



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

**CLASS DETERMINATION OF DOMESTIC NON-AVAILABILITY
FOR COMMERCIAL OFF-THE-SHELF (COTS) SPECIALTY METAL PARTS
IN CERTAIN DIESEL ENGINES PRODUCED BY CATERPILLAR, INC.**

After considering the recommendation of the Defense Contract Management Agency (DCMA), and in accordance with the specialty metals restriction in section 2533b of title 10 of the United States Code (and the former restriction at 10 U.S.C. 2533a), I make the following findings and determination concerning the domestic non-availability of specialty metal parts in certain COTS diesel engines produced by Caterpillar, Inc. The findings below are based on an investigation and report forwarded by DCMA on September 14, 2007.

FINDINGS

Caterpillar has examined over 700,000 parts, and found 34 that contain non-compliant specialty metal and require a domestic non-availability determination. (See Annex 1 which is proprietary and not releasable under the Freedom of Information Act). They are primarily spring-valves, piston parts, and pushrod parts. These 34 parts are incorporated into several engine models and are manufactured in three facilities located outside of the United States. Two of these facilities are located in Mexico and one is located in India. These facilities are specialized facilities that manufacture Caterpillar-specific parts including melting of the specialty metals (various steel alloys) that are formed into these parts. There are no sources in the United States that make any of these parts. All of these facilities are long-term suppliers for Caterpillar.

Caterpillar has conducted an in-depth review and determined that in order to develop a US supplier for any of these parts, it would require a significant capital investment and would take several years to complete. Caterpillar would spend an estimated \$40M to make the necessary modifications to its supply chain and manufacturing facilities for just one engine model.

Moreover, Caterpillar performed a review unrelated to specialty metals in 2005 to determine the per-part cost differential of changing one of these suppliers to a US supplier. Using limited ordering quantities, Caterpillar's study determined that if a supplier change was made, Caterpillar would incur additional costs approaching \$1M per year in additional costs. These cost increase estimates do not include costs associated with the required validation and certification of both supplier and part and do not include



the costs of segregating parts warehousing and production lines to guarantee that only compliant parts are incorporated into DoD end items. Caterpillar would also incur costs for breaching its current long-term agreements with these suppliers in Mexico and India.

DCMA found that there are a limited number of U.S. spring suppliers primarily because production of many steel alloys including the metal used in springs has moved to Mexico, Japan, and Korea. Spring manufacturers state that U.S. sources of metal are significantly more expensive than foreign sources and that they are unwilling to switch to U.S. suppliers because of quality concerns. Therefore, buying springs from U.S. spring manufacturers does not guarantee compliant specialty metal in the springs.

Caterpillar estimated that establishing a dedicated domestic manufacturing capability to meet DoD's unique specialty metals requirement for just one of the engine models would require an initial up-front capital investment of more than \$25.5M, and would take at least one year before full-scale production could begin. Annual operations costs for such a facility are estimated to run at least \$7M per year. All of the parts in question are small, both in size and in value. Caterpillar is not requesting a determination for any major structural element of any engine.

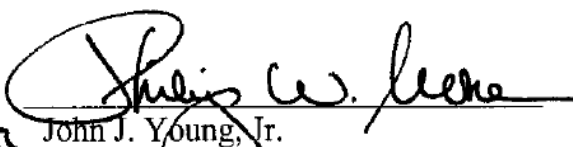
DETERMINATION

I hereby determine that compliant specialty metals of satisfactory quality and sufficient quantity, in the required form of the specialty metal parts in COTS engines produced by Caterpillar listed in Annex 1 cannot be procured as and when needed. This determination applies to current and future contracts (including contracts that were entered into under the prior restriction in 10 U.S.C. 2533a and those that have been entered into under the new restriction in 10 U.S.C. 2533b). As a result, contracting officers may procure the parts listed in Annex 1, and any parts that may replace these parts, notwithstanding the country where the specialty metals contained in such parts were melted or produced.

This determination will remain in effect until DCMA notifies me that circumstances have changed and compliant specialty metal of satisfactory quality and sufficient quantity, in the required form of parts listed in Annex 1, can be procured as and when needed.

This determination will cease to be effective if 10 U.S.C. 2533b is included on the list of laws inapplicable to procurement of commercially available off-the-shelf items under Section 35 of the Office of Procurement Policy Act (41 U.S.C. §431).

DATE: 10/24/2007


for John J. Young, Jr.
Acting