



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

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RELEASED

Information should be released outside the General Accounting Office only with specific approval of the Director.

The Honorable Robert S. Walker
House of Representatives

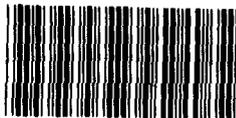
Dear Mr. Walker:

Subject: Request for Update of Shortfall Projection
of Industrial Fasteners (ID-82-6)

In your letter of October 19, 1981, you requested an updated projection of the shortfall in supply of industrial fasteners in the event of a general mobilization and suggested the method and assumptions for making this projection. The outcomes of the mathematical calculation using your method and assumptions are shown in the enclosure. A similar calculation was presented to the Congress by Mr. Robert J. Blinken, Chairman, United States Fastener Manufacturing Group, during oversight hearings on U.S. Trade Policy before the Senate Finance Subcommittee on International Trade and the Senate Banking Subcommittee on International Finance and Monetary Policy.

We believe it is necessary to note that this calculation can be challenged as an inaccurate quantification of the problem because it (1) is based on an old Department of Defense war scenario and dated assumptions regarding essential defense and civilian requirements for industrial fasteners, (2) uses dated assumptions regarding the loss of access to foreign supply of fasteners, and (3) estimates the projection of the shortfall caused by limited capacity in the entire industrial fastener industry by taking the 1977 estimate as the base and adjusting it only for the 28 percent loss in domestic production of nuts, bolts, and large screws reported by the U.S. International Trade Commission (ITC) to have occurred since 1977.

A fully developed updated study can be best prepared by the agency which prepared the original study (the Federal Emergency Management Agency, successor to the Federal Preparedness Agency). Alternatively, such a study could also be prepared by the Department of Commerce in response to a Section 232 (Trade Expansion Act of 1962) investigation. Our checks with these agencies showed that they are not planning any updates of the previous study. Necessary input for an update would include the current war scenario, an updated estimate of requirements for essential defense and civilian needs, information on both foreign and domestic production capacity,



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and some assumption regarding loss of access to foreign supply in case of a general mobilization. Additional factors would also have to be considered for an accurate update. For example, domestic production capacity depends on supply of raw materials, which could also be disrupted in the event of a general mobilization, especially if there were an inadequate strategic stockpile or if stockpiled materials were incompatible with requirements for existing domestic production capacity. Even the most carefully prepared results would still be subject to challenge on the basis of assumptions regarding loss of access to foreign supply or projections of requirements, etc.

Your letter indicated that your concern was directly related to the ITC review of the industrial fastener industry's petition for extension of import relief. As you know, the ITC will be making its determination shortly; if it votes in favor of the extension, it would submit a recommendation to the President by mid-November. The President would then decide whether relief should be extended and, if so, what the relief should be. These decisions would probably be made in January. It is our belief that a fully updated study could not be completed in time to contribute to the President's review.

We have discussed this information with your staff and understand that it meets the needs underlying your request.

Sincerely yours,



Frank C. Conahan
Director

Enclosure

ENCLOSURE

Projected Shortfall in Supply
of Industrial Fasteners
Based on Method and Assumptions
Suggested by
The Honorable Robert S. Walker

<u>Year</u>	<u>Requirement</u>	<u>Domestic production</u>	<u>Imports</u>	<u>Total supply</u>	<u>Shortfall</u>
----- (million pounds) -----					
1981	5,521	2,093 to 1,919	1,886 to 1,934	3,979 to 3,853	1,542 to 1,668
1982	6,492	3,088 to 2,268	555 to 710	3,643 to 2,978	2,849 to 3,514