

REPORT TO CONGRESS

DEPARTMENT OF DEFENSE FISCAL YEAR 2007

PURCHASES FROM FOREIGN ENTITIES

May 2008

Deputy Under Secretary of Defense (Acquisition & Technology)

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 2007. 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 2007 and is based on data from the Federal Procurement Data System – New Generation (FPDS-NG), 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 FPDS-NG data addresses 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 in FPDS-NG during FY 2007 totaled approximately \$316 billion. Of that amount, approximately \$18.6 billion or 5.9 percent was expended on purchases from foreign entities. Of this amount, approximately \$17.9 billion is for contracts with a place of performance outside the U.S. and the remainder,

\$.7 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 \$18.6 billion covers military hardware, subsistence, fuel, construction, services, and other miscellaneous items that are for use outside the U.S. Defense equipment constitutes approximately 10 percent of the purchases from foreign entities. Fuel, services, construction and subsistence account for approximately 26.6 percent, 6.74 percent, 6.38 percent, and .5 percent, respectively, or approximately 40 percent of the total purchases from foreign entities. Table 2 provides a breakout of the \$18.6 billion by category and percentage of total.

Based on DSCA data, foreign purchases of U.S. defense articles and services in Fiscal Year 2007 totaled approximately \$19.5 billion in FMS and \$3.8 billion in non-FMS for a combined total of \$23.3 billion in Security Assistance Sales (SAS). In addition, data provided directly by the State Department reflect that in Fiscal Year 2007, U.S. Commercial Exports of hardware sales totaled \$24.5 billion and sales of defense services totaled \$64.3 billion.

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

DoD has no central repository for waivers of the BAA and such information is not available in the existing DoD database. It is, therefore, not possible to identify which of the manufactured articles identified in section 1 of this report required a waiver of the BAA. The FPDS-NG is being updated to capture this information in the future. However, in an effort to address this congressional reporting requirement, this report attempts to identify the dollar value of DoD purchases of manufactured goods for which it is believed that the BAA may have been waived as a result of various international agreements. 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 MOUs, the 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 reflects the following procurement actions:

1. Actions pursuant to the Caribbean Basic Economic Recovery Act
2. Actions under World Trade Organization (WTO) Agreement on Government Procurement
3. Actions under Free Trade Agreements (FTAs)
 - a. The North American Free Trade Agreements (NAFTA).
 - Canada and Mexico
 - b. Australia FTA
 - c. Bahrain
 - d. Central America Free Trade Agreement (CAFTA)
 - e. Chile FTA
 - f. El Salvador
 - g. Morocco FTA
 - h. Singapore FTA
4. Actions under MOUs.

DoD purchases under numbers 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, but are segregated so as to not be duplicative. 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 2007 TAA threshold of \$193,000 are reported under NAFTA. Procurement actions equal to or exceeding \$193,000 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 WTO Agreement on Government Procurement and does not have a reciprocal procurement MOU with the U.S. Accordingly, all DoD purchases of Mexican products equal to or exceeding \$64,786 are reported under NAFTA. There were no DoD purchases from Mexico under NAFTA in FY 2007.

Australian products subject to FTA coverage equal to or exceeding \$64,786 are reported under the Australian FTA. Australia is not a party to the WTO Agreement on Government Procurement 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.

Bahrain is not a party to the WTO Agreement on Government Procurement and does not have a reciprocal procurement MOU with the U.S. Therefore, all DoD purchases of products from Bahrain equal to or exceeding the FTA threshold of \$193,000 are reported under the Bahrain FTA.

The CAFTA includes El Salvador, Guatemala, Honduras, and Nicaragua. These countries are not parties to the WTO Agreement on Government Procurement and do not have a reciprocal procurement MOU with the U.S. Therefore, all DoD purchases of products of these countries equal to or exceeding \$64,786 are reported under CAFTA.

Chile is not a party to the WTO Agreement on Government Procurement and does not have a reciprocal procurement MOU with the U.S. Therefore, all DoD purchases of Chilean products equal to or exceeding \$64,786 are reported under the Chile FTA. There were no DoD purchases of Chilean products in FY 2007.

Morocco is not a party to the WTO Agreement on Government Procurement and does not have a reciprocal procurement MOU with the U.S. Therefore, products subject to FTA coverage equal to or exceeding \$193,000 are reported under the Moroccan FTA. There were no DoD purchases from Morocco in FY 2007.

Singapore products subject to FTA coverage equal to or exceeding \$64,786 but below the FY 2007 TAA threshold of \$193,000 are reported under the Singapore FTA. Procurement actions over \$193,000 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. There were no DoD purchases from Singapore in FY 2007.

Using the methodology described above, the various international agreements for which it is assumed that the BAA was waived totaled approximately \$4,959.7 million in FY 2007. A detailed breakout is below:

1. Caribbean Basin Economic Recovery	\$ 20.95
2. Trade Agreements Act (including Least Developed Countries)	4,560.21
3. NAFTA (Canada)	20.98
4. Australia FTA	4.19
5. Bahrain FTA	359.97
6. CAFTA	1.27
7. MOUs	<u>216.20</u>
Total	\$ 5,183.77 Million

A breakout by country is contained in Table 3.

TABLE 1

DEPARTMENT OF DEFENSE PURCHASES FROM FOREIGN ENTITIES - FY 2007						
Country Name	Actions	Dollars	Country Name	Actions	Dollars	
AFGHANISTAN	12,348	\$ 1,199,283,700	ETHIOPIA	1	\$ 107,481	
ANTARCTICA	1	\$ 18,116	FINLAND	5	\$ 94,409	
ARGENTINA	6	\$ 101,026	FRANCE	123	\$ 10,311,000	
ARMENIA	1	\$ 59,969	GABON	13	\$ 53,825	
ARUBA [NETHERLANDS]	22	\$ 22,044,067	GEORGIA	7	\$ (193,550)	
AUSTRALIA	126	\$ 24,413,397	GERMANY	34,940	\$ 789,064,680	
AUSTRIA	51	\$ 3,182,277	GHANA	11	\$ 294,595	
AZERBAIJAN	1	\$ 60,425	GIBRALTAR [UK]	4	\$ 72,242	
BAHRAIN	2,589	\$ 460,043,220	GREECE	150	\$ 810,492,664	
BANGLADESH	2	\$ 40,000	GREENLAND [DENMARK]	9	\$ 338,895	
BARBADOS	3	\$ 507,595	GUATEMALA	33	\$ 2,388,720	
BELGIUM	415	\$ 42,589,996	HONDURAS	18	\$ 785,321	
BELIZE	30	\$ 2,122,112	HONG KONG	44	\$ 178,007	
BENIN	2	\$ 4,455	HUNGARY	8	\$ 176,356	
BOLIVIA	7	\$ 216,922	ICELAND	3	\$ 53,649	
BOTSWANA	1	\$ 28,036	INDIA	9	\$ 181,183	
BRUNEI	1	\$ 1,020	INDONESIA	56	\$ 1,793,708	
BULGARIA	21	\$ 204,387	IRAQ	26,068	\$ 4,528,931,163	
BURMA (MYANMAR)	1	\$ 34,918	IRELAND	22	\$ 1,493,974	
CAMBODIA	11	\$ 254,646	ISRAEL	123	\$ 76,841,353	
CANADA	16,534	\$ 882,500,847	ITALY	6,170	\$ 254,439,915	
CHAD	1	\$ 54,862	JAMAICA	2	\$ 1,897,339	
CHILE	2	\$ 147,709	JAN MAYEN [NORWAY]	6	\$ 239,390	
COLOMBIA	1,797	\$ 59,685,017	JAPAN	8,974	\$ 597,271,557	
COMOROS	6	\$ 1,629,194	JORDAN	11	\$ 12,463,375	
COSTA RICA	5	\$ 1,195,479	KAZAKHSTAN	9	\$ 4,490,332	
CROATIA	21	\$ 8,365,546	KENYA	3	\$ 716,929	
CUBA	17	\$ 12,347,001	KIRIBATI	6	\$ 102,479	
CZECH REPUBLIC	6	\$ 393,464	KUWAIT	7,036	\$ 2,522,200,312	
DENMARK	8,652	\$ 18,342,611	KYRGYZSTAN	2	\$ 708,051,176	
DJIBOUTI	14	\$ 8,489,493	LAOS	80	\$ 4,156,309	
ECUADOR	71	\$ 32,041,291	LATVIA	5	\$ 9,295	
EGYPT	84	\$ 520,326	LEBANON	2	\$ 1,172,788	
EL SALVADOR	15	\$ 1,638,587	LUXEMBOURG	4	\$ 20,731	
SUBTOTALS	42,864	\$ 2,782,561,710	SUBTOTALS	83,957	\$ 10,330,691,603	

DEPARTMENT OF DEFENSE PURCHASES FROM FOREIGN ENTITIES - FY 2007

Country Name	Actions	Dollars	Country Name	Actions	Dollars
MACEDONIA	13	\$ 153,779	PORTUGAL	164	\$ 8,577,632
MALAYSIA	15	\$ 383,587	QATAR	419	\$ 44,221,270
MALI	4	\$ 86,285	ROMANIA	41	\$ 7,237,238
MARSHALL ISLANDS	9	\$ 177,730	RUSSIA	36	\$ 27,716,087
MAURITANIA	1	\$ 159,828	SAINT HELENA [UK]	1	\$ 31,759
MAURITIUS	2	\$ 10,280	SAINT LUCIA	1	\$ 74,400
MEXICO	2	\$ 7,600	SAO TOME AND PRINCIPE	1	\$ 24,153
MICRONESIA, FEDERATED ST	2	\$ 23,312	SAUDI ARABIA	303	\$ 109,796,080
MOLDOVA	2	\$ 9,000	SENEGAL	7	\$ 481,469
MONGOLIA	7	\$ 148,190	SERBIA AND MONTENEGRO	5	\$ 14,550
MONTENEGRO	1	\$ 1,680	SERBIA	3	\$ 1,860
MOROCCO	4	\$ 1,819	SEYCHELLES	3	\$ 16,878,463
NETHERLANDS ANTILLES [NE	4	\$ 81,637	SINGAPORE	1,229	\$ 16,372,484
NETHERLANDS	758	\$ 4,946,811	SLOVAKIA	2	\$ 4,000
NEW ZEALAND	9	\$ 746,098	SLOVENIA	6	\$ 211,601
NICARAGUA	17	\$ 2,424,993	SOLOMON ISLANDS	1	\$ 4,572
NIGER	3	\$ 104,229	SOUTH AFRICA	23	\$ 177,057
NIUE [NEW ZEALAND]	30	\$ (4,981)	SOUTH KOREA	7,072	\$ 1,425,811,479
NORTH KOREA	20	\$ 133,494	SPAIN	1,857	\$ 252,266,021
NORWAY	50	\$ 388,756,802	SWEDEN	15	\$ 17,849,600
OMAN	2	\$ 7,012	SWITZERLAND	3,727	\$ 534,148,168
PAKISTAN	13	\$ 26,518,189	TANZANIA	1	\$ 20,657
PALAU	17	\$ (2,398,555)	THAILAND	282	\$ 5,657,311
PANAMA	2	\$ 260,697	TURKEY	417	\$ 241,649,953
PAPUA NEW GUINEA	6	\$ 123,646	UKRAINE	7	\$ 9,358,946
PERU	2	\$ 1,308,816	UNITED ARAB EMIRATES	2,148	\$ 251,352,867
PHILIPPINES	219	\$ 19,671,946	UNITED KINGDOM	3,289	\$ 1,327,406,634
POLAND	13	\$ 3,743,040	UNITED STATES	2,586	\$ 724,049,774
			VIETNAM	41	\$ 781,977
Subtotal	1,227	\$ 447,586,964	Subtotal	23,687	\$ 5,022,178,061
			TOTAL	151,735	\$ 18,583,018,337

TABLE 2**FISCAL YEAR 2007 PRIME CONTRACT AWARDS TO FOREIGN CONCERNS/ENTITIES**

(Amounts in Thousands)

DoD Claimant Program	Dollars	Percent
Air Frames & Spares	\$ 209,749,775	1.13%
Aircraft Engines & Spares	\$ 51,792,670	0.28%
Other Aircraft Equipment	\$ 122,368,776	0.66%
Missile & Space Systems	\$ 18,997,222	0.10%
Ships	\$ 190,491,726	1.03%
Vehicles - Combat	\$ 449,733,356	2.42%
Non Combat	\$ 202,975,206	1.09%
Weapons	\$ 106,130,161	0.57%
Ammunition	\$ 219,502,797	1.18%
Electronic & Communication Equipment	\$ 302,108,961	1.63%
Petroleum	\$ 4,942,404,580	26.60%
Other fuels & lubricants	\$ 10,493,871	0.06%
Containers and Handling Equipment	\$ 482,837	0.00%
Textiles, Clothing & Equippage	\$ 24,754,042	0.13%
Building Supplies	\$ 1,112,262	0.01%
Subsistence	\$ 84,952,952	0.46%
Transportation Equipment (Railway)	\$ 718,390	0.00%
Production Equipment	\$ 1,271,490	0.01%
Construction	\$ 1,185,130,042	6.38%
Construction Equip	\$ 24,708,089	0.13%
Med & Dental Supplies/Equip	\$ 22,881,999	0.12%
Photographic Supplies/Equip	\$ 1,922,701	0.01%
Materials Handling Equip	\$ 4,698,719	0.03%
All Other Supplies & Equip	\$ 9,151,984,572	49.25%
Services	\$ 1,251,651,141	6.74%
Overall Total	\$ 18,583,018,337	100.0%

TABLE 3

FISCAL YEAR 2007 PURCHASES FROM FOREIGN CONCERNS UNDER TRADE AGREEMENTS AND MEMORANDA OF UNDERSTANDING

TRADE AGREEMENTS

COUNTRY	DOLLARS
Caribbean Basin Economic Recovery Act	(1)
Aruba	\$ 20,950,997
Total	\$ 20,950,997

COUNTRY	DOLLARS
Free Trade Agreements	
Australia	\$ 4,190,066 (2)
Bahrain	\$ 359,968,734 (1)
Canada	\$ 20,977,406 (3)
El Salvador	\$ 1,095,429 (2)
Honduras	\$ 170,000 (2)
Total	\$ 386,401,635

COUNTRY	DOLLARS
Designated Country - Agreement on Government Procurement	(1)
Austria	\$ 697,690
Belgium	\$ 232,081
Canada	\$ 129,645,952
Denmark	\$ 4,976,246
France	\$ 635,974
Germany	\$ 51,187,479
Greece	\$ 807,707,575
Israel	\$ 2,843,619
Italy	\$ 96,405,687
Japan	\$ 24,031,738
Korea	\$ 1,006,494,651
Netherlands	\$ 557,966
Norway	\$ 45,066,368
Spain	\$ 220,091,443
Switzerland	\$ 742,586
United Kingdom	\$ 1,108,455,496
Total	\$ 3,499,772,451

COUNTRY	DOLLARS
Least Developed Countries	
Afghanistan	\$ 1,059,423,582
Comoros	\$ 1,016,354
Total	\$ 1,060,439,936

MEMORANDA OF UNDERSTANDING

COUNTRY	DOLLARS
Covers all purchases not reflected under the various Trade Agreements	
Australia	\$ 192,870
Austria	\$ 76,379
Belgium	\$ 655,906
Canada	\$ 123,399,379
Denmark	\$ 6,662,326
France	\$ 1,781,479
Germany	\$ 52,205,758
Greece	\$ 364,619
Israel	\$ 850,352
Italy	\$ 9,390,561
Netherlands	\$ 683,228
Norway	\$ 176,641
Portugal	\$ 489,290
Spain	\$ 3,162,542
Sweden	\$ 147,717
Switzerland	\$ 127,001
Turkey	\$ 2,894,670
United Kingdom	\$ 13,000,588
Total	\$ 216,201,306

- (1) The threshold for procurements for these agreements is \$193,000.
- (2) The thresholds for these FTA procurements is \$64,786
- (3) Per NAFTA, represents procurements with Canada over \$25K and under the TAA threshold of \$193,000.