon system or end item involved. It is applied to procurements of items for DOD use and for FMS. DOD uses only those ratings and Authorized Program codes authorized for its use.

The DOD responsibility also extends to sponsoring or endorsing to the BDC on a case-by-case basis, priorities for appropriate Munitions List (C–4) items and production resources (C–6) items, including commercial component products and materials that may be purchased by friendly foreign nations through domestic commercial channels. By standing interagency procedures, action on C–4 and C–6 actions by BDC is subject to DOD substantive policies and program guidance.

Many of our procurements represent combined DOD and foreign requirements for the same item. A foreign requirement may represent a significant part of a buy, as is often the case today. As indicated by the historical record, assignment of different ("split") priorities to the common buy, in addition to incurring added costs, can result in our inability to get necessary resources to produce the total requirement on time, or in sufficient quantities to meet our own needs.

Mr. GANSLER. There is one act—I didn't have knowledge of it—in addition to the Defense Production Act, the Foreign Military Sales Act, which justifies the use of allocations and priorities for military aid to friendly foreign nations. There are two acts which say the same thing and have the same intent that cover what we are talking about.

Senator PROXMIRE. The American consumer suffers from these preemptive buying practices by the Department of Defense, and I believe many of these consumers—myself included—have a hard time finding the national defense benefit of wholesale arms marketing around the world.

We sold more arms throughout the world than all other nations in the world combined, 54 percent of the total last year. We sold more

than twice as much as the Soviet Union, five times as much as the French, fifteen times as much as the British. Don't you think you have a real problem in explaining to the American public why their needs should take a back seat to foreign arms purchasers?

Mr. GANSLER. I think again that question is appropriate for the State Department and not the Defense Department. The facts are——

Senator PROXMIRE. I am talking about defense needs. This is a matter of defending our economy. The State Department may sincerely try to justify this on the basis of the argument that we need it to defend the country. Yet, doesn't it seem absurd we are selling more than our great adversary the Soviet Union, twice as much in arming the people of the world? Shouldn't you be able to tell us whether or not in your judgment it is justified?

Mr. GANSLER. In our judgment these sales affect the United States' defense posture. We are not in a position in the Defense Department to decide one country versus another. In terms of total impact of the sales on U.S. defense or worldwide position of the nations with which we are allied, we feel the sales are a positive factor.

Senator PROXMIRE. Doesn't the priority support you accord to exporters of weapons discriminate against other classes of exporters? Don't you think civilian exporters would like to receive this preferential treatment for their goods orders?

Mr. GANSLER. I think there is a priority distinction being made here. The same distinction that would be made in the case of U.S. procurement in the defense interests and nondefense interests.

Senator PROXMIRE. Are there any barriers that you can see to according priority ratings to military equipment we purchase for our own use and not to military equipment we purchase for resale?

Mr. GANSLER. We obviously discussed the administrative one. That is a minor one. But it would double significantly the number of purchase orders we placed because we would have to rate our own and not rate the Foreign Military Sales.

Senator PROXMIRE. It is a problem that may require a little more work on the part of the Defense Department. In view of the colossal amount of goods involved here, the billions of dollars of goods involved, it seems you can make a justification.

Mr. GANSLER. You said it would be a little more work for a colossal impact. I think the numbers are the other way. It would be a significant impact on the Department of Defense. It would raise by 60 percent the workload on Defense and Defense procurement because that is the magnitude of Foreign Military Sales.

Senator PROXMIRE. What is the number of man-years you put into this?

Mr. GANSLER. In terms of the forwarding of the special assistance it is equivalent to 116 man-years this year. That is only for the special priorities processing.

Senator PROXMIRE. How much altogether?

Mr. GANSLER. The number of procurement agencies in the United States is what we are talking about. Every single missile, plane, ship, tank——

Senator PROXMIRE. You won't have to increase it 60 percent if you increase the ratings.

Mr. GANSLER. Foreign Military Sales is over $8 billion; domestic procurement is $14 billion. In some cases the ratio is higher than that. The U.S. Army has a higher ratio. For example, we have a foreign military sale that runs in parallel with the domestic program and you would have to double-order it. Without doing that, some of the cost savings we get would be lost which would be a disadvantage to us and we would have an increased administrative burden.

Thirdly: You would have the impact of the foreign government obviously being unhappy about it. In terms of the overall defense posture, which is the intent of the Foreign Military Sales, that would be weakened.

Senator PROXMIRE. I argue with every one of those, of course. What you are saying is that foreign countries would have to pay more for their arms and have to wait longer in line. Why not?

Mr. GANSLER. That would be the case. If we say the defense of a nation is a shared responsibility, and I think we do say that, and part of that is defense by the foreign friendly allies and part by the United States, if we can get equipment to them by a certain time we feel it is appropriate. If they can't get the equipment and need beefing up, it is a trade made through foreign military sales or military assistance. The Military Assistance Program is viewed in toto as part of the overall defense posture of the United States. In my opinion there should be no application of the priorities where it is not in the U.S. defense posture interest.

Senator PROXMIRE. Mr. Gansler, there is one point in your prepared statement that requires comment, even though it is not directly related to the Defense Priorities System.

You recite the shopworn litany that the Department of Defense does not actively sell weapon systems to other nations but merely responds to their requests. You go on to say that such sales are in accordance with our foreign policy.

We keep hearing these claims, and yet the Secretary of Defense himself told the Senate Foreign Operations Subcommittee last year that the Defense Department—and I quote—"indicated a willingness to sell F–4's to the Saudis. They have not requested them." We are aware of other cases where your Department has actively marketed American arms abroad.

As to these sales being in our foreign policy interest, that is a matter of judgment. There are many of us who feel that the virtually unrestricted marketing of military hardware around the world is not in our best interest. In his annual report this year Secretary Schlesinger went so far as to say that we sell arms to countries even when we don't believe they need them. His precise words were that the U.S. sells weapons "even though recipient nation perceptions of their defense needs may not coincide with our own."

Now, I find this a shocking policy, but at least the Secretary of Defense is refreshing in his candor. I wish it infected other officials in his Department and that we didn't have to hear these tired old cliches about not selling weapons overseas and about their foreign policy benefits. Repeating these phrases endlessly isn't going to make them come true.

I will ask you, if we are selling arms for foreign policy reasons, how do they qualify for national defense priorities?

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Mr. GANSLER. With regard to the question of whether we apply it for foreign policy reasons, the acts under which we are applying it are the Foreign Military Sales Act and the Defense Production Act. Those two acts specifically address the question of foreign military sales and assistance. Those are the acts under which we are doing it.

Specifically, your question is relating to the comment that Secretary Schlesinger made about the willingness to sell as related to aggressive selling by the Department of Defense. By and large, there is a good deal of activity by American industry in the foreign countries in trying to generate interest. What happens is these companies will ask permission of the Department of Commerce and then it usually comes to the Department of Defense.

In the event that someone is interested in selling, that willingness to sell is in response usually to a domestic request by a U.S. company. It could be an inquiry from a foreign government. They in turn would submit a formal request to industry and a decision would be made. The decision as to which country and what types of equipment are sold to the country is a State Department decision.

When the Secretary says that countries get things and the inference is drawn that it doesn't make sense; that is a personal view.

Which countries and how much is a State Department decision.

Senator PROXMIRE. Are you able to account for the variance in performance by elements of the Defense Department with the Air Force solving only 3 percent of its problems whereas the Joint Aeronautical Material Activity handles 85 percent of its priority problems without outside assistance?

Mr. GANSLER. We looked at that briefly. We are interested in the same thing. All people aren't nearly equal in their competence to perform a job. One group is more competent than another. We can use improvements and we are checking on that.

Senator PROXMIRE. Three percent is not an impressive record of performance.

Are you taking any action to improve this situation or to bring Department of Defense agencies up to a reasonable standard of performance? Why not?

Mr. GANSLER. We increased the training, which is one of the problems here. We are waiting for the GAO report to get more of the details so we can take specific action in regard to this. However, JAMAC essentially is an Air Force organization with a few Navy and Army personnel. They handle virtually all Air Force priorities cases. Only those they don't resolve go to Air Force Headquarters. Their achievement offsets what would appear to be a low rate of Air Force achievement.

Senator PROXMIRE. Does your office in fact make any effort to oversee the operations and performance of the elements to which the Secretary of Defense has delegated rating authority?

Is this effort limited to following up on Special Priorities Assistance cases?

Mr. GANSLER. Yes, sir, to the extent of policy. In specific cases the only thing that Commerce has delegated to us from a policing viewpoint is that associated with—a dozen or two aircraft primes where-

in we have an audit responsibility on behalf of the Bureau of Domestic Commerce. In the other case we only do investigations at the prime level because we do not get into the books of the company in terms of passing it on down.

Senator PROXMIRE. What is the nature of your performance evaluation and review program for the DPS?

Mr. GANSLER. My personal assessment is that in a period such as 1973–74 with the extreme shortages of material, to process one out of 10,000 cases, that is a good job.

Senator PROXMIRE. What is the nature of your program? What does it do and how does it work? How do you reevaluate?

Mr. GANSLER. The only review we do make is at the prime level. We do not go down to the lower tiers in terms of assessing the program.

Senator PROXMIRE. Mr. Gansler, does your office conduct any training programs for Defense Department elements in connection with the proper use of the Defense Priorities System?

Mr. GANSLER. Recently there was one run for mobilization planning. DSA runs a number of training programs. There is a training program and it is run locally in each area around the country. We definitely agree it needs beefing up. We will increase the amount of training.

Senator PROXMIRE. Do you have a training program for defense contractors?

Mr. GANSLER. There are programs for contractors.

Senator PROXMIRE. Do you provide periodic bulletins or circulars on the use of the system, either to Defense Department personnel or to contractor personnel? If not, why?

Mr. GANSLER. There are some, yes; we will do more. One of the things is take advantage of the GAO study.

Senator PROXMIRE. Will you indicate for the record how well it is used, the number of circulars, et cetera.

What means do you have for educating the thousands of people involved in defense contracts on the proper use of this critical system?

Mr. GANSLER. That would be what I would be providing—the training and brochures. [See Exhibit 13.]

Senator PROXMIRE. How can you protect against misapplication of ratings, against overbuying under rated orders, against use of the system to cover up scheduling errors unless you have an aggressive program of training and education?

Mr. GANSLER. The system of training and education is necessary, is being done now. I personally believe it should be increaesd. I agree with your recommendation.

Senator PROXMIRE. Do you require elements of the Defense Department or the services to conduct training or education programs?

Mr. GANSLER. There is a point where the implementation takes so much more.

Senator PROXMIRE. How many people, Mr. Gansler, are involved full time in your office in the management of the Defense Priorities System?

Mr. GANSLER. In my personal offices, one. Most of the intent of the Office of the Secretary of Defense is to delegate to the service and

the agency the administration of all programs. My office is intentionally very small throughout, for administration of major weapons systems as well as priorities and allocations.

Senator PROXMIRE. How many people are involved in other elements of OSD in the full-time management of your Defense Priorities System responsibilities? Please give me an estimate if you haven't the exact figure.

Mr. GANSLER. Within ASD itself, I believe that is the primary office, there is only one within ASD; within the service organization is where the implementation is done.

Senator PROXMIRE. Give me an estimate of the number of people working throughout the Defense Department.

Mr. GANSLER. Within the service and agency——

Senator PROXMIRE. Full time.

Mr. GANSLER. It is equivalent man-years. That was the 116 I gave you. It had been up to 200 in the past. That is only those that give Special Priorities Assistance. All the contracting officers do the ratings. [See Exhibit 14.]

Senator PROXMIRE. With the Defense Department clearly the major claimant or using agency for the system, do you feel this number is adequate to ride herd on a system that involves over 10 million contracts and orders yearly?

Mr. GANSLER. No, but I'm afraid if I answer the question as you started your comments by saying we probably could find in most areas where we need significantly more money—we have cut back on them consciously to live within the budget. We have had almost a 50-percent reduction to live in the budget.

Senator PROXMIRE. Doesn't this mean that you term "management-by-exception" actually undermanagement or management by neglect?

Mr. GANSLER. I believe it is more by exception.

Senator PROXMIRE. Halfway between.

Mr. GANSLER. There are clearly going to be some exceptions with a small number of people. However your own investigations or GAO investigations so far indicated it is a small number of cases in a small part of our overall business.

Senator PROXMIRE. You would be better served, it seems, if you cut down the area of allocations of ratings and priorities so that you would have a smaller field within which to operate. I think we would have a better system and it would be more satisfactory to everybody, more acceptable. I'm not asking you to hire 10,000 civilian employees in DOD.

General Bray told us there is competition for steel plate for naval vessel hulls.

Mr. GANSLER. In the first quarter of 1975 for the carbon steel plate there is something like eight percent of capacity that is being rated now. Of that 8 percent, 93 percent of it is for MARAD and 7 percent for the U.S. Navy. Only 8 percent of the total is being rated at all. I don't believe in times such as we have today that there is a significant impact. Clearly in times of shortage there was.

Senator PROXMIRE. You don't think this has significant impact on availability of tankers?

Mr. GANSLER. Not with MARAD having 93 percent of those rated. Navy is only getting 7 percent.

Senator PROXMIRE. Navy gets what it wants first?

Mr. GANSLER. No, they are equal priorities.

Senator PROXMIRE. Mr. Gansler, from the testimony we have heard yesterday and today, I think we can conclude that the Defense Priorities System as presently operated is a "sick" system. It has become cancerous and the cancer appears to be spreading. I believe it needs attention on an urgent basis.

I know you will be working with officials from the Office of Preparedness and from the Commerce Department to remedy the ills that have been disclosed. When you submit your annual report to the Joint Committee this year, will you include a special section on the measures you have taken to put the system back in proper working order? Will you keep the committee informed of the actions you are taking in the meantime? [See Exhibit 15.]

Thank you for your time and your testimony, Mr. Gansler.

These hearings are hereby recessed subject to the recall of the Chair.

[Whereupon the hearings were recessed subject to the call of the Chair.]

[EXHIBIT 1]

May 23, 1975.

Mr. SAMUEL B. SHERWIN,
Deputy Assistant Secretary for Domestic Commerce,
Department of Commerce,
Washington, D.C.

DEAR MR. SHERWIN: It has come to my attention that the Department of Defense and certain other claimant agencies using priority ratings under Defense Production Act authorities have the impression that they must rate all procurement. The DMS and DPS regulations are cited as the authority for this interpretation, particularly Sections 1(c), 6, and 7 of the DPS, and Sections 1(c), 7, and 8 of the DMS, which deal with the mandatory use of ratings.

It is my judgment that neither the Defense Production Act nor the DMS and DPS Regulations provide, or were intended to provide, any legal basis by which the Department of Defense or other claimants can use blanket rating authorities in this manner. However, to make certain that there can be no further misinterpretation, I would like the DMS and DPS Regulations to be restated or revised by your agency to clear up this matter. I would like immediate action on this so that the DOD, ERDA, NASA and others may effect early changes in the guidance procedures to their procurement offices.

Would you please advise Mr. Arnold Lewis by phone on [redacted] the name of the person who will represent your agency in correcting this matter within as short a time as possible.

Sincerely,

LESLIE W. BRAY, Jr.,
Director.

[EXHIBIT 2]

June 6, 1975.

Gen. LESLIE W. BRAY, Jr.,
Director, Office of Preparedness,
General Services Administration,
Washington, D.C.

DEAR GENERAL BRAY: This is in response to your letter of May 20, 1975, concerning those provisions of the Defense Materials System and Defense Priorities System regulations that require the mandatory use of ratings. As noted in your letter, specific provisions of BDC regulations provide for the mandatory extension of priority ratings by the various claimant agencies. However, these provisions also state that ratings may only be extended on programs approved for rating authority by OP and for materials subject to rating authority as specified by BDC.

It continues to be the policy of the Bureau of Domestic Commerce that the use of priorities for *specifically approved* programs be mandatory. We feel that if a program is of sufficient importance to have been approved for rating authority, that program should be afforded the long term protection from delay due to unforeseen material shortages that may occur at any time. It has been this Bureau's experience during the many years of administering these systems that the mandatory assignment of priority ratings by DOD, ERDA, etc., to contracts supporting approved programs and mandatory assignment of priority ratings on each successive lower tier contract or purchase order helps pevent delays to approved programs as the result of production breakdowns, log-jams, strikes, and material shortages. We have found that the effectiveness of priority ratings is greatly reduced if authorized only after a problem has arisen. In addition, we feel that the continued mandatory use of priorities or approved programs during varying economic conditions assures the awareness and understanding of the current existing priorities and allocations systems throughout government and industry.

The clear intent of the Defense Production Act is to assure timely delivery of materials to national defense programs. The mandatory use of ratings for approved programs is the best method of achieving this intent. Revoking those provisions of the DMS and DPS Regulations that require the mandatory use of ratings would neither restrict the use of ratings for specific items, nor moot any criticism of the System.

The use of priority ratings as authorized by BDC under the DPS and DMS regulations is currently restricted to specific approved national defense programs and for specific products and materials. If further restriction on the use of priorities is to be considered, we could adjust the System by:

(*a*) Expanding or Contracting Schedule I to DPS Reg., 1 and Schedule II to DMS Reg., 1.:

(*b*) Adjusting Schedule II to DPS Reg. 1 "Materials and Services Not Subject to BDC Rating Authority," or:

(*c*) A combination of (a) and (b) above.

I look forward to discussing with you and other interested parties, our position concerning this matter. I will be out of the country until June 23 and ask that my representative, Mr. F. A. Schroff, be contacted in my absence and I will again become involved upon my return.

Sincerely,

SAMUEL B. SHERWIN,
Deputy Assistant Secretary
for Domestic Commerce.

[EXHIBIT 3]

TITLE 32A—NATIONAL DEFENSE, APPENDIX

CHAPTER I—OFFICE OF PREPAREDNESS, GENERAL SERVICES ADMINISTRATION

[DMO–12]

[Use of Priorities and Allocation Authority Under the Defense Production Act for Federal Supply Classification (FSC) Common Use Items]

Authority: (Sec. 205(c), 73 Stat. 390; 40 U.S.C. 486(c).

1. *Purpose.* This order provides policy guidance concerning the use of priorities and allocation authority under Title I of the Defense Production Act of 1950, as amended, for the procurement of common use items in the Federal Supply Classification (FSC).

2. *Policies.* The following guidance is provided pursuant to the Defense Production Act of 1950, as amended; section 201 of Executive Order 10480, and section 3 of DMO 8400.1:

a. Priority ratings under Title I of the Defense Production Act of 1950, as amended, are not authorized for certain FSC Groups, Classes, and Items (1) which are of the type commonly available in commercial markets for general consumption, (2) which do not require major modification when purchased for military or other rateable government use, and (3) which are in sufficient supply as to cause no hindrance to the accomplishment of military or other national

defense objectives. Such Groups, Classes, and Items will be as specified from time to time by the Department of Commerce with the approval of the Office of Preparedness, General Services Administration. Procurement in these Groups, Classes, and Items is to be made without priority assistance, including single service procurement that may include defense and defense-supporting needs. In the event procurement difficulties are encountered which threaten timely delivery, application for special assistance may be made for those categories of supply authorized special assistance in existing lists, and must be accompanied by full justification to support the need for such assistance.

b. Priority ratings may be used for the procurement of other authorized FSC Groups, Classes, and Items only in quantities required to meet the needs of approved programs of rateable agencies. The quantities of current procurement of each Group, Class, and Item shall be based on and shall not exceed the ratio of rated purchases to total purchases for that Group, Class, and Item that was consummated in the 6-month period preceding the first day of January and July in each year. Any other periodic cycle considered suitable and agreed to by the Domestic and International Business Administration, Department of Commerce, and the procuring agency may be substituted.

c. In the interest of minimizing administrative costs, where rated procurement under paragraph 2b, above, constitutes 97 percent or more of the total procurement of a Group, Class, or Item, all of the Group, Class, or Item may be bought on ratings.

3. *Procedures.* Requests for additional authorizations of Classes, Groups, or Items should be presented to General Services Administration (AP), Washington, DC 20405, accompanied by a statement of justification indicating why the Class, Group, or Item should be regarded as necessary or appropriate to promote the national defense and why defense-related requirements cannot be met without the use of priorities.

4. *Implementation.* Departments and agencies involved with this program shall issue implementing instructions and directives no later than 30 work days from the effective date of this order. Copies of such instructions, directives, and related documents shall be furnished to the General Services Administration (AP) on a routine basis as issued.

5. *Effective Date.* This order is effective upon publication in the Federal Register.

Dated: June 19, 1975.

ARTHUR F. SAMPSON,
Administrator.

ATTACHMENT

Federal Supply Classification Groups and Classes Not Eligible For Priority Rating

Group

35 ----------Service and Trade Equipment—except:
3510 Laundry and dry cleaning equipment.
3520 Shoe repairing equipment.
3530 Industrial sewing machines and mobile textile repair shoes.
3540 Wrapping and packaging machinery.

37 *----------Agricultural machinery and equipment—except: 3740 Pest, Disease, and frost control equipment.

56 *----------Construction and building materials—except:
5660 Fencing, fences, and gates.
5680 Miscellaneous construction materials.

71 *----------Furniture.

72*----------Household and commercial furnishing and appliances—except:
7240 Household and commercial utility containers.

73 *----------Food Preparation and Serving Equipment—except:
7310 Food cooking, baking and serving equipment.
7320 Kitchen equipment and appliances.
7360 Sets, kits and outfits; Food preparation and serving.

74 ----------Office machines, visible record equipment, and data processing equipment.**

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* Special assistance may be granted.

** This group does not include general purpose automatic data processing equipment, software, supplies, and support equipment (see group 70).

75 *----------Office supplies and devices.
77 *----------Misical instruments, phonographs and home-type radios.
78 *----------Recreational and athletic equipment.
79 ----------Cleaning equipment and supplies.
85 *----------Toiletries.
87 ----------Agricultural supplies.
88 ----------Live animals.
89 ----------Subsistence.
91 *----------Fuels, lubricants, oils, and waxes—except:
9135 Liquid propellant fuels and oxidizers, Chemical base.
9150 Oils and greases: Cutting, lubricating and hydraulic.
9160 Miscellaneous waxes, oils and fats.
94 *----------Nonmetallic crude materials—except: 9420 fibers: Vegetables, animal and synthetic.
99 *----------Miscellaneous.

Class
7630----------Newspapers and periodicals.
7660----------Sheet and book music.
8325----------Fur materials.
8425----------Underwear and nightwear, women's.
8450----------Children and infant's apparel and accessories.
9610----------Ores.

* Special assistance may be granted.

[EXHIBIT 4]

June 20, 1975.

Mr. MICHAEL J. TIMBERS,
Commissioner, Federal Supply Service, General Services Administration, Washington, D.C.

DEAR MR. TIMBERS: The enclosed Defense Mobilization Order, and list of Federal Supply Classification Groups and Classes Not Eligible for Property Rating represent initial actions designed to limit priority support under the Defense Production Act with respect to the procurement of certain common use supplies.

The DMO is the result of extensive discussions with representatives of your FSS and the Departments of Commerce and Defense. It reflects my view that revisions in authorized uses of the Defense Production Act priorities are required to achieve closer adherence to the intent of the Act. It will be published in the Federal Register.

The list of specific groups and classes selected for exclusion will not be published as part of the DMO. It will be included in instructions implementing the DMO and may be revised periodically as new information becomes available.

I have requested the Department of Commerce, the agency delegated responsibility for administering the defense priority system, to issue implementing authorizations as quickly as possible. Pending receipt of those instructions, you should begin taking actions in your directorate which would permit early response to the revised guidance. My staff in the Crisis Management Division has been instructed to continue to be available to assist you as you may request.

Sincerely,

LESLIE W. BRAY, Jr.,
Director.

Enclosure.

June 20, 1975.

Mr. SAMUEL B. SHERWIN,
Deputy Assistant Secretary for Domestic Commerce, Department of Commerce, Washington, D.C.

DEAR MR. SHERWIN: Enclosed is an advance copy of the Defense Mobilization Order (DMO) denying priorities support to certain groups and classes of supply in the Federal Supply Classification (FSC) except as justified to receive special assistance. I have forwarded the DMO for publication in the Federal Register.

The specific groups and classes selected for exclusion from ratings at this time are on a separate list also enclosed. This list will not be published as part of

the order, but will constitute part of these instructions limiting ratings until such time as an amended list may be promulgated.

This initial release is made on the basis of information developed thus far by the lengthy review conducted in cooperation with your Office of Industrial Mobilization, the Office of Assistant Secretary of Defense (I&L), and the Federal Supply Service of the General Services Administration. We will continue to examine other categories of equipment and supplies in this and other programs so that necessary revision in authorized uses of Defense Production Act priorities can be made to achieve closer adherence to the intent of the Act.

I would like to effect the changes required by this action as quickly as possible. It would help to this end if staff would proceed to develop the necessary measures, including revisions to your DPS and DMS regulations. Staff of my Crisis Management Division are available to assist as you may request.

Sincerely,

LESLIE W. BRAY, Jr.,
Director.

Enclosures.

June 20, 1975.

Mr. JACQUES S. GANSLER,
Deputy Assistant Secretary of Defense, Office of the Assistant Secretary of Defense for Acquisition, Department of Defense, Washington, D.C.

DEAR MR. GANSLER: This is in reference to your letter of 15 May 1975 commenting on our proposed DMO on the use of priorities to procure groups, classes, or items in the Federal Supply Classification (FSC), recommending that only 11 entries be included on the list, and that all others be dropped until the DOD conducts further studies.

As you know, my staff has been reviewing this problem for some time with representatives from the Department of Defense and Commerce, and the GSA/FSS. We feel this is sufficient information to support the issuance of a list of items for which rating authority no longer can be allowed. However, where specific instances of procurement difficulty are reported, special assistance support may be authorized if sufficient justification is presented. After reviewing your suggestions, and the recommendation of the JCS, we have further revised the excluded groups and classes and established a list which will be promulgated along with a Defense Mobilization Order to be pubilshed in the Federal Register. Both the DMO and the list are forwarded herewith for your information.

This list is an initial release. I appreciate the fact that you will be conducting further studies on the need for priorities to support the procurement of items on the list. We welcome the results of your efforts. It is hoped that many other categories of equipment and supplies will be examined so that our procedures may better reflect the intent and objectives of the Defense Production Act.

Sincerely,

LESLIE W. BRAY,
Director.

Enclosures.

Mr. R. G. ROMATOWSKI,
Assistant Administrator for Administration, Energy Research and Development Administration, Washington, D.C.

DEAR MR. ROMATOWSKI: We have been reviewing the use of priorities and allocations under the Defense Production Act of 1950, as amended, in an effort to assure closer adherence to the intent of the Act. We have found a number of changes to be necessary, and as an initial step have provided new policy guidance issued in the enclosed Defense Mobilization Order (DMO). In addition, we have prepared the enclosed list of supply categories which no longer may be procured with ratings. These documents have been issued for implementation by the appropriate agencies delegated Defense Production Act responsibilities under Executive Order 10480.

I am interested in early implementation of the revised guidance. In this regard, it would be appreciated if your Agency would take appropriate steps to expedite the issuance of instructions to your procuring offices advising them

of the new limitations in the use of priorities to procure supplies contained in the enclosed list, and any subsequent changes.

My staff has been working with your Mr. Frank Roche on these matters, and I have directed them to provide any assistance he may require in this matter.

Sincerely,

LESLIE W. BRAY, JR.,
Director.

[EXHIBIT 5A]

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., April 23, 1974.

NOTATION FOR RECORD

Subject: Meeting of Director with DOD on the Use of Priorities for Supply Distribution Program.

The Director met with officials of the Department of Defense (DOD) on the subject of the use of the Defense Production Act (DPA) for the priority purchase by the Federal Supply Service (FSS) for their Supply Distribution Program. Those present were:

Major General Leslie W. Bray, Jr. (USAF, Retired) Director, Office of Preparedness

Mr. Hugh Witt, Deputy Assistant Secretary, Installations and Logistics

Major General Floyd Trogdon, Deputy Assistant Secretary, Production Engineering and Materiel Acquisition

Brigadier General Louis Rachmeler, Director, Industrial Preparedness and Munitions Production

The Director opened the discussion by reviewing his recent meeting with FSS. He related that considerable progress had been made in the discussions with FSS on the use of DO–K1 priority ratings. He informed DOD that the FSS had indicated that they would be able to limit the priority purchases in a given Federal Supply Class for a given period to the amount purchased for rated agencies in that class during the preceding corresponding period, thereby virtually eliminating the possibility of priority purchases for other than rated agencies.

The Director said that he had been told at the meeting with FSS that the Defense Supply Agency was making purchases for non-rated agencies of items covered in the DO–K1 categories. ($22,000,000 for second quarter of FY 1974.) The members of the DOD were apparently not familiar with this. The Director asked them to look into this matter to determine to what degree such purchases were taking place. The Director asked DOD to look for solutions which allow acceptable uniform practices by DSA and FSS in priority purchasing and to be prepared to discuss the matter at a future meeting. As a part of the issue is the question on the number of classes involved in priority ratings. The Director pointed out that the Defense Supply Agency should be restricted in their purchases with respect to classes in the same way as the FSS. The first reaction of the Department of Defense members was somewhat negative. They pointed out that these purchases were for the Department of Defense. However, the Director pointed out that the DPA names only the kind of items for which priority rates should be given, but makes no distinction for which agencies these purchases should be made. The Director suggested that it might be useful to have a working group composed of members of the Department of Defense, the Federal Supply Service, the Office of Preparedness, and the Department of Commerce look into the matter of the supply classes which should be accorded priorities. He asked the Department of Defense to consider such a proposal and get back to him on whether they think this would be an appropriate approach to the problem.

He indicated no specific deadline, but said that he would like the matter to move ahead expeditiously. He said that in connection with the renewal of the DPA, he would like to be able to report on corrective procedures that are taking place in connection with the use of the DPA for priority purchases.

In briefing Mr. Terrar and Dr. Welch following the meeting, the Director asked that if the Department of Defense had not taken action within 10 days, he be reminded of this matter so that he could reinitiate action.

GEORGE WELCH,
Chief, Economic Preparedness Division.

[EXHIBIT 5B]

EXAMPLES OF INFORMATION PROVIDED BY DOD FOR ITEMS EVALUATED FOR THE POSSIBILITY OF TERMINATING THE USE OF PRIORITIES IN COMMON USE PROCUREMENT

SELECTIVE USE OF PRIORITY RATINGS—PHASE I FSC REVIEW

Phase I encompasses the ten FSCs delineated by asterisks on enclosure to ASD(SMS) (I&L) memorandum, 30 September 1974:

1. FSC 3720—Harvesting Equipment:
   (*a*) Tractor mowers.
   (*b*) Mowers, field, towed.
   (*c*) Mower attachments, wheeled tractor
   Military Essential
   Application—Military base and airfield mower equipment.
2. FSC 3770—Saddlery, harness, whips and related animal furnishings:
   (*a*) Animal cages.
   (*b*) Chains, dogs.
   (*c*) Dog muzzles.
   (*d*) Leads, dog.
   (*e*) Harnesses, dogsled.
   (*f*) Harnesses, dog leading
   Military Essential.
   Application—Military K9 Corp and Dogsled teams in artic areas.
3. FSC 5355—Knobs and pointers:
   (*a*) Dials, scale.
   (*b*) Knob.
   (*c*) Shaft locks, electronic component.
   (*d*) Windows, dial.
   (*e*) Cursor, indicator
   Military essential.
   Application—Instrumentation for atomic propulsion plants, aircraft, NIKE–X missile, etc.
4. FSC 6508—Medicated comestics and toiletries
   (*a*) Shampoo, gamma benzene, hexachloride solution. Item is medicated for use as pediculicide (lice) and scabicide (mites).
   (*b*) Lipstick, antichap, cold climate. Component of emergency, life saving medical kit, set and assemblies.
   (*c*) First aid kit, general purpose. For use in life rafts, aircraft and small watercraft.
   (*d*) Survival kit, individual.
   (*e*) First aid kit, individual:
   Military essential.
   Application—Life support and survival.
5. FSC 7210—Household furnishings:
   (*a*) Blanket, olive drab, canvas. For use in field sets to provide warmth and shelter for wounded.
   (*b*) Blanket, lightweight, aluminized, plastic, fluorescent orange and silver. Used to camouflage wounded and provide signals.
   (*c*) Wool bed blankets. For use in several medical assemblies, an emergency medical treatment unit and a field patient admission kit.
   (*d*) Cotton duck mattress.
   (*e*) Lightweight bed frame. The latter two items are used in MUST Hospital (Medical Unit, Self-Contained Transportable Hospital):
   Military essential.
   Application—as shown above.
6. FSC 7660—Sheet and book music:
   (*a*) Band arrangements.
   (*b*) Music, sheet.

(c) Books, music:
Military essential.
Application—These items are considered essential for the morale of personnel which is extremely critical in this time of volunteer armed services.

7. FSC 8345—Flags and Pennants:
(a) Balls, signal.
(b) Cones, speed.
(c) Flags, international code.
(d) Flags, signal.
(e) Pennants, signal:
Military essential.
Application—Essential to military communications Signal Balls, speed cones are universally understood signs alerting other vessels to conditions aboard the vessel displaying them. Flags and pennants provide a rapid and accurate system of communications at sea during daylight.

8. FSC 8450—Children's and Infant's Apparel and Accessories. This FSC is not considered as military essential and no longer qualifies for automatic priority rating authority.

9. FSC 9925—Ecclesiastical Equipment, Furnishings and Supplies:
(a) Chaplains kits.
(b) Altars, portable.
(c) Cruets, communion.
(d) Pulpits, portable
Military Essential.
Application—Items in this class are considered essential to the morale and well being of military personnel.

10. FSC 9930—Memorials, Cemeterial and Mortuary Equipment and Supplies:
(a) Burial boxes.
(b) Embalming kits.
(c) Bags, deceased military personnel personal effects.
(d) Monuments, grave.
(e) Reinterment caskets
Military Essential.
Application—The items in this class are used for transporting remains and interring the dead and are considered essential for health and morale reasons.

SELECTIVE USE OF PRIORITY RATINGS—PHASE II FSC REVIEW

1. FSC 2540—Vehicular furniture and accessories:
(a) Accelerator pedals.
(b) Deep water fording kits.
(c) Heaters, vehicular compartment
Military Essential.
Application—Combat vehicles, construction and servicing equipment.

2. FSC 2590—Miscellaneous vehicular components:
(a) "A"-frames, vehicle mounting.
(b) Ammunition cradles.
(c) Winches, drum, vehicle mounting
Military Essential.
Application—Military vehicles, tanks and servicing equipment.

3. FSC 3210—Sawmill and Planing Mill Machinery:
(a) Carriages, sawmill.
(b) Sawmill outfits, circular.
(c) Edgers, sawmill
Military Essential.
Application—Navy construction battalions and operations maintenance and repair facilities.

4. FSC 3220—Woodworking Machines:
(a) Lathes, woodworking.
(b) Woodworking shops, trailer mounted
Military essential.
Application—Fabrication of field shelters, furniture and work stations. Operations maintenance and repair facilies.

5. FSC 3230—Tools and attachments for woodworking machinery:
   (*a*) Blades, circular saw.
   (*b*) Drums, sanding
   Military essential.
   Application—Fabrication of field shelters, furniture and work stations. Operations maintenance and repair facilities.
6. FSC 3461—Accessories for secondary metalworking:
   (*a*) Wheel sets, abrasive.
   (*b*) Drivers, key, forging hammers
   Military essential.
   Application—Accessories essential to the operation of forward area portable machine shops.
7. FSC 3510—Laundry and dry cleaning equipment:
   (*a*) Cleaning machines, feathers.
   (*b*) Driers, laundry
   Military essential.
   Application—Cleaning and pressing work clothing and uniforms, bedding, hospital garb, operating room sheets and gowns.
8. FSC 3520—Shoe repairing equipment:
   (*a*) Leak testers, boot.
   (*b*) Shoe stitching machines
   Military essential.
   Application—Maintenance and repair of personnel footwear, some items portable for field use.
9. FSC 3530—Industrial sewing machines and mobile textile repair shops:
   (*a*) Sewing machines, industrial.
   (*b*) Textile repair shops, mobile
   Military essential.
   Application—Essential for repair of work and combat uniforms in forward combat and rear support areas.
10. FSC 3610—Printing, duplicating and bookbinding equipment:
   (*a*) Blueprint printing machines.
   (*b*) Printing presses
   Military essential.
   Application—Essential for the training of personnel, effective and efficient circulation of command and guidance information psychological warfare leaflets.
11. FSC 3611—Industrial marking machines:
   (*a*) Marking machines, ammunition.
   (*b*) Marking machines, wire
   Military essential.
   Application—Marking of ammunition, delineation of hazardous areas, marking of bins and items in supply depots.
12. FSC 3635—Crystal and glass industries machinery:
   (*a*) Glass crushers.
   (*b*) Heaters, tubing
   Military essential.
   Application—Manufacture and repair of eyeglasses, binocular lenses, watch crystals, bombsights.
13. FSC 3650—Chemical and Pharmaceutical Products Manufacturing Machinery:
   (*a*) Chemical explosives manufacturing machinery.
   (*b*) Fungicide manufacturing machinery
   Military essential.
   Application—Manufacturing and blending of chemicals for use in drugs, explosives, paints, soaps, rodenticide and insecticide.
14. FSC 3360—Industrial size reduction machinery:
   (*a*) Crushers, multiapplication.
   (*b*) Shredders, multiapplication:
   Military essential.
   Application—Rock crushers essential to road, runway and shelter foundation construction.
15. FSC 3695—Miscellaneous special industry machinery:
   (*a*) Coiling and measuring machines.

(*b*) Strippers, wire
Military essential.
Application—Logging equipment essential to road clearing and constructing operations, wire coiling and respooling equipment used in establishing communications networks.

16. FSC 4510—Plumbing fixtures and accessories:
(*a*) Lavatories.
(*b*) Sinks.
(*c*) Toilets
Military essential.
Application—Portable and fixed sanitation and hygienic facilities for ground combat units and shipboard and aircraft personnel use.

17. FSC 4540—Miscellaneous plumbing, heating and sanitation equipment:
(*a*) Garbage grinders.
(*b*) Trash burners
Military essential.
Application—Land and shipboard water heaters, septic tanks and essential sanitation equipment.

18. FSC 5660—Fencing, fences and gates:
(*a*) Barbed wire.
(*b*) Fence, chain link
Military essential.
Application—Provides security for outposts, hinders infiltration during combat, construction uses.

19. FSC 6520—Dental instruments, equipment and supplies:
(*a*) Dental supply set, field.
(*b*) Compressor, dehydrators portable
Military essential.
Application—Many items in class are components of combat essential medical sets and field assemblies. Compressors are part of portable dehydrator used with field emergency operating and treatment units.

20. FSC 6530—Hospital furniture, equipment, utensils and supplies:
(*a*) Litters.
(*b*) Surgical lights, battery operated
Military essential.
Application—Many items specially designed for military use in combat situations. Field hospital, crash truck and ambulance equipment.

21. FSC 6532—Hospital and surgical clothing and related special purpose items:
(*a*) Gowns, operating.
(*b*) X-Ray Protective Clothing
Military essential.
Application—Items are essential to the operation of field combat medical units and air medical evacuation units.

22. FSC 6540—Opticians instruments, equipment and supplies:
(*a*) Ophthalmic laboratory table, field use.
(*b*) Optical inserts for chemical-biological masks
Military essential.
Application—Chemical—biological mask lenses, components and equipment for constructing aviator's spectacles, field hospital items.

23. FSC 7310—Food cooking, baking and serving equipment:
(*a*) Burner units, gasoline field range outfit.
(*b*) Trailer mounted bakery ovens
Military essential.
Application—Portable field facilities for preparation, transportation and serving of food to combat troops, aircraft ovens and refrigerators.

24. FSC 7320—Kitchen equipment and appliances.
(*a*) Food mixing machines.
(*b*) Tables, food preparation
Military essential.
Application—Portable field equipment for preparation and serving of food to combat troops, items essential to sanitary operation of field messing facilities.

25. FSC 7360—Sets, kits, outfits—Food preparation and serving:
(*a*) Cook sets, field.

(*b*) Tables, food preparation
Military essential.
Application—Portable field equipment for preparation and serving of food to combat troops.

26. FSC 7690—Miscellaneous printed matter:
(*a*) Card sets, field.
(*b*) Range outfits, field, gasoline
Military essential.
Appplication—Maintenance of communications, guidance and command, training or personnel, decals for marking vehicles and aircraft.

27. FSC 8310—Yarn and thread:
(*a*) Thread, shoe.
(*b*) Yarn, nylon and wool
Military essential.
Application—Manufacture, maintenance and repair of specification military uniforms, work clothing, flyers' apparel. Support direct procurement activity of DPSC Directorate of Manufacturing.

28. FSC 8315—Notions and apparel findings:
(*a*) Buttons.
(*b*) Sewing kits.
(*c*) Tape, nylon
Military essential.
Application—Manufacture, maintenance and repair of specification military uniforms, work clothing, flyers' apparel. Support direct procurement activity of DPSC Directorate of Manufacturing.

29. FSC 8320—Padding and Stuffing Materials:
(*a*) Fillers, parachute back pads.
(*b*) Kapok.
(*c*) Wadding
Military essential.
Application—Items used in manufacture or repair of military specification flyers' parachutes, aircraft seat cushion, back pads.

30. FSC 8420—Underwear and nightwear, men's:
(*a*) Cold weather drawers, flying.
(*b*) Undershirts, high altitude
Military essential.
Application—Cold weather, flying and special purpose apparel.

31. FSC 8440—Hosiery, handwear, and clothing accessories, men's:
(*a*) Belts, trousers.
(*b*) Gloves.
(*c*) Hosiery.
(*d*) Mufflers
Military essential.
Application—Essential clothing items which contribute to the health and welfare of troops.

32. FSC 8455—Badges and insignias:
(*a*) Badges, identification.
(*b*) Insignia, organizational
Military essential.
Application—Uniform buttons, grade identification essential to military authority, and uniform insigna vital for maintenance of troop morale.

33. FSC 8460—Luggage:
(*a*) Bombardiers kit bags.
(*b*) Cases, map and photograph
Military essential.
Application—Fliers' helmet bags, cases for containment of navigators' maps and instruments, bags for transporation of classified information.

The following FSCs do not meet the military essentiality criteria and consequently would not qualify for the continued use of the automatic priority rating authority.

34. FSC 3710—Soil preparation equipment.
35. FSC 8325—Fur materials.
36. FSC 8335—Shoe findings and soling materials.
37. FSC 8425—Underwear and nightwear, women's.
38. FSC 8445—Hosiery, handwear, and clothing accessories, women's.

It must be noted that procurement activity in these classes has been negligible.

In addition to the list of FSCs which was forwarded for study this Agency completed a review of all other DSA managed FSCs and it has been determined that there is sufficient justification under the military essentiality criteria to support the need for continued use of the automatic rating authority.

[EXHIBIT 5C]

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., June 10, 1974.

Maj. Gen. LESLIE BRAY (Ret.),
Director, Office of Preparedness,
General Services Administration, Washington, D.C.

DEAR GENERAL BRAY: In accordance with the understanding reached in the April 23, 1974 meeting attended by you, Mr. Hugh Witt, General Rachmeler and myself, we have looked further into the matter of priorities used by the Defense Supply Agency. We have prepared two papers on this subject (copies attached). One reviews DSA sales to agencies outside of the Department of Defense, and the other covers the concept of the selective use of ratings by DSA and other DOD elements for their own normal procurements.

We would be pleased to further discuss these matters if you so desire.

Sincerely,

FLOYD H. TROGDON,
Acting Deputy Assistance Secretary of Defense,
Production Engineering and Materiel Acquisition.

Attachments.

ANALYSIS OF DSA SALES TO FEDERAL CIVIL AGENCIES
(FIRST HALF OF FISCAL YEAR 1974)

The Defense Supply Agency supports Federal civil agencies in accordance with the national supply system as agreed with GSA. Total DSA sales during the first half of FY 1974 totaled approximately $1.8 billion. Fifty-eight percent ($1.1 billion) of these DSA sales were for food and subsistence, which are not rated. Essentially, DSA buys military items predominantly for stock.

Total DSA sales to Federal civil agencies during the first half of FY 1974 were $22.2 million, or 1.2% of the total DSA sales of about $1.8 billion. This $22.2 million includes fuel and subsistence in the amount of $9.7 million, which is not rated. Thus, sales of rateable items to the Federal civil agencies totaled $12.5 million, or .7% of DSA sales.

Among these other agencies buying from DSA are AEC, Coast Guard, FAA and NASA. These particular agencies may rate all or much of their purchases generally, whether or not they buy from DSA. Sales of rateable items to these four agencies were $8.2 million. This left a balance of $4.3 million for rateable items for non-rateable Federal civil agencies, or about one-fifth of one percent of total DSA sales. This amount is infinitesimal, particularly considering that DSA in the main supplies other civil agencies on a firm requisition basis *from stock*, with approximately 90% stock availability. To segregate this miniscule percentage of DSA procurement and to write separate non-rated contracts and purchase orders accordingly, would require disproportionate, duplicative administrative and item costs, and separate purchases, with day-for-day delays attendant to new procurements of items already in stock.

The alternatives here seem to be to:

(1) Continue servicing these requirements under current procedures, or

(2) Bear the added costs and delays to procure the items on separate non-rated orders on call, or

(3) Stop servicing the requirements of the non-rateable agencies entirely.

Enclosure (1).

SELECTIVE USE OF PRIORITY RATINGS BY DSA

The Department of Defense recently recommended that Federal Supply Service, GSA (FSS/GSA) authority to use priority ratings for procurements on behalf of the DoD be reduced from the current 48 Federal Supply Classes (FSC) to a minimum of 16 essential FSC. The question has been posed as to whether DSA similarly should be required to procure "less essential" items without ratings on a "selective" basis.

We note that 76.6% of the total GSA sales of $318.3 million in the 48 rateable FSC were made to rateable civil agencies.[1] The remaining 23.4% of rateable GSA sales ($74.5 million) were to other non-rateable Federal civil agencies. This is a rather significant amount of procurement to be encompassed as incidental to "national defense" needs. Further, it is believed that study of individual items in these 48 FSC would indicate that sales of many of these items to rateable agencies might be considerably less than 76% and would be "zero" in a number of instances.

The key here is the FSS/GSA uses ratings which were heretofore justified solely on behalf and because of DoD and AEC needs, and not for the non-rateable agencies. Bureau of Domestic Commerce (BDC) Delegation 1 authorizes the Department of Defense to use priority ratings for its "authorized" Claimant Programs in the A, B and C series for its procurement and construction programs (A–1, A–2, etc.) and requires adherence to the Regulations and Orders of BDC as a condition of this Delegation. The Claimant Programs were authorized by predecessor agencies of OP/GSA. BDC Regulations and Orders make it *mandatory* that all DoD (and AEC) procurements authorized for rating be so rated.

All but about one-fifth of one percent of DSA procurement is for DoD and the rateable agencies. To restrict DSA procurement would be to restrict the needs of the DoD agencies it primarily supports, for the selectivity concept would be applicable in principle, not only to DSA procurement, but to any DoD procurement.

This means that defense priorities would flow on a permissive system, so that DSA and the other defense agencies would select only certain items of their procurement to be rated and, on the same basis, that industry would have to further select and rate only certain materials and components incorporated in the defense items. In effect, this would be comparable to the current selective special assistance expediting system administered by the Department of Commerce on behalf of the national defense agencies.

Enclosure (2).

Such a comprehensive selective system would be infeasible and would result in a massive number of individual administrative actions to process through the national level to resolve shortage, conflict and bottleneck problems throughout the industrial tiers. It would also defeat the present system's approach wherein *all* rateable procurement is identified on contracts and purchase orders in the industrial chain, which automatically gives defense procurement preferential treatment over normal commercial (unrated) procurements when these procurements are in conflict. The special assistance procedure currently is used on an exception basis only, when the normal rating system does not suffice to assure timely deliveries of defense orders.

The continuity of ratings through the industrial chain is an essential mechanism to *pre-identify* all rateable defense orders at the orderboard (plant) level to permit resolution of problems at all times, particularly when there are critical shortages, strikes, natural disasters, plant breakdowns, for "blitz" requirements and for other individual or national emergencies, so that these orders may be afforded preference *quickly* at plant level in accordance with their relative importance. Without prior identification in such situations, there would be chaos and interminable delays in meeting defense requirements.[2] What is "less essential" this week may be vital next week.

We believe that the risks and responsibilities for decisions as to which items of GSA procurement are essential to DoD needs at any point should reside in the DoD. We further believe that this principle should not apply in reverse to require the DoD to accept parity of DSA (DoD) "selectivity" on the same basis recommended for FSS/GSA. The priorities system under the Defense Production Act by its very nature is not a democratic system. It was designed to give national defense programs priority over non-defense programs and activities, and a significant amount of presently rated FSS/GSA procurement is for non-defense use. While the administrative impact of "selective" ratings on the part of DSA

[1] GSA identifies rateable agencies as AEC, DoD, CIA, and NASA. If GSA sales to FAA were added to "rateable agencies" it would increase these sales on the average of about $3 million per year, and many of the items furnished by GSA to FAA would not be rateable FAA programs.

[2] See attached letter to industry on the importance of mandatory ratings throughout the industrial tiers.

versus GSA procurements is similar, we believe that the priorities powers should continue to be polarized to the advantage of national defense requirements.

There is ample experience and precedent encountered with selective systems during early World War II (1940–1942) which led to confusion in Government and industry and serious losses in overall national production. The selective systems proved unworkable and broke down. The historical record should be carefully evaluated in this regard, prerequisite to serious consideration of modifications of the present priorities system.

We are firmly convinced that the past mistakes must be recognized and should not be repeated, and that the current system which was designed to avoid repetition of these experiences should remain intact.

SEPTEMBER 7, 1973.

MEMORANDUM FOR ALL National Defense Prime Contractors, Subcontractors and Suppliers.

Subject: Use of the Defense Priorities System (DPS) and the Defense Materials System (DMS).

Some time ago in a joint memorandum from the Department of Defense and the Department of Commerce, national defense prime contractors, subcontractors and suppliers were reminded of the mandatory provisions of the Defense Priorities System and the Defense Materials System.

Your attention is again directed to the subject matter, especially in view of the current state of the economy of the United States as it relates to the increasing demands upon our resources, the scarcity of materials and goods in some instances, and the unsettled condition of the market.

The Defense Priorities System and the Defense Materials System are administered under the authority of the Defense Production Act of 1950, as amended. These Systems provide:

1. Assurance of acceptance and delivery of current national defense contracts and orders in preference to others, and

2. Maintenance of a mechanism for mobilizing our industrial resources to meet without delay the challenge of whatever national defense situation we may be called upon to face.

The Department of Commerce and the Department of Defense note that there still is a tendency toward laxness in following the *mandatory* provisions of the Defense Priorities System and the Defense Materials System, particularly in the extension of ratings throughout the subcontractor and vendor chain and the use of Authorized Controlled Materials (ACM) orders to obtain the various mill forms and shapes of steel, copper, aluminum, and nickel alloys.

If Industry and Government are to continue to benefit from the operations of these Systems, it is imperative that the *mandatory* identification of contracts and orders with the appropriate DO or DX industrial priority rating and the *mandatory* use of ACM orders to obtain controlled materials for rated contracts and orders be followed throughout the industrial chain. These benefits include the following:

1. Timely deliveries of end items and materials to the military services, AEC, and associated agencies, and in turn, timely deliveries of supporting industrial resources (assemblies, components, materials, and equipment) throughout industry to meet national defense R&D, production and construction contracts.

2. Expediting assistance, as necessary, by use of the BDCF–138 application (formerly BDSAF–138). If ratings and ACM orders are not used, expediting assistance cannot be provided.

3. Avoidance of possible denial of relief by contract appeal boards for delinquent contracts and orders having penalty clauses and eligible for ratings due to failure to follow the Systems.

4. Availability of a procedure which is automatically triggered to obtain expeditious deliveries of materials and equipment to resolve defense production shortages resulting from natural disasters, serious strikes, work stoppages, etc.

5. Aid in obtaining certain products and materials used by industry which are not under the jurisdiction of the Department of Commerce, such as, petroleum and petroleum products, solid fuels, food, etc., and therefore are not subject to the use of priority ratings or ACM orders. (A defense con-

tractor experiencing difficulties in obtaining such products and materials will endeavor to solve such difficulties locally in accordance with established procedures of the agency having jurisdiction thereof. If needed, a defense contractor may request the informal support of the local Commerce District Office for quantities of such products and materials needed for performance of priority rated contracts and ACM orders. In this connection and to the extent necessary the local Commerce District Office may request the assistance of local Defense Contract Administration Services Office concerned.)

Your cooperation is solicited to initiate necessary action within your organization to comply with the provisions of the Defense Priorities System and the Defense Materials System. It will be appreciated as well, if you will communicate with the subcontractors and suppliers in your procurement chain urging that they continue their use of appropriate DO or DX rating on national defense contracts and orders and the use of ACM orders to obtain controlled materials for rated contracts and orders received by them.

Your cooperation will aid the Department of Defense and the Department of Commerce in maintaining a continuing state of industrial and government preparedness.

ELI T. REICH, Vice Admial, USN,
Deputy Assistant Secretary of Defense.

GARY M. COOK,
Acting Deputy Assistant
Secretary for Competitive Assessment and Business Policy.

[EXHIBIT 5D]

DEFENSE SUPPLY AGENCY,
DEFENSE GENERAL SUPPLY CENTER,
Richmond, Va., October 17, 1974.

SUBJECT: Selective Use of Priority Ratings.
To: DSAH–PRS.

1. Reference: Message, DSAH–PRS 3699–74, subject as above.

2. We have reviewed each category of items within the classes 7660—Sheet and Book Music; 9925—Ecclesiastical Equipment, Furnishings and Supplies; and 9930—Memorials, Cemeterial and Mortuary Equipment and Supplies as delineated in Cataloging Handbook H2–2, FSC Part 2. We compared each generic term against the definition of military essentiality as provided in referenced message with the following results.

a. All of the items contained in FSC 7660—Sheet and Book Music are considered essential for the morale of personnel (i.e. concerts, parades, music lesson, etc.).

b. All of the items contained in FSC 9925—Ecclesiastical Equipment, Furnishings and Supplies are essential for morale of military personnel.

c. All the items contained in FSC 9930—Memorials, Cemeterial and Mortuary Equipment and Supplies are considered essential for health reasons except the following which are considered essential for the reason indicated.

(1) Bags, deceased military personnel personal effects—Welfare and Morale.
(2) Cosmetic powder, mortuary—Morale.
(3) Cream, cosmetic, mortuary—Morale.
(4) Dermasurgery waxes—Morale.
(5) Memorial plaques—Morale.
(6) Monuments, grave—Morale.
(7) Pillows, casket—Morale.
(8) Plaques, memorial—Morale.
(9) Reinterment caskets—Morale.
(10) Upholstery, interior trim, casket—Morale.
(11) Urn carrying cases, cremation—Safety and Health.
(12) Waxes, dermasurgery—Morale.

FOR THE COMMANDER:

DOMINIC VALELLA, Colonel, USA,
Director, Procurement and Production.

[EXHIBIT 5E]

DEFENSE SUPPLY AGENCY,
DEFENSE INDUSTRIAL SUPPLY CENTER,
Philadelphia, Pa., October 21, 1974.

In reply, refer to:
DISC–PC (D. Horsmann/3484/dk).
SUBJECT: Selective Use of Priority Ratings.
To: DSAH–PRS.

1. Reference: Message, DSAH–PRS 3699, subject as above.

2. In compliance with reference, Phase I review was made of the asterisked FSC applicable to this Center. This review covered one item in each item name category listed in Catalog Handbook H2–2 for FSC 5355 except the category named holder, knob. There are no known items with this name.

3. All categories of FSC 5355 except Holder, Knob, are considered to be military essential items. Enclosure 1 reflects a Federal Stock Number for each item category and end use application.

FOR THE COMMANDER:

(S) KENNETH M. O'BRIEN,
Deputy Director,
Directorate, Procurement and Production.

1 Encl.

The following stock numbers have been determined to be Critical in accordance with DSAR 3200.1. The definition of Critical in the DSAR is an item which is essential to the preservation of life in an emergency or essential to end items or systems performance, the failure of which would inadvertently effect the successful accomplishment of a military operation:

(5344V172–6328) Dial, Scale. Critical Application, Liquid Level Indicator, Atomic Propulsion Plant.
(5355–180–8443) Knob, Critical Application, Aircraft Sensitive Altimeter.
(5355–079–7005) Shaft-Lock, Electronic Component. Critical Application, NIKE–X Missile.
(5355–668–4493) Window Dial (Covers, Dial, Multi Application) Critical Application, Gyro Magnetic Compass Control, Marine.
(5355–668–6029) Pointer Dial. Critical Application, Aircraft Altimeter (10,000 foot Pointer Assy).
(5355–089–8552) Dial, Mask. AN/ARC–131 Aircraft Radio. This item is front cover for the above radio.
(5355–151–6055) Dial Control. Aircraft Range/Bearing Xtr. Illuminated and inscribed W/Scale.
(5355–061–6588) Cursor Indicator. IP343A/AFS–G4 Indicator B52 Indicator.
(5355–243–6284) Adjuster, Model NT–35 Ammeter.
(5355–560–5640) Bushing Shaft, Panel. NIKE and Ajax Missiles AN/MSG–3A System.
(5355–760–8540) Coupling, Insulated, Bushing Shaft. Application, AN/TRC–96, Ground Radio Transceiver.
(5355–644–4093) Extension, Shaft. Application: AN/OPN4 Rada Navigation.

[EXHIBIT 5F]

DEFENSE SUPPLY AGENCY
Headquarters, Defense Personnel Support Center,
Philadelphia, Pa., October 22, 1974.

Refer to: DPSC–PP.
Subject: Selective use of priority ratings.
To: Director, Defense Supply Agency, Attn: DSAH–P.

1. References:
(*a*) TWX, DSAH–PRS, 3699–74, 11 October 1974, subject as above.
(*b*) OASD (SR) (I & L) Memorandum, 30 September 1974, subject as above.

2. In response to reference 1a this letter furnishes advice concerning Phase I FSCs. We believe that sufficient justification in accordance with the established criteria exists for continuance of assignment of priority ratings to FSCs 6508, 7210, and 8315. Detailed justifications are enclosed. Procurement activity for

FSC 8450 is insignificant, and it is not considered essential to retain the automatic priority rating authority for this class of items.

FOR THE COMMANDER:

(S) F. C. KIRKPATRICK, *Lt. Col. USAF,*
Director, Office of Procurement and Production Policy.

Encl.

PHASE I FSC'S ASSIGNED TO DPSC WHERE ASSIGNMENT OF PRIORITY RATINGS SHOULD BE OBTAINED

FSC 6508—Medicated Cosmetics and Toiletries

1. This class of items is recognized by the Food and Drug Administration as drugs and are to be distinguished from FSC Group 85 Toiletries which is assigned to GSA. Examples of the importance of these items are:

(*a*) NSN 6508–00–268–8574, Shampoo, Gamma Benzene, Hexachloride Solution—This item is medicated for phramaceutical use as a pediculicide (lice) and a scabicide (mites).

(*b*) NSN 6508–00–641–4865 (formerly 6510–641–4865), Lipstick, Antichap, Hot Climate.

NSN 6508–00–116–1479, Lipstick, Antichap, Cold Climate. These two items are components of emergency, life-saving medical kits, sets, and assemblies:

(1) First Aid Kit, Life Raft.

(2) First Aid Kit, General Purpose (for use in life raft, airborne lifeboat, large aircraft and small watercraft).

(3) Survival Kit, Individual.

(4) First Aid Kit, Individual.

FSC 7210—Household Furnishings

1. This class contains several items with significant customer demand for use in emergency casualty situations. Examples are as follows:

(*a*) NSN 7210–00–715–7750—This is an olive drab canvas blanket used for replenishment of field set, kits, and outfits and provide warmth and shelter to wounded.

(*b*) NSN 7210–00–935–6667—This is a lightweight, aluminized plastic, flourescent orange and silver blanket which is designed as an attention-getting device during medical evaluations of wounded.

(*c*) NSNs 7210–00–835–6665 and 7210–00–935–6666—These blankets are also aluminized lightweight, aluminized plastic, olive drab and silver, which offer camouflage to wounded with a signal device (silver).

(*d*) Wool Bed Blankets, olive green (7210–00–715–7985) and white (7210–00–715–8000)—Both of these blankets are Mil Spec items, made of 100% wool, and difficult to obain in today's natural fiber market. These are both high quality blankets designed to withstand the rigors of military field hospitals and are a larger size than regular bed blankets. The olive green blanket is used in several medical assemblies, an emergency medical treatment unit and a field patient admission set.

2. Also falling into the 7210 class are several specially designed items used in the MUST Hospital (Medical Unit, Self-Contained, Transportable Hospital). This hospital consists of a series of compatible modules which can be brought to the front lines by truck. The structures serve both as storage and shipping containers and, when expanded, as operational shelters. Innovative field equipment and apparatus were developed to be used with MUST and in 7210 include:

(*a*) Cotton duck mattress, lightweight bedframe, covers and pads.

(*b*) Vinyl foam mattress pad.

(*c*) Rod, Insect bar.

3. Additional items in this class are blankets, bed and combat casualty which are essential to the health and welfare of military personnel in combat and peaceful situations. Insect bars and Insect bar frame are essential in all operations conducted in areas where insect borne diseases are prevalent, e.g., malaria infested areas. Items such as towels, sheets, pillows, mattresses, and pillow covers are so much a part of the American way of life that they are considered necessities to everyday living as well as vital to health care. The absence of these

items in a barracks, shipboard, or health care situation would be detrimental to health, welfare, morale, and troop efficiency.

FSC 8345—Flags and Pennants

Continued use of the present automatic priority rating sysem for this FSC is justified due to the inclusion of the following categories of items:

(*a*) Balls, signal.
(*b*) Cones, speed.
(*c*) Covers, maritime day shape frames.
(*d*) Flags, international code.
(*e*) Flags, signal.
(*f*) Flags, warning.
(*g*) Pennants, signal.

All the above items are essential to military communications particularly in Naval Vessels. The signal balls, speed cones, and covers are universally understood signs alerting other vessels to conditions or situations aboard the vessel displaying them. The flags and pennants are used in flag hoist signaling which provides a rapid and accurate system of handling tactical and informational signals of reasonable length during daylight. In general, a flag hoist signal insures a more uniform execution of a maneuver at sea than does any other system. Flag signals are rapidly disseminated to a large number of vessels in close contact, e.g., a convoy. In period of radio silence, there is often no other effective means of communication between vessels.

[EXHIBIT 5G]

DEFENSE SUPPLY AGENCY,
DEFENSE CONSTRUCTION SUPPLY CENTER,
Columbus, Ohio, October 22, 1974.

In reply, refer to: DCSC–PPP.
Subject: Selective use of priority ratings.
To: DSAH–PRS Attention: Mr. Gortner.

1. References:

(*a*) Memorandum, OASD (SR) (I&L), September 30, 1974, subject as above.

(*b*) TWX, DSAH–PRS, October 11, 1974, subject as above.

2. In accordance with references a and b, DCSC has reviewed listing along with other FSCs procured by this Center. The following comments are submitted.

FSC 2540 and 2590—Military Essential.

Applications—Combat Vehicles, Military Vehicles, Construction Equipment, Specialized trucks and servicing equipment.

FSC 3710—Not Military Essential.

FSC 3720—Military Essential.

Application—Military base and airfield mower equipment.

FSC 3770—Military Essential.

Application—Military K9 Corp.

FSC 4510—Military Essential.

Application—Military special designed field use shower units. Aircraft toilets, Military Construction.

FSC 4540—Military Essential.

Application—Military special designed field use water heaters. Military heaters and elements, land and shipboard use.

FSC 5660—Military Essential.

Application—Military field port items, Concertina Barbed Wire, Concertina Barbed Tape. Special type dispensers. Military fence post, 8 ft. chain link fence, 6, 10 and 12 ft. chain link fence—Military security.

3. This report is considered to be final input for Phase I and Phase II.

FOR THE COMMANDER.

(S) JOHN G. KIRK, Lt. Col., USA,
Acting Deputy Director of Procurement and Production.

[EXHIBIT 5H]

DRAFT, UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C.

Mr. M. A. MARVIN,
Acting Director, Office of Industrial Mobilization, Bureau of Domestic Commerce, Department of Commerce, Washington, D.C.

DEAR MR. MARVIN: This is in reference to your letter of February 11. 1974, and subsequent exchanges and discussions concerning the K–1 and C–9 programs under the DPS and DMS.

You are authorized to implement priorities and allocations for common service items procured by GSA/FSS, DOD/DSA, or any other rating office procuring under the Federal Supply Classification (FSC) where necessary and appropriate to promote the national defense in accordance with the following:

1. FSC Groups and Classes Which Are Not Authorized For Priority Ratings Under The Defense Production Act.

Group	37*	Agricultural Machinery and Equipment.
	71*	Furniture.
	72*	Household and Commerical Furnishings and Appliances.
	77*	Musical Instruments, Phonographs and Home-Type Radios.
	78*	Recreational and Athletic Equipment.
	85*	Toiletries.
	87	Agricultural Supplies.
	88	Live Animals.
	89	Subsistence.
	91	Fuels, Lubricants, Oils and Waxes.
	94*	Non-Metallic Crude Materials.
	99*	Miscellaneous.
Class	3550	Vending and Coin-operated Machines.
	8325	Fur Materials.
	8335	Shoe Findings and Soling Materials.
	8425	Underwear and Nightwear, Women's.
	8445	Hoisery, Handwear, and Clothing Accessories, Women's.
	8450	Children's and Infant's Apparel and Accessories.
	9610	Ores.

*Special assistance is authorized.

2. All other Groups and Classes in the FSC may be bought on ratings only to the extent necessary to support that percentage of total procurement which has been made for defense programs during the six month period preceding the first day of January and July in each year, or any other periodic cycle considered appropriate and agreed to by the Office of Industrial Mobilization and the procuring agency.

3. In the interest of minimizing administrative costs, where defense constitutes 97 percent or more of the total procurement within a Class, all of the commodity Class may be bought on ratings.

4. GSA/OP will review any of the specific Classes above upon receipt of a request, including proper justification to determine whether they should be authorized for ratings. Justification accompanying such request must include: 1) statement pointing out why the Group or Class should be regarded as "necessary or appropriate to promote the national defense," and 2) evidence to substantiate that defense or related requirements cannot be met without the use of ratings.

5. It is requested that you review the essential procurement data and provide me at least twice a year with a report and recommendations concerning continued use of ratings for this type of procurement activity.

Sincerely,

EDWARD F. TERRAR, Jr.,
Assistant Director for Civil Crisis Preparedness.

[EXHIBIT 5I]

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., December 26, 1974.

Reply to Attention of: FFY.
Subject: Defense Priorities Rating System, APF.

As requested at the meeting on December 9, 1974, concerning subject system, we are enclosing a listing of Federal Supply Classes (FSC's) carried in stock for which GSA has integrated management responsibility. It includes the numerical designation, the percentage of sales to ratable agencies in FY 1973, the class title representative items in the class and a recommendation as to essentiality of the class along with the reason.

If you have any further questions on this matter, please contact Mr. J. I. Tait, Director, FPMR Division (FFY), IDS code 16, extension 78470.

D. K. MITCHELL,
Assistant Commissioner for Interagency Support.

Enclosure.

Federal supply class (FSC)	Percentage to ratable agencies, fiscal year 1973	Title	Representative item(s)	Should class be rated or not rated? (reason)
3540	93	Wrapping and packaging machinery	Strapping machines, package sealing machines.	Yes—operations
3590	92	Miscellaneous service and trade equipment.	Manicure tables	Yes—morale.
3750	84	Gardening implements and tools	Lawnmowers, rakes, hoes, forks	Yes—Operations.
5110	83	Hand tools, edged, nonpowered	Files, pipecutters, saws, machetes	Do.
5120	89	Hand tools, nonedged, nonpowered	Pliers, screwdrivers	Do.
5130	92	Hand tools, power driven	Pneumatic tools, portable electric saws, abrasive wheels.	Do.
5133	88	Drill bits, counterbores, and countersinks: hand and machine.		Do.
5136	90	Taps, dies, and collets: hand and machine.		Do.
5140	90	Tool and hardware boxes		Do.
5180	96	Sets, kits, and outfits of hand tools		Do.
5210	85	Measuring tools, craftsmen's	Calipers, micrometers	Do.
5345	88	Disks and stones, abrasives	Abrasive belts, abrasive wheels	Do.
5350	94	Abrasive materials	Cloth, paper, abrasive polishing compounds.	Do.
5610	94	Mineral construction materials, bulk	Asphalt, gravel, sand	Yes—operations
5620	74	Building glass, tile, brick and block	Concrete building block, ceramic floor and wall tile.	Do.
5630	48	Pipe and conduit, nonmetallic	Concrete pipe and conduit, drain tile	Do.
5640	88	Wallboard, building paper, and thermal insulation materials.	Plaster board, sound-proofing board, insulating board.	Do.
5650	80	Roofing and siding materials	Roofing sheet metal, roofing tile, shingles.	Do.
5670	69	Architectural and related metal products.	Door frames, fixed fire escapes, staircases.	Do.
5680	85	Miscellaneous contruction materials	Airplane landing mats	Do.
7105	87	Household furniture	Camp furniture, folding chairs	Do.
7110	50	Office furniture	Filling cabinets, safes, blackboards	Do.
7125	76	Cabinets, lockers, bins, shelving	Kitchen cabinets, sectional shelving	Yes—morale.
7195	71	Miscellaneous furniture and fixtures	Auditorium and theater furniture, library furniture.	Do.
7220	89	Floor coverings	Linoleum, rubber and asphalt tile, carpets, rugs.	Do.
7230	85	Draperies, awnings, and shades	Curtains, draperies, venetian blinds, window shades.	Do.
7240	(1)	Household and commercial utility containers.	Refuse cans, clothes hampers	Do.
7290	79	Miscellaneous household and commercial furnishings and appliances.	Fireplace sets, household sewing machines.	Do.
7330	90	Kitchen hand tools and utensils	Pots, pans, can openers	Yes—operations.
7304	35	Cutlery and flatware	Knives, forks, spoons	Do.
7350	74	Tableware	China, glassware, paper plates and cups	Do.
7430	68	Typewriters and office type composing machines.		Do.

Federal supply class (FSC)	Percentage to ratable agencies, fiscal year 1973	Title	Representative item(s)	Should class be rated or not rated? (reason)
7460	76	Visible record equipment	Manually operated and power operated visible record equipment; visible index files, rotary and stationary.	Yes—operations.
7490	90	Miscellaneous office machines	Addressing machines, check handling machines, coin counting machines.	Do.
7510	63	Office supplies	Tape, pressure sensitive adhesives, pencils.	Do.
7520	(1)	Office devices and accessories	Paper punches, staplers, pencil sharpeners.	Do.
7530	71	Stationery and record forms	Business forms, record books, EAM cards, forms approved for use within individual Government activities.	Do.
7820	(1)	Games, toys, and wheeled goods	Checkers, playing cards, handicraft kits.	Yes—morale.
7910	84	Floor polishers and vacuum cleaning equipment.	Domestic and industrial vacuum cleaning equipment, carpet sweepers.	Yes—operations.
3920	(1)	Brooms, brushes, mops, and sponges		Do.
7930	(1)	Cleaning and polishing compounds and preparations.	Scouring powders, detergents, automobile and household polishes and waxes.	Do.
8010	88	Paints, dopes, varnishes, and related products.	Water paints, oil paints, lacquers paint sealers.	Do.
8020	86	Paint and artists brushes		Do.
8030	94	Preservative and sealing compounds	Fire resistant compounds, water resistant compounds, calking glue, ahesive cements.	Do.
8040	91	Ahdesives	Glue, adhesive cements	Do.
8105	(1)	Bags and sacks	Shipping and protective envelopes, textile and paper laminated shipping bags.	Do.
8115	86	Boxes, cartons, crates	Engine boxes, bombsight boxes	Do.
8135	89	Packaging and packing bulk materials	Wrapping paper, corrugated paper, baling wire, aluminum foil.	Do.
8510	(1)	Perfumes, toilet preparations, and powders.	Colognes, cosmetics, deodorants	Yes—morale.
8520	76	Toilet soap, shaving preparations, and dentifrices.	Toothpaste, shaving soap	Do.
8530	50	Personal toiletry articles	Hair brushes, tooth brushes, razors and blades.	Do.
8540	60	Toiletry paper products	Toilet paper, facial tissues	Do.
9310	(1)	Paper and paperboard	Book paper stock, newsprint, paperboard.	Yes—operations.
9905	73	Signs, advertising displays, and identification plates.	Electric signs, plates and tags for specific application, printed signs.	Do.
9920	(1)	Smokers' articles and matches	Cigarette lighters, ash trays, pipe reamers.	Yes—morale.

[1] Sales to ratable agencies in fiscal year 1973 not available.

[EXHIBIT 5J]

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., February 20, 1975.

Reply to attention of: Commissioner, FSS (F).
Subject: Defense priority ratings.

Assistant Director for Civil Crisis Preparedness (APF).

This refers to your draft letter to the Department of Commerce concerning the delegation of rating authority to GSA and DOD which was furnished for our review by your staff representatives.

We concur in the proposed rating authority as stated in paragraphs 2 and 3 of the letter. We also accept the restrictions imposed on specific FSC groups and classes in paragraph 1 of the correspondence.

In the event our support to DOD is severely impaired by the limitations imposed on those classes for whih GSA has national management responsibility, we will immediately seek your assistance to effect further revisions to the GSA

rating authority. Such a request will only be initiated when it is considered necessary to promote the national defense within the framework of the Defense Production Act of 1950, as amended.

M. J. TIMBERS,
Commissioner.

[EXHIBIT 5K]

OFFICE OF THE SECRETARY OF DEFENSE,
May 28, 1975.

Memo for Mr. Avery Kolb, OP/GSA.

Attached are statements of examples of problems anticipated should exclusions be made in the Federal Supply Groups/Classes indicated.

These were discussed by phone with Arnie Lewis last week and is the result of a further quick wiring-out of some of the FSG/FSC's we have been discussing. Mr. Lewis thought they may be useful to you and suggested we get them to you today.

M. J. FRIEDMAN.

Attachments.

SUBJECT: Identification of the Impact of the Lack of Priority and Allocation Authority

Federal Stock Group 35, Service and Trade Equipment.

Lack of priority authority for *Federal Stock Class 3540, Wrapping and Packaging Machinery,* would result in the loss of priorities on equipment essential to ammunition packaging, packing of supplies in Defense warehouses, equipment used in preparation of items for troop movement and for airdrops. Lack of this machinery could result in material shortages, delay of troop movements, and non-support of troops in the field.

Federal Stock Group 56, Construction and Building Materials.

Federal Stock Class 5610, Federal Construction Materials Bulk, contains many materials which are used for surface protection and coating. An example of these materials is flight deck compound, non-slip, which is a slip resistant coating to assure safe footing, that is used for coating surfaces and walkways on carrier flight decks, hanger decks, and companion ways. Lack of compounds of this nature could result in unsafe working conditions and delay in the construction or timely repair of such vital vessels as aircraft carriers.

Federal Stock Class 5680, Miscellaneous Construction Materials, contains vital construction materials such as aircraft roadway membrane surfacing outfits, landing mats, mats, beach woven wire. The membrane surfacing outfit is the equipment which is used to turn graded earth surfaces into advanced airfields, providing forward operating bases. The landing mats are an older type of airfield surface preparation. The beach mats are essential to the landing of heavy equipment across sandy beaches. All of these items are vital to the conduct of military field operations.

Federal Stock Group 71, Furniture.

Federal Stock Class 7110, Office Furniture, contains items such as map plotting tables and chart tables. While these may be classified in the Office Furniture category they are vital to staff and field operations. Plotting tables are used throughout the Department of Defense in all Services. They are utilized in the Defense centers, on ships at sea, and in Army field operations and centers. While they are office furniture, they are also a piece of utilitarian equipment essential in military operations.

Federal Stock Class 7195, Miscellaneous Furniture and Fixtures, contains the parachute packing tables. Parachute packing tables are used by all Services, both in field operations and in depot repair operations. They are essential equipment for continued support of military operations.

Federal Stock Group 72, Household and Commercial Furnishings and Appliances.

Federal Stock Class 7210, Household Furnishings, contains such items as combat blankets, combat casualty blankets, survival phosphorescent blankets, mat-

tress covers, and insect barriers. All of these are specialty items utilized by the military services. There is a very limited use of the items in civilian catastrophe areas.

Federal Stock Class 7220, Floor Coverings, contains among other items non-slip deck coverings, ship bridge mats, and non-metalic treads. This class contains items which provide a safe or comfortable surface covering to meet both safety and health requirements. Lack of these items or a delay in obtaining the items could impact on the availability of military equipment or operating installations.

Federal Stock Class 7240, Household and Commercial Utility Containers, contains gasoline and water cans, hospital equipment, including surgical waste bags. The gasoline and water cans are, in many cases, specially designed to match operating equipment, and in other cases are of a standard specification and configuration. These containers are utilized by all military services and are frequently attached to vehicles operating in the field. They constitute an essential part of the support equipment. Hospital equipment and surgical waste plastic bags are utilized both in fixed installations and field hospitals. A supply of this equipment is essential support for any military operation and it should be on hand at the start of and during the operation.

Federal Stock Group 75, Office Supplies and Devices.

Federal Stock class 7530, Stationery and Record Forms, contains such items as computer paper, paper tape, plotting grids, and target plotting grids. Computer paper is widely used throughout the Department of Defense in preparing many status reports and vital printouts in air defense warning systems. The paper tape is used as an input and control device in the operation of numerical control machine tools and is used as a transmission media, both input and output, in the Defense intelligence communications system. Plotting grids and target plotting grids are used in both navigation, aerial and nautical, and control of artillery fire. Thus these paper products are essential in the areas of logistics and field operations and as such are vital to many Defense efforts.

Federal Stock Class 7540, Standard Forms, contains standard forms as an item within this class. Standard forms throughout the Department of Defense are a means of structuring information so that it can be rapidly transmitted from one point to another and assembled into meaningful digests and reports. Standard forms are used extensively in logistics functions such as supply, maintenance, and material management. Without these standard forms and a ready availability of the forms, many of the actions necessary to move material in support of military operations or to assess weapons systems performance could not be accomplished in a timely fashion. Thus, even standard forms are essential to continued military operations.

Federal Stock Group 76, Books, Maps, and Other Publications.

Federal Stock Class 7610, Books and Pamphlets, contains reference materials such as technical orders, general orders, maintenance manuals, code books, medical texts, parts breakdown lists, to mention a few. All of these items are essential in many areas of the military mission. Without having the items readily available it would not be possible in many cases, to perform essential functions in support of the military mission or task or to maintain a high level of combat readiness through personnel who are trained and have immediate access to essential technical information contained in these publications.

Federal Stock Class 7650, Drawings and Specifications, contains such items as bolts of material, technical drawings and specifications. All of these items are necessary to the procurement, engineering, repair and construction functions accomplished by the military services. Without them the ability to communicate the desire of the designer to the builder or the purchaser to the manufacturer would be lost and this would have a severe impact on the timely availability of facilities and equipment.

Federal Stock Class 7670, Microfilm, Processed, contains microfilm and prints. In order to conserve defense dollars and reduce the needs for extensive files, many items have been placed in microfilm, microfiche or other microform media. Inability to continue to purchase essential microform media would severely hamper defense operations and limit the utility of the present systems.

Federal Stock Group 91, Fuels, Lubricants, Oils and Waxes.

Federal Stock Class 9150, Oils and Greases, Lubricating and Hydraulic, contains normal cutting oils and greases, silicone greases and lubricants, and synthetic lubricants. Normal oils and greases are vital to the continued operation of field and depot shops and operating military equipment. Without them much of the defense effort would come to a stand still. Silicone greases and lubricants are used where extreme temperatures occur and are also used in aircraft instruments. Synthetic oils and lubricants are used in high temperature and pressure applications such as nuclear submarine operations and other shipboard operations. These are examples of items in this class. While it appears to be a class of common commercial items, this class also contains material that is extremely essential to the continued operation of the Department of Defense. It should be unnecessary to point out that all defense equipment uses oils of one type or another and as such, such items are vital to the continued safety and satisfactory operational performance of a wide variety of defense equipment.

Federal Stock Class 9160, Micellaneous Waxes, Oils, and Fats, contains such items as explosive desensitizing wax, instrument indicating fluids, and ski wax. The explosive desensitizing wax is utilized by munitions manufacturers in the forming and molding of explosives to assure there is a clean separation of the explosive from the mold or form. Miscellaneous lubricating fluids are used in aircraft and ship gauges and compasses and are essential to the operation and navigation of such vehicles. Ski wax is essential to the troops in winter maneuvers, operations, and movement, and as such must be readily available to defense operations.

[EXHIBIT 5L]

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., April 21, 1975.

Maj. Gen. LESLIE W. BRAY, Jr., USAF (Ret),
Director, Office of Preparedness, General Services Administration,
Washington, D.C.

DEAR GENERAL BRAY: We have been asked by your staff leading the ad hoc interagency group studying the use of priority ratings to comment on an Office of Preparedness draft proposal to exclude certain Federal Supply Groups and Classes from rating authority exercised under Title I of the Defense Production Act of 1950, as amended (Attachment 1).

The proposed exclusions affecting nineteen Groups or Classes of commodities procured by the Federal Supply Service (FSS) and the Department of Defense (DoD), primarily the Defense Supply Agency (DSA), have been carefully studied.

For your convenience in reference to our remarks, all of the Federal Supply Groups mentioned in the proposal, including those in which we concur or nonconcur (with examples), are summarized in Attachment 2. These examples are taken from the *Federal Supply Classification, Part 2, Numeric Index of Classes (Cataloging Handbook, Department of the Army Supply Bulletin H2–2, SB708–22).* It is understood that your office has a copy of this publication.

You will note that we concur in the exclusion from rating authority of six Groups and four Classes out of a grand total of nineteen contained in the OP draft. We cannot concur with the exclusion from rating authority of the remaining six Groups and three Classes which include commodities purchased directly by the DoD.

We are quite concerned about the fundamental concept of eliminating additional numbers of Federal Supply Groups or Classes from DoD rating authority. As you know, the primary purpose of the priorities system has been to maintain in-being an administrative means to promptly mobilize the nation's economic resources in event of war or national emergency. We also need it to keep our current programs on schedule. The basic mechanism of the system has been the maintenance of an unbroken chain of ratings down through all levels of production. In event of disaster, strikes, other work stoppage, order conflicts and other delays, necessary products and materials are preidentified. The degree of

essentiality can be determined at a particular time, and production or delivery can be made accordingly. Breaks in the rating system beyond those presently existing complicate or prevent resolution of delivery problems when they most urgently require solution. Many special assistance actions are generated as a result of such breaks.

We believe that the introduction of additional increments of rating exclusions among other Groups and Classes will create new layers of variables and exceptions within the system and make it increasingly more complex and difficult for the DoD to administer and keep its procurements on schedule, with attendant cost growth. This could eventually lead to differentiation among items within Classes and we hold that this would be administratively untenable. The Commerce Department may also find it more difficult to maintain compliance in industry.

We do not concur with partial special assistance provision for the remaining Groups and Classes that are now rateable. These Groups and Classes contain commodities directly required for defense programs and include some that are of the highest importance, such as missile and rocket propellants. Their exclusion in many instances will entail costly delays. Even if these commodities would be eligible for special assistance in lieu of ratings, a similar situation would remain and additional workload would be created to overcome it. A look at the listings of Groups, Classes and Items in the Cataloging Handbook will illustrate this point. The added impact on industry and government personnel and other administrative costs of installing substantial changes, as well as added delays in deliveries, should be carefully weighed in the perspective of the purposes served by the exclusions.

In addition to above, we hold that commodities procured by the DoD are "necessary and appropriate to promote the national defense" within the context of the proposal and the language of the Defense Production Act, and we certify other agencies' programs supporting our current or mobilization programs against the same criterion, i.e., promoting the national defense.

It has been generally accepted that the DO–K1 rating was sponsored by the DoD because its sole purpose was to permit the FSS to use it for procurements made on behalf of defense programs. This rating is used for 48 FSS Classes. You will recall that the Commerce Department asked us to make a full review of the DO–K1 rating authority by the FSS for procurements made on behalf of the DoD. We advised the Commerce Department that the 48 Classes rateable by FSS could be reduced to 16 as the result of a screening to identify the most essential (to DoD) commodity areas.

The proposal to limit future annual purchases to the percentage of total procurement in a previous time period is unclear and subject to varying interpretations. We see no valid purpose for such a limitation. However, even if a valid purpose were to be served, we believe that the implementation would be practicably unworkable.

Considering the number of defense contracts and supporting industry orders placed each year, to seek OP approval for rating authority or special assistance for exceptions would present a formidable and time-consuming administrative problem. Thus we find it difficult to reconcile much of the proposed curtailment of DoD rating authority with an expansion of the DO–K1 rating authority beyond the 48 Classes that now carry that rating, considering the relative military importance of new Classes that would be added under this proposal.

We hope that these comments, the summary position chart (Attachment 2), our rationale paper (Attachment 3) and the comprehensive Group and Class analysis chart (Attachment 4) will assist you in reaching a decision on this matter. We appreciate the opportunity to participate in the decision process.

Sincerely,

JACQUES S. GANSLER,
Deputy Assistant Secretary of Defense.

Attachments as stated.

ATTACHMENT 4.—FEDERAL SUPPLY GROUPS AND CLASSES WHICH OP GSA PROPOSES TO EXCLUDE FROM RATING AUTHORITY AND EXAMPLES OF CLASSES AND ITEMS IMPORTANT TO THE DOD [1]

OP GSA proposes to exclude these Federal supply groups (2-digit) and or classes (4-digit)	Examples of classes within the group, not separately identified by OP GSA, but which contain itemsi mportant to the DOD	FSS prime purchase responsibility	DSA limited item purchase responsibility	Amount DSA purchased fiscal year 1974	Remarks
(A)	(B)	(C)	(D)	(E)	(F)
*1. 37—Agricultural machinery and equipment:					
(a)	3710—Soil preparation equipment (examples: Harrows, disc and sickle types; plows).			$1, 900	Items in Class 3710 are excluded from rating authority.
(b)	3720—Harvesting equipment (examples: Hayrakes, rotary and sickle type used on farm type tractors).			20, 000	Do.
(c)	3740—Pest control, disease control and frost control equipment.			164, 000	
(d)	3770—Saddlery, harness, whips and related animal furnishings (examples: animals cages; dog blankets; dog chains; muzzles; dog leashes).			28, 000	
*2. 71—Furniture		X			FSS has prime purchase responsibility for group 71, but GSA has limited item purchase responsibility for classes 7015, 7110, 7125, and 7195.
(a)	7105—Household furniture (examples: Bedsprings; folding chairs, camp furniture).		X	1, 067, 000	
(b)	7110—Office furniture (examples; Filing cabinets; safes; school furniture; blackboards).		X	1, 084, 000	
(c)	7125—Cabinets, lockers, bins and shelving (examples: kitchen cabinets; sectional shelving).		X	865, 000	
(d)	7195—Miscellaneous furniture and fixtures (examples: Bulletin boards; map display boards; tables, parachute packing; work tables, general purpose).		X	3, 222, 000	
*3. 72—Household and commercial furnishing and Appliances		X			While GSA has prime purchase responsibility for group 72, DSA has the assigned responsibility for commodities required for the DOD in classes 7210 and 7240.
(a)	7210—Household furnishings (Examples: Bedding; blankets; mattresses; sheets; towels).			34, 443, 000	
(b)	7240—Household and general utility containers (Example: water cans).			791, 000	
*4. 77—Musical instruments, phonographs, and home-type radios.					
*5. 78—Recreational and athletic equipment		X			
*6. 85—Toiletries		X			
7. 87—Agricultural supplies		X			
8. 88—Live animals				0	DSA recently was assigned procurement responsibility for group 88. Not rateable under Bureau of Domestic Commerce (BDC) Regulations.
9. 89—Subsistence					Not rateable under BDC Regulations.
10. 91—Fuels, lubricants, oils and waxes				(2)	Coal, petroleum, and gas fuels, and petroleum lubricants are presently excluded from rating authority.
(a)	9110—Fuels, solid				

(b)	9130—Liquid propellants, fuels, petroleum base			
(c)	9135—Liquid propellants, fuels, and oxidizers, chemical base.			
(d)	9140—Fuel oils			
(e)	9150—Oils and greases, cutting, lubricating and hydraulic.			
(f)	9160—Miscellaneous waxes, oils, and fats (examples: indicating fluid, instrument; wax, explosive, desensitizing).			
*11. 94—Nonmetallic crude materials:				
(a)	9420—Fibers; vegetable, animal and synthetic (examples: Cochin coin, cocoa fibers; horsehair; silk fibers; nylon fibers; rayon fibers; wool, raw).		50,000	Purchases were for raw wool. Presently excluded from rating authority.
(b)	9430—Miscellaneous crude animal products, inedible (examples: Hog bristles, crude hides, crude ivory).		0	Not rateable.
12. 99—Miscellaneous:				
(a)	9905—Signs, advertising displays and Identification plates (Examples: Land mine location markers, signs flag warning kits, tags).		0	
(b)	9925—Ecclesiastical equipment, furnishings, and supplies (Examples: Chaplains' kits, portable pulpits, communion sets, kiddush service sets, candle kits, missal stands, robes).		197,000	
(c)	9930—Memorials, cemetarial and mortuary equipment & supplies (Examples: Human remains pouches, embalming kits, burial boxes, mortician equipment, embalming fluid.		18,000	
(d)	9999—Miscellaneous items (Examples: Message centers, dispenser and barbed wire, collateral equipment, message teletypewriter centers).		1,370,000	
13. 3550—Vending and coin operated machines		X		FSS has purchase responsibility.
14. 8235—Fur materials			0	
15. 8335—Shoe findings and soling materials			88,000	
16. 8425—Underwear and nightwear, women's			0	These are not issue items, but are bought as personal items. Could conceivably become issue items—See class 8445 remarks.
17. 8445—Hosiery, handwear and clothing accessories, women's.			0	Preliminary review indicates that ISA purchases of handbags and cotton and leather gloves amounted to $3,354,000 in the first 6 mo of fiscal year 1975. Commodities in this class were not issue items in 1974, but have become such within the last 6 mo.
18. 8450—Children and infants apparel and accessories.			0	Items in this class are for hospital care for dependents, and are not rateable. These are not bought by the normal DSA purchasing group.

* Group for which OP/GSA would permit case-by-case special assistance actions to be processed through procuring departments and agencies to Commerce Department for resolution.

[1] Groups and/or classes for which FSS has prime purchase responsibility, and items for which DSA has limited purchase responsibility, are so indicated in columns (C) and (D) respectively. DSA has assigned purchase responsibility for other Groups & Classes on this chart.

[2] $2,400,000,000—DFSC for POL procurements only. Does not include POL contracts of less than $10,000. Does not include direct procurements by military departments in the group (i.e., class 9135, liquid propellant fuels and oxidizers; chemical base, for missiles and rockets). POL items (natural;) unrated; synthetics are rateable. Class 9135 items are rateable, with a few exceptions (i.e., helium—under Interior Department jurisdiction. Military departments also procure items from this class (i.e., for missiles and rockets). In this group are some of the commodities most critical to the DOD; for example, fuels, propellant, liquid; oxidizers, propellant; nitrogen, pressurizing, propellant; propellant uns-dimethyhydrazine; propellant, hydrazine; propellant, hydrogen; propellant, nitrogen tetroxide; propellant, oxygen.

DOD PORTION

GROUPS AND CLASSES PROPOSED BY OP FOR EXCLUSION FROM RATING AUTHORITY

Presently not rateable by DOD or FSS	Presently rateable (whole or part)		Examples/remarks
	Concur	Nonconcur	
78 recreational and athletic equipment.			
87 agricultural supplies.			
88 live animals.			
89 subsistence.			
3,550 vending and coin operated machines.			
8,235 fur materials.			
8,450 children's and infant's apparel and accessories.			
9,610 ores.			
	*77 musical instruments, phonographs and home-type radios.		
	*85 toiletries.		
		*37 agricultural machinery and equipment.	Pest control equipment and supplies.
		*71 furniture.	Map plotting tables, Personal equipment box, lockers, Hammocks.
		*72 household and commercial furnishings and appliances.	Bedding, blankets, sheets, towels, mail cases, ready room chairs, bins.
		91 fuels, lubricants, oils, and waxes.	Synthetic lubricants, rocket and missile propellants, ammo desensitizing wax.
		*94 nonmetallic crude materials.	Rayon and nylon fibers for missiles and parachutes.
		*99 miscellaneous.	Land mine markers, flag warning kits, tags, mortuary supplies.
		8,335 shoe findings and soling materials.	Rubber and leather heels and soles, boot and footwear laces, Insoles.
		8,425 underwear and nightwear, womens.	Personal items. Could be made troop issue at anytime; particularly during a mobilization.
		8,445 hosiery, handwear and clothing accessories.	Not troop issue items in fiscal year 1974. Were made troop issued items in fiscal year 1975.

* OP proposes to provide special assistance.

RATIONALE AND DISCUSSION OF DOD POSITION ON PROPOSED RATING EXCLUSIONS ARISING FROM OP/FSS/COMMERCE/DOD REVIEW OF RATING AUTHORITY

The crux of this matter is that the Cataloging Handbook H2–2 is just one logical classification of hundreds of thousands of commodities in generic Groups, Classes and Items intended to serve procurement and supply management purposes. Such classifications will exist with or without a rating system, since they are not intended to be the basis for segregating commodities for rating purposes. The apparent semantic meanings of Group and Class titles do not necessarily convey the end use of the commodities within them, nor their importance to our programs.

Executive Orders 10480, 11490 and Defense Mobilization Order 8400.1 serve a different purpose. Pertinent elements of these documents establish certain resource roles of Federal Agencies—for example, the Departments of Commerce, Interior and Agriculture—and rating inclusions and exclusions generally follow the commodity breaks established by their resource assignments. Thus, the commodity jurisdictions of the resource agencies generally are vertical, essentially governed by the segment of the economy that these agencies oversee.

The DoD claimancy requires resources from almost all segments of the economy, crossing the jurisdictional commodity lines of the resource agencies. Since the classification of commodities in the Cataloging Handbook was not intended to match the resource agency roles, the OP proposed exclusions include Groups, Classes, and Items within Classes, some of which essentially, but not wholly, follow the commodity jurisdictions of the resource agencies. Some Groups are wholly rateable and some are not. The Groups contain Classes, some of which are rateable and some are not. The Classes contain items, some of which are rateable and some are not. Attachments 2 and 4 reflect a few of these conditions. All of these commodities are directly required for authorized defense programs. Many are of the utmost criticality to these programs, including those of NASA and other Associated Agencies of the DoD.

An important example of the current problem is the proposed exclusion of Group 91. Solid Fuels (Class 9110), Petroleum Base Liquid Propellant Fuels (Class 9130) and Fuel Oils (Class 9140) are not rateable. Most cutting, lubrication and hydraulic oils (Class 9150) are not rateable, but synthetic oils and lubricants, for example, are rateable. Class 9160 (Miscellaneous Waxes, Oils and Fats) includes items which are not rateable. It also includes explosive desensitizing wax, which is an important munitions ingredient. Class 9135 (Liquid Propellants and Oxidizers, Chemical Base) contains missile and rocket fuels used by the DoD and NASA. Virtually all are now rateable. Some are procured by the DSA, some are procured by the Military Departments, and some are purchased by contractors. These products are vital to our programs.

The existing rating exclusions and inclusions among and within Groups, Classes and Items at first appear to be without reason. However, they are governed by DMS Regulation 1 and DPS Regulation 2 in a logical manner under the resource agency assignments established by Executive Orders 10480 and 11490, and Defense Mobilization Order 8400.1, and are particularlized by Interagency Agreements by the Department of Commerce with the Departments of Interior and Agriculture for their products, materials and commodities.

Ratings may be applied today under the DMS and DPS to items falling within Commerce Department production and distribution jurisdiction; therefore, those commodities for which Interior and Agriculture are responsible generally may not be rated unless otherwise identified in the Interagency Understandings and Agreements. Examples are included in Attachments 2 and 4 of the DoD position paper addressed to OP.

A prime mechanism governing the effective operation of the DMS and DPS is the maintenance of an unbroken flow of ratings on defense contracts and orders down through the industrial chain, so that each is pre-identified at successive levels of production on individual plant orderboards. Break in the rating chain complicate or prevent the identification of important items at various levels of production and can result in delay deliveries and increased costs.

Some breaks in the rating chain now occur for various reasons, including unfamiliarity of participants with the requirements of DMS/DPS system, and oversights. These often generate special assistance actions on a case-by-case basis to overcome the resulting shortage or bottleneck, and can create additional workload, delays and expense. It frequently has been necessary for the Departments of Commerce and Defense jointly to urge defense contractors, vendors and suppliers, and trade associations to maintain this unbroken chain of ratings to

insure DMS/DPS system integrity and an orderly flow of materials to defense contracts and orders.

An important principle is involved in the determination of rating exclusions. Many of the commodities shown in the Cataloging Handbook, as well as the products and materials incorporated in them, are required to perform defense contracts and orders. The Handbook also includes numerous commodities in which there is little or no recent purchase history. Many of these can become important overnight as the result of urgent new procurements for current programs or for mobilization and other emergency conditions. Each new commodity or material excluded from DoD rating authority would have to be similarly excluded from the defense contracts and orders throughout industry. The closer the exclusions get to products and materials common to many types of production, the more pervasive the impact can be. Thus, continued random insertion of rating exclusions across the vertical commodity jurisdictions of the resource agencies, based on Cataloging Handbook Group and Class designations, can create new layers of variables and exceptions in the priorities system. It can make it increasingly more difficult for the DoD to administer and keep its procurements on schedule, for industry to produce quickly, and for the Commerce Department to effectively manage system compliance. The rating chain will be broken at various levels of production and the complexity of the system would increase proportionately, as would the number of special assistance actions for commodities still remaining rateable. Orders for those which are not rateable and not eligible fore special assistance could stagnate, and delay defense deliveries, with attendant cost growth.

The OP proposal would provide a procedure to obtain OP rating authority or special assistance for excepted Classes. Pre-identification of potential bottlenecks is frequently impossible. Processing actions to obtain rating authority or special assistance on a case-by-case basis at the national level in such cases may be questionable when the administrative burden and production delays are weighed against the purposes served by additional rating exclusions.

Admittedly, new rating authority exclusions in and among Groups, Classes and Items could be published. However, they generally would criss-cross existing logical resource agency commodity breaks and in most instances would have to be identified at the Item level, which we strongly oppose. If the concept is extended to any significant extent, a list of exceptions of considerable magnitude soon would be required. Changing interpretations of which commodities are "military essential" at any given time could require that the exception list be subjected to constant revision, necessitating frequent dissemination of changes and amendments to existing Commerce Department, defense agency, and industry orders, regulations and guidance. They would defeat the purpose of an unbroken rating chain in the in-being system—immediate response in an emergency.

The Commerce Department asked the DoD to make a full review of the use of the DO–K1 defense priority rating by the FSS for procurements on behalf of the DoD. We advised Commerce and OP that FSS use of the DO–K1 rating to meet DoD needs could be limited to about 16 commodities. We selected these residual commodities because we considered that they remained the FSS-procured items most critical to defense needs in point of time.

We also advised Commerce that any other items purchased by FSS without the use of the DO–K1 rating on behalf of the DoD would be pre-sponsored by us for special priorities assistance by the Commerce Department if critical shortages or related problems were encountered. These could be resolved by Commerce Department directive or other appropriate action. It was our calculated risk to chance the delays for DO–K1 items bought on our behalf. We reached these conclusions because we believed that the DoD was in the best position to assess the relative military importance of its own programs and supporting procurements, in accord with the National Security Act of 1947 and Reorganization Plan No. 6 of 1953. They require and provide for the Secretary of Defense to make these determinations.

We note that the new proposal would permit the use of ratings for all Federal Supply Groups and Classes other than the nineteen (19) suggested by OP for termination of rating authority based on a percentage of past purchase experience. The proposal is unclear and subject to varying interpretations. Regardless of interpretation, the percentage ceiling fails to recognize fundamental facts of the procurement and production process. We see no valid purpose to be served by this proposal. If a valid purpose could be served by this action and considering

the number of defense contracts let each year and the supporting subcontract and supplier orders nation-wide, the administrative burden it would impose on defense agencies and industry would make it impracticable. It would become most difficult and costly to maintain the integrity of our production and contract delivery schedules.

When we suggested last year that the 48 Classes purchased by the FSS with DO–K1 ratings for defense agencies could be reduced to 16, we said in effect that ratings could be eliminated for 32 Classes. In the attached letter, we concur with the deletion of some other Groups and Classes. The percentage formula would further curtail defense rating authority and limit our flexibility to adjust program emphasis to meet changing needs. It would permit widening the use of DO–K1 ratings beyond the 48 currently using that rating, and possibly, even beyond the 60 Classes for which FSS has sought rating authority. It does not recognize our views concerning the relative military importance of the items involved.

It is difficult for us to rationalize cutting back DoD rating authority while expanding DO–K1 usage for items we consider less essential, at our own risk, than many we directly purchase for ourselves.

[EXHIBIT 5M]

THE JOINT CHIEFS OF STAFF,
Washington, D.C., May 9, 1975.

MEMORANDUM FOR THE SECRETARY OF DEFENSE

Subject: Proposed Curtailment of DOD Priority Rating Authority

1. Reference a memorandum by the Assistant Secretary of Defense (Installations and Logistics), 6 May 1975, subject as above, which requested the views of the Joint Chiefs of Staff on the military essentiality and extent of impact upon military readiness of exclusions to DOD priority rating authority proposed by the Office of Preparedness, General Services Administration (OP/GSA).

2. The time permitted to respond to this proposal does not allow for adequate review and determination of the impact upon military readiness. Nevertheless, a cursory review indicates that implementation of the proposal will have a severe, immediate impact upon procurement of some important items of military materiel, which in turn will directly and adversely affect readiness of US Forces. Some illustrative examples are contained in the Appendix. It is emphasized that these are but preliminary indications of a problem of potentially great severity and are by no means a comprehensive statement.

3. The rapidity with which OP/GSA intends to implement the proposed exclusions does not appear necessary. There has not been opportunity for the proposal to be adequately considered by the Military Departments, who are charged by law with equipping and maintaining the Armed Forces and who would bear the burden of a curtailment of the DOD priority rating authority.

4. Over and above the immediate impact of the proposed exclusions, the Joint Chiefs of Staff are deeply concerned with the precedent which may be established by this precipitous action. If implemented without consideration of the consequences, this may be the first increment in a process of dismantling a mechanism which is vital to the security of the United States in war or other national emergencies.

5. Rationale provided orally by OP/GSA is that abuse of the rating authority is a cause for this proposal. This contention by OP/GSA needs further analysis.

6. For the reasons discussed above, the Joint Chiefs of Staff strongly urge that the proposed defense mobilization order not be implemented until there has been:

(*a*) A thorough review by the Military Departments.

(*b*) A complete analysis of alleged abuses or other rationale underlying the proposal.

(*c*) A review for impact upon operational forces by the Joint Chiefs of Staff of the Services' analyses.

It is estimated that this process will require approximately 120 days.

For the Joint Chiefs of Staff:

ADRIAN ST JOHN, Maj. Gen., USA,
Vice Director, Joint Staff.

Attachment.

APPENDIX

EXAMPLES OF ITEMS CURRENTLY OR POTENTIALLY OF MILITARY IMPORTANCE

The examples given below are not intended as a definitive statement of requirements nor as an unqualified statement that procurement difficulty would be experienced if DOD priority rating authority were withdrawn. They are intended to illustrate that the proposed exclusions include items of great military importance which have not yet been adequately considered in the context of the proposed defense mobilization order and that issuance of the order prior to thorough consideration of the impact on the readiness of US Forces would at best be premature and could be seriously injurious to national security. Some of the items for which withdrawal of rating authority is proposed are:

Group 35--Equipment, such as laundry and dry cleaning machinery, which could seriously disrupt shipbuilding, overhaul, and repair schedules.

Wrapping and packaging equipment which could affect logistic support capability and disrupt deployment schedules.

Group 56--The full range of construction materials used by military construction units (e.g., Seabees) in overseas construction and maintenance.

A wide range of materials used in shipbuilding, conversion, overhaul, and repair.

Shipboard materials essential to operations and safety, such as nonslip flight deck compound and nonslip deck compounds.

Radiation shielding materials.

Acoustic and thermal insulating materials.

Landing mats and clips, beaching mats and repair kits, roadway traction mats.

Structural aircraft panels.

Group 71--Field desks, map cabinets, and map display boards.

Plotting tables.

Camp furniture.

Group 72--Bedding, blankets, casualty blankets, combat casualty blankets, etc. (among other things, critical to the Department of Defense disaster relief mission and other massive personnel support efforts such as the Vietnamese refugee program).

Nonslip deck coverings.

Military gas and water cans and fixtures.

Group 73--Many personnel health and safety items which are also time sensitive in shipbuilding and conversion programs.

Field cooking and baking equipment.

Group 75--Teletype supplies (ribbon, paper, etc.) essential to military communications.

Aircraft navigation plotting grids.

Target plotting grids.

Group 76--Charts and maps.

Group 91--Aircraft turboshaft engine and turbine engine synthetic lubricating oil.

Aircraft nonpetroleum hydraulic fluid.

Explosive desensitizing wax.

EXHIBIT 5N

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

INSTALLATIONS AND LOGISTICS

15 MAY 1975

Major General Leslie W. Bray, Jr., USAF(Ret.)
Director, Office of Preparedness
General Services Administration
Washington, D. C. 20405

Dear General Bray:

Reference is made to our letter of 21 April 1975 concerning proposed exclusions of rating authority for certain Federal Supply Groups and Classes, and a draft Defense Mobilization Order (DMO) on the same subject furnished by your staff via informal transmittal slip dated 17 August 1975.

The ad hoc GSA/BDC/DoD priorities study group has reviewed many supply groups, classes and items during recent months. However, it was not feasible to bring the Military Departments into this matter until a firm OP exclusion list was established. It is understood that you contemplate issuance of the DMO within a very short time. A full impact assessment of the final list of exclusions by the Military Departments cannot be accomplished so soon. Accordingly, we asked the Joint Chiefs of Staff (JCS) to furnish their views on the readiness impact of the draft DMO.

The JCS position is that although there has not been sufficient time to thoroughly evaluate the draft DMO, they have concluded from a preliminary review that implementation of the proposal will have a severe, immediate impact upon the procurement of important items of military materiel. This, in turn, will directly and adversely affect readiness of U.S. Forces. They strongly urge that the proposed DMO not be implemented until there has been:

a. A thorough review of the proposed DMO by the Military Departments

b. A complete analysis of alleged abuses or other rationale underlying the proposal.

c. A review for impact upon operational forces by the JCS of the Services' analysis.

We concur with the views expressed by the JCS. However, in view of your position and plans to issue a DMO that would exclude certain Federal Supply Groups and Classes (FSG/FSC) from rating authority,

we see eleven FSG/FSC that might be considered for exclusion at this time(Attachment 1).

In accordance with our discussion of 14 May 1975, I agree that additional exclusions probably can be made after a more thorough review, and that conversely rating authority can be reinstated should the need arise.

Because of our concern about the readiness impact of initiating far-ranging exclusions without careful study, we urge that additional exclusions not be promulgated until each such inclusion is given adequate review.

Sincerely,

JACQUES S. GANSLER/s/
Deputy Assistant Secretary of Defense
(Materiel Acquisition)

Attachment

FEDERAL SUPPLY GROUP OR CLASS

GROUP	
77	Musical Instruments, phonographs & home-type radios
78	Recreational & Athletic Equipment
85	Toiletries
87	Agricultural Supplies
88	Live Animals
89	Subsistence

CLASS	
3550	Vending & Coin Operated Machines
8235	Fur Materials
8425	Underwear & Nightwear, Womens
8450	Children's & Infant's Apparel & Accessories
9610	Ores

Attachment 1

EXHIBIT 6

Congress of the United States

JOINT COMMITTEE ON DEFENSE PRODUCTION

(CREATED PURSUANT TO PUBLIC LAW 774, 81ST CONGRESS)

WASHINGTON, D.C. 20510

May 8, 1975

Honorable Robert C. Seamans, Jr.
Administrator
Energy Research and Development
Administration
Washington, D. C. 20545

Dear Dr. Seamans:

The Joint Committee on Defense Production has scheduled hearings on May 22 and 23 on the Defense Priorities System in connection with a general review of programs authorized under the Defense Production Act of 1950.

Since the Energy Research and Development Administration plays a major role in administering and using the Defense Priorities System for approved programs formerly under the auspices of the Atomic Energy Commission, the Committee requests that a written statement describing E.R.D.A.'s Defense Priorities System activities be submitted for the hearing record no later than May 20, 1975. The Committee will also appreciate the inclusion of your response to the following questions:

1. Priority supported A.E.C. programs were identified by the symbols E-1 (Construction), E-2 (Operations, including maintenance, repair, and operating supplies), and E-3 (Privately-owned facilities). Will ERDA's priority supported programs continue using the same identification system? Please provide a more detailed explanation of the programs comprising these categories as well as any other priority supported programs not included in the above designations.

2. What was the estimated total dollar value of priority supported procurement for A.E.C. programs in FY 1974?

3. Did the former AEC programs that received priority support include non-nuclear projects such as fossil fuel or solar and geothermal energy? If so, identify them.

4. Is priority support being extended to procurement for ERDA's non-nuclear programs? If so, please describe the programs. If not, what is ERDA's view toward doing so?

5. Do contracts and delivery orders for procurement of such items as office furniture, office equipment, and stationery receive priority support? If so, substantiate the relationship to programs for atomic energy production or construction.

6. Are the furniture, equipment, and operating supplies used by ERDA's administrative offices purchased under priority support? If so, substantiate the relationship to programs for atomic energy production and construction.

7. What ERDA programs are authorized for the DX priority rating? What are the criteria for determining that a project warrants the DX rating?

8. How many special priorities assistance actions were initiated in FY 1974? Indicate the number of cases resolved within AEC and the number that required further action by the Office of Industrial Mobilization, Department of Commerce.

9. Does ERDA maintain a system to monitor the impact of its priority procurement on civilian procurement? Is a record available of the number of non-rated orders pre-empted by rated orders.

10. Does ERDA maintain compliance activities to insure contractors are not abusing the priorities system? Have there been instances of contractors or sub-contractors using priority ratings for non-approved programs?

11. Please provide a justification as to whether or not contracts and delivery orders for ERDA-approved programs should continue to warrant priority support.

We will appreciate your cooperation in providing the above information.

Sincerely,

Wright Patman
Chairman

UNITED STATES
ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION
WASHINGTON, D.C. 20545

MAY 20 1975

Honorable Wright Patman
Chairman, Joint Committee
on Defense Production
Congress of the United States

Dear Mr. Patman:

In response to your letter dated May 8, 1975, there are enclosed a statement of the Energy Research and Development Administration's Defense Priorities System activities and answers to specific questions requested by the Joint Committee for inclusion in the hearing record on the Defense Priorities System in connection with a general review of programs authorized under the Defense Production Act of 1950.

If we can be of further assistance, please do not hesitate to call on us.

Sincerely,

Robert C. Seamans, Jr.
Administrator

Enclosures:
1. Statement of ERDA's Defense Priorities System Activities
2. Answers to Specific Questions Requested by the Joint Committee on Defense Production

DEFENSE PRIORITIES SYSTEM ACTIVITIES OF THE ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

The Energy Research and Development Administration (ERDA) was established on January 19, 1975, in accordance with the Energy Reorganization Act of 1974 (PL 93-438). Generally, all the operating functions of the former Atomic Energy Commission (AEC), as contrasted to its regulatory functions, were transferred to ERDA. These functions include programs in military applications, naval reactors, reactor development, uranium enrichment and production and research and development in nuclear science and technology, as well as a few nonnuclear programs being conducted by the AEC since 1971. The complex of AEC laboratories and production facilities which carry out these programs were also transferred to ERDA.

The Energy Reorganization Act continued in effect all orders, determinations, rules, regulations, etc., related to the performance of functions transferred under the Act. Under this authority, ERDA administers and uses the Defense Priorities System for programs formerly administered by the Atomic Energy Commission.

These programs are carried out primarily through ERDA's prime operating contractors. Authority to rate orders is assigned by ERDA to its prime or subcontractors. These ratings are then extended as necessary through the several subtier suppliers or contractors. Contracts and delivery orders for all AEC programs for construction, operations, and research and development are rated. Use of the rating authority is mandatory for all eligible orders or contracts except for those $500 or less on which the application of the rating is optional. Purchase orders placed with or through other Government agencies are rated. AEC (now ERDA) orders and contracts are generally identified by applying the DO prefix followed by the appropriate program designator (E-1, E-2, E-3). The DX rating is applied to those Department of Defense programs designated as eligible in the Department of Defense Master Urgency List (MUL). Although ERDA has been delegated the authority to apply a "bottleneck breaking" DX authority by the Department of Commerce under prescribed conditions, in order to preserve the effectiveness of the DX rating and to avoid disruptive effects on other defense orders, ERDA and DoD have mutually agreed not to take unilateral action without consulting the Department of Commerce. In effect, ERDA does not use its "bottleneck breaking" DX authority, using instead, where necessary, the special assistance activities of the Department of Commerce which have proved satisfactory.

Enclosure 1

AEC has over the years participated in the Defense Priorities System. Prior to mid 1973, deliveries from industry were generally on schedule. Of the few delivery problems encountered by AEC contractors, most were resolved using the authorities of the System and assistance from the Department of Commerce. However, beginning in mid 1973, problems with respect to order acceptance and delivery scheduling by industry increased substantially, reflecting market conditions, materials and facilities shortages across many industries, including steel, chemicals and equipment manufacturing industries. Cases forwarded to Headquarters for assistance increased tenfold to 356 during FY 1974 and have now increased to 490 for the period July 1, 1974 to April 30, 1975. Problems are being resolved through use of increased expediting efforts, including, where necessary, visits by Headquarters staff members to contractor plants. Approximately 80% of cases received are resolved within ERDA. About 20% are forwarded to the Department of Commerce for resolution.

The authorities under the Defense Production Act have proved effective and to be of major benefit to our programs during this period of materials shortages.

ANSWERS TO SPECIFIC QUESTIONS
REQUESTED BY THE JOINT COMMITTEE
ON DEFENSE PRODUCTION

1. Question:

Priority supported A.E.C. programs were identified by the symbols E-1 (Construction), E-2 (Operations, including maintenance, repair, and operating supplies), and E-3 (Privately-owned facilities). Will ERDA's priority supported programs continue using the same identification system? Please provide a more detailed explanation of the programs comprising these categories as well as any other priority supported programs not included in the above designations.

Answer:

Priority supported former A.E.C. programs are identified by the symbols E-1 (Construction), E-2 (Operations, including maintenance, repair, and operating supplies), and E-3 (Privately-owned facilities). Current plans are to continue using the same identification system for ERDA's priority supported programs.

Programs comprising these categories include:

(a) E-1 (Construction). This program includes virtually all former A.E.C. construction programs, such as the Fast Flux Test Reactor and radioactive waste storage tanks at Richland; the Clinch River Breeder Reactor at Oak Ridge; the "Bedrock" nuclear weapons test programs at the Nevada Test Site. Former A.E.C. alteration programs, such as the Cascade Improvement Program and Cascade Uprating Program (CIP/CUP) at Oak Ridge designed to increase the capacity of existing uranium enriching facilities are also included. The E-1 program identification is limited to the construction or alteration of Government-owned facilities.

(b) E-2 (Maintenance, Repair, and Operating Supplies). This program includes the operational requirements of former A.E.C. plants, such as Oak Ridge, Paducah and Portsmouth gaseous diffusion plants, as well as materials and supplies required for the maintenance and repair of these facilities.

(c) E-3 (Privately-owned facilities). This is an infrequently used program. It is designed for certain cases of expansion of privately-owned facilities for which construction or capital additions are required exclusively or primarily for ERDA (former A.E.C.) purposes.

Enclosure 2

(d) There are no ERDA priority supported programs in other than the above designations.

2. Question:

What was the estimated total dollar value of priority supported procurement for A.E.C. programs in FY 1974?

Answer:

The estimated total dollar value of priority supported procurement for A.E.C. programs in FY 1974 is $3,400,000,000. The cost of materials, supplies and equipment procured under these programs is estimated at $850,000,000.

3. Question:

Did the former A.E.C. programs that received priority support include non-nuclear projects such as fossil fuel or solar and geothermal energy? If so, identify them.

Answer:

Yes. Former A.E.C. programs that received priority support included some non-nuclear projects in geothermal, solar and fossil energy. Under A.E.C., work was initiated on the development of advanced engineering concepts and on the design of pilot plants for demonstration of non-nuclear technologies. Research also began on concepts for environmentally acceptable recovery of the large fraction of the Nation's coal reserves which are not now economically recoverable. These projects have been conducted in or by former A.E.C. laboratories and are generally small scale laboratory experiments requiring minor procurements of material.

Specific projects were:

1. Fossil energy

   a. Coal gasification - exploring technology for tapping presently inaccessible coal reserves.

   b. Gas stimulation - through both nuclear stimulation and massive hydraulic fracturing technology, develop the technology for recovering natural gas from reservoirs with low permeability.

2. Geothermal

   a. Transport and Conversion of Heat at Moderate Temperatures - a limited geothermal research project.

   b. Geothermal Resource Assessment and Plant Design - an investigation of the total flow concept for transforming geothermal energy to electricity, conduct of brine chemistry research, turbine configuration studies to enable scaling up plant size; assessment of areas suitable for geothermal applications.

   c. The "Raft River Project", at Malta, Idaho - test wells are being drilled to evaluate the geothermal fluids believed to exist in the area.

   d. Hot Dry Rock Project and Normal Gradient Geothermal Research - to demonstrate the feasibility of extracting heat from dry hot rock through water injection.

   e. Subterrene Project - development and testing of a rock-melting penetrator, an advanced drilling technique.

3. Solar Energy

   a. Shallow Solar Pond - development of a shallow solar pond concept which collects thermal energy for providing industrial process hot water.

   b. Solar Collector - development of a flat plate solar heat collector unit which also functions as the building roof.

   c. Solar Energy for Mobile Homes

   d. Rankine Cycle Solar Study - research on solar cooling applications using a Rankin cycle engine.

4. Question:

   Is priority support being extended to procurement for ERDA's non-nuclear programs? If so, please describe the programs. If not, what is ERDA's view toward doing so?

Answer:

With the exception of the former A.E.C. programs cited in paragraph 3 above, priority support under the Defense Production Act is not being extended to procurement for ERDA's non-nuclear programs. It is ERDA's view that, consistent with the declared purpose of the Energy Reorganization Act of 1974 that the general welfare and the common defense and security require effective action to develop and increase the efficiency and reliability and use of all energy sources to meet the needs of present and future generations, all non-nuclear ERDA programs should be included as national defense programs within the meaning of the Defense Production Act.

ERDA will be conducting and contracting for research and development and construction and operation of demonstration plants in fossil, solar, geothermal, advanced energy systems and other energy technologies. Based on the A.E.C. experience during the recent materials shortage period, the need for priority treatment for non-nuclear energy programs is essential to prevent unacceptable delays in construction, to obtain scarce or critical materials required to operate demonstration plants or to perform research and development.

Basically the same industries and manufacturers (steel, chemical, forgings, electrical motors, valves, etc.) are involved in providing materials and equipment for nuclear and non-nuclear technologies. The need for priorities assistance in obtaining equipment and supplies in these industries was amply demonstrated during the last 18 months. The inclusion of these non-nuclear energy programs under the Defense Production Act will, with little additional impact on the economy, materially contribute to accelerating the research, development and demonstration of advanced energy technologies required to help solve the Nation's critical energy needs.

5. Question:

Do contracts and delivery orders for procurement of such items as office furniture, office equipment, and stationery receive priority support? If so, substantiate the relationship to programs for atomic energy production or construction.

Answer:

Contracts and delivery orders for procurement of such items as office furniture, office equipment, and stationery generally receive priority support in compliance with DMS and DPS regulations. ERDA prime contractors have been directed to rate every order on anything they procure with the exception of those specifically excluded under the DMS and DPS Systems.

With respect to its relationship to atomic energy production and construction, office furniture, supplies and equipment are required in the direction, management, control and coordination of atomic energy programs and are considered to support national defense programs, including military and atomic energy production or construction or directly related activity.

6. Question:

Are the furniture, equipment, and operating supplies used by ERDA's administrative offices purchased under priority support? If so, substantiate the relationship to programs for atomic energy production and construction.

Answer:

Generally, in support of A.E.C. programs, furniture, equipment, and operating supplies have been purchased under priority support. Such supporting furniture, equipment and supplies are required in the direction, management, control and coordination of atomic energy programs and are considered to support national defense programs, including military and atomic energy production or construction or directly related activity.

In practice, the use of Government excess is the first source of supply. ERDA office furniture requirements are first met through excess channels prior to procurement action.

7. Question:

What ERDA programs are authorized for the DX priority rating? What are the criteria for determining that a project warrants the DX rating?

Answer:

ERDA programs authorized for the DX priority rating are those established by the Department of Defense in its Military Urgency List. No other ERDA programs receive a DX rating. The criteria are "programs, projects, and items of the highest national priority and above all others as directed by the President, because of key political, scientific, psychological or military objectives."

8. Question:

How many special priorities assistance actions were initiated in FY 1974? Indicate the number of cases resolved within A.E.C. and the number that required further action by the Office of Industrial Mobilization, Department of Commerce.

Answer:

The number of special priorities assistance actions initiated in FY 1974 within A.E.C. was 356. Of that number, 288 cases or 81% were resolved within A.E.C. while 68 cases or 19% required further action by the Office of Industrial Mobilization, Department of Commerce.

9. Question:

Does ERDA maintain a system to monitor the impact of its priority procurement on civilian procurement? Is a record available of the number of non-rated orders pre-empted by rated orders?

Answer:

ERDA does not maintain a system to monitor the impact of its priority procurement on civilian procurement. No record is available of the number of non-rated orders pre-empted by rated orders.

10. Question:

Does ERDA maintain compliance activities to insure contractors are not abusing the priorities system? Have there been instances of contractors or subcontractors using priority ratings for non-approved programs?

ERDA does not maintain a formal compliance program to insure contractors are not abusing the priorities system. Most ERDA procurements flow from its operating contractors who purchase only for the account of ERDA. Their operations are appraised. There is no record of any contractor or subcontractor using priority ratings for non-approved programs.

11. Question:

Please provide a justification as to whether or not contracts and delivery orders for ERDA-approved programs should continue to warrant priority support.

Answer:

Continued priority support for the procurement of materials and equipment for ERDA-approved programs is considered essential to the successful accomplishment of these programs.

The programs being pursued, such as weapons development and test, naval reactors, uranium enrichment, reactor research and development and supporting programs, are considered vital to the national defense and to research and development in new and improved energy concepts to make this country less vulnerable to foreign sources of fuel supply. The need to develop alternate energy sources may prove to be as important to overall national security as military hardware.

Current business conditions, shortages in materials and facilities, requirements for critical materials, special equipment and more exacting requirements for equipment for ERDA programs make continued priority support absolutely essential if we are to maintain our schedules, avoid costly delays, and meet our Nation's goals. Denial of the use of the Defense Priorities System would have a seriously adverse effect on our ability to set and meet schedules. In critical materials and equipment areas, it could result in delays ranging from months to years.

○

EXHIBIT 7

Summary of

Recent OP Economic Studies

Alaska Pipeline Analysis. The basic pipeline analysis was completed in July 1974 and concentrated on the potential contributions of the pipeline to a war economy in 1980. At the Director's request, a supplement to the study was prepared covering the years 1978 and 1979. (Both the basic study and its supplement are attached.) In late November, the oil companies asked for assistance in obtaining supplies for operations on the North Slope. This was addressed from the viewpoint of national defense in a memorandum (copy attached) to the Assistant Director of the Office of Preparedness for Civil Crisis Preparedness.

Threatened Asbestos Plant Closing. The Office of Preparedness was alerted through its regional office to a potential threat to the U. S. mobilization base from the threatened closing of the GAF Corporation asbestos mine and mill near Lowell, Vermont. The staff study which was made of the issue is attached. Although it was determined that OP action was not appropriate, the story had a happy ending. The employees were finally successful in their attempts to purchase the mine and mill and, thanks to the current high prices for asbestos, they are doing well.

Ammonia Capacity Expansion. The appropriateness of using provisions of the Defense Production Act to expedite planned expansions of critically short ammonia plant capacity was investigated last winter. First, the importance of speeding the availability of planned capacity additions in terms of direct and related national defense requirements was examined. When the major builder of ammonia plants suggested de-bottlenecking of existing and proposed plants as a more effective solution, this alternative was also examined.

Economic Preparedness Division
Office of Preparedness
General Services Administration
May 1975

57-394 O - 75 - 10

EXHIBIT 8

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Domestic and International Business
Washington, D.C. 20230

JUL 16 1975

Honorable William A. Proxmire
Vice Chairman
Joint Committee on Defense Production
United States Senate
Washington, D. C. 20510

Dear Senator Proxmire:

This is in further response to Mr. William H. Kincade's letter to me of June 23, 1975, which reiterated your request for additional information and statistics regarding the aggregate economic impact of rated defense and defense-related procurements made pursuant to current regulations and orders of the Defense Priorities System (DPS). An interim reply was sent to Mr. Kincade on July 8, 1975.

Such statistical information is not normally compiled in regard to our administration of the DPS although it may be possible to do so. In responding to your question concerning this at the Joint Committee's recent hearings, we indicated that such statistics could be made available to the Committee but did not elaborate concerning the relatively vast statistical gathering process that would be required to compile and analyze information in order to attempt to partially determine "the aggregate cost to business or consumers of delays occasioned by preemptive purchasing under defense priority."

A preliminary investigation by members of my staff indicates that an analysis of this magnitude would require the participation and cooperation of all departments and agencies authorized to use ratings, as well as other agencies that are potential sources of relevant data. The principal cost in time and money would be occasioned by the requirement to collect basic information from industry and pertinent government agencies which might indicate the economic effect, if any, of DPS on their manufacturing costs and/or their product prices.

It is our belief at this time that while costs associated with individual priority procurements may be derivable through detailed analysis, credible aggregate estimates can not be developed.

In view of the complexity of such a study and the evident requirement for the expenditure of considerable resources, we would appreciate the Committee's advice as to further action in this matter. Attached is a more detailed discussion of problems involved in measuring the aggregate economic impact of DPS.

I would like to emphasize that the Department of Commerce, in carrying out its responsibilities for administering the DMS and DPS, is sensitive to any apparent disruption or dislocation of normal industry practices occasioned by defense needs and defense-related procurement. This concern is evidenced by the Department's handling of the recent Oil Country Tubular Goods situation. Information and detailed action by the Department of Commerce in this matter was furnished to the Committee as part of our testimony in the recent hearings.

While mindful of the Department's responsibility in this regard, we face the reality that the DPS, by its very nature, can potentially dislocate normal production and distribution practices. It could impose upon a generally smooth flowing distribution pattern a disruptive element which could be unacceptable to those upon whom it is imposed. This fact would be, of course, magnified during periods of critical inflation and material shortages.

We have in the past and will continue in the future to exert every effort to assure the equitable distribution of defense requirements throughout industry and, as required, take those actions dictated by any apparent unreasonable demand on industry or to meet the exigencies of other national programs.

Sincerely yours,

Donald E. Johnson
Deputy Assistant Secretary for
Domestic & International Business

Attachment

Measurement of Aggregate Economic Impact Relating to the Defense Priority System (DPS)

Aggregate statistics concerning economic impact of defense priorities on industry and the consumer have not been compiled to date. This is understandable considering the complex character of the question and the obvious problem of obtaining valid cost estimates in both a conceptual and practical sense.

For example:

1) The direct and indirect cost of rated priority procurements must be segregated from other factors affecting price and product availability such as material shortage, labor disputes, etc.

2) Any aggregate economic statistics must be representative of rated procurements across all industrial sectors; not just where problems exist.

3) Costs to the defense user associated with the delayed delivery of products or commodities (if the Defense Priority System (DPS) were not in use) must also be considered since these costs are passed-on to industry and the consumer in the form of added government expenditures

Extensive statistics are maintained on controlled or stockpile commodities. Financial and accounting information is also retained on other forms of government procurement. However, this information provides no basis for determination of economic impact. To our knowledge no representative cost estimates of this sort have been compiled by government or industry, in part, due to the many unquantifiable and judgmental factors involved.

The development of representative estimates of aggregate economic impact (hereafter defined as direct and indirect costs to industry and the consumer) would require extensive effort. The problem of a suitable study design has been considered in detail by this Bureau. A number of approaches were considered and rejected on the basis of credibility or analytical merit. As a result of discussions with Defense and Commerce personnel a less than satisfactory design compromise is presented here together with a discussion of deficiencies associated with such an approach.

Several indicators are judged to have strong bearing on potential industry/consumer costs. These are:

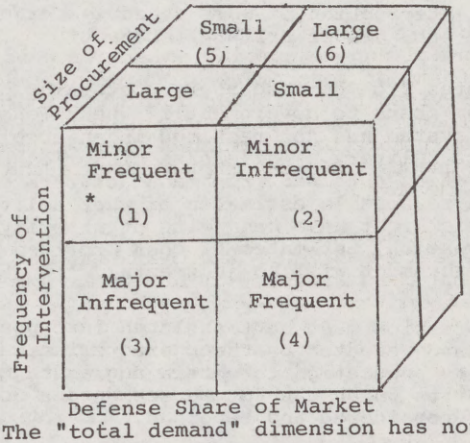
1. "Defense share" of the product/commodity market in relation to national consumption (major/minor).

2. "Frequency of priority intervention" within a commodity class or industry (frequent/infrequent).

3. "Size of procurement" measured as a ratio of the new demand increment to market share (large/small).

4. "Total demand" for commodities or products at the time of the procurement action; represented by industrial production indices or other surrogates.

The first three indicators serve to define an eight cell experimental design (see Figure 1) that permits classification of defense procurements based on potentially derivable information. It would be expected that dislocations and attendant industry/consumer costs will be higher for Cell 1, where frequent priority intervention occurs involving larger amounts of material, than for Cell 2 where defense purchases tend to be small and infrequent. It should also be noted that Cells which are representative of cases where priority intervention is minimal provide a crude base line measure of costs to industry, consumers and government if DPS were not in being.



* The "total demand" dimension has not been illustrated

Figure 1

A randomly selected set of rated actions would be classified according to these indicators or criteria in order to develop the estimated number of procurement actions that fall in each cell and to identify specific cases for detailed examination. It is contemplated that several hundred rated procurements will require classification in order to judge the character of the total population and to obtain enough cases for detailed analysis in under-populated cells.

Information for the analysis of cost estimates would be obtained from several sources.

a. Documented priority case histories, which are particularly useful for determination of time dependencies and delivery schedule changes.

b. Information solicited from manufacturers and suppliers relating to perceived or real lost sales, rescheduling costs, buying practices, amount of delay averted, and other factors affecting manufacturer/supplier costs. It should be noted that these data may have to be collected at several levels when several subcontractors or suppliers are involved

c. From other consumers of similar products or commodities supplied or manufactured by this firm. Interruption of work schedules, increased price, etc. are of primary interest.

d. Estimates from defense users concerning probable program costs to government if the defense priority system had not resulted in an accelerated product delivery. While case histories and information obtained from manufacturers should permit reasonable estimates of what delivery schedule might have been without priority intervention, estimates of cost provided by the government will be judgmental.

These data and information must be translated into positive and negative costs and weighted by the characteristics of the entire rated priority population to obtain aggregate costs. Benefits or disbenefits which can not be assigned a dollar value would also be considered and reported.

Conceptually, analysis findings would identify classes of defense priority actions where costs to industry and the consumer are high with respect to derived benefit. Other classes might illustrate a negative cost to industry and the consumer; where cost savings to the government, directly attributable to DPS outweigh manufacturer/consumer expense.

There are a number of significant problems associated with this proposed analysis design. As examples:

1. The classification and retrieval of sampled procurements will require extensive effort on the part of the Department of Defense. While basic data is available, procurement information has not been compiled by commodity type or industrial sector in a form suitable for use in this analysis. Therefore, extensive preprocessing of rated procurement data would be required.

2. A principal cost in time and money is related to the collection of basic information from suppliers, consumer and government users. A mail survey is not practical since much of the information can only be gained through probing the respondents. In many instances correlation of several data sources followed by more questioning would be required for verification.

3. Much of the information supporting cost estimates is subjective and not defensible in a rigorous sense. Preliminary analysis suggests that many manufacturers and suppliers tend to realize less profit on government procurements. Therefore, perceived costs are higher when filling these contractual obligations independent of procurement ratings. Alternatively, the military user's estimated cost for delay also tends to be exaggerated since the perceived cost for compromise of combat readiness is high.

4. Most importantly, data indicates that any costs to industry or consumer associated with priority procurements will be strongly affected by total demand for the commodities or products at the time of

procurement. If there is less demand for products the manufacturer or supplier will incur little or no cost from priority procurements. The consumer may actually gain in terms of reduced product cost. When business is good the real or perceived costs to manufacturer/supplier and consumer may increase when priority procurements impact on supply. This can be demonstrated by examining the number of priority assistance cases submitted to the Department of Commerce for action. These increase significantly during periods of industrial expansion and decrease when consumer demand for products decline.

The strong relationship between total product demand and probable cost to industry and consumer in supplying like commodities to defense users requires an analysis which treats this variable explicitly. Cost estimates for FY-1975, derived using the analysis procedure, will not be representative for 1973 and a part of 1974 when demands for product and commodities were high.

It would be virtually impossible to reconstruct individual case histories or collect relevant cost data on procurements prior to FY-1975. Estimates of actions, decisions and impacts will be hazy and many of the principals who might have the information (e.g., production managers, suppliers or project officers) can not be traced. Moreover, FY-1975 is not a representative year from the standpoint of consumer demand and industrial sales. This suggests the requirement for extension of the analysis into future fiscal years in order to establish the effect of total demand on aggregate industry/consumer cost.

In summary, representative aggregate costs can not be obtained without a longitudinal study involving extensive time and effort on the part of this Department, the General Services Administration and the Department of Defense. The estimates of cost which derive from industrial and defense sources are largely subjective and not easily defended. Estimated costs associated with individual priority procurements may be obtained through detailed analysis. However, the development of credible aggregate estimates is not practical.

EXHIBIT 9

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Domestic and International Business
Washington, D.C. 20230

July 8, 1975

Dear Mr. Kincade:

With reference to your letter of June 23 concerning additional information requested by the Joint Committee on Defense Production at the May 22 Defense Priorities System hearings, we are in the process of developing a detailed response to Senator Proxmire's question concerning the availability of statistics on the economic impact on the Defense Priorities System.

The extent to which the Department of Commerce can be responsive to that informational need will be sent to Senator Proxmire as you requested.

With regard to the second point, i.e. measures taken by the Department of Commerce to resolve special priorities assistance problems as revealed in the GAO study, we will include a statement concerning those measures, as you requested, in the Annual Report to the Joint Committee which is due September 15, 1975. Although we have not yet received a copy, we understand that the GAO study will be available this month. As you know, the report for the fourth quarter of fiscal year 1975 is included in that annual submission.

Sincerely,

DONALD E. JOHNSON
Deputy Assistant Secretary for
Domestic and International Business

Mr. William H. Kincade
Staff Director
Joint Committee on Defense Production
Washington, D. C. 20510

EXHIBIT 10

EXCERPTS FROM

ANNUAL REPORT TO THE JOINT COMMITTEE

ON DEFENSE PRODUCTION

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MOBILIZATION AND CIVIL PREPAREDNESS

ACTIVITIES OF THE

U. S. DEPARTMENT OF COMMERCE

- - - - - - - - - - - - - - - - - - - -

July 1, 1974 - June 30, 1975

INTRODUCTION AND SUMMARY OF DEFENSE PRODUCTION ACT ACTIVITIES

This report covers in full the defense mobilization and emergency preparedness functions of the Bureau of Domestic Commerce (BDC). In view of the specific interest of the Committee in activities relating to the Defense Production Act of 1950, as amended, (DPA) - they will be summarized in the following sections. Description of other defense mobilization and emergency preparedness functions of BDC will be found in the later sections of the report, together with more detailed descriptions of DPA activities.

ADMINISTRATION OF PRIORITIES AND ALLOCATIONS SYSTEMS

1. SUMMARY OF PROGRAMS

Title I of the Defense Production Act of 1950, as amended, authorizes the President:

(1) To require that performance under contracts or orders (other than contracts of employment) which he deems necessary or appropriate to promote the national defense shall take priority over performance under any other contract or order; and, for the purpose of assuring such priority, to require acceptance and performance of such contracts or orders in preference to other contracts or orders by any person he finds to be capable of their performance; and

(2) To allocate materials and facilities in such manner, upon such conditions, and to such extent as he shall deem necessary or appropriate to promote the national defense.

These authorities have been delegated by E.O. 10480 as amended, to the Federal Preparedness Agency (FPA), in turn to the Department of Commerce, and through Departmental Orders to BDC.

The Bureau discharges two general responsibilities in the field of priorities and allocations. First, it operates the priorities and allocation systems under the delegated authority of Title I of the DPA. These systems, the Defense Priorities System (DPS) and the Defense Materials System (DMS), are administered by a series of regulations, orders, and other issuances of the Bureau. Second, the Bureau maintains plans for expansion of these systems for use under emergency conditions. The systems are designed to be self executing but in periods of heavy demand for manufacturing capacity and materials, extraordinary actions may be necessary to assure timely delivery of defense-required material. These actions take the form of special priorities assistance. (Detailed descriptions of the operation of the DPS and DMS are provided later in this report).

2. CHANGES IN ORGANIZATION

No changes in organization structure in programs or offices.

3. AVAILABILITY OF FUNDS AND PERSONNEL FISCAL 1976

Funds in the amount of $625,000 are expected to be available to carry out the programs during 1976. Recruiting is under way to fill vacancies and positions approved to fulfill additional program responsibilities.

4. RELATIONSHIPS WITH OTHER AGENCIES

The delegation of authority and basic guidance for management of the DPS and DMS is received from FPA. By a series of delegations, regulations, and orders BDC authorizes the use of priorities for approved programs by the Department of Defense, the Energy Research and Development Administration, and the National Aeronautics and Space Administration, and the General Services Administration.

5. ONGOING AND STANDBY PROGRAMS

Operation of the current systems, limited in scope to national defense requirements, could be expanded under certain conditions to support other important national programs.

6. FISCAL 1975 COSTS

The actual cost of maintaining the priorities and allocations systems within BDC in Fiscal Year 1975 was $602,000.

7. SMALL BUSINESS IMPACT

The DMS and DPS assist small business firms participating in defense-related procurement because all companies holding defense priority orders are accorded equal treatment when buying production materials and components.

8. NEW ISSUANCES

The following new or revised documents (copies in appendix I) related to the priorities and allocations systems were issued during fiscal year 1975:

Basic Rules of Priorities System

DPS Regulation 1 (July 1, 1974) 39 F. R. 23022
Amendment 1 (October 3, 1974) 39 F. R. 36480
Amendment 2 (November 25, 1974) 39 F. R. 41529
Amendment 3 (February 5, 1975) 40 F. R. 6501

Basic Rules of the Defense Materials System

DMS Regulation 1 (July 1, 1974) 39 F. R. 23008
Amendment 1 (October 3, 1974) 39 F. R. 36480
Amendment 2 (February 5, 1975) 40 F. R. 6500
Direction 1 (July 1, 1974) 39 F. R. 23019
Direction 2 (July 1, 1974) 39 F. R. 23020

Orders

Metalworking Machines

DPS Order 1 (July 1, 1974) 39 F. R. 23028

Nickel

DPS Order 2 (July 1, 1974) 39 F. R. 23029

Aluminum

DMS Order 3 (May 6, 1953) (formerly BDSA Order M-5A) 18 F. R. 2639 (Proposed Rulemaking) (Revision of DMS Order 3) June 20, 1975, Appendix II)

9. SIGNIFICANT PROGRAM EVENTS

1. During the reporting period the DMS and DPS was expanded, pursuant to joint orders from FPA and GSA, to provide priorities and material allocations support for the construction of the Trans-Alaskan Pipeline and facilities (DPS Reg. 1, Amendments 1 and 3,; DMS Reg. 1, Amendments 1 and 2).

2. A proposed rulemaking was published in the Federal Register on June 20, 1975, revising DMS Order 3 Aluminum. Comments have been received and the final order will be issued.

10. DEVELOPMENTS IMPACTING THE PROGRAM

Widespread shortages of materials resulting from dislocations caused by price controls and unprecedented world-wide demand impacted heavily on the operation of the systems. The shortages generated an unusually large number of Requests for Special Priorities Assistance as defense contractors experienced difficulties in obtaining needed materials and equipment. This increased work

load caused an unusually large number of man-hours to be devoted to processing these requests. Changed economic conditions have reduced the number of requests to a more moderate level.

11. MANAGEMENT METHODS

The basic method for review and evaluation of the adequacy of the priorities and allocation systems is through the Management by Objective System which is now well established in BDC. The Office of Management and Systems, DIBA, conducted a study of the systems and the interrelationship of the Offices responsible for the administration of these systems. Major recommendations of that study have been implemented and others are in the process of implementation. The augmented compliance activity (see 12 below) is charged with the responsibility for continuing review of the operations and use of the systems within BDC, throughout government, and by industry.

12. PROGRAM IMPROVEMENTS - FISCAL 1976

Several improvements and changes have been initiated which will result in more effective administration of the systems:

1. A compliance officer has been added to the staff in order to ensure that the requirements of the delegations, regulations, and orders issued pursuant to the DPA are being met by all users and administrators of the systems. The compliance function is a quality control as well as an enforcement function for the systems.

2. The Request for Special Priorities Assistance form (DIB-999-formerly BDSAF-138) has been revised to provide more comprehensive information. It is anticipated that the new format will result in more expeditious processing of these requests.

3. A broad based training program for users and administrators of the DPS/DMS is being developed which will help to prevent misuse of the systems and promote a better understanding of the requirements of them.

4. The BDC Industrial Mobilization Responsibilities and Procedures Manual has been issued for and is in use by BDC personnel involved in mobilization activities. Adherence to the procedures in the manual will insure more consistent processing of special assistance requests and well reasoned action in response to the requests.

5. The Bureau is establishing closer coordination with its Delegate Agencies in order to foster more effective administration of the systems.

6. All of the above changes and improvements will be incorporated in a revised manual for industrial users so that the requirements, responsibilities and procedures will be readily available to all affected by the DPS and DMS.

13. RECOMMENDATIONS FOR CHANGES IN PROGRAM

BDC does not recommend changes at this time in program goals, funding, organization, operational procedures, implementing directives, or statutory authority. Needs for substantive changes which were identified in the latter part of fiscal year 1975 have been addressed and changes are being implemented.

* * *

ADMINISTRATION OF DEFENSE PRODUCTION ACT AUTHORITIES

The currently operative priorities and allocations powers to the President normally are exercised solely with respect to industrial production for defense and defense related programs. They are administered by the Bureau through a series of Regulations and Orders designated as the Defense Materials System (DMS) and the Defense Priorities System (DPS).

DMS Regulation 1 provides the rules and procedures relating to the authorization of defense programs and for the obtaining and use of priorities by defense agencies and contractors in procuring "controlled materials" (steel, copper, aluminum and nickel alloys). DPS Regulation 1 establishes the rules and procedures applicable to defense agencies and contractors in obtaining and using defense priority ratings for the procurement of materials and products other than the controlled materials.

Under the Bureau's system of Regulations and Orders, procurement contracts for authorized national defense programs placed by U.S. defense agencies (all elements within the Department of Defense (DOD), the Energy Research and Development Administration (ERDA), and the National Aeronautics and Space Administration (NASA)) are required to carry a defense priority rating symbol and a specified program identification. In addition, limited use of defense priorities ratings for development of the Alaskan oil program and the Trans-Alaska Pipeline has been authorized. The defense rated orders are identified by the prefix DO or DX plus the program identification symbol, such as DO-A-3 (Ships), specify the date of required delivery, and carry an appropriate certification. Subcontracts and purchase orders placed with first and lower tier suppliers are also required to be similarly rated and identified by the procuring prime contractor or subcontractor. The priority system thus assists defense contractors and subcontractors to obtain preferential delivery of materials and products needed to complete authorized production and delivery schedules.

All DO-rated orders have equal preferential status regardless of the program identification. DX ratings are used for certain special programs established by the President, principally missile and space programs. All DX ratings have equal preferential status, but DX-rated orders take precedence over DO-rated orders, which, in turn, have preference over any unrated orders placed by private purchasers or non-defense agencies of the Government.

All defense rated orders placed by a defense-related agency must be accepted and filled by the supplier or producer regardless of existing contracts and orders unless filling the order would interfere with another rated order previously accepted, or stop or interrupt the supplier's operation during the next 60 days in such a way as to cause a substantial loss of total production or a substantial delay in operations. DX-rated orders, however, must be accepted without regard to the effect upon the filling of unrated or DO-rated orders. A supplier need not, however, accept an order for a product he does not usually make or one that he normally produces or acquires only for his own use, or if the buyer is unwilling or unable to meet the supplier's regularly established prices and terms of sale. Neither is a supplier required to accept an order from a person who produces the same product or performs the same service as is ordered.

A person who receives a DO-rated order must transmit notification to the person who tendered such order of its acceptance or rejection within ten consecutive calendar days after its receipt. In the case of a DX-rated order such notification must be transmitted within five consecutive calendar days after its receipt. Any person who refuses to accept a rated order shall, upon written request of the person tendering the order, promptly give his reasons in writing for the refusal.

Every supplier who has rated orders on hand must schedule his operations, if possible, to fill each rated order by the required delivery or performance date. If this is not possible, he must give precedence as follows:

(a) A DX-rated order takes precedence over any unrated or DO-rated order, and a rated order takes precedence over any unrated order;

(b) Between conflicting rated orders of otherwise equal preferential status, preference must be given to the order received first; if received simultaneously, preference must be given to the order which has the earliest required delivery; and

(c) If a supplier accepts a rated order, he may not schedule delivery on an order of the same or lower preferential status which he later receives, if such scheduling would interfere with scheduled delivery on the rated order previously accepted.

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* * *

Special Assistance For Military, Atomic Energy, Space and other National Defense Related Programs

Under the basic procedures of the priorities and allocations systems as set forth in the DMS and DPS Regulations and Orders, timely deliveries are normally made against rated

orders placed by the defense agencies and defense contractors and subcontractors. In relatively few cases, however, extraordinary actions may be required to assure the maintenance on schedule of particular national security programs. The need for special attention may result from a variety of situations. Inadequate production facilities may create problems in having priority orders accepted for delivery by required dates. In addition, competing orders, shortages of materials or components, and unexpected technological problems may also cause slippage in delivery schedules. The usually effective, self-operative features of the systems must then be supplemented by the personal attention of appropriate Government officials.

When a defense producer, either a prime contractor or subcontractor, encounters a problem which will interfere with his performance, he is obligated to provide information concerning the nature of the problem to the Government official administering the contract. If the problem cannot be overcome on the spot, it is referred to higher echelons in the appropriate defense agency.

If the defense agency cannot correct the difficulty by rearranging deliveries under its contracts or taking other action clearly within its province, the headquarters of the agency requests special priorities assistance from the Bureau. Similar problems affecting the Alaskan Oil Program are reviewed and processed by the Department of the Interior's Authorized Officer to the Bureau.

The number of "Requests for Special Priorities Assistance" referred to the Bureau for action continued at a high rate for the second consecutive year. The relative impact by claimant program is revealed in the following summary.

Summary of Special Assistance Actions--Fiscal Year 1975

Program	Cases	Value
Aircraft	115	$21,512,015
Missiles and Space	126	2,994,735
Ships	173	15,334,197
Tank and Automotive	163	24,288,172
Weapons	23	426,992
Ammunition	159	13,201,934
Electronics	100	1,123,278
Construction	367	30,165,722

Summary of Special Assistance Actions--Fiscal Year 1975 (Cont'd)

Program	Cases	Value
Trans-Alaska Pipeline and Alaskan North Slope	12	9,812,825
Canadian Military	30	683,890
Miscellaneous Defense	362	56,298,011
Total	1,630	$175,841,771

The Office of Industrial Mobilization has also implemented a detailed, monthly analysis of the effectiveness of the priorities assistance activities. This analysis focuses on the processing of requests for priorities assistance: the length of processing time; appropriateness of action; compliance with those actions; and results of such actions. A summary of the June 1975 priorities assistance analysis is shown in Appendix VII.

Special Purpose Priorities Authorizations

The FPA/GSA makes quantitative allotments of the four controlled materials (aluminum, copper, steel, and nickel alloys) to the claimant agencies (including the Bureau) based on their screened requirements. These agencies, which are allotting agencies, then make such allotments of the controlled materials as are needed for authorized programs.

As a claimant agency with responsibility for developing requirements for designated programs, the Bureau makes allotments and authorizes the use of ratings to permit the preferential procurement of products and materials needed for such programs.
These are:

(1) Privately financed construction projects needed in order to fill defense priority orders;

(2) Procurement of capital equipment required by persons to fill priority contracts;

(3) Procurement of military supplies in the U.S. by friendly foreign governments;

(4) Procurement in the U.S. by the Canadian Government and Canadian contractors for Canadian atomic energy and defense programs; and

(5) Procurement in the U.S. by Canadian contractors to fill U.S. atomic energy and defense priority orders.

Summary of Authorizations--Fiscal Year 1975

Program Description	Authorizations	Value ($)	Quantity (lbs.)
Direct Authorizations for procurement in the U.S. by Canadian contractors for priorities to fill Canadian and U.S. defense and atomic energy contracts	269	26,384,527	
Quarterly allocation of rating authority to the Canadian Department of Supply and Services (DSS) for procurement in the U.S. by Canadian contractors to fill U.S. priority orders	279	5,735,915	
Quarterly allocation of rating authority to DSS for Canadian Government defense procurement in the U.S.	490	17,654,112	
Priorities for Production Equipment for domestic producers	11	300,099,582	
Allocation and Production Directives	125	Not Applicable	
Priorities authorizations for friendly foreign nations	17	24,648,561	
Quarterly allocation of rating authority for Canadian Atomic Energy	5	401,750	
Certain items sponsored by the Federal Energy Administration for and related to construction of the Trans-Alaska pipeline	4	1/	

Summary of Authorizations--Fiscal Year 1975 (Cont'd)

Program Description	Authorization	Value ($)	Quantity (lbs.)
Certain items sponsored by the Federal Energy Administration for and related to the development of Alaskan North Slope oil resources	1	1/	
Controlled materials allocations to DSS for procurement in the U.S. for the Canadian defense program:	32		
Steel			1,540,000
Copper			128,000
Aluminum			2,000,000
Nickel Alloys			200,000
Controlled materials allocations to DSS for procurement in the U.S. for the Canadian atomic energy program:	4		
Steel			470,000
Copper			43,000
Aluminum			14,000
Nickel Alloys			10,000
TOTAL	1,237	$374,924,447	

1/ Authorization issued for pipeline program and development of oil resources with limitation to use authority only when necessary. Accordingly, no dollar value limit established.

Appendix VII

Summary of Special Priorities Assistance Activities
June 1975

Request for Priorities Assistance - June 1975

No. of cases received	23
No. of cases processed to completion	19
Average case processing time (completed cases)	9 working days
No. of directives issued	12
No. of cases in which delivery commitment improved	17 1/

1/ Final resolution of 4 cases still pending

Actions Issued Requiring June 1975 Delivery(ies)

Total number of actions	44
Deliveries made in June as committed	31
No. of cases in which delivery commitments slipped for valid reasons	8 1/
No. of cases referred to compliance for follow-up action	5

1/ Valid reasons for delivery slippage include: (a) Inspection or testing failures, customer deferrals, production breakdowns.

EXHIBIT 11

DEFENSE SUPPLY AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22314

IN REPLY REFER TO DSAH-PRS

20 MAY 1975

Honorable Wright Patman
Chairman, Joint Committee on
Defense Production
Congress of the United States
Washington, D. C. 20510

Dear Mr. Chairman:

This letter is in response to your letter dated 13 May 1975 requesting information for use by the Joint Committee on Defense Production at the scheduled hearings on May 22 and 23 on the Defense Priorities System (DPS) in connection with a general review of programs authorized under the Defense Production Act of 1950.

Before addressing the specific information requested in your letter it is extremely important to note that the use of the DPS is considered vital for all Department of Defense (DoD) and defense related agencies. The DPS not only provides the capability to keep current defense, atomic energy, and space programs on schedule but also provides an established operating mechanism that can be expanded or converted in the event of mobilization or other national emergency.

The following information is provided in response to your request. For the purpose of clarity, the information provided is keyed to the numerical designation in your letter.

1. Enclosure 1 is a list which identifies the commodities by FSC classes purchased by the Defense Supply Agency (DSA). The list has been annotated to indicate the classes for which the use of priority ratings are authorized under the current DPS Regulation 1 and attendant agreements between Bureau of Domestic Commerce (BDC) and other governmental agencies. It must be noted that the use of the priority rating for authorized programs is mandatory except in the case of any

individual order of $500 or less. Each Defense Agency must use its rating authority in acquiring products, materials, and services needed for completion of authorized programs.

2. Enclosure 2 is a list of DSA stock fund sales to 28 Federal Civil Agencies for the fiscal year 1974 amounting to $51,227,000. These sales were in addition to the DSA prime mission responsibility of providing logistics support to the Military Services.

3. The information requested was a breakout of procurement and stock issues of FSC groups and classes down to the specific item level. The DSA management system is designed primarily to provide trend analysis data and management visibility for adequate control and policy decision-making capabilities. The level of detailed information requested is not available as it is not necessary for effective management. Substantial contract research and manual coding would be necessary prior to entry into computerized data records with subsequent extensive programming effort for input into the data bank to make retrieval possible. These actions would involve thousands of man-hours of effort.

4. Enclosure 3 is a listing of DSA FY 74 sales to the 28 Federal Civil Agencies by general commodity groups, which correlate to the assigned commodity management responsibility of the DSA Defense Supply Centers. These Centers have supply management responsibility for designated commodity groups for the Military Services and by agreement, when deemed appropriate, with other federal civil agencies. You will note that the FY 74 sales volume to federal civil agencies of $51,227,000 constitutes only 1.2% of the total DSA sales to the services of $4.24 billion. It is recognized that the information provided does not fully meet the level of detail requested however the reasons cited in paragraph 3 above are also applicable to this area.

5. The best information available at this Agency indicates that no private contractors or businesses have received DSA priority procured FSC groups or classes for any other purpose than application on defense

contracts. Government Furnished Material is provided to defense contractors for use in completing their contract commitments, e.g., textile fabrics for the manufacture of clothing items, when it is expeditious and/or cost effective.

Your interest in this matter is appreciated and this Agency stands ready to assist the Committee wherever possible.

Sincerely,

3 Encl

WALLACE H. ROBINSON, JR.
Lieutenant General, USMC
Director

Enclosure 1

AN IDENTIFICATION OF COMMODITIES PURCHASED BY THE

DEFENSE SUPPLY AGENCY

Cameron Station, Alexandria, Va. 22314

1975

Eighth Edition

To assist potential suppliers in identifying the proper Centers to contact for items they can furnish.

DSA–GUIDE FOR PROCUREMENTS:

DSA procurements are accomplished by six (6) Defense Supply Centers. Small Business Specialists are available at the Centers to assist businessmen in their efforts to sell to DSA. The telephone numbers listed below are those of the Specialists.

C - Defense Construction Supply Center
3990 East Broad Street
Columbus, Ohio 43215
Tel: A.C. 614; 236-3541

E - Defense Electronics Supply Center
1507 Wilmington Pike
Dayton, Ohio 45401
Tel: A.C. 513; 252-5231

F - Defense Fuel Supply Center
Cameron Station, Bldg. 8
5010 Duke Street
Alexandria, Virginia 22314
Tel: A.C. 202; 274-7428

G - Defense General Supply Center
Bellwood, Petersburg Pike
Richmond, Virginia 23297
Tel: A.C. 804; 275-3617

I - Defense Industrial Supply Center
700 Robbins Avenue
Philadelphia, Pennsylvania 19111
Tel: A.C. 215;697-2747

P - Defense Personnel Support Center
2800 South 20th Street
Philadelphia, Pennsylvania 19101
Tel: A.C. 215; 271-2321

PM - (Medical - Dental)

PS - (Subsistence)

PT - (Textiles and Clothing)

LEGEND

— UNDERLINED FSCs NON-RATEABLE

* FSCs CONTAIN RATEABLE & NON-RATEABLE ITEMS

FSC CLASSES	COMMODITIES	CENTERS
2230	Right-of-Way Construction and Maintenance Equipment, Railroad	C
2410	Tractors, Full Track, Low Speed	C
2420	Tractors, Wheeled	C
2510	Vehicular Cab, Body, and Frame Structural Components	C
2520	Vehicular Power Transmission Components	C
2530	Vehicular Brake, Steering, Axle, Wheel, and Track Components	C
2540	Vehicular Furniture and Accessories	C
2590	Miscellaneous Vehicular Components	C
2805	Gasoline Reciprocating Engines, Except Aircraft; and Components	C
2815	Diesel Engines and Components	C
2850	Gasoline Rotary Engines and Components	C
2895	Miscellaneous Engines and Components Components	C
2910	Engine Fuel System Components, Nonaircraft	C
2920	Engine Electrical System Components, Nonaircraft	C
2930	Engine Cooling System Components, Nonaircraft	C
2940	Engine Air and Oil Filters, Strainers, and Cleaners, Nonaircraft	C
2990	Miscellaneous Engine Accessories, Nonaircraft	C
3010	Torque Converters & Speed Changers	C
3020	Gears, Pulleys, Sprockets, and Transmission Chain	C
3030	Belting, Drive Belts, Fan Belts, and Accessories	C
3040	Miscellaneous Power Transmission Equipment	C
3110	Bearings, Antifriction, Unmounted	I
3120	Bearings, Plain, Unmounted	I
3130	Bearings, Mounted	I
3210	Sawmill and Planing Mill Machinery	G
3220	Woodworking Machines	G
3230	Tools and Attachments for Woodworking Machinery	G
3405	Saws and Filing Machines	G
3408	Machining Centers and Way-Type Machines	G
3410	Electric and Ultrasonic Erosion Machines	G
3411	Borning Machines	G
3412	Broaching Machines	G
3413	Drilling and Tapping Machines	G
3414	Gear Cutting and Finishing Machines	G
3415	Grinding Machines	G
3416	Lathes	G
3417	Milling Machines	G
3418	Planers and Shapers	G
3419	Miscellaneous Machine Tools	G
3422	Rolling Mills and Drawing Machines	G
3424	Metal Heat Treating Equipment	G
3426	Metal Finishing Equipment	G
3431	Electric Arc Welding Equipment	G
3432	Electric Resistance Welding Equipment	G
3433	Gas Welding, Heat Cutting and Metalizing Equipment	G
3436	Welding Positioners and Manipulators	G
3438	Miscellaneous Welding Equipment	G
3439	Miscellaneous Welding, Soldering, and Brazing Supplies and Accessories	G
3441	Bending and Forming Machines	G
3442	Hydraulic and Pneumatic Presses, Power Driven	G
3443	Mechanical Presses, Power Driven	G
3444	Manual Presses	G
3445	Punching and Shearing Machines	G
3446	Forging Machinery and Hammers	G
3447	Wire and Metal Ribbon Forming Machines	G
3448	Riveting Machines	G
3449	Miscellaneous Secondary Metal Forming and Cutting Machines	G
3450	Machine Tools, Portable	G
3455	Cutting Tools for Machine Tools	G
3456	Cutting and Forming Tools for Secondary Metalworking Machinery	G
3460	Machine Tool Accessories	G
3461	Accessories for Secondary Metalworking Machinery	G
3465	Production Jigs, Fixtures, and Templates	G
3470	Machine Shop Sets, Kits, and Outfits	G
3510	Laundry and Dry Cleaning Equipment	G
3520	Shoe Repairing Equipment	G
3530	Industrial Sewing Machines and Mobile Textile Repair Shops	G
3605	Food Products Machinery and Equipment	G
3610	Printing, Duplicating, and Bookbinding Equipment	G
3611	Industrial Marking Machines	G
3615	Pulp and Paper Industries Machinery	G
3620	Rubber and Plastic Working Machinery	G
3625	Textile Industries Machinery	G
3630	Clay and Concrete Products Industries Machinery	G
3635	Crystal and Glass Industries Machinery	G
3640	Tobacco Manufacturing Machinery	G
3645	Leather Tanning and Leather Working Industries Machinery	G
3650	Chemical and Pharmaceutical Products Manufacturing Machinery	G
3655	Gas Generating and Dispensing System, Fixed or Mobile	G
3660	Industrial Size Reduction Machinery	G
3670	Specialized Semiconductor, Micro-electronic Circuit Device, & Printed Circuit Board Manufacturing Machinery	G

FSC CLASSES	COMMODITIES	CENTERS
3680	Foundry Machinery, Related Equipment and Supplies	G
3685	Specialized Metal Container Manufacturing Machinery and Related Equipment	G
3693	Industrial Assembly Machines	G
3694	Clean Work Stations, Controlled Environment, and Related Equipment	G
3695	Miscellaneous Special Industry Machinery	G
3710	Soil Preparation Equipment	C
3720	Harvesting Equipment	C
3730	Dairy, Poultry, and Livestock Equipment	C
3740	Pest, Disease, and Frost Control Equipment	C
3760	Animal Drawn Vehicles and Farm Trailers	C
3770	Saddlery, Harness, Whips, and Related Animal Furnishings	C
3805	Earth Moving and Excavating Equipment	C
3810	Cranes and Crane-Shovels	C
3815	Crane and Crane-Shovel Attachments	C
3820	Mining, Rock Drilling, Earth Boring, and Related Equipment	C
3825	Road Clearing and Cleaning Equipment	C
3830	Truck and Tractor Attachments	C
3835	Petroleum Production and Distribution Equipment	C
3895	Miscellaneous Construction Equipment	C
3910	Conveyors	C
3915	Materials, Feeders	C
3920	Materials Handling Equipment, Nonself-Propelled	G
3930	Warehouse Trucks and Tractors, Self-Propelled	C
3940	Blocks, Tackle, Rigging, and Slings	I
3950	Winches, Hoists, Cranes, and Derricks	C
3990	Miscellaneous Materials Handling Equipment	G
4010	Chain and Wire Rope	I
4020	Fiber Rope, Cordage, and Twine	I
4030	Fittings for Rope, Cable, and Chain	I
4110	Refrigeration Equipment	G
4120	Air Conditioning Equipment	G
4130	Refrigeration and Air Conditioning Components	G
4140	Fans, Air Ciculators, and Blower Equipment	G
4210	Fire Fighting Equipment	C
4220	Marine Lifesaving and Diving Equipment	C
4230	Decontaminating and Impregnating Equipment	G
4240	Safety & Rescue Equipment	G
4310	Compressors and Vacuum Pumps	C
4320	Power and Hand Pumps	C
4330	Centrifugals, Separators, and Pressure and Vacuum Filters	C
4430	Industrial Furnaces, Kilns, Lehrs and Ovens	C
4440	Driers, Dehydrators, and Anhydrators	C
4460	Air Purification Equipment	C
4510	Plumbing Fixtures and Accessories	C
4520	Space Heating Equipment and Domestic Water Heaters	C
4530	Fuel Burning Equipment Units	C
4540	Miscellaneous Plumbing, Heating, and Sanitation Equipment	C
4610	Water Purification Equipment	C
4620	Water Distillation Equipment, Marine and Industrial	C
4630	Sewage Treatment Equipment	C
4710	Pipe and Tube	C
4720	Hose and Tubing, Flexible	C
4730	Fittings and Specialties: Hose, Pipe, and Tube	C
4810	Valves, Powered	C
4820	Valves, Nonpowered	C
4930	Lubrication and Fuel Dispensing Equipment	C
5280	Sets, Kits, and Outfits of Measuring Tools	G
5305	Screws	I
5306	Bolts	I
5307	Studs	I
5310	Nuts and Washers	I
5315	Nails, Keys, and Pins	I
5320	Rivets	I
5325	Fastening Devices (Grommets)	I
5330	Packing and Gasket Materials	I
5335	Metal Screening	I
5340	Miscellaneous Hardware (Padlocks)	I
5355	Knobs and Pointers	I
5360	Springs, Coil, Flat & Wire	I
5365	Rings, Shims, and Spacers	I
5410	Prefabricated and Portable Buildings	C
5430	Storage Tanks	C
5440	Scaffolding Equipment and Concrete Forms	C
5450	Miscellaneous Prefabricated Structures	C
5510	Lumber and Related Basic Wood Materials	C
5520	Millwork	C
5530	Plywood and Veneer	C
**5610	Mineral Construction Materials, Bulk	C
**5620	Building Glass, Tile, Brick, and Block	C
5660	Fencing, Fences, and Gates	C
**5670	Architectural and Related Metal Products	C
**5680	Miscellaneous Construction Materials	C
5805	Telephone and Telegraph Equipment	E
5815	Teletype and Facsimile Equipment	E
5820	Radio and Television Communication Equipment, except Airborne	E
5821	Radio and Television Communication Equipment, Airborne	E
5825	Radio Navigation Equipment, except	E

FSC CLASSES	COMMODITIES	CENTERS
5830	Intercommunication and Public Address Systems, except Airborne	E
5831	Intercommunication and Public Address Systems, Airborne	E
5835	Sound Recording and Reproducing Equipment	E
5895	Miscellaneous Communication Equipment	E
5905	Resistors	E
5910	Capacitors	E
5915	Filters and Networks	E
5920	Fuses and Lightning Arresters	E
5925	Circuit Breakers	E
5930	Switches	E
5935	Connectors, Electrical	E
5940	Lugs, Terminals, and Terminal Strips	G
5945	Relays, Contactors, and Solenoids	E
5950	Coils and Transformers	E
5955	Piezoelectric Crystals	E
5960	Electron Tubes and Associated Hardware	E
5961	Semiconductor Devices and Associated Hardware	E
5962	Microelectronic Circuit Devices	E
5965	Headsets, Handsets, Microphones, Speakers	E
5970	Electrical Insulators and Insulating Materials	G
5975	Electrical Hardware and Supplies	G
5977	Electrical Contact Brushes and Electrodes	G
5985	Antennas, Waveguides, and Related Equipment	E
5990	Synchros and Resolvers	E
5995	Cable, Cord, and Wire Assemblies: Communication Equipment	G
5999	Miscellaneous Electrical and Electronic Components	E G
6105	Motors, Electrical	G
6110	Electrical Control Equipment	G
6115	Generators and Generator Sets, Electrical	G
6120	Transformers: Distribution and Power Station	G
6125	Converters, Electrical Rotating	G
6130	Converters, Electrical Non-rotating	G
6140	Batteries, Secondary	G
6145	Wire and Cable, Electrical	I
6150	Miscellaneous Electric Power and Distribution Equipment	G
6210	Indoor and Outdoor Electric Lighting Fixtures	G
6220	Electric Vehicular Lights and Fixtures	G
6230	Electric Portable and Hand Lighting Equipment	G
6240	Electric Lamps	G
6250	Ballasts, Lampholders, and Starters	G
6260	Nonelectrical Lighting Fixtures	G
6310	Traffic and Transit Signal Systems	G

FSC CLASSES	COMMODITIES	CENTERS
6330	Railroad Signal and Warning Devices	G
6350	Miscellaneous Alarm and Signal Systems	G
6505	Drugs, Biologicals, and Official Reagents	PM
6720	Cameras, Still Picture	G
6730	Photographic Projection Equipment	G
6740	Photographic Developing and Finishing Equipment	G
6750	Photographic Supplies	G
6760	Photographic Equipment and Accessories	G
6770	Film Processed	G
***6810	Chemicals	F&G
6820	Dyes	G
6830	Gases: Compressed and Liquefied	G
6840	Pest Control Agents & Disinfectants	G
***6850	Chemical Specialties, Miscellaneous	F&G
**7105	Household Furniture	G
**7110	Office Furniture	G
**7125	Cabinets, Lockers, Bins, & Shelving	G
**7195	Miscellaneous Furniture & Fixtures	G
7210	Household Furnishings	PT
**7240	Household and Commercial Utility Containers	G
7310	Food Cooking, Baking, and Serving Equipment	G
7320	Kitchen Equipment and Appliances	G
**7330	Kitchen Hand Tools and Utensils	G
**7340	Cutlery and Flatware	G
**7350	Tableware	G
7360	Sets, Kits, and Outfits: Food Preparation and Serving	G
**7530	Stationery and Record Forms	G
7540	Standard Forms	G
7610	Books and Pamphlets	G
7630	Newspapers and Periodicals	G
7640	Maps, Atlases, Charts, and Globes	G
7650	Drawings and Specifications	G
7660	Sheet and Book Music	G
7670	Microfilm, Processed	G
7690	Miscellaneous Printed Matter	G
**8105	Bags and Sacks	G
8110	Drums and Cans	G
**8115	Boxes, Cartons, and Crates	G
8120	Commercial and Industrial Gas Cylinders	G
8125	Bottles and Jars	G
8130	Reels and Spools	G
8305	Textile Fabrics	PT
8310	Yarn and Thread	PT
8315	Notions and Apparel Findings	PT
8320	Padding and Stuffing Materials	PT
8325	Fur Materials	PT
8330	Leather	PT
8335	Shoe Findings and Soling Materials	PT

FSC CLASSES	COMMODITIES	CENTERS
8340	Tents and Tarpaulins	PT
8345	Flags and Pennants	PT
8405	Outerwear, Men's	PT
8410	Outerwear, Women's	PT
8415	Clothing, Special Purpose	PT
8420	Underwear and Nightwear, Men's	PT
8425	Underwear and Nightwear, Women's	PT
8430	Footwear, Men's	PT
8435	Footwear, Women's	PT
8440	Hosiery, Handwear, and Clothing Accessories, Men's	PT
8445	Hosiery, Handwear, and Clothing Accessories, Women's	PT
8450	Children's and Infants' Apparel and Accessories	PT
8455	Badges and Insignia	PT
8460	Luggage	PT
8465	Individual Equipment	PT
8470	Armor, Personal	PT
8475	Specialized Flight Clothing and Accessories	PT
8810	Live Animals, Raised for Food	PS
8820	Live Animals, Not Raised for Food	PM
8905	Meat, Poultry, and Fish	PS
8910	Dairy Foods and Eggs	PS
8915	Fruits and Vegetables	PS
8920	Bakery and Cereal Products	PS
8925	Sugar, Confectionery, and Nuts	PS
8930	Jams, Jellies, and Preserves	PS
8935	Soups and Bouillons	PS
8940	Special Dietary Foods and Food Specialty Preparations	PS
8945	Food Oils and Fats	PS
8950	Condiments and Related Products	PS
8955	Coffee, Tea, and Cocoa	PS
8960	Beverages, Nonalcoholic	PS
8965	Beverages, Alcoholic	PS
8970	Composite Food Packages	PS
8975	Tobacco Products	PS
9110	Fuels, Solid	F
9130	Liquid Propellants and Fuels, Petroleum Base	F
9140	Fuel Oils	F
9150	Oils and Greases: Cutting, Lubricating, and Hydraulic	F
9160	Miscellaneous Waxes, Oils, and Fats	F
**9310	Paper and Paperboard	G
9320	Rubber Fabricated Materials	G
9330	Plastics Fabricated Materials	G
9340	Glass Fabricated Materials	G
9350	Refractories and Fire Surfacing Materials	G
9390	Miscellaneous Fabricated Nonmetallic Materials	G
9410	Crude Grade of Plant Materials	PM
9420	Fibers: Vegetable, Animal & Synthetic	PT
9430	Miscellaneous Crude Animal Products, Inedible	PT
9440	Crude Agricultural and Miscellaneous Forestry Products	G
9450	Nonmetallic Scrap, Except Textile	G
9505	Wire, Nonelectrical, Iron and Steel	I
9510	Bars and Rods, Iron and Steel	I
9515	Plate, Sheet, and Strip: Iron & Steel	I
9520	Structural Shapes, Iron and Steel	I
9525	Wire, Nonelectrical, Nonferrous Base Metal	I
9530	Bars and Rods, Nonferrous Base Metal	I
9535	Plate, Sheet, Strip, and Foil: Nonferrous Base Metal	I
9540	Structural Shapes, Nonferrous Base Metal	I
9545	Plate, Sheet, Strip, Foil, and Wire: Precious Metal	I
9610	Ores, All Kinds	I
9620	Minerals, Natural and Synthetic	I
9630	Metal Additive Materials and Master Alloys	I
9640	Iron and Steel Primary and Semi-finished Products	I
9650	Nonferrous Metal Refinery and Intermediate Forms	I
9660	Metals (Precious) Primary Forms	I
9670	Iron and Steel Scrap	I
9680	Nonferrous Metal Scrap	I
*9905	Signs, Advertising Displays, and Identification Plates	G
9925	Ecclesiastical Equipment, Furnishings, and Supplies	G
9930	Mortuary Supplies	G
9999	Miscellaneous Items	G

The Defense Supply Agency has no responsibility for the introduction of new or improved items into the system, nor does it award contracts for research or development.

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FSC CLASSES	COMMODITIES	CENTERS
	A	
3460	Accessories, Machine Tool	G
3461	Accessories for Secondary Metalworking Machinery	G
4120	Air Conditioning Equipment	G
4460	Air Purification Equipment	C
6350	Alarm and Signal Systems, Miscellaneous	G
9630	Alloys, Master and Additive Metal Materials	I
8820	Animals, Live, Not Raised for Food	PM
8810	Animals, Live, Raised for Food	PS
5985	Antennas, Waveguides, and Related Equipment	E
**5670	Architectural and Related Metal Products	C
8470	Armor, Personal	PT
	B	
8455	Badges and Insignia	PT
**8105	Bags and Sacks	G
8920	Bakery and Cereal Products	PS
6250	Ballasts, Lampholders, and Starters	G
9510	Bars and Rods, Iron and Steel	I
9530	Bars and Rods, Nonferrous Base Metal	I
6140	Batteries, Secondary	G
3110	Bearings, Antifriction, Unmounted	I
3130	Bearings, Mounted	I
3120	Bearings, Plain, Unmounted	I
3030	Belting, Drive Belts, Fan Belts and Accessories	C
8965	Beverages, Alcoholic	PS
8960	Beverages, Nonalcoholic	PS
3940	Blocks, Tackle, Rigging, and Slings	I
5306	Bolts	I
7610	Books and Pamphlets	G
8125	Bottles and Jars	G
**8115	Boxes, Cartons, and Crates	G
**5620	Building Glass, Tile, Brick, and Block	C
	C	
**7125	Cabinets, Lockers, Bins, and Shelving	G
5995	Cable, Cord, and Wire Assemblies: Communication Equipment	G
6710	Cameras, Motion Picture	G
6720	Cameras, Still Picture	G
5910	Capacitors	E
4330	Centrifugals, Separators, and Pressure and Vacuum Filters	C
4010	Chain and Wire Rope	I
6630	Chemical Analysis Instruments	PM
***6850	Chemical Specialties, Miscellaneous	F&G
***6810	Chemicals	F&G
8450	Children's and Infants' Apparel and Accessories	PT
5925	Circuit Breakers	E
3694	Clean Work Stations, Controlled Environment, & Related Equipment	G
8415	Clothing, Special Purpose	PT
8955	Coffee, Tea, and Cocoa	PS
5360	Coil, Flat & Wire Springs	I
5950	Coils and Transformers	E
5895	Communication Equipment, Miscellaneous	E
4310	Compressors and Vacuum Pumps	C
8950	Condiments and Related Products	PS
5935	Connectors, Electrical	E
3895	Construction Equipment, Miscellaneous	C
**5680	Construction Materials, Miscellaneous	C
**7240	Containers, Utility, Household and Commercial	G
6130	Converters, Electrical Non-Rotating	G
6125	Converters, Electrical Rotating	G
3910	Conveyors	C
6508	Cosmetics and Toiletries, Medicated	PM
3815	Crane and Crane-Shovel Attachments	C
3810	Cranes and Crane-Shovels	C
9440	Crude Agricultural & Forestry Products, Miscellaneous	G
9430	Crude Animal Products Inedible, Miscellaneous	PT
**7340	Cutlery and Flatware	G
3455	Cutting Tools for Machine Tools	G
3456	Cutting & Forming Tools for Secondary Metalworking Machinery	G
	D	
8910	Dairy Foods and Eggs	PS
3730	Dairy, Poultry, and Livestock Equipment	C
4230	Decontaminating and Impregnating Equipment	G
6520	Dental Instruments, Equipment, & Supplies	PM
6675	Drafting, Surveying, and Mapping Instruments	G
6330	Devices, Signal & Warning, Railroad	G
7650	Drawings & Specifications	G
4440	Driers, Dehydrators, and Anhydrators	C
6505	Drugs, Biologicals, & Official Reagents	PM
8110	Drums and Cans	G
6820	Dyes	G
	E	
3805	Earth Moving and Excavating Equipment	C
9925	Ecclesiastical Equipment, Furnishings, and Supplies	G
3431	Electric Arc Welding Equipment	G
6240	Electric Lamps	G
6230	Electric Portable and Hand Lighting Equipment	G
6150	Electric Power and Distribution Equipment, Miscellaneous	G
6220	Electric Vehicular Lights and Fixtures	G
5999	Electrical and Electronic Components, Miscellaneous	E
5977	Electrical Contact Brushes and Electrodes	G
6110	Electrical Control Equipment	G
5975	Electrical Hardware and Supplies	G
5970	Electrical Insulators and Insulating Materials	G

FSC CLASSES	COMMODITIES	CENTERS
2990	Engine Accessories, Nonaircraft, Miscellaneous	C
2940	Engine Air and Oil Filters, Strainers, and Cleaners, Nonaircraft	C
2930	Engine Cooling System Components, Nonaircraft	C
2920	Engine Electrical System Components, Nonaircraft	C
2910	Engine Fuel System Components, Nonaircraft	C
2815	Engines and Components, Diesel	C
2895	Engines and Components, Miscellaneous	C
2805	Engines, Gasoline, Reciprocating, Except Aircraft; and Components	C
2850	Engines, Rotary Gasoline and Components	C
	F	
9390	Fabricated Materials, Nonmetallic, Miscellaneous	G
4140	Fans, Air Circulators, and Blower Equipment	G
5325	Fastening Devices, Gromments	I
5660	Fencing, Fences, and Gates	C
9420	Fibers: Vegetable, Animal, & Synthetic	PT
3405	Filing Machines	G
6770	Film Processed	G
5915	Filters and Networks	E
4210	Fire Fighting Equipment	C
4030	Fittings for Rope, Cable, and Chain	I
4730	Fittings and Specialties: Hose, Pipe, and Tube	C
8345	Flags and Pennants	PT
8475	Flight Clothing and Accessories, Specialized	PT
7310	Food Cooking, Baking, and Serving Equipment	G
8945	Food Oils and Fats	PS
8970	Food Packages, Composite	PS
7360	Food Preparation and Serving Sets Kits and Outfits	G
8940	Foods, Special Dietary and Food Specialty Preparations	PS
8430	Footwear, Men's	PT
8435	Footwear, Women's	PT
3446	Forging Machinery and Hammers	G
3680	Foundary Machinery Related Equipment & Supplies	G
8915	Fruits and Vegetables	PS
4530	Fuel Buring Equipment Units	C
9140	Fuel Oils	F
9110	Fuels, Solid	F
8325	Fur Materials	PT
4430	Furnaces, Industrial Kilns, Lehrs & Ovens	C
7210	Furnishings, Household	PT
**7105	Furniture, Household	G
**7110	Furniture, Office	G
**7195	Furniture and Fixtures, Miscellaneous	G
5920	Fuses and Lightning Arresters	E

FSC CLASSES	COMMODITIES	CENTERS
	G	
8120	Gas Cylinders, Commercial and Industrial	G
3655	Gas Generating and Dispensing Systems, Fixed or Mobile	G
6830	Gases: Compressed and Liquefied	G
3020	Gears, Pulleys, Sprockets, and Transmission Chain	C
6115	Generators and Generator Sets, Electrical	G
9340	Glass Fabricated Materials	G
	H	
5340	Hardware, Miscellaneous	I
3720	Harvesting Equipment	C
5965	Headsets, Handsets, Microphones and Speakers	E
4520	Heating Equipment, Space; Domestic Water Heaters	C
9430	Hides; Miscellaneous Crude Animal Products	PT
4720	Hose and Tubing, Flexible	C
8440	Hosiery, Handwear, and Clothing Accessories, Men's	PT
8445	Hosiery, Handwear, and Clothing Accessories, Women's	PT
6532	Hospital and Surgical Clothing and Textile Special Purpose Items	PT
6530	Hospital Furniture, Equipment, Utensils, and Supplies	PM
	I	
8465	Individual Equipment	PT
3530	Industrial Sewing Machines and Mobile Textile Repair Shops	G
6695	Instruments, Combination & Miscellaneous	G
6655	Instruments, Geophysical and Astronomical	G
6680	Instruments Measuring, Liquid and Gas Flow, Liquid Level, and Mechanical Motion	G
6625	Instruments, Measuring & Testing, Electrical & Electronic Properties	E
6660	Instruments, Meteorological and Apparatus	G
6685	Instruments, Pressure Temperature & Humidity Measuring & Controlling	G
6645	Instruments, Time Measuring	G
5831	Intercommunication and Public Address Systems, Airborne	E
5830	Intercommunication and Public Address Systems, except Airborne	E
9640	Iron and Steel, Primary and Semi-finished Products	I

FSC CLASSES	COMMODITIES	CENTERS
	J	
8930	Jams, Jellies, and Preserves	PS
	K	
7320	Kitchen Equipment and Appliances	G
**7330	Kitchen Hand Tools and Utensils	G
5355	Knobs and Pointers	I
	L	
6640	Laboratory Equipment and Supplies	PM
3416	Lathes	G
3510	Laundry and Dry Cleaning Equipment	G
8330	Leather	PT
4220	Lifesaving and Diving Equipment, Marine	C
6210	Lighting Fixtures, Indoor and Outdoor Electric	G
6260	Lighting Fixtures, Nonelectric	G
4930	Lubrication and Fuel Dispensing Equipment	C
8460	Luggage	PT
5940	Lugs, Terminals, and Terminal Strips	G
5510	Lumber and Related Basic Wood	
	M	
3650	Machinery, Chemical and Pharmaceutical Products	G
3630	Machinery, Clay & Concrete Products	G
3635	Machinery, Crystal and Glass Industries	G
3605	Machinery & Equipment Food Products	G
3660	Machinery, Industrial Size Reduction	G
3645	Machinery, Leather Tanning & Leather Working Industries	G
3615	Machinery, Pulp & Paper Industries	G
3620	Machinery, Rubber and Plastic Working	G
3210	Machinery, Sawmill and Planning Mill	G
3695	Machinery, Special Industry, Miscellaneous	G
3685	Machinery, Specialized Metal Container Manufacturing & Related Equipment	G
3625	Machinery, Textile Industries	G
3640	Machinery, Tobacco Manufacturing	G
3441	Machines, Bending and Forming	G
3411	Machines, Boring	G
3412	Machines, Broaching	G
3413	Machines, Drilling & Tapping	G
3410	Machines, Electric & Ultrasonic Erosion	G
3414	Machines, Gear Cutting and Finishing	G
3415	Machines, Grinding	G
3693	Machines, Industrial Assembly	G
3611	Machines, Industrial Marking	G
3449	Machines, Metal Forming and Cutting, Miscellaneous, Secondary	G
3417	Machines, Milling	G
3445	Machines, Punching and Shearing	G
3422	Machines, Rolling Mills and Drawing	G
3448	Machines, Riveting	G
3470	Machine Shop Sets, Kits, and Outfits	G
3419	Machine Tools, Miscellaneous	G
3450	Machine Tools, Portable	G
3447	Machines, Wire and Metal Ribbon Forming	G
3220	Machines, Woodworking	G
3408	Machining Centers & Way-Type Machines	G
7640	Maps, Atlases, Charts and Globes	G
3915	Materials Feeders	C
3990	Materials Handling Equipment, Miscellaneious	G
3920	Materials Handling Equipment, Nonself-Propelled	G
8905	Meat, Poultry, and Fish	PS
6515	Medical and Surgical Instruments, Equipment, and Supplies	PM
6545	Medical Sets, Kits, and Outfits	PM
3426	Metal Finishing Equipment	G
3424	Metal Heat Treating Equipment	G
9650	Metal, Nonferrous Base, Primary and Intermediate Forms	I
9660	Metals Precious, Primary Forms	I
5962	Microelectronic Circuit Devices	E
7670	Microfilm, Processed	G
5520	Millwork	C
**5610	Mineral Construction Materials, Bulk	C
9620	Minerals, Natural and Synthetic	F
3820	Mining, Rock Drilling, Earth Boring, and Related Equipment	C
9430	Miscellaneous Crude Animal Products, Inedible	PT
9999	Miscellaneous Items	G
9930	Mortuary Supplies	G
6105	Motors, Electrical	G
7660	Music, Sheet and Book	G
9620	Minerals, Natural and Synthetic	I
	N	
5315	Nails, Keys, and Pins	I
7630	Newspapers and Periodicals	G
8315	Notions and Apparel Findings	PT
5310	Nuts and Washers	I
	O	
9150	Oils and Greases: Cutting, Lubricating, and Hydraulic	F
6540	Opticians' Instruments, Equipment, and Supplies	PM
9610	Ores; all kinds	I
8405	Outerwear, Men's	PT
8410	Outerwear, Women's	PT
	P	
5330	Packing and Gasket Materials	I
8320	Padding and Staffing Materials	PT
**9310	Paper and Paperboard	G
6840	Pest Control Agents and Disinfectants	G

FSC CLASSES	COMMODITIES	CENTERS
3740	Pest, Disease, and Frost Control Equipment	C
3835	Petroleum Production and Distribution Equipment	C
6740	Photographic Developing and Finishing Equipment	G
6760	Photographic Equipment & Accessories	G
6730	Photographic Projection Equipment	G
6750	Photographic Supplies	G
6635	Physical Properties Testing Equipment	G
5955	Piezoelectric Crystals	E
4710	Pipe and Tube	C
3418	Planers and Shapers	G
9410	Plant Materials, Crude Grade	PM
9330	Plastics Fabricated Materials	G
9535	Plate, Sheet, Strip, and Foil: Nonferrous Base Metal	I
9545	Plate, Sheet, Strip, Foil and Wire: Precious Metal	I
9515	Plate, Sheet, and Strip: Iron and Steel	I
4510	Plumbing Fixtures and Accessories	C
4540	Plumbing, Heating and Sanitation Equipment, Miscellaneous	C
5530	Plywood and Veneer	C
3040	Power Transmission Equipment, Miscellaneous	C
5410	Prefabricated and Portable Buildings	C
5450	Prefabricated Structures, Miscellaneous	C
3442	Presses, Hydraulic and Pneumatic, Power-driven	G
3444	Presses, Manual	G
3443	Presses, Mechanical Power Driven	G
7690	Printed Matter, Miscellaneous	G
3610	Printing, Duplicating and Bookbinding Equipment	G
3465	Production Jigs, Fixtures, and Templates	G
9130	Propellants and Fuels, Liquid, Petroleum Base	F
4320	Pumps, Power and Hand	C
	Q	
None	None	
	R	
5821	Radio & Television Communication Equipment, Airborne	E
5820	Radio & Television Communication Equipment except Airborne	E
5825	Radio Navigation Equipment, except Airborne	E
8130	Reels and Spools	G
9350	Refractories and Fire Surfacing Materials	G
4130	Refrigeration and Air Conditioning Components	G
4110	Refrigeration Equipment	G
5945	Relays, Contactors, and Solenoids	E
5905	Resistors	E
2230	Right-of-Way Construction and Maintenance Equipment, Railroad	C
5365	Rings, Shims and Spacers	I
5320	Rivets	I
3825	Road Clearing and Cleaning Equipment	C
4020	Rope, Cordage, and Twine	I
9320	Rubber Fabricated Materials	G
	S	
3770	Saddlery, Harness, Whips, and Related Animal Furnishings	C
4240	Safety & Rescue Equipment	G
3405	Saws and Filing Machines	G
3210	Sawmill and Planing Mill Machinery	G
5440	Scaffolding Equipment and Concrete Forms	C
6670	Scales and Balances	G
9670	Scrap, Iron and Steel	I
9680	Scrap, Nonferrous Metal	I
9450	Scrap Nonmetallic, Except Textile	G
5335	Screening, Metal	I
5305	Screws	I
5961	Semiconductor Devices and Associated Hardware	E
3670	Semiconductor, Specialized, Microelectronic Circuit Device & Printed Circuit Board Manufacturing Machinery	G
4630	Sewage Treatment Equipment	C
5365	Shims, Spacers and Rings	I
8335	Shoe Findings and Soling Materials	PT
3520	Shoe Repairing Equipment	G
**9905	Signs, Advertising Displays, and Identification Plates	G
3710	Soil Preparation Equipment	C
5835	Sound Recording and Reproducing Equipment	E
8935	Soups and Bouillons	PS
4520	Space Heating Equipment and Domestic Water Heaters	C
5360	Springs, Coil, Flat and Wire	I
7540	Standard Forms	G
**7530	Stationery and Record Forms	G
5430	Storage Tanks	C
9520	Structural Shapes, Iron and Steel	I
9540	Structural Shapes, Nonferrous Base Metal	I
5307	Studs	I
8925	Sugar, Confectionery, and Nuts	PS
6510	Surgical Dressing Materials	PM
5930	Switches	E
5990	Synchros and Resolvers	E
6310	Systems, Traffic & Transit Signal	G

FSC CLASSES	COMMODITIES	CENTERS
	T	
**7350	Tableware	G
5815	Teletype and Facsimile Equipment	E
5805	Telephone and Telegraph Equipment	E
8340	Tents and Tarpaulins	PT
8305	Textile Fabrics	PT
8975	Tobacco Products	PS
3230	Tools and Attachments for woodworking Machinery	G
*5280	Tools, Measuring; Sets, Kits and Outfits	G
3010	Torque Converters & Speed Changers	C
2410	Tractors, Full Track, Low Speed	C
2420	Tractors, Wheeled	C
6120	Transformers: Distribution and Power Station	G
3830	Truck and Tractor Attachments	C
3930	Trucks and Tractors, Self-Propelled, Warehouse	C
5960	Tubes: Electron and associated Hardware	E
	U	
8420	Underwear and Nighwear, Men's	PT
8425	Underwear and Nightwear, Women's	PT
	V	
4820	Valves, Nonpowered	C
4810	Valves, Powered	C
3760	Vehicles, Animal Drawn and Farm Trailers	C
2530	Vehicular Brake, Steering, Axle, Wheel, and Track Components	C
2510	Vehicular Cab, Body, and Frame Structural Components	C
2590	Vehicular Components, Miscellaneous	C
2540	Vehicular Furniture and Accessories	C
2520	Vehicular Power Transmission Components	C
	W	
4620	Water Distillation Equipment, Marine and Industrial	C
4610	Water Purification Equipment	C
9160	Waxes, Oils, and Fats, Miscellaneous	F
3433	Welding Equipment, Gas, Heat Cutting and Metalizing	G
3431	Welding Equipment, Electric ARC	G
3432	Welding Equipment Electric Resistance	G
3436	Welding Positioners and Manipulators	G
3438	Welding Equipment, Miscellaneous	G
3439	Welding Supplies & Equipment, Miscellaneous Soldering & Brazing	G
3950	Winches, Hoists, Cranes, and Derricks	C
6145	Wire and Cable, Electrical	I
9505	Wire, Nonelectrical, Iron and Steel	I
9525	Wire, Nonelectrical, Nonferrous Base Metal	I
3220	Woodworking Machines	G
	X	
6525	X-Ray Equipment and Supplies: Medical, Dental, Veterinary	PM
	Y	
8310	Yarn and Thread	PT

NOTE: DSA Supply Centers listed on reverse side.

Philadelphia Region - 2800 S. 20th St. Philadelphia, Pa. 19101

St. Louis Region - 1136 Washington Ave., St. Louis, Mo. 63101

San Francisco Region - 866 Malcolm Rd., Burlingame, Calif. 94010

OTHER DSA PROCUREMENT OFFICES

DEFENSE PERSONNEL SUPPORT CENTER DEFENSE SUBSISTENCE REGIONS

Chicago Region - 536 S. Clark St., Chicago, Ill. 60605

New Orleans Region - 4400 Dauphine St., New Orleans, La. 70140

New York Region - 60 Hudson Street, New York City, New York 10013

Alameda Region - 2155 Webster St., Alameda, Calif. 94501

DEFENSE DEPOTS

Defense Depot Memphis, Memphis, Tenn. 38114

Defense Depot Ogden, Ogden, Utah 84407

Defense Depot Tracy, Tracy, Calif. 95376

DEFENSE CONTRACT ADMINISTRATION SERVICES REGIONAL OFFICES

Atlanta Region - 3100 Maple Dr., N.E. Atlanta, Ga. 30305

Boston Region - 666 Summer St., Boston, Mass. 02210

Chicago Region - P.O. Box 66475, O'Hare Int'l. Airport, Chicago, Ill. 60666

Cleveland Region - 1240 E. 9th St., Cleveland, Ohio 44199

Dallas Region - 500 S. Ervay St., Dallas, Tex. 75201

Detroit Region - 1580 E. Grand Blvd., Detroit, Michigan 48211

Los Angeles Region - 11099 S. LaCienega Blvd., Los Angeles, Calif. 90045

New York Region - 60 Hudson St., New York, N.Y. 10013

Enclosure 2

DEFENSE SUPPLY AGENCY

SUPPLY OPERATIONS DIRECTORATE

HIGHLIGHT ITEMS

1. Sales to Federal Civil Agencies - Stock fund sales to twenty-eight Federal civil agencies for fiscal year 1974 amounted to $51,227,000. Dollar sales to each agency were as indicated below:

Agency for International Development	$ 1,044,000
Agriculture	164,000
American Battle Monument Commission	1,000
Atomic Energy Commission	819,000
U. S. Coast Guard	19,627,000
Commerce	351,000
D. C. Government	2,560,000
Environmental Protection Agency	19,000
Executive Office of the President	1,000
Federal Aviation Administration	7,836,000
General Services Administration	350,000
Government Printing Office	2,000
Health, Education and Welfare	2,128,000
U. S. Information Agency	35,000
Interior	669,000
Justice	113,000
Labor	3,336,000
National Aeronautics & Space Administration	3,907,000
National Science Foundation	7,000
Panama Canal Company	1,186,000
Postal Service	142,000
Selective Service System	1,000
Smithsonian Institution	1,000
State Department	105,000
Tennessee Valley Authority	50,000
Transportation	55,000
Treasury	17,000
Veterans Administration	6,701,000
	$ 51,227,000

Enclosure 3

DEFENSE SUPPLY AGENCY

SALES TO FEDERAL CIVIL AGENCIES
FY74 (in $000)

LEGEND

(1) Rateable
(2) Nonrateable

AGENCY	DPSC CLOTHING (1)	DPSC MEDICAL (1)	DPSC SUBSISTENCE (2)	DGSC GENERAL (1)	DISC INDUSTRIAL (1)	DFSC FUEL (2)	DCSC CONSTRUCTION (1)	DESC ELECTRONICS (1)	TOTAL
Agency For International Development (AID)	430	31	24	144	61	0	338	16	1,044
Agriculture	0	12	0	51	4	88	1	8	164
American Battle Monument Commission	0	0	0	0	0	1	0	0	1
AEC	0	0	732	3	5	36	4	39	819
U.S. Coast Guard	2,927	623	2,680	981	1,380	8,009	1,085	1,942	19,627
Commerce	1	5	28	8	7	186	1	115	351
D. C. Government	0	2,306	250	1	0	0	0	3	2,560
Environmental Protection Agency	1	0	0	0	1	1	1	15	19
Executive Office of The President	0	0	1	0	0	0	0	0	1
FAA	0	12	0	372	294	1,984	163	5,011	7,836
GSA	30	0	0	186	12	66	6	50	350
GPO	0	0	0	2	0	0	0	0	2
HEW	0	1,176	931	4	3	0	5	9	2,128
USIA	0	0	0	0	0	0	0	35	35
Interior	0	8	438	24	4	180	2	13	669

DEFENSE SUPPLY AGENCY

SALES TO FEDERAL CIVIL AGENCIES
FY74 (in $000)

LEGEND

(1) Rateable
(2) Nonrateable

AGENCY	DPSC CLOTHING (1)	DPSC MEDICAL (1)	DPSC SUBSISTENCE (2)	DGSC GENERAL (1)	DISC INDUSTRIAL (1)	DFSC FUEL (2)	DCSC CONSTRUCTION (1)	DESC ELECTRONICS (1)	TOTAL
Justice	0	13	15	1	22	3	2	57	113
Labor	855	35	2,441	3	0	0	0	2	3,336
NASA	110	30	0	751	697	541	282	1,496	3,907
National Science Foundation	0	0	2	0	0	5	0	0	7
Panama Canal Co.	0	0	0	0	8	1,177	0	1	1,186
Postal Service	0	0	0	15	0	116	0	11	142
Selective Service System	0	0	0	0	0	0	0	1	1
Smithsonian Institution	0	0	0	0	0	0	1	0	1
State Department	0	0	0	8	7	53	1	36	105
Tennessee Authority	0	0	0	0	0	50	0	0	50
Transportation	55	0	0	0	0	0	0	0	55
Treasury Dept.	0	1	0	9	1	3	0	3	17
V.A.	6	642	5,958	3	2	84	0	6	6,701
Grand Total	4,415	4,894	13,500	2,566	2,508	12,583	1,892	8,869	51,227
Total DSA Gross Sales	418,792	189,692	916,778	274,880	179,724	1,779,341	244,879	233,615	4,237,701
Percentage	1.1	2.6	1.5	.9	1.4	.7	.8	3.8	1.2

EXHIBIT 12

CC

STANDARD FORM 23
JANUARY 1961 EDITION
GENERAL SERVICES ADMINISTRATION
FED. PROC. REG. (41 CFR) 1-16.401

CONSTRUCTION CONTRACT
(See instructions on reverse)

CONTRACT NO
DACA31-74-C-0095

DATE OF CONTRACT
74 Jan 24

NAME AND ADDRESS OF CONTRACTOR

PAUL E. LEHMAN, INC.
Route #2
Chambersburg, Pennsylvania 17201

CHECK APPROPRIATE BOX

- [ ] Individual
- [ ] Partnership
- [ ] Joint Venture
- [X] Corporation, incorporated in the State of Pennsylvania

DEPARTMENT OR AGENCY

DEPARTMENT OF THE ARMY, BALTIMORE DISTRICT, CORPS OF ENGINEERS, P. O. BOX 1715, BALTIMORE, MARYLAND 21203

CONTRACT FOR *(Work to be performed)*

WALKWAYS AND LANDSCAPING AT AMPHITHEATER AREA, together with all required appurtenant work, complete, as set forth below.

PRIORITY RATING: DO-C2, Certified for National Defense Use Under DMS Regulation 1

PLACE

ARLINGTON NATIONAL CEMETERY, VIRGINIA

CONTRACT PRICE *(Express in words and figures)*

SEVEN HUNDRED THIRTY TWO THOUSAND NINE HUNDRED FIFTEEN DOLLARS AND NO CENTS.....($732,915.00).....

ADMINISTRATIVE DATA *(Optional)*

Payment to be made by: Finance and Accounting Officer, Department of the Army, Baltimore District, Corps of Engineers, P. O. Box 1715, Baltimore, Maryland 21203

(Continued on Continuation Sheet No. 1)

The United States of America (hereinafter called the Government), represented by the Contracting Officer executing this contract, and the individual, partnership, joint venture, or corporation named above (hereinafter called the Contractor), mutually agree to perform this contract in strict accordance with the General Provisions (Standard Form 23-A), Labor Standards Provisions Applicable to Contracts in Excess of $2,000 (Standard Form 19-A), and the following designated specifications, schedules, drawings, and conditions:

SPECIFICATIONS: WALKWAYS AND LANDSCAPING AT AMPHITHEATER AREA, ARLINGTON NATIONAL CEMETERY, VIRGINIA (Invitation No. DACA31-74-B-0020) (Line Item No. 001) dated 73 Nov 07 and

Amendment No. 0001 dated 73 Nov 20

DRAWINGS: Drawings as designated in Paragraph SP-3 of the specifications

SCHEDULE: Schedule of Payments as appears on Continuation Sheet No. 2

WORK SHALL BE STARTED	WORK SHALL BE COMPLETED
in accordance with paragraph SP-1 of the specifications	in accordance with paragraph SP-1 of the specifications

Alterations. The following alterations were made in this contract before it was signed by the parties hereto:

NONE

In witness whereof, the parties hereto have executed this contract as of the date entered on the first page hereof.

THE UNITED STATES OF AMERICA	CONTRACTOR
By Robert S. McGarry	PAUL E. LEHMAN, INC. (Name of Contractor)
ROBERT S. McGARRY	By Paul E. Lehman (Signature)
Colonel, Corps of Engineers (Official title)	PAUL E. LEHMAN
~~District Engineer~~ Contracting Officer	PRESIDENT (Title)
74 Feb 15 Date	

INSTRUCTIONS

1. The full name and business address of the Contractor must be inserted in the space provided on the face of the form. The Contractor shall sign in the space provided above with his usual signature and typewrite or print his name under the signature.

2. An officer of a corporation, a member of a partnership, or an agent signing for the Contractor shall place his signature and title after the word "By" under the name of the Contractor. A contract executed by an attorney or agent on behalf of the Contractor shall be accompanied by two authenticated copies of his power of attorney or other evidence of his authority to act on behalf of the Contractor.

U.S. GOVERNMENT PRINTING OFFICE : 1960 O—572723—48

[EXHIBIT 13]

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

INSTALLATIONS AND LOGISTICS

18 JUL 1975

Mr. William H. Kincade
Staff Director
Congress of the United States
Joint Committee on Defense Production
Washington, D.C. 20510

Dear Mr. Kincade,

This is in response to questions on priorities system training posed by Senator Proxmire during the hearings on Title I of the Defense Production Act of 1950, as amended, before the Joint Committee on Defense Production on May 23, 1975. As you recall, the Senator's request for this information appeared on page 143, line 25 of the Transcript of Proceedings covering my testimony on that date.

Attached are summary data describing various kinds of training and orientation provided to military and civilian personnel in the Department of Defense and to Defense (DoD) contractor personnel.

School and course offerings and training/orientation media are shown in three primary categories: formal school training, non-school conference/seminar/workshop training, and operational, on-job familiarization activities. These categories represent selected approaches in education and training to ensure that DoD and Defense contractor personnel who have to understand and use the Defense Materials System (DMS) and Defense Priorities System (DPS), receive necessary policy, procedural and other appropriate information.

Training opportunities range, therefore, from formal courses in various DoD institutes, schools and colleges through the more technically oriented training for procurement, production and other specialized personnel, to on-site conferences between DoD contractors and contract administration industrial specialists.

In addition, prime contractors are provided information on the requirements of the DMS and DPS with their contract and in the post-award conference conducted by the responsible DoD contract administration personnel. Subcontractors administered by DoD Contract Administration Services also are provided DMS/DPS information as necessary and appropriate, as are any suppliers and vendors who seek assistance in obtaining products and materials to assure timely deliveries of Defense rated orders. Follow-up surveillance visits

require evaluation of the prime contractor's procurement system and, on occasion, have resulted in withholding approval of the contractor system until action has been taken to correct certain deficiencies connected with the use of DMS/DPS.

DoD service and agency contract administration organizations consider day-to-day DMS and DPS training and refresher orientation to be an ongoing effort. This is accomplished in a number of ways, including regular training sessions, orientation during on-site surveillance visits and conferences, and the conduct of joint DoD and contractor workshops and conferences where the DMS and DPS are presented and discussed.

The requirement to place a priorities clause which requires adherence to DMS Regulation 1 and DPS Regulation 1 in Defense prime contracts and in all applicable supporting contracts and purchase orders down the industrial chain has also served as a self-energizing priorities familiarization mechanism in industry.

The training activities described in the attachments to this letter generally are conducted on a decentralized basis throughout the country. The duration and depth of DMS/DPS training varies with the type and primary objective of each course and the types and levels of personnel attending. Because of the wide variety of training media in which DMS/DPS information may be incorporated in varying degree, the volume of course and other materials involved has precluded inclusion of all of the data involved, and in some cases, permits only a basic description of the course or effort in which context the DMS/DPS subject matter is reviewed. However, the attached training and orientation descriptions and examples are considered to be representative of priorities training currently conducted by the DoD.

The attached information contains the substance of the DMS/DPS training materials discussed informally with you by my staff on 10 July 1975.

As DoD and joint interagency training efforts progress, they will be shown in our reports to the Joint Committee on Defense Production describing DoD activities under the Defense Production Act of 1950, as amended.

Sincerely,

JACQUES S. GANSLER
Deputy Assistant Secretary of Defense
(Materiel Acquisition)

Attachments

Summary of DOD Training and Orientation Curricula in the Defense Materials System (DMS) and the Defense Priorities System (DPS)

Categories of types of training

A. *Formal Courses:*
   1. Service Colleges/Institutes.
   2. Technical Courses.
   3. Correspondence Courses.
   4. Seminars.

B. *Informal Training/Orientation:*
   1. Conference/Seminars.
   2. Orientation Briefings.
   3. On-the-job (OJT)/Line of Work Familiarization.

C. *Operational Material:*
   1. Regulations and Manuals.
   2. Handouts/Circulars.
   3. Publication Articles.
   4. Other (Letters, etc.).

Military abbreviations used in DPS training curriculum

1. AFIT—Air Force Institute of Technology.
2. AMC—Army Materiel Command.
3. ARMCOM—Armament Command.
4. ASPR—Armed Services Procurement Regulation.
5. CAS—Contract Administration Service.
6. DSA—Defense Supply Agency.
7. DSAM—Defense Supply Agency Manual.
8. DCASR—Defense Contract Administration Service, Region.
9. ICAF—Industrial College of the Armed Forces.
10. JAMAC—Joint Aeronautical Materials Activity.
11. MICOM—Missile Command.
12. MSC's—Major Subordinate Commands.
13. –USALMC—U.S. Army Logistics Management Center.

List of training/orientation

Service/agency	School	Course No.	Description
A–1, formal training (service institutes/ colleges):			
DOD	ICAF	See summary sheet	National security management production management, the defense materials system.
Army	USALMC	8D–F12	Defense advanced procurement management course (DAPMC).
Army	USALMC	8D–4320	Defense procurement management course (DPMC).
Air Force	AFIT	LOG 224	Logistics management.
Air Force	AFIT	LOG 220	AFLC material management.
Air Force	AFIT	PPM 308	Defense systems production management.
Air Force	AFIT	PPM 305	Production management II.
Air Force	AFIT	SYS 223	Systems program management.
Air Force	AFIT	PPM 304	Advanced contract administration.
Air Force	AFIT	PPM 153	Production management I.
Air Force	AFIT	PPM 152	Contract administration.
Air Force	AFIT	Part of graduate logistics management program.	Procurement and acquisition management.
Air Force	AFIT	Part of graduate logistics management program.	Seminar in acquisition management.
A–2, formal training (technical courses):			
Air Force	Department/Logistics Training, Denver, Colo., Lowry AFB.	30BR 6531–2	Base procurement officer.
Air Force	Department/Logistics Training, Denver, Colo., Lowry AFB.	30 BRG 6531–5	Systems/research and development procurement.

LIST OF TRAINING/ORIENTATION—Continued

Service/agency	School	Course No.	Description
Air Force	Department/Logistics Training, Denver, Colo., Lowry AFB.	30ZR-6534 (new)	Advanced systems/research and development procurement.
Air Force	Department/Logistics Training, Denver, Colo., Lowry AFB.	30BR 6531-4	Contract management officer.
Air Force	Department/Logistics Training, Denver, Colo., Lowry AFB.	30BR 6531-3	Central procurement officer.
Navy	Naval Materiel Command.	(MT) (JT)	Defense procurement management for technical personnel.
A-3, formal training (correspondence courses):			
DOD	ICAF	Textbook, "The Industrial Sector."	National security management (correspondence).
(Planned)			
A-4, formal training (seminars):			
Army	MSC's arsenals/depots/activities outside of AMC.		Updating and refresher seminar.
B-1, informal training/orientation (conference/seminars):			
Army	ARMCOM (AMC)		Training sessions, scope and applicability of DMS and DPS regulations.
Army			AMC commanders conference.
DSA	DCASR's		Informal training seminars/sessions for DCASR and contractors.
B-2, informal training/orientation (orientation briefings):			
Joint	Joint aeronautical materials activity (various locations).		Briefing on DMS and DPS.
Army	AMC		Briefing applicability of DPS/PMS regulations.
B-3, informal training/orientation (OJT/line of work familiarization):			
DSA	ASPR	ASPR 1-1803.3	Agenda of post award orientation conference.
C-1, operational material (regulations and manuals):			
DSA/DCAS	DSAM 8105.1	DSAM 8105.1	Sec. 23-100.9, par. C-9, contractor procurement systems reviews (CPSR).
DSA/DCAS		DSAM 8300.1	Sec. 5-800, priorities and allocations system.
C-2, operational material (handouts/circulars):			
DSA/DCAS	CAS, HQ DSA		Production newsletter.
C-3, operational material (publication articles):			
DOD	Defense Management Journal, vol. 10, No. 3, pp. 46-48.		System of controls and priorities on basic materials breaks bottlenecks affecting defense production.
C-4, operational material (other (letters, etc.)):			
DSA/DCAS	DCASR's	Feb. 10, 1975	Subject: Training in priorities and allocation program.
DSA/DCAS	Letter to DCAS, region commanders.		Letter, use of DPS and DMS, June 13, 1974.
Army	Baltimore District Corps of Engineers.		Letters to contractors for construction contracts.
Army	HQ USAMC		Letters: Guidelines for improving administration of DMS and DPS.
Army	(MICOM) AMC		Review of revised DMS/DPS regulations.
DSA		DSAH-PRS PROCLTR 74-29 July 29, 1974.	Letter: Use of the defense priorities system.

Service/agency				Duration	Annual student load	Type student	Hours of DMS/DPS	DMS/DPS annual student load
A1, formal training (service institutes/colleges):								
DOD	ICAF		National security management, production management: the Defense Materials System.		188	Senior military and civilian	(1)	
Army	USALMC	8D–F12	Defense advanced procurement management course (DAPMC).	3 weeks	1,005	Military and civilian	2	54,270
Do	USALMC	8D–4320	Defense procurement management course (DPMC).	4 weeks	1,405	do	1	63,800
Air Force	AFIT	LOG–224	Logistics management		225	do	.25	56
Do	AFIT	LOG–220	AFLC materiel management		125	do	.25	31
Do	AFIT	PPM–308	Defense systems production management.			do	4	(2)
Do	AFIT	PPM–305	Production management II		125	do	3	375
Do	AFIT	SYS–223	Systems program management		120	do	5	60
Do	AFIT	PPM–304	Advanced contract administration.		300	do	3	900
Do	AFIT	PPM–153	Production management I		100	do	2	200
Do	AFIT	PPM–152	Contract administration		532	DOD military and civilian	.5	266
Do	AFIT	Part of graduate logistics management program.	Procurement and acquisition management.		170	DOD military	6	1,020
Do	AFIT	do	Seminar in acquisition		20	do	2	40
A2, formal training (technical courses):								
Air Force	Department/Logistics Training Denver, Colo. Lowry AFB.	30BR–6531–2	Base procurement officer		98	DOD military, civilian, 1 foreign student.	1	98
Do	Department/Logistics Training.	30BRG6531–5	Systems/research and development procurement.	5 weeks, 1 day.	91	DOD military and civilian	2	182
Do	Department/Logistics Training Denver, Colo. Lowry AFB.	30BR–6531–4	Contract management	5 weeks, 3 days.	84	do	2–3	210
Do	do	30ZR–6534	Advanced systems/research and development procurement.	3 weeks	60	do	1	60
Navy	Naval Materiel Command.	(MT)(JT)	Defense procurement management for technical personnel.	1 week	1,576	do	27	4,550

[1] Various.

[2] Planned.

[EXHIBIT 14]

DOD MANNING—PRIORITIES AND ALLOCATIONS

[Man-years]

	Professional	Administrative	Total
Calendar year 1974:			
Army	19.9	8.9	28.8
Navy	8.96	2.31	11.27
Air Force	11.7	5.2	16.9
DSA	4.32	3.27	7.59
DCAS	38.7	11.3	50.0
DSA	43.02	14.57	57.59
OSD	1.17	.1	1.27
Total	84.75	31.08	115.83
Calendar year 1970:			
Army	74	20	94.0
Navy	28.04	8.32	36.36
Air Force	17	6	23.0
DSA	38	7	45.0
OSD	2.2	2	4.2
Total	159.24	43.32	202.56

RATING AUTHORITY—DOD COMPONENTS

Army.
Navy.
Air Force.
Defense Supply Agency.
Defense Communication Agency.
Defense Nuclear Agency.
Defense Mapping Agency.
Defense Advanced Research Projects Agency.
Defense Civil Preparedness Agency—
(Communications and Warning Equipment,
Shelter Equipment; i.e., R. & D. for Ventilation.
Equipment & Generating Equipment).

[EXHIBIT 15]

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE,
Washington, D.C., August 1, 1975.

MR. WILLIAM H. KINCADE,
Staff Director, Joint Committee on Defense Production, Congress of the United States, Washington, D.C.

DEAR MR. KINCADE: This is in response to the request in your letter of 23 June 1975 for a report on measures taken to correct Defense Priorities System (DPS) problems. These measures may be placed in two categories: interagency efforts and intra-DoD efforts. Each of these categories comprise actions taken and actions planned to be taken.

As you know, fundamental changes in DPS policies and procedures must be developed by the control agencies; Federal Preparedness Agency (FPA) and the Department of Commerce (DOC), and applied uniformly among and within the using Federal agencies and in industry. Accordingly, in this context, the DoD cannot unilaterally install basic DPS system and policy changes until directive or regulatory guidance and instructions are issued by the control agencies.

Recognizing that there are joint responsibilities and interests in improving the DPS, officials of the FPA, DOC and the Energy Research and Development Administration have held a series of baseline meetings to identify problems, objectives to be programmed, and actions to be taken, as sound management practice and in response to the sense of the Hearings on Title I of the Defense Production Act of 1950, as amended. These joint efforts comprise the initial interagency actions taken subsequent to the Hearings. The meetings commenced on 12 June 1975, when proposed Defense Mobilization Order (DMO) 12 to exclude certain common use items from rating authority was reviewed and the most recent agency positions and views were discussed.

DMO 12 signed by the Administrator of General Services on 19 June 1975. On 1 July 1975, the agency principals and supporting staff convened at the request of the FPA to establish preliminary programs for the forthcoming year to implement the Joint Committee hearings. In our view, this was prerequisite to estabilsh coordinated actions and to achieve desirable goals.

Among the programs initially identified for interagency review and/or action were:

Review criteria for Defense and Defense-related programs.

Refine, clarify and make regulations, orders and other basic guidance more precise.

Formulate new Special Assistance process.

Review concepts, techniques, responsibilities, staffing requirements and criteria for compliance and enforcement.

Data collection and feedback of substantive and management data relating to controlled materials..

Criteria and procedures related to priorities for defense needs of friendly foreign nations.

Training and education.

It is emphasized that the above agenda was a first approach to highlight some of the more important action areas and may be expected to undergo further refinement and change as specific agency responsibilities and target dates are further definitized.

DMO 12 philosophy and implementation concepts and problems were explored by FPA and DoD principals on 3 July 1975 and 7 July 1975, and numerous conversations among DoD, FPA and DOC staff along similar lines subsequently have taken place in connection with implementing action being developed by the DOC.

The DOC and the DoD were making plans to conduct joint DPS training during 1974 for personnel of Federal agencies participating in this system and for industry, but these efforts were deferred due to budgetary and other constraints. DOC and DoD staffs are resuming discussions on this matter with respect to conducting this training later this year.

The DoD welcomes the opportunity to participate in the above-mentioned interagency efforts to make the DPS more effective and administratively efficient.

With respect to tightening up the priorities system in the DoD, Military Department, Defense Supply Agency and Office, Secretary of Defense representatives were briefed orally prior to the Hearings by GAO personnel on findings and recommendations on the handling of Special Priorities Assistance (SPA) cases by each Department or Agency. These meetings took place on May 12 and 13, 1975. We had expected GAO to issue a formal written report early in July 1975 so that the full text of the GAO study could be reviewed and actions taken from a common base within the DoD. The written report has not yet been received but we understand it will be forthcoming shortly.

We have distributed copies of the statement presented by the GAO witness before the Joint Committee on May 23, 1974, to DoD department and agency representatives as an interim measure for information and appropriate action to augment the GAO oral briefings. As specific major DPS program actions are established by the joint interagency efforts, they will be implemented by the DoD as may be necessary and appropriate.

Secretarial or equivalent staff-level personnel of the Military Departments and the Defense Supply Agency attending a meeting of our Industrial Base Steering Group on July 8, 1975 were advised of the Joint Committee Hearings and DMO 12. Representatives of the FPA and DOC also attended this meeting.

We are investigating the feasibility of establishing an Internal Audit Objective for FY 1977 which would provide for audit of SPA and DPS and related activities conducted by the DoD.

Since the Defense Contract Administration Services (DCAS) is the predominant DoD interface with industry suppliers and most DoD SPA cases flow through DCAS, first attention was devoted to alerting Defense Supply Agency procurement and contract administration activitites to significant deficiencies described by the GAO and specifying actions to improve priorities system implementation. Similar action is being initiated wth respect to procurement and contract administration activities of the Military Departmens.

This office has established specific objectives to improve the over-all management and operation of the priorities system in the DoD. These include revitalization of priorities system cadres, update policy and procedural guidance as it is issued by the control agencies and establish management control and information feedback systems to police the system, eliminate abuses and highlight situations that may require system modifications.

I hope this interim report will be helpful to you.

Sincerely,

WILLIAM LEVITT,
Acting Deputy Assistant Secretary of Defense.

EXHIBIT 16

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

MAY 16 1975

Honorable Wright Patman
Chairman, Joint Committee on
Defense Production
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your letter of April 30, 1975, concerning your interest in obtaining information relative to the application of DO ratings to meet procurement requirements for our Supply Distribution Facility Program.

The following information is provided in response to points 1 through 5 of your inquiry:

1. The FSC's which receive DO priority ratings are found in GSA Order FSS 2800.13D, copy enclosed.

2. The agencies and Federal departments which are designated as rateable agencies are DOD, CIA, NASA, and AEC. See enclosed GSA Order, Chapter 2, Paragraph 3 a. 2.

3. We maintain only limited information on DOK-1 rated procurements since our buys are for stock replenishment. Records reveal, however, that stock sales to rateable agencies in Fiscal Year 1974 were as follows:

CIA		$ 129,611.00
NASA		4,192,461.00
AEC		6,441,295.00
Military		359,090,919.00
	Total	$369,854,286.00

4. Our data base indicates by Federal Supply Class the money value of procurements made utilizing the DOK-1 rating. Our data base also indicates the total sales by national stock number (NSN) and Federal Supply Class to each Federal agency. The sales data base does not break sales down between material bought on a rated basis and material bought on a non-rated basis.

Since material in this stock system is not separated by rating and non-rating, it is probable that some rated material was sold to a non-rateable activity. However, in the first 6 months of FY 75, 63.6% of our stores procurement was DOK-1 rated whereas 67.5% of our total sales was to rateable agencies. For FY 74, 61% of our stores procurement was DOK-1 rated, and 67% of our sales was to rateable agencies.

In view of the above, we cannot identify agencies and the dollar value of each agency's procurement.

5. We have no authority to utilize DX ratings.

Please do not hesitate to contact us if we can provide you with any additional information.

Sincerely,

Sampson

ARTHUR F. SAMPSON
ADMINISTRATOR

Enclosure

FEDERAL SUPPLY CLASSES

48 FSC CLASSES AUTHORIZED TO RECEIVE PRIORITY SUPPORT

FSC CLASS	COMMODITY
3540	Wrapping and Packaging Machinery
3590	Miscellaneous Service and Trade Equipment
3750	Gardening Implements and Tools
5110	Hand Tools, Edged, Nonpowered
5120	Hand Tools, Nonedged, Nonpowered
5130	Hand Tools, Power Driven
5133	Drill Bits, Counterbores, and Countersinks: Hand and Machine
5136	Taps, Dies, and Collets; Hand and Machine
5140	Tool and Hardware Boxes
5180	Sets, Kits, and Outfits of Hand Tools
5210	Measuring Tools, Craftsmen's
5345	Disks and Stones, Abrasive
5350	Abrasive Materials
5610	Mineral Construction Materials, Bulk
5620	Building Glass, Tile, Brick, and Block
5630	Pipe and Conduit, Nonmetallic
5640	Wallboard, Building Paper, and Thermal Insulation Materials
5650	Roofing and Siding Materials
5670	Architectural and Related Metal Products
5680	Miscellaneous Construction Materials
7105	Household Furniture
7110	Office Furniture
7125	Cabinets, Lockers, Bins, and Shelving
7195	Miscellaneous Furniture and Fixtures
7220	Floor Coverings
7230	Draperies, Awnings, and Shades
7290	Miscellaneous Household and Commercial Furnishings and Appliances
7330	Kitchen Hand Tools and Utensils
7340	Cutlery and Flatware
7350	Tableware
7430	Typewriters and Office Type Composing Machines
7460	Visible Record Equipment
7490	Miscellaneous Office Machines
7510	Office Supplies
7530	Stationery and Record Forms
7720	Musical Instrument Parts and Accessories
7910	Floor Polishers and Vacuum Cleaning Equipment
8010	Paints, Dopes, Varnishes, and Related Products
8020	Paint and Artists' Brushes
8030	Preservative and Sealing Compounds
8040	Adhesives
8115	Boxes, Cartons, and Crates
8135	Packaging and Packing Bulk Materials
8520	Toilet Soap, Shaving Preparations, and Dentifrices
8530	Personal Toiletry Articles
8540	Toiletry Paper Products
9905	Signs, Advertising Displays, and Identification Plates
9920	Smokers' Articles and Matches

GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

FSS 2800.13D
July 10, 1972

GSA ORDER

SUBJECT: Priority rating procedures

1. Purpose. This order establishes guidelines and procedures for the application of DO priority ratings to contracts executed and delivery orders issued by Federal Supply Service. The attachment to this order provides detailed procedures for the application of such DO ratings.

2. Cancellation. This order cancels FSS 2800.13C.

3. Nature of revision. This revision provides reference to BDC Delegation 3, and Statement of Conditions No. 1, Amendment (2), recently updated by the Bureau of Domestic Commerce. It includes procedural changes to more accurately estimate rated requirements in relation to actual DoD needs. It also reflects a number of minor editorial changes considered appropriate.

4. Background. The exercise of priorities and allocation powers provided by the Defense Production Act of 1950, as amended, in the field of industrial production and construction is the responsibility of the U.S. Department of Commerce by designation of the President. This responsibility has been delegated (see Chapter VI, Title 32A, Code of Federal Regulations) to the Bureau of Domestic Commerce (BDC) and is carried out through the Defense Priorities System (DPS) and the Defense Materials System (DMS). The systems are designed to accomplish two main purposes:

a. Provide a means to insure that national defense programs are maintained on schedule by use of priorities for the purchase of materials by contractors, subcontractors, and their suppliers; and

b. Provide a priorities and allocations system which can be rapidly expanded to meet the supply needs of the country in major emergencies or in the event of war.

5. Scope of GSA rating authority.

a. Stock replenishment. BDC Delegation 3, dated May 16, 1972, delegates authority to the Administrator of General Services to apply, or assign to others the authority to apply, DO ratings identified by the

Distribution: A-1, 6; B-6a, b, o, p, q,
C-6a, q; D-6a; F; G-6;
H-6f; I-6f;

Attachment

symbol DO-K1 with respect to contracts and delivery orders to meet procurement requirements of the GSA supply distribution program. The Statement of Conditions No. 1, Amended (2) -- BDC Delegation 3, dated May 8, 1972, specifies that the use of the authority delegated to GSA shall be limited to a dollar volume equal to the total value of procurement to fulfill all ratable military requirements of the Department of Defense (DoD) (including its associated agencies, the Central Intelligence Agency (CIA) and the National Aeronautics and Space Administration (NASA)), and the Atomic Energy Commission (AEC).

b. AID programs in Southeast Asia. By letter of July 15, 1964, from the Administrator of Business and Defense Services Administration (BDSA) (now BDC) to the Administrator of General Services, GSA has also been authorized to apply DO ratings with the symbol DO-D7 to all contracts and delivery orders to meet procurement requirements of the Agency for International Development (AID) for the counter-insurgency and preventive incipient insurgency operations in Southeast Asia, within estimated specified dollar limitations. Authority to apply DO-D7 ratings has been delegated to the Procurement Operations Division (FPN), the Special Programs Division (FPH), and the Procurement Division, Region 9.

6. Procedures.

a. In all cases where GSA has been granted authority to use DO ratings, such ratings shall be used as set forth in the attachment to this order, even though it may be possible to obtain the item by the required delivery date without the rating. This requirement is in consonance with DPS and DMS program directions and is necessary to proper program control under established rating procedures.

b. In any case where an FSS contracting officer has difficulty in obtaining supplier acceptance or delivery of a GSA rated order, the officer shall insure that the supplier is familiar with pertinent provisions of DPS Reg. 1 (formerly BDSA Regulation 2). In particular, the procedures involved require suppliers to accept and perform the rated order on a priority basis and to pass on the DO priority rating to their suppliers in order to obtain necessary supplies and to place authorized controlled material (ACM) orders for controlled materials from the various producers of such materials for use in meeting GSA contract requirements.

c. Section 10(e) of DPS Reg. 1 provides that a person who refuses to accept a rated order shall, upon written request of the person placing the order, promptly give his reasons in writing for his refusal. On those rated contracts or orders where an FSS contracting officer has reason to believe that a supplier is not complying with the acceptance or delivery requirements of DPS Reg. 1, he shall request a written statement of explanation from the supplier.

d. On each visit to the contractor's plant, the quality assurance specialist shall take the necessary action to insure that the contractor observes GSA contract requirements with respect to priority rated orders, and will arrange for any necessary rescheduling of nonrated orders in accordance with the priority sequence prescribed in the HB, Supply Operations, chap. 10 (FSS P 2900.5).

7. Application of ratings. Application of DO-K1 and DO-D7 priority ratings by Central Office and regional office FSS personnel to appropriate contracts and delivery orders shall be in accordance with the provisions of this order.

8. Requests for special priorities assistance. Requests from Central Office and regional buying officials for special priorities assistance, or reports of supplier noncompliance with DMS and DPS regulations, shall be processed in accordance with GSA Order FSS 2800.21, subject: Special Priorities Assistance Under the Defense Priorities System and Defense Materials System.

9. Forms. This order provides for the use of GSA Form 2206, DO Priority Rating Register. Copies of this form may be obtained in the usual manner.

M. S. MEEKER
Commissioner, Federal Supply Service

CHAPTER 1. DEFENSE PRIORITIES SYSTEM AND DEFENSE MATERIALS SYSTEM REGULATIONS AND PROCEDURES

1. Regulations and orders.

a. DPS and DMS are predicated on two regulations: DPS Reg. 1, Basic Rules of the Priorities System, and DMS Reg. 1, Basic Rules of the Defense Materials System. DPS Reg. 1 deals primarily with the form, acceptance, rejection, and modification of rated orders. DMS Reg. 1 deals primarily with the form, acceptance, rejection, and modification of ACM orders. ACM orders are placed for controlled materials (steel, copper, aluminum, and nickel alloys in specified shapes and forms). Rated orders are placed for all materials and products other than controlled materials. Rated orders and ACM orders may be placed only for materials required for authorized national defense programs identified by an authorized program identification. Certain types of materials are exempt from the DPS. These are listed in list A of DPS Reg. 1. DPS and DMS orders supplement the regulations. These provide detailed guidelines for producers, distributors, and users of controlled materials and certain other products such as metal-working equipment. Published directions modify or extend the basic regulations. DPS and DMS regulations and related orders and directions are included in Title 32A, Code of Federal Regulations. Copies may be obtained from the Business Service Field Offices of the Department of Commerce.

b. In addition, the systems provide emergency delegations and standby regulations for use in periods following an attack upon the United States. BDC Emergency Delegation 1 is published in the Federal Register. Standby BDC Emergency Regulation 1 is not published but may be obtained from the Office of Industrial Mobilization, BDC. Reference is made to the use of these emergency regulations by GSA in the HB, Emergency Preparedness, 4-25d (FSS P 2400.4C).

2. Priority ratings.

a. All DO rated orders, regardless of the agency applying them, have equal priority status and must be accepted and filled by the supplier in preference to unrated orders, in accordance with the date of their receipt. If received on the same date, the DO rated order with the earliest delivery date receives priority.

b. The DMS and DPS also provide for use of DX ratings (which take precedence over DO ratings) in connection with programs of top national urgency as designated by the President, or when authorized by BDC in special cases where a DO rating is not adequate to obtain the material by the required delivery date. Under current policy, BDC infrequently authorizes the use of a DX rating in such "special cases."

c. In those cases where a DO or DX rating is not adequate to obtain materials by the required date, the Special Priorities Assistance Program may be employed to obtain a directive. Under this procedure a claimant agency (here GSA) or a contractor may apply to BDC on Form BDCF-138 for such assistance. Contractor applications require claimant agency endorsement or "sponsorship." BDC, after appropriate investigation and negotiation with the delinquent supplier, may issue a directive requiring the supplier to produce or deliver the specified item by a specified date. Neither DX rating authority nor directive authority has been delegated by BDC to GSA.

3. Supplier acceptance or rejection of rated orders. Sections 10 and 14 of DPS Reg. 1 contain detailed guidelines on the various exceptions involved in supplier acceptance or rejection of rated orders and the degree to which customer changes in such orders affect the rating. Each GSA employee concerned with the application of rated orders should be thoroughly familiar with these and all other provisions of the regulation in order to comply with its requirements and to understand the rights and privileges of both the supplier and the ordering activity. When written statements giving reasons for refusal to accept or make delivery have been submitted under section 10(e) of DPS Reg. 1, the contracting officer should consult with appropriate counsel to determine any future course of action (see subpar. 6c and par. 8 of the covering order).

CHAPTER 2. PROCEDURES FOR THE APPLICATION OF PRIORITY RATINGS TO GSA ORDERS

1. Limitations. Under Statement of Conditions No. 1, Revised (2), GSA is required to estimate its procurement of stock items in support of all ratable agencies and submit these requirements on a semiannual basis to BDC approximately 45 days prior to the 6-month period beginning July 1 and January 1 of each year. In addition, GSA will notify BDC, prior to the close of these periods, of any substantial variations in these estimates. GSA will also submit a report to BDC approximately 60 days after the close of each of these 6-month periods, showing (1) the value of shipments actually made to DoD and its associated agencies, and AEC, and (2) the value of stores' replenishments rated by GSA during the preceding 6-month period.

2. Central Office program control. The Procurement Program Management Division (FPC) shall maintain close surveillance and control to insure that use of the revised rating criteria achieves the expected results and that the dollar value of rated orders for the reporting period does not substantially exceed the estimated total reported to BDC. In addition, FPC will:

a. Analyze data and reports submitted by the regions and Central Office and notify the Office of National Supply Policies and Programs (FF) of any significant upward or downward trends in totals, and provide historical procurement data on any items or class of products which military activities indicate will be requested from GSA in substantially increased quantities in future months;

b. Insure that the value of rated orders under DO-K1 is in line with the percent of sales to the military; and, where a national imbalance exists in the stock replenishment area, advise the Office of Supply Control (FX) and jointly determine the corrective action to be taken to include coordination with the regions as necessary;

c. Determine the recommended dollar value of estimated sales for defense program to be submitted to BDC for the next 6-month period, for submission to the Assistant Commissioner, Office of National Supply Policy and Programs, by May 10 and November 10;

d. Provide the Assistant Commissioner, Office of National Supply Policy and Programs, by May 15 of each year with the estimated dollar value of DO-D7 rating authority to be applied in the next fiscal year for procurement of items for AID programs in Southeast Asia.

e. Provide the Assistant Commissioner, Office of National Supply Policy and Programs, with a summary, as promptly as possible after the close of each January/June and July/December period, showing the total

dollar value of orders shipped to ratable agencies and the total dollar value of orders rated under the DO-K1 rating symbol.

3. Criteria for determining when to apply a priority rating.

a. Stock replenishment. It has been determined that the total sales of GSA stock items to DoD, CIA, NASA, and AEC are approximately equal to the total sales in the following classes of items (all of which involve supply support agreement with DoD):

3540	5133	5350	5670	7195	7340	7510	8020	8520
3590	5136	5610	5680	7220	7350	7530	8030	8530
3750	5140	5620	7105	7230	7430	7720	8040	8540
5110	5180	5630	7110	7290	7460	7910	8115	9905
5120	5210	5640	7125	7330	7490	8010	8135	9920
5130	5345	5650						

(1) Contracts and delivery orders for stock items in the above designated classes shall be rated DO-K1 except (a) definite quantity direct delivery contracts for nondefense program items, and (b) stock replenishment orders totaling less than $500, the rating of which is optional.

(2) No other groups and classes shall be rated DO-K1 unless it is known that a specific item is for primary use by DoD, CIA, NASA, and AEC.

b. Definite quantity purchases other than stock. All orders under the AID counterinsurgency program in Southeast Asia (see subpar. 4b of the covering order) shall be rated DO-D7.

4. Contract clause.

a. When the criteria in par. 3, above, require the application of a priority rating, the appropriate rating symbol (DO-K1, DO-D7) shall be entered in Block 3 of SF 33, Solicitation, Offer, and Award, and the clause set forth below shall be included in each such solicitation.

PRIORITIES, ALLOCATIONS, AND CONTROLLED MATERIALS

(a) If this contract or any delivery order thereunder is rated and certified for national defense use (see Block 3 on the face of Standard Form 33), the Contractor shall follow the provisions of DPS Regulation 1 (formerly BDSA Regulation 2) and/or DMS Regulation 1 in obtaining controlled materials and other products and materials needed to fulfill the requirements of this contract.

(b) The Contractor shall fill unrated delivery orders in the same sequence in which they are received or as otherwise directed by the

Contracting Officer.

(End of Clause)

b. The above clause also shall be used in Federal Supply Schedule contracts to cover those rated delivery orders placed by agencies with authority to apply ratings (DoD, CIA, NASA, and AEC). However, instead of entering a rating symbol in Block 3 of SF 33, the notation "See delivery order" shall be entered.

5. Rated delivery order. When rated delivery orders are issued under contracts specified in 4a and b, above, the applicable priority rating shall be entered on the order. Certification required in DPS Regulation 1 shall be indicated by the signature of the ordering official.

6. Consolidated procurement. Consolidated procurements (CP) by the Procurement Operations Division, or by designated regional offices, of stock items which meet the criteria in par. 4, above, shall be rated in the same manner as other stock replenishment purchases. When consolidated procurements are rated, contracts and delivery orders shall contain the applicable clause above. Recording of the dollar amount rated shall be made from the individual delivery orders or equivalent documents by the office responsible for recording the data through the Procurement Transaction Reporting (PTR) System (office making the CP in the case of definite quantity awards for stock replenishment).

7. Records and reports.

a. Data as to the value of orders rated DO-K1 is included in the automated PTR System.

b. Each office which issues DO-D7 rated orders shall record the value of such orders issued on GSA Form 2206, DO Priority Rating Register. The cumulative monthly summary of the value of DO-D7 rated orders shall be manually annotated on the PTR printout of the Buying Operations Report, by program, so that when added to the DO-K1 rated orders reported on line 48 of the PTR report, it will equal the total dollar value of all DO rated orders.

c. Records and reports of all rated orders, including applicable contracts, purchase orders, and delivery orders, shall be maintained for at least 3 years, in accordance with DPS Reg. 1, section 24. If information on DO-K1 rated orders is needed for audit or other types of review, FPC will obtain the information from the PTR System Data Base.