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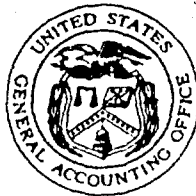
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September 1992

OPERATION DESERT STORM

No Evidence That Foreign Suppliers Refused to Support War Effort



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-248780

September 2, 1992

The Honorable Jeff Bingaman
Chairman, Subcommittee on Technology
and National Security
Joint Economic Committee
U.S. Congress

The Honorable Barbara Boxer
House of Representatives

As you requested, we have reviewed available information relating to allegations¹ reported in the media that foreign suppliers did not fully cooperate in supplying items needed by the U.S. industry to support the Persian Gulf War effort. The media reported allegations that during the Persian Gulf crisis (1) foreign suppliers said they could not delay work on their commercial contracts and, therefore, refused to expedite their efforts to supply U.S. defense contractors with parts and components urgently needed for the war effort and (2) the U.S. government had to go "hat in hand" to foreign governments on nearly 30 cases and ask for their assistance in expediting delivery of the urgently needed parts and components from foreign suppliers.

Our objectives were to (1) assess the validity of these allegations and (2) identify whether the Department of Defense (DOD) had a policy encouraging the establishment of alternative domestic sources for the production of parts and components for which the United States must now depend on foreign suppliers.

Results in Brief

In spite of our extensive efforts, we found no evidence to substantiate the allegations reported in the media concerning foreign suppliers' refusal to expedite deliveries of parts and components needed for the Gulf War effort.

During the Gulf crisis the Department of Commerce, as the agency responsible for administering the system for expediting deliveries of defense related orders, received five requests from defense contractors located in the United States (hereafter referred to as U.S. contractors) asking for assistance in expediting deliveries from foreign suppliers. Our

¹"U.S. Relied on Foreign-Made Parts for Weapons," *Washington Post*, Mar. 25, 1991; "Japan Firms Reportedly Stalled U.S. War Supplies," *San Francisco Chronicle*, Apr. 30, 1991; "Japan Delays Supplies to Gulf War: The U.S. Responsibility," *SAM TRADE*, June/July 1991.

review of government and contractor records and our interviews with the government officials and representatives of the contractors indicated that the foreign suppliers involved in these five cases cooperated in an expeditious manner.

Federal agency records show that the U.S. government contacted foreign governments to expedite orders of parts needed in the Persian Gulf for two of these five cases. The Department of Commerce official that contacted foreign government officials in these two cases told us that he did so, not as a last resort, but rather because he believed that such contacts were the most expeditious way to handle those cases. Of the remaining three cases, the foreign suppliers expedited deliveries because of actions taken by the U.S. company in two cases and as a result of U.S. government contact with a U.S.-based representative of the foreign supplier in one case.

DOD does not have a policy regarding the use of domestic second sources of parts and components for which the United States is dependent on foreign suppliers.

Background

After the Gulf War ended, several news articles reported allegations that foreign suppliers had refused to provide U.S. defense contractors with rush orders for parts or components urgently needed for the Gulf crisis. An article in the Washington Post stated that, according to sources, foreign manufacturers often were reluctant to put DOD's purchase orders ahead of their regular customers' without prompting from their governments. This article also stated that on nearly 30 occasions, help was needed from foreign governments to get delivery of crucial parts for the war effort. An article in the San Francisco Chronicle indicated that, according to sources, the U.S. government had to "jump through hoops" to secure critical supplies from Japanese companies during the Gulf crisis. The article further stated that Japanese companies had said they could not curtail existing commercial contracts with video cassette recorder, television, and automobile manufacturers to meet the needs of U.S. forces in the Persian Gulf. The June/July 1991 issue of the SAM TRADE newsletter included many of these allegations, reporting that according to sources Japanese companies delayed supplies needed for the Gulf War.

Commerce is responsible for administering the system for expediting deliveries of defense related orders. Title I of the Defense Production Act of 1950, as amended (50 U.S.C. app. 2061, et seq.), authorizes the President

to require priority performance of contracts and orders necessary or appropriate to promote national defense, including the authority to require that domestic suppliers prioritize national defense orders so that they are delivered ahead of commercial orders.² The President has delegated responsibility for carrying out this authority for industrial resources to Commerce. To implement this responsibility, Commerce established the Defense Priorities and Allocation System (DPAS). The goals of this system are (1) to ensure the timely availability of industrial resources to meet national defense requirements and (2) to provide a framework for rapid industrial mobilization in case of national emergency.

According to Commerce officials, DPAS is not enforceable against foreign manufacturers or contractors located in other countries. However, Commerce can solicit cooperation from foreign firms through diplomatic and foreign trade channels. Similarly, foreign governments and firms seeking expedited delivery from U.S. companies can request such assistance from Commerce.

Commerce has delegated certain authority to DOD under DPAS to support defense procurement. Defense contractors may request "special priorities assistance"³ from DOD to expedite the acquisition of supplies and services necessary to meet the delivery requirements of these defense procurements. If DOD cannot resolve the contractor's problem, DPAS provides for the case to be referred to Commerce.

From August 1990 through February 1991, Commerce received 135 requests for special priorities assistance to expedite procurements for U.S. and allied coalition forces' requirements associated with Operation Desert Shield/Storm. Table 1 shows the requests received by Commerce during this period.

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DTIC TAB	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
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²The Defense Production Act expired on October 20, 1990, but was later renewed through March 1, 1992. Executive Order 12742 of January 8, 1991, issued under the President's constitutional powers, the Selective Service Act of 1948, and other statutory authorities, directed that all regulations and orders under the Defense Production Act remain in effect until amended or revoked.

³Corporations, both domestic and foreign, submit requests to Commerce or a delegated agency on Form ITA-999—Request for Special Priorities Assistance. This information is obtained pursuant to the confidentiality provisions of section 705 (e) of the Defense Production Act of 1950, as amended, 50 U.S.C. app. 2155 (e).

Table 1: Requests Received by the Department of Commerce for Special Priority Assistance During the Desert Shield/Storm Crisis

Requests	Number	Percent
Requests by U.S. companies for expedited deliveries by other U.S. companies	86	63
Requests by U.S. companies for expedited deliveries by foreign companies	5	4
Requests by foreign companies/governments for expedited deliveries by U.S. companies	44	33
Total	135	100

No Evidence That Foreign Suppliers Refused to Expedite Efforts to Supply U.S. Defense Contractors

For those cases where Commerce officials contacted foreign governments, our review of Commerce's, DOD's, and U.S. contractors' records disclosed no evidence to substantiate the allegation that foreign suppliers gave commercial orders higher priority than orders for Gulf War requirements, or refused to expedite efforts to meet these requirements. In addition, Commerce and DOD officials involved in administering DPAS said that they were unaware of any case where a foreign supplier had refused to delay work on commercial contracts so they could expedite efforts to supply U.S. defense contractors with parts or components needed for the war effort. Also, our discussion with media information sources, including those who wrote the articles on this subject, and other people that we identified as possibly having knowledge on the subject provided us with no additional information supporting the allegation.

In the two cases where Commerce contacted foreign governments to expedite parts deliveries, available information shows that shipments from foreign suppliers were delayed, but not because these suppliers were uncooperative. U.S. contractor records indicate that the shipments were delayed because of (1) production problems and (2) ineffective communications between a U.S. contractor and its foreign supplier and between the foreign supplier and one of its subcontractors. Our review of U.S. prime contractor and subcontractor records for these two cases did not provide evidence to substantiate the allegation. Furthermore, officials of the U.S. contractors involved in these cases said that they had no evidence nor did they believe that the foreign suppliers had refused to place orders for the war effort ahead of their commercial orders.

**Commerce Contacted
Foreign Governments for
Assistance in 2, Not 30
Cases**

Information provided by Commerce shows that it contacted foreign governments to expedite orders of parts needed in the Persian Gulf for only two cases. Officials of both Commerce and DOD stated that the media allegation about 30 cases was erroneous.

Commerce records show that from August 1990 through February 1991, it received five special priority assistance requests from U.S. companies to expedite deliveries from foreign suppliers. Commerce officials said that (1) they resolved one of the cases by contacting a U.S.-based representative of the Japanese supplier and (2) the U.S. companies involved in two other cases resolved the situation with their Japanese suppliers before Commerce took action. Commerce documents show that the remaining two cases were resolved by Commerce contacting the Japanese and British embassies. Furthermore, a Commerce official told us that he talked to foreign governments, not as a last resort, but because he believed that such contact was the most expeditious way to handle these two cases. Details on these two cases are provided in a restricted supplement to this report.

A DOD official involved in DPAS said that neither DOD nor the military services had centralized records on all requests for priority assistance DOD received as a delegated agency. However, the DOD official and the counterparts for each of the services said that they were aware of no priority assistance case in which contact was made with foreign governments during the period in question, except for the two cases identified by Commerce.

Our discussions with media representatives who wrote the three articles alleging difficulties in obtaining parts from foreign suppliers during the Persian Gulf crisis provided no additional information that would support allegations that the U.S. government contacted foreign governments in about 30 cases. Also, media information sources and other people that we identified as possibly having knowledge on the subject provided us with no additional information to support the media allegations.

DOD Has Legislative Authority but No Specific Policy on Dual Sourcing to Eliminate Foreign Dependency

DOD has no policy regarding the use of domestic second or multiple sources to mitigate foreign dependence. According to DOD (1) reliable second sources have been created where practical and cost effective to eliminate single and sole-source dependencies and (2) domestic capacity for materials that previously were only available offshore has been expanded, including polysilicon, quartz fiber, silicon-sapphire wafers, and for an accelerated cooled, direct quenched AC/DQ steel plate.⁴ DOD has carried out these efforts under the authority of the Defense Production Act. Also, under the Competition in Contracting Act (CICA), DOD can, after obtaining required approvals, limit the sources it solicits for supplies or services for the purpose of, among other things, ensuring that a facility or supplier is available in case of a national emergency or industrial mobilization. However, this applies only at the prime contract level and not at lower tiers.

According to an Institute for Defense Analyses report, some acquisition policies, such as those intended to ensure rigorous quality control and supply security with a domestic source, also reduce foreign sourcing.⁵

In January 1991, we reported⁶ that DOD had limited awareness of the extent of foreign sourcing or dependency in their weapon systems, particularly beyond the prime contractors and their immediate subcontractors. This condition still exists. We recommended that the Secretary of Defense, after consulting with other agencies and private sector experts and considering existing studies regarding critical technologies, critical and strategic industries, and foreign dependencies,

- determine the key issues and policy questions for which information is needed;
- develop a plan for a viable management information system to provide visibility on foreign dependencies for weapon system components throughout the lower production tiers; and
- submit, within a reasonable time, a program proposal to Congress for effectively addressing the key issues and policy questions.

In September 1991, DOD said that to pursue such a course of action would not provide benefits commensurate with the costs involved.

⁴Report to Congress on the Defense Industrial Base, November 1991, Department of Defense.

⁵Dependence of U.S. Defense Systems on Foreign Technologies, December 1990, Institute for Defense Analyses.

⁶Industrial Base: Significance of DOD's Foreign Dependence (GAO/NSIAD-91-83, Jan. 10, 1991).

The National Defense Authorization Act for Fiscal Years 1992 and 1993, section 831(a), required the Secretary of Defense to submit by March 15, 1992, a plan for the collection and assessment of information on the extent to which the U.S. defense industrial base (a) procures subsystems of weapon systems and components of subsystems of weapon systems from foreign sources and (b) depends on those foreign sources for the procurement of such subsystems and components. DOD has a draft report that is being coordinated internally.

Lack of systematic data collection, especially at the lower tiers of production, puts DOD in a reactive position, limiting its ability to know which critical domestic sources need to be maintained for particular items.

Agency Comments

The Departments of Commerce and Defense reviewed the draft report and its supplement, and concurred with our findings and conclusions. Both Department's comments are reproduced in appendixes I and II.

Scope and Methodology

We met with Commerce and DOD officials involved in operating DPAS and reviewed their files on the five cases for which Commerce received requests to expedite deliveries from foreign suppliers during the Gulf crisis. We visited the U.S. prime and subcontractors involved in the two cases for which Commerce said that it had contacted foreign governments, talked to U.S. prime and subcontractor officials at these locations, and reviewed their files on the two cases. We also talked with the authors of the SAM TRADE, San Francisco Chronicle, and Washington Post articles containing the allegations to obtain supporting or other detailed information they may have had. Finally, we talked with other individuals that provided information to the authors concerning the allegations. We did not talk to any of the foreign supplier or foreign government officials involved.

To obtain information regarding DOD's policy encouraging domestic alternative sourcing for the production of parts and components the United States depends on from foreign suppliers, we spoke with officials from the Office of the Secretary of Defense, and reviewed pertinent legislation and federal acquisition regulations.

We performed our review from August 1991 to April 1992 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Senate and House Committees on Armed Services and the Secretaries of Defense and Commerce. Copies will also be made available to others upon request.

Please contact me on (202) 275-4587 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix III.

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with a large initial "P" and "M".

Paul F. Math, Director
Research, Development, Acquisition,
and Procurement Issues

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Table 1: Requests Received by the Department of Commerce for
Special Priority Assistance During the Desert Shield/Storm Crisis

Abbreviations

DOD	Department of Defense
DPAS	Defense Priorities and Allocation System
CICA	Competition in Contracting Act

Comments From the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D.C. 20230

AUG 3 1992

Mr. Frank C. Conahan
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

Thank you for the opportunity to comment on the draft report entitled, "Operation Desert Storm: No Evidence that Foreign Suppliers Refused to Support War Effort" and its restricted supplement.

We agree with the report's finding and conclusions and have no further comments.

Sincerely,


Preston Moore

Comments From the Department of Defense



PRODUCTION AND
LOGISTICS

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

July 20, 1992

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report and draft report supplement---(1) "Operation DESERT STORM: No Evidence That Foreign Suppliers Refused to Support War Effort," dated July 1, 1992, (GAO Code 396043/OSD Case 9112) and (2) "OPERATION DESERT STORM: Requests for Foreign Government Help in Getting Products for War Effort," dated July 1, 1992, (GAO Code 396052/OSD Case 9112-S).

The DoD has reviewed the draft report and draft report supplement, and concurs without further comment. The Department appreciates the opportunity to review the reports in draft form.

Sincerely,

A handwritten signature in cursive script that reads "Colin McMillan".

Colin McMillan

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

**Michael E. Motley, Associate Director
Kevin Tansey, Assistant Director
Rosa M. Johnson, Assignment Manager
Edward D. Cole, Evaluator**

**Office of the General
Counsel**

**William T. Woods, Assistant General Counsel
Raymond J. Wyrsh, Senior Attorney**

**Los Angeles Regional
Office**

**Larry W. Aldrich, Evaluator-in-Charge
Thaddeus S. Rytel, Jr., Site Senior**