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UNITED STATES GENERAL ACCOUNTING OFFICE
INTERNATIONAL DIVISION
FAR EAST BRANCH
1833 KALAKAUA AVENUE
HONOLULU, HAWAII 96815

MAR 19 1973

Colonel Errol E. Hayes, Jr.
Commander, U.S. Army Taiwan
Materiel Agency
Box 19
APO San Francisco 96263

Dear Colonel Hayes.

We wish to bring to your attention an opportunity to substantially reduce repair costs at the Taiwan Materiel Agency (TMA) through the use of excess Chinese Army repair parts. We noted during our recent follow-up review of the Military Assistance Program (MAP) on Taiwan, that the Chinese Army had excess quantities of many of the same parts that TMA is presently using in its rebuild programs. Since a major source of the Chinese parts over the years has been the U.S. MAP, the excesses according to regulation should be made available to meet known U.S. requirements. We believe that the potential savings from using them could amount to several hundred thousand dollars. The excesses, though, are not now being reported, and so have not been made available for use by TMA. We are also reporting this matter to the Chief of the Military Assistance Advisory Group (MAAG) - China for his action.

POTENTIAL FOR SAVINGS THROUGH
USE OF MAP EXCESSES

We were unable during our visit to determine TMA's total parts requirement, but estimated that the parts for just the scheduled rebuilding of two major vehicles (about 3500 1/4-ton and 3/4-ton trucks) would cost \$2.2 million. We understand there are about 1500 different parts used in rebuilding of the two vehicles. To find out to what extent these same parts might be available and excess in the Chinese inventory, we compared 96 of them against the Chinese stock status report. The 96 items were taken from TMA listings of parts currently on order, or recently purchased in Taiwan. They were selected randomly except that we included all 20 parts that had been identified as causing either actual or potential work stoppages. Of the 96 items examined, 56 were listed in the Chinese inventory, and 25 of those showed an excess quantity on hand valued at about \$81,000 (see enclosure). Six of the excess items were among those identified by TMA as work-stoppage items.

9-12-94-0 088972

In a smaller test of parts used in rebuilding armored personnel carriers (APCs), we randomly selected seven from a list of parts that TMA was procuring in Taiwan. Three of the seven were shown on the Chinese inventory in excess quantities, valued at \$35,000 (see enclosure).

To determine the full savings available by using Chinese excesses in the TMA program, the total parts requirements for all TMA projects should be compared with the Chinese inventory position on those parts. Also further savings in transportation costs should be considered. Judging by the results of our limited tests, this should be a worthwhile effort.

ACTIONS REQUIRED IN ORDER
TO UTILIZE MAP EXCESSES

During our prior review of MAP-China in 1970, we informed officials of both TMA and the MAAG of the potential for using Chinese excesses in the TMA rebuild program. At that time MAAG officials replied that the Chinese Army was establishing realistic inventory levels, that excesses would be reported, and that a detailed check would be made of items related to the U.S. rebuild program. In our recent follow-up, we found that these actions were not taken, or apparently even attempted.

We again discussed the subject with MAAG officials and members of your staff during our follow-up review. TMA representatives pointed out that there were established procedures for reporting excesses and matching them against worldwide requirements. They said that since TMA was following the procedures, they didn't feel it had any further responsibility in the matter.

Ordinarily we would agree. In this case, though, the excesses are not being reported, and so are not being matched against requirements. Even if the required reporting were started now, there would probably not be enough time under normal procedures to screen the excesses worldwide before completion of the TMA program 15 months hence. Both the excesses and the requirements exist now on Taiwan. We believe therefore that it is incumbent upon all parties involved to see that the excesses are used to hold U.S. costs as low as practicable. Had this been done when it was first suggested in 1970, it is probable that large savings would already have been realized.

During our discussions with MAAG officials, we provided a list of the Chinese excesses for which TMA had a requirement (see enclosure), and suggested that the total TMA parts requirement be matched against the Chinese inventory. They agreed to do this. The action, of course, will require the cooperation of TMA in furnishing the MAAG with complete lists of its parts requirements.

We are suggesting to the MAAG that once excesses for which TMA has a requirement are identified, the country team work together in getting the material released.

OTHER U.S. REQUIREMENTS FOR MAP EXCESSES

We have emphasized the use of Chinese excesses in the TMA program because it is a significant known requirement right on Taiwan, and one that needs immediate attention in order to apply the available excesses. More generally, though, regulations require that all foreign excesses of U.S.-furnished material be reported and made available for any U.S. worldwide requirements. The MAAG has been working to accomplish this.

Another example we noted of such U.S. requirements, was the recent order for TMA to disassemble 1000 M151 jeeps so as to recover various assemblies, indicating an immediate U.S. need for them. M151 components were among the excess items we noted in the Chinese inventory. Pending the establishment of a regular reporting and screening system, therefore, we think that the M151 requirements, and any others TMA is aware of, should also be given to the MAAG for screening against the Chinese inventories.

RECOMMENDATIONS

To summarize our views on the matters discussed above, we believe that Chinese excesses should be used to the extent practicable to meet TMA's parts requirements, and more generally, to meet any other known U.S. requirements.

To accomplish this, we recommend that TMA furnish the MAAG their current and continuing requirements, including parts ordered but not shipped, for screening against the Chinese inventory. We recommend the same procedure also for any other U.S. requirements of which TMA is aware, such as the M151 components discussed above.

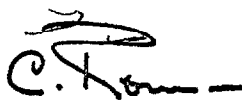
Once the MAAG makes such material available to TMA, we recommend that TMA initiate the appropriate procurement actions to substitute the excess items for those on order, thereby minimizing its procurement costs.

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We are also informing the Chief, MAAG of our views on this matter in a separate letter, and suggesting that the two commands coordinate their efforts. We would appreciate it if you would advise us on the actions taken concerning the excesses, and the results.

Let me take this opportunity also to thank you for the informative tour of the production facilities, which you conducted for our staff during their visit.

Sincerely,



C. Roman
Director

Enclosure.
List of the Chinese
excesses

ENCLOSURE

List of Items Used by TMA Which the
Chinese Army has in Excess Quantities

<u>FSN</u>	<u>RO&DO</u>	<u>On-hand serviceable</u>	<u>Total excess</u>	<u>Value of excesses</u>
<u>Repair parts for 1/4-ton and 3/4-ton trucks:</u>				
2540-737-3739	2	28	26	\$ 364
2805-173-0303	114	245	131	12,314
2805-678-1383	337	646	309	263
2805-678-3187	12	135	123	585
2805-886-8080	9	77	68	1,858
2910-040-1933	1590	2501	911	5,721
2910-878-8839	103	560	457	6,471
2910-921-5618	119	464	345	6,917
2805-350-7511	277	479	202	941
2520-678-1282	51	746	695	17,445
2520-678-3001	-	1	1	10
2520-678-3093	-	136	136	1,295
2520-887-1339	9	292	283	2,918
2520-887-1340	9	43	34	1,458
2805-741-8576	332	614	282	674
2920-776-0355	-	3	3	24
2930-737-3692	4	6	2	115
6140-057-2553	3742	4837	1095	14,640
6145-805-3354	1126	5143	4017	1,526
6220-752-6030	57	563	506	774
2520-678-1336	-	160	160	990
2590-973-3186	107	1641	1534	1,979
2920-089-3607	104	176	72	1,197
2520-912-3056	38	220	182	672
2990-886-8085	95	144	49	160
				<u>\$81,311</u>
<u>Repair parts for M113 APC.</u>				
2530-679-7973	317	2286	1969	\$16,933
2530-781-7793	1829	7532	5703	15,968
2530-996-0718	7	31	24	1,954
				<u>\$34,855</u>