Report Required by Section 812
of the
National Defense Authorization Act for Fiscal Year 2004
(Public Law 108-136)

Foreign Sources of Supply:
Assessment of the United States Defense Industrial Base

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

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Executive Summary

Section 812 of the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136) directs the Secretary of Defense to establish a program to assess the degree to which the United States is dependent on foreign sources of supply; and the capabilities of the United States defense industrial base to produce military systems necessary to support the national security objectives set forth in section 2501 of title 10, United States Code. The Department is to use existing data for the assessment program. Not later than February 1 of each year, the Secretary is to submit to the Committee on Armed Services of the Senate and House of Representatives a report on the assessment program covering the preceding fiscal year.

The report is based on three separate assessments that collectively provide visibility into the extent and impact of foreign suppliers: (1) an assessment of DoD prime contracts valued at over $25,000 for defense items and components, (2) a 2004 assessment of foreign content in certain defense systems, and (3) a current assessment of defense trade by the Government Accountability Office (GAO).

This report concludes that the Department employs foreign contractors and subcontractors judiciously, and in a manner consistent with national security requirements.

The Department procures very few defense articles and components from foreign suppliers. In Fiscal Year 2005, the Department awarded contracts to foreign suppliers for defense articles and components totaling approximately $1.9 billion, less than one percent of all DoD contracts; and only about 2.4% of all DoD contracts for defense articles and components.

The January 2004, DoD report *Study on Impact of Foreign Sourcing of Systems* concluded that foreign suppliers provide limited amounts of materiel for the systems, and that using those foreign subcontractors does not impact the long-term readiness or the economic viability of the national technology and industrial base. For the systems studied, foreign subcontracts collectively represented about 4% of the total contract value and less than 10% of the value of all subcontracts.

The Government Accountability Office (GAO) recently issued a very useful report on defense trade data (GAO-06-319R Defense Trade Data). According to the GAO report, U.S. defense exports averaged $11.5 billion a year from 2000 to 2004, while U.S. defense imports averaged only $1.8 billion during the same period. This represents a trade surplus ratio in defense goods in excess of 6:1.

1. Section 812 Requirements

Section 812 of the National Defense Authorization Act for Fiscal Year 2004 directs the Secretary of Defense to establish a program to assess:

- the degree to which the United States is dependent on foreign sources of supply; and
- the capabilities of the United States defense industrial base to produce military systems necessary to support the national security objectives set forth in section 2501 of title 10, United States Code.[1]

The Department is to use existing data for the assessment program. The Department, at a minimum, is to use existing information on each prime contract with a value greater than $25,000 for the procurement of defense items and components.

Not later than February 1 of each year, the Secretary is to submit to the Committee on Armed Services of the Senate and House of Representatives a report on the assessment program covering the preceding fiscal year. The report is to include, with respect to the prime contracts described above:

- The total number and value of such contracts awarded by the Department of Defense.
- The total number and value of such contracts awarded on a sole source basis.
- The total number and value of such contracts awarded to foreign contractors, summarized by country.
- The total number and value of such contracts awarded to foreign contractors through competitive procedures, summarized by country.

The report also is to include:

- the status of the program designed to assess the extent to which the United States is dependent on foreign sources of supply and the capability of the United States to produce military systems necessary to support the national security objectives of section 2501 of title 10, United States Code;
- the status of the Federal Procurement Data System described in section 6(d)(4)(A) of the Office of Federal Procurement Policy Act, or any successor procurement data management systems; and
- other matters as the Secretary considers appropriate.

[1] Section 2501 states that it is the policy of Congress that the national technology and industrial base be capable of: (1) supplying and equipping the force structure of the armed forces; (2) sustaining production, maintenance, repair, and logistics for military operations; (3) maintaining advanced research and development activities; (4) reconstituting within a reasonable time the capability to develop and produce supplies and equipment; and (5) providing for the development, manufacture, and supply of items and technologies critical to the production and sustainment of advanced military weapon systems.

2. Status of the Department of Defense Industrial Assessment Program

Department of Defense (DoD) industrial assessment programs are designed to be an integral part of the Department's decisions-making processes because such integration is the cornerstone of a successful industrial strategy. The Department and the Defense Components periodically conduct analyses and assessments to identify and evaluate those industrial and technological capabilities needed to meet current and future defense requirements. The Department and its Components then use the results of these analyses and assessments to make informed budget, acquisition, and logistics decisions.

Title 10 of the United States Code includes several provisions that influence the Department's industrial assessment program:

- Section 2501 establishes national security objectives concerning the national technology and industrial base.
- Section 2503 requires that the Secretary of Defense establish a national defense program for analysis of the national technology and industrial base.
- Section 2504 requires that the Secretary of Defense submit an annual report to the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives, by March 1st of each year. The report is to include:
  - A description of the departmental guidance prepared pursuant to section 2506.
  - A description of the methods and analyses being undertaken to identify and address concerns regarding technological and industrial capabilities of the national technology and industrial base.
  - A description of the assessments prepared pursuant to section 2505 and other analyses used in developing Department budget submissions.
  - Identification of each program designed to sustain specific essential technological and industrial capabilities.
- Section 2505 requires that the Secretary of Defense prepare selected assessments of the capability of the national technology and industrial base to attain the national security objectives set forth in section 2501.
- Section 2506 requires that the Secretary of Defense prescribe departmental guidance necessary to meet the requirements specified in the other sections, above.

The Department has provided an *Annual Industrial Capabilities Report to Congress*[2] each year since 1997 describing its industrial assessment program.

[2] The 2005 *Annual Industrial Capabilities Report to Congress* is available on the Internet (www.acq.osd.mil/ip).

3. General Discussion on the Use of Foreign Suppliers

The ongoing debate over the proper use of foreign suppliers is currently gathering much attention. The primary focus of the Department of Defense is to ensure the U.S. warfighter has the most innovative, reliable, effective, and affordable defense products in the world. It owes the warfighter nothing less. Therefore, the Department of Defense, in a manner consistent with its military readiness and national security responsibilities, leverages reliable non-U.S. sources to:

- Capture benefits in price, performance, and schedule
- Increase interoperability with allies and coalition partners
- Expose U.S. industry to international competition, helping to ensure that U.S. firms remain innovative and efficient
- Encourage development of mutually beneficial industrial linkages that enhance U.S. industry's access to global markets

The Department is not acquiring military materiel produced overseas to the detriment of national security and the U.S. defense industrial base. Focused analyses have shown that the Department employs a small number of non-U.S. suppliers and that the use of those suppliers does not negatively impact the long-term economic viability of the national technological and industrial base. The record indicates there has been no difference in reliability between the Department's U.S. and non-U.S. suppliers.

4. Assessment of Foreign Dependency

The Department is committed to providing the best capability to the warfighter. It wants to promote interoperability with its allies and coalition partners, and take full advantage of the benefits offered by access to the most innovative, efficient, and competitive suppliers—worldwide. It also wants to promote consistency and fairness in dealing with its trading partners while assuring that the U.S. defense industrial base is sufficient to meet its most critical defense needs. Consequently, the Department is willing to use reliable, non-U.S. suppliers—consistent with national security requirements—when such use offers comparative advantages in performance, cost, schedule, or coalition warfighting. For this reason, the Department and many friendly governments have established reciprocal procurement agreements that are the basis for waiving their respective "buy national" laws where possible and put each other's industries on par as potential suppliers.

DoD Handbook 5000.60-H, "Assessing Defense Industrial Capabilities" identifies conditions in which reliance on foreign suppliers for specific products may constitute unacceptable foreign vulnerabilities.

- Foreign sources may pose an unacceptable risk when there is a high "market concentration" combined with political or geopolitical vulnerability. For example, a sole source foreign supplier existing only in one physical location and vulnerable to serious political instability may not be available when needed. (Market concentration alone is not sufficient reason to exclude foreign sources; there also must be a credible threat of supply disruption due to political instability. Sheer physical distance from the U.S. is also not by itself a risk which merits foreign source exclusion.)
- Suppliers from politically unfriendly or anti-American foreign countries, as defined by statute or U.S. Government policy, are not used to meet U.S. defense needs.[3]
- A U.S. source may be needed for technologies and products that are either classified, offer unique war fighting superiority, or could be used by foreign nations to develop countermeasures. However, the Department has agreements with many allied and friendly nations for safeguarding classified military information. Foreign sources are not automatically excluded on the basis of a need to protect classified or unique technologies or products; this must be determined by individual circumstance.
- Suppliers that can not or will not provide products for military applications for political reasons are not feasible sources.

This report on foreign dependency is based on three separate assessments that collectively provide visibility into the extent and impact of foreign suppliers: (1) an assessment of DoD prime contracts valued at over $25,000 for defense items and components, (2) a 2004 assessment of foreign content in certain defense systems, and

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[3] Countries categorically excluded from DoD contracts are countries listed as "terrorist countries" by the Secretary of State under 50 USC App. 2405(j)(1)(A) and countries subject to sanctions implemented by the Department of Treasury Office of Foreign Asset Controls (OFAC).

(3) a current assessment of defense trade by the Government Accountability Office (GAO)[4].

4.1 Prime Contract Assessment

Section 645 of Division F of the Consolidated Appropriations Act, FY 2004 (Public Law 108-199) requires the head of each Federal agency to submit a report to Congress on the amount of acquisitions made by the agency from entities that manufacture the articles, materials, or supplies outside of the United States in that fiscal year. The report includes the dollar value of any articles, materials, or supplies purchased that were manufactured outside the United States; and a summary of the total procurement funds spent on goods manufactured in the United States versus funds spent on goods manufactured outside the United States.

The information used for that report is based on DD Form 350 data compiled and distributed by the Department's Washington Headquarters. The most recent such report, *Department of Defense Fiscal Year 2005 Purchases of Supplies Manufactured Outside the United States*, was submitted to the Congress in March 2006.

The "Prime Contract Assessment" described in this report section addresses a subset of the information provided in that report to Congress. As specified in section 812 of the National Defense Authorization Act for Fiscal Year 2004, this "Prime Contract Assessment" report:

- Includes only prime contracts valued at over $25,000 dollars.
- Includes only prime contracts for *defense articles and components* as categorized by Defense Claimant Program (DCP) codes summarized in the table below. It does not include contracts for other DCP codes, such as for subsistence, fuel, construction services, and other miscellaneous items.

DEFENSE CLAIMANT PROGRAM (DCP) CODES	
A1A	Airframes and related assemblies and spares
A1B	Aircraft engines and related spares and spare parts
A1C	Other aircraft equipment and supplies
A2	Missile and space systems
A3	Ships
A4A	Combat vehicles
A4B	Non-combat vehicles
A5	Weapons
A6	Ammunition
A7	Electronics and communication equipment

[4] GAO-06-319R "Defense Trade Data", January 27, 2006.

This report is based on Fiscal Year 2005 contract data, which became available in February 2006.

The three tables on the following pages summarize the most current DoD information on prime contracts awarded to foreign entities. The data included in the tables does not indicate significant DoD use of foreign contractors.

The first table is a "Summary of all DoD Contracts for Defense Items and Components Awarded (Fiscal Year 2005)." It lists, by DCP, the number and value of competitive contracts awarded to both U.S. and foreign suppliers, the number and value of non-competitive contracts awarded to U.S. and foreign suppliers, and the total number and value of all contracts awarded to U.S. and foreign suppliers. In total, the Department awarded 37,178 competitive contracts to U.S. suppliers worth a total of $22.78 billion in Fiscal Year 2005. During that same period, it awarded a total of 1,120 competitive contracts to foreign suppliers (2.9%) worth a total of $445 million (1.9%). The Department awarded 29,168 non-competitive contracts worth $55.48 billion to U.S. suppliers and 1,349 non-competitive contracts (4.4%) worth $1.44 billion to foreign suppliers (2.5%). In all, the Department awarded a total of $78.26 billion in defense articles and components contracts to U.S. suppliers and $1.89 billion to foreign suppliers (2.4%).

The second table is a "Summary of All Awards to Foreign Entities (A1A-A7) for Fiscal Year 2005" for defense articles and components. It lists, by country, the number and value of competitive contracts awarded to foreign suppliers, the number and value of non-competitive contracts awarded to foreign suppliers, and the total number and value of all contracts awarded to foreign suppliers. The top five recipient nations (by value) of competitive DoD contracts were, in order, Canada, UK, Jordan[5], Germany, and France. The top five recipient nations (by value) of non-competitive DoD contracts were, in order, UK, Canada, Saudi Arabia[6], Israel, and France. The top five recipient nations (by value) of all DoD contracts were, in order, Canada, UK, Saudi Arabia, France, and Israel.

The third table is a "Percentage Summary of all DoD Contracts for Defense Items and Components (Fiscal Year 2005)." It lists, by DCP, the percentage of the number and value of competitive, non-competitive, and all DoD prime contracts awarded to foreign entities. For example, for DCP A4A (combat vehicles): (1) 96.2% (98.2% by value) of DoD competitive contracts went to U.S. sources and 3.8% (1.8% by value) went to foreign suppliers, (2) 94.2% (98.0% by value) of DoD non-competitive went to U.S. sources and 5.8% (2.0% by value) went to foreign suppliers, and (3) 95.5% (98.0% by value) of all DoD contracts went to U.S. sources and 4.5% (2.0% by value) went to foreign suppliers.

[5] Purchases from Jordon were mainly in the category of weapons.

[6] Purchases from Saudi Arabia were mainly in the categories of airframes and related assemblies, and aircraft engines and related spares.

Summary of all DoD Contracts for Defense Items and Components Awarded (Fiscal Year 2005)								
DCP	# of Competitive Contracts	Value of Competitive Contracts		# of Non-Competitive Contracts	Value of Non-Competitive Contracts		Total # of Contracts	Total Value of Contracts	
A1A								
US	5,094	$	2,211,845,894	7,794	$	18,287,780,882	12,888	$	20,499,626,776
Foreign	126	$	64,258,520	321	$	196,699,553	447	$	260,958,073
Total	**5,220**	**$**	**2,276,104,414**	**8,115**	**$**	**18,484,480,435**	**13,335**	**$**	**20,760,584,849**
A1B								
US	3,078	$	1,201,863,129	4,138	$	3,846,606,025	7,216	$	5,048,469,154
Foreign	310	$	44,842,509	347	$	269,677,095	657	$	314,519,604
Total	**3,388**	**$**	**1,246,705,638**	**4,485**	**$**	**4,116,283,120**	**7,873**	**$**	**5,362,988,758**
A1C								
US	3,664	$	1,205,897,083	3,335	$	4,228,155,787	6,999	$	5,434,052,870
Foreign	75	$	39,358,971	140	$	77,052,800	215	$	116,411,771
Total	**3,739**	**$**	**1,245,256,054**	**3,475**	**$**	**4,305,208,587**	**7,214**	**$**	**5,550,464,641**
A2								
US	931	$	1,765,503,251	1,142	$	5,886,771,964	2,073	$	7,652,275,215
Foreign	1	$	66,347	40	$	14,063,966	41	$	14,130,313
Total	**932**	**$**	**1,765,569,598**	**1,182**	**$**	**5,900,835,930**	**2,114**	**$**	**7,666,405,528**
A3								
US	2,447	$	3,095,063,973	3,627	$	4,739,539,936	6,074	$	7,834,603,909
Foreign	45	$	23,387,763	56	$	6,941,229	101	$	30,328,992
Total	**2,492**	**$**	**3,118,451,736**	**3,683**	**$**	**4,746,481,165**	**6,175**	**$**	**7,864,932,901**
A4A								
US	2,543	$	878,131,443	1,200	$	4,467,473,838	3,743	$	5,345,605,281
Foreign	101	$	16,487,243	74	$	89,844,046	175	$	106,331,289
Total	**2,644**	**$**	**894,618,686**	**1,274**	**$**	**4,557,317,884**	**3,918**	**$**	**5,451,936,570**
A4B								
US	1,632	$	1,911,073,526	1,205	$	3,604,516,012	2,837	$	5,515,589,538
Foreign	214	$	60,748,984	26	$	148,406,787	240	$	209,155,771
Total	**1,846**	**$**	**1,971,822,510**	**1,231**	**$**	**3,752,922,799**	**3,077**	**$**	**5,724,745,309**
A5								
US	1,458	$	650,652,911	935	$	2,227,515,990	2,393	$	2,878,168,901
Foreign	32	$	69,022,178	50	$	298,281,549	82	$	367,303,727
Total	**1,490**	**$**	**719,675,089**	**985**	**$**	**2,525,797,539**	**2,475**	**$**	**3,245,472,628**
A6								
US	668	$	2,150,855,650	388	$	1,017,721,738	1,056	$	3,168,577,388
Foreign	29	$	46,433,826	48	$	195,301,210	77	$	241,735,036
Total	**697**	**$**	**2,197,289,476**	**436**	**$**	**1,213,022,948**	**1,133**	**$**	**3,410,312,424**
A7								
US	15,663	$	7,706,267,775	5,404	$	7,173,593,134	21,067	$	14,879,860,909
Foreign	187	$	80,538,911	247	$	149,369,917	434	$	229,908,828
Total	**15,850**	**$**	**7,786,806,686**	**5,651**	**$**	**7,322,963,051**	**21,501**	**$**	**15,109,769,737**
Total US	37,178		22,777,154,635	29,168		55,479,675,306	66,346		78,256,829,941
Total Foreign	1,120		445,145,252	1,349		1,445,638,152	2,469		1,890,783,404
Totals	**38,298**		**23,222,299,887**	**30,517**		**56,925,313,458**	**68,815**		**80,147,613,345**

Summary of All Awards to Foreign Entities (A1A -- A7) for Fiscal Year 2005						
Country	# of Competitive Contracts	Value of Competitive Contracts	# of Non-Competitive Contracts	Value of Non Competitive Contracts	Total Number of Contracts	Total Value of Contracts
Australia	6	$ 1,734,548	9	$ 3,096,566	15	$4,831,114
Austria	1	$ 63,214	2	$ 1,098,647	3	$1,161,861
Bahrain	0	$ -	1	$ 32,500	1	$32,500
Belgium	5	$ 1,016,619	27	$ 52,368,249	32	$53,384,868
Canada	467	$ 190,522,814	364	$ 361,520,618	831	$552,043,432
Colombia	6	$ 944,143	3	$ 218,794	9	$1,162,937
Croatia	0	$ -	6	$ 1,309,951	6	$1,309,951
Denmark	0	$ -	8	$ 3,960,511	8	$3,960,511
Ecuador	1	$ 52,211	0	$ -	1	$52,211
Foreign	0	$ -	10	$ 12,425,918	10	$12,425,918
France	7	$ 26,290,193	46	$ 84,394,184	53	$110,684,377
Gabon	0	$ -	10	$ 11,623,642	10	$11,623,642
Germany	97	$ 27,457,589	46	$ 61,698,330	143	$89,155,919
Greece	3	$ 1,719,678	0	$ -	3	$1,719,678
Iraq	15	$ 17,620,549	12	$ 651,425	27	$18,271,974
Israel	49	$ 16,968,015	62	$ 88,446,016	111	$105,414,031
Italy	17	$ 8,812,088	24	$ 5,962,609	41	$14,774,697
Japan	33	$ 4,837,972	5	$ 404,599	38	$5,242,571
Jordan	5	$ 43,187,610	0	$ -	5	$43,187,610
Korea	199	$ 1,684,630	16	$ 2,742,949	215	$4,427,579
Kuwait	5	$ 8,392,190	30	$ 5,023,256	35	$13,415,446
Laos	3	$ 340,000	0	$ -	3	$340,000
Moldova	3	$ 202,031	0	$ -	3	$202,031
Netherlands	5	$ 1,052,042	2	$ 272,943	7	$1,324,985
New Zealand	1	$ 96,998	0	$ -	1	$96,998
Niue	2	$ 639,618	0	$ -	2	$639,618
Norway	2	$ 3,052,136	6	$ 6,286,659	8	$9,338,795
Qatar	1	$ 33,481	1	$ 128,353	2	$161,834
Romania	5	$ 3,111,486	0	$ -	5	$3,111,486
Saudi Arabia	2	$ 68,956	37	$ 204,640,105	39	$204,709,061
Senegal	10	$ 2,770,000	0	$ -	10	$2,770,000
Singapore	10	$ 3,051,728	5	$ 443,975	15	$3,495,703
Spain	1	$ 15,840,000	1	$ 40,987	2	$15,880,987
Sweden	3	$ 2,129,230	16	$ 48,847,518	19	$50,976,748
Switzerland	1	$ 330,000	3	$ 911,088	4	$1,241,088
Thailand	1	$ 76,000	0	$ -	1	$76,000
Trinidad & Tobago	1	$ 48,273	0	$ -	1	$48,273
Turkey	4	$ 201,442	0	$ -	4	$201,442
UAE	2	$ 147,728	1	$ 28,538	3	$176,266
United States*	17	$ 995,342	2	$ 206,304	19	$1,201,646
UK	128	$ 59,588,998	592	$ 486,852,918	720	$546,441,916
Vietnam	2	$ 65,700	0	$ -	2	$65,700
Totals	**1,120**	**$ 445,145,252**	**1,347**	**$ 1,445,638,152**	**2,467**	**$1,890,783,404**

* Prime contracts awarded to firms located in the United States, owned by foreign entities.

Percentage Summary of all DoD Contracts for Defense Items and Components (Fiscal Year 2005)						
DCP	**% of Competitive Contracts**	**Percentage by Value of Competitive Contracts (%)**	**% of Non-Competitive Contracts**	**Percentage by Value of Non-Competitive Contracts (%)**	**Total % of Contracts**	**Total Percentage by Value of Contracts (%)**
A1A						
US	97.6	97.2	96.0	98.9	96.6	98.7
Foreign	2.4	2.8	4.0	0.1	3.4	1.3
A1B						
US	90.9	96.4	92.3	93.4	91.7	94.1
Foreign	9.1	3.6	7.7	6.6	8.3	5.9
A1C						
US	98.0	96.8	96.0	98.2	97.0	97.9
Foreign	2.0	3.2	4.0	1.8	3.0	2.1
A2						
US	99.9	100.0	96.6	99.8	98.1	99.8
Foreign	0.1	0.0	3.4	0.2	1.9	0.2
A3						
US	98.2	99.3	98.5	99.9	98.4	99.6
Foreign	1.8	0.7	1.5	0.1	1.6	0.4
A4A						
US	96.2	98.2	94.2	98.0	95.5	98.0
Foreign	3.8	1.8	5.8	2.0	4.5	2.0
A4B						
US	88.4	96.9	97.9	96.0	92.2	96.3
Foreign	11.6	3.1	2.1	4.0	7.8	3.7
A5						
US	97.9	90.4	94.9	88.2	96.7	88.7
Foreign	2.1	9.6	5.1	11.8	3.3	11.3
A6						
US	95.8	97.9	89.0	83.9	93.2	92.9
Foreign	4.2	2.1	11.0	16.1	6.8	7.1
A7						
US	98.8	99.0	95.6	98.0	98.0	98.5
Foreign	1.2	1.0	4.4	2.0	2.0	1.5
Total US	97.1	98.1	95.6	97.5	96.4	97.6
Total Foreign	**2.9**	**1.9**	**4.4**	**2.5**	**3.6**	**2.4**

4.2 Foreign Content in Defense Systems

The Department periodically evaluates the foreign content of selected defense systems to determine the extent to which defense systems use foreign suppliers.

Operations in Iraq raised concerns that foreign nations might restrict or preclude shipments of defense articles for DoD applications during internationally unpopular engagements. Given this possibility, the Department decided to review the extent to which it depends on foreign suppliers for operationally important defense systems. The Department published review results in a report entitled *Study on Impact of Foreign Sourcing of Systems*, in January 2004.[7]

As required by the Paperwork Reduction Act, the Department secured approval from the Office of Management and Budget (OMB) to collect the required data from industry. That approval was granted on May 28, 2003; authority expired on November 30, 2003. Industry participation in the study was voluntary. There was no statutory or contractual requirement for either domestic or foreign sources to respond to the Department's information request. DoD personnel did, however, take specific steps to explain the purpose of the study to the DoD program offices and contractors, and solicit the maximum possible cooperation. The prime contractors responded positively by providing the requested information and asking their subcontractors to do the same.

Using the authorities provided to it by OMB, the Department collected supplier information from the Military Departments and DoD program offices, prime contractors, first tier subcontractors, and second tier subcontractors. Therefore, the study identified and evaluated foreign sources for the identified programs from the prime contractors through the third subtier.

For the 2004 study, the Department contacted a total of 806 prime contractors and first and second tier subcontractors in order to collect and evaluate information for:

- Guided Multiple Launch Rocket System (GMLRS)
- Army Tactical Missile System (ATACMS)
- Patriot Advanced Capability (PAC3) Missile
- Tactical Tomahawk Missile
- Stand-Off Land Attack Missile - Expanded Response (SLAM-ER)
- Joint Standoff Weapon (JSOW)
- Paveway II Laser-Guided Bombs (LGB)
- Predator Unmanned Aerial Vehicle
- F414 Engine
- Sensor Fused Weapon (SFW)
- Wind Corrected Munition Dispenser (WCMD)
- Joint Service Lightweight Integrated Suit Technology (JSLIST) Chemical Protective Suit

[7] The full report is available on the Internet (www.acq.osd.mil/ip).

The final report reached four conclusions:

1. Foreign sources provide limited amounts of materiel for the identified programs.

For the programs evaluated, the Department identified a total of 73 first, second, and third tier foreign subcontractors. The total value of the prime contracts totaled $2.23 billion. No prime contracts were awarded to foreign suppliers. The total value of the subcontracted effort for the programs totaled $986 million. About $96 million of that amount was subcontracted to foreign sources. Collectively, foreign subcontracts represented about four percent of the total prime contract value and less than ten percent of the value of all subcontracts for these programs.

The aggregate value of foreign subcontracts was skewed by the inclusion of the Joint Service Lightweight Integrated Suit Technology (JSLIST) chemical protective suit. The JSLIST suit is unusual in that it is not a weapon system, nor a component of a weapon system. It is a piece of vital protective equipment, its cutting edge technology originates overseas, and the Department is bringing this cutting edge technology into the United States. The value of total program subcontracts, exclusive of JSLIST suits, awarded to foreign sources is significantly smaller ($61.5 million versus $96.5 million)—about six percent of the total subcontract value and about three percent of the prime contract value.

PROGRAM	# FOREIGN SUBCONTRACTORS	VALUE OF FOREIGN SUBCONTRACTS ($M)	VALUE OF FOREIGN SUBCONTRACTS AS A % OF TOTAL SUBCONTRACTS	VALUE OF FOREIGN SUBCONTRACTS AS A % OF PRIME CONTRACT VALUE
JSLIST	8	$35.0	62.5%	12.5%
PAC-3	25	$23.1	12.3%	6.2%
F414	4	$19.1	10.9%	4.6%
PREDATOR	5	$1.0	14.5%	3.3%
WCMD	11	$2.0	4.3%	3.2%
TACTICAL TOMAHAWK	3	$6.8	5.5%	2.8%
SFW	4	$2.9	7.8%	2.5%
GMLRS	3	$2.6	6.1%	2.3%
SLAM-ER	5	$1.0	3.3%	1.6%
ATACMS	3	$2.2	3.8%	1.5%
PAVEWAY	1	$0.7	0.4%	0.2%
JSOW	1	$0.1	0.1%	0.1%
Subtotal without JSLIST	**65**	**$61.5**	**6.6%**	**3.2%**
Total	**73**	**$96.5**	**9.8%**	**4.3%**

2. Utilizing these foreign sources for these programs does not impact long-term readiness.

In general, the use of foreign sources, in and of itself, does not negatively impact national security. In fact, appropriate use of non-U.S. suppliers: (1) promotes consistency and fairness in dealing with U.S. allies,[8] (2) permits DoD to access state-of-the-art technologies and industrial capabilities, (3) exposes U.S. industry to international competition, helping to ensure that U.S. firms remain innovative and efficient, (4) encourages development of interoperable weapons systems, and (5) encourages development of mutually beneficial industrial linkages that enhance U.S. industry's access to global markets.

Utilizing the identified foreign sources does not impact the long-term readiness of the Armed Forces. The foreign sources are as likely to be able to meet program cost, performance, and delivery requirements as are domestic sources. Additionally, none of the identified foreign sources constitutes a foreign vulnerability that poses a risk to national security. The vast majority of the foreign sources are from NATO nations or other historically reliable trading partner nations. Experience with these systems during the active combat phases of Operations Enduring Freedom and Iraqi Freedom demonstrated that the suppliers (including 20 German and two French suppliers) have both the ability and resolve to meet performance, schedule, and cost requirements. In fact, the key German and Japanese suppliers for the JSLIST suit surged production during Operation Iraqi Freedom from 70,000 suits per month to 128,000 per month.

The availability of alternative domestic sources for most foreign sourced items further reduced the risk for supply disruption.

3. Utilizing these foreign sources does not impact the economic viability of the national technology and industrial base.

The value of total program subcontracts awarded to foreign sources was limited (about $96.5 million – about four percent of the total contract value and less than ten percent of the total subcontract value). Business within the relevant industry segments will sustain essential industrial and technological capabilities sufficient to meet current and projected DoD needs. Domestic firms within those industry segments will continue to be capable of competing for the foreign-sourced items and similar items. Additionally, domestic capabilities have been established for the JSLIST liner fabric and a domestic source is being established for the JSLIST carbon beads now being procured from a Japanese source.

[8] By giving evidence to non-U.S. suppliers that they have a fair opportunity to be awarded contracts and subcontracts for DoD weapons systems

4. In most cases, domestic suppliers are available for the parts, components, and materials provided by the foreign sources.

The Department generally does not mandate supplier selections to its contractors. The Department expects its contractors to select reliable, capable suppliers consistent with obtaining best value, encouraging effective competition, and meeting national security requirements. Generally, prime contractors and first and second tier suppliers indicated they selected the foreign subcontractors for specific items because those subcontractors offered the best combination of price, performance, and delivery.

In some cases domestic suppliers were not available to compete for the items subcontracted to foreign sources (table below). With the exception of the lethality enhancer assembly for the PAC3 for which the German supplier is the only firm currently capable of producing the item, domestic sources could be qualified with little risk given some additional time and funding.

Program	Item	Foreign Source Country
JSLIST	Activated Carbon Beads	Japan
PAC3	Lethality Enhancer Assembly	Germany
WCMD	Electric Match	France
SFW	Thermal Battery	Israel

4.3 Defense Trade Data

The Government Accountability Office (GAO) recently issued a very useful report on defense trade data (GAO-06-319R Defense Trade Data). GAO reviewed several sources of government data, and data collected by the Department of Homeland Security's Customs and Border Protection officials and aggregated by the Department of Commerce's Census Bureau appears to provide the most robust information on actual exports and imports of defense goods.

According to the GAO report, U.S. defense exports averaged $11.5 billion a year from 2000 to 2004, while U.S. defense imports averaged only $1.8 billion during the same period. This represents a trade surplus ratio in defense goods in excess of 6:1. The annual data from the GAO report is provided below.

Calendar Year	Defense Exports ($ billions)	Defense Imports ($ billions)	Imports as % of Exports
2000	10.7	1.5	14
2001	11.6	1.6	14
2002	11.8	1.9	16
2003	11.6	1.7	15
2004	11.9	2.1	18

This GAO report highlights the widely-known fact that the U.S. enjoys a significant trade surplus in defense goods. These sales are essential to the U.S. defense industry, and benefit the Department of Defense by spreading fixed costs over a larger number of sales; maintaining production capabilities when not being utilized by the Department; promoting interoperability among friends and allies; and increasing the number of customers U.S. defense industry supplies, thus providing additional opportunities for innovative research and design.

5. Status of The Federal Procurement Data System

The Federal Procurement Data System - Next Generation (FPDS-NG) replaced the former Federal Procurement Data System (FPDS), on October 1, 2003. The General Services Administration (GSA) manages FPDS-NG within the Federal eGov Integrated Acquisition Environment initiative. FPDS-NG is the central repository of statistical information on Federal contracting. Most Federal Agencies submit data about their procurement actions to FPDS-NG. The system uses state-of-the-art technology to streamline the reporting process and allow direct machine-to-machine reporting. This feature provides agencies with the opportunity to shut down legacy data collection systems.

The Department of Defense and GSA worked together to ensure DoD data from Fiscal Year 1997 through Fiscal Year 2005 has been accurately migrated from DoD's legacy data collection system to FPDS-NG (earlier Fiscal Years' data was migrated directly from FPDS). To take full advantage of the new technology options available for submitting data, the Department is implementing machine-to-machine reporting directly from contract writing systems to the FPDS-NG. The Department projects that it will complete implementation of machine-to-machine reporting throughout the Department early in Fiscal Year 2007 when it will be able to shut down its legacy system.

6. Conclusions

The information presented in this report indicates that the Department employs foreign contractors and subcontractors judiciously, and in a manner consistent with national security requirements. The Department procures very few defense articles and components from foreign suppliers. In Fiscal Year 2005, DoD procurement actions totaled $269 billion. Of that amount, DoD contracts for defense articles and components totaled just over $80 billion. Of that $80 billion, the Department awarded contracts to foreign suppliers for defense articles and components totaling approximately $1.9 billion. Therefore, DoD contracts for defense articles and components awarded to foreign suppliers represented less than one percent of all DoD contracts; and only about 2.4% of DoD contracts for defense articles and components. The top five recipient nations (by value) of DoD contracts (Canada, UK, Saudi Arabia, France, and Israel) collectively received contracts totaling approximately $1.5 billion (about 80% of the total for all such contracts). All five nations are long-standing, reliable trading-partners of the United States.

The January 2004, DoD report *Study on Impact of Foreign Sourcing of Systems* examined the extent and implications of foreign subcontractors for twelve operationally-important defense systems. The report concluded that foreign suppliers provide limited amounts of materiel for the systems; and that using those foreign subcontractors does not impact long-term military readiness or the economic viability of the national technology and industrial base. For the systems studied, foreign subcontracts collectively represented about 4% of the total contract value and less than 10% of the value of all subcontracts.

The Government Accountability Office report on defense trade data indicates that U.S. defense exports averaged $11.5 billion a year from 2000 to 2004, while U.S. defense imports averaged only $1.8 billion during the same period. This represents a trade surplus ratio in defense goods in excess of 6:1. This positive trade balance greatly benefits the U.S. defense industry and the Department of Defense.