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Statement of  
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Comptroller General of the United States  
before the  
Joint Committee on Defense Production  
on  
Comments on the National Stockpile

Mr. Chairman and Members of the Committee:

You asked for our views on the recently announced policy changes for the Strategic and Critical Materials Stockpile. My comments deal with the stockpile policy change in the context of overall U.S. materials policy questions. I will convey our general observations on materials problems; briefly discuss the current and previous changes in stockpile assumptions and--present our observations on the new policy change.

In 1973-74, the United States was beset with increased energy costs, materials shortages, rising inflation, and increasing dependency on foreign sources for materials needs. The Government resorted to imposing export controls to protect the domestic economy against shortages

of some goods. Most concerns focused on energy but serious purchasing problems existed with over 100 industrial products. Our report to the Congress in April 1974, "U.S. Actions Needed to Cope with Commodity Shortages," stated that the United States did not have an effective planning, policy analysis, and policy formulation system for basic commodities. We made a series of recommendations directed at improving executive branch performance on these matters. I testified before a joint hearing of the Senate Commerce and Government Operations Committees in April 1974 and suggested the Congress consider the need for legislation to establish a centralized mechanism for developing and coordinating long-term materials policy planning.

The best defined materials policy will languish unless the institutional arrangements are appropriate for carrying it out. U.S. materials responsibilities are generally considered to be centered in the Department of the Interior. But, there are at least 23 Federal agencies, with some 90 different subdivisions engaged in funding materials research and development alone. Further, some 15 departments and 30 agencies conduct programs which, in efforts to achieve other social goals, may inhibit or hinder mineral production.

To bring some order to this situation, we have supported establishing a Department of Energy and Natural Resources, coupled with a Cabinet-level Council of Materials established to fill a responsible leadership role on materials matters.

Since April 1974, we have issued a series of reports on materials matters. 1/ We have continued to report on the need for developing a more coherent Federal materials policy improved Government information systems, a clearer focus of materials research and development on priority national problems, improved dialogue between the Government and industry on materials problems, and consideration of materials policy on a broad domestic-international basis.

Because of the lack of an adequate policy-making organization and continuing concern with materials problems in general, as reported by GAO and others, the Congress in 1974 authorized creation of the National Commission on Supplies and Shortages. The Commission was asked to recommend, by December 1976, the institutional arrangements appropriate to handling materials problems, including approaches for improving information flows. It also was asked to report on ... "necessary legislative and administrative actions to develop a comprehensive

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1/ A listing of materials-related reports is included as Appendix A.

strategic and economic stockpiling and inventories policies which facilitates the availability of essential resources..."

Hopefully, the results of this effort will provide better guidance for future materials directions. While we do not know what the Commission might ultimately report, we believe that the efforts of the Commission should help us understand more fully the nature of the materials issue and potential ways of dealing with it.

AUTHORITY TO USE STRATEGIC AND  
CRITICAL MATERIAL STOCKPILE

Let me turn now to the strategic and critical materials stockpile. The basic authority for establishing and using a strategic materials stockpile is the Stockpiling Act of 1946. Over the years the stockpile has been used in selected cases for what appears to be other than "common defense" or "national emergency." Some authorities have argued that the stockpile has been used as a de facto economic stockpile.

It might be helpful at this point to look at the language of the Act and cite an example of how the material in the stockpile has been used to help the economy.

Section 5(a) provides that a release of material from such a stockpile may be made by a Presidential

order at any time when, in his judgment, such release is "required for purposes of common defense."

Section 5(b) permits such release on order of the President in time of war or during a national emergency with respect to common defense proclaimed by the President.

In 1965, the Attorney General was requested to rule on the release of copper from the stockpile at a time when the copper industry was threatened by both disruption of supply and price escalation.

Attorney General Nicholas Katzenbach interpreted section 5(a) and (b) as follows:

"The language of Section 5, taken together with its legislative history, indicates that materials from the strategic stockpile should be released only when there exists a clear relationship between their release and the common defense purposes for which they are acquired."

The Attorney General also indicated that although the President's authority was broad, legislative history suggests that the President must relate the materials disposal to common defense.

The Attorney General ruled that the release of copper was appropriate, since the domestic industry was disrupted by greatly increased defense efforts in Vietnam and by international political disturbances.

However, in a prior case dating back to 1954, then Attorney General Herbert Brownell ruled against the release of some diamonds from the stockpile, since, in that instance, no relationship to common defense existed.

It must be recognized that the stockpile has been used over the years to assist specific industries. This can be done by Presidential authority as was the case with the copper industry, or through the sale of excesses. Under existing legislation, specific disposal authorization is required from Congress for each commodity except for materials acquired under the Defense Production Act.

#### STRATEGIC AND CRITICAL MATERIALS STOCKPILE

The National Security Council in 1973 provided certain changes in assumptions to the General Services Administration's Federal Preparedness Agency which is responsible among other things for the management of the national and strategic stockpile.

The changes in assumptions in April 1973 reduced the objectives for the stockpile from \$4.8 billion to \$700 million.

The basic assumptions which were changed and which had the most profound effect on the national stockpile included (1) reduced reliance on the national stockpile as a source of supply from 3 years to 1 year during an emergency, (2) revised import assumptions and rates, and (3) increased civilian austerity and greater use of substitutes.

We reviewed these changes and testified on two occasions before the Subcommittee Number 3 of the House Armed Services Committee. Our report entitled, "Stockpile Objectives of Strategic and Critical Materials Should be Reconsidered Because of Shortages," was issued March 11, 1975.

Because the United States relies heavily on imports of some materials and because the possibility of producer boycotts exists for some of the resources, the United States may no longer be able to assume that we can always import quantities to satisfy our increasing demand of materials.

We concluded that long-range planning was needed particularly for materials which:

- have no substitutes,
- are largely imported,
- are in strong demand, and
- are susceptible to producer boycotts.

We recommended that the Secretary of Defense and the National Security Council reevaluate the current stockpile and insure the nation's readiness need is met. We also recommended that the GSA Administrator use this data, as well as data from other studies that were in process, to arrive at new national stockpile objectives.

The House Armed Services Committee did not publish a report on their hearings involving authorizations of disposal of several materials. However, it became abundantly clear that the Committee would not act favorably on the bills until a complete analysis had been performed. A National Security Council staff member confirmed this and also stated that President Ford was not necessarily convinced that the 1973 change was appropriate.

The National Security Council issued a Study Memorandum on August 14, 1975, tasking the various agencies to make a new analysis.

The first phase of the study, completed in November 1975, concluded that more work should be done. The second phase was completed in July 1976. Results of this phase, we are told, cited the pros and cons of the 1- to 3-year alternative assumptions, and the President chose the 3-year option. The President signed the National Security Decision Memorandum in August 1976.

We have requested these studies from the National Security Council, but we have not been furnished copies. We have been permitted to read portions of the study. However, until we are given the opportunity to review the studies in detail, it is difficult to evaluate the support to the proposed stockpile policy.

## IMPACT ON STOCKPILE

The President's new stockpile policy has been implemented by the Federal Preparedness Agency. New stockpile goals were determined as of October 1, 1976. The new stockpile goals were arrived at by determining requirements and availability of supplies for three categories, or tiers, according to the tier's relationship to the war effort. The three categories are:

- (1) Defense--direct and indirect expenditures by the defense sector, computed separately for each material for each of the 3 years.
- (2) Essential civilian--includes civilian expenditures directly related to the war effort (for each of the 3 years).
- (3) General civilian--includes expenditures which are most supportive of a broad industrial base (for each of the 3 years).

GSA officials told us that they believe three factors probably had the largest influence on increasing the stockpile goals:

- Expanding the support from 1 to 3 years.
- The use of the political reliability factor, which was not used in the 1973 calculations.
- Increase in shipping losses in arriving at the supplies available for defense needs.

The specific factors included in the Federal Preparedness Agency's model for arriving at the new goals, are listed in Appendix B and the various agencies that provided pertinent input are listed in Appendix C.

We have attempted to quantify the current goals to give the Committee a better perspective of how much money is potentially involved in the three broad categories. The table in Appendix D summarizes the results of our efforts. We hasten to add that we are not suggesting that the full amount of this would ever be requested by the President, nor that Congress would, or should, fund this.

In brief, the table shows:

- total stockpile goals to be about \$10.3 billion of which \$3.5 billion can be met by materials on hand.
- a goal for defense needs of \$2.3 billion of which \$1.4 billion can be met from materials on hand.

Of the total \$7.4 billion of materials currently on hand, approximately \$3.9 billion is in excess of the new goals.

GSA officials have been reluctant to quantify the new goals because the goals do not represent quantities that must be acquired within 1 year but rather they

represent a long-term proposition. Market considerations of availability and price will have a major bearing on whether the shortfalls are acquired. Thus, they believe quantifying the goals beyond the contemplated Annual Materials Plan will have no value.

GSA contends that the Annual Materials Plan will give the Congress the desired visibility as to the stockpile needs. This plan will be submitted annually with the President's budget and will identify the dollars required to buy critically needed stockpile items. The specific minerals or metals will not be identified in the annual plan to insure that market prices will not rise rapidly once the Government's needs are known. We are told this information will be readily available in closed hearings. The plan will also identify items which represent excesses and the quantity of materials which can be disposed of during the year. The current procedure for requesting Congressional approval for the disposal of strategic and critical materials will be followed.

While we agree the annual inventory plan will provide Congress with the opportunity to decide whether to fund any or all of the requested needs for the year, we believe that in order for the Annual Materials Plan to

be of most use to the Congress, it should be supported or supplemented by the Federal Preparedness Agency's long-range plan for meeting the established goals extending beyond the budget year.

When considering budget requests for specific items to meet the general civilian goal which have less priority than defense goals, the Congress should consider the trade-off of investing funds for other long-term options such as increased materials research and development as a means of minimizing foreign dependency. According to the National Security staff member, tradeoffs such as these were not specifically addressed.

#### OBSERVATIONS ON THE CHANGED POLICY

The recently announced policy change regarding the strategic and critical materials stockpile again raises the issues of whether (1) the stockpile will be used solely for military purposes or for economic purposes as well, (2) the strategic and critical materials stockpile represents the most desirable method of accomplishing the designated objectives, and (3) the appropriate items and quantities are being stockpiled. Also of concern is whether the stockpile fits appropriately into the Nation's evolving materials policy. Let me briefly address these issues.

1. Use of the stockpile

The purpose of the stockpile is to insure that we will have the necessary raw materials to support military requirements and the basic civilian economy during periods of extended conflict and when normal foreign supplies of these materials are disrupted. By maintaining appropriate levels of these materials in the stockpile, U.S. dependence upon foreign nations in time of war can be prevented or reduced. The stockpile consists of 93 minerals, metals, and other industrial materials stored at 122 locations in the United States. Most of the materials were acquired prior to 1959.

The language of the Strategic and Critical Materials Stockpiling Act of 1946 seems fairly clear regarding the use of the stockpile primarily for military purposes. However, past acquisition and disposal actions have caused many knowledgeable people to conclude that, for some time, the United States has operated a de facto economic stockpile, bowing to industry pressure in times of tight supply to release stocks and, at other times, threatening releases to bring down raw materials prices.

With respect to the recent policy change and the resultant increase in stockpile composition and size, some industry officials see the Government's intentions as

creating an economic stockpile which could be released for other than military purposes. During public hearings on economic stockpiling held recently by the National Commission on Supplies and Shortages, a variety of witnesses expressed the belief that the Government was creating an economic stockpile.

Our discussions with the Federal Preparedness Agency and the National Security Council staff member indicated that the current goals fulfill most of the U.S. needs for the selected critical materials for a number of years. These needs were derived from a basis of war demands. It is quite apparent that most supply disruptions and price gouging in peacetime could be met if a stockpile based on wartime demands were used for a peacetime purpose.

We believe specific legislation should be introduced if the administration intends to use a more liberal interpretation for releases of materials. The new three-tier computation does permit better visibility and provide a basis for specific congressional guidance regarding releases to meet other than war emergencies. Such guidance should be made explicit in the statutes which govern use of the stockpile and the conditions under and purposes for which acquisitions and sales can be made.

## 2. Other available options

The stockpile involves consideration of both military and civilian uses. Rigidly applied, the stockpile would

be used solely for military purposes. However, the uncertainty of foreign dependency, which gives rise to the need to stockpile for military purposes, is equally applicable to the civilian sector of the economy in non-war situations. Although one stockpile could be used to meet both military and civilian economic needs, we believe the issue is more adequately addressed in the context of overall materials policy.

It is difficult to see how the policy change of increasing the stockpile fits into a national materials scheme. We know, for example, of no executive branch effort to seriously evaluate the options available to accomplish the stockpile goal of supporting requirements during periods of extended conflict. Institutionally, numerous options could be explored to alleviate unstable foreign dependency in whole or in part, including:

- Agreements on a commodity-by-commodity basis with producer and consumer countries, either bi-lateral or multi-lateral.
- A government corporation to hold military and economic stocks.
- A government-owned, but privately managed, stockpile arrangement.

--An independent government agency like the Federal Preparedness Agency holding military and economic stocks.

--Membership in a commonly held stockpile of an international organization.

Over the longer term, given the high U.S. dependency on imports for stockpile items, other available options could be explored to reduce that dependency and minimize stockpile costs. These options, at least for some items being stockpiled, include:

--Increasing the level of research and development of materials to make them last longer and perform better.

--Creating appropriate incentives or requiring mandatory recycling and resource recovery practices.

--Encouraging substitution, in the design stage, of relatively abundant materials for relatively scarce materials.

We have not examined the options mentioned above nor do we suggest they all are feasible. The point is that options do exist and these should be explored as possibly more viable ways of filling our national needs.

In any case, it seems premature to implement a major stockpile policy change without the benefit of the report

of the National Commission on Supplies and Shortages which is due to the Congress in December of this year.

3. Items and Quantities to be Stockpiled

As we said earlier we have not been able to examine the underlying data supporting the National Security Council judgments on what should be stockpiled. We know something about the method used. It seems sound. But, that is about as far as we can go.

Extensive attention has been given to the potential problem of supply shortages of "critical" materials, as evidenced by the existence of a National Commission on Materials Policy, a National Commission on Supplies and Shortages, and recent reports by the National Academy of Science, the Council on International Economic Policy, and the Interior and Commerce Departments. There is, as yet, no apparent consensus concerning the definition of "critical" materials. Also, there is, as yet, no well-developed method for ascertaining which materials are truly most critical to the functioning of the U.S. industrial economy and maintenance of socio-economic stability.

The shift in metal and mineral processing industries, such as in zinc and chromium, from the United States to other countries creates further ambiguity in terms of

whether raw or processed materials should be stockpiled. In this regard, the future makeup of these industries has real importance. Some very important tradeoffs are involved here. On the one hand, it might be well for high energy using industries to leave the United States thereby lessening our energy demands and reducing our pollution problems. On the other hand, there is a loss of employment, our import bill increases greatly, we could be accused of "exporting" our pollution problems, and there would be reduced U.S. industry capacity to process the materials being stockpiled.

To summarize, we think the policy change on the stockpile ought to be considered in the context of overall U.S. materials policy. Many improvements bearing on the Government's ability to deal intelligently with materials problems still need to be made. We talked a little bit about improved impact analysis, information requirements, and consideration of alternative devices for meeting stockpile objectives.

We would like to know more, and we think the Congress and the public would too, about the rationale supporting the change from a 1-year to a 3-year emergency period for all demands and the circumstances and conditions under which purchases or releases will be made. And, of course, more

knowledge is needed about the judgments concerning the items and quantities being stockpiled. GAO has a continuing interest in the stockpiling policy and, as a next step, we will look at the stockpile recommendations made by the National Commission on Supplies and Shortages.

That completes my statement. I would be pleased to answer any questions you might have.

## SYNOPSIS OF PREVIOUS REPORTS

### U.S. Actions Needed To Cope With Commodity Shortages, B-114824, April 29, 1974

The events of 1973 and 1974 highlighted the serious problems that the United States and other countries could face due to the growing spot shortage of basic resources. Our previous report entitled "U.S. Actions Needed to Cope With Commodity Shortages" stated that long-range planning was needed. There needs to be better and more effective coordination of supply and requirements estimates and better management of programs already authorized. Presently, the data bases--material resources and reserves, private research and development activities, and technological capabilities--have many gaps. And because the responsible agencies had not adequately developed their analytic resources, their ability was limited to discern broad trends, to integrate data from various sources, and to project future developments.

The executive branch system did not provide or coordinate the information needed for broad policymaking on future resource supply and demand situation. We therefore recommended in our report that one organization, designated by the Council on Economic Policy, coordinate agency analysis of long-range economic planning.

### The Fifth International Tin Agreement - Issues and Possible Implications-B-125067, Aug. 30, 1976

This report issued August 30, 1976, presents the possible favorable and unfavorable consequences of the United States joining the Fifth International Tin Agreement subject to congressional consultations and ratification. The report presents the background on previous Tin Agreement and the relation between the U.S. tin stockpile and the Tin Agreement. On September 15, 1976, the Senate gave advice and consent on this treaty. In November, the United States formally became a member of this Agreement.

U.S. Dependence on Imports  
of Five Critical Materials:  
Implications and Policy Alternatives - B-125067

Our report dated January 29, 1976, on U.S. dependence on imports for five critical minerals showed that major foreign suppliers of five imported minerals--bauxite, chromium, manganese, nickel, and tin--were (1) not politically motivated to withhold supplies from the United States and (2) interested in obtaining as much revenue as possible from mineral exports but were limited, primarily by economic forces, as to the amount they could increase prices.

We also concluded that economic stockpiles, as protection for political supply disruptions, are not needed except in the case of chromium where (1) the relationships between the U.S. and two large producers have been strained, (2) chromium sources are limited and reserves and resources are concentrated in only a few countries, and (3) a supply cutoff would seriously affect a sector of U.S. industry since chromium is essential to the manufacture of stainless steel.

On the other hand, economic stockpiles to protect against price gouging and shortages would cause certain problems which need full examination. The cost of stockpiles is a major disadvantage which should be scrutinized. Also, the impact of stockpiles on international relations should be considered.

Stockpile Objectives of Strategic  
and Critical Materials Should Be  
Reconsidered Because of Shortages  
B-125067, March 11, 1975

In the March 11, 1975, report, we focused on the changes in various assumptions, authorized by the National Security Council, which affect the national stockpile. These changed assumptions in April 1973 reduced the objectives for the stockpile from \$4.8 billion to \$700 million.

The basic assumptions which were changed and which had the most profound effect on the national stockpile included (1) reduced reliance on the national stockpile as a source of supply from 3 years to 1 year of an emergency, (2) revised import assumptions and rates, and (3) increased civilian austerity and greater use of substitutes.

We concluded that long-range planning was needed, particularly for materials which

- have no substitutes,
- are largely imported,
- are in strong demand, and
- are susceptible to producer boycotts.

We recommended that the Secretary of Defense and the National Security Council reevaluate the current stockpile to meet the nation's readiness needs. We also recommended that the GSA Administrator use this data, as well as data from other studies that were in process, to establish new national stockpile objectives.

### Present Work

We are presently surveying the implications of repealing the Byrd Amendment, enacted in 1971, which permits the United States to import strategic materials from Southern Rhodesia in contravention of the United Nations sanctions program established in 1966. The basic commodity of importance in this survey is chromium. Issues covered will be national security including the strategic stockpile of chromium, capability of the domestic ferrochrome industry, and impact of a self-imposed disruption in supply of a strategic material.

### Review of Commodity Information and Analysis Systems - (Work under way)

After the report on commodity shortages was issued, the Chairman of the Senate Committee on Commerce, in a letter to the Comptroller General, stated that it would be helpful to receive an assessment of the program and efforts of the executive agencies in the materials area since the issuance of our April 1974 report. We have, therefore, been in the process of reviewing the structure, functions, data handling procedures, and analysis capabilities of units within the Departments of Agriculture, Commerce, Interior, and State dealing with commodity information and analysis. To date, we believe that the Executive departments have increased their information and analysis capabilities, but our preliminary observations show that additional actions are needed to further strengthen these programs.

FACTORS CONSIDERED IN ARRIVING  
AT NEW STOCKPILE GOALS

Some of the specific factors considered by the FPA when determining material requirements are:

- (1) Size and status of the U.S. Armed Forces
- (2) Substitution of other material
- (3) Austerity
- (4) Shift in personal consumption expenditures
- (5) Shift in investment demand
- (6) Imports
- (7) Exports

Factors considered when determining total supplies available to meet requirements are:

- (1) Shipping losses
- (2) Political reliability
- (3) Domestic production (normal production vs. full capacity production)
- (4) Foreign production

Agencies comprising the Interagency Committee that performed Phase I and Phase II of the Stockpile Study and subcommittees chaired by the departments.

General Services Administration	-	Market and Budget Analysis Special Material Upgraded Forms Substitution Consumption Ratio Methodology and Data Policy Variable
Department of Commerce		
Department of Treasury		
Department of Interior		
Office Management and Budget		
Department of Defense	-	Shipping Losses Expenditure Patterns
Department of State	-	Political Reliability
Council on International Economic Policy		
Central Intelligence Agency	-	Not a permanent member of the Committee but submitted input on various subjects.
Energy Research and Development Administration	-	Not a permanent member of the Committee but submitted input on various subjects.

QUANTIFICATION OF STOCKPILE GOALS  
(In billions of dollars)

	GOAL	<u>INVENTORY</u> <u>ON HAND</u>
Defense needs only		
1 year	\$ .4	\$ .4
2nd and 3rd year	<u>1.9</u>	<u>1.0</u>
	2.3	1.4
Essential Civilian		
1 year	.8	
2nd and 3rd year	1.7	
General Civilian	5.5	<u>2.1</u>
	<u>\$10.3</u>	<u>\$ 3.5</u>