~~18853~~ 115862

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 1:00 p.m. EDT
July 21, 1981

STATEMENT OF

WERNER GROSSHANS, DEPUTY DIRECTOR
PROCUREMENT, LOGISTICS AND READINESS DIVISION

BEFORE THE

SUBCOMMITTEE ON DEFENSE
HOUSE COMMITTEE ON APPROPRIATIONS

ON

THE DEFENSE INDUSTRIAL BASE

0176M

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before your Subcommittee to discuss our recent report entitled "DOD's Industrial Preparedness Program Needs National Policy To Effectively Meet Emergency Needs," PLRD-81-22, May 27, 1981. This report discusses the program's ineffectiveness and points out that poor industrial preparedness planning could impair U.S. defensive options.

Recent events have underscored the fact that a strong industrial base is essential to the economic and military welfare of the United States in both peacetime and in war. We are therefore pleased to note the increased visibility being afforded this important aspect of national security. In our report, we recommended that the Congress hold hearings to develop a clearly defined and comprehensive national policy regarding industrial preparedness and that the policy should address

--what is expected of the industrial base and

--what can be invested to achieve these expectations.

BASIC PROGRAM LEGISLATION AND RESPONSIBILITIES

Industrial preparedness planning evolves from the Defense Production Act of 1950 and its subsequent amendments. Under section 401 of Executive Order 11490, issued in October, 1969, the President has assigned responsibility for industrial preparedness planning to the Secretary of Defense. These responsibilities include:

(1) developing and administering preparedness planning with industry to ensure timely purchase and production of selected military equipment requirements, and

(2) taking the steps necessary to eliminate problems in maintaining the required mobilization production base.

The U.S. industrial base is comprised of many separate but interrelated elements of industrial capacity in both the private and public sector. These industrial facilities manufacture the components and end items used by our military forces and civilian activities. This industrial base serves the twin function of providing military production capacity for peacetime needs as well as a basis for expansion to meet wartime needs. According to the Department of Commerce, the private sector of the industrial base includes over 300,000 manufacturing establishments. The Federal Government portion of the industrial base consists of about 83 production plants and 43 maintenance facilities, which together with production equipment have a replacement cost of about $40 billion. Given the assumption that nuclear war is not a likely occurence, the capability of the U.S. industrial base to sustain mobilized forces is critical to the successful development of a conventional deterrent.

In planning with this industrial base, the Secretary of Defense is to maximize reliance on the private sector, while maintaining the nucleus of Government-owned plants and equipment to meet national emergencies. Since the participation of the private sector in the planning program is voluntary many problems arise regarding the degree of control over private versus public elements of the base, the need

for incentives to maintain a surge capability in the private sector, and the need to balance economy and efficiency during peacetime operations while maintaining the capacity for wartime production.

NEED FOR COORDINATED INDUSTRIAL MOBILIZATION PLANS

Before going into more detail regarding DOD's Industrial Preparedness Planning Program, I would like to describe the program's relationship to other essential elements in the mobilization "chain" I feel this is necessary to place the program in proper perspective since any one "weak link" in this chain could substantially affect our ability to mobilize industry.

DOD's Industrial Preparedness Planning Program is only one of several critical elements that govern industry's ability to quickly produce adequate amounts of essential civilian and military items in a national emergency. These other elements include:

--The supply of strategic and critical materials vital to wartime manufacture;

--Energy sources available to support industry in a national emergency;

--Transportation resources needed to support industrial mobilization;

--Government regulations affecting available production capacity for mobilization; and

--The skilled personnel necessary to meet emergency/mobilization needs.

Although these elements can bear directly on our ability to mobilize industry, DOD cannot address these issues alone because other Government agencies also have planning responsibilities for these elements. Therefore, a coordinated, government-wide approach is required to resolve issues surrounding the availability/adequacy of these elements to meet emergency/mobilization requirements. For example, the Federal Emergency Management Agency (FEMA) is a vital element, because it has overall responsibility for coordinating government-wide emergency/mobilization plans.

THE PROGRAM TODAY

Over the years, DOD's Industrial Preparedness Planning Program has been studied by a number of organizations, including various Congressional Committees, 1/ the Industrial Advisory Council, the Joint Logistics Review Board, the American Defense Preparedness Association, the Defense Science Board, the Military Services, and DOD itself.

Despite these past studies the program has changed very little, for instance, our recent work confirmed that no significant program improvement had resulted since our last review in 1977, 2/ and that the program remains ineffective.

1/Most recent hearings by the House Armed Services Committee's Defense Industrial Base Panel--see their report dated December 31, 1980.

2/"Restructuring Needed of Department of Defense Program For Planning With Private Industry For Mobilization Production Requirements" (PSAD-77-108, May 13, 1977).

DOD has continued to identify shortcomings in the industrial base and associated planning through mobilization simulations (such as "Nifty Nugget" and "Proud Spirit 80"), steering committees and panels, and in-house studies. Two of these efforts, commonly referred to as the "Surge" and "Sustainability" studies, have highlighted a number of industrial preparedness planning concerns. DOD's current planning initiatives attempt to improve the industrial base responsiveness.

"Surge" planning actions are designed to compress and accelerate the ongoing peacetime production of military items, should an emergency situation arise. As envisioned by DOD, surge planning actions would be geared toward maximizing the production obtainable from existing plant and equipment and would be limited to a select number of key weapon systems. Most surge actions would require contractual arrangements with producers at additional expense to DOD. Examples of some surge actions would include:

--advance storage of materials and supplies, allocation of additional personnel, etc., to enable a producing contractor to transition from a single to a multiple shift workday,

--acquiring in advance and prepositioning tooling and equipment,

--buying and stockpiling in advance long leadtime items; and

--paying contractors for detailed planning as a contract line item.

"Sustainability" planning actions are directed more toward optimal long term investment strategies and trade-offs among the industrial base, war reserve stockage, and other defense programs, that will provide the logistic continuity required to support U.S. forces in a prolonged conventional conflict. This type of planning is geared more toward the type of investment necessary to support total mobilization. Examples of these actions include:

--construction of additional plant and equipment,

--preserving and storing equipment; and

--instituting training programs for critical skills.

The American Defense Preparedness Association and the Defense Science Board have recently completed studies concerning the defense industrial base. 1/ Also, the Defense Industrial Base Panel of the House Armed Services Committee has conducted hearings regarding the base and on December 31, 1980, issued its report entitled "The Ailing Defense Industrial Base: Unready For Crisis".

For the sake of brevity I will not go into a detailed discussion of each of these efforts here. However, a brief synopsis of these 3 recent studies is included as appendix I to this testimony.

1/"Defense Readiness--Force Sustainability and Industrial Preparedness--Why We Are Concerned" and "Report of the Defense Science Board 1980 Summer Study Panel On Industrial Responsiveness," respectively.

PROBLEMS IN DOD's PROGRAM OF PLANNING WITH INDUSTRY

Although the problems involved in DOD's Industrial Preparedness Planning Program are many, I would like to mention a few which we feel are the major program shortcomings.

DD-1519 Process

The industrial preparedness planning process has not changed for many years. It is based on the voluntary, unfunded participation of prime contractors using the DD-1519 planning form. Each service identifies the items to be planned, and their production requirements, to defense contractors on this form. The contractors, in turn, report back on this form their ability to meet them.

However, this process, which was the backbone of the planning program, is today in a state of disarray. The Army and, to a lesser extent, the Navy still use the process. The Air Force essentially discontinued its detailed planning in 1979.

However, problems also exist regarding selecting the right items for planning, and determing total requirements for these items. Consequently, there is no assurance that the most essential items are being planned or that the quantities planned for are correct.

Additionally, this process stopped short of assuring that all subtier contractors could supply the increased quantities. Since contractors were not paid for planning, little in-depth planning actually took place. The data provided generally was inadequate and unreliable, frequently being qualified by unrealistic assumptions and lacked important input from key subcontractors.

Contractors became discouraged and did not conduct detailed analyses because little, if any action was ever taken by the services to correct identified problems because of program funding constraints.

Lack Of High Level Commitment

Many of the problems identified have been known by DOD for years. It is not a question of knowing the problems, it is more one of priortizing. Given limited peacetime defense budgets, funds are first allocated to meet current operational needs. Accordingly, a lower priority and minimal funds are allocated to industrial preparedness planning.

Warning Time

The amount of advance warning the U.S. will have before conflict and the duration of such a conflict, are important factors in determining industry's contribution to a war effort. Short warning times mean a come-as-you-are war. Initial combat would have to be sustained from on hand stocks, since industry would not have had time to prepare for wartime production. Today, it is generally accepted that a long warning period, such as that preceeding World War II, cannot be expected. More importantly, even if such a warning time were available, would we recognize it and act on it?

Duration Of Conflict

It is easy for those that argue short violent wars to assume away the need for industrial preparedness planning. They argue

that the war will be won or lost with on hand stocks. They therefore conclude that there is little need to invest in a program that will take months or years to contribute.

This argument is not without merit as long as DOD has significant shortfalls in war reserve materiel. However, surge planning actions are primarily designed to enhance industrial responsiveness in a short-intense war and/or to preclude serious depletion of on hand stocks in a limited emergency. These actions are primarily designed to increase short term support by compressing and accelerating the ongoing production of weapon systems, and with some planning on long lead time items could prove a valuable resource even in a short war situation.

On the other hand, if one assumes a long protracted war, planning with the industrial base should encompass all actions needed to assure its ability to sustain the volume of war materiel needed for a total mobilization situation, such as World War II. However, the question still needs to be answered whether the U.S. can afford investing for full mobilization needs.

DOD INITIATIVES

DOD has proposed a number of industrial base planning initiatives to the services. The new administration has placed renewed emphasis on the industrial base and DOD is devising an action plan to improve the effectiveness of its program in general. Although we feel that the actions contemplated by DOD, such as multi-year contracting and "surge" initiatives are generally a step in the right direction, some concerns remain.

For instance, many of the initiatives currently being proposed are similar to these proposed by DOD during our last review 4 years ago. However, their implementation at that time was impaired by the low priority, funding, and lack of management attention afforded the program. While the increased emphasis on the program is encouraging, the ultimate success of the program will depend on funding commitments.

Another question is where the additional funding to support increased program emphasis will come from. The $50 million proposed funding seems rather small in relation to what needs to be done. For example, in March 1977, the Army estimated that in order to meet mobilization production requirements for ammunition alone, over $9.3 billion would have to be invested.

One of the major inadequacies of industrial preparedness planning today is that the link between on hand stocks and production response capability is missing. The services stopped using the D-Day 1/ to P-Day 2/ approach to planning when the current "D+6" mobilization guidance was introduced in July 1976.

Huge gaps exist between when DOD expects to run out of some stocks and when production is expected to supply wartime needs. It is our opinion that the "D to P" approach is essential to provide a balanced total system approach to planning, and that initiatives to revitalize the planning program should address this important aspect in order to be effective.

1/"D-Day" is the day on which military operations commence.

2/"P-Day" is the point in time when the rate of production for an item would equal combat consumption.

NEED FOR NATIONAL POLICY REGARDING INDUSTRIAL PREPAREDNESS

The uncertainty surrounding industry's role in a future conventional conflict and existing shortfalls in initial combat capability has prompted DOD to emphasize the initial combat capability. DOD has therefore continually given industrial preparedness planning a low priority and has provided limited funds.

Failure to adequately plan with industry to assure supply may impair the United States' ability to fight a conventional war. Should combat consumption be greater than expected or the war become prolonged, an unresponsive industrial base might limit U.S. defensive options to capitulation, or force the early use of nuclear weapons.

We believe that these issues are of vital national importance and that Congress, in coordination with the executive branch should, through the hearing process, establish a clearly defined and comprehensive national policy regarding industrial preparedness expectations. Once such a policy is established, a concomitant funding commitment is needed.

- - - - - - - - - - - - - - - - - - -

Mr. Chairman, this concludes my statement. I will be happy to answer any questions you might have.

AMERICAN DEFENSE PREPAREDNESS ASSOCIATION WHITE PAPER "DEFENSE READINESS--FORCE SUSTAINABILTY AND INDUSTRIAL PREPAREDNESS--WHY WE ARE CONCERNED", August 1980.

This report supports industry's view that the materiel readiness of our armed forces is deficient; that their sustainability in combat is questionable; and that the preparedness of the industrial base to support the armed forces in an emergency is inadequate. Also, that despite the apparent consensus of senior defense officials, industry is not aware of any effective government programs designed to improve the overall defense readiness posture.

In summary, the report concludes that there is no clear-cut national direction regarding defense materiel readiness and industrial preparedness. Also, that the Industrial Preparedness Program lacks the visibility and funding to make it viable.

Recommendations include that if the required and substantial increase in defense spending is not feasible, the Executive Branch and Congress should direct DOD to reorder its priorities to:

--finance current force materiel readiness and industrial base readiness as a first priority, and

--assign a lower priority to new weapons development and force modernization until the required readiness level is achieved.

REPORT OF THE DEFENSE SCIENCE BOARD 1980 SUMMER STUDY PANEL ON INDUSTRIAL RESPONSIVENESS, January 1981.

The principal finding of this task force was that since their last review of this area in November 1976 it had been given little effective attention by DOD and Congress. Also, that the ability of industry to respond to defense needs has deteriorated and costs continue to increase. Other findings include:

--instability in defense programs has often made defense business less attractive to industry than commercial work,

--many disincentives exist which discourage the capital investments needed to reduce costs, improve productivity and enhance industrial responsiveness.

The Board's recommendations include:

--increased use of multi-year procurement to stabilize production,

--integration of the acquisition and industrial preparedness planning process,

--OSD provision of more effective basic program guidance.

REPORT OF THE DEFENSE INDUSTRIAL BASE PANEL OF THE COMMITTEE ON ARMED SERVICES, HOUSE OF REPRESENTATIVES, 96th CONGRESS, 2nd SESSION, December 31, 1980.

This panel concluded that there has been a serious decline in the nation's defense industrial capability that endangers our national security. Also, that the combination of an erosion of industrial elements and an increasing dependence on foreign sources for critical materials endangers the foundation of our defense posture.

Major findings include:

--DOD does not have an on-going program or an adequate plan to address the defense industrial base preparedness issue,

--present DOD procurement procedures are disadvantageous to the government, and

--current tax and profit policies discourage capital investment in new technology which would be advantageous to the defense industrial base.

A number of legislative and non-legislative recommendations are made. They include:

--that the President establish within the Executive Office a point of authority to initiate action, and to direct and coordinate efforts relating to

APPENDIX I

the resolution of problems in productivity, quality, manpower, and critical materials affecting the defense industrial base,

--revision of existing restrictions concerning multi-year defense procurement contracts, and

--authorization of increased use of multi-year contracting and advance procurement.