

U.S. Government Accountability Office (GAO)

**Assessing Defense Supplier Base
Programs and Policies
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**John Neumann
Assistant Director**

GAO's Role In Evaluating Defense Supplier Base Programs and Policies

- GAO is an independent, nonpartisan legislative branch agency
- Acquisition and Sourcing Management reviews weapons acquisition, government contracting, defense technology transfer and defense supplier base issues
- Past supplier base work includes:
 - Berry Amendment Waivers
 - Applicability of Domestic Source Restrictions
 - Use of Defense Production Act Authorities
 - DOD's Identification of Gaps in the Supplier Base
 - DOD Assessments of Future Supplier Base Availability

Defense Supplier Base in Context: Trends

- Globalization of the defense industry
 - Ongoing debate over the use of foreign versus domestic suppliers
 - Uncertainty over impact on U.S. military superiority
- Defense industry consolidation
 - Fewer prime contractors
 - Reduced competition
 - Single source suppliers more common
- Reliance on commercial products and technology

Defense Supplier Base in Context: DOD's Role

- Deputy Under Secretary of Defense for Industrial Policy is DOD's primary representative for supplier base issues and seeks to sustain a "reliable, cost-effective, and sufficient" industrial base to meet DOD requirements
 - Industrial strategy is to rely on market forces and intervene when necessary to create or sustain competition, innovation, and essential industrial capabilities
- Military Departments and other DOD offices assess supplier base needs and identify potential gaps

Defense Supplier Base in Context: DOD Tools

- DOD has a number tools it can use when facing gaps or vulnerabilities in the supplier base, including:
 - Funding innovation through research and development
 - Defense Production Act
 - Title III - to provide financial incentives to domestic firms to invest in production capabilities for critical security needs
 - Defense Priorities and Allocations System (DPAS) – to expedite deliveries of DOD orders in emergencies
 - National Defense Stockpile
 - Restricting procurements to domestic sources if needed to sustain military readiness

GAO Report: Framework Needed to Identify and Report Gaps in Defense Supplier Base

- In October 2008, GAO found that DOD:
 - Lacked a department-wide framework and consistent approach to identify and report supplier base gaps
 - Developed lists of items considered “critical” in past, but changed approach as these quickly became obsolete
 - Relied on program offices and prime contractors to elevate supplier base concerns – but no guidance on when to do so. 16 of the 20 programs we surveyed identified supplier gaps, but only 4 reported to higher levels.

GAO Report: Framework Needed to Identify and Report Gaps in Defense Supplier Base

- In response, DOD updated the Defense Acquisition Guidebook to instruct weapon program offices to elevate supplier base concerns when an item produced by a single or sole source supplier meets one or more of the following criteria:
 - it is used by three or more programs
 - it represents an obsolete, enabling, or emerging technology
 - it requires 12 months or more to manufacture
 - it has limited surge production capability.

GAO Report: DOD Assessments of Future Supplier Base Availability

- In January 2010, GAO reported:
 - DOD and Commerce supplier availability assessments for future defense needs generally focus on the next 5 years.
 - Assessments beyond 5-year time frame have limitations.
 - In 2004, DOD Industrial Policy conducted a one-time series of comprehensive DOD-wide assessments of supplier base availability that forecasted 10-20 years into the future.
 - Industry and others have recommended such long term strategic assessments would be useful to ensure future needs are met by supplier base.
 - DOD plans to include such considerations in QDR process.

Ongoing GAO Studies: Rare Earth Materials

- National Defense Authorization Act for Fiscal Year 2010, Section 843, directed GAO to submit a report on rare earth materials in the DOD supply chain.
- Objectives:
 - What does existing information show about current sources and projected availability of rare earth materials?
 - Which defense systems have been identified as dependent on rare earth materials?
 - What national security risks has DOD identified due to rare earth material dependencies, and what actions has it taken?
- April 2010 briefing to Senate and House Armed Services Committees – publicly available report to follow.

Ongoing GAO Studies: DOD Energy Storage Devices

- National Defense Authorization Act for Fiscal Year 2010, Section 243, directed GAO to examine DOD's investments, coordination, and use of advanced Energy Storage Devices, such as batteries, fuel cells, and ultracapacitors.
- Objectives:
 - What are DOD's investments in research, development, testing, evaluation, and procurement of energy storage devices?
 - To what extent are energy storage device requirements, investments, and use coordinated among the military services, other elements of DOD, and DOE?
 - Is DOD effectively leveraging commercial energy storage devices and technology advances?

GAO Reports on Supplier Base Issues

- DOD Assessments of Supplier-Base Availability for Future Defense Needs, January 2010 (GAO-10-317R)
- Department of Defense: A Departmentwide Framework to Identify and Report Gaps in the Supplier Base is Needed, October 2008 (GAO-09-5)
- Defense Trade Data, January 2006 (GAO-06-319R)
- Defense Procurement: Air Force Did Not Fully Evaluate Options in Waiving Berry Amendment for Selected Aircraft, September 2005 (GAO-05-957)
- Defense Ammunition: DOD Meeting Small and Medium Caliber Ammunition Needs, but Additional Actions Are Necessary, July 2005 (GAO-05-687)
- Federal Procurement: International Agreements Result in Waivers of Some U.S. Domestic Source Restrictions, January 2005 (GAO-05-188)

GAO reports can be found at www.gao.gov or contact John Neumann at 202-512-4645 (neumannj@gao.gov)