

REPORT TO CONGRESS

DEPARTMENT OF DEFENSE FISCAL YEAR 2005

PURCHASES FROM FOREIGN ENTITIES

February 2006

Office of the Under Secretary of Defense (Acquisition, Technology & Logistics)

Background

Section 827 of the National Defense Authorization Act for Fiscal 1997 (Public Law 104-201), as amended by section 812 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261), requires the Secretary of Defense to submit a report to Congress on the amount of Department of Defense (DoD) purchases from foreign entities in Fiscal Year 2005. The report is to separately indicate the dollar value of items for which the Buy American Act (BAA) was waived pursuant to any reciprocal defense procurement memorandum of understanding (MOU), the Trade Agreements Act (TAA) or any international agreement to which the United States is a party.

Discussion

The information presented in this report addresses Fiscal Year 2005 and is based on DD Form 350 data compiled and distributed by DoD's Defense Manpower Data Center, Statistical Analysis Information Division, and data published by the Defense Security Cooperation Agency (DSCA). DSCA data include commercial export data from the State Department's Office of Defense Trade Controls. The DD Form 350, Individual Contracting Action Report, includes data on contracting procedures, competition, financing, statutory requirements, socioeconomic programs and other information relating to DoD acquisitions. In some instances, the exact information required by section 827 is not available and DoD has made assumptions in order to complete the report. In those cases, the report identifies the methodology and assumptions made by DoD in responding to the reporting requirement.

Section 1 - All procurements from foreign entities

DoD procurement actions recorded on DD 350's during FY 2005 totaled approximately \$269 billion. Of that amount, approximately \$18.3 billion or 6.8 percent was expended on purchases from foreign entities. Of this amount, \$16.8 billion is for contracts with a place of performance outside the U.S. and the remainder, \$ 1.5 billion, is

for contracts with a place of performance within the U.S. A detailed breakout of the dollars by country is contained in Table 1.

The \$18.3 billion covers military hardware, subsistence, fuel, construction, services, and other miscellaneous items that are for use outside the U.S. Services constitute 13.1 percent of the total, with subsistence, fuel and construction accounting for 9.1%, 16.7 percent and 13.0 percent, respectively, or approximately 52% of the total purchases from foreign entities. Table 2 provides a breakout of the \$18.3 billion by category and percentage of total.

Based on DSCA data, foreign purchases of U.S. defense articles and services in Fiscal Year 2005 totaled \$9.8 billion and sales to other government agencies totaled \$0.8 billion for a grand total of \$10.6 billion. In addition, data from the State Department reflect that U.S. Commercial Exports licensed or approved under the Arms Export Control Act totaled \$30.1 billion in Fiscal Year 2005.

Section 2 - Dollar value of items for which the BAA was waived pursuant to any MOUs, the TAA or other international agreements

The information needed to calculate the dollar value of items to which the BAA applied but for which it was waived is not readily available in the DoD database. Therefore, the following methodology was used to estimate dollars in this category:

1. Since the BAA does not apply to purchases for use outside the U.S, contracting actions by overseas buying offices were excluded from the data. Purchases by these offices are included in the data for Section 1 above.
2. It is assumed that all procurements covered by Memoranda of Understanding (MOUs), the Trade Agreements Act (TAA) and any other international agreement resulted in a waiver of the BAA. It should be noted, however, that using this methodology overstates the dollar value of items for which the BAA was waived. The Act does not apply when a domestic item's cost is unreasonable, the domestic preference is not in the public interest, or sufficient quality and quantity is not available domestically. Since we do not have data on when the Act did not apply in these circumstances, adjustments to the data were not made for those events.

Table 3 contains a detailed breakout of procurement actions by country and type of agreement. This breakout details procurement actions as follows:

1. Actions pursuant to the Caribbean Basin Economic Recovery Act.
2. Actions under the TAA (Agreement on Government Procurement).
3. Actions under Free Trade Agreements (FTAs)
 - a. The North American FTA (NAFTA).
 - b. Chile FTA
 - c. Singapore FTA
 - d. Australia FTA
 - e. Morocco FTA
4. Actions under MOUs.

DoD purchases under #s 1, 2 and 3 above all fall within the same supply categories and are comprised of mostly commercial and dual use items. Defense equipment is excluded from coverage under these agreements. The thresholds for the various trade agreements vary in terms of applicability and are subject to revision by the U.S. Trade Representative every two years. In some instances, a country may have an FTA with the U.S., be a signatory to the TAA, and also have an MOU with DoD. As a result, purchases will be reported in more than one category. The following is a breakout of how DoD purchases are reported in those instances:

Canadian products subject to NAFTA coverage equal to or exceeding \$25,000 but below the Fiscal Year 2005 TAA threshold of \$175,000 are reported under NAFTA. Procurement actions equal to or exceeding \$175,000 with Canada for TAA code covered products are included under the TAA portion of the report. All other procurements of Canadian products are reported under the MOU section.

Mexico is not a party to the Agreement on Government Procurement under the TAA and does not have a reciprocal procurement MOU with the U.S. Accordingly, all DoD purchases of Mexican products equal to or exceeding \$58,550 are reported under NAFTA.

Chile is not a party to the Agreement on Government Procurement under the TAA and does not have a reciprocal procurement MOU with the U.S. Therefore, all DoD purchases of Chilean products equal to or exceeding \$58,550 are reported under the Chile FTA.

Singapore products subject to FTA coverage equal to or exceeding \$58,500 but below the Fiscal Year 2005 TAA threshold of \$175,000 are reported under the Singapore FTA. Procurement actions over \$175,000 with Singapore for TAA code covered

products are included under the TAA portion of the report. DoD does not have a reciprocal procurement MOU with Singapore.

Australian products subject to FTA coverage equal to or exceeding \$58,550 are reported under the Australian FTA. TAA. Australia is not a party to the Agreement on Government Procurement under the TAA but does have a reciprocal procurement MOU with the U.S. Therefore, all DoD purchases of Australian products not covered by the FTA are reported under the MOU section.

Morocco is not a party to the Agreement on Government Procurement under the TAA and does not have a reciprocal procurement MOU with the U.S. Therefore, products subject to FTA coverage equal to or exceeding \$175,000 are reported under the Moroccan FTA.

Using the methodology described above, the various international agreements for which it is assumed that the BAA was waived totaled approximately \$4,027.5 million in Fiscal Year 2005.

1. Caribbean Basin Economic Recovery	\$ 27.5
2. Trade Agreements Act	2,430.9
3. NAFTA (Canada and Mexico)	33.8
4. Chile FTA	3.8
5. Singapore FTA	.1
6. Australia FTA	19.8
7. MOUs	<u>1,515.6</u>
Total	\$ 4,027.5 Million

A breakout by country is contained in Table 3.

TABLE 1

FISCAL YEAR 2005 DEPARTMENT OF DEFENSE PURCHASES FROM FOREIGN ENTITIES BOTH OVERSEAS AND IN THE UNITED STATES

The following list includes all DoD purchases with foreign entities for supplies, services, fuel and construction.

<u>COUNTRY</u>	<u>DOLLARS</u>	<u>COUNTRY</u>	<u>DOLLARS</u>	<u>COUNTRY</u>	<u>DOLLARS</u>	<u>COUNTRY</u>	<u>DOLLARS</u>
AFGHANISTAN	\$ 387,455,110	EGYPT	\$ 14,501,006	KUWAIT	\$ 1,028,695,761	PORTUGAL	\$ 47,166,103
ALBANIA	\$ 280,341	EL SALVADOR	\$ 957,194	KYRGYZSTAN	\$ 10,217,362	QATAR	\$ 79,746,948
ANTIOQUA & BARBUDA	\$ 68,685	ERITREA	\$ 90	LAOS	\$ 572,070	ROMANIA	\$ 36,985,932
ARGENTINA	\$ 84,249	ESTONIA	\$ 36,179	LATVIA	\$ 2,000	RUSSIA	\$ 1,863,732
ARMENIA	\$ 22,771	ETHIOPIA	\$ 172,465	LEBANON	\$ 21,915	RWANDA	\$ 160
ARUBA	\$ 542,034	FINLAND	\$ 16,201,401	LESOTHO	\$ 14,465	SAO TOME AND PRINCIPE	\$ 21,896
AUSTRALIA	\$ 34,529,241	FOREIGN	\$ 48,219,660	LIECHTENSTEIN	\$ 4,350	SAUDI ARABIA	\$ 542,691,795
AUSTRIA	\$ 4,706,420	FRANCE	\$ 150,953,696	LITHUANIA	\$ 130,887	SENEGAL	\$ 2,723,071
AZERBAIJAN	\$ 21,192,315	GABON	\$ 14,708,545	LUXEMBOURG	\$ 139,087,459	SEYCHELLES	\$ 22,363
BAHAMAS, THE	\$ 65,395	GAMBIA, THE	\$ 91,357	MACEDONIA	\$ 68,435	SIERRA LEONE	\$ 92,500
BAHRAIN	\$ 504,755,326	GEORGIA	\$ 3,790,346	MALAWI	\$ 59,637	SINGAPORE	\$ 18,295,517
BARBADOS	\$ (21,455)	GERMANY	\$ 1,823,493,068	MALAYSIA	\$ 2,031,359	SLOVAKIA	\$ 237,726
BELGIUM	\$ 107,701,819	GHANA	\$ 75,000	MALI	\$ 203,711	SLOVENIA	\$ 10,284
BELIZE	\$ 553,782	GREECE	\$ 276,073,134	MALTA	\$ (92,614)	SOUTH AFRICA	\$ 880,443
BOLIVIA	\$ 994,173	GREENLAND	\$ 51,361,682	MARSHALL ISLANDS	\$ (4,400)	SPAIN	\$ 205,118,818
BOSNIA AND HERZEGOVINA	\$ 6,069,374	GUATEMALA	\$ 75,678	MAURITANIA	\$ 296,100	ST. KITTS & NEVIS	\$ 39,196
BOTSWANA	\$ 176,657	GUINEA	\$ 350	MAURITIUS	\$ 39	ST. LUCIA	\$ 16,079
BRAZIL	\$ 1,353,825	GUYANA	\$ 160,800	MEXICO	\$ 2,493,106	SWEDEN	\$ 89,540,542
BRITISH INDIAN OCEAN TERRITORY	\$ 174,443	HAITI	\$ 210,406	MOLDOVA	\$ 270,654	SWITZERLAND	\$ 242,299,973
BRUNEI	\$ 79,800	HONDURAS	\$ 30,259,807	MONGOLIA	\$ 161,593	SYRIA	\$ 502
BULGARIA	\$ 1,294,287	HONG KONG	\$ 4,008,061	MOZAMBIQUE	\$ 63,695	TAIWAN	\$ 668,492
BURUNDI	\$ 135	HUNGARY	\$ 132,164	NEPAL	\$ 406,461	TAJKISTAN	\$ 25,000
CAMBODIA	\$ 12,755	ICELAND	\$ 67,667,096	NETHERLANDS	\$ 365,387,262	THAILAND	\$ 31,239,775
CANADA	\$ 710,693,101	INDIA	\$ 240,656	NETHERLANDS ANTILLES	\$ 3,636,888	TONGA	\$ 65,000
CHILE	\$ 4,348,160	INDONESIA	\$ 194,650	NEW ZEALAND	\$ 434,094	TRINIDAD AND TOBAGO	\$ 312,428
CHINA	\$ 16,650	IRAN	\$ 360,800	NICARAGUA	\$ 1,312,882	TUNISIA	\$ 46,549
COLOMBIA	\$ 58,995,277	IRAQ	\$ 6,042,314,043	NIGERIA	\$ 130,793	TURKEY	\$ 54,875,458
COMOROS	\$ 50,400	IRELAND	\$ 354,444	NIUE	\$ 829,711	UGUANDA	\$ 304,502
COSTA RICA	\$ 10,995,999	ISRAEL	\$ 124,092,734	NO. MARIANA ISLAND	\$ 255,856	UKRAINE	\$ 554,660
CROATIA	\$ 16,445,552	ITALY	\$ 317,810,735	NORWAY	\$ 10,734,867	UNITED ARAB EMIRATES	\$ 155,655,432
CUBA	\$ 17,508	JAMAICA	\$ 1,795,629	OMAN	\$ 10,070,130	UNITED KINGDOM	\$ 1,114,869,763
CYPRUS	\$ 430	JAN MAYEN	\$ 155,473	PAKISTAN	\$ 321,170,501	UNITED STATES	\$ 1,474,024,462
CZECH REPUBLIC	\$ 1,141,629	JAPAN	\$ 754,430,506	PALAU	\$ 64,920	URUGUAY	\$ 50,000
DENMARK	\$ 36,508,707	JORDAN	\$ 68,546,388	PANAMA	\$ 3,222,457	VANUATU	\$ 131,648
DJIBOUTI	\$ 28,482,184	KAZAKHISTAN	\$ 574,658	PARAGUAY	\$ 28,948	VIETNAM	\$ 573,337
DOMINICA	\$ 35,006	KENYA	\$ 88,587	PERU	\$ 8,384,826	YEMEN	\$ 1,940,000
DOMINICAN REPUBLIC	\$ 570,338	KOREA, DEMOCRATIC	\$ 477,899	PHILIPPINES	\$ 25,658,964	YUGOSLAVIA	\$ 120,605
ECUADOR	\$ 3,626,531	KOREA, REPUBLIC OF	\$ 518,795,473	POLAND	\$ 563,687	ZAMBIA	\$ 768,073
Subtotal	\$ 1,944,018,954	Subtotal	\$ 10,333,381,860	Subtotal	\$ 1,936,590,831	Subtotal	\$ 4,103,978,764
							\$ 18,317,970,409

TABLE 2**FISCAL YEAR 2005 PRIME CONTRACT AWARDS TO FOREIGN CONCERNS/ENTITIES**

(Amounts in Thousands)

DoD Claimant Program	Dollars	Percent
Air Frames & Spares	\$ 303,863,844	1.66%
Aircraft Engines & Spares	\$ 327,128,850	1.79%
Other Aircraft Equipment	\$ 135,157,040	0.74%
Missile & Space Sys	\$ 38,371,032	0.21%
Ships	\$ 146,859,020	0.80%
Vehicles - Combat	\$ 119,840,436	0.65%
Non Combat	\$ 265,589,425	1.45%
Weapons	\$ 380,770,437	2.08%
Ammunition	\$ 203,929,367	1.11%
Electronic & Communication Equipment	\$ 258,525,406	1.41%
Petroleum	\$ 3,062,024,193	16.72%
Other fuels & lubricants	\$ 4,031,146	0.02%
Containers and Handling Equipment	\$ 2,261,126	0.01%
Textiles, Clothing & Equippage	\$ 7,859,806	0.04%
Building Supplies	\$ 2,590,325	0.01%
Subsistence	\$ 1,672,728,734	9.13%
Transportation Equipment	\$ 3,778,956	0.02%
Production Equipment	\$ 631,359	0.00%
Construction	\$ 2,361,907,449	12.89%
Construction Equip	\$ 20,060,070	0.11%
Med & Dental Supplies/Equip	\$ 44,123,496	0.24%
Photographic Supplies/Equip	\$ 15,122,645	0.08%
Materials Handling Equip	\$ 6,107,021	0.03%
All Other Supplies & Equip	\$ 6,533,785,595	35.67%
Services	\$ 2,400,923,631	13.11%
Overall Total	\$ 18,317,970,409	100.0%

TABLE 3

FISCAL YEAR 2005 PURCHASES FROM FOREIGN CONCERNS UNDER TRADE AGREEMENTS AND MEMORANDA OF UNDERSTANDING

TRADE AGREEMENTS

COUNTRY	DOLLARS
Caribbean Basin Economic Recovery Act	(1)
Costa Rica	\$ 10,711,211
Honduras	\$ 16,741,126
Total	\$ 27,452,337

COUNTRY	DOLLARS
North American Free Trade Agreement (NAFTA)	
Canada	\$ 31,394,674 (2)
Mexico	\$ 2,449,662 (3)
Total	\$ 33,844,336

COUNTRY	DOLLARS
Other Free Trade Agreements	
Chile	\$ 3,840,143 (4)
Singapore	\$ 74,350 (4)
Australia	\$ 15,831,397 (4)
Morocco	\$ -
Total	\$ 19,745,890

MEMORANDA OF UNDERSTANDING

COUNTRY	DOLLARS
Designated Country - Agreement on Government	
Austria	\$ 1,396,607
Belgium	\$ 4,179,614
Canada	\$ 275,541,927
Denmark	\$ 818,019
Djibouti	\$ 28,376,200
Finland	\$ 15,556,173
France	\$ 25,065,325
Germany	\$ 366,150,630
Greece	\$ 265,104,721
Hong Kong	\$ 389,219
Iceland	\$ 6,336,763
Israel	\$ 16,692,084
Italy	\$ 81,706,236
Japan	\$ 13,985,345
Korea	\$ 207,379,184
Netherlands	\$ 346,220,915
Nicaragua	\$ 391,466
Norway	\$ 4,868,688
Panama	\$ 305,000
Portugal	\$ 9,423,308
Spain	\$ 95,116,178
Sweden	\$ 4,420,671
Switzerland	\$ 191,430,631
United Kingdom	\$ 470,034,301
Total	\$ 2,430,889,205

COUNTRY	DOLLARS
Covers all purchases not reflected under the Trade Agreements	
Australia	\$ 4,283,933
Austria	\$ 3,034,036
Belgium	\$ 55,503,004
Canada	\$ 324,203,591
Denmark	\$ 9,499,415
Egypt	\$ 1,606,792
Finland	\$ 624,328
France	\$ 120,889,365
Germany	\$ 151,930,395
Greece	\$ 478,382
Israel	\$ 92,629,940
Italy	\$ 29,558,396
Luxembourg	\$ 8,416
Netherlands	\$ 5,388,065
Norway	\$ 4,572,159
Portugal	\$ 924,919
Spain	\$ 23,071,418
Sweden	\$ 82,675,087
Switzerland	\$ 50,329,437
Turkey	\$ 32,015,295
United Kingdom	\$ 522,383,978
Total	\$ 1,515,610,351

Grand Total \$ **4,027,542,119**

(1) The threshold for procurements for both the Agreement on Government Procurement and the Caribbean Basin Initiative is \$175,000.

(2) Per NAFTA, represents procurements with Canada over \$25K and under the TAA threshold.

(3) Per NAFTA, represents procurement with Mexico over \$58,550

(4) Per the Chile, Singapore and Australian FTAs, the threshold for procurements is \$58,550

(5) The USTR has renegotiated the thresholds for the TAA and FTAs which increased the thresholds. However, since this occurred