

REPORT TO CONGRESS
OFFICE OF THE UNDER SECRETARY OF DEFENSE
ACQUISITION, TECHNOLOGY AND LOGISTICS
DEPARTMENT OF DEFENSE FISCAL YEAR 2006
PURCHASES OF SUPPLIES MANUFACTURED
OUTSIDE THE UNITED STATES
April 2007

**Office of the Under Secretary of Defense (Acquisition, Technology & Logistics)
Defense Procurement and Acquisition Policy**

Background

Section 837 of Title VIII of the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006 (Pub. L. 109-115), 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 shall separately identify (1) the dollar value of any articles, materials, or supplies purchased that were manufactured outside the United States; (2) an itemized list of all waivers granted with respect to such articles, materials or supplies under the Buy American Act (BAA); and (3) 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.

Discussion

This report includes four sections: (1) all procurements from foreign entities and more specifically, purchases of articles, materials, or supplies/manufactured goods from such foreign entities; (2) manufactured products provided by U.S. suppliers with a manufacturing place of performance overseas; (3) waivers granted with respect to such articles, materials or supplies under the Buy American Act (BAA); and (4) a comparison of procurement funds spent on goods manufactured in the U.S. versus funds spent on goods manufactured outside the U.S.

The information presented in this report addresses Fiscal Year 2006 and is based on Federal Procurement Data System – New Generation (FPDS-NG) data compiled and distributed by the Defense Manpower Data Center. FPDS-NG contains 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 837 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 - Procurements from foreign entities

1(a) All procurements. DoD procurement actions recorded on DD 350's during FY 2006 totaled approximately \$295 billion. Of that amount, approximately \$21.4 billion or 7.3 percent was expended on purchases from foreign entities. Of this amount, \$21.1 billion is for contracts with a place of performance outside the U.S. and the remainder, \$.3 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 \$21.4 billion covers military hardware, subsistence, fuel, construction, services, and other miscellaneous items that are for use outside the U.S. Defense equipment constitutes approximately 10.5 percent of the purchases from foreign entities. Services, subsistence, fuel and construction account for 10.7 percent, 5.6 percent, 27.0 percent and 9.1 percent, respectively, or approximately 52 percent of the total purchases from foreign entities. **Table 2** provides a breakout of the \$21.4 billion by category and percentage of total.

Based on DSCA data, foreign purchases of U.S. defense articles and services in Fiscal Year 2006 totaled \$18.3 billion in FMS and \$2.6 billion in non-FMS for a combined total of \$20.9 billion in Security Assistance Sales (SAS). In addition, data from the State Department reflect that in Fiscal Year 2006, U.S. Commercial Exports of hardware sales totaled \$19.8 billion and sales of defense services totaled \$46.8 billion.

1(b) Procurement of manufactured articles. This section focuses on defense articles provided by foreign entities that are manufactured outside the U.S. Of the approximately \$21.1 billion that was expended on **all** purchases from foreign entities defined by Defense Claimant Program (DCP), approximately \$10.2 billion was expended on contractual actions for the procurement of articles manufactured outside the U.S. (**Table 3**). **Table 3** refines the data in **Table 2** to remove all costs associated with petroleum, other fuels and lubricants, subsistence, construction and services (DCPs A8A, A8B, B2, C3, and S1) to derive a total of \$10.2 billion for articles manufactured outside the U.S. The data is further refined to exclude all activities/services not actually associated with manufactured goods, resulting in an adjusted total of \$8.2 billion for procurement of articles manufactured outside the U.S. by foreign entities. **Table 4** provides a detailed breakout of these purchases. **Table 5** stratifies the data even further to provide visibility by DCPs, country, dollars and the number of actions.

Section 2 – Purchases of manufactured products from U.S. suppliers with a manufacturing place of performance overseas.

In addition to the procurement of manufactured articles discussed in section 1 above, data from the DD 350 reflect that in Fiscal Year 2006, the Department procured approximately \$1.2 billion in supplies from U.S. companies where the place of manufacture was listed as a foreign country. **Table 6** provides an overview of these procurements.

Section 3 - Waivers of the BAA granted with respect to such articles, materials or supplies.

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. Instead, 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. Morocco FTA
- g. 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 2006 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 2006.

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 2006.

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 2006.

Singapore products subject to FTA coverage equal to or exceeding \$64,786 but below the FY 2006 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.

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 2006.

1. Caribbean Basin Economic Recovery	\$ 9.4
2. Trade Agreements Act (including Least Developed Countries)	3,974.3
3. NAFTA (Canada)	26.9
4. Australia FTA	51.9
5. Bahrain FTA	391.2
6. CAFTA	.6
7. Singapore FTA	.3
9. MOUs	<u>505.1</u>
Total	\$ 4,959.7 Million

A breakout by country is contained in **Table 7**.

Section 4 - Comparison of procurement funds spent on goods manufactured in the U.S. versus funds spent on goods manufactured outside the U.S.

Table 8 presents a comparison of contractual actions and dollars for procurement of goods manufactured by U.S. sources versus goods manufactured by foreign sources. In FY 2006, DoD's procurement of manufactured goods from U.S. sources totaled approximately \$109.7 billion as contrasted to DoD purchases of manufactured goods from foreign sources which totaled slightly more than \$8.2 billion, or roughly 7% of all DoD's procurement of manufactured goods in Fiscal Year 2006. In addition, DoD purchased approximately \$1.3 billion from U.S. suppliers with a manufacturing place of performance overseas.