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China's Impact on the U.S. Auto and Auto Parts Industries

Good day, members of the commission, ladies and gentlemen. I'd like to thank you for this opportunity to address the commission on our small part in supporting the Warfighter.

I currently manage a Diminishing Manufacturing Sources and Material Shortages (DMSMS) knowledge management system for the Army known as the Army "Diminishing Manufacturing Sources and Material Shortages (DMSMS) Identification, Notification and Flagging Operation (INFO)" system. This system currently supports the Army and the Department Of Defense (DOD) DMSMS Programs.

The basic definition of a DMSMS issue is the loss or impending loss of manufacturers of items or suppliers of items or raw materials. DMSMS issues can occur at any point in the life cycle of an acquisition program. Current Office of the Secretary of Defense (OSD) policies on DMSMS are contained in DOD 4140.1-R, "DOD Supply Chain Materiel Management Regulation", May 23, 2003. These current policies prescribe that DOD Components i.e. Army, Navy, Air Force, etc. shall proactively take timely and effective actions to identify and minimize the DMSMS impact on DOD acquisition and logistics support efforts.

Minimizing DMSMS impact is important in that a DMSMS issue can interrupt the manufacture, fabrication, production, or repair of any item required by Warfighters. From a major end item, down through the components and subassemblies, to the individual parts and even to the specific processes, raw materials and chemicals required, if you can't find it, can't get it, or can't support fielding or repairing it, you have a DMSMS issue and the Warfighter has a problem!

The goal of the current Army DMSMS INFO System is to support the Army's resolution of DMSMS issues. It aims to provide a knowledge management approach to resolving DMSMS issues and to be a repository of DMSMS case data. We provide a comprehensive and coordinated program that supports efficient and effective resolutions of obsolescence, non-availability and single source problems that affect the Army.

As we have developed and used this system over the last few years, we have seen a marked decrease of domestic sources of manufacturing and processing, and of suppliers of items, chemicals and materials that support our automotive needs and other areas where the Army has requirements. For our purposes a domestic source is a source that is located in the U.S. or its territories and provides items or materials comprised of U.S. content only. Availability of domestic sources is critical in assuring the Army's needs are met in a timely manner. Several legal authorities are predicated on availability and use of domestic sources.

The services have additional "leverage" in obtaining items from domestic sources under the Defense Production Act (DPA) of 1950.

Under Title I of the DPA, the President is authorized to implement the Defense Priorities Allocation System (DPAS) when necessary to require preferential acceptance and performance of contracts or orders supporting certain approved national defense and energy programs, and to allocate materials, services, and facilities in such a manner as to promote these approved programs. Additional priorities authority is found in Section 18 of the Selective Service Act of 1948, in 10 U.S.C. 2538, and in 50 U.S.C. 82. The DPA priorities and allocations authority has also been extended to support emergency preparedness activities under Title VI of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act). Obviously the DPA and DPAS apply only to domestic sources which points out the risk incurred by the erosion of domestic suppliers. As the number of domestic suppliers decreases, so too does the pool of domestic manufacturing capacity and capability that can be reliably called upon to support the military and the nation. Instead, we find ourselves relying on sources who may be responsive to foreign national interests and not our own.

Another piece of important legislation regarding DMSMS is the so-called "Berry Amendment." The Berry Amendment only applies to DOD. As implemented in the Defense Federal Acquisition Regulations Supplement (DFARS), it generally restricts DOD's expenditure of funds for supplies consisting in whole or in part of certain articles and items, including textiles and certain metals, not grown or produced in the U.S. or its possessions. In the DFARS, Berry Amendment restrictions are covered in section 225.7002. In statute, the Berry Amendment is now codified as 10 U.S.C. 2533a. Compliance with the Berry Amendment becomes increasingly difficult as domestic sources disappear. Accordingly, we have seen increased use of components of non-domestic origin in DOD systems in violation of the Berry Amendment.

It is generally DOD policy to use "Commercial Off the Shelf (COTS) items in acquisition whenever feasible. As the military selects more COTS items, it becomes increasingly more resource intensive to determine the lineage of an item. That is, it becomes more challenging to track what it is made of and where it is made. This, of course, affects availability, obsolescence and compatibility with existing systems. This is quite evident in the automotive sector where there is significant use of "assemblies" and "black boxes" in the industry produced by "Third Tier" or below subcontractors. It is also evident in

recent reports from the Defense Contracting Management Agency (DCMA) of potential violations of the Berry Amendment and on the increased concern over counterfeit parts and lack of data on how an item was actually created and where that item will be used.

It is our experience that the suppliers that DOD and Army use for procurement and sustainment, have sizable non-defense businesses that make up their product mix. For example, under the tracked and wheeled sectors, there are hosts of suppliers supporting both the automotive and DOD programs, providing parts such as engines, transmissions, axles, wheels, tires, brakes, etc. Almost every one of these corporations needs to have a sizable civilian production base in order to either remain profitable or maintain their revenues high enough to support their size.

It is my observation, that the risk inherent in diminishing sources whether they be auto parts, semiconductors, or machine tool suppliers, or tool and die manufacturers, is ever increasing. This is affecting our ability to tap into domestic sources of production, especially in the event of a national emergency.

I can also state that I have received numerous inquiries from local automotive suppliers looking for military work, due to decreased orders from the automotive industry as well as the loss of military suppliers due to their loss of commercial work. We are also witnessing "Partnering" between the Organic (military) and Private (commercial) sectors to enable the preservation of the US industrial base as a whole.

At TACOM LCMC we continually witness numerous DMSMS issues that emanate directly from the loss of domestic manufacturing capability many of which are directly related to the automotive parts industry.

Finally, I would like to thank the commission for this opportunity to make you aware of our mission and concerns and as a member of the Army Materiel Command's (AMC) Research-Development and Engineering Command (RDECOM) Tank-Automotive Research Development and Engineering Center (TARDEC) and TACOM Life Cycle Management Command (LCMC); the Army's premier provider of materiel readiness for the Tank-Automotive community, I thank you for helping us to support the Warfighter.