

DEFENSE CONVERSION/TRANSITION AND THE INDUSTRIAL BASE:

REPORT OF THE 1993 AUSA/ADPA JOINT PANELS

Sponsored by the



ASSOCIATION OF THE UNITED STATES ARMY

AUSA - Institute of Land Warfare

2425 Wilson Boulevard

Arlington, VA 22201

(703) 841-4300

and

AMERICAN DEFENSE PREPAREDNESS ASSOCIATION

ADPA - "The Voice of the Industrial Base"

2101 Wilson Boulevard

Suite 400

Arlington, VA 22201

(703) 522-1820



April 1994

FOREWORD

The Association of the United States Army (AUSA) and the American Defense Preparedness Association (ADPA) sponsored a series of panels/conferences in 1993 to address some of the problems associated with maintaining an adequate defense industrial and technological base for the post-Cold War world. The panels were a follow-on effort to AUSA's 1991 Issue Conferences and the joint AUSA/ADPA Seminars in 1992 that examined the individual sectors of the civilian industrial base.

With the exception of the first panel, which covered the spectrum of defense conversion/transition issues, each panel was devoted to a specific topic -- acquisition reform, depot maintenance, and the conventional munitions base. Generally, panels were limited to a group of 20-30 in order to facilitate discussion and encourage interaction among the participants. The selection of participants and speakers was designed to provide a mix of senior government and industry representatives knowledgeable about the issues under discussion. The format for the panel meetings consisted of several presentations, followed by general discussion and questions.

The goal of AUSA and ADPA in sponsoring these sessions was to identify critical actions that need to be taken and to develop an approach to influence these actions. We strongly believe that the defense conversion/transition process is too important to our national security to be ignored or subjected to a laissez-faire approach.

This report on our joint panels provides a summary of the panel discussions, details the actions initiated, and identifies critical matters for consideration.



Jack N. Merritt
General, USA Ret.
President
Association of the
United States Army



Lawrence F. Skibbie
Lieutenant General, USA Ret.
President
American Defense
Preparedness Association

CONTENTS

FOREWORD..... i

SECTION I INTRODUCTION..... 1

SECTION II THE PANELS..... 3

 Defense Conversion/Transition Overview..... 3

 Acquisition Reform..... 7

 Depot Maintenance..... 10

 The Defense Munitions Base..... 13

SECTION III ACQUISITION REFORM WORKING GROUP..... 17

SECTION IV OBSERVATIONS AND CONCLUSIONS..... 19

APPENDICES..... 23

 A. Attendees, Defense Conversion/Transition Panel..... 23

 B. Attendees, Acquisition Reform Panel..... 24

 C. Attendees, Depot Maintenance Panel..... 25

 D. Attendees, Munitions Industrial Base Panel..... 26

 E. Members, Acquisition Reform Working Group..... 27

 F. Selected References..... 28

**DEFENSE CONVERSION/TRANSITION AND THE INDUSTRIAL BASE:
REPORT OF THE 1993 AUSA/ADPA JOINT PANELS**

SECTION I: INTRODUCTION

The overall purpose of the AUSA/ADPA effort was to develop approaches to address concerns about retention of critical production and technology development capabilities as the U.S. defense industry undergoes a drastic and painful downsizing. Both AUSA and ADPA have expressed strong reservations about the continuing decline of the industrial base. As AUSA President General Jack N. Merritt stated in testimony before the House Armed Services Committee Panel on Structure of the U.S. Defense Industrial Base in 1992, "The Association of the United States Army has concerns for the long-term viability of the industrial base to support the national security strategy of the United States." The continued downward trends in research, development, and procurement funding "could jeopardize the technological and industrial base capabilities that produced our overwhelmingly successful military forces in Desert Storm."

Domestic economic and political pressures and the desire for a "peace dividend" have resulted in a steadily declining defense budget. One of the consequences has been a precipitous drop in procurement funding. President Clinton's Fiscal Year 1995 Budget proposes defense procurement spending of \$43 billion, which is \$1 billion less than for the current year. In real terms, the Department of Defense (DoD) budget has declined more than 60 percent since 1985. The Army has seen its own research, development and acquisition funding plunge from a high of \$20.3 billion in 1987 to \$12 billion in Fiscal Year 1994. As a result of the defense budget reductions, experts believe that more than one million workers in the defense-related industrial arena will have been displaced by the time the defense conversion/transition process is completed.

In the National Defense Authorization Act of 1933 (P.L. 102-484), which added a new section to Title 10, USC, Congress demonstrated its concern about the effects of defense downsizing and clearly set forth the defense policy objectives for the nation's technological and industrial base.

Section 2501(a), Title 10, USC:

"It is the policy of Congress that the national technology and industrial base be capable of meeting the following national security objectives:

- (1) Supplying and equipping the force structure of the Armed Forces that is necessary to achieve:
 - A. the objectives set forth in the national security strategy report ...;
 - B. the policy guidance of the Secretary of Defense ...; and
 - C. the future years defense program submitted to Congress
- (2) Sustaining production, maintenance, repair, and logistics for military operations of various durations and intensities.

- (3) Maintaining advanced research and development activities to provide the Armed Forces with systems capable of ensuring technological superiority over potential adversaries.
- (4) Reconstituting within a reasonable period the capability to develop and produce supplies and equipment, including technologically advanced systems, in sufficient quantities to prepare fully for a war, national emergency, or mobilization of the Armed Forces before the commencement of that war, national emergency, or mobilization."

SECTION II: THE PANELS

Defense Conversion/Transition Overview -- June 18, 1993

The first panel was chaired by General (USA Ret.) Glenn Otis, an AUSA Senior Fellow. The speakers were Mr. Darrold Griffin, Army Materiel Command; Mr. George Krikorian, Defense Systems Management College; Mr. George Price, Sikorsky Helicopter; and Mr. Marty Suydam, BMY. (See Appendix A for list of panel participants.)

Background and Issues

This initial conference was devoted to defining the terms and parameters of defense conversion/transition, identifying the effects of reduced procurement budgets on the private sector of the industrial base, and developing the key issues that should be addressed by the follow-on panels.

There has been a subtle, but distinct, change in the real meaning of a "viable" industrial base. This change reflects the difference in perception between the types of base capabilities needed to meet the requirements of mobilization and the base capabilities needed for reconstitution requirements. It is not clear that the long-term implications of this changed perception is being fully considered in the defense conversion/transition process.

The roles of government arsenals, laboratories and depots as part of the industrial base need to be examined. The industry perception is that the government is protecting the depot workload at the expense of the private sector.

U.S. Army Materiel Command Viewpoints

The United States Army Materiel Command (AMC) is reshaping itself in order to become more efficient by consolidating maintenance support functions and eliminating nonessential in-house capabilities. AMC currently operates three arsenals, eight ammunition plants, eight test centers and 13 supply and maintenance depots. By 1997, the civilian and military workforce will have dropped 34 percent from the 1989 manning levels, and only five maintenance depots will still be operating.

AMC is attempting to change its working relationship with the private sector. The goal is to establish a more professional, cooperative relationship instead of the current arm's-length relationship with contractors. As part of its efforts, AMC is working to improve the Request For Proposal (RFP) process, encouraging cooperative research and development agreements, promoting partnership arrangements with private industry, and attempting to change the contract auditing relationship that exists today.

A major AMC initiative to maintain industrial base facilities is the Armament Retooling and Manufacturing Support (ARMS) program. This program is designed to allow private contractors to use government-owned facilities in exchange for the maintenance of the buildings and manufacturing equipment. The contractor may subcontract the facilities to others and use the existing government environmental permits. The potential benefits to the community

include saving or creating new jobs, increasing the tax base, and attracting new industry. The government is able to reduce operating costs and, at the same time, retain an operating facility for use in an emergency. The contractor has the opportunity to improve profits through the reduced operating cost of an existing facility.

Status of Industrial Base Sectors

In 1992, AMC, in conjunction with private industry representatives conducted a joint assessment of the major industrial base sectors. The assessment revealed that five of the 13 critical sectors were in serious trouble -- small missiles, tracked vehicles, aviation, chemical-biological, and ammunition. Of the five, the conventional ammunition sector was judged to be in the worst shape, because of its absolute dependence on the DoD market. In fact, as foreign military sales opportunities decline, the condition of the conventional ammunition sector is bound to worsen unless action is taken to preserve capabilities. In the tracked vehicle sector, the tank base will remain in acceptable condition through 1997 due to the upgrade of the M1A1 and projected sales to Southwest Asian allies. The aviation sector will find itself in jeopardy if Black Hawk production is terminated and the Comanche program is curtailed.

In general, industry representatives stated that the industrial sector assessment was overly optimistic. In their opinion, none of the industrial sectors are in a strong condition and most of them are moving towards the weak or lower-range acceptable category.

The "Section 800 Panel"

The DoD Advisory Panel on Streamlining and Codifying Acquisition Laws, the "Section 800 Panel," was established by the Defense Authorization Act for Fiscal Year 1991 (P.L. 101-510) and charged to review procurement laws "with a view towards streamlining the defense acquisition process." The panel reported that companies often avoid the DoD market or withdraw from it because of the associated costs and excessive regulatory burden. In fact, a survey of 206 companies doing business with DoD revealed that 86 percent of them segregate their commercial and DoD sales because of the unique accounting and contracting requirements, excessive oversight, and increased overhead costs associated with their DoD business.

The goals of the Section 800 Panel were to:

- o prepare a proposed code of acquisition laws;
- o identify acquisition laws that are unnecessary for the establishment of buyer and seller relationships;
- o ensure the continuing financial and ethical integrity of DoD procurement programs; and
- o protect the best interests of DoD.

The panel established 10 objectives to guide its review of acquisition laws.

- o Acquisition laws should cover broad policy and fundamental requirements. The detailed implementation of these policies should be covered in the acquisition regulations.
- o Acquisition laws should promote financial integrity in ways that are simple, not unduly burdensome, and encourage efficient procurement practices.
- o Acquisition laws should establish a balance between an efficient process, full and open access to the procurement system, and socio-economic policies.
- o Acquisition laws should facilitate the purchase of commercial products and services at commercial prices.
- o Acquisition laws should enable companies to integrate the production of both commercial and government products without altering their commercial accounting or business practices.
- o Acquisition laws should, without altering commercial accounting or business practices, facilitate government access to commercial technologies.
- o Acquisition laws should promote the development and preservation of an industrial base.
- o Acquisition laws should provide the means for fair resolution of procurement disputes through uniform interpretation of laws and implementing regulations.
- o Acquisition laws should encourage sound judgement on the part of acquisition personnel.
- o Acquisition laws should, when generating reporting requirements, permit the use of existing data without imposing additional administrative requirements.

The Section 800 Panel identified and examined more than 600 laws affecting the defense acquisition process, recommending the repeal of 124 laws and suggesting major amendments to 163. The panel recommended major changes affecting contract formation and administration, use of commercial items and practices, and the establishment of a higher, simplified acquisition threshold of \$100,000. Two of the most important recommendations with the greatest potential impact were:

- o **raising the simplified acquisition threshold to \$100,000.** Raising the threshold from \$25,000 to \$100,000 will affect approximately 54 percent of DoD's prime contracts. The \$100,000 threshold was successfully used during Desert Shield/Storm in order to facilitate overseas purchases of critical items.

- o **easing procurement of commercial and nondevelopmental items.**
Exempting commercial items from the provisions of the Truth in Negotiations Act (10 USC 2306a) would make it easier to purchase commercial items.

Helicopter Industry Concerns

While the overall size of the helicopter market is expected to remain at the same level over the next 10 years, the composition of the market has changed dramatically. The ratio of civil and international military sales to U.S. military sales has doubled. As a result, the viability of the rotary-wing industrial base will be increasingly dependent on the ability to compete in the international military and civilian markets.

The civilian market will not sustain the technologies needed for military aircraft systems. Military rotary-wing aircraft require unique and critical technologies to survive in the combat environment. If the dual-use concept is to succeed, there must be incentives to develop dual-use products. There should be some assurance that, in the future, DoD will consider aircraft designs that attempt to incorporate features and attributes that will be desirable for civilian use.

Current policy allocates most modification and upgrade work for new aircraft to government depots and limits private industry to work on older models. The change in market composition makes modification and after-sales work much more important to industry prime contractors.

Conversion and Dual-Use Implications

BMY made the decision early on to attempt the dual-use route in the defense conversion/transition process. But defense products and production facilities are not necessarily easily converted to civilian use. Despite the success of BMY's Ohio plant -- the ability to produce buses and tactical wheeled vehicles alternately, or at the same time -- there were still problems. Converting military five-ton trucks to civilian use was difficult because of the emission standards for civilian vehicles.

Allowing defense companies to merge or consolidate makes it easier to convert facilities and products to dual use. However, DoD must provide better support to companies attempting to consolidate. The current antitrust climate is too restrictive and does not take into account the special problems of many defense companies.

Matters for Consideration

The major issues of defense conversion/transition include determining the appropriate government role in support of international military sales and the consolidation of defense industries; developing and implementing policies to sustain critical sectors of private industry; determining critical core capabilities and the role of government depots in providing these capabilities; determining practical ways to support dual-use technologies and applications; and acquisition reform.

Not all companies are eager to do away with defense contracting rules and regulations. In fact, those companies that are very good at the defense contracting process are reluctant to see some of the less demanding commercial practices adopted.

The critical factors in a successful defense conversion effort are:

- o identification of critical and dual-use technologies;
- o national strategy to coordinate effort;
- o protection from political manipulation

It was agreed that follow-on panels should address acquisition reform and depot maintenance issues in more detail. Further, because of the extreme weakness of the munitions sector, there should also be a session devoted to munitions industrial base problems.

Acquisition Reform -- August 11, 1993

The panel on Acquisition Reform was chaired jointly by ADPA President Lt. Gen. (USA Ret.) Lawrence Skibbie and Lt. Gen. (USA Ret.) Richard West, Vice President for Education, AUSA. The panel participants are listed in Appendix B. The speakers were Mr. Ric Sylvester, Office of the Under Secretary of Defense for Acquisition; Ms. Cathy Garman, House Armed Services Committee; and Mr. Alan Chvotkin, Sundstrand Corporation.

Background and Issues

Acquisition reform is not a new idea. There have been a myriad of studies by special commissions, the Congress, the Defense Science Board, "think tanks" and universities confirming the shortcomings of the existing acquisition system. However, there seemed to be no real incentive to reform the system until the Berlin Wall collapsed in 1989.

The current defense drawdown and the corresponding decrease in the defense budget have given increased impetus to efforts to reform the defense acquisition process. There is a sense of purpose within the Department of Defense, Congress, and private industry that there is a need to streamline and consolidate the existing laws and regulations, which impose unnecessary restrictions and cumbersome procedures on the acquisition process.

The report of the DoD Advisory Panel on Streamlining and Codifying Acquisition Laws provides a real basis for implementing changes in the acquisition process.

Both the Carnegie Commission and the Defense Science Board have issued reports recommending radical revision of the current acquisition system. In 1989, the Defense Science Board issued a report on the Use of Commercial Components in Military Equipment that recommended the use of commercial specifications and standards for military procurement and the establishment of pilot programs to test the concept. The fact that one of the authors of the report is now the Secretary of Defense should give added impetus to the adoption of commercial practices. In 1991, the Defense Science Board Task Force on Acquisition Streamlining issued two reports examining the costs of

acquisition oversight and identifying barriers to implementing reforms. The task force concluded there was a significant cost associated with the existing acquisition system and that current acquisition laws and ingrained acquisition practices precluded the use of commercial acquisition practices.

In April 1993, the Defense Science Board was tasked to define the scope and method to implement necessary modifications of the defense acquisition process and specifically, to review the recommendations of the Section 800 Panel for both immediate and long-term actions. The task force generally concurred with the panel's findings and recommended that DoD implement the panel's recommendations by changing acquisition regulations, where possible, and that DoD support the proposed legislative changes.

DoD Acquisition Reform Actions

The current DoD acquisition system consists of a conglomeration of procurement rules and regulations that have evolved from a complex set of acquisition laws designed to protect the government's interests, establish competitive fairness, and further socio-economic objectives. DoD is committed to acquisition reform, because it believes the current system is outdated. William J. Perry, then Deputy Secretary of Defense, stated in an appearance before the Senate Armed Services Committee in 1993 that acquisition reform is an essential aspect of a successful defense conversion effort.

The establishment of the position of Deputy Under Secretary of Defense for Acquisition Reform is an indication of DoD's determination to reform the defense procurement process. That office will be responsible for all matters pertaining to acquisition reform and will be charged to reform these acquisition system's organizational and management structures which are no longer relevant in today's defense environment.

DoD recognizes that the body of acquisition regulations and laws are obstacles to the integration of the commercial and defense industrial bases as they hinder the use of normal commercial practices and commercial products. However, DoD initiatives to implement 800 Panel recommendations have been hampered by the requirement to coordinate their actions with the large number of agencies involved in the Clinton administration's defense conversion process.

Congressional Actions

The primary difficulty in passing meaningful legislation affecting acquisition reform is the large number of congressional committees with jurisdiction or interests in different areas of DoD acquisition practices. There are 107 committees and subcommittees in Congress that exercise some degree of oversight on defense acquisition. Many of these are involved in the so-called socio-economic aspects of acquisition.

During the past year, the House Armed Services Committee was able to make only minor and noncontroversial changes in acquisition law in the Fiscal Year 1994 Defense Authorization Bill. This was due in part to the reluctance of other committees to waive "referral," which is the process by which legislation is referred to committees having jurisdiction over matters affected by the proposed legislation.

Most of the substantive legislative efforts on acquisition reform have taken place in the Senate. Senators Jeff Bingaman (D-NM) and Carl Levin (D-MI) are sponsoring a bill to streamline federal acquisition practices, which is expected to be introduced in October 1993. This bill is a joint product of the Senate Government Operations and Armed Services Committees.

The Industry View of the "Section 800 Panel" Recommendations

While private industry views the recommendations of the Section 800 Panel favorably, it does not regard them as the total solution, as the panel was not chartered to examine the acquisition structure and procurement regulations. Industry believes that in the area of commercial practices, the panel did not go far enough. The recommended changes do not preclude the establishment of government-unique regulations for commercial acquisitions and do not exempt commercial procurements from such overly burdensome statutory requirements as the Buy America Act and the Truth in Negotiations Act.

The industry position is that the competitiveness of the commercial market provides an adequate protection of the government's interests. There is no justification to establish uniform terms and conditions that would inevitably be amplified by regulations that are contrary to standard commercial practices.

The Truth in Negotiations Act is considered by many to be the biggest obstacle to the procurement of commercial products. Most private companies do not have the resources to establish the accounting systems to provide the data required by government regulations. The Buy America Act, which requires that 50 percent of the cost of the components of an item be produced in the United States, is an anachronism for a company competing in today's world economic.

Industry is also concerned about the question of technical data rights. It contends that contractors should not be required to give up these rights to the government as a matter of course, but that they should be the subject of contract negotiations.

Industry associations support a package called "800 Plus." The package includes a more comprehensive commercial practices section; a modified simplified acquisition threshold; regulatory reform; and reform of the military standards and specifications process.

Matters for Consideration

It is clear that the pace of acquisition reform is much slower than expected, despite the overwhelming consensus among all parties about the need for improvements in the acquisition process.

The panel believes that it is important to expedite the acquisition reform process and decided to form a special working group, under the auspices of AUSA and ADPA, to develop strategies for energizing acquisition reform efforts.

It was agreed that the working group would hold an initial meeting within two weeks to establish goals and objectives. The activities of the Acquisition Reform Working Group are covered in Section III of this report. The members of the working group are listed in Appendix E.

Depot Maintenance -- October 8, 1983

The Depot Maintenance Panel was chaired jointly by Lt. Gen. (USA Ret.) Richard West, AUSA's Vice President for Education and Lt. Gen. (USA Ret.) Lawrence Skibbie, President of ADPA. The panel consisted of representatives from the Department of Defense, Army Materiel Command, and the House Armed Services Committee. (See Appendix C.) The speakers were Lt. Gen. Leo Pigaty, Deputy Commander, Army Materiel Command; Mr. John Gilbride, Boeing Helicopter Company; and Mr. Bill Mogan, Talley Defense Systems.

Background and Issues

Government arsenals, depots, and plants have played important roles in developing and maintaining weapons, munitions and other equipment for the the services since 1777, when the Springfield Armory was established in Massachusetts to support the Continental Army. However, over the past 50 years private defense industries have become the major developers and producers of advanced weapons systems and munitions, and the need to maintain government facilities has declined. As an example, the Army operated more than 220 ammunition plants, arsenals, and maintenance depots at the end of World War II. Today, this number has dropped to just three arsenals, seven maintenance depots, and eight ammunition plants. By the end of 1997, there will be only five operating maintenance depots.

The reduction in defense spending for research, development and acquisition has led to increased pressures from private industries to reduce the number of government-operated depots, laboratories and plants and to limit the maintenance workload levels at depots. Private industry representatives argue that it is more sensible to adopt policies that would preserve the full-service capabilities existing in the private sector instead of protecting government facilities with limited capabilities. The services, on the other hand, believe that it is necessary to retain a responsive core depot-level maintenance capability in order to meet emergency operational requirements and, at the same time, serve as a means of cost control.

The Fiscal Year 1994 Defense Budget contained approximately \$13 billion for depot-level maintenance, of which \$11 billion was allocated for Air Force and Navy maintenance activities. An additional \$9 billion was authorized for equipment upgrade work. Most of this amount goes to government depots. Under the current provisions of law (10 USC 2466), DoD is prohibited from contracting out more than 40 percent of government depot workloads to the private sector.

Maintenance depots perform overhaul and rebuild, modifications, conversions and upgrades to extend service life of systems. Although some depot work is too specialized or too low in volume to be performed economically in the private sector, the prevailing industry view is that government facilities are retaining more than a reasonable share of the maintenance workload in a time of general defense downsizing.

The 1993 Joint Chiefs of Staff's "Depot Maintenance Consolidation Study" concluded that existing DoD depot capacity exceeds future requirements by 25 percent to 50 percent and that there is a need to streamline and consolidate the existing depot system. The study further recommended that all depot level maintenance activities be consolidated under a single authority. The study, in commenting on the future course for government depots, observed that "we recognize that full contracting out of depot maintenance functions to commercial industry is also a long term possibility." It also recognized that there would be a possible economic impact if this course of action was adopted: "With the elimination of organic depot capability, there is a distinct probability that the commercialization process would become a sole source environment with potentially higher costs."

DoD has attempted to initiate pilot procurement programs that would give long-term major maintenance responsibilities to private industry instead of to government facilities. However, there has been stiff resistance from the congressional "Depot Caucus." (A provision in the Fiscal Year 1994 Defense Authorization Bill [H.R. 2401] prohibiting any long-term shifts of maintenance responsibility to private industry was changed to a "sense of Congress," which does not have the effect of law, during the House/Senate conference.)

The AMC Perspective

The basic underpinning of the Army Depot System is the Arsenal Act [10 USC Section 4132(a)], which has not changed since it was enacted in 1920. The act provides that "the Secretary of the Army shall have supplies needed for the Department of Army made in factories or arsenals owned by the United States, so far as these factories or arsenals can make those supplies on an economical basis."

Despite the misgivings of private industry that government depot facilities are being protected at their expense, AMC has undergone a substantial downsizing. The civilian and military workforce has been reduced by 33 percent and 43 percent, respectively, over the past four years. By the end of 1997, when the 1993 Base Realignment and Closure Commission recommendations have been implemented, the Army Depot System will have only five maintenance depots and eight ammunition plants in operation.

The Army considers the emergency response capability provided by its depots to be a key factor in determining their eventual role. During the Gulf War, nearly 1,000 personnel from the various depots were sent to Saudi Arabia to establish forward depot facilities. The depots also provided assistance teams to units preparing to deploy and provided quick response equipment modification packets for units already deployed. Depots also provided emergency response teams for natural disasters. Supply assistance teams, along with water purification and power generator equipment and operators, were dispatched to states during Hurricane Andrew and the "Great Flood of 1993."

Generally, the Army contends that its depots are vital to meet operational requirements because of their emergency response capabilities. Government depots can increase output or change priorities without contractual problems and they are a guaranteed source of work when the private sector is not interested.

The solution for the future may be one in which industry and the depots team to do the type of work best suited to their capabilities. Some successful examples of this approach are the M1 modernization program, in which General Dynamics teamed with Anniston Army Depot and the M109A6 (Paladin) modernization, which was performed by Letterkenny Army Depot and FMC. In both instances, each performed the tasks for which they were best suited.

Industry Perspectives

Many private companies view depot maintenance and rebuild activities as an alternative opportunity to sustain their own production and research capabilities at a time when military procurement is severely limited. They believe that shifting more of the maintenance workload to private industry is the best way to preserve the industrial base. Major defense contractors have development, design and production capabilities, which are normally not present in depot facilities. Limited production contracts make it difficult for industry to economically justify the retention of sophisticated research and test facilities unless there is a substantial amount of rebuild or upgrade work available to offset expenses.

Industry representatives believe that government facilities are taking work away from the private sector, especially when depots compete with private industry for maintenance work. In their opinion, public vs. private competitions are skewed in favor of the public facilities because they use different cost accounting factors.

Congressional Concerns

The congressional Depot Caucus has consistently supported the military depot maintenance system and is extremely skeptical about DoD's attempt to divert work to the private sector. In previous years, they have successfully placed provisions in the defense authorization bill establishing workload levels for government depots and limiting allocation of work to private industry by prohibiting the transfer of more than 40 percent of the maintenance workload to the private sector. The Depot Caucus believes that the 60/40 split is about right for the present time.

In 1993, the Depot Caucus was instrumental in including provisions in the Fiscal Year 1994 Defense Authorization Bill (H.R. 2401) prohibiting the Secretary of Defense from consolidating the depot system under a single entity; implementing a new procurement policy giving long-term, major maintenance responsibility to private industry; and establishing a Defense Depot Task Force. (The first two provisions were modified during the House/Senate conference.)

The Defense Depot Task Force is to determine which functions and activities should be performed by government facilities and which would best be performed by the private sector. As part of its evaluation the task force will also examine performance levels, work rates and prices, and how core capabilities and requirements are determined.

Base Realignment and Closure Commission

DoD has already closed or reduced the size of about 30 percent of its facilities as the result of recommendations from the previous commissions. However, there were many indications that members of the 1993 commission were receptive to the argument that diverting work to private industry by closing government facilities would be a viable approach to maintaining the private sector industrial base.

Matters for Consideration

The services must realistically determine the minimum required core capabilities and workload levels needed to meet emergency requirements. At the same time, they must consider what types of work would best be performed by private industry and how to preserve critical civilian industrial base capabilities. In the absence of a realistic determination, the 1995 Base Realignment and Closure Commission is almost certain to consider depot facilities as candidates for closure even if they are not included in the Secretary of Defense's list of bases recommended for closure.

The Defense Depot Task Force, which is charged to determine how maintenance functions should be allocated between government facilities and private industry, will be faced with an extremely difficult task. If the Depot Caucus is not convinced that the recommendations of the task force are sound, then little will be accomplished.

The Defense Munitions Base -- December 10, 1993

The panel was chaired by Lt. Gen. (USA Ret.) Lawrence Skibbie, President of ADPA, and was comprised of representatives from OSD, Department of Army, Army Materiel Command, and the major private companies in the ammunition sector. (See Appendix D for list of attendees.) The speakers were Mr. Richard Palaschak, Director of the Munitions Industrial Base Task Force; Brigadier General William Holmes, Deputy Chief of Staff for Ammunition;; and Mr. George Kopschak, Deputy Director, Office of the Under Secretary of Defense for Acquisition and Technology.

Background and Issues

The conventional munitions base, which is totally dependent on DoD, is one of the industrial base sectors most seriously threatened by the defense drawdown. The conventional ammunition base consists of government owned and operated (GOGO), government owned and contractor operated (GOCO), and privately owned and operated (COCO) plants. It includes production and research facilities for electronic fuzes and advanced warheads, but excludes torpedoes and missiles.

The DoD ammunition procurement budget for Fiscal Year 1994 is \$1.9 billion, which is approximately 22 percent of the Fiscal Year 1988 amount. Since 1988, the Army ammunition procurement budget has declined from \$2.3 billion to \$.734 billion, with the largest decreases falling in the categories of war reserves and training ammunition. There is no relief in sight, as the outlook for the next three years is for continuing decreases in ammunition procurement.

The combination of decreased ammunition procurement and limited opportunities for foreign military sales has seriously damaged the economic viability of private sector ammunition producers. Major members of the ammunition industry are dropping out, companies have released 30-50 per cent of their ammunition workers, and many small contractors who provided propellants, shell casings, bomb lugs, etc., are leaving the business, forcing ammunition producers to find new suppliers or develop their own capabilities.

Munitions Industrial Base Task Force

In an effort to counter the damaging trends in ammunition procurement, many of the companies making up the munitions industrial base joined together to establish the Munitions Industrial Base Task Force. The Task Force, operating as a nonprofit organization, is charged with the responsibility of making the case for maintaining the capabilities for ammunition surge production and supporting a continuing conventional ammunition research and development effort. The fact that competitors have joined together in this effort is an indication of the seriousness of the situation in the eyes of the industry.

The Loss of Surge Capability

In the opinion of many of the private sector members of the munitions industrial base, it is highly unlikely that the existing industrial base of today could provide the same degree of support as it did to meet Operation Desert Storm requirements. In fact, it is questionable as to whether the industrial base could provide the amounts and types of conventional ammunition needed to support one, let alone two, nearly simultaneous contingency operations.

During Desert Storm the munitions industry could not meet the demands for 25mm ammunition for the Bradley, 30mm for helicopters and fighter aircraft, fuzes, and mines. Currently, it is estimated that Desert Storm demand levels for most munitions could not be met in six months and many critical ammunition items would require as much as 12 months' lead time.

War Reserves and the Ammunition Stockpile

As a result of the drawdown of our forces in Europe, ammunition stockpiled there has either been returned to the states or transferred to foreign governments. Currently, there are approximately three million short tons of ammunition in our stockpile. However, much of this is older, or outmoded, ammunition. It is estimated that only 323,000 short tons are the "go-to-war" munitions of choice.

Our ammunition procurement policy has also changed. It is no longer based on mobilization requirements, but is one of buys to replenish stocks as they are consumed. However, ammunition consumption has dropped because of lower operating tempo levels, which are, in part, a result of budget shortfalls caused by unprogrammed peacekeeping expenses.

Foreign Military Sales and Industry Consolidation

Ammunition producers believe that DoD has been one of their biggest competitors in the foreign military sales arena. It has disposed of excess ammunition either at "fire sale" prices or as outright gifts to foreign governments, which deprives the ammunition industry of potential customers. While these actions provide a short-term, immediate benefit to the government, they do long-term damage to the munitions industrial base. Industry executives contend that they are further hampered in competing in the foreign military markets by legal constraints that do not affect other countries.

Industry officials believe that there must be some consolidation if the munitions base is to remain viable. However, there is little, if any, support from DoD when companies attempt to consolidate. As an example, a planned merger of Olin and Alliant was disapproved by the Federal Trade Commission. The disapproval was attributed, in part, to a lack of effective support from DoD for the merger of the two companies.

Matters for Consideration

The Munitions Industrial Base Task Force believes that there are some acceptable options that DoD could pursue to help stabilize the production base. These options include establishing a program to inventory and examine the condition of munitions in the stockpile; adopting a demilitarization program for older munitions instead of selling or giving it to other countries; and establishing a revolving fund to finance foreign military sales.

The task force requested the assistance of ADPA and AUSA in publicizing the problems facing the munitions base and the impact on go-to-war readiness. AUSA and ADPA agreed to help in this effort and developed a joint action plan that includes:

- o arranging for munitions base speakers at association functions;
- o publication of articles on munitions base issues in their respective journals;
- o supporting a congressional lobbying effort;
- o providing witnesses for congressional hearings; and
- o proposing solutions to the problems of the munitions to senior DoD officials.

SECTION III: ACQUISITION REFORM WORKING GROUP

The AUSA/ADPA Acquisition Reform Working Group met for the first time in August 1993 to develop a working strategy and an implementation plan. The members of the working group are listed in Appendix E.

The group agreed that the overall objective of acquisition reform should be radical change of the defense acquisition system that would:

- o eliminate or reduce the estimated 25-50 percent cost penalties associated with existing defense procurement practices;
- o remove the impediments and barriers to achieving an integrated civilian/military industrial base;
- o ensure access to military and civilian technological advances;
- o maintain viable civilian manufacturing capabilities and critical skills to meet the national security requirements in the future;
- o promote national economic security and competition in the post-Cold War environment.

Three major priorities were identified for acquisition reform efforts -- the establishment of a simplified acquisition threshold of \$100,000, the establishment of a sound commercial items procurement process, and the resolution of the technical data rights question. Substantive changes in these three areas could do much for the accomplishment of the reform objectives listed above.

In order to accomplish these objectives, DoD must actively support the Section 800 Panel's recommendation and, as much as possible, use its existing authority to make changes in the acquisition regulations. At the same time, Congress must be encouraged to move aggressively on a bill to enact major acquisition reforms. Finally, private industry, both large and small, must present a united front and support the recommendations of the Section 800 Panel.

The working group met twice in September 1993 to develop special briefing packets for industry and government officials. The packets, "Industry and Acquisition Reform" and "Defense Acquisition Reform: The Post Cold War Imperative," were designed to present the case for acquisition reform from the industry and DoD perspectives. As part of the effort to provide information on acquisition reform issues and concerns, AUSA issued an AUSA Background Brief, "Acquisition Reform," in October 1993. (NOTE: Copies of this background brief may be obtained from AUSA.)

In 1994, as Congress considers acquisition reform legislation, ADPA, AUSA and industry association representatives will initiate a comprehensive effort to gain support for meaningful reform measures, especially in the priority areas of a simplified acquisition threshold and commercialization. The effort will be specifically directed toward key congressional players and their staffs, industry executives and DoD officials. The plan is to stress the importance of acquisition reform to DoD, private industry and the country. Industry representatives will also attempt to enlist small business and Section 8(a) business in support of reform initiatives.

SECTION IV: OBSERVATIONS AND CONCLUSIONS

The current pressure to downsize the Department of Defense and the lack of a managed approach to protect essential industrial base capacities is almost certain to ensure that the "Arsenal of Democracy," as we know it, will no longer exist. Both AUSA and ADPA believe that there must be a plan to manage the defense conversion/transition process in order to retain a viable, balanced, private sector and government industrial base capability to meet the nation's defense needs in the post-Cold War world. In the absence of such a plan, much of the private industrial sector capability may simply disappear as a function of economic pressures.

Acquisition Reform

There have been six major studies examining the management of the department in the 46 years of its existence. The most recent was the President's Commission on Defense Management, known as the Packard Commission. The commission, in its 1986 report, concluded that "defense acquisition today is impossibly cumbersome."

Despite the general acceptance and acknowledgement of the conditions cited in the Packard Commission report, there has been no concerted effort to implement any of the proposals. Eight years later, after several reports by the Defense Science Board and the detailed recommendations of the DoD Advisory Panel on Streamlining and Codifying Acquisition Laws, there has been very little real progress.

The prospects for rapid congressional action on real acquisition reform are not particularly promising. The Federal Acquisition Streamlining Act of 1993 (S.1587), which was introduced in October 1993, lost some of its bipartisan support when it was modified to eliminate provisions opposed by labor and small business interests. In its present form, the bill does not make substantive changes in government auditing and oversight practices and does not make it much easier to adopt commercial purchasing practices. It is not clear at this time whether the House will introduce its own bill or adopt the Senate version. The eventual approach may be to fold acquisition reform into the defense authorization bill. If this occurs, comprehensive changes in existing laws will be more difficult. It will require a concerted effort by DoD and private industry to secure meaningful reform.

In the report on the Bottom-Up Review, the defense acquisition system is described as outdated and an obstacle to the integration of the defense and civilian industrial bases. DoD has established short-term priorities, which include:

- o simplifying acquisition of items under \$100,000;
- o removing impediments to purchase of commercial items and services;
- o developing pilot programs;
- o restricting the use of military standards, except when required; and
- o simplifying outdated and unnecessary acquisition statutes.

Defense Industry Consolidation

Many companies in the defense industrial base see consolidations and mergers as the best available option to maintain a strong industrial base during a period of general defense downsizing. Unfortunately, antitrust actions by the Justice Department and the Federal Trade Commission are stumbling blocks that are preventing merges and acquisitions in the defense industry. Lt. Gen. (USA Ret.) Lawrence Skibbie, President of the American Defense Preparedness Association, stated in the February 1994 issue of National Defense News, stated that DoD needs to play a bigger role in this process and support industry reorganizations that will strengthen the defense industrial base. It is inconceivable that during the severe drawdown the defense industrial base is experiencing, routine antitrust considerations are still being applied to defense industries seeking to merge and consolidate.

The Depot Maintenance Problem

The determination of required depot capabilities and the proper allocation of workloads between government depots and private industry facilities will be the most challenging issue facing the Defense Depot Task Force. Clearly, both government and private industry capabilities are needed. The ultimate solution may be to determine the type of work each does best and then allocate workloads according to this determination.

The Secretary of Defense is inclined to favor an approach that would reduce the role of government depots, and it appears that the Navy will not oppose this course of action. In January 1994, Vice Admiral William Bowes, Naval Air Systems Command, announced that the Navy was considering shifting more of its aircraft maintenance workload to private industry and reducing the aviation depot structure. Of course, this cannot be done unless Congress removes the present restrictions, which limit private industry to 40 percent of the depot maintenance workload.

The Defense Depot Task Force was not organized until January 1994. This leaves slightly more than two months for the task force to complete its work and issue a report. There are indications that members of the Depot Caucus are concerned that DoD will use the task force as the vehicle to promulgate its own views on the allocation of maintenance work between government and private industry. In any event, it is unlikely that the Depot Caucus will support changes to the existing 60/40 percent split, unless they are convinced that a reduced workload for government depots is justified.

The Munitions Industrial Base

A viable munitions industrial base is essential to meet our national security requirements. However, reductions in ammunition budgets have weakened the munitions base to the point where we would be significantly short of most critical munitions after a very short period of combat and would not have a surge capability to meet requirements for prolonged contingency operations.

If the private munitions base were allowed to collapse, we could eventually be forced to establish some form of nationalized munitions production capability. The cost to do so, coupled with the loss of critical

skills, technological development capabilities and surge production capabilities, would far outweigh the cost to sustain the existing base. One simply cannot go to war without ammunition.

Final Thoughts

Defense drawdowns are not a new experience. We went through them after World War I, World War II, Korea, and to a limited extent, after Vietnam. However, despite good intentions, we have never done it very well and there have been many mistakes and miscalculations. Unfortunately, the armed forces have often paid in blood for these mistakes. If the United States is to maintain its position as a world power, we must maintain a viable defense industrial base to sustain our national defense strategy in this uncertain world.

ATTENDEES

AUSA/ADPA
DEFENSE CONVERSION/TRANSITION PANEL
18 June 1993

SPEAKERS

Mr. Darold Griffin	Prin Deputy (Acquisition), AMC
Mr. Marty Suydam	VP Business Development, BMY
Mr. George Krikorian	ADPA Chair, Def Sys Management College
Mr. George Price	Dir Adv Res, Sikorsky Aircraft
Mr. Pete Scrivner	VP Legislative Affairs, ADPA

PARTICIPANTS

Mr. James Armour	President, AM Gen
Mr. Paul Goncz	Dir Washington Operations, AM General
Dr. Robert Beckstead	NDU (ICAF)
Mr. Al Ferzacca	Dir Army Programs, Martin Marietta
Mr. Frank Gicca	President, GTE
Dr. John Johns	Dean of Academic Affairs, NDU (ICAF)
Mr. Robert Keltz	Prin Deputy (Log), AMC
Col. Bill Larsen	AWC
Col. John Mountcastle	Dir Strategic Studies Institute, AWC
Mr. Glenn Wever	Dir Army Programs, Hughes Aircraft Co
Lt. Gen. (Ret.) Donald M. Babers	President, Cypress International Inc.
Dr. Robert Sasmor	Adv. Research Project Agency
Mr. George Riedel	VP Gov't Relations, ITT Defense
Mr. Eugene Davidson	Washington Rep, Armtech
Col. Thomas Vollrath	RADA
Mr. Tom Whittaker	VP Washington Opns, Alliant Techsystems

AUSA

Lt. Gen. (Ret.) Richard L. West	Managing Director, ILW
Lt. Gen. (Ret.) Richard G. Trefry	Senior Fellow
Maj. Gen. (Ret.) Edward B. Atkeson	Senior Fellow
Gen. (Ret.) John W. Foss	Senior Fellow
Gen. (Ret.) Glenn K. Otis	Senior Fellow
Mr. Joseph P. Hollis	Dir, Industry Affairs
Col. (Ret.) James D. Blundell	Dir, Programs, ILW
Mr. Austin E. (Bud) Miller	Research Fellow

ADPA

Lt. Gen. (Ret.) Lawrence F. Skibbie	President, ADPA
-------------------------------------	-----------------

ATTENDEES

AUSA/ADPA
 ACQUISITION REFORM PANEL
 August 11, 1993

SPEAKERS

Mr. Ric Sylvester	OUSD for Acquisition Reform
Ms. Cathy Garman	House Armed Services Committee
Mr. Alan Chvotkin	Sundstrand Corporation

PARTICIPANTS

Ms. Judy Morehouse	Boeing Company
Mr. Bob Spreng	3 M Company
Mr. Robert Goff	3 M Company
Mr. Bob Gantt	Vitro Corporation
Mr. Marty Suydam	BMY
Mr. Robert Hoefke	Harris Corporation
Mr. Wayne Tingle	Loral Vought
Mr. Calvin Coolidge	Texas Instruments
Ms. Meredith Murphy	Northrop Corporation
Lt. Gen. (Ret.) Donald Babers	Cypress International
Mr. George Krikorian	Defense Systems Management College
Dr. John Johns	ICAF
Dr. Robert Beckstead	ICAF
Mr. Ron Mlinarchik	Army Acquisition Office

AUSA

Lt. Gen. (Ret.) Richard L. West	Managing Director, ILW
Gen. (Ret.) Glen Otis	
Gen. (Ret.) Maxwell Thurman	
Gen. (Ret.) Louis Wagner	
Mr. Austin E. (Bud) Miller	

ADPA

Lt. Gen. (Ret.) Lawrence F. Skibbie	President
Maj. Gen. (Ret.) William Eicher	
Mr. Peter Scrivner	
Mr. Bob Williams	

ATTENDEES

AUSA/ADPA
 DEPOT MAINTENANCE PANEL
 October 8, 1993

SPEAKERS

Lt. Gen. Leo Pigaty	Deputy Commander, U.S. AMC
Mr. John Gilbride	Dir, Boeing Co
Mr. William Mogan	VP, Mktg, Talley Defense Systems

PARTICIPANTS

Mr. Paul Goncz	AM General
Dr. Robert Beckstead	NDU (ICAF)
Mr. Richard Clemens	BMV-Combat Systems
Gen. (Ret.) William Tuttle, Jr.	Logistics Management Institute
Mr. Robert Keltz	AMC
Representative Glen Browder	U.S. House of Representatives
Mr. Victor Stern	Sikorsky
Mr. Gerald Lethcoe	Textron Lycoming
Mr. Cork Colburn	General Dynamics Land Systems
Mr. Marty Suydam	BMV
Mr. Herman Brooks	Dyncorp
Mr. Joel Marsh	United Technologies
Mr. Ronald Smith	Grumman
Mr. Steven Hammer	FMC
Mr. Marc Jartman	UNC

AUSA

Lt. Gen. (Ret.) Richard L. West	Managing Director, ILW
Gen. (Ret.) Frederick Kroesen	
Lt. Gen. (Ret.) Richard Trefry	
Mr. Austin E. (Bud) Miller	
Mr. Joseph P. Hollis	

ADPA

Lt. Gen. (Ret.) Lawrence F. Skibbie	President
-------------------------------------	-----------

AUSA/ADPA
ACQUISITION REFORM WORKING GROUP

CO-Chairmen

Lt. Gen. (Ret.) Lawrence F. Skibbie	President, ADPA
Lt. Gen. (Ret.) Richard L. West	VP, AUSA
Gen. (Ret.) Maxwell Thurman	AUSA
Gen. (Ret.) Louis Wagner	AUSA
Mr. Austin (Bud) Miller	AUSA
Mr. Alan Chvotkin	Sunstrand
Mr. Donald Campbell	Centech
Ms. Judy Morehouse	Boeing Co.
Ms. Meredith Murphy	Northrop
Mr. Peter Scrivner	ADPA
Mr. Ron Mlinarchik	Army Acquisition Office
Mr. George Krikorian	DSMC
Mr. Jim Brown	DSMC
Mr. Art Rossi	Vitro
Mr. Gene Steadman	Celanese
Mr. Larry McCredy	ADPA

ATTENDEES

AUSA/ADPA
MUNITIONS BASE PANEL
December 10, 1993

SPEAKERS

Mr. Toby Warson	President, Alliant
Brig. Gen. William Holmes	DCS for Ammunition
Mr. Rich Palaschak	Munitions Industrial Base Task Force

PARTICIPANTS

Mr. Angelo Catani	Olin
Mr. Bill Mogan	Talley
Col. Roger Brown	Office, Dep. Chief of Staff Opns
Mr. George Kopcsak	OSD, Tactical Warfare Programs
Mr. Jack Apperson	Day & Zimmermann
Mr. Mert Townsend	Chamberlain

AUSA

Lt. Gen. (Ret.) Richard Trefry
Mr. Austin E. (Bud) Miller

ADPA

Lt. Gen. (Ret.) Lawrence F. Skibbie
Maj. Gen. (Ret.) William Eicher
Mr. Harry Bailey

SELECTED REFERENCES

U.S. Congress House National Defense Authorization Act for Fiscal Year 1993, H. Report 102-966 to Accompany H.R. 5006, 102nd Cong., 2nd sess., 1992.

U.S. Congress House National Defense Authorization Act for Fiscal Year 1994, H. Report 103-357 to Accompany H.R. 2401, 103d Cong., 1st sess., 1993.

U.S. Department of Defense, Report of the Bottom-Up Review, 1993.

U.S. Department of Defense, Defense Systems Management College, Streamlining Defense Acquisition Laws: Report of the DoD Acquisition Law Advisory Panel, Washington D.C.: Government Printing Office, 1993.

U.S. Department of Defense, Office of the Under Secretary of Defense for Acquisition, Defense Acquisition Reform: Report of the Defense Science Board Task Force, Washington D.C.: 1993.

Blackwell, James. Forecast for the U.S. Munitions Industrial Base. Washington D.C.: Strategic Assessment Center, Science Applications International Corporation, 1993.

Carter, Ashton B. and Perry, William J. New Thinking and American Defense Technology. New York: Carnegie Commission on Science and Technology, 1993.

Dickson, Brian and Sullivan, Leonard. A Comparative Assessment of the Defense and Commercial Sectors. Washington D.C.: The Analytical Sciences Corporation, 1993.

Pages, Erik R. Weathering the Defense Transition: A Business Based Approach to Conversion. Washington D.C.: Business Executives for National Security, 1992.

Pages, Erik R. Next Steps in Business Conversion: Supporting Innovation and Entrepreneurship. Washington D.C.: Business Executives for National Security, 1993.

Conver, Stephen K. "Defense Industrial Base: Shaping the Downsizing," Armed Forces Journal International, March 1993, p. 48.

Skibbie, Lawrence F. "Cutting Antitrust Chill Requires Aggressive Pentagon Leadership," National Defense, February 1994, p. 2.

Warson, Toby G. "Ammo Execs Jawbone for Vital Sector Survival", National Defense, November 1993, p. 22.

Williams, Robert H. "Dr. Perry Urges Radical Surgery for Acquisition," National Defense, February 1994, p. 11.