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DEPARTMENT OF DEFENSE APPROPRIATIONS

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

FIRST SESSION

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Oversight of Fiscal Year 1975 Military Assistance to Vietnam
Central Intelligence Agency Domestic Activities
Reprogramings

Printed for the use of the Committee on Appropriations

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DEPARTMENT OF DEFENSE APPROPRIATIONS

THURSDAY, JANUARY 30, 1975.

OVERSIGHT OF FISCAL YEAR 1975 MILITARY ASSISTANCE TO VIETNAM

WITNESSES

HON. PHILIP HABIB, ASSISTANT SECRETARY OF STATE (EAST ASIAN AND PACIFIC AFFAIRS)
ERICH F. VON MARBOD, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)
LT. GEN. RAY B. SITTON, USAF, DIRECTOR, J-3 (OPERATIONS), OFFICE OF THE JOINT CHIEFS OF STAFF
LT. GEN. DANIEL O. GRAHAM, USA, DIRECTOR, DEFENSE INTELLIGENCE AGENCY
WALTER B. LIGON, DEPUTY DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

Mr. MAHON. The committee will come to order.

INTRODUCTION

I want to welcome before the committee today, and before we begin hearing, the new members of the subcommittee: the gentleman from Florida, Mr. Bill Chappell; the gentleman from Missouri, Mr. Bill Burlison; the gentleman of Virginia, Mr. Kenneth Robinson; and the gentleman from New York, Mr. Jack Kemp.

We welcome you to one of the hardest working subcommittees in the Congress. We will probably have 5 months of hearings on the defense budget. We have our work really cut out for us. We are going to be dealing with monumental figures as we proceed.

There is no more controversial issue, I believe, than that of the participation of the United States in the area of Southeast Asia and in the conflicts there, not that we are militarily involved with U.S. personnel in any meaningful way.

The administration has forwarded supplemental requests for additional funds for South Vietnam and Cambodia. The request for $300 million for South Vietnam will be considered by this subcommittee, of course. The request for $222 million for Cambodia will be conducted by the Subcommittee on Foreign Operations.

It is not the purpose of the hearing today to discuss the supplemental request. We will need to review carefully the detailed justifications for the supplemental requests before the hearings can be held, and as of this date we haven't received the justifications, so as we are not in the position yet to go into a discussion of that request.

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I think it is in order that before we consider a request for new funds, we find out what has been done with the funds which have already been provided by the Congress

As you know, Congress placed strict limits on the availability of funds for this current fiscal year, fiscal year 1975, for South Vietnam and Cambodia We want to know how well, I would like to say to our witnesses, the administration is staying within these limitations We want to know what deliveries have been made into these countries, what funds have been obligated and what funds have not been obligated Obligations and deliveries are not the same, and we want to have the differences explained by the witnesses

There are continuing allegations that the U S personnel, military, civilian or contract, are actively engaged in one phase or another of military operations in Southeast Asia We want to know to what extent Americans are involved in reconnaissance flights, bombing raids, supply operations, or any other phase of war in that area

We have also asked that witnesses be present who can give the subcommittee up-to-date information on the military situation in Southeast Asia

We have read in the papers of recent successes of the Communist forces in both South Vietnam and Cambodia We need to know the extent of those successes, what the current situation is, and what the projections are for the near future

There is a feeling in and out of Congress that the executive branch has not always been completely forthright with the Congress We are going to expect, as we always have tried to demand, that we be given the unvarnished facts with regard to the situation

We do not want to go into past history, discussing shortcomings in previous years in great detail We cannot do anything about them, but we can do something about the present and the future, and that we propose to do

The principal witness today is Mr Erich F von Marbod, Principal Deputy Comptroller of the Department of Defense

Your statement, Mr. von Marbod, is unclassified We will hear the statement and proceed with questioning in open session for as long as we can

Much of the material we want to cover today is probably classified, and while we regret having to close the hearings, we do not demand that you testify in open hearing with respect to matters which you feel are too sensitive to be discussed in open hearing

Mr Addabbo Mr Chairman, on that question of closing the hearings, at that point we do go into closed session, a motion would have to be made

First, I would ask that the committee be briefed as to why it is classified The Congress has passed legislation restricting our operations in Southeast Asia Therefore if it is to be closed and classified, I think the public has a right to know on what basis it is moved that we close

Mr Mahon As you know, we cannot close the hearing without a rollcall vote and we would proceed in strict accordance with rules

Mr Addabbo Before the rollcall should be made, I think we should be given some explanation as to why the motion is being made

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Mr. MAHON. The gentleman will be recognized to ask any questions regarding the need to close the hearings, as will any other member.

I would like to say to you gentlemen and to the subcommittee that we will have before the committee later the Secretary of Defense, Mr. Schlesinger, that we will have the Chairman of the Joint Chiefs. We will have Mr. Colby, head of the Central Intelligence Agency. We will have Secretary Kissinger. But this morning we are looking at the nuts and bolts and getting background information as we await the justifications for the fiscal year 1976 defense budget and for the additional funds being urgently sought for Vietnam and for Cambodia.

Mr. von Marbod, will you introduce the other witnesses here, and tell us who they are?

Mr. VON MARBOD. Yes, Mr. Chairman.

With me are the Honorable Philip Habib, the Assistant Secretary of State for East Asia and Pacific Affairs, who will address policy issues, and Lt. Gen. Ray Sitton of the Joint Chiefs of Staff, who will address the issue of U.S. forces in Southeast Asia and respond to questions regarding reconnaissance.

Mr. MAHON. Why is he here instead of someone else? I wish you would explain that.

Mr. VON MARBOD. He is the Director for Operations, Joint Staff, Organization of the Chairman of the Joint Chiefs of Staff.

Lt. Gen. Daniel Graham, the Director of the Defense Intelligence Agency, is also with me and will give you an unclassified briefing on the military situation in Southeast Asia.

Also present is Mr. Walter Ligon, the Deputy Director of the Defense Security Assistance Agency, who has direct responsibility for managing the military assistance program for Cambodia.

Mr. MAHON. Thank you very much.

Are we ready, Mr. Edwards, to proceed with the statement of our principal witness?

Mr. EDWARDS. I just want to join the chairman in welcoming the new members of the subcommittee, and I look forward to working with all of them.

Mr. MAHON. I think we might announce that this year, as in prior years, the subcommittee will undertake to meet promptly and begin the hearings promptly.

Another thing I think we ought to mention is this: that if I as chairman have to be absent, out of town or out of the committee, this does not mean that we can't proceed. I think if a member has to go home and make a speech or something like that, unless it is a markup or something of that kind, I think we should have an understanding among ourselves that the work must go on. We have got to telescope our work into a shorter period of time this year on account of our effort to conform to a new legislative procedure.

The acoustics are not too good here. I would hope people will not smoke in this small, stuffy room, unless they are principal witnesses.

Will you proceed now with your statement?

Mr. GIAIMO. Mr. Chairman?

Mr. MAHON. The gentleman from Connecticut.

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Mr. GIAIMO. Before the Assistant Secretary begins, could we have a personal background on the Assistant Secretary himself, what he has done?

Mr. MAHON. I think we should have.

Mr. GIAIMO. Also what particular expertise he has in this area.

We have a statement here from him but quite frankly I would like to know a little bit more about him.

Mr. MAHON. I think that is a very good question.

Will you identify yourself more fully?

Mr. VON MARBOD. Yes, sir.

I entered Government service in February of 1952 and, for the last 23 years, have worked for the Department of Defense managing financial and materiel resources.

I have worked with procurement. I have worked with logistics. I have worked with supply management. I have been a budget officer and a comptroller.

I was appointed the Principal Deputy Assistant Secretary of Defense in August of last year. Prior to that time, Mr. Giaimo, I served as the Comptroller and as Acting Director of the Defense Security Assistance Agency. In that capacity, I managed military assistance programs for grant aid recipient countries and credit associated with foreign military sales.

My experience has been primarily in financial management and in the general area of planning, programing and control of security assistance and defense resources.

Mr. GIAIMO. And your experience with Vietnam?

Mr. VON MARBOD. My experience with Vietnam has been an especially active one since August of 1974 when the Secetary of Defense directed me to assume full-time responsibility for the management of the defense assistance for Vietnam program. This assignment was made in response to a specific request to the President by the chairman of the Senate Armed Services Committee, the Honorable John C. Stennis, who urged the President to appoint a full time administrator who would be in complete charge of this program under the general direction of the Secretary of Defense. I have had that responsibility, since last August.

I report directly to Secretary Schlesinger on matters involving defense assistance to Vietnam. I would emphasize, however, that we in the Department of Defense do not establish foreign policy. We look for foreign policy guidelines on the program to the Secretary of State, who is represented at this hearing by Assistant Secretary Habib.

Mr. GIAIMO. Thank you.

Mr. ADDABBO. Will the gentleman yield?

Mr. Secretary, you mentioned that you were with the Comptroller's Office and in one of the security offices and controlled programing.

Mr. VON MARBOD. Yes, sir.

Mr. ADDABBO. Were you in charge of that office in and around the time of the Tet offensive several years ago?

Mr. VON MARBOD. No, sir. I joined the Defense Security Assistance Agency on October 1, 1971. I had no direct management responsibility for the Vietnam program until August 1974. Therefore the military departments managed all military assistance to Vietnam; and as my prepared statement will explain, Mr. Addabbo, the program was managed by many people within the three military departments.

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Mr. ADDABBO. Or mismanaged.

Mr. VON MARBOD. There is evidence to that effect, sir.

Mr. ADDABBO. Thank you, Mr. Chairman.

Mr. MAHON. All right. Will you proceed, and will you speak out so that we can hear you well?

STATEMENT OF PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

MANAGEMENT OF DEFENSE ASSISTANCE TO VIETNAM

Mr. VON MARBOD. Mr. Chairman, members of the committee, I welcome this opportunity to appear before you on the Department of Defense management of the Defense Assistance Vietnam (DAV) appropriation. I firmly believe that the Congress and the American people are entitled to prudent management and complete and accurate accounting of these valuable resources. I believe we have established an effective system for fiscal year 1975, and that we have made progress in implementing sound management procedures.

My presentation will be in four parts: first, a brief résumé of factors which led to the establishment of the DAV system; second, an outline of the current DAV management procedures; third, several observations on the South Vietnamese logistics system; and last, specific management decisions made here in Washington and in Saigon which demonstrate the impact of conservation on the South Vietnamese military capabilities.

Prior to fiscal year 1975, all security assistance to South Vietnam was administered under a system which was geared to providing defense resources to both United States and South Vietnamese armed forces. Due to the enormity of the defense requirements during the deployment of U.S. troops in Southeast Asia, the individual military departments funded separately their respective forces and the counterpart branches of South Vietnamese Armed Forces, there were commingled accounts because defense resources sent to Southeast Asia served to supply both the U.S. forces and the South Vietnamese forces. Other than statistical estimates of obligations incurred for military assistance to Vietnam, there was no differentiation as to whether bullets shipped to South Vietnam would ultimately be expended by the U.S. Army or the South Vietnamese forces. Resources were appropriated by the Congress in 13 separate Defense accounts. Supplying a half-million U.S. soldiers and South Vietnamese forces numbering a million required a certain flexibility in funding integrated requirements, hence the military assistance service funded (MASF) system. The Congress in recognition of the problems inherent in these integrated requirements, did not by statute require precise accountability, or the establishment of separate accounts and delivery reports.

Following the Paris accords and the withdrawal of U.S. troops from South Vietnam, the scope of the program decreased considerably, and there was an accompanying elimination of the "integrated requirements." In the planning for fiscal year 1975, a single unified account, defense assistance, Vietnam (DAV), was created for the purpose of better controlling further military assistance to South Vietnam. The transition from military assistance service funded

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(MASF) to defense assistance Vietnam, effective with fiscal year 1975, presented certain internal management problems both for the United States and the South Vietnamese. The superimposition of a single account—a unified logistics base—where there had been 13 separate "service funded" accounts required not only a retooling of the mechanics, but also a reeducation by the managers themselves. Perceiving some of these problems, Members of the Congress recommended to the President that a senior level official be appointed in the Department of Defense to administer and have complete responsibility for defense assistance to Vietnam. Following my appointment as the Principal Deputy Assistant Secretary of Defense (Comptroller) in August of last year, the Secretary of Defense directed that I take personal charge of management of this program, reporting directly to him thereon. At that time, I formed a four-man team to aid in my management of the program. It has been my objective to insure maximum internal monitoring and accurate external reporting. We review the requirements and priorities as they are forwarded to the Pentagon after screening by the Defense Attache's Office (DAO) in Saigon and the commander in chief, Pacific. In addition, we carefully scrutinze every action taken in the program to insure compliance with congressional legislation and intent.

In order to verify our findings, I have been to South Vietnam twice since last September, as has each of my staff. Also, I have directed that the Defense Audit Agency team in Saigon be increased from 13 to 20. This office has already provided me with independent audits from the field of various aspects of the program.

My first-hand experience in Vietnam has convinced me that our current management policies provide greatly improved visibility of all facets of the program; will flag inconsistencies down to small dollar values; and will also provide a precise status of funding. The controls imposed have, in my opinion, eliminated the majority of past inadequacies in accountability and reporting. I have observed first-hand the stringent conservation program which the South Vietnamese Joint General Staff has instituted with respect to all aspects of the program—ammunition, POL, spare parts, et cetera. The South Vietnamese logistics system has an internal discipline which provides their own planners with better data and management control than ever before. Every usable or reusable item serves a purpose. Ammunition packing crates and boxes are filled with dirt and used for bunkers. South Vietnamese Air Force mechanics are rebuilding engine components that the U.S. Air Force would dispose of. South Vietnam Army repair facilities are rehabilitating vehicles and equipment which, in our Armed Forces, would be considered unsalvagable. Expended brass is collected and sent to the Vietnamese Naval Shipyard in Saigon, where it is melted down and recast into ship fittings otherwise unavailable for antiquated Vietnamese craft. In short, the South Vietnamese are aggressively and imaginatively utilizing the decreasing U.S. defense supplies in every way they possibly can.

With respect to specific programs established by the South Vietnamese to conserve resources, I believe that despite ever increasing enemy pressure, they are doing well. Ammunition consumption has been held to well below the rate which prevailed previously at comparable levels of hostility. Ammunition is intensively managed at all

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echelons; and rationing is accomplished in terms of rounds per man or weapon per day, as contrasted with the more liberal system inherited from U.S. forces. Allocations are austere at best and, in most cases, more than 70 percent below those for U.S. forces under similar circumstances. Half of all administrative vehicles is provided at only 55 percent of traditional consumption. Two hundred twenty-four aircraft have been placed in storage, and aircraft flying hours for the remaining active aircraft have been reduced by more than 50 percent. Supplies of spare parts for all systems have been drawn down, and are now requisitioned only on an as-needed basis.

In addition to resources obtained with this year's funding, we have benefited somewhat from a detailed audit that has just been completed on prior year MASF support programs for Vietnam and Laos. The fiscal year 1974 allocation of funds was $1,010.9 million for Vietnam, and $111.7 million for Laos. With the cessation of hostilities in Laos, and action by the U.S. Government to reduce Royal Laotian Government forces supported to a size and composition compatible with the maintenance of internal order, quantities of U.S. equipment and supplies positioned in Tailand—ownership of which had not yet been transferred to the Royal Laotian Government—became excess to residual Laotian requirements. An estimated $41 million of these assets, principally ammunition, which were funded under prior year MASF authorizations have been redistributed/transshipped to Vietnam.

With respect to overall funding and control of expenditures, we have held the rein tightly this year. Essentially only consumables are being provided, and virtually no major items of equipment are being replaced as allowed under article 7 of the Paris Accords. Despite the desirability of front loading or paying for certain supplies early in the fiscal year, I have allowed obligation of funds in prudent increments only. Thus far, $517.5 million of the $700 million appropriation has been obligated. It is only through conservation measures and sacrifice by the South Vietnamese that there are stocks of ammunition and POL in the depots today. The materiel supply and spare parts picture is less satisfactory. The reduced level of operations has somewhat obscured the true impact of parts shortages, and there is currently a significant degradation in the capability of the South Vietnamese forces to react fully if the North Vietnamese increase their offsensive activity to the level forecast.

Because the administrative and overhead costs for assistance to Vietnam are now included in the overall program, we have taken positive action to reduce manpower and overhead costs within the Defense Attaché Organization, and we have significantly reduced contractor support personnel. Since last summer, the DAO authorized strength has been reduced from 959 to 850; and further reductions to 777 are in final stages of approval. A deeper and more precipitous reduction has been made in U.S. contractor personnel. Since June 30, 1974, a 53 percent reduction has been made from 2,324 to 1,100; and a further reduction to 750 by June of this year is expected. I am impressed by the way the South Vietnamese have weathered this drastic reduction, and have shouldered the significantly increased technical burden.

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Although our management efforts have allowed us to get by up to this point, we are deeply concerned for the future As noted by Defense Intelligence Agency, we have positive evidence that the North Vietnamese intend to step up their offensive operations during the coming months A major drawdown in stocks must be anticipated as combat intensifies Continuation of the strict conservation measures will further erode the capability and willingness of the South Vietnamese to defend against enemy initiatives The ensuing loss of territory and resources will undoubtedly encourage enemy aggression, and could encourage an attempt to launch an all out offensive at a time when South Vietnamese stocks would be insufficient to counter such attack It is for these reasons that we believe additional funds beyond the $700 million appropriated are essential

I will discuss specific requirements for additional funding whenever the committee wishes me to do so

In summary, I believe that the management of defense assistance to Vietnam has significantly improved I believe we now command the means to determine what is needed and to control what is provided There is no question that more can be done, and I intend to pursue vigorously appropriate action in those areas where improvement is needed However, I am confident that the program can stand close scrutiny today and I invite this committee and other appropriate agencies to visit Vietnam and observe firsthand the progress already achieved

This concludes my prepared statement I will be followed by Lieutenant General Graham, Director, Defense Intelligence Agency, who will brief you on the situation in Southeast Asia

Mr MAHON Thank you, Mr Secretary

General Graham, will you now give us the briefing as to the situation in Vietnam?

General GRAHAM Yes, sir We are a little cramped here

Mr MAHON We weren't able to secure the addition of the west front so we are doing the best we can with limited space

General GRAHAM All right, sir

Mr MAHON If you could stand back more, because you know that map

General GRAHAM Sir, I am glad to be here to give you this briefing

Mr MAHON How long have you been head of the Defense Intelligence Agency?

General GRAHAM Sir, I have been there since September last year

Mr MAHON What were your assignments before that, General?

General GRAHAM Before that, I was a Deputy Director to Mr Colby in charge of intelligence community programs, and before that, I had been in DIA as Director of Estimates and Director of Collection

By the way, I have been out in Vietnam I was the Director of Current Intelligence and Estimates at the Military Assistance Command/ Vietnam Headquarters from 6 months before the Tet offensive until 6 months after the Tet offensive

SITUATION IN VIETNAM SINCE 1973 CEASE-FIRE

I would like to just give you about a 15-minute rundown here on the situation as we see it in Vietnam today contrasting the situation at the time of the 1973 cease-fire with today's situation

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In general, the Republic of Vietnam Armed Forces in January 1973 were in pretty good shape. They had just withstood, with U.S. support, the North Vietnamese invasion of 1972—sometimes called the Easter invasion. However, the situation today is not nearly as good because the Communist forces have rebuilt in the south, and RVNAF resources are shrinking.

During the next 15 minutes I will outline how this situation did develop in South Vietnam, what our expectations are in the coming months, and then I will give you a limited rundown on how we see the situation in Cambodia and Laos.

Let me first speak to what actions the Communist side has taken in South Vietnam since the cease-fire.

Mr. MAHON. When was the cease-fire? Refresh our memory.

General GRAHAM. January 27, 1973.

Mr. MAHON. 1973?

General GRAHAM. Yes, sir. That is when the agreements were signed.

Of particular importance in South Vietnam, or one of the particularly important things the Communists have done is to build or improve a road system that runs all the way down into three corps from North Vietnam. This is particularly important because it allows the North Vietnamese to infiltrate troops and supplies into South Vietnam more rapidly than they used to. It used to take a battalion of North Vietnamese about 70 days to go by foot down through the Ho Chi-Minh Trail, through Laos along the edge of South Vietnam and sometimes through Cambodia, to get down into Military Region III. They can now do that in 3 weeks, and they ride most of the way. They used to take a lot of casualties not only from bombing but from malaria and other hazards coming down this road system. Now they get down in 3 weeks without meeting most of these obstacles.

They also have a pipeline. This black line on this map shows a pipeline down from North Vietnam which goes into South Vietnam almost as far as Phuoc Long Province.

Mr. MAHON. How long is that pipeline?

General GRAHAM. About 230 miles in South Vietnam. No, it is longer; 230 miles have been added since the cease-fire.

Mr. MAHON. If it is longer, how long is it?

General GRAHAM. I can get that figure for you.

[*The information follows:*]

The length of the pipeline in South Vietnam is 280 miles. About 270 miles of pipeline have been built since the cease-fire. There are also 340 miles of pipeline in Communist-controlled areas of eastern Laos, of which about 200 miles have been built since the cease-fire. In North Vietnam, there is a pipeline network that extends about 860 miles from the China border to the demilitarized zone separating North from South Vietnam. The total pipeline length, therefore, is nearly 1,500 miles.

Mr. FLYNT. Can you give us a ball park figure on it?

General GRAHAM. Yes. It is over a thousand miles long total. This is very important, because the Communists have tanks and trucks in South Vietnam. You will recall that in the attack on Phuoc Binh there were tanks involved, and they could not be supporting that kind of military activity in South Vietnam without a pipeline. There used to be barrels of petroleum, oil, and lubricants scattered along the countryside. They were transported with great difficulty and were the only source of petroleum.

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Mr. FLOOD. It is above or under the ground?

General GRAHAM. It is on top of the ground. They have also rebuilt their supply stockpiles in South Vietnam. They now have 65,000 tons of ammunition alone. That amount of ammunition would support a 1972-style offensive for at least a year at the rates that they were expending ammunition at that time.

Mr. ADDABBO. Is that material being supplied by Russia and China?

General GRAHAM. Sir, I will get to that a little later on in this briefing. Maybe you would you like to bring up that question then.

Mr. ADDABBO. Thank you.

General GRAHAM. I have a chart here on what changes have been made in the Communist side since the cease-fire. In combat troops they are up from 149,000 to 185,000 troops, or up 29 percent in combat troops.

Mr. MAHON. Up since when; since the cease-fire?

General GRAHAM. Since the cease-fire, sir.

Mr. EDWARDS. Are you talking about South Vietnam?

General GRAHAM. In the south, sir. Those are fighting troops. This does not include 107,000 support troops and 45,000 guerrillas.

Mr. GIAIMO. Are those North Vietnamese alone?

General GRAHAM. The number of South Vietnamese in there is a negligible number, sir. They were down to about 20 percent after the Tet offensive, and they have gone down steadily since. The number of South Vietnamese in that figure is negligible.

In armor they have gone up from 150 to 600 tanks in the south, or a 300-percent increase in armored capability.

In field artillery they have gone from 225 to 400 pieces of artillery down there, or up 45 percent. In antiaircraft artillery they are up 77 percent. That is an increase from 13 to 23 regiments of antiaircraft artillery.

They have in addition four battalions of surface-to-air missiles, SA-2 type missiles, that are deployed in the northern part of South Vietnam just south of the demilitarized zone—from about the Cua Viet River to Khe Sanh.

Mr. ADDABBO. That is from what to what?

General GRAHAM. At the time of the cease-fire there were also four, but they have been moved about.

Mr. ADDABBO. General, for my own information you have shown us the 23 regiments, 4 battalions. Are they included in the combat or in addition?

General GRAHAM. Yes; the troops manning them are in the combat total. These are individual. Everything I have mentioned thus far pertains to South Vietnam, except for this one that I am going to mention now, MIG aircraft are up 41 percent. They are not in South Vietnam, but the North Vietnamese have deployed some of these aircraft to repaired airfields in the southern part of North Vietnam, so that they can now attack down to about Da Nang.

I have some photography here, to illustrate some of these matters for you.

Charley, would you hold those up so we can get a look at them?

First I want to show you a port up in the northern part of Vietnam called Dong Ha, just south of the DMZ. This is what it looked like at the time of the cease-fire. This picture was taken very near the time of the cease-fire.

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Mr. MAHON. If you would hold that picture up above the head of the general.

General GRAHAM. Here are a few supplies on wooden pallets and a few ships in the area. I just want to contrast that picture with this one, and I will hold this one, where now the same facility has crane bodies, and it has a good deal of rather larger ships.

Over here is a 114-foot lighter, pontoon bridge sections, in other words, a very active port facility there through which they can move about 1,000 tons of supplies a day.

Mr. MAHON. In what period?

General GRAHAM. A day. This is their headquarters building that they have established up near the Cua Viet River. This is kind of a showpiece where we think they bring their VIP's in from North Vietnam to show them how well they are established. That was just a village before the cease-fire.

This picture is one of a road. It is right near the Thua Thien Province-Lao border. It is part of this road system that I was talking about. In 1973, when the cease-fire came about, that was just a trail through the jungle. Here you can see trucks going both ways. That is now a two-way road that they can use throughout the year. That illustrates what this red line is all about on this map.

This, sir, is an 85-millimeter antiaircraft gun emplacement up in military region I. There were none of these type of fixed gun emplacements in South Vietnam at the cease-fire. They are big ones like the 90 millimeter that we once had in our own forces, and they have radar gun directors and fire acquisition radars. This kind of ack-ack installation has made it extremely difficult and hazardous for the South Vietnamese to fly air support in the northern provinces.

I would like to compare on this chart what has happened to the South Vietnamese side while these figures you have seen before are happening on the North Vietnamese side.

Mr. MAHON. You are talking about what has happened in the last 2 years, aren't you?

General GRAHAM. Yes, sir, since the cease-fire.

Mr. MAHON. And that was approximately 2 years ago?

General GRAHAM. Yes, sir, this is 2 years.

COMBAT TROOP STRENGTHS

In combat troops where the Communist forces were up 29 percent, combat troops in South Vietnam are down 11 percent. This is partly because they programed reductions in their forces, and partly because they are unable to make replacements fast enough. Most important in this decrease, in my view, is the loss of some of their better combat commanders and NCO's.

OPERATIONAL ARMOR

In armor, in operational armor that is, while the Communist forces have gone up 300 percent, the South Vietnamese have declined by 35 percent. That is due to combat losses, but more due to the inability to keep the vehicles maintained and in operational status.

Mr. ADDABBO. What are the numbers? Before you were giving us the numbers on the right.

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General GRAHAM. Yes, sir. I have got those numbers here. They have gone from 1,900 tanks and armored personnel carriers down to 1,200.

Mr. ADDABBO. And in North Vietnam they went up from 150 to?

ARTILLERY AND AIRCRAFT

General GRAHAM. To 600. In artillery, the South Vietnamese are down from 1,600 to 1,400 tubes, or down about 12 percent. In strike aircraft they are down from 470 to 368, or a reduction of 22 percent.

In antiaircraft artillery there isn't any change.

The South Vietnamese have never had more than a modest antiaircraft capability—about three battalions—less than 100 weapons. We just put that in to compare. As a consequence of the above changes, the South Vietnamese have been forced into an increasingly defensive posture, to try to defend the whole country. They are unable to take offensive action and the military balance is shifting toward the North Vietnamese.

In total numbers the South Vietnamese still have an advantage. They have about a 2 to 1 advantage in total combat troops and they have a 3 to 1 advantage in artillery.

However, these figures are rather deceptive in that the South Vietnamese have the problem of defending all of their lines of communication, all of the populated areas and so forth. The North Vietnamese are able to gather their forces together to strike where they want to. The initiative is the great advantage that offsets such advantages as are left to the South in total numbers.

NORTH VIETNAMESE ACTION SINCE DECEMBER OF 1974

I would like to talk to what has happened recently in South Vietnam.

Since December the North Vietnamese have launched an offensive with, as we know, these goals: To strike the forces of the South Vietnamese, to grab more people and more territory, and to force the Government of South Vietnam into negotiations at a disadvantage or set the stage for a later military victory.

Mr. MAHON. That is since December 1974?

General GRAHAM. Yes, sir, and we have arranged for the release to your committee of the actual COSVN resolution which sets out objectives.

Mr. FLYNT. The what resolution?

General GRAHAM. COSVN. That is, a headquarters of the Communists—Central Office for South Vietnam.

Now, the results have been rather mixed. As a result of their offensive they have seized in the southern part of the country six district capitals. Four were in the province of Phuoc Long. And Phuoc Binh, the province capital, is the first province capital that has fallen to the Communist side since the cease-fire.

One of the most important militarily significant things about having seized Phuoc Long Province is that they can now, or they will try, we think, to extend this Communist control from that province down to the coast here and cut South Vietnam in two. If they control roads along the coast, it will be extremely difficult for Saigon because South Vietnam will be cut in two.

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They seized a place called Nui Ba Den Mountain north of Tay Ninh overlooking the city, and we believe there is going to be a good deal more fighting later on in Tay Ninh Province. The city is now being shelled on a daily basis.

Mr. MAHON. What city is being shelled?

General GRAHAM. Tay Ninh City, which is an important district capital. This is Saigon, Tay Ninh is here.

Mr. MAHON. How far is it between those two cities?

General GRAHAM. That is about 80 kilometers, 55 miles.

So far there have been efforts down here in the delta to knock off government outposts, and the government has lost a lot of military outposts down in the IV Corps area, or the delta.

But so far the gains that the North Vietnamese have made are in lightly populated areas where there was not a great South Vietnamese Governmental presence to begin with. Phuoc Binh, the province capital they seized, was really a place they could have seized at any time because it was not heavily defended. The South Vietnamese forces in there were some of the regional forces and popular forces, and they had a very good account of themselves. As a matter of fact they laid some very heavy casualties on the Communists in their successful attempts to take Phuoc Binh.

Other than that, RVNAF is still intact and still controls the vital territory and most of the population of South Vietnam.

Looking downstream we think the South Vietnamese are in for very serious difficulties. This is due partly to logistics drawdown and partly to the impact of current events on their will to resist.

We expect the intensity and the scope of the fighting to expand over the next 6 months. Northern South Vietnam is going to see more action. The weather has just switched, or soon will, from a terrible time of the year to conduct operations, because of monsoon rains, to the good time of the year. We expect action around Pleiku, Kontum, and north of Saigon.

We have some information on a division that has moved out of Laos—the 968th—into South Vietnam, and very tentative information about two divisions from the North Vietnamese reserve that may move into South Vietnam.

If those two divisions show up in the south, we think that this reinforcement would enable Hanoi to exploit RVNAF's vulnerabilities. We don't expect Hanoi to strive for decisive victory by conducting an all-out offensive for at least 6 months. We always, however, caveat this judgment this way: Our predictions that the Communists won't try an all-out offensive are shaded by our view of their perception as to whether the South Vietnamese will continue to have adequate levels of ammunition and supplies.

They are now held back, we think, by their perception of South Vietnamese residual strength, and the proposition that a big military action on their part might provoke a reaction from the United States or even from Russia and China that would be contrary to their interests.

We expect South Vietnam to be able to hang on to the vital territory and population areas, but logistics drawdowns as a result of the current usage of vital materials are likely to become critical no later than the end of this fiscal year. That is, the South Vietnamese will no

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longer have sufficient stocks of supplies to withstand the kind of all-out offensive that the North Vietnamese are in position to undertake now.

With regard to the problem of how much aid to North Vietnam as compared to how much aid to South Vietnam, I would like to say—and I think here is where I may answer your question, Mr. Addabbo—that to me, this business of trying to figure how many dollars worth of supplies are going into the north as opposed to how many dollars worth are going into the south is a loser. We have an awful time trying to determine what military aid cost the Soviet Union or China in terms of individual items, supplemental programs, how much it costs them to have advisors in support, and so forth. I find that is not a very good way to look at what the levels of support are to both sides.

Mr. FLYNT. General, a gallon of gasoline is a gallon of gasoline from whatever source, isn't it?

General GRAHAM. Yes, sir, but you can go out and buy a gallon of gasoline and find out what it costs. We know when the Soviets supply materials they don't even charge the same amount from country to country. It is awfully hard to calculate what the dollar costs are.

Mr. FLYNT. My point was a gallon of Soviet gasoline will propel a tank the same distance as a gallon of U.S. gasoline will unless it is lower octane.

Mr. MAHON. I assume that you are saying it is better to make the comparison on the number of gallons and the number of barrels rather than the price; is that right?

General GRAHAM. That would be good if we could get a handle on that. But we in intelligence don't get a good handle on exact amounts of materials delivered.

Mr. GIAIMO. What do you have the handle on then? You don't have it on price either.

General GRAHAM. The best way to look at that question, you see, is how well the side being given logistic support can carry out the military missions it sees for itself. And this comes out this way now. The North Vietnamese forces, Communist forces, are getting that required amount of support which allows them to carry out a very effective military strategy.

Mr. ADDABBO. Are they Chinese and Russian anti-aircraft guns or North Vietnamese material?

General GRAHAM. No big guns, no tanks, no armored vehicles are produced in North Vietnam. All are supplied from the outside.

Mr. ADDABBO. Can you tell if they are Chinese or Russian?

General GRAHAM. Yes; we can tell if they are Chinese or Russian if we can get close enough to them. Most large items of materiel are of Soviet origin.

The Chinese supply smaller arms like the AK–47 submachinegun and rifles and small arms ammunition. They haven't supplied as much big equipment as the Soviets have.

Mr. ADDABBO. What vintage of equipment, new vintage tanks or one of the old ones that was seen in prior years?

General GRAHAM. They are the T–55 tanks and that is the most numerous tank in the Soviet forces today.

Mr. GIAIMO. I am trying to get a picture here, and the picture

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I am getting from you, frankly, is that the Soviets don't have to supply them with as much gasoline to run 600 tanks as we do to have the South run somewhere from 1,200 to 1,900 tanks. Isn't that so?

General GRAHAM. No, sir.

Mr. GIAIMO. The same with artillery?

General GRAHAM. No, I am saying this, sir: We are supplying a side that is trying to protect a 1,600-mile coastline.

Mr. GIAIMO. Never mind the length of coastline. They are also fighting from interior lines, also fighting a defensive war, and also protecting an interior. I think there is still an advantage militarily to being the defense force. Or are we going to debate that?

The point is that the picture I am getting from you, General, is that the South Vietnamese forces have tremendously larger numbers than their opponents. By your own statement 2 to 1 advantage in troops. 1,900 tanks to 600, 1,600 pieces of artillery to 225 and Lord knows what else. What is the ratio on airplanes?

General GRAHAM. The airplanes in the South, they don't have any in the South.

Mr. ADDABBO. We are speaking of the South Vietnamese.

General GRAHAM. South Vietnam 368 and North Vietnam 260.

Mr. GIAIMO. Okay. So you are giving a picture to me and perhaps others on the committee that the South Vietnamese are weakened. The fact is that even though they may be reduced substantially they still have a tremendously larger force than does the North. And therefore the supplies that you claim the Russians are bringing in is not significantly as great as you seem to indicate it is.

Your answer to this is the fact they have a long coastline, and I suppose also the fact that the enemy picks the spots where it is going to attack and in surprise fashion. But in wartime the defensive force fighting from interior lines, as I recall, has always had an advantage too. They are hardly denuded of equipment. So what is the point you are making insofar as Russian supplies?

General GRAHAM. My point, Mr. Giaimo, is that an attempt to measure that problem in terms of how many dollars worth of stuff is going into the North as opposed to how many dollars worth is going into the South is a loser.

Mr. GIAIMO. You said also earlier that to do it in measurements of units is a loser.

General GRAHAM. Yes.

Mr. GIAIMO. Then what measure are we going to use?

General GRAHAM. You have to look at what each side has to do militarily, not what the total quantity is. You are right in a given battle, if you have interior lines, then you can defend with a smaller force than your enemy. But if your enemy has the chance of picking the point of battle over a large piece of territory and you are in a protective situation over population centers and those routes that allow you to move your forces around, the man in that defensive situation requires a different kind and a different scale of support than the man who is picking the place where the battle takes place.

So the North Vietnamese Forces, for instance, don't really require any forces in some Provinces, but the South Vietnamese must garrison them because they don't know where the attack is coming from.

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Limitations on Action by U.S. Forces

Mr. Addabbo. The Congress in appropriation bills passed limitations on action by U.S. Forces. You have shown us today pictures taken prior to the cease-fire and after the cease-fire. Were those pictures taken by U.S. military planes or taken by the Vietnamese?

General Graham. This is an item I would like to discuss with you in executive session.

Mr. Mahon. All right.

Mr. Giaimo. That answers the question.

Mr. Cederberg. I hope they were taken by some forces. I like to know what is going on.

Mr. Giaimo. We would like to know which.

Mr. Cederberg. I don't care which.

Mr. Giaimo. The law cares. It makes a proviso.

Mr. Cederberg. The law says combat activities, not reconnaissance activities.

Mr. Robinson. Isn't it true, General, that the comparison of equipment is not as significant as the comparison of supplying that equipment in terms of consumables?

General Graham. That can become the case, and I think it is the case in South Vietnam today.

Mr. Cederberg. Aren't we faced with another factor that all of those supplies are in direct violation to the agreement the North Vietnamese signed?

General Graham. Yes. As a matter of fact, any increases you see on the chart that are not a 1-to-1 change are in violation.

Mr. Cederberg. They are then in complete violation.

Mr. Burlison. In the figures, you have given only North Vietnamese supplies and personnel in South Vietnam. You haven't given us their total strength, what they have in reserve in North Vietnam.

General Graham. I can give you that. The reserve in North Vietnam is 70,000 men, 7 divisions. Two of those we think might be on the way south. The only figure I gave you here which is in North Vietnam are their aircraft. They have no aircraft in South Vietnam. All of the rest of those figures were men and materiel in the south.

Mr. Kemp. You mentioned the strategy of the Communist in Phuoc Long Province to take command of the road leading from the interior to the coast and by so doing cut South Vietnam into two sections.

Is there an ability by the south to better concentrate its resources, now spread out across the south to preclude such a potentially catastrophic division of the south by the Communists?

General Graham. Yes. In fact, they have moved forces into that area to try to block that, and they are doing quite well.

South Vietnamese Civilian Casualties Since Cease-Fire

Mr. Cederberg. Do you have any estimate on the civilian casualties the Communists have inflicted on the south since the cease-fire?

General Graham. I think we have that kind of figure, but I don't have it at my fingertips.

Mr. Cederberg. Place it in the record.

General Graham. Yes, sir.

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[The information follows:]

South Vietnamese civilian casualties (since cease-fire)

Displaced refugees	1,413,000
New refugees in 1974	594,000
Admitted to hospitals in 1974	43,000

Vulnerability of Pipeline

Mr. Edwards. General, the pipeline and highway are very much in evidence. I assume it all flows down the pipeline pretty regularly. Do the South Vietnamese blow it up everyday? Is it guarded by the North? Why can't they cut it daily?

General Graham. It is controlled by the North Vietnamese. A pipeline seems like a vulnerable thing but it is not. It is an extremely hard thing to attack. Their aircraft have only the slightest chance of doing any damage to that pipeline. And they keep it well within the territory they control, and it would require an offensive action by the South Vietnamese to get over at that. Then if you break up the pipeline they bring in some more pieces and it is back together again.

North Vietnamese Troops in South Vietnam

Mr. Edwards. How many troops do they have in the South?

General Graham. 185,000. Which side?

Mr. Edwards. How many North Vietnamese are in the South?

General Graham. 185,000 combat troops plus more than 100,000 support troops and 45,000 guerrillas.

South Vietnamese Armed Forces

Mr. Edwards. How many troops are in the South Vietnamese Armed Forces?

General Graham. There are 335,000 South Vietnamese combat troops—we'll provide an elaboration for the record.

[The information follows:]

In addition to the force ratio just described—which tells the story only on certain categories of troops—a comparison of trends in the total force structure of North and South Vietnam also is informative. Essentially, Hanoi stations troops in North and South Vietnam, and Cambodia, and Laos. In the latter two countries, these North Vietnamese and Viet Cong troops are basically oriented toward supporting the Communist war effort in South Vietnam and Cambodia.

Within North Vietnam itself, there are 7 reserve divisions which can be employed in the South—some 70,000 troops—on very short notice. But beyond this, Hanoi can draw on a pool of nearly 100,000 additional combat troops in North Vietnam who are organized into separate battalions and regiments and who could be made combat ready with little additional preparation. Thus, the potential Communist combat force that South Vietnam could face at short notice would be just about the same number (353,000) of combat troops as the RVNAF now fields (355,000).

Moreover, when total North and South Vietnamese force structures are compared, it is found that the RVNAF's 979,000 plus total is not significantly larger than the NVA/VC's 805,000. Here again, the numbers are running in opposite directions. Since the cease-fire the RVNAF has dropped by 108,000. The NVA/VC has risen by 95,000.

Mr. Edwards. I think what some of the questioning has been leading up to, and it concerns me as well, aside from how much we are putting

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in and how much the Russians are putting in, it seems to come down to a question of the will to win. And it seems to me, as you look at numbers and actions and what not, that the North seems to be more determined than the South. Is that a fair statement?

Mr. VON MARBOD. Mr. Edwards, with your permission I would like to read the COSVN resolution No. 75. It states and this a direct quote from the document:

> The enemy's—South Vietnam's that is—air and artillery capabilities are now limited as a result of the reduction in United States aid * * * in short, the enemy is declining militarily and has no chance of regaining the position they held in 1973. On the other hand, our position is improving. We are now stronger than we were during the Tet offensive in 1968, and the summer of 1972. We now have ample amounts of money, weapons, and equipment which makes it possible for us to initiate a sustained attack on a wide front.

Concerning your earlier question on casualties——

Mr. ADDABBO. Will the gentleman yield? That statement was the same statement that Hitler gave to the German people when they started the Battle of the Bulge during World War II, when they were now going to win the whole war, and had broken through in one spot.

Mr. MAHON. Go ahead.

REFUGEES, WAR-RELATED CASUALTIES, AND ORPHANS IN SOUTH VIETNAM

Mr. VON MARBOD. According to a report recently released by the Senate Judiciary Committee, an estimated 1,413,000 refugees in the South have been displaced since the cease-fire. In 1974, new refugees numbered 594,000; and over 43,000 civilians were admitted to South Vietnamese hospitals as war-related casualties. It is also reported that at least 20 percent of South Vietnamese children are orphans.

VIOLATIONS OF THE PARIS AGREEMENT

Mr. EDWARDS. In the last few days there have been a lot of demonstrators around the Capitol and yesterday somebody threw a bomb in the State Department, all apparently aimed, if I understand it correctly, at trying to show unhappiness with the fact that this country and perhaps South Vietnam have somehow violated the Paris agreement. Can you explain to me what it is that we are supposed to have done that has been a violation?

Mr. VON MARBOD. With your permission, Mr. Edwards, I would like to refer that question to Mr. Habib.

Mr. HABIB. I think I better identify myself also in view of the questions asked previously.

I am a career Foreign Service officer, Assistant Secretary of State for East Asian and Pacific Affairs. My most recent experiences involve 2 years in Vietnam as Chief of Political Section, 1965 to 1967. Following that I was Deputy Assistant Secretary of State for East Asian Affairs, primarily responsible for Southeast Asia. Following that I was Chief Adviser, Principal Adviser at the Paris negotiations to Ambassador Harriman and Ambassador Vance, and, following them, to Ambassador Lodge.

I was Acting Head of the Delegation at Paris Peace Talks for about a year. I was Chief Adviser to Ambassador Bruce. I left Paris

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in 1971, was Ambassador to the Republic of Korea, and returned to Washington in September of last year to occupy my present position.

I would like to answer the question with respect to the Paris agreement. I think that is at the heart of the whole problem. The Paris agreements had certain general purposes.

First of all they were designed to bring about a cease-fire. They were designed to bring about withdrawal of American forces and the return of American prisoners from North Vietnam. They set up certain limitations with regard to forces and materiel in the South. Materiel was not to be brought into South Vietnam except on a one-to-one replacement basis.

North Vietnamese forces were not to be increased in South Vietnam.

There was also to be convened the International Supervisory Commission, a four-power commission. There was to be convened a two-party commission in Saigon between the contending South Vietnamese parties, and there was to be convened a negotiation in Paris on a political settlement in accordance with the terms of the Agreement. The Agreement was generally endorsed by a larger conference including the principal Communist powers.

When one looks at the question of the significant elements of the Paris Agreement and what has happened to them since the time of signature, I think we all know our own forces have been pulled out and our prisoners were returned, but we have not received what was promised on the information on the missing in action which we were entitled to receive under the terms of the Agreement.

Missing-in-Action (MIA) Personnel

Mr. Mahon. You have to admit I think that there is some doubt as to whether or not all of our prisoners have been returned from the Southeast Asia countries. That is what the MIA group are very much concerned about. Congress has been trying to be helpful to them.

Mr. Habib. I agree that Congress has been helpful and the administration is trying to be helpful also by trying to get the terms of the Agreement lived up to.

What the agreement provided for was that the North Vietnamese were to provide the information on the missing in action that was available to them. They have not done so. We are most sympathetic to the efforts of the families, many of them who still think there is information which could be forthcoming with respect to those missing in action. That hasn't been forthcoming.

Mr. Mahon. I don't want to divert you. You go ahead.

Mr. Habib. I think that is an important point and one we have devoted a great deal of attention to.

I think with respect to the principal terms of the agreement I would like to tick off a few of the items which concerned us the most as far as North Vietnamese action is concerned. Since the signature to the Agreement more than 170,000 North Vietnamese troops have moved into South Vietnam. The agreement didn't say anything about their forces in South Vietnam. That was an ambiguity you might say. It didn't say anything about the ones there, but the agreement was quite specific that no further forces should be introduced. So the presumption was, as they withdrew, there would be no replacements of North Vietnamese forces.

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The agreement also provided you could not replace equipment or material except on a 1-to-1 basis. So all of the information General Graham provided with respect to increase in material beyond the level of 1973 is a specific violation of the Paris agreement.

They have improved the logistic systems through Laos and Cambodia. Whereas the agreement specifically provides they shall not have forces in Cambodia or Laos, they have substantial forces remaining in both Cambodia and Laos. They have refused to deploy the teams which under the agreement were to supervise and watch over the cease-fire.

They have refused to pay their prescribed share of the expenses of the International Commission of Control and Supervision. In each of these cases on our own side the agreement has been fulfilled. For example, we have paid our share and South Vietnam has——

Mr. MAHON. Let's not talk about that until we have talked about all of their lapses.

Mr. HABIB. They have, as I said earlier, failed in the commitment to cooperate in resolving the status of personnel missing in action. They have broken off the negotiations with the Republic of Vietnam, both the political negotiations in Paris and the two party Joint Military Commission in Saigon, and have answered the repeated calls of the government in Saigon to resume those talks by refusal to do so and by the setting of unreasonable conditions as preconditions to renewal of talks.

They have in addition steadily increased their military pressure in large terms and over wider areas than at any time since the agreement was signed, which in itself is an explicit illustration of the extent of gross violation of the cease-fire agreement.

I think that it about the fastest rundown I can give you in terms of the broader principles of the agreement itself.

Mr. EDWARDS. I want you to get back to my question.

Mr. MAHON. Excuse me a minute. Give the committee a list of these violations or modifications that you have provided here for the record. Give us that separately so we can have it before us.

Mr. HABIB. Yes, sir.

Mr. MAHON. Do you have that information now?

Mr. HABIB. Yes, sir.

Mr. MAHON. We will be glad for the committee to have it.

[The information follows:]

MAJOR COMMUNIST VIOLATIONS OF THE PARIS AGREEMENT

Following is a list of the major violations of the Paris agreement by North Vietnam and the Provisional Revolutionary Government (Vietcong).

The North Vietnamese have sent more than 170,000 troops into the South, resulting in a buildup of their main force army in the South from about 160,000 at the time of the agreement to about 230,000 now, despite the tens of thousands of casualties they have suffered in the continued fighting and the rotation of some of their troops back to the North. Moreover, the rate of this infiltration has escalated in the past few months. The most recent development in this regard is the movement of the North Vietnamese Army's 968th Division, which had been operating in southern Laos for several years, into the Central Highlands of South Vietnam during December and January. Since the earlier infiltration had been in regimental or smaller size units and as replacements, the movement of the 968th marks the first time since the agreement that an entire division has entered the South as a unit.

The North Vietnamese have sent vast amounts of armament and military supplies into the South, well in excess of the 1-for-1 replacement level

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permitted by the agreement. Consequently, the number of their armored vehicles has tripled; their field artillery strength has increased more than 50 percent; their antiaircraft artillery strength has more than doubled; and their armament stockpiles have grown to the point that they could sustain an offensive on the scale of 1972 for over a year without further replenishment.

In Laos, Cambodia, and the demilitarized zone, the North Vietnamese have improved their military logistics systems and base areas; and they clearly continue to make use of Laos, Cambodia, and the DMZ to carry out their aggression against South Vietnam.

The PRG has refused to deploy its personnel to the joint teams which under the agreement were to oversee the cease-fire.

Both North Vietnam and the PRG have refused to pay their prescribed share of the expenses of the International Commission of Control and Supervision.

The Communists have not only failed to cooperate in resolving the status of American and other personnel missing in action, they have actively obstructed U.S. and South Vietnamese efforts to do so—in December 1973, for example, they ambushed an unarmed United States-South Vietnamese team searching for the bodies of missing Americans, resulting in the death of one American and one South Vietnamese. Moreover, since June 1974, the North Vietnamese and PRG have broken off all negotiations on MIA's by refusing to meet with United States and South Vietnamese representatives in the four-party joint military team.

The PRG in May 1974, broke off all negotiations with the South Vietnamese government—the political negotiations in Paris and the Two-Party Joint Military Commission talks in Saigon—which were mandated by the agreement. The Government has repeatedly called for unconditional resumption of these negotiations, but the other side has answered these calls with demands for the Government's overthrow as a precondition for any renewed talks.

The North Vietnamese have rejected out of hand specific South Vietnamese offers to begin the direct North-South negotiations called for in the agreement.

The PRG has rejected several specific proposals by the South Vietnamese Government to hold the internationally supervised elections specified in the agreement.

At the time the agreement was signed, the Communists were conducting a large-scale offensive to seize as much territory and population as possible before the cease-fire could take effect. Although the level of fighting was subsequently reduced as they refitted and reinforced their units and built up their armament and supplies, the Communist forces never ceased to maintain considerable military pressure, and as the months passed they began to escalate this pressure substantially. In November 1973 for example, they launched a division-size offensive in Quang Duc province which brought about the heaviest concentrated fighting of the postagreement period up to that time. Also in late 1973 and the first part of 1974 they attacked and seized several South Vietnamese base camps in remote border areas, such as Tong Le Chan in western military region 3. They escalated the pressure still further in the summer and fall of 1974 with several regional offensives, most notable among which were multi-division thrusts in the Ben Cat area northwest of Saigon and in the Thuong Duc area southwest of Danang. And in early December they launched their most serious attacks thus far, seizing the entire province of Phuoc Long (including its capital, Song Be—the first province capital to fall since Quang Tri was captured in the 1972 offensive), and bringing the level of casualties and destruction back up to what it was before the agreement. The North Vietnamese have now overrun 11 district capitals, all of which were indisputably under the control of the South Vietnamese Government at the time of the agreement. Our intelligence indicates that the Communists intend to intensify their attacks even further in the coming months.

Mr. MAHON. Mr. Edwards, please proceed.

Mr. EDWARDS. I would like to return to my original question. What is it we are supposed to have done in violation of the treaty?

Mr. HABIB. The most recent statements by the North Vietnamese have accused us of violating the agreement, because one of the things they pointed out is we haven't provided reconstruction aid to North Vietnam provided for in the terms of the agreement. The problem

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with that one is that the agreement coupled the provision of aid with the acceptance of the other obligations under the agreement, principally such things as information on the missing in action. Of course, one should then require also that all of the other terms of the agreement should be met. Agreements should not be adhered to selectively, and that is a general rule of international conventions, as you know.

They are accusing us of violating the agreement by requesting the additional funds for South Vietnam under the assistance program. The agreement merely provides that you shall not replace except on a one-to-one basis. In fact—and Erich, you can correct me if I am wrong, this is your area—it is my understanding that we have not met the one-to-one basis because we haven't had sufficient funds to do so. Is that correct?

Mr. VON MARBOD. We have neither met it, nor can we provide, within the $700 million available this fiscal year, any major items of equipment to replace the aircraft, tanks, and heavy weapons that are wearing out and being lost in combat. The 56 percent reduction in our appropriation has made it necessary for us to use available funds for consumable items such as munitions, fuel, and spare parts.

Mr. HABIB. They also claim that we have violated the agreement by not bringing about the political settlement that was envisaged. The political settlement that was envisaged by the agreement and provided for in the agreement calls for that political settlement by the parties concerned. Those negotiations were broken off by the North Vietnamese last year and they have refused the call of the South Vietnamese to return to the table without condition.

So I understand people are accusing us of violating the agreement in these respects I have spoken of, in which they have made direct charges. I think I have covered the principal ones. There are others as well, but I would have to refresh my memory on each one of them.

Mr. EDWARDS. One more question, Mr. Chairman, and I will yield the floor.

Have many U.S. military or civilian personnel been wounded or killed in Vietnam during the last 12-month period?

Mr. HABIB. We had two civilians. One of them was killed in an airplane crash going from DaLat to Nha Trang, and we had another one killed by what appears to have been a booby trap in his home.

Mr. EDWARDS. What is the period you are referring to—the last 12 months?

Mr. HABIB. Those were within the last 2 months.

Mr. EDWARDS. By overt action or happenstance?

Mr. VON MARBOD. Mr. Edwards, on December 15, 1973, our Joint Casualty Resolution Team was attacked near Saigon. One American, and one Republic of Vietnamese military, were killed and seven other persons were wounded.

Mr. HABIB. The circumstances of the civilians, one of them was obviously a booby trap in the storeroom of his house. The other one was an airplane carrying office equipment, as a matter of fact, I think from DaLat in the central part of Vietnam over to the coast at Nha Trang, and it crashed.

Mr. MAHON. A member of the House yesterday said to me that his position with respect to the request for additional funds would be determined by whether or not our Nation was honor bound to provide

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the additional equipment you have been speaking about. Is this Nation honor bound to provide that equipment, and if so, is this Nation honor bound to whom? Who is it honor bound to?

Mr. HABIB. By honor bound I take it you mean an obligation which is not necessarily a written commitment.

Mr. MAHON. Is there any written agreement?

Mr. HABIB. Yes. The Secretary referred to this yesterday and he is the man who was responsible for the agreement. I would put it to you this way: At the time the agreement was being negotiated and immediately thereafter, it was understood all along that whereas the agreement provided for certain withdrawal of American military presence, there would continue to be the provision of necessary materiel for the defense of South Vietnam. It was hoped, of course, that the agreement would result in an end to the fighting and an end to the requirement for these things. But, on the assumption that it would not be an end, there was a clear awareness of the importance of the continued supply of the materials to defend South Vietnam. This was always implied, and it was always stated at that time and has been stated since.

As I recall very much in my own mind from the days when the negotiations were going on, our preoccupation was to end the fighting, the withdrawal of U.S. forces, and creation of conditions which would allow a resolution of the situation in Vietnam through some peaceful means. At the same time it was always in our mind, and in the South Vietnamese mind, that they would have the ability to defend themselves within the terms of the agreement—within the terms of the agreement. That is something we insisted upon—and did produce what you implied what you call duty honor bound.

Anything beyond that, or course, would be outside the terms of the agreement and is neither legal nor part of any such obligation.

Mr. ADDABBO. Will the gentleman yield?

Mr. MAHON. In a moment.

I think this is a bit fuzzy in the light of what you have stated. I would like to have this well presented in a paper that we can read and rely upon and that is documented. You seem to be saying now that there was an implied agreement that we would provide them with sufficient support to enable them to protect themselves against the aggression of the North Vietnamese.

Mr. HABIB. That is correct, sir. I hope that isn't a fuzzy statement. I am sorry if I was fuzzy. It is just there is no written statement that says we shall do this. No written compact.

Mr. MAHON. Are you saying, that if necessary, we could double what we had previously provided the South Vietnamese to enable them to protect themselves from the aggression from the north?

Mr. HABIB. No, sir. The only legal limitation on us would be (*a*) what is provided for on one to one basis within the agreement, and (*b*) what the Congress appropriates—because no such obligation is possible without the general proviso that insofar as the Congress shall appropriate. Also you know the executive branch does not make commitments in these matters except with that proviso.

Mr. GIAIMO. Will you yield?

Mr. MAHON. If I may say this: I think this is one of the very important issues involved here, and I think we will want to discuss it when we come back after lunch. We want to pursue this matter and we will

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return at 2. We want the clearest possible statement with regard to this issue.

Mr. HABIB. Yes, sir.

Mr. MAHON. Mr. Addabbo.

Mr. ADDABBO. On this limitation of one for one, the limitation of $700 million didn't put any earmarking where the funds could be used.

Mr. HABIB. That is correct.

Mr. ADDABBO. The $700 million could be used for one-for-one replacement or ammunition or anything else; is that correct?

Mr. HABIB. That is correct. Some of it could be on one to one and some of it, of course, is not. My statement was in total we have not met a one-to-one replacement.

Mr. MAHON. Mr. Giaimo.

Mr. GIAIMO. Mr. Secretary, I want to get this very clear here as to whether or not in fact there is an agreement. I think we should dispose of the term "honor bound" because I am not sure I know what that means or anyone else.

Is there legal agreement on the part of the United States, a commitment to South Vietnam brought about the the Paris agreement, and isn't it in fact an agreement subject to dollar amounts which Congress would provide? Isn't that understood?

Mr. HABIB. That was always understood.

Mr. GIAIMO. Always understood. So if Congress decides it will provide nothing, we have not breached any agreement?

Mr. HABIB. We have not breached any legal written agreement. The phrase "honor bound" was the chairman's and not mine. I was trying to respond to that.

I might say that it was the belief of those who signed the agreement, and it was a belief encouraged by the United States as well as by the public debate here, that the objective of the United States was supporting the Government to defend itself by its own efforts. That is the area in which we must look at this problem. Because as I said, there was nothing in the agreement that requires the United States to provide the funds. As you very rightly point out, no funds can be committed except with the consent and legislation of the Congress.

Mr. GIAIMO. Am I correct to infer that while there may be a moral obligation, because of what was understood at the time of the commitment there may well be a moral obligation on the part of the United States to provide the wherewithal, in fact there is no legal obligation?

Mr. HABIB. I think that is a very precise way of putting it, and I think that answers the chairman's question precisely. We will, if you wish, Mr. Chairman, provide you with a written statement covering this point.

[The information follows:]

(a) In his January 23, 1973, address to the Nation announcing the signing of the Paris agreement, President Nixon said, "We shall continue to aid South Vietnam within the terms of the agreement, and we shall support efforts by the people of South Vietnam to settle their problems peacefully among themselves."

(b) In Dr. Kissinger's press conference of January 24, 1973, he was asked about the provision in the agreement permitting replacement of armaments, munitions, and war material. He noted that if for any reason the war should start at any level, it would be an unfair restriction on our South Vietnamese allies to prohibit them from replacing their weapons if their enemies are able to do so. Therefore, the degree to which these weapons will be replaced "will depend on the degree to which there is military activity." He added that if other countries

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do not introduce massive military equipment into Vietnam, "We do not consider it an end in itself to give military aid. But we believe it would be unfair and wrong for one country to be armed by its allies while the other one has no right to do so. This is what will govern our actions."

(c) In Dr. Kissinger's CBS interview with Marvin Kalb, February 1, 1973, he noted that: "It has always been part of American policy—indeed, it was first established by the late President Johnson—that at some point, the United States would contribute to a reconstruction program for all of Indochina * * *."

Asked how he would define the nature and depth of the American commitment to Saigon now that the peace agreement has been signed, Dr. Kissinger noted that we have a responsibility to give those who were our allies, "an opportunity to shape their own future. Therefore, we have had a responsibility to continue a program of economic assistance along the lines that have been developed." He said that we will also continue that degree of military assistance that the agreement permits and which is made necessary by the military situation.

Mr. MAHON. Do you have available to you statements made by our leaders at the time of the cease-fire, military and civilian? Have you assembled the statements made in congressional debate and otherwise at this time, setting forth what appeared to be the intention of the United States with respect to this matter? Do you have available what the President himself may have said with respect to this at the time, what the Secretary of State may have said?

I am not asking for it at this time, but if you could get that together for our review, it would be good.

Mr. HABIB. I turned to my assistant and said, "Did you bring that piece of paper with you?" Last week I did have my staff do just that, produce a series of excerpts from the Congressional Record and from the general record and from the press, I might say, including editorial comment that we would continue to provide the support.

If I may, without intention of pointing the finger, I remember very clearly one of those Congressional Record extracts has your name on it. I will produce the record. And I think there are some other members who said——

Mr. MAHON. I would like for you to present this and make it available to us at 2 and make it available to the press.

Mr. HABIB. Yes, sir.

Mr. CEDERBERG. Mr. Ambassador, you probably have one of the outstanding careers in the diplomatic service. There is not any question. You served through many administrations, participated in many negotiations, and if there is an expert in this area, it is you as far as I am concerned.

I want to ask you this question: What would your assessment be as to the impact in Southeast Asia, the impact in our ability to carry on meaningful foreign policy commitments in other areas, what would the impact be in South Vietnam to the civilians, to that area if we just said let the Communists take over? What do you think would happen?

Mr. HABIB. I don't think there is any question, Mr. Congressman, but that there would be consternation, not only in South Vietnam, but there would be consternation in every Asian country this side of Communist China.

Mr. CEDERBERG. What do you mean by consternation?

Mr. HABIB. There would be concern. I have talked to many of the Asian leaders in the area of which you have spoken. I have served in Asia and know many of them presently. There is at the present time some concern as to validity of the American commitment. We have as you know a series of treaty obligations that are formal treaty obliga-

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tions, concurred in by the Congress, in a number of Asian countries. If you look around the arc you have the mutual security treaty with Korea, the mutual security treaty with Japan, the mutual security treaty with the Philippines, and you have the Anzus Treaty with Australia-New Zealand. You have the residual obligations of the SEATO Treaty.

The treaty obligations are something which have provided an umbrella of protection for these countries behind which, in various ways of their own choosing, they have been developing either well or badly. But in any respect they are an important part of the general American posture in the area.

In South Vietnam, obviously when I say consternation I mean outright consternation, because without the American support at a level required to sustain their defensive posture and to bring about, hopefully, the implementation of the Paris agreement, there can be no South Vietnam, there can be no attempt at resistance. There is no defensive posture without American resources. They are completely and totally dependent on American resources.

Mr. FLYNT. What you are saying is that we created the Government of South Vietnam and now we have an obligation by treaty to sustain our own creature.

Mr. HABIB. I wouldn't go so far as to put it that way, sir. What I would say is that we have a relationship with these people. They have created in many ways their own situation. The very fact that they have developed and sustained the kind of effort that they have put into this struggle is not by virtue of anybody standing over them from the United States. The United States hasn't created the kind of resistance to a Communist takeover in South Vietnam that I believe truly exists in the South Vietnamese mind, if he is given a chance to choose. We can't do that.

Mr. FLYNT. What percentage of the population of South Vietnam is literate?

Mr. HABIB. One never knows the result of the last few years. If you leave out the Montagnard population——

Mr. FLYNT. Don't leave them out. They are as much a part of Vietnam as anybody.

Mr. HABIB. I would put the figure around 70 percent.

Mr. FLYNT. It is higher than that.

Mr. HABIB. That means about a fifth- or sixth-grade level of literacy. And there are over 20 million people in South Vietnam.

Mr. KEMP. Mr. Ambassador, you mentioned the growing number of refugees in the south caused in the last 2 years, since the Paris agreement, by intensified fighting. Are there any known instances of perceptible numbers of refugees going to the North to look for refuge under the Communist North Vietnamese?

Mr. HABIB. The only people going to the North since the agreement are those who chose to go as part of the exchange, and some did go north. Generally speaking, the refugee flow was the other way. When given the chance to choose, the flow of refugees is toward the government-controlled areas.

One thing the Communists tried to do—I know they used to and they still do it—is to hold that back. In other words, when they moved into a populated area, they try to keep the people within

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the area to use them either for productive or recruitment bases. As they now move down into the populated areas, that is very much a part of their activity.

The refugee problem and the refugee program is a problem and program of the Government of the Republic of Vietnam. It is not a problem for the Communists.

Mr. KEMP. I have always considered that to be a fairly positive sign at the grass roots level. While these South Vietnamese may not identify with the national government in Saigon, at least they do understand what would happen to them, their families, and their children if in fact the Communists took over. They continue to flee South instead of subjugating themselves to Communist forces and authority.

Mr. HABIB. There is one thing I have never doubted in the 10 years or more I have known the Vietnamese. If given a choice, they will not choose the Communists.

Mr. MAHON. Let's resume at 2 p.m. Thank you very much, gentlemen. You have been very helpful.

AFTERNOON SESSION

Mr. MAHON. It would seem proper, I believe, for you to continue your presentation, General.

General GRAHAM. That is right, I got derailed there.

Mr. MAHON. You got sidetracked. Please proceed, General Graham.

SITUATION IN CAMBODIA

General GRAHAM. Yes, sir. I was going to give you a rundown on what has happened in Cambodia.

In general, you have a situation somewhat similar to the Vietnamese situation. Government forces do control 80 percent of the population. A good deal of the land—80 percent—the sparsely populated parts of the country is controlled by Communists.

The current action in Cambodia started on January 1, when the Communists launched an offensive around Phnom Penh. It really was not a very heavy offensive, but on several of these routes leading into Phnom Penh there were attacks.

The initial attacks on Phnom Penh were repelled.

Mr. FLOOD. Can you tell us in just a paragraph or two what was the situation vis-a-vis troops on the line at that area at the time of the disengagement?

Just briefly, both sides of the line, what was down there?

General GRAHAM. On January 1?

Mr. FLOOD. Yes, both sides, at that spot.

General GRAHAM. Spot-by-spot I cannot give it to you.

Mr. FLOOD. I know, but that area.

General GRAHAM. The total area, there were about 110,000 to 130,000 government combat troops, and there are 60,000 Communist troops.

Mr. FLOOD. What about hardware?

General GRAHAM. Well, I do not have that handy.

Do we have the data on the hardware?

Mr. FLOOD. Just a general idea; yes.

General GRAHAM. Yes; I have some figures here.

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Mr. FLOOD. All right.

General GRAHAM. Total forces on the Khmer side, major pieces of equipment are really only their artillery pieces. They have now about 10 to 15 artillery pieces; it really does not amount to much, no armor involved down there.

Mr. FLOOD. On either side?

General GRAHAM. On the enemy side only.

Mr. FLOOD. Yes.

General GRAHAM. But the Cambodians have a distinct, very heavy fire power advantage—our Cambodians—in that they have 326 artillery pieces. And they did repel——

Mr. FLOOD. 326.

Mr. EDWARDS. Is that a proper way to phrase it, General, referring to "our side, our Cambodians"?

General GRAHAM. No, the FANK have 326 pieces.

Mr. EDWARDS. It saves a lot of misinterpretation.

General GRAHAM. Well, on the FANK side——

Mr. FLOOD. 326 pieces of what?

General GRAHAM. [continuing]. 75 millimeter howitzers, 105 millimeter howitzers, and a few 155 millimeter howitzers. I will expand on that for the record.

[The information follows:]

To expand on the above, the Cambodian Armed Forces consist of a total of 110,000–130,000 combat troops and have at their disposal about 100 attack aircraft, about 30 transports/helicopters, and about 200 coastal and river patrol boats.

General GRAHAM. All right, the Communists really were just trying to tie down forces around Phnom Penh, while they committed 10,000 people along the Mekong here to prevent the resupply up the Mekong to Phnom Penh.

We expect that there will be more diversionary attacks around Phnom Penh to try to hold government forces in place because we know from good evidence that the main objective on the KC side is to block the Mekong this year.

However, there are three convoys, three convoys have got up to Phnom Penh just in the past 2 weeks.

Mr. FLOOD. The attack on those ships coming up and down the river, it is all from the shore, no attempt at mining or anything?

General GRAHAM. No; if there has been we have not discovered any. You are getting flat trajectory fire from rockets, bazooka-type weapons, RPG–7's which are the Communist version of the bazooka, to try to hit these ships going up the Mekong.

Mr. FLOOD. What is the width of the river at that point where they are firing?

General GRAHAM. 500 meters. There are two narrow points in the river where the Communists are.

Mr. FLOOD. Both above there; yes.

General GRAHAM. We do not expect that there will be full-scale attacks against Phnom because the KC have not been able to pull that off so far and they——

Mr. FLOOD. And they do not want to, period.

General GRAHAM. Well, they did try it before, and they got hurt pretty badly. The firepower advantage of the defenders was too great for them.

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We believe that the government will be able to keep the Mekong open. They did get these convoys up, and it depends primarily on their willingness to divert troops from defense of Phnom Penh down here to clean out the Mekong. They have always been able to do that.

Mr. FLOOD. In miles from the capital to the fire point there on the river is about what, as the crow flies? About?

General GRAHAM. About 20 miles down the river to the first point where you run into the interdiction, the places where the Communists are along the river; then it is another about 40 miles down to the border with Vietnam.

Mr. FLOOD. The point I am trying to ask—that was a leading question—but everybody has the idea when you are talking about Southeast Asia you are talking about 3,000 to 4,000 to 5,000 miles all the time. That is why I want to stress these short mileage points.

General GRAHAM. Yes.

Well, we think it is imperative that they keep the river open and if they keep the river open, with some supplemental airlift, we think that the Cambodian troops will be able to hold their own. It will be essentially a standoff there. They are not really able to go out and beat the KC, but it is also not possible for the KC to beat them.

Mr. KEMP. We keep reading of reports of South Vietnamese troops going into Cambodia to help the free Cambodian forces fight the common enemy.

What type of information can you give us on the assistance that Cambodia now receives from South Vietnamese Government troops?

General GRAHAM. South Vietnamese troops have been helping to protect the convoys while they are still inside Vietnam. From the start point in Vietnam up to the Vietnamese-Cambodian border, they get some support from the Vietnamese to get those convoys through.

To my knowledge, there are no South Vietnamese troops in Cambodia now.

Mr. ADDABBO. General, do you feel if the government forces were actually able to break out of Phnom Penh, will they be able to gain control of the country or will they just be able to break the enemy at that point?

General GRAHAM. If they were able to break out of Phnom Penh?

Well, they do try to keep the rice routes open, they have kept this open in order to keep this rice-producing area for Phnom Penh. As far as any one of these countries in this area being able to control everything within its boundaries—the boondock areas of their country, they cannot do it.

Mr. ADDABBO. They are interested in just protecting their own areas?

General GRAHAM. What is really vital to their country.

Mr. ADDABBO. So, no matter how much money we gave to them, they would just be interested in their provincial area?

General GRAHAM. The same as it has been throughout history, places like this area up in here, nobody has been very interested.

Mr. ADDABBO. No matter how much money or how many men are provided, there will never be a real desire to protect the whole country?

General GRAHAM. Yes.

Mr. ADDABBO. Thank you.

General GRAHAM. With regard to Laos, sir, the cease-fire up there seems to be working very well. There have only been minor clashes. There are some local disagreements having to do with who exercises power in various spots in Laos.

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The North Vietnamese still maintain 37,000 troops in Laos, however, but both the Communists and the other side in Vietnam see the truce as useful so we do not expect a flare-up of military activity in that area.

Mr. FLOOD. In making that statement, Mr. Ambassador, he said the North Vietnamese were maintaining X number of troops at that spot in Cambodia. With reference to your statements earlier upon the agreements, what do you have to say?

Mr. HABIB. It is a violation of the agreement.

Mr. FLOOD. Yes; thank you.

Mr. HABIB. Do you want me to cite the provisions of the agreement in that respect?

Mr. FLOOD. I suppose for the record you should.

Mr. HABIB. We can consider the agreement in the record. But it is a violation of the agreement.

Mr. FLOOD. It is a violation of section so-and-so?

Mr. HABIB. It is a violation of the agreement.

If you will give me a second, I think it is——

Mr. FLOOD. Supply it for the record.

[The information follows:]

Current intelligence indicates that there are about 37,000 North Vietnamese Army troops in Laos. This figure does not include the NVA 968th Division which completed its move from Laos into Government of Viet-Nam military region 2 in mid-January 1975. The 37,000 troops are broken down between combat and support troops in a ratio of approximately 1:2.

Since the situation in that area is fluid, the figures are currently under review.

Article 20(a) of the January 27, 1973, Agreement on Ending the War and Restoring Peace in Viet-Nam states that "The parties participating in the Paris Conference on Viet-Nam (i.e., the U.S., the RVN, the DRV and the PRG) shall strictly respect the 1954 Geneva Agreements on Cambodia and the 1962 Geneva Agreements on Laos, which recognized the Cambodian and the Lao peoples' fundamental national rights, i.e., the independence, sovereignty, unity and territorial integrity of these countries. The parties shall respect the neutrality of Cambodia and Laos. The parties participating in the Paris Conference on Viet-Nam undertake to refrain from using the territory of Cambodia and the territory of Laos to encroach on the sovereignty and security of one another and of other countries."

Article 20(b) reads: "Foreign countries shall put an end to all military activities in Cambodia and Laos, totally withdraw from and refrain from reintroducing into these two countries troops, military advisers and military personnel, armaments, munitions and war material."

Thus, the presence of North Vietnamese troops in Laos is a clear violation of Article 20, Sections (a) and (b) of the Paris Agreement.

MILITARY ASSISTANCE TO SOUTH VIETNAM

Mr. ADDABBO. Mr. Secretary, in your statement you spoke about the supposed peace up in Laos. While we are talking about Laos, I think your figure was $41 million of ammunition or supplies were then able to be relegated or transferred over to Vietnam. Now, the Congress passed legislation setting a limit of $700 million of aid to South Vietnam. It was an obligational limitation, it was supposedly also to erase all other unobligated balances.

This $41 million that was transferred from Vietnam, from Laos to Vietnam, is that charged against the $700 million or is this $700 million plus $41 million?

Mr. VON MARBOD. Mr. Addabbo, assets redistributed from Thailand to South Vietnam are not charged against the $700 million appropria-

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tion because they were charged against prior year military assistance service funded programs.

Those obligations were reported to the Congress. Our general counsel has examined the matter, and has corresponded with the General Accounting Office on the subject. If I can summarize it, the question is whether there is a legal difference, as of June 30, 1974, between military assistance service funded pipeline equipment previously programmed for Laos, and that programmed for Vietnam. In our view, there is none.

Mr. ADDABBO. How much more do you have in this pipeline?

Mr. FLOOD. General counsel for the Defense? Give us his name.

Mr. VON MARBOD. Yes——

Mr. FLOOD. Give us his name for the record.

Mr. VON MARBOD. Mr. Benjamin Foreman. I have a written legal opinion he provided to the General Accounting Office which I will submit for the record.

[The information follows:]

DEPARTMENT OF DEFENSE,
OFFICE OF GENERAL COUNSEL,
Washington, D.C., January 13, 1975.

MR. WERNER GROSSHANS,
Associate Director, Logistics and Communications Division, U.S. General Accounting Office, Washington, D.C.

DEAR MR. GROSSHANS: Reference is made to your letter of December 26, 1974 to me soliciting comments on two questions set forth therein.

I.

Your first question refers to certain transfers to Vietnam of military equipment during fiscal year 1975 from other locations in Southeast Asia "after having been determined to be excess without being charged to the ceiling imposed by Congress for military assistance to Vietnam" and asks how these transfers are justified in light of the Defense Assistance for Vietnam (DAV) legislation, namely, Public Law 93-365, section 701, and Public Law 93-437, title VII.

As a preliminary matter, I should note that your use of the word excess is overly broad—if by excess you have reference to the requirements of our armed forces. Insofar as I am aware, there has been no determination one way or the other by the Department of Defense as to whether the equipment in question is at this time excess to our own requirements. As the messages cited in your letter indicate, what is involved here is equipment which is excess to the current requirements of Laos. Further, and to be more precise, the issued raised by you involves only such part of the equipment currently excess to Laotian requirements as to which the U.S. Government never transferred title and control and the value of which was previously charged against the fiscal year 1974 or a prior fiscal year MASF authorization. Thus, stated conversely, the issued raised by you does not relate to equipment which was either (1) previously title transferred to Laos and subsequently returned to U.S Government ownership because no longer required by Laos, or (2) not charged against the fiscal year 1974 or a prior year MASF authorization, irrespective of whether title was transferred.

In this light, the question presented by your letter is whether there is a legal difference as of June 30, 1974, between that equipment in the obligated MASF pipeline programed for Laos and that programed for Vietnam. In our view, there is none.

Insofar as we understand the position of the General Accounting Office based on our meeting of December 19, 1974, with Messrs. Davis and Centola of the General Accounting Office, it is not contended by the General Accounting Office (1) that the new DAV legislation terminated our authority to deliver to Vietnam equipment programed for Vietnam prior to July 1, 1974, under MASF and charged against the applicable fiscal year MASF authorization or (2) that the statutory transfer of military assistance to Laos from MASF to MAP on July 1, 1974, terminated our authority to deliver to Laos equipment programed for Laos

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prior to July 1, 1974, under MASF and charged against the applicable fiscal year MASF authorization. Further, it is apparently not your contention (1) that deliveries to Vietnam of the MASF pipeline equipment previously programed for Vietnam must also be charged to the new DAV account or (2) that deliveries to Laos of the MASF pipeline equipment previously programed for Laos must also be charged to the new fiscal year 1975 obligation ceiling on assistance to Laos established by section 40 of the Foreign Assistance Act of 1974.

Putting to one side for the moment the impact of the new DAV legislation, we think it not open to dispute that at any time prior to July 1, 1974, material in the MASF pipeline programed for Laos could have been reprogramed for, and delivered to, Vietnam without the need for further action by the Congress. At no time during the existence of the MASF legislation did Congress impose separate ceilings or authorizations on the amount of Department of Defense appropriations which could be obligated for any one country. The authorization provided by the annual MASF legislation was a single authorization governing the aggregate of estimated obligations of assistance to all eligible countries.

As for the aggregate ceiling on all assistance to Laos prescribed by section 505 of Public Law 92-156 for the fiscal year 1972 and section 602 of Public Law 92-436 for the fiscal year 1973, that ceiling was a ceiling on expenditures (that is, deliveries), irrespective of the fiscal year in which the assistance was obligated, and hence irrelevant to this discussion. In any event, no comparable statutory ceiling on deliveries to Vietnam was in force during the existence of the MASF legislation or is in force now.

Turning now to the DAV legislation, we find nothing in the language or legislative history of the applicable statutes which requires that the DAV account be charged for items previously charged against the MASF ceiling.

On their face, both section 701 of Public Law 93-365 and title VII of Public Law 93-437 are directed solely to the amount of obligations which may be incurred during the fiscal year 1975 for military assistance to South Vietnam. To this end, these provisions authorize and appropriate a specified amount for such new obligations and establish the bases on which funds are to be obligated and accounted for. Further to this end, section 701(c) of Public Law 365 directs that the ceiling on fiscal year 1975 obligations stated therein shall be applicable not only to the funds authorized by that act but to any funds authorized by any other act to or for use by the Department of Defense. In short, both DAV statutes have reference solely to new obligations for military assistance to Vietnam and do not in any way purport to affect obligations previously incurred against prior applicable fiscal year MASF authority.

The pertinent committee reports are to the same effect. There is no language in these reports which indicate any congressional intent to terminate deliveries of the MASF pipeline or to impose new controls upon such deliveries from the pipeline. Insofar as relates to the prior fiscal year programs, the committees' concern was directed only to the entirely separate question of whether prior year unobligated balances in the military function and construction accounts would be available for assistance to Vietnam.

Up to this point in my comments, I have let pass the presumably unintended implication in numbered paragraph 1 of your letter that these particular transfers were made without any charge at all to the DAV ceiling. In fact, as you are undoubtedly aware from your citation of the relevant messages, the DAV ceiling is being charged the packing, crating, handling, and transportation costs of transshipping these items from their location on Southeast Asia to Vietnam, inasmuch as obligations for those costs were not previously incurred against the applicable fiscal year MASF authority. A similar charge against the DAV ceiling is, of course, being made for the supply operations costs of deliveries this fiscal year to Vietnam of material originally programed for Vietnam under MASF.

Although your letter does not raise the separate question of the adequacy of an audit trail in order to assure verification that the reprogramming discussed above was properly carried out, and that the value of the net programs of assistance to Vietnam and Laos, respectively, are correctly recorded for reporting purposes, I think it appropriate to note for the record that the referenced messages require appropriate deletions and additions to be made to the applicable MASF fiscal year program for which obligations were originally charged.

II

The second question raised by your letter of December 26 concerns the credit account assertedly established by the Air Force for unserviceable reparable items

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returned by the South Vietnamese. As Messrs. Davis and Centola of the General Accounting Office were advised during the meeting held on December 19, 1974, this office had only recently become generally aware of that credit account. Not having adequate facts upon which to render an opinion on the question, the General Counsel had, shortly before the December 19 meeting, independently specifically requested the Principal Deputy Assistant Secretary of Defense/Comptroller, Erich F. von Marbod, to conduct an investigation and to report the results of that investigation. As Messrs. Davis and Centola will recall, Mr. von Marbod informed them during the December 19 meeting that he did not expect to have the results of that investigation until sometime in March. In the circumstances, pending receipt by us of the outcome of Mr. von Marbod's investigation, it would be premature to make any comments on the lawfulness of that credit account.

Sincerely yours,

BENJAMIN FORMAN,
Assistant General Counsel, International Affairs.

Mr. ADDABBO. How much more do you have in this unobligated pipeline?

Mr. VON MARBOD. We are completing an audit and survey of the stocks, Mr. Addabbo. Based on the original records, we estimate there are approximately 18,000 short tons in this pipeline. However, the actual tonnage will depend on the confirmed physical presence of the stocks and their condition.

Mr. ADDABBO. How much in dollars?

Mr. VON MARBOD. The value of an average short ton would range between $1,800 and $2,300 at current prices, depending on the type of munitions.

Mr. ADDABBO. Give me totals. I am slow at figures. You are the comptroller.

Mr. VON MARBOD. Approximately $36 million, based on the estimated tonnage.

Mr. ADDABBO. More?

Mr. VON MARBOD. If it is all in serviceable condition, and if we are to value it that way.

Mr. ADDABBO. I remember in last year's debate when we finally agreed and the Congress confirmed the $700 million, the Defense Department was, through some machination, working out some $400 million that they claimed was not charged and we finally pinned them down. They agreed that they were not going to come in through the back door, they were going to come in through direct funding, and we agreed and the Congress came to $700 million. This seems to be a breach of that agreement.

Mr. VON MARBOD. Mr. Addabbo, the assets were authorized by the Congress, appropriated, moved to Thailand, and charged against the military assistance service funded program.

Mr. ADDABBO. Thailand, not South Vietnam; South Vietnam was $700 million, that was line item. You tried to come in through the back door with $400 million through some devaluation or some other machination; we said no deal, you said OK, we are going to be honest. This is not honest dealing.

Mr. VON MARBOD. The subject at issue, Mr. Addabbo, is whether or not the authorities and appropriations permitted by the Congress to support both Laos and South Vietnam——

Mr. ADDABBO. The subject at issue, Mr. Secretary, is how can the controller's office of DOD circumvent the wishes of the people and the wishes of the Congress? We said $700 million; we set obligational figures at $700 million; we said do not try to work these figures around,

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devaluate, set up special funds and everything else where you can buy 100,000 pieces of equipment for $10,000 so you can get—for $700 million get $3 billion worth of equipment; and you are coming in through another back door.

Mr. VON MARBOD. Mr. Addabbo, this is not through the back door. There is no statutory prohibition against the redistribution of the equipment in the obligated military assistance service funded program.

Mr. ADDABBO. If there is, you can rest assured we will find out; and if there is you will find it cut in the next appropriation bill.

Mr. MCFALL. May I ask a question?

As I understand, the authorization for South Vietnam is $1 billion, and the appropriation is $700 million.

Mr. VON MARBOD. Yes, sir, this fiscal year.

Mr. MCFALL. That is all.

Mr. MAHON. Have you completed your presentation?

General GRAHAM. I have completed it.

Mr. KEMP. General, I'd like you to discuss the makeup of the leadership and forces of the Khmer Rouge? With respect to the situation in Cambodia and in light of the fact that we hear people talking about antigovernment forces and indigenous guerrilla efforts, how much of the Khmer Rouge led aggression is being exported by and supported by Hanoi?

General GRAHAM. Well, when this insurgency first started, or rather, after the overthrow of the Sihanouk government, there were a number of groups that were only vaguely coordinated by the, what we call the KC, Khmer Rouge.

These have—these have become a lot better coordinated in the past, but we think there are still frictions between the various sides.

Now I do not have the numbers handy as to how many are in what group; do we have that? Nobody has numbers on it. At least we knew there were several groups. It is nice to know that I am not alone in my ignorance.

As far as the North Vietnamese in there, though, there are about 12,500 and this is a very rough number, too. But 12,500 North Vietnamese are up in this area [indicating northeastern Cambodia]. We think about 2,000 of those are directly involved in advising the KC. The rest are involved in keeping lines of communication open to the south for the North Vietnamese forces.

MILITARY FORCES OF SOUTH VIETNAM AND NORTH VIETNAM

Mr. FLOOD. Skipper, you gave us a lot of figures here about the troops, some thousands here, some thousands there on each side, so much hardware, et cetera. How about the South Vietnamese, how good are these characters?

How good are the military forces of South Vietnam, how do they compare in quality; I am talking about battle troops, line forces? What is the quality of the South Vietnamese, how good are they, what is the quality of the North Vietnamese, how good are they? How will we get our numbers. What about the troops?

General GRAHAM. Qualitatively I say that the South Vietnamese troops are as good as the North Vietnamese troops. Time was back

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in history that was not so. But I think they are that good. And where they are in head-to-head combat with the North Vietnamese, since before the cease fire and after the cease fire, the South Vietnamese have acquitted themselves very well.

As I mentioned to you, even the South Vietnamese that are not regular troops but South Vietnamese irregulars or militia types that were defending the capital of Phuoc Long Province took a very heavy toll of regular North Vietnamese attackers. They were very good.

Mr. FLOOD. I want to ask you about that.

First of all though, if what you say is so, how do you account for the series, recently, of costly defeats by the South Vietnamese? How do you add that up?

General GRAHAM. Costly defeats of the South Vietnamese?

Mr. FLOOD. Defeats, they are being kicked all over the lot. Why?

General GRAHAM. They got kicked all over the lot out here——

Mr. FLOOD. What do you mean "out here"?

General GRAHAM. Out here.

Mr. FLOOD. The record will not show "out here".

General GRAHAM. In Phuoc Binh, the action I have just been describing to you, where they lost their first province capital. That was an isolated outpost; if Saigon had attempted to reinforce there, they would have just lost more and more people. That was a very exposed position.

Mr. FLOOD. Just let me add to my question. I used numbers. I think I did mention hardware. Besides, you gave us a long series of numbers, such and such a ratio, they are just as good, all things being equal. If they are just as good, yet they outnumber these northern types with hardware and everything else, and bodies, how in the world do they continue to lose all the time?

General GRAHAM. Well, I do not say they continue to lose all the time.

Mr. FLOOD. Recently.

General GRAHAM. Lately they have been losing because they have restrictions on how much firepower they can bring to bear because they are trying to save their ammunition to get through this period. In order to react where the enemy forces them to react, they have to move their people from one part of the country to the other, that takes gasoline and trucks.

Mr. FLOOD. What about casualty rates, battle casualties?

General GRAHAM. Battle casualties, they are still killing at twice the rate that the North Vietnamese are killing them.

Mr. ADDABBO. Today's paper carried a story of a speech that Vice President Rockefeller made last night. In view of what you told us about the killing 2 to 1, et cetera, the great ability of South Vietnam, you do not agree with the Vice President when he says there will be a blood bath of South Vietnamese if we do not give them the $300 million, in view of their great fighting ability.

General GRAHAM. I do not know specifically what Mr. Rockefeller was basing his judgment on. I think, I agree with the notion that there would be an awful blood bath in South Vietnam if it went down the drain.

Mr. ADDABBO. If it went—but $300 million will not stop it.

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RVAF Desertion Rates

Mr. Flood. Wait. I do not want to get off on that.

Following up my line about the bodies, troops, hardware, equalities, casualties, all those things, what about the desertion rate?

There they are, what about that? Do you have anything on that?

General Graham. Do we have anything on that?

Mr. Mahon. What is the name of the gentleman supporting you?

General Graham. That is Mr. Desaulniers.

Mr. Mahon. Mr. Desaulniers, will you speak up and give your answers to us rather than to the general, if you will permit, General.

General Graham. Yes.

Mr. Flood. What do you have on desertion rates?

Mr. von Marbod. Mr. Flood, the averages for gross desertions from the Republic of Vietnam Armed Forces for the first 11 months of 1973 and 1974 are——

Mr. Flood. What do you mean, gross?

Mr. von Marbod. The total number of deserters, it does not reflect those who later were recovered or returned of their own volition.

Mr. Flood. Are these regular troops now?

Mr. von Marbod. They are, but the regional and popular forces are also included.

Mr. Flood. Yes, yes.

Mr. von Marbod. The monthly desertion average was for 1973, 17,107 and, for calendar year 1974, 16,942.

Mr. Flood. You have nothing on the other side? Can you give me a guess, educated guess? What is the defection rate of the North? You have spies up there. They have long, big ears. What do you hear? What is the scuttlebutt on the North desertion rate?

General Graham. I do not have anything. On desertion we really would not know, Mr. Flood. We might have some figures on Chieu Hoi Rallier rates that come over to the South's side. The desertion rates that Mr. von Marbod has given you would not be desertions to the enemy.

Mr. Flood. AWOL, anything at all, how many are out of line, that is what I want, not just going over to the enemy.

Those figures that you gave me now include not just desertions across the line, AWOL's, they forgot to come back, anything?

General Graham. Yes, sir, family, homesickness, family sickness.

Mr. Flood. They are not there?

General Graham. They are not there at some time. Now many are restored to duty.

Mr. Flood. I understand. No scuttlebutt on the North, at all?

General Graham. I have none, sir.

Territorial Losses Since Cease-Fire

Mr. Flood. Skipper, how many square miles, about, has South Vietnam lost to these characters since the cease-fire?

General Graham. Anybody have that figure? I do not have it.

Mr. Flood. Somebody has that. I could get that with a telephone call. Do you not have that? There is the real estate, you know about where they are. A good look with a yardstick. About how many? I do not want to hold you down to x square miles. About how many hundred square miles have been lost to the north since the cease-fire?

General Graham. I am sure we can calculate that for you and get it to you——

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Mr. HABIB. I do not think you can.

May I interrupt? I am an old hand at this.

Mr. FLOOD. I know you are.

Mr. HABIB. I think you are being misled.

Mr. FLOOD. I have known you a long time. You are good, too, all right.

Mr. HABIB. I do not like to do this, but I am afraid I am going to have to. I hate to walk up to a map with a pointer in my hand.

Mr. FLOOD. I have seen you do it.

Mr. HABIB. We are getting back to this old business now, when the cease-fire took hold, supposed cease-fire took hold, which it never was—when the agreement was signed.

Mr. FLOOD. That is better.

Mr. HABIB. On the 20th of January 1973, the agreement was signed, certain things were supposed to happen at that point. In Vietnam at that point, by and large, almost every populated area in the country was in the hands of the Government of Saigon. The North Vietnamese basically were at that point in the northern part of the country where they had just attacked, if you recall the Easter offensive of 1972, they were along the border areas which they had been controlling for many years, they were in certain base areas in these places here.

Mr. FLOOD. By border area, you mean?

Mr. HABIB. The border between Vietnam, Cambodia, and Vietnam and Laos.

Mr. FLOOD. Just say that for the record.

Mr. HABIB. Here is the border right here.

Mr. FLOOD. All right.

Mr. HABIB. Now by and large, you could then draw sort of a red area coming down this way and splotches all over the place, the old business of leopard spots.

Mr. FLOOD. Area to Tay Ninh somewhere north of Saigon.

Mr. HABIB. And south. They had pieces down here in the Ca Mau Peninsula.

Mr. FLOOD. They were pretty solid.

Mr. HABIB. In the border area, they were solid for a very good reason.

Mr. FLOOD. Below Saigon?

Mr. HABIB. Except in the border areas, below Saigon. Again, the border area is the supply line, it always has been, it was the supply line and sanctuary before, and the area that is the barrier to any of the GVN forces, what happened——

Mr. FLOOD. That is my question.

Mr. HABIB. At the same time that you had that situation existing, you had a lot of areas that I would characterize as contested. That means you are talking about terrain, no man's land, whoever is there at the moment is there, otherwise there is nothing there.

Mr. FLOOD. Has that changed much?

Mr. HABIB. I am just about to come to that. What happened when you got the cease-fire? You got movement into—what is the natural thing?—you try to take advantage by taking the contested area. They began to jockey for position in the contested areas. So, at the outset of the cease-fire it, was not an effective cease-fire; as a matter of fact, as you will recall, there was another meeting in June of that year to

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go back to the North Vietnamese and say to them—Dr. Kissinger went and talked to them, "Look, fellows, you know this thing has not been working; let's get back to the agreement."

Mr. FLOOD. That worked both ways; they were both doing the same thing.

Mr. HABIB. Sir, I said they were fooling around in the contested area.

Mr. FLOOD. Not just the North?

Mr. HABIB. Of course not.

Mr. MAHON. Let's let the witness talk.

Mr. HABIB. Of course not; anybody who tells you that the South Vietnamese never did a thing contrary to the cease-fire is just not telling you the truth. The truth of the matter is there was jockeying for position. Who went that way and who went this way, you could never tell in those circumstances. The situation was tenuous, the cease-fire was not holding, the cease-fire was not holding on both sides.

Now you can blame anybody you want. Now, then there was another meeting. It was decided to try to reinforce the cease-fire, reinstate it. That did not succeed. The important thing is you begin now, beginning in 1974, after the other fellow, the North had reinforced, restocked, reconstituted their main force units in the South, you then begin to get a new military situation.

In this dry season campaign, beginning November—December of last year, you begin to get massive violation on a highly escalated military scale. You begin to get main force units moving down again. You begin to utilize the influx of material and material that was brought down in violation of the agreement. You begin to bring your forces out of the sanctuaries where they had no right to be, in accordance with the agreement. You begin to expand the military covenants and you announce what you are about to do.

That piece of paper Mr. von Marbod read you a while ago, really it does not mean a damn thing, you are right, Mr. Addabbo. That is the kind of order you always issue to your troops when you go on the offensive. They are not going to achieve that, you know darn well, no more than they got through the Battle of the Bulge. We stopped them.

In this case, what you are getting is a preview of his intention. His intention was to move the scale of conflict from a low level and in a way completely apart from the political settlement, into a military conflict again.

What you are dealing with now in Vietnam is a war, you are not dealing with a cease-fire.

Mr. FLOOD. Let me tell you this——

Mr. HABIB. That is why they need the resources. The way this has been discussed is beyond me.

Mr. FLOOD. I understand.

Let me tell you something. When Mr. Justice Holmes of the United States Supreme Court, when he was Chief Justice in the State of Massachusetts, a lawyer was arguing before him and the lawyer said something. Then Mr. Justice Holmes went on for about 15 or 20 minutes. The lawyer said, "Mr. Justice, you just stated the question."

Now, you have just stated the question.

Mr. HABIB. Right.

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Mr. FLOOD. Now what is the answer?

Mr. HABIB. I will give you the answer.

Mr. MAHON. That is an answer. Let him proceed without interruption.

Mr. FLOOD. It is not the answer I want.

Mr. HABIB. As you know, as I understand it, the administration has submitted a request to Congress——

Mr. FLOOD. That is not my question.

Mr. MAHON. Let him talk.

Mr. FLOOD. I want to be sure he understands my question.

My question is, how many square miles are now occupied since the cease-fire, not around Robin Hood's barn.

Mr. HABIB. I went around Robin Hood's barn, the reason is I want to answer that question and it is because you cannot answer that question. It does not make a difference how many miles——

Mr. FLOOD. That is a matter of opinion.

Mr. HABIB. What is the answer? Nobody knows. What I can do is ask them to give you—and what I will tell them to do, you fellows go get yourself a planimeter and go over the map, take the fundamental base areas and call them VC and say there are so many square miles and present it to the Congress. But what I am trying to say to you, sir, is that it is an interesting figure, but it is not completely relevant to the considerations that should be before the committee. I hope that between now and the time we get through with the formal presentation of the budget request, we are able to present the full range of information that the committee would require to make its decisions.

Mr. FLOOD. That is a fair statement. But the purpose, the ultimate purpose of my question, after you said all this, you and I, what do you mean if you cannot tell us how many square miles they have lost; if nobody can tell you, then what is this business that they are getting clobbered, and they are losing?

Mr. HABIB. In the first place, I do not particularly agree with the statement about the clobbering.

Mr. FLOOD. Oh?

Mr. HABIB. There are situations in which the South Vietnamese, to my knowledge, have suffered local tactical defeats. There has not been as yet a fundamental strategic defeat. That is threatened. That could be threatened if there is not sufficient supply.

Now the tactical defeats that are suffered are a result basically—and the gentleman was right—what you are dealing with is with isolated indefensable points when there is a mass of power put against them. You run a couple of regiments of North Vietnam against a provincial capital like Phuco Binh, and you cannot hold it with a couple of territorial companies and reinforced commandos. You cannot hold it. They put over 30 tanks into that battle, if I remember. You just cannot have the forces. That is what I consider a tactical defeat.

What the south is worrying about now is whether or not they will be run down in terms of capability to a point where you will get a fundamental strategic shift in the power balance in the south. When you get to that point, then it is downhill all the way, because you cannot recoup.

What we have tried to say and what we will be saying in more detail to the committee, as we get into the requests is that the level of

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conflict is such that the United States should provide sufficient arms and materiel for South Vietnam to defend itself. This is the basic problem involved, hopefully—and I cannot promise you this—the solution in Vietnam as to where it goes in the end, as you said a while ago, all the answers are in the Paris agreement.

There is nothing in the world that would resolve the Vietnam situation any better than the Paris agreement. There is nothing in the world that would resolve the Vietnam situation any better than the Paris agreement, from my point of view.

All the answers that anyone might want for a peaceful settlement are in the agreement, but the agreement has to be implemented by both sides.

Mr. FLOOD. In all these battles that South Vietnam, that you say they have lost, whatever they were——

General Graham. Sir——

Mr. FLOOD. Did you——

Mr. HABIB. I think he did not mean to say that.

RATIO OF FORCES INVOLVED IN ENGAGEMENTS

Mr. FLOOD. If this is so, that they have lost these engagements, here, there, everywhere, wherever they are, can you give us in these engagments the ratio of troops involved, north and south? Is it 2-to-1 in any of these areas?

General GRAHAM. Yes.

Mr. FLOOD. Where they have been——

Mr. HABIB. Take Phuoc Binh.

Mr. FLOOD. What is the ratio, about? Always about.

Mr. HABIB. What did you have in defending forces and how many regiments of VC?

Mr. DESAULNIERS. You had in Phuoc Binh up to five North Vietnamese regiments supported by up to about 30 or so tanks with intense artillery fire. I believe at Phuoc Binh there were about five regional force companies and a battalion. I would think they were outnumbered somewhere 5-to-1.

Mr. HABIB. Give them the numbers, how many South and how many North Vietnam, not——

Mr. FLOOD. Just a round number.

Mr. HABIB. Is it 500 against 2,000? Is that about it?

Mr. DESAULNIERS. Yes, that is about it. The ratio of forces was 2,500–3,000 on the Communist side compared with about 800 for the South Vietnamese.

Mr. ADDABBO. Are these figures developed by the ARC or are these figures given to us by intelligence?

This map out here, where do we get the numbers? Do we have observers there or do we just take these figures from South Vietnam?

General GRAHAM. We are getting them from a variety of sources as follows. I would rather discuss other defense sources with you in a closed session.

[The information follows:]

First of all, our defense attaches in Saigon are given information by the South Vietnamese. Second, the United States has its own collection sources in the theater; for example, the U.S. Mission in Saigon relays a large volume of reports to Washington daily. Many of these deal with the combat situation in Vietnam. In essence, we draw on the in-country assets of the whole intelligence community.

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Mr. ADDABBO. Closed session?

Mr. FLOOD. Now you picked the one, 800 to 2,500–3,000 on that one shot. What about some of the other cases? That is not always the case. There is a planned attack ability, regulars develop the territorials.

Mr. HABIB. Would you describe to the Congressman exactly what happens when an outpost in a delta is hit by a platoon or a VC company?

Mr. FLOOD. I know, if an outpost is going to be hit, we know very well it is a planned hit and 2- or 3-to-1 ratio. I do not mean hitting an outpost. If I hit an outpost, I am going to throw in 5-to-1, you know I am going to. I do not mean that. I am going to clobber you where I can.

Mr. HABIB. In the delta that is what the war has been like.

Mr. FLOOD. Well, say so.

Mr. HABIB. In the delta that is what war has been like, outpost after outpost.

Mr. FLOOD. Describe a bit what the 1st Division is doing up in Mr1.

General GRAHAM. The 1st Division in MR1 is attempting to push back some Communist troops who have gotten in fairly close and are attempting to interdict the highway.

Mr. FLOOD. What spot?

Mr. HABIB. North of the pass, Hai Van Pass.

General GRAHAM. Right, their Hai Van Pass.

Mr. FLOOD. I know where it is.

General GRAHAM. The South Vietnamese 1st Division is moving out offensively there to get the Communists away from the road between Danang and Hue.

Mr. HABIB. You know the road. You have probably been on it.

Mr. FLOOD. They are 4- or 5-to-1 there? In attack after attack?

Mr. HABIB. The ratio is about the same.

Mr. FLOOD. Because they are on the offensive?

General GRAHAM. Yes.

Mr. ADDABBO. Mr. Secretary, you were about to say, after your brilliant description and I think an exact description of what is happening there, what the solution is, and then we went off into a discussion of small pieces. Would you finish that statement?

Mr. HABIB. That is a very, very complicated question, which requires a complicated answer, and I will simplify it if I can in the time available to us.

What I tried to sum up was by saying I think the solution is basically a return to the Paris agreement, that within the Paris agreement there are the military, the economic, the political answers to this kind of a situation. The agreement was entered into in good faith, as far as we are concerned, and we can presume it was entered into in good faith on the part of some of the others concerned.

Now, whether or not that agreement can be reinstated is a key question.

I would submit, and I think this is the answer to your question, that the agreement can only be reinstated if the prospect of military success is not available to North Vietnam. If we ever learned anything with respect to this kind of a situation, that is what we have learned.

Now in these circumstances, in my opinion, and in the opinion of those who went back to the day the agreement was signed, you had to presume, a supply of the South sufficient to defend itself.

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The chairman asked me this morning if I could submit some of the statements that were made at that time, and I would like to take, if I could, 1 or 2 minutes to note a few things that were said at that time.

Mr. ADDABBO. On this point.

Since that accord, alleged accord of January 1973, we have expended over $2 billion. The Congress has directed—we do not know, we keep finding out these other secret spigots that keep opening up, that it is the $2 billion-plus. Maybe one of these days we will get the true answers.

Mr. HABIB. Whatever the answer is, it is a lot of money.

Mr. ADDABBO. You are saying in order to prove this thing we have to keep funding or to disprove it not fund it and see where we go, is that where we are?

Mr. HABIB. When the agreement was negotiated and presented to the Congress and to the American people, it was presented as what it stood for.

I might say, for example, on the 23d of January when the President presented the agreement to the Nation, 23d of January 1973, the President at that time—President Nixon said:

> We shall continue to aid South Vietnam within the terms of the agreement and we shall support efforts by the people of South Vietnam to settle their problems peacefully among themselves.

Dr. Kissinger in a press conference on the 24th of January got a question about the provision of armaments, munitions and war material under the agreement. He said that if for any reason the war should start at any level, it would be an unfair restriction on our South Vietnamese allies to prohibit them from replacing their weapons if their enemies are able to do so. Therefore, the degree to which these weapons will be replaced will depend on the degree to which there is military activity.

He added, if other countries do not introduce massive military equipment into Vietnam, we do not consider it an end in itself to give them military aid. But we believe it would be unfair and wrong for one country to be armed by its allies while the other country has no right to do so. This is what will govern our actions.

I could go on. I am going to put a formal thing into the record for you later. I might go on and say, with respect to certain congressional statements, I am sorry, Mr. Chairman, I said this morning that I had a quote of yours from the record, I really meant that we had a quote which the press carried from you.

The chairman is quoted as saying, for example, following the President's briefing on the Paris agreement, in the Washington Post January 28, 1973, the chairman of the House Appropriations Committee said, and I do not know whether the Washington Post quoted you correctly:

> It is inherent in the cease-fire that we will continue to provide assistance to South Vietnam and rehabilitation assistance to North Vietnam. He said this must be accepted as a fact of life and is a better alternative than continuation of the war.

The chairman was not the only Congressman who was saying things like that. There were other quotes that I will, in accordance with my promise, put into the record in a coherent fashion.

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[The information follows:]

January 26, 1973, S. 1398—Senator Robert Byrd (Democrat), West Virginia:
"It is to America's credit, however, that even in the fact of criticism at home and abroad she did not abandon an ally * * * We got into this war little by little, unable to see where day-to-day and week-to-week events would ultimately lead us. But we became involved in behalf of an ally, and our country kept the promise of its leaders—Presidents Eisenhower, Kennedy, Johnson, and Nixon that we would not desert South Vietnam. I hope I do not live to see the day when this Nation, forged in the crucible of courage, will ever forsake the pursuit of national honor. For the honor of a nation is the sum of the honor of its sons and daughters. If honor ever ceases to be a part of the American character there can be no future for this country."

January 31, 1973, S. 1669—Senator Jesse Helms (Republican), North Carolina:
"We must do what we can to make the truce work. We must share our material strength with the South Vietnamese, our allies, so they can defend themselves if the truce does not work."

Excepts from SFRC hearings, February 21, 1973

Senator Mike Mansfield (Democrat), Montana—page 16:
"The Nixon doctrine as I understand it calls for the gradual withdrawal of our forces all over the world and a greater dependence on the nations with whom we have ties, with the United States furnishing, in specific instances, only logistical support."

Senator Clifford P. Case (Republican), New Jersey—page 19:
"Our aim in Indochina should be to make the countries, insofar as we can, what they were before all this trouble started. With that qualification I fully support the concept of foreign assistance and I do not think it any way derogates from our ability to do what we properly should do at home."

Mr. HABIB. What the chairman was saying was what we all recognize, that you were going to require not only economic and military assistance for South Vietnam, but we should also be prepared to provide assistance to North Vietnam.

Remember at that time those of us involved in the agreement believed when we got an agreement, and it took us 4 years to get it, I am sorry to say, through no one's lack of effort, I can tell you, but in any event we had always felt, and I think it was stated at the time by many people, including the press, in the editorials, that when the United States finishes a thing it then binds up the wounds that may have happened.

You remember at that time we talked about providing reconstruction aid to North Vietnam, we were going to clean up the South, do the things Americans have always done so well, rebuild rather than destroy. That is, those of us involved in those matters felt we were going to do. We did not feel we were going to go back into this kind of thing.

Mr. MAHON. I will not yield further at the moment.

You have quoted something that was in the local paper. I do not remember the exact language that you read, but I assume that I said what we were told at the briefing at the White House; that it was inherent in the settlement which President Nixon had made that we would continue to assist the South Vietnamese within the limits of the agreement.

I pointed out, because I did not think then that the American people knew it, that there was an agreement that we would also help rehabilitate North Vietnam. I was against that. I would say 99 percent of the American people were against that, and practically every Member of Congress was against it.

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But in that statement I pointed out that it was inherent in the agreement that this is what the President was proposing to do.

Now, am I correct?

Mr. HABIB. I think you are absolutely right. I think you were reflecting the briefing.

Mr. MAHON. I was reflecting the briefing, but not my views.

Mr. HABIB. I was not there, but I am sure that is what the briefing had in it.

Mr. MAHON. That is the truth.

The President said if things worked out, he did support aid to North Vietnam, which was very repugnant, of course, to the thinking of the average American.

Mr. HABIB. The opinion at the time was one ought to try to take every measure necessary to see that you restored some kind of peace in this area. At that time it was felt and it was provided in the agreement that aid would go to North Vietnam.

Mr. MAHON. Let me ask you a question.

Mr. ADDABBO. Just to complete this one point on what the Secretary said, Mr. Chairman.

Mr. MAHON. All right.

Mr. ADDABBO. In your opinion, Mr. Secretary, you spoke about this agreement, 4 years to achieve the agreement, the only way we are going to get peace is by going back to the agreement.

Can you give to this committee a ball-park figure of how long it would take for anyone, for them to live up to this agreement and how many more tax dollars will be needed to achieve this?

Can you give us any ball-park figure?

Mr. HABIB. To be honest, I cannot, because it depends on the activities and circumstances of the other fellow more than anything, and I cannot predict that.

For example, if I could predict to you with some degree of certainty that North Vietnam would go back to the table and talk with the South Vietnamese, if I could predict when a cease-fire could be restored, I could make a prediction. But I hesitate to do so.

I know it is popular for some people to say if you do this, it will be so many years. I have never been able to make those kind of predictions in these kind of circumstances and I do not think you would trust a prediction if I gave it to you anyhow. If I were you, I would not.

Mr. ADDABBO. Thank you.

Mr. MAHON. Let me ask you a few questions.

There are those who feel that the only way to achieve peace in Southeast Asia is to let one side or the other prevail so as to unite Vietnam, North and South Vietnam, and also unite Cambodia.

It has been said that as long as we support the Government of South Vietnam and as long as we support Cambodia, war will continue and the humane thing to do is to stop our aid and thereby stop the fighting. This is not my philosophy, but I would like to have your comment, Mr. Ambassador.

Mr. HABIB. Well, Mr. Chairman, I am glad to agree with you that it is not my philosophy, either.

What people who say that are saying is, in effect, that it does not matter any more, that it does not matter what South Vietnamese think or what Cambodians think or what the Lao think. We are just going

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to stop and it will stop, and that is true. If we stop supplying material of war to any country in Southeast Asia, they go down—and very quickly.

They will not even have to wait until they expend everything they have. The action itself would completely demoralize the situation.

I would submit to the people who say that to me, and I have said it to them when they have said it to me, is that that is not your decision to make. The decision whether to resist, whether to defend yourself, is the decision that the South Vietnamese have to make, not you for them.

Casualty Rates of South Vietnamese Troops

There were 30,000 South Vietnamese killed last year—military—let alone civilians.

Casualty Rates for Cambodia

Since January 1, the casualty rates in Cambodia—in the armed forces of Cambodia have been running somewhere in the neighborhood of about 800 a week, dead. That is not counting civilian dead. We do not have a full count on them because the shells keep coming in.

What I say to the people who argue that is that you cannot make that decision, you cannot tell a man whether he should defend himself. You can tell him "I won't help you" if you do not want to——

Mr. Mahon. If you tell them "We won't help you," then what happens?

Mr. Habib. They are going down.

Mr. Mahon. South Vietnam and Cambodia go down?

Mr. Habib. The North Vietnamese are going to impose upon them the rule of force. All of the sacrifice that has gone into it, all of the commitment which we have provided over the years in terms of our own involvement, and that was raised earlier this morning with respect to the reaction in other countries with whom we have commitments—and I forgot this morning what Congressman Kemp asked me to remind myself, that I did not include the mutual security with the Republic of China when I cited them all in Asia. I will include it now.

The answer is that all of those consequences then result, when they go down. In addition—and there is a human factor in this also and I cannot tell you precisely what is going to happen—but it is clear that what goes on behind the lines when the Communist forces take over in these circumstances is not very pleasant.

Now it can be argued, "Well, it is not very pleasant to have 30,000 dead resisting them."

Mr. Mahon. Right.

Mr. Habib. But the answer is, do you go down resisting them or do you just go down the river?

The South Vietnamese have said, "We are prepared to resist." They are asking for the arms. They are not asking us to put the troops back in. I have not seen any request by any of them to put American troops back into the area, and I do not think there will be.

Mr. Mahon. But will we have to go on to the end of the century if we follow your proposal?

Will we have to go on to the end of the century and perhaps beyond supporting South Vietnam and Cambodia?

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If, when we quit they go down the drain, can we ever end our support?

Mr. HABIB. Sir, we have responsibilities all over the world. I can remember when I got out of the Army in 1946, I did not think 25 or 30 years later we would still have 300,000 troops in Europe, I did not think we would have treaty commitments all over the world.

Frankly, I do not know what I even thought in those days. The answer is, what obligations do we take on in our own interest, in terms of our own foreign policy?

I submit, as has been submitted before, that American foreign policy is not isolated in this situation. American foreign policy in Southeast Asia is a part of the total foreign policy, it has to do with our commitments to our allies, to the past, to the sacrifices we have made, with what kind of a world we hope to see.

Nobody likes to see what is going on down there in this country. I certainly do not.

I think the only answer to your question that I consider logical and defensible is to put it in the context of the total American posture and foreign policy interests, I mean American interests. I do not happen to believe it is in the American interest to let this go down the drain for want of the resources that we agreed to give them.

Mr. MAHON. Well, you have not been evasive, but to get back to——

Mr. HABIB. I hope I never will be evasive.

Mr. MAHON. I will come back to my question.

If we do follow this policy that you have advocated——

Mr. HABIB. Will we have to keep spending?

Mr. MAHON. Will we have to keep doing this, year ater year, 1970's, 1980's, 1990's?

Is there any end to it? The people are sick and tired of it.

Mr. HABIB. The end will come when the other fellow decides it is not worth going that way, it is worth going back to the political competition envisaged in the agreement.

Mr. MAHON. If we convince him that we will continue to spend our treasure in South Vietnam, maybe he will come to the conference table again?

Mr. HABIB. I think when he is convinced that the South Vietnamese will have the resources to resist him, I suspect that is when he will come back to the table. I am sure of this, he will not come back to the table short of that.

I can say with some assurance I do not think he will come back to the table short of that. I think he might come back to the table, and wisely, he will come back when he is convinced of that.

Mr. MAHON. You understand that the American people are not altogether patient.

Mr. HABIB. We are a very impatient people and impatient——

Mr. FLOOD. If you mean by "convince him," you mean North Vietnamese, you really mean convince China and Soviet Russia, do you not?

Mr. HABIB. I think they are involved in this also.

Mr. FLOOD. Those people do not have a pot, it will be Russia or China who will supply them.

Mr. HABIB. I do not want to leave the impression that I think the decision in Hanoi is made in Peking or Moscow. The decision is made in Hanoi, Hanoi gets its support from their people and——

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Mr. FLOOD. What are they going to use for ammunition, rubber bands?

Mr. HABIB. No, sir; they get it from China and Russia.

Mr. MAHON. Someone said this morning in this hearing that the U.S.S.R. and China are concerned about the possibility of a big offensive by North Vietnam. Why are they concerned?

Mr. HABIB. I did not make that statement.

Mr. FLOOD. Who said that?

General GRAHAM. I said that.

Mr. MAHON. Why did you say that?

General GRAHAM. I say that Hanoi has to have some worries about what the major allies will think if they pull off a big offensive and it is not successful.

Mr. MAHON. In other words, the U.S.S.R. and China would be concerned if Hanoi did launch a big offensive and it was not successful; is that your point?

Do they want them to be successful or not? I did not understand it.

General GRAHAM. I think Hanoi and the Soviet Union—and the political analysts are better at it than I am, I am a military analyst—I think China and the Soviet Union have to vie for influence in Hanoi and one of them cannot look like he is being more of a cheapskate than the other guy, so they keep feeding them material.

Mr. MAHON. Did you mean China and the U.S.S.R.?

General GRAHAM. China and the U.S.S.R.

Mr. MAHON. Off the record.

[Discussion off the record.]

POLITICAL, ECONOMIC AND MILITARY SITUATION WITHOUT U.S. ASSISTANCE

Mr. MCFALL. I think the question before us, at least, that seems to be the trend of the questioning, is whether we give them any money at all, ever, that we should quit now. We have no interest there. Forget them. Goodbye.

If there are enough votes to get this out of the committee, that will be the question on the floor. The question will not be how they spent the money, whether or not the South Vietnamese want to defend themselves or are capable of defending themselves. The question will be, we want to end this now. We want no more money to go to South Vietnam.

Would you discuss this, how it would affect our position in the world and whether or not it is related to the self-interest of the United States?

Mr. HABIB. Yes, sir. If the answer to the Congress is affirmative, that you are going to cut it off, let it go, I will answer on the basis of an affirmative answer to that question, which I hope will not arise.

Mr. MCFALL. That is not my position, but there are members of this committee who feel that way. There may be a majority of the Members of the House who feel that way.

Mr. HABIB. First of all, I would say if that were to be done we would have a political, economic, and military collapse in South Vietnam. We should realize, first of all, what the immediate consequence is in the area in question.

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You would have in Vietnam and Cambodia an immediate, total collapse. You would have an immediate and total takeover. That means that the 20 million people in South Vietnam and 7 million people in Cambodia would immediately be taken over by the forces opposing the governments in Saigon and Phnom Penh. I think you would get then a period of great uncertainty, upheaval in the area as a whole. I don't know what would happen with respect to the tenuous cease-fire and provisional coalition government that you have in Laos, but in any event I think it would inevitably be affected one way or another by this.

Now, I will shift to what Asians think would happen with respect to them in the area. I am not going to argue that I think it; I am just going to translate. There is no question it would be very disturbing to the Thai. They have made that very clear many times by virtue of their own commitment to the efforts we and others have made in Indochina; that they would consider a takeover by Hanoi as directly threatening and undestabilizing as far as they are concerned.

If it were done in the manner in which you describe, as far as a cold, calculated move by the United States—a cutoff on that basis—regardless of the historical relationship with these countries that we have had and the sacrifices we have made, that this would be immediately translated throughout that arc and elsewhere.

Mr. McFall. I mean this as a calculated decision. I want to know the consequences.

Mr. Habib. It would mean the commitments we have made with respect to any other obligations that we have, military or otherwise, in this area, in East Asia or elsewhere, would be thrown into question.

I have had that question put to me a number of times by Asians who are concerned about what they see as an American desire, under pressures of our own requirements, to withdraw. They fear that the protection and security they have derived from their relationship with the United States would be lost and they would be threatened. The deterrent power of American commitments in this part of the world and elsewhere would be, in my opinion, in serious jeopardy.

Certainly it becomes a question of whether or not one can expect any degree of peaceful resolution of conflicts, either in this area or elsewhere, when you back away and allow force to impose its will. It raises an important question.

Certainly it would show no respect for the sacrifices we have made in the area and I think that they are worth recalling.

Certainly it does not carry out our responsibility within the terms of the Paris agreement. It was implicit in the Paris agreement. If the Paris agreement provided, for example, that you couldn't replace beyond a certain level materiel, that is an implicit recognition that you replace up to the level. The agreement was in effect presented on the basis of at least maintaining a certain capacity to produce a peaceful settlement, not an inquisition by force.

I would argue that all of those put together effectively demonstrate an overall American foreign policy interest in the resolution of this problem by some means other than that drastic blow of the action that you mentioned. I have never seen anything in the previous deliberations of the Congress when it appropriated the funds for our activities in that area which would indicate that it is the mood of the Congress to move that drastically with that blow of the ax.

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I hope I have given you some sort of logical answer.

Mr. McFall. My point is, I think there are those who want to do that and I am saying to you, what I want to find out from you are the consequences. I think you are indicating there would be an inevitable Communist takeover in South Vietnam by the North Vietnamese.

Mr. Habib. And Cambodia.

Mr. McFall. And Cambodia. You indicated earlier this would result in probably the death of a number of South Vietnamese.

Mr. Habib. I don't know how many and I couldn't predict, but I can say this, on the basis of the experience that one has had in these areas before, it is not a pleasant prospect.

Mr. McFall. How would it affect our relationships with China, Japan, and Russia, and would it affect our relationship in South Korea?

Mr. Habib. In order to answer the question, as far as China and Russia are concerned, I would have to get into a discussion of what I would consider to be their policy interests and how they look upon this area in a manner which—if we are going to have a restricted session, I would rather do it then because I can be more complete. If we are not going to have a restricted session ——

Mr. Mahon. We will have a restricted session.

Mr. Habib. I would be in the position of commenting upon other countries with whom we have relations. I will go into that in restricted session. I don't want to dodge the question.

I would say the same is true with respect to Japan, but I will say there, Japan, as well as other countries where we have mutual security treaties, watch these circumstances very carefully. That is not to say they would favor our going back into Southeast Asia, but I think it is fair to say, on the basis of my own knowledge of Japanese points of view, that they would find it inexplicable that we would suddenly do what you suggest some people are saying we should do—that is, cut it off with a blow. They would find it disheartening in many respects.

Mr. McFall. It is my understanding that the Chinese rely upon our strength in the world; they want our strength in NATO because this keeps the Russians occupied and that they are concerned about what would happen in the relationship with Japan if we should be gone from the Far East. Is that true?

Mr. Habib. They have made those statements to visiting congressional delegations and they have not made any secret of their concern that we should play a general role of the sort you describe.

Mr. Mahon. Your time is up.

Mr. Flynt, have you questions?

Mr. Habib. I will go on in considerable more detail than that.

Mr. Mahon. You may expand your answer here in the record if you need to.

Mr. Habib. Yes, sir.

U.S. Commitments Worldwide

Mr. Flynt. Mr. Secretary, I was impressed by your statement a few minutes ago where you referred to the worldwide commitments that the United States has made and presently has outstanding.

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Would you agree with me that it is a fair statement that a great many of these commitments are impossible to fulfill and impossible to honor under certain contingencies?

Mr. HABIB. Sir, I don't think so, for a very simple reason, that all of the commitments are contingent upon Congress taking certain action, as you know. The answer to that question doesn't lie in my hands; it lies in yours. Whether or not the United States meets its treaty commitments that have been approved by Congress is, in the final analysis, a responsibility of Congress because written into the Mutual Security Treaty is that the United States shall act within its constitutional processes. I don't recall the exact phraseology in every treaty, but that is the answer.

The answer lies in you. If what you are saying to me is we will not be able to meet our obligations, then I would say those obligations should not have been entered into or the Congress should not have approved them. In the final analysis, whether we meet them or not will be a decision for the Congress.

We are not talking about putting troops into Vietnam. We are talking about supplying military assistance—and I might tell you economic assistance is involved also. I don't want to neglect the economic aspects in Vietnam and Cambodia. They are equally important.

You can destroy a society by economic death as well as military force. I hope that my answer to you is that we are not welching on our commitments. Our commitments contain within them sufficient flexibility for the United States to act in its interests. The United States doesn't have to act if it is not in its interest to act.

Mr. FLYNT. These commitments for the most part involve a commitment to help a country defend itself against aggression from an external source.

Mr. HABIB. That is correct.

INTERNATIONAL WAR OR CIVIL WAR IN VIETNAM

Mr. FLYNT. I think we have built up an absolutely false impression throughout this whole thing that this is an international war. I know a great many people. I know my friends and neighbors in Georgia, and the present Secretary of the Army—and I have discussed it time and time again—he takes the position it is and has been an international war between two independent and sovereign nations.

On the other hand, it is nevertheless a war between the same groups of people of the same ethnic origin. They are all Vietnamese. To my way of thinking, it is a civil war just as much or more so than the Civil War in the United States was during the period of the 1860's. Would you define this as an international war, or a civil war?

Mr. HABIB. I would not define it as a civil war in the same sense.

Mr. FLYNT. Would you give me your definition of a civil war?

Mr. HABIB. I would say in the first place you did not have a unified country which then split into two warring elements.

Beyond that, the chairman, when he opened the hearings, said something about not wanting to reopen the past, that we wanted to deal with the present. I think that frankly that is the only way to deal with it.

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The element that answers your question more than anything requires me to return to the agreement. When the North Vietnamese signed the agreement, and when the South Vietnamese signed the agreement, they took on certain obligations. Now, whether what goes on——

Mr. FLYNT. They never intended to honor those obligations?

Mr. HABIB. I don't think that one could argue whether they intended to or didn't intend to. The obligation existed.

The South would argue that they do intend to honor them and the North argues that they intend to honor. Where they differ is on what constitutes honoring the agreement, and there I think facts will have to speak for themselves.

I would argue that when they took on the obligation, they took on an obligation to deal with each other within the terms of the agreement and not within the terms of the use of force that are now being employed to resolve the issues between them.

Now, to go back over the history of the last 10, 12, 15 years—you have to really go back to the 1950's or even the 1940's to answer the question as to what is the nature of the war. I took it that the chairman had enjoined us not to do that.

Mr. MAHON. Go ahead and answer the question as best you can.

Mr. HABIB. That argument can go on forever as to what the objectives of the war are. At the present time the present situation is a result of everything that has happened since 1945 and not any one single thing. Whether or not it is a civil war, or a war between two sovereign powers or a war between two parts of a divided nation, or a war between—they are not all Vietnamese, by the way. There are all different kinds of people involved—some Cambodians, some Montagnards; they are not all Vietnamese. There are quite a bit of differences between Vietnamese also. Historically there are differences between the various groups of Vietnamese.

The present circumstance is a consequence of 25 or 30 years of misery in that part of the world.

Mr. FLYNT. Historians tell me that this fighting among people of Indochina has been going on for 5,000 years.

Mr. HABIB. That is correct. As a matter of fact, at one time the Cambodians were way over onto the coastal area. At another time the Chinese were half-way down and were pushed back. At one other time you had a Cham empire which has practically disappeared but existed in one area. There are very few of them left—only some archeological remains.

This is an area much like many other places in the world where things have gone back and forth over centuries, but I think in terms of modern history one has to start the history of Vietnam in terms of the current situation, with the end of World War II.

Mr. FLYNT. What lines of reasoning persuade Americans that we can stop fighting that has been going on since time immemorial?

Mr. HABIB. I don't think we delude ourselves—certainly I don't delude myself that we can stop the fighting in that manner. I think we can do everything we can to bring about a stopping of the fighting because it is in our general interest to.

I think it is in our interests to produce the kind of agreement that was produced with all good intentions. Now the fact it has been violated is not the fault of the words of the agreement. It may be the fault of the circumstances.

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Mr. FLYNT. I don't think the Congress is going to approve either part of this request, but let's assume for the moment the Congress does approve it in its totality. Does that mean that the administration, of whatever party in the future, is going to come back to Congress for the next 100 years and ask for $1 billion to $2 billion a year to sustain a war that has been going on longer than most of us ever dreamed it would in the first place?

Mr. HABIB. In the terms you put it, I wouldn't think that is likely to happen. I think that the most likely thing, and what any administration would do, whether it is this administration or the next one, would be to continue to seek to bring about a resolution of the situation under conditions in which the use of force is not employed.

The value of the agreement was it provided a mechanism by which the Vietnamese could sort the thing out themselves, but without the involvement of the United States. You will recall that the agreement provided for us to get out militarily, which is what the American people wanted at the time, and which is what was produced in effect. There is no way of resolving that kind of situation except by the parties concerned. There isn't any other way.

When we went into the Paris negotiations in 1968—and I might remind you that was under the previous Democratic administration—I was along, as I am today, as a professional Foreign Service officer serving what I consider to be the Nation's duty.

None of us think you can resolve the war through settlement except by getting the Vietnamese themselves to sit down and then to determine the modalities of a political settlement. This agreement provided for that.

Now, the South Vietnamese in Saigon are willing to go back and sit down and talk about that. The North Vietnamese are not willing to do so.

The United States has called attention to this on a number of occasions—most recently earlier this month when we circulated a note to all the signatories to the Paris agreement. We called attention once again to the validity of the agreement and the necessity for its implementation.

Now, where we move from there, how you try to bring about the kind of conditions in which one can foresee, or see the end of the provision of the billion dollars that you talk about, or at any rate, whatever we provide would be for peaceful purposes rather than for military purposes. I don't think our people were against providing money for peaceful reconstruction. I don't know when it will happen, but I can tell you this, it won't happen unless something like the terms of the agreement are implemented.

COST OF U.S. MILITARY AND ECONOMIC AID TO SOUTH VIETNAM SINCE 1956

Mr. FLYNT. What has been the total cost to the U.S. Government in military and economic aid since 1956?

Mr. VON MARBOD. Approximately $140 billion.

Mr. FLYNT. That was exactly the figure that I had in mind.

Mr. ADDABBO. Supply for the record what it cost Vietnam in that same period of time.

Mr. VON MARBOD. I will give you a breakout, Mr. Addabbo.

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[The information follows:]

From calendar year 1956 through calendar year 1974, the total GVN Ministry of Defense expenditures in Vietnamese piasters have been 1,433.54 billion. This figure is approximately 7.336 U.S. billion dollars. These totals were computed by using the official rate of exchange as it existed each year.

Mr. BURLISON. Mr. Secretary, in your statement at the middle of page 6 you say "We have benefited somewhat from a detailed audit that has just been completed on prior year MASF support programs for Vietnam and Laos."

Were you referring to opinion 159,451 of the Comptroller General? Was this an investigation of the Comptroller General that you were referring to at that point in your statement?

Mr. VON MARBOD. No, sir, this was not a General Accounting Office investigation.

Mr. BURLISON. In the investigation I have cited, the Comptroller General found a number of things. He found that the United States has written off $44 million in supplies to Vietnam that could not be found or accounted for. He also found various items of equipment stored at Vietnamese Army Depots while the attache's office was requesting delivery of the same item from U.S. supply sources. They found, also, that 46 ships which should have been turned in to the U.S. Property Disposal System had not been.

Now, I have just pointed up a few of the highlights of that report. I am wondering if you have done anything to comply with the recommendations of the Comptroller General in that decision, or in that case?

Mr. VON MARBOD. We have indeed, Mr. Burlison. We have requested the General Accounting Office to update the Comptroller General's report, Code 947,090, through 31 December, 1974; and I have asked our office in Saigon to cooperate fully with the General Accounting Office. Senator Nunn requested the General Accounting Office in Bangkok to update that report, and I feel confident the updated report will show improvement on the part of the Vietnamese Armed Forces in that particular area.

Mr. BURLISON. Will you place in the record at this point what you have done, are doing, and propose to do to comply with the recommendations of the Comptroller General on that investigation?

Mr. VON MARBOD. Yes, sir, I will be happy to do so.

[The information follows:]

One of my first actions, after being given the responsibility for management of the DAV program in August 1974, was to review Defense Audit Agency and Government Accounting Office reports on the investigations that had been conducted in South Vietnam. On my subsequent visits to South Vietnam, as well as during visits of my staff, we conducted first-hand reexaminations of the areas where poor management was indicated. The Government Accounting Report No. 159451 entitled "Controls of Major Types of U.S. Equipment Provided to RVNAF and No. 947090, Better Management of Secondary Items by the Republic of Vietnam Armed Forces Would Reduce U.S. Investment" formed the basis for these reexaminations.

Although I had no direct involvement in South Vietnam during the period cited by the reports, my inquiries indicate that the findings cited are essentially correct. However, there are two considerations that should be noted: First, the report on Controls of Major Types of U.S. Equipment Provided to RVNAF was prepared during the summer of 1973, immediately following the major influx of equipment delivered prior to the signing of the Paris Accords in January 1973. This major augmentation of RVNAF equipment, coupled with

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the precipitous withdrawal of U.S. forces, tended to overwhelm the capabilities of the fledgling RVNAF supply system. Second, the full impact of the 56-percent reduction in funding for fiscal year 1975 was only realized after August 1974.

I believe that progress has been made and that the high level of command emphasis within the RVNAF will assure continued progress. The Government Accounting Office has been requested to reinvestigate both of these areas as soon as possible.

In a collateral area, I have found studies conducted by the Defense Audit Agency element stationed in Saigon to be most helpful. I have directed that this staff be increased from 13 to 20 U.S. personnel and that local national personnel who augment this staff be increased from 15 to 25.

I fully recognize that prudent use of resources provided to the RVNAF is absolutely fundamental to continued defense assistance to South Vietnam. I have stressed this point in personal meetings with President Thieu, Prime Minister Khiem, members of the joint general staff, and the corps commanders that I have visited. They fully appreciate the importance of efficient management of resources.

I intend to pursue improved resource management as a top priority effort and believe that progress in this area can be sustained.

Per Capita Income In Vietnam

Mr. Burlison. We haven't heard much discussion today about the economic viability or lack thereof of the Vietnamese Government. Is it true that in the past 2 years we have had a 45-percent reduction in per-capita income in Vietnam; this is with the departure of our troops and a slackening of military aid? Does this strike you as being pretty well in the ballpark?

Mr. von Marbod. As I recall, Mr. Burlison, that is essentially correct.

Inflation In Vietnam

Mr. Burlison. Is it not also true that in the past couple of years the inflation in Vietnam has increased by nearly 90 percent? Inflation in the past couple of years?

Mr. von Marbod. I believe that in calendar year 1974, the rate was closer to 25 percent, Mr. Burlison.

Mr. Burlison. That is for 1 year, the figure you have given?

Mr. von Marbod. Yes, sir.

Mr. Burlison. Without the rate of inflation for the past 2 years.

Is it not true the entire budget of Vietnam is now about $870 million? Can you give us the Vietnam budget?

Mr. von Marbod. I can give you a few statistics that might be useful.

Mr. Habib. I think we should give these figures for the record.

Mr. Burlison. I have asked that these figures be supplied for the record.

Mr. Habib. Statistical material should be for the record. Basically these kinds of broad statistical figures are not in our realm. I would rather get them accurate and give the best estimates we have.

Mr. Burlison. I hope you will supply that for the record and make any corrections that may be in order.

Can you give me an approximate figure?

Mr. Habib. We will get you the precise figure for the budget. Do you want it broken down by major categories?

Mr. Burlison. You don't want to supply an approximation now?

Mr. Habib. I don't have it, and I am a little concerned that we not talk off the top of our head about basic statistics.

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Mr. BURLISON. Would you supply that for the record, please?
[The information follows:]

CALENDAR YEAR 1974 GVN BUDGET

Expenditures	Calendar year 1974 (618 Vietnam/United States		
	Vietnam billions	United States millions	Percent
"Security"/defense and police	347	562	48
"Civil" operations	238	385	33
Rice subsidy	70	113	10
Export and fertilizer subsidies	14	23	2
Development	51	82	7
Total	720	1,165	100
Revenues:			
Total GVN revenues	343	555	48
U.S. aid counterpart transfers	258	417	36
Treasury bill sales	90	146	12
National bank advances	29	47	4
Total	720	1,165	10

Mr. BURLISON. My point is that we may have overlooked a pretty important factor here. That is the ability of Vietnam to survive internally.

Mr. HABIB. We can address that conceptually in a moment without necessarily getting into the fine figures.

Mr. BURLISON. Secretary Habib, you spoke very eloquently about the situation in Vietnam and it seems to me that you are very conscientiously presenting it and believe the position you are giving us. I have some difficulty with it.

We had half a million troops in Vietnam for some time and we couldn't make any substantial progress there and we were putting in billions of dollars a year in the support of that half a million troops. Now we have appropriated already $700 million in this fiscal year and now you want $300 million more for this fiscal year.

If there was no substantial progress over a period of many, many years, with a half million American troops, with all of the support that we have given them, and if the $700 million that we have gathered in this fiscal year, which is only half gone at this time, and the South Vietnamese are going backward, how in the world can you have any prospects of turning this thing around? Can you enlighten me?

Mr. HABIB. I will answer your second question first.

The answer to your second question is there doesn't seem to be any doubt that given supplies and resources—and given the current status of the situation in Vietnam, the South Vietnamese will be able to hold against the North Vietnamese militarily.

That is an estimate concurred in by all the people I have ever questioned——

Mr. BURLISON. That is the most optimistic that you can be, that if we will provide them with $300 million this year and so much more the next year—the President will soon be telling us how much he wants—at least a billion dollars for fiscal year 1976—the best we can hope for is that we can start holding there?

Mr. HABIB. In this short time frame that you are talking about, yes. I mean what can happen is that the south will be able to defend itself.

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Now, recall there are no troops in the south going up north. There is no offensive to the north or march north. We are talking about the capacity of South Vietnam to defend itself, and the answer is, yes, it can.

Now, what happens in the longer term is what I tried to address a while ago when I said one has to then turn back to what is the fundamental settlement in the area involved and that is when you get into what I characterize as the basic content of the agreement in terms of its political, economic, and military components.

Now, as far as the economic situation is concerned——

Mr. BURLISON. My time has expired.

Mr. MAHON. Mr. Robinson.

ECONOMIC SELF-SUFFICIENCY IN SOUTH VIETNAM

Mr. ROBINSON. I would like to pursue the same course of questioning that Mr. Burlison was pursuing in terms of the beginning of any economic self-sufficiency in South Vietnam as it has developed in terms of our economic aid which is, of course, part of the whole package.

Mr. MAHON. Let me bring this to the attention of the committee: The $700 million provided in the defense bill for South Vietnam is not the total amount being provided. The total amount provided, including economic aid, is greater.

Mr. HABIB. $449.9 million is the ceiling in the authorization. The request was $750 million and it was reduced to $449.9 million. It has not yet been appropriated, Mr. Chairman. It is $449.9 million against a request of $750 million.

Mr. MAHON. Some economic aid has been given under the terms of the resolution.

Mr. HABIB. Yes, sir, within those limits.

What a lot of people forget is that Vietnam is basically quite a rich country, and it isn't one of those countries in which you have heavy population pressure against the resources. The land is fertile and the people themselves know how to use it.

In fact, even with the conditions of war these last several years, Vietnam is approaching self-sufficiency in the production of rice, whereas years ago we used to have to put in a great amount of rice. It is approaching self-sufficiency.

In fact, I would argue it would be self-sufficient if you could move the rice around, if the war weren't going on, this very year. But, of course, the war distorts the economy completely, with about 1.1 million men under arms, with the whole devotion to military effort. You can't get any sort of basic economic development on the scale that the resources of the country promise.

Now, that isn't to say it isn't possible to get development, even at the level of hostilities of a year or two ago where you were beginning to achieve the beginning of developmental investment—dikes, new canals, new lands brought in, better seed varieties, better crops, better cropping methods, the development of a fishing industry. Vietnam has lots of promise economically, and above all I don't want to neglect the promise of oil offshore, which is in the exploratory stage now. There have been some wells drilled. If it comes through as it appears to promise, I think that in many ways that would break the back of the economic problem.

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But that takes years, as you know, to develop those kinds of resources.

It isn't a question of whether or not Vietnam could ever become economically self-reliant. They have timber; they raise sugar, which is of great value. The economic resources both in people and in environmental terms are great. The problem is to develop them.

Mr. ROBINSON. What I am thinking of is how far down the road is the prospect they can supply any of the things we are supplying them in terms of military resupply, ammunition and such things as that?

Mr. HABIB. That sort of thing requires major capital investment. For example, would you advise building an ammunition plant in Vietnam? Generally speaking, without security, if you build an ammunition plant the probability is it wouldn't last very long. It would become a prime target.

Mr. ROBINSON. With your experience in South Korea, how would you compare the situation as to potential?

Mr. HABIB. I would say the potential in South Vietnam is immeasurably greater than it was in South Korea, and everybody knows in economic terms South Korea took off in the midsixties and averaged a gross national product increase in real terms of 10 percent a year. That is in real terms.

I would say South Vietnam has a greater potential for economic growth—much greater potential.

The South Koreans had nothing but basically labor and intelligence.

Mr. ROBINSON. This is mainly because of the natural resources?

Mr. HABIB. South Vietnam has tremendously rich sources according to all of the surveys. If you go back, I can remember years ago when people were doing postwar planning. You had, for example, the Lillienthal study in the 1960's in which it was, you know, blue-sky advancement if you could just get peace. We have had a number of surveys since then which would indicate that the economic prospects are very good indeed, provided you get peace, or some reasonable semblance of it. I would put it that way.

Mr. ROBINSON. I know that my 5 minutes are about up.

U.S. PERSONNEL IN SOUTH VIETNAM

I have one additional question for Mr. von Marbod. With reference to the Americans that we still have in South Vietnam, the personnel there, you mention that they are reducing in terms of numbers from higher levels and that you are going to bring them down still further.

Does this infer that you are going to bring down the contract people and those that are there in support of the Defense Attache's Office still further?

Is this going to continue to decline or do you think that the figures you cite here are the irreducible minimum?

Mr. VON MARBOD. They do not represent the end strength. I am quite certain, Mr. Robinson, that we will hold the military strength at the Defense Attache Office to approximately 50 persons. However, I am anticipating further major reductions in the number of U.S. civilians and further reductions in contract support areas.

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Mr. ROBINSON. In terms of money, what proportion, or how much money of the money that is being spent there goes to support that personnel, both civilian and military?

Mr. VON MARBOD. The $39.4 million used for that purpose in fiscal year 1975 includes their pay and travel, as well as administrative and logistic support.

Mr. ROBINSON. You are very complimentary in your statement with regard to the efforts of the South Vietnamese to use hardware that we probably would throw away. Do you have any criticism of the way that they are handling the assistance they are being given in that regard? Are they doing, as you see it, the very best job they possibly can or is there still room for improvement?

Mr. VON MARBOD. I believe they can improve in the area of maintenance. While we did Vietnamize the war, we did not completely Vietnamize maintenance. We are still performing heavy depot maintenance of their C–130 aircraft in Singapore. I think they can make progress in that area if we provide them with proper training.

After visiting the combat units and observing the frontline soldiers, I found their record outstanding in terms of management effectiveness and control of their resources.

This conclusion, Mr. Robinson, is based on my experience during visits in September and November to combat units and frontline activities in military region I, military region III and military region IV.

Mr. ROBINSON. I have one final question for General Graham.

That map, to those of us who are new to this committee in particular, presents some discrepancies based on figures that were recited as to geography.

I would like to know what the approximate scale of that map is in miles per inch, or what-have-you. Something to which I can refer. Is there any way we can get a reduced scale version of it for our own files and information?

General GRAHAM. Yes, we can certainly get that. South Vietnam is about as long as California.

Mr. MAHON. How long is it?

General GRAHAM. Sixteen hundred miles of coastline, sir.

Mr. ROBINSON. It was mentioned that pipeline is 1,000 miles long. That pipeline is not 1,000 miles long.

General GRAHAM. The total pipeline is about 1,500 miles long—that is, from the North Vietnamese-China border to and through parts of Laos and South Vietnam.

Mr. ROBINSON. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Kemp?

Mr. KEMP. It seems to me one of the problems with this whole situation, looking at it not only in terms of today but also in the retrospect of its past history, is that just about what everybody says about Vietnam has at least a grain of truth to it.

Having been there three times and having listened to many of the points which have been raised on both sides of the question, it seems to me that there is some degree of factual truth to the different positions. There are indeed elements of civil war; there are strong elements of international implications including U.S. treaty commitments around the world. In between the rhetoric of "peace with honor" and

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the rhetoric of the statements made after the Paris peace agreements that "they won't last a week" and "it will fall of it's own weight." There has been the reality of both continued Communist aggression and the reality of continued determination and success by the South Vietnamese to resist that aggression.

I don't think, here today, enough has been said about the successes.

We have heard about some of the losses. Could you spend a few moments discussing how the South Vietnamese forces are fighting? Will this $300 million help the overall purpose in this regard?

Mr. HABIB. I am always reluctant to speak about successes in situations like this because the very existence of the situation is a failure; it is a failure of the agreement. I don't like to talk about successes, but I think something you said is very relevant. I remember very well people saying to us when we were working on the agreement, "Well, you just get the agreement and the South Vietnamese won't be able to stand up to them and it will all fold and go down the drain, because as soon as they come down and hit them they are going to fold."

Or, "The people won't stay with it."

Or, "They won't be prepared to go on fighting."

Well, the only evidence I would submit is that for 2 years they have. A statistic I cited a while ago of 30,000 military dead is in itself sufficiently great to indicate what has been going on.

As I said earlier, I don't know which to characterize it as—survival or success. I think we have had a failure of an agreement. Survival is very important.

Mr. KEMP. In a very practical sense, the success I am talking about is that Saigon is not now held by the Communists.

Mr. HABIB. It is irrelevant whether it is important in a way. It is irrelevant how important it is to us. I think it is important, too. Other people will differ with me. I don't think you will get anybody in Saigon who will differ with you.

General GRAHAM. I get the feeling that some of the committee members feel that my description of the situation indicated that the South Vietnamese were being badly beaten up now. That is really not what I said. I say they have held their own rather well; they have fought well, and they have done a good job thus far.

The main danger is that, looking down the pike, the other side can see South Vietnamese reserves dropping off to a point where they can undertake a full scale offensive. And then one has to doubt how they would make out with a low level of consumables.

Mr. KEMP. Well, the Ambassador talked about the necessity for a certain amount of dollars and military support to help them defend themselves.

Do you think that that $300 million in that short period of time is going to make an impact upon the overall goal that should be that of American foreign policy in Southeast Asia?

Mr. HABIB. We'll address exactly what the $300 million is for, when the bill is submitted to the committee.

I think if the committee could be patient that long, so we can lay it out in some kind of coherent fashion for you, I think you have a right to know what the money is going to be used for and it will be up to Mr. von Marbod to tell you. You will have that in the presentation.

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We didn't understand that was to be the subject of today. I propose we leave that.

Mr. KEMP. What efforts are being made with regard to Soviet Russia or China—I understand the pipeline extends from China into the South and there is POL coming down that pipeline from China. Are there any efforts being made with Russia and China to get some assistance in shutting off their support for Communist offensive in South Vietnam?

Mr. HABIB. There has been no success as yet to get conditions created which would allow the agreement to be restored in the manner in which it was intended to be restored.

The administration is well aware of the importance of getting the other signatories to the agreement, including the Communist powers, to sustain the purposes of the agreement.

We did, as I say—and this is publicly known—circulate recently a note. That is part of a process. There are a lot of things that one does. To use the Secretary's favorite phrase, I think there are some methods of diplomacy that it would be better if I didn't discuss in this session today.

It is obvious whatever it takes to turn it off has not turned it off. That doesn't mean we are blind to the reality or that we neglect it. I assure you it is not neglected.

Mr. KEMP. Mr. Ambassador, much of the attack against giving any more assistance to South Vietnam is directed at the Saigon regime, the Thieu government.

Would you tell us why in the last few months there seemed to be a shift away from support of Saigon by some indigenous groups in SouthVietnam? I speak specifically about the An Quang Buddhists, some Catholics, and the Hoa Hao.

It comes just as the Communist offensive has been stepped up.

Mr. HABIB. I think you defined one of the problems yourself in your last statement. It is very difficult to do. As a matter of fact, they haven't succeeded and nobody denies that.

Something that has been proven before has been proven again. When it comes down to the stage where it is a question of defending against the north, then the degree of opposition diminishes drastically.

I can remember that happening before and it has happened again.

Basically speaking, the rallying element in the south is resistance to the north. That is what keeps them together. Why? Because they don't want to be dominated. For 20 years they have gotten used to it, and they have a structure which functions. After all, the chain of command functions. The order is given and troops move.

If the people didn't want to go on the way they were, the government couldn't have survived. That is inevitable. Whether it was the An Quang Buddhists or the Catholic groups or who, historically in the period that I consider to be relevant, this postwar period, every time the choice was made the resistance was there. This goes back to the forties and fifties.

Mr. KEMP. Mr. von Marbod, what type of directions are we giving to South Vietnamese professional counterparts to yourself in inventory control and auditing and accounting measures and can we rely on it?

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Is there any other than this rebuilding machinery and retooling, to get some type of economy in the use of these dollars that are so important to the American taxpayer?

Mr. VON MARBOD. Mr. Kemp, the Joint General Staff of the Republic of Vietnam Armed Forces has reorganized their logistics systems, implemented computer-managed supply systems and upgraded their maintenance facilities. The General Accounting Office documented progress in improving management of the material resources we have provided.

I have met with President Thieu and Prime Minister Khiem and with the Director of Logistics in Vietnam, General Khuyen, and I can assure you they are working on all of those areas where I have identified deficiencies. I find them to be very cooperative and I am confident that continued progress will be made.

OBLIGATION OF FUNDS

Mr. MAHON. We can pursue that also when we take up the requests that will be made.

Mr. EDWARDS. Mr. Chairman, I have a few questions.

Of the $700 million in appropriation, you have obligated $517.5 million.

Mr. VON MARBOD. That is correct.

Mr. EDWARDS. Will the $517.5 million that you have obligated cover all your requirements through March 31?

Mr. VON MARBOD. It will not, Mr. Edwards. In terms of drawdown incountry, there will be a drop below the prudent level the Vietnamese should be maintaining.

I have placed an arbitrary ceiling on the amount of money that I have allocated to Vietnam through the third quarter—through the 31st of March 1975. However, the combat situtaion is forcing the Vietnamese to draw down below acceptable levels their stocks of munitions, petroleum products and spare parts.

This austerity, sir, has contributed to the casualties they have taken in engagements in military region I and in military region III.

Mr. MAHON. Mr. Edwards, you haven't asked him this question, which seems very pertinent: Why haven't you budgeted and expended the $700 million as though you expected it to last for the entire year, as intended by Congress?

Mr. VON MARBOD. Mr. Chairman, that is exactly what I have done.

Mr. EDWARDS. What you have done is obligate more than two-thirds of the amount appropriated in about a half of a year.

Mr. VON MARBOD. Sir, I directed the obligations for the third quarter, and I anticipate no further obligation through the 31st of March. This is a normal practice in managing, requisitioning and controlling obligation of funds.

Mr. EDWARDS. Let me ask it another way: Has the administration supplied Vietnam at a rate which anticipated the appropriation of additional funds before the end of the fiscal year?

Mr. VON MARBOD. It has not.

Mr. EDWARDS. From an accounting standpoint and budgetary standpoint, you figure you are right on schedule?

Mr. VON MARBOD. Yes, sir, I do.

Mr. EDWARDS. If we give you the $300 million, then it would all be used in the last quarter?

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Mr. VON MARBOD. It would indeed—to replenish stocks that are being drawn because of the limits I have placed on quarterly obligations.

Now, I would like to emphasize the fact that, the $300 million will not provide any major items of equipment. I can assure you now that $300 million will be used to meet such needs as those for petroleum products, medical supplies, spare parts and ammunition.

Mr. EDWARDS. You are really not talking about one for one?

Mr. VON MARBOD. No. sir, I am not. We have already attritted many aircraft in South Vietnam that we are unable to replace because of funding limitations.

Mr. ADDABBO. Your statement says you have 224 planes in storage.

Mr. VON MARBOD. There are 224, and that further supports my point. The Vietnamese cannot fly them because I cannot fund their support.

I am also talking about attrition—about combat losses that I could replace under article VII of the Paris accords, but have not. The Congress did authorize replacement equipment. However, the appropriation is insufficient to fund such replacement.

Mr. EDWARDS. One final question. Are efforts to achieve a political settlement in Vietnam still being actively pursued?

Mr. HABIB. Yes, sir.

Mr. EDWARDS. Could you outline briefy the current effort?

Mr. HABIB. You say actively pursued. The answer is that the South Vietnamese keep calling for resumption of the meeting. The political settlement is supposed to be resolved in that meeting. The meeting broke up. They keep calling for resumption of the meeting.

I would consider that about as active in pursuing as they can be, but they cannot conduct a meeting by themselves.

Mr. EDWARDS. There are no meetings in progress at the present time?

Mr. HABIB. They are not meeting either in terms of the political settlement, in terms of the Paris meeting, nor are they meeting with respect to the cease-fire requirements in the meetings that were provided for in Saigon.

Mr. EDWARDS. Is this country actively calling for a resumption of these meetings?

Mr. HABIB. Yes, sir. We have supported and urged and we have included in communications to the various parties signatory to the agreement the view that those negotiations should resume.

Mr. EDWARDS. Thank you, Mr. Chairman.

Mr. MAHON. Thank you very much.

We will meet again on Monday.

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MONDAY, FEBRUARY 3, 1975.

Mr. MAHON. The committee will come to order.

We will resume the hearing.

I have just come from the White House. I would say to my colleagues, where the President attended a breakfast for the purpose of discussing the budget. The new budget makes it pretty plain that we are confronted with enormous expenditures in the forthcoming fiscal year.

During the year I was first elected to Congress, the total expenditures of the Federal Government were $6 billion.

The President is requesting expenditures this year of $349 billion. He is asking for new obligational authority; that is, appropriations and other authority to spend in the sum of $386 billion. So, if we are to save ourselves from fiscal collapse, it would seem evident that we must find ways of making some reductions.

The favored target of the Congress and many others is the military. So in the background of our thinking in this hearing we are thinking of foreign policy, military policy and fiscal policy.

We had a very excellent meeting last week. I must say to the witnesses that you did a very good job in stating your position with respect to Vietnam.

FISCAL YEAR 1975 MILITARY ASSISTANCE REQUESTED BY DOD FOR SOUTH VIETNAM

For fiscal 1975, the Department of Defense requested $1,450 million in military assistance to South Vietnam under the military aid program. The request included $24 million in military personnel, $574 million in operation and maintenance, and $851 million in procurement requirements.

DISTRIBUTION OF $700 MILLION BY THE DEPARTMENT OF DEFENSE

After Congress limited South Vietnamese aid to $700 million, we cut the President's request for Vietnam aid in half, reducing it from $1.4 billion to $700 million. We were never provided with a breakout of how this $700 million was distributed. I would like to ask you distinguished gentlemen at the witness table if you can provide a short description of this allocation now and provide the details for the record.

Mr. VON MARBOD. I can provide the details, Mr. Chairman.

Mr. MAHON. Now, speak out like Mahon so the people can hear you.

Mr. VON MARBOD. Mr. Chairman, the $700 million appropriation provided by the Congress has been distributed by the Department of Defense, as follows——

Mr. MAHON. Off the record. Please proceed.

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Mr. VON MARBOD. Investment items, $8.8 million; ammunition; $268.1 million; petroleum products, $86.9 million; spare parts, $82.6 million; supplies and services, $90.4 million; technical assistance, $52.7 million; training, $600,000; packing, crating, handling, and transportation of material to Vietnam from both the current fiscal year program and prior year programs, $74 million; Administrative expenses of the defense attaché office, $36.2 million. That totals $700 million, Mr. Chairman.

Mr. BURLISON. What was the first item that you gave?

Mr. VON MARBOD. Investment items.

Mr. BURLISON. Can you explain what those are?

Mr. VON MARBOD. Yes, sir. This category includes small end items such as optical sights for tanks; PRC–25 radios—these are tactical radios used by operational units in the field; a small amount of conconstruction; and $6.5 million for training to offset reductions in U.S. technical assistance.

Mr. BURLISON. How did you get the title of "Investment?"

Mr. VON MARBOD. The term "investment" is used because equipment, supplies and services included in this category increase the recipient country's force capability which is not the case with expenditures for the operation and maintenance of its armed forces.

Mr. BURLISON. Thank you, Mr. Chairman.

Mr. SIKES. In a few moments it is going to be necessary that the committee discuss classified material in connection with military aid to South Vietnam.

Mr. Flood.

MOTION AND VOTE TO CLOSE HEARING

Mr. FLOOD. Mr. Chairman, I move the meeting of the Subcommittee on Defense Appropriations today, Monday, February 3, 1975, be closed because of the classified material to be discussed.

Mr. SIKES. This requires a vote.

Mr. ADDABBO. I have several questions on an unclassified basis. Before we close the meeting, could we get those on the record?

Mr. SIKES. Yes.

You may do that now. Since the motion has been made, we can have the vote and I will declare the meeting in classified status after you have concluded your questions. Please call the roll.

Mr. PRESTON. Mr. Mahon.

Mr. MAHON. Aye.

Mr. PRESTON. Mr. Sikes.

Mr. SIKES. Aye.

Mr. PRESTON. Mr. Flood.

Mr. FLOOD. Aye.

Mr. PRESTON. Mr. Addabbo.

Mr. ADDABBO. Aye.

Mr. PRESTON. Mr. McFall.

Mr. MCFALL. Aye.

Mr. PRESTON. Mr. Flynt.

Mr. FLYNT. Aye.

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Mr. PRESTON. Mr. Giaimo.
Mr. GIAIMO. Aye.
Mr. PRESTON. Mr. Chappell.
Mr. CHAPPELL. Aye.
Mr. PRESTON. Mr. Burlison.
Mr. BURLISON. Aye.
Mr. PRESTON. Mr. Edwards.
Mr. EDWARDS. Aye.
Mr. PRESTON. Mr. Robinson.
Mr. ROBINSON. Aye.
Mr. PRESTON. Mr. Kemp.
Mr. KEMP. Aye.
Mr. PRESTON. Mr. Cederberg.
Mr. CEDERBERG. Aye.
Mr. PRESTON. Thirteen members have voted aye; none nay.
Mr. SIKES. The motion is carried.

We are not yet in classified status. I will announce it when we reach that point.

Mr. Addabbo.

Mr. ADDABBO. Thank you, Mr. Chairman.

Mr. Secretary, last week in the discussion you talked much about the $300 million for South Vietnam and the need for $300 million, and we also saw the tremendous buildup by North Vietnam of equipment and presumably the equipment came from either Russia or China.

If we further expend our aid and take into consideration the tremendous amount of equipment we left at the cease-fire, which had not been budgeted and the new moneys, we have given an additional $2 billion since the cease-fire, what evidence do we have that if an additional $300 million were given that that same aid would not be matched by Russia or China in the buildup?

Mr. VON MARBOD. I would like to refer that question to Mr. Habib of the Department of State.

Mr. HABIB. I don't think we have any evidence that it would not be. I don't think the aid is provided on a matched basis. I think that it is not sort of tank for tank, if we give a tank they give a tank or if we give so much ammunition they give so much ammunition.

I think there has been a pretty clear willingness to provide the material, both by the Chinese and the Russians, which the North Vietnamese have fielded. They don't have any basic manufacturing capability of their own, so everything has to come in from the outside. There are small amounts that come from some of the Eastern European countries as well, but basically it is Russian and Chinese.

The answer is very specifically that you would not have any assurance.

Mr. ADDABBO. The other thing I mentioned last Thursday, and I quoted from the law where there was a cutoff and there should be no further military involvement in combat. Now we talk of the pictures taken, and we can almost intimate who took those pictures, but it is questionable whether that would be considered combat activity or not. We did read in the papers about when there was a certain increase of

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activity by North Vietnam the possibility that our fleet was on the move toward Vietnam. Was there any truth to that?

Mr. HABIB. That recent story with respect to the movement of the fleet?

Mr. ADDABBO. Yes.

Mr. HABIB. No. The carrier that was under question at the time was the *Enterprise*. That was on its way to the Indian Ocean.

Mr. ADDABBO. There was no deviation from its course to move closer to Vietnam?

Mr. HABIB. No.

Mr. FLOOD. Mr. Chairman.

MILITARY AND ECONOMIC AID TO NORTH VIETNAM

Mr. FLOOD. You briefly touched on this. Do I understand, then, that there is no material military aid coming into North Vietnam from any other sources other than the Soviet Union and China?

Mr. HABIB. And some from Eastern Europe.

Mr. FLOOD. But it is not material, is it?

Mr. HABIB. Yes, it is material.

Mr. FLOOD. It is material.

Quantitywise it is principally from the Soviet Union and China. I was wondering because of the amount of traffic coming in and out of their ports.

What about economic aid or food supplies coming from any other sources?

NON-COMMUNIST ECONOMIC ASSISTANCE TO NORTH VIETNAM

Mr. HABIB. Principally they get rice and wheat from China and the Soviet Union. There is a certain amount of trade that goes on between North Vietnam and other countries outside the Communist bloc. We can supply for the record whatever estimates we have on that if you wish.

Mr. FLOOD. Please do.

[The information follows:]

We estimate that non-Communist economic assistance to North Vietnam amounts to about $300 million this fiscal year. We believe that the total flow would be somewhat larger if the North Vietnamese were seriously interested in economic development and would make the necessary plans requested by the donors. The largest donor is Sweden which is providing nearly $200 million. Japanese programs probably amount to about $50 million and French programs approximately $30 million. Other countries with bilateral assistance programs for North Vietnam include Norway, Finland, Denmark, Canada, and the Netherlands.

Our estimates indicate that non-Communist assistance to North Vietnam is approximately three times as large as non-U.S. non-Communist programs for South Vietnam. Such assistance is about three-fifths the size of U.S. bilateral aid to South Vietnam.

Mr. SIKES. Mr. Flynt.

Mr. FLYNT. Mr. Secretary, and Mr. Comptroller, the hearings so far have established the fact that South Vietnam had a vast abundance of equipment, manpower, and supplies available at the time the cease-fire began in January 1973. While this overall balance in military

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capabilities has been somewhat eroded during the past 2 years, according to the information furnished to the committee last week the Government of South Vietnam still has a considerably larger military machine than North Vietnam.

Control of Land Mass and Population in South Vietnam

Despite the significant advantage in the implements of war and men and material, there appears to have been a general decline in the type of control that the Saigon government has been able to exercise over its territories. There has always apparently been a general decline in the total area under the control of the Saigon government. This can be shown by asking DIA, General Graham, to provide the maps which show the areas under Saigon control; first, at the time of the cease-fire; second, 6 months later; third, at the present time, and to demonstrate graphically the general decline in the areas under central Saigon government control during the past 18 months.

This aspect of the war has been made evident to the committee and to the staff of this committee in our weekly intelligence briefings. These facts were not brought out very clearly in last Thursday's testimony, although references were made thereto. We feel that this should be pursued further as you are in a better position to tell us whether it ought to be in a classified hearing or in an open hearing. The questions, I think, which I want answered can very well be asked in public session. It may be that you would prefer to provide the answers after we go into closed session.

I will let you be the judge of that.

The first obvious question remaining is: If Saigon has been unable to extend or hold its area of control while having a major preponderance of military power, what reason is there to believe that an additional $300 million for fiscal year 1975 will change that situation?

Mr. von Marbod. Mr. Flynt, we have that information with us today. General Graham will present the situation briefing.

Mr. Flynt. In closed session?

Mr. von Marbod. No, sir, we will present it in open session.

Mr. Flynt. All right. I will not pursue it at this time.

Mr. Sikes. I would suggest we do so at this point. Once the session is closed, we may be in closed session the remainder of the morning. This is a very interesting subject. It will be worthwhile information to have insofar as it can be made public.

Mr. Flynt. If you have it and you feel it can be disclosed in a public session, you may do so now.

Mr. von Marbod. We have individual handouts for each member of the committee and with your permission we will distribute them.

Mr. Flynt. All right.

General Graham. The maps that are going to be distributed to you are classified but there is a good deal of this that can be stated in unclassified session.

The classification has to do with detail, not to the general point that Congressman Flynt has noted here.

I must say before answering this question that this is difficult and it is hard to give a very precise answer to your question. But essen-

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tially the situation at the ceasefire was that the Communists dominated from 20 to 25 percent of the 66,000 square mile land mass—this equates to 13,000-16,500 square miles.

Mr. FLOOD. When were these maps prepared?

General GRAHAM. Over the weekend.

However, I think it is important to point out that only 2 percent of the arable land was involved in what the Communists controlled. They dominated at that time 3 to 5 percent of the 20 million plus population of Vietnam—or 600,000 to 1 million people. In 1973 there were some exchanges in land domination on both sides which netted out about evenly for both sides. The government retained domination over 75 to 80 percent of the land mass; the Communist's 20 to 25 percent of the land mass. Communists population control, however, declined to only 2 to 4 percent of the total—that is to about 400,000-800,000 people. This decline then averaged about 200,000.

At this time, or in 1975, the Government controls 70 to 75 percent of the land mass—46,000 to 59,000 square miles—and 94 to 96 percent of the population—18.8 million to 19.2 million people—with the Communists dominating 25 to 30 percent of the land mass and 4 to 6 percent of the population—once again up to 800,000 to 1.2 million. The reason why these figures are very nebulous is that the control of territory changes almost on an hourly basis, certainly on a daily basis because it depends on who has patrols in an area at any given time.

Those are the best approximations we can make.

Mr. SIKES. May I interrupt you just a moment?

From a quick glance at the maps it would appear that the Communist overall gains during the past year of, say, 5 percent of the land mass and 1 or 2 percent of the land population, do not sound significant. Yet an examination of the map shows that the Communists may be in position to interfere seriously with the internal operations of South Vietnam by simply closing off territory. They may be in position soon to cut the country in half.

Is that not a serious matter?

General GRAHAM. Yes, sir, as I stated in the last session, one of our big worries is that of the loss of the government outposts in Phuoc Long Province gives the Communist side at least an opportunity to move toward the coast and establish a belt of Communist control along the borders between military region 2 and military region 3, which could cut the country in half.

Mr. FLYNT. What would be the effect, General Graham, in your opinion, of a successful drive by the North Vietnamese forces to completely break through from the mountains to the coast and have a situation where the country is cut in two?

General GRAHAM. It would make it extremely difficult for the South Vietnamese to support the two northern military regions because the roads that run generally up the coast would not be usable.

ADDITIONAL REQUESTED FUNDS NEEDED TO ENABLE SOUTH VIETNAM TO RESIST AGGRESSION

Mr. FLYNT. My remaining question is: What reason is there to believe that if we increase the level of assistance to Vietnam during the remainder of this fiscal year that the U.S.S.R. and China will not

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also increase their support and assistance to North Vietnam during the same period of time and thus raise the ante offsetting any increase in aid which the United States may make during this period?

General GRAHAM. I believe Ambassador Habib has already answered.

Mr. HABIB. The answer is that the ante has already been raised. What we are proposing is to provide for a means to defend against a situation in which the balance of both material and the tactical military situation are such that the South requires substantially increased consumable resources to defend itself in this period. We are talking about the requirements for the remainder of this immediate period in front of us.

As the Chairman noted, when we came in earlier, when we get into next year's requirements we will be talking about, at that time, the necessary material and supplies for the ongoing struggle, if the struggle goes on.

Mr. FLYNT. Are you saying that this would then result in a further proliferation of combat activities and a further extension, both quantitatively and qualitatively in the war?

Mr. HABIB. If combat activities exist, it would allow the South to defend itself with more capability. Combat is something that moves up and down in the Indochina War. It has always been cyclical and has always flowed partly in response to the degree of response or resistance the South has made.

The North has been on attack since this dry season began. The South has been defending itself with increasing requirements for supplies.

As I think was mentioned in the first day's hearings, the amount of supplies that the North has positioned and ready to use in this campaign is more than sufficient to maintain the kind of military escalation which they have been conducting.

Now, whether they will maintain that level of activity, whether they will succeed in their military objectives is directly related to the capacity and capability of the South to resist.

The additional funds that have been requested have been requested in order to give the South the resources it needs to resist.

Mr. FLYNT. That would be much more persuasive and much more convincing if that were not the identical language that we have been given, to my certain knowledge, since 1964, every single year.

Mr. HABIB. I don't have any question but that the requirement for resources is dependent upon the level of conflict.

Mr. FLYNT. We poured hundreds of billions of dollars in there. Is there any reason to suppose that the additional increment of $300 million will do anything but prolong it for whatever time that $300 million will prolong the war?

Mr. HABIB. Well, I think the answer depends in large part on whether or not you can bring an end to the war.

In 1973 when the Paris agreement was signed, it was signed with the expectation that you would get an end to the war, or at least a condition in which you would not need that.

Mr. FLYNT. You may have had such an expectation. I never suspected that it would bring the war to a close. I never felt that the Vietcong and the North ever had any intention of meeting the agreement.

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Mr. SIKES. Nevertheless they signed a cease-fire agreement which, in good conscience they were expected to observe. Isn't that correct?

Mr. HABIB. Yes, sir.

Mr. SIKES. Since that time they have continued their aggression in South Vietnam with additional reinforcements, more equipment and a higher level of conflict. They are pressing more vigorously now. They are about to cut the country in half and the Vietnamese are running out of such essential supplies as ammunition, correct?

Mr. HABIB. Yes, sir.

Mr. SIKES. So now it is a matter of supply if the South Vietnamese are to continue to fight effectively; is that correct?

Mr. HABIB. That is correct. I think it has to be added to in terms of what can be expected out of a situation like this, that unless the South is able to defend itself it is inevitable that the war will escalate further and the North will increase its attacks further upon the South. I think it is inevitable without supply resources that the South's position will continue to erode dramatically. I think there is no question but what the North is doing is seeking to impose by military force what it has not been able to achieve any other way.

Mr. SIKES. Is the additional money required for the survival of South Vietnam? Do you have serious doubts that they can survive without it?

Mr. HABIB. I am saying without this money their situation will erode so that the situation becomes increasingly precarious. No one has said at this table that it will collapse tomorrow if you do not give them the $300 million, but the situation will erode significantly. Then you have to think of what happens in the face of weakness. There is no doubt in my own mind, and the North Vietnamese have not concealed their intent to press hard against the South. If they gain success in this campaign they will build upon that militarily. You are right when you say in the past one has argued that you need the resources to fight the war. If the war did not go on, you would not need the resources.

I have no question but that if the war goes on, the need for resources will continue.

Mr. FLYNT. The more we pour in it the more the situation erodes.

Mr. HABIB. No, sir. I would say in the first place it was not a question of pouring in. You will recall, sir, as the chairman referred earlier on in the session this morning, the administration request was for $1.45 billion in this year's budget but——

Mr. FLYNT. Combined with military assistance it was more than that.

Mr. HABIB. There is about $440 million in the economic aid program.

Mr. SIKES. Congress approved less than half of what you requested and that has proved to be insufficient?

Mr. HABIB. In the fact of the military escalation by the other side.

Mr. VON MARBOD. The administration's fiscal 1975 request for South Vietnam was based on a total program amounting to $1,600 million. To finance that program, we asked the Congress for an appropriation of $1.450 million in new obligation authority and for authority to use $150 million in unobligated balances from prior year programs. The Congress authorized a program of $1 billion, appropriated $700 million, and denied us the use of the $150 million of prior year appro-

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priations. The reduction of our original request was therefore greater than 50 percent in terms of spending authority. The $300 million supplemental appropriation requested by the administration for the balance of fiscal year 1975 is needed to finance the purchase of communication equipment batteries, medical supplies, petroleum products, munitions and replacement of critical consumables required in the field.

We are not seeking to increase the equippage of units, nor are we seeking to replace combat losses of equipment.

Mr. ADDABBO. Mr. Secretary, so to complete the picture, the Congress authorized and the people supported the Congress at $700 million. The administration is asking us to escalate up to $1 billion with a further escalation in fiscal year 1976 to $1,293 million. So it appears to me and other members of this committee that we are going back into full operation in South Vietnam.

We are not getting out, we are going back in. Seven hundred, one billion three, this is an escalation, a further escalation of United States intervention in South Vietnam. The Congress says we do not want any more of it. The people do not want any more of it. They want it the other way, from seven to five to three to zero. That is what we are speaking of.

Mr. VON MARBOD. Mr. Addabbo, a review of the programs previously provided to South Vietnam shows that there is actually a slope in the other direction. I would also point to the fact that, in the program for this fiscal year we have had to accommodate an inflationary increase of more than 27 percent above last year's prices in the cost of ammunition alone. Thus, although there is as you state, a dollar increase above the $700 million appropriated, that amount actually provides far less than the assistance previously furnished South Vietnam.

Mr. SIKES. Did you ever agree that $700 million would be enough for military purposes in South Viet Nam?

Mr. VON MARBOD. No, sir.

CONSEQUENCES OF NOT PROVIDING FUNDS FOR MILITARY ASSISTANCE TO SOUTH VIETNAM

Mr. SIKES Suppose we get out, as the phrase states, get out; that means if we do not provide any more military support funds for South Vietnam, what will be the result?

Mr. VON MARBOD. The ability of the South Vietnamese to defend themselves against the level of enemy activity they are now experiencing would be degraded, and they would be placed in a very grave situation.

Mr. SIKES. Are you saying the South Vietnamese may be overrun by the Communists in a period of a year or two or placed in a status comparable to Cambodia in which Saigon, the capital could be surrounded?

Mr. HABIB. Do you mean get out completely?

Mr. SIKES. I am talking about military support. If we provide no more military support after the $700 million is gone, do you state they may collapse militarily?

Mr. VON MARBOD. There is no doubt in my mind that, if the military assistance to South Vietnamese were halted, the Government would

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collapse, and the lives of 20,300,000 people who live in the south would be placed in jeopardy. Military assistance to South Vietnam, in my view, is military assistance needed by 20,300,000 people for their self-defense.

Cambodian Situation

Mr. Sikes. Once South Vietnam or Cambodia falls and additional North Vietnamese resources are freed to move against the other, what situation would result?

Mr. von Marbod. I am convinced that the Cambodian situation today is also very grave, Mr. Sikes. There is no doubt in my mind that, if South Vietnam falls, that Cambodia will soon collapse from the resultant increased pressure.

Mr. Sikes. The Congress voted half the funds, less than half the funds that the administration felt necessary for the South Vietnamese to continue to successfully resist, to defend themselves against the North Vietnamese aggressors. That $700 million has not proven to be enough, is that correct?

Mr. von Marbod. That is correct.

Mr. Sikes. They are losing important ground day by day?

Mr. von Marbod. They are losing important ground.

Possibility of South Vietnam Being Cut In Two

Mr. Sikes. There is a threat that the country may be cut in two, correct?

Mr. von Marbod. There is that possibility.

Mr. Sikes. If you look at the map, the Communist forces do not have far to go to have the country cut in two.

Mr. von Marbod. Considering the two all-weather highways from North to South Vietnam and the North Vietnamese petroleum pipeline, and current stockpiles of ammunition and other material in military region I, there is a distinct possibility of such a cut if we do not provide sufficient support to the forces of South Vietnam.

Mr. Sikes. Can this support be gotten to them in time to make an appreciable difference for the remainder of the fiscal year?

Mr. von Marbod. It can.

Mr. Sikes. Do you feel there is no question about that?

Mr. von Marbod. There is no such question in my mind.

Mr. Sikes. Do you think it will make a difference in the ability of the South Vietnamese to resist added pressures by the North Vietnamese?

Mr. von Marbod. It will indeed, Mr. Sikes.

Mr. Sikes. The map we are looking at is stamped "Secret, No Foreign Dissemination". I wonder why the American people cannot be apprised of this?

The South Vietnamese, Russians, and Red Chinese know about the situation. We know about Communist gains. I am sure everybody knows about it except the American people. Why shouldn't they know how serious it is?

General Graham. The matter of cutting the country in two and the gains of the Communist side from the recent battles in Phuoc Long Province was made public at our last hearing, Mr. Sikes.

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Mr. SIKES. Can't you get this sort of thing printed in the American press?

General GRAHAM. The fundamentals of that situation can be declassified. I think I have declassified the fundamentals of it this morning. The map itself has a lot of detail that we would rather not declassify.

Mr. HABIB. Could we take under consideration your request to declassify these maps? I don't see why a certain amount of information cannot be provided.

Mr. SIKES. The American people do not generally support more money for South Vietnam. They are tired of Southeast Asia. I think they need to realize the consequences of not providing those funds.

You say the funds can make the difference in the survival of this country.

The American people need to know this. There is no better way to do it than with the map I am looking at. It shows that the North Vietnamese nearly cut the country in two in a very strategic area.

During the time American forces were involved, we kept North Vietnamese supplies at a low level, with air strikes on the Ho Chi Minh Trail. Now there are paved roads and a pipeline that proceeds from North Vietnam through Laos and Cambodia into South Vietnam.

I am puzzled that there has been no successful effort made to interdict the highways, blow bridges and cut the pipeline. A pipeline is not difficult to cut. What is the story there?

Mr. HABIB. You can cut it but you cannot keep it cut.

Mr. SIKES. Has it been cut?

Mr. HABIB. At various times, but only temporarily.

Mr. SIKES. You can repair a pipeline in hurry but you lose a lot of fuel while it is being repaired and you disrupt supplies.

Mr. HABIB. We have never been able to sustain the cut of the pipeline.

General Graham, would you like to explain how many times it has been cut?

General GRAHAM. I don't have that information, but we can get it for you.

Mr. EDWARDS. Mr. Chairman, will you yield?

Mr. SIKES. Yes.

Mr. EDWARDS. I got into this question on Thursday. I don't know why they cannot cut it once a day.

Mr. SIKES. If it were our pipeline, it would be cut everyday.

Mr. EDWARDS. That is right. It should be a routine operation.

General GRAHAM. It is within the Communist area which makes it hard to get at. It is a hard air target. You have to hit awfully close. If you hit it so it bounces, it does not do any good. You don't rupture it unless you get a very accurate shot.

Mr. SIKES. You can provide us with more information on how successful you have been and why more has not been done by the South Vietnamese. The question was asked; why is it South Vietnam with a larger military force and more equipment of certain types than the North Vietnamese have not been able more successfully to withstand Northern aggression? Did you make it clear that the South Vietnamese are trying to defend an entire country and their troops are spread thin. By contrast the North Vietnamese bring in troops and concentrate at the points where they seek to make penetration? Did

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you bring out the point that in this war the smaller forces could be used more effectively?

General GRAHAM. Yes, sir, I believe we did.

Mr. ADDABBO. That was the older case but now we see a new map where the North Vietnamese have spread their control throughout the length and breadth of South Vietnam. So it is double the men that South Vietnam has in their own backyard. There is no reason why the South Vietnamese cannot harass them.

Mr. SIKES. What is your answer?

General GRAHAM. The South Vietnamese could launch attacks into the nonproductive territory held by the North Vietnamese but they do not get much when they have it.

The targets for the Communist side are the rice-growing areas and the heavily populated areas of the country which are important. This almost automatically gives them the key military initiatives.

Mr. SIKES. Other questions?

Mr. FLYNT. General Graham, isn't it a well-established fact that it is much more difficult to sustain an initiative than it is to sustain a defensive position?

General GRAHAM. If you are talking about conventional warfare on established lines, yes. But if you are talking about trying to defend a whole population and your communication lines that is not true.

An example is a band of terrorists can tie up the whole New York police force. That kind of offense is much easier to mount than it is to run the defense. What the defense needs in South Vietnam is sufficient reserves of ammunition and POL and so forth so they can move to the threatened points and expend ammunition without running out of it or worrying about running out.

Mr. ADDABBO. I disagree, small bandits in New York don't hold up the whole police force. The city's finest are doing all too well to protect us.

Mr. SIKES. In Washington they get damages from the courts.

DISRUPTION OF PIPELINES

Mr. FLYNT. You talk about small bands of North Vietnamese terrorists. Why couldn't small bands of South Vietnamese terrorists completely disrupt their pipelines if they wanted to do so?

Mr. SIKES. That is a good question. Let's see if you get a better answer.

Mr. FLYNT. There is no reason the South Vietnamese cannot try it.

General GRAHAM. No. They have cut that pipeline periodically with long-range patrols they send into enemy territory.

Mr. FLYNT. Is there any reason why they couldn't do it every day if they wanted to? What you are telling us is that in substance the North Vietnamese can do anything they want to and the South Vietnamese cannot do anything?

General GRAHAM. No, sir, I don't think so.

I think that the North Vietnamese have a hard time sending terrorist into well controlled areas of South Vietnam and the South Vietnamese have trouble sending that kind of raiding party into areas controlled by the North.

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Mr. SIKES. The fact is they have the pipeline operating without much interruption.

Mr. ADDABBO. General, you are here representing DIA. Your information seems to be awfully vague. Do we have any information? Do we get any intelligence information coming out or not? Are you just giving us what might be or what you believe or what information in Saigon is telling us or are you waiting for classified hearings? Everything is so vague. You are supposed to be the man with the intelligence and we don't get one straight answer to a very simple question.

What activity is South Vietnam engaged in? Do they want to fight or are those figures you showed us the first day where there has been a reduction of 11 percent in the fighting force in the South tell us something that the people don't want to fight and they would rather go back to the farms and don't care who is running their government. What are the facts?

General GRAHAM. The fact of whether the South Vietnamese want to fight or not, is that what you want to know?

Mr. ADDABBO. That is one of them. You are supposed to be giving us intelligence. You cannot tell us whether there has been attacks, how often or what the activity has been?

General GRAHAM. I can give you the details of how many times they have attacked the pipeline. We have that intelligence.

Mr. ADDABBO. This question was asked on Thursday. We did not get the information then. Now we are back here on Monday.

[The information follows:]

DIA has reports of three instances in which RVNAF cut the Communist pipeline. We have no regularized reporting system for such operations, however; some more cuts may have occurred. We have asked our Defense Attache in Saigon to check further on the matter and will report his findings.

In regard to RVNAF's capability for small-unit warfare, the RVNAF has a growing long-range patrol capability, and command emphasis at the joint general staff level should insure continued growth of this program. Recently, South Vietnamese troops were employed in small groups around Ba Den Mountain in Tay Ninh Province to interrupt North Vietnamese logistic movement. Intelligence reporting indicates they were moderately successful in their mission. Also, several South Vietnamese infantry divisions have begun employing long-range patrols both for intelligence gathering and for harassment missions. Both types of missions have been hamstrung by logistics difficulties, however, as the Vietnamese Air Force can seldom spare helicopters from higher-priority missions for insertion/extraction operations deep in Communist-held territory. This limits the length of time patrols can be maintained. We will regularly inform the committee about progress in this area.

The RVNAF have little guerrilla warfare capability at the present time. The appearance of strangers—particularly able-bodied, army-age strangers—in sparsely populated North Vietnamese Army controlled areas would be of immediate concern to the Communists, and their cadre monitor such activity closely. We do not know of any recent attempts by the South Vietnamese to establish guerrillas in areas outside of South Vietnam. We will also keep the committee informed as we develop additional information on this question.

Mr. FLYNT. When is the dry season due to be over?

General GRAHAM. It depends on which end of the country you are talking about.

Mr. FLYNT. Where the fighting is.

General GRAHAM. The dry season in the South will be over in May. The dry season in the North is just coming in.

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Mr. FLYNT. When the dry season in the South is over in May what effect will that have on the level of combat activity?

General GRAHAM. It will slow it down.

Mr. SIKES. Mr. Burlison, we are certainly happy to see you on this subcommittee. Do you have some questions?

Mr. BURLISON. Just one or two, Mr. Chairman. We are being asked to appropriate $300 million in addition to what the Congress earlier thought was essential and necessary for Vietnam. Now we have gotten a good deal of information, I think, from you gentlemen that this $300 million may very well be not enough and that we may need more MASF military and economic aid in the very near future. If that turns out to be the case, are you going to be back here before us for additional military aid and additional MASF economic aid for Vietnam and Cambodia and Laos for the remainder of fiscal year 1975 which still has 5 months to go and then also for 1976?

Mr. HABIB. In response to the first part of your question, the answer is the administration has no such intention to my knowledge.

In regard to the 1976 request, we have not gotten the appropriation yet.

Mr. BURLISON. We will get the request today.

Mr. HABIB. We will get the request today. With respect to fiscal year 1975, the President's request of Congress submitted last week is the administration's judgment as to what is required for the remainder of this fiscal year.

Mr. BURLISON. Let's assume that we get those additional requests for more substantial aid and that still does not suffice, is there any possibility that you are going to be back to us since our military and economic aid cannot turn the tide? Is this such essential territory for us that we are going to send American troops back in to return it to South Vietnamese control.

Mr. HABIB. There is no such intention, sir. I will remind you that the President and administration officials have said again and again that that is a matter which is the Congress' legal authority to decide.

Mr. ROBINSON. No questions.

Mr. KEMP. If the North Vietnamese have the capability to concentrate heavily in an area for whatever purpose, in this purpose to perhaps cut the country in two to destroy over-land communications and supply, as Mr. Sikes mentioned, do the South Vietnamese have the equal capacity to concentrate their forces and help keep the nation from being cut in two?

Mr. VON MARBOD. Mr. Kemp, the tasks that face the armed forces of South Vietnam today deny them the tactic of concentration. First they must protect Saigon. Second, but just as important, the armed forces must protect 43 provincial capitals such as An Loc, the scene of bitter fighting in the past; major cities like Da Nang and Hue, 240 district capitals and 14,000 villages and hamlets. The security of these villages and hamlets in the delta, for example, has allowed South Vietnam to move toward self-sufficiency in rice production for the first time in 10 years.

Mr. KEMP. I apologize for having to interrupt, but I know we want to go into executive session. The question really is "if one's country is

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in danger of being cut in two, don't you have to make a radical departure from your past practice?" If you are defending Phuoc Long and other key roads in this and other areas by which the entire country could also be cut in two, should you have regional and popular forces alone attempting to defend it?

Also, can they move with greater rapidity and strength against getting their country cut in two, if we do not give them the additional money?

Mr. HABIB. If we have the money, it becomes more difficult. They have the ability to attack and counterattack. There is no question but that they can employ their own forces at selected points when they desire to do so.

In the case of Phuoc Binh they made a decision not to do so because they did not have the resources that had to be used up to do it. In part, one of the inhibiting factors these days is the reduction in their ability to move their forces around and expand the supplies necessary for the attack. At the present time their general reserves are committed to maintaining generally the position in the northern part of South Vietnam.

That is where you find the marine division which is one of those elements in their forces which is defined to do just what you point out can be done.

They can do it. They have done it in the past. They can do it provided the targets are significant enough and the priorities are high enough. They do not intend to let the North cut them in two. They prevented them from doing it the last couple of years. So I think the answer to your question is yes.

Mr. KEMP. Thank you.

Mr. SIKES. We asked a while ago what would be the effect on the fighting in Cambodia if South Vietnam would collapse. Let's ask the alternative question. What would happen to South Vietnam if Cambodia would collapse?

Mr. HABIB. It would undoubtedly increase the capability of North Vietnam to put pressure on South Vietnam. There is a certain amount of resources available to North Vietnam which are going into Cambodia to support the activity there. It is also likely that they would have a freer hand to move some of the forces that are presently in Cambodia. There are not many, as General Graham pointed out the other day when he briefed the committee.

In any event, it would certainly increase the ability of North Vietnam to put pressure on South Vietnam.

EXPENDITURE OF AMMUNITION

Mr. FLYNT. Is it true that the South Vietnamese expend ammunition at 10 to 15 times the rate that the North Vietnamese expend ammunition?

That has been published in the media.

Mr. VON MARBOD. I don't believe it is fair to generalize. For the last month or so, the expenditure of ammunition by the South has been approximately nine times greater than that of the other side.

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Mr. SIKES. What is the justification for that condition since ammunition is critically short?

Mr. VON MARBOD. The nature of battle, Mr. Sikes. It depends on where they are being hit and the requirement for return fire.

As you know, the terrain in Vietnam favors the enemy. He is able to strike in situations where returning fire is vitally essential. Never in our experience there, or that of U.S. forces anywhere else, has the rate of expenditure of ammunition for troops in a defensive situation been one for one with that of the offense.

Mr. FLYNT. Isn't it true that the terrain is the same on both sides and the reason it is more favorable to the North is that the North wills it to be more favorable? It is the same terrain, Mr. Secretary.

Mr. VON MARBOD. Yes, but the attacking forces—those of the North—because they may choose the battle site, enjoy the protection of terrain. The forces of the South are protecting over 12,000 miles of road and something over 4,000 bridges.

The North Vietnamese are able to hit and withdraw into protected areas such as forests. That is what I was referring to when I said the terrain favors the enemy.

Mr. FLYNT. At this point I will get the article to which I referred a few minutes ago and I will put it in the record. I would like for you to reply to it if you feel the reply is necessary.

Mr. SIKES. It is possible that is the American influence. Our forces use great quantities of ammunition. It is a substitute for the use of units. This practice may have been adopted by the South Vietnamese.

Now that their ammunition is scarce, they undoubtedly have taken a second look to see how much of that expenditure is necessary.

Mr. VON MARBOD. Mr. Sikes, the South Vietnamese armed forces are expending far, far less ammunition than U.S. forces would use in the same combat circumstances. I would like to provide such statistics for the record. We do have them available.

I would also like to emphasize that because they are rationing their ammunition, casualties have increased greatly in the South.

Mr. SIKES. We need that type of information. We need whatever justification you have to show that this is not just wasted ammunition. So give us the facts if you can.

Mr. VON MARBOD. I will be glad to do so.

[The information follows:]

The ground ammunition expenditure statistics for the United States and ARVN in prior calendar years when the NVA/VA were not as strong nor sophisticated are as follows:

[Thousands of short tons]

	United States	ARVN
1965	360.0	119.5
1966	648.0	139.3
1967	915.0	126.0
1968	1,038.0	221.0
1969	907.0	285.8
1970	690.0	376.0
1971	320.0	457.0
1972	40.0	774.0
1973		325.6
1974		204.5

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COMBAT DEATHS

Year	United States	SVN	3d country	Enemy	Total
1960 to 1962	42	10,684	----------	38,960	49,686
1963	78	5,665	----------	20,575	26,318
1964	147	7,457	1	16,785	24,390
1965	1,369	11,243	31	35,436	48,079
1966	5,008	11,953	566	55,524	73,051
1967	9,377	12,716	1,105	88,104	111,302
1968	14,589	27,915	979	181,149	224,632
1969	9,414	21,833	866	156,954	189,067
1970	4,221	23,346	704	103,638	131,909
1971	1,381	22,738	526	98,094	122,739
1972	300	39,587	443	131,949	172,279
1973	[1] 237	25,473	4	38,941	64,655
1974	[1] 207	29,925	----------	60,976	91,108
Total	46,370	250,535	5,225	1,027,085	1,329,215

[1] Determination of death of previously unaccounted for.

Executive Session

Mr. Sikes. I am going to declare the meeting in closed session and I will ask those who are not authorized to receive classified information to leave the room.

Appropriation and Obligational Limitation

At the time the Congress provided $700 million in separate title in the defense bill for South Vietnam all prior-year unobligated balances were erased and the Department was told that the $700 million was not only an appropriation limitation, but also an obligational limitation.

Is that your understanding, Mr. von Marbod.

Mr. von Marbod. It is.

Mr. Sikes. In a factsheet provided the staff by your office as of December 31, 1974, a total of 25,671 short tons of ammunition have been provided to South Vietnam from so-called prior-year receipts primarily from MASF authorization, previous years for Laos.

What is the dollar value of the 25,671 short tons?

Mr. von Marbod. Approximately $41 million at acquisition cost, Mr. Chairman.

Mr. Sikes. What would be the replacement cost?

Mr. von Marbod. Probably 25 to 35 percent higher.

Mr. Sikes. Does the balance of redistribution and transshipment of this use violate the spirit and intent of the $700 million limitation?

Mr. von Marbod. It does not.

Mr. Sikes. Has the dollar value of these ammunition stocks been charged against the $700 million limitation?

Mr. von Marbod. It has not. It has been charged against the authorizations and appropriations previously provided by the Congress.

Mr. Sikes. How much more ammunition do you plan to divert from Laos stocks to South Vietnam this fiscal year and what is the dollar value?

Mr. von Marbod. There remain about 18,000 short tons of stocks with a value of approximately $36 million, which we are redistributing.

I would emphasize that all costs of packing, crating, handling, and transportation of these stocks are chargeable to the $700 million appropriation.

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Mr. SIKES. Where are these stocks located?

Mr. VON MARBOD. They are located in Thailand.

Mr. SIKES. What is the total dollar value of Army ground and Air Force ammunition in Thai locations which are excess to Laos' needs?

Mr. VON MARBOD. I would like to provide that information for the record, Mr. Chairman.

[The information follows:]

Mr. VON MARBOD. Based on current prices and a normal mix, the value is approximately $36 million.

DEFENSE ATTACHÉ ORGANIZATION IN SAIGON

Mr. SIKES. How large a staff does the Defense Attaché's Office, DAO, have assigned to the Embassy in Saigon in terms of military personnel, U.S. civilians, local nationals, and what is the total cost? You may provide that answer for the record.

[The information follows:]

Mr. VON MARBOD. Reports as of December 31, 1974, from the Defense Attaché Organization in Saigon indicate the following personnel were assigned:

U.S. military	49
U.S. civilian employees	801
Local national employees	3,973

The programed budget for Defense Attaché Organization personnel costs for fiscal year 1975 is $36 million. U.S. civilian personnel strength has been reduced from 911 at the beginning of the year to 801 as of December 31, 1974. Additional reductions to 777 U.S. civilian personnel have been directed and further reductions this fiscal year are under study. Local national strength has been reduced from 4,206 at the beginning of fiscal year 1975 to 3,973. Again, further reductions are contemplated. A corresponding decrease in the original $36 million personnel budget will be made based on actual departure dates.

Mr. ADDABBO. Mr. Chairman, you asked a question as to the $41 million that was transferred from Laos and Thai accounts.

MILITARY AID TO LAOS AND THAILAND

Is there any money in the new foreign aid bill for military aid to Laos or Thailand?

Mr. VON MARBOD. There is, sir.

Mr. ADDABBO. How much?

Mr. VON MARBOD. I would have to provide the amount for the record.

[The information follows:]

For fiscal year 1975, the administration requested $85.2 million for military assistance for Laos and $56 million for military assistance for Thailand. The Foreign Assistance Act of 1974 limits military assistance for Laos to $30 million. Funds have not yet been appropriated by Congress for either country. Under the provisions of the continuing resolution authority $12.1 million in military assistance has been provided to Laos and $1.2 million has been provided to Thailand as of February 5, 1975.

Mr ADDABBO. Is it in the neighborhood of about $30 million?

Mr. VON MARBOD. I believe that is in the ball park.

Mr. ADDABBO. So we can either strike it from there or are you just looking for another spigot to get money into South Vietnam?

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Mr. VON MARBOD. No, sir. At the highest level of fighting experienced during the war in Laos, 80,000 troops were being supported; and U.S. military assistance to that country approximated $375 to $400 million. After the formation of the provisional government in Laos, a reduction in that force structure was initiated and we began to cut back on the military assistance support provided them from U.S. resources. It was through this reduction in the force structure supported by the United States that we were able to redistribute some of the assets previously provided.

Mr. ADDABBO. If I remember correctly, on Thursday you also testified to the fact that you thought there was still approximately $38 or $39 million still there, is that right? You mentioned it again this morning.

Mr. VON MARBOD. Yes, Mr. Addabbo, that is the answer I just gave Mr. Sikes.

Mr. ADDABBO. Yes.

Well, again, because of the fact you have been able to divert $41 million and still have $38 million, can we expect that there will be a rescission of the money presently being requested in the foreign aid bill for Laos and Thailand?

Mr. VON MARBOD. The money in the foreign aid bill is not providing any major items of equipment for——

Mr. ADDABBO. But it is military aid, it can be for military aid?

Mr. VON MARBOD. Yes, sir. And our original request for that country was reduced as a result of the cutback.

Mr. ADDABBO. As far as you know, there is not going to be a request for rescission, it is going to remain in that bill? The money in the foreign aid bill is going to remain in the foreign aid bill for Laos and Thailand?

Mr. VON MARBOD. Mr. Addabbo, the amount requested from the Congress is greater than the amount that will actually be funded, due to reductions in the President's request for military assistance worldwide.

Mr. SIKES. Does the DAO budget pay for anything that would normally be paid for out of embassy funds such as support of commissaries, PX's, et cetera?

Mr. VON MARBOD. It does.

Mr. SIKES. To what extent?

Mr. VON MARBOD. Well, for example, the budget of the Defense Attaché Office is financing the support of the commissary which is used by the embassy and the Agency for International Development and other U.S. governmental agencies in Saigon.

Mr. SIKES. What is the size of the DAO staff in Saigon now and compared to 2 years ago?

Mr. VON MARBOD. At the time of the cease-fire, Mr. Chairman, there were 50 U.S. military, 1,200 U.S. civilians and 2,450 local nationals on the staff. At the end of June—the beginning of this fiscal year—there were 48 U.S. military, 911 U.S. civilian and 4,206 local nationals on the DAO staff.

Mr. SIKES. What do you project for the end of the fiscal year?

Mr. VON MARBOD. We are in the process of making a further reduction in that strength.

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Mr. SIKES. Apparently there has not been a significant reduction. Why is it necessary to retain this large staff?

Mr. VON MARBOD. Our records show that there has been a significant reduction in staffing, and we anticipate a further reduction.

Mr. SIKES. What functions do they serve now in comparison to the functions that they served at the time of the cease-fire?

Mr. VON MARBOD. There has been no significant change in either the mission or the functions of the Defense Attaché Office (DAO) organization since its inception, even though there have been significant reductions in U.S. civilian personnel. Indeed, security assistance management functions have expanded under the defense assistance for Vietnam (DAV) program. Under military assistance service funded (MASF) procedures, which were in effect prior to the establishment of DAV in June 1974, many of the programing and logistics planning functions were performed by the U.S. military departments. DAV procedures, which are very similar to military assistance program (MAP) procedures, place the responsibility on the Defense Attaché Organization.

Mr. SIKES. Tell us what justification there is for a continuation of the staff the size that you project.

Mr. VON MARBOD. In addition to large amounts of equipment and resources provided to the South Vietnamese Armed Forces from 1965 to 1972, more than $700 million in major items were provided just prior to the cease-fire in January 1973. An additional $70 million in major equipment items, principally F5E aircraft and ground support equipment, was delivered in fiscal year 1974. It is in the interest of the people of the United States and in accordance with the spirit and intent of Congress that these irreplaceable resources and the $700 million in consumable supplies and services being provided this fiscal year be properly managed, maintained, and utilized.

Prior to the time of the cease-fire, efforts had been primarily directed at Vietnamizing the RVNAF tactical units. Little had been done to Vietnamize the more complex and highly technical management skills required to administer and perform the vital programing, management, maintenance, and supply functions for the more than 1 million-man South Vietnamese Armed Forces. At the time of the cease-fire, contractor personnel totaled 23,600: 5,237 U.S. civilians, 2,056 third-country nationals, and 16,307 local nationals. As of December 31, 1974, the Defense Attaché Organization staff had been reduced 32 percent and contractor strength totaled 7,323: 1,100 U.S. civilians, 244 third-country nationals, and 5,979 local nationals. This represents a 69 percent reduction in contractor support. Further reductions in both areas are being planned.

There is still, however, a sizable workload in controlling and insuring accountability of U.S. resources provided to the South Vietnamese Armed Forces. Although the value and amount of materiel being provided has been significantly reduced, the workload in programing and managing this materiel has increased. Because of complex programing procedures and lengthy pipeline leadtime, initial programs must be

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based on projections well into the future. However, the principal factor which drives consumption is the Communist combat activity which cannot be accurately forecast on any long-term basis. Hence, extensive reevaluation, revalidation, and reprograming is required to adjust the program to current needs.

In addition to the day-to-day management of the program, the Defense Attaché Office produces 144 recurring reports (some of which are more than 250 pages in length) which incorporate a vast array of statistics, charts, and graphs to detail essential visibility of the myriad facets of the program. In summary, the Defense Attaché Organization staff and contractor support personnel are being reduced as rapidly as possible. However, the workload remains sizable, and prudent management and accounting is more important now than ever.

Mr. SIKES. How accurate is the data received from South Vietnam military and other Government personnel with respect to ammunition consumption and equipment on hand in-country?

Mr. VON MARBOD. The reliability of that information has improved in the last 2 or 3 months. There were discrepancies in previous reports. My auditors and staff have been working with the Vietnamese in improving their military assistance reporting.

Mr. SIKES. Mr. Preston?

Mr. PRESTON. Mr. von Marbod, how many auditors do you have in-country, how large a staff checking on this?

Mr. VON MARBOD. There were 13, but I have just increased the authorized staff to 20.

Mr. PRESTON. Have you, in your reviews, found that military commanders were at times understating the ammunition that they had or other stocks of supplies that they had in order to do more squirreling away of reserves?

Mr. VON MARBOD. I cannot tell you why, Mr. Preston, but we did find discrepancies in reports from two of the military regions. We reported these discrepancies to the Joint General Staff, and corrected reports were submitted.

EQUIPMENT IN SHORT SUPPLY

Mr. SIKES. The Secretary of Defense has stated that $700 million is inadequate over the course of the entire fiscal year to provide an appropriate logistic base for the South Vietnamese. The consequence of these short rations is that we are drawing down, that we are reducing the logistic base in terms of supplies, in terms of equipment.

Provide for the record a listing of the major equipment items in short supply. Also provide the formula used to compute inventory requirements for supply items. That is, how many days worth of requirements are included in the inventory objective for order, shiptime, and safety levels.

[The information follows:]

(Mr. VON MARBOD.) No major items of equipment have been provided from fiscal year 1975 funds. Material status records maintained by the Defense Attaché Organization as of December 31, 1974, indicate some of the shortages of the following major items of equipment in relation to ceasefire levels.

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M79 grenade launcher	———
60-mm mortar	———
175-mm gun	———
105-mm howitzer	———
155-mm howitzer	———
M35 2½-ton truck	———
M54 5-ton truck	———
M41A3 tank	———
A-37 aircraft	———
C-130A aircraft	———
O-1 aircraft	———

With respect to the formula used to compute inventory requirements for supply items, it varies with each category and usually with each item. As an example of the complexity and magnitude of such calculations, the South Vietnamese Air Force uses more than 45,000 types of supply items. Essentially, initial inventory requirements are computed based on actual consumption during a previous period that is judged to be similar, in terms of the level of combat, to the future period for which the requirements are being developed. These gross requirements are then reassessed in light of funding constraints and a system of priorities. In almost all instances only a portion of the requirements can be entered into the program—the remainder are listed as shortfall. The programed requirements are then reevaluated on a continuing basis, and adjustments are made each quarter of the fiscal year to accommodate the changing tactical situation. The following computations illustrate the method of deriving inventory requirements for two major items of supply—105-mm ammunition and POL:

105-MILLIMETER AMMUNITION

The computation is made by multiplying the weapon density by the average experienced rate in rounds per weapon per day by 30 days or 12 months by the cost per round.

Example

105-mm weapon density	1,164
Rate	8.5
1 day of supply (rounds)	9,894
1 month of supply (rounds)	296,320
1 year	3,561,840
Price per round	$35.70
Annual cost	$127,157,688

Since available funds are limited, the program is proportionately reduced to fit the dollar ceiling allocated.

Example

75 percent funded (rounds)	2,671,380
(9 months)	$95,368,266

FUEL FOR VEHICLES

The POL requirement computation consumption is based on equipment density with restrictive measures applied. Only 70 percent of the equipment density is considered. Wheeled vehicle requirements are based on 20 miles a day for 20 days of the month, while tracked vehicle requirements are based on a flat rate of 25 miles a month. Only 55 percent of the resulting requirement is funded.

In-Country Capability To Repair Equipment

Mr. Sikes. How much comparable equipment is not operating because Vietnam does not have the in-country capability to repair the equipment?

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I had understood that they were doing a commendable job of repairing equipment that would be considered by our forces to be beyond repair. Would you comment generally on this situation, but then tell us how much equipment is deadlined because it cannot be repaired?

Mr. VON MARBOD. Mr. Chairman, I have a rather detailed report on each item of equipment that has been provided.

Mr. SIKES. Provide that for the record.

[The information follows:]

(Mr. VON MARBOD.) With the exception of F5E aircraft, which were exchanged during calendar year 1974 for F5A aircraft provided to the South Vietnamese Air Force prior to the Paris Accords, there has been no significant replacement of major equipment since the cease fire. The need to conserve available resources has been fully perceived by the South Vietnamese Armed Forces. This perception, coupled with the instinctive Asian capacity to keep equipment operating despite insurmountable materiel obstacles—witness the numerous 1940 Renault vintage taxicabs which still run on the streets of Saigon—has resulted in some highly imaginative and extraordinary reclamation programs. With the surplus of lower technical skills developed during the years when U.S. forces were in South Vietnam, the South Vietnamese are disassembling damaged and destroyed equipment and repairing and reusing the parts. There are, however, numerous articles such as seals, gaskets, bearings and other small parts which cannot be reused and must be supplied from the United States. The equipment provided to South Vietnam over the years is a vast melange of makes and models of older U.S. equipment which greatly complicates supply of these small items—in many cases, such items are no longer produced. The South Vietnamese are doing remarkably well in locally manufacturing or adapting similar items to avoid work stoppages. However, major shortages still exist and funding constraints preclude ordering sufficient quantities to support their needs.

Statistical averages for the month of December 1974 are provided below as representative of the maintenance status of selected major equipment items.

Type of equipment	Currently on hand	Not operationally ready for maintenance	Not operationally ready for supply
175mm gun	——	——	——
105mm howitzer	——	——	——
155mm howitzer	——	——	——
5 ton truck	——	——	——
5 ton dump truck	——	——	——
2½ ton fuel truck	——	——	——
M113 armored pers carrier	——	——	——
M48 A3 tank	——	——	——
F/RF-5 aircraft	——	——	——
A-37 aircraft	——	——	——
2H-47 helicopters	——	——	——
C130A aircraft	——	——	——

Mr. SIKES. Tell us generally what the situation is. Are they doing an excellent job, a good job, a fair job, or a poor job?

Mr. VON MARBOD. They are doing an outstanding job of rebuilding equipment which, by our standards, would be scrapped or salvaged. I am speaking primarily of tactical vehicles, ordnance and signal items.

The situation is somewhat different in the case of aircraft. By January 1973, the hoped for level of Vietnamization in aircraft maintenance and technical assistance had not been reached; and it was therefore necessary to send several thousand United States contract personnel to South Vietnam, to provide both assistance and training. It

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was also necessary to provide primary depot maintenance for C–130 aircraft in Singapore. Now, however, the cutback in funding has forced me to direct a reduction in the number of contractor personnel. The Vietnamese are trying to pick up more of the burden in this area and, as might be expected, are experiencing some difficulties.

However, even though the Vietnamese are shouldering the increased burden and making steady improvements, the aircraft situation is not as good as we would wish it to be.

Mr. SIKES What efforts are being made to improve that situation and in what way?

Mr. VON MARBOD. We could best improve it, of course, by increasing contract personnel or ——

Mr. SIKES. Is that course impractical or impossible?

Mr. VON MARBOD. It is impossible under the present funding constraints. However, we continue to fund limited training for the Vietnamese in the vital skill areas. Such training is necessary to give them a chance to attain selfsufficiency in this area.

Mr. SIKES. What percentage of their aircraft are deadlined because of lack of repair?

Mr. VON MARBOD. I have a list of all aircraft that are deadlined for lack of spare parts.

Mr. SIKES. Overall, roughly, what percentage? Twenty, thirty?

Mr. VON MARBOD. About 25 percent, Mr. Chairman.

Mr. SIKES. About 25. You do not do much better than that in this country, do you?

Mr. VON MARBOD. We have some difficulty in this country, depending on the equipment; but our average is considerably better.

Mr. SIKES. In some instances you cannot get spare parts. Is that the reason?

Mr. VON MARBOD. Let me cite a case in point. We provided the Vietnamese with the C–130A aircraft, which our own U.S. forces found difficult to maintain. These aircraft have difficult advanced hydraulics, electronics, and navigation systems and are equipped with an engine which is very difficult to maintain.

Mr. SIKES. Is there other equipment excepting aircraft where you have a serious problem about repairability?

Mr. VON MARBOD. We have a problem with some of the communications equipment.

Mr. SIKES. For the lack of spares or lack of skills?

Mr. VON MARBOD. Lack of both skills and spares.

Mr. SIKES. Do you have a training program in effect there to try to improve it?

Mr. VON MARBOD. Yes, sir, we do.

Mr. SIKES. Secretary Schlesinger stated in a recent conference that the level of supplies flowing into North Vietnam from China and the Soviet Union is on the order of $1.2 to $1.3 billion per year. This figure includes economic aid and military aid. How much was programed and/or appropriated in fiscal year 1975 for both military and economic assistance to South Vietnam by this country?

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Mr. VON MARBOD. Vietnam military assistance appropriation for Vietnam was $700 million, and that for economic aid, $449.9 million

Mr. HABIB. The figure quoted for North Vietnam in terms of Chinese and Russian assistance is low, Mr. Chairman. That is not a correct figure.

Mr. SIKES. What is the correct figure?

Mr. HABIB. Nobody knows for sure. The best estimate for 1974, the figure that you quoted comes close to what might be the estimate on the economic side alone.

On the military side, the trouble with it is they never know how to estimate it until they see it at the end of the pipeline and they try to work it back. You do not know for about 6 months, and even then the statistics are really out of order. But the figure you have quoted, to the best of our knowledge, is much too low, as a total.

Mr. SIKES. Why would Secretary Schlesinger have incorrect information?

Mr. HABIB. I think that figure was meant to be——

Mr. VON MARBOD. During that press conference, the Secretary did ask the members of the press to check with Mr. Beecher at its conclusion. I met with him immediately after the conference, and he thought the number he was using represented military assistance.

Mr. Chairman, this photograph shows enemy stockpiles of munitions and other supplies. Our estimates are usually based on this type of photograph and other intelligence information.

Mr. SIKES. Where is that ammunition stockpiled?

Mr. VON MARBOD. In military region 1, very close to the Khe Sanh area.

Mr. EDWARDS. Will the chairman yield at that point?

How do you break down, when you look at something like that, and make a conclusion as to whether this came from Russia or China or from North Vietnam itself? I am interested at this point, not only in what you think Russia and China may be contributing but what North Vietnam itself is contributing.

Also, we know what we are putting in in the South. What are the South Vietnamese putting in monetarily? Do you have a breakdown of that kind of figure?

Mr. SIKES. In other words, the degree of their support for the war, outside of the American support?

Mr. VON MARBOD. They are largely dependent on our military assistance.

REPUBLIC OF VIETNAM BUDGET RECEIPTS AND EXPENDITURES

Mr. EDWARDS. I would have to assume that they are not getting by on $700 million a year. They must be spending a substantial amount of their own money. I would have to assume also that North Vietnam's stockpile was not necessarily supplied by the Russians or Chinese, but that the North Vietnam must be putting in some of their national resources to carry on this endeavor.

Mr. VON MARBOD. This is true, Mr. Edwards.

Mr. EDWARDS. But you do not have those figures here.

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Mr. VON MARBOD. I did not bring them with me.

Mr. FLYNT. Are they putting in anything?

Mr. VON MARBOD. The South Vietnamese? Yes, very definitely and especially in the areas of direct support of their personnel, medical supplies, rations, and textiles for uniforms.

Mr. FLYNT. Where do they get them?

Mr. VON MARBOD. This type of support, comes from their own economy.

Mr. HABIB. Could I read something into the record with respect to this, Mr. Chairman?

Mr. SIKES. Go ahead.

Mr. HABIB. Figures for calendar year 1974, Government expenditures, by the Government of South Vietnam, amounted to about 1.15 billion U.S. dollars based on an exchange rate of 625-to-1, which is an average exchange that is realistic.

National defense, pure national defense took about 48 percent of that total governmental budget. Governmental expenditures in turn amounted to about a third of gross national product in each of the last 3 years.

I think we ought to give you all of these tables and we will do it for the record. But for the purpose of the discussion now, in terms of total expenditures, where do they get the money, 48 percent of total expenditures in both 1973 and 1974 were covered by tax collections—they do collect taxes.

The United States does not provide budget support to South Vietnam, as it is sometimes charged. We provide assistance in the form of direct commodity shipments under Food for Peace, as we have in the past; the balance-of-payments support we provide in the form of import program, as you know.

We do have an influence over their budgetary expenditures, obviously by virtue of both the economic assistance provided and the military assistance provided.

But the answer to the question in general would be that both economies, the North and the South, are very heavily geared to the war effort. You can see from these gross figures that I presented—and we will present you more figures in detail—that the South is on a war footing.

[The information follows:]

REPUBLIC OF VIETNAM, BUDGET RECEIPTS AND EXPENDITURES

Vietnam dollars in billions

	1972	1973	1974	1975 (E)
Receipts:				
1. Domestic taxes	67.6(47)	168.4(68)	251.0(73)	330.0(77)
2. Other domestic revenues	28.0(20)	24.4(10)	45.0(13)	62.0(15)
3. Subtotal	95.6(67)	192.8(78)	297.0(86)	392.0(92)
4. Revenues from imports	47.2(33)	53.5(22)	47.0(14)	35.0(8)
5. Total revenues	142.8	246.3	343.0	427.0
Expenditures:				
1. Defense	203.8(55)	254.0(54)	311.0(49)	344.1(44)
2. Civil, including development and refugee relief	164.5(45)	213.1(46)	319.7(51)	441.2(56)
3. Total expenditures	368.3	467.1	630.7	785.3
Deficit	225.5	220.8	287.7	358.3

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Economic and Military Aid to North Vietnam From China and the Soviet Union

Mr. Sikes. I want to be accurate on this. From previous answers, is it correct to assume that the dollar value of the supplies for economic aid and military aid to North Vietnam from Red China and the Soviet Union is double that which the United States is providing to South Vietnam?

Mr. Habib. For fiscal year 1975, a ball park figure might get you there, but there again I do not want to mislead the committee.

Mr. Sikes. We want the facts on it.

Mr. Habib. I would say that is a ball park figure, yes.

Mr. Sikes. Roughly twice as much?

Mr. Habib. On the basis of present appropriations, yes.

Mr. Sikes. On the basis of present fiscal 1975 appropriations, that is what we are talking about.

Mr. Habib. Yes, in that same ball park.

Mr. Edwards. I am quite surprised—and I hope you are not sitting over there holding anything back, but I am really surprised DIA does not know exactly how much military aid the Russians and the Chinese are supplying to North Vietnam.

Mr. Habib. Mr. Edwards, if I could answer that, because I have been for the last 3 or 4 weeks taxing the entire intelligence community to come up with those figures, and I have had papers written that come back to me with six pages explaining what the difficulty in the methodology is. Then they give you some half-baked figures which they agree are not comparable.

For example, you run into such things as what figures you do get do not include packing, handling and transportation. Well, you know, how can you compare figures if you do not? We know the percentage cost runs sometimes as high as 40 percent in terms of handling and shipping them.

Mr. Sikes. What is so difficult about this? We tell the world what we are doing, whereas they do not.

Mr. Habib. They do not tell anything, they do not have to account, they run a different account. For example, as I said earlier, we had what we considered may be a better fix on the economic aid. But we do not know how much of the military assistance is concealed in the economic assistance element of what North Vietnam receives from China and the Russians. That just complicates the problem. It is not for want of trying that we do not have the figures.

Requirements for $300 Million Military Aid

Mr. Sikes. All right. We have discussed this several times, but for the record at this point, tell us exactly what it is that South Vietnam urgently needs which would be acquired with the additional $300 million.

We understand that the $300 million would have no outlay impact during fiscal 1975. Is that correct?

Mr. Preston. That is so stated in the President's message.

Mr. von Marbod. I will accept that.

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Mr. SIKES. How much of the money would be obligated this year and how much outlay would there be this year?

Mr. VON MARBOD. Mr. Chairman, we would obligate the entire $300 million this fiscal year. It would cover $198 million for ammunition, $26 million for petroleum products, $18.8 million for spare parts, $16.1 million for supplies and services, $2 million for investment type items and $39.1 million for packing, crating, handling and transportation.

Concering the actual outlay in fiscal year 1975, I would like to expand on that for the record.

Mr. SIKES. All right.

Mr. VON MARBOD. Vietnam requirements are financed with funds appropriated under the title "Military assistance, South Vietnamese forces." Orders for materiel are transmitted to the military departments obligating these funds. The military departments then furnish materiel to South Vietnam out of nearest available stocks. Initially then, the payments (outlays) for materiel delivered will be offset by collections in military department accounts, resulting in no change in net U.S. Government outlays. An outlay will be incurred at the time the military departments receive and pay for replacements to their inventories. This will occur subsequent to fiscal year 1975.

INCREASED CASUALTY LEVELS IN SOUTH VIETNAM

Mr. SIKES. The Secretary of Defense has stated that the sharp curtailment of American support to South Vietnam has had the effect of increasing casualty levels. Is that true, why is it true?

Do you want to spell that out for the record?

General GRAHAM. The thing is that the South Vietnamese, in looking downstream and seeing their ammunition stocks depleted, cut back on the amount of ammunition, supplies, and fire support that they give to their troops. When you cut back in fire support, you take heavier casualties. They are trading men for ammunition.

Mr. SIKES. That is a very simple answer and easily understood.

Mr. ADDABBO. Mr. Chairman, while we are speaking about $700 million and $300 million, does the $700 million cover all our manpower costs as relates to South Vietnam?

Mr. VON MARBOD. That covers the in-country costs only. I am not charging factored or proration of costs outside of Vietnam that support the military assistance program.

Mr. ADDABBO. Can you give us a figure as to what that amounts to?

Mr. VON MARBOD. I cannot, Mr. Addabbo——

Mr. ADDABBO. Can you supply it for the record?

Mr. VON MARBOD [continuing]. Because it depends on the accounting convention that might be employed.

For example, I am not charging my salary to the program, although I have been assigned to it for the past several months.

Mr. ADDABBO. Are we charging all the attachés and all the advisers under the manpower costs?

Mr. VON MARBOD. We are charging all in-country costs.

Mr. ADDABBO. How much will that add to the $700 million?

Mr. VON MARBOD. Between $2 and $3 million.

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Mr. FLYNT. Can a South Vietnamese citizen still buy out of military service?

Mr. HABIB. Not legally.

Mr. FLYNT. Not legally?

Mr. HABIB. Not legally.

Mr. FLYNT. Can they do it illegally?

Mr. HABIB. I do not know the answer to the question. The question is, if it were done, it would be illegal. Do you know of any? We'll provide any information we have for the record.

[The information follows:]

In South Vietnam, evading military service takes several forms: outright draft evasion, solicitation of noncombat assignments, and "moonlighting," for example, being absent from duty in order to hold down a civilian job. "Buying out" of the service is illegal and very small scale, if such an abuse even exists.

As for other problems mentioned, it cannot be said with confidence just how frequently such abuses occur. They should not, however, be widespread because a variety of checks have been instituted to control them. The RVNAF Inspector General has been particularly diligent about such matters, and seven battalion commanders were recently relieved for corrupt personnel practices. Also, the RVNAF Joint General Staff has instituted its own personnel inventory program and will investigate all unit rolls at least once each year. Finally, the U.S. Defense Attaché has a system of checking personnel strengths; these checks are made at random and without notice.

In a move to achieve better unit manning, Prime Minister Khiem has ordered the number of draft determents cut to a minimum. Deferments for education, occupation, family hardship, religious, and ethnic reasons are all under review.

Absenteeism in the RVNAF is more understandable when viewed in light of its underlying causes. Military personnel are authorized 15 days leave per year, but are seldom granted leave because of operational requirements. As a result, some soldiers merely take off for a short time. A more prevalent reason is the low military pay; a soldier with dependents sometimes feels he must "moonlight" to provide for his family's basic needs.

Mr. ADDABBO. The crating cost, the crating in the United States, is that part of the $39 million that would be charged against the $300 million or the $74 million that you listed under the original $700 million, the crating costs within the United States?

Mr. VON MARBOD. The costs of——

Mr. ADDABBO. Crating and packing.

Mr. VON MARBOD. Crating and handling, yes, sir.

Mr. ADDABBO. In the United States, that is charged?

Mr. VON MARBOD. Yes, sir.

Mr. ADDABBO. That is that $74 million you gave us earlier?

Mr. VON MARBOD. Yes, sir.

RECONNAISSANCE FLIGHTS OVER SOUTH VIETNAM

Mr. ADDABBO. You showed us the photos on Thursday, again you showed us the photos today. On Thursday I asked the question: Who took the photos? We are now in classified session.

Mr. VON MARBOD. I would like to refer that question to General Sitton, Director of Operations of the Joint Chiefs of Staff.

General SITTON. We do fly tactical reconnaissance in South Vietnam, sir, using primarily RF–4C's, which operate out of Thailand. How many would depend on the situation, as you would expect.

Mr. ADDABBO. Are they being charged against the $700 million?

Mr. VON MARBOD. They are not.

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Mr. ADDABBO. Could you give us what these flights cost us over the years?

Mr. VON MARBOD. I do not have that cost, Mr. Addabbo. However, the gathering of intelligence is certainly for our own benefit and should not be charged to the military assistance account.

Mr. ADDABBO. Are our photo planes given any military cover at all by our aircraft?

General SITTON. We do not; they are unarmed reconnaissance airplanes only, they are unescorted.

MILITARY PAY COSTS CHARGED AGAINST $700 MILLION

Mr. SIKES. Are you charging military pay costs against the $700 million for fiscal 1975? I am speaking of military personnel assigned to DAO and our Embassy in Saigon.

Mr. VON MARBOD. I have been doing so, Mr. Chairman. However, there is under consideration a proposal that I not charge these costs to the appropriation.

Mr. SIKES. What will the amount be?

Mr. VON MARBOD. Military personnel costs now charged to defense assistance, Vietnam appropriations are estimated at $1,205,000 for fiscal year 1975.

Mr. SIKES. Who would authorize the changes?

Mr. VON MARBOD. I would.

Mr. SIKES. Are you charging the pro rata share of the cost at OSD and in the military departments for people who are engaged directly or indirectly in support of the South Vietnamese military aid effort?

Mr. VON MARBOD. I am not.

Mr. SIKES. In prior fiscal years, were costs of packing, crating, handling, and transportation charged against the ceiling on Southeast Asia obligations?

Mr. VON MARBOD. They were not.

Mr. SIKES. Are you now charging these costs against the fiscal 1975 limitation?

Mr. VON MARBOD. I am.

Mr. SIKES. What is your estimate of the costs for the fiscal year?

Mr. VON MARBOD. The current estimate for packing, crating, handling, and transportation is $74 million.

STATE OF READINESS OF C–130 AIRCRAFT

Mr. SIKES. What is the state of readiness of the C–130 aircraft we are providing the South Vietnamese?

Mr. VON MARBOD. Thirty-two C–130A aircraft were provided to the South Vietnamese Air Force in 1973. Two have been lost; one shot down by antiaircraft fire and the other destroyed on the ground at Songe Be by enemy artillery fire. An average of six aircraft will be in periodic depot maintenance, out of country, at any point in time for the next year. Experience during the past 3 months indicates that seven aircraft have not been operational each day because of the lack of spare parts and six aircraft were not operational because they required maintenance.

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Mr. SIKES. Are the South Vietnamese performing depot-level maintenance on these aircraft in-country?

Mr. VON MARBOD. They are not. They do not have the complete capability, Mr. Chairman.

C–130 AIRCRAFT DEPOT MAINTENANCE PERFORMED IN SINGAPORE

Mr. SIKES. How is depot-level maintenance performed?

Mr. VON MARBOD. It is performed under contract with Lockheed Air Services in Singapore.

Mr. SIKES. Does this mean that we provide C–130 aircraft to the South Vietnamese Air Force, knowing that their logistics system was not capable of supporting them?

Mr. VON MARBOD. It does, Mr. Chairman; and, for that reason, we provided contractor technicians to that country.

Mr. SIKES. Was the C–130 the only aircraft available that would do the job that was required?

Mr. VON MARBOD. It was, sir, and I would emphasize that the C–130 aircraft were provided to South Vietnam in November of 1972 when we had not yet started to develop a logistics capability to support those aircraft.

Mr. SIKES. I would like to know for the record the annual cost of this contract in Singapore, the name of the contractor, and whether the contract cost is charged against fiscal year limitation.

Mr. VON MARBOD. The cost is charged against the fiscal year limitation. I will provide the additional information for the record.

[The information follows:]

(Mr. VON MARBOD.) In fiscal year 1975, 16 South Vietnamese Air Force C–130A aircraft require periodic depot maintenance. The total cost for this program is $2,654,832. The work is being accomplished at three contractor facilities as follows:

Number of aircraft and facility	*Contract value*
9 Lockheed Air Services, Singapore	$1,710,832
3 China Air Lines, Taiwan	294,000
3 Hayes Aircraft Corp., Birmingham, Ala	650,000

The three C–130 aircraft at Hayes Aircraft Corp. are undergoing a wing modification in addition to the periodic depot maintenance.

One C–130A aircraft is undergoing periodic depot maintenance at the South Vietnamese Air Force Air Logistics Center at Bien Hoa Air Base in South Vietnam. This is a pilot project undertaken to develop periodic depot maintenance capability within the South Vietnamese Air Force. The project is being closely monitored and, if successful, will preclude the need for out-of-country contracts for this type of heavy maintenance in future years.

MANAGEMENT AND CONTROL OF EQUIPMENT AND SUPPLIES

Mr. SIKES. Since your appointment, have you ever discussed the need for tighter controls and improved management of the military equipment and supplies in-country with any of the Vietnamese officers?

Mr. VON MARBOD. Yes; Mr. Chairman. I have discussed it with the Joint General Staff of the Vietnamese Armed Forces, as well as with Prime Minister Khiem and President Thieu.

Mr. SIKES. What kind of reaction did you get?

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Mr. VON MARBOD. A very favorable and supportive reaction. They have since taken corrective action in a number of areas I have brought to their attention.

Mr. SIKES. Mr. Edwards, do I understand you have questions at this point?

Mr. EDWARDS. Yes; I have some questions on the situation in South Vietnam.

Mr. SIKES. I am about ready to discuss Cambodia.

CONSTITUTIONAL PROCEDURES WITH RESPECT TO MILITARY INTERVENTION BY U.S. FORCES

Mr. EDWARDS. During the press conference on January 21 of this year, the President stated that if direct U.S. military intervention in Southeast Asia became necessary at some future time, such action would only be taken in accordance with constitutional and legal procedures. I am familiar with the legal restrictions pertaining to renewed U.S. combat, but I wonder if you can elaborate on the constitutional procedure that the President was referring to.

Mr. HABIB. I presume he was referring to his authority under the Constitution and whatever he conceives to be the necessity to consult with Congress with respect to that authority. And I think he has made it very clear—I do not know whether in that conference or any other conference—and the Secretary has I know also, that the reintroduction of American forces in Southeast Asia, would not be done without the consent of Congress.

Mr. EDWARDS. Thank you.

Of course, the law in effect requires that. The Secretary of Defense did state recently that Hanoi still recognizes that if a massive invasion of the type of 1972 were to occur, that the President has the power to approach the Congress and that the Congress under those circumstances might well authorize the use of American force.

Mr. VON MARBOD. That is correct.

Mr. EDWARDS. Under what circumstances would congressional authorization be sought to reinitiate U.S. combat operations in Southeast Asia?

Mr. VON MARBOD. Such a decision would be made only by the President. I really could not make a prediction.

Mr. EDWARDS. Do you know whether any specific guidelines have been established in that regard?

Mr. VON MARBOD. Not to my knowledge.

Mr. EDWARDS. During another press conference on January 28, the President reported that only essential consumable items such as ammunition, gasoline, spare parts and medical supplies have been provided to South Vietnam during the current fiscal year. In the face of increased North Vietnamese pressure of recent months, the President said, these supplies have not kept pace with minimally essential expenditures. Stockpiles have been drawn down and will soon reach dangerously low levels, end of the President's quote.

Did the Congress authorize any major equipment procurement for South Vietnam under the fiscal year 1975 legislation?

Mr. VON MARBOD. It did, sir. It authorized approximately $250 million in major equipment. However, I have not been able to procure or

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deliver that equipment because of the reductions in our original appropriation request.

Mr. EDWARDS. So you have the authorization, but you have never actually made any use of it?

Mr. VON MARBOD. That is correct. Legally, I could buy major items of equipment.

Mr. EDWARDS. Please cite specific examples.

Mr. VON MARBOD. Aircraft, for example. It was necessary that I cancel delivery of 71 F–5E aircraft I am legally authorized to procure for South Vietnam.

Mr. EDWARDS. Because the money was not appropriated?

Mr. VON MARBOD. Because the money is not available.

Mr. ADDABBO. Would that have been a 1-to-1 replacement?

Mr. VON MARBOD. It would have been, within the provisions of article 7, a 1-to-1 replacement.

AIRCRAFT PLACED IN STORAGE

Mr. ADDABBO. You also said last Thursday that there were 224 planes they have on the ground which they have placed in storage. So why do you have replacements?

Mr. VON MARBOD. Mr. Addabbo, the point I made on Thursday—and I regret that it was not clear—is that many aircraft in South Vietnam have been lost due to combat damage. The 224 aircraft in flyable storage in South Vietnam are there because I cannot provide the spare parts and the petroleum products needed to fly them. I have not been able to fund any attrition aircraft.

For example, the South Vietnamese Air Force has lost close support and transport aircraft to enemy fire. These losses are over and above the 224 aircraft I have grounded because of lack of funds.

So the situation is even worse than it appears in light only of the 224 aircraft that are in flyable storage. I have not even been able to replace combat losses.

REPLACEMENT OF EQUIPMENT

Mr. EDWARDS. We touched on this Thursday, but I wonder if you would give us more detail on how the $700 million has been used and how much replacement equipment is being supplied out of that money.

I got the impression from the hearing on Thursday that a minimum amount of funds are being used for 1-for-1 replacement.

Mr. VON MARBOD. I am not spending any of the $700 million on one-for-one replacement.

Mr. EDWARDS. Not any of it?

Mr. VON MARBOD. None of it.

Mr. EDWARDS. Then we are not achieving 1-for-1 replacement?

Mr. VON MARBOD. We are not. We are unable to do so.

Mr. EDWARDS. Is replacement equipment being provided from any prior year programs or from any other source?

Mr. VON MARBOD. Yes; we have been delivering to South Vietnam from prior year approved and funded programs, F–5E aircraft to replace F–5A aircraft.

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Mr. EDWARDS. I need to be educated on this question because under the agreement we are allowed 1-for-1 replacements. We can supply unlimited money for anything else. Is that right?

Mr. HABIB. Everything is on 1-for-1, Mr. Congressman. Every round of ammunition is on a 1-for-1 basis. But each category of equipment and material, no matter what it is, is on a 1-for-1 basis. If you shoot up 50 rounds of 30-caliber, you can replace it with 50 rounds of 30-caliber.

Mr. EDWARDS. When I ask if you are using the $700 million for replacement of equipment, and you say no, and in the broad sense you are, in that you are supplying ammunition which in effect is equipment? Please explain this apparent inconsistency.

Mr. HABIB. I think he misspoke on that. Obviously he is supplying ammunition, small arms, and other things. I think what he meant was they were not supplying heavy equipment.

Mr. EDWARDS. Plane-for-plane or tank-for-tank?

Mr. VON MARBOD. Major items of equipment. Within the $700 million, the equipment I am replacing is such things as optical sights for tanks and small PRC-25 radios used by the tactical units; but except for these minor items, the money is going for petroleum products, munitions, medical supplies, rations, and spare parts.

SOUTH VIETNAMESE AIR FORCE

Mr. EDWARDS. I would like to pull together some of the questions that have been asked about aircraft inventory.

How many aircraft does South Vietnam have today?

Mr. VON MARBOD. It has 1,479 aircraft today. As of the cease-fire, 2,073 were authorized.

Mr. EDWARDS. How does the South Vietnamese Air Force rank in comparison with the air forces of other countries of the world?

Mr. VON MARBOD. I would say that it is relatively very large, Mr. Edwards.

Mr. EDWARDS. Can you be more specific.

Mr. VON MARBOD. No, sir.

Mr. EDWARDS. What percentage of the South Vietnamese budget is allocated to the air force?

Mr. VON MARBOD. I do not have a break down of the amount of support that the Government of South Vietnam is providing its air force, but I can provide it for the record.

[The information follows:]

Based on the proportional strength of the South Vietnamese Air Force relative to other elements of the South Vietnamese Armed Forces, it is estimated that 41.6 million of the $344.1 million fiscal year 1975 Vietnamese defense budget is allocated to the South Vietnamese Air Force.

Mr. EDWARDS. How many fixed-wing, attack aircraft are in the South Vietnamese Air Force today?

Mr. VON MARBOD. I can provide a breakdown by type of aircraft here, but I do not have one by fixed-wing and rotary aircraft.

Mr. EDWARDS. Will you put your chart there in the record?

Mr. VON MARBOD. I will.

[The information follows:]

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ACTIVE SOUTH VIETNAMESE AIR FORCE AIRCRAFT, AS OF JAN. 10, 1975

Type	Possessed at ceasefire[1]	Currently possessed
A-37	——	——
F-5A	——	——
F-5B	——	——
F-5E	——	——
RF-5A	——	——
AC-119K	——	——
UH-1	——	——
EC-47	——	——
RC-47	——	——
VC-47	——	——
U-6	——	——
O-1	——	——
U-17	——	——
C-130	——	——
C-119G	——	——
CH-47	——	——
Total	[1] 1,783	1,479

[1] Does not include aircraft inactivated in September 1974 (224) or aircraft of these 7 types which have been attritted Total ceasefire inventory was 2,073 aircraft of all types.

Inactivated South Vietnamese Air Force Aircraft

Type:	*Number*
A-1	61
O-2	31
AC-47	13
T-41	22
AC-119G	22
C-7	52
T-37	24
Total	224

Mr. EDWARDS. Of the total aircraft that you just mentioned, you started off with about 2,000. You are now down to about 1,400. Is the difference due to combat loss?

Mr. VON MARBOD. It is due both to loss in combat and to damage resulting from aircraft accident—in other words, the normal attrition as well as combat attrition.

Mr. EDWARDS. Where in these figures do you account for the 224 flyable aircraft that are in storage? Are they part of the 1400 remaining?

Mr. VON MARBOD. No sir, they are not.

Mr. EDWARDS. Have they reduced their flying hours?

Mr. VON MARBOD. Yes, by more than 50 percent, Mr. Edwards.

Mr. EDWARDS. For the record, what kind of aircraft are in storage?

Mr. VON MARBOD. A-1 aircraft, AC-47 aircraft, AC-119 aircraft, C-7 aircraft, O-2 aircraft, T-37 aircraft, and T-41 aircraft.

STOCK STATUS IN SOUTH VIETNAM

Mr. EDWARDS. Mr. von Marbod, in your prepared statement you say "ammunition consumption has been held to well below that previously experienced at comparable levels of hostility," and "fuel for tactical vehicles is provided at only 55 percent of historical consumption." You go on to point out that "it is only through conservation measures and sacrifice by the South Vietnamese that there are stocks

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of ammunition and POL in the depot today." Is there a serious shortage of essential stocks in South Vietnam today?

Mr. VON MARBOD. I would not classify the current stock status as serious. I consider present stockage adequate with a few exceptions such as critical spares for C–130 aircraft. Within current funding constraints, however, sufficient additional assets will not be made available this fiscal year to counter expected NVA/VC initiatives and prevent further drawdown of essential stocks.

Mr. EDWARDS. Are the South Vietnamese drawing down their logistical base to a point where a shortage is anticipated during the fourth quarter of this fiscal year?

Mr. VON MARBOD. Although measures have limited the drawndown to date, the process will begin to accelerate in late March.

Mr. EDWARDS. Is the shortage anticipated because of a projected increase in the level of combat during the fourth quarter?

Mr. VON MARBOD. The shortage anticipated is a combination of several things. The ground ammunition program is a good example. The original budget request of $1,450 million included $400.2 million for ground ammunition. The appropriation of $700 million required a balanced restructuring which allocated only $239.2 million for ground ammunition support. Compounding this problem, two ammunition price increases of 29 percent and 27.7 percent during the past year have reduced the amount of ammunition which the limited funds could purchase. The original program was also based on the combat experience during the second half of 1973, which was relatively low.

Even with limitations being placed on tactical commanders—including ammunition rationing—an increase of 19 percent over last year's consumption average was required to react to NVA/VC initiatives during the Monsoon season. A further expenditure increase has been required with the onset of the dry season.

Mr. EDWARDS. If the supplemental request were denied and if the current level of North Vietnamese attacks were sustained through the end of this fiscal year, how many days of essential stocks would the South Vietnamese have on hand on June 30, 1975?

Mr. VON MARBOD. At the current rate of consumption, ——— stocks would be drawn down to unacceptable levels ——— by the end of the fiscal year.

Mr. EDWARDS. If the supplemental request were denied and combat intensified to the projected level, how many days of essential combat stocks would the South Vietnamese have on hand on June 30, 1975?

Mr. VON MARBOD. If combat intensifies and additional funding is not provided, the ammunition supply would be exhausted.

Mr. EDWARDS. Recent press reports indicate that a minimum level of supplies is defined as enough to support 60 days of intensive combat and 30 days of moderate combat activity? Is that correct?

Mr. VON MARBOD. Under the current situation, I believe ——— days of supply at intense rates to be a more rational level.

Mr. EDWARDS. How long could North Vietnam sustain the present and projected levels of combat?

Mr. VON MARBOD. It is estimated that the current level of NVA/VC activity could be sustained for at least 12 months, probably much longer.

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Value of Goods and Services Delivered to South Vietnam and Cambodia for Fiscal Year 1975

Mr. Sikes. Let me ask one or two questions at this point.

Your statement did not address the question of deliveries to South Vietnam and Cambodia. Can you tell us the value of goods and services actually delivered to these countries for fiscal 1975?

Mr. von Marbod. Mr. Chairman, we have funded $517.5 million of the $700 million for requirements through the third quarter. We have delivered into the country $438.8 million. Let me point out that deliveries are based on actual expenditure of funds or a validation of a requisition.

Mr. Sikes. What is the value of the material in the prior year funded pipeline for Cambodia and for South Vietnam?

Mr. von Marbod. For Cambodia the value is $40 million and for Vietnam, approximately $60 million.

Excess Defense Articles Programed

Mr. Sikes. On excess stocks, provide for the record a detailed schedule listing all material shipped or scheduled for shipment to South Vietnam, Cambodia, and Laos under the various DOD excess programs; that is, MAPEX, MIMEX, SIMEX, et cetera. Include the procurement cost of each item when purchased and the recorded value at time of transfer.

[The information follows:]

(Mr. von Marbod.) For fiscal year 1975 no excess defense articles were programed or are expected to be provided to South Vietnam.

The following is a listing of excess defense articles programed for Cambodia during fiscal year 1975.

Item	Quantity	Acquisition cost (thousands)	Recorded value at time of transfer (thousands)
C-123K cargo aircraft	1	718	359
O-1A observation aircraft	8	144	48
Military bridges	10	36	12
Aircraft spare parts		38	38
Automotive spare parts		8	8
Weapons spare parts		31	31
Communication equipment parts		7	7
Other equipment and supplies		8	8
Total		990	511

Excess defense articles programed for Laos during fiscal year 1975 are valued at acquisition cost and totaled $155,000. This included $30,000 for aircraft spare parts, $33,000 for communications equipment and spare parts, and $92,000 for miscellaneous support equipment and supplies.

Mr. Sikes. I would like to have for the record the priority list for distribution of excess material to U.S. users, MAP countries, et cetera.

[The information follows:]

Mr. von Marbod. Excess defense articles are first screened for requirements within DOD and then by other U.S. Government agencies prior to their being offered to foreign countries. Except for the Pacific region, there is no priority

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list of countries eligible for distribution of excess defense articles. Within the Pacific region the priorities in descending order are:
1. Cambodia,[1] Laos,[1] South Vietnam (DAV).
2. AID foreign disaster relief.
3. Korea.[1]
4. DOD property disposal service.
5. Trust territories.
6. Thailand,[1] Indonesia,[1] Philippines.[1]
7. Other AID programs.

Mr. SIKES. The committee found that the U.S. 8th Army in Korea had loaned equipment to the Korean forces. That is, equipment and spares in 8th Army inventories were loaned to Korea, in addition to the approved military assistance program. Have any loans been made from U.S. inventories to South Vietnam, Laos, Cambodia, and Thailand?

Mr. VON MARBOD. We have made no loans to South Vietnamese forces. I will have to review the record for Cambodia, Laos, and Thailland, and provide that information for the record.

Mr. SIKES. Very well.

[The information follows:]

Mr. VON MARBOD There are no loans to Laos and Thailand. The only items of equipment on loan are two "R–14 bulk fuel storage and refueling systems" (essentially four 50,000-gallon fuel bladders with assorted pumps and hoses). These two systems have been placed in the custody of the Khmer Air Force in Cambodia due to the absence of U.S. personnel. These bladders are in support of U.S. mission requirements. Research indicates that this equipment is the only item of a loan nature.

Mr. SIKES. Now, gentlemen of the committee, it is very near 12 o'clock, but if we run for another half-hour or so, I think possibly we could complete our work on South Vietnam, and that would possibly negate the necessity for coming back for another session. Can the committee members sit for a while?

Mr. ADDABBO. No problem.

Mr. SIKES. Very well.

Do you have some questions, Mr. Addabbo?

Mr. ADDABBO. Yes, Mr. Chairman.

We have been going through, now, a day and a half of questions and this morning the new questions as to breakdowns, et cetera. Most of the information we have covered so far between Thursday, which was open, and today which has been partly closed—I do not see any classified information that you have given. Am I right so far?

Has the committee been given any classified information other than the special lines and the map, the figures that were given, the losses, casualties, equipment, where the dollars are going, is there any reason for that to be classified?

Mr. VON MARBOD. Mr. Addabbo, I can assure you that, within 48 hours after receiving the transcript of today's executive session, I will provide a declassification of everything that can be declassified.

APPEAL FOR RESUMPTION OF FORMAL NEGOTIATIONS

Mr. ADDABBO. What I am getting at is, is there any classified information, is there any activity going on vis-a-vis the State Department, here, and Russia and China, to see if we are going to get to

[1] Military assistance programs and DOD-supported AID programs.

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the point that we have been discussing on Thursday, that we are going to get the parties back to the Paris Accord? Or are we in a condition where we are going to go on with me battling against you getting money, you battling for more money, back and forth and back and forth?

Mr. HABIB. We are hoping to persuade you to go along with the request for more money. But it is a very friendly battle. We will try to supply any of the information you or the committee wishes. You just ask the question. We will supply it if we have the answer.

Mr. ADDABBO. Are there any negotiations going on between our State Department, Russia, China, to see if we can stop aid to South Vietnam, if they could stop aid to North Vietnam, in order to get the people back to work out the true meaning of the accords that were signed 2 years ago.

Mr. HABIB. By the word "negotiations," if you mean is somebody sitting down around the table debating the way we are, no. But I include in the word "negotiations" the whole realm of what U.S. Government tries to do to try to move the thing from a military confrontation back to the agreements.

The answer to you on that is there are all sorts of, quote, negotiations, if you want to call them that. These have been the subject of conversation, of notes. We submitted a note quite openly to all the other members recently. Not all negotiations take place in secret. Negotiations, when you are getting down to the bone, when you are looking for compromise, seeking compromise, obviously those things are going to be done secretly.

The other answer is, we are doing everything we possibly can in terms of getting back to the terms of the agreement.

The problem we are facing, and we have increasingly, is that in each case where one attempts to move in this direction, you run up against the basic unwillingness of North Vietnam to deal with the problem in a discursive fashion rather than an excursive fashion, if you know what I mean.

What we are facing now, both in Cambodia and in Vietnam, is a period in which the enemy—the other side if you want to call them that way—in which the enemy of the Cambodian and South Vietnamese governments is seeking to maintain a degree of military pressure in pursuit of its objectives, and North Vietnam gives no indication whatsoever that it is prepared to take the other course at this time.

Now, both in the case of Vietnam and in the case of Cambodia, the governments in Saigon in Phnom Penh have called for a return to formal negotiation, in both cases. Well, in one case it is a return to normal form of negotiations, that is the case of Vietnam, and in the case of Cambodia the opening of formal negotiation. In neither case has the appeal been successful, as yet.

Mr. ADDABBO. But as far as the major powers, we see no real movement there, we still see aid by China, aid by Russia, and aid by the United States.

Mr. HABIB. At this time, yes; but that is not something one gives up on.

Mr. ADDABBO. What concerns me and what is going to concern the——

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Mr. HABIB. There will be a very shortcut way out of it, if you get everybody to agree not to give them a darned thing. That is what we agreed originally.

Mr. ADDABBO. But here we are.

Mr. HABIB. Here we are, it obviously has not worked.

Mr. ADDABBO. We have aerial photos; what happens if one of the planes is shot down?

Mr. HABIB. The aerial photos, of course, that have been shown to you, fortunately, have not caused anybody to be shot down.

Mr. ADDABBO. This concerns all of us.

Mr. HABIB. I am correct, am I not?

General GRAHAM. Yes.

Mr. ADDABBO. I hope you are correct, because we are so informed.

Mr. HABIB. You notice I checked that very quickly. I did not want to leave that without checking.

Mr. ADDABBO. The testimony was we only lost two civilians and one military.

Mr. HABIB. No, no, we only answered in response to the question that that is what we had lost.

FRAUD AND CORRUPTION

Mr. BURLISON. You mentioned the aid coming out of the Vietnam budget for support of the war. Do you have any evidence or any facts on what shortfall there might have been from fraud and corruption, from what was diverted?

Mr. VON MARBOD. About the impact of fraud and corruption in South Vietnam?

Mr. BURLISON. Yes, with respect, first, to the Vietnam military assistance.

Mr. VON MARBOD. I have no direct knowledge of that, Mr. Burlison.

Mr. BURLISON. Do you have any information with respect to the American dollars that have gone to Vietnam in economic aid which were diverted through fraud and corruption and never reached the purpose for which it was appropriated?

Mr. HABIB. We do not have any estimates, Mr. Congressman. I do not think it possible to get an estimate of how much crookery exists, how much thievery exists.

Mr. BURLISON. There must be an awful lot of it, if it is impossible to give an estimate of it.

Mr. HABIB. It might be none and it might be a great deal. It is quite obvious when you have programs of the magnitude of these over the years, and you have the kind of difficulties and the kind of situation you are dealing with, it is very easy to assume—and we are not blind to that assumption but if you would ask me how much, there have been various attempts at trying to define a particular case where something has gone astray.

Do you have any of the GAO audit records which have gone into this sort of thing?

Mr. VON MARBOD. Investigations of this nature are normally accomplished by the U.S. Army Criminal Investigation Division (CID). I will attempt to provide the results of these investigations as they become available.

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Mr. HABIB. It is a terribly difficult thing to do in gross terms.

Mr. BURLISON. Would you put something in the record on that?

Mr. HABIB. Some of the audits ought to be put in the record.

[The information follows:]

NOTE.—Investigative reports will be provided as soon as these reports are completed, and release would no longer impact on on-going criminal investigations.

Mr. BURLISON. The next question to which I suppose the answer is the same, with respect to American military aid that has been diverted in like fashion.

Mr. VON MARBOD. Mr. Burlison, I have a summary of audits of military aid. There is some evidence of mismanagement, but I have no way of knowing how much of it may have involved corruption. However, in every case that I was able to document, I turned the information over to the responsible Vietnamese authorities and I have been given evidence that they took rather swift action.

CORRUPTION IN NORTH VIETNAM

Mr. BURLISON. Do we have any intelligence information or estimates of any sort as to what the situation is with respect to Russian and Chinese aid going to North Vietnam and being diverted through fraud?

Mr. HABIB. We have reports of black markets in Hanoi, we have reports of diversions, we have reports of that kind of what you might call corruption or diversion, but they are not in accounting terms.

General GRAHAM. Impossible to quantify.

Mr. HABIB. They are not possible to quantify. Over the years we have had a series of reports. As a matter of fact, the reports are probably more common and have been more common in the last year or two than they were previously; am I correct?

General GRAHAM. That is correct.

Mr. BURLISON. Is this information classified information or not?

Mr. HABIB. No; I do not think it is.

Mr. BURLISON. All right. Provide that information for the record.

Mr. HABIB. I would not say we would provide the agency reports, but the information I would not consider classified. I think we can provide it. Yes, indeed.

[The information follows:]

The available evidence clearly suggests that corruption is a serious problem in North Vietnam. Communist party newspapers and other publications openly cite widespread corrupt practices among party cadre and State officials as one of the primary causes of what it terms the "declining quality of Socialist life" in the north. According to these reports thievery, speculation, black-marketing, smuggling, embezzlement, and abuse of official power are prevalent.

Intelligence sources confirm these negative tendencies. One such source reports, for example, that a popular practice among factory workers is to write off materials as waste and then sell them on the free market. Many cadre greatly expand their regular salary in this way and are willing to risk arrest and imprisonment for the sake of the profit which allows them to purchase black market luxury items such as wrist watches and transistor radios. According to this source such practices, plus worker apathy, are largely responsible for the low production levels which exist in some sectors of the economy.

Hanoi was sufficiently concerned about the corruption problem to create a new vice premiership in 1974 for the purpose of ridding society, particularly the economic sector, of practices contrary to socialist ideals and which impact adversely

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on its reconstruction and development plans. The official appointed to the post, Tran Huu Duc, has published two articles in the official party journal which provide one of the most candid descriptions of corruption and crime to come out of North Vietnam in recent memory.

Mr. BURLISON. Thank you, Mr. Chairman.

Mr. EDWARDS. Mr. Secretary, during the negotiations leading up to the Paris agreement or during subsequent talks, did the Soviet Union or China ever agree or express a willingness to limit their military aid to North Vietnam?

Mr. HABIB. That is not something that I am personally aware of, but I understand that the Secretary has confirmed that statement.

Mr. EDWARDS. Are you in a position to discuss it at all?

Mr. HABIB. I am not, but I would be prepared to ask him what he can tell me about it. It is my understanding that it was discussed in considerable detail.

Quite obviously one was hoping at that time that you could get that kind of mutual restriction.

What was written into the agreement, and was written deliberately, was the one-to-one restriction.

On the basis of a cease fire on a 1-to-1 basis, that was for South Vietnam. Now there was nothing written into the agreement on the amount of material that could be provided to North Vietnam if it stayed in North Vietnam.

Mr. EDWARDS. How can we get that information?

Mr. HABIB. That is the kind of question—let me look into it. I mean one would have to go back to part of the negotiations that I was not personally concerned with.

I understand that the Secretary has said for the record just a couple of days ago that there was such discussion; yes, sir.

Mr. EDWARDS. I would like to have something in the record as to what that discussion was. If you are unable to put it in yours, maybe when the Secretary comes we can ask him.

Mr. HABIB. When he comes, I think it should be, it could be raised, yes.

Mr. EDWARDS. That is all I have.

Mr. SIKES. Mr. Robinson?

Mr. ROBINSON. Thank you, Mr. Chairman.

EMPLOYMENT OF LOCAL NATIONALS

Mr. Secretary, the statistics that you cited earlier this morning about personnel and the significant decrease in the people that are both contract workers and with DAO, reflected a significant increase in the number of local nationals employed, I believe; is that correct?

Mr. VON MARBOD. The figures that I used earlier represent local nationals directly employed by the Defense Attaché Office. They do not include the local national employees who are on the payroll of the contractors that we have in South Vietnam.

Mr. ROBINSON. I was referring specifically to those you mentioned with regard to DAO, increasing from something over 2,000 to something over 4,000, unless I misunderstood you.

Mr. VON MARBOD. As we drew down United States civilians, we did hire more local nationals.

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Mr. ROBINSON. It is certainly more than on a 1-to-1 basis.

Mr. VON MARBOD. Yes, sir, that is true.

Mr. ROBINSON. How do you justify that?

Mr. VON MARBOD. By the relatively low cost of employing them and the benefit derived from improving management skills on the part of the Vietnamese employees. It is an example of Vietnamization, if you wish.

Mr. ROBINSON. What do these people do?

Mr. VON MARBOD. They provide administrative and logistic support in management of the military assistance program for South Vietnam.

Mr. ROBINSON. How much have we spent in trying to train the Vietnamese in aircraft maintenance up to this point?

Mr. VON MARBOD. I do not have that figure with me. I will be happy to provide it for the record.

[The information follows:]

Funds expended or programed for formal training of South Vietnamese Air Force personnel in aircraft maintenance skills are as follows:

Fiscal year:	*Amount*
1973	$160,000
1974	175,000
1975	65,000

In addition to this formal training, there is extensive on the job training accomplished in conjunction with the technical assistance being performed by contractor personnel. Since technical assistance personnel perform maintenance functions and instruct concurrently, it is difficult to segregate training costs from costs asociated with their direct maintenance functions. For fiscal year 1975 technical assistance of this nature is programed at $12.9 million.

Mr. ROBINSON. My understanding is that that has not been very successful. How would you appraise it?

Mr. VON MARBOD. I would say that it has been successful. However, one must bear in mind the fact that it was not possible to provide adequate training in advance of the arrival of the volume and variety of equipment introduced into Vietnam, in the October, November, December 1972 time frame. So, for the last 2 years, the Vietnamese have been going to considerable effort to train people in the maintenance of those aircraft. Afain, Mr. Robinson, I would point out the C–130 was not introduced into South Vietnam until November of 1972, just prior to the cease-fire. There was also a large influx of F–5A aircraft—116 of them—which we obtained from Iran, the Republic of China and the Republic of Korea. Other aircraft too were introduced in this very short time span. The truth is that, although we Vietnamized the war, we were unable to Vietnamize technical assistance and the maintenance of the aircraft, in so short a period of time.

Mr. ROBINSON. How do you appraise that effort as proceeding at the present time?

Mr. VON MARBOD. At the present time I think that it is not proceeding as well as I would wish because we have been forced to cut back drastically on the financial support of that effort.

The Vietnamese Air Force is now being restructured, and I am trying to allocate more resources to the provision of training in the high skill areas.

Mr. ROBINSON. How many C–130's have we provided for the South Vietnamese and how many are presently operational.

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Mr. VON MARBOD. We provided 32; and there are 30 remaining, ———.

Mr. ROBINSON. General Graham, would you describe generally our intelligence gathering capacity regarding the Vietnamese situation today?

[The information is classified and was provided to the committee.]

General SITTON. Excuse me, if I might, Mr. Robinson, the discussion we had a moment ago concerns South Vietnam, not North Vietnam. I am not being evasive, but I want to be sure I am answering your question.

Mr. ROBINSON. ———.

General SITTON. ———.

Mr. ROBINSON. Thank you.

That is my final question and we can put it in the record if the General would care to.

Mr. SIKES. Off the record.

[Discussion off the record.]

Mr. SIKES. Mr. Kemp.

RECONNAISSANCE FLIGHTS

Mr. KEMP. Is any of that data gathered through reconnaissance flights provided to the South Vietnamese for their combat activities?

General SITTON. It is, sir.

Mr. KEMP. Mr. Chairman, are we going to get into more questions about reconnaissance?

Mr. SIKES. Mr. Addabbo has additional questions which he had planned, in the interest of time, to place in the record over his name. You can go into those questions at this point if you wish.

Mr. KEMP. Thank you Mr. Chairman. Is that practice a possible violation of the treaty that was signed in Paris?

General SITTON. No, sir, we do not interpret and our legal people do not interpret that unarmed reconnaissance flights are a violation of the Paris Accords.

Now you will recall, sir, that is everything except North Vietnam, it was written specifically so we could do reconnaissance to track whether they did or did not comply with their side of the agreement, except North Vietnam.

[Discussion off the record.]

Mr. KEMP. You have mentioned the practical aspects of this $300 million appropriation request.

Ambassador Habib, what other implications might this have with our allies, our treaty commitments and what might be the interpretation by Soviet Russia, China or North Vietnam of congressional action on this request of South Vietnam for another $300 million appropriation?

Mr. HABIB. I think if we do not fund the South Vietnamese adequately within the requirements of the situation, it would be not only read by Hanoi but it would also be read by the Soviet Union and China as a mark of our unwillingness to continue to support South Vietnam as we had obligated ourselves to do within the period of the agreement and immediately following the agreement.

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Mr. KEMP. And, it's your view that it would impede the chances of returning to formal negotiations between South Vietnam and North Vietnam?

Mr. HABIB. Yes, as I said in testimony the other day, I think that it would certainly favor those in Hanoi and elsewhere who would see value in continued military means, recourse to military means rather than a return to the terms of the agreement.

Mr. SIKES. Do you think a refusal by the United States to live up to the obligations that have been stated and anticipated that it would also be considered a green light for Communist aggression wherever it might be to their advantage?

Mr. HABIB. I would say, as I think I said at some length the other day, Mr. Chairman, it would put into question the willingness of the United States to act within the terms of the commitments, not only in that area, but elsewhere as well, yes.

SOUTH VIETNAM COMBAT TROOPS LOST SINCE PARIS PEACE TREATY

Mr. KEMP. How many combat troops has South Vietnam lost since the Paris Peace Treaty?

Mr. HABIB. Killed, something like 56,000 is the figure we have.

Mr. KEMP. This is a reflection that they are making an effort.

Mr. HABIB. I think the answer to some of the aspersions cast on their willingness is that somehow 56,000 of them were killed fighting.

Mr. KEMP. I would make the same point. It is the point I was trying to get at last week: That there were some successes in the sense that in juxtaposition with where that nation was several years ago, they are now carrying on combat activity, and fairly successfully. They have lasted 2 years without having lost more than the capital of Phuoc Long Province north of Saigon. I hope our Government will make a better public case. The South Vietnamese are making a good showing in their own defense.

Mr. VON MARBOD. In 1974 alone 29,925 South Vietnamese military men were killed in action. During that same period, another 110,323 were wounded in action.

Mr. KEMP. What type of encouragement or pressure are we putting on President Thieu to make some of the political and civil reforms that are necessary to win greater support among the indigenous population?

Mr. VON MARBOD. I know what you mean by pressure. The answer is that we are obviously interested in maximizing whatever degree of support he has. Nobody is more interested than he is in gaining support.

Mr. SIKES. We will have to take a brief recess so we can answer the quorum call.

[Brief recess.]

Mr. SIKES. Mr. Kemp, do you have any further questions?

Mr. KEMP. Off the record.

[Discussion off the record.]

Mr. KEMP. My last question is to Ambassador Habib.

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I guess that question will go again to this question of support for the Saigon government, because it seems to me that this question of any additional assistance to South Vietnam is going to be one way or another predicated on whether it is worthwhile to keep alive a regime that in the minds of many Americans has become associated with all of the negatives so often used in portraying the Thieu government.

My specific question is addressed to the recent attacks on the Saigon regime by many of the South Vietnamese people within the intellectual community who heretofore had at least participated in the elections—the opposition parties, the Buddhists, and some of the Catholics in South Vietnam. What is happening in South Vietnam, from a political standpoint, that can help convey to the American people and to the Congress a better idea of what this money is to be used for?

Mr. HABIB. At no point have these people argued fundamentally that they do not want to resist what North Vietnam is trying to do in South Vietnam. As I tried to point out the other day, there are more than 1 million men under arms in the south. If you count their families and the number of people with them, in the immediate circle, you are already getting up into substantial proportions of the population.

Mr. KEMP. Are those combat regional forces and popular forces?

Mr. HABIB. Total men under arms including the regular army, regional and populist, about 1 million men.

Mr. KEMP. What is the breakdown?

Mr. HABIB. I have the figures here, but I think Mr. von Marbod can give you that.

Mr. KEMP. What are the rough percentages?

Mr. HABIB. I think it is worth knowing what the structure is.

REPUBLIC OF VIETNAM FORCE STRUCTURE

Mr. VON MARBOD. There are currently 979,423 assigned personnel in the Republic of Vietnam force structure. This includes 177,075 regular combat troops, 289,421 regional forces, 193,658 popular forces and 218,425 support forces in the rear area. That totals 878,579 men.

There are also 61,147 Vietnamese Air Force personnel and 39,697 Vietnamese Navy personnel. That adds up to the 979,423 total force structure.

Mr. HABIB. Let me come back to your question because I think it is a very fundamental question.

The war in Vietnam is not between the people of South Vietnam and Nguyen Van Thieu or somebody up in Hanoi. This war was going on much before President Thieu was the President of South Vietnam.

I don't know what is going to happen when he comes up for reelection this year, whether he will win or lose. The United States is not supporting one individual as against another. We have made it clear from the beginning what our purpose is, and it has been restated again and again by the Secretary and by the President.

It is the most fundamental statement of the United States with respect to South Vietnam. It is that the United States supports the right of the people of South Vietnam to determine their own future.

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I will not sit here and deny that there are not restrictions upon the South Vietnamese people which we would not wish to see imposed upon ourselves. You have to recall the circumstances under which the war is being fought. You have to recall the problems that are faced under those circumstances. But I don't intend to, and it is not up to me, to defend every particular aspect of it.

Mr. SIKES. I notice that most of the people who criticize Thieu and his regime in Vietnam don't bother to tell us what conditions are like in North Vietnam. Some of the critics have been there also.

Mr. HABIB. I was about to come to that. I am glad you referred to it, Mr. Chairman. It seems to me that so little is known about North Vietnam because it is not an open society. We know a great deal about what goes on in South Vietnam, not simply because of our association with it, because it is much more open to scrutiny. Now, if you want to talk about suppression of freedom of the press, I can give you statistics on the number of newspapers in Saigon and how often they get closed down for writing something the Government doesn't like. But I can also give you the statistics of how many newspapers there are in Hanoi and who runs them. There is no opposition in North Vietnam because it is not permitted. There are no Buddhists able to protest the war because Buddhism is a farce in North Vietnam. They have rooted it out.

Mr. SIKES. I am trying to find out if there is a link in the stepup of attack against Thieu with the increased tempo of military attack.

Mr. HABIB. I don't think there is any question but that the opponents of Thieu——

Mr. KEMP. You have a Buddhist in my district in Buffalo, N.Y., conducting seminars on why no more money should go to Thieu. I want to know if there is a link.

Mr. HABIB. I wish he would conduct a seminar about Buddhism in North Vietnam for your constituents so they would find out what it is really like. On the other hand, the question that has been put to the committee in its judgment and wisdom is whether or not the people of South Vietnam will have the resources to defend themselves. It is not whether or not the United States supports any of the oppressive actions which may not occur in South Vietnam. I think the debate has been too often centered on the wrong things.

Mr. SIKES. Is there anything else?

Mr. Chappell, I believe you have some questions.

BIRD AIR INCORPORATED

Mr. CHAPPELL. Recent newspaper articles indicate that Bird & Sons, Inc., of Oakland, Calif., is under a $1.4 million contract to deliver military supplies from Thailand to Cambodia. Reportedly, this firm employs 72 pilots, navigators, and crewmembers who fly helicopters and C–130 aircraft. According to the article, the Bird firm has five C–130 aircraft flying about 10 flights a day from Thailand to Cambodia. Is this information essentially correct? If not, can you give us the details?

Mr. VON MARBOD. The contract with Bird Air Inc. was signed on the 28th of August 1974 for $1.65 million. The contract is exclusively for

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aircrew services to fly U.S. Government-furnished C–130 aircraft from Utapao Royal Thai Navy Air Force Base, Thailand, to Cambodia. As originally conceived, the contractor was scheduled to fly one mission per day which would land urgently needed supplies at Pochentong Air Base, Phnom Penh, and airdrop supplies to 3–4 enclaves. As a result of the interdiction of the Mekong River by Communist forces in early January 1975, the contracttor has been flying an average of 10 missions per day, and it may be necessary to further expand the contract if the Mekong remains interdicted. The contractor employs five C–130 aircrews and a small number of administrative personnel. There are no helicopter personnel. There are no helicopter operations associated with the contract. I notified the appropriate committees of Congress of our action on this contract on September 10, 1974.

Mr. CHAPPELL. Who employs the Bird firm, and what specific appropriation pays for this support?

Mr. VON MARBOD. The contract with Bird Air Inc. was negotiated by the U.S. Force. The U.S. Air Force pays the contract costs and is reimbursed by the Defense Security Assistance Agency from funds appropriated for military assistance to Cambodia.

Mr. CHAPPELL. Section 839 of the fiscal year 1975 DOD Appropriation Act prohibits the use of any funds in that act to finance directly or indirectly combat activities by U.S. military forces in or over or from off the shores of North and South Vietnam, Laos, or Cambodia. Similar language was placed in the fiscal year 1975 continuing resolution which covers military assistance. The intent of the Congress is clear. Do you believe that the use of U.S. dollars for the employment of a private U.S. firm to provide support to combat operations in Cambodia, as opposed to the use of U.S. Forces for that purpose, is in violation of the spirit and intent of the congressional limitations I have just cited?

Mr. VON MARBOD. While section 839 pertains solely to U.S. military forces vis-a-vis civilian contractors, your question is an important one in that there is an implication of violation of the intent of Congress. Secretary Schlesinger responded, with the concurrence of Secretary Kissinger, to this language in a directive to the Department which spelled out explicitly the parameters with respect to Section 839. The ceasing of all combat activities of U.S. Forces in Indochina did not proscribe the continuance of military assistance and humanitarian operations, the definition of which included "noncombat flights to deliver military assistance and humanitarian supplies to territory controlled by the duly constituted Government * * * of Cambodia * * *."

Mr. CHAPPELL. How long have we had contracts with the Bird firm and how much have we obligated for this purpose each fiscal year?

Mr. VON MARBOD. This contract, which was signed August 24, 1974, is the only contract the Department of Defense has with Bird Air Inc. The full value of the contract was obligated at the time the contract was signed and was intended to provide services for fiscal year 1975. As a result of the increase in airlift requirements, the funds will be expended prior to the end of this fiscal year.

Mr. CHAPPELL. Are these obligations charged against the fiscal year 1974 limitations of the continuing resolution as it relates to Cambodia?

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Mr. VON MARBOD. Yes, they are.

Mr. CHAPPELL. Does this contract supplant the congressional limitation of 200 military personnel in Cambodia?

Mr. VON MARBOD. No, it does not. The contract aircrews live in Thailand and remain in Cambodia only for the short period of time required to offload the aircraft. There is no statutory limitation on the number of personnel who may support the transportation of supplies to Cambodia provided they do not remain in Cambodia.

Mr. CHAPPELL. How much is budgeted in fiscal year 1976 for this contract effort?

Mr. VON MARBOD. At this time no funds have been programed or budgeted for fiscal year 1976 for this service. We have taken expedited action to provide the Khmer Air Force with additional C–123 aircraft to replace the C–130 requirement as soon as possible.

Mr. CHAPPELL. Where did the Bird firm receive the C–130 aircraft and helicopters; how many of each does the firm have; and what price did they pay for each?

Mr. VON MARBOD. There are no helicopters being provided. The C–130 aircraft are provided to the contractor as Government-furnished equipment and are in possession of the contractor only during the period of the mission. The military assistance program is charged for operating and maintenance costs which the U.S. Air Force incurs in maintaining the aircraft and providing fuel and spare parts.

Mr. CHAPPELL. If the C–130's and helicopters were sold by the U.S. Government to the Bird company, do we now have a requirement to buy new C–130 aircraft and helicopters for our Active or Reserve forces to replace those sold to the contractor?

Mr. VON MARBOD. The C–130 aircraft remain in the U.S. Air Force inventory and replacements are not required.

AMMUNITION PROVIDED TO CAMBODIA

Mr. CHAPPELL. Mr. von Marbod, a fact sheet presented to our staff by your office indicates that Cambodia receives approximately 40 percent of its ammunition from Thailand storage facilities. What are these ammunition stocks and what is the origin of these stocks?

Mr. VON MARBOD. Ammunition provided as military assistance to Cambodia is purchased from the U.S. Army and shipped from continental United States depots to either Thailand or the Port of Vung Tau in Vietnam for transshipment by sea, river, or overland to depots in Cambodia. The military assistance program to Cambodia is charged for all packing, crating, handling and transportation costs. There are many types of ammunition being provided and costs vary by type and time of purchase.

Mr. CHAPPELL. As these drawdowns are made, must they be replaced?

Mr. VON MARBOD. Rarely has it been necessary to draw upon U.S. ammunition stocks in Thailand for Cambodia. The only time this is done is when an unforeseen requirement arises or when a shipment is delayed. In either case the ammunition is replaced in kind at current prices and with packing, crating, handling and transportation charged to the military assistance program for Cambodia.

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Mr. CHAPPELL. How do you assign a dollar value to these stock drawdowns, replacement value or what?

Mr. VON MARBOD. Full current costs are charged, regardless of the age or condition of the ammunition.

Mr. CHAPPELL. Where does Camobdia receive the remaining 60 percent of its ammunition requirements?

Mr. VON MARBOD. The remaining 60 percent is shipped from continental United States depots to Vung Tau where it is transshipped to Phnom Penh by barge.

Mr. CHAPPELL. The fact sheet provided to the staff also indicates that fiscal year 1975 Cambodia funding for ammunition was $146.7 million for 64,911 short tons. As of December 31, 1974, 64,047 short tons having a value of $144.5 million had been shipped. Do these figures include the stock drawdowns from Thailand?

Mr. VON MARBOD. The fact sheet provided indicated that $146.7 million had been funded through December 31. The ammunition program of $173.2 million includes the $75 million in drawdown authority.

Mr. CHAPPELL. As of December 31, 1974, you have $28.7 million remaining to fund ammunition for Cambodia for the remaining 6 months of this fiscal year. What will you do when this money runs out?

Mr. VON MARBOD. The only alternatives are to seek additional appropriations from Congress or discontinue military assistance to Cambodia.

Mr. CHAPPELL. All surface shipments to Phnom Penh are by barges which are loaded in the vicinity of Vung Tau, South Vietnam. How is the ammunition transshipped from Thailand to South Vietnam?

Mr. VON MARBOD. Ammunition is shipped from Thailand to Vung Tau, South Vietnam by deep draft vessel.

Mr. CHAPPELL. What does this cost per year and in what specific appropriation is it funded?

Mr. VON MARBOD. Based upon 2 deliveries per month, the annual cost would approximate $2.1 million for transportation and this expense would be funded by the Cambodian MAP.

Mr. CHAPPELL. How much does it cost to barge military supplies from Vung Tau, South Vietnam, up the Mekong River to Phnom Penh? If this is a contractor effort, how is it financed?

Mr. VON MARBOD. Using the first 6 months as a guide, the annual tug and barge contract funded by the Cambodian MAP approximate $18.4 million.

Mr. CHAPPELL. Does the South Vietnamese brown water Navy provide escort part way for these barge shipments up the Mekong River? If so, how is this effort financed and against what program is it charged?

Mr. VON MARBOD. The South Vietnamese Navy does provide escort for supply barges from Vung Tau to the Cambodia border. However, there are no costs charged to the Military Assistance Program for Cambodia or Defense Assistance to Vietnam. This is considered to be essential regional cooperation in the interest of both countries against a common enemy.

Mr. CHAPPELL. There was a news report in recent days indicating that the South Vietnamese Air Force was providing air support for these barge shipments. Is this correct?

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Mr. VON MARBOD. Air support is provided solely by the Khmer Air Force when the convoy is in Cambodian territorial waters.

Mr. FLOOD. Mr. Secretary, I was all through this. Has anybody at any time, any place, anywhere, drawn any analogy between this situation and Korea?

Mr. HABIB. There have been different analogies drawn, yes, sir.

For example, I can recall in the early days when people talked about whether Vietnamization was feasible, whether you could get the people to be prepared to take care of their own military requirements and they would not require American forces.

Mr. FLOOD. You see what I am driving at. I have been there with Turks, Greeks, with all kinds of troops in Korea, which is a pretty close analogy. What are we doing here?

I went over on a transport with a Turk and Greek infantry unit in the same boat, and had a brawl—hard to believe. But is there any analogy at all here?

Why is this a one-man show? If this thing is what we say it is, vis-a-vis the world, communism, and so on, have we ever asked anybody else: Why don't you fellows take a piece of this?

Mr. HABIB. We did. In the 1960's, as you will recall, there was substantial other involvement in South Vietnam. You had two Korean infantry divisions and an Australian regiment, some New Zealand batteries, you had a Thai division, Filipino forces; you had a whole sort of mixture in there.

Mr. FLOOD. Quite a close analogy to Korea.

Mr. HABIB. Not quite the same, because remember, in the case of Korea you had a United Nations resolution. So there was a difference. There was a recognition of sort of a common purpose.

Mr. FLOOD. Why was there not a United Nations resolution vis-a-vis Vietnam?

Mr. HABIB. You will recall in the 1950's the Russians were not present at the time that the resolution was passed in the Security Council.

Mr. FLOOD. I recall. Being a minority is not peculiar to the Soviets.

Mr. HABIB. No; but at that time they were not able to veto the resolution. The United Nations was never able to get to wrestle with the situation in South Vietnam.

Mr. SIKES. The UN has deteriorated in influence and importance in 10 years. I doubt they would have taken realistic action.

Mr. ADDABBO. [Off the record.]

Mr. ADDABBO. What party are we to the agreement?

Mr. HABIB. We are a signatory, formal signatory.

Mr. ADDABBO. If the agreement is violated, what obligation, legal obligation, not moral obligation, what legal obligation does the United States have?

Mr. HABIB. The United States has the following legal obligations under the treaty or if it is violated; if it is violated?

Mr. SIKES. If it is violated.

Mr. HABIB. Well, the presumption would be that the United States would then have to determine what measures it takes in response to that violation. I do not know how you would characterize it as a legal obligation; I think it is an obligation of foreign policy to see

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that you know whether somebody has done something contrary to what you have agreed to.

Mr. ADDABBO. In other words, we can go back and start fighting?

Mr. HABIB. No, sir; I think that has been adequately covered this morning. Quite obviously the administration looks upon that particular question as one that will only be taken up with the approval and consent of Congress. But technically and legally, if one side violates an agreement under the International Convention, which rules the observance of agreements, the other side is no longer bound by the agreement. You are correct in international law, yes, sir.

Mr. SIKES. Mr. Secretary, you mentioned that the costs are being charged to our general budget. Can you give the committee, or supply for the record, the total cost of our aerial reconnaissance for the last year?

Mr. VON MARBOD. Mr. Sikes, to be fully responsive to your request, it will be necessary to delve into classified matters and I will be happy to provide the committee the cost data for aerial reconnaissance in separate correspondence.

Mr. ADDABBO. Mr. Secretary, will you also supply to the committee and for the record—you alluded to it in our discussion previously—a list of the items and their dollar value which have been expected to be or will be deobligated from previously being charged to the $700 million?

Mr. VON MARBOD. I will do that, Mr. Addabbo.

[The information follows:]

The following Vietnam organizational elements of the U.S. Department of Defense are not being charged to the Defense Assistance, Vietnam appropriation:

Organization:	*Fiscal year 1975 estimated dollar value (thousands)*
Embassy attaché element	380
Defense Department Audit Office	535
Defense Contract Audit Agency	195
Defense Property Disposal Office	2,100
Joint Casualty Resolution Center, Vietnam Liaison Office	410
Four-Party Joint Military Team	630
Army/Air Force Exchange Service	220

Mr. ADDABBO. Thank you.

Mr. SIKES. Mr. Vander Schaaf?

Mr. VANDER SCHAAF. I would like to address this question to the Secretary.

Earlier in these hearings you commented at some length about the impact our nonsupport of Vietnam or how our continued nonsupport would affect that area of the world, particularly Singapore, the Philippines, Thailand, et cetera.

I think there is some likelihood that the South Vietnamese may not be successful even if we continue to provide our support to them.

My question is this: Is there a likelihood that we may be betting on a loser, so to speak. In the process of doing that, what are we doing to our European allies and other allies who are going to look at us and say, "These Americans, you know, they just can't seem to see a bad bet when they have one."?

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Could this happen in 1 year or 2, or 3 years from now? I do not know when but if the situation continues to deteriorate, when would our European allies put pressure on us to get out?

Mr. HABIB. I think first we have to start off with the premise, we believe, that provided with adequate resources it will not be going in that direction. One does not start a policy because he thinks it is going to be a loser. What you are saying is, have you taken into account the contingency that you might lose, that it might be a losing bet or however you want to call it. I do not know. One takes into account all contingencies. The answer would be in terms of the reaction of our allies, I think their general feeling would be that if South Vietnam went down because of South Vietnam's inability to defend itself, that is one thing. But if South Vietnam were to go down because the United States would not provide them the means to defend themselves—given the fact that we have told people that if you prepare to defend yourself we will help you, given the fact that we have an agreement which was an implicit obligation to provide them with the means to defend themselves, given the statements of the responsible leaders of the U.S. Government that we would continue to do so—if we did not supply South Vietnam, then I think the question could legitimately be asked by our allies as to whether or not our commitment has meaning to it.

But if we provide the means and they go down, no one is going to blame us.

Mr. VANDER SCHAAF. But at some point——

Mr. HABIB. At some point you have to make a determination. At this point in time—I know of no one inside the administration who has any different opinion in this regard—it is our clear determination that, given the means, the South Vietnamese will be able to defend themselves. They demonstrated that over the period of the last 2 years.

Mr. VANDER SCHAAF. Let me go one step further.

I think you have to look at what the war in Vietnam has done to support for our Department of Defense and our overall national security.

Mr. HABIB. Yes, sir.

Mr. VANDER SCHAAF. What I am asking is, will continued support of Vietnam, for another 2 or 3 years place further pressure upon U.S. military forces by eroding their base of support, causing our allies to view this country as moving further and further away from maintaining a strong defense posture?

Is this standing up for South Vietnam thereby causing us far more harm than anything we could possibly gain from it?

Mr. HABIB. I would say at this stage it is quite clear that our unwillingness to stand up for South Vietnam in resource terms will be more detrimental to our allies' view of the constancy of the United States than anything else I can think of with regard to Vietnam.

Now if you want to run the hypothesis out to some extreme, you could come to any conclusion you wish. But in terms of the decisions that we are asking the Congress and the committee to make as of today, and as of the forthcoming fiscal year's budget, I have no question but that the administration's decision will not create any ques-

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tions as to the constancy of the U.S. commitments among our allies, whether in Asia or elsewhere.

General GRAHAM. Might I interject something there?

Mr. SIKES. Go ahead.

General GRAHAM. One of the underlying premises seems to be what kind of a fighting force are you giving $300 million to? I would like to read from a recent report, from U.S. observers in the field, about what kind of people you are supporting with your $300 million.

These are examples to portray the GVN forces fighting with intelligence and courage. They bear out that ARVN can stand up to the NVA VC and has been doing so countrywide and acquitting itself well.

One particularly dramatic example of various RVNAF performance, albeit perhaps starker because in a losing battle, exemplifies graphically the raw courage of which GVN forces are capable.

In the battle for Song Be—Phuoc Binh—the capital city of Phuoc Long Province, which fell to Communist forces on January 6, heavy Communist armor was utilized. It has been estimated that 35 NVA tanks took part in this battle. GVN forces are known to have destroyed at least 17 of them. Much of this result is attributable to the incredible bravery of individual soldiers who, carrying their M–72 light antitank weapons, moved into position literally 10, or 10's of meters from the advancing tanks before firing.

And there are a large number of other examples of how well these people will fight given the means to fight with. I think this——

Mr. KEMP. I asked a question last week: Whether there were any success stories that we might use to portray a better understanding of what these people do under the agreement that is permissible and is an appropriate use of the additional military aid with which we would provide them. I wish these uses could be made more public.

I do not think it should be part of the executive session alone. It is something the American people need to know. That we are not throwing money away. That it is not just going down a rathole. That it will help them defend against Communist aggression.

Why make and keep it secret?

Mr. HABIB. These are not points that are privileged. They have been made public, in fact.

Mr. KEMP. Do you agree with me?

Mr. HABIB. It just happens to come up in executive session. This is not privileged information.

Mr. KEMP. Do you not think it would be helpful to publicize this?

Mr. HABIB. As a matter of fact, we do everything we can to urge the Vietnamese to make sure that this information is known as well as, of course, including it in our expositions with regard to why we should support them, to make clear that we are not necessarily supporting a loser. I think that is something that people have to be convinced of.

But first of all, I would like to convince this committee of it.

Mr. VON MARBOD. I have visited the combat units in the field, and I have gone into the aid stations where they bring in the young soldiers who have been shot in the stomach, maimed and killed. There is very dramatic evidence of their bravery and their willingness to fight.

Mr. HABIB. And sometimes they will not, just like anybody else.

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Mr. KEMP. I remember asking the question last week and at that time being told there were no pluses that we could identify.

Mr. HABIB. For 2 years they have managed to fight the war on their own. Some good has gone on.

Mr. KEMP. That is my point. I think we ought to hear it, and hear it for the record.

Mr. HABIB. I think we did to a certain extent, but you are right. But the record will be declassified. With the exception of a few sentences, I would think most of the record today clearly is unclassified.

General GRAHAM. If you so desire, there are a number of examples, we will not read them all, but we will put this report from the field into the record.

Mr. KEMP. I would make that request.

[The information follows:]

The following combat examples were contained in message No. 1236 from the U.S. Embassy, Saigon. The message was edited only to remove transmission markings and clarify where necessary. The incidents described were selected from all four military regions (MR's) and provide positive evidence that South Vietnamese military units are capable of determined, successful defensive and counteroffensive military actions against significant Communist forces. They represent only a fraction of the numerous combat actions that have occurred since the January 1973 cease-fire and in which the RVNAF have peformed with tenacity and courage.

1. Examples of effective RVNAF performance are contained in the paragraphs below. These examples portray GVN forces fighting with intelligence and courage. They bear out that RVNAF can stand up to the NVA/VC, and has been doing so countrywide—acquitting itself well. One particularly dramatic example of valorous RVNAF performance, albeit perhaps starker because it occurred in a losing battle, exemplifies graphically the raw courage of which GVN forces are capable. In the battle for Phuoc Binh, the capital city of Phuoc Long Province, which fell to Communist forces on Jannary 6, heavy Communist armor was utilized. It has been estimated that 35 NVA tanks took part in this battle. GVN forces destroyed at least 17 of them. Much of this result is attributable to the incredible bravery of individual soldiers who, carrying their M–72 light antitank weapons, moved into positions extremely close to the advancing tanks before firing.

2. Described below are some examples of valorous and effective performance on the part of RVNAF in MR–1.

(*a*) *The retaking of Mo Tau Mountain.*—On December 11, after a long-fought, carefully planned effort, ARVN retook Mo Tau Mountain, which provides an important observation point south of Hue. Between September 27 and 30, NVA/VC forces drove ARVN defenders off the mountain in a series of brief but overwhelming attacks. Within a day of the loss of the mountain, Phu Bai Airfield, which serves Hue and is the major airstrip in MR–1 north of the Hai Van Pass, was closed by NVA/VC fire. The NVA/VC quickly reinforced their position on the mountain while the GVN forces began a campaign to retake the area, a task which was entrusted to elements of the 1st ARVN Infantry Division and the 15th Ranger Group. The mountain at that time was occupied by four enemy battalions. The final phase of the campaign to dislodge the NVA/VC forces began on December 2 and was coordinated with artillery fire and air strikes. It was completed on December 11 when ARVN regained the entire Mo Tau Mountain complex. On that day, the men of the 2d Battalion of the 54th Infantry Regiment were in almost constant contact with the NVA/VC on the southwest slope, but the battalion suffered only one killed (KIA) and five wounded (WIA), while NVA/VC losses were 22 KIA. The 1st Battalion of the 54th Regiment cleared the entire summit of Mo Tau with no losses. Meanwhile, elements of the 15th Ranger Group, which had attacked Mo tau from another direction, met Communist 82-mm mortar fire. The courageous fighting of ARVN soldiers of the 1st Division, careful planning, and support provided by artillery and air strikes of the Vietnamese Air Force reconquered an important objective and reestablished sufficient security in the area to permit the reopening of Phu Bai Airfield to military traffic.

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(*b*) The following are two routine but significant combat entires extracted from the 1st Corps Headquarters Tactical Operations Center log on the dates indicated. They are examples of the fighting spirit and determination of one of the ARVN ranger battalions assigned responsibility for defending Mo tau Mountain, which had been used by the NVA/VC as a fire-control observation post for adjusting artillery fire on Phu Bai Airfield, depots, training camps, Highway 1, and other targets in the lowlands. At 1600 hours, January 7, 1975, the NVA/VC attacked the 3d Company, 61st Ranger Battalion, with a ground assault and 50 rounds of 82-mm mortar at a point 1½ miles southeast of Mo Tau Mountain. After heavy fighting, it was determined that the rangers had suffered four WIA, while the NVA/VC had 25 men KIA. The government (GVN) troops captured one 82-mm mortar, one 12.7-mm machinegun, four small arms, and one Chicom telephone. At 1540 hours, January 12, 1975, an element of the 61st Ranger Battalion again had contact with a superior NVA/VC force at a point three kilometers southeast of Mo Tau Mountain. In this engagement, the rangers suffered four WIA while killing 13 of the NVA/VC and capturing two B40 rocket launchers, one M–16 rifle, and one M–79 grenade launcher.

(*c*) *The retaking of Hill 121.*—On January 16, 1975, the 1st Corps Headquarters Tactical Operations Center log contained the following item which is another example of the determination and fighting spirit that is being displayed daily by ARVN soldiers in MR–1. Between 1400 and 2300 hours on January 15, one and one-half miles southeast of Bong Mountain in Thua Thien Province, the 3d Company, 1st Battalion, 1st Infantry Regiment, 1st ARVN Infantry Division, undertook a successful effort to regain Hill 121 overlooking Highway 1, the vital land link between Da Nang and Hue. The hill and adjacent high ground had been seized by Communist forces in August 1974. In the January 15 clash, the ARVN company engaged NVA forces believed to be members of the 7th Battalion, 271st Infantry Regiment, 324B NVA Division. The GVN troops met stiff resistance from a well-entrenched NVA force, which included over 300 rounds of 82- and 60-mm mortar fire. Despite this determined opposition, the GVN soldiers pressed their assault and regained the hill. Three GVN soldiers were KIA and seven were WIA. The NVA/VC losses were 27 KIA and four captured. Three of the latter later died of their wounds. This is but a small part of the continuing battle that is being waged daily in an attempt to dislodge the Communists from the strategic high ground overlooking Highway 1 north of the Hai Van Pass, which they seized in their 1974 summer-fall campaign.

d. The retaking of the Bong Mountain area.—On January 17, 1975, after a short, intense, but carefully planned and coordinated campaign, ARVN troops of the 1st Infantry Division regained the crests of five hills which are the dominating terrain in the Bong Mountain area south of Hue. The 1st Division units, operating in heavy rain, displayed excellent morale and fighting spirit in dislodging NVA/VC units from territory they had seized in August 1974. On August 28 and 29, 1974, the NVA/VC had initiated heavy ground attacks and intensive artillery and rocket attacks against 1st Division units in the Bong Mountain area. Control of the high ground passed to the NVA/VC who immediately began using it as an observation point overlooking Phu Bai, the airfield serving Hue and Highway 1. They dug in and began to store ammunition and food to carry out an extended defense of this strategic position. Throughout the next 4½ months, elements of the ARVN 1st Infantry Division were involved in a campaign to retake the high ground in this area. It was a slow, difficult process, carried out with a view to minimizing expenditure of artillery. On December 11, 1st Division elements dislodged the NVA/VC from Mo Tau Mountain to the north. Subsequently, the effort to retake Bong Mountain and its adjacent crests intensified. The first significant action there began on January 15 as discussed in paragraph *c*. On January 16 and 17, the 3d Company, 1st Battalion, 1st Regiment, fought for, and won, control of Hill 224 1 mile south of Bong Mountain. On January 17, the 2d and 4th Companies, 2d Battalion, 1st Regiment, regained control of Bong Mountain itself, and of Nghe Mountain located 1 kilometer southeast of Bong. Also on the 17th, the 1st Company, 2d Battalion, 3d Regiment, recaptured Hill 50, 1½ miles southwest of Bong Mountain. With these actions, all of the crests in the immediate area of Bong Mountain once again came under RVNAF control.

e. Contributing greatly to the success of recent actions in MR–1 has been the careful planning based on detailed air and ground observation which made it possible to pinpoint objectives for coordinated assaults. On the battlefield, in

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addition to the determination and spirit displayed by the individual infantry soldiers in these actions, credit must be given to artillery units which, in some cases, moved to within 800 meters of some NVA strongpoints and contributed substantially to the success of the RVNAF attacks.

f. Reacting to intelligence that NVA/VC cadre were to travel to lowland areas of Quang Nam to disseminate operational plans, on the night of January 12–13, the ARVN 3d Division placed a six-man ambush patrol from the 3d Reconnaissance Company, led by a Master Sergeant Pham Hai, on an infiltration route 17 miles south of Da Nang. At 0600, January 13, a group of 60 NVA/VC cadre and soldiers entered the ambush area, whereupon Sergeant Hai opened fire and called in artillery, reportedly completely confusing the enemy's main body. Results reported were: NVA/VC—12 KIA, 3 captured. Weapons captured included five AK–47 assault rifles, two K–54 pistols, one M–63 submachinegun, and one .30-caliber light machinegun. Also captured were documents with instructions concerning the NVA/VC dry season campaign. The ARVN patrol suffered no casualties.

3. This paragraph contains some examples of effective RVNAF performance in MR–2. We have many examples of effective RVNAF performance there, but one of the most dramatic took place during the battle for Phu Cat Airbase on May 17, 1974. In fact, the final outcome of the Communist drive, which failed and left one battalion and part of another completely combat ineffective, may well have been different had it not been for the heroic action described below. In the early morning hours of May 17, elements of the 2d Regiment, NVA 3d Division, launched a heavy attack against the Phu Cat Airbase in Binh Dinh Province. The attack was part of the provincewide offensive and its aim was to neutralize the base so that Communist troops driving against other objectives in the province would not have to contend with South Vietnamese air power. The initial action did not go well for the South Vietnamese. Several outposts guarding the approaches to the base were overwhelmed and eventually the Communist forces, undercover of heavy mortar and machine gun fire, succeeded in taking Hill 151, which is only 1,500 meters northwest of the runway and overlooks the entire airbase. The NVA forces brought with them an 82 mm recoilless rifle—a very accurate, flat trajectory weapon capable of destroying all of the aircraft, ammunition, and fuel on the base. Had they been able to dig in and use this weapon, the base would have come under direct fire and, probably, could not have been used. The nearest other air support was at Pleiku, more than 70 miles away. It was at this point in the action that the 108th Regional Force (RF) Reconnaissance Company and reconnaissance elements of the 263d RF Battalion rallied, charged back up Hill 151 and wrestled it from NVA control. The action was the turning point of the battle and from that point on the Communist forces were in trouble. South Vietnamese aircraft supporting infantry units were able in the next few days to drive all NVA forces far enough away from Phu Cat Airbase so that only an occasional inaccurate rocket could reach it. The 2d Battalion, 2d Regiment of the NVA 3d Division was decimated and declared combat ineffective as a result of this action and the NVA 16th Antiaircraft Battalion suffered the same fate. If the 108th and 263d RF Battalions had not charged Hill 151 and retaken it before the Communist forces had time to get their 82 mm recoilless rifle dug in and operational, the outcome might well have been very different.

a. Thanh An operation.—Between November 29 and December 16, 1974, the 23d ARVN Division and the 25th Ranger Group carried out a highly successful spoiling operation in the vicinity of Thanh An, Pleiku Province. The operation was prompted by the fact that intelligence had been gathered by the GVN indicating that the Communists intended to strike a major blow at Thanh An in December. Accordingly, Major General Phan Van Phu, II Corps Commander, ordered that a sweep in the vicinity of Thanh An be conducted by the 23d Division in coordination with the 25th Ranger Group. During the sweep, which was spearheaded by the 45th and 53d ARVN Regiments, 239 Communists were reported KIA, while the ARVN suffered 18 KIA, 37 WIA, and 14 MIA. In addition, the ARVN captured one Communist soldier, 17 crew-served weapons, 63 individual weapons, two Chicom telephones, and large amounts of ammunition and documents. This sweep evidently preempted the anticipated Communist attack on Thanh An—indeed, since this ARVN operation, no substantial main-force attacks have been mounted by the Communists in Pleiku.

b. The mouth of the An Lao Valley.—Following more than 2 months of heavy fighting, which began in mid-May 1974 when Communist forces launched a new

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offensive in Binh Dinh Province, the GVN, on August 10, mounted a counteroffensive against elements of the NVA 3d Division guarding the entrance to the An Lao Valley in the northern part of the province. The An Lao Valley has long been a Communist stronghold and serves as a major supply corridor for NVA and VC forces operating elsewhere in the province. Consequently, it was well defended and any attacking force which threatened the Communist supply lines running out of the valley had to expect determined resistance from an enemy fighting from prepared positions on the high ground and well supported by artillery and mortar fire.

The GVN objective, of course, was to wrest this high ground from the communists so that they would dominate the entrance to the valley below and be able to block the movement of supplies out of it. The initial thrusts into the area by the 47th Regiment, ARVN 22d Division, were cautious and progress was slow. Other GVN counteroffensives were taking place further to the south and southeast and the 141st Regiment, NVA 3d Division, was, as expected, putting up stiff resistance. One obstacle that stood in ARVN's way was Cheo Mountain, a small but heavily defended communist-occupied mountain.

GVN troops succeeded in occupying the summit of Cheo Mountain briefly on September 9 before being driven off by heavy communist mortar and artillery fire. Casualties on both sides were heavy. Shortly before this battle, the Joint General Staff in Saigon had issued an order severely restricting the use of aircraft and artillery and this decision undoubtedly affected the progress of the campaign. Nevertheless, the 47th ARVN Regiment maintained its pressure against the 141st, which was at that time considered to be the NVA 3d Division's strongest regiment. Now, assisted by two ranger battalions, the 47th continued attacks against Cheo Mountain and simultaneously pushed north of the mountain in a by-pass attempt. The 141st NVA Regiment reacted savagely to these probes but sustained heavy losses. In retribution, they began subjecting Bong Son Town, located near Route 1, to long-range artillery fire. Several civilians were killed and many houses were destroyed. In early October, the 47th ARVN Regiment was withdrawn, leaving the 4th Ranger Group to continue the campaign.

Shortly thereafter however, the 41st Regiment, 22d Division, joined the fray and, in a surprise move on October 16, crossed the mountain range east of the An Lao Valley, interdicted the communist supply route, and blew up a bridge. They then withdrew to positions where they successfully resisted efforts by the 141st NVA to dislodge them. Not only was the ARVN 41st able to cut the NVA/VC supply route, but they also were able to maintain a position in the valley which threatened to permanently cut off the flow of communist supplies from the north. It should be noted that this was the first time since 1971 that noncommunist forces had been in the valley and the first time since 1964 that an ARVN force, unsupported by allied troops, had been there. Unfortunately, Bong Son Town still was within communist artillery range and South Vietnamese civilians continued to be wounded and die there.

Intense efforts by the NVA 141st to dislodge the ARVN 41st continued over the next several weeks, but they were not successful and cost the communist forces dearly. The continued interdiction of their major supply line from the valley was obviously beginning to hurt. Meanwhile, the ARVN 41st and the 6th Ranger Group (which had replaced the 4th) gradually began to expand their control. In late November and early December, the 4th and 6th Ranger Groups were transferred to the highlands but the ARVN 40th Regiment, 22d Division, was transferred back to Binh Dinh and two battalions of the 40th joined the 41st at the mouth of the An Lao Valley. Shortly thereafter, the ARVN 42d replaced the 41st on the line and the NVA reinforced their 141st with elements of their 12th Regiment. As the year ended, the opposing forces could look back upon nearly 5 months in which elements of General Phan Dinh Niem's 22d Division had gradually but surely expanded and strengthened their positions, successfully resisting all efforts by communist forces to dislodge them.

The first 2 weeks of 1975 saw renewed heavy fighting as the NVA 12th and 141st Regiments made what appeared to be an all-out effort to drive the ARVN 40th and 42d Regiments from their commanding positions on both sides of the mouth of the An Lao Valley. At the same time, the ARVN forces, while resisting violent assaults by Communist troops, expanded their own holdings and won additional commanding positions on high ground, especially Cheo Mountain. Government victory was in sight and the local civilian population from Bong Son felt it. During lulls in the fighting, women and young girls from the town bearing food and water made their way to the front lines to resupply the soldiers. By mid-

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January, it was apparent that General Niem's 22d Division had won the battle. Communist casualties were very high, with at least two battalions of the NVA 141st rendered completely combat ineffective and with heavy losses in the 12th Regiment as well. To celebrate the victory, II Corps commander, Maj. Gen. Pham Van Phu, arrived in Bong Son to congratulate the troops and present them with well-deserved decorations. An impromptu parade took place with the battlefield heroes marching down the main street of Bong Son hand-in-hand with young high school girls who had garlanded them with flowers. Everything—the carrying of supplies by the ladies of Bong Son, the medal ceremony and the "flower parade"—was filmed for television. General Niem has reason to be proud of his 22d Division, all four regiments of which participated at one time or another in the long, bloody but successful campaign for control of the mouth of the An Lao Valley.

c. The battle of Plei Me.—Between August 4 and September 2, 1974, four companies of the 82d Ranger Battalion held Camp Plei Me in southern Pleiku Province against unrelenting pressure by elements of the 48th and 64th NVA Regiments. The battle began on August 4 when an NVA force of about two companies attacked the 1st Company of the 82d Battalion, forcing them to withdraw into Plei Me Camp. Subsequently, on August 10 and 15, respectively, the Communists forced the GVN forces from their outposts at Chu Ho and Hill 509. But the real Communist objective was the taking of Plei Me Camp itself. Repeated attacks were made against the camp throughout August.

The highwater mark of the Communist thrusts came on August 29, when NVA troops broke into the inner defenses of the camp—only to be completely stymied by the defenders, who utilized mines and small arms, to include massive M–79 grenade fire. By September 2, the tide of the battle had been effectively turned. The 1st and 3d Battalions of the 53d Regiment arrived at a position northeast of Plei Me, relieving pressure on the camp; and the defenders successfully broke out, reoccupying the outpost at Chu Ho. The battle at Plei Me severely tested the mettle of GVN troops. The rangers suffered from lack of food and water, because, for long periods, no outside supplies reached the camp. The troops ate only previously stored rice, and drank only rain water; they lived in flooded communication trenches, from which many soldiers contracted scabies. Most tellingly of all, they withstood 10,000 rounds of Communist artillery fire and 20 Communist ground attacks, killing 324 NVA soldiers in the process. On September 10, a ceremony was held at the Pleiku sports stadium to welcome the 82d Ranger Battalion after their victory at Plei Me. Approximately 3,000 people attended the ceremony.

A representative of the provincial government gave a speech in which he thanked the 82d for their brave defense of Pleiku. After the ceremonies, many local merchants invited members of the battalion to their homes or businesses for lunch, and the local theater gave a free showing for the troops. Subsequently, many of the rangers received decorations and promotions for their battlefield valor from the commanding general of II Corps.

4. Examples of effective RVNAF performance in MR–3 are described in this paragraph. The most inspiring personal performance by a member of ARVN during the recent fighting in MR–3 was that of aspirant Huynh Dinh Cam, who received a promotion to 2d lieutenant and a decoration for his actions. He singlehandedly held the Phuoc Hoi Sub-subsector against Communist attack for 3 days. On December 7, 1974, aspirant Cam was the deputy sub-subsector commander at Phuoc Hoi village, in command of 30 popular forces, national police, and rural development cadre.

A Communist unit, estimated at battalion size by Lieutenant Cam, attacked the sub-subsector. Cam and his men repulsed the attack, killing at least 18, and taking 2 prisoners who later were identified as members of the 101st NVA Independent Regiment. During the first 4 days, Cam reports he sent 15 of his force outside the outpost to patrol and get food. He reports that on the fifth day (December 11), he sent the remaining 15 out to link up with the other 15 to find and destroy the NVA/VC battalion command post. (Comment: This force reported to Ninh An Village on the outskirts of Tay Ninh later that day, claiming to have destroyed the battalion headquarters. There is considerable suspicion in Tay Ninh that they in fact deserted Cam, but he says this is untrue. End Comment.)

During the next 3 days, Cam fought off five NVA/VC attacks, using mortar, machineguns, and rifle fire, as well as hand grenades in an attempt to convince

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the Communists the post was fully manned. He was finally relieved by elements of the 25th ARVN Division at 1700 hours on December 13. During the entire period, in addition to his determined defense of his post, Cam insured that his two prisoners were cared for, sharing his rations and cigarettes with them. The ration situation at the post was so severe near the end of the siege that Cam was forced to kill the animals (a dog, a dove, and a fighting cock) at the post to feed himself and his prisoners. 2d Lt. Huynh Dinh Cam was born March 1, 1947 in Quang Nam. He joined the army April 19, 1965. He graduated from special officer training at the Nha Trang NCO Training Center in 1971 with the rank of aspirant. He was assigned as deputy sub-subsector commander at Phuoc Hoi village on April 1, 1974 following attendance at the sub-subsector course at Van Kiep.

5. In MR–4, the following are three recent examples of particularly effective RVNAF performance. The most far-reaching example was the redeployment of troops during the early days of the December highpoint. When heavy fighting first erupted in the delta on December 6, Communist attacks were concentrated in the southern area where GVN military and civil installations experienced pressure unparalleled since the cease-fire. At the same time, intelligence sources indicated that the 5th NVA Division, which had been training and refitting in Cambodia for several weeks, was moving across the border into the largely uninhabited areas of the northern delta. Despite the immediacy of the threat in the south, MR–4 commander, Maj. Gen. Nguyen Khoa Nam, who had been appointed only a month before, immediately focused his attention on the more distant but far more serious threat to the north. He dispatched troops of the 9th ARVN, then deployed in the south, to their primary area of responsibility along the Cambodian border.

Shortly thereafter, Route 29, the only land route to Kien Tuong Province, was cut for an extended period. Had General Nam been distracted by the situation in the south and failed to react promptly to the 5th NVA Division threat, a costly and time-consuming operation would have been required to move troops to the area of greatest threat. The only alternative would have been movement by air, severely taxing RVNAF's already overburdened air assets. Though heavy fighting continues in Kien Tuong Province, the 5th Division has thus far been unable to achieve its probable goal—establishment of a secure base area from which it can launch attacks against Highway 4 and other main arteries from the delta to Saigon. Moreover, some of the NVA 5th Division's units suffered serious losses as they ran into the newly arrived 9th Division.

a. RVNAF inflicts heavy NVA/VC casualties in Chuong Thien Province.—A regiment of the 21st ARVN Division (which has been considered one of ARVN's weakest divisions) scored a major victory in Chuong Thien Province at the end of December as a result of sound tactics and tight unit discipline. Shortly after Christmas, elements of the 95A and D–2 NVA Regiments were reportedly concentrating in an area in which they do not normally operate. The 33d ARVN Regiment began moving toward the area of the NVA concentration, but, when no contact was made, the 21st Division commander realized he was moving into a trap and halted his unit's advance before he reached the limits of effective artillery and armor support. Meanwhile, he moved an armored unit by a circuitous route to a position behind his infantry troops; the NVA apparently were not aware of the presence of the armored unit. When elements of the NVA D–2 moved into what was supposed to be an ambush position, they found themselves caught between the 33d Regiment and the armor, and presented a concentrated target for GVN artillery.

Subsequently, other elements of the D–2, assuming ARVN armored units would return to the province capital at Vi Thanh for the night, took up positions to the north of the battlefield and positioned an artillery platoon to the east where they were to fire on the ARVN armor when ground contact was established. Rather than fall into the trap, however, the armored units moved east and literally ran over the NVA artillery position. In 3 days of fighting, ARVN claimed 347 NVA killed. Subsequent analysis indicated that, prior to this setback, the NVA D–2 had intended to advance from the area of the battle along an adjacent canal to Route 31, cutting the only land route to Vi Thanh, endangering the province capital itself. This plan was thwarted and the D–2 forced to retire from the battlefield.

b. RVNAF defense of an outpost in Kien Tuong Province.—The lowest level of significant delta fighting is at the RF and PF outposts, of which there are

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hundreds in MR-4. These outposts are prime targets for attack, and their defense is by far the most common test of RVNAF effectiveness at the small-unit level. A very recent example of extremely effective performance by the troops manning such an outpost occurred in mid-January when a remote outpost in the north of Kien Tuong Province, manned by 15 PF troopers, was attacked. Five of the PF were killed and several wounded, but the remainder held their position. The outpost defenders lacked the strength to sweep the area after the attack, but aerial observation confirmed that the handful of PF had killed about 100 Communist attackers.

Subsequent reports from villagers in the area indicated that the figure may have been even higher. Hence, a small but resolutely manned militia outpost in a remote location became an important factor in RVNAF's success in countering the thrust of the 5th NVA Division across the border from Cambodia.

Territorial Control Occurring Between January 1974 and January 1975

Mr. Chappell. At this point I would like to refer to two charts that you have given us here; one shows the approximate zones of control, January 1974, and one the approximate zones of control, January 1975.

Can any reasonable conclusion be drawn from those two maps, that the successes which are depicted on your January 1974 chart as compared to the losses shown on your January 1975 map are directly relative to the level of support which this country has attempted to give the South Vietnamese?

Mr. Habib. I think in part that is true, but I think it is also in part true that the North Vietnamese reinforced, resupplied, and then escalated the level of conflict substantially, massively, one could argue. I think it is a combination.

Mr. Chappell. So that as one views the chart of 1975 he would be in error if he drew the conclusion that we would be doing wrong to put more money in here because the evidence is one of continuous loss?

Mr. Habib. I would argue just the contrary, that—as we have argued—in order to prevent the situation from eroding, they must receive the resources necessary to defend themselves.

Mr. Chappell. Exactly. You cannot draw it just from looking at this map, that just because they have the losses depicted there that we should not now adequately fund if we are going to give them a chance to reverse and get back to the situation which they had in January of 1974?

Mr. Habib. I would agree with you completely.

Congressional Intent With Respect to $700 Million Limitation

Mr. Murphy. I would like to clarify one point we discussed last Thursday.

I believe you testified that with respect to the diversion of $41 million worth of ammunition stocks in Thailand for Laos to South Vietnam, that you had received a legal interpretation that it was proper. I believe you stated that the basis for that determination was that the funds were appropriated in fiscal 1974 and prior years under the MASF program for both South Vietnam and Laos.

However, since that time, two things have happened. First, the Congress in fiscal 1975 eliminated all unobligated balances for South

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Vietnam and, further, put a limitation of $700 million in fiscal 1975 for South Vietnam. Second, since that money was appropriated by Congress, the Defense Department made the conscious decision to use a certain portion of that money to purchase and stock ammunition in Thailand specifically for Laos.

Now, with this in mind, I wonder if you could provide for the record a legal interpretation as to whether the subsequent diversion of those stocks to South Vietnam does not violate the limitation placed by Congress in fiscal year 1975.

Mr. VON MARBOD. Mr. Murphy, the answer to your question is explicit in the legal opinion I have provided for the record.

I would emphasize that the stocks transshipped to Vietnam were obligated in prior fiscal years.

The Congress denied the establishment of new obligations against old funds. I think the subject at issue here is whether or not the funds were in fact obligated and previously reported to the Congress. We maintain that they were, in fact, obligated.

Mr. MURPHY. I fully understand that. I am talking about the action of Congress limiting South Vietnam in fiscal year 1975 to $700 million. Prior to the action of Congress, you purchased the ammunition for Laos. Now, does the subsequent diversion of $41 million worth of Laos ammunition to South Vietnam violate, if not the law, the Congress' intent limiting funding for South Vietnam in fiscal 1975 to $700 million. You have, in effect, increased South Vietnam availability in fiscal year 1975 to $741 million, it would appear.

Mr. VON MARBOD. I think your question is a good one, Mr. Murphy, Again, the intent of the Congress is clear that any funds which were previously obligated and reported to the Congress could be used for the purpose authorized and appropriated, and that the pipeline will continue to flow.

I would also emphasize that, in prior fiscal years, the military assistance service funded program included support for both Laos and Vietnam without separate ceilings, but with a ceiling common to both countries. All transfers were made within that authority provided by the Congress.

Mr. SIKES. Gentlemen, thank you very much. You have been very helpful to the committee.

CHANGE IN TERRITORIAL CONTROL

Mr. CHAPPELL. Before we leave, I want to be sure that we get into proper perspective this instrument which I understand was put into the record earlier by General Graham, on the areas of dominance in South Vietnam and the significance of the charts attached to that report.

Now I assume and understand that the intent and purpose of this is to show the need for more funds in Vietnam because of the fact that Vietnam is losing ground because it does not have the proper funds; is that right?

Mr. VON MARBOD. Mr. Chappell, that information is provided in response to specific requests from the committee that we show the activity of the North vis-a-vis the South as of certain periods of time.

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I believe this activity, in itself, suggests that there has been a territorial change even during the short span of my control of the program.

COMPARATIVE CAPACITIES OF SOUTH AND NORTH VIETNAM

Mr. CHAPPELL. All right. Then let me come specifically to this then, so I thoroughly understand what you are talking about, about what value this document has.

We would need to know the comparative capacities of the people in the areas, as to their munitions, their materiel, and so forth, as compared to the enemy.

Is the South Vietnamese soldier today better or more fully equipped than North Vietnam or the North Vietcong?

Mr. VON MARBOD. Mr. Chappell, I would answer your question this way: In the combat units I visited I was shown—if I may use the term—freshly captured enemy equipment. Much of it was in mint condition including new AK–47 rifles provided by Eastern bloc countries, new mortars, and other appliances of war. Their trucks are also new. I would say——

Mr. CHAPPELL. Compare that to South Vietnam.

Mr. VON MARBOD. South Vietnam is well-equipped in some areas. However, in the consumables area, there is need for more munitions, more petroleum products, medical supplies, field rations, batteries, and especially spare parts.

Mr. CHAPPELL. Is it better or less equipped?

Mr. HABIB. The stock position is down, is less; I think he made that clear.

Mr. CHAPPELL. I missed some of this the other day.

Mr. VON MARBOD. The enemy is much stronger today than he was in 1972 when the South Vietnamese had the advantage of U.S. tactical air and mobility. The ARVN does not enjoy that advantage today. Its manpower in very critical areas is decreasing.

I found in talking to General Thrang and the airborne commander and the ranger commander in military region I, that the biggest personnel problem was lack of young combat leaders, both noncommissioned officers and officers.

The attrition that the South is taking in terms of manpower is being felt in an area that truly hurts. And, as far as the captured equipment is concerned, it is a lot better than what I carried from 1945 to 1947 in the U.S. Army. It is not a peasant army that has invaded the South from the North.

Mr. VANDER SCHAAF. Earlier in these hearings there was some indication that you were probably thinking about deobligating some manpower costs and other items related to the South Vietnamese support. The chairman has previously placed this committee on record in stating that he wanted all costs analyzed, put down, and accounted for. I wish you would expand in the record at the proper point why you desire to deobligate these manpower costs and what reason the committee should have to go along with such a deobligation.

Mr. VON MARBOD. Before I deobligate any funds, I will advise the committee in writing, and I will call on any member of the staff or

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any member of the committee who would like to discuss the matter with me before I make any such decision. I can assure you of that.

Mr. CHAPPELL. You say that the South Vietnam soldier, vis-a-vis North Vietnam, that the forces of South Vietnam as far as personnel is concerned is superior to that of North Vietnam, or of equal strength, individual-to-individual, but you are saying that as of this moment he is not as well-equipped and therefore does not have the capacity to fight equally as the one from North Vietnam?

Mr. HABIB. I would not put it that way.

What we are saying is that he requires a level of supply to be able to conduct himself in defense, which he will not have if we do not supply the resources.

Mr. SIKES. Are you saying his weapons are not deficient, but his support is?

Mr. HABIB. Yes, sir.

Mr. CHAPPELL. That is what I am trying to get at.

Mr. SIKES. Thank you very much, gentlemen.

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THURSDAY, FEBRUARY 20, 1975.

CENTRAL INTELLIGENCE AGENCY DOMESTIC ACTIVITIES

WITNESSES

W. E. COLBY, DIRECTOR OF CENTRAL INTELLIGENCE
JOHN CLARKE, ASSISTANT TO THE DIRECTOR
GEORGE L. CARY, LEGISLATIVE COUNSEL

INTRODUCTION

Mr. MAHON. The committee will come to order.

Mr. Director, we are pleased to have you before the committee today. Over a period of many years, the Committee on Appropriations early in the session has had a hearing with the Director of the Central Intelligence Agency in order that we may get an overall view of intelligence estimates. We like to have a report from the Central Intelligence Agency at the beginning of each session because you don't represent the Army, you don't represent the Navy, you don't represent the Marines, or the Coast Guard, or the Air Force.

You are a separate agency and you look, perhaps, in a more objective way at intelligence. This would seem so since you are not associated with the services themselves.

So this year, in view of the situations that have arisen, we will have our hearing again—but not as usual. This year we will have an open session to discuss certain allegations that the CIA has engaged in illegal or improper domestic activities. This year we even have television coverage during this part of the hearings.

Through the years, the full subcommittee has been exposed to all the regular CIA testimony. A smaller group of 5 members have listened to your special testimony as to the intimate workings of the CIA, and the funds required. This special testimony is sensitive information which, if made available generally, would be very hurtful to the security of the United States.

PROCEDURAL CHANGE IN RECEIVING CIA TESTIMONY

This year we are changing our procedures and the full subcommittee will be privy to all the testimony of the CIA. The prior procedure was initiated long before I became chairman of the committee. I feel strongly that the change which I am now initiating is the proper thing to be done.

A little history here might be of interest to some of my colleagues. We have been using this room for the Appropriations Committee for many years. I remember that my predecessor, Mr. Cannon, who was chairman of the committee for 18 years, liked to call meetings at the

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oddest times of the special secret panel which dealt with intelligence matters.

One of the times, I recall now, is one Sunday afternoon at 2 o'clock. We secretly came into this room and we sat down and listend to Allen Dulles bring us up-to-date on the effort to assist in the invasion of Cuba. At that time, many thought if one person landed in opposition to Castro, everybody in Cuba would flock to him and overthrow Castro.

FORMER DIRECTOR OF CENTRAL INTELLIGENCE

Having become a member of the Subcommittee on Defense Appropriations in 1940, I remember the various Directors of the Central Intelligence Agency. The first Director was Admiral Souers. I remember Gen. Hoyt Vandenberg of the Air Force, who did a good job, and the Directors have all been men of integrity and ability. General Vandenberg was followed by Admiral Hillenkoetter and Gen. Bedell Smith of the Army.

I remember Allen Dulles, to whom I referred. He was one of the most famous Directors of CIA. I remember John McCone in the job and Adm. Red Raborn. Dick Helms was in for 6 or 7 years and Jim Schlesinger for about 6 months. He hardly had time to get the seat warm, but he was before us, too, and now you are in the hot seat and the seat has been warmed up by your predecessors.

It is really a hot seat at this time.

We want you to say as much as you reasonably can in this open session about the activities of the Central Intelligence Agency in domestic activities and we want to advise that if questions cannot be answered in open session, that you just tell us so and we will close the meeting tomorrow and go into classified matters at that time.

We want to discuss to what extent has the CIA been violating laws or regulations with respect to surveillance of private citizens within the United States. Your overall statement is unclassified, is it not?

Mr. COLBY. It is, Mr. Chairman.

Mr. MAHON. Have you made it available to the press?

Mr. COLBY. I have, Mr. Chairman.

Mr. MAHON. That is good.

The gentleman from Florida is recognized.

MOTION AND VOTE TO CLOSE HEARING ON FEBRUARY 21

Mr. SIKES. Mr. Chairman, I move that the hearing scheduled for Friday, February 21, 1975 with the Director of the Central Intelligence Agency involving the worldwide intelligence briefing and review of the CIA budget be held in executive session because of the classified nature of the material to be discussed.

Mr. MAHON. Under the rules this requires a rollcall vote and the clerk will call the roll.

Mr. GIAIMO. Can we have a discussion?

Mr. MAHON. Certainly we may.

Mr. GIAIMO. I am not opposed to the motion. I intend to support it. My only question is do we know we are going to complete the open part of this hearing by this afternoon.

Mr. MAHON. We hope we can but if we don't we can modify the procedure.

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The clerk will call the roll.
Mr. PRESTON. Mr. Mahon.
Mr. MAHON. Aye.
Mr. PRESTON. Mr. Sikes.
Mr. SIKES. Aye.
Mr. PRESTON. Mr. Flood.
Mr. FLOOD. [No response.]
Mr. PRESTON. Mr. Addabbo.
Mr. ADDABBO. Aye.
Mr. PRESTON. Mr. McFall.
Mr. MCFALL. [No response.]
Mr. PRESTON. Mr. Flynt.
Mr. FLYNT. Aye.
Mr. PRESTON. Mr. Giaimo.
Mr. GIAIMO. Aye.
Mr. PRESTON. Mr. Chappell.
Mr. CHAPPELL. Aye.
Mr. PRESTON. Mr. Burlison.
Mr. BURLISON. [No response.]
Mr. PRESTON. Mr. Edwards.
Mr. EDWARDS. [No response.]
Mr. PRESTON. Mr. Robinson.
Mr. ROBINSON. Aye.
Mr. PRESTON. Mr. Kemp.
Mr. KEMP. Aye.
Mr. PRESTON. Mr. Cederberg.
Mr. CEDERBERG. [No response.]

Mr. MAHON. Eight members have voted in the affirmative, none in the negative, and a quorum being present, the motion is agreed to.

Let us go up and answer the rollcall immediately and come right back down.

[Brief recess.]

Mr. MAHON. The committee will resume.

Before you proceed, Mr. Director, I think maybe I should say that, as you know, there has been much concern expressed both in Congress and outside Congress about certain activities of the CIA.

This has been a mounting issue with more and more concern being expressed. The CIA is limited by law to activities in foreign intelligence but it appears that, rightly or wrongly, some CIA personnel have been involved in intelligence activities in the United States which were directed at citizens of the United States. You will comment on those matters later?

Mr. COLBY. I will, Mr. Chairman.

SPECIAL COMMITTEES TO REVIEW CIA ACTIVITIES

Mr. MAHON. The President has created a blue ribbon committee headed by the Vice President. Both the House and Senate are creating special committees to review intelligence activities. You will be before one committee or another most of the time.

Mr. COLBY. I may have to create a double, Mr. Chairman, to be testifying enough.

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Mr. MAHON. While I am sure the Appropriations Committee does not want to spend the time on these matters that other committees will, since we must appropriate funds, and of course we will discuss intimately all the hundreds of millions of dollars that you are going to be requesting and all of the procedures that you follow and so forth, it is with this in mind that we have asked you here and I am glad you have an unclassified statement.

Mr. Cederberg, would you have a comment at this time?

Mr. CEDERBERG. No, I just want to concur in your statement that it seems as though we are going to have an investigation in the House, we are going to have one in the Senate, we are going to have one in the executive, we are going to have a hearing here, and I wonder how much time Mr. Colby is going to have to run his agency.

Mr. MAHON. I think he is going to have to rely upon his deputies to a very considerable extent during the next few months. But we are not going to take an excessive amount of time and we are going to leave to others a considerable portion of the responsibility.

What we are principally concerned about is what you are going to do with the money you are asking us for. As you know, we have been providing money for the CIA all these years. We have put it in various areas in the Defense budget. Formerly we put some in the State Department budget, as you know, but in more recent times we put it all in the Defense appropriation bill; the biggest bill we handle, and it could be provided better there than elsewhere. I for one make no apologies for trying to maintain proper secrecy in the interest of the United States.

Now, do you have a preliminary statement or are you ready to proceed with your regular statement?

Mr. COLBY. I am ready to proceed, Mr. Chairman.

I thank you for the opportunity to appear here today.

Mr. MAHON. Will you tell us about the people who are with you.

Mr. COLBY. I have with me Mr. George Cary, who is our legislative counsel, and Mr. John Clarke, who is one of my assistants, works very closely with me.

STATEMENT OF DIRECTOR OF CENTRAL INTELLIGENCE

Mr. Chairman, our national intelligence agency, the CIA, is the object of great attention and concern. A series of serious allegations have been made by the press and other critics about our operations and activities.

At the same time, a number of responsible Americans are concerned that a degree of hysteria can develop that will result in serious damage to our country's essential intelligence work by throwing the baby out with the bath water.

Mr. MAHON. Let me interrupt to say that we believe we have to have a Central Intelligence Agency. I think at least in most instances the CIA has done a good objective job. I know you made some mistakes. We do not condone them; we condemn them. But I do want you to know that you are among people who believe in the intelligence requirement for the protection of the interests of the United States in this dangerous and turbulent world.

Mr. COLBY. I agree with you, Mr. Chairman, and I think basically the American people support that position, too.

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There is equally serious concern within the CIA itself as to whether its personnel can continue to make their important contribution to our country or will be the target of ex post facto sensationalism and recrimination for actions taken at earlier times under a different atmosphere than today's.

I welcome this opportunity to describe the importance of our intelligence, how it works and what it does, and the small extent to which its activities may in past years have come close to or even overstepped proper bounds. We certainly make no claim that nothing improper occurred, but we do think it important that such incidents be given only their proper proportion.

It would perhaps be useful, Mr. Chairman, to start by reviewing some of the allegations made recently about the CIA.

The leading charge was that, in direct violation of its charter, CIA conducted a massive illegal domestic intelligence operation against the anti-Vietnam war and other dissident elements in recent years. In my testimony to the Senate Appropriations and Armed Services Committees, on 15 and 16 January, I flatly denied this allegation.

Mr. MAHON. You denied the allegation that it was a massive effort, but you didn't deny that something did happen in connection with this matter?

Mr. COLBY. I pointed out that CIA instead had conducted a counterintelligence operation directed at possible foreign links to American dissidents, under the authority of the National Security Act and the National Security Council Intelligence Directives which govern its activities and in response to Presidential concern over this possibility. Thus this operation was neither massive, illegal, nor domestic, as alleged. It was an intelligence operation.

The same allegations stated that dozens of other illegal activities, including break-ins, wire tapping, and surreptitious inspection of mail, were undertaken by members of the CIA in the United States beginning in the 1950's. Again I reported to the Senate Appropriations and Armed Services Committees a few such activities that in fact occurred. I pointed out that most such actions were taken under the general charge of the National Security Act on the Director of Central Intelligence to protect intelligence sources and methods against unauthorized disclosure. Whether or not they were appropriate, there are very few institutions in or out of Government which in a 27-year history do not on occasion make a misstep, but in CIA's case such instances were few and far between and quite exceptional to the main thrust of its efforts.

Another allegation given prominence was apparently based on the statements of an anonymous source who claimed that, while employed by the CIA in New York in the late sixties and early seventies, "he and other CIA agents had also participated in telephone wiretaps and break-ins" in the New York area. As I told the journalist involved before the story was printed, it does not bear any relation to CIA's actual activities in that area. Nor can we identify any former employee who answers to the journalist's description of his source. I fear that the journalist has been the victim of what we in the intelligence trade call a fabricator.

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Another published allegation was that CIA, through agency-owned corporate structures organized to provide apparent sponsorship for its overseas operations, manages a "$200-million-a-year top-secret corporate empire" which could circumvent the will of Congress. This allegation is also false. CIA does maintain certain corporate support structures that are essential to conducting its operations and concealing CIA's role overseas. These activities are managed, however, in the most meticulous manner by CIA to insure the safekeeping of the Government's investment, and to audit these activities to insure that they stay within proper bounds.

One individual continues to give national prominence to an allegation that CIA was somehow more involved in Watergate and its coverup than has been demonstrated publicly. His lack of credibility should cause the charge to fall of its own weight, but in addition I believe the extensive investigations made into this subject, and in particular the tapes most recently released, indicate that CIA's limited assistance in 1971 certainly had nothing to do with the Watergate in 1972, and that CIA was the institution that said "No" to the coverup rather than be involved in it.

There are also a number of allegations of improper CIA relationships with domestic police forces. The facts are that CIA maintained friendly liaison relationships with a number of police forces for assistance in CIA's mission of investigating its applicants, contractors, and similar contacts. These relationships from time to time included various mutual courtesies which have been warped into allegations of improper CIA manipulation of these police forces for domestic purposes. These allegations are false. Since the 1973 legislation barring any CIA assistance to the Law Enforcement Assistance Administration, CIA has terminated any assistance to the LEAA and in compliance with the spirit as well as the letter of that particular law has terminated any assistance to local police forces as well.

One charge stems from a dangerous misunderstanding of the true nature of the modern intelligence process. CIA invited several U.S. industrial firms to bid on a contract to study new foreign developments in transportation technology. This has been alleged to constitute a program to spy on our closest allies. In truth, of course, it is nothing of the kind. The prospective contractor was only expected to conduct open research and analyze information made available to him. Intelligence work today includes analysis as one of its major elements. It is no longer synonymous with spying.

Mr. Chairman, these exaggerations and misrepresentations of CIA's activities can do irreparable harm to our national intelligence apparatus and if carried to the extreme could blindfold our country as it looks abroad. To this committee I of course need not stress the importance of our intelligence work to our defense. May I only remind you that our intelligence must not only tell us what threats we face today but also what threats are on the drawingboards or in the research laboratories of potential enemies that might threaten us some years hence. This committee is well aware of the contribution intelligence makes to decisions about defense levels. I would also like to remind you of its contribution to the Strategic Arms Limitation and similar treaties. Such agreements help reduce the need for the heavy expense of arms.

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I would like to stress another aspect of intelligence today—its contribution to peacekeeping. Aside from its assistance to our ability to make treaties to reduce tensions between us and other nations, it has on occasion provided our Government information with which it has been able to convince other nations not to initiate hostilities against their neighbors. This peacekeeping role can grow in importance as our intelligence coverage improves. Correspondingly, it can decline if our intelligence machinery is made ineffectual through irresponsible exposure or ill-founded exaggeration.

Mr. Chairman, CIA does carry out some of its activities within the United States. About three-fourths of its employees live and work in this country. Most are in the Washington metropolitan area, performing analysis, staff direction, administrative support, and headquarters activities. About 10 percent of CIA's employees work in the United States outside the headquarters area. They perform support functions that must be done in the United States, such as personnel recruitment and screening or contracting for technical intelligence devices. They also collect foreign intelligence here. Much information on the world is available from private American citizens and from foreigners within the United States, and it would be foolish indeed to spend large sums and take great risks abroad to obtain what can be acquired cheaply and safely here.

CIA's Domestic Collection Division has representatives in 36 American cities. These representatives contact residents of the United States who are willing to share with their Government information they possess on foreign areas and developments. They provide this information voluntarily, in full awareness that they are contributing information to the Government. They are assured that their relationship will be kept confidential and that proprietary interests, say on the part of a businessman, will not be compromised. This program focuses exclusively on the collection of information about foreign areas and developments.

The Foreign Resources Division of CIA was known until 1972 as the Domestic Operations Division. Its principal mission is to develop relationships with foreigners in the United States who might be of assistance in the collection of intelligence abroad. In this process it also collects foreign intelligence from foreigners in the United States. It has offices in eight U.S. cities, and its work is closely coordinated with the FBI, which has the responsibility for identifying and countering foreign intelligence officers working within the United States against our internal security.

The Agency's Office of Security has eight field offices in the United States, engaged in conducting security investigations of individuals with whom CIA anticipates some relationship—employment, contractual, information, or operational. In order not to reveal during the investigation process the fact of CIA's connection with the individual, which might destroy the basis of the relationship, such investigators normally do not identify themselves as working for CIA.

Another responsibility of the Office of Security is the investigation of unauthorized disclosures of classified intelligence. This function stems from my responsibility under the National Security Act to protect intelligence sources and methods against unauthorized disclosure. Thus the Office of Security would prepare a damage assessment and endeavor to determine the source of a leak so that we could take corrective action.

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Mr. Chairman, CIA conducts a broad program of research and development, largely through contracts with U.S. industrial firms and research institutes. In many such contracts, CIA sponsorship of the project must be hidden from many of the individuals working on the program itself. This was the case in the development of the U–2 aircraft, for example, so that the ultimate purpose of the aircraft, to fly over hostile territory for photographic purposes, would not be known beyond the necessary small circle rather than by the entire work force.

U–2 Aircraft Incident

Mr. Mahon. Mr. Director, was the U–2 the airplane that Gary Powers was flying over Russia that caused so many international repercussions during the Eisenhower administration?

Mr. Colby. It was indeed, Mr. Chairman, and that incident is revealing of a particular characteristic of intelligence work. The U–2 was developed and began flying over the Soviet Union in about 1956 and continued to do so successfully for about 3 years before it was finally shot down.

Mr. Khrushchev knew it was flying over the Soviet Union all that time and he guessed very accurately where it came from, of course. But the thing that got him upset was when our President took personal responsibility for the action. Up until that time it was an intelligence problem, but then it became a problem between President Eisenhower and General Secretary Khrushchev.

R. & D. and construction of U–2 aircraft

Mr. Mahon. Would it be proper for me to ask you whether or not the research and development and the construction of that plane was handled by the Central Intelligence Agency?

Mr. Colby. It was indeed, Mr. Chairman. We no longer have any of the U–2's in CIA. They have been passed to the Defense Department in recent years.

Mr. Mahon. Have follow-ons to the U–2 been constructed under the program of the Central Intelligence Agency?

Mr. Colby. Some, Mr. Chairman, and some by the Defense Department. Some of the particular devices have been developed only in CIA, some jointly with the Defense Department alone, but as the Director of Central Intelligence I play a role even in the ones which are developed within the Defense Department.

Mr. Flynt. Mr. Chairman, may I ask a question about that incident?

Mr. Colby, did you say that the aircraft was in fact shot down?

Mr. Colby. It was, Mr. Flynt. We believe so.

Mr. Flynt. By intercept aircraft or by antiaircraft artillery?

Mr. Colby. We think by a missile, surface-to-air missile.

Mr. Flynt. Surface-to-air missile?

Mr. Colby. Yes, sir.

Mr. Flynt. Thank you.

Mr. Mahon. Proceed.

Mr. Colby. Operations of this sort require complicated cover and funding arrangements. It is for this purpose that the CIA does maintain a variety of arrangements within the private sector to provide cover and support in the Federal funding, insurance, security, and auditing.

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The Agency's cover and commercial staff arranges this cooperation with U.S. business firms and operates the proprietary activities maintained by CIA, to provide essential cover for CIA's foreign intelligence work.

The Agency's office of personnel has a recruitment division to hire Americans with the required skills and expertise for Agency employment. It maintains 12 domestic field offices from which such Agency recruiters operate. In addition to these recruitment efforts, of course, we have confidential arrangements with some Americans who agree to assist us in the conduct of our foreign intelligence work.

The Agency's office of training also must do a large amount of its work within the United States. We maintain a number of training installations in which the various disciplines required for CIA's missions are taught. These cover everything from language and communications training to clandestine operations and intelligence analysis. Occasionally some of this training is conducted by sending a student on a mock exercise into a large U.S. city environment to expose him to some of the problems of operating in a clandestine manner. In such cases, however, the subject of the action would be another Agency employee participating in the exercise.

In addition to these direct activities, the Agency has cooperated and collaborated with a number of governmental elements in the United States. This begins with the extensive collaboration and coordination with the other elements of the intelligence community, such as the Department of Defense and the Federal Bureau of Investigation. These joint activities are ones in which it is proper for one Government agency to assist another within the principles established by the Economy Act. As I noted at the outset, an example of this was the counterintelligence program conducted during recent years, in which CIA focused on the question of whether foreign manipulation or support was going to American dissident elements from abroad. The research and development of some of the complex technical equipment required for intelligence is in many cases conducted jointly by the Department of Defense and CIA, as the resulting flow of information will be of value to both. Similarly, there is an exchange of trainees with various Government agencies, both to improve the breadth of knowledge of the CIA trainees and to orient trainees from other agencies on the role of intelligence in American foreign policy.

As I noted earlier, in the course of these various activities, there have been occasions when CIA may have exceeded its proper bounds. I have outlined a number of these in my report to the Senate Appropriations Committee, a copy of which I submit herewith for your record, along with some changes in detail which have come out of our continuing investigation.

[The information follows:]

SUPPLEMENT TO DCI STATEMENT OF JANUARY 15, 1975, BEFORE THE SENATE APPROPRIATIONS COMMITTEE

As a result of the CIA's continuing investigation, certain of the details submitted to the Senate Appropriations Committee in my statement of January 15, 1975, have been modified. I submit herewith a listing of such changes:

Page 20: last paragraph, first line: change "Interagency" to "Intelligence."
Page 20: final line: Delete "State"

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Page 23: 2nd line, 4th paragraph: change "Inter-agency Domestic Intelligence Unit" to "Inter-Divisional Information Unit."

Page 28: Delete paragraph beginning "Mr. Chairman," and substitute the following paragraph:

"Mr. Chairman, over the past eight years, our counterintelligence program holdings have included files on four members of Congress. With the exception of one file still extant on a deceased Congressman, these files are inactive. Two of them were destroyed in 1974. None contained any material that originated in CIA, except for one travel cable and two cables quoting press announcements of conferences."

Page 28: final paragraph, 2nd line: change "three" to "four."

Page 28: final paragraph, 3rd line: change "each" to "three" and "three" to "four."

Page 28: Add new paragraph at bottom:

"The incident not involving an Agency employee or ex-employee occurred in 1965. Another government agency dealing with sensitive intelligence and national security matters dismissed an employee on security grounds in 1963. In 1964, the former employee tried unsuccessfully to contact and sell classified information to an East European delegation in this country. The other agency requested CIA assistance in surveilling the ex-employee, apparently to prevent him from defecting or passing classified information to unauthorized individuals. The assistance was granted, and the surveillance included entry into his apartment in 1965 in an unsuccessful attempt to acquire evidence of his collusion with a foreign government. The operation was discontinued later that year."

Page 29: Delete first paragraph, as this was not a break-in.

Page 29: Insert new first paragraph.

"Between 1967 and 1969, surveillance of a long-time CIA employee was undertaken because of security concern about outside associations, disregard for security rules and regulations, and indications of emotional instability. The surveillance included entry into the employee's apartment. No evidence of actual breaches of security was uncovered, and the case was closed when the employee retired."

Page 30, Revise first paragraph to read as follows:

"Our findings to date show that CIA employed telephone taps directed against 27 persons (including foreigners) in the United States between 1947 and 1965, and none thereafter. Most of the taps concerned suspected breaches of security by CIA employees; some of the taps were in direct support of foreign intelligence operations. All but four of the individuals concerned were connected with the Agency either as employees of former employees or contractees. Two of the private citizens whose phones were tapped in 1963 were thought to be receiving sensitive intelligence information, and the effort was aimed at determining their sources. An earlier instance which occurred in 1959 concerned an individual thought to be receiving information from an unauthorized source in CIA. The fourth instance occurred in 1961 and concerned a case of questionable security practices by an individual from another government agency dealing in sensitive security matters and whose job included liaison with CIA."

Page 30: Add following additional words to final sentence on the page:

"or that they might be involved in activities that could make them susceptible to blackmail leading to the disclosure of classified information."

Page 31: First full paragraph, line five: change "two" to "four."

Page 31: Final paragraph, line 3: change "two Communist" to "foreign, primarily Communist"

Pages 31 and 32: Delete last line of page 31 and all of page 32 and substitute the following:

(One) of a limited nature took place in 1954. The primary purpose of these activities was to identify individuals in active correspondence with Communist countries for counterintelligence purposes, the results being shared with the FBI. They also were designed to determine the nature and extent of foreign governments' censorship techniques and to give leads to persons (foreign and American, in the United States and the countries of interest) who would be interested in cooperating with CIA in foreign intelligence operations. In addition to the above, international mail passing through a U.S. port was opened in August 1957. There has been no mail survey in this country by CIA since February 1973.

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STATEMENT OF W. E. COLBY, DIRECTOR OF CENTRAL INTELLIGENCE AGENCY

Mr. Chairman, I welcome this opportunity to appear before the committee today to answer and to place in perspective a series of allegations regarding CIA activities in the United States that have appeared recently in certain publications. I flatly deny the charge in the New York Times of December 22, 1974, that "the Central Intelligence Agency, directly violating its charter, conducted a massive illegal domestic intelligence operation during the Nixon Administration against the anti-war movement and other dissident groups in the United States * * *."

These charges impugn the integrity of a large number of people who have served this country faithfully and effectively for many years. They also damage the credibility of the CIA at home and its effectiveness aboard.

Mr. Chairman, any institution—in or out of Government—that has been functioning for over a quarter of a century (as the CIA has) would be hard put to avoid some wrong steps. But any steps over the line in CIA's 27-year history were few and far between and if wrong stemmed from a misconception of the extent of CIA's authority to carry out its important and primary mission—the collection and production of intelligence pertaining to foreign areas and developments. Certainly, at this time, it is my firm belief that all activities of the Agency are within the limits of its authority.

I, therefore, welcome the opportunity this inquiry offers to restore public confidence in the CIA and to make its work more effective in the future within the constraints of our Constitution and laws. The employees of the Agency and I are wholly committed to being responsive to this committee in full confidence that a thorough understanding of the intelligence process of the United States and the role of the CIA will:

(1) demonstrate the value and importance of the intelligence work of the Agency;

(2) reassure you as to the general propriety and legality of the Agency's activities over the years; and

(3) help you to formulate legislation to improve the procedures and arrangements that govern the Agency's activities.

In this process, Mr. Chairman, we hope also to answer the charges made in the New York Times and other publications on this subject. I am not sure that we will answer them all, because I note that the New York Times has indicated its disinclination to reveal the names of those making the charges it reported. Thus we may not be able to track down the specific situations cited to tell whether the charges were well founded or not. You might be interested, Mr. Chairman, in a copy I am giving your staff of our reply to a request from the New York Times reported that I give him all our available information on this subject under the present Freedom of Information Act. You will note that the New York Times and we are equally concerned with the protection of our sources. To this committee I will of course be fully responsive, and I would hope thereby not only to reassure the committee but to secure greater public and press understanding of CIA's need for protection of its sources, too.

Mr. Chairman, while it is familiar to you, I would like take a few moments to draw a framework for your inquiry by giving a brief description of the CIA—its authority under the law, its mission, and the intelligence process itself.

I shall then describe the activities of the Agency which do take place within the United States to demonstrate their contribution to the foreign intelligence mission of CIA.

I shall follow this with a discussion of the allegations in the New York Times of December 22, 1974, and in subsequent articles.

I shall conclude with some suggestions which might be useful to the committee.

THE CIA: AUTHORITY AND BACKGROUND

CIA's existence and authority rests upon the National Security Act of 1947. The act provides that the Agency will "correlate and evaluate intelligence relating to the national security, and provide for the appropriate dissemination of such intelligence within the Government * * *."

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The act calls for the Agency to perform certain services of "common concern to the National Security Council determines can be more efficiently accomplished centrally" and "to perform such other functions and duties related to intelligence affecting the national security as the National Security Council may from time to time direct."

The act provides that "the Agency shall have no police, subpena, law enforcement powers or internal security functions." Those are the responsibility of the FBI and other law-enforcement authorities. In its use of the term "intelligence" in connection with CIA activities, thus, the act implicitly restricts CIA to the field of foreign intelligence.

Another proviso is that "the Director of Central Intelligence shall be responsible for protecting intelligence sources and methods from unauthorized disclosure; * * *." Incidentally, the Director is the only Government official specifically charged by statute to protect intelligence sources and methods.

The CIA Act of 1949 provides that, in order to implement the above proviso and in the interests of the security of the foreign intelligence activities of the United States, the Agency is exempted from the provisions of any "law which requires the publication or disclosure of the organization, functions, names, official titles, salaries, or numbers of personnel employed by the Agency: * * *."

In the intervening years since 1947, as the international role and responsibilities of the United States have grown, so has the importance of intelligence to its decisionmaking processes. The duties of the Director of Central Intelligence have also grown, and particularly his role as coordinator of all the intelligence efforts of the U.S. Government.

Intelligence today is no simple, single-dimensional activity. It is primarily an intellectual process involving—

(1) The collection and processing of raw information,

(2) Analysis of the information and development of reasoned judgments about its significance, and

(3) The dissemination and presentation of these findings to those needing them.

The process involves a number of different departments and agencies, which, together, we call the intelligence community.

Our "overt" collection includes, for example, monitoring public foreign radio broadcasts, press, and other publications, excerpts of which are produced by CIA as a service of common concern for the other members of the community.

Other overt collection is done by State Department Foreign Service officers, Treasury Department representatives, and Defense attachés abroad.

Great technological advances have revolutionized intelligence over these years. The advent of sophisticated technical collection systems has enabled us to know with certainty many things which a decade ago we were debating on the basis of bits of circumstantial evidence.

This technology has been introduced at high cost. Collection systems being employed today have required hundreds of millions of dollars and substantial numbers of people to analyze the information they deliver.

But overt and technical collection cannot collect the plans and intentions of a hostile general staff, sense the political dynamics of closed authoritarian societies, or enable us to anticipate new weapons systems during the research phase before they are completed and visible. For this, clandestine collection is needed, especially by human sources.

The immense flow of data from these collection systems must be correlated, evaluated, and analyzed to understand its true significance. Since the responsibilities of our policymakers cover such a wide range of international subjects these days, intelligence must employ the analytical services of professionals with specialized backgrounds in politics, economics, the sciences, military strategy, geography, and other disciplines. CIA alone, for example, employs enough expertise in these fields to staff the faculty of a university.

Other agencies play essential roles in intelligence work, but CIA has three major functions:

(1) To produce intelligence judgments, based on information from all sources, for the benefit of policymakers. The product is in the form of publications and bulletins on current developments, estimates of future international situations, and in-depth studies on various topics; for example, a study of the origins and growth, over time, of potentially hostile strategic weapons programs.

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(2) To develop advanced technical equipment to improve the collection and processing of U.S. intelligence.

(3) And to conduct clandestine operations to collect foreign intelligence, carry out counterintelligence responsibilities abroad, and undertake, when directed, covert foreign political or paramilitary operations.

SECURITY AND COUNTERINTELLIGENCE

I have already mentioned my responsibility for protecting intelligence sources and methods. It is out of this responsibility, and because of the need to protect the Nation's intelligence secrets, that CIA has built over the years a capability, using security and counterintelligence techniques, to protect those secrets and guard against penetration of our intelligence activities.

A degree of secrecy, and an ability to protect some secrets, is essential to our work. This literally can be a matter of life and death for agents operating abroad, whether they be our own employees whose identification with CIA would make them obvious targets for terrorists, or citizens of totalitarian regimes who have agreed to report to us on their own governments. Many of the American businessmen and professors who voluntarily share their foreign experiences with us want the relationship to remain confidential, and we must protect their proprietary information which sometimes comes our way in the course of such exchanges.

Disclosure of the details of sophisticated (and costly) technical collection operations would tell another country, for instance, just how to change its procedures in order to deny us reliable assessments of its military threat. Finally, no foreign government can be expected to continue intelligence cooperation and exchange with us unless it is confident that we can keeps its secrets.

There is an obvious potential conflict here with the right of citizens in a democracy to know what their Government is doing in their name (and with their money). We are trying to reconcile this by making as much as possible of the substantive product of intelligence activities available to the general public as well as to Government officials. We are also trying to describe publicly general intelligence activities conducted by the U.S. Government. But we cannot relax, and indeed must intensify, efforts to preserve the secrecy of operational details. Our efforts on these lines concentrate on assuring us of the integrity of those we employ or work with, provide indoctrination in and monitor our procedures to keep our secrets, and investigate weaknesses or leaks in our security system. We have requested improvements in our legislative tools for this purpose, and I shall be asking your support for some of these efforts.

Counterintelligence is also a part of the intelligence process. Counterintelligence protects against espionage, sabotage, or subversion. An excellent example was the recently published British takeover of German intelligence in Britain during World War II. This resulted from effective security work in Britain aided by information obtained by agents abroad.

Counterintelligence activities in this country, for our internal security, are the responsibility of the FBI.

However, the National Security Council has directed CIA to conduct "clandestine counterintelligence outside the United States." The purpose is to help protect against foreign damage to American personnel, installations, information, and intelligence activities.

The National Security Council also assigned to CIA the task of maintaining central files and records of foreign counterintelligence information for the benefit of all interested agencies.

In practice, counterintelligence involves a close working relationship between the CIA and the FBI.

ACTIVITIES WITHIN THE UNITED STATES

CIA of course carries out certain activities within the United States. About three-fourths of its employees live and work in this country. Most are in the Metropolitan Washington headquarters area, performing analysis, staff direction, or administrative support. About 10 percent of CIA's employees work in the United States outside the headquarters area. They carry on activities related to or supporting our foreign intelligence mission which must be done here, such as personnel recruitment and screening, contracting for technical intelligence devices, or collecting foreign intelligence available here. Clearly much informa-

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tion on the world is available here from private American citizens and from foreigners, and it would be foolish indeed to spend large sums and take great risks abroad to obtain what could be acquired cheaply and safely here.

CIA's Domestic Collection Division (DCD) has representatives in 36 American cities. Its representatives contact residents of the United States who are willing to share with their Government information they possess, on foreign areas and developments. These American sources provide their information voluntarily, in full awareness they are contributing information to the Government. The Division assures them that their relationship with CIA will be kept confidential and that proprietary interests—say, on the part of a businessman—will not be compromised. We of course maintain records of the individuals and organizations we contact.

These offices also assist other CIA activities by identifying individuals who might be of assistance to Agency intelligence operations abroad and by resettling foreign defectors who take up residence in the United States.

CIA's Foreign Resources Division was known until 1972 as the Domestic Operations Division. Its principal mission is to develop relationships with foreigners in the United States who might be of assistance to our collection of intelligence abroad. In this process, it also collects foreign intelligence from foreigners in the United States. It has offices in eight U.S. cities, but it works under some name other than CIA, to enable it to contact foreigners who might initially reject a CIA connection.

The work of this Division is closely coordinated with the FBI, which has the responsibility for identifying and countering any foreigners working within the United States against our internal security.

Our Cover and Commercial Staff conducts the Agency's cover program, and handles our ostensibly private commercial and funding activities to support our operations. It negotiates with other U.S. Government departments and agencies on official cover arrangements and with cooperating U.S. business firms on private cover arrangements. An example of the work of this staff is an arrangement with a corporation, either an independent firm or a wholly-owned proprietary, to provide the ostensible source of income and rationale for a CIA officer to reside and work in a foreign country.

The Agency's Office of Security has eight field offices in the United States primarily engaged in conducting security investigations of Americans with whom the CIA anticipates some relationship—employment, contractual, informational, or operational. The investigators do not normally identify themselves as CIA, but do act as U.S. Government representatives whenever possible.

The Office of Security investigates all applicants for employment with the Agency, actual or potential contacts of the Agency, and consultants and independent contractors, to determine their reliability prior to their exposure to sensitive matters in dealings with the Agency. We also conduct investigations of individuals employed by contractors to the Agency, such as employees of Lockheed who worked on the U–2 program. Numerous files are, of course, built up in this activity, but are kept segregated from the Agency's operational and counterintelligence files.

Another responsibility of the Office of Security is the investigation within the Government of unauthorized disclosures of classified intelligence. This function stems from the Director's statutory responsibility to protect intelligence sources and methods. Thus, the CIA Office of Security would prepare a damage assessment and endeavor to determine the source of a leak so that we could take corrective action. The National Security Act of 1947 gives the Director authority to terminate the employment of an individual with the Agency when he deems it "necessary or advisable in the interests of the United States . . ."

Research and development are necessary activities if we are to have the technical intelligence capabilities I discussed earlier. Nearly all such work is done for the CIA through contracts with U.S. industrial firms or research institutes. In many such contracts, CIA sponsorship of the project is not concealed. But in some cases, the fact that the work is being done for the CIA—or even for the Government—must be hidden from many of the individuals working on the program. This was the case in the development of the U–2 aircraft, for example.

In such cases, a separate organization within an existing company may be established by the company to conduct the necessary R. & D. under a cover story of commercial justification. Management of the entire program is organized in a fashion which isolates it from any association with the CIA or the Government. In order that such operations can take place, special cover mechanisms must be established to handle such problems as funding and security

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investigations of personnel being assigned to the job. Because of the Agency's ability to operate such arrangements, it has also undertaken such activities in the field of intelligence on the basis of funding made available from the Department of Defense. Indeed, though the CIA's own R. & D. program is a vigorous one, it is very small when compared with the several large programs conducted in conjunction with the Department of Defense. All such activity is subject to regular and systematic review and audit. This activity represents another category of our domestic activities, bringing the Agency into contact directly or indirectly with large numbers of U.S. citizens and requiring it to keep a large number of records involving U.S. citizens and organizations.

Another area of research activity enlists the capabilities of the American scientific, technical, and other research communities to assist the research of some new foreign technical field, or to help analyze complex data coming into CIA's possession. These sorts of research projects or studies can be misunderstood, as recently occurred with respect to one on foreign transportation technology. Current criticism has confused CIA's solicitation of bids for such a study with a program to spy. This confusion stems from a lack of appreciation of the modern intelligence process, in which spying plays only a small role. In fact, this project, and others similar to it, are purely analytical in character and involve no espionage or active intelligence collection by the contractor. Some such contracts do include analysis of information provided by CIA from its secret technical or clandestine sources.

The Agency's Office of Personnel maintains 12 recruitment offices in the United States—whose telephone numbers can be obtained from the public telephone directory. These Agency recruiters identify themselves as CIA Personnel Representatives and carry CIA credentials. In addition, other Agency representatives enter into confidential arrangement with some U.S. residents who agree to assist in the conduct of our foreign intelligence responsibilities. Since most of our professional applicants come from college campuses, primarily at the graduate level, our recruiters maintain close contact with college placement officials and faculty advisors. To round out our recruitment effort they also maintain contact with personnel representatives of private industry, professional and scientific associations, minority organizations, and the like.

The Agency must train its employees in those disciplines which are unique to its mission, ranging from clandestine operations to intelligence analysis and technical skills. We also offer an extensive program in language training, communications, and the normal administrative and management courses associated with Government operations. To this end we operate several training sites and occasionally take advantage of a large U.S. city environment to expose a trainee to the difficulties of foot surveillance. In such instances, the subject would be another Agency emeployee participating in the training exercise.

The activities I have just described carry out the major programs of the Agency which call for the operation of field offices in the United States. They all are proper under the act which governs us.

Now, let me turn to the recent press allegations.

ALLEGATIONS AND SOME DETAILS

The article of December 22, 1974, charged that CIA has engaged in a "massive illegal domestic intelligence operation." The article referred in particular to files concerning American dissident groups.

The facts are these:

In mid-1967, the U.S. Government was concerned about domestic dissidence. You will recall that President Johnson on July 27, 1967, appointed a National Advisory Commission on Civil Disorders. The obvious question was raised as to whether foreign stimulation or support was being provided to this dissident activity.

On August 15, 1967, the Director established within the CIA Counterintelligence Office a unit to look into the possibility of foreign links to American dissident elements. The executive director of the National Advisory Commission, wrote to the Director on August 29, 1967, asking what the Agency might do to assist in that inquiry with "information, personnel, or resources."

The Director responded on September 1, offering to be helpful, but pointing out that the Agency had no involvement in domestic security. Some limited material from abroad, the Director wrote, might be of interest.

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Later the same year, the CIA activity became part of an interagency program, in support of the National Commission, among others.

Periodically thereafter, various reports were drawn up on the foreign aspects of the antiwar, youth and similar movements, and their possible links to American counterparts. Specific information was also disseminated to repsonsible U.S. agencies.

In September 1969, the Director reviewed this Agency program and stated his belief that it was proper "while strictly observing the statutory and de facto proscriptions on Agency domestic involvement."

In 1970, in the so-called Huston plan, the Directors of the FBI, DIA, NSA, and CIA recommended to the President an integrated approach to the coverage of domestic unrest. While not explicit in the plan, CIA's role therein was to contribute foreign intelligence and counterintelligence to the joint effort.

The Huston plan was not implemented, but an interagency evaluation committee, coordinated by Mr. John Dean, the Counsel to the President, was established. The committee was chaired by a representative of the Department of Justice and included representatives from FBI, DOD, State, Treasury, CIA, and NSA. Its purpose was to provide coordinated intelligence estimates and evaluations of civil disorders, with CIA supplying information on the foreign aspects thereof.

Pursuant to this, CIA continued its counterintelligence interest in possible foreign links with American dissidents. The program was conducted on a highly compartmented basis. As is necessary in counterintelligence work, the details were known to few in the Agency.

We often queried our overseas stations for information on foreign connections with Americans in response to FBI requests or as a result of our own analyses. Most of these requests were for information from friendly foreign services, although there were instances where CIA collection was directed. In most cases the product of these queries was passed to the FBI.

In the course of this program, the Agency worked closely with the FBI. For example, the FBI asked the Agency about possible foreign links with domestic organizations or requested coverage of foreign travel of FBI suspects. The Agency passed to the FBI information about Americans it learned from its intelligence or counterintelligence work abroad. The FBI turned over to the Agency certain of its sources or informants who could travel abroad, for handling while there. In order to obtain access to foreign circles, the Agency also recruited or inserted about a dozen individuals into American dissident circles in order to establish their credentials for operations abroad. In the course of the preparatory work or on completion of a foreign mission, some of these individuals submitted reports on the activities of the American dissidents with whom they were in contact. Information thereby derived was reported to the FBI, and in the process the information was also placed in CIA files.

In 1973 this program was reviewed and specific direction given limiting it to collection abroad, emphasizing that its targets were the foreign links to American dissidents rather than the dissidents themselves and that the results would be provided to the FBI.

In March 1974, the Director terminated the program and issued specific guidance that any collection of counterintelligence information on Americans would only take place abroad and would be initiated only in response to requests from the FBI or in coordination with the FBI, and that any such information obtained as a byproduct of foreign intelligence activities would be reported to the FBI.

In the course of this program, files were established on about 10,000 citizens in the counterintelligence unit.

About two-thirds of these were originated because of specific requests from the FBI for information on the activities of Americans abroad, or by the filing of reports received from the FBI for possible later use in connection with our work abroad.

The remaining third was opened on the basis of CIA foreign intelligence or counterintelligence information known to be of interest to the FBI.

For the past several months, we have been eliminating material from these files not justified by CIA's counterintelligence responsibilities, and about 1,000 such files have so far been removed from the active index but could be reconstituted should this be required.

In 1967, the Department of Justice established an Interagency Domestic Intelligence Unit. In May 1970, the Department of Justice provided us with a machine-tape listing of about 10,000 Americans developed by the IDIU. The listing

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could not be integrated in CIA's files and was destroyed in March 1974. It was not the same file program described above.

Mr. Chairman, concurrent with the counterintelligence program, beginning in 1967, CIA's Office of Security, acting on the basis of concern for the safety of Agency installations in the Washington, D.C., area, inserted 10 agents into dissident organizations operating in the Washington, D.C., area. The purpose was to gather information relating to plans for demonstrations, pickets, protests, or break-ins that might endanger CIA personnel, facilities, and information. The reports acquired were made available to the FBI, Secret Service, and local police departments. The program ended in December 1968.

Mr. Chairman, let me digress here for a moment to comment on the world "files" which can mean different things to different people. In addition to the counterintelligence files we have discussed, an Agency of the size of CIA obviously must maintain large numbers of files.

The backbone of an intelligence operation, particularly a counterintelligence case, is detailed information—through which one can begin to discern patterns, associations, and connections.

In this sphere, therefore, any professional intelligence organization tries to systematically record all scraps of information. Thus whenever a name—anyone's name—a date, a place, a physical description, appears anywhere in any operational report, it is usually put into a cross-reference master index.

Whenever there are one or more pieces of paper dealing primarily with a single individual—for whatever reason—there is probably, somewhere, a "file" on that individual; whether he be an applicant, an employee, a contractor, a consultant, a reporting source, a foreigner of intelligence interest, a foreign intelligence officer, or simply a person on whom someone else (such as the FBI) has asked us to obtain information.

The fact that there is a "file" somewhere in one of our various record systems with a person's name on it does not mean that that "file" is the type of dossier that police would use in the course of monitoring that person's activities.

In this context, it is clear that CIA does have material on large numbers of Americans, as applicants, current and ex-employees, sources and other contacts, contractors, Government and contractor personnel cleared for access to sensitive categories of intelligence, references and other names arising during security investigations, individuals corresponding with us, et cetera. Our operational files also include people who were originally of foreign intelligence interest but who later became U.S. citizens, such as Cuban or other emigres. I am sure you will find that most of these are unexceptionable and necessary to run an institution of the size and complexity of CIA, and that these records are maintained in ways which do not suggest that these names are suspect.

There have been lists developed at various times in the past, however, which do appear questionable under CIA's authority; for example, caused by an excessive effort to identify possible "threats" to the Agency's security from dissident elements, or from a belief that such lists could identify later applicants or contacts who might be dangerous to the Agency's security. They did not usually result from CIA collection efforts (although as I noted above, they sometimes did), but were compilations of names passed to us from other Government agencies such as the FBI, some police forces, and several congressional committees or developed from news clippings, casual informants, et cetera. A number of these listings have been eliminated in the past 3 years, and the Agency's current directives clearly require that no such listings be maintained.

The New York Times article of December 22, 1974, made certain other charges: "that at least one Member of Congress had been under CIA surveillance and that other Congressmen were in our "dossier" on dissident Americans," and "that break-ins, wiretaps, and surreptitious inspection of mail were features of CIA activities."

Let me provide background on these allegations.

On May 9, 1973, the Director issued a notice to all CIA employees requesting them to report any indication of any Agency activity any of them might feel to be questionable or beyond the Agency's authority.

The responses led to an internal review throughout the Agency, including the counterintelligence program described above.

The initial responses and our review of them culminated in fresh policy determinations and guidance issued in August 1973, to insure that our activities remain within proper limits.

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Let me discuss our findings with respect to the press allegations.

(1) The New York Times article of December 22, 1974, declared:

"At least one avowedly antiwar Member of Congress was among those placed under surveillance by the CIA, the sources said."

Mr. Chairman, our findings are that there is no—and to my knowledge never has been—surveillance, technical or otherwise, directed against any Member of Congress.

The New York Times article also indicated that "Other Members of Congress were said to be included in the CIA's dossier on dissident Americans."

Mr. Chairman, our findings are that, with the exception of one former Congressman, no Member of the 90th Congress which commenced on January 10, 1967 or of any succeeding Congress, unto and including the 94th Congress, are included in our counterintelligence program's files.

We do have other files on current or former Members of Congress. These fall into categories such as ex-employees, some who were granted security clearances in precongressional jobs, some who were sources or cooperated with us, some who appear as references in applications or security clearance procedures on our personnel, and some whose names were included in reports received from other Government agencies or developed in the course of our foreign intelligence operations.

(2) The New York Times article also referred to "break-ins," and said no "specific information about domestic CIA break-ins" could be obtained.

Our internal investigations to date have turned up a total of three instances, which could have been the basis for these allegations. Each of the three involved premises related to Agency employees or ex-employees.

In 1966, a new Agency employee, inspecting a Washington apartment he was thinking of renting, saw classified Agency documents in the apartment, which was the residence of another employee. The new employee advised the CIA Security Office. Subsequently a security officer and the new employee went to the apartment, were admitted as prospective renters, and removed the documents.

The second instance occurred in 1969. A junior Agency employee with sensitive clearances caused security concern by appearing to be living well beyond his means. Surreptitious entry was made into his apartment in the Washington area. No grounds for special concern were found.

The third instance occurred in 1971 in the Washington area. An ex-employee became involved with a person believed to be a foreign intelligence agent. Security suspicions were that the two were engaged in trying to elicit information from Agency employees. A surreptitious entry was made into the place of business jointly occupied by the two suspects. Results were negative. An attempt to enter the suspect agent's apartment was unsuccessful.

(3) The New York Times article also referred to wiretaps and said no specific information could be obtained.

Our findings show that CIA employed telephone taps directed against 22 residents of the United States between 1951 and 1965, and none thereafter. In each case the purpose was to check on leaks of classified information. All but two of the individuals concerned were Agency employees or former Agency employees, including three defectors (not U.S. citizens) and one contractee who was the mother of an employee. The two private citizens whose phones were tapped in 1963 were thought to be receiving sensitive intelligence information, and the effort was aimed at determining their sources. Our records show that these last two taps were approved by the Attorney General.

In 1965, President Johnson issued an order that there be no wiretapes in national security cases without the approval of the Attorney General. Only one of the operations mentioned above took place thereafter, in 1965, against a CIA employee suspected of foreign connections. This operation was approved by the Attorney General.

(4) The New York Times article also alleges physical surveillance (following) of American citizens.

The Agency has conducted physical surveillance on our employees when there was reason to believe that they might be passing information to hostile intelligence services. This was done on rare occasions, and in recent years only three times—in 1968, 1971, and 1972. In 1971 and 1972, physical surveillance was also employed against five Americans who were not CIA employees. We had

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clear indications that they were receiving classified information without authorization and the surveillance was designed to identify the sources of the leaks.

Also, in 1971 and 1972, a long-standing CIA source—a foreigner visiting in the United States—told us of a plot to kill the Vice President and kidnap the CIA Director. We alerted the Secret Service and the FBI and we carried out physical surveillance in two American cities. The surveillance came to involve Americans who were thought to be part of the plot—and the mail of one suspect was opened and read.

(5) The New York Times article also refers to "surreptitious inspection of mail."

From 1953 until February 1973, CIA conducted several programs to survey and open seelcted mail between the United States and two Communist countries. One occurred in a U.S. city from 1953 to February 1973, when it was terminated. One took place during limited periods in one other area in November 1969, February and May 1970, and October 1971. One other occurred in August 1957. The purpose of the first and extended activity was to identify individuals in active correspondence with Communist countries for presumed counterintelligence purposes, the results being shared with the FBI. The others were designed primarily to determine the nature and extent of censorship techniques. The August 1957 case was to try to learn the foreign contacts of a number of Americans of counterintelligence interest. I repeat that there has been no mail survey in this country by CIA since February 1973.

CIA RELATIONSHIPS WITH OTHER GOVERNMENT AGENCIES

In August 1973, in connection with the review of all activities of the Agency which might be considered questionable under the terms of its charter, CIA made a review of its assistance to other Federal, State, and local government components.

Assistance to agencies with foreign operations and not involved in domestic law enforcement was generally continued, while assistance which could involve the Agency even indirectly in law enforcement or similar activities was appropriately modified or terminated.

In discussing allegations of improper CIA domestic activity, I wish to comment on "the Watergate affair." This topic has been the subject of extensive hearings by the Ervin committee and the four CIA subcommittees of the Congress as well as by other investigations by the grand jury, the Department of Justice, and the Special Prosecutor. So I will comment only briefly on it. The allegations included a charge that CIA had prior knowledge of the Watergate breakin and was somehow otherwise knowingly involved. While I have stated the CIA made mistakes in providing certain equipment to Howard Hunt and in preparing a psychological assessment on Daniel Ellsberg, both in response to directives from the White House, we have no evidence, and none was developed in any of the hearings or inquiries I have just mentioned, to support the other allegations concerning CIA. Aside from these two instances, the main CIA role in Watergate was to refuse to be used in the coverup, and to avoid being misunderstood as involved. Most recent evidence clearly demonstrates CIA's noninvolvement rather than involvement in Watergate.

I think it is interesting in this connection that despite the fact that the profile and the provisioning were requested by the White House, questions as to the propriety of these actions were brought to the attention of senior officials of the Agency by Agency employees at the working level.

Mr. Chairman, since 1973, Agency employees are instructed each year to bring either to my attention or to that of the Inspector General any activity which they think may be beyond CIA's proper charter.

For the committee's background, I would also like to mention the Agency's relationships with American student and other associations and foundations, revealed in 1967 by Ramparts magazine. The Agency had developed confidential relationships with some officials of these groups to assist their activities abroad in exposing and counteracting Communist-controlled efforts to subvert international student and labor groups.

State Department Under Secretary Katzenbach chaired an interagency group which investigated this matter. The group's recommendations resulted in a ban on CIA covert assistance to American educational or voluntary organizations, and these restrictions are reflected in internal Agency regulations and policy.

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The activities I have described to you in this statement relate to the New York Times allegations and were among those, as I have said, that were reported to the Director by our officials and employees in 1973 in response to his notice to all employees asking them to report any and all activities that they or others might deem questionable. These were reported to the chairmen of the Senate and House Armed Services Committees—the congressional bodies responsible for oversight of CIA—in May 1973.

These briefings were accompanied by my assurances that the Agency's activities would be conducted strictly within its proper charter, and specific instructions were issued within the Agency along these lines. Recently, I was advised by the Acting Attorney General that I was obliged to call certain of these to his attention for review, and I have done so, although it is my opinion that none would properly be the subject of adverse action against men who performed their duties in good faith.

Mr. Chairman, in this presentation I have endeavored to provide the committee with a frank description of our intelligence activities. That description is intended to demonstrate the importance of the CIA and the rest of the intelligence community in assisting the Government in developing and implementing its foreign policy and alerting it to potential crisis or war. I would now like to summarize the situation and present some thoughts for the committee's consideration.

First, as I said at the outset, I flatly deny the press allegation that CIA engaged in a "massive illegal domestic intelligence operation."

Whether we strayed over the edge of our authority on a few occasions over the past 27 years is a question for those authorized to investigate these matters to judge.

Mr. Chairman, any institution—in or out of Government—that has been functioning for 27 years finds it hard put to avoid some missteps, but I submit that any such missteps in CIA's history were few and far between, and were exceptions to the thrust of the Agency's important and primary mission—the collection and production of intelligence pertaining to foreign areas and developments.

Certainly at this time it is my firm belief that no activity of the Agency exceeds exceeds the limits of its authority under law.

Against this background, I would, however, like to make some suggestions for the committee's consideration.

Several bills were introduced in the 93d Congress to amend the National Security Act so as to clarify the extent of CIA's activities within the United States.

One of these amendments would add the word "foreign" before the word "intelligence" wherever it appears in the act, to make crystal clear that the Agency's purpose and authority lie in the field of foreign intelligence.

Another amendment would amplify the current restrictions in law by specifying that within the United States the Agency will not engage: "in any police or police-type operation or activity, any law enforcement operation or activity, any internal security operation or activity, or any domestic intelligence operation or activity."

The Agency fully accepts such amendments as a statement of prohibited activity and as a way to reassure any concerned that CIA has no such function. Last July, I so testified before the Legislative Oversight Committee in the House and last September, I wrote to the chairman of the Legislative Oversight Committee in the Senate assuring him that the Agency will abide by the letter and the spirit of the proposed amendments.

The prohibition in these bills is supplemented by the following additional proviso:

Provided, however, That nothing in this Act shall be construed to prohibit CIA from protecting its installations or conducting personnel investigations of Agency employees and applicants or other individuals granted access to sensitive Agency information; nor from carrying on within the United States activities in support of its foreign intelligence responsibilities; nor from providing information resulting from foreign intelligence activities to those agencies responsible for the matters involved.

Again, we welcome this as a clear statement of what the Agency properly does in the United States in support of its foreign intelligence mission. As I described to you earlier and explained in my confirmation hearings, these include:

(1) Recruiting, screening, training, and investigating employees, applicants, and others granted access to sensitive Agency information;

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(2) contracting for supplies;

(3) interviewing U.S. citizens who voluntarily share with the Government their information on foreign topics;

(4) collecting foreign intelligence from foreigners in the United States;

(5) establishing and maintaining support structures essential to CIA's foreign intelligence operations; and

(6) processing, evaluating, and disseminating foreign intelligence information to appropriate recipients within the United States.

I respectfully suggest that the committee might indicate its support of these or similar legislative amendments in its recommendations.

A separate matter of concern deals with the question of appropriate oversight of the Agency. Within the Executive Department, the Director is appointed by the President with the advice and consent of the Senate and serves "during the pleasure of the President of the United States and for the time being."

The President has appointed a Foreign Intelligence Advisory Board to assist him in supervising the foreign intelligence activities of the United States.

This Board has a long and excellent record of reviewing the foreign intelligence activities of the United States—those in CIA as well as the other departments and agencies.

The Board has made a number of very important recommendations to the President and has stimulated and supported major advances in our intelligence systems.

The activities of the CIA and the intelligence community are also reviewed by the Office of Management and Budget, to which the Agency reports fully and through which the Director's recommendations for the total foreign intelligence program are routed to the President.

General guidance of the CIA and the intelligence community is provided by the National Security Council through the Assistant to the President for National Security Affairs and the National Security Council staff. The National Security Council is assisted by the National Security Council Intelligence Committee and by several other National Security Council committees.

Pursuant to a Presidential directive of November 5, 1971, reaffirmed by President Ford on October 9, 1974, the Director of Central Intelligence is also assigned a special role with respect to the intelligence community as well as the Central Intelligence Agency. He is required to exercise positive leadership of the entire community and to recommend to the President annually the appropriate composition of the entire intelligence budget of the United States. He is directed to accomplish these with the advice of and through the U.S. Intelligence Board and the Intelligence Resources Advisory Committee, which include the intelligence elements of the State, Defense, and Treasury Departments, and other agencies concerned with intelligence.

In my view, Mr. Chairman, the arrangements for administrative supervision of the Central Intelligence Agency and the intelligence community by the executive branch appear sufficient at this time.

As you know, Mr. Chairman, congressional oversight of CIA has long been handled with full recognition by congressional leaders of the necessary secrecy of the Agency's activities. CIA reports, on all matters, including the most sensitive details, to the special subcommittees of the Armed Services and Appropriations Committees of each House. There are no secrets from these oversight committees, and between our meetings with the committees, we are in continuing contact with the staffs. As I have stated before, Mr. Chairman, I believe I have more than a duty to respond to these committees; I must undertake to volunteer to them all matters which are of possible interest to the Congress.

The Agency has reported publicly to other committees about matters which can be disclosed publicly, and it has reported extensively in executive session to other committees, providing classified and substantive intelligence appreciations of world situations. Over the years, a number of suggestions have been made within the Congress to revise the oversight responsibility, but to date none has been agreed, with the exception of the recently enacted amendment to the Foreign Assistance Act requiring that the Senate Foreign Relations Committee and the House Foreign Affairs Committee be briefed on our operations abroad, other than activities intended solely for obtaining necessary intelligence. The Agency's position has always been that it will work with the Congress in any way the Congress chooses to organize itself to exercise its responsibilities for oversight

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and for appropriations. I do add, however, my earnest trust and request that these be conducted in a manner which will retain the secrecy of these sensitive matters.

This raises the final subject to which I invite the committee's attention—the need for legislation to strengthen our ability to protect those secrets necessary to successful intelligence operations.

It is plain that a number of damaging disclosures of our intelligence activities have occurred in recent years. One effect of this has been to raise questions among some of our foreign official and individual collaborators as to our ability to retain the secrecy on which their continued collaboration with us must rest.

We certainly are not so insensitive as to argue that our secrets are so deep and pervasive that we in CIA are beyond scrutiny and accountability.

We of course must provide sufficient information about ourselves and our activities to permit constructive oversight and direction.

I firmly believe we can be forthcoming for this purpose, but there are certain secrets that must be preserved.

We must protect the identities of people who work with us abroad.

We must protect the advanced and sophisticated technology that brings us such high-quality information today.

To disclose our sources and methods is to invite foreign states—including potential enemies—to thwart our collection.

Our problem is that existing statutes do not adequately protect these secrets that are so essential to us.

They provide criminal penalties, in event of disclosure of intelligence sources or methods, only if the disclosure is made to a foreigner or is made with an intent to injure the United States. The irony is that effective criminal penalties do exist for the unauthorized disclosure of an income tax return, patent information, or crop statistics.

To improve this situation, we have proposed legislation, and I invite this committee to support the strengthening of controls over intelligence secrets. As you know, executive branch recommendations on the precise wording and elements of this proposed legislation are under development at this time. I believe these recommendations could be fully compatible with the Constitution, with the lawful rights of intelligence employees and ex-employees, and with the independence of our judicial authorities.

I believe this matter to be as important as oversight by the executive and legislative branches. For effective supervision of intelligence activities and the need for effective secrecy must go hand in hand.

I am prepared to respond to any questions the committee may have and to make available employees of the Agency for questioning.

As for ex-employees, I respectfully request—should the committee seek them as witnesses—that they be contacted directly by the committee. The Agency no longer has authority over them, and I have directed that they not be contacted by the Agency at this time in order to avoid any possibility of misunderstanding of such contacts.

I respectfully request an opportunity to review with the committee the details of testimony before a decision is made to publish them and perhaps reveal sensitive intelligence sources and methods.

In conclusion, Mr. Chairman, I sincerely believe that this committee will find with me that the Agency did not conduct a massive illegal domestic intelligence activity, that those cases over its history in which the agency may have overstepped its bounds are few and far between and exceptions to the thrust of its activities and that the personnel of the Agency, and in particular my predecessors in this post, served the Nation well and effectively in developing the best intelligence product and service in the world. Lastly, I hope that this committee may help us to resolve the question of how, and consequently whether, we are to conduct an intelligence service in our free society, and recognize its needs for some secrecy so that it can help protect our freedoms and contribute to the maintenance of peace in the world.

CONTINUATION OF DIRECTOR'S STATEMENT

Mr. COLBY. I think it important to make three points with respect to any such events:

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1. They were undertaken in the belief that they fell within the Agency's charter to collect foreign intelligence or to protect intelligence sources and methods.

2. The Agency has held and adhered to the principle that its responsibilities lie in the field of foreign intelligence and not domestic intelligence, and any of the above activities were believed to have been related to foreign intelligence.

Mr. MAHON. At this point, Mr. Director, we will go up and answer our names and be back shortly.

[Brief recess.]

Mr. MAHON. All right, Mr. Director, you may proceed.

Mr. COLBY. Mr. Chairman, I was giving three points with respect to the possible missteps that CIA may have taken in the past.

3. Any missteps by CIA were few and far between, have been corrected, and in no way justify the outcry which has been raised against CIA.

Mr. Chairman, in May 1973 Director Schlesinger issued a notice to all CIA employees instructing and inviting them to report to him or to the Inspector General any matter in CIA's history which they deemed questionable under CIA's charter. This instruction has been made a matter of regulation within CIA and is brought to the attention of each employee once a year. As a result of the May 1973 memorandum, various incidents were collected and brought to the attention of the chairman of the House and the acting chairman of the Senate Armed Services Committees. They were then used as the basis of a very specific series of internal instructions issued in August 1973 directing the termination, modification, or other appropriate action with respect to such incidents in order to insure that CIA remains within its proper charter. These instructions have been carried out and are periodically reviewed to insure continued compliance.

It appears that some version of these matters came to the attention of the New York Times reporter who wrote the article of December 22, 1974. A day or two before the article appeared, he contacted me stating he had obtained information of great importance indicating that CIA had engaged in a massive domestic intelligence activity, including wiretaps, break-ins, and a variety of other actions. In response to his request, I met with him and explained to him that he had mixed and magnified two separate subjects, that is, the foreign counterintelligence effort properly conducted by CIA and those few activities that the Agency's own investigation had revealed and terminated in 1973. He obviously did not accept my explanation and, instead, alleged that CIA had conducted a "massive illegal domestic intelligence operation." I am confident that the investigations of the President's Commission and the select committees will verify the accuracy of my version of these events. I also believe that any serious review of my report to the Senate Appropriations Committee will show that I essentially denied his version rather than confirmed it as some have alleged. The sensational atmosphere surrounding intelligence, however, encourages oversimplification and disproportionate stress on a few missteps rather than on the high quality of CIA's basic work.

Mr. Chairman, these last 2 months have placed American intelligence in danger. The almost hysterical excitement that surrounds any

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news story mentioning CIA, or referring even to a perfectly legitimate activity of CIA, has raised the question whether secret intelligence operations can be conducted by the United States. A number of the intelligence services abroad with which CIA works have expressed concern over its situation and over the fate of the sensitive information they provide to us.

Mr. MAHON. May I interrupt a moment?

You have been dealing with the Congress for some time yourself and, of course, you are familiar with the Central Intelligence Agency procedures and the history of the CIA.

The Committee on Appropriations has been dealing with the CIA ever since its creation in 1947. Do you know of any major leaks out of this committee?

Mr. COLBY. I do not, Mr. Chairman.

SECURITY RECORD EXCELLENT BEFORE CONGRESSIONAL COMMITTEES

Mr. MAHON. Have you had good security and has the CIA had good security with respect to information released to the Armed Services Committees and the Appropriations Committees of the House and Senate?

Mr. COLBY. Mr. Chairman, our record in the Congress with respect to its ability to keep secret in the small subcommittees which have been given all the details of CIA's activities has been excellent.

There was one unfortunate leak of national security significance last fall which came from another source, but the committees with whom we have dealt have been very good.

Mr. MAHON. Given the fact that we politicians are so prone to speak, I think it is one of the amazing things of this century that the secrets have been so well held by the Congress. That has not been pleasing, I am sure, to some elements in this country but I think it has been in the best interest of the country.

Would you say whether or not the CIA has had confidence in presenting information to the committees of Congress?

Mr. COLBY. We certainly have, Mr. Chairman. We have been very confident and my position has always been that with respect to these subcommittees that we have traditionally dealt with there are no secrets from them. They have access to all information.

Mr. MAHON. But, of course, you have to admit that there are so many things going on in the CIA it would be impossible for these committees to be familiar with each and every development.

Mr. COLBY. With every detail, no, of course not.

Mr. GIAIMO. Mr. Chairman, may I intervene at this very point on the same thing you have asked?

Mr. MAHON. All right, sure.

Mr. GIAIMO. Mr. Colby, in response to the questions of the chairman I think we have to be very careful in your response that we do not give to the American people the impression that the Congress, because that was the expression that was used, has been taken into confidence and is aware of all of the activities in which you are involved.

Isn't it a fact that it is restricted to very few Members of Congress?

Mr. COLBY. Our position has always been, Mr. Giaimo, that we

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would respond to the Congress in any way the Congress arranged itself to do that.

Mr. GIAIMO. I understand. That is not what I asked you, however.

Mr. COLBY. It has traditionally been through those subcommittees that we have responded, and I believe that was what the chairman was referring to, the testimony that we have given to the Congress in the past, whether we had a feeling that it was well protected.

Mr. GIAIMO. But would I be wrong if I said that when we speak as you have just spoken and as the chairman spoke of information given to the Congress, in fact we were referring not to the Congress in general, but to a very small number of persons and in fact a very selected number of men, selected in the sense that they were very senior members, key members, of several key committees.

Isn't that so?

Mr. COLBY. It was given to the subcommittees that were appointed for that purpose, yes. I thought I made the point that it was given to the subcommittees rather than to the Congress as a whole, but if I did give any other impression I stand corrected.

Mr. MAHON. It is just a small number of Members of Congress and you can count them on four hands.

All right.

Mr. COLBY. A little more than four hands, Mr. Chairman, but nonetheless.

CONTINUATION OF DIRECTOR'S STATEMENT

Mr. Chairman, a number of our individual agents abroad are deeply worried that their names might be revealed with resultant danger to their lives as well as their livelihoods. A number of Americans who have collaborated with CIA as a patriotic contribution to their country are deeply concerned that their reputations will be besmirched and their businesses ruined by sensational misrepresentation of this association. And our own employees are torn between the sensational allegations of CIA misdeeds and their own knowledge that they served their nation during critical times in the best way they knew how.

I believe it a time for a review of what this Nation needs and wants in the field of intelligence and the determination therefrom of how, and consequently whether, American intelligence will operate. In this process, I believe four things are necessary.

First, it is essential that a sober and responsible review of our intelligence apparatus take place. By reason of the sensitivity of some of these matters, it is essential that it be conducted without a sequence of sensational allegations and exposures. I am sure that the responsible members of the President's Commission and of the Select Committee will take this approach.

Second, the inquiries must be conducted in a manner that protects the secrecy of these sensitive matters after as well as during the investigations. For this reason, I am recommending to the investigating bodies, and the President's Commission has already accepted, arrangements for the physical security of the material to be developed, secrecy agreements for the staffs similar to those utilized by the intelligence community and recently ratified by the Fourth Circuit Court of Ap-

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peals, and arrangements for compartmentation of the different levels of sensitivity of the information to be provided. There must not only be no exposure of our most sensitive material, such as the names of our agents and collaborators and the specifics of our sensitive technical machinery, there must not even be a risk that this occur.

Third, I look forward to clarification from these inquiries of the proper authority and limitations of American intelligence. For example, in my confirmation hearing I suggested the addition of the word "foreign" before the word "intelligence" whenever it appears in the National Security Act referring to CIA, to make crystal clear its function. I also expect that the arrangements for authorization and oversight of the operations of CIA and the intelligence community will be reviewed and clarified wherever necessary. But in the establishment of these new rules, it will be essential to include arrangements for their modification, as the rules of 1975 may be no better fitted for the problems our Nation will face in 1990 than those of 1947 may be considered by some for 1975.

Fourth, I believe it essential to improve our tools to protect those secrets necessary to the success of American intelligence and even the conduct of foreign policy. I am charged by the National Security Act with the protection of intelligence sources and methods from unauthorized disclosure. If there is to be no gray area in this charge, I believe it essential that the tools to carry it out be plainly identified and adequate. Today they include our screening and orientation process, our physical arrangements to protect our material, and the secrecy agreement we require of our employees. But intelligence sources and methods do not have the kind of protection provided by the criminal penalties that apply to the unauthorized revelation of income tax returns, census returns, and cotton statistics. One of our ex-employees has recently published a book abroad, where he is out of range of our injunction process, in which he claims to reveal the name of every individual, American and foreign, that he could remember working with, acknowledging the "important encouragement" of the Communist Party of Cuba in writing his book. I believe it absurd for anyone to be immune from criminal prosecution for such an act.

Mr. Chairman, I thank you for this opportunity to speak publicly about the serious situation of American intelligence today. This is a matter that concerns not only us in the intelligence community, and our critics, but our entire Nation. American intelligence today, thanks to the dedicated work of thousands of professionals, and in particular my predecessors in this post, whom you named has improved in quality to a degree undreamed of a few decades ago. Thanks to it, our Government's policymakers can draw on factual information and reasoned analysis in cases where until recently they had to rely only on hunches, circumstantial evidence, and cautious hopes. It is not only helping our Government to be better informed about the complex world in which we live, it is also serving the Congress and the people to help them play their full role in American decisionmaking. During 1974, for example, CIA alone appeared before 17 congressional committees or subcommittes on 48 occasions and had substantive discussions on foreign developments with journalists on some 600 occasions.

As public understanding of the real nature of modern intelligence grows, I am confident that there will be an equal growth in public

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support of its necessities, including the fact that its details cannot be exposed to the bright glare of publicity or irresponsible exaggeration. With this, I believe 1975 can mark the year in which America reaffirmed the need for intelligence to protect itself and to maintain world peace, and replaced the sensational, romantic, but outdated intelligence image of the mystery writers with a mature understanding of the modern intelligence process. Intelligence is still an exciting profession, but in the intellectual and technological sense, not just the physical.

Thank you, Mr. Chairman.

I would be very happy to answer any questions.

Mr. MAHON. Thank you very much, Mr. Director.

The romantic days, to some extent, of intelligence have passed. The satellite and the computer has done a great deal to change intelligence in recent years.

Mr. COLBY. There is still some romance, Mr. Chairman, but the other elements of it are a much larger proportion of it now.

Mr. MAHON. Yes.

Mr. Director, I regret the mistakes of the past. The CIA, as every Government agency and private agency, has made mistakes from time to time and I believe in the development of all the facts and circumstances with respect to errors that have been made.

What concerns me principally is not what is past, though I am concerned about that as a means toward improving the situation with which we are confronted.

Are you absolutely sure that you in CIA have now taken the steps to assure that the mistakes of the past are not now being repeated and will not be repeated in the future?

Mr. COLBY. I believe we have, Mr. Chairman.

I have given very strict instructions. I exert a very clear command structure with respect to that. I think all of our employees are very sensitive to this problem in these days and I am convinced that the directives are clearly within the proper charter of CIA and that the activities are also within the proper charter of CIA today.

Mr. MAHON. The thing that concerns us on this committee is we don't want to provide any public funds to the Central Intelligence Agency that are going to be used improperly or illegally and we want to be sure in our own minds that you have the authority and the information and the wisdom to see to it that the mistakes of the past are corrected and that the CIA operates along proper lines in compliance with the law.

Mr. COLBY. I think we have taken every step we could possibly think of to assure that, Mr. Chairman, and I am convinced that we in essence have achieved that situation.

If any exceptions should ever occur they would be a surprise to me and they would be because some new factor came up that I could not anticipate.

Mr. MAHON. Is there some way where you can be in a constant state of alert so that the likelihood of the misuse of your agency in the future will not be very great?

Mr. COLBY. Well, I believe, Mr. Chairman, that these days and times keep us alert and I believe our friends of the press keep us particularly alert to avoid missteps that they would discover.

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PERSONNEL

Mr. MAHON. You have talked about the questionable deeds and actions of a former employee of the Central Intelligence Agency. Are you able to get the quality of personnel upon whom you can utterly rely or not? Are you improving in that respect or not?

Mr. COLBY. Mr. Chairman, we are getting a very high quality of recruit these days. I had a meeting with some of our new officers just a few days ago and I was very impressed with the quality of their educational and employment backgrounds.

Second, somewhat, you might think, of a surprise, we normally get about 600 inquiries for possible jobs every couple of weeks. In the first 2 weeks of January we got 1,700 inquiries. I think the interest in CIA on the part of the American people has perhaps been aroused by the recent publicity and we will be able to choose from those 1,700 perhaps even better people than we were able to choose from the previous 600.

Mr. MAHON. Do you think that the Central Intelligence Agency has been discredited and that you have lost stature?

Mr. COLBY. We have a great deal of trouble, Mr. Chairman, with some of our friends abroad. I also have a very unfortunate item to report in connection with a contract we asked several industrial firms to bid on a few weeks ago. We asked eight firms because they were appropriate for that particular contract. Seven of them declined to bid. I think those seven did not want to be associated with the troubles that CIA is in today.

Mr. MAHON. Well, do you look forward to an improvement in that situation?

Mr. COLBY. If we can clarify our role and if we can clarify the small proportion of mistakes we may have made in the past, then I think that we will once again be able to get back to the high esteem in which we have been held in our work in the technological and academic field within the United States.

NATIONAL SECURITY COUNCIL

Mr. MAHON. Mr. Director, I would like to ask you to describe your relationship with the National Security Council. Please state for the record who is on the National Security Council?

Mr. COLBY. The National Security Council was established by the National Security Act of 1947. It consists of the President, the Vice President, the Secretaries of State and Defense. The Chairman of the Joint Chiefs of Staff and I are advisers to the National Security Council. The assistant to the President for national security affairs is an officer of the Council.

DAILY INTELLIGENCE REPORTING

Mr. MAHON. How often do you report to the President?

Mr. COLBY. We meet, I suppose we have met, four, five or six times in the last 3 or 4 months on various subjects. At that meeting, normally, I, as Director of Central Intelligence, open the meeting with an intelligence briefing on the problem to be discussed.

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Mr. MAHON. Do you give a daily report or almost a daily report to the executive branch?

Mr. COLBY. We have a large variety of ways we report, Mr. Chairman. We have one publication which we address to the President and the Vice President alone. It is for their eyes only.

Mr. MAHON. How often?

Mr. COLBY. Every morning that publication is delivered to them. This is supplemented by a publication which we produce for the senior leadership of the executive branch and which is also distributed to certain of the congressional committees which covers a broad sweep of world developments, foreign developments during the previous 24 hours.

SECTION 103(d)(5) OF THE NATIONAL SECURITY ACT

Mr. MAHON. Mr. Director, we have referred now to the National Security Council and the makeup of the Council.

Section 103(d)(5) of the National Security Act states that the CIA is authorized—and I quote——

> (5) To perform such other functions and duties related to intelligence affecting the national security as the National Security Council may from time to time direct.

Does this seem to be a "loophole" which would permit the CIA to do almost anything, provided it was directed to do so by the National Security Council?

What restrictions, if any, do you believe exist on the broad language which I have just quoted?

Mr. COLBY. Mr. Chairman, that language was adopted by the Congress in 1947 in order not to be too precise about the details of the intelligence business, and it consequently was phrased rather broadly. It passed to the National Security Council the authority for specifying and directing the details of the foreign intelligence arrangements to be undertaken. That was a period in which people in America believed that one should not talk about intelligence.

REVIEW AND OVERSIGHT OF CIA

We are in a different period now, and I think we may get some amendments to that particular language, but as to whether that is too broad a loophole, I do not believe so, Mr. Chairman. We not only receive direction from the National Security Council, but we are subject to review and oversight by the Office of Management and Budget on our budget and activities, by the President's Foreign Intelligence Advisory Board, a group of 12 distinguished Americans who report to the President about our affairs, by my own function of being responsible to report to the President about the workings of the entire intelligence community as well as CIA itself, and, of course, by the committees of the Congress to which we report.

We have had a considerable amount of oversight, and I think we are going to have a little more here in the next few months that I believe is enough to keep us aware of our limitations.

I point out also the recent amendment to the Foreign Assistance Act, which requires that we report not only to the Appropriations and Armed Services Committees that we traditionally report to, but

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with respect to any nonintelligence collection activities that we may be assigned that we also must report that to the Foreign Affairs Committee of the House and the Foreign Relations Committee of the Senate.

I believe that the appropriations process, in which we have to justify our activities to the Office of Management and Budget, and to the appropriations committees of the Congress, does give a high degree of oversight and supervision of what we do.

Mr. MAHON. With the concurrence of the subcommittee, we will follow the 5-minute rule as outlined in the Rules of the House.

I am going to yield 5 minutes on my right and 5 minutes on my left.

Mr. Cederberg?

Mr. CEDERBERG. Mr. Chairman, it is not my intention to take the full 5 minutes.

I have served for some time on the subcommittee that has been charged with the responsibility in our Appropriations Committee for the CIA activities, and I can only say that I think that the Director has, to my knowledge, been very forthright in explaining to us all of the activities, and as the chairman has pointed out, we have been responsible in making sure that the actions that have been revealed to us have not been exposed.

I have watched with interest the development that seems to have put the Central Intelligence Agency in somewhat of a bad light, and I think it is unfortunate. However, I am confident that under proper circumstances this can be turned into a plus.

I don't think there is anyone that I know of who doesn't recognize the importance of intelligence. A nation without proper intelligence regarding the activities of others that might have some effect on it is just missing a vital tool, so I can only say this: that as far as I am concerned, I think an exposure and look by the American people of what has been happening in regard to the Central Intelligence Agency can be helpful. I am confident that the American people want to be sure that the Government, for security reasons, knows all that is necessary to know about what is happening in other parts of the world, because it can have an adverse impact on us and, on the other hand, I think the American people expect the Central Intelligence Agency to be prudent in the activities that they pursue.

With these committees, exposures, and so forth, maybe the American people will get a better understanding of what this whole matter is all about.

I have to confess, however, that I recognize that there can be a danger in overexposure, because if some of the things that you have outlined in your statement here about the difficulty in getting sources of information in foreign areas in anyway diminished, this has an adverse impact on our ability to know what we ought to know.

I can only say as one member of the committee that I want to be sure that the activities that you are undertaking are proper activities, but I also want to be sure that what you are doing is necessary and important, and that the American people understand that it is important to the very survival of the country.

Now I am not unmindful and I think there are some individuals in the United States that would love to ruin the Central Intelligence

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Agency. They don't think that intelligence is important at all. When I see some of the individuals who are discussing some of these things and raising some of these issues, I have to question whether or not they are as patriotic as they ought to be, and recognize the importance of the United States knowing what it needs to know in as complicated and dangerous a world in which we live.

I don't have any questions. I will have some, some other time.

Mr. MAHON. Mr. Sikes?

Mr. SIKES. Yes; Mr. Chairman.

FILES COLLECTED ON AMERICAN CITIZENS

Mr. Director, there has been confusion and controversy about the files kept on Americans.

Under what circumstances and by whose direction are files kept on Americans by CIA?

Mr. COLBY. Mr. Sikes, there are a number of different files in an institution as large as CIA. Of course we have files of our employees, of applicants, of people who do business with us, contractors and so forth. We have files for clearance of people who are given access to our sensitive intelligence.

If somebody is working in another part of the Government and has a reason to read some——

Mr. SIKES. Those are not the files which have been controversial.

FILES COLLECTED DURING COUNTERINTELLIGENCE PROGRAM

Mr. COLBY. Those have not, no, but I am trying to respond. There are lots of different files. The files that you are particularly referring to, I believe Mr. Sikes, are those that were collected during the counterintelligence program that was conducted from 1967 on. This program was an attempt to identify whether there were any foreign connections with American dissident movements. In the course of that, we worked with the FBI, and we collected material abroad. This material abroad about the activities of foreign, antiwar and similar groups, peace groups, and so forth, did include names of Americans, the conferences they went to and things of that nature.

We would get a report which had the names of all the different foreigners who went to the conference, including the names of the Americans that went to it.

DISPOSITION OF FILES

Mr. SIKES. What has been the disposition of those files?

Mr. COLBY. Those files are in our hands now, Mr. Sikes. The information with respect to Americans was passed to the FBI if it was of any substance.

Mr. SIKES. Are there any similar files now being assembled?

Mr. COLBY. There are the normal counterintelligence files, Mr. Sikes. If a counterintelligence question comes up abroad of a possible connection between a foreign intelligence service and an American, that material will be placed in our files and will be reported to the FBI or the appropriate department, the military department, if that is the case.

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Mr. MAHON. Mr. Sikes, I think it would be a good time for him to answer this question: What about those Army files that were accumulated, the information with respect to counterintelligence that supposedly were destroyed?

Will you comment on that?

Mr. COLBY. I am, frankly, not well informed on that, Mr. Chairman. That is the Army's problem, not mine.

Mr. MAHON. I understand. You never did have those files yourself? Did you have access to them?

Mr. COLBY. We may have had the ability to check names against those files in an interagency relationship. In other words, if you had a question—if you were going to hire a Mr. Jones, you would send his name to the other departments, asking them if they had any knowledge of a Mr. Jones, and if they did have any, they would tell you what they knew about Mr. Jones.

CIA's ROLE IN WATERGATE

Mr. SIKES. Mr. Director, the CIA's role in Watergate has received considerable attention, and there are some who think that some elements of the press were looking for a follow-on to Watergate for sensational news. That could help to account for CIA's prominence in the news today. But whether or not that is true, tell us briefly what assistance was given—and I would like a more detailed chronology for the record—but briefly what did you have to do with Watergate.

Mr. COLBY. Briefly, Mr. Sikes, there were two major events where we had a connection with Watergate. The first was when Mr. Hunt was referred by Mr. John Erlichman to the then Deputy Director of Central Intelligence, General Cushman, asking for some help to interview an individual. He asked for a wig. He asked for some various other devices that he could use in that interview. He was given that. He then asked for some more. This was in July and August of 1971.

He then asked for some more assistance of that nature, and at the end of August his requests had escalated, including a request that we provide him a secretary to work on these problems, and also that we run a cutout reception point for mail and for telephone calls in New York and here.

These were felt by our people to be coming close to involving them in some unexplained domestic activity outside of CIA's charter, and as a result that connection was terminated at that point.

There has been some confusion over the fact that Mr. Hunt did get some assistance from the Agency after that time. That assistance consisted of things that would have been made available to anyone, such as referrals from our retirement people as to people who might be hired.

He asked one time if he could have some unclassified information about a 1954 leak of Government documents in France.

Mr. SIKES. You may complete that answer for the record. Which of these, if any, would you have considered to be illegal?

Mr. COLBY. I think that CIA's active involvement in a domestic intelligence activity would be an improper action by CIA to take, and this began to look as though Mr. Hunt was involved in it, and involving CIA in it through its support of him.

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The second improper thing I think, Mr. Sikes, was the development of a psychological profile on an American. We obviously have a program to do this on foreign personalities but it is not our practice to do it on Americans. In one case, however, we were requested to provide such a profile on Dr. Ellsberg and we did so, but we had no further connection with that matter.

The material that Mr. Hunt got from us in July and August of 1971 was used without our knowledge in some connection with the break-in to the office of Dr. Fielding, the psychiatrist of Dr. Ellsberg. That was done without CIA's knowledge, and CIA was not able to connect the individual items of evidence with the Dr. Fielding break-in until May of 1973, I believe, when it came out.

Proposed Legislation To Amend National Security Act of 1947

Mr. Sikes. You have been quoted as saying that current laws provide insufficient protection for CIA's necessary secrets.

Have you proposed legislation to correct this situation, if you feel that it still is the case?

Mr. Colby. I have, indeed, Mr. Sikes. I have submitted recommendations for legislation. These are still under discussion in the executive branch between ourselves, the Department of Justice and the Office of Management and Budget.

Mr. Sikes. They have not been submitted to Congress?

Mr. Colby. The recommendations have not formally been submitted to Congress as yet although they became public in the Marchetti legal case and have been made available to the legislative oversight committee of CIA.

Mr. Sikes. Would it be possible at this time for that information to be provided for our records?

Mr. Colby. I am quite prepared to since it is a public document, Mr. Sikes. I can easily provide that information.

Mr. Sikes. Very well, for the record.

[The information follows:]

Central Intelligence Agency,
Washington, D.C., January 14, 1974.

Hon. Roy L. Ash,
Director, Office of Management and Budget,
Washington, D.C.

Dear Mr. Ash: This submits proposed legislation in accordance with Office of Management and Budget Circular No. A-19, revised. Enclosed are six copies of a draft bill to amend the National Security Act of 1947, as amended. Also enclosed are copies of a sectional analysis, a comparison with existing law, cost analysis, and drafts of the letters of transmittal to the President of the Senate and the Speaker of the House of Representatives.

The proposed legislation amends section 102 of the National Security Act of 1947 by adding a new subsection (g) defining "information relating to intelligence sources and methods" as a separate category of classified information to be accorded statutory recognition and protection similar to that provided "Restricted Data" under the Atomic Energy Act. The proposed law grants the Director of Central Intelligence the authority to issue rules and regulations limiting the dissemination of information related to intelligence sources and methods of collection and provides for a criminal penalty for the disclosure of such information to unauthorized persons and for injunctive relief.

The continued effectiveness of the U.S. foreign intelligence collection effort is dependent upon the adequate protection of the intelligence sources and methods involved. In recognition of this, Congress, under section 102(d)(3) of the Na-

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tional Security Act of 1947, made the Director of Central Intelligence responsible for the protection of intelligence sources and methods from unauthorized disclosure. Unfortunately, there is no statutory authority to implement this responsibility. In recent times, serious damage to our foreign intelligence effort has resulted from unauthorized disclosures of information related to intelligence sources and methods. The circumstances of these disclosures precluded punitive criminal action.

In most cases, existing law is ineffective in preventing disclosures of information relating to intelligence sources and methods. Except in cases involving communications intelligence, no criminal action lies against persons disclosing classified information without authorization unless it is furnished to a representative of a foreign power or the disclosure is made with intent to harm the United States or aid a foreign power. It also requires the revelation in open court of confirming or additional information of such a nature that the potential damage to the national security precludes prosecution. Furthermore, prevention of disclosure in order to avoid serious damage to the intelligence collection effort better serves the national interest than punishment after disclosure; however, there is no existing statutory authority for injunctive relief.

The greatest risks of disclosure come from persons who are entrusted with information relating to intelligence sources and methods through a privity of relationship with the U.S. Government. When such persons, without authorization, disclose information to representatives of the public media, it receives wide publication, and, of course, is revealed to the foreign nations which may be the subject of or otherwise involved in the intelligence activities, leading to their termination as well as political or diplomatic difficulties.

A fully effective security program might require legislation to encompass the willful disclosures of classified information by all persons knowing or having reason to know of its sensitivity. However, in order to limit the free circulation of information in our American society only to the degree essential to the conduct of a national foreign intelligence effort, this legislation proposes that prosecution be provided only for persons who have authorized possession of such information or acquire it through a privity of relationship to the Government. Other persons collaterally involved in any offense would not be subject to prosecution. Further, disclosures to Congress upon lawful demand would be expressly excluded from the provisions of the proposed law.

In order to provide adequate safeguards to an accused, while at the same time preventing damaging disclosures during the course of prosecution, subsection (g) (5) provides for an in camera determination by the court of the reasonableness of the designation for limited distribution of the information upon which prosecution is brought.

Finally, in order to prevent disclosures, subsection (g) (6) provides statutory authority for the enjoinder of threatened acts in violation of the subsection upon a showing by the Director of Central Intelligence that any person is about to commit a violation of the subsection or any rule and regulation issued thereunder.

Your advice is requested as to whether there is any objection to the submission of the proposed legislation to the Congress from the standpoint of the administration's program.

Sincerely,

W. E. COLBY, *Director.*

Enclosures.

A BILL To amend the National Security Act of 1947, as amended, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 102 of the National Security Act of 1947, as amended, (50 U.S.C.A. 403) is further amended by adding the following new subsection (g) :

(g) In order further to implement the proviso of section 102(d) (3) of this Act that the Director of Central Intelligence shall be responsible for protecting intelligence sources and methods as defined in paragraph (2) below from unauthorized disclosure—

(1) Whoever, being or having been in duly authorized possession or control of information relating to intelligence sources and methods, or whoever, being or having been an officer or employee of the United States, or member of the Armed Services of the United States, or being or having been a contractor of the United States Government, or an employee of a contractor of the United

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States Government, and in the course of such relationship becomes possessed of information relating to intelligence sources and methods, knowingly communicates such information to a person not authorized to receive it shall be fined not more than $10,000 or imprisoned not more than ten years, or both;

(2) For the purposes of this subsection, the term "information relating to intelligence sources and methods" means information relating to sources, methods or techniques concerning foreign intelligence which for reasons of national security or in the interest of the foreign relations of the United States has been specifically designated pursuant to rules and regulations prescribed by the Director of Central Intelligence for limited or restricted dissemination or distribution;

(3) A person not authorized to receive information relating to intelligence sources and methods is not subject to prosecution as an accomplice within the meaning of sections 2 and 3 of Title 18, United States Code, or to prosecution for conspiracy to commit an offense under this subsection. This immunity shall not extend to those persons described in paragraph (1) above who become possessed of information relating to intelligence sources and methods in the course of their relationship with the United States Government;

(4) This subsection shall not prohibit the furnishing, upon lawful demand, of information to any regularly constituted committee of the Senate or the House of Representatives of the United States, or a joint committee thereof;

(5) In any judicial proceeding hereunder, the court may review, in camera, information designated as relating to intelligence sources and methods for the purpose of determining the reasonableness of the designation pursuant to paragraph (2) above and the court shall not invalidate the designation unless it determines that the designation was arbitrary and capricious;

(6) Whenever in the judgment of the Director of Central Intelligence any person has engaged or is about to engage in any acts or practices which constitute, or will constitute, a violation of this subsection, or any rule or regulation issued thereunder, the Attorney General on behalf of the United States may make application to the appropriate court for an order enjoining such acts or practices, or for an order enforcing compliance with the provisions of this subsection or any rule or regulation issued thereunder, and upon a showing by the Director of Central Intelligence that such person has engaged or is about to engage in any such acts or practices, a permanent or temporary injunction, restraining order, or other order may be granted.

SECTIONAL ANALYSIS AND EXPLANATION

The draft bill by adding a new subsection (g) to the National Security Act of 1947 further implements a proviso of that Act imposing a duty upon the Director of Central Intelligence to protect intelligence sources and methods from unauthorized disclosure. Where possible, the new subsection is based upon existing provisions of law specifically 18 U.S.C. 798 (relating to communication intelligence) and 42 U.S.C. 2204 *et seq.* (relating to atomic energy Restricted Data).

Paragraph (1) of the new subsection identifies the special and limited class of individuals having privity of access to the sensitive information defined in paragraph (2) below and proscribes their culpable communication of such information to an unauthorized recipient.

Paragraph (2) of the new subsection defines the special category of information relating to intelligence sources and methods which is subject to the new provision. It also authorizes the Director to provide for the appropriate designation of such information.

Paragraph (3) of the new subsection assures that only the special and limited class of individuals identified under paragraph (1) above will be subject to prosecution as a result of the violation of the new subsection. This is in keeping with the intent that the new provision penalizes as unlawful only the conduct of those whose access to the desginated information is dependent upon understandings arising out of a relationship involving trust and confidence. Collateral prosecution related to the violation of any other provision of law, however, is not vitiated by this paragraph.

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Paragraph (4) of the new subsection makes it clear that the new provision neither inhibits nor impairs, an any way, the lawful communication of any information to the Congress.

Paragraph (5) of the new subsection provides for judicial review of the reasonableness of any designation made pursuant to paragraph (2) above. This will ensure that the designation is not applied arbitrarily or capriciously. It provides that the judicial review will be conducted *in camera* to preclude the disclosure of sensitive information in open court and avoid aggravating the damage to intelligence sources and methods.

Paragraph (6) of the new subsection permits the Attorney General to petition a court for the injunction of any act which the Director believes will violate any provision of the new subsection. This authority is intended to provide prompt judicial action to avoid damage to the U.S. foreign intelligence effort in circumstances where punitive criminal action alone, being necessarily *ex post facto*, may be indadequate in achieving the underlying objective of the legislation which is to protect intelligence sources, methods and techniques from unauthorized disclosure.

CHANGES IN EXISTING LAW

Changes in existing law made by the draft bill are shown as follows: existing law in which no change is proposed is shown in roman; new matter is underscored.

NATIONAL SECURITY ACT OF 1947

as amended

(50 U.S.C.A. 403)

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TITLE I—COORDINATION FOR NATIONAL SECURITY

* * * * * * *

CENTRAL INTELLIGENCE AGENCY

SEC. 102

* * * * * * *

(g) In order further to implement the proviso of section102(d)(3) of this Act that the Director of Central Intelligence shall be responsible for protecting intelligence sources and methods as defined in paragraph (2) below from unauthorized disclosure—

(1) Whoever, being or having been in duly authorized possession or control of information relating to intelligence sources and methods, or whoever, being or having been an officer or employee of the United States, or member of the Armed Services of the United States, or being or having been a contractor of the United States Government, or an employee of a contractor of the United States Government, and in the course of such relationship becomes possessed of information relating to intelligence sources and methods, knowingly communicates such information to a person not authorized to receive it shall be fined not more than $10,000 or imprisoned not more than ten years, or both;

(2) For the purposes of this subsection, the term "information relating to intelligence sources and methods" means information relating to sources, methods or techniques concerning foreign intelligence which for reasons of national security or in the interest of the foreign relations of the United States has been specifically designated pursuant to rules and regulations prescribed by the Director of Central Intelligence for limited or restricted dissemination or distribution;

(3) A person not authorized to receive information relating to intelligence sources and methods is not subject to prosecution as an accomplice within the meaning of sections 2 and 3 of Title 18, United States Code, or to prosecution for conspiracy to commit an offense under this subsection. This immunity shall not extend to those persons described in paragraph (1) above who become possessed of information relating to intelligence sources and methods in the course of their relationship with the United States Government

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(4) This subsection shall not prohibit the furnishing, upon lawful demand, of information to any regularly constituted committee of the Senate or the House of Representatives of the United States, or a joint committee thereof;

(5) In any judicial proceeding hereunder, the court may review, in camera, information designated as relating to intelligence sources and methods for the purpose of determining the reasonableness of the designation pursuant to paragraph (2) above and the court shall not invalidate the designation unless it determines that the designation was arbitrary and capricious;

(6) Whenever in the judgment of the Director of Central Intelligence any person has engaged or is about to engage in any acts or practices which constitute, or will constitute, a violation of this subsection, or any rule or regulation issued thereunder, the Attorney General on behalf of the United States may make application to the appropriate court for an order enjoining such acts or practices, or for an order enforcing compliance with the provisions of this subsection or any rule or regulation issued thereunder, and upon a showing by the Director of Central Intelligence that such person has engaged or is about to engage in any such acts or practices, a permanent or temporary injunction, restraining order, or other order may be granted.

CENTRAL INTELLIGENCE AGENCY,
Washington, D.C.

Draft

Hon. CARL ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

Hon. GERALD R. FORD,
President of the Senate,
U.S. Senate,
Washington, D.C.

DEAR MR. SPEAKER: This letter transmits for the consideration of the Congress a draft bill to amend the National Security Act of 1947, as amended.

Over the years, serious damages to our foreign intelligence effort have resulted from the unauthorized disclosure of classified information related to intelligence sources and methods. In most cases, the sources of these leaks have been persons who were made privy to sensitive information by virtue of their relationship of trust to the U.S. Government. Deliberate breach of this relationship of trust to the deteriment of the U.S. Government is subject only to partial legal sanction. In most instances prosecution lies only if the offender makes the unauthorized disclosure to a representative of a foreign power or the prosecution must show an intent to harm the United States or aid a foreign power. Moreover, in many instances the requirement to reveal in open court the significance of information disclosed is a deterrent to prosecution.

Present, section 102(d)(3) of the National Security Act of 1947, as amended, places a responsibility on the Director of Central Intelligence to protect intelligence sources and methods. However no legal functions are provided for him to implement this responsibility. The legislation proposed in this draft bill would close this gap to the limited degree necessary to carry out a foreign intelligence program but at the same time give full recognition to our American standards of maximum feasible freedom of information and protection of individual rights.

The proposed legislation grants to the Director of Central Intelligence the authority to issue rules and regulations limiting the dissemination of information related to intelligence sources and methods of collection and provides criminal penalty for the disclosure of such information to unauthorized persons.

The proposed legislation is limited to individuals entrusted with the sensitive information described in the legislation by yirtue of their position as officer, employee, contractor, or other special relationship with the U.S. Government. Strictly from the standpoint of protecting the information, this legislation ideally would encompass willful disclosure to unauthorized persons by any person knowing, or having reason to know of its sensitivity. However, our American tradition would not permit a law sufficiently broad to apply to the media or other private citizens. Hence, application of the proposed legislation is limited to those given access to the information by virtue of their relationship to the Government.

In order to provide adequate safeguards to an accused, to prevent damaging disclosures during the course of prosecution, and to prevent prosecution with

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respect to information unreasonably designated, the legislation provides for in camera review by the court of the information disclosed to review the reasonableness of the designation for limited distribution. The legislation also provides for injunctive relief in those instances where unauthorized disclosure is threatened and serious damage to the intelligence collection effort would result.

We would appreciate early and favorable consideration of the proposed bill. The Office of Management and Budget has advised that there is no objection to presenting the proposed bill to the Congress from the standpoint of the administration's program.

Sincerely,

W. E. COLBY, *Director.*

COST ANALYSIS

This legislation does not involve any measurable costs. Any court costs to the Government would be more than offset by the savings that would result if the legislation deters the compromise of sensitive sources and methods which, if compromised, would require extensive and costly counteractions to mitigate the damage and to offset the advantages to the opposition.

CIA BUDGETS

Mr. SIKES. The aura of secrecy surrounding the CIA budget has possibly contributed to some of the charges and suspicions directed at the agency. We, in the Congress, currently publish the amount of the Defense Intelligence Agency budget without printing details, and we have seen no adverse effects on DIA's ability from this to conduct intelligence operations.

What would be your reaction to doing the same thing with the CIA budget, in order to help alleviate public apprehensions?

Mr. COLBY. Mr. Sikes, I have taken the position that that question is up to Congress in its constitutional right to handle appropriations.

I have, however, said that I would think it unwise to make the CIA budget public, not because that single figure in any one year would be any great thing, but if you publish it over a series of years, you could draw trend lines. You would immediately raise the questions: Why did it go up? Why did it go down? What is it made up of? And I think you would very shortly be into details of how it was constituted, and that would indeed reveal some very critical information.

I wish I knew that much information about the KGB's budgets.

Mr. SIKES. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Addabbo?

DISCONTINUANCE OF CERTAIN DOMESTIC ACTIVITIES

Mr. ADDABBO. Thank you, Mr. Chairman.

Mr. Director, what domestic activities, if any, have been actually discontinued because they are either being considered illegal or unwise since this has been published in the press?

Mr. COLBY. In our review of all of these, Mr. Addabbo, we found a number of things which we thought were unwise, such as the collection of files on Americans incidental to our other activities. We also on some occasions had collected files of Americans as a help to identify possible leads to intelligence operations, or we had collected files on Americans who had incidentally come up, in the course of security investigations of other people, and this kind of thing that was incidental to the main function.

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We have put out very strict instructions that any files we do have of Americans must be clearly justified by their primary purpose, and must be clearly identified and must be kept in a fashion which does not in any way constitute a black list or any other kind of police type dossier.

We also have reviewed our relationships with various other Government institutions within the Federal Government and within the other parts of our constitutional structure, and we have made it clear in that review and in the instructions given out, that we are to avoid involving ourselves in the domestic activities of any of those agencies even incidentally.

Mr. ADDABBO. Your basic obligations to obtain intelligence which helps us in our national security, and the time of the surveillance of Americans here in the United States, was at a time when we actually had servicemen engaged in active combat in South Vietnam; is that correct?

Mr. COLBY. Yes.

INTELLIGENCE ON NARCOTICS TRAFFICKERS

Mr. ADDABBO. At the same time that we had our servicemen directly involved in South Vietnam, part of our national security, I believe, was deeply affected by drug abuse as being widespread throughout our own armed services in Vietnam.

During this same period, was any surveillance made of South Vietnam officials as to their engagement in drug traffic or their misuse of American dollars, the funding of so-called ghost battalions, et cetera? Was any investigation made by you as far as those foreign nationals were concerned?

Mr. COLBY. We do engage in a program of collecting intelligence on foreign narcotics traffickers around the world in various places. We did this as an element of the Cabinet Committee on International Narcotic Control that was set up in 1972. We assisted the now Drug Enforcement Agency to get its foreign program established so that eventually it could take over certain aspects of the intelligence function which could then permit us to get back to our major function. Our national security includes not only military security but also our political security and our economic security, so it expands beyond the purely military problem.

With respect to coverage of other nations, we certainly are alert to and do collect intelligence on other countries in matters of importance to us—to the United States. I would rather not go into detail in an open forum as to what we have collected, because it does indicate our abilities, and it also raises diplomatic problems in some areas, but in the executive session I would be very happy to.

Mr. ADDABBO. We will be in closed session tomorrow. Will you be able to develop this further, and especially relative to the Government officials of South Vietnam?

Mr. COLBY. Of various countries, I think, I can cover various countries.

Mr. ADDABBO. Are there any private investigators currently under contract to the CIA?

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Mr. COLBY. Mr. Addabbo, that kind of private investigator charge has been levied by various people because of an incident in which a gentleman that did have a contractual relationship with us was believed to be an investigator. He was rather a collector of open information. He was not doing investigations on individual Americans.

There are situations, however, in which we do have people who are working for CIA who appear as private individuals, although they are actually working for us. They conduct security investigations on applicants whose plans to work for CIA should not be revealed, for example.

We do not want their neighbors to know that a man is to work for CIA, and then find him working for the XYZ Export Corp. in some foreign country, because the reference to that fact gets around, and can reveal his connection with us to his detriment.

Mr. ADDABBO. Have you also used foreign intelligence or police organizations to check out your security people or Americans abroad?

Mr. COLBY. On occasion there are problems that start in America, and the individual goes abroad. At that time, the FBI may not be able to follow the individual abroad, and if it is an intelligence question as distinct from a criminal question, the FBI may come to us and ask us to see what we can do abroad, in which case we may go to friends abroad to see if they have any information on that individual.

RELATIONS BETWEEN THE CIA AND THE FBI

Mr. MAHON. It has been reported, Mr. Director, that there has been friction upon occasions in the past between the CIA and the FBI with respect to these matters. Would you level with us in regard to that matter?

Mr. COLBY. I will certainly level with you, Mr. Chairman.

Mr. MAHON. All right.

Mr. COLBY. The relations today between the FBI and the CIA, I think, have never been better. They are excellent both at the top level, between Mr. Kelley and myself, and at the working level of our various officers who collaborate.

In the past, there was at least one occasion which caused some trouble at the top between the FBI and the CIA. At that time, however, the working relationship of the officers who had to work together continued with considerable effectiveness despite the fact of some coolness at the top.

Mr. ADDABBO. Mr. Director, recently there was a story by Tom Braden on the "Imperial Presidents" and the CIA. In that column, Mr. Braden quotes former Director Helms: "Who would have thought that it might some day be judged wrong to carry out the orders of the President of the United States?"

Then Mr. Braden goes on to describe the type of men who joined the CIA. Men who started with the OSS in World War II, served with great personal courage during the "cold war," et cetera.

Mr. Braden also describes what he calls the rise of the "Imperial Presidency," under which the Presidency became more and more powerful and less and less accountable.

Mr. Braden concludes by asking:

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"Is it not possible that men who have learned to do everything in secrecy, who are accustomed to strange assignments and who think of themselves as embodying their country are peculiarly susceptible to imperialistic Presidents? Have they not in fact trained themselves to behave as a power elite?"

Is that the same theory that is in the CIA today, or have you changed your opinion?

Mr. COLBY. I do not think so, Mr. Addabbo. I think that the relationship to the President is very clear. I serve at his pleasure. At the same time in my confirmation hearing I was asked what I would do if I were asked to do something improper. I made it very clear that I would no longer continue in the job. That is very plain.

I think the personnel of CIA rather than being of the somewhat mystical character that is outlined in that article are really loyal, patriotic Americans who believe in the American constitutional system, and they devote their lives to it, and I believe they stand as well as Americans as any other American citizen.

Mr. ADDABBO. And they would be guided by your directives and not by directives furnished for them.

Mr. COLBY. That is the directive I am giving now and I think there is no question about it. I think the patriotism of our people and the dedication that they give to our country bespeaks a patriotism to the country as a whole and not to any individual branch of the Government of the country.

Mr. ADDABBO. Thank you.

Thank you, Mr. Chairman.

Mr. SIKES. I thought he was asking you if you had stopped beating your wife.

Mr. ADDABBO. I wouldn't ask him that question.

Mr. MAHON. Mr. Director, the new senior minority member of this subcommittee is now Mr. Edwards, as you know, of Alabama, a dedicated and able member from Alabama.

I now yield to Mr. Edwards.

Mr. EDWARDS. I thank you, Mr. Chairman.

Mr. Colby, it is nice to have you with us today. I am interested in your general mission as you envision it.

I guess there is no question that by and large you are charged with telling us what is going on in the world or at least knowing what is going on in the world.

MISSIONS AND ACTIVITIES OF CIA

I wonder if you would compare that part of your mission with the question of to what extent you are charged with influencing that which goes on in the world.

Can you address yourself to that?

Mr. COLBY. I can indeed in general terms if I may, Mr. Edwards. This does come in part from the provision of the National Security Act that the chairman quoted, "such other functions and duties."

At the time CIA was established, it was shortly after World War II, and the predecessor organization had had an extensive activity in the political and paramilitary field during the war.

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We then went into the worldwide confrontation period with the Soviet Union and the containment of its expansion, and a very substantial percentage of the budgets of CIA, during the 1950's were devoted to paramilitary and political activities of a covert nature where the American hand was concealed, even though from time to time it has come out either since or at the time in a few cases.

During the midsixties this continued with the growth of insurgency around the world, and CIA was asked to and did help in various programs of that nature. The best example really is the situation in Laos, in which it was decided by our Government that it did not want to use its military forces, its uniformed troops, to help the Lao defend themselves against the North Vietnamese and they asked CIA to do it quietly.

We did it and I believe quietly. We did it with a very small staff and a very small expenditure of money compared to other kinds of activities of that nature, and at the end of a 10-year period the battle lines in Laos were about where they were when they started, at a very small investment of American personnel and equipment.

The turn of the world in the last 5 years has meant that there is much less need for this kind of activity, and today the percentage of our efforts in this field is very small, very small indeed. But I do think there are occasions where it is important that our country be able to respond to some threat flexibly rather than in a regular uniformed fashion. There are situations in which a little help to a few friends can stave off or defuse a problem which can otherwise grow to a very serious one in later years.

After approval by the 40 Committee of the National Security Council to make sure they are in line with overall U.S. policy, the CIA carries out the activity. Under the Foreign Assistance Act of 1974, they must also be reported to six congressional committees, three each in the House and Senate, after the President has made a finding that they are important to the national security.

I think there are indications that the Nation expects this to be done. The House and the Senate by 3 to 1 majorities last fall voted down suggestions that CIA not be authorized to conduct these activities. I think we have to do them professionally. I think we have to be very selective in where and when we do them, but I think they can contribute to the safety of our country and the welfare of our citizens.

Mr. EDWARDS. I am concerned, as I think many members are, that the effort to find out more about the CIA can get out of hand. We in the House have just passed a resolution calling for a select committee. The Senate has one. The Rockefeller Commission is in being.

To what extent are you or is your agency spending time now in making preparations for all of this?

Mr. COLBY. Of course I am spending considerable time, but below me we divide into different elements. Mr. Clarke is taking on the job of being one of my principal assistants for this purpose, but we at the same time have arranged ourselves so that the work of the agency will continue.

I am not so much worried about the work impact that this review will have on us. I am more worried about the exposure, potential exposures, and the effect on the morale of the agency and of the people we work with.

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Mr. EDWARDS. I think that depends in large part on what hopefully will be good judgment——

Mr. COLBY. Right.

Mr. EDWARDS [continuing]. On the part of those in the House and Senate who are involved in this.

How do you draw the line between the CIA and the FBI or perhaps other intelligence agencies?

Mr. COLBY. The simplest one is between the CIA and the FBI, and the basic one is foreign or domestic. Obviously along the edge there there are some places in which there is some overlap, but anything that goes on in the United States is coordinated with the FBI. Anything that CIA undertakes in the United States we coordinate with the FBI, and correspondingly if they get involved abroad, they would be in consultation with us and ask us to do the job.

With respect to the DIA, that is fairly clear. They focus on military intelligence. They collect and analyze military intelligence and produce military conclusions. CIA has a separate capability of reviewing military intelligence as well, because I cannot be in a situation where I make a national estimate to the President, which depends totally on somebody else. I have got to be able to assure myself that it is actually the way I think, and I need some staff to support me to make an independent judgment of that fact.

With respect to the other elements of the community, I think they fall into fairly simple patterns. The State Department obviously collects political intelligence; Treasury, financial and economic sorts of things; and then we put them in a community effort together.

WRITTEN AGREEMENTS BETWEEN CIA AND OTHER AGENCIES

Mr. EDWARDS. Is there such a thing as a written agreement between CIA and any other agency?

Mr. COLBY. There are several. There is particularly a series of National Security Council intelligence directives which assign roles and missions to the different elements of the intelligence community, and then, in addition, there are certain agreements between the FBI and CIA and so forth to decide how they will go at certain problems.

Mr. EDWARDS. Is there a lot of bureaucratic scuffling going on between all of you? It looks like we have quite an intelligence network here.

Do you run into that very much, or what kind of liaison do you have?

Mr. COLBY. There is much less than there used to be. I confess that in the 1950's there was a considerable competitive spirit going on between the various agencies, there is no question about it. I think we have all grown up in intelligence, and we have worked out our patterns and our relationships much better. The President has assigned me the chore of providing leadership and coordination to the whole community, and while I do not have authority over some of the other agencies, I do have authority to look into what they are doing, and to make recommendations about whether they are doing too much or too little, or to figure out where the lead should be.

Mr. MAHON. Will you yield a moment?

Mr. EDWARDS. Surely.

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Mr. MAHON. What can you tell us about any conflict between Dick Helms of the CIA and the military at one stage?

Mr. COLBY. I am not quite sure what you are referring to, Mr. Chairman.

Mr. MAHON. I am referring to the division of responsibility in the field of intelligence, and some of the frictions that may have occurred at that time.

Mr. COLBY. I am really not that well informed on that, Mr. Chairman. I think that obviously whenever a new area comes up, there is a question about how it should be approached and so forth. I have made some changes in the structure of the intelligence community to hopefully enable us to approach that sensibly, and get the questions out on the table, and take a look at them.

Mr. MAHON. In dealing with the military?

Mr. COLBY. Yes. I deal directly with the heads of the other agencies.

Mr. EDWARDS. Have there been occasions when the FBI, for example, has refused to carry out a request of the CIA?

Mr. COLBY. Oh, yes. I think there are times in which their priorities were such that they just felt that they could not devote the time and effort following it up that we might have asked for.

Mr. MAHON. How do you resolve that type of problem?

Mr. COLBY. I think you have to then see if you can work it out with the head of the FBI, work it out in some sensible fashion. Of course there is a pyramidal command structure above. There is the President who is above them all and if it is a very serious problem, you can go up to the top.

Mr. EDWARDS. I thank you.

Mr. MAHON. Would you like to be recognized at this time, Mr. McFall?

Mr. MCFALL. No. Go ahead with Mr. Giaimo and Mr. Flynt.

Mr. MAHON. Mr. Giaimo?

Mr. GIAIMO. Mr. Director, sometime ago you said "I wish I knew as much about the KGB's budget."

Isn't this part of the problem not only here today but throughout this year insofar as the intelligence agencies of the United States are concerned; namely, the fact that the role of an intelligence agency in a free society such as the United States has to be different from that of the relationship of the KGB to the U.S.S.R?

Mr. COLBY. Absolutely. That is the statement that I have said many times, that we have to run an American intelligence service.

Mr. GIAIMO. One other thing. There has been a great deal of concern expressed here about maintaining the integrity of your agency, and certainly I above all want to maintain the integrity of your agency. I've yet to have heard one word from anyone either on your side of the table or on ours of the concern which has grown in present years, and is at a height today about the concern of improper activities of intelligence agencies insofar as they may infringe upon the rights of American citizens.

Shouldn't that be our primary concern?

Mr. COLBY. Mr. Giaimo, I have indicated that I think we have done things that are improper. I would not say though that that is my primary concern, because those instances were few and far between,

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and I think it would be a mistake to throw the baby out with the bathwater.

Mr. GIAIMO. I agree with you. We don't want to throw the baby out with the bathwater, but I am sure that you don't intend your statement to stand which would give someone an inference that the rights of citizens are not paramount to the rights of the existence of an agency.

Mr. COLBY. I think the rights of the citizens under our Constitution are paramount.

Mr. GIAIMO. All right.

Mr. COLBY. But I think that the infringements of those rights in the past have been so few and far between and so exaggerated as to put into jeopardy the continued ability to conduct an intelligence service in America.

Mr. GIAIMO. Now, there are three areas of concern today. One is the adequacy of oversight of the intelligence community by the executive and by the Congress.

Another is the allegations of impropriety.

A third is whether your mission today, under the law, should be the same as it was when the laws were written going back to the early 1950's, particularly in the area of covert activities in other countries.

These are quite properly being studied by other committees of the Congress including the new one that the House created yesterday and on which I will serve. I am sure that is the proper committee where we should address those questions. Certainly you would say they are legitimate areas of concern?

Mr. COLBY. Certainly, Mr. Giaimo. I expect a very thorough investigation into all three elements.

BUDGET OVERSIGHT

Mr. GIAIMO. In this hearing today we are primarily concerned with the budget of your agency, and the adequacy of oversight by this committee on your budget; is that correct.

Mr. COLBY. I think so, yes, Mr. Giaimo, although I yield to the committee to decide what it wants to ask about.

[redacted] as I am concerned, this committee is one of my oversight committees, and I am responsive to it.

Mr. GIAIMO. Now, I would like to give you a scenario, to use a much used 1974 term in congressional hearings.

We will take a young Congressman who was young when he came to Congress from North Haven, Conn. He served in the Congress for 16 years, served on the Appropriations Committees since 1963. That is 12 years. Served on the Defense Subcommittee, which covers your budget, the budget of the CIA.

When he goes home and tells his citizens, all half a million of them, that he has absolutely no idea of the size of your budget, of where it goes, of what your agency does, his citizens in most instances look at him in utter shock and disbelief.

Would you comment on that, as to whether you think that constitutes adequate oversight by the Congress of your budget, of the fact

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that your budget, as you know, is concealed in the defense appropriation bill and cannot be identified, nor can the various functions of it be identified; also of the fact that in a 55-man Appropriations Committee, there have been only 5 members who had oversight over the CIA?

Will you comment as to whether you think that is adequate oversight by the Congress, and whether or not it should be of concern to us today, in view of the conditions which prevail?

Mr. COLBY. Mr. Giaimo, I think my only area of comment is whether the committee has exerted oversight over me. The number of people included on the committee is a matter for the Congress to determine. That particular argument goes for all the other Members of the Congress, too, but the Congress does operate on a committee system.

If there is some change desired, I have indicated many times that we will adjust to it, but I think that question is really properly posed to the Congress rather than to me.

Mr. GIAIMO. And yet didn't you say that you would not like to have the budget figures of the CIA set forth in the legislation, in response to a prior question?

Mr. COLBY. That, I would prefer—I would counsel against publishing those figures. That was a different question than the one you raised, I believe, Mr. Giaimo.

Mr. GIAIMO. You would have no objection to our publishing and setting forth in our legislation and report the amounts of monies given to the CIA.

Mr. COLBY. I believe I said, Mr. Giaimo, that I would counsel against publishing in that fashion. The extent to which the Congress allows other Members to know the figure privately is a matter for the Congress, not for me.

Mr. GIAIMO. But then in effect what you are saying is that all of these things are measures for the Congress to determine, but you counsel and advise against our changing the present system.

Mr. COLBY. I do not counsel one way or the other about the number of Congressmen to be brought into it. I do counsel against publicizing the figures.

Mr. GIAIMO. Then would you object if we took all of the Members of Congress into the confidence of your budget and of your activities?

Mr. COLBY. I could not object, Mr. Giaimo. That is in authority of the Congress to do if it wishes.

Mr. GIAIMO. I understand that, but you are an expert witness. You are a member of the administration, and we do have you up here as witnesses to counsel and advise us as to what the best procedures would be in the public interest.

Would you recommend to us that we follow this procedure?

Mr. COLBY. No; I would not, because the secrets we have learned in the intelligence business are kept proportionate in great part to the number of people involved, and the more important the secret, the more we compartment it, the fewer people we allow.

Mr. GIAIMO. Secrets, of course, let's get into that. Certainly we would not want to jeopardize the lives of agents or employees of your agency who might be involved in intelligence activities.

Mr. COLBY. I appreciate that.

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Mr. GIAIMO. But what about activities that you perform, particularly in the area of covert activities.

Would there be any objections to advising us of those activities before the fact rather than after?

Mr. COLBY. Under the Foreign Assistance Act today we are required to advise six committees of the Congress.

Mr. GIAIMO. As of when?

Mr. COLBY. As of December 30.

Mr. GIAIMO. So that until then you have not had to.

Mr. COLBY. Until then we have included it in our normal annual appropriations consideration and our normal oversight reporting.

Mr. GIAIMO. Which as we said earlier was privy to five people on the committee.

Mr. COLBY. And expanded in very great detail to those committees.

Mr. GIAIMO. So then to this extent that you are now reporting to a larger number of Congressmen we are getting a greater degree of oversight; is that correct?

Mr. COLBY. I am getting plenty of oversight, Mr. Giaimo, that is for sure.

Mr. GIAIMO. You are not objecting to oversight if it is properly conducted, in order to make certain that your agency and any agency is operating adequately, are you?

Mr. COLBY. Not a bit. I am expressing some concern at the degree of detail and the degree of depth into which the inquiries into our affairs go, because what may appear to be an innocent question, such as how many people do we have in country X can alert country X to start to look a lot harder for our people and begin to find them. It is the question of where on the detail scale you stop and where you keep going?

Mr. MAHON. Of course we will have another go around.

The gentleman from Georgia, Mr. Flynt.

Mr. FLYNT. Mr. Director, first let me say that I concur in the statement made during the colloquy between you and Mr. Giaimo, that the rights of an individual be paramount to the rights of an agency, but I don't want to leave that statement hanging right there.

I want to ask you if you believe the security of this country is paramount to the rights of an individual, upon whom you have information that he may be acting in collaboration with a foreign government, which may be trying to destroy this country.

Mr. COLBY. I think there are ways in which I can react to that situation in perfectly legal and constitutional ways, Mr. Flynt, and I think the individual does have certain constitutional rights that I, the Department of Justice, and the courts will respect whatever he does. We have had trials—public trials—of agents of other powers in this country before, and we can protect ourselves with due consideration to the rights of the individuals.

Mr. FLYNT. I certainly express the hope as one member of this committee that when you have information that an American citizen in the United States is conspiring and collaborating with a foreign power, whose interests may be directly opposed to the interests of this

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country, that you and your agency will use every capability at your command to ascertain what he is doing to further that——

Mr. COLBY. I am absolutely obliged to bring that to the attention of the proper authorities by which I include the FBI, and under the hypothesis that the chairman mentioned—that they would not act—then I would have to go up above the FBI to see that some action is taken.

I did, Mr. Flynt, take an oath that all of us took to support and defend the Constitution of the United States against all enemies—foreign and domestic. I do not think anyone in CIA dropped the last two words off the oath.

Mr. FLYNT. I hope that you don't.

RELATIONSHIPS WITH POLICE FORCES

In your prepared statement, your opening statement, you referred to allegations of your relationships with local governments and especially police departments of local governments.

Would you expand on that at this time?

Mr. COLBY. Yes, Mr. Flynt. We had relationships with a variety of police forces around the country. The security officers doing investigations on applicants, contractors, and so forth, obviously keep in touch with the local police forces. They ask for information about the individuals. They want to make sure that the local police force knows that they are operating there and looking around so that they don't get arrested, and from time to time over the years there were various mutual courtesies extended.

In some cases we provided some training to police forces. This has come under criticism, and has stopped.

The question has been raised by one Congressman whether we should reveal the names of all those police forces. Certain of the police forces have given us permission to reveal their names and we have, or they have, come out separately, but there are others that asked us not to.

Since the arrangement was established some years ago on a basis of confidentiality, I felt obliged to turn down the request for the publication of the names of those police forces, because a great number of American citizens are very worried about whether CIA is going to reveal the fact that they worked with CIA—and I don't mean police forces, I mean a lot of businessmen, academics, and everything else. I must indicate to those people that I am going to protect their names.

Mr. FLYNT. If during the course of investigation you should be required to publicly reveal the progress of that investigation, what would be the effect?

Mr. COLBY. On some of them it would be disastrous, Mr. Flynt. There is no question about it.

Mr. FLYNT. Expand on that.

Mr. COLBY. I have been approached by Americans who have considerable investments in their good name and in their businesses and work abroad who have expressed great concern over the fact that they will be revealed as somehow having collaborated with CIA, because it will destroy their business, and can besmirch their reputation because of

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the way in which allegations of CIA activities have been described. There may be nothing wrong with whatever they did but that fact will never catch up with that allegation.

Mr. FLYNT. I may have to clarify my question. You may not understand the full thrust of it.

If you are required to divulge the full progress you are making in an investigation, would it not destroy any possibility you have of completing to a successful conclusion that investigation?

Mr. COLBY. Certainly. There are various ways in which we get information today, Mr. Flynt, that can be turned off with a flick of the switch if somebody knows we are getting it.

Mr. FLYNT. Is it not also true that even when an investigation is completed, if you divulge the sources of your information, you may dry up those sources forever?

Mr. COLBY. Very much so. That is one of the things we are very much concerned about right now on several particular activities.

Mr. FLYNT. Therefore, in the field of intelligence gathering, as in the field of any type of investigation, civil or criminal, is it not necessary to protect your sources if you expect to be able to continue in the intelligence gathering business?

Mr. COLBY. This is something that the intelligence business has in common with the media, Mr. Flynt. We both have to protect our sources.

Mr. FLYNT. Thank you.

Mr. MAHON. Mr. Robinson, do you have questions?

Mr. ROBINSON. Thank you, Mr. Chairman.

Mr. Colby, you have mentioned several specific steps, one in particular with regard to records that have been kept on Americans subsequent to inquiries that have been made.

Can you recite other changes that have been made, other directives withdrawn or modified to assure that any valid criticism of the CIA will not again occur in these areas?

For example, the use of local police department credentials, such as was recently publicized.

Mr. COLBY. Yes. I think that that is clearly covered in the relationships with local police forces. No assistance will be extended in that sense.

There are a variety of others which I frankly would like to go into the executive session, but there are different ways in which American names can come into our possession, and we are taking steps to make sure that if these do come into our possession, they come in for a perfectly legitimate and proper reason, and are not kept or are not even accepted if there is not a clear justification for the existence of that name in our files.

Mr. ROBINSON. For example, will you cover what disposition is made of the investigation of applicants for jobs in the CIA that are rejected?

Mr. COLBY. Well, I think it almost essential in that case that we keep the record.

Mr. ROBINSON. I do also.

Mr. COLBY. But we would keep it in a separate category so that it is clearly marked as the record of an applicant. It is not a suspect list or anything of that nature. It is merely that this gentleman applied, we looked at him, we decided—we investigated him, and we decided not

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to hire him. The file is retired. It is sent out to Virginia to a records center we have and it just lies there but we can recapture if we have to, if he applies again some day.

Mr. ROBINSON. Mr. Colby, obviously your agency has to operate with a very low profile.

Mr. COLBY. It is getting a very high one these days.

Mr. ROBINSON. I know, undesirably so in my view.

Does the CIA have in its structure what most agencies refer to as a PR staff?

Mr. COLBY. We have one officer with one assistant to the director, just to handle the telephone calls, quite frankly. He has about two or three ladies that work with him to help keep up with this flood of news clippings that we get on ourselves these days, and that is the extent of it.

We do not have an active public relations program.

We have taken the position that we will try to respond to requests for information to the extent we can, but we are not on a positive public relations program.

CONTRACTING ACTIVITIES

Mr. ROBINSON. You mentioned the contract activity that goes on in terms of contracts that you let.

What proportion of your intelligence gathering functions would you say are carried out under contract as opposed to those that are carried out by CIA personnel?

Mr. COLBY. Well, a rather small portion of the actual collection, I would say, a very small proportion of the actual collection. However, in the research and development of new technology, we can get into quite large sums in some of the complex machinery that is required for intelligence. Most of that would be handled jointly between ourselves and the Department of Defense.

MAKEUP OF INTELLIGENCE COMMUNITY

Mr. ROBINSON. You mentioned that the President has given you the responsibility of heading up the intelligence gathering community in terms of conferring and collaborating within that community.

Can you tell us what you consider to be the agencies that make up the intelligence gathering community?

Mr. COLBY. Surely. These are outlined in a National Security Council Intelligence Directive. They are included in the U.S. Intelligence Board, of which I am the chairman. The agencies involved are CIA, the intelligence part of the State Department, the intelligence part of the Treasury Department, the Defense Intelligence Agency, the National Security Agency, the three service intelligence agencies, Army, Navy, and Air Force are associates of the board, because they vote through the Defense Intelligence Agency. The Energy Research and Development Administration is an observer, and the Federal Bureau of Investigation is an observer.

Mr. ROBINSON. Thank you, Mr. Chairman.

Mr. SIKES. Mr. Chappell, any questions?

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Mr. CHAPPELL. Mr. Colby, to what extent do the three services depend on the CIA for each of their information?

Mr. COLBY. We work together, I would say, Mr. Chappell. The services run certain of the intelligence operations, particularly some of the technical intelligence operations. They actually run them, and then they feed the results into the intelligence community, where they are processed and turned into conclusions. At the same time we provide to the services and to the overseas commands the results of CIA's collection and analytical work, the final reports and the assessments and estimates.

The services participate in the consideration of a national estimate, such as what is going on in country X. They will participate with us in trying to find out the best answer there.

Mr. CHAPPELL. There is no duplication actually between the intelligence work of the services, I assume, and the CIA.

Mr. COLBY. There is some conscious duplication quite frankly. I have an element of CIA which does military intelligence. It is a small element, but it does review and make its own judgments about military intelligence, and sometimes those differ from what the military intelligence agencies conclude, and then I have the problem of deciding which one I think is right, and then reflecting the fact that somebody disagrees with me.

Mr. CHAPPELL. Suppose the Defense Department had the need for the surveillance of a particular ship that is to leave a particular country and needed to have information on its cargo, the origin of the cargo, et cetera.

What part would the CIA play in the gathering of that surveillance information?

Mr. COLBY. We might have a source in that area which could tell us something about the cargo. We might have an ability to observe it when it went some place in some near area where it was near to land. We might have a relationship with a foreign intelligence service that tells us about its stop in that country, or its movement some place else. The Navy would probably follow it, if it were that important, follow it more precisely.

When all the information was gathered back here in Washington, it would be made available to both the services and to ourselves, and we would look at it, and we would see if we agreed on the conclusions.

Mr. CHAPPELL. So that if the Navy was rigging the ships or this particular ship, that information would not only go to the Navy; the naval intelligence would also be fed to you; is that correct?

Mr. COLBY. Oh, yes, very much so.

Mr. CHAPPELL. So that you are accumulating it all.

Mr. COLBY. Right.

Mr. CHAPPELL. You would be the only place where all of this information would be available; is that correct?

Mr. COLBY. No; the way modern communications work, it might be available several other places. In the particular instance you describe it would undoubtedly be all collected in the DIA too, because what the CIA collected would be given to the DIA and vice versa.

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Mr. CHAPPELL. But this is one of the main purposes of the CIA is to have a central place where all of this information is assembled.

Mr. COLBY. Right.

Mr. CHAPPELL. And made available to the services.

Mr. COLBY. CIA would include the material that we got from, say, some other source, State Department or somebody else that really was not involved or knowledgeable of what the Navy had collected perhaps, but in our place we would have the whole of the information.

Mr. CHAPPELL. Do you depend on contract work with private investigators in investigations in this country?

Mr. COLBY. In some cases, as I say, we do have our own people who appear to be non-government people. They appear to be private people. They do investigations of people that we have to investigate, because they are coming to work with us, but we don't want the neighbors and other friends of the person being investigated to know that CIA or sometimes even the Government is interested in it.

Mr. CHAPPELL. So what you are saying is that you don't actually use private investigators.

Mr. COLBY. We don't go out and hire the *X Y Z* private eye.

Mr. CHAPPELL. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Burlison?

Mr. BURLISON. Thank you, Mr. Chairman.

Mr. Director, I assume that you will exercise your option to answer questions in the closed session tomorrow as we go along.

Back some time ago it was alleged that the CIA collaborated with the narcotics officials in setting up bugged apartments in certain of our large metropolitan cities for the purpose of sex traps for blackmail of foreign diplomats. I believe it was in the early 1960's when it has been charged that this was taking place.

Is there any substance in that allegation?

Mr. COLBY. I won't say that sex and intelligence never got together in work, but I would really like to talk about the relationship with the Bureau of Narcotics and Dangerous Drugs privately, if we could.

ACCESS TO MAIL OF AMERICAN CITIZENS

Mr. BURLISON. Your agency has admitted taking a look at the mail of American citizens?

Is this true?

Mr. COLBY. There were occasions in which we had a relationship where we could get access to mail going to our citizens from foreign countries, mostly Communist countries, and we did get hold of some of that mail and some of it was opened.

That activity began, I believe, in 1953 and was terminated in 1973 and we do not and will not do this any more.

COLLABORATION WITH POSTAL OFFICIALS

Mr. BURLISON. I assume that obviously there was close collaboration with the postal officials to carry out such an operation. Was this a matter handled directly between the Director of CIA and the Postmaster General? Did that have to be cleared in each instance at the top or was there someone else authorized to grant that authority?

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Mr. COLBY. The activity was worked out at different levels of the Postal Service in the different activities. I can give you the specifics on that in a separate forum, but I know that in some cases it was at a very high level and I think in some others it was not.

Mr. BURLISON. If you would prefer to do it in a closed session I would request that you be prepared to give us the details tomorrow as to the specific individuals involved and the specific instances in which this was done.

Can you do that?

Mr. COLBY. Yes; I will be prepared.

AUDIT AND REVIEW PROCEDURES

Mr. BURLISON. Finally, because of our serious time limitations, it has been suggested in some quarters that the GAO be authorized to audit your agency. What do you think of that suggestion?

Mr. COLBY. Well, when CIA was first established an act was passed by the Congress which said that certain of our funds could be certified by me alone, and be subject to no further review.

For the first several years we worked with GAO and we divided our funds into those which did have to be kept very sensitive and very secret and others which did not, and the GAO audited the latter, so that they audited part of our activities but not the whole.

The GAO then decided that they could not give a proper, full audit of the portion they were dealing with if they couldn't get the rest of it and as a result we in CIA, in connection with the appropriations committees, established our own audit procedure and our own review procedure.

We have an independent audit that follows exactly the same principles as the GAO but it is submitted to me and I certify it. If you could separate out and protect the sensitivity of some of the items, some of the particularly sensitive items, then I would certainly have no objection to GAO reviewing the other material.

Mr. BURLISON. Thank you, Mr. Director.

Thank you, Mr. Chairman.

Mr. MAHON. Mr. Kemp.

Mr. KEMP. Thank you, Mr. Chairman.

Mr. Director, I want to say as a new member of this subcommittee and as a new member of the Appropriations Committee that I applaud your candor and your forthright testimony in these hearings and I for one think a lot of good can come from the hearings.

Mr. MAHON. Let me interrupt, if I may, Mr. Kemp.

You are a new member of Appropriations and a new member of this subcommittee but we welcome you here, and we are expecting great things of you and we think you will do an excellent job.

Mr. KEMP. I appreciate that, Mr. Chairman.

Mr. MAHON. I am sincere in my appreciation.

Mr. KEMP. I appreciate your kind words, Mr. Chairman, and look forward to working with you and the committee.

Mr. Colby, I want to say that I agree with the chairman on the need for an intelligence-gathering organization and filling this organization with highly motivated people—people with an ethical compass,

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who understand the difference certainly between ends and means, and this is important, I think, in helping restore this country's faith and confidence in government as well as an understanding of the need for such an organization in a still dangerous world.

Personnel Morale

I want to ask a couple of questions about the morale of the Agency. Can you give us some general comments about these hearings and what all this publicity has done to the morale of the Agency?

Mr. Colby. The morale, to be perfectly honest, right now is bad. The Agency is comprised of a variety of different kinds of people. Some of the people in the Agency believe that we should tell everything we ever did. Others feel that we should tell nothing. They are both wrong. I think the way we are going to have to solve this is, we are going to have to tell as much as we can, we are going to have to recognize there are certain limits, and we are going to have to count on a sense of responsibility of the committees that will be reviewing us, and I am confident that they will hold that kind of exposure down to things that can be exposed.

I long ago tried to distinguish between good secrets which need to be kept, nonsecrets which don't need to be kept, and bad secrets which should not be kept, and I think we are going to have to find the balance and identify the limits between those and I think the end results of the investigations—the look at our charter, at our proper limitations—will give everyone clear guidance as to what is expected.

Mr. Kemp. Along those lines, on page 15 of your testimony you mention that you are confident that when these investigations are concluded the allegations above massive illegal domestic intelligence operations will be answered to the satisfaction of the Congress and to those making these investigations.

Administrative Changes in Intelligence Activities

I wondered in light of that testimony why the very able counterintelligence expert, Mr. Jim Angleton, was either let go or dismissed? Could you help clarify that particular aspect?

Mr. Colby. Surely. Mr. Angleton was not fired. He is a man who gave great service to his country and did a very good job. He and I had some differences as to how some of this activity should be managed and how it should be run, and at a particular point I made certain administrative changes in his responsibilities and offered him a chance to move to another activity—but I felt it essential to put some successor leadership in the activity he had been doing and to rearrange part of the activity that he had been doing.

He chose to retire. He is still working for us on a contract for 2 or 3 months more to help us in the transition to the time at which he will no longer be with us.

Mr. Kemp. Do you think it would be helpful for this committee to perhaps talk with Mr. Angleton?

Mr. Colby. If the committee would like to, he certainly can be made available.

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Mr. KEMP. Mr. Chairman, I certainly would hope that we could. Let me go to another subject.

Mr. MAHON. Before you go to that, what were the main differences of opinion?

Mr. COLBY. I think the difference of opinion was how to handle the relationship with the intelligence service of another country. I thought it needed to be coordinated much better with some other activities, and he believed it important that it be handled in a certain very precise manner—the way it had been handled for a long time.

Secondly, I believed that the counterintelligence work was a job that needed to be done by a much broader activity of many of our organizations and not highly compartmented into a very limited area and conducted without great involvement of other parts of the Agency.

This was a technical difference of opinion between intelligence officers, and I have the greatest respect for Mr. Angleton's experience and his sense of responsibility and dedication to his country. I have the responsibility to run the Agency in the best way I know how, and I felt it essential to make those changes.

Mr. KEMP. Mr. Chairman, let me just make a couple of more comments.

FILES ON MEMBERS OF CONGRESS

In your supplement to the original statement that you had made before the Senate Appropriations Committee on January 15, you mentioned the files were inactive with regard to several Members of Congress whose activities had come under the surveillance, I suppose, of the CIA.

To what extent are they inactive?

Mr. COLBY. They had been just sent to our archives for the storage of files and records. They just weren't used. But you could get them through the name. If you went after that particular name, you could eventually find that we had a piece of paper, but they were not being used. They were not being kept up to date—things of that nature.

Mr. KEMP. What were the events surrounding this surveillance?

Mr. COLBY. Well, as I say, none contained any material that originated in CIA except for one cable which spoke about the travel and two cables quoting press announcements of conferences which I believe were abroad, as I remember.

Mr. KEMP. On page 27 of the original Senate testimony—I think it was a quotation from an article in the New York Times that at least one avowedly antiwar Member of Congress was held on file. Were there any others? Were the other Members of Congress on file connected in some way with the so-called antiwar movement?

Mr. COLBY. As I recall it, yes, I think a couple of them, at least a couple of them were. Yes.

Mr. KEMP. With regard to the possibility of a supplemental appropriation for Southeast Asia—that is, Cambodia and South Vietnam—do you think that this type of CIA effort is going to be continued? And what protection does a Member of Congress or any other American have that they will not be under surveillance for taking an avowedly antiwar posture?

Mr. COLBY. They were not under surveillance by CIA in any case, Mr. Kemp. They were not under active surveillance. This merely says

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that there were some files in which their names appeared in this program.

At that time, several of the Members of Congress actually did go to meetings abroad, and in the report of the attendees of such a meeting you would have the name of the Member of Congress inevitably, and that is how that kind of thing arises.

Mr. KEMP. One last question, Mr. Chairman, if I might. Mr. Colby, you made some comments in answer to a question by Mr. Edwards of Alabama about the general nature of CIA activities.

ACTIVITIES OF KGB IN THE SOVIET UNION

Would you address yourself in a general way toward the activities of the KGB in Soviet Russia? I've read reports in the paper that during the SALT talks, there was a great deal of activity by KGB agents with regard to not only surveillance but actively using bizarre methods to extract information from American participants. Would you care to comment?

Mr. COLBY. To follow our previous conversation, I believe that the KGB has quite a few files on the members of the Supreme Soviet, but I think again it is not appropriate to compare—I hope it is not appropriate to compare—CIA with the KGB.

Mr. KEMP. I wasn't suggesting that it was, Mr. Colby. I thought we should hear some general comments about how the KGB operates.

Mr. COLBY. KGB runs an entirely different society, and they run things that we Americans consider absolutely impossible to live with and we will not live with. I think part of the concern that Americans have about the CIA is the danger that it might go in any degree in the direction of the KGB.

That was a concern of the Congress when CIA was established, only then it was the Gestapo we were worried about, and that was the basis for the limitation of CIA to foreign intelligence instead of domestic. I think it is very clear that the KGB runs a different kind of a life and we don't want any part of it, and we in CIA do not want any part of it either.

LEGISLATIVE LIAISON WITH MEMBERS OF CONGRESS AND CONGRESSIONAL COMMITTEES

Mr. MAHON. What do you do with respect to the members of the committee? We talk with you, we visit the CIA headquarters, so you must have some kind of a file on the Members of Congress and the members of the committee. Is that right?

Mr. COLBY. Our legislative counsel, Mr. Cary, does take a note of his conversations with the various Members of Congress. He informs me of what questions people are asking, what answers were given, and so forth, and we do have the legislative files on that but they are held in his office and they have nothing to do with the operational or any of the other files of the agency. And we do not, Mr. Chairman, for example, conduct any form of security clearance procedure on a Member of Congress. If a Member of Congress is appointed to one of the committees charged with oversight over us, as far as we are concerned he has been appointed and he has been cleared. There is no action taken

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to determine what his background is and whether he should be allowed access to the intelligence involved.

Importance of Intelligence Work

Mr. Mahon. Mr. Director, we are living, as you know, in a very turbulent and dangerous world and we have been trying to come to an accommodation with the Soviet Unioin and the fate of the world depends somewhat upon our being able to live in the same world, the same planet, with the Russians, the U.S.S.R. It seems to me that your responsibility is very great and it would seem to be somewhat of a betrayal of American interests if the CIA didn't try to do the best job ever done in the history of the country, because if you didn't help other agencies of the Government and officials of the Government find out the most important and significant facts about the situation, we might be led down the primrose path and make commitments with the Soviet Union that would even lead to disaster insofar as this country is concerned.

Does your agency realize the importance and the seriousness and the sensitivity of this kind of an assignment?

Mr. Colby. We do indeed, Mr. Chairman. We feel a very deep responsibility to advise not only the Executive but also the Congress and also the people and we are taking a number of steps to try to expand the knowledge—the results of our intelligence work—so that this can help America make its decisions as well as helping the executive branch make its decisions. It is a very difficult matter to separate the identities of the sources from the finished analyses, but I think it very important that when the Congress votes on a question that it benefit from the intelligence work done by our intelligence apparatus. I think that it is very clear that the fate of our country and the peace of the world can depend upon the accuracy of our estimates of the likely growth of weapons, economics, politics, over the future. It is a very heavy responsibility that we have. We insist on taking a totally independent and objective view of these things so that we don't get involved with supporting any one particular answer or any one particular policy. We want to make that available to you and to the Members of the Congress and to the public and to the President and the executive branch.

Mr. Mahon. Is it easier today than it was 5 years ago, 10 years ago, 15 years ago, to get verification of information that is essential to us in our relationship with our adversary country?

Mr. Colby. The improvement in intelligence in the last 15 years, Mr. Chairman, has been nothing short of revolutionary. We now can count the number of missile silos. Years ago we used to estimate within the hundreds how many there might be. This kind of information is essential so that we can conduct a negotiation, not so that we can conduct a war alone, but so that we can conduct a negotiation that can limit these kinds of weapons and these kinds of expenditures, and it is precisely the improvement in intelligence that has changed its nature from the old spying kind of intelligence to the modern technical and analytical, with some clandestine intelligence work. I think, it is important that our country and our people now realize the real nature of modern intelligence instead of the old images of James Bond and Mata Hari.

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Mr. MAHON. If we make further agreements, the SALT agreements, of one kind or another, do you think we can have full confidence that we will be able to determine whether or not the agreements are being kept?

Mr. COLBY. We are looking into that very precisely, Mr. Chairman, and with certain agreed understandings and precise arrangements between the two sides we believe that we can adequately follow whether the other side is going to observe the agreements or not.

Mr. MAHON. Gentlemen of the committee, we will have a further hearing tomorrow. There may be other questions that members would like to ask at this hearing.

On my left?

Mr. GIAIMO. Mr. Director, you made reference to a book that was published in England but not published here. Was that Agee's book?

Mr. COLBY. Agee.

Mr. GIAIMO. What is it, "The Company"?

Mr. COLBY. "Inside The Company—CIA Diary".

Mr. GIAIMO. It is published in England and Europe apparently, not here.

Mr. COLBY. It has not been published here.

Mr. GIAIMO. Why hasn't it been published here?

Mr. COLBY. I think because of our success in obtaining an injunction against the exposure of classified information that Mr. Marchetti learned while he worked for CIA, that we would get a similar injunction against Mr. Agee publishing what he learned while he worked for CIA.

Mr. GIAIMO. Why would you want an injunction prohibiting publication of Mr. Agee's book here in the United States?

Mr. COLBY. If this was where he was going to publish it I would certainly hope to limit the degree to which the names of some of our people and our associates are spread around the world and spread around here. We have at least one of the individuals named in that book, Mr. Giaimo, whose family has been harassed. His daughter has been driven out of her school, and he is being put under a considerable pressure as a result of Mr. Agee's revelation of the fact that he worked with us. I do not think that I can stand idle and let Mr. Agee both announce these facts and profit by them.

Mr. GIAIMO. The fact is that the book is published elsewhere other than the United States.

Mr. COLBY. It is published elsewhere, but I do not see that he should be allowed to further that publication if I have a legal right to restrain him. I do not know whether I have that legal right, but I am obliged to prosecute under the statute which calls for me to prevent the disclosure of intelligence sources and methods and I am obliged to push as hard as I can to keep both Mr. Agee and others who might be tempted to do the same thing to avoid disclosing this kind of sensitive information.

Mr. GIAIMO. The fact that it is published elsewhere indicates that the question of security insofar as other nations are concerned is not the question then, but rather whether American citizens might be harassed, is that it, whether it would be an encouragement to others to divulge?

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Mr. COLBY. The fourth circuit, Mr. Giaimo, in the Marchetti case pointed out they did not think it proper for an individual to be able to leak something and then claim it was published and then go ahead and publish it himself. They made that very clear, and particularly in relationship to a claim against self-incrimination that was claimed during that case. I think that Mr. Agee's publication abroad should not be followed by his publication here and his gaining from his misdeeds.

COVERT FOREIGN POLITICAL OPERATIONS

Mr. GIAIMO. In your statement to the Senate Appropriations Committee you indicated that one of the agency's functions was to undertake covert foreign political or paramilitary operations. How specific are the orders which you receive from your superiors in the executive branch in regard to this function? How does this whole business of covert operation come about? If you decide to become involved in Chile or some other country of the world, what kind of instructions would you be given? Would they be broad in scope, would they mention tactics, or would they merely be "destabilize X government" or something of that type? Could you enlighten us a little bit on that?

Mr. COLBY. I would like to take advantage of this forum to enlighten you on one thing, that I did not use the word destabilize that one of the Congressmen attributes to me. I did not use that in my testimony and I am not just playing semantics. This was not the policy we were following.

But to answer your question, proposals for such programs can originate with any appropriate Federal agency, but usually CIA proposes them. They are then submitted to the 40 Committee for review and approval to assure that they are in keeping with and in support of United States foreign policy. Under the Foreign Assistance Act of 1974, the President is now required to make a finding that they are important to the national security, and his finding must be reported to the appropriate committees of Congress, including the Foreign Affairs and Foreign Relations Committees.

Periodic progress reports on these programs are submitted to the 40 Committee.

CIA'S POLICY AND PROGRAM IN CHILE

Mr. GIAIMO. The CIA was involved in Chile, was it not?

Mr. COLBY. The CIA had a presence in Chile and I believe I have commented publicly that the CIA's policy and program in Chile from 1971 on, were to sustain the democratic forces that were there and were under pressure, looking towards the election of 1976 in which we hoped to see those democratic forces win.

The CIA had nothing to do with the military coup which was caused by the mismanagements of the Allende government which pushed the military there to the extent that they did conduct a coup against them. The CIA had absolutely no connection with that coup.

Mr. GIAIMO. I assume we can get into this in greater detail in closed hearing. Is that correct?

Mr. COLBY. Certainly.

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Mr. GIAIMO. In whatever activities you had in Chile how thoroughly did you in fact—and I stress in fact—keep advised Members of Congress and more particularly members of this committee?

Mr. COLBY. There were varying degrees.

Mr. GIAIMO. And at what time?

Mr. COLBY. There were varying times. Various Members of Congress, various committees, were informed at various times as it was going on—certain people, certain committees. That is a fairly complicated set of details as to when that actual information was passed and to whom.

Mr. GIAIMO. Did you ever get from Members of Congress the suggestion of an outcry or some other kind of negative statement to you saying, no, don't do that, don't involve the CIA in that type of activity, or did you always get acquiescence?

Mr. COLBY. We were reporting to the Congress an action taken by the executive.

Mr. GIAIMO. After the fact?

Mr. COLBY. Generally, after the decision was made, but sometimes, we had to get the specific authority to go ahead in certain regards.

Mr. GIAIMO. Before the fact.

Mr. COLBY. Yes, in certain cases.

Mr. GIAIMO. And were you ever told by Members of Congress, don't do it?

Mr. COLBY. Well, on the Chile thing I cannot testify exactly on that. I just am not sure. I doubt that we were told not to because I don't think that was the role of the Congress in that regard.

Mr. GIAIMO. Can you think of any more instances of where Congress said to you, don't do it, or was it generally the case of acquiescence?

Mr. COLBY. Over the years there have been individual instances which have been reported to the Congress in the appropriations process or in the oversight process where the individual Congressman or members of a committee have expressed some doubt about an idea. That was not after it had been exposed, but while it was going on and while it was still quiet.

Mr. GIAIMO. One final question. What degree of support and backing did you normally receive from Members of Congress charged with overseeing your activities?

Mr. COLBY. Generally, our budget was cut somewhat, various other——

Mr. GIAIMO. I wouldn't know that.

Mr. COLBY. But I am saying that our budget was cut somewhat. Generally, there were some very penetrating questions asked about the nature of our activities, why they were being done, whether it was the right thing, and what the results were.

Mr. GIAIMO. You realize, Mr. Director, that the purpose I am asking these questions is that we are not so much concerned with your views and activities as we are with the question of whether, in fact, there was adequate congressional oversight, and whether, in fact, any Members of Congress were insisting upon the type of oversight that we, today, at long last, feel is necessary.

Mr. COLBY. I think the chairman mentioned at the outset that some of the early meetings of this committee had carefully been held on

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Sunday afternoon so that nobody could see them because intelligence was such a secret.

In more recent years, of course, they are held regularly. Transcripts are kept. They are exposed to a much greater degree. This is a change in the American public's attitude and expectation in this regard.

Mr. GIAIMO. The greatest problem in a free society is to have an intelligence secret agency and to conduct adequate oversight over it and at the same time protect its integrity. Do you think it can be done?

Mr. COLBY. I think it can be done and I think we are in the process once again of resolving how it can be done. I think it was done in certain fashions which were acceptable 20 years ago, which may not be acceptable today. I think we are going to rearrange the results today and I would imagine 20 years from now they will be different then as well.

Mr. ADDABBO. Mr. Director, going back to your early testimony and what this hearing was to be about and relative to the domestic activities and surveillance, have you now given to this committee all the same information that you gave to the President and prepared for the President?

Mr. COLBY. Essentially. I have summarized obviously, but essentially the same information.

Mr. ADDABBO. Mr. Chairman, could we have a copy of the report that was on domestic activities that was given the President?

Mr. MAHON. That was the 50-page statement?

Mr. COLBY. I am afraid, Mr. Addabbo, I am not authorized to release that.

Mr. ADDABBO. Were there any substantial differences?

Mr. COLBY. No; there isn't any substantial difference, but I am not authorized to release that particular report.

Mr. ADDABBO. Can we possibly go into some of those differences tomorrow in closed session?

Mr. COLBY. The differences are the kinds of differences that are on my amendment to my statement to the Senate, changes of one number from two to four or three to five. It is minor.

Mr. ADDABBO. Does that report concern itself with greater indepth description of the domestic surveillance?

Mr. COLBY. No; the problem there, Mr. Addabbo, is it is referred to as 50 pages. There were attachments to it which comprised most of those 50 pages. The report itself was fairly short, and generalized, summarized.

Mr. ADDABBO. I would imagine those attachments said who was doing it or how it was being done.

Without giving that information, could the rest of the language within the report be given to this committee?

Mr. COLBY. The facts of CIA's activities I am certainly prepared to give you. I am not prepared and I am not authorized to give you the actual report that I gave to the President.

Mr. GIAIMO. Is that because of the normal constraints of the executive department, executive privilege, or the like?

Mr. COLBY. I don't know about normal, but at the moment I am not authorized to give it.

Mr. ADDABBO. Thank you, Mr. Chairman.

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Mr. MAHON. We have had a very interesting afternoon, a very helpful afternoon, Mr. Colby. You have been very cooperative and helpful to us, and I am personally impressed with your handling of a very difficult situation.

Mr. COLBY. Thank you, Mr. Chairman. I will see you tomorrow, and we can talk about what is going on in the world and our budget.

Mr. MAHON. Yes; and the budget.

Thank you very much.

Mr. COLBY. Thank you very much.

(Clerk's note: The printing of the following hearing was delayed pending further testimony on the Army tank program which was completed March 5, 1975.)

THURSDAY, DECEMBER 12, 1974.

REPROGRAMING, FISCAL YEAR 1975, DEPARTMENT OF THE ARMY

ARMY TANK PROGRAM

WITNESSES

HON. HAROLD L. BROWNMAN, ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS AND LOGISTICS)
MAJ. GEN. R. L. WEST, DIRECTOR OF ARMY BUDGET
R. L. BABBITT, BUDGET ANALYST, OFFICE, DIRECTOR OF ARMY BUDGET
BRIG. GEN. R. D. WING, DEPUTY DIRECTOR OF WEAPONS SYSTEMS, OFFICE, CHIEF OF RESEARCH, DEVELOPMENT AND ACQUISITION
LT. COL. J. F. BIEMECK, TANK STAFF OFFICER, OFFICE, CHIEF OF RESEARCH, DEVELOPMENT AND ACQUISITION
LT. COL. R. E. BERG, OFFICE, DEPUTY CHIEF OF STAFF FOR LOGISTICS

Mr. MAHON. We will now consider reprograming action number FY-75-2P/A. This Army request would reprogram $85.9 million to the Army tank program.

As we understand this reprograming, it breaks into two sections. One is the overhaul and modification of the M48 series of tanks to include diesel engines and 105 mm guns rather than gasoline engines and 90 mm guns. The second section is to increase the M60 tank production base to a capacity of 103 tanks per month. A copy of the reprograming action FY-1975-2P/A will be made a part of the record at this point.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Procurement of Weapons and Tracked Combat, Vehicles 1975/1977	FY 75-2 P/A

APPROPRIATION SERIAL NUMBER: FY 75-1

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

This reprograming action provides program authority in the amount of $85.9 million to support the FY 1975 revised Army Tank Program. The increased program requirement is to cover the costs of establishing a second source production for the M60A1 turret and hull castings; provide for increased production capacity at the Detroit Army Tank Plant and permit the Army to initiate a program to modify M48 series tanks to M48A5 configuration. The funds to support the increased program are being made available by transfer under the authority of Section 834, Public Law 93-437, DOD Appropriation Act, 1975 from the following appropriations and internal program adjustments of $7.4 million:

APPROPRIATION		AMOUNT (In Millions)
Aircraft Procurement	1973/1975	$ 11.0
Aircraft Procurement	1974/1976	21.0
Missile Procurement	1974/1976	21.5
Procurement of Weapons and Tracked Combat Vehicles	1973/1975	11.0
Procurement of Weapons and Tracked Combat Vehicles	1974/1976	4.0
Procurement of Ammunition	1974/1976	10.0
Total		$ 78.5

REPROGRAMING INCREASE:

FY 1975 PROGRAM

Budget Activity 1: Tracked Combat Vehicles								
1. Tank, Combat, FT, 105mm Gun, M60A1	510	(180,800)	510	(180,800)	XX	(+19,300)	510	(200,100)
Less: Advance Procurement - Prior Year		(-12,000)		(-12,000)		-		(-12,000)
		168,800		168,800		+19,300		188,100

Explanation: $10.2 million of the increase is required for production of M60A1 tank components, including plant rearrangement, tooling and start-up at the Detroit Army Tank Plant. An additional $5.9 million is required to provide for the increased hull and turret rate at Blaw Knox Foundry and Mill Machinery, Inc. and $3.2 million is for the initiation of a second source for hulls and turrets at the Foundry Division of Birdsboro Co.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE							DOD SERIAL NUMBER	
Procurement of Weapons and Tracked Combat, Vehicles 1975/1977							FY 75-2 P/A	
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)							
FY 75-1								
LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
2. Tank, Combat, FT, 90mm, M48 series (Modification)	XX	-0-	XX	-0-	XX	+52,300	XX	52,300
Explanation: $52.3 million is required to procure modification kits to modify 573 M48 series tanks to a M48A5 configuration (105mm gun and diesel powered).*								
3. Production Base Support	XX	3,200	XX	3,200	XX	+14,300	XX	18,700
Explanation: $9.2 million is required to provide facilities for a second source production of hulls and turrets at Birdsboro. An additional amount of $3.1 million is required to provide hull and turret machining capacity for Chrysler. $2 million is requested for a M60/XM1 Production Base Study of future tank production. The additional program authority will permit the Army to increase M60A1 tank production to 103 per month at the Detroit Army Tank Plant.								
TOTAL FY 1975 PROGRAM INCREASE						+85,900		
REPROGRAMING DECREASE								
FY 1975 PROGRAM								
Budget Activity 2: Weapons & Other Combat Vehicles								
4. Machine Gun, Cal. 50, M85	1682	10,700	1682	10,700	-113	-900	1569	9,800
5. Modifications under $500,000	XX	500	XX	500	XX	-500	-	-
6. Items Less Than $500,000	XX	2,200	XX	2,200	XX	-1,000	XX	1,200
7. Production Base Support	XX	13,900	XX	13,900	XX	-5,000	XX	8,900
Explanation: Minor program reductions were made in current production schedules in Items 4 through 7. These reductions will have no significant impact on achieving AAOs.								
TOTAL FY 1975 PROGRAM DECREASES						-7,400		
NET CHANGE IN PROGRAM						+78,500		

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Procurement of Weapons and Tracked Combat, Vehicles 1975/1977	FY 75-2 P/A

APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)
FY 75-1	

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

Explanation: The net change in program (increase) represents funds transferred pursuant to Section 834, Public Law 93-437, DOD Appropriation Act, 1975 as indicated above.

*This includes $1.4 million for modification kits for conversion of 40M48A3 tanks to the M48A5 configuration recently approved by the Congressional Committees.

REQUESTED (Signature and Date)	APPROVED (Signature and Date)
Hadlai A. Hull Asst Secy Army (FM) 11/20/74	W. P. Clements NOV 23 1974

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Mr. MAHON. Secretary Brownman, we welcome you before the committee. We understand this is your first visit with the committee.

Mr. BROWNMAN. Yes, sir.

Mr. MAHON. You may place in the record the background as to your experience.

Mr. MAHON. We have considered your statement and we will place it in the record at this point, as well.

[Mr. Brownman's biography and statement follow:]

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HAROLD L. BROWNMAN

EDUCATIONAL BACKGROUND

B.E.E., Polytechnic Institute of Brooklyn, 1944
M.E.E., Polytechnic Institute of Brooklyn, 1949
Has completed all the course requirements for the degree of D.E.E.

PROFESSIONAL EXPERIENCE

Mr. Brownman served with the Central Intelligence Agency (CIA) from October 1970 to August 1974 and was the head of the Office of Special Projects until February 1973. In this position he managed several highly sensitive national intelligence collection programs. For the remainder of his tenure with the CIA, Mr. Brownman was the Deputy Director for Management and Services. This directorate was responsible for overseeing a broad gamut of management issues which originated from throughout the entire agency.

In June 1969 Mr. Brownman was made Vice President - Systems of the Garland Division of LTV Electrosystems, Inc., with overall responsibility for the design and development of electronic systems produced in the product lines of Communications, Data Systems, Electronic Warfare, Guidance Systems, Space Systems, and Special Projects.

From January 1967 to June 1969 Mr. Brownman was Product Line Director of the Space Systems Department of LTV Electrosystems, Inc., Garland Division.

From June 1966 to January 1967, Mr. Brownman was Assistant to the Division Director for Systems Engineering in the Engineering and New Programs Division at Airborne Instruments Laboratory (AIL), a Division of Cutler-Hammer, Inc.

Prior to that time he was Head of the Data Systems Department in the Engineering and New Programs Division. This department was primarily engaged in the development of complete data processing and display systems. Some of these systems have been developed to process electronic reconnaissance data for various types of collection systems. As an outgrowth of this work, the department actively participated in defining collection system requirements.

Mr. Brownman joined AIL in 1958 as Chief System Engineer of the USD-7 program management team and later became Technical Director. In 1961, he was appointed Department Head of Ground Support Systems in the Research and Systems Engineering Division. In the course of expanded activities and continued growth of the department, it has become the Data Systems Department.

From 1955 to 1958, Mr. Brownman was employed by Fairchild Camera and Instruments Corp. in reconnaissance system management and planning. He was Program Director of the 306L management team. The 306L program was a reconnaissance system for the Tactical Air Command which included day and night photography, infrared detection techniques, radar, ferret, weather and nuclear radiation systems, as well as the data handling and ground support systems. Mr. Brownman was responsible for a high resolution radar strip recording program employing special electro-optical techniques.

From 1954 to 1955, Mr. Brownman was employed by the American Bosch-Arma Corporation as a Senior Engineer for digital computers. He was engaged in the development of two real-time computers; one for ASE and the other for a missile guidance system (ATLAS).

Mr. Brownman was a Project Engineer for the Teleregister Corp. from 1950 to 1954, responsible for design and development projects covering special simulators, analog and digital computers, data handling and special display devices.

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From 1949 to 1950, Mr. Brownman was employed by Servomechanisms, Inc. as a Senior Electronic Engineer in the design and development of servo systems and analog computers for commercial and military applications. He was an Electronic Engineer for Fairchild Engine and Airplane Corp., Pilotless Plane Division, from 1948 to 1949, assigned to development of servo systems, analog computers, and the mechanization of a missile guidance system.

From 1946 to 1948, he was an instructor in Electrical Engineering at Polytechnic Institute of Brooklyn, continuing this on a part-time basis until 1953. Mr. Brownman was in the U.S. Army Air Force from 1946 to 1948.

Mr. Brownman is a member of Sigma Xi and the Institute of Electrical and Electronics Engineers, Inc. His activities in the Long Island Section included: 1961-62 Publicity Chairman; 1962-63 Secretary; 1963-64 Vice Chairman; 1964-65 Chairman. He has also served as Publicity Chairman for the G-MTT 1964 International Symposium and has been on the Banquet Committee of the I.E.E.E. International Convention for a number of years. He is also a member of the American Institute of Aeronautics and Astronautics and the National Association of Old Crows.

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Mr. Chairman, Members of the Committee:

It is my pleasure to appear before you today to discuss an Army tank reprogramming request.

The Army requests approval of a FY 1975 reprogramming action in the amount of $85.9 million to achieve critically needed near and midterm improvement in our tank inventory as indicated on the chart before you.

TANK REPROGRAMMING
($ Millions)

Increases:	
Expansion of Production Base	+33.6
Conversion Kits M48 Tanks	+52.3
	+85.9
Decreases:	
Adjustments within Weapons and Tracked Combat Vehicles Appropriation	- 7.4
Transfers of Resources from Program Reductions and Free Assets	-78.5
	-85.9

The Army requests approval to initiate with FY 1975 funding a program to expand the M60 Series tank production base and, concurrently, to initiate a program of upgrading older model 90mm gun M48 Series tanks, predominently gasoline powereed, to diesel powered, 105mm gun M48A5 tanks.

We currently have approximately 8,226 tanks in our inventory; however, only 5,049 are prime assets of the M60 Series which mount the 105mm or 152mm gun. Prime assets, or those which have diesel engines and mount a 105mm gun or better, represent only 49% of the US Army's requirement. The remaining 3,177 tanks are of the M48 Series which mount the 90mm gun. Of these 3,177, only 565 are diesel powered, the remainder being gasoline powered, 1953-1959 models. The current M48 Series tank is used primarily for training by the Reserve Components. It is not a viable battlefield opponent for Soviet tanks, since it will not reliably defeat Soviet armor except at close range.

The Army's poor inventory posture is the result of limiting tank production for the past 10 years to the minimum base sustaining rate and the more recent impact of inventory diversion to meet national security assistance directives. Since October 1973, we have shipped 569 M60 tanks and 284 M48 Series tanks to meet Security Assistance requirements. The Secretary of Defense has approved an additional 111 M60 tanks and 384 M48 Series tanks from Army inventory for shipment to other countries.

In view of the continued erosion of our inventory, we have conducted a comprehensive review of our tank requirements, projected inventory, and production capabilities and have concluded we must take aggressive action to improve our tank posture. In order to add required prime tanks to the Army inventory in the shortest practical time, the Army plans a dual effort: increase the M60 production base to a capacity of 103 tanks per month, and convert substantial quantities of unserviceable M48A1 and M48A3 to M48A5 tanks.

It is essential to increase the M60 Series production capacity to insure a capability to produce tanks to meet Army and US Marine Corps requirements and to meet current Foreign Military Sales commitments. Because low rate production has prevailed over a protracted period of time, much of the tank industrial base has dried up. This has dramatically limited our ability to effect a timely increase in tank production as requirements now demand. Our plan to increase production capacity to 103 tanks per month will provide us the production capability which we need. The Army's plan to upgrade existing unserviceable, 90mm M48 tanks to the diesel powered, 105mm gun tanks has several significant advantages. The upgrading of on-hand substandard tanks takes advantage of utilizing existing hull and turret castings, now the critical pacing components as a result of the deteriorated status of the

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production base. This permits the Army to obtain additional prime assets in the near term which would not otherwise be available through new production. Not only will this program hasten the filling of the Army's overall inventory objectives with prime assets, but it will also permit the earlier equipping of Reserve Components with battle worthy tanks. The use of M48A5 tanks by the Reserve Components will enhance training and maintenance since the M48A5 tank possesses the same main armament, fire control, and power train components as the M60 Series tanks. Further, the upgrading of existing M48 Series tanks to the M48A5 tank can be done at substantially less cost than procurement of new tanks.

The Army's request for program and reprogramming approval in FY 1975 to initiate this dual program will provide at minimum a six-month time advantage over FY 1976 funding. Reprogramming authority of $85.9 million is requested. The requested reprogramming will provide $33.6 million to expand the M60 production base and $52.3 million to procure 573 conversion kits to upgrade M48 Series tanks to a M48A5 configuration. The Army is requesting the transfer and use of $78.5 million in unprogramed assets currently available in the Army procurement appropriations. The remaining $7.4 million is available from internal program adjustments within the FY 1975 Weapons and Tracked Combat Vehicles Appropriation.

Mr. Chairman, this concludes my prepared statement. I have with me today General West and General Wing. We will be pleased to answer any questions that you or members of your committee might have.

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Mr. MAHON. We understand that a briefing has been prepared which is to be presented today. Before you proceed with the briefing, tell us about yourself.

Mr. BROWMAN. Yes, sir. I am an electrical engineer by education. The last 4 years prior to coming to the Army as Assistant Secretary for Installations and Logistics. I was with the CIA. My last assignment with the CIA was Deputy Director for Management and Services. Prior to that I was Director of Special Projects. I joined the CIA after many activities in industry, culminating as a vice president for systems in a company in Dallas, Tex., by the name of E Systems.

I have been involved in research and development all my professional life since 1946, progressing through the industrial chain and advancing to the culmination of the job in Systems.

Mr. SIKES. I don't see anything about your writing a book about the CIA.

Mr. BROWNMAN. No, sir. I was one of the witnesses.

Mr. MAHON. Did you have anything to do with the construction projects in CIA?

Mr. BROWNMAN. Yes, sir.

Mr. MAHON. Aircraft?

Mr. BROWNMAN. As Director of Special Projects, I was involved in the development of the national programs.

Mr. MAHON. Mr. Secretary, Mr. Sikes will conduct the hearing for a time. I want to get in touch with the President with regard to some problems that have arisen. I will be back in 10 or 15 minutes or as soon as I can.

Mr. BROWNMAN. Very well.

Mr. SIKES. Mr. Secretary, I, too, join in the warm welcome to you before this committee. We are very glad to see you in your present position. We know about your illustrious background and we look forward to the visit with you on defense programs, particularly relating to the Army.

The committee has your statement and we are going to place it in the record. You can touch on that briefly, if you wish. We do want a briefing which will familiarize us fully with what is proposed. This subcommittee has long been interested in the tank program and knows about the problems that we have encountered in developing a new tank. This is a different subject. This is, as I understand it, the procurement and improvement of some of the existing tanks.

Mr. FLOOD. Do you know the time, length, and the, I hope, awareness of this subcommittee in the entire tank program over a period of years, this particular subcommittee?

Mr. BROWNMAN. Yes, sir; I am aware of some long history in the tank program.

Mr. SIKES. That is too long a history but we hope progress is now being made. This is not the subject of discussion today. I would like for you to proceed in your own way. How do you propose to conduct this briefing?

URGENCY OF TANK PROGRAM

Mr. BROWNMAN. Mr. Sikes, I would like to just add one or two supplementary items emphasizing the urgency of this tank program.

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Mr. SIKES. Give us a short discussion of the urgency of the program, reasons that you are here, and what you propose. Do that briefly at this time and go into the other matters later.

Mr. BROWNMAN. I think the briefing by General Wing will cover that. I want to emphasize that it is one of our most urgent problems. It is quite serious. I think that we have a viable approach and plan of attack to resolve this problem as early as possible, being very, very effective in terms of cost expenditures.

I think General Wing will now give a briefing which will cover the sense of urgency as well as the various facets, and how he intends to attack the problem.

Mr. SIKES. General Wing.

Mr. FLOOD. Before that, how did you get here this morning at 10 o'clock? This has been urgent—urgent. You and I knew the urgency of tanks. What happened all of a sudden at 10 o'clock this morning?

Mr. SIKES. That is what the briefing is all about.

Please proceed, General Wing.

General WING. It is my privilege to present the briefing to the members of the committee. I have had the opportunity to reach some of the members individually with the briefing. I would like to state at the outset, sir, that I intend to brief it extemporaneously. I would like to keep it in a flexible format and encourage any questions at any point throughout the presentation.

Mr. SIKES. Very well.

INVENTORY LOSSES IMPACTING ON COMBAT READINESS

General WING. I would like to start with a recap of the losses that we have sustained to this date to foreign claimants against our tank assets. You will notice that we have already shipped 853 tanks as shown on this chart:

Inventory losses impacting on combat readiness

Tanks shipped since October 1973 war:	
M-60A1	[1] 33
M-60	[1] 536
M-48A3	114
M-48A1	170
Total	853
Tanks committed for shipment:	
M-60A1	[1] 300
M-60	[1] 111
M-48A3	205
M-48A1/2C	179
Total	795

[1] Prime tanks.

NOTE.—Losses are equivalent of 30 tank battalions.

Mr. SIKES. You say shipped. You mean to Israel?

General WING. To Israel and other claimants.

Mr. FLYNT. What others?

Mr. SIKES. How many have been shipped where?

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Mr. BROWNMAN. May we clarify this? Is this hearing closed?

Mr. SIKES. It has not officially been closed. Only members of the subcommittee and the staff and your people are in the room.

Mr. BROWNMAN. Thank you, sir.

Mr. SIKES. If it should be necessary, we will close it.

Mr. BROWNMAN. This is classified information, and let's proceed on this basis.

General WING. The numbers of items shipped are not in themselves classified. The countries to which shipped and those quantities are classified. The 853 we have shipped is an unclassified figure.

To break these down, sir, the first M60A1's, we have shipped —— to Argentina and ———— to Jordan. Of the M60 tanks already shipped, ——— have gone to Ethiopia and ——— to Israel. Of the 114 M48A3's, we have shipped ——— to Israel, ——— to Tunisia and ——— to Morocco. Of the M48A1's, we have shipped ——— to Jordan, ——— to Taiwan and ——— to Greece.

Mr. FLOOD. Any particular reason why you would send a particular kind of tank to a particular country? Why would you send tank A to country B and tank C to country Y? What is peculiar about that, outside of terrain?

General WING. The principal reason——

Mr. FLOOD. There is not much terrain involved, so why?

General WING. The Army classifies its tanks in terms of prime assets and other tanks. The Israelis ———. Throughout this briefing I will describe a prime asset as any vehicle that has a 105mm gun and has been dieselized. Of the total that I will describe this afternoon, 980 are prime assets, ——— of those have gone or will be going to Israel.

Mr. FLOOD. That makes sense.

General WING. We have committed for shipment 795 tanks, and 300 of those are coming out of new production ———. We also have 111 M60 tanks committed for shipment from our inventory——;—— of these are slated to go to Ethiopia and ——— to Israel.

Of the 205 M48A3's, ——— are slated for Israel; ——— for RVN, ——— for Tunisia.

M48A1's and M48A2C's, ——— will go to Taiwan, ——— to Jordan and ——— to Turkey.

Mr. SIKES. Does this commitment to Israel take into account the Russian's tanks which they captured from Arab forces which can be rebuilt or reworked and utilized in their Israeli forces?

General WING. Yes, sir. The Israelis actually have constituted some tank units using the T-62 tanks captured during the war.

Mr. SIKES. How many?

General WING. I don't know the precise number.

Mr. SIKES. Shouldn't we know that before we overcommit ourselves?

General WING. We know what their total tank assets are. They are made up of British Centurion tanks, our tanks, and tanks from any part of the world that the Israelis could acquire them. We can get you those precise figures.

Mr. SIKES. Are the Israelis manufacturing any tanks?

General WING. I do not believe so.

Mr. SIKES. They have a rework capacity. They have reworked a lot of ours.

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General WING. They have a substantial rework capacity. They have been highly successful in repairing battle-damaged tanks.

Mr. SIKES. What does this leave us in the way of tank assets?

General WING. If I could defer that question, about two charts down I will show you what our asset position is.

Mr. SIKES. All right.

Does this complete the picture of commitments of tanks for the future? Are these all the tanks committed to other countries?

General WING. That is correct, sir.

Mr. SIKES. To what time period does this commitment extend?

General WING. The 795, sir, I will have to take unit by unit to describe that. The 205 are due for shipment by April of next year. Those are imminent losses. Seventy-five of these 300 out of new production are within the next year's production. Seventy-five will come out of 1975 and 225 from the 1976 period.

Mr. SIKES. I would like to have for the committee a chart showing Israeli tank losses during the October 1973 war, their recoupments from whatever source, by repair, captured equipment, shipments from the United States. Are they acquiring tanks from any other country?

General WING. We will give you a complete breakout on that.

Mr. SIKES. I want to know what the recoupment picture is and what the assets will be at the end of all of the entire tank acquistion program, including repair, recoupment, and new shipments from the United States or elsewhere.

[The information is classified and was presented to the committee.]

Mr. SIKES. Have we made commitments to any other countries other than those you have given to us this morning?

General WING. Not to our knowledge.

TANKS WITHDRAWN FROM GUARD AND RESERVE UNITS

Mr. SIKES. How many tanks are going to be withdrawn from Army National Guard units for shipment to other countries? In other words, of these tanks, how many come from Guard and Reserve units?

General WING. Sir, the one case in example right now, M48A3, this is a dieselized version of the M48 tank. Those are coming out of our Reserve and National Guard units.

Mr. SIKES. When and how are you going to replace them?

General WING. They will be replaced, sir, in connection with our increased production. We will start replacing those in October of next year.

Mr. SIKES. Calendar 1975?

General WING. That is correct.

Mr. SIKES. When will they be fully replaced? For what period of time will the Reserve units be short on tanks?

General WING. The Reserve units under our accelerated production scheme will not be completely equipped until about October 1978.

Mr. SIKES. Will all the Reserve units at that time have received tanks of equal or better quality than those being withdrawn?

General WING. That is correct, sir. They will be of better quality.

Mr. CASEY. As I understand it, out of the 205 M48A3's, Army National Guard units will lose 86 tanks which will be replaced by M48A1's. Those will not be of equal caliber?

General WING. Those are being supplied temporarily for training.

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They will ultimately be replaced by either M60's or M48A5s, which are better.

Mr. CASEY. When will they be replaced?

General WING. The M–48A5 conversion program starts to produce assets next October. As I will show on a later chart, they will start flowing into the Reserve forces after that time.

Mr. FLOOD. When you replace a Guard or Reserve tank do you replace a tank or the total fleet?

General WING. We would attempt to replace the total fleet due them. If a tank battalion were authorized 43 or 48 tanks, we would equip them up to that level.

Mr. SIKES. The staff has a question.

Mr. CASEY. Would any of the tanks shipped to other countries be withdrawn from European reserves or active units?

General WING. None will be withdrawn from active units. We have drawn down heavily on our prestocks in Europe to make these diversions that I have already indicated. I am not aware of any further drawdowns.

Mr. SIKES. When you say draw down heavily, are those units no longer effective because of the loss of equipment?

General WING. Sir, the active Army units, for all practical purposes, have not been affected by these diversions.

Mr. SIKES. These reserve stocks?

General WING. Our reserve stocks, yes, sir.

Mr. CASEY. As I understand it, the 111 M60's ——— is that correct?

General WING. That is correct.

Mr. CASEY. Could you provide for the record, relative to our tank forces in Europe and the contingency reserves, what this status is as far as tanks on hand versus what should be on hand?

General WING. Yes; I can do that.

[The information is classified and was submitted to the committee.]

Mr. SIKES. This committee wants to know how seriously we have weakened our own active units and how seriously we have depleted reserve stocks and tanks in order to support the Israelis.

General WING. Yes, sir. I believe that the briefing will surface the magnitude of those losses and our position of assets today.

Mr. SIKES. Please proceed.

General WING. I would like to emphasize, sir, that of the 1,648 tanks, either already furnished or to be withdrawn, that is the equivalent of about 30 tank battalions for initial equipment. That is a good deal of armament.

Mr. SIKES. How many tank battalions do we have? Equivalent of——

General WING. I cannot tell you exactly what the tank force structure is.

Mr. SIKES. Provide it for the record.

[The information follows:]

General WING. The present Army force structure allowance includes ——— tank battalions, ——— active and ——— in the Reserve components. By beginning fiscal year 1977 the Army plans to add 4 more active tank battalions.

General WING. Sir, I would not like to leave the impression that the diversions due to the October 1973 war are at the heart of the Army tank problem. This chart I believe depicts what has been occurring.

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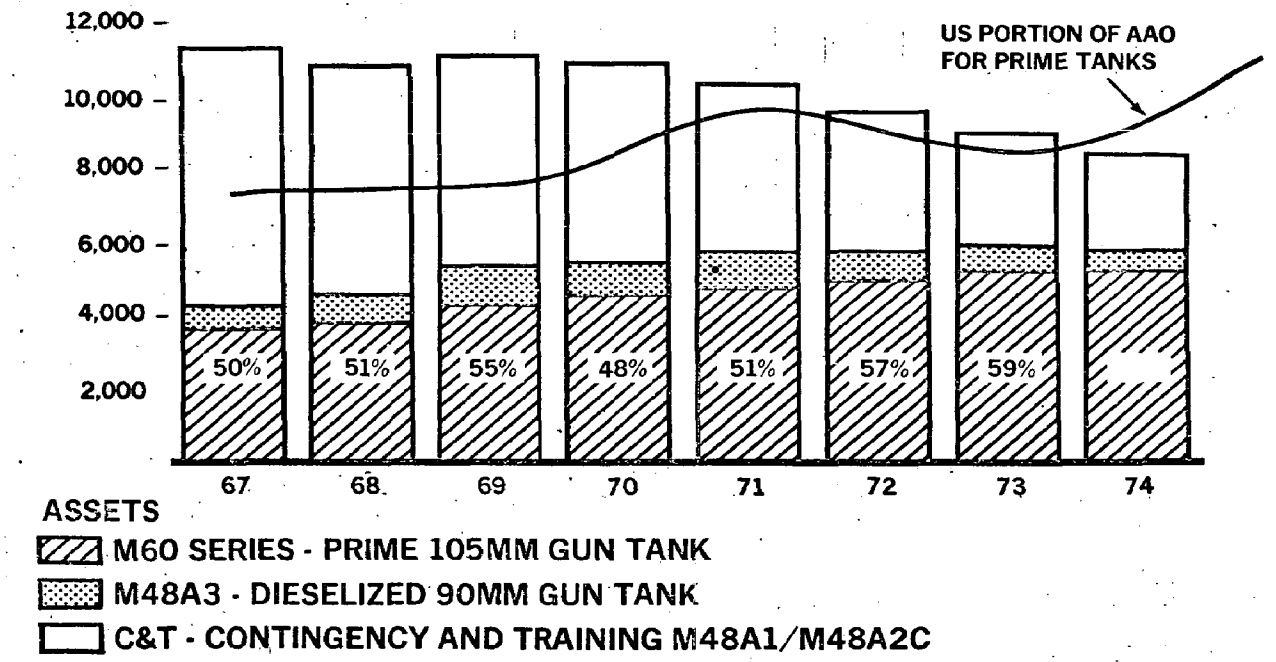
REQUIREMENTS FOR PRIME ASSETS VERSUS TOTAL INVENTORY



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General WING. This trace across the top shows the Army's authorized acquisition objective (AAO). That is the number of tanks that we are authorized. The bars on the histogram are broken into three segments. The lower segment shows our prime tanks, those that have 105 guns and are dieselized and are considered up to the threat.

The checked portion shows the tanks dieselized but not up-gunned. They still have the 90 mm gun. The top part comprises those tanks gasoline-powered, undergunned which are suitable only for contingency and training purposes. You will notice that we have had a steady drawdown since 1967 on our total tank inventory. You will also notice that our prime tank inventory since 1967 has been somewhere around half of what we have been authorized. At the current time it has dropped to 48 percent.

INCREASES IN AUTHORIZED ACQUISITION OBJECTIVES

This next chart addresses the AAO authorized acquisition objective itself.

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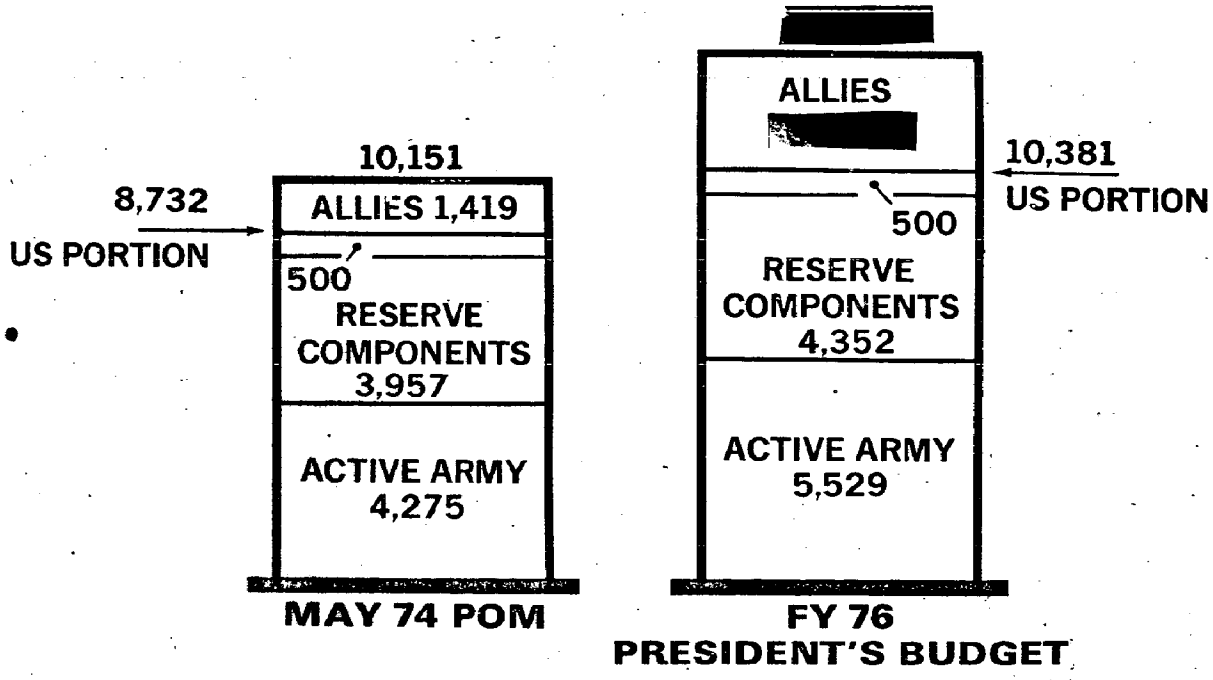
INCREASES IN AUTHORIZED ACQUISITION OBJECTIVES



INCREASED BY:

- COMBAT CONSUMPTION LOSS FACTOR INCREASED FROM 8% TO 20% PER MONTH.
- INCREASES IN FORCE STRUCTURE (ABOUT 3 BATTALIONS).

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General WING. I would like to address just the construction of the AAO on the right-hand side of the chart for the moment. In the Active Army, we are authorized 5,529 tanks. In the Reserve Forces, 4,352; and based on OSD direction we now have a part of the Army AAO a contingency fleet of 500 prime tanks to meet any further flareups in the Middle East.

The total combined authorized assets for the Army, including that contingency fleet of 500, is 10,381. That is the program to which we are building. We are also authorized but we are not funding or filling the Allied War Reserve to support a longer term war scenario.

Mr. SIKES. Before you leave that, is all that Active Army tanks of the M60 series?

General WING. They are, sir.

Colonel BERG. With the exception of five M48A3 tanks remaining in the 197th Brigade (Fort Benning), all active U.S. units are equipped with M60 series tanks. The remaining five tanks at Fort Benning are programed for replacement in March 1975. In addition, there are 29 M48 series tanks at various test and training sites.

Mr. SIKES. How many tanks assigned to the Reserve components are the M60 series?

General WING. We have those figures.

Mr. SIKES. How many are the M48 series?

General WING. We will give you those precise numbers.

[The information follows:]

Colonel BERG. Against an authorized acquisition objective (AAO) of 4,352 tanks for the Reserve components, there are currently 468 M60 series and 2,161 M48 series on hand. This equates to a total of 2,629 tanks and a shortfall of 1,723 tanks against the AAO.

General WING. Of the tanks authorized the Reserve Forces today, 11 percent fall in the prime asset category.

Mr. SIKES. By prime assets, you mean M60 series?

General WING. M60 or equivalent. The inventory is currently 55 percent of those authorized.

Most of those in the Guard are the M48A1, which is still the gasoline-powered 90-mm gun.

Mr. SIKES. Tell us what the Allies' portion of the acquisition objective refers to?

General WING. That allied war reserve is to support a northeast Asia war scenario. These are replacement stocks to replace tank losses, estimated losses that would be sustained by our allies in such a conflict.

Mr. SIKES. Are we still sending tanks to Southeast Asia?

General WING. We are, in very limited quantities.

Mr. SIKES. The 1976 authorized acquisition objective for tanks has been increased substantially. I am glad to see that. Part of the reason is that additional tank battalions are to be established. The remainder results from the increase in combat consumption from 8 percent to ——— percent per month. What is meant by combat consumption loss factor?

General WING. Sir, a year ago in March, the Concept Analysis Agency, located here in Washington, using computer scenario models, simulated a battlefield environment under the modern battlefield conditions of the antitank weapons and what have you.

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Early in those analyses as a result of the October war experience, the 8-percent loss factor per month was determined to be low, and the rate was increased to about ——— percent. That study will not be completed until at least February of next year, sir. The ——— percent figure, therefore, is subject to further refinement.

We feel that is a realistic estimate of combat losses.

Israeli Tank Losses During October War

Mr. Sikes. What was the Israeli tank loss factor during the October war?

General Wing. ———.

Mr. Flood. What was the chief reason for the loss?

General Wing. Sir, analysis of the vehicles, that were destroyed during that war would indicate that somewhere between ——— percent of the tanks were killed by other tanks. The other miscellaneous losses were due to other antitank systems on the battlefield.

Mr. Sikes. Any information on the Arab loss factor?

General Wing. Not with me, sir. I believe those are available, sir.

[The information is classified and was submitted to the committee.]

Mr. Sikes. Does the loss factor consider shipping losses, losses in shippping from CONUS to Europe and other locations?

General Wing. It does not.

Mr. Sikes. Would this be significant?

General Wing. It could be very significant.

Mr. Sikes. ——— percent by other tanks. Given the significant increase in the loss factor and the production of new antitank weapon systems like the TOW and DRAGON missile systems, the A–10 aircraft with the GAU–8 gun, TOW-equipped attack helicopters, laser-guided artillery and missile systems, and so forth, one wonders whether the tank is becoming an obsolete weapon system. Is there apprehension that the tank may be in the process of becoming an obsolete weapons system?

General Wing. Sir, the utility of a tank on the battlefield is not in serious question. What is in question is the employment of the tank. It no longer enjoys its former invulnerability. It can be killed. However, there are tactics that lessen its vulnerability on the battlefield.

Mr. Sikes. Like what?

General Wing. Like its employment with the combined arms team rather than spearheads of armor, which are highly vulnerable to missiles.

Mr. Sikes. Were the new antitank weapons taken into consideration in calculating the increase in the loss factor?

General Wing. They were, sir, but their full impact has yet to be determined.

Mr. Sikes. For the record, I would like a copy of any analytical work that the Army may have done which indicates that this additional investment in tanks is more cost effective than an equal investment to further proliferate antitank weapons.

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General WING. Mr. Sikes, there are extant within the Army community a number of studies which address the need for a mix of tanks and antitank missiles on the battlefield. We will furnish those to you promptly.

Mr. SIKES. Very well.

[The studies were provided to the committee. Due to their volume and/or classification they were not included in the record.]

General WING. In connection with the tank study that was undertaken by the Department of the Army, we solicited the MAAG's world-wide to determine what potential there was for sales of tanks so that we could determine a realistic threshold of production. We did not want to furnish any further tanks out of our assets but once our tank fleet was reconstituted and rebuilt, there was a distinct possibility that these demands by foreign claimants would continue and we would want to then furnish them directly out of production.

POTENTIAL SECURITY ASSISTANCE REQUIREMENTS (GA & FMS)

	1975	1976	1977	1978	1979	1980	1981	Total
Potential requirements for medium tanks	737	827	941	686	721	746	548	5,206
High potential	(220)	(395)	(464)	(40)	(88)	(53)	(56)	(1,321)
Other tracked vehicles with tank chassis or other common components	211	226	314	88	73	73	59	1,044
Modification kits utilizing tank components (principally M48A3 and M48A5 conversion kits)	320	761	1,026	725	463	790	740	4,830

This chart summarizes that there is indeed a considerable world market for armored vehicles and components of all types.

Mr. SIKES. Generally where is that market?

General WING. The market is worldwide. I can furnish you a breakdown of all of the MAAG's solicited and their responses, which will give you an indication of these.

Mr. SIKES. Are they seeking to buy from us?

General WING. They are seeking to buy from us. I might add that this country is producing a tank that is less costly than many of its counterparts throughout the world.

Mr. SIKES. Are you talking about the M60?

General WING. Yes, sir.

If we had the production capacity to produce more tanks, I am certain that the demand would be higher than reflected. We are telling customers now we cannot deliver anything until the 1980's.

I would like now to move into our asset posture in terms of just what compromises our tank fleet. We have on hand today about 7,853 tanks of all types. I would like to point out, however, that 849 of those are unserviceable in the depot.

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Asset Posture

Type	*Quantities on hand*
M48A1/M48A2C (849 unserviceable in depot, excludes 159 known losses)	2,558
M48A3 (excludes 205 known losses)	359
Subtotal	2,917
M60 (excludes 111 known losses)	1,554
M60A1	2,842
M60A2	540
Subtotal	4,936
Total (849 unserviceable in depot)	7,853

Mr. SIKES. Of what value?

General WING. They are of value in terms that they can be rebuilt and made into serviceable tanks, but right now they are unserviceable.

Mr. SIKES. Is the condition of the tanks such that it would not be practical except in case of emergency to place them in serviceable condition?

General WING. We think that the——

Mr. SIKES. In other words, this is the type of tank, what would be called reasonable cost, that could be rebuilt for use by allies or for sale to the other people?

General WING. Yes, sir. We feel that the economics attached to rebuilding these tanks, converting them into the prime asset type tank, is very desirable.

Mr. SIKES. In other words, they are not junk; they are assets?

General WING. Yes, sir.

Mr. SIKES. You mean it excludes 159 known losses. What does that mean?

General WING. That picks up part of the losses that you saw on that former chart that are a drain against our resources. You will notice that 2,900 of the tanks now in inventory are of the older M48 vintage and about 5,000 are the M60 version.

If we were to look at a historical profile of tank production in this country, the Army tank problem today is a production problem. If we had the requisite production capacity in that base, we would simply be producing in the quantity required and not have these shortfalls.

Mr. SIKES. What you are saying is for years we have acquired tanks at a very low rate and there is no production base readily available?

General WING. That is correct.

It is shown on this chart.

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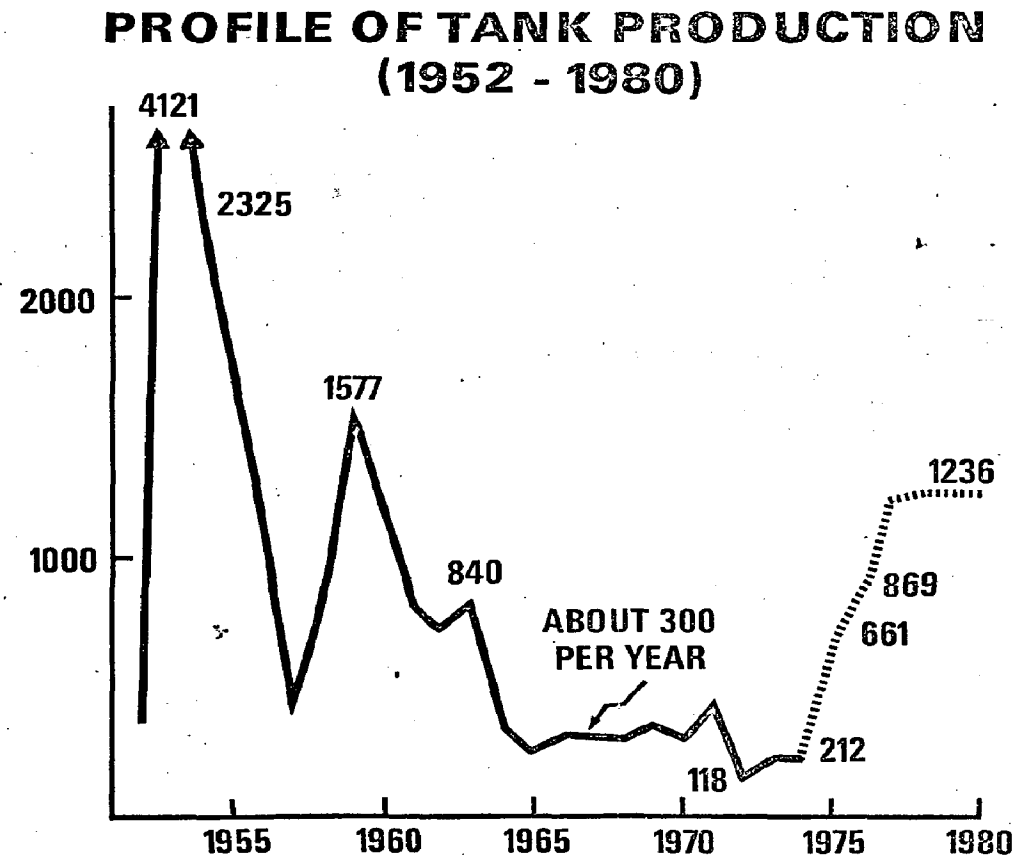

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General WING. Much of the base has gone cold on us, in this last 10-year period that we have been at or below the minimum sustaining rate of the base. We came into the environmental protection laws and clean air, standards, which closed many of the open-hearth foundries. The major constraint, hull and turret castings. We formerly had four major foundries supporting the tank production, and we are now down to one.

Early this year we were under the impression that this one facility could produce 4 hull and turret castings per day, giving a monthly production capacity of 83. In September of this year, Chrysler Corp. notified us that their sole source for hull and turret castings, Blaw-Knox Corp. in East Chicago, would not be able to go above 3 a day. That constrained us to a production threshold of 64 per month, which was not adequate to satisfy our own requirements, let alone any others.

Mr. SIKES. Can you justify setting up another production line?

General WING. That is true.

Mr. SIKES. Can you do so?

General WING. We are intending to do so with this reprograming action now before you, and it is the most urgent part of that reprograming.

Mr. SIKES. What company will do this?

General WING. Sir, we are looking right now at a foundry in Pennsylvania, located about 70 miles north of Philadelphia. It is a formerly owned Government facility. We have solicited through the Chrysler Corp. and the Government some 36 domestic firms and 17 foreign firms to find any one that could do these castings. The facility there was uniquely constructed for this purpose. I am advised by experts in the field that it would cost $100 million to duplicate that facility today. It will cost us about $20 million to revitalize and refacilitize the facility.

Mr. FLOOD. There was a time long ago when there was standby production of a tank—I remember it well. You could call up on the telephone, and now you say there is no such animal.

General WING. There is no such animal any more.

Mr. SIKES. Will the one additional production line serve to meet your requirements?

General WING. It will, sir. It will even do more than that because although we are planning to facilitizing that installation for only two hull and turret castings per day, it can be expanded to six with minimum additional outlays.

Mr. SIKES. What will be the time required to put it into operation?

General WING. It will be 22 months before it is producing at the two-a-day rate. We are fortunate in the respect that the foundry operation up there now is active. They have over 500 qualified employees and the management expertise to move into these very complex castings.

Mr. FLOOD. Plus the fact they think they are good?

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General WING. They are excellent.

Mr. BROWNMAN. I would like to add one more item relative to the selection of Birdsboro. We should not overlook the desirability of having two suppliers for castings in terms of maintaining the competitive environment.

Mr. SIKES. We agree with that.

Please proceed.

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STRUCTURE OF
M60 SERIES TANK PRODUCTION BASE

SECOND TIER
CHRYSLER MAJOR SUBCONTRACTORS

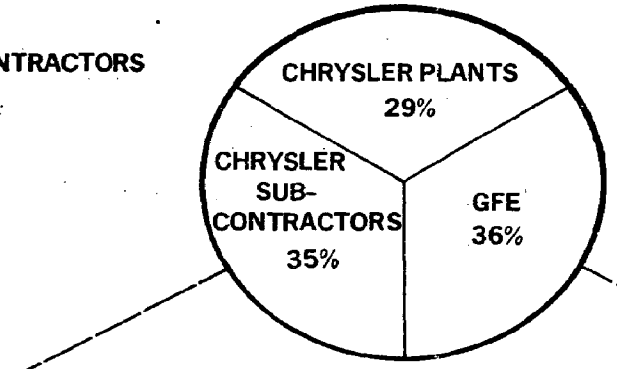
- 10 MAJOR SUBCONTRACTORS
- 700-800 OTHERS

FIRST TIER
CHRYSLER PLANTS

- SEVEN FACILITIES

SECOND TIER
GOVERNMENT FURNISHED EQUIPMENT

- 10 MAJOR CONTRACTORS
- 1000-1500 OTHERS



% UNIT COST OF VEHICLE
PLUS APPROXIMATELY 3000-5000 THIRD TIER VENDORS

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General WING. I would like to spend just a moment on the size of the production base for tanks. Chrysler is the prime contractor and has seven of its plants involved in the production of tanks. The major assembly facility is the Government-owned Detroit tank plant which was originally facilitized to assemble 400 tanks per month. This is working 24 hours a day. Under Chrysler, they have ten major subcontractors and 700 to 800 other vendors. On the Government side we have ten major contractors and 1,000 to 1,500 other vendors. These ten major contractors include such companies as Teledyne Engines, Allison Transmissions. We also furnish the tracks, fire control, guns, tubes, mounts, and other items. The underpinning for this whole base is 3,000 to 5,000 subvendors, specialty houses throughout the Nation. You can see that the tank base is pervasive across the industrial sector of the Nation, from the heavy castings to sophisticated electronics, to high technology manufacturing. It is a large base.

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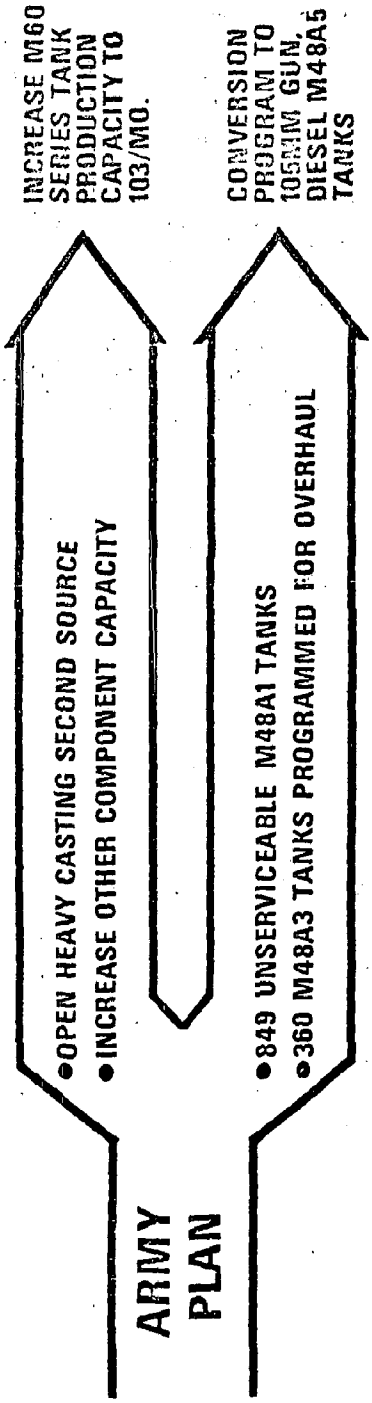

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General WING. Sir, I would like to move into the Army plan to recover. It is a simple plan. It is a two-pronged effort. First, we would like to open up a second source for castings which would allow us to move up to a production threshold of 103 tanks per month.

Second, we would like to convert 1209 M48 series tanks to the A5 configuration, which includes the 105 gun and the diesel engine. The Israelis used a version similar to this A5. They upgraded our M48 series.

Mr. SIKES. Is this comparable to the upgrading the Israelis did a number of years ago on the M48?

General WING. It is, sir. The Israelis have indicated to us that during the October war the upgraded M48's were, in relative terms, the combat equivalent of our M60A1, unimproved.

Mr. SIKES. Is that because of the bigger guns?

General WING. The bigger guns and in putting the diesel engine into it. In a sense, what we are doing is retrofitting the best features of the M60 tank to the hull and turret of the M48 tank.

COST OF M60 TANK

Mr. SIKES. Are you going to give us cost figures?

General WING. Yes, sir.

I might now, to simplify that, say what the M60 tank costs in new production today. This is not yet a negotiated figure. However, the tank is costing us about $430,000 a copy. On a relative basis we can take the unserviceable assets, dieselize and up-gun them, completely overhaul them for $225,000 to $235,000, somewhere in that area.

If we have a tank that is going in for normal overhaul, already dieselized, we can up-gun it for about $35,000 plus $70,000 overhaul. We get four of these for the price of one new tank.

Mr. SIKES. How much time is required to convert in M48 from the present status to the 105 dieselized version?

General WING. Sir, most of the time is taken up in the overhaul process. I believe that from the time of induction to the time of getting the finished tank is about 70 to 120 days. Colonel Berg, can you respond to this question?

Colonel BERG. Less than 4 months.

Mr. SIKES. Once our production line is established, less than 4 months to convert a tank?

Colonel BERG. Yes, sir.

General WING. Yes, sir.

Mr. SIKES. How long does it take to build a new tank?

General WING. On that same basis, from the time you bring in the raw casting to a finished tank, 6 to 7 months' leadtime.

Incidentally, the Army depot is facilitized for this purpose. We are also soliciting the private sector to see if these conversions can be done more economically.

Mr. FLOOD. Is anything being done to protect the sterns on these things?

General WING. No, sir. Our analytical studies are showing that our initial design criteria, where we beefed up the 60-degree vortex at the front of the tank, is no longer adequate. We are now getting random

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hits all around the tank, both to the rear aspect and to the sides. I am sure that that will be taken into consideration in the new XMI tank.

Mr. SIKES. No additional protection is being built into the M48?

General WING. It is not.

Mr. SIKES. M60?

General WING. Or the M60.

The M48 turret, sir, is a smaller turret than the M60A1 turret. The probability of hit against it is lower. It also is less vulnerable along the sides than is the M60A1.

Mr. FLOOD. What about the treads; armor on the treads?

General WING. We have gone to the new steel track, sir, mainly for longer life. The track is still vulnerable, but that does not kill the tank completely.

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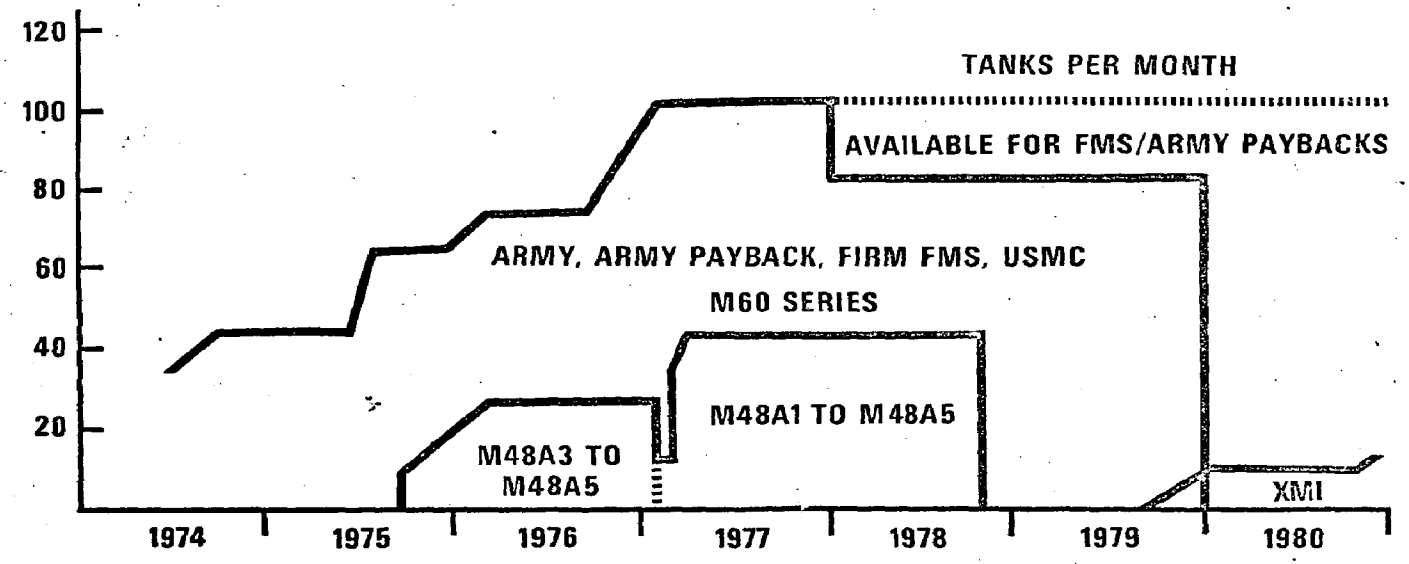
MONTHLY PRODUCTION/ CONVERSION RATE



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General WING. This shows graphically the proposed buildup and the conversion program. You will notice that the M48A3 to A5 conversion will start producing tanks by next October. That program continues on until about the end of 1978. Concurrently, we are planning on accelerating the new production which was constrained by bringing in the second foundry source until we get up to about 103 tanks per month. We need all of that capacity through the end of 1977. But starting in 1978, we open up some residual capacity to handle foreign-sale cases. If we take the quantities on hand now of our prime assets, about 5,019, 48 percent of our AAO, you can track across the chart how quickly our AAO builds up, using the manifold effect of the conversion and new production programs.

Mr. SIKES. The M60 now is equipped to fire when the tank is in motion?

General WING. It is, sir, It has the add-on stabilization. And in the M60A3 version, where we have the laser rangefinder and solid-state computer, it does have the shoot-on-the-move capability.

I would like to qualify that. In talking with people in our tank community, there seems to be a consensus that despite that capability it probably is better to pause momentarily to fire because your hit probability is increased.

Mr. SIKES. Will that capability or that type of stabilizer be built in any of the M48's?

General WING. The add-on stabilization——

Mr. SIKES. You do not plan to do so?

General WING. We do not.

Mr. FLOOD. Is there any R. & D. program on the type of fuels, besides combustible fuels?

General WING. We just went through an extensive R. & D. program on all the hydraulic fluids in the tank, and they are now nonflammable. The diesel itself, as you are aware, is much less flammable than gasoline and the fuel cells themselves are being spaced and protected to lessen the fire hazard.

Mr. SIKES. Are all of the hydraulic systems nonflammable?

General WING. That is correct.

Mr. SIKES. We seem to place less emphasis on a stabilization system that permits firing on the move than do other countries. Why is that?

General WING. Sir, the main reason is the one I just gave to you, the fact that your accuracy is increased if you are in a stationary position.

Mr. SIKES. So is your vulnerability.

General WING. That is true. That is where agility on the battlefield comes in, weight-to-power ratio.

If you stop abruptly, fire your round and move immediately, you are less susceptible to hit. On the new XM–1 there are several systems being looked at. One of those stabilizes the sight itself and the laser rangefinder, and lets the tube float, synchronized through a ballistic computer. At least you can acquire the target on the move and fire at it or pause and fire at it.

Mr. FLOOD. There is no great danger from ground troops jumping in at you with a grenade?

General WING. No, sir. If the tank is buttoned up, as the tankers say, they can not get to them.

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Mr. FLYNT. But there is a vulnerability to a hand-carried launcher.

General WING. That is true, sir. ———.

Mr. SIKES. I think at this stage that it would be well if we got some of the committee questions in and then we will try to pick up the rest of your briefing.

Let me first ask, before I proceed with committee questions, if there are questions on my right?

Mr. FLOOD. No.

Mr. FLYNT. No.

Mr. SIKES. On my left?

Mr. DAVIS. Not at this time.

M48 TANK PROGRAM

Mr. SIKES. Let's talk about the M48 tank program.

The Army proposes to overhaul and install 105-millimeter guns on 360 M48A3 tanks, upgrading them to M48A5 configuration, at a cost of $105,000 each; is that correct?

General WING. That is essentially correct. That cost I believe is now, because of inflation, estimated at $113,100.

Mr. SIKES. The remainder of this question is, you are going to take 849 unserviceable M48 tanks, overhaul them, install the diesel engine, the 105 guns, upgrade them to M48A5 configuration at $225,000 cost for a total cost of $228,825,000. That seems to be a sound thing to do.

But how many first-lime M60A1 tanks could you buy for that amount of money?

General WING. Sir, I have the analysis done in a little different format. To duplicate the 1209 that you just mentioned on that program with M60's, in the out-years, would cost an additional $638.9 million. And it would delay those tanks coming into inventory by about 27 months.

Mr. SIKES. Both of those are very serious matters. You are confident that you will be getting a serviceable, effective tank that can stand up against enemy tanks; is that true?

General WING. Yes, sir.

Mr. SIKES. What enemy tanks?

General WING. The T–62 and we think the T–70, though it has not been encountered in combat.

Mr. SIKES. Remember, you are talking about a rebuilt tank that is nearly 30 years old. But you are rebuilding the tank which is, say, 25 years old—at least it came into production some 25 years ago. It is going up against a fully modern tank.

You are confident that it can account for itself in that kind of atmosphere?

General WING. We are confident, sir, that it is almost the combat equivalent of our M60A1 unimproved. It lacks the growth potential.

Mr. SIKES. I understand it lacks the growth potential. This is probably the last time around. Right now you are getting the maximum improvement you could hope for?

General WING. That is true.

Mr. BROWNMAN. I think we must emphasize for the record certainly that the M48A5 tank has all the basic components of the M60 tank except that it continues to have the M48 hull and turret.

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Mr. SIKES. All right. You commented briefly that the Israeli experience with their rebuilt version of the M48, which is roughly comparable to what we are proposing to do, did give a good accounting of itself.

General WING. It gave an excellent accounting of itself.

I might state also that in our rebuild we will strip these hulls and turrets all the way down, sandblast them, put in new wiring harnesses, rebuild them from the ground up, so that their useful life is the same as a new tank. We would not expect to have to overhaul them until they reach 5,000 miles.

COST OF M60A1 TANK

Mr. SIKES. How much has the Army paid for an M60A1 tank in each of the last 4 fiscal years and how much will one cost in fiscal year 1976? Please provide that for the record.

[The information follows:]

General WING. The unit cost of the M60A1 tank for fiscal year 1972 was $326,700 and fiscal year 1973, 309,000. The average cost for the fiscal years 1974, 1975, and 1976 procurements, is estimated as follows:

Fiscal year	Average cost	Less special tooling	Average hardware cost
1974	$325,700	−$6,100	$319,600
1975	467,100	−47,100	420,000
1976	538,800	−44,800	494,000

Mr. SIKES. How long will it take to overhaul and upgun the 360 M48A3 tanks?

General WING. That program will be initiated in October of next year, sir, October 1975, and will be completed, I believe, in January of 1977.

Mr. SIKES. When will the first of these tanks be delivered?

General WING. In October 1975.

Mr. SIKES. And where will the work be done?

General WING. It will be done at Anniston, sir.

Mr. SIKES. Now, we understand that Army officials have testified before the Senate Armed Services Committee during hearings on the fiscal 1974 second supplemental and again during hearings on the fiscal 1975 Defense budget that overhauling and upgrading the M48 tank was not cost-effective. Reasons given for the Army position are that: one, retention of the upgraded M48 tanks in inventory would be limited since there is an estimated lead time of 24 months before the first tanks would be available and they will be replaced by the M60 series tanks which are superior; two, the upgunned M48 tank has limited growth potential; three, the M48 tank protection level is approximately 40 percent less than the M60A1 tank and the cost of our upgunned M48 tank is approximately two-thirds of the cost of production of a new M60A1 tank.

Was that the Army position a year ago?

General WING. That was the Army position, sir.

Mr. SIKES. Why are these reasons no longer valid?

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General WING. If I may take them one at a time, and may I start with the last one?

Mr. SIKES. Take them in any order you wish and tell us why those reasons are no longer valid; first, the question itself.

General WING. The retention in the inventory, sir, yes, it was indicated that 24 months' lead time would be required. That is the normal lead time, which includes 18 months to get the long lead time items.

We have accelerated the Procurement of the long lead time items associated with this program so we can bring in the first one early. Also, this was addressed only to those completely unserviceable M48A1 gasoline-powered ones. We are now looking at the first batch of 360 M48A3's, just for upgunning.

Mr. SIKES. The upgunned M48 tank has limited growth potential?

General WING. That is true, sir.

In the sense that the laser range finder and solid state computer which are being incorporated in the M60A1 cannot easily be retrofitted to the smaller turret on the M48. We are not saying it is impossible, but we are saying there is no plan for it; it would be difficult to package the components within the confines of the turret.

Mr. SIKES. You have also said a comparable tank in Israeli hands gave a very good account of itself against the tanks built by the Russians and supplied to the Arabs. Are there reasons to anticipate that there will be an improved version of the Russian tank on the battlefields within the next 3 to 5 years, or will the forces that are supplied with Russian tanks be comprised primarily of the same kind of tanks that are now in use, insofar as you know?

General WING. Sir, the Russian tank inventory estimated, at about ——— vehicles, consists of around ——— T–62's, later vintage model, and about ——— of the new T–70.

We believe both of those, Russia's best tanks, are vulnerable to the M105 armament on our M48 tank.

I think another significant aspect of the tank warfare in the October war was the marked superiority of our fire control equipment on our tanks. Their tanks can be defeated with the 105 gun and our fire control on those tanks is better than the Russian's.

Mr. DAVIS. Could I ask a question right there?

What do we know about capture of our model tanks, either the 60's or the 48's, by the Arabs and any use they may be making of them?

General WING. Sir, we have an analysis by the Arabs of T–62 versus the M60A1's.

That analysis would indicate that the T–62, characteristically, not necessarily in quality, is superior to ours several parameters; its weight-to-power ratio is better, it has a lower silhouette, it is a lighter tank, it has more kinetic energy in its gun system, 115 millimeter tube; our tank was superior in three categories, one of which was crew comfort, which was a significant factor in the Israeli favor during the war.

——— say they much prefer the M60A1.

Mr. DAVIS. We have to assume that here were some of the M60's as well as the M48's that were captured by the Arabs?

General WING. Oh, yes, sir.

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Mr. DAVIS. And they are now available for analysis by the Arabs and their friends?

General WING. Very definitely.

Mr. SIKES. All they have to do is pick up the paper to find out about anything we have.

Will you complete your answer?

General WING. On question 3, the M48 protection level is approximately ——— than the M60A1, I would like to qualify that in the terms that when the threat is the T-62 tank or better, the relative level of protection in the M60A1 and the M48 series becomes irrelevant, because the ——— so that the relative engagement distances and everything else just falls out, ———.

Mr. SIKES. Why are we building the 105 millimeter weapon when the 115 is so much more effective?

General WING. Sir, our 105 tank cannon—and it has not yet been decided if that will go on the XMI, using the new ammunition, the penetrators are lethal enough to defeat any tank at about ——— or out to those ranges, if you can hit them that far out. You gain advantage by keeping the millimeter smaller. You have better flexibility in your stowed load.

If you have the hitting power and the penetrating power with a smaller caliber, you are better off to go with it, because your logistics problems are also reduced. As far as the XMI is concerned, we are looking at 110 mm and 120 mm and our 105 mm. There will be a tripartite shoot-off between those three guns to determine which one is the best.

Mr. SIKES. That is a good answer.

General WING. The fourth one, the cost of upgunning the M48 tank is about two-thirds of the price of new production M60A1 tank, that differs markedly from what I just told you, sir.

Mr. SIKES. That is correct. You feel you can support the figures you gave us earlier?

General WING. I can support those, sir. I can tell you we have had remarkable cost growth in the price of the new tank which we are not experiencing in this conversion program that has widened the gap.

Mr. BROWNMAN. The tank conversion program has the hull and turret already, which does not apply here.

Mr. EDWARDS. I thought he gave us a full answer, but I am still not clear on what he knows now that he did not know a year ago, which changes the Army's opinion.

General WING. Sir, if I may answer this question from the basis of the feeling within the armor community in the U.S. Army, there was resistance on the part of our tankers and, understandably, that they might be given rebuilt and upgraded tanks when we were sending our preferred asset to our allies.

Mr. FLOOD. You can be sure about that.

General WING. How much of that bias has found its way into those comparisons I do not know. But I am sure that it was a very strong bias.

Mr. EDWARDS. Does the fact that you only have one foundry make the conversion more interesting now?

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General WING. Sir, it makes it absolutely essential, because at the time the earlier testimony was given, we were not aware of any production constraints of the magnitude we have now encountered.

Mr. EDWARDS. Now you feel you have run headlong into the constraints that make the conversion more desirable?

General WING. Yes, sir.

Mr. BROWNMAN. I think you have to add, a year ago we were not aware of the costs that we are experiencing today, and in the conversion program we have saved the cost of the hull and turret of the tank, which is approximately 20 percent of the cost of a tank.

Now, the armament, the new engine transmission, power train, items of that sort, have been inflated. The two-thirds factor is no longer operable, it is more like 50 percent.

I think that has been a very significant item.

Mr. VANDER SCHAAF. Mr. Secretary, what is the reason for the two-thirds cost estimate to convert an M48 compared to an M60 last year to less than 50 percent this year? Is it basically an increase in the cost of the M60 tank or primarily a decrease in the cost of M48 conversion. Give us a ratio for those two.

Mr. BROWNMAN. Increase in the cost of the M60 tank.

Mr. VANDER SCHAAF. Did you increase the cost of the conversion in the M48 since last year to account for inflation?

Mr. BROWNMAN. The increased costs are applied to the power train, engine, transmission, armament, the gun, as well as the fire control system. But the basic big cost factor items the hull and turret are constant.

General WING. I mentioned earlier in the briefing that the tank is estimated to cost us this year $430,000. It cost us last year about $311,000. The estimate to upgrade the M48 series last year was based on an estimate by a private contractor, BMY, up in Pennsylvania, to do that overhaul.

After we looked at it, doing it in-house, using our own rebuild facility, where we are already upgrading and rebuilding tanks, the differential widened even more.

Mr. MAHON. When do you propose to begin the overhaul and upgrading of the 849 M48A1s, and when will the first be delivered and when will the total 849 tanks be delivered?

General WING. Sir, we have already begun on 40 tanks that have already been deiselized, the M48A3; we have already ordered the gun kits and other parts required to upgrade those. We will start in October of next year, about 10 months from now to deliver the first M48A5 tank to be converted. That program will be finished in about October of 1978.

Mr. CASEY. Where will this work be done?

General WING. The first group of tanks, that is the M48A3s to A5, will be done at Anniston.

This second group of 849 M48A1s to A5s will either be done at Anniston or in the private sector if we can get a more favorable pricing there.

Mr. CASEY. We are shipping 205 M48A3s to other countries. Could these be upgraded to M48A5s and let the foreign buyers upgrade the M48A1s that they require with their funds?

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General WING. That is a possibility. One of the motivators on shipping those tanks to Israel that have already been dieselized is the fact that the Israelis have been upgunning those, which is a rather simple conversion.

Mr. FLOOD. The Russians were making a big deal one time about Amphibs: what happened to them?

General WING. Their tanks do have a pretty good water-fording capability, sir, better than ours.

Mr. CASEY. The point I wanted to get at is, we could save some money if we upgraded the ——— plus tanks with our funds and for our inventory requirements, and if Israel wanted their tanks, they can upgrade the M48A1's.

General WING. Yes, and they have that capability.

I might mention, however, that on the M48A3 pricing on this particular buy, we have gotten to a realistic price, so that we recapture all the money we have put into dieselizing those tanks.

Colonel BIEMECK. On this latest sale, the price we are proposing is a price adjusted to the new economic factors, about $300,000.

Naturally, since we sold the first batch of M48A3's to them at about $210,000, I believe, there are some negotiations going on. We feel we have to get a fair market value out of these tanks. Should we get the money, $307,000, that will give us enough money to put back into the unprogramed requirements account to make up for the M48A1 conversion of these tanks.

But breaking that government-to-government agreement and telling them they cannot have ——— M48A3 tanks might be very difficult.

General WING. We would rather give them the M48A3's than the prime assets.

Mr. CASEY. Do you propose to reserve the upgraded M48A5 tanks exclusively for foreign sales and grants and for the military assistance program?

Mr. BROWNMAN. We cannot invest any moneys in anticipation of foreign military sales. So we are not converting any tanks specifically for foreign sales.

Mr. FLOOD. You cannot what?

Mr. BROWNMAN. We cannot use appropriated funds in anticipation of foreign military sales.

Mr. FLOOD. What does that mean?

Mr. BROWNMAN. In other words, we cannot invest appropriated moneys in advance of a firm military sale.

Mr. EDWARDS. They cannot build these tanks just because they know they are going to sell them to Israel?

Mr. BROWNMAN. Yes, sir.

Mr. EDWARDS. You can build them and then sell them?

Mr. BROWNMAN. Yes, sir.

Mr. CASEY. What assurances do we have that our Active Army will not end up with these 1,200 inferior M48A5 tanks while our first line M60A1 tanks go to foreign governments, thereby depleting further our stocks of firstline tank assets in our Active Army?

Mr. BROWNMAN. The only assurance we can give you on that is that when the Army is requested to support a foreign military sale, we supply an impact statement in terms of its effect on the Army inventory and fighting capacity. The people who make the decisions make

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those decisions, taking into account our impact statements. We cannot at this time guarantee that the M48A5's will leave these shores and the M60's will stay. We cannot guarantee that or the reverse.

General WING. There is a feeling, however, that the M48A5 is a suitable substitute for our preferred asset, the M60, and can be sold in lieu of M60's if we have a requirement that we cannot deny.

Mr. FLOOD. The Russians were making big talk at one time about not only the weapon, but also as a great carrier of infantry troops.

They used to have big parades and pictures, a whole flock of these good tanks, with a flock of infantry on board. What about that?

General WING. We have, with the new MICV and with our armored personnel carriers——

Mr. FLOOD. I am not talking about a carrier, I am talking about the tanks.

General WING. The tank itself only accommodates four tank members. To put somebody else in there——

Mr. FLOOD. I mean outside.

General WING. Our tanks in combat in many instances have been loaded with infantrymen on top. We do not do it as a policy.

FOREIGN SALES

Mr. CASEY. Have you instructed the MAAG's and military missions throughout the world not to push the sale of our first line M60A1 tanks but, instead, to propose the sale of M48A5 tanks to foreign governments? If not, do you propose to do this?

I believe you mentioned that you screened the MAAG's and asked them "How many can you sell?"

Mr. BROWNMAN. We screened all the MAAG's to determine what the interest was to get an idea of what the magnitude of what our problem might be in terms of the foreign military sales. We have not pushed any particular version of tanks for foreign military sales.

Mr. CASEY. In other words, they could come in and say, I want M60's and no effort has been made to make sure they come in for M48's?

Mr. BROWNMAN. We are not permitted to do that. When tank sales are on the horizon from time to time, we are permitted to express the impact of various options and we hope through that we would be able to encourage people to take the M48A5, but we generally do not directly encourage anybody to take an M48A5 versus an M60.

Mr. CASEY. But you went through the big screening process?

Mr. BROWNMAN. We went out and found from the military advisers over the world as to what they viewed as the potential requirements of people who wanted to buy our military equipment.

Mr. FLOOD. Do we do any special R. & D. on the quality and nature of the steel which makes the tank, as distinct from any other kind of steel?

Mr. BROWNMAN. We have, and this is certainly a continuing program, especially in light of the XM1.

Mr. EDWARDS. Is it not fair to say that whether you push sales or not, or whether you can get appropriated funds in advance of sales or not, that it would be most desirable to have the rebuilt M48's avail-

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able so that if sales do occur, those could be sold and we could retain our better tanks?

Mr. BROWNMAN. Yes, sir, and we would certainly support that position.

Mr. MAHON. When we talk about sales here, to what extent are we talking about, in effect, giveaways? To what extent do we actually expect to get the cash for these tanks?

Mr. BROWNMAN. We have always gotten the cash. Perhaps some other U.S. Government agency has come up with the money, but we have always gotten the cash.

Mr. MAHON. Yes; I am talking about the U.S. Government.

Mr. BROWNMAN. I do not think we can address that, sir.

Mr. CASEY. For example, Israel was given a foreign aid appropriation and you are paid back from that appropriation?

Mr. BROWNMAN. We are paid back from that appropriation.

Mr. MAHON. You are paid back, but we will never get the money back from Israel, they could not possibly pay for all this stuff.

Mr. BROWNMAN. I do not think I am qualified to address this subject.

Mr. MAHON. They are in dire economic straits even without paying for it.

So we are talking about a giveaway program. But to what extent are we talking about giveaway programs generally? Does anybody know?

Mr. FLOOD. That is not their shop.

Mr. MAHON. I know it is not their shop, but they are citizens and ought to know better what is going on in the world. I cannot imagine anybody working with the program, in an executive way, without knowing whether or not the U.S. Government gets paid for these tanks.

General WING. Sir, we categorize our sales either as sales or grant aid to the Army, and we are reimbursed for that.

Mr. MAHON. We understand that.

General WING. Now the origin of those funds we are often not privy to. However, in many cases the foreign military sales are from other customers, not working against credits like we are in the case of Israel. There are hard requirements from many of the Mid-Eastern countries right now for armament that are being paid for out of their dollars.

Mr. MAHON. That is what I am interested in. I am not interested in Israel because I am convinced that Israel can never pay for the military equipment that we are selling to them.

But what about other countries? Where else is it true that while you may sell the equipment, you never really expect to get the money.

Colonel BIEMECK. There is no case that I know of, sir, where we do not get money. In the case, if I could use an example of an M48A1 tank that has been out of production, we cannot charge them a replacement cost, meaning we need $430,000 to buy a replacement.

Mr. MAHON. We understand that. I know you get paid with U.S. money, but do we get paid from the country abroad to whom the sale is made?

Colonel BIEMECK. Yes, sir, if it is a foreign military sales case, we get dollars, however; I do not know the origin. In the case of grant aid, if they receive so much money from grant aid, as they order a tank from us, that comes out of their appropriation.

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Mr. ADDABBO. Except when we left the equipment in South Vietnam and Indochina and other countries, and we turned over ships to them, we do not get dollars for them, it is under a different part of the Defense program where we left them there.

Colonel BIEMECK. I cannot answer that.

Mr. VANDER SCHAAF. The Army should provide for the record, the numbers of tanks sold in past years, the numbers of those sales that result in positive balance of payments to this country—result in cash flow into this country.

A lot of these sales are simply the result of military assistance grants and do not represent a true cash sale. We do not want you to include that. We want to see the sales where payments from a foreign government are actually received.

Mr. BROWNMAN. We will attempt to submit that.

[The information follows:]

TANKS SOLD FOR CASH SINCE OCT. 1, 1973

Type	Quantity	Value of sales
M48A1	295	$10,904,590
M48A3	226	79,977,047
M60	322	[1] 13,649,593
M60A1	301	273,007,645
Total	1,144	377,538,875

[1] Dollar value represents only 22 M60 tanks, cost of additional 300 tanks are included in M60A1 figure.

[CLERK'S NOTE: The $377,538,875 does not represent cash sales or a net positive balance of payment to the United States. For example, this estimate includes the cost of tanks provided to Israel as a cash sale although the U.S. Government provided $2.2 billion in the military assistance program to procure weapons.]

Mr. CASEY. If M48A5 tanks in this modification program were reserved for other countries, could MAP appropriations be used to pay for the upgrading and tooling costs, given these estimates of foreign sales?

General WING. Sir, we are in a position now to amortize the nonrecurring costs associated with those programs to the foreign claimant.

Let me give you an example; this is not the best example because here again we are dealing with credit. But the Israelis in conjunction with a buy of tanks in May gave us $38.5 million to expand the M60 tank for higher capacity production.

In connection with the M48A5's, the total cost of doing that program will be prorated over those vehicles and they should be sold then at that fair market price.

Mr. CASEY. But we are getting back money and we are losing assets.

General WING. Very true.

Mr. CASEY. I do not quite understand. You amortize the value of the tank——

Mr. BROWNMAN. No, you amortize the value of the capital investment or facility investment over a buy of tanks. So, if you put in $20 million for capital investment and you sell 200 tanks, a certain part of that cost will go to replacing the $20 million original investment.

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General WING. Sir, I would like to make the point that we are not upgrading those assets for foreign claimants. They are going into our own inventory and are solely needed in our reserve forces right now. They do have the advantage, however, that if we have hard requirements against our preferred asset, the M60, that we may be able to substitute the M48A5 and protect those preferred assets.

Mr. CASEY. As we understand your briefing charts, this reprograming action will initiate an overall tank production program that will cost an additional $191.3 million through fiscal year 1979. How much of that amount is associated with the M48 tank program?

General WING. Sir, the total program dollars on the display you just alluded to for that conversion program is $258.3 million.

M60A1 TANK PROGRAM

Mr. MAHON. Now we are going to change the course of the interrogation and go to the other tank. Will you proceed?

Mr. CASEY. We shall now turn to the M60A1 tank production proposal. As we understand, the Army desires to increase its production base to 103 tanks per month or some 1,200 per year, in order to bring our M60 tank assets to some 10,000 tanks by fiscal 1979.

General WING. That is correct.

Mr. CASEY. What is the current production rate for M60A1 tanks?

General WING. Forty per month.

Mr. CASEY. We understand that there is a potential of foreign sales and grants of some 3,900 medium tanks between fiscal 1975 and 1979. If we increase tank production to 103 per month or 1,236 per year, beginning in fiscal 1976, we should be able to produce about 4,900 tanks by fiscal 1979. However, if the foreign market materialized by fiscal 1979, we will add only 1,000 tanks to our inventory and we will be far short of the 10,000 medium tank asset goal.

What will you do to assure this committee that we will take care of our Active Army and Reserves first before satisfying the appetites of our foreign allies and friends?

General WING. First, I want to stress the point that we are building an Army inventory here and we are producing no tanks for foreign claimants. We have in that 103 production threshold in the out-years incorporated some slack capacity, about 20 units per month, to address what we know are the demands that will be made by foreign sales.

I believe our international logistics community, military assistance sales people are now stating delivery schedules in the 1980's for our preferred assets, so that we will not further encumber our own fleets or in any way offset the production that we are diverting to our own resources. That is our plan.

Now, if the National Security Council should decide to divert further assets, that is beyond the Army's authority except to respond to it.

Mr. CASEY. You have testified that the Army proposes to add $120.1 million worth of equipment, tooling, and facilities to our tank production base, $38.5 million in fiscal year 1974 funds, $34.8 million in fiscal year 1975 funds, and $46.8 million in fiscal year 1976.

General WING. That is correct.

Mr. CASEY. Will there be additional similar requirements beyond fiscal 1976 and, if so, how much?

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General WING. The production base expansion moneys and start-up costs associated with expanding the base to the 103 are all encompassed within that $120 million.

Mr. CASEY. No additional funds will be required?

General WING. I never can say no additional funds.

Mr. BROWNMAN. None are anticipated at this time.

Mr. CASEY. Of the $120.1 million funding requirement, $77.8 million, or 65 percent, will go to privately owned contractor facilities. Has the Army discussed with these contractors the possibility of their investing their own funds, since they will ultimately profit from this investment and can be reimbursed for such investment under the tank production contracts and in the form of tax writeoffs and so forth? If so, what was their reaction?

Mr. MAHON. I think we might suspend at this point. We are getting into a very important field here and that will be the first question when we return at 2 p.m.

Let's stand adjourned until 2 o'clock.

AFTERNOON SESSION

CAPITALIZATION OF COMPANIES IN THE PRIVATE SECTOR

Mr. DAVIS. We will proceed, gentlemen, from where we left off this morning. At that time the question had been asked:

Of the $120.1 million funding requirement, $77.8 million or 65 percent, will go to privately owned contractor facilities. Has the Army discussed with these contractors the possibility of their investing their own funds, since they will ultimately profit from this investment and can be reimbursed for such investment under the tank production contracts and in the form of tax writeoffs and so forth? If so, what was their reaction?

Mr. BROWNMAN. Before we respond to your question, Mr. Chairman, I wonder if I could take this opportunity to make a statement for clarifying the record on an issue or two which was brought up this morning prior to the recess.

The Army has notified the people in the MAAG's and the liaison offices overseas in terms of what is our status relative to the AAO with respect to tanks and other war materials and in terms of what is in good supply and what is not in good supply. In addition, we have provided briefings relative to the tank issue principally or primarily to ISA, Mr. Ellsworth, relative to the Army's tank problem. The motivations of these briefings and instructions were such as to encourage ISA and the MAAG's to induce foreign countries to procure the M48A5's or 3's, rather than the M60 and 60A1, in the interest of keeping the M60 assets within the active Army, as well as the Reserves and National Guard forces.

I want to correct these earlier statements for the record. General Wing, would you like to answer that question?

General WING. Sir, with respect to the capitalization of companies in the private sector, I think that the tank base illustrates in certain segments where this has been a very worthwhile venture on the Government's part. For example, in the case of the engine, which is manufactured by Teledyne, that was formerly a "Government-owned" facility maintained in operation, facilities upgraded from time to time for

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application in the private sector. In that particular instance we have an ongoing establishment with a skilled labor force and the right kind of management for the manufacture of those engines. We are bringing the tank production for engines up from a base quantity of about 60 to 80 a month, to 250 a month, for something on the order of $3.3 million, and added facilities to augment those owned by the contractor.

In that type of an instance it is far better for us to rely on the private sector for that type of capability.

I was trying to think of some example where maybe it would not be in the Government's interests to do so. I can think of many instances in the ammunition base, which is predominantly a GOCO structure, requirements are not parallel in the private sector. I think where they are paralleled and we can maintain an ongoing private concern, we are better off to make our investments there.

Mr. DAVIS. What kind of an arrangement is made with respect to the Government's investment? Let us say right now the Government is contemplating investing a substantial number of millions of dollars here. How does the Government get its investment back, either directly or indirectly?

General WING. I think we would have to classify the investments made by the Government. If it is a non-severable item, something that we can not relocate and move to storage somewhere in the Government sector, and we can amortize it against the production quotas that we envisaged downstream, that type of investment essentially we must writeoff in connection with the quantities to be produced. That is the decision then. If it is a severable type item, the Government does recapture that and store it in case of future need.

Mr. BROWNMAN. There is another point, if I might interrupt here. This a key item. By facilitizing another source of hulls and castings, which is the big item in the entire M60 program, it provides a competitive environment, which means we are not a captive of a single supplier, I think that the actual recapturing of the investment will be in the forward pricing of hulls and castings. The competitive price inherently available between the two suppliers will more than offset our investment over the years.

Mr. DAVIS. The investment would be reflected in a lower cost per unit to the government?

Mr. BROWNMAN. Yes, sir.

Mr. DAVIS. Take this case where you are planning to put million into this facility as compared to another. I believe it is a private facility that you are getting these from now. But if the time comes when you are going to expect these people to compete with each other, how can the company that has invested its own funds in something of this kind ever hope to compete against one such as this, where the Government is providing substantial facilities?

Mr. BROWNMAN. The company that has made the investment almost in toto of their own funds has been in business a long period of time and has already amortized that investment over previous production. We are providing a viable competitive environment in terms of the two organizations, by the use of weighting factors for private investment versus government investment.

General WING. I might add also in the evaluation of the bids received in such an environment as that, any industrial plant equipment

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which is owned by the Government is factored against the owner in relation to the one that has his own facility.

Mr. DAVIS. Severable items to which you referred, does the Government charge any kind of a rental or anything of this kind?

Mr. BROWNMAN. Only if used for non-government purposes. Actually, only if it is used for non-tank purposes. It is limited to the tank activity.

Mr. VANDER SCHAAF. Mr. Secretary, we have a couple of questions concerning the procurement policy of the Department of Defense, which they refer to as contractor capital employed policy. This goes back to the late 1960's, early 1970's, when there was a great deal of debate whether U.S. defense contractor were earning too large a profit. Studies were made by the GAO and the Department of Defense to make a determination of this matter. These studies generally concluded that defense contractors were not making too high a profit if you based the profit as a percentage of sales or costs of the goods delivered to the Government.

However, if you looked at it in terms of invested capital, some defense contractors were making too high a profit. As a result of that, the DOD made some changes in the ASPR and recommended that ownership and investment of capital be a consideration in determining the purchase price of a negotiated contract.

Did you get an exception to this policy with this proposal that you have before us?

Mr. BROWNMAN. No, sir. I believe the ASPR weighted guidelines takes cognizance of government ownership of invested capital versus private corporation investment in that facility. The final evaluation would be appropriately adjusted on whether the company or the Government has made this investment. We have not requested nor have we received any waiver to that.

Mr. VANDER SCHAAF. It turns out after looking briefly at this change in the ASPR, which is change 107 dated on November 7, 1972, DOD expected 200 defense contractors to participate. Only three or four contractors participated with about the same number of contracts. If you were to go ahead, if the Congress were to say, "OK, go ahead and introduce new capital goods into this private contractor's plants," how do you insure that he would decrease his profit margin to reflect the fact he has not invested capital?

Mr. BROWNMAN. The profit factor, particularly the weighted guidelines, provide a mechanism whereby the contractor does not get credit for other than his own capital investment, and it would be reflected in that manner. I don't know that I can guarantee——

Mr. VANDER SCHAAF. You wouldn't use those specific items that are laid out in this particular change in ASPR in determining the price of tanks produced in this plant. I don't know if you are familiar with those, but they go through a certain negotiating process and they are laid out on the proper forms. You wouldn't go ahead and do that in your proposals; is that what you are saying?

Mr. BROWNMAN. That is right.

Mr. DAVIS. In that connection, relating to the machinery and tooling, it was only a very few years ago that we—let's say a decade ago—that we did have a much higher rate of tank production. What has happened to that, the facilities for that, capacity in terms of machin-

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ery, tools, and that kind of thing in that decade since we have had the greatly reduced production?

Mr. BROWNMAN. That is a very pertinent question. Ten years ago, we had—again addressing the turret and hull-casting issue—we had four suppliers of the castings on hulls and turrets. Because of the low rate of production, this has shrunk to one, Blaw-Knox. During that 10-year period, American industry has been subjected to EPA and OSHUS upgrading requirements. As a result, some of those companies that were providers of castings have decided to go out of business, or go into other activities in terms of their facilities. As a result, the production base ability to expand the rate of production of these castings, has virtually disappeared. This is a serious concern to the Army. This is one that motivates us to get a second source to maintain that competitive environment. It has been a dual, two-pronged impact.

Mr. DAVIS. Do you know whether any of those producers at that time had Government-furnished machinery and tools they were using?

Mr. BROWNMAN. I am not aware of any specifically, but I do know that in the case of Birdsboro, the organiaztion we are presently contemplating opening up as a second source, there were several facilities that were in their plant that were removed from the plant prior to sale. These went to Lima. It is kind of interesting to note that in the case of the furnace which was provided to melt the castings, those furnaces would no longer meet EPA standards in terms of effluent, and would have to go from an open hearth to an electric-type furnace. This is part of the problem that we face today.

Mr. DAVIS. Are we safe in assuming that you have carefully looked into the matter of any Government-stored equipment, tools that could be used in this instance?

Mr. BROWNMAN. Yes. I have to say yes to that, although if we had to go down item by item, I don't think I could make such a firm commitment. What we have to say—and the issue is principally in acquiring the liquid melt for the pourings of the castings—is that most of those—in fact, all of those were open-hearth capabilities, up to a few years ago when EPA standards were introduced. As a result, anything stored prior to that was generally open hearth and would not meet EPA standards. So we have to go to a furnace capability which is compatible with EPA standards, which is the electric furnace. This is fairly new. There is nothing that the Government or the Department of the Army has in storage which could be applied to this problem which would meet EPA standards. I don't believe it is practical to consider a waiver or variance to EPA standards at this time.

General WING. I would like to add in connection with the expenditure for base expansion, the equipment assets available from DIPEC were reflected in those budgetary estimates. The equipment requirements for facilitizing, we first searched the DIPEC inventory, and they would be withdrawn before we would purchase new items.

DETROIT ARSENAL TANK PLANT

Mr. DAVIS. During a briefing on November 25, 1974, Army officials advised our staff that the Detroit Army Tank Plant in Warren, Mich., a Government-owned plant operated by Chrysler, has the capacity to build 400 tanks per month, or 4,800 per year. Why do you require an additional $38.8 million for installation of Government-owned equip-

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ment and new equipment at that plant which produced 840 tanks as recently as 1963 and has continued to produce between 360 and 536 tanks per year since that time?

General WING. The Detroit Arsenal Tank Plant has a maximum rated capacity to assemble 400 tanks a month under mobilization conditions. This capacity to assemble the 400 is predicated on the necessary tank components and subassemblies being shipped in from other sources.

The $38.8 million will permit Chrysler to machine hulls and turrets to be procured from a new source that doesn't have the requisite capability. It will also permit fabrication of quantities of gun mounts and final drive units which exceed the capacity of current subcontractors.

Mr. DAVIS. How much of the total $38.8 million is for installation of the Government-owned equipment? Provide a breakout of these costs for the record.

[The information follows:]

General WING. $9.1 million of the $38.8 million is estimated for installation of the Government-owned equipment.

A breakout of the $38.8 million follows:

Fiscal year 1974 facilities (includes installation):	
Gun mount	$0.567
Final drive	.416
Other to include hull rollover stations, add-on-stabilization test equipment, installation, heavy repair station, turret welding station, clean room, fume collection equipment, lifting devices, fueling equipment	1.519
Subtotal	2.502
Fiscal year 1974 tooling (includes installation):	
Gun mount	.783
Final drive	.150
Turret mach	.949
Other to include hull rollover stations, add-on-stabilization test equipment, installation, heavy repair station, turret welding station, clean room, fume collection equipment, lifting devices, fueling equipment	2.427
Subtotal	4.309
Fiscal year 1974 rearrangement (included in installation cost):	
Final drive	.420
Turret	.201
Other	.627
Subtotal	1.248
Fiscal year 1974 vendor tooling (includes installation):	
Fire control	1.998
Other	.997
Subtotal	2.995
Fiscal year 1974 starting load:	
Gun mount	.742
Turret	.049
Fire control	.800
Subtotal	1.591
Total	12.645

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Fiscal 1975:	
Tooling and gages (includes installation)	7.7
Startup	2.5
Production base support (includes installation)	3.1
Total	13.3
Fiscal year 1976:	
Rearrangement and rehabilitation (includes installation)	5.1
Vendor (includes installation)	5.0
Startup	2.8
Total	12.9

Mr. DAVIS. You told us, Mr. Secretary, that particularly with respect to the furnace types, there was nothing in DIPEC that would be available. Does that apply with respect to any other tooling or machinery that might be adaptable for use at this time?

Mr. BROWNMAN. I would like to ask General Wing to answer that.

General WING. In connection with the Birdsboro facility, that capability there is estimated to have a value of $25 million in 1970 dollars. Also withdrawn from that facility was about $2 million in severable industrial plant equipment which was taken and stored elsewhere and would be restored.

Mr. DAVIS. You do intend to bring that back into operation?

General WING. We do. It is equipment such as quenching tanks and things of that nature.

Mr. BROWNMAN. I would like to add to that, not in terms of specifics but from a philosophical point of view.

If you look at the amount of money we are looking at for the present reprograming, you will find that some of it comes from what is called free assets, which is the result of foreign military sales, and some comes from reprograming within the Army's present budget. These funds are to be principally used for the long lead items and facilitization of these capabilities. It can be judged that some of this money, a fair amount comes directly from the Army's hide in terms of our already authorized budgets, that we are attempting to be as frugal as possible and where we can use facilities or items in storage, where we don't have to put out hard cash, we are certainly very strongly motivated to do so.

Mr. DAVIS. I would think so.

Mr. CASEY. I refer to a question asked a few moments ago. Did you discuss with the private contractors the possibility of their buying this equipment and this capability themselves? Did you go out and try to get the money for them?

General WING. With respect to Birdsboro, we initiated a study which cost us about $85,000 and took 60 days to determine what facilitization and refurbishment of existing facilities would be required to bring that plant up to an active status. To our knowledge, there was no negotiation with the contractor on any cost that he would bear in connection with that. However, that facilitization will be reflected in a lower unit recurring cost on the items to be procured from that plant.

It is interesting also that in the independent analysis of what it would take to facilitize Birdsboro, $32.5 million, escalated to $35 million because part is in the 1976 program, we have identified only $10.6

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million of that investment that is nonseverable. It is either in refurbishment of the existing facilities or in facilitization which cannot be removed at a later date. Another $12.5 million of that investment is in startup costs which, if you were to go to a private contractor who was facilitized, would be added to his recurring costs to the item. Because of doing it that way, the finished casting cost per pound out of Birdsboro is estimated at something like $1.04 a pound versus about 98 cents a pound at the current production, Blaw-Knox, who was an active producer and relatively well facilitized. That cost also compares with a solicitation we made to Krauss-Maffei in Germany, of $1.88 a pound f.o.b. Germany. You see that the unit cost of the item was significantly reduced by the Government initially going in there and facilitizing it directly.

Mr. CASEY. If you added the depreciation of the equipment that you are buying to the per-pound price of casting, is it less? I believe you said that the other contractor is——

Mr. BROWNMAN. We have not looked at it in that way. I don't believe we are in a position to answer that question. We will supply the answer for the record.

[The information follows:]

Government accounting does not normally take credit for depreciation of equipment purchases. These comparisons of cost per pound are based upon recurring cost to the producer.

General WING. There is one point we can make. This is a negotiated procurement. When the Defense Contract Audit Agency goes in there to audit the cost against that production, they will identify and recognize only those costs associated with the production of the item. The profit that is assigned to that production will be just against the cost borne by the producer. That zeroes out much of the question of nonrecurring costs, and facilities, and what have you.

Mr. CASEY. On the nonseverable equipment, what was the amount?

General WING. About $10.6 million.

Mr. CASEY. That cost will be written off over the production buy? I believe you mentioned that before. Severable equipment would not?

General WING. That is true. Of that $10.6 million, $2.25 million is in there for renovation of the building and existing equipment. The Government is upgrading that facility for the contractor. In the negotiation—the contract is yet to be negotiated—that certainly should be taken into consideration in the Government's favor.

Mr. CASEY. As I understand the whole point here, we come out with a cheaper unit price by buying the equipment ourselves?

General WING. Yes, sir.

Mr. CASEY. That unit price does not consider depreciation of the equipment and it does not consider the price to the Government of borrowing the money to buy the equipment with?

General WING. That is true. The Government does not use the cost of captital such as industry does.

Mr. CASEY. When you come up with a unit price, I would like to get back to the question, why not the contractor? I am assuming he could go out and buy the equipment himself. He has the tax advantage and

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the investment credit in the first year or second year, where he can write that off, and I would like to clarify that issue.

Mr. BROWNMAN. Let me address that point. On the surface you make a very valid point. However, I think history responds to some of this. I visited Blaw-Knox several months ago and had a discussion on expansion of their capabilities and the desirability of doing so. In the process of that discussion they provided me with a briefing which showed their experiences with the U.S. Government, specifically the Department of the Army, in terms of supplying castings for tanks.

Going back to the predecessor of the M48 tank, they showed me a chart which could best be described as a yo-yo chart, where the production varied radically from year to year. This was a very uneconomical and undesirable point of business for them in terms of not having a steady growth or level production of castings. They were very reluctant, under these conditions, to be forthcoming in terms of providing basic investment. As a result, one of the big issues that existed with Blaw-Knox is that they would like for us to provide them with a guarantee for 5 years' worth of castings. We are not in a position to do that. We don't do business that way. We can not make that sort of a meaningful guarantee.

I believe the Birdsboro people are of the same mind. They don't know what the production is going to be year after year and what pressures are going to affect that. Therefore, they are frankly reluctant to make that kind of an investment. As a prudent businessman, I have to concur with their conclusion.

Mr. CASEY. If you cannot guarantee Blaw-Knox a given buy over the next 5 years, why are we going out and establishing Birdsboro for additional castings capability?

Mr. BROWNMAN. We are coming to you, and perhaps this represents, in part, a commitment on the part of Congress in terms of what the Army production is to be in future years. I can not legally provide any sort of commitment that I could stand behind to any corporation for multiple-year buys. The law prohibits me from doing that.

Mr. VANDER SCHAAF. You are saying that the Congress ought to be willing to invest in this because we have more assurance that the Army will continue higher tank production rates for a longer period.

Mr. BROWNMAN. Precisely.

BIRDSBORO PLANT

Mr. VANDER SCHAAF. Let me ask one additional question. Earlier this morning I believe you testified to the effect that the Birdsboro plant was an ongoing operation, had people, and that it had capital. It sounded to me like it was a working plant. Now your testimony this afternoon sounds as though the Birdsboro plant is not an operating plant and you have to spend x thousands of dollars to make it an operating plant. Clarify that.

Mr. BROWNMAN. The Birdsboro plant was a producer and supplier of turrets and hull castings for the Army tank program. When the plant was sold by GSA for the Department of the Army in 1972, the plant was no longer performing that function. This was part of the drying-up of the industrial base because of the low rate of production of tanks authorized by the Army and by the Congress. Birdsboro did

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buy the plant. It was not an operable plant at that time in terms of castings for the tank program. They have used it. The plant was damaged by flood, and since then, they are currently using part of that plant facility for commercial ventures. However, in order to put that plant, that particular facility, into production of castings for the Army tank program, there is some additional refacilitization to be done—namely, a melt furnace and a few other items. Some of these items were moved to Lima, and will be brought back as applicable and necessary. When we relinquished that plant it was not operating, not producing castings for tanks.

Mr. VANDER SCHAAF. It is operating today to serve commercial customers?

Mr. BROWNMAN. That is right. These are small castings. You must realize we are so familiar with the problem that we tended to gloss over it, but a casting for a tank, for the hull or the turret, is of the magnitude of 40,000 pounds prior to the machining function. In the survey of 136 foundries in the United States that are qualified for providing castings, I believe there are only nine that are capable of providing castings of that size and weight. We are dealing with a very limited source of industrial production.

Mr. VANDER SCHAAF. What is the level of work in that plant today? I don't believe that has been asked.

Mr. BROWNMAN. I don't know that answer. I can say this: Birdsboro being a company that is interested in profit, and that is a very essential ingredient of American business, is attempting to fill up that plant more and more with commercial work. This is one of the items that carries the sense of urgency for the Army's program that is to commit Birdsboro to Army production so as to prevent them from filling this facility up with commercial and industrial ventures.

Mr. FLOOD. How many thousand square feet in Birdsboro?

Mr. BROWNMAN. I would say 300,000 square feet.

General WING. I think that I can clarify this in this respect: There are two plants in Birdsboro. The one we are talking about has 900,000 square feet of space. About one-third of it now is encumbered with fabrication and other things, nonfoundry, for the Trident submarine and other types of work in there. About 600,000 square feet are available. Once we facilitize and put the electric arc furnaces in, the ongoing business is a separate building across another road, but it does employ about 500 people and has the technical expertise to do these special armor castings.

Mr. PRESTON. Mr. Secretary, in obtaining components of tanks, we are having great difficulty with commercial suppliers. In past years, particularly before World War II, the Army and the Navy had arsenals of their own, in-house Government plants to supply things which were peculiar to Government requirements and for which there was no long-term sustained requirement from the commercial side of industry. We had the Naval Gun Factory here in Washington and places like that around the country. What consideration was given to making this an in-house Government facility for producing tank castings at Anniston, Ala., or someplace where the Army does work on tanks?

Mr. BROWNMAN. The Army does not have the capability to produce castings.

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Mr. PRESTON. I know that, but if the Government builds a plant it can hire the people to do that.

Mr. BROWNMAN. I have to admit there was minimal consideration given to this in the light of "Concise" and in the light of divesting the Army of these kinds of commercial ventures. I suspect——

Mr. PRESTON. What you are saying is that the administration policy is in the other direction?

Mr. BROWNMAN. That is right. We have followed that policy. I personally subscribe to that policy because I think in the long haul it might be very uneconomical.

Mr. FLOOD. We talk about the Main Battle Tank, not a new battle tank. We have been talking about new battle tanks for about 10 years. We finally have agreed now we have a battle tank. We are talking about the same thing?

Mr. BROWNMAN. Yes, sir.

Mr. DAVIS. How many tanks is Chrysler producing a month now with the equipment they have?

Mr. BROWNMAN. I believe that is 40.

General WING. About 40. That is moving up steadily and, as I did indicate earlier this morning, Chrysler was under contract, let in May, to expand that base to 83 units of production per month. In September, Chrysler notified us that their sole source foundry, Blaw-Knox, could not go above 64 per month, so that set the production threshold without moving to another foundry source.

Mr. CASEY. I thought you said before that the current production was 43. Now we are talking about 64.

General WING. Blaw-Knox by next summer is expected to be up to 64 hull and turret castings per month.

Mr. CASEY. That is after they spend this $24 million we are giving them?

General WING. The $24 million is a budgetary estimate that has not been negotiated yet. The exact degree of facilitization at Blaw-Knox is yet to be determined. They are working on a full premium basis now with some employees getting as much as 300 hours in a month. In order to facilitize them for routine operations at 64 units of production per month, we will have to do plant rearrangement, add some for facilitization, and make other changes within the plant. No new facilities or any major outlays beyond that.

Mr. DAVIS. How many could they produce if they went to three shifts?

General WING. They are at three shifts now.

Mr. DAVIS. That is at the 64 level?

Mr. BROWNMAN. I think they are at two overtime shifts.

I might add, in foundry work overtime shifts are only a very short-term remedial action. It is unreasonable to expect people, in terms of safety and health reasons, to work extended workdays or extended workweeks for protracted periods of time. This will impact the quality of the product as well.

Mr. DAVIS. According to our figures, the unit cost of the M60A1 tank has increased from $327,100 in fiscal year 1972 to $467,100 in fiscal year 1975, and you estimate $538,800 in fiscal year 1976. Do you anticipate that by investing $120.1 million in tank production base

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and by increasing tank production to over 1,200 per year, that the unit cost will decrease significantly? If so, by how much?

General WING. Sir, undoubtedly we will gain economies based first on economy of scale. Secondly, on better learning curves as we move into these higher thresholds of production. However, as an offset to that, I need not tell you that this country is experiencing rampant inflation right now. It is very difficult to speculate on that inflation, but I am certain from the standpoint of economy of scale and moving up the learning curve, that the price would come down if we could zero out the inflationary impact.

COST DISTRIBUTION INCREASES OF M60A1 TANK

Mr. DAVIS. We understand that in the production of M60A1 tanks, the Government furnishes the engines, transmissions, add- on stabilization, track, and about one-half of the fire control system. Chrysler buys and machines the hulls and turrets, builds the road wheels, idler wheels, torsion bars, gun mounts, one-half of the fire control system, and so forth. In other words, your briefing chart shows that the Government provides 36 percent of the tank, Chrysler plants make up 29 percent, and Chrysler subcontracts 35 percent. Will you provide for the record the amount of cost increase experienced in the last several years by the Government in its 36 percent share, by Chrysler in its 29 percent share, and by Chrysler subcontractors in their 35 percent share. We would like to determine where the lion's share of the cost increases have been—Government versus contractors.

Mr. BROWNMAN. Yes, sir.

[The information follows:]

The 36 percent, 29 percent, and 35 percent tank cost distribution was based on an average of the actual tank cost in fiscal year 1974 and the estimated cost in fiscal year 1975.

The following shows the tank cost distribution for fiscal year 1973, and fiscal year 1974, and that estimated for fiscal year 1975:

	Fiscal year 1973	Fiscal year 1974		Fiscal year 1975, change from previous year
		Change from previous year (percent)	Dollars	percent
Chrysler subcontractors	$94,.23	$103,300	+10	$138,700	+34
Chrysler	77,632	71,200	−8	128,500	+80
Government (GFE)	98,300	99,410	+1	131,110	+32
Totals	269,955	273,910		398,310	

The cost distribution increases for Chrysler in fiscal 1975 are attributable to increased efforts of Chrysler during the fiscal year 1975 funded delivery period which is necessary to assemble tanks at a greater rate; facilitization of Chrysler to provide certain tank components in the fiscal year 1975 funded delivery period, which they did not provide in the fiscal year 1974 funded delivery period—this will be explained more fully; a decrease in the total effort of Chrysler subcontractors and GFE sources in the fiscal year 1975 funded delivery period; and lastly, price escalation.

The changes in production effort which are primarily responsible for the shift in the distribution of tank costs in fiscal year 1975 includes Chrysler production

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of gun mounts, fire control components, and final drive bull gears and pinions, and Chrysler machining of hulls and turrents.

With regard to gun mounts, it is planned that Chrysler will produce some of the gun mounts for M60A1 tanks in the fiscal year 1975 funded delivery period. Gun mounts are all GFE in the fiscal year 1974 funded delivery period.

Concerning fire control components, it is planned that Chrysler will produce some of the first controls for M60A1 tanks in the fiscal year 1975 funded delivery period. These are furnished by the Government in the fiscal year 1974 funded delivery period.

With regard to final drive bull gears and pinions, it is planned that Chrysler will be an additional producer of this assembly during the fiscal year 1975 funded delivery period. The current producer of this assembly does not have the capacity, or desire to expand, to meet increased production requirements. Also, market surveys conducted by Chrysler to locate other commercial sources have been unsuccessful. Therefore, it was decided to facilitize Chrysler, using laid-away production equipment at the tank plant. Other commercial sources will continue to be sought.

Lastly, Chrysler is being facilitized to begin machining up to 44 hulls and turrets a month during the fiscal year 1975 funded delivery period. These are the hull and turret castings which will be provided by a second hull and turret casting source.

Surveys Made To Determine Other Sources For Castings

Mr. Davis. You have testified that in order to increase tank production, you will have to essentially build a new foundry for tank hull and turret castings, because Blaw-Knox, the only current source, can produce only about 64 per month. Have you looked at other Government property, such as Navy shipyards, as a potential foundry source?

General Wing. Sir, we have made a survey in the private sector, and more recently we have surveyed the Navy casting capability that is available at various places, Pudget Sound, Philadelphia Navy Yard, and others. We can find no capability resident in the Navy today that in any way approaches either in magnitude or the type of work the level of sophistication that is required for producing these tank turrets and hulls. The Navy facilities are in many cases for nonferrous metals, such as bronze propellers and things of that nature. Their furnace capability is well below the 1,700° Fahrenheit required to heat armored steel casting materials. They do not have the space nor the expertise, either management or artisan labor to do this type of work. We have tried, not in a detailed study but tried to determine what it would cost to facilitize and improve upon the naval facilities to undertake this task.

One of the solicitations that we did make of the Buckeye Co., which is in the heavy casting business, indicated that to constitute such a facility from the ground up would cost between $60 to $70 million. It would not be expandable beyond two units a day, such as Birdsboro, we could be expanded to six units a day. That will give you an approximation of the cost required to reconstitute from the ground up the type of facility available at Birdsboro.

Mr. Brownman. We have to add also that in the process of looking for a second source of castings, both the Army and Chrysler have surveyed 36 U.S. companies and 17 foreign companies in terms of their capability to provide these castings. What I tend to note here is a tendency to say that Birdsboro is a start from scratch or square 1. The Birdsboro facility is not a start from square 1. There are current capabilities which are worth approximately $20 to $30 million in 1970

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dollars which are existing, which we will take advantage of. The additional facilitization of Birdsboro is supplementary rather than total.

Mr. DAVIS. The Navy used to have a considerable capability in the area of gun turrets and gun mounts. Have they lost that capacity?

Mr. BROWNMAN. Yes, sir.

General WING. I believe Watervliet Arsenal has picked up part of the Navy business in that respect. I have a picture here of one of the bays of the Birdsboro facility that will give you an appreciation of the magnitude of those facilities required to do the tank and hull turrets. You will notice along the sides there are 36 heat-treating furnaces. These armor steel castings must be tempered, and oil quenched. The Birdsboro facility has intact most of the sand casting system required for that. We do not even feel they will have to be reequipped. The furnace's source of energy will have to be changed to electric arc, but the furnaces are intact. This will give you an appreciation of the facility required there.

Mr. DAVIS. A fact sheet obtained by the staff, dated November 27, 1974, states that the Headquarters, Army Material Command, contacted the Navy Materiel Command on November 25, 1974, to revalidate that the Navy did not have a capability to support Army tank casting needs on a production basis. This reprograming action was submitted to the committee on November 23, 1974. The fact sheet explains that the Navy does not have the needed capability. Given the dates of these actions, we must question whether a detailed review of the naval facilities has actually been completed. Would you describe the Army review of naval facilities?

General WING. During the initial planning phases to accelerate tank production, the Army Materiel Command conducted an informal review of Navy capability to produce hull and turret castings.

The results of the review were: the Navy does not use cast armor; heavy steel castings required by the Navy on a production basis are obtained from industry; most shipyard castings are nonferrous; and the Navy does not have the capability.

Subsequently, inquiries were made with the Office of the Assistant Secretary of the Navy (Installations and Logistics), the Naval Materiel Command, the Naval Sea Systems Command, the Naval Supply and Weapons Command, the Norfolk Naval Shipyard, the Philadelphia Naval Shipyard, the Puget Sound Naval Shipyard, and the Navy's Mare Island Vallejo facility. The result of these inquiries confirmed the earlier determination that the Navy did not have the capability to produce hulls and turrets for tanks.

To further validate this conclusion, a meeting was held between representatives from the Naval Sea Systems Command, the Army Materiel Command, and Department of the Army to review the Navy's capability. Based on a comparison of real and personal facilities required against those available, it was verified that the Navy does not have the capability to produce hulls and turrets.

Mr. DAVIS. Blaw-Knox is a privately owned foundry. The Army has advised the staff that $18.1 million in fiscal year 1974 foreign military sales funds were provided Blaw-Knox for tooling, startup, and production acceleration efforts. An additional $5.9 million will be furnished Blaw-Knox for tooling, vendor tooling and plant rearrangement.

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What does the Army receive from this $24 million investment in Blaw-Knox, and what has happened to the free enterprise system?

General WING. Sir, that Blaw-Knox $24 million is a proposal from the Blaw-Knox company at this time. Chrysler Corp. has to my knowledge at this point invested $6.5 million in improvement of that Blaw-Knox facility; the rest of that money is under negotiation right now for plant rearrangement facilities and what have you. It may be some lesser sum than is indicated right now once it is negotiated, but that will give Blaw-Knox the capability to expand to the 64 units per month production by next summer.

Mr. DAVIS. You do not consider it practical or feasible to expect this kind of money to come from private enterprise?

Mr. BROWNMAN. That refers to the question I answered before in terms of the Army's inability to guarantee the long-range production which is an essential ingredient for any prudent businessman to make, such an investment.

Mr. DAVIS. Apparently the $18.1 million included in the 1974 foreign military sales case was the first step to increase the production of tanks for Israel. How was this amount computed and why is the $5.9 million to be furnished from Army funds rather than foreign military sales assets?

General WING. Sir, the original estimate made was against the $38.5 million that we did receive in conjunction with that May sale to the Government of Israel. There was $18.1 million in there for the Blaw-Knox Corp., which we have since learned is insufficient in the amount of $5.9 million. We have gone back to the international logistics people at this time to see if that additional $5.9 million can be added to that sales case.

Mr. CASEY. In other words, you would not need it, in the reprograming action?

General WING. I had Colonel Biemeck check this out yesterday.

Colonel BIEMECK. The $5.9 million, assuming we can go back, and we are still checking on the legality, has to be negotiated with the country.

Again, this is going to be a very sensitive issue. While we are doing this, we would be required to slip our acceleration efforts. We need the $5.9 million now to move on with this acceleration or we will be losing our ability to solve our tank production problem. If we can negotiate this with the country and obtain the $5.9 million, then the $5.9 million will go back to the Treasury of the Government or wherever we are directed to place the money. But we need the money now to get on with this urgent acceleration.

Mr. DAVIS. Once the funds have been appropriated by direct appropriation, our negotiators pretty well lose this incentive as far as trying to get this money from the Israelis, do they not?

General WING. This is a different set of negotiators who will be dealing with the company. TACOM will negotiate with Chrysler.

Then our International Logistics Community will negotiate with the GOI for the foreign military sales; so both are under a good incentive.

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Mr. VANDER SCHAAF. On what basis does the Israeli Government have to be tough about this negotiation, since the money is loaned to them?

It is the U.S. money. I do not understand where there is a problem, the sales people can say "We are not going to negotiate, you are going to pay $5.9 million instead of $5.6 million.

Mr. BROWNMAN. I am afraid we are not competent to address the answer to that question. That is out of our purview.

Mr. VANDER SCHAAF. It sort of gets to the point where you are negotiating with yourself.

Mr. BROWNMAN. Sir, you sound correct, but I am afraid from a Department of the Army point of view we are not competent to answer that question.

PLANNED GOVERNMENT FUNDING FOR BIRDSBORO CORP. FOUNDRY

Mr. DAVIS. We understand that the Birdsboro foundry was built by the Army in the 1950's as a Government facility. It was later sold to a private firm and received extensive damage from flooding in recent years. You now plan to invest $35.3 million of Government funds in the Birdsboro Corp. foundry, including new electric melt furnaces and new equipment. Will this be the total cost or will there be more? If so, how much?

General WING. Sir, the $35.3 million invested by the Government is the total amount planned. We have not planned for any future investments.

Mr. DAVIS. How much did the owner pay for this foundry when he purchased it from the Government and how much has the owner invested in capital improvements since then?

General WING. The Birdsboro foundry facility was sold by the General Services Administration for $1 million to the Greater Berks Development Fund which, in turn, leased it to Birdsboro. The Berks Fund, a nonprofit organization, has not invested in capital improvements.

Mr. DAVIS. Does the Birdsboro Corp. plan to invest any of its funds in this foundry over and above that to be furnished by the Government?

General WING. The Birdsboro Corp. does not desire to invest any of its funds in this foundry for purposes of producing tanks. Their ultimate participation is subject to negotiation.

Mr. DAVIS. Will this foundry be used exclusively for the casting of hulls and turrets for Army tank production, or can the contractor also use the foundry for other commercial work?

General WING. The Birdsboro foundry to be activated for hull and turret casting production is in the armor cast building, which is one of several Birdsboro facility buildings. The contractor is presently occupying a part of the armor cast building for nonfoundry commercial programs, and it is expected that this space will continue to be utilized for commercial work.

Mr. DAVIS. After the Government investment of funds, how many hulls and turrets will Birdsboro produce each month? What will be the total capacity of this foundry?

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General WING. It is planned for Birdsboro to produce 40 hulls and turrets per month. This facility could be brought up to producing about 180 hulls and turrets per month based upon floor space and assuming additional investment to fill equipment voids. This would totally eliminate all commercial work in the armor cast building.

Mr. DAVIS. We understand that Birdsboro will be a subcontractor of Chrysler, instead of a Government contractor. How much will Chrysler invest in the Birdsboro foundry?

General WING. Chrysler intends to use Birdsboro as a vendor and, therefore, does not plan to invest any of its corporate funds in the foundry.

Mr. DAVIS. Will Chrysler compete hull and turret castings between Birdsboro and Blaw-Knox?

Mr. BROWNMAN. Yes, sir.

Mr. DAVIS. Could we interpret the contractor's reluctance to invest his own funds in this program a reflection of the fact that the Army will only have a requirement to produce at these higher rates for about 1 year before the production of the XMI reduces the requirements?

Mr. BROWNMAN. No; I do not think so. I think one year at the maximum rate of production is the best we can see now. But this, I must remind you, assumes there will be no drawoff of that production from foreign military sales and I have to believe that there will be additional foreign military sales in the future.

So the 103 per month is really a viable and an attractive rate of production.

General WING. If I might add to that, the incremental cost for moving that production threshold from the absolute minimum required of 83 per month that we need for the Army itself, out through the end of 1979, up to the 103 threshold, that incremental cost difference is relatively slight. Where we meet the heavy cost is in moving above the 64, which is constrained by the one foundry.

I would like to have Colonel Biemeck answer that. He has studied those costs.

Colonel BIEMECK. We looked at a number of alternatives, three to be exact, on how we can do this. Part of the problem is that the Birdsboro Foundry has indicated an interest in two hulls and turrets per day as a minimum. Therefore, only one of the solutions seemed viable. We would have to give up about a year's production of tanks because we would have to hold Blaw-Knox to the two per day now and then facilitize Birdsboro for two per day. We could reduce our costs between $8 and $23 million from the $120 million, if we held to the 83 level.

But in each one of these cases, it is difficult to assess because it is just a very difficult thing to separate those costs.

Mr. MAHON. I would like to interrupt a moment. I have been absent during part of the hearing. We have talked about the fact that at a prior time some of this plant had been severely damaged by flood, I believe.

Well, now, are we thinking about a big investment in a high risk area? How do you explain that?

General WING. Sir, I have gone back over the costs associated with that.

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Mr. FLOOD. I do not think that Birdsboro plant is in what we call a flood plain.

Mr. BROWNMAN. This is the first time in about 100 years.

Mr. FLOOD. By the way, my name is Flood in case you do not know. That is not what you are thinking about; you are thinking about the Federal flood plain law, Mr. Chairman.

Mr. MAHON. Well, if a place is subjected to flood in a 100-year period, then for insurance purposes you have problems getting the loans and so forth.

General WEST. I am an engineer. I am aware of that problem.

Mr. FLOOD. You will live that down.

General WEST. That particular flood of course was the big flood on the Susquehanna. It far exceeded the 200-year flood.

Mr. FLOOD. Four hundred years.

General WEST. It is above what we normally consider the restricted flood plain.

Mr. MAHON. The point is, are you at all concerned about the flood potential?

Mr. BROWNMAN. I think we are not concerned about future floods, but I think one of the operable pieces of information is that the amount of money that we would be considering putting into Birdsboro due to flood damage and age is about $2¼ million, approximately, out of a total of $20 million. So that the flood damage is less than 10 percent of the facilitization.

So if the 400-year number becomes a cropper or what have you, I have to believe that the damage would impact relatively minimally.

Mr. FLOOD. Following the chairman's question, as a result of this Agnes flood in 1972 and as a result of the tremendous investments and losses by State, local, Federal, what not, HUD and the EDA people, all of them now are persisting and insisting by act of Congress on having the local municipalities pass a local ordinance having to do with this very question.

Now I think it is quite to the chairman's point to get in touch with this.

Did the local municipality pass one of these ordinances which says that, with reference to the flood plain question, which is now going on all through Pennsylvania, in all these boroughs, townships, cities, what not? You might raise that question out of an abundance of caution to protect yourself.

Let me say this: The best place to go, of course, is to the commanding officer of the Army Engineers in Philadelphia and say, what about this? He will give you the answer right away. The Army Engineers at Philadelphia, you get in touch with the CO there, and the colonel can give you the story.

Mr. BROWNMAN. Obviously.

Mr. MAHON. I have been struck, if I may be facetious, with the repeated use of the word "facilitization" and "facilitize." We note from year to year that the military come up with certain words that they specialize in. But I have never seen such a specialization on facilitize and facilitization as I have today.

Mr. BROMNMAN. Mr. Chairman, have you an alternate?

Mr. MAHON. I am not sure I have an alternate.

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Mr. BROWNMAN. I believe our definition of "facilitize" or "facilitization" can be best described as a capital investment. Now some of this capital investment is severable and some is nonseverable. In the case of Birdsboro we are talking about a $20 million capital investment, of which about $10.6 is nonseverable and, of the 10.6, approximately $2¼ million is a result of flood damage and age of the facility.

Mr. MAHON. Would you go out and look at a plain upon which there is nothing at all constructed and say, we are going to facilitize this place, or do you have to have something in being before you facilitize?

Mr. BROWNMAN. I think we interpret it that we could start from scratch, on bare ground.

Mr. MAHON. That would be facilitization?

Mr. BROWNMAN. Yes, sir, capital investment.

Mr. MAHON. I think all our towns want to be facilitized.

Mr. DAVIS. You have been using the figure $35.3 million here for Birdsboro, and now you have brought in a figure of $20 million here; how do you reconcile that?

Mr. BROWNMAN. Sir, my number is 20 million. General Wing, do you want to try to resolve that?

General WING. Right, sir.

In the study made of the Birdsboro Corp., it would require $32.5 million to bring that facility online. $12.5 million of that is in start-up and training of personnel and other things that normally are related to the unit recurring price of the item.

Mr. DAVIS. Let me just ask a couple of more questions and we will put the rest of these in the record, if the chairman approves.

We note you plan to invest $7.3 million in Teledyne Continnetal Motors and $6 million in the Detroit Diesel Allison Division of General Motors—all for new equipment for two private firms. Why is this required?

What is the explanation and justification for that?

General WING. The Teledyne engine plant is basically facilitized to produce 250 engines per month. We are taking it up to 300 engines per month, so it does require additional facilities; plus the fact that the Army has changed the engine, we put a new uni-steel cylinder in it that requires about another $1 million.

As far as Allison is concerned, we are spending that money to take them up to a production rate of about 140 per month. Those are very minimal expenditures, sir, in terms of the size of base required to produce these two very complex items, engine and transmission.

Mr. DAVIS. But Teledyne is no industrial runt or anything like that. How do we happen to find the necessity for our putting $7.3 million in there? Can they not find that?

General WING. Sir, if they made that capital investment, the Government would pay for that in terms of a higher unit recurring cost on the item.

If we make the capital investment initially, then we can capture or hold the base at that, or we can retire that industrial plant equipment to our facilities and hold it in case of future need.

Mr. BROWNMAN. I think there is another issue and we are skirting it; that Teledyne, as a corporation, in order to make capital improvements in their capability, has to go out and borrow money. Money is

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in short supply, interest rates are high. They are generally reluctant to do this and probably they may be setting up against their margin of credit right now and they have indicated a reluctance to do that.

That is a fact of life.

Mr. DAVIS. We have always kind of believed around here, you know, that the best way to get this stuff done is to go out in private industry and let them compete for it. This does present a problem here of having the Federal Government come in and put that money in there. They can get it cheaper at a later date, true, but it is kind of contrary to the way we think we ought to do business around here.

Mr. BROWNMAN. Yes, sir. But the free enterprise business is based upon the existence of a competitive environment. That would imply in the case of engines, more than one supplier of engines, rather than just a single supplier. This is not the current status. It would be extremely difficult to get a second supplier of engines on a timely basis.

Mr. DAVIS. Do you foresee that any of this Government investment here will be for equipment that would be usable for the XM1 tank program?

Mr. BROWNMAN. The proposed Government investment for equipment at Teledyne, the engine producer, is not expected to be usable for the XM1 program.

Mr. DAVIS. Do we know yet where the XM1 is going to be built?

General WING. Sir, we are currently studying the Lima facility in Ohio, for the fabrication and assembly of the XM1. That decision has not been made yet by the Government.

It could be manufactured at the Detroit tank plant also. We have two competing producers there on the competitive prototype, General Motors and Chrysler. They are basically different types of power plants, for example.

One is a Teledyne engine which would use the current base; the other is a turbine-powered one that would require a different production base.

Mr. DAVIS. Compare for the record the estimated weight of all metal castings on the M60 tank with the XM1 tank.

General WING. Sir, although we have detailed weight data on the M60 tanks, we do not have precise data on the XM1 design at this time. Both of the competing contractors are midway in the development of their respective candidate vehicles. Test firings of their sample hull and turret sections are ongoing at the Aberdeen Proving Grounds at this time. However, based on what we know of the new armor technology being utilized in the development of the XM1 concept, it is estimated that about 11,500 pounds of the finished weight will be major castings in the XM1 production vehicle as compared with 48,600 pounds for the M60 tank.

TANK PRODUCTION BASE STUDY—XM1 TANK

Mr. DAVIS. Included in the $120.1 million is $2 million for a tank production base study relating to the XM1 tank. Production of the XM1 tank is some years away and the winning contractor has not been selected. It could be either Chrysler or General Motors. What is the urgency of this study requirement?

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General WING. There is an urgent requirement to accomplish a tank production base study to determine the most effective means of continuing M60 series production at the Detroit Army Tank Plant without causing a potential 1-year delay in the production of the Army's new XM1 tank. The original plan was to terminate M60A1E3 tank production at Detroit at the end of the fiscal year 1978 funded delivery period so that the XM1 could be phased into the plant behind the M60 series tank. Changes to the M60 series production program in the form of increased Army production requirements, extension of the fiscal year 1974 funded delivery period by 7 months to conform to full funding requirements, and the unprecedented demand for M60 series tanks by security asistance customers has resulted in a situation where both the M60 series and XM1 tanks would be simultaneously produced in the Detroit Army Tank Plant. There is considerable doubt as to whether both vehicles could be produced in the same plant without adversely impacting on both operations. There is an urgent requirement to initiate a study with fiscal year 1975 funding to resolve these problems because a delay pending the receipt of fiscal year 1976 funds will not allow this effort to be completed in time to provide fiscal year 1977 funding input for the XM1 into the President's budget. Since the fiscal year 1977 budget will be the first major expenditure of procurement funds for the XM1, failure to have a validated production plan would slip the production of the XM1 tank by possibly 1 year.

Mr. DAVIS. Who will conduct this study—the Army, Chrysler and General Motors, or a third party?

General WING. Chrysler and General Motors will conduct separate studies with the same objective, utilizing their individual production methods and technology. This will preserve the competitive aspects of the competition for the production program and permit initiation of production on schedule.

Mr. DAVIS. According to the briefing charts, M60A1 production will reach the 103 per month level in early 1977. In addition, the modification of M48A1's to M48A5's will start in 1977. The schedule shows that M60A1 production at the 103 per month level will only be maintained for 1 year, 1977, unless there are foreign military sales. If none, M60A1 production will drop to about 80 per month. In other words, production of M60A1 tanks may be reduced to 80 per month at the end of 1977, but the modification of M48A1's will continue until the end of 1978. Why do you plan to continue modifying M48 tanks at the same time M60A1 production is reduced? Would it make more sense to continue production of M60A1's at 103 per month for a longer period and only modify M48's when firm foreign orders for this tank are in hand?

General WING. The conversion of M48A1 tanks to the M48A5 configuration beyond January 1978 is considered a prudent course of action and there are several compelling reasons to continue the conversion. The open capacity of 20 tanks per month reflected on Army production schedules during January 1978 and beyond, has been reserved for Army inventory payback production. Since October 1973 the Army has lost or will lose, in terms of tanks shipped or committed, 1,648 tanks from its inventory or the production line. Unless there is a major national policy decision with regard to selling tanks to friendly governments, this is likely to continue for the foreseeable future.

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Therefore, the open capacity reflected on Army production schedules as about 240 per year, will in actuality be committed to replace unprogramed Army inventory losses.

Should M48A5 conversions be terminated in January 1978 and M60 series tanks substituted, the net effect would be the loss of tank inventory growth because of new tank production constraints. Every Army inventory payback tank added to replace one that is sold will reduce additive new production receipts on a one-for-one basis. Under these conditions the only effective means of insuring prime tank inventory growth is to continue the M48A5 conversion program.

Another consideration is that M48A1 tanks currently scheduled for conversion to M48A5 tanks are unserviceable, unusable, and require an overhaul. The Army does not consider it cost effective to spend additional moneys on the M48A1 gasoline powered, 90mm gun tank when there is an alternative available to convert them to a prime asset. A final consideration is the cost differential between the M48A5 conversion and the alternative cost of substituting M60A1 and M60 A1E3 tanks. If all M48A5 conversions during January 1978 and beyond, were terminated and M60 series tanks substituted, it would increase program costs by about $175 million and would delay the receipt of these assets because of tank production constraints.

Mr. DAVIS. The reprograming provides for the use of $71.5 million in free assets. As we understand, part of all of these funds represent the proceeds from sales of Army assets to other countries. How much of this total has been and will be accumulated from the sale of tanks?

General WEST. The present procedure for reporting sales of Army equipment to foreign governments in the fiscal records does not indicate item or sales price. Free (unprogramed) resources are reported at the appropriation level, in total only.

In fiscal years 1974 and 1975 free (unprogramed) assets were transferred to finance requirements in other Army appropriations, other services, and Defense appropriations; authorized transfers by Congress to reduce new obligational authority requirements in the Army procurement appropriations and to fund urgent adjustments within the accounts.

It would be impracticable to attempt to identify specific items sold which represent the resources applied to the tank reprograming action.

Mr. DAVIS. What is the total available derived from free asset sales at this time? Please provide for the record.

[The information follows:]

General WEST. The following tabulation represents free asset sales to foreign governments credited to the procurement accounts in fiscal year 1973 and fiscal year 1974 program and application as of December 15, 1974:

	Amounts	
	1973	1974
Receipts from foreign sales credited to procurement accounts	158.8	137.9
Transfers to finance subsequent army procurement accounts	101.8	23.0
Transfers to finance other army appropriations		8.6
Transfers to other services		3.0
Free assets to finance direct programs	40.0	38.8
Proposed to finance tank program	15.0	56.5
Unprogramed resources	2.0	8.0

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Mr. DAVIS. Often the case is made that per unit tank costs have gone up in recent years because of smaller production runs. However, the more appropriate indicator may be the total level of production in the plant from all sources and for all similar products such as tactical bridge carriers, tank recovery vehicles, and other heavy equipment. Would you place in the record at this point a table which shows the total tank plant workload for each of the past 5 years—(1970–74)—from all business sources—U.S. Government, commercial, foreign et cetera—and for all types of equipment manufactured/assembled in this plant.

[The information follows:]

Total plant production workload at Detroit Arsenal Tank Plant, by source, during fiscal years 1970–74 is as follows:

Commodity	Fiscal year—				
	1970	1971	1972	1973	1974
U.S. Army:					
M60A1 tank	300	117	297	158	223
M60A2 chassis	0	0	0	71	404
AVLB chassis	30	18	51	70	0
M728 CEV	30	42	7	31	0
Turret trainers (NEW)	0	0	0	14	14
Turret trainers (retrofit)	32	0	0	0	0
XM747 trailers	197	3	0	0	0
Foreign customers:					
M60A1 tank	0	0	178	22	32
AVLB chassis	0	18	13	0	0
728 CEV	0	8	0	0	0

Mr. DAVIS. That is all I have, Mr. Chairman.

Mr. MAHON. Anything further?

[No response.]

Mr. MAHON. Thank you very much; we have had a very interesting day.

Mr. BROWNMAN. Mr. Chairman, I want to thank you and your committee for a very stimulating discussion.

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WEDNESDAY, MARCH 5, 1975.

ARMY TANK PROGRAM

WITNESSES

HON. HAROLD L. BROWNMAN, ASSISTANT SECRETARY OF THE ARMY FOR INSTALLATIONS AND LOGISTICS
MAJ. GEN. CHESTER M. McKEEN, JR., TANK PRODUCTION ACCELERATION PROGRAM MANAGER, OFFICE CHIEF OF STAFF, ARMY
MAJ. GEN. R. L. WEST, DIRECTOR OF THE ARMY BUDGET, OFFICE OF THE COMPTROLLER OF THE ARMY
DR. N. BREYER, FOUNDRY CONSULTANT, ILLINOIS INSTITUTE OF TECHNOLOGY
LT. COL. JOHN BIEMECK, TANK PROJECT OFFICER, OFFICE OF THE DEPUTY CHIEF OF STAFF FOR RESEARCH, DEVELOPMENT AND ACQUISITION
OLLIE WHITE, MANAGER OF TANK PRODUCTION, CHRYSLER CORP.

Mr. FLOOD [presiding]. We have the Army with us today and the subject is the 1975 reprograming of funds to establish a foundry at Birdsboro. As I understand, we had this matter before the committee some time ago and, as a result of the testimony given and inquiries made, the committee had a study made of this problem related to the Army tank program. We are pleased to have with us this morning Secretary Brownman, General McKeen, General West, Dr. Breyer, and other officials to discuss the matter of a second foundry for the casting of M–60 tank hulls and turrets, as well as the overall Army tank program.

We shall insert biographic sketches in the record at this point, and you may proceed with your statement, Secretary Brownman.

BIOGRAPHIC SKETCH OF HON. HAROLD L. BROWNMAN

Mr. Brownman became Assistant Secretary of the Army (Installations and Logistics) on October 9, 1974. As Assistant Secretary he is responsible for materiel requirements, procurement and production, materiel management, logistics service, the military assistance program (less financial management), industrial mobilization, installations planning and programing, facilities and real property management, construction, family housing, and small business.

Mr. Brownman was born in New York City on May 21, 1923. He attended the Polytechnic Institute of Brooklyn and received his B.E.E. in 1944. In 1949, he received his M.E.E. from the Polytechnic Institute.

Mr. Brownman served in the Army Air Force from 1944 to 1946. He joined the teaching staff of the Polytechnic Institute in 1946. In 1948, he became an engineer with the Fairchild Engine and Airplane Co. From 1950 to 1952, he was an engineer with SERVO Mechanisms before joining TELE Register Corp. as an engineer. In 1954, he became senior engineer of the American Bosch Arma Corp.

From 1957 to 1958, Mr. Brownman was laboratory manager of the Fairchild Controls Corp. after serving as research engineer of the Fairchild Camera and

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Instrument Corp. In 1958, he served as program director of the Fairchild Camera and Instrument Corp. He was assistant to the division director of Airborne Instruments Laboratory, which is a division of Cutler Hammer, from 1958 to 1967. In 1967, he became vice president of systems for LTV Electrosystems, Inc. Mr. Brownman joined the U.S. Central Intelligence Agency in 1970 where he held the position of Director of Special Projects until March 1973 when he became Deputy Director for Management and Services.

VITAE

NORMAN N. BREYER

Position.—Professor of metallurgical engineering, department of metallurgical and materials engineering, Illinois Institute of Technology, Chicago, Ill.

Date of birth.—June 21, 1921.

Place of birth.—Detroit, Mich.

Nationality.—U.S.A.

Education.—B.S. metallurgical engineering, Michigan Technological University, 1943; M.S. metallurgical engineering, University of Michigan, 1948; Ph. D. metallurgical engineering, Illinois Institute of Technology, 1963.

Experience.—Aeronautical research scientist, NACA, 1948; Chief, Armor Section, Detroit Tank Arsenal, 1948–52; Director of Research, National Roll and Foundry, 1952–54; Metallurgist-in-charge of armor, Blaw-Knox, 1955–57; Manager of technical projects, LaSalle Steel, 1957–64; Associate professor, Illinois Institute of Technology, 1964–68; Professor, Illinois Institute of Technology, 1968-present.

Military service.—March 1943–September 1946; Reserves to June 1952; enlisted rank—corporal, SSN 36582493; commissioned rank—to captain, SSN 0–523323; Corps of Engineers, Ordnance Corps.

Honors.—Gold Key for highest academic record in graduating senior; metallurgical engineering class, 1943, Michigan Technological University.

Societies.—Tau Beta Pi; Alpha Sigma Mu; Sigma Xi; American Society for metals (ASM); American Institute of Mining, Metallurgical and Petroleum Engineers (AIME); British Iron and Steel Institute.

Offices of technical societies.—Chicago ASM: 1968–69, program chairman; 1969–70, seminar chairman; 1970–71, seminar chairman; 1971–72, secretary; 1972–73,treasurer; 1973–74, vice chairman; 1974–75, chairman.

National ASM: Transactions committee, 1968–70; long-range planning committee, 1972–74.

National AIME: Operating metallurgy committee, 1967–68; program committee, 1970–71; education committee, 1972–76.

Consulting.—I *Industrial.*—LaSalle Steel Co.; Caterpillar Tractor Co.; Materials Research Laboratories; Syracuse University; Illinois Institute of Technology Research Institute; General Testing Laboratories; Sherwin-Williams Co.

II. *Government.*—U.S. Airforce, Wright-Patterson AFB; Department of Transportation; U.S. Army Tank Automotive Command; U.S. Army Research Office.

Grants and contracts.— I. *Industrial.*— Inland Steel Co.; LaSalle Steel Co.

II. *Government.*—U.S. Army Tank Automotive Command, Warren, Mich.; Army Research Office, Durham, N.C.; National Science Foundation, Washington, D.C.

Patents.—September 11, 1962, 3,053,702—Producing High Strengths in Martensitic Steels; February 2, 1965, 3,168,004—Cold Finishing of Metal; March 4, 1969, 3,430,477—Method and Means for Surface Finishing of Steel; April 10, 1973, 3,726,669—Elimination of Lead Embrittlement in Steel.

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9. "Exploiting the Strain Hardening of Steels," Metal Progress, 96, No. 3, (September 1969), 103–07, with E. S. Nachtman.
10. "Influence of Deformation on the Tempering of 1045 Martensite," Trans. ASM, 62, (1969), 891–901, with M. F. Miller.
11. "Liquid Metal Embrittlement of Steel by Lead and Lead Alloys," Corrosion by Liquid Metals, Plenum Press, (1970), pp. 417–39, with W. R. Warke and K. L. Johnson.
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13. "Lead Induced Brittle Failures of High Strength Steels." Proceeding of the Third International Conference on the Strength of Metals and Alloys, (August 1973), Cambridge, England, with Paul Gordon.
14. "Effect of Plastic Deformation on the (211) X-Ray Line Width of a Medium Carbon Martensite," Metallurgical Transactions, 5, (1974), p. 301–303, with V. K. Sharma.
15. "Some Effects of Certain Trace Elements on the Properties of High Strength Steels," Proceedings of the 31st Electric Furnace Conference (1973), pp. 183–89.
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STATEMENT OF ASSISTANT SECRETARY OF THE ARMY

Mr. BROWNMAN. Mr. Chairman, members of the committee, it is my pleasure to appear before you today to discuss this Army reprograming action. In view of the report from your staff concerning the Birdsboro facility, I especially welcome the opportunity to more fully explain the Army's need for the facility and the urgency attending that need.

My statement will be very brief this morning, but I think it would be helpful if I placed our requirement in perspective as we see it.

As you know, the war in the Middle East demonstrated that tank losses on the modern battlefield were significantly greater than experienced in previous conflicts. A great deal of attention has been focused on this observation. So much so, in fact, that it has obscured the much more important point that the tank, when employed properly as a part of a combined arms team, is still the single most effective weapon on the battlefield. It was the tank, properly teamed with its supporting infantry and artillery, that enabled the Israeli forces to recover from the surprise attack and mount their spectacular counteroffensive through the Egyptian forces, across the Suez and into Egypt.

When we assessed our own position in the light of these observations, we found, generally speaking, that we don't have the tank we need, we cannot produce them in adequate numbers and that, right now, we are at least 2 years away from correcting this production base deficiency. Gentlemen, this is one of the most, if not the most, serious limitation on the ability of the U.S. Army to accomplish its mission on the battlefield today.

To be more specific, only about half of the 105mm tanks we need are on hand and we can't get more than about 45 units per month today. With the funds approved by Congress so far our capability is being increased, but only to 64 units per month on a sustained basis.

To put this in perspective I should point out that our requirement of 10,381 tanks is only about 25 percent of the tanks that could be employed against us. We have been using our warm base acquisition objective, and it was calculated based on the assumption that production could be increased with sufficient promptness to meet our needs. Today, the capability for a prompt increase in production does not exist. At 64 per month, we could not meet our immediate needs until mid-1981. That is, provided we have no other requirements to meet. But we anticipate with a high degree of certainty that our national interest will require accommodation of additional foreign demands for tanks. We see at least 1,815 hard core requirements materializing. In addition, we have other Army vehicles which require large armor castings for which we have been unable to find a U.S. source. Meeting these additional requirements will push our fill date even further into the

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future. Finally, our capability for emergency response is practically nil. We may be able to press our design capacity of 64 per month to 72 per month for a short period, but we just can't respond to emergencies requiring a significant production increase in much less than 2 years.

By opening the Birdsboro plant and getting to a production rate of 103 per month, we will be able to overcome the preponderance of our inventory shortfalls sooner, but still not until the end of 1979. We'll be able to produce castings for associated armored vehicles and we'll have a facility expandable to 120 units per month quite promptly and at a minimum cost in case of emergency. This capacity if available could provide the basis for decision to forego buying out our cold base requirement for tanks, thus avoiding an expenditure of millions of dollars in the out years.

The introduction of the XM-1 tank in 1979-80 will increase our production capacity but only by 30 units per month. Until a major expansion in the capability to produce the XM-1 is approved, financed, and constructed, we'll be dependent on the M-60 production base to meet emergency needs. I don't see this occurring before the mid-1980's at the earliest.

We have noted that there is concern over the capacity of the furnace proposed for Birdsboro. Let me assure you that the Army has looked into this in great detail and our technicians are working on this issue now to avoid over facilitization. There are a number of factors which dictate the size of the furnace however. Birdsboro at present, is constrained by electrical power availability to pour on one shift, during off-peak periods. Contractor technicians calculate that the production we need cannot be accomplished on one shift with a 50-ton furnace. Our consultant, Dr. Breyer from the Illinois Institute of Technology, who is with me today, advises that while it might be possible to meet our immediate requirement with a 50-ton furnace, there would be no margin for error nor leeway for meeting other casting requirements. A 75-ton furnace, with a 125/140-ton crane, would insure the availability of the needed capacity and provides for emergency expansion. Our engineers and the Birdsboro people are now considering a 65-ton installation in the belief that it may be adequate.

We have been working for some time to preclude any undue benefits to the Birdsboro Corp. by virture of the Government furnished facilities for commercial work and that a fair return is received fo the we have assurances from them that they will agree to terms to insure that the Government is equitably reimbursed for the use of the facilities for commercial work and that a fair return is received for the residual value of the nonseverables at the conclusion of our program. Finally, considering that the Army will retain first call on the use of the facilities at least until the mideighties, we believe the probability of undue gain is minimal and I can assure you that this is receiving our highest priority.

The Birdsboro facility offers the fastest and least expensive route to satisfying both the near-term need for tanks and the equally important need for an expansion capability. Your staff's report confirms that there was no impropriety in the disposal of the plant and that it is the most appropriate candidate now. On behalf of the Secretary of Defense and the Secretary of the Army, I earnestly solicit your approval

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now, so that we can go forward with our efforts to offset this most serious void in our combat capability.

Mr. Chairman, this concludes my statement. I also have with me today, General McKeen, who is heading the Army tank production acceleration program, Dr. Breyer, our consultant, Lieutenant Colonel Biemeck, the Department of the Army Tank Staff Officer, and Major Akridge, Tank Facilities Staff Officer. We will be pleased to answer any questions that you or members of your committee might have.

In summary, the key issues are really two in number in establishing a casting facility at Birdsboro. Initially the requirement is to expand the Army's capability to produce tanks to meet our authorized limit in our inventory at a reasonable period of time and also to have the Birdsboro facility as a mobilization business for future emergencies.

With the Birdsboro facility we envision the production of tanks to reach 103 a month, and under emergency conditions we could go to 190 a month. We feel that this is a cost-effective approach in terms of meeting our AAO and meeting the capability for emergencies.

There was an issue relative to the size of the furnace where we were in the position of recommending a 75-ton furnace. We are studying this problem further, but as the testimony will point out—and I believe the S. & I. report points it out—the use of power on a non-full-time basis to ease the power company's problems are such that we have to have two melts per day and these would be done in off hours in order to provide a reasonable margin of safety.

We feel a 50-ton furnace would be just too small to handle this, considering present power consumption.

We have had discussions with the key management people of the Birdsboro Corp. to elicit their cooperation and to insure that there are no unusual dollars or profits realized by them as a result of the Army's facilitizing.

INVESTMENT AT BLAW-KNOX FOUNDRY

Mr. MURPHY. Secretary Brownman, you will recall the committee withheld requests to reprogram for $12.4 million in fiscal 1975 free assets and use of $1.2 million in appropriated fiscal year 1975 funds to initiate a second source for M–60 hull and turret casting capability at the Birdsboro foundry, pending completion of a study of the matter by our surveys and investigations staff. Our staff report on the Army tank program has been made available to you. As you know, the committee has the responsibility of assuring that we achieve our production goals at the lowest possible cost in the shortest period of time. For that reason, we would like to discuss the justification for a second source, the extent and validity of the competition, the source selection, and the justification for the extent of facilitization being done at the various contractors facilities.

Now, Secretary Brownman, our investigative staff report indicates that the Army proposes to invest $18.1 million in fiscal year 1974 foreign military sales funds in the Blaw-Knox foundry to permit that company to increase production capacity from the present 40 hull and turret castings per month to 64 per month. Of the total required, Blaw-Knox will receive $16.1 million for facility and nonfacility items and a new office building, $1 million in general and administrative costs, plus a $1 million fee. Why must we pay Blaw-Knox a fee of $1

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million in order to give them $16.1 million worth of equipment and a new office building?

General McKEEN. In the committee report it is indicated that we are providing some facilities and at the same time they are developing special tooling. The committee report, which I would like to point out at that time included an estimate of requirements because we were still negotiating, indicated that there would be no profit on the installation and the facilities.

The profit that is reported in there is an estimate of the profit that they will derive from the manufacturer of special tooling. That is a normal element of overhead if we are doing business with a commercial firm, and profits are calculated. It is a proper and appropriate base for a profit charge. The profit will not show up in a production base support account; it will show up in the line item columns. It was summarized in that report to show there what the total one-time cost would be. But special tooling is an element of overhead, amortized over the production, and it is a proper base for the determination of profits.

The final contract has been negotiated at this point, I believe. I think it was less than $1 million but I don't have the figures.

Mr. MURPHY. Was the fee based on the $16.1 million?

General McKEEN. The fee was based on the cost of special tooling. I am not sure whether that particular aspect has been negotiated in a single lump contract or not. I have with me Mr. White of Chrysler who was working on this subcontract and he might have the answer.

Mr. WHITE. In the negotiations with Blaw-Knox, the facilities were separated out. I think they were $7 million approximately for facilities and $11 million for the special tooling. The profit was negotiated, as I recall, our people negotiated it based on the special tooling, not on the facilities cost.

Mr. MURPHY. This is special tooling that Blaw-Knox is building or buying?

General McKEEN. Yes. For our account, which we will own.

Mr. WHITE. Some of it they build, some of it they buy outside.

Mr. MURPHY. Are they entitled to receive general and administrative costs associated with that effort?

Mr. WHITE. Yes.

INVESTMENT AT OTHER FACILITIES

Mr. MURPHY. We also note from the staff report that Chrysler received $12.6 million for facilities, tooling, and other costs for the purpose of increasing production, and Teledyne Continental will receive $3.3 million for essentially the same purpose. We note that the Detroit Diesel Allison Division of General Motors, in order to increase production, will receive $4 million from the Army, but that company plans to invest $7 million of its own funds for plant expansion and production equipment. Why is it that Birdsboro, Chrysler, and Teledyne Continental are not willing to invest their own funds in this program like General Motors is doing?

General McKEEN. I am not in a position to explain why General Motors prefers to invest their funds. Our policy is not to provide facilities or invest in facilities unless the corporation is unable or unwilling to. However, there is an advantage to the Government in invest-

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ing in the facilities inasmuch as when a corporation does it it becomes an item they can amortize and on which they can collect a profit.

In the case of Teledyne, Chrysler, and Birdsboro, it is rather obvious to me that the duration of the need, as far as these companies are concerned, is uncertain. They can't predict how long a period of time they will have to amortize their capital investment. A business does have to reconstitute its capital and make a profit to stay in business, and I think they view it as a risk that they are not in a position to assume.

On the other hand, if we assume the risk, we pay no profit to the company using the facilities because we have made the basic investment and we then own the property which we have available for mobilization purposes in the future and we have exclusive rights to it.

Mr. MURPHY. General McKeen, is the $12.6 million being invested in Chrysler facilities and tooling or in our Government plant?

General MCKEEN. The $12.6 million will go into the facilities for the Government plant. It will also cover rearrangement of facilities, the installation of machine tools, and some vendor tooling. All of the facilities will go in the Government plant.

Mr. MURPHY. Does Chrysler get a general and administrative fee for this effort?

General MCKEEN. They get no fee on facilitization. I am not sure about the general and administrative charge.

Mr. WHITE. There is a G. & A. on the facilities.

General MCKEEN. Usually the costs are covered for providing facilities. The costs incurred by the company, but we do not pay a profit on supplying facilities.

Mr. MURPHY. Is Chrysler making their tooling or buying them?

General MCKEEN. I imagine they make some and buy some.

Mr. WHITE. That is correct.

Mr. MURPHY. How about Teledyne Continental? Theirs is not a Government-owned facility, is it?

General MCKEEN. Teledyne Continental works in a facility they purchased from the Government and it is almost exclusively devoted to the manufacture of special engines for the Government. In that case they will be installing new facilities in order to make unisteel cylinders and machine tools to produce some of the components of the engine.

INVESTMENT AT CHRYSLER FACILITIES

Mr. MURPHY. With respect to the Chrysler portion of this effort, during a recent visit at the Chrysler tank plant a member of Mr. Edwards' staff was told that the higher levels of production would be achieved by increasing the size of the labor force and through greater job specialization, and not through additional use of floor space and tooling. How then do you justify spending $10.2 million at the Chrysler tank plant for plant rearrangement, tooling, and startup costs and $3.1 million for hull and turret machining capacity?

How do you explain this apparent discrepancy?

General MCKEEN. I am not sure what was told to the visitor because I wasn't there. I will ask Mr. White if he can explain that.

Mr. WHITE. Basically we are establishing a capacity to produce additional gun mounts, to produce final drives, and to produce certain additional parts which need additional machine tooling. We also have

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needed capacity in our vendors for tooling to get to the rates prescribed.

The basic problem is in terms of hull and turret capacity to get the amount of big castings to make the 103 per month. But the basic tooling and the facilities are for those three major items, plus increasing the capacity or capability in certain of our other lines, such as the weld lines, additional tooling, and then our other production facilities.

Mr. MURPHY. Mr. White, with respect to the $3.1 million for machine tooling does that permit Chrysler to do the coarse machining of the hulls and turrets?

Mr. WHITE. No; the hulls are not in that. We are setting up the turrets under this contract at the present time. The hull machine is held up until the decisions are made later.

Mr. MURPHY. Who will do the hull machining work?

Mr. WHITE. The Army is in the process of determining that now. They are evaluating Chrysler and Anniston.

Mr. MURPHY. When you weld the hull sections together, is there some machining required?

Mr. WHITE. Yes. During the fabrication of the hull assembly there has to be certain targeting done, certain rough machining in certain areas to insure when it is received by the machines that they are able to come off of these locating points and properly final machine the remainder of the hull.

Mr. MURPHY. Since $3.3 million of the $13.3 million reprograming request for Chrysler was withheld by the committee, please provide a detailed breakdown of how the remaining $10 million will be used.

[The information follows:]

The following is a breakdown of the remaining $10 million of the $13.3 million reprograming action:

Facilities: Hull machining	3.1
Special tooling and gages for:	
Hull machining	1.9
Turret machining	.9
Other	2.5
Rearrangement	.6
Vendor tooling	1.0
Total	10

FACILITIZATION STUDY AT BIRDSBORO

Mr. MURPHY. Thus far the committee released no funds for Birdsboro. When and why did the Army authorize Chrysler to contract with Birdsboro in the amount of $847,588—almost $1 million—to study facilitization requirements for facilities, equipment, personnel, training needs, availability of manpower, and essential long-lead performance efforts to obtain increased electrical power requirements?

General MCKEEN. Last summer—and I think it was in July or August—it became rather apparent, in fact quite apparent, as we went through our search for sources that in order to meet the production that we needed, the only organization, the only outfit we had to do this job was the Birdsboro plant which we had owned as a mobilization source up until recently. It has been a plant in layaway. There were many unknowns about that plant. It hadn't been active since 1954. It

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had been exposed to Hurricane Agnes and there had been some flood damage. So we authorized Chrysler to go to the Pennsylvania Engineering to determine what would be involved in reopening this plant. It was really the only possible source that we could find that could meet the requirements in terms of capability.

I would like to go back just a little bit when I refer to capability. I am not talking about just the immediate need, but as we looked into the production of castings for hulls and turrets, we found the base we used to have was eroded; it was gone, and we were operating at something like 45 a month, and 2 years away from increasing it.

We had half of our assets. It was a vulnerable position.

We authorized Chrysler to go to Birdsboro to make a study and find out what would be involved. In fact, we needed that basic data in order to put together the reprograming action which was submitted over here later.

Mr. MURPHY. Did you do this at other foundries?

General MCKEEN. We did not do it at other foundries. We did it at Birdsboro because it is the only place where we are—where we have a lock. We have a lock on Birdsboro; a recapture clause in the sales contract. The plant is available to us for 5 years with an option to renew. That facility which was created for tank production and had many of the facilities required only had to be augmented, whereas most of the other places we looked at, like Buckeye, had to start from scratch and build a new foundry to accommodate this large demand.

Mr. MURPHY. Doesn't the Army have the capability to do that study through its Corps of Engineers?

General MCKEEN. Not to the extent required in this case. We had to assess the facilities that would have cost an equal amount had the Corps of Engineers done it, but I doubt seriously if they have that kind of capability.

Mr. MURPHY. The Corps of Engineers can award a contract, to an outside firm, General, to conduct such a study. You don't have to have the Birdsboro company investigate themselves, so to speak.

General MCKEEN. True. That would be done with military construction funds, but this is a PEMA expense and appropriate to the production of hardware. Our legal people have looked at it and it is an expense associated with the acquisition of hardware and furthermore it was an authorized expense in the case we didn't produce, under the industrial preparedness measures.

So, if we continued on this, in any event it is a measure to improve our responsiveness in case of an emergency. Because were we to use that plant under any emergency condition, we would still have to do what has been done up there.

Mr. MURPHY. On December 20, 1974, the committee advised the Army that it was withholding all funds for Birdsboro. Yet in January 1975, about a month later, the Army released another $290,000 to Birdsboro for that study.

Now, do you think this violates the hold the committee happened to have on the funds for the Birdsboro foundry?

General MCKEEN. We considered that very carefully. We recognized the desire of the committee. We also recognized that we were losing time and what we did up there would not be lost because it was an appropriate matter under the industrial preparedness measures and

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that we can reduce the time it takes to respond to an emergency with the work that they have done up there.

Mr. MURPHY. Did the Army contact the committee chairman, or its members, or the staff of the committee to determine whether this would be a proper release of funds after the committee told the Army on December 20, 1974, they would permit no funds to be spent on Birdsboro?

General MCKEEN. Not to my knowledge.

Mr. MURPHY. Do you think it would have been proper to do so?

Mr. MAHON. Mr. Secretary, why don't you respond to that as well as the General?

Mr. BROWNMAN. In hindsight I think it would have been more appropriate for us to contact the committee.

Mr. BURLISON. Why would you need hindsight to acknowledge that?

Mr. BROWNMAN. At the time of the decision to release additional funds to Pennsylvania Engineering, it was to continue the study and investigation work that had been initiated last summer. It was looked at and treated as a continuation of effort previously contracted for. Last summer when we initiated the study we were in a position, as far as timing is concerned, of not having met with the committee and received the committee's ruling. On the other hand, I feel that we should have come back to the committee, explained our position, and gotten their concurrence to go ahead.

Mr. BURLISON. Thank you.

Mr. MURPHY. What does that portion of the study dealing with "Essential long-lead performance effort to obtain increased electrical power requirements" mean, General McKeen? I assume that is related to the power problem in the Birdsboro area?

General MCKEEN. Much of that is related to the bringing in of electrical power. When you change over from open hearth furnaces, which they have in the plant, to the electric arc process, we have to change and bring in electrical power.

The power company, in engaging in this, would not operate for nothing. We had to go to the power company to get them to assess and study and engineer the rights-of-way and to determine what would be required to bring the electric power into the plant.

Mr. MURPHY. It would appear that if the Army proposes to invest $35.3 million in the foundry and give Birdsboro a contract to build 40 sets of tank turrets and hulls per month, one would assume that Birdsboro would do this survey at their own expense.

I think we would like to address the cost. Why should this study to determine Birdsboro's needs cost almost $1 million? If they are a foundry, wouldn't they know what they needed to perform this effort instead of spending $1 million to study it?

General MCKEEN. The first thing I think I should do is put this process in perspective. The Birdsboro Foundry and any foundry that can undertake to pour 2,200 tons a month and do the work involved is a large proposition. This building is 900,000 square feet. To put it in perspective, it is about a quarter of a mile long and it has a number of bays that are 80 to 100 feet wide, and a great deal of plumbing—air plumbing, electrical plumbing, various utilities. There are a great number of facilities in it. We had two changes that had to be made. We

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had to change from the open hearth to the electric arc furnaces. In order to determine what was required, about half of the problem was to assess and determine what will work and what won't. The other is to determine what has to be replaced and to come up with the designs and the specifications on the items that have to be installed. It is a rather extensive process and in any event almost any organization that is going to supplement to this extent is going to have to do the same thing. They have to assess fuel availability for your heat treating furnaces, the electrical energy availability for electric arc furnaces, the size of the furnaces, the matching size of overhead cranes. You have to have a layout. They do have some work in that facility and one of the things they were trying to do is take care of our need with minimum impact on their own work in process. So that there is a great deal of study and engineering involved as a preliminary to getting something started like that.

Mr. MURPHY. Do you think a study by Birdsboro of its own plant requirements would be as objective as that done by an outside source?

General MCKEEN. The study was done by Pennsylvania Engineering, which is related to Birdsboro but no study they do is going to be accepted without our experts looking over it. In fact, when they come in, or come up with their final product or proposal, it will be looked at by our experts from the Corps of Engineers, and consultants from the outside. None of that will be accepted without very close scrutiny.

ELECTRICAL POWER LIMITATIONS IN BIRDSBORO AREA

Mr. MURPHY. In connection with this power problem, are they considering the possibility of installing electrical generators of their own to generate electricity?

Mr. BROWNMAN. No, sir.

General MCKEEN. I personally checked with the power company up there when we discussed the problem of furnace size. To increase the capacity, the Metropolitan Edison Co. would have to engage in an investment which they would amortize normally over a 30-year period and they say they are unwilling to do this for a 5-year program.

At the moment they can accommodate approximately 80 percent of our requirements on an around-the-clock or a high-peak basis—but since they can't take care of them all the time, they can't guarantee to give us 100 percent service. They, therefore, say they will take care of us on the off-peak hours which would come at night, and on a one-shift basis.

In case of an emergency, it has been their experience that their power distribution pattern would change and that there would be some reduction in convenience outlets, some current customers would be preempted or there would be other requirements which they would not have in an emergency and they are quite sure they could take care of our requirements.

But, during the present time, they must accommodate their commercial business. In this atmosphere, they can only guarantee the supply of power in the off-hours.

MR. EDWARDS. Are the restrictions that you are talking about put together in some kind of a formal agreement or contract with the electric company?

General MCKEEN. Not yet. We have no contracts with regard to the

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application facilities yet. There have been discussions between the Birdsboro people with Metropolitan-Edison and I called Metropolitan-Edison myself to determine what their position was.

Mr. EDWARDS. Is there a clear understanding at this time as to just what the restrictions would be?

General MCKEEN. We have a letter from them indicating confirmation of discussions between the Birdsboro people and Metropolitan-Edison really as to what they think they can do.

Mr. EDWARDS. I think that ought to be part of the record.

General MCKEEN. We can submit this as part of the record.

[The information follows:]

METROPOLITAN EDISON CO.,
Reading, Pa., February 27, 1795.

Mr. A. F. MCLEAN,
President, Birdsboro Corp.,
Birdsboro, Pa.

DEAR MR. MCLEAN: In confirming your conversation with Mr. E. W. Schleicher on February 18, 1975, please be advised that the 20 mVA arc furnace would cause intolerable flicker on our existing 69 kV circuit. To provide adequate service, it would be necessary to construct seven (7) miles of new double circuit 69 kV line, and this investment would approximately equal the amount required to provide service at 230 kV.

Because of generating capacity limitations during the period of this contract, the operation of the arc furnace should be restricted to off-peak hours. Presently, the hours of 11 p.m. to 7 a.m. are designated off-peak. We are giving consideration to expanding this time period to twelve (12) hours however.

If you require any additional information, please contact me.

Sincerely,

JAMES A. FLOOD, JR.,
Industrial Engineer.

Mr. EDWARDS. Have you concluded from what you see in that letter that you can turn out 103 tanks if the power facilities are there?

General MCKEEN. This letter deals with the current situation and the times they can provide power in the off-peak hours. I can conclude that they can provide the two a day that we need now, plus other castings that we will have to get from that source; in an emergency they can go up to at least six or eight a day.

Mr. EWARDS. There is no question in your mind?

General MCKEEN. There is no question in my mind. As far as the power company is concerned under emergency conditions, they have assured me they can take care of it.

Mr. EDWARDS. Under ordinary conditions there is no question in your mind about two a day?

General MCKEEN. No, sir. That depends on the size of the furnace, but we can get the two a day if we put in the right size furnace and will realize a savings on the electrical power because we will be working in off-peak periods.

FACILITIZATION STUDY AT BIRDSBORO

Mr. MURPHY. In November of 1974 the Army—and I assume with the assistance of Chrysler—estimated it would cost $35.3 million to facilitize Birdsboro. In fact, you subsequently had to spend almost $800,000 to determine how much it would cost to facilitize Birdsboro, after initially spending $108,000 for a preliminary study.

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Without the benefit of the detailed study beforehand, how do you know it would cost $35.3 million and not, say, $50 million, for example, to facilitize Birdsboro, which would almost put it in competition with the Buckeye foundry estimate that we discussed in the previous hearing?

General McKeen. First, I'd like to point out that we talked $35 million. That $35 million figure really has two increments. One is, there's about $20 million for actual facilities for the acquisition of or installation of them and there's about $15 million what we would normally have as startup costs. The small items; training, plant rearrangement, the whole $35 million was an assessment of what it would take to get started. It is a one-time cost. We are not putting facilities in that plant to the tune of $35 million. Our estimates—really, we were concerned about what we would have to repair and how much we would have to replace.

Mr. Murphy. Repair what, because of Hurricane Agnes?

General McKeen. There are two problems here. Technology doesn't stand still and some of the same procedures—some of the procedures they would use in 1954 they would not be using today, and because of the Agnes flood damage. For instance, the sand system they would have used back in 1954 would not be an efficient system at all. The open hearth furnace they have in that plant right now, for example, is far less efficient than the electric furnaces they propose to use. It takes 2 hours to make a melt in an electric furnace. It takes up to 8 hours to make the same melt in an open hearth furnace. We are not only getting away from the pollution that the open hearth brings about, but we are also reducing the costs of operation and increasing the capacity of thet plant as far as pouring is concerned.

Repair of Damages Due to Hurricane Agnes

Mr. Murphy. How much do you propose to spend to clean up the damage at the Birdsboro foundry done by Hurricane Agnes?

General McKeen. This is really not to great. The building has been cleaned up. In fact, it is in remarkable condition. Most of the expenditure is going to be installing the modified equipment. We are going to have to use the new furnace instead of the open hearths. In order to do that, since it is a top-loading furnace instead of a side-loading furnace, I think they have concluded they must raise the roof, dig a pit or add an annex. Our people are still working with them to find out just how to do this. We definitely know we are going to have to have a higher overhead because you have to go into it from the top instead of the side.

Mr. Murphy. General, I asked how much are you going to pay Birdsboro to take care of the damage from Hurricane Agnes?

General McKeen. I am not really sure——

Mr. Murphy. Dr. Breyer, do you know?

Dr. Breyer. I dont' have any idea.

Mr. Murphy. Do you have an estimate?

Dr. Breyer. I think it is included——

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General McKeen. It is included in the individual items, but it is difficult to separate.

Mr. Brownman. It is not broken out as such.

General McKeen. It is too difficult to break out because, for instance, we know that the controls on the heat treating ovens have to be replaced. They were damaged in hurricane Agnes. We also know that we would have to replace them anyway today in order to guarantee assurance of power because they have to be made dual fuel so we can use either oil or gas. So the problem would be very great to separate.

Mr. Murphy. Has the contractor invested any of his funds for this purpose?

General McKeen. The contractor's estimate, when I was up there, was about $2 million that they put into that plant to restore it, and put it back into operation after Agnes.

Mr. Murphy. Does the Army propose to reimburse the contractor for that?

General McKeen. No.

Mr. Murphy. But you will pay for repair of some damage as a result of Hurricane Agnes?

General McKeen. We will pay for cleanup and replacement if something doesn't work, if its legal.

Mr. Murphy. See if you can get us an estimate of approximate cost. It is an interesting point because it is our understanding that when this facility was sold to the Greater Berks Corp., they were to maintain it in an as-of condition; in the same condition as they received it from the Army, at their own expense; and I believe the investigative staff obtained an Army General Counsel ruling on this which considers any damage done by Hurricane Agnes. Therefore, we don't understand why the Army is going to pay them anything to rehabilitate that facility from the standpoint of damage from Hurricane Agnes.

General McKeen. We can get a figure for that, but I think it will be rather low. We have the air compressor units, the betatron unit, the whole area has been cleaned up. It has all been fixed up and prepared.

Mr. Murphy. Well, it should be zero because your General Counsel ruled that was the responsibility of the contractor and not the Army.

General McKeen. I agree. We will try to get a figure for you.

[The Information Follows:]

Efforts to determine the amount of the rehabilitation costs attributable to hurricane damage that may be included in the Birdsboro proposal have been unsuccessful to date. However, before any contract is signed with Birdsboro, any rehabilitation costs included in the proposal attributable to hurricane damage will be negotiated out along with any other costs for other repairs that the contractor is legally obligated to bear.

Birdsboro Proposal of February 1975

Mr. Murphy. Our investigative staff report indicated that the detailed study of Birdsboro had not reached the stage where firm estimate of requirements could be provided. What will you do if the cost reaches, say, $50 million?

General McKeen. If the final cost reaches $50 million, then it depends on whether it can work within the program. I am not sure what

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will be the final cost, but our effort will be try and keep it within the proper amount. If not, we will have to reprogram or fund the additional amount in a subsequent year.

Mr. MURPHY. If it gets very high, you are in competition now with the Buckeye foundry that you decided not to go with. His estimate originally was about $50 million?

General MCKEEN. His estimate now is related back to the amount of facilities—the facilities amount instead of the total one-time cost. In the case of the Buckeye estimates, you are comparing a $65 million estimate with a $20 million estimate.

Mr. MURPHY. That detailed Birdsboro study is to be completed in March 1975, is it not?

General MCKEEN. The engineering will continue.

Mr. MURPHY. Did you get anything from Birdsboro?

General MCKEEN. In addition to the September study, we have a proposal from Birdsboro which I think came in a few days ago.

Mr. MURPHY. Is it in the form of a study?

General MCKEEN. It is a summary—the results of the study are summarized in the proposal.

Mr. MURPHY. But don't you get a study for almost $1 million?

General MCKEEN. We will get mostly the proposal. The rest of it is engineering drawings. For the million dollars, you have engineering drawings; you have layout drawings.

Mr. MURPHY. They don't give you a report?

General MCKEEN. We get a report.

Mr. MURPHY. Do you have the report?

General MCKEEN. I don't have the report.

Mr. MURPHY. When is it due to be submitted?

Mr. WHITE. The study is due some time in March, as I understand it.

Mr. MURPHY. Thus far, what have been the results? You say they have submitted a proposal. What is their proposal? Is it $35.3 million or less?

General MCKEEN. Their proposal is higher. Their initial proposal came in higher than the amounts we were talking about.

Mr. MURPHY. How much higher?

General MCKEEN. The initial proposal was on the order of $50 million. Not the initial proposal, but the one we got the other day.

Mr. MURPHY. I didn't know that. I am just comparing it with your original statement that you ruled out Buckeye because it would cost about $50 million.

Mr. EDWARDS. As I read the staff study, the Buckeye proposal was $60 to $70 million, just to keep the record straight.

General MCKEEN. $65 million, and that covered building the facility. The Buckeye people wanted, in effect, to build a foundry.

Mr. MURPHY. May we have a copy of the report when it is completed?

General MCKEEN. Yes, sir.

Mr. EDWARDS. Are you saying that the $35 million figure that we have been using all along is no longer a good figure?

General MCKEEN. The $35 million figure was an estimate that included two basic things. It is an estimate of one-time costs. Now, some one-time costs are involved in installing facilities, buying facilities, and installing them. Others are startup costs. The training of

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people, the acquisition of small hand tools and hand trucks and things that you normally amortize over a production run.

So the whole startup cost was estimated at $35 million in the Birdsboro plant.

Mr. EDWARDS. If you are comparing $65 million, to use your figure, to get into Buckeye, what figure would you use for Birdsboro?

General MCKEEN. $20 million.

You see, Buckeye had to build a foundry. All Birdsboro has to do is supplement or replace the things in their foundry which are no longer usable and they do have an installation that is tailored to tank production. They have 1 bay with 28 ovens, 28 heat-treating ovens in a line, all with railroad car bottoms, all installed, all built in.

They have another bay with three large ovens, some of them large enough to take two tank hulls at once. All of those facilities are in there and in place.

Mr. EDWARDS. So that anything you would spend at Birdsboro in excess of $20 million would probably also have to be spent at Buckeye in excess of $65 million?

General MCKEEN. Startup costs—anybody who started would have to pay the startup costs.

Mr. ROBINSON. General, you have mentioned the two increments that make up what was originally estimated to be $35 million and now it is $50 million. Which of the increments are responsible for the increase or are they both involved?

General MCKEEN. There was some increase in both of them. We can't accept their proposal. We have looked it over and we can't accept it.

Mr. ROBINSON. Is it your intention to reject this proposal?

General MCKEEN. It is our intention to go back and negotiate it down because there are a number of things in there which we can't accept and the Secretary and I went last week to talk to the chairman of the corporation and from our discussion with him it is rather clear that the proposal was not put together on the basis that he wanted it to be developed.

Mr. ROBINSON. Can the committee be supplied with the correspondence that has taken place on this subject already?

General MCKEEN. Yes, sir. A great deal of it has been in conferences.

Mr. ROBINSON. You mention that you have received in recent days, however, a proposal from them, and we would like that as a beginning point, certainly, and then go on from that.

General MCKEEN. That you may have.

Mr. EDWARDS. Can you put it in the record?

General MCKEEN. Yes, sir. It is rather large.

Mr. EDWARDS. Perhaps you could give it to the staff.

[The proposal was provided to the Committee for review and it was subsequently returned to the Army.]

Mr. MURPHY. Then we understand the Army is reviewing this proposal in an effort to reduce the cost.

General MCKEEN. Yes, sir.

Mr. MURPHY. From this proposal will we be able to get a breakdown of the various items of equipment they estimate they need, the cost, and so forth?

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General McKeen. Yes. I will caution you that we do not agree with all of their requirements.

Mr. Murphy. Could you also include a note when you submit that to the committee that "These items are in dispute. The Army doesn't believe they are necessary"?

Mr. Brownman. Why don't we agree to annotate the proposal as appropriate?

Question of Size of Furnace and Crane

Mr. Murphy. Good. Thank you, Mr. Secretary.

Our investigative staff determined that Birdsboro Foundry required a 25-ton furnace and a 40-ton crane and yet our staff has been told the Army proposed to install a 75-ton electric arc furnace and a 150-ton crane and that has been changed to a 75-ton furnace and a 125-ton crane.

I wonder if you could explain why you require the larger furnace and the larger crane?

If I can explain further, I have a little difficulty in understanding why you need the larger furnace and crane. If you needed a crane of a certain size to melt and pour one set of hulls and turrets—namely your three sections of the hull and your one turret—I can understand that you need a certain size furnace and a certain size crane.

If you want to move to a capacity of melting and pouring three sets at one time, then I can also understand that you need a much larger furnace and a much larger crane. In other words, you will require a capacity to carry enough molten metal to pour three sets of hulls and turrets at one time.

Now, the proposal, I presume, is to permit Birdsboro to be able to initially pour two sets a day, and the capability of doing as much as three a day, I believe.

Yet, they are committed to evening hours because of the electrical problem and I understand they have to wait something like 3 to 4 hours between pours. That limits the number that can be poured. With that background, could you explain why you need a furnace and crane of the larger size?

General McKeen. I would like to ask Dr. Breyer to answer that question because the 25-ton crane idea came from a paper that he wrote for us to use in assessing the capability of other foundries and it was a list of absolute minimums.

Would you explain that?

Dr. Breyer. To start with, as the General mentioned, I wrote the minimum foundry requirements, the characteristics of any foundry which would be capable of making our requirements of two per day, so we set the ground rules by this means.

And we went through, using our minimum requirements of all the steel foundries in the United States to determine those who have the minimum capacity. The 25-ton furnace came from the basis that one armored vehicle weighing over 50 tons has about 25 tons of armor in the vehicle, so in order to make two vehicles per day that means that the foundry shall be capable of making 50 tons per day.

Now, following this logic, if we have 50 tons of finished castings, the general rule would be that you have to pour twice as much metal

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into the mold in order to have the gating system, the head and the other parts that fit into the mold to make the solid casting. So we are up to 100 tons a day.

Using just the general rule that we probably melt on two shifts or may be—well, somewhere about two shifts, that meant four heats a day in order to get out, let's say on two shifts, the required amount, so we set it up that in order to do this, that would require four heats per day.

Now, that also was based upon making the same model, the same version of the hull that Blaw-Knox is currrently making, which is a 22,000 pound long nose, and then two side castings. However, Birdsboro, as did General Steel and American Steel, and others who have made the M–48 vehicle before, decided to go the one-piece casting route. This means their largest casting, which is the basing item for the foundry, would be about 30,000 pounds. In order to bring out 30,000 pounds of metal into a finished casting, you need 60,000, or a 30-ton furnace so we are up from the 25-ton immediately.

That only takes out one such hull per heat with no overage. To play safe, any foundry man would ask for a 35-ton furnace so we are increasing the amount.

Now, to take out 100 tons a day, if you are going to bring out 35 tons of metal, that would mean three heats. On a tap to tap time, of 3½ to 4½ hours, that means that you would run three heats, which is a shift and a half, or two shifts as far as people in the plant are concerned.

Mr. MURPHY. How long does that take in time?

Dr. BREYER. It would take you 12 to 14 hours to bring out three heats.

Mr. MURPHY. The problem we have with that is, because of the electrical power limitation, Birdsboro is going to have only 8 hours to be melting and pouring.

Mr. EDWARDS. Let me ask a couple of questions here that might be pertinent.

With a 50-ton furnace and a 75- to 80-ton crane, how many hull and turret sets could be produced at Birdsboro per month working one 8-hour shift per day?

Dr. BREYER. I have felt that you can, with a 55-ton furnace, bring out the requirement of two per day.

Mr. EDWARDS. That is 40 a month?

Dr. BREYER. Yes, with a 55 ton.

Mr. EDWARDS. With a 75-ton furnace and a 125-ton crane, how many hull and turret sets could be produced at Birdsboro per month working one 8-hour shift per day?

Dr. BREYER. I would say you could bring out three sets.

Mr. EDWARDS. If Metropolitan-Edison could supply enough electricity to support three 8-hour shifts per day, how many hull and turret sets could be produced?

Dr. BREYER. I don't think they would run completely around the clock. There would be repairs of the furnace and for other reasons they might not run the full three shifts. They could run the—under press of time they could run six days or seven, but you would probably be able to take out the nine sets per day although the plan originally was

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geared to take out eight sets per day. I think you would have other items that would start to creep into the picture once you started to use the melting capacity as a pacing item. Now, you would run into foundry room and the ability to move the units through the other parts of the line.

Mr. EDWARDS. So that probably eight a day would be your maximum?

Dr. BREYER. For that size of plant. It was originally made during the Korean War to produce 183 hulls, turrets and shields per month.

Mr. EDWARDS. What is the cost differential between the 50-ton furnace and the 75-ton crane on the one hand and the 75-ton furnace and the 125-ton crane on the other?

Dr. BREYER. I understand, and I cant' speak from having looked in and determining it myself, but the estimate we have gotten back is that the 50-ton furnace with this accompanying crane would be 83 percent of the cost of the 75-ton furnace with its crane.

Mr. EDWARDS. 83 percent.

Dr. BREYER. 83 percent of the 100 percent cost for the 75-ton package.

General MCKEEN. To put it in perspective also, the cost we have been given for the 75-ton furnace is $1.2 million. It is about 83 percent of $1.2 million and we have a figure of $50,000 difference between I think 125 to 140 crane and the 75-ton crane, I believe.

Dr. BREYER. I believe it is somewhere in that ballpark.

General MCKEEN. As a part of the whole project, it is a very small part.

Mr. BROWNMAN. The estimated acquisition cost differential would be less than $250,000.

Dr. BREYER. Let me say also this electric furnace is to replace what was geared for that plant, which would be four 65-ton open hearth furnaces which is slower, but that would make it 260 tons per set of heat, which I would say would be equivalent of 130 tons of molten metal on an electric furnace base. It is about twice as fast.

Mr. EDWARDS. Would you say in your opinion that, from an economic standpoint, that the larger furnace and crane are justified, when you crank into that equation the possible emergency situation that could exist?

Dr. BREYER. I would say that it is justifiable on that ground, and also the Edison Company limiting them to power under one shift, or perhaps overlapping on either side of it. I think you are forced into that position. I think the limits on pouring on the one shift and getting out the two units, or possibly 2½ units per day, sort of puts you into that tight position of being able to take out the molten metal that is required.

I would say that a 65-ton furnace probably could do it as well, if there is a benefit to be gained by going down by 10 tons. We are talking about a furnace shape that is 17 feet in diameter. When you go down to a 65-foot ton it becomes 16 feet in diameter, so that the difference is rather small when you look at the furnace. But the power requirement goes up to match the furnace.

Mr. MURPHY. What size furnace and crane does Blaw-Knox have?

Dr. BREYER. I think their furnace may be a 30 or 40 ton. I don't quite really recall right now. It is about 30 or 40. They are melting around the clock.

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Mr. MURPHY. I thought they were on one 8-hour shift.

Dr. BREYER. I think they are pouring more than that.

Mr. WHITE. They are running two shifts at least, I know.

Mr. MURPHY. Is Blaw-Knox supposed to go to three sets a day which, I suppose, would be three shifts a day?

General MCKEEN. Blaw-Knox doesn't talk in terms of three a day. They talk in terms of so many per week and they have a staggered work shift arrangement which sometimes takes them into Saturdays and other times. It is not a straight, even three-a-day proposition. They talk about 15 a week and then they use more than just the 5 days out of the week.

Mr. MURPHY. Mr. White, do you know what size furnace and crane they have?

Mr. WHITE. As I recall, they have about a 35-ton and I think the crane is 50 ton. I am not absolutely sure, but I think it is in that area.

Mr. MURPHY. How can Blaw-Knox crank out up to three sets a day with the smaller furnace?

General MCKEEN. They'll make more pours than you would be permitted with the 75-ton at Birdsboro right now.

Mr. WHITE. They pour on two and three shifts.

Mr. MURPHY. Would Birdsboro propose to pour two sets on one shift? Is that what you are saying?

Dr. BREYER. Yes; they would pour two heats. That would be 3½ to 4 hours, tap-to-tap time. That would bring them out with one crew for their labor saving.

In addition, they want to avoid one of the difficulties we have in the foundry of bringing molten metal over workers who are working on molds because that stops all work immediately if you bring many tons over the top of the man who is working on a mold. He will quit and walk to the side. They won't have that problem. They will pour at night and then mold in the daytime.

Mr. MURPHY. What are the differences in cost between the procurement and installation of a 50-ton furnace and a 75-ton furnace, and between the procurement and installation of a 40-ton crane and a 125-ton crane?

[The information follows:]

The differential acquisition cost between a 50-ton and a 75-ton furnace is estimated to be $200,000. The differential cost between a 40-ton and 125-ton crane is not available at this time. However, the differential acquisition cost between a 75-ton to an 80-ton and a 125-ton to a 140-ton crane is estimated to be $50,000. There would probably be a differential installation cost for this equipment however, estimates are not currently available.

COMPETITION PLANNED BETWEEN BLAW-KNOX AND BIRDSBORO

Mr. MURPHY. Why would you plan to invest in equipment in Birdsboro to permit a three per day production capacity and turn around and reduce Blaw-Knox from a three per day to a two per day production capacity?

General MCKEEN. I am not sure about the basis for the two a day.

Mr. MURPHY. This is the proposal that we have been——

General MCKEEN. We have been stretching Blaw-Knox to get the three a day.

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Mr. MURPHY. When you look at your requirements and how you are going to meet them, it looks like since Birdsboro is going to insist on a 40-a-month contract, you have to cut Blaw-Knox back from 64 to 40 sets per month. What I am asking is, you are now building Blaw-Knox up to 3 a day. Then, would you propose to bring them back to 2 a day because Birdsboro is insisting on 40 a month and you haven't a requirement in future years to sustain your 103 sets of castings per month?

General MCKEEN. I would like to correct the idea that Birdsboro is insisting on 40 a month. It is not so much Birdsboro insisting on 40 a month as a matter of economics. Birdsboro merely pointed out to us it would be much more economical to run a plant that size at 2 a day or 40 than it would at 1 a day and 20. That was their position, rather than taking an adamant position that we will only do 40.

The most economical approach to keeping this capacity active is to split the work, or if we can go to three a day at Birdsboro, to compete it so that you can work out competitive arrangements once you have two facilities.

Mr. MURPHY. You do intend to compete then?

General MCKEEN. Yes; once we have two facilities. We have no way to compete right now.

Mr. MURPHY. That wasn't brought out in previous testimony. I thought previous testimony indicated there would be no competition?

General MCKEEN. Between the two facilities? If there is a potential for competition, there would have to be competition.

XM–1 TANK NOT INVOLVED IN BIRDSBORO FOUNDRY

Mr. MURPHY. Are you facilitizing Birdsboro with the idea you may want to cast the XM–1 tank in the foundry?

General MCKEEN. No, we are not facilitizing it with the idea we may want to cast the XM–1. One of the things we have before us—and we consider it very important—is that at the moment we have no maneuver room as far as producing tanks is concerned and we need additional capability and we need it in our view very badly. We have no way to expand short of building a new facility in case of emergency. We will have that with minimal effort with Birdsboro. We will be able to expand from two a day to up to eight a day if we have the Birdsboro facility available and that will be available to us and should respond to our needs well into the future.

It is under contract until 1982 right now. We have a reservation on it. I am sure that can be perpetuated.

When the XM–1 does come in, we have not planned for facilities in excess of 30 a month so all that would be would be 30 a month addition to the overall tank capacity and it will be some time before we are no longer dependent upon the facilities to produce the M–60.

Mr. MURPHY. We were looking at your peak of up to 103 a month which would run about, as I recall, 10 months. To keep it at 103 sets per month, you would require foreign military sales. Of course, I don't quite understand that because I thought we had an understanding that for foreign military sales we would utilize M–48 tanks, until the Army filled its authorized acquisition objective of M–60's before we start selling tanks around the world again.

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General McKeen. I can't say what we are selling in the foreign military sales arena because I am on the production side. I do know we have other things to produce that require large castings like this and we are having a difficult time meeting our needs for large armor castings for other pieces of equipment in our own inventory.

We have been looking for a source for castings for the M–88 tank recovery vehicle and are having a great deal of difficulty. At the moment the facility we developed to take care of the tank needs should be able to take care of that requirement too, and we are almost certain if the past is any indicator of the future that we will have additional requirements. To the extent we sell M–48's, of course, the M–48–A–5 will count against our AAO. Should we sell any of those A–5's or should they be delivered elsewhere, we will have to replace them, so we will continue to have a requirement for new M–60's.

Mr. Edwards. The XM–1 is scheduled to be welded, a rolled steel hull and a turret structure. When the decision was made several years ago to use a fabricated XM–1 structure, there was a limited capacity at that time to produce tank castings which leads me to this question: If you had had sufficient foundry facilities, casting facilities, is it likely that the XM–1 would have been cast rather than welded?

General McKeen. No, sir. The driver in the configuration of that hull is not a production matter.

Mr. Edwards. Is the cast cheaper than the weld?

Mr. White. We are making trade-off studies at Chrysler and castings and weldments are coming closer together. Normally the welding is more expensive but as the casting prices increase you are getting into an area of possible savings.

Mr. Edwards. Aren't you running into a problem of tremendous numbers of man-hours in the welding process?

Mr. White. Yes. There are welding hours, but again you look at the price per pound for rolled iron versus the price per pound of casting and that differential allows you the welding time.

Mr. Edwards. We won't belabor the XM–1 too much now. What you are saying is the ability to cast or not to cast, the ability to have an extra foundry such as Birdsboro, or not to have it, would not affect the XM–1?

General McKeen. We are getting into sensitive data, but the driver in the case of the XM–1 is not production considerations.

Construction Requirements at Birdsboro Foundry

Mr. Murphy. Our staff determined that Birdsboro has 766,000 square feet of space. With additional buildings making a total of 903,000 square feet. A total of 270,000 square feet is used for machining operations or is leased to other tenants. The total Army requirement is not over 425,000 square feet, including 275,000 square feet for foundry operations. With more than sufficient space at Birdsboro to satisfy Army requirements, why do you proposed to build an addition to the Birdsboro facility of between 6,400 and 17,000 square feet?

General McKeen. Actually we believe that it is less expensive to put a building on the side to house the new furnace than it would be to tear out the open hearth furnaces that are there, raise the roof, install

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new crane ways, and replace the open hearths with the new electric arc furnace. That is the major change.

Mr. MURPHY. So you are going to retain the old furnaces in the building?

General MCKEEN. That is the current plan. We are not planning to pay to tear out the current furnaces. They are very large masonry structures with a building around them. We would want to avoid opening up the top for the electric furnace.

Mr. MURPHY. In late 1974 the Office of the Army General Counsel found that under the provisions of the sale of the foundry to Greater Berks, that corporation was to preserve the then existing productive capability of the plant as a mobilization producer of tank castings. We note that 270,000 square feet of the Birdsboro facility was being used for commercial machining operations or was leased to other tenants. If this is a valid military requirement, can the Army under the terms of the sale take over the entire facility instead of building an addition of between 6,400 and 17,000 square feet?

General MCKEEN. Yes; we could take over the entire facility but we would still have to build a facility on the side because the space available won't accommodate the furnace either.

Mr. MURPHY. What is the estimated cost of this additional construction?

General MCKEEN. I will provide the information for the record.

[The information follows:]

New construction and major equipment installation costs were not identified separately in the proposal. The identification of these costs has been requested. An estimate of the costs associated with specific construction efforts proposed by the contractor are as follows:

Rough machining	$580,000
Machinery division addition	240,000
Melt shop	1,200,000
Isotope building	375,000

It should be pointed out that this construction is still under technical review and may not all be found necessary.

COMPETITION PLANNED BETWEEN BLAW-KNOX AND BIRDSBORO

Mr. MURPHY. Congress provided the Army funds to facilitize Blaw-Knox to 64 sets of castings per month. If you facilitize Birdsboro for 40 per month, and reduce Blaw-Knox to only 40 per month, do you have a good chance to lose Blaw-Knox in view of their letter to Chrysler dated November 12, 1974?

General MCKEEN. The loss of Blaw-Knox as an armor supplier is not anticipated. Army plans call for Blaw-Knox to supply over 2,000 tank armor sets during the next 2½ years. The division of workload among suppliers beyond that point has not been determined although plans indicate a potential for competition beginning by early 1978. If this potential materializes, plans are that the subcontractor offering the best price would receive the business for any requirements over 80 units per month.

MANPOWER REQUIREMENTS AT BIRDSBORO

Mr. MURPHY. In determining availability of manpower, does Birdsboro propose to recruit personnel from the Blaw-Knox foundry?

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What sort of recruiting campaign will they have? Is there a possibility they may be drawing on Blaw-Knox?

General McKeen. Blaw-Knox is working in Chicago. Birdsboro is in Reading, Pa.

Mr. Murphy. What I am asking is, do they propose to recruit in the Blaw-Knox area for talent?

General McKeen. I can't state for sure that they won't go to Chicago, but their discussions with me indicate they will recruit in Scranton or in the Pennsylvania area.

Mr. Murphy. That may affect Blaw-Knox' operations if they siphon away their skilled labor.

General McKeen. I understand that.

Mr. Murphy. How much does Birdsboro propose to spend in training personnel and why should the Army pay for this effort?

General McKeen. The proposal does not identify training costs as such. From a practical sense however all hourly employee costs prior to the molding and pouring of the first production castings can be considered as training costs. The estimated costs are $35,000 for training consultant and $4,366,739 for wages and fringe benefits. The total training costs are not acceptable to the Government. A portion of the hourly employees, who will be partially trained on the job in Birdsboro, will be productive in terms of Birdsboro's commercial production prior to initiation of armor production and negotiation will attempt to have Birdsboro absorb this cost in their commercial work. The Army normally must pay some training costs when the needed item is unique to military requirements and when contractors are not willing to produce without Government payment of these costs.

Survey of Other Foundries

Mr. Muphry. The committee is not convinced that the survey of other foundries conducted by the Army and Chrysler was in the same depth as that done at Birdsboro. In the survey of all other foundries, did the Army and/or Chrysler tell them the Army would be willing to invest up to $35.3 million to facilitize their plant, give them almost $1 million to study their requirements, pay them to train their personnel, build a new office building for them, give them a contract for 40 sets of hulls and turrets per month at least through fiscal year 1979, and so forth?

Were all these other foundries advised of this possibility?

Mr. Brownman. Perhaps Chrysler could answer that.

Mr. White. No. When we went searching for foundries we contacted, as I think we told the investigative staff, about 53 different foundries in the United States and Europe. We were looking for an interest in the program plus the basic capacity because we would prefer to find it within the commercial structure if possible, and we contacted the foundries as to their interest in the armor program and whether they had the capability of so doing two hulls and turrets per day.

The Birdsboro situation came about because it had been set up strictly for hulls and turrets during the Korean war. We went to Birdsboro for reasons Geneal McKeen has mentioned.

Many facilities were already there for the production of the hull and turret castings and it seemed to be the ideal spot after reviewing all

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the steel casting industries, as Dr. Breyer did, in which we would have facilities available that had already been put up to produce armor castings for the hulls and turrets.

Mr. MURPHY. Then Chrysler didn't conduct a competitive solicitation or submit an RFP to foundries in connection with this survey?

Mr. WHITE. No.

Mr. MURPHY. When did the Army make the decision to invest a substantial sum of money in additional facilities for the subcontract supplier of hull and turret castings for the M60 tank?

General McKEEN. In mid-April 1974, funds were made available from a foreign military sale to provide additional facilities to increase tank production in order to deliver the foreign sales tanks earlier.

Mr. MURPHY. Did the prime contractor inform each solicited foundry of the Army's facility funding policy?

General McKEEN. In order to select potential candidates for the production of hull and turret castings, the steel foundry capability of the United States was reviewed. The prime candidates were the previous and present producers of heavy armor castings who had a mobilization agreement with the Army. These candidates were Buckeye, Pittron, Blaw-Knox and Birdsboro. These companies were visited by top officials of Chrysler and the Government to determine their interest in the production of hulls and turrets and facility funding was discussed. The two viable sources that developed from these visits were Birdsboro and Blaw-Knox. Birdsboro had open capacity in a foundry facility built by the Government in the Korean war to make hull and turret castings.

Other potential suppliers were contacted to determine whether they had open pouring capacity, and floor space, and an interest in participating in the program. If they indicated a capability and an interest, they were requested to submit a proposal including facility funding. Fifty-three sources were contacted and only Krauss Maffei, in addition to the above, indicated an interest and did develop and submit a price proposal which proved to be too costly. Scullen recently has indicated an interest. On original contact with their vice president for sales, they indicated no open capacity or interest.

Mr. MURPHY. Why did the Army choose not to inform all parties solicited of its new interest in funding facilities?

General McKEEN. It is the policy of the Department of Defense to have private industry furnish the facilities required without Defense funding. When Chrysler's initial survey to all known potential producers for an expression of interest in the program and capacity resulted in negative responses, other action had to be taken. The urgency of the situation then caused Army representatives to join Chrysler representatives in visiting all of the mobilization/emergency producers of tank armor castings: Pittron, Buckeye, Blaw-Knox, and Birdsboro. At that time, these companies were informed that the Government might assist in establishing facilities.

Mr. MURPHY. Then Chrysler didn't conduct a competitive solicitation or submit an RFP to foundries in connection with this survey?

Mr. WHITE. No.

General McKEEN. We didn't go out with an RFP because we were trying to find somebody who would take one and they indicated in many cases no interest, or inability to do so and in other cases it was

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obvious, when you are looking for a very large capacity, it was obvious that people didn't have the capability and need far more facilities than the Birdsboro plant.

Now, also in the case of Birdsboro, it was inactive, it was available and we had a 10-year legal recapture clause which existed nowhere else and it was also in our mobilization base plant, so that we approached it really as a last resort after we could not get the capacity we wanted out of industry.

We had here a facility for our current requirements and also an immediately available expansion capability in case of emergency and as yet we have found nothing that would equal it. Other people have contacted us and each time we are contacted by another foundry we go out and attempt to find out if they have a capability and if they do, without facilities, we are anxious to use it. If they have to make a study and determine their requirements, we are interested in the results of that study if they want to give them to us.

Mr. MURPHY. Would you pay them for that? Would you pay them for such a study?

General MCKEEN. No.

Mr. MURPHY. You wouldn't pay them for such a study?

General MCKEEN. Not on an unsolicited proposal. We will evaluate the facility, take a look at it and see if it has the potential. It is rather easy to see whether someone has a number of these facilities because they are very large and if you don't have them you are going to have to build them. If you don't have 300,000 square feet, you don't have space; you are going to have a problem. What we are looking for is something like a hangar for the Graf-Zeppelin and it is rather easy to see when someone doesn't have it.

Mr. MURPHY. Do you mean you would pay Birdsboro close to $900,000 to study their requirements but you wouldn't give money to anyone else to study their needs in order to satisfy the Army requirements?

General MCKEEN. Only when we reach the situation we did, where we thought we had no alternative.

Mr. MURPHY. In looking through the answers to these contacts or phone calls, whatever they were, it doesn't indicate these people contacted were given any indication that the Army would be willing to invest funds in order to permit them to meet Army casting requirements.

General MCKEEN. Would you give them an idea what the problem is we are facing, Dr. Breyer? We have made an exhaustive search for capability.

Dr. BREYER. The number of tons that are poured by the steel foundry industries in the United States are about 2 million tons per year. The requirement we are talking about, just for these two units, is over 1 percent. With the railroad industry and the machinery industry demanding full capacity from most of these foundries, you can't even find anybody who has one percent open capacity.

Now, we inquired of the Steel Founders' Society—maybe you want to put this letter in the record—on the possibility of having open capacity and who might be available.

I think a couple of the statements in here are worth reading.

The current business climate in the steel foundry industry is not conducive to taking on a new tank armor program. Unlike 1950, the industry is currently

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operating at 100 percent of capacity with projections for continuation at this rate well into the future.

Under these conditions with no reserve capacity there is great reluctance to squeeze out good customers or to cause them further delays in the already long delivery dates.

Mr. ROBINSON. What is the date of that communication?

Dr. BREYER. That communication was November 26. It was a followup to some conversations that I had on the phone with Dr. Zillmann who was the technical director of the Steel Founders' Society. He was the chief metallurgist of Pittron, the Pittsburgh steel foundry, so he knows the armor program very well.

His paragraph six, which I will read, which is, I also feel, pertinent:

The only facility that would be available for armor production within a reasonabl time span is the Birdsboro tank plant, which was completed at the end of the Korean emergency and never went into operation. The equipment is still there but outdated and obsolete in some instances. Open hearth furnaces are not efficient, but certainly can produce the required steel. A major problem will be one of finding and training personnel.

After going through this and calling people—I called the executive vice president of American Steel Foundry, one of our big armor suppliers during World War II and post-World War II, and talked to him about getting back in the business. He informed me of the 11 foundries they had had, 8 of them closed down. Only three were available.

We called people—looking at people who had never been in the armor program before. General Electric out of Schenectady where they put in a furnace with well over 100 tons of molten metal capacity. I called the man, Mr. Greenwold, who is the director of the plant, or the manager of that plant, and he said, "We can't possibly handle this."

You have to recognize that an armor facility for making tank hulls, these 20-some feet long taxis, on a repetitive is a production shop in which there is very limited potential in the United States or Europe.

Mr. MURPHY. I agree, Dr. Breyer, that you made some sort of a survey. And you have talked to knowledgeable people in the field. But it was not a solicitation of the foundry industry indicating that the Army was willing to provide money to facilitize their foundry and buy equipment.

As a matter of fact, General McKeen, I think, mentioned to me the other day that since this has received publicity, you have had inquiries from a couple of foundries. Is that right, General McKeen?

Mr. BURLISON. If there is no objection, the communication from which Dr. Breyer read will be included in the record at this point.

[The letter follows:]

STEEL FOUNDERS' SOCIETY OF AMERICA,
Rocky River, Ohio, November 26, 1974.

Prof. NORMAN BREYER,
Department of Metallurgical Engineering,
Illinois Institute of Technology, Chicago, Ill.

DEAR NORM: It was a pleasure hearing from you again after an interval of a number of years. We became associated in the early 1950's as a result of the tank armor program during the Korean war. Now it seems that the same subject is bringing us together again, but under different circumstances and a totally different set of conditions. We discussed these conditions at length during our phone conversation. At your request, I shall summarize the principal points for the benefit of the Tank Automotive Command and any other interested Government agency.

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1. Availability of suitable plant capacity in the steel foundry industry of the United States for the production of heavy armor castings (turrets and hulls) has seriously declined during the past decade. General Steel Industries has closed two major plants; Blaw-Knox has done the same. Only one plant is currently producing armor. Several foundries with prior experience still exist; others without such prior experience but with a potential capability for heavy armor production also exist.

2. Because of the low level of armor production in recent years (only one foundry active), the broad base of expertise of personnel and updated techniques and equipment has been lost. It had been Government policy to maintain such a base after the Korean war ended to that production could be increased at a rapid rate in the event of another emergency. Apparently this policy was abandoned during the late 1960's. As a result, we are now faced with the problem of starting from scratch again.

3. The current business climate in the steel foundry industry is not conducive to taking on a new tank armor program. Unlike 1950, the industry is currently operating at 100 percent of capacity with projections for continuation at this rate well into the future.

4. Under these conditions with no reserve capacity, there is great reluctance to squeeze out good customers or to cause them further delays in the already long delivery dates.

5. The reluctance or hesitancy to take on Government business, in particular, is reinforced by past experience. My own experience in the tank armor program covers about 15 years with one steel foundry and is typical of the rest. Year after year as contracts came up for renewal, the tank business was made less attractive. In spite of constantly rising costs (we had inflation in the 1950's and 1960's, too; it's not a recent invention), the price was steadily reduced to a level where it was impossible to make a profit. In fact, the armor business resulted in a loss for several years before my employer decided to drop out. Other producers had the same experience. Foundries that never produced armor are also aware of this historical experience.

6. The only facility that would be available for armor production within a reasonable timespan is the Birdsboro tank plant, which was completed at the end of the Korean emergency and never went into operation. The equipment is still there but outdated and obsolete in some instances. Open hearth furnaces are not efficient, but certainly can produce the required steel. A major problem will be one of finding and training personnel. The shortage of technical personnel in our industry is serious.

Perhaps it would be in order to reactivate the Cast Armor Metallurgical Advisory Committee, if and when several new armor producers are found. This committee served the Nation well in helping to improve the production rate and quality of armor. With new personnel and new techniques coming into the program, such a committee could again provide the forum for the exchange of technical information to advance the new armor program.

If there is any way in which I can help either personally or on behalf of our organization, please let me know. Hope to be able to see you in the near future. Best personal regards.

Sincerely,

R. W. ZILLMANN,
Technical Research Director.

General MCKEEN. We have had contracts from Roebling Steel in New Jersey; Flynn & Emrich, for instance, in Baltimore; we received word from Flynn & Emrich, an inquiry from Congressman Long, and we called and discussed the situation with them and voluntarily they wrote back to Congressman Long and told him he had been contacted by the Army Tank Production Office and it had been discussed with him and he said, "Further, I believe having obtained the facts at the source that the Army is proceeding in the most intelligent and economical way and that our company can do little, if anything, for them. Thank you for your efforts."

Each of these that come up we are interested in looking at, and if we can find a way to accomplish the same thing——

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Mr. EDWARDS. Were you contacted by Scullin Steel so they could submit a bid?

General MCKEEN. The initial contact by the members of Scullin Steel—actually, it was Diversified Industries, Mr. Fox came to see me and his initial interest was to see if he could reopen the Gateway Foundry in St. Louis.

The Gateway Foundry has been converted to an ammunition plant and is not available. He indicated that he was going to look into the situation when he left. Last week I received a letter from him saying that he was interested and upon recognizing the interest that he had and the fact that he thought he would use some other facilities or ground that he had available out there in St. Louis, I sent him a letter and said, "Fine. I would like to have our consultant look at the facilities and assess the size of them," which we did.

I have since discussed the situation with his local representative and I arranged for them to get a package of drawings of the actual casting for the hull and the turret, so they could look at them.

This was, I think, yesterday or the day before. They came into the office and asked if they could be released. The people were at Chrysler that day and I called Detroit and told the procurement people out there to make sure that they did get a set of the drawings and specifications.

Mr. EDWARDS. Had they asked for them before?

General MCKEEN. I am not sure. They didn't ask me.

Mr. EDWARDS. I believe you or Dr. Breyer went down to look over their facilities. Since they will testify later maybe Dr. Breyer could give us his assessment now.

Dr. BREYER. First I ought to mention that I have worked both for the Government in tank production and had worked for a couple of foundries. I thought of him immediately because they were a tank-producing facility and they were contacted apparently last year. Robert C. Peters, assistant to the president, asked whether they were interested in the tank program and we assume he talked with Harry L. Simmons, who was the president, and they decided against it. Then, upon asking John Bridge at Chrysler a little more about them, he told me that—I said they had an excellent foundry there, the old Ordnance Steel Foundry, but he told me that was converted over to the making of ammunition. So when I was contacted on the original inquiry from General McKeen, I went down from Pennsylvania to look at the facility. When I went in there, they showed me the foundry.

We discussed some of the problems associated with the making of armor and the square footage. They had marked out a drawing of their current facility and I went out to look at it with Mr. Grommet. The facility that they had in mind was about 100,000 square feet of area. They gave me a drawing showing me what they had proposed for the armored program. There were no pieces of equipment in there. The only thing that remained—they were bulldozing over the floor—it was used for sand storage and the like. It was probably built, I would estimate, in the early 1900's. The open hearths were still there

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and two heat-treating furnaces were sitting in the facility, but they were going to take the open hearths down.

With the space that they had in the building, I would say that they are under, by a factor of one-third—they are about one-third the size required to make our current requirements.

I did discuss with them the possibility of using hot metal from their current stock, which is a very busy shop making side frames and bolsters and draft gear for the railroad industry. I discussed with them available capacity out of there 40-ton furnaces which is running 5 days around the clock, but I think they indicated they would be able to take out castings on the 6th day or perhaps on the 7th to get started, but eventually they would need furnaces, heat-treating equipment, sand-handling equipment shakers, shot blasts. They do have a 1-million volt X-ray machine there and they do have some capable people who have made armor. There were two that I talked with renewed acquaintances from a long time ago. So that they have some base, but in my estimation, thinking in terms of the Greenfield type of plant that Buckeye wanted to put on stream, at $65 million and looking at the building, I would estimate that their costs should, if they are going to go through the program, including the pressing and the welding of floor plates and machining, that their costs should far exceed the cost of a Birdsboro plant which is currently equipped with shake-out tables and shop blast equipment and heat-treating facilities and sand-handling equipment that can be used, a conveyor system. Some of it they will knock out.

In my estimation on the real estate they showed me, they can't possibly make the two a day.

There were some other options that they had indicated.

I must admit they are touching this cold. They haven't really examined it. I think if they examined the size of the program and what it takes, that they might decide on their own that they can't participate to the extent of two a day.

Now, they have made tank turrets. Their total square footage, including everything at that plant, is 589,000 square feet. Their major foundry right now, No. 1, has 248,000 of that and that is currently making the side frames and bolsters that I saw there.

Mr. MURPHY. If they could meet the Army requirements at less cost than in Birdsboro, would the Army be interested?

Mr. BROWNMAN. Absolutely.

Mr. MURPHY. How long will it take Birdsboro to get into operation?

General MCKEEN. We begin in around 2 years.

Mr. MURPHY. Two years from what?

General MCKEEN. From the time we give them a go-ahead.

Mr. MURPHY. Two years from the time you would give them a go-ahead to get the facilities?

General MCKEEN. Yes.

Mr. MURPHY. Dr. Breyer, for whom do you work, the Army or Chrysler?

Dr. BREYER. I am a consultant. For the last 11 years I have been a professor at the Illinois Institute of Technology and prior to that I worked for Blaw-Knox Co. They were then Continental Foundry Machine Co. and I was metallurgist in charge of armor for the three plants they then had.

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Mr. EDWARDS. I think we ought to have your biographical sketch. I will ask the reporter to put it in the record at the appropriate place.

SURVEY OF OTHER FOUNDRIES

Mr. MURPHY. Was the informal solicitation employed in this case in conformance with Armed Services Procurement Regulations?

General MCKEEN. Yes. Chrysler was awarded a contract to furnish M–60A1 tanks. As the prime vehicle contractor they are responsible for establishing a subcontract structure which will result in meeting the Army's delivery schedule.

Mr. MURPHY. Can you cite other instances where such a procedure was employed in major armament procurement?

General MCKEEN. All major armament procurements place a requirement upon the prime contractor to deliver material within a specified time frame, and it is his responsibility to establish a make and buy plan which will result in meeting this objective. The exception to this would be a direction by the Government that he must procure specific items from directed sources.

Mr. MURPHY. Have you furnished to potential bidders exactly the same information that Birdsboro has been furnished? If not, why not?

General MCKEEN. All potential sources that expressed an interest after receiving preliminary information have been furnished the same data that was given to Birdsboro.

Mr. MURPHY. Have any other prospective bidders asked for such information?

General MCKEEN. To the best of our knowledge, all known interested suppliers have been supplied with this information.

Mr. MURPHY. Would you have any objection to submitting a request for proposal for the production of these castings where each potential bidder is given all of the information required to bid, which is the customary and legal procedure?

General MCKEEN. Although the action taken and method of solicitation used by Chrysler was legal, the Army would not have objected to a formal request for proposal being issued if more time had been available and if the requirement would have been one for which many unknown potential sources might have existed. None of these conditions existed however. Sources in the United States having the large capacity required or having previously made armor castings are easily ascertained. They were solicited by Chrysler on an expedited basis. When this failed, Army representatives joined in contacting prior mobilization producers in an attempt to add emphasis to the requirement.

BACKGROUND OF BIRDSBORO FOUNDRY SELECTION

Mr. MURPHY. How was Birdsboro singled out for possible provision of facilities?

General MCKEEN. Blaw-Knox and Birdsboro were determined to be the only alternatives. Blaw-Knox was limited to a maximum of three sets per day in their current facility. Birdsboro, a planned mobilization/emergency producer in accordance with the terms of the sales contract, could be facilitized at about the same expense as expanding Blaw-Knox beyond three per day. Also, the Army has recapture rights on the Birdsboro facility until 1982. Therefore, pur-

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suing an approach which gives the Army a significantly improved mobilization/emergency expansion capability and at the same time best protects the Governments' investment, Birdsboro was selected.

Mr. MURPHY. Did Birdsboro merely express interest, or did it submit a formal bid responsive to an Army proposal?

General MCKEEN. Birdsboro, in response to our overture expressed an interest in producing the tank castings, perhaps because of their legal obligation to do so, and was requested by Chrysler to submit a formal price proposal; however, the Government later decided to contract directly with Birdsboro for the facilitization so the proposal was submitted to the Army.

Mr. MURPHY. When did Birdsboro submit a proposal?

General MCKEEN. Preliminary budget estimates were received from Birdsboro in June and September 1974, which has been further expanded on in a proposal received on February 20, 1975. However, this proposal did not include sufficient data for the Government to make a complete analysis and the firm has been requested to provide additional data which will allow the Government to evaluate their price and technical approach to producing hulls and turrets.

Mr. MURPHY. Who chose Birdsboro, the Army or Chrysler?

General MCKEEN. Birdsboro was selected by both the Army and Chrysler as the most viable facility to meet the requirements in the needed time frame.

Mr. MURPHY. General, I recall that there must be a formal finding and determination of no competition before a negotiated agreement can be made. Is there such a finding? Upon what is it based, and please furnish the committee with a copy and whatever background studies and reports were made to support your conclusion or the conclusion of your prime contractor.

General MCKEEN. Yes, a formal determination and finding was made in accordance with applicable regulations prior to requesting Chrysler to submit a price proposal for M-60 tanks. The determination and finding is based on the procurement of equipment of a technical or specialized nature which requires substantial initial investment and an extended period of preparation for manufacture and procurement thereof by formal advertising would likely result in additional cost to the Government by reason of duplication of investment and the duplication of preparations which would unduly delay the procurement of tanks. A copy of this determination and findings and supporting documents will be provided separately. Now that the Army has decided to contract directly with Birdsboro for facilities, a determination and finding is being processed for the expected transaction.

Mr. MURPHY. Do you feel that Birdsboro has been given an unfair competitive advantage over other potential suppliers by the Army's offer to install new facilities in their plant?

General MCKEEN. No, I do not feel that Birdsboro was given an unfair competitive advantage. The Army and Chrysler discussed the possibility of providing facilities with all those firms who indicated an initial interest in producing the castings. Birdsboro and Blaw-Knox were selected based on possessing the requisite know-how, price, schedule, and the fact that both of these producers were already planned mobilization producers. Solicitation restricted to only the planned pro-

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ducers would have been appropriate in accordance with the Armed Services Procurement Regulation. This approach has been supported by a Comptroller General decision in November 1973.

SURVEY OF OTHER FOUNDRIES

Mr. MURPHY. Dr. Breyer, were you paid to conduct a survey of American and foreign facilities?

Dr. BREYER. No. I was paid and acted in the capacity of a consultant to the Army.

Mr. MURPHY. Our investigative staff report indicates the survey was a rather cursory one. What did the survey cost? What kind of questions were asked and what kind of answers were given?

Dr. BREYER. Chrysler, who was obligated to locate a foundry source, conducted the survey. My mission as a consultant to the Army was to evaluate those foundries which had been screened by Chrysler and deemed to be possible sources. There was no direct cost for a survey by me to the Army, other than phone calls. On the attempt to open up new potential sources, the first questions were whether the potential source was interested in this type supply. Second, this answer almost invariably was "no"—were there any ways that we could get them interested. In addition to sugesting potential sources to Chrysler, I also contacted the American Steel Foundry, and spoke with the executive vice-president, Edwin Walsher, and found that this former armor supplier was completely uninterested in producing armor. In addition, Mr. Robert Grunwald of General Electric was contacted and he felt that his company would not be interested. I also spoke with the Steel Foundry Society of America to determine if they had any knowledge of foundries in the United States that might be interested in supplying armor. The answer to that question was they knew of no other foundry besides Birdsboro.

Mr. MURPHY. Dr. Breyer, if you did not conduct the survey of facilities, did you conduct any preliminary studies among possible subcontractors identified by the survey?

Dr. BREYER. The responsibility for identifying foundry sources was Chrysler's. I made suggestions to Mr. John Bridge and when he had developed the two potential sources for the expansion, namely Birdsboro and Blaw-Knox, these two facilities were examined.

Mr. MURPHY. Did your work have anything to do with the selection of the subcontractor by Chrysler?

Dr. BREYER. Not directly. My primary mission was to act as an advisor to the Government to see that the potential sources developed by Chrysler were reasonable and viable sources. This was done for the Government.

Mr. MURPHY. Who did conduct the preliminary discussions with potential subcontractors?

Dr. BREYER. These discussions were initiated and carried out by Chrysler Corp.

Mr. MURPHY. Did you visit any other potential subcontractors at the time of the survey or subsequent to the survey? If so, which companies and what were the results?

Dr. BREYER. I acted in an advisory capacity to the Army. The two sources developed by Chrysler, namely Blaw-Knox and Birdsboro,

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were both visited by me. When the Scullin Foundry was found to have an increased interest in the program, this facility was also visited.

Birdsboro Production Schedule

Mr. Murphy. What is the starting date for production at Birdsboro?

General McKeen. Current Army plans call for Birdsboro production beginning in December of 1976. Prior to this time, it is expected that Birdsboro will produce a set of armor for first article approval.

Mr. Murphy. From what date is the lead time contemplated?

General McKeen. This date is on March 1975 approval by Congress and contract with Birdsboro.

Mr. Murphy. If other companies could get into operation with substantially less expenditures of Government dollars, would that be desirable?

General McKeen. Yes, that too would be desirable. As has been previously stated up until recently, we have had problems finding anyone interested in producing for us.

Birdsboro Foundry Requirements For Fiscal Year 1975

Mr. Murphy. If Birdsboro will not be equipped to machine the hull and turret castings it produces, please provide a detailed breakdown of how the $13.6 million request for tooling and gages, startup, and production base support at Birdsboro would be used.

General McKeen. I will provide the information for the record.

[The information follows:]

The breakdown of the $13.6 million for long lead items is as follows:

Tooling and gages for castings	$2,400,000
Start-up costs for castings	800,000
Production base support	10,400,000
Total	13,600,000

The production base support category includes long lead equipment such as an electric arc furnace, an overhead crane for the melt shop, a gantry crane, sand system components, core ovens, and long lead electrical power substation.

Mr. Murphy. If Birdsboro already has a betatron, why does Birdsboro require an isotope room to include an X-ray facility, wet chemical lab, spectroscopy lab, metalography, mechanical testing and machine, and a sand lab?

General McKeen. The Army plans to question the need for these facilities and during negotiations they will be eliminated if they are not required.

Foreign Requirements for M60 Tanks

Mr. Murphy. Did the Army contact its world-wide MAAG's missions, and attachés on August 20, 1974, to solicit their opinion of projected requirements for medium tank sales, by year and type for calendar years 1975 through 1981 to help support the Birdsboro requirement?

General McKeen. The Army did contact the MAAGs and missions but not for the specific purpose of supporting the Birdsboro require-

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ment. The purpose of this effort was to ascertain in general what kind of demand for tanks might have to be considered in the future in addition to our own requirements.

Scullin Steel Co. Inquiry

Mr. Edwards. With regard to the Scullin plant, if we estimated Birdsboro would cost about $20 million in the frame of reference we were talking about earlier, that Buckeye would cost $65 million, where would you put Scullin?

Dr. Breyer. I don't think they have sufficient room on their current real estate to do the program for two a day. I would say that when they fully examined the requirements for space they probably will find that they are shy now. They may have other bulidings at other locations that I am not aware of, but I would say they have to be somewhere between the two, from Greensfield—because they do have melting capacity that might be able to go into the program now, but I don't think that they could come upstream as fast as Birdsboro, or at the price that we are estimating now.

Mr. Edwards. You think somewhere between $20 million and $65 million?

Dr. Breyer. Yes.

Second Foundry Requirement

Mr. Edwards. If the Congress denied the request to reactivate Birdsboro, by what date would all U.S. Army and Marine Corps M-60 tank requirements be fulfilled?

Let me ask it this way: Would it be about April 1981?

General McKeen. April 1981. Those are the known requirements, the solid requirements.

Mr. Edwards. If the proposal to reactivate Birdsboro is approved by Congress, then by what date would all U.S. Army and Marine Corps M-60 tanks requirements be satisfied?

General McKeen. December 1979.

Mr. Edwards. Will you justify then the expenditure of some $75 million in fiscal year 1975-76 funds to trim 16 months from the M60 production schedule?

General McKeen. It is a combination of trimming 16 months off and getting the tanks we need as rapidly as possible. Plus getting back the capability that we had until recently to produce for mobilization, plus getting the capability that we need for other armored vehicles.

As we see it, we will have—when we consider the hard core potentials for other people, we have a significantly longer production run.

Mr. Edwards. What do you mean by other people?

General McKeen. This is potential drawdowns for foreign sales and other items we will have to produce.

[Chart shown entitled "Monthly Production/Conversion Rate."]

General McKeen. I would like to say our current situation: We are at half of our acquisition objective. And our acquisition objective is about a quarter of what can be employed against us in terms of num-

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bers, we feel that we are vulnerable indeed in the area of armor capability.

As the Secretary pointed out in his letter, we found during the Israeli conflict that armor, although now perhaps the attrition is greater, it nevertheless is one of the most important weapons on the battlefield, if not the most important.

At this point building our requirement to us is exceedingly important. Having the capability to expand production in an emergency is of almost equal importance.

Mr. EDWARDS. It is really fair to say, isn't it, that the real press for an accelerated program is tied in, whether you like it or not, with foreign sales?

General MCKEEN. No, sir. The real press is to get into our inventory for the Army and the Marine Corps the tanks that we need as soon as possible. The problem represented by—if the urgency associated with a foreign requirement is assessed by people over us to be more important than our own requirement, then it amounts to a drawdown.

Our primary interest is in getting what we need to support the Army.

Mr. EDWARDS. As a practical matter, you know there will be drawdowns between now and 1981, don't you?

General MCKEEN. As a practical matter, we anticipate there will be because there have been in the past and I see nothing that would change that at this time.

FOREIGN SALES OF M48A1 TANKS CONVERTED TO M48A5's

Mr. EDWARDS. In terms of primary assets, do you consider the M48A5 a primary asset?

General MCKEEN. We do consider it a primary asset and we are applying it against our acquisition objective.

Mr. EDWARDS. If Secretary Kissinger sells or gives away more tanks, wouldn't the M48A5 be a proper tank to give away or sell?

General MCKEEN. We would hope very strongly that that is the tank they would sell.

Mr. EDWARDS. We have written the Secretary along these lines. You are aware of that, aren't you?

General MCKEEN. I have read the letter, yes, sir.

Mr. MURPHY. If we utilized—I don't know whether the number is classified—we have quite a few M48A1 tanks.

General MCKEEN. We do have A1's, right.

Mr. MURPHY. If we modified M48A1's to the A5 configuration, not those in the hands of the Reserves, but those that are not your prime assets, we wouldn't be drawing down from any Active or Reserve units, would we?

General MCKEEN. Our current plan to modify all of the unserviceable M48A1's that are not in the hands of units and I should point out, if I may, to the extent that we sell A5's since they count against our acquisition objective, it will create a void in our overall asset posture of what we call the prime asset.

Mr. MURPHY. Why is that? Haven't you some in storage?

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General McKeen. Not A5's.

Mr. Murphy. I am talking about A1's.

General McKeen. We have A1's, but I say to the extent we ship A5's——

Mr. Murphy. No one is asking you to ship M48A5 tanks, General. The committee recommended to the Secretary of the Army that the Army satisfy foreign military sales by having those countries pay the cost of modifying M48A1's to the A5 which is not a drawdown against the Army AAO.

General McKeen. That they would do in any event. If they bought an A5, they would pay the cost of an A5. It would still draw down against our AAO's.

Mr. Murphy. That is if they wanted them immediately, rather than wait for them?

General McKeen. That is right.

Foreign Sales of M60A1 Tanks

Mr. Edwards. Are there any firm commitments now for foreign sales of the M60?

General McKeen. Some of the tanks scheduled to be produced are to fulfill commitments made previously and we do have a case—I have to put this in perspective.

Mr. Edwards. I will ask Colonel Biemeck this.

Colonel Biemeck. This gets into a classified area, but we can keep it unclassified. We have 300 tanks that are not built yet that are to be delivered to foreign customers. We have about 648 that have been sold and that we have money for that we are trying to bill back to return on our own inventory.

We have been, as you know, sir, trying to discourage tank sales right now because we are completely at capacity; we have a backlog of tanks that we have funded and we can't build. We are trying to allocate Birdsboro to work ourselves out of this problem. We programed 20 per month open from the Birdsboro capacity starting in January, 1978 for foreign sales, hopefully to take the heat off of our inventories so we can accommodate security assistance customers who are approved by the Secretary of State or the administration for assistance.

We deliberately left the 20 per month open so we can accommodate them and yet fill our own inventory needs.

Mr. Edwards. On your monthly production conversion rate chart you showed a minute ago, is that the area called FMS high probably?

General McKeen. Yes, sir. And we have not been encouraging anyone at this point in time to buy any tanks from us because we are concerned about our own needs until the Birdsboro proposal is approved. If it is approved, then we can fill outyear capacity with foreign sales. That is really our whole plan, sir, to hold off any tank sales unless it is in the national interest to provide assistance, and then, if possible, fill the requirement in the outyear period of time.

Mr. Edwards. What steps are being taken to insure that the pricing of all future foreign sales of M60 tanks includes an equitable share of the costs attributed to production base expansion?

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General McKeen. Again, this is not within my area of operation, but I do know that it is our policy, and in discussing it with the FMS people it is the policy that FMS cases will bear their share of costs in accordance with the following three points: The standard pricing policy which is laid out by OSD which has an amount in it for nonrecurring and fixed costs.

Recovery of all costs directly attributable to the FMS case, or recovery of all costs as directed by the Secretary of Defense. This recently has been given a great deal of attention and in calculating the cost we will include an appropriate amount for facilities.

I might point out that in the case of one customer, we did assess an amount of some $38 million which is a one-time cost, and the benefits of that will be available for quite some time. The facilities you create are there, and they aren't used up immediately, but the number of vehicles to be produced over that is really not representative of the total capability, so the United States did not really lose on that particular transaction.

Mr. Edwards. I think the Army should keep this in mind, that no matter how you cut it, the increased production that you will gain by having Birdsboro will work to the benefit of the foreign sales program and certainly this one member feels that those foreign sales should include a reasonable share of the facilities cost and I think anything less than that would be unacceptable, at least to me, and I would suspect to the whole subcommittee.

That is all I have.

Mr. Burlison [presiding]. Mr. Robinson, do you have questions?

Electrical Power Limitations in Birdsboro Area

Mr. Robinson. Thank you, Mr. Chairman.

The only question I have is with regard to concern with respect to the reservation that has been made on the power supply, and the extent to which you have ascertained that it is going to be available in terms of the emergency that can exist if you have to go to eight a day at Birdsboro.

We all know what the energy situation is today and what the threats are in the future, and I just wonder whether the sort of guarantee you have from Metropolitan-Edison regarding this matter, because without that electricity you are out of business.

General McKeen. I think our guarantees are more than just contractual. In a case like that, in the case of an emergency, although there is a slight difference, I think the Defense Production Act of 1950 gives a priority to this type of work and we have, using the priority ratings, preempted other commercial needs of lower priority.

The basic capacity is there for about 80 to 90 percent of the time right now. It is the fact that it is not always available and the fact that if they agreed to take care of our requirements they would be faced with brownouts every now and then, or flickering lights, to keep them from giving it to us all the time right now. They just can't guarantee it.

The possibility of increased utilization in the future exists in that area, I understand that, but I think we would have to rely on the De-

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fense Production Act and other preemptive measures, if necessary, to make sure we had the capacity that we needed.

Mr. ROBINSON. Do they have the necessary plans to increase the production as need increases, as you look down the road in terms of the regional use, not just your use, but the regional use?

General MCKEEN. I don't know whether they plan to increase because of increased utilization in the area or not. I do know they are very cautious about investing in facilities that they view as taking 30 years to amortize for a short-term requirement.

Mr. ROBINSON. Most utilities are figuring today on a 10-percent increase per year and 100 percent in 10 years.

Is there any danger that because of this requirement being placed on Metropolitan-Edison that they may come back and ask you to help them increase their capacity to generate electricity at your expense?

General MCKEEN. There has been no indication of that at this point.

Mr. ROBINSON. Because certainly we need to be protected against that eventuality. We don't want to invest in an electric-generating plant that is going to cost us hundreds of millions of dollars.

General MCKEEN. I understand; and in my discussion with their engineers, they gave no indication—they indicated they would like to say go ahead but they just had to maintain that reservation.

Mr. ROBINSON. Thank you, Mr. Chairman.

CASTING VERSUS WELDING TANK HULLS AND TURRETS

Mr. EDWARDS. Mr. White, you indicated that Chrysler has been studying the cost of casted tank structures as compared to fabricated ones. Please discuss the principal, preliminary findings of these studies?

Mr. WHITE. We have been making trade-off studies at Chrysler and castings and weldments are coming closer together. Normally welding is more expensive but as the casting prices increase we are getting into an area of possible savings.

Mr. EDWARDS. Are casted tank structures cheaper and more survivable than fabricated ones?

General MCKEEN. Cast and fabricated tank hull and turret unit costs are estimated to be approximately the same. Additionally, the costs of facilities for both types of construction are estimated to be about equal. However, the estimated lead time required to get into production for the fabricated type is about 45 months. This is about double the time required to start up a foundry to produce the cast type. Fabricated hulls and turrets, that will be used for the XM–1 tank, are expected to be more survivable than the cast type.

Mr. EDWARDS. Would it be feasible to use casted structures in the XM–1 program?

General MCKEEN. No; the use of cast hulls and turrets for the XM–1 is not feasible.

Mr. EDWARDS. Would the XM–1's special armor be compatible with a casted structure?

General MCKEEN. No, the XM–1's special armor is not compatible with cast hulls and turrets.

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The $75 million estimate relates to the total U.S. appropriated funds needed to increase tank production from 40 to about 103 per month. A production rate increase from 40 to 64 per month has already been funded with $44.4 million of Foreign Military Sales funds. If the production rate had remained at 40 per month, U.S. requirements for M-60 tanks would not be satisfied until about October of 1984. This represents a slippage of about 58 months beyond current plans.

Mr. EDWARDS. Why is it necessary to accelerate the M-60 tank production program at this particular point in time?

General MCKEEN. Acceleration of tank production is necessary at this time because the Army has on hand less than half of the 10,381 required 105 millimeter tanks and current tank production capacity is limited to about 45 per month. We don't have the needed tanks and don't have the capability to produce them in significant numbers.

Mr. EDWARDS. With the exception of a 10-month period in 1977, when output would peak at about 103 sets a month, U.S. tank casting requirements would not exceed 83 sets a month during the 2-year period 1978–79. Under present plans, the last U.S. M-60 tank would be produced in December 1979. If this is the case, why is the Army requesting authority to establish a capacity to produce as much as 124 hull and turret sets a month—64 at Blaw-Knox and 60 at Birdsboro?

General MCKEEN. The added capacity is needed to meet unprogramed emergency requirements, such as mobilization; to provide available capacity for other large armor castings, such as for M-88 tank recovery vehicles; and to meet foreign requirements when in the national interest.

Mr. EDWARDS. What is the rationale for the surge capacity?

General MCKEEN. To date facilities have been approved to increase tank production but only to 64 per month. With the demonstrated loss factor of over 20 percent per month, this production rate of 64 will only support a committed force of about 320 tanks. A force of 320 tanks represents only about 6 percent of the Active Army's tank forces. This surge capacity is needed so that the Army will have the capability to respond to emergencies within a reasonable time frame.

Mr. EDWARDS. Is the desire for extra capacity based on projected foreign military sales, U.S. mobilization requirements, or both?

General MCKEEN. This desired surge capacity is based primarily on U.S. emergency requirements such as mobilization. In addition, the added capacity will provide the capability to meet foreign requirements that are expected to materialize.

Mr. EDWARDS. What is the projected monthly production requirement needed to satisfy foreign demand for M-60 tanks in the period 1978–79? Are these firm commitments?

General MCKEEN. Projected monthly foreign production requirements for M-60 tanks for calendar years 1978–79 approximates 23 per month. This is a projection of only the highly probable foreign requirements. (Highly probable—assumes that 50 percent of high potential and 25 percent of all other potential foreign requirements will mate-

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rialize.) The desire of the Congress to sell M–48 series tanks rather than M–60's is recognized. These production requirements will result even when M–48's are sold by the replacement of M–48's in U.S. inventories with M–60 series tanks.

Mr. EDWARDS. What is the projected monthly production requirement needed to satisfy foreign demand for M–60 tanks in the period 1980–82?

General MCKEEN. Projected monthly foreign production requirements for M–60 tanks for 1980–81 approximates 23 per month. This also includes only the highly probable foreign requirements. Probability projections have not been developed beyond 1981.

Mr. EDWARDS. What steps are being taken to insure that the pricing of all future foreign sales of M–60 tanks includes an equitable share of costs attributed to production base expansion?

General MCKEEN. The requirement to include a charge for production base expansion on foreign sales cases has been set forth in Army regulation 795–14, dated June 4, 1974, and sales cases are being reviewed at Department of the Army level to assure compliance.

Mr. EDWARDS. After Birdsboro achieves an output of 40 hull and turret sets a month in early 1977, is the Army planning to reduce production at Blaw-Knox to about 40 sets a month? If so, why and when?

General MCKEEN. After armor casting capacity at the two facilities exceeds the requirements a potential for competition will exist and plans are to determine exact production quantities for each facility through competition. According to current plans, based on the assumption of funds approval for Birdsboro sometime this month, this potential for competition will exist by early 1978.

Mr. EDWARDS. If production at Blaw-Knox were cut back to 40 sets a month and if monthly production at Birdsboro were maintained at 40 sets to satisfy U.S. Army and Marine Corps needs in 1978–79, would any additional demand based on foreign sales be allocated to the foundry offering the most competitive price?

General MCKEEN. Current plans are to allocate any requirements in excess of 80 units per month on a competitive basis, once both facilities have a capacity exceeding 40 per month.

Mr. EDWARDS. What are the principal advantages of having two sources for tank and hull castings?

General MCKEEN. The principal advantages are that two sources for tank armor castings will permit the filling of serious U.S. tank inventory deficits within a more acceptable time frame, provide available reserve capacity for emergency and other unprogramed requirements for armor castings, provide a potential for competition among the armor casting producers, provide a source for other needed large armor castings such as for the M–88 tank recovery vehicle and provide available capacity to meet foreign requirements for tanks and associated vehicles.

Mr. BURLISON. Mr. Secretary, the committee appreciates the appearance of you and your staff.

The committee will meet at 2 o'clock.

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AFTERNOON SESSION

SCULLIN STEEL CO.

WITNESSES

JOHN P. INMAN, PRESIDENT, SCULLIN STEEL CO., ST. LOUIS, MO.
RICHARD B. KEARNS, ASSISTANT TO THE PRESIDENT, DIVERSIFIED INDUSTRIES, INC., ST. LOUIS, MO.

Mr. GIAIMO. The subcommittee will come to order.

We have with us John Inman, president of the Scullin Steel Co., and Richard Kearns, assistant to the president of Diversified Industries.

Mr. INMAN. Mr. Chairman, I am John Inman, president of Scullin Steel Co., of St. Louis, Mo., and I have with me my assistant, Richard Kearns. We have short biographical sketches to submit for the record if it pleases the committee.

Mr. GIAIMO. Without objection, they will be inserted in the record.

BIOGRAPHICAL SKETCH OF JOHN P. INMAN

Born—June 22, 1929, Joplin, Mo.
Married—5 children.
Graduate of high school, 1947.
Graduate of U.S. Naval Academy, 1952, commissioned ensign U.S. Navy Supply Corps.
U.S. Navy—1952–56. Served as supply officer.
U.S.S. *Grady*, U.S.S. *Rochester* and at San Francisco Naval Ship Yard. Resigned commission as lieutenant junior grade in 1956.
North American Rockwell, Rocketdyne Division, 1956–67: Joined Rocketdyne Division as a liquid rocket test engineer at Canoga Park, Calif. Transferred to the new liquid rocket test facility at Neosho, Mo., to serve as test coordinator during facility activation. From 1964 to 1967 served as general superintendent of all liquid rocket engine assembly and test.
Missouri Steel Casting Co., Joplin, Mo. (1967–73): Joined company as assistant to president and became president in 1968.
Scullin Steel Co. (1973 to present), joined company as president in 1973.
Professional societies: National Foundry Association. American Foundrymen's Society. Steel Founders' Society of America. Railway Progress Institute. American Association of Industrial Managers—Board of Directors.

BIOGRAPHIC SKETCH OF RICHARD B. KEARNS

Born.—October 9, 1940, Leadington, Mo.
Family status.—Married; 3 children.
Residence.—2211 Seven Pines, Creve Coeur, Mo.
Education.—University of Missouri, St. Louis, Mo., business administration (1964–65). Mineral Area Junior College, Flat River, Mo., business administration degree, 1960.
Military service.—1961–64, U.S. Army, Army security agency.
Diversified Industries, Inc., St. Louis, Mo., assistant to the president, manner corporate real estate, 1971–75.
Fox Industries, Madison, Ill., manager of operations, 1964–71.
Professional societies.—Associate member, Society of Industrial Realtors.

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Mr. INMAN. Mr. Chairman, we anticipated having Dr. Kessler, our consulting engineer, with us this afternoon. I think the committee would appreciate the high quality of Dr. Kessler's testimony. Yesterday we learned because of a serious illness in his family he will be unable to join us. However, Dr. Kessler will be available to respond to future questions should the committee desire his views on additional information.

A copy of his qualifications has been submitted.

Before proceeding with my prepared text, a little bit about my background.

STATEMENT OF PRESIDENT OF SCULLIN STEEL CO.

I am a 1952 graduate of the U.S. Naval Academy. I was in the Navy 4 years and worked from 1956 through 1967 for Aerojet General and North American Rockwell in the liquid rocket engine propulsion programs. I have been in the steel business now since 1967 and became president of the Scullin Steel Co. in December 1973.

Scullin is a steel foundry employing approximately 1,100 people in St. Louis area. Our plant covers 13 acres, or 580,000 square feet, under roof of a 57-acre site where we annually produce approximately 45,000 tons of heavy steel castings for the railroad industry.

Scullin does have some capacity to work on the project we are now discussing. During World War II, Scullin operated an Army-owned plant now known as the Gateway Army Ammunition Plant, producing 44,000 tons of armor castings for tank turrets and hulls. Scullin was again employed to operate the Gateway plant during the Korean war to produce 21,000 tons of armor.

The Gateway plant is now in reserve as a modern shell factory and is not available for armor castings. However, the expertise which established this highly technical operation, pioneering modern-day armor casting procedures, is still available in the St. Louis area and still at work at Scullin Steel. In addition to Mr. Francis Hohn, our chief metallurgist, 14 members of our engineering and production department are seasoned veterans of modern American tank production. In addition to such salaried personnel, many of the skilled working people in our plants are also experienced in armor plate production.

Scullin Steel is prepared to cast armor for Army tanks again. We are prepared to use existing personnel, foundry space, and equipment to start work as promptly as possible. With some facility expansion, we believe we can meet the Army's planned production schedule of armor for the M–60 tank.

One might legitimately ask why Scullin Steel has not surfaced prior to this date.

Frankly, we did not know until very recently what the Army intended. Last summer our vice president and sales manager was contacted by Chrysler Corp., the prime contractor, soliciting our interest in the cast armor program and inquiry whether we had open capacity. As our bookings were full, and we had recently concluded a 6-week strike, we declined. Evidently the conversation was terminated before a full discussion of the program was completed. We learned later that this inquiry was considered by others to be in the nature of a survey of interest. Let me add, Mr. Chairman, that armor casting, as any

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casting maker or casting buyer knows, requires certain facilities not normally on hand, for heat treating, quenching, and X-ray examination. That such facilities could be supplied was not under consideration at that time.

Mr. GIAIMO. I have been led to believe by prior witnesses and documents that, as you know, we have got to increase our casting capability to make tank turrets and hulls. I have been led to believe that we have in existence one hull and turret casting facility. That is Blaw-Knox in East Chicago. That that is the extent of our turret casting capability.

We need another plant to increase that to how much, about 100 a month?

Mr. INMAN. Yes, sir.

Mr. GIAIMO. We are told the only other available foundry is Birdsboro in Pennsylvania. Are you telling me you have the capability to be an absolute third source and that you could do everything that they could do at Birdsboro?

Mr. INMAN. The inquiry that we received, the information we have received concerning the quantities indicate two units per day is what we would facilitize for and we can, after facilitization, produce two a day.

Mr. GIAIMO. So you could be another foundry source?

Mr. INMAN. Very definitely.

Mr. GIAIMO. Or an alternative source?

So we are not stuck with either Birdsboro or nothing?

Mr. INMAN. Absolutely not. At this time we don't have the facilities.

Mr. GIAIMO. What do you mean by "facilitization"?

Mr. INMAN. That is the equipment, the floor space, the cranes, the melting capacity, capability, in order to produce the steel and process it through your shop.

Mr. GIAIMO. But you could get it?

Mr. INMAN. Certainly. That is what Birdsboro is proposing to do.

Mr. FLOOD. Not only does this go to the question of two a day, but the reserve problem as well. Where is your situation vis-a-vis a reserve setup?

Mr. INMAN. The only number we have that has been submitted to us would be on a daily—a two a day basis.

Mr. FLOOD. You are not aware of any demand for how many reserves a day or a week? Have you heard anything about that?

Mr. INMAN. It was only yesterday we got any of the sketchy details of the program. If it is three a day, then we can provide facilities for three a day, but two is all we are talking about as far as my conversation is concerned.

Mr. FLOOD. What is your capacity for reserve?

Mr. INMAN. We would have to base that on a study that I wouldn't be prepared to say right now. We could submit it. In fact, that is what we want to do.

Mr. FLOOD. Do you mean you are suggesting that you are aware that the business of producing tanks you could have last night and that you are not aware of anything required in the production of tanks other than two a day? You wouldn't know, or your experts here aren't aware—you were surprised yesterday to find out besides the production of two a day there is also a problem of reserve capacity?

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Mr. INMAN. Mr. Fox visited with General McKeen about 30 days ago and, as a result of that visit, we started pursuing the matter in earnest. The numbers that that data presented were a subcontractor to provide two units a day.

Mr. FLOOD. Your superior advisers aren't aware that one of the conditions precedent was a capacity for reserve? No matter what figure somebody gave you at the Pentagon or Detroit or some place——

Mr. INMAN. Mr. Flood, as of yesterday we hadn't had one piece of paper that formally requested us to submit anything.

Our two a day is based on only a one and one and a half shift operation. If more than that is required, we can propose on that basis.

Mr. FLOOD. I am sure of that, but I am surprised after all the years we have been talking about tanks on this subcommittee——

Mr. GIAIMO. Would you like to add something to this?

Mr. KEARNS. Unfortunately, he keeps referring to our expert Mr. Kessler, who isn't here today, as we mentioned in the beginning.

The proposal that we are working on is based on a one to one and a half shift per day operation so in reality—you know, when you go to two to three shifts a day and a 6- and 7-day workweek, you are building in excess of capacity.

Mr. GIAIMO. So you could provide for a reserve capacity?

Mr. KEARNS. That is correct. When you are talking about working a shift or a shift and a half a day, you are automatically building in reserve capacity.

Mr. GIAIMO. Why don't you continue with your statement?

Mr. INMAN. Last January we learned through the trade news that the Army intended to invest the sum of $35 million to permit expansion—in fact, to practically create new facilities—for the production of these castings. We later learned that this was to be in an area with fewer personnel skilled in foundry practice, at a facility not now in operation. Indeed, we learned that a large share of that money was to be spent on training.

This trade news was the first notice our company had that the Army could and would assist suppliers to develop their facilities in order to meet the Army's needs. We believe, of course, that the prior solicitation by the prime contractor—including the phone call to us—was made invalid by the Army's subsequent decision to fund facilities.

I believe, Mr. Chairman, that General McKeen resolved all doubt about that this morning when he confirmed that there had been no solicitation of competitive bids.

We assumed that a new bid procedure was underway. Accordingly, we began at once to request specifications from which to prepare a competitive bid.

By reading the newspapers and testimony in Congress, we discovered that this committee, as well as other committees in the House and Senate, were as interested as we are in the increasing cost of the M–60–A–1 Tank and as interested as we are in a strongly competitive market among suppliers of tank components to reduce these costs. For example, in hearings before Senator Harry F. Byrd's General Legislation Subcommittee of the Senate Armed Services Committee held last January, we noticed at page 25 of the printed report that the percentage of the estimated cost increase for the hull, turret and

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gun shield of the M–60–A–1 is 27.4 percent of the increase in the total tank price.

We immediately approached General McKeen from whom you have heard testimony earlier today. General McKeen was most courteous and helpful. After all, he must be looking for a way to build tanks and cut costs too. We were directed to subordinates in the Army. Frankly, we encountered a flurry of reluctance.

As an example, when Dr. Breyer visited us, he stated that our interest presented problems and that we were muddying the water.

Yesterday morning, however, when General McKeen learned of our discouraging progress with his subordinates, things began to move.

In addition, we met all day yesterday in Detroit with the prime contractor and were furnished preliminary specifications with which to begin a serious analysis of the project.

While pressing for such preliminary specifications, we attempted to appraise frankly our own ability to be of service, and to formulate some general ideas about the way we can do the job. Such cursory analysis led us to the following conclusions:

(1) With minimum facilitization, we can begin to manufacture castings in a matter of months, not years, from the day we are permitted to begin work. Concurrently, we can, with financial assistance, further expand our facilities until we attain the production rate of two completed units a day as the Army desires. In any event, we believe we can start and complete the contract faster than in the time we understand the Army must accept from another facility.

(2) We are convinced that we can expand our facility at a price below the $35 million presently targeted elsewhere. However, we believe we can specify that sum, together with other detailed information, in a proposal we are prepared to submit within 30 to 60 days after all specifications and facilitization requirements are supplied us. In that regard, we welcome General McKeen's recent offer to work with us henceforth to prepare a realistic and responsive proposal.

(3) While preparing these specifications, we will not overlook the possibility of non-Government sources of capital to enable us to expand our facilities to meet the Army's needs. If we can interest other sources of capital to assist in expanding facilities on terms acceptable to the Army, we will go there first. This, of course, may well depend on the Government's willingness to commit to extended production runs for these and other products.

After hearing the testimony this morning which indicated there are no plans to use the Birdsboro facility for commercial production, one obvious possibility we could propose would be to lease a Government building during the period when it is not in use for Army production, thus returning dollars to the Government on its facility investment.

This could assume that the facility would be at all times available to the Army and in an operating status.

(4) If I were not here this morning, with these new specifications in hand I would be with my engineers in St. Louis examining the possibility that we can produce in advance test samples of the quality of armor plate we intend to supply in order to submit the same forthwith for proof testing to expedite the starting date. In fact, Mr. Chairman, such planning began in St. Louis last night.

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Our company has been flattered by General McKeen's own recollections of Scullin's record as a producer of heavy armor castings in the past. We intend to continue to develop that reputation.

We understand, Mr. Chairman, that some funding has been granted elsewhere to permit self-study of the capability of another facility to get started in this effort. We are not shy either, and if it will help to expedite preparation of our own proposal, we won't turn away from an offer for some funding to assist us in studies of the same kind.

To sum up, Mr. Chairman, we are convinced that we can serve well from our preliminary advantage as a foundry that is open and operating. Our philosophy would be to arrange interim production in existing facilities, with only a minimum of additional equipment—most of which can be fully utilized throughout the contract—in order to get castings on the way to Chrysler as early as possible. At the same time, we would expect facilitization to be underway to expand production schedules.

We cannot pin down costs, prices and production schedules until all specifications are at hand. That flow of information necessary to prepare a competitive bid began yesterday for the first time. We are very grateful that the committee has seen fit to hold these hearings. It has afforded us a chance to make clear that the possibility of competition to obtain these materials at the lowest cost to the Government until now has not been fully explored. We are pleased now to have a chance to submit a proposal.

Thank you for this opportunity to testify, and we would be pleased to answer any questions that the committee may have or submit answers for the record as required.

Mr. ADDABBO [presiding]. Are there questions?

Mr. FLOOD. During the course of this flurry you find yourself involved in, have you been talking to anybody at General Motors at any time, any place, anywhere, currently about this thing?

Mr. KEARNS. Yes, I have spoken to General Motors.

Mr. FLOOD. When?

Mr. KEARNS. In the last 2 or 3 weeks.

Mr. FLOOD. What did you talk about, the tank?

Mr. KEARNS. Yes, sir.

Mr. FLOOD. That is interesting.

Mr. KEARNS. They asked us about castings.

Mr. FLOOD. They asked you?

Mr. INMAN. They called us.

Mr. FLOOD. General Motors called you?

Mr. KEARNS. Yes, sir.

Mr. FLOOD. Did that surprise you any, General Motors calling you?

I was wondering, in the course of your presentation, I was waiting for you to bring this up. You gave us your source of information——

Mr. INMAN. The call from General Motors came shortly after the visit by Mr. Fox with General McKeen, and that was our first inquiry from any contractor.

Mr. EDWARDS. Do you do much Government business?

Mr. INMAN. No.

Mr. EDWARDS. You are just not generally in the business of doing Government contracts?

Mr. INMAN. No, sir, we deal only with the railroads.

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Mr. Edwards. It is your statement when you were called by the prime contractor, Chrysler I guess, that that didn't get your interest enough to inquire further, away back then?

Mr. Inman. Last year we received probably 50 to 100 calls from people who wanted steel castings. We had people in our plant that would come in with stacks of drawings of excellent types of castings, but we had absolutely no capacity to do anything more than what we were presently doing.

Mr. Edwards. What changed all that now?

Mr. Inman. We understand that there is facility money that would be spent to assist in providing the capabilities.

Status of Current Facilities

Mr. Edwards. What do you think it would take to fix up your facilities? Let me back up on that.

In the hearings this morning, as I recall—I believe it was Dr. Breyer who testified that they went to your facility and found a building that looked like it was built about 1900, that the floor was being bulldozed out or had been.

Mr. Kearns. I beg your pardon. May I?

Mr. Edwards. Let me finish my question and then I will let you answer.

That generally there was some equipment sitting out in the middle of the floor and I judged from what he said was something that hadn't been used in a long time.

In other words, the picture I got from his testimony was that here was the shell of an old building with a bulldozed floor in it. Now, first of all, I will ask you if that is a fair description of what your property looks like and, second, what is it going to take to put it into shape to use, keeping in mind—you were here all morning—keeping in mind there has been talk of having to spend $20 million at Birdsboro and $65 million at Buckeye.

Mr. Inman. The description is probably fairly accurate. The building used to be a foundry. We had open hearths similar probably to what is now in the Birdsboro facility. But for the last 3 months we have been in the process of tearing those old open hearth furnaces out. The building, although it is old, certainly could be converted to the project we discussed. It has operating 50-ton cranes in it; it is an old building and it does need a lot of repair, but it is right adjacent to our present facility and would make an excellent foundry. As a matter of fact, that is what it used to be. There is something over 100,000 square feet in that area that would be available.

Facilitization Requirements

Mr. Edwards. Do you have any ball park figures on what it would cost to fix it up?

Mr. Inman. The building itself would only be a piece of the total package that we would propose on and, with all due respect, in the short time we have been involved in it, we only have total figures that would be certainly qualified, but we certainly don't look for anything

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in the neighborhood of the $30 to $35 million for the total package that we have heard about this morning.

I don't want to be evasive except to say one thing else and that is what when we were in Chrysler yesterday, the initial information we received from Dr. Breyer last Friday, we had made our evaluations producing the hull as a one-piece unit, but from our visit with Chrysler, they indicate that they much prefer the unit be made in three pieces and on that basis, from a facilities standpoint, certainly reduces your requirements for heavy cranes and large furnaces like 75-ton or 125-ton cranes. But on our basis of evaluation making it in three pieces, a 30-ton furnace with 50-ton cranes is all that you need.

Mr. EDWARDS. How about the electrical situation?

Mr. KEARNS. I have spoken with the regional Commerce and Development Association in St. Louis and they are actively looking for businesses such as the expansion of our foundries for the St. Louis area.

There is ample electricity and ample gas in St. Louis for us to operate on a three-shift basis if we prefer. We have a letter for insertion in the record about the availability of electric power.

[The information follows:]

UNION ELECTRIC CO.,
St. Louis, Mo., March 11, 1975.

MR. MORRIS BROWN,
Scullin Steel Co.,
St. Louis, Mo.

DEAR MR. BROWN: This is confirmation of our phone conversation today wherein you inquired about the availability of electric service for a new electric furnace of the size that you now have.

Be advised that our capabilities are adequate to supply the requirements of another 13 MVA furnace such as you now have. I have also been told that the transformer presently installed in our 138/34½ KV substation is adequate to handle both furnaces.

If you have any further questions, please get in touch with me.

Very truly yours,

ANDREW J. MAIXNER,
Engineer, South Division, Customer Service.

Mr. INMAN. I would like to make one more comment on that building. The sand was temporary storage and they were hauling some sand; they weren't tearing up the floor.

Mr. EDWARDS. The building, if I understand your testimony and Dr. Breyer's, would have to be expanded considerably to carry out this work. Is that a fair assessment?

Mr. INMAN. The building that we are talking amout—we didn't discuss with Dr. Breyer the details of how we would propose to do the work. The area that is now a foundry would certainly be used as a foundry, but at the same time we have an operating foundry right now and we wouldn't necessarily even put the new furnace in that building, but we would put it adjacent to our present furnace so the floor space you allocate in that particuar building we would put in our existing facilities, and the floor space that is purported to be required, we already have an ongoing department that wouldn't require any of that space.

We have an entire maintenance department that wouldn't have to be expanded; we have the medical facilities; we have personnel operations; we would probably put the corps department in the existing building and not even in that particular building.

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Until we laid it out, I don't think there is any way you can determine whether that size building is or is not adequate.

Mr. EDWARDS. Are you on a rail siding?

Mr. INMAN. Yes, sir, we are on a rail siding. In addition, we have over 6 miles of track on the premises and two Scullin Steel switch engines to move material and products around the foundry site.

Mr. EDWARDS. I think what you are really saying to us is if you can get 30 to 60 days to put a proposal together, that you then can say to the Army: "Here is how we can compete with Birdsboro"; and in the meantime, what you are saying is a general comment based on what you think you might work out. Is that a fair assessment of your position?

Mr. INMAN. I believe so.

Mr. ROBINSON. Are we to understand that you have done no such work as this since the Korean War?

Mr. INMAN. No, sir.

Mr. ROBINSON. Are the castings you are making for your commercial customers comparable to a degree that the competence that is gained in that kind of work is comparable?

Mr. INMAN. Your greatest liability in your cast armor is not necessarily in your mold operation, but it is in your quench and heat treat operations and that expertise still is on board at Scullin.

Mr. ROBINSON. You made a comment about the Senate committee report, referring to the 27.4 percent of the total cost increase in the tank being in the hull, turret and gun shield. How do you react to that based on what your experience tells you regarding the cost increase in other casting operations such as you have?

Mr. INMAN. Over a short period of time it is quite high. I don't have a great feel for it. The way prices have gone up. Even the price of castings. It feels excessive when I see the number.

Mr. ROBINSON. That was the reason I asked the question.

Mr. INMAN. That is my opinion on it only.

Mr. ROBINSON. I didn't think you would recite it otherwise.

That is all, Mr. Chairman.

Mr. MURPHY. Mr. Inman, I believe you were here during the testimony this morning, when Dr. Breyer and General McKeen mentioned some of the equipment that either is already existing in Birdsboro or equipment that will be installed in the Birdsboro foundry.

Could you give us an idea of your shortages of that kind of equipment in your foundry today? In other words, I think you addressed the fact that you had a furnace and some 50-ton cranes. Do you have a betatron, for example?

Mr. INMAN. There again I am very sorry that Dr. Kessler couldn't be with us today, because he prepared a very preliminary analysis of the requirements for this scope of work and even since he prepared this the ground rules have changed to the extent that rather than making it as a one-piece hull, we would propose it on a three-piece basis, so that it changes your requirements for your melt operation, also for your cranes.

This is another variable we didn't come across until yesterday and that was that some of the items we had estimated would be necessary to perform the work, we find from Chrysler that there is equipment in government surplus that would be supplied, primarily in the ma-

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chining area. Large presses and brakes and this sort of thing. The details of what could be government-furnished would certainly affect the total dollars, but we had even provided some of the equipment that we found could be government-supplied out of surplus.

Mr. MURPHY. From the Defense Supply Agency?

Mr. INMAN. They even indicated that 50-ton cranes were available. We had allocated something like $200,000 for a crane.

Mr. MURPHY. How many shifts are you running today?

Mr. INMAN. We are running three shifts.

Mr. MURPHY. For how many days?

Mr. INMAN. Five days a week and if we can get our people to come in every Saturday we will work Saturdays. We work about every other Saturday.

Mr. MURPHY. How could you take on this additional work running three shifts a day at the present time?

Mr. INMAN. We would propose to use our present facilities for training purposes and not go into any great extensively large group of people and have them stand around, but we would enter the work on an interim basis. When we say we don't have any excess capabilities, I should qualify that to say that we have excess melt capabilities. We can melt more steel right now than we have molds to pour, so we do have melt capabilities and we could allocate heats of metal for this program if we were prepared, like tomorrow.

Mr. MURPHY. Do you have such things as air compressors and sand systems and heat treat furnaces for the tempering process?

Mr. INMAN. The heat treat furnaces would be one of the items we would have to fully evaluate. Yes, we have heat-treat furnaces. There again, on the basis of the one-piece hull, we didn't have capabilities. Now, rereviewing it with the three-piece hull, we possibly—and I would want to qualify that—we possibly now have the heat-treat capabilities. But this is on a very interim basis and our proposal would be to try to get started and go through the qualification process, which is not short.

We prepare test plates and they are sent out to be shot at and I presume an Aberdeen and then once that is approved then you proceed into pilot hulls and turrets.

This work we would start on, on the plates, in a very short time.

Mr. MURPHY. Are you proposing that the Army fund your facilitization study or do you propose to do that yourself?

Mr. INMAN. Of course, we would prefer to have it funded, and there again I think it would be—now that we are starting to get together the ground rules, to evaluate the total dollars involved, I can say this, that from the evaluation of the requirements for the facility, that we are talking I am certain of something less than $50,000 to prepare a Scullin proposal similar to the Birdsboro proposal which was prepared and that is a three-document study.

Mr. MURPHY. I didnt know they had received a study yet.

Mr. INMAN. Well, when Dr. Breyer was in Scullin last Friday he had a copy of it because he read us excerpts from it.

Mr. EDWARDS. That is interesting.

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PRESENT SCULLIN FACILITIES

Mr. MURPHY. Yes; it is.

Dr. Breyer, I think, visited your foundry. We received the impression this morning that you were kind of squeezed in as far as further expansion is concerned. Do you have much property that you can expand into or not?

Mr. INMAN. We have 57 acres, and we are only restrained on one side which is the railroad and the sidings.

Mr. MURPHY. In other words, the 57 acres is not full of buildings?

Mr. INMAN. No, sir. We have our own scrap yard. I would ge glad to submit a drawing, or I have even got a picture of the faciilty if it would be of any enlightenment to you.

Mr. MURPHY. We would like to have that for the record.

[The illustration follows:]

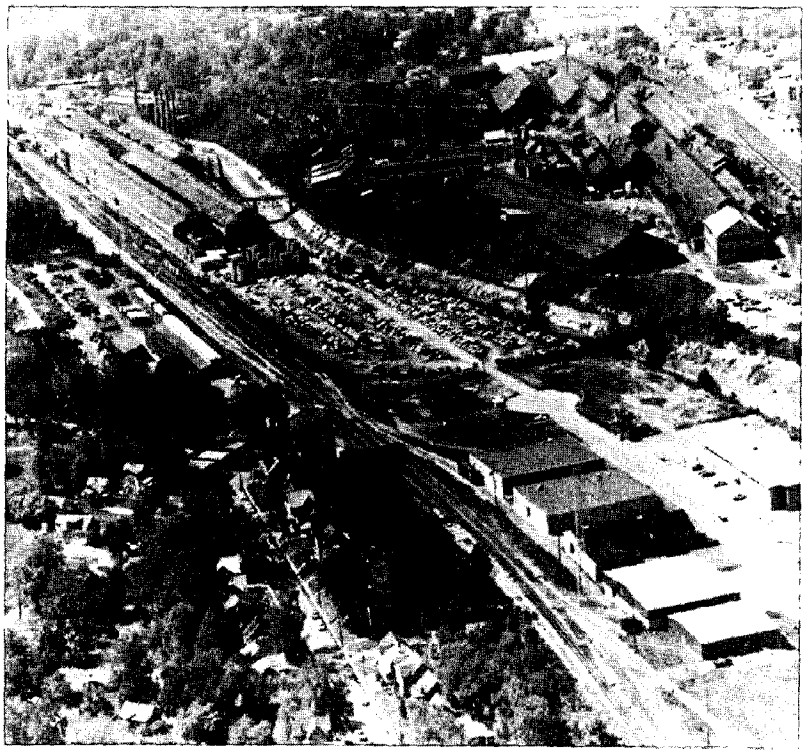

Photo: Scullin Steel foundry in upper right; Gateway Arsenal in upper left.

Mr. KEARNS. We also own the former American Car Foundry property which is in the St. Louis area, and some of our preliminary thinking was that we may do some of the machining on that property.

Mr. MURPHY. Is that an operating facility now?

Mr. KEARNS. It is not operating, but it has the cranes, the electrical, the buildings, and so forth, and there are several hundred thousand square feet of building space available there.

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Mr. MURPHY. I believe you indicated in your testimony, Mr. Inman, that you could get started possibly in less time than Birdsboro. Their estimate now is 22 months after go-ahead, and I believe you indicated yours is less than a year, maybe, from go-ahead.

Mr. INMAN. When you say start, we have to qualify that to the extent that you need to go through a qualification period for qualifying your metals. When we talk about a year, our preliminary analysis indicates we would be prepared to submit a pilot turret in approximately a year's period.

STATUS OF SCULLIN PROPOSAL

Mr. MURPHY. Now, where do we stand today? Has the Army agreed to receive a proposal from you and hold up the Birdsboro situation until they receive it?

Mr. INMAN. I am not aware of the status of that.

Mr. EDWARDS. As far as you know, you don't have any status right now?

Mr. INMAN. We are pursuing it ourselves.

Mr. MURPHY. But you want to compete, and they have given you the opportunity by providing you with the specifications?

Mr. INMAN. Yes; all we would like would be an itemized list of the specifications so we can prepare a proposal.

Mr. MURPHY. Has the Army agreed to do that?

Mr. INMAN. General McKeen talked to Chrysler, and we were there yesterday and they supplied us with a number of drawings and specifications, and if that is all that is involved in it, yes, we do have that.

Mr. ADDABBO. Thank you very much for your testimony and taking the time to enlighten the committee on your desire to submit a proposal to the Army.

Mr. EDWARDS. Do you feel like you have been had by the Army?

Mr. INMAN. No; not at all.

Mr. EDWARDS. Do you feel that sufficient inquiry was not made of foundries generally?

Mr. INMAN. I can't speak for other foundries. I believe, however, with regard to the communication from Flynn and Emerich to which General McKeen referred this morning, that they are a gray iron foundry, rather than a steel foundry. I know if at the time of initial inquiry we had the information that we had about 30 or 40 days ago, that we would have taken the action then that we are now.

Mr. EDWARDS. You feel you did not have that kind of information at the time that inquiry came to you?

Mr. INMAN. Absolutely not.

Mr. EDWARDS. You felt it didn't lead you to make further inquiries?

Mr. INMAN. No, sir.

Mr EDWARDS. You don't think it is just simply a case of your having more to do than you could handle right then?

Mr. INMAN. We have the technical ability and the knowledge on board to produce cast armor, and if the information was given to us that facility money was available to provide what was required for cast armor, we would have made the same response as we are now.

Mr. EDWARDS. What do you really think we ought to do?

Mr. INMAN. I'd like to see the money that should be allocated for this program approved, but I would like for us to have the oppor-

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tunity to submit our proposal before any definitive allocation is made as to where that money is spent.

Mr. EDWARDS. If we do that, do we have to then open the door to every other foundry again in the country and go through the same process?

Mr. INMAN. I couldn't answer that. It seems to me there is a certain obligation to create competition and if that is what it takes—I couldn't answer other than that.

Mr. EDWARDS. You would suggest that that might be the fairer way?

Mr. INMAN. I would think so.

Mr. ADDABBO. You say you have the facilities to compete. Do you have the manpower available if you went into operation?

Mr. INMAN. We have 1,000 applications in our personnel department for people who are looking for work. The St. Louis area has a 10 to 15 percent unemployment, especially in the class of labor that we require. There is an excess of it. We are not even taking any applications now.

Mr. MURPHY. In Missouri there are a lot of people unemployed, but are these applications from skilled people?

Mr. INMAN. They are trainable and the next month there is a skill center being opened in St. Louis and a part of that skill center is related to training of foundry personnel and, as a matter of fact, I am on the committee that helped set up the training program.

Mr. ADDABBO. Thank you very much, gentlemen. We appreciate your testimony.

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MONDAY, FEBRUARY 24, 1975.

DEPARTMENT OF THE NAVY

FUNDING DEFICIT IN THE SHIPBUILDING PROGRAM

WITNESSES

HON. WILLIAM P. CLEMENTS, JR., DEPUTY SECRETARY OF DEFENSE
ADM. JAMES L. HOLLOWAY III, U.S. NAVY, CHIEF OF NAVAL OPERATIONS
VICE ADM. F. H. PRICE, JR., U.S. NAVY, DEPUTY CHIEF OF NAVAL OPERATIONS (SURFACE WARFARE)
VICE ADM. R. C. GOODING, U.S. NAVY, COMMANDER, NAVAL SEA SYSTEMS COMMAND
REAR ADM. E. W. COOKE, U.S. NAVY, DEPUTY COMPTROLLER OF THE NAVY
REAR ADM. S. S. FINE, U.S. NAVY, ACTING DIRECTOR OF BUDGET AND REPORTS, OFFICE OF THE NAVY COMPTROLLER
REAR ADM. E. P. TRAVERS, U.S. NAVY, DEPUTY COMMANDER FOR PLANS, PROGRAMS AND FINANCIAL MANAGEMENT/COMPTROLLER, NAVAL SEA SYSTEMS COMMAND
CAPT. R. B. HOFFMAN, U.S. NAVY, SCN APPROPRIATION MANAGER, OFFICE OF THE CHIEF OF NAVAL OPERATIONS
CAPT. F. T. SHAVER, U.S. NAVY, NAVAL SEA SYSTEMS COMMAND
CAPT. F. C. CASWELL, JR., U.S. NAVY, OFFICE OF THE CHIEF OF NAVAL OPERATIONS
GRAYDON I. LOSE, SPECIAL ASSISTANT TO THE ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

Mr. MAHON. The committee will come to order.

We are pleased to have with us this morning Deputy Secretary of Defense Clements; Admiral Holloway, the Chief of Naval Operations; Admiral Price, the Deputy CNO for Surface Warfare; Admiral Gooding, Commander of the Naval Sea Systems Command; Admiral Travers, the Deputy Commander and Comptroller of that Command; and Admiral Cooke and Admiral Fine, Navy Deputy Comptroller and Navy Budget Officer, respectively. We welcome you gentlemen. Your presence here to day is evidence of the committee's concern about the welfare of our Navy, and the financial problems that have beset our efforts to modernize our fleet.

I believe for the benefit of our members and others present today, I will have Mr. Murphy of our staff explain the problem and chronology of events which bring us to this special hearing.

Mr. Murphy, will you elaborate for the record here.

Mr. P. MURPHY. Thank you, Mr. Chairman.

In late December, 1974, the Deputy Secretary of Defense and the Secretary of the Navy informally advised this committee of a funding deficiency in the shipbuilding program in the amount of $2

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billion of which $805.5 million was required to fund the fiscal year 1975 program enacted by Congress on September 24, 1974, and $1.2 billion was required to fund fiscal year 1974 and prior year shipbuilding programs.

By letter dated January 9, 1975, less than 1 month later, the Deputy Secretary of Defense advised the committee that the shipbuilding deficit had grown to $2.3 billion and that the fiscal year 1975 deficit had increased to $915 million. The Deputy Secretary stated that he planned to award the fiscal year 1975 shipbuilding program, which had received line item authorization and appropriation, knowing that the Navy was short $915 million, and contrary to the full funding principle which has been in existence since fiscal year 1961.

The committee referred the Department's proposal to the Comptroller General for an opinion as to its propriety and legality, specfically with respect to the fiscal year 1975 program. The committee cited the line item authorization and appropriation which was applied to the shipbuilding and conversion appropriation for the first time in fiscal year 1975. The committee was concerned whether or not it had the authority to permit the Department to go forward with its proposal because we would be in effect committing Congress in advance to authorize and appropriate $915 million in fiscal year 1976 in order to complete funding of the fiscal year 1975 ships. The only other alternative available to Congress in fiscal year 1976 would be to cancel certain fiscal year 1975 ships already awarded on contracts and partially built, increasing the funding deficit by the additional termination costs attendant thereto.

By letter dated January 29, 1975, the Comptroller General held, in essence, that while the Department's proposal is technically subject to legal objection, GAO would not take exception to its implementation if the four cognizant committees had no objection to the proposal.

Subsequently, the Navy has advised the committee that the funding deficiency is now $2,314,900,000, of which $966.6 million represents the deficit for fiscal year 1975. We understand that since that total deficit for fiscal year 1975 was not budgeted in fiscal year 1976, an amount of $45.6 million will be reprogramed later to make up the difference.

The total deficit we will be addressing today includes ships as far back as fiscal year 1969 for which Congress authorized and appropriated a total of $12,103,800,000. These same ships through fiscal year 1975 will now cost $16,711,400,000 to complete, including $150 million worth of claims, for a total cost increase of $4,607,600,000 or 38 percent. All but $2,269.3 million of that total deficit has been or will be satisfied through reprograming or application of funds already appropriated by Congress in previous years for cost growth and escalation.

Secretary Clements and Admiral Holloway, I believe each of you have brief comments to make at the outset. Then, I understand that Admiral Price will present the funding deficiency in the shipbuilding program and the reasons for the financial shortfall, and he will be followed by Admiral Gooding who will discuss overall Navy management of the shipbuilding program and the workload and

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manning situation in the shipyards involved. If you gentlemen will be brief in your presentations, we will have an opportunity to go into further detail during our interrogation.

Mr. Secretary.

Mr. MAHON. Mr. Clements and Admiral Holloway, I do not know what your commitments are today, but I think it would be well for us to get your statements and your contribution to our meeting on this matter early in the hearings. This problem we are talking about here seems almost incredible that it just could have happened. It seems unbelievable.

How would you like to proceed, Mr. Secretary?

Mr. CLEMENTS. Mr. Chairman, I have a very short statement. Following my statement, Admiral Holloway would like to make a short statement. We are here for your convenience and we will be here as long as you would deem it appropriate for us to be here.

We, of course, have full staff support here with the various interested parties in the Navy who have complete details and can give any supporting data required. However, Admiral Holloway and I both feel that as long as our presence will lend anything to the hearing, we want to remain and we want to be of service to you.

Mr. SIKES. I take it your presence is an indication of the seriousness of this matter insofar as the Navy is concerned.

Mr. CLEMENTS. Yes, sir, that is exactly right.

May I proceed with my statement?

Mr. MAHON. All right, Mr. Secretary.

STATEMENT OF DEPUTY SECRETARY OF DEFENSE

Mr. Chairman, members of the committee: I believe it is appropriate that I participate in this review which you are conducting concerning the funding deficit in the Navy's fiscal year 1975 and prior year shipbuilding and conversion program. This deficit—$2.3 billion—is a very large amount and I want to assure this committee that both Secretary Schlesinger and I are giving our personal attention to this problem area. Last October in my testimony to the Seapower Subcommittee of the HASC, I said

> The United States must adequately fund the Navy shipbuilding program that is deemed required to meet the demands of national security.

And I recommended to Chairman Bennett:

> That the subcommittee take formal notice of the severe impact of the economic inflation on the Navy's current shipbuilding program—fiscal year 1975 and prior years. This program encompasses 85 ships and submarines. The resolution of the funding deficiencies may require legislative action.

As you know, we have recently waived the full funding policy requirement in order to permit the exercise of certain options contained in some of our current ship construction contracts which were negotiated in prior years. This decision was a troublesome one for me to make. I have been a firm adherent of the full funding policy for the procurements for which we seek congressional authorization and appropriation. However, I believe it is fair to say that a significant part of the SCN deficit that we are addressing today is due to the uncertain and highly inflationary state of the Nation's economy that has prevailed in the past few years. Should this economic instability continue,

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I submit that it would be appropriate for us to reexamine this policy as it applies to those DOD procurements that extend over significant periods of time, that is, 3 to 5 years or more.

The problems associated with the long construction periods of most naval combat ships are compounded by the relatively small number of ships in each year's budget. In other weapon systems procured in larger quantities there is some management flexibility to rephase production schedules and perhaps to revise support plans to compensate for cost growth. This is not possible in shipbuilding without either canceling a fiscal year procurement or drastically reducing it. Again, to do so would be to delay the urgently required modernization of our fleet. And, as I stated to the Seapower Subcommittee last October "With the U.S. Navy currently at its lowest level in number of ships since before World War II, it is essential that new ship programs move forward." Clearly we face a special problem as regards the present full funding policy for the naval shipbuilding program.

In closing, let me assure you that the Department of Defense is deeply concerned with the financial plight of our shipbuilding programs. We have proposed a course of action for fiscal year 1975 and prior years and a budget for fiscal year 1976 which represent our best judgment for a solution to the problems besetting these programs. We are taking every opportunity to improve the overall management of the shipbuilding program along with improving the workload and manning situation in the shipyards.

Admiral Holloway, as well as Vice Admiral Price and Vice Admiral Gooding, his principal assistants in the Navy's shipbuilding program, are with me today to explain to you in detail the elements of the funding deficit in the SCN account for fiscal year 1975 and prior years.

Now with your permission, Mr. Chairman, I would like for Admiral Holloway to make a brief statement.

Mr. MAHON. All right, Admiral.

STATEMENT OF CHIEF OF NAVAL OPERATIONS

Admiral HOLLOWAY. Mr. Chairman, although the purpose of this hearing is to discuss SCN funding deficiencies, and Admiral Price and Admiral Gooding have prepared statements and will handle the details of the discussion, I would like to make some initial remarks to describe the Navy's need for ships.

Since World War II, in my opinion, there has been no time like the present and the immediate future when the role of the Navy has been more important to our national security. And I say this because our country's military strategy is a forward strategy, which means that we rely on overseas alliances and overseas-deployed U.S. forces to be our first line of defense. And this strategy is very dependent upon the Navy in two senses:

First, our naval forces which are deployed overseas provide carriers with their aircraft and provide amphibious forces with their marines in support of our own forces and those of our allies.

Second, and probably even more important, all of our overseas-deployed forces depend upon the U.S. Navy to protect the sea lanes of communication leading to those forces of of our own and those of our allies which are overseas-deployed.

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This mission is going to be a great deal more important and even more difficult in the future for two principal reasons.

The first is that we have seen in recent years our overseas base structure steadily declining. That means forward operations are going to have to depend more and more on the U.S. Navy.

Second, we have also seen in the past decade a steady growth in the capability of the Soviet Navy.

I will not talk in terms of numbers of ships, tonnages or missile-launching platforms. Suffice it to say that the overall maritime capability of the Soviet Union is growing to the point where the Russians are able to put militarily significant ships in areas of the ocean that we once considered to be virtually our own province.

The U.S. Navy needs ships to be a Navy, but we need more than just ships. We need adequate numbers of capable ships in the proper balance among the different types which we, in our judgment, believe are required to carry out the details of our mission and tasks.

I think that the most important question that is being asked today is how big should the Navy be? In my opinion, it depends upon three things:

First, it depends upon the Nation's strategy.

Second, it depends upon the threat that the Nation must face.

And third, the size of that Navy depends upon the degree of risk which the country is willing to take in the successful execution of its strategy.

In the case of the U.S. Navy, 6 years ago we had 976 ships in the inventory. This year we have about 501 ships in the active fleet and in fiscal year 1976 we will have about 490.

I would say that we are leveling off at about the 500 mark. What does that mean in terms of naval capability?

I have said, Mr. Chairman, before the Congress, that in my view, in a general war, the U.S. Navy could carry out successfully its missions and tasks required by our national strategy, but only by a very slim margin, and this margin is based upon successful operations in areas which most vitally affect the interests of the United States.

I have two reservations in connection with that statement. One is that it applies only to this moment in time, with the U.S. forces being constituted as they are, and the Soviet threat being what it is, today.

The other—I will not say it is a reservation, but a point I want to make clear, is that when I say that the U.S. Navy could carry out its missions and tasks in the majority of situations it would face, I nevertheless believe that there is a chance that we could be defeated because of uncertainties: such as the ways in which a war might start, and because of uncertainties perhaps in our appraisal of the threat, for example.

But one thing I can say with confidence is that if the U.S. Navy maintains its present level of forces and capability, and the Soviet Navy continues to grow in capability as it is projected to do, that the time will come in the future when the U.S. Navy will not be able to carry out its responsibilities in support of our national strategy.

The next question is what size should the U.S. Navy be in the future?

Our analyses and studies indicate that projecting a Soviet growth along the lines indicated from the data available to our intelligence community, and within the strategy that we believe this country will

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wish to adhere to in the future, we foresee the requirement for a Navy of a minimum of 600 ships in the next decade.

When I say a minimum, I believe that that represents a Navy which will give us the maximum acceptable risk in carrying out its responsibilities.

What does this really mean in terms of the shipbuilding account?

In order to maintain a Navy of 600 ships we have a very simple formula; you simply divide the force level by the nominal life expectancy of a ship. Therefore, for a 600-ship Navy and with an average life expectancy of our ships of about 25 years, we must build 24 ships annually. I would like to make the additional point that this is only to support a 600-ship Navy.

To get from 500 ships to 600 ships requires an increment over that 24 per year. The size of that increment over 24 ships really is an indicator of how fast we get from a 500-ship level to a 600-ship level.

Therefore, Mr. Chairman, I would simply lay it out before the committee: That any ship building program for the U.S. Navy that falls below the general level of about 24 ships per year is not going to move us appreciably toward the Navy's objective force of 600 capable, modern ships.

Thank you very much, sir.

Optimum Size of the Fleet

Mr. Mahon. Admiral, we all recognize that there is no guaranteed way to be perfectly secure and if we had a Navy of 600 ships or 1,200 ships, I suspect you would still have some caveats and reservations; is that correct?

Admiral Holloway. Yes, Mr. Chairman, I expressed that in degree of risk. The more ships, the less risk, with 600 representing the maximum degree of risk that I think this country should accept.

Mr. Mahon. It has been my observation that an intelligence officer or a chief of staff or chief of naval operations always has a caveat with respect to defense; that is a cautious self-protection, I assume. But I appreciate your frankness with the committee.

Estimates of Ship Costs and Management

Mr. Mahon. I agree with you that we have to do a better job with the ship construction program. It is deplorable that so much credibility has been lost as a result of misstatements to the committee as to what ships would cost. Of course, inflation has been a very major factor in this. But we do have to have a modern Navy. Our ships are getting old.

We are going to give full consideration to the presentations which the Secretary and you have made.

Off the record.

Mr. Sikes. Mr. Chairman, I question that you would want to leave the inference, and I do not think you meant to leave the inference that these astronomical costs which we now know are true, and which we did not know were going to be true, were the result of deliberate misinformation on the part of the Navy. They could not tell what the rate of inflation was going to be and I doubt that they could

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even foresee all of the modernization and the improvements that were going to be cranked into the few ships that we are getting.

Mr. MAHON. I think you have a point there, but regardless of that, I have the feeling that the Navy has done a poor job in estimating ship costs and managing the shipbuilding program. Maybe not.

Mr. SIKES. What I think is very important and I do not know how this is ever going to be accomplished is that there should be some way to bring about cost consciousness, plus the need for ships in the publicity that is given to this situation, rather than just cost overruns.

All you ever read about is cost overruns, not the essentialities of the ships, and not the fact that it is inflation plus, in the most part, required changes for modernization, that have resulted in this situation.

Am I wrong about that, Admiral?

Admiral HOLLOWAY. No, sir, I think that you are right, because this is a judgment factor that we become involved with in every shipbuilding program. We are trying to guess 6 years before a ship is delivered what would be the best weapons and characteristics for that ship, because that is the lead time at which we must make our estimate and put our money on the line.

Mr. SIKES. Are we building ships too slowly? Could they be built at a more rapid rate?

Admiral HOLLOWAY. I do not believe they could be built more rapidly without extensive changes to the shipbuilding industry which I do not foresee at the present time.

Mr. MAHON. Off the record.

[Discussion off the record.]

Mr. MAHON. We will have the statement of Admiral Price and Admiral Gooding.

Admiral PRICE. Thank you, Mr. Chairman.

Mr. SIKES. I think Secretary Clements has something he wants to report.

Mr. MAHON. Yes, Mr. Secretary.

Mr. CLEMENTS. Perhaps before we get into the two statements from Admirals Price and Gooding, and pursuing just a moment the things that you and Congressman Sikes brought up, I would like to give you the perspective of a civilian, you know, who moved into the Department 2 years ago, and considered this one of my major points of interest as to why it takes us so long to build ships, which point was raised in your question. And also, what are the contributory factors toward increased costs other than inflation?

First of all, we can build ships quicker. I do not think there is any question about it. Some of our methods are outmoded but, internal within the Navy, we can build those ships quicker.

We have done it before and we can do it again. We have to make our minds up what we want to build. That is one of the problems within the Navy. There are many ideas in an organization such as the Navy as to what type ships are required, not only what type ships are required in the broadest sense, but after you make that determination what needs to go on them in the sense of weapon systems?

There is not a universal or unanimous opinion. Internally within the Navy there are differences of opinion.

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I would submit to you that I think this is healthy. That is the way it should be. There should be a vigorous and viable exchange of those kinds of thoughts within the Navy and by accelerating that process of decisionmaking, we can shorten the design, the concept, the preliminary planning stages prior to construction. This can be considerably squeezed in the front end of the program; and, after we get the program in the building yards, we can better manage the programs and we can accelerate that building time. We can eliminate some of the changes that we have tended to make that have caused two things:

As we have had these major changes, significant changes, after the ships have actually been under contract, it slows the construction process, reduces the productivity itself in the yards, and by slowing the process and decreasing productivity, it adds enormously to the cost. So by eliminating or closely controlling changes we can do two things, we can reduce the cost and we can accelerate the building time.

Now, in addition to that, I would caution everybody that, as a factor of this increased cost, we have to carefully consider changes in the weapon systems themselves. And these ships that take anywhere from 4 to 5 to 6 years to build, the major ships such as the *Nimitz*, the big carriers, as well as the heavier ships that are the supporting ships, we do not want to freeze those designs insofar as the weapons systems are concerned.

In these last few years, the last 10 years, I do not know of any facet of the weapons systems that has had an accelerated state of the art growth like the electronics end of the business.

Our fire control systems, our radars, our defensive as well as offensive hardware which is on those ships, the state of that art, the technology has advanced so quickly that we need to maintain a sense of flexibility where we can change with the technology.

Mr. SIKES. Mr. Secretary, that is a good statement.

I think the committee understands this, but it brings us back to the point that I made, and Admiral Holloway commented on, that there is a very serious need to bring about cost consciousness plus the need for ships in the minds of the public through the news media, rather than just emphasize on cost overrun as though that is the entire problem and all that should have our attention.

Do you know any way of getting this information to the public, other than what is being done?

Mr. CLEMENTS. Well, if we had a better appreciation, if you do not mind my saying so, within the Congress, itself, to where there was better understanding of some of our problems—and I hasten to add, if we were responsive, perhaps, to some of these problems and we reacted quicker to cure some of these problems—I think it would be most helpful.

Mr. SIKES. I know that it would be useful if more Congressmen understood more clearly just what is happening in the present situation on the cost of naval ships.

The average person does not know except what he reads in the press.

Mr. CLEMENTS. I think that is true.

Mr. SIKES. That does not give him a clear picture.

Mr. CLEMENTS. That is true.

Mr. EDWARDS. Will you yield?

Mr. SIKES. Yes.

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Optimum Size of the Fleet

Mr. Edwards. To get this thing in a little better perspective, you talk in terms of the need for 24 ships a year to support a 600-ship Navy. How many are we building now?

Admiral Holloway. The budget, Congressman Edwards, that we are looking at today for fiscal 1976 provides for 23 ships.

Mr. Edwards. Looking at your experience over the last 5 years with congressional action and whatever, how many have you been building per year over the last 4 or 5 years?

Admiral Holloway. I believe the average is 15 ships.

Mr. Edwards. So that if you run true to form this year you probably are not really expecting to get 23 ships?

Mr. Clements. I think that is correct.

I would like to remind the Congressman that even at 24 that will not get us to 600.

Estimates of Ship Costs and Management

Mr. Edwards. Right. I understand that.

You started to discuss and then you got off the subject, I think, the question of inflation versus mistakes, if you will, in the amount of money that you feel like you need. Your statement this morning seems to suggest that most all of that overrun is in the form of inflation.

Is that what you are really trying to say, or do you have a certain figure that you would chalk up to mistakes?

Mr. Clements. I do.

Now, those kinds of numbers are subject to all kinds of manipulation of the accounts and how you consider change-orders, whether that is in fact a growth or a change in the technology, the state of the art that gives you an improved vessel.

My numbers would be that out of the total, $2.3 billion, that approximately 70 percent of that is, indeed, inflation, and about 30 percent of it is due to either growth in itself, due to change-orders. and/or improved technology.

Mr. Edwards. Will the two admirals discuss that as we get into the hearing?

Mr. Clements. Yes, they will.

Mr. Sikes. Before you leave this, let's get a breakdown.

You have inflation, you have modernization changes. It certainly is understandable that you want a ship to be as modern as possible when it is ready for launching. And you have mistakes. Mistakes will happen to anybody.

Now, how would you break it, percentagewise, the cost increase between those three?

Mr. Clements. All right, let me give you, Congressman Sikes, my numbers, and they will more or less check out with the submitted information that Admiral Gooding or Admiral Price will give you.

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If you consider the $2.3 billion, about an even break, about 50 percent, of that is pure inflation. On the items that have nothing to do with changes, that 50 percent would be due to what I would call the original contract terms. So that about half of it would fall in that category. That leaves about half then that would have to do with the state of the art, the technology that we have already discussed, change orders per se, and mistakes, because in a program of this magnitude you are certainly going to have some mistakes and we need to acknowledge that.

But on those items there is inflation. So if you take the inflationary factor, the historical number, and take that then out of the remaining $1.1 billion, then you fall out with about $600 million what I would call actual net growth factor. I think that is the one you are looking for. And that $600 million, roughly to the $2.2 billion total, represents somewhere around a 30-percent plus or minus factor.

That is how I get my number.

Mr. EDWARDS. Do those ratios apply to the $921 million deficit for fiscal year 1975 that you are talking about?

Mr. CLEMENTS. I cannot answer that.

Admiral PRICE. I will supply that for the record.

[The information follows:]

For the fiscal year 1975 program our deficit is $921 million. Of this, $433.6 million or 47 percent is contract escalation. Another $128.1 million (14 percent) results from inflation on Government furnished equipment (GFE). There are other inflationary impacts not precisely quantifiable.

Mr. SIKES. Can you break out the mistakes and the cost of the mistakes?

Mr. CLEMENTS. Well, we could, Mr. Congressman, if you will give us a little additional time. I do not think we have that specific number available, but we could get it for you.

[The information follows:]

The Navy acknowledges as mistakes those error of design which had to be corrected, those errors of estimating of the labor required to build the ships which now require changing, and those errors in estimating the scope of work required as in the case of the SSBN conversion. By this definition target-to-ceiling changes, schedule changes due to lower productivity, late delivery of material, and inflation of material would not be included. The programs and amounts of mistakes then are as follows:

PHM—Estimating error of $13.3 million for change in learning, $12. 8 million for an increase in labor hours, and $40 million for nonrecurring startup costs. This averages to $16.5 million per ship for the first four ships.

PF—design error. Add additional generating capacity. This averages to $1.4 million per ship, for three ships.

SSBN conversion—Error in estimating the scope of work involved. This averages to $13.3 million per ship for $40 million total.

DLGN—combat system support. It was found special support is needed to check out these systems in the new ships. This averages to $3.1 million per ship or of $9.2 million total.

DD-963—outfitting article. Navy underestimated the cost of contractor outfitting requirements. This averages to $1.1 million per ship which is requested in fiscal year 1976.

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FULL-FUNDING POLICY

Mr. EDWARDS. I just have one more question I want to ask now before we proceed.

For my benefit and the benefit of the new members on this subcommittee, would you briefly explain what you mean by "full funding"?

Mr. CLEMENTS. By full funding?

Mr. SIKES. Versus incremental funding.

Mr. MAHON. Admiral Cooke can do that.

Admiral COOKE. Yes.

By full funding we mean at the time we budget for an item, a ship, we look at the full cost of the ship when it is delivered to the Navy. We look for escalation in the contract during the building years, plus everything it is going to cost until it is delivered, excluding outfitting and post delivery costs, is full funding, and we budget for it that way at the time we submit the request to the Congress.

Mr. EDWARDS. That does not mean we supply you with the money all at once?

Admiral COOKE. Yes, sir, you have in the past with one exception which I will point out. The Congress has approved the full funding and has funded the ship when we budget it.

Now, there are exceptions to this. We have had cost growth, we have had program changes, and we have had unusual escalation. Last year for instance there was $72 million in the 1975 budget that the Congress approved because we came back and said this was beyond what we originally estimated, it is a new estimate and the Congress approved that.

What you have done in the past for these additional requests is not fully funded them, but you have given us the increment that we needed that particular year and it has been worded that way when the appropriation bill was approved.

Mr. SIKES. May I ask if, from the standpoint of Navy does it matter whether you have full funding or incremental funding on major operations like the shipbuilding?

Admiral COOKE. So far as building is concerned, no sir, we have an estimate, we could go on contract, we know how much we are going to need that year, we could provide that information to the Congress. So I do not think it really would make any difference to the Navy one way or the other which way you go.

It has been the Department of Defense policy and the intention of the Congress that we come to you with a full estimate, which of course we do. We could, however, request only the amount of money we need for the first year of the program, which in effect would be a return to incremental funding. But insofar as the Navy is concerned, I do not believe it makes any difference.

Mr. SIKES. Have you considered the possibility that the Congress might change its mind halfway through the construction of a carrier program.

Mr. CLEMENTS. I do not entirely agree with Admiral Cooke on that.

I think the issue that you are raising is an extremely important one to the shipbuilding industry and to get stability into that industry is an important factor in the squeezing of this time issue that we discussed earlier.

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If we are going to really accelerate this time, you finally come back to a basic requirement which is the work force, the people. Until we stabilize that work force and until we train the numbers of people that we need and have them available with the skills required over a period of time, say for a 10-year program, only then can we assure the shipbuilding industry, in a reasonable manner, that the Navy shipbuilding program is going to continue and that they can plan to build and maintain a work force of a certain number of people, to meet those requirements.

Until we can do that, we are not going to really get the productivity out of those shipyards that we really want.

Mr. SIKES. If you had incremental funding, there is also the possibility that Congress would have a closer look at what you are doing, the need for the program and the changes that you are proposing to make into it. We might come out of it with a less costly program and more efficient operations if you had to, in effect, justify your program all over again each year.

Mr. CLEMENTS. I would certainly agree with that myself. I think you are right.

Mr. SIKES. But the other side that you pointed out very well is the problems of the industry and your long-range problems.

Admiral PRICE. There is another thing which must be kept in mind; shipbuilding programs in a period such as we are facing now, where material lead times can change, mean that there has to be some flexibility in being able to say, we will not buy that this year, we will buy it next year, or vice versa.

Therefore, having the funds for the ship allows you to make these types of judgments because it is very difficult to say we will need only x amount of dollars this year and no more on any specific ship. Therefore, we could get into a cost-increasing situation where we would have to stop or come to Congress for a reprograming because the way the ship was progressing, if we needed slightly more funds in any one year.

Mr. SIKES. Yes.

Admiral PRICE. However, the escalation amounts that are budgeted on a fixed curve based on the Bureau of Labor Statistics indices could be budgeted on an annual amount.

As you will see later, a terrific amount of this deficiency is in that type of thing.

Mr. SIKES. Conceivably this could mean you spend more time in justification here before the Congress, and since we are constantly creating new committees that the departments have to appear before and justify their existence to, it might be that you people soon would be spending all of your time up here and none of it in the Pentagon.

Admiral PRICE. That could be so.

Mr. MAHON. Mr. Murphy has a question about full funding

Mr. MURPHY. While we are on the subject, I did some research a couple of weeks ago on the background of the full funding policy. I found that Navy witnesses testified before the committee on February 26, 1960, that the full funding would provide, one, realistic estimates of the final ship cost presented to Congress before authorization and appropriation.

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On this point, we have found in the past that Congress did not receive realistic estimates. Some were class D and class F estimates which were almost in the nature of guestimates.

No. 2, the full ship program would be awarded in the year authorized and the ships fully funded. We have found that this point has been violated; ships were not always awarded in the year funded.

Three, requests for new obligational authority for adjustments would not be required after fiscal 1961 except those costs due to characteristics changes.

We have found that has not always been true in past years.

Four, it would preclude ship cancellations due to cost adjustments. To the contrary, we have had ships canceled over the years by the Navy because of cost increases in the shipbuilding program.

Therefore, it does not appear that the full-funding concept has been a failure per se. It seems to be the failure of the Navy to adhere to the very principles of the full-funding policy.

Admiral HOLLOWAY. Everything you said is absolutely true, but I think also it would be my impression that our failures were not entirely of the Navy's own making.

For example, when we computed escalation to be included in the contract, which is inflation in labor and material during the period of the ship's construction, we were constrained to use certain percentages of annual inflation which the Navy, at the time, did not think were realistic.

Mr. MURPHY. Not constrained by the Congress?

Admiral HOLLOWAY. No, sir.

Mr. MURPHY. Or OSD?

Admiral HOLLOWAY. We were constrained by the system; I would like to express it that way.

That is, on the one hand it was a bureaucratic problem we had; on the other hand, there was an inability really to be able to predict what the inflationary trends would be over a period of 5 or 6 years when we were constructing these ships.

I think that the record will probably show that most of our errors occurred during those periods in which the country experienced abnormal inflationary rates.

Admiral GOODING. May I interject something, sir?

I would like to point out that the full funding concept has never been allowed to work. All the things the Navy claimed for it in 1961 might have come true had the concept been allowed to work. We had accumulated in 1965 over $1 billion in underruns, almost identically the amount of face value of the claims we have on our hands today.

This over $1 billion in the checking account, if you want to refer to it that way, was drawn down by the Congress, by the Navy, and by OSD to a balance of zero.

Right about the time we hit zero, the claims started coming in. Full funding was a good idea. It was not allowed to perform the way it was supposed to.

Admiral PRICE. I might add just one more thing, sir.

If programs proceed as planned, then full funding, as Admiral Gooding says, has a better chance of working. But with respect to our initial planning for a program, when those plans get changed for any

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given reasons, because either Congress reduces the program or we, because of fiscal restraints, have to live within an amount, these things must change a program.

When we, as oftentimes happens, get our particular appropriations in December or January, as has happened in some years, and it takes about 6 months to get a program under way, we oftentimes, or occasionally rather, do not get them awarded right in the given fiscal year. So there are a number of factors which, and I agree with Admiral Gooding, have not allowed the full funding concept to work in the purest term in which it was set out in the points you raised.

Mr. MURPHY. I think we are generally in agreement that escalation has had a terrible impact on the shipbuilding program. Nevertheless, if these principles were strictly adhered to, if the Navy had been able to award their contracts on time, and been able to take time to give us realistic estimates and so forth, maybe the problem would not be as great; I do not know.

Admiral PRICE. If we had had a good crystal ball, it might not have been as great.

INCREASE IN THE DEFENSE BUDGET

Mr. MAHON. As I understand it, the Defense budget total for fiscal year 1976, including military construction and military aid, is $15 billion over last year's budget, the fiscal 1975 budget.

Now, I also understand that about $8 billion of this increase is due to inflation and some $7 billion of it is the result of other factors.

What do you say to that, Mr. Secretary?

Mr. CLEMENTS. Mr. Chairman, those numbers plus or minus are our concept also. About 50 percent of that is inflation.

Mr. MAHON. Now then, since there is a net increase of about $7.5 or $8 billion, why do we need that?

That is one question that comes to mind. Where is it going to go?

This additional money is not going to the strategic program, the long-range missiles; it is going to general purpose forces, generally speaking.

Mr. CLEMENTS. Mostly, that is correct.

INCREASE IN THE NAVY BUDGET

Mr. MAHON. Well now, with respect to the Navy, what proportion of your budget in this field is accounted for by inflation and what proportion is accounted for by growth?

Admiral HOLLOWAY. I would like to have Admiral Cooke answer that.

Mr. MAHON. Give that briefly and then more detail for the record.

Admiral COOKE. The total Navy increase in the budget is $5.5 billion. This is accounted for by $2.3 billion is what we are talking about today, prior year escalation of prior year accounts.

Another $1.3 billion is attributable to inflation that we put in deliberately the cost indices of various programs.

The final amount is $1.2 billion, which is a difference of program growth between 1975 and 1976. If you look at it in just the raw data, that is the program growth. However, if you were to compare 1975 shipbuilding programs with these additional amounts in it, then the

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real program growth in the Navy is $453 million between 1975 and 1976.

Mr. MAHON. Define that in greater detail for the record.

[The information follows:]

The following chart summarizes the comparison of fiscal year 1975 with fiscal year 1976:

	Fiscal year 1975	Fiscal year 1976	Change
President's budget as printed	$28.14	$33.69	+5.55
Escalation	+1.92		−1.92
Constant dollars (fiscal year 1976)	30.06	33.69	+3.63
SCN prior year adjustment	+.91	−2.27	−3.18
Comparable TOA	30.97	31.42	+.45

The $1.92 billion adjustment represents costs of increased inflation in fiscal year 1976 over fiscal year 1975. Program growth in fiscal year 1976 over a fully funded fiscal year 1975 is obtained by deducting $2.27 billion budgeted in fiscal year 1976 SCN for fiscal year 1975 and prior year cost growth and escalation, and by adding $.91 billion to fiscal year 1975, this being the amount required to fully fund the fiscal year 1975 shipbuilding program.

BIOGRAPHICAL SKETCH

VICE ADMIRAL F. H. PRICE, JR., U.S. NAVY

Frank Hoblitzell Price, Jr., was born in Van Lear, Kentucky, on June 11, 1919. He attended the U.S. Naval Academy, Annapolis, Md., and was graduated and commissioned ensign on February 7, 1941. He was appointed to the grade of vice admiral effective November 1, 1972.

Following graduation from the Naval Academy in 1941, he served in U.S.S. *Walke* (DD 416) and U.S.S. *O'Brien* (DD 415). After instruction at the Naval Gun Factory, Washington, D.C., he served in U.S.S. *Shubrick* (DD 639), attended the Naval Postgraduate Ordnance Engineering Course, and in March 1946, joined the U.S.S. *Missouri* (DD 63).

He then served successive tours in the Bureau of Ordnance; as Commanding Officer, U.S.S. *Beale* (DD 471); at the Naval Gun Factory, Washington; and under the instruction at the National War College. After a 2-year tour with the Military Assistance and Advisory Group, Spain, he served 1 year each as Commander Destroyer Division 362 and as Chief of Staff, Carrier Division 18. He served with the Operational Test and Evaluation Force, underwent instruction at the AEC's Division of Reactor Development and in September 1963 assumed command of U.S.S. *Long Beach*, the Navy's first nuclear-powered surface ship. From U.S.S. *Long Beach* he went to the Naval Material Command as Deputy Director. Surface Missile Systems; to command of Cruiser Destroyer Flotilla Eight and, in September 1969, became Deputy Commander, Naval Ordnance Systems Command. In April 1970, he assumed a position as head of the Ship Acquisition and Improvement Division in the Office of the Chief of Naval Operations and on May 1, 1973, was designated Director. Ship Acquisition and Improvement. He assumed his current position as Deputy Chief of Naval Operations (Surface Warfare) on July 12, 1974.

Vice Admiral Price has been awarded the following medals and decorations: Legion of Merit; Commendation Medal (Air Force); American Service and Bronze "A"; American Campaign; European-African-Middle Eastern Campaign; Asiatic-Pacific Campaign; World War II Victory; Navy Occupation Service, Europe Clasp; and National Defense Service with bronze star.

His official home address is Sarasota, Florida. Admiral Price is married to the former Jane Vaughan of Jenkins, Ky., and they have two children, Frank E. and Mary V. Price.

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STATEMENT OF DEPUTY CHIEF OF NAVAL OPERATIONS FOR SURFACE WARFARE

Mr. MAHON. Are there any further questions at this point before we hear the statement of Admiral Price?

Admiral PRICE. Mr. Chairman and members of the committee, I am Vice Adm. Frank H. Price, Jr., the Deputy Chief of Naval Operations for Surface Warfare. In the Office of the Chief of Naval Operations, I am the appropriation sponsor for the Navy's shipbuilding and conversion (SCN) appropriation.

I am accompanied by Vice Adm. Robert C. Gooding, who is the Commander, Naval Sea Systems Command and Rear Adm. E. P. Travers, the comptroller of the Naval Sea Systems Command.

In order to better understand the existing deficit situation in the SCN account, it is necessary that the manner in which the Navy develops its ship cost estimates and the timing involved in a ship program development be reviewed.

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- HISTORICAL DATA
- RETURNED COST DATA (Similar Ships)
- PARAMETRIC SHIP DESIGN COMPUTER ANALYSES
- EQUIPT AND SYSTEMS PRICING DATA
- BASIC SHIPBUILDING MATERIALS COSTS (Steel, Wire, etc)
- SHIPYARD CAPABILITIES (Yards that can build and may bid)
- OVERHEAD RATES, LABOR COSTS
- LABOR AND MATERIAL EXPENDITURES DURING CONSTRUCTION
- BLSI (Labor & Material) ESTIMATES
- INFLATION RATES

$ ESTIMATE FOR BUDGET

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A ship cost estimate is the predicted total end-cost of a ship as developed by the Navy's professional engineers and cost estimating staff.

Their estimate is based on the characteristics and ship requirements specified by the chief of naval operations. From this data, the ship designers and cost estimators, working together, prepare a preliminary estimate of the ship design and the program costs.

The cost estimators rely upon historical data; including returned cost data from similar type ships built in the past; parametric ship design computer analyses; current pricing data for applicable systems and equipments; basic shipbuilding material costs—steel plate, wire, et cetera—a knowledge of the shipyards that have the capabilities and capacity required to build the ship and their current and projected workloads, labor costs and overhead rates; estimates of Bureau of Labor Statistics indices for shipbuilding labor and material (BLSI) and inflation rates all used to develop detailed cost and schedule estimates.

The time sequences involved in preparing budget estimates and in budget submissions are also important factors since they tend to increase the uncertainties in our budgeted ship costs.

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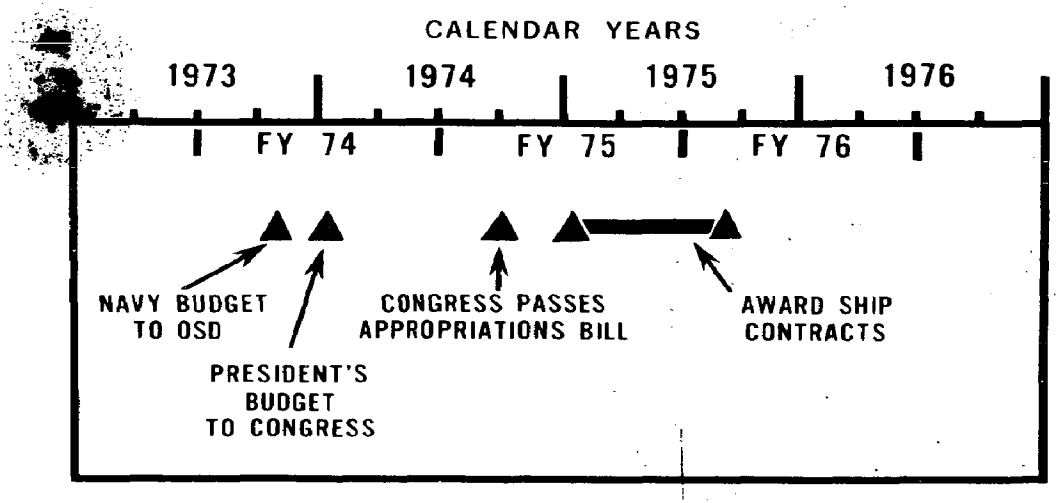
TIME RELATIONSHIP OF SHIP COST ESTIMATE



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For example, our fiscal year 1975 budget for shipbuilding was submitted to the Office of the Secretary of Defense in October 1973. The Navy utilized the latest pricing information and inflation and escalation data available at that time in developing our budgeted costs for fiscal year 1975 ship programs. The President's budget was submitted to Congress in January 1974 and congressional hearings were held in the Spring. The appropriation bill was enacted on October 8, 1974.

I would like to point out that our shipbuilding contracts for the fiscal year 1975 ships would be awarded in the latter part of fiscal year 1975 or early in fiscal year 1976. This is due to the lead time necessary after budget approval to issue proposals, get and review bids, conduct negotiations and award contracts. For new complex programs, this process can take up to 6 months or more.

From this it can be seen that a ship cost estimate is developed as much as 2 years before the ship's construction contract is awarded. Because of this long period of time, the Navy must include in its budgeted cost estimate the anticipated dollar inflation and material and labor cost increases up to the time of contract award.

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1. BASIC COST IN CURRENT YEAR $
2. PROJECT THE BASIC COST TO THE TIME OF ESTIMATED CONTRACT AWARDED BY:
   (a) Analysis of predicted labor cost increases for the yards capable of and interested in building the ship increasing labor cost accordingly.
   (b) Determination of increase in yard overhead rates due to increased labor costs and applying to the labor man day estimates.
   (c) Predicting the increase in basic material costs (Steel, etc.) based on anticipated labor negotiations and other economic factors.
   (d) Estimation of economic inflation impacts on the price of GFE up to time of their contract award.
3. ESTIMATE STATE OF MARKET AT TIME OF NEGOTIATIONS AND AWARD.

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The procedure used is to apply to the basic cost estimate the increases, as can best be predicted, for the factors shown on this viewgraph. Based on a determination of the yards that have the capacity and capability to build the ship and their interest in the program. Analyses are made of each yard's predicted labor cost increases to the time of contract award. These are then averaged over the yards and applied to the basic estimate. In like manner increases in overhead and other such factors are determined and averaged and applied to the labor man-day estimates. The projected increases in basic shipbuilding material costs—for steel as an example—are determined based on anticipated commodity price, labor negotiations in the steel industry, material availability, and other economic factors. These are then applied to the basic material costs. Finally, an estimate of the inflation and marketplace factors on the price of Government furnished equipment (GFE), is made.

The total result of this effort is the predicted basic cost of the ship at the time of contract award. I would like to point out that I have greatly simplified what is a more complex process. Navy cost estimators who are experts in their field continuously follow the economic and shipyard trends in great detail and their calculations go into each element in depth. At the time the estimate is made it is as accurate as is possible.

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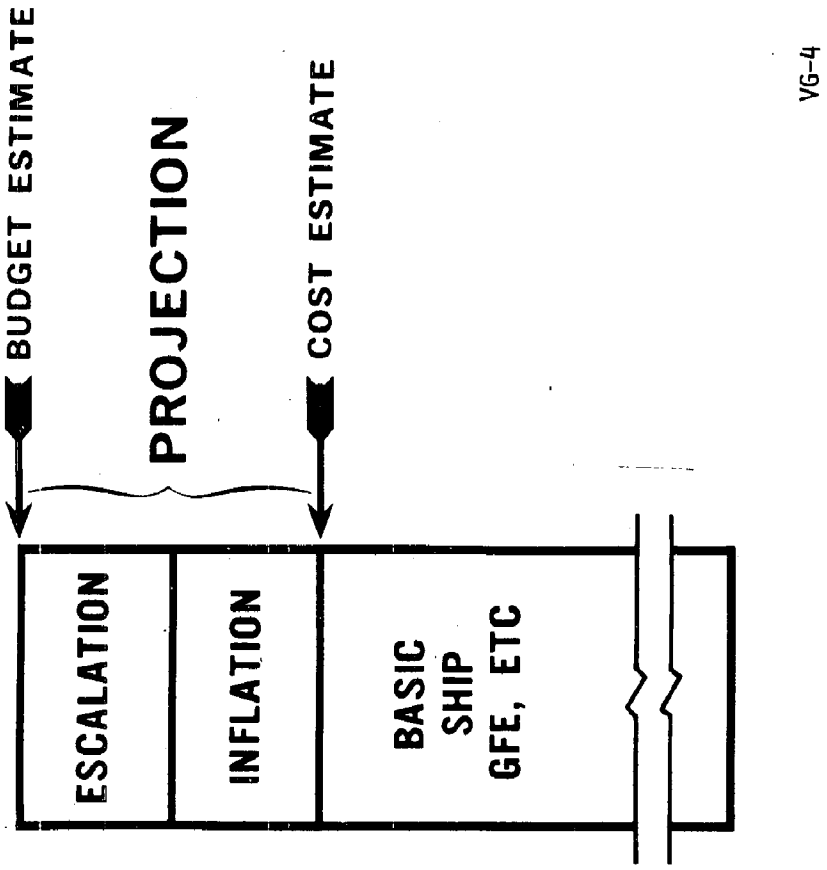

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At this point I feel I must define two terms which I will be using quite frequently over the remainder of this presentation. The terms are "inflation" and "escalation." Both terms refer to economic influences on shipbuilding costs.

Inflation is used to describe cost changes which I have just described that impact on a cost estimate before the construction contract is awarded. The Navy makes projections of inflation and applies them to cost estimates in order that a ship cost estimate will be viable when it comes time to award the contract up to 2 years later.

Escalation on the other hand is used to describe post-contract award costs incurred by the Government as a result of nigher labor and material costs in the shipbuilding industry which necessitate a reimbursement to the contractor. Escalation in essence is the term used to describe the impact of inflation on a particular contract during the period of ship construction. I will go into more detail on contract escalation later, but definition now should help keep the two terms from being confused.

I would now like to discuss how inflation before contract award impacts on a cost estimate.

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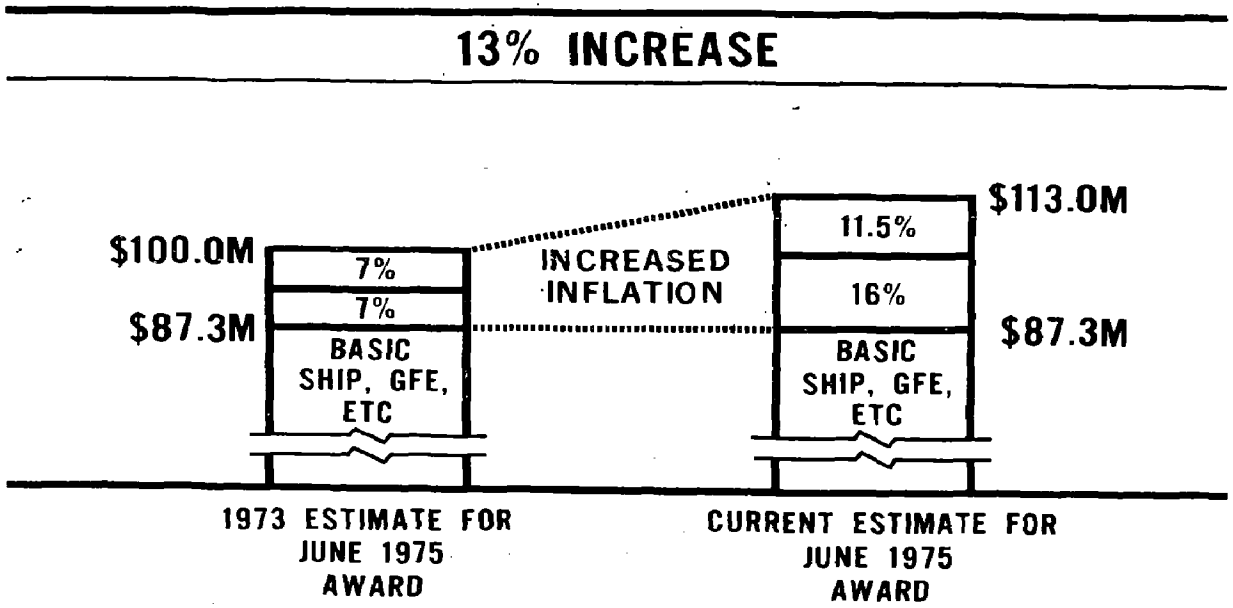
IMPACT OF INFLATION RATES ON SHIP COST ESTIMATE



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This viewgraph shows an example of the impact of different inflation rates on a hypothetical $87.3 million ship cost estimate made in mid-calendar year 1973. Because the Navy used 7 percent per year in its projections to arrive at award prices for the fiscal year 1975 program we would have budgeted $100 million. Subsequent experience, as reflected in the projection we are using for the fiscal year 1976 budget would produce a $113.0 million budget requirement. This amounts to a 13-percent increase caused entirely by the inflation rate revision.

Mr. EDWARDS. Was 7 percent a reasonable estimate in 1973?

Admiral PRICE. It was, and I think I will explain that in just a moment.

I mentioned earlier that the impact of economic factors on costs incurred after a contract has been awarded was defined by the term "escalation."

Because of the long building period of Navy ships, economic performance plays a significant role in the costs of material and labor required through the building period. Rather than have the shipbuilders include large contingencies to cover possible future inflation in their bids, the Navy includes an escalation clause in the contract which says, in essence, that the Government will pay for increased costs of labor and material resulting from future inflation. Under the full funding policy, the funds to cover this predicted escalation must be budgeted as a portion of the estimated end cost of the ship. If the economy does not experience the predicted inflation, the Government would recover moneys. However, we have not been in that position for a number of years. Escalation payments or recoveries are based upon the actual performance of Bureau of Labor Statistics indices for shipbuilding labor and material and on predetermined labor and material progress curves, covering the construction period of the contract, again, escalation only applies after the award of the construction contract.

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COMPOSITION OF BLS INDICES

LABOR INDEX

- A WEIGHTED RATE OF CHANGE INDEX OF 18 SHIPYARDS IN THE UNITED STATES.

MATERIAL INDEX

- A WEIGHTED RATE OF THE FOLLOWING ITEMS FROM THE BLS PUBLICATION WHOLESALE PRICES AND WHOLESALE PRICE INDICES:
  - SUBGROUP 10-1 - Iron and Steel (45%)
  - SUBGROUP 11-4 - General purpose machinery & equipment (40%)
  - SUBGROUP 11-7 - Electrical Machinery & equipment (15%)

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The labor index used is a weighted rate of change index for 18 representative shipyards in the United States. The material index is a weighted index for certain materials common to the shipbuilding industry.

An estimate is made as to the values of these indices over the building period of the ship. The rate of expenditure of labor and material in building the ship has been estimated based on the design of the ship and past history of like ships and curves of labor and material expenditures are determined.

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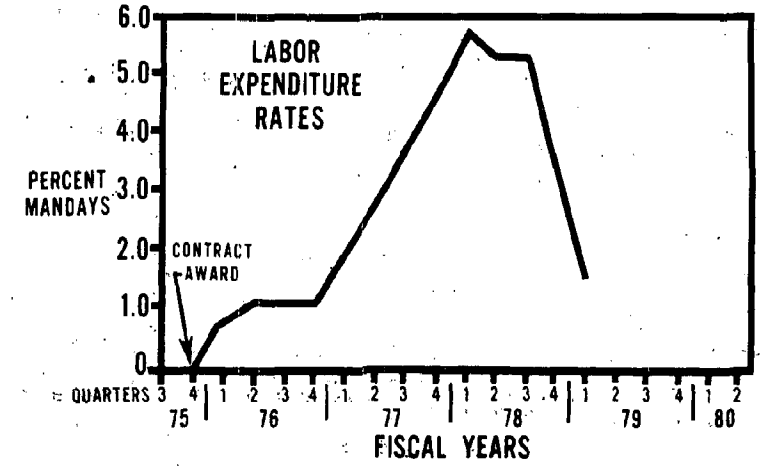
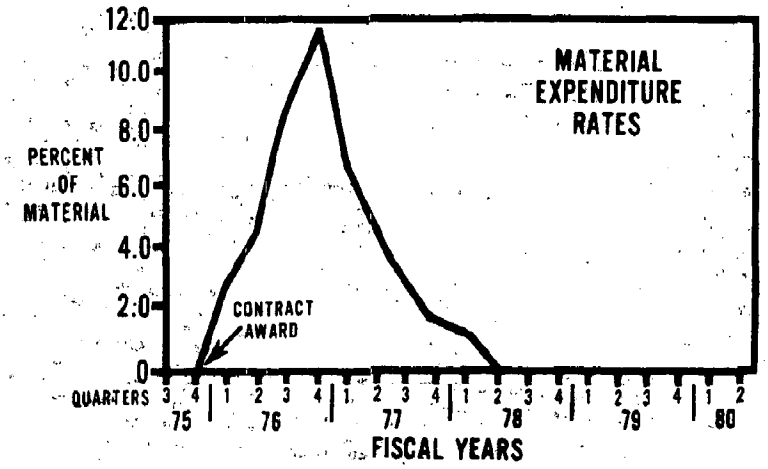
EXAMPLE ESCALATION CURVES (2)





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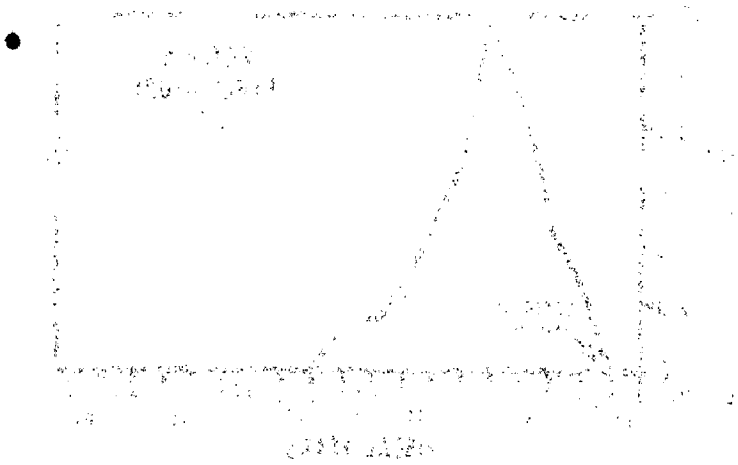
The predicted BLSI is then applied at 3 month intervals to determine the amount of contract escalation, both for labor and material, that the contractor will have earned. These amounts must be added to the cost of the ship to arrive at the total budgeted ship cost.

This shows a typical labor curve as an example. A certain percentage of the man-days expenditure occurs in, let's say, the first quarter. We then look at the difference between the BLS labor index as it was agreed upon when the contract was signed and any increases in that index are then applied to that percentage expenditure of the man-hours.

Had there been a decrease, there would have been a decrease in the funding required.

The same applies to the expenditure of materials.



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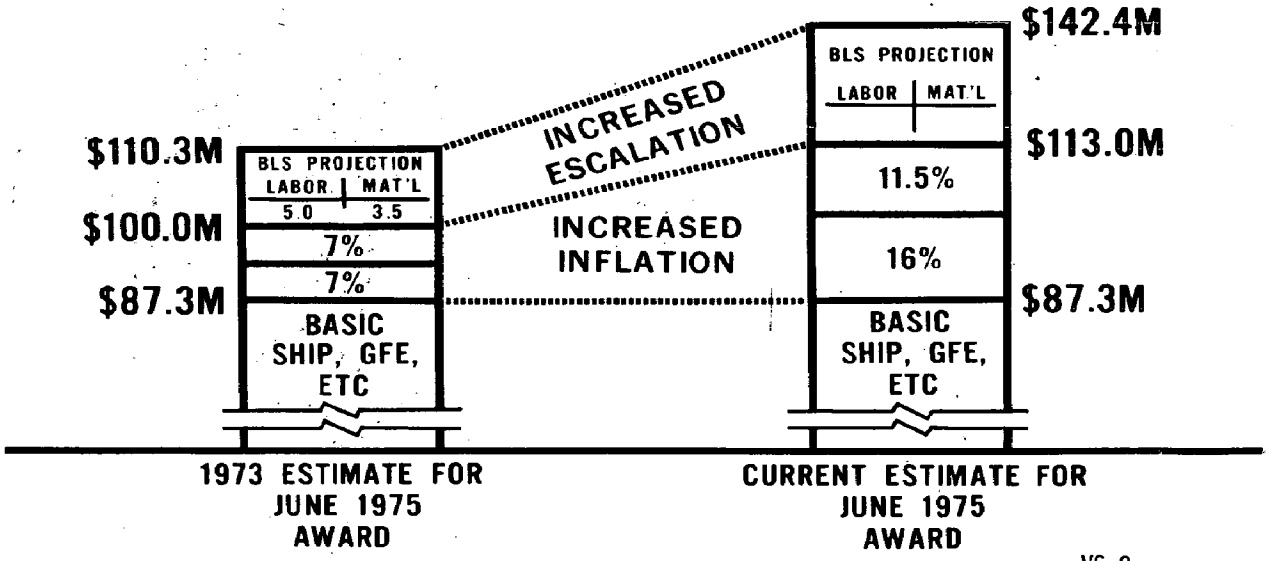
IMPACT OF HIGHER INFLATION AND ESCALATION RATES ON SHIP COST ESTIMATE

TOTAL INCREASE 29%



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As an example of the magnitude of the impact of increasing inflation rates on contract escalation calculations, this viewgraph shows a comparison of total funding requirements for the hypothetical ship cost estimate used earlier. On the left is the estimate whose escalation reserve is calculated on the basis of the 5% labor and 3.5% material factors we used in accordance with DOD policy. On the right is the estimate whose reserve is calculated on the basis of the projection we are currently using.

As can be seen the differences are significant. The increase in costs resulting only from these changes in the escalation and inflation percentages would result in a total increase of 29% in the amount required to be budgeted to keep this hypothetical ship fully funded. Of course, to the degree that our projections were incorrect, these amounts would change up or down depending on which way the economy changes. I would like to point out here what may seem to be an inconsistency. While the BLSI were at 5 and 3½%, we were using a 7% inflation factor. This is due to the fact that, as I explained previously, the BLSI is only one factor which we must consider in arriving at the overall impact of the inflation. For example, such items as ordance and electronic material, unique to Navy shipbuilding and not included in the BLSI, inflate in general at rates higher than those for material in the BLSI. Other factors such as shipbuilder overhead rates, productivity, and shipyard loading are also included in the inflation factor. Thus, inflation and BLSI for labor and material are not synonomous.

IMPACT OF CHANGING ECONOMY ON SHIPBUILDING

Mr. MAHON. All of this technical material you have provided us is important and is interesting. It does show that inflation is an important factor and it shows escalation is an important factor. You are undertaking to make a convincing statement to the committee by supplying all of this information?

Admiral PRICE. Yes, sir, and we will go into the other factors, sir, as we go through.

Mr. MAHON. It would probably be well to have the record show how these contracts operate in this respect: If a man wants to build a new home he goes to a contractor and the contractor figures out what it would cost him to build a $100,000 home.

Now, the contractor must take into consideration the cost of labor and material, the weather factors, inflation and perhaps escalation to some extent, as people sometimes change their plans as the house progresses. Therefore, you have a turnkey job.

Explain for the record why you can't say, "Well, Mr. Shipbuilder, we want a certain ship. These are the plans. You go out and build it. What will you build it for?"

"Well, we will build it for $200 million."

Well now, of course, that is not the way you build ships. Will you explain the situation to us?

Admiral PRICE. There are quite a few differences, Mr. Chairman, between constructing a house and a ship.

First of all, the time involved in constructing a house is very short and it runs somewhere in the neighborhood of four, five or six months. The contractor can then buy his material all at one time; he gets

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quotes; he knows the prices because he places the orders immediately, so that the inflationary impacts don't affect him quite so heavily as they do us where the ship is constructed over a period of anywhere from four to seven years.

In that situation we must provide, or the contractor would either give us such a high price to protect himself for all these things, or we must include a clause such as our escalation clause in our contract which says to the contractor: "If prices go up, we will reimburse you for the amount which your labor and material costs have gone up."

There are many other factors.

Mr. MAHON. Expand on that for the record because I think it is a valid point and you need to make it. Just expand on it for the record.

[The information follows:]

In building a house a builder will first, in some manner, obtain land to build on. Next, an architect will draw up the plans for the house that will fit the lot or lots. Where the job is to be a custom house, the builder will normally endeavor to strike an agreement on some sort of a "cost plus" arrangement because he knows the owner will change his mind and the builder wants to be protected. Such an arrangement passes the burden of inflation to the customer. Even in the building industry, large scale housing developments spanning many years of time cannot be negotiated today because of the risks inherent in tying up large amounts of funds over long periods of time. Small scale housing is proceeding at a reduced rate but commitments do not generally exceed one year.

In shipbuilding, because of the long construction time involved, economic uncertainty impacts heavily on costs. For example we have seen lead times for both basic shipbuilding commodities and finished products increase markedly in recent times. Some subcontractors and suppliers who are not normally covered by escalation clauses now are refusing to quote a price when material is ordered but rather determine the price at time of delivery. These changes in the lead times for material resulting from energy or marketplace factors not evident when a contract is signed, coupled with increased labor and material costs which might take place during a building period, all contribute to a degree of uncertainty which makes it prudent that a shipbuilder seek some protection from risk via the escalation clause.

Additionally, the magnitude of investments involved and the likelihood that an economic change could involve costs of several million or even several hundred million dollars, mean that a company's surival would be in jeopardy over economic factors which neither it nor the Navy can control or predict. Protection of shipbuilders against this economic uncertainty is therefore in the government's interest to insure that contracts can be completed.

SHIPBUILDING A ONE-SHIFT OPERATION

Mr. EDWARDS. When you are building a ship, how many shifts work on that ship? Is it an around-the-clock operation?

Admiral PRICE. It is normally one shift a day on normal construction contracts, sir.

Mr. EDWARDS. If you put around-the-clock or two 8-hour shifts, you pay a differential on wages but have you ever done any pricing to weigh that against the cost of adding another year or two to the time of construction?

Admiral GOODING. A two-shift operation is less efficient than a one-shift operation because of the support provided by your engineers, the supply department, the supervision. It is not available on the second and third shifts, so they are avoided when possible.

When you approach delivery of a ship, you have three-shift operation despite the inefficiency, but you don't want to plan on it for more than the final crucial period.

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Mr. SIKES. I wonder if we are timing this so we can complete our general questions prior to the noon break or if we should defer the rest of the statement until we have general questions? It is now a little after eleven. It might be possible they would not have to come back for the afternoon session.

Mr. EDWARDS. I have no further general questions.

Mr. MAHON. Does the gentleman from Missouri have any general questions?

Mr. BURLISON. No questions, Mr. Chairman.

Mr. MAHON. The gentleman from Florida?

FULL-FUNDING POLICY

Mr. SIKES. Thank you.

Mr. Secretary, you mentioned changes in long-range construction funding. You didn't go into detail and possibly this is not the place to go into detail, but would you comment briefly on what changes you feel might be advisable and economical in long-range construction funding?

Mr. CLEMENTS. Mr. Congressman, I appeared before Congressman Bennett's subcommittee of the House Armed Services Committee and at that time there was a discussion and a recommendation on a five-year program to accomplish some of the continuity that I talked about a while ago, as opposed to this year by year line item review that we have been doing in the last few years.

I would agree with the statement made a while ago that certainly mistakes have been made on both sides. That perhaps full funding, in its concept of year by year review and so forth, perhaps it never did have a chance because it was constrained and circumvented in a way that was not originally intended and I think it was contributed to in that respect on both sides.

I think the Congress perhaps took actions that they really had not anticipated doing in the original plan and I think that perhaps internally in DOD and in the Navy, more specifically, there were reasons, perhaps with good rationale at the time, but nevertheless the program never did really function the way it was originally intended.

Mr. MURPHY. What did Congress do, Mr. Secretary, to circumvent full-funding?

Mr. CLEMENTS. I think the Navy has felt that perhaps some of the budgetary items were not considered as quickly in time frame as they would have liked to have seen and therefore pushed it from one fiscal year into another, and the bids that were taken from contractors, and I have explored some of these cases, would lapse over from one year to another and they would get caught with increased costs for materials. They would find a disruption in the shipbuilding schedule itself within the yard; they would get caught with increased inflation so their business that had been made or submitted, say, 6 or 8 months previously, or even a year sometimes, would get caught in this cycle and much of the bidding and planning would be no longer valid and by the time the actual funds were available the bid had to be withdrawn.

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Improvement in Navy Planning Needed

Mr. Clements. I just feel, Mr. Congressman, that we can do a better job. Internally, with the Navy, we have discussed many things. We can probably improve our design activity by accelerating the process. We have lost some of the design capability that existed in the Navy in years gone by. I would work to increase our naval architectural capabilities internally within the Navy beyond what it is today. We can improve the methods by which we derive and promulgate our specifications.

We can submit better design concept papers to our shipbuilding contractors for which we seek for their formal technical responses. I think that in times gone by some of the contractual papers themselves, both as to the specifications and the drawings, have not been as all-inclusive as perhaps they should have been and have worked to the disadvantage of both the Navy and the contractor during the subsequent building period.

We can improve a whole lot of these steps along the way if we attack this problem and address it from many different aspects.

Mr. Sikes. Admiral Holloway, do you want to add anything to that? With regard to changes in long-range construction funding?

Multiyear Shipbuilding Authorization

Admiral Holloway. Yes, sir. I think that it would be to everyone's benefit if we could establish a multiyear shipbuilding authorization program which would for some period from 2 to 5 years show what the plans were for the construction of warships. This would provide the industry with a feeling of what volume they could expect; it would enable the Navy to present a clearer case, I believe, to the Congress in how we are balancing our program and, third, it would permit the Navy to put together their balanced program which could take advantage of optimum pricing of materiel and availability of construction room in the shipyard.

Other Management Improvements

Mr. Sikes. I would like to ask Admirals Price and Gooding to submit for the record any recommendations they have along this line.

[The information follows:]

[The following information was provided by Vice Admiral Price:]

From the viewpoint of the operating Navy, there are at least two steps which the executive branch can take, unilaterally, to alleviate the problems we are experiencing and to improve the overall management of shipbuilding programs. One, which is now in progress, is the achievement of better integration of Defense and Maritime Administration ship acquisition programs, wth the guidance and coordination of the Office of Management and Budget. Another, is to carefully examine our contracting methods and procedures to see if we reduce those administrative requirements which impose additional costs and management burdens on the shipbuilding industry but provide little or no real benefit to the Government.

A third step, which would require Congressional support and assistance, would be to provide a stronger measure of assurance to the U.S. shipbuilding industry that the Navy's long-range ship procurement programs will be carried out in an orderly manner. This requires some form of multiyear authorization for the overall Navy shipbuilding program. A firm long-term program, supported in principle by the Congress, would allow shipbuilders to plan for the use of facilities,

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trained manpower and capital with some assurance that they could be gainfully applied for a definite number of years. Such a program would also allow Navy managers to plan more effectively for the most efficient and economical acquisition rates and the application of available and programed funds.

Finally, there is the distinct requirement that the Congress recognize and support our requirements for a strong, modern, viable naval force structure, and provide the increased level of funding necessary to procure the numbers and types of ships we require. Funding restrictions, delays in authorization and appropriation, and program reductions and alterations contribute to managerial problems and complicate the planning for and execution of long-term programs.

[The following information was provided by Vice Admiral Gooding:]

In order to maintain and modernize the U.S. shipbuilding capability to adequately support the combined Navy and commercial shipbuilding programs, it is most desirable that a coordinated program be provided to industry. The business incentive to improve facilities and capacity by the shipbuilder revolves around forecasts of overall workload that he could reasonably expect to achieve. The Navy long-range shipbuilding plan is a significant segment of the overall workload forecast.

It would be beneficial, therefore, to both the Navy and to industry if a multiyear shipbuilding authorization program could be established. It would have to be understood by all parties, however, that stability of the Navy program is dependent upon the National Defense needs and that flexibility in the altering of the program in future years would be necessary. The program would require fine tuning on an annual, updating basis.

The Navy would most likely achieve greater stability in program planning under such a program. The industry incentive to search out techniques and facilities for improved procedures and processes to modernize the shipbuilding process and to improve shipbuilding productivity would be enhanced.

In summary, a multiyear shipbuilding authorization program would be a positive step in improving the efficiency of the Nation's shipbuilders.

Alternatives Available to Congress

Mr. Sikes. Now, may I ask Mr. Secretary and Admiral Holloway, what are the alternatives to the present request for additional funds that you bring to the Congress today? What are the alternatives?

Mr. Clements. Mr. Congressman, I don't think there are any alternative that are viable. One alternative would be to go back into the contracts with the shipyards and negotiate either schedule extensions or cancellations and terminations. These would be extremely costly and I don't think desirable from the standpoint of anyone. Certainly not that of the Navy, the Department of Defense, or the contractors and, I am confident, not in the eyes of the Congress.

Mr. Sikes. If Congress were to furnish 50 percent of what is being asked, what would be the effect?

Mr. Clements. We would lose ships. If we got into a planned program of trying to take a reduced amount of money and work it back in the program and in turn, as an alternative, stretch out the program again, it is extremely costly and all we are doing is pushing out a bow wave ahead of us which we are going to have to pay for sooner or later.

Admiral Holloway. Mr. Congressman, I think very specifically if the additional funding for the fiscal year 1975 program were denied, it would mean that the Navy would have to give up five or six ships out of the 22 new ships which have previously been authorized and appropriated. And of the five or six ships that we would give up, the Navy would have no determination on which ships these would be.

It would be a mechanical factor depending upon which ones in the budget we could retain because of the funds available, which would mean that we could not retain those ships we needed most.

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And the third point is that if this were done, it would increase the unit costs of the remaining 15 or 16 ships that we had in the budget.

Now, in response to the second half of your question, if you gave us some part of the amount we are asking for, with a certain amount of our own choice as to where that were applied, it would reduce the impact, but I am not prepared to say how much. Any addition in funds to be applied to sensitive parts of the program would be an improvement. I can't calculate it at this instant.

Mr. CLEMENTS. On that same basis, Mr. Congressman, what I said, I think, is exactly true. In a selective basis, we would take those funds you would make available to us and apply them to the most sensitive area of the program. However, such action will leave other pieces of the shipbuilding program pushed out ahead of us. This means that we are going to have to pay even more for the planned programs subsequently and this will result in increased costs in the out years.

Again this just aggravates the situation and further points up the fact that I was talking about, the instability in the shipbuilding industry.

OPTIMUM SIZE OF THE FLEET

Mr. SIKES. You spoke earlier about a 500- to 600-ship Navy, the fact that we do have the smallest Navy we ever had in years; about the desirability of increasing the size of the fleet and the difficulties attendant to that increase.

I would like for you to supply for the record some information about just where we are going at the present rate. Are we going to be able to have a 500-ship Navy at the present rate?

If not, what is the size going to be? What will be the effect on our operating capability worldwide if there should be further reductions in the size of the fleet?

I would like for you to provide for the record some information on the effect that moderization has on the determination of the size of the fleet, or the number of ships.

For instance, if we cut back on the shipbuilding funds, we could get possibly as many ships, but an inferior product. Just tell us something about the effect that moderization has on the determination of the size of the fleet and the number of ships.

[The information follows:]

COST GROWTH IN NAVY SHIPBUILDING

The Navy has been reduced from 900 plus ships in 1970 to just about 500 ships today. This reduction was caused by two factors, (a) aging, together with obsolescence; and (b) a conscious decision of the Navy to use available funds for fleet modernization to achieve an early overall improvement in fleet readiness. The expected service life of a warship is 25–30 years; consequently, the Navy must plan to retire—and hopefully replace—about 3.7 perecent of its active fleet on an annual basis. Such a replacement rate (i.e., 3.7 percent, of course, only provides for the maintenance of a given size or numbers of ships in the active Navy.

Concerning the size of the Navy to meet the national defense requirements of the near future (i.e., 1980–85), I draw attention to the colloquy reported on pages 11160 and 11161 of the hearings of the Seapower Subcommittee on November 30, 1970. Therein it was indicated that Adm. T. H. Moorer, as the CNO, had appeared before the committee on January 23, 1969, and stated that a Navy of 850 ships ought to be attained by fiscal year 1980. Subsequently, the subcommittee was informed that Admiral Zumwalt had stated that the Navy

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should plan to build a balanced force of about 770 ships in the 1972–79 time frame.

Currently, the Joint Chief of Staff recommends a U.S. Navy active force level of over 800 ships to support our current national defense strategy. Such a force is significantly larger than the present level of active ships and of the level of ships which might be achieved in the mid-1980's if the previously discussed Navy illustrative 5-year program were to be accomplished.

In summary, we are facing a very difficult predicament—the size of the Navy has shrunk to a level that is marginal, and in some situations possibly inadequate, and the current annual rate of new ship acquisitions—fiscal year 1975 and prior year SCN programs—coupled with the 3.7 percent annual ship retirement rate indicates to me that the size of the Navy will remain in this same condition 10 years from now even should a $6 billion per year, 5-year shipbuilding program be accomplished. With the present 5-year defense program the size of the Navy would grow———.

Considering the mission requirements of the Navy today and the uncertainty of international developments in the next decade, it appears to me that we are not adequately planning or providing for the level of U.S. seapower that may be essential to this Nation's security. It may be that it will possibly require funding levels in the order of 8–9 billion dollars—fiscal year 1976 dollars—in the annual SCN appropriation account to achieve the necessary Navy size for the Mid-1980's. If the Congress were to implement such an expansion of the Navy, it will be necessary that the additional funds be added to the total DOD budget so that other critical Defense programs are not adversely impacted.

I do not have any serious doubt concerning the feasibility of the shipbuilding production base in the United States, both private and public yards, being able to carry out an enlarged Naval shipbuilding program. For, as was demonstrated in the period 1934 to 1944, the shipbuilding industry quickly aligned its resources to the challenge of the Vinson-Trammel Act and the subsequent large Naval building program. By 1940 the stability of the Navy's program and the consequent increased efficiency of the U.S. shipbuilding industry not only had brought the size of the U.S. Navy to the treaty limits but, more importantly, readied both the Navy and the industry for the tremendous requirements of WW II.

I am aware that some may question the availability of an adequate work force for the shipbuilding industry to carry out a large Naval shipbuilding program. This question gains even more significance if the additional shipbuilding requirements of the MARAD program are also factored into the total work force levels needed. However, I am confident that if joint NAVY/MARAD shipbuilding planning is achieved in structuring a long range program in at least 5-year increments, and if the Congress clearly enunciates a definite policy to rebuild the Navy, the work force problem both as to quantity and quality can be resolved successfully.

Finally, I believe that consideration of the national defense strategy and of the requisite Navy ship requirements in being able to support this strategy is central to the determination of the proper sizing of the Navy. However, it does appear that current Navy active ship levels and those to be attained under present shipbuilding programs—i.e., fiscal year 1975 and prior—are marginal at best. I believe it is urgent that we demonstrate our national determination to build and support an adequate Navy and at the same time strive to both lower the ultimate cost and decrease the acquisition time of ships in the Navy shipbuilding program.

Contractors' Contribution to Shipbuilding Program

Mr. Sikes. I would like for you to provide for the record some information on the cost of mistakes on the part of the contractor. They have had work-force difficulties; they have had delays in getting their shipbuilding facilities operational on schedule. Those have to be listed as mistakes.

We want to know what effect that has had on the increase in the cost of this program.

That is all, Mr. Chairman.

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Mr. Clements. We will be glad to do that
[The information follows:]

In a firm fixed-price contract, the cost of mistakes on the part of the contractors which drive the cost of performance beyond the contract price is borne by the contractors. The impact of these mistakes would obviously be reflected in the contractor's profit and/or loss at the end of the contract—the Navy pays only for progress achieved to the limit of contractual liability and does not knowingly subsidize the contractor for mistakes due to poor management or workmanship.

In a fixed-priced type of contract with a target and a ceiling price, the Government and the contractor share costs above the target and predetermined percentage rations. After ceiling, all costs are incurred by the contractor.

In a cost-type contract, the Government pays all legitimate contractor costs including those brought about by mistakes or less than optimum contractor performance.

The cost of mistakes on the part of the contractors which drive the cost of performance beyond the contract price is borne by the contractors. As a result, NAVSEA has no data on the cost of the contractors mistakes except in the few instances where there is a dispute between the Navy and the contractor as to who is at fault.

Contractors' Criticisms of the Navy

Mr. Robinson. Some months ago, the president of the Newport News Shipbuilding & Drydock Corp. came to Washington and made an appearance before Congressman Bennett's subcommittee. Are you familiar with the information that was contained in that presentation?

Mr. Clements. Yes, sir, I have talked to that gentleman on many occasions, and I also read his testimony. If you want an immediate recollection of what he said, you will have to refresh my memory. I don't remember it exactly, but generally I do.

Mr. Robinson. A copy of it has just been furnished me, and I have had a copy of his statement, as presented to the committee, for some time, but a copy of the full testimony before that committee has just been furnished me, and to say the least, it is highly critical of the contractual process that the Navy follows.

It goes so far as to indicate that unless the contractual process is not improved in terms of its being more businesslike, that they are not going to bid on Navy contracts any longer. Which means, of course, that a very large shipbuilding contractor will not be available to the Navy for the purpose of bringing the competitive climate into play with respect to this matter.

Knowing, as you do, what he said, the comments and criticisms that he made, have any of the suggestions that he made been implemented, Mr. Secretary?

Mr. Clements. Yes, sir, and I would like—if I may, I would like to comment on what he said in general.

I know Mr. Diesel. I have had many discussions with him, and he is the president of Newport News. His superior, Mr. Freeman, who is the chief executive officer of Tenneco, which is the parent company of Newport News, has visited with me many times, and he, too, has voiced some of those same ideas and positions. I am well aware of them. The Navy is well aware of them. Admiral Kidd and Admiral Gooding in particular have heard him make these comments, and some of them I hasten to add are well taken, and we have made changes to accommodate some of his suggestions. Others to the contrary, have a strong bias in his favor, as you would expect because

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of his being a contractor, for which I take no exception. I would expect him to have that position, and we have tried to sort these out on the basis of what is truly appropriate for the Navy, as the customer on one hand, and him as the contractor on the other, to make these adjustments, and we have done that.

We are continuing to do that. It has been badly needed for some time. It might interest you to know that there are shipbuilding companies in the country—one of the largest, if not the largest—who will not accept Navy contracts for some of the very reasons that he is talking about in that testimony.

The contractual procedures that have grown up through the years, in the last 10 or 12 or 15 years, within Navy shipbuilding procedures and methods, have been onerous to some of the contractors and they have refused to do Navy work. This is a serious problem. It is one in which I have been quite involved, as has Admirals Kidd and Gooding. We are trying to take corrective action.

Part of the reflection of this problem is represented by approximately $1 billion in claims that has been almost an ongoing number.

As we settle one claim, another one pops up. This is direct reflection on the contractual provisions that have been present in Navy shipbuilding contracts. So some constructive criticisms are valid. There is no question about it, and the Navy is aware of this, and I am aware of it and we are trying to do something about it.

Admiral GOODING. It may be useful to observe Newport News has submitted a bid for the five nuclear attack submarines in the 1975 and 1976 program.

Mr. MCFALL. What are some of these criticisms? Could Secretary Clements outline some of them or do you have a list of them?

Mr. ROBINSON. I have them here, Congressman McFall. I do not have them listed. I would have to go through the testimony in order to pick them out and I have only just been supplied with that document.

Mr. MCFALL. I wonder if Mr. Clements could give us an example. What are some of these criticisms that you figure are constructive?

Mr. CLEMENTS. Well, as an example, the method by which we solicit bids, for instance, is subject to criticism. The last, final and best offer is a procedure which gets criticism. The method by which we handle the escalation in the contract is under severe criticism. Our procedures by which we handle change orders is a very tough problem and one that we are trying to address and change in an appropriate fashion, considering the equity of both parties in how we go about this.

Our program management itself, our audit procedures, all of these things are—and I could go on—there are many more—but these are all items which have been up for considerable discussion.

Another one that works a considerable hardship upon the contractors is our refusal to recognize interest as an allowable cost within the terms of the contract.

We also have progress payment, differentials within the contract, to which some of the contractors object.

There are many things. These are most complex, believe me. When you refer to a shipbuilding contract for a major unit such as one of our big carriers—the Nimitz as an example, or the Eisenhower, you are talking about a cycle that will run from 8 to 10 years, depending

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on the way we go out for bids, the way it is designed and so forth, but it could run anywhere on up to 7, 8 or 9 years.

Chairman Mahon gave the example of a house. Surely you can build a house in 6 or 8 months. If you are particularly affluent, it might take you a year. You start building one of these carriers and you are talking about an 8-year cycle. To anticipate changes in technology, anticipate changes in materials cost, weapon development and weapon technology, over that span of time is a most difficult problem. Some of these things Mr. Diesel is talking about in his testimony there reflects these problems that we are talking about.

Mr. ROBINSON. There are three items I have come across just looking at this very quickly that I wonder about and they are these:

No. 1. He complains about the fact that Government-furnished equipment, what he calls GFE, is not delivered on time and this holds up the process of building the ship.

No. 2. Government-furnished information, which is not available at the time the contract is made, is late in arriving and thus delays the construction process, thus increasing the cost for obvious reasons and

No. 3. And this one gives me a great deal of cause for concern: The direct competition that the Navy exerts on Newport News Shipbuilding and Drydock in terms of paying a higher wage scale and attracting their best employees away from them over to the Navy Yard rather than keeping them on the Newport News Shipbuilding and Drydock payroll.

Mr. CLEMENTS. I would like for Admiral Gooding to address the last, but I would like to talk very briefly about the first two.

On the Government-furnished information, I think that is a term that he is using that would relate primarily to plans and specifications.

Mr. ROBINSON. I think that is correct.

Mr. CLEMENTS. And I think the Navy is due some criticism on their plans and specifications. I think the way we have gone about preparing these plans and specifications for use by our shipbuilding contractors needs improvement. There has been concern about overspecification, about conflicting specifications, et cetera. The Navy plans and specifications procedures have in fact been subject to much criticism and I think legitimately so.

Admirals Kidd and Gooding and I have discussed this on several occasions.

The GFE thing I think is less legitimate. Although I am sure if you ask him for specifics, there would be specifics he can give you where we have delayed him, perhaps, with respect to Government furnished equipment. But there is an orderly process within the contract where he can make a claim for that if it is true. And I am sure that he never overlooked an opportunity to make those claims if they are legitimate.

With regard to recruiting labor out of his yard, I am not familiar with that. Perhaps Admiral Gooding is.

Admiral GOODING. I have checked the records and over the past—I stopped about a year ago, but over the previous 2 years some 200 people had left Newport News and been hired away by the naval shipyard.

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Mr. SIKES. Out of how many?

Admiral GOODING. Out of 25,000.

Mr. SIKES. Were they recruited or did they simply see a greener pasture and move into it?

Admiral GOODING. I expect it was a greener pasture though some were engineers and the engineering workload was falling off and they suspected they should get another job.

There were some 200 out of 25,000.

Newport News itself is in the process of laying off some 2,500 workers between now and the middle of the summer.

This kind of pirating goes on routinely all the time. It has gone the other way too.

Mr. CLEMENTS. Mr. Robinson, I would not call that pirating. I have a strong view on this. I think any shipyard working for the government has a responsibility to furnish us some reservoir of talent that would come back into the Navy and into the other government agencies concerned with shipyard work and assist us in staffing those people into our operations in the best possible manner to allow us, in turn, to do a better job. I personally think it is in his interests to do this. I think if we had more capable people, more experienced people, some of his best people working on our side of the thing representing the interests of the U.S. Government, we would have fewer problems with that shipyard.

Mr. ROBINSON. I don't believe Mr. Diesel has made a claim that there has been any pirating. He is simply describing the disparity in the wage rate.

Mr. CLEMENTS. We need these people and we have to depend on these shipyards to provide us with a base of competent people within our government agencies and within the Navy itself on the civil service side. If it is not Newport News, it is Bethlehem or it is Todd, or it is Kaiser, or some other yard. We have to get these out of the shipyards.

As the Navy shipyards have been, you know, curtailed in their employment by the Congress and by policy, and so forth, we have to depend on these people for that recruiting base and I think it is entirely appropriate.

Mr. ROBINSON. I don't disagree with you as to the reservoir of talent that you have to draw on. I do have some disagreement with regard to the approximately 15 percent wage disparity, considering the other advantages of government employment.

That is all, Mr. Chairman. I would like to go into this in greater detail when we get into this afternoon's testimony.

Mr. MAHON. We will have the testimony on the regular shipbuilding budget as well.

INCREASE IN THE NAVY BUDGET

Mr. BURLISON. It has been observed by the chairman that our increase in fiscal year 1976 of the Defense budget appears to be in the general purpose area and that apparently carries over with the Navy in contrast to the strategic armament. Is that basically a fair statement?

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Mr. CLEMENTS. In the overall DOD budget. I think generally that is true. I didn't come prepared to move off into the general budget, but I think that is true.

Admiral COOKE. Within the Navy that is true. A significant increase in the Navy 1976 over 1975, is in our maintenance programs within general purpose forces.

Mr. BURLISON. I have seen that statement made with regard to the presentation of the 1976 budget. My question is, why? What change has there been in our military situation or our military strategy to dictate this emphasis on our general purpose forces as contrasted with the strategic.

Mr. CLEMENTS. I would like Admiral Holloway to address that.

Admiral HOLLOWAY. It is O. & M. funding, Mr. Congressman, that relates to ship overhauls and to aircraft reworks primarily. Throughout the O. & M. account almost every item has been increased to improve fleet readiness at the present time.

The number of deferred ship overhauls were increasing and we applied additional funds not only to stabilize the overhaul program, but bring the number of deferred overhauls down to a manageable number by 1980.

We are doing the same thing in the case of aircraft reworks which, of course, are very similar to ship overhauls. The aircraft is essentially rebuilt.

The increased money in the real program value, which is the amount we are able to improve our overhaul position isn't represented entirely by the funds going in. Some represents inflation due to higher costs of manpower.

We are also putting additional money into steaming hours for the ships and flying hours for the aircraft to improve crew readiness, and the total effort is bound up in increasing the readiness of the fleet.

Mr. BURLISON. Is our experience in Southeast Asia and our anticipated participation in the Middle East factors that do not play a role, or are not of significance in this determination of emphasis to the general purpose?

Admiral HOLLOWAY. The first factor is certainly. We experienced, during our 8 years of operation in Southeast Asia a general deferral of hard maintenance of ships and of the rework of aircraft to provide those funds for operating time. With this deferral of routine maintenance, we were at the same time operating our ships and aircraft at a much higher tempo than we had planned, so that we had a double-barreled effect on the material readiness of our ships and aircraft.

What you are seeing now is an attempt to recover from those 8 years of over-tempoing and under-funding.

Mr. BURLISON. Does the policy, the project policy with respect to problems in the Middle East have any relation to this?

Admiral HOLLOWAY. I think I would want the Secretary to answer that.

Mr. CLEMENTS. Well, Mr. Congressman, not really. Certainly as we would approach a crisis, you might say, or a problem that would appear to have difficulties ahead of us that would require increased readiness or increased capability we would have, we feel, a very definite responsibility to go back and as quickly as possible try to pick

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up this—again I use the expression—this bow wave of maintenance that has been pushed out ahead of us and that has accumulated over a long period of time. This has really been going on for perhaps the last 6 years.

We have historically pushed out ahead of us some of those maintenance items, some of those modernization items on older ships that we should have done and postponed that.

Mr. BURLISON. I appreciate your remarks and I am delighted to yield to the gentleman from Florida.

EMPHASIS ON CONVENTIONAL FORCES

Mr. SIKES. This is a very useful line of questioning and one that should have been brought up. I don't want to leave anything hanging here. You are not gearing up for participation in the war of the Middle East, are you?

Mr. CLEMENTS. No, sir, we are not.

Mr. SIKES. I didn't want to have that hanging.

Mr. CLEMENTS. Thank you. I appreciate that.

Mr. SIKES. Let me ask this: Isn't this new emphasis on conventional force capability also due in part to the lessons of the October war in the Middle East and to a general feeling at policy levels in governments—not just our government—that we are near enough to a nuclear standoff that if there should be another war it will more than likely be a conventional war? Is that not true?

Mr. CLEMENTS. I am not sure, Mr. Congressman, that I would want to get into the speculation on entering a particular war.

Mr. SIKES. Do you think there is more of a need to improve our conventional capability over the strategic capability?

Mr. CLEMENTS. No question about that. I would like to quickly make the point that as we have come down in the last 3 years from 1,000 ships to 500, we have an increased responsibility to make sure that the 500 we have now work properly.

I mean that each of these 500 ships become far more important as a part of a 500 force as opposed to an inoperative or less than a 100 percent operative unit in a 1,000 ship force.

Mr. SIKES. We can't afford the luxury of deadlined items as we have many more items.

Admiral HOLLOWAY. Mr. Congressman, could I add one point, to make sure it is in perspective? We have, as a matter of policy, maintained our strategic systems in a very high level of readiness, both in materiel readiness by insuring they got first crack at the operation and maintenance funds; also insuring they were manned with quality personnel, up to the manning requirements.

Therefore, as we improve our readiness position, we really don't have much room to go in the strategic systems. They are very close to being 100-percent ready. We have much room for improvement in our general purpose forces.

MATERIEL CONDITION OF NAVY SHIPS

Mr. EDWARDS. How do you categorize the Marine amphibious landing ship?

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Mr. CLEMENTS. The New LHA's?

Mr. EDWARDS. The ones written up as being in such terrible shape. The LPH.

Admiral HOLLOWAY. Mr. Congressman, I think your attention is probably drawn to those ships as a result of the article in Jack Anderson's column. We have had problems with the materiel condition of all of our ships more or less in the general purpose forces. Some have been in very fine materiel condition; some have been in less than good materiel condition.

We have assigned Admiral Bulkeley to conduct materiel readiness inspections of the fleet in order to inform the Chief of Naval Operations which ships fail to meet our standards where these failures occur.

The article appearing in Mr. Anderson's column was derived from Admiral Bulkeley's report to the Chief of Naval Operations. Actually it looked very bad because Admiral Bulkeley's approach is to go aboard ship and seek out deficiencies. He doesn't look for the bright spots.

I do not think that the ship in question was in any way not capable of carrying out its mission. There is work to be done on that ship and all others and we have a very vigorous program going on in the Navy to upgrade the materiel condition of all our ships. But to the allegation that the ship is not fit for combat duty, I simply have to say that statement is not true as it affects the class of helicopter carriers.

Mr. EDWARDS. You have had someone look into it since this article appeared?

Admiral HOLLOWAY. The article itself was the result of a Navy inspection and subsequent to that time I have had the operational commanders in the chain of command go aboard to make sure that the allegations that the ship was not fit for duty were not true.

NAVY PROGRAM MANAGEMENT IMPROVEMENTS

Mr. EDWARDS. Mr. Secretary, you indicated it would be possible to reduce the time required to design ships and actually build them in the yards. Do you have any specific proposal about how that can be done? Do you have any studies that have gotten initiated?

Mr. CLEMENTS. If you are talking about formalized studies, the answer is no. If you are talking about informal staff work that would address this problem, and many hours of discussions both within the Navy and also within OSD, the answer is yes.

Now, you must realize that as you address this kind of a problem there is no quick answer to it. You are not going to make changes this month or this fiscal year and suddenly impact on our whole shipbuilding program. It is too big; it is too complex and there are too many people involved in the bureaucracy.

Mr. EDWARDS. I think the main thing this committee wants to know is that at least we are going in that direction, that we are making strides, trying to resolve this problem. We agree there is no immediate answer——

Mr. CLEMENTS. I can assure you that we are. The Navy has recently had an NMARC study, a Navy materiel study, that went on over a period of several months. The study had outstanding people, geographically from all across the country, as members of this study committee, as well as experienced Naval officers.

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This was done by the Secretary of the Navy in collaboration with Admiral Kidd. There are some very constructive suggestions coming from this study. The Navy is now reviewing the NMARC study for implementing purposes and they are going to move out and do it promptly. In addition to that, Vice Admiral Reich who retired as a Deputy Assistant Secretary of Defense (I&L) in 1973, has been helping me for the past year in an effort to study these problems.

I have spent a lot of time with Admiral Gooding in this regard.

One of the important ingredients in this is program management. In this technique we take each one of these programs and break it down into its own unit in a decentralized mode to give it the kind of discipline and control it needs and we call that program management.

The Navy is reviewing its entire procedures on program management in the shipbuilding program in order to more efficiently address this. So we are doing a lot of things in this regard.

Admiral Holloway may want to speak to this also but I am encouraged. The Navy understands the problem; they recognize the problem and they are doing something about it.

Mr. MAHON. Due to my getting off the subject somewhat, we have been talking about a lot of interesting and important things here this morning. They are always pertinent in a way, but actually what we are trying to do today is to zero in on the issue of what we should do about the cost overrun in shipbuilding and we really haven't gotten into the meat of that very much.

Of course, we will have all of you people before us again in the hearing on fiscal year 1976 Navy shipbuilding budget. I don't think these questions are irrelevant. They are important, but they are not too relevant actually to the issue before us today.

OPTIMUM SIZE OF THE FLEET

Mr. MURPHY. Admiral Holloway, with respect to the 600-ship level to which you spoke a few minutes ago, I think we should clarify for the record whether or not that is a DOD-approved force level or a Navy-approved force level or whether it is your estimate of what the Navy needs?

Admiral HOLLOWAY. At the present time it is my opinion as Chief of Naval Operations, looking at the projection of Soviet capabilities and looking to the future and what will be necessary to implement our national strategy which I have described as a forward strategy, that the maximum level of risk that we should accept will require a Navy sized at about 600 ships.

I believe that we would be able to reasonably attain this level through a reasonable shipbuilding program by about the 1980's.

I am in the process now, of collating the studies, including analytical war gaming studies, which have led to this conclusion and translating the results into projected shipbuilding programs which I would hope to submit in the very near future to the Secretary of Defense for his consideration.

It is my view that every ship we build must be fully justified as to its reason for being in support of the national strategy and which, when operating with the other services in the face of the projected threat, will give us an acceptable level of risk.

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Mr. CLEMENTS. Mr. Chairman, may I excuse myself, with your permission?

Mr. MAHON. Yes.

Mr. CLEMENTS. I have an appointment I am already late for, at noon.

Thank you very much.

STATEMENT OF DEPUTY CHIEF OF NAVAL OPERATIONS FOR SURFACE WARFARE

Mr. MAHON. Admiral Price, will you continue with your statement.

Admiral PRICE. Yes, sir.

I have gone into considerable detail to show the complexity of the problem of arriving at a valid budget cost for a ship. I have also shown the impact that projections of inflation, escalation, and budget and construction time have on our costing estimates.

I would now like to show how all of these factors have impacted on our fiscal year 1975 SCN program.

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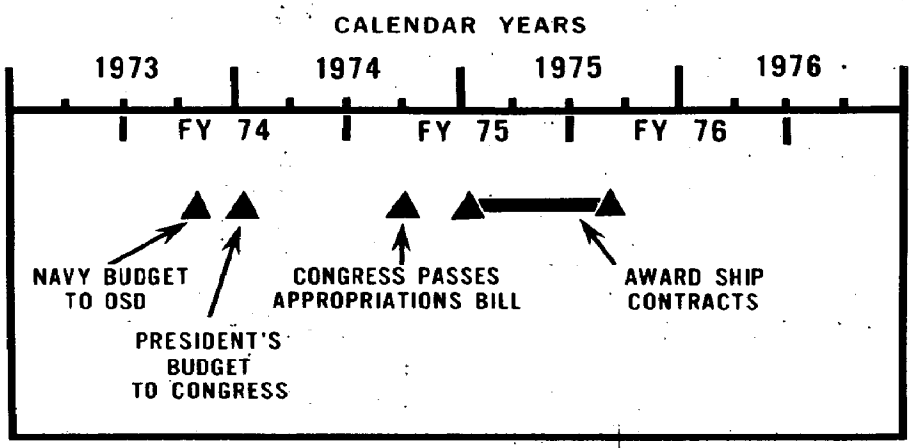
TIME RELATIONSHIP OF SHIP COST ESTIMATE



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Going back to the time schedule associated with the fiscal year 1975 budget (VG 2) you can see that we made our ship cost estimates with data available in October 1973. In arriving at our calculations of the cost of the ship at contract award, we estimated that portion we called inflation an overall rate of 7 percent per year for the 2 years between budget submission and the award date. It must be remembered that the effect of the oil embargo and other energy related economic perturbations were not yet quantifiable nor was the high rate of inflation that has resulted from all the recent economic changes in evidence.

The actual performance of the economy as it pertains to shipbuilding shows that we should have used a composite rate of at least 8 percent for fiscal year 1973 and at least 16 percent for fiscal year 1974. We are projecting 11.5 percent for fiscal year 1975. As a result, our cost estimates for the ships in the fiscal year 1975 program, not yet under contract, are understated.

In addition, the contract escalation requirements also show a significant understatement of cost.

For the past two budgets the Navy used in accordance with OSD and OMB policy a projection of 5 percent for labor and a 3.5 percent for material per year for the life of the construction contract for ongoing shipbuilding programs. That rate is far below current estimates which reflect actual BLSI experience to date and which the Navy has now been authorized to use in calculations of current and future escalation costs.

Actual BLSI data has shown that we experienced a 22.7 percent material rate and an 8.8 percent labor rate for fiscal year 1974. For 1975 we are projecting 16.4 percent increase in BLSI material and 6.5 percent increase in BLSI labor indices.

The actual performance of the Bureau of Labor Statistics indices are beyond the control of the Navy. Generally, these indices are available with approximately a 2–3 month delay for the material indices and 3–6 months for labor. Thus, in October 1973, when the fiscal year 1975 Navy ship programs were finalized, the BLSI for August 1973 were the latest available.

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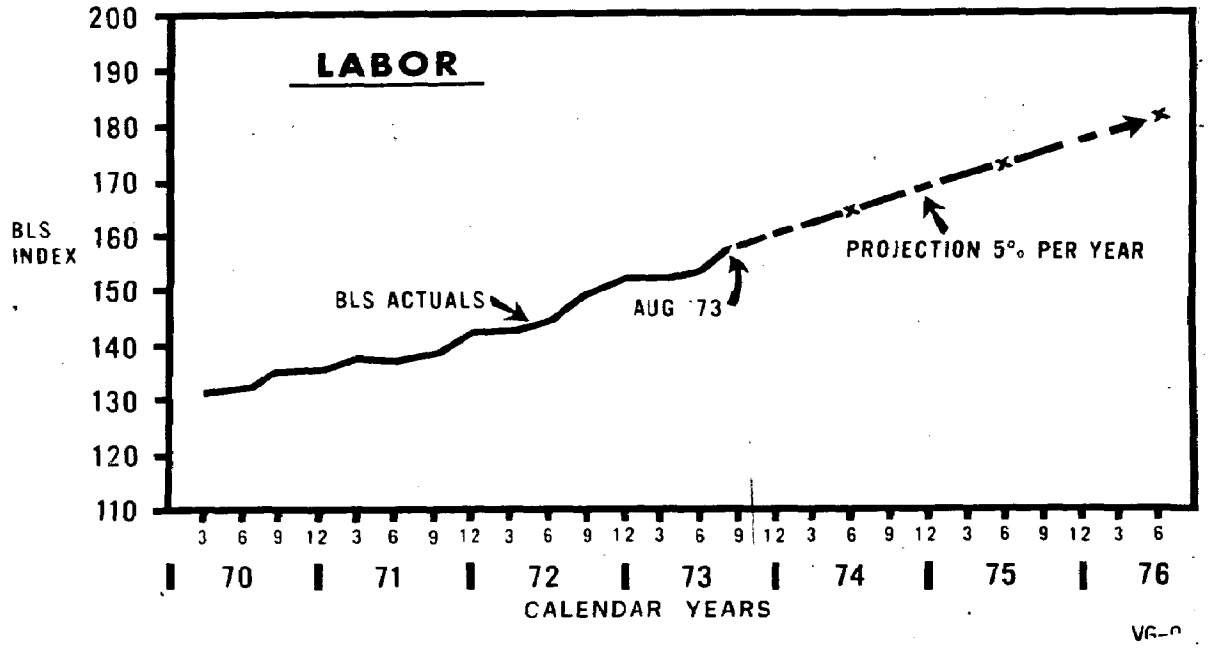
BUREAU OF LABOR STATISTICS
LABOR INDEX VS DIRECTED PROJECTION



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You will note that the performance for shipbuilding material and labor through August 1973 and their relationship to OSD outyear escalation allowances are shown graphically on these viewgraphs.

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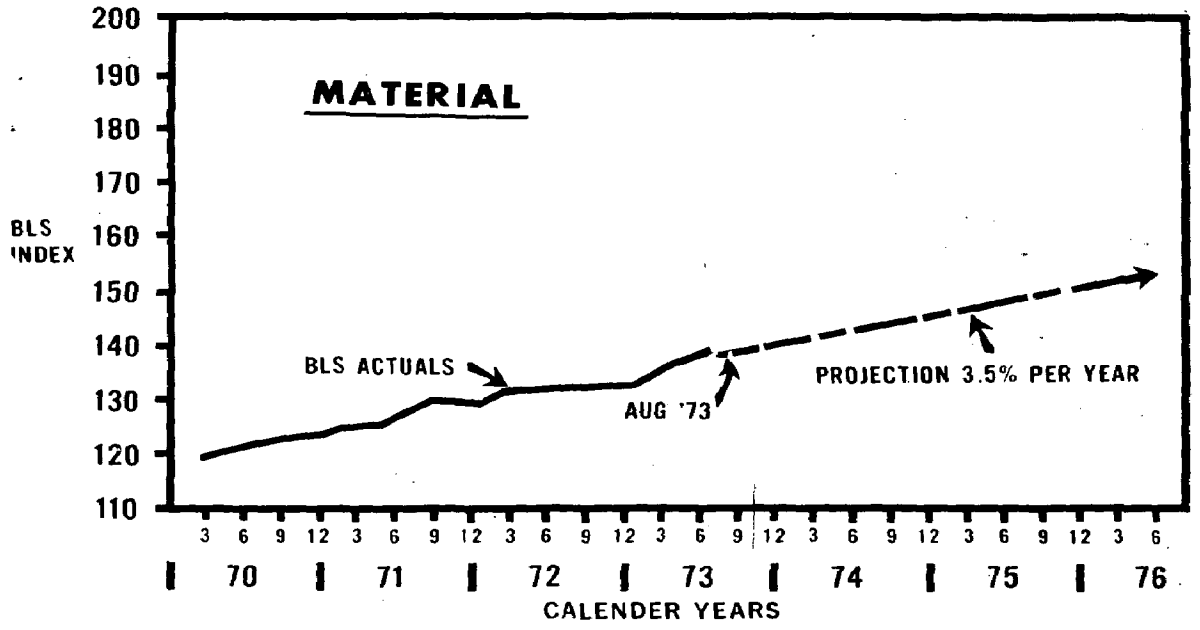
BUREAU OF LABOR STATISTICS
MATERIAL INDEX VS DIRECTED PROJECTION



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As can be seen, up until August 1973, actual performance coincided quite well with the economic factors the Navy relied upon in estimating its shipbuilding programs.

There was no indication of any significant increase in the rates of 5.0 percent and 3.5 percent allowed.

If we look at the material, you can see here again that up until August of 1973 again the actuals were pretty well following the 3.5 percent per year, which we were allowed to budget.

At the time the President's budget was submitted in January 1974 we had seen no significant deviation from our economic projections.

During the congressional review of the budget, after the ending of the wage price controls, the Navy first began to receive evidence that the indices used for out year escalation were going to be low.

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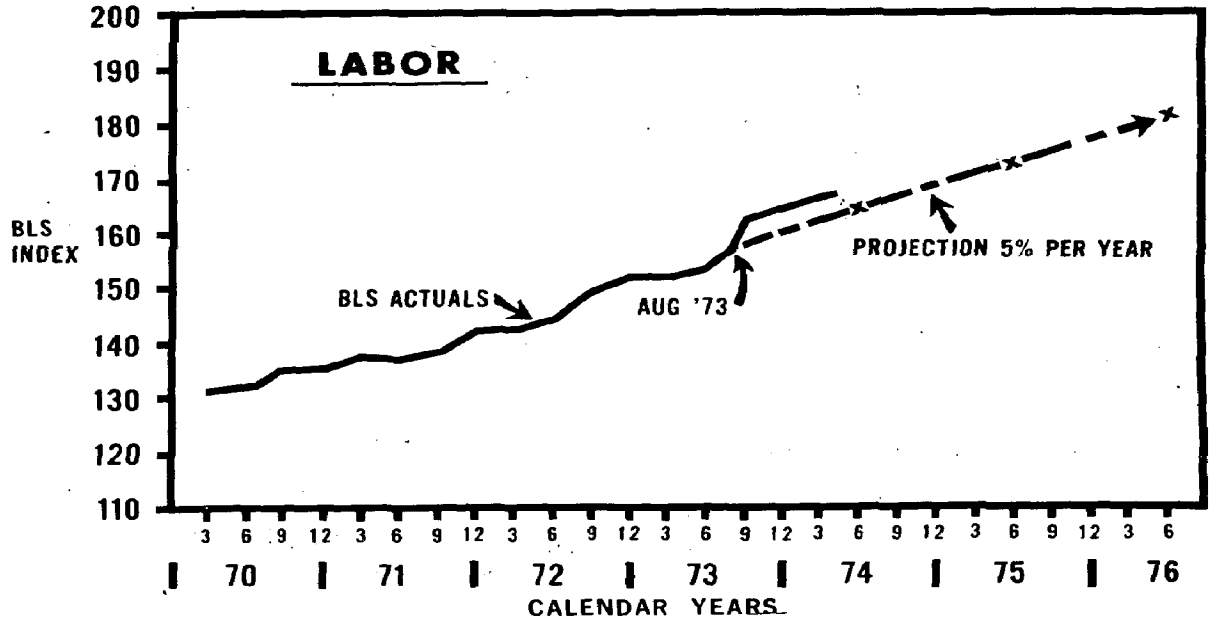
BUREAU OF LABOR STATISTICS
LABOR INDEX VS DIRECTED PROJECTION



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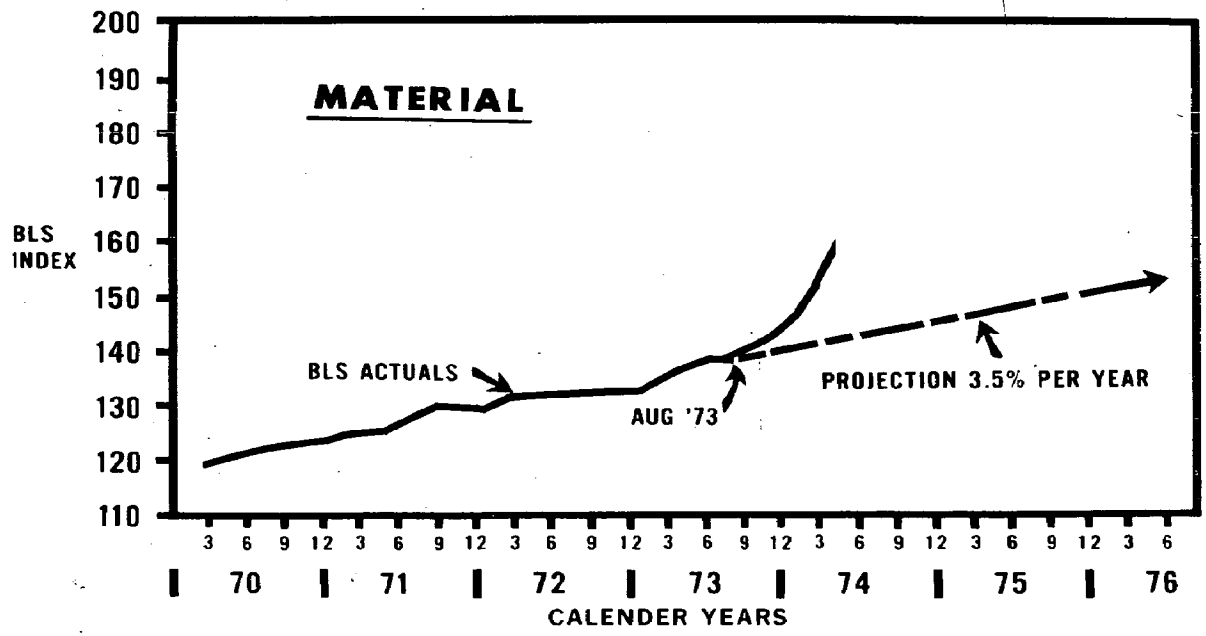
BUREAU OF LABOR STATISTICS
MATERIAL INDEX VS DIRECTED PROJECTION



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In testimony before this subcommittee on May 20, 1974, I pointed out that the Navy had, in the last 2 or 3 years, seen inflation running in the vicinity of 7 or 8 percent a year on the overall shipbuilding programs. For the 6 months just before my appearance it had been running year 11 percent. I also stated that we could not be certain that rate would continue. I indicated that the BLSI indices for shipbuilding material showed an increase of 16 percent between April 1973 and April 1974.

This was starting to move up where we gave our testimony last year.

In hindsight, even that concern was understated, in fiscal year 1974 the BLSI actually experienced a 22.7 percent increase in shipbuilding material and 8.8 percent for shipbuilding labor. This amounts to a composite rate of 15.75 percent.

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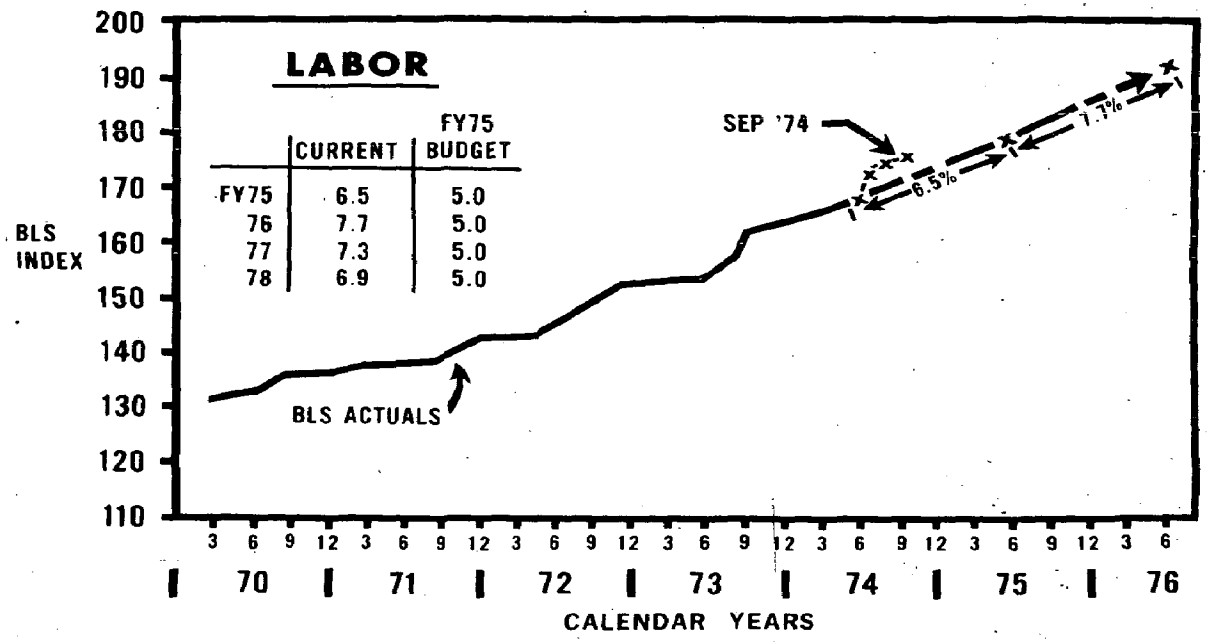
BUREAU OF LABOR STATISTICS
LABOR INDEX AND CURRENT PROJECTION



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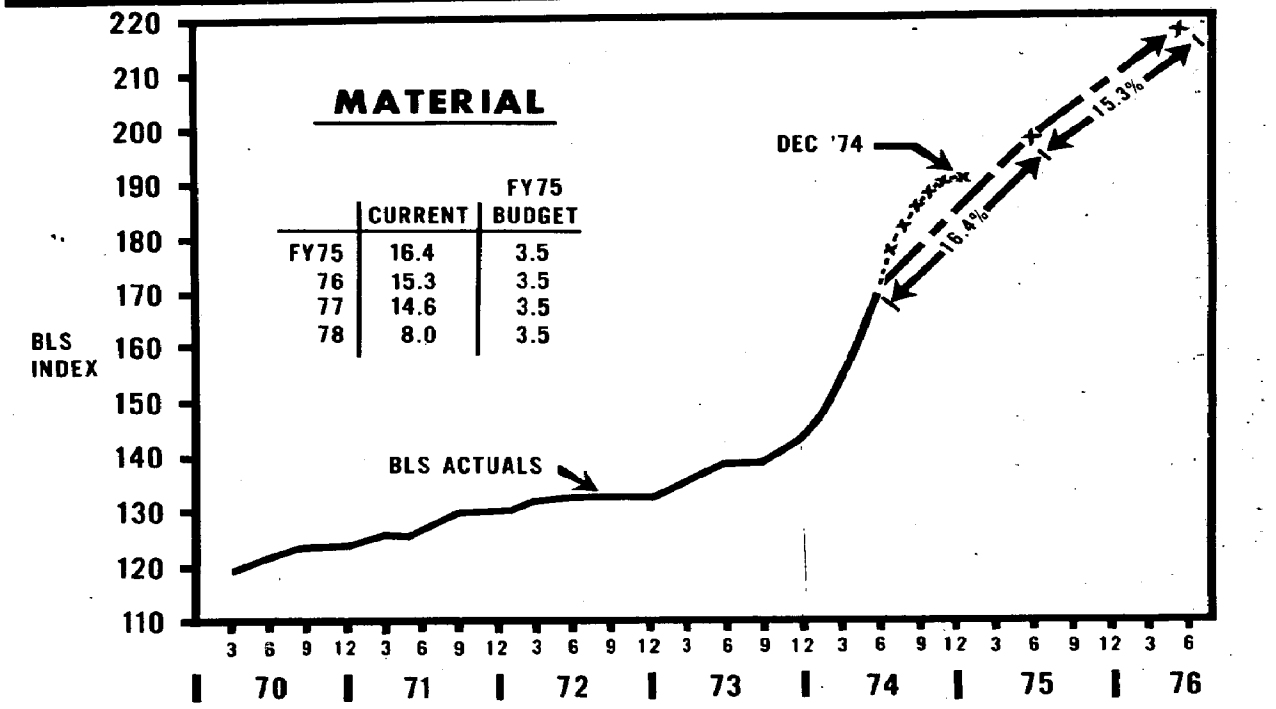
BUREAU OF LABOR STATISTICS
MATERIAL INDEX AND CURRENT PROJECTION



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The performance of the BLSI through the latest date available is shown on these two viewgraphs.

As you can see the latest labor index is slightly above the projection we made this November when we submitted our 1976 budget to OSD. That projection was based upon the labor index in hand as of May 1974. The rate of increase appears to be following our projection albeit at a slightly higher level.

The material index is also above the projection made in November based upon June 1974 actual data but it appears to be leveling off. Whether this is an aberation or trend we do not yet know.

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TABLE OF BLS INDICES

FY 75 BUDGET ESTIMATES

FISCAL YEAR	COMPOSITE	MATERIAL %	LABOR %
73	4.25	3.5	5.0
74	4.25	3.5	5.0
75	4.25	3.5	5.0
76	4.25	3.5	5.0
77 & LATER	4.25	3.5	5.0

FY 76 BUDGET ESTIMATES

FISCAL YEAR			
73	5.60	4.5 /1	6.7 /1
74	15.75	22.7 /1	8.7 /2
75	11.45	16.4	6.4
76	11.50	15.3	7.7
77	10.95	14.6	7.3
78 & LATER	7.45	8.0	6.9

/1 ACTUALS BLS
/2 LABOR ACTUAL THRU MAY '74

VG 14A

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On this next viewgraph I have shown a numerical table of the old and new BLSI, Navy projections for the future and the equal weighted composite rate which we use in outyear shipbuilding programs.

Inflation and escalation apply to all our shipbuilding programs.

As you can see in 1975 the composite rate was 4¼ percent based on 3½ and 5 percent.

For the 1976, as you can see, the composite rate has increased considerably due to the increases in material and labor indices. We are now using the lower columns which show, for example, in 1974, 15¾ percent, 11.45 percent in 1976, and so forth.

Those are the indices we are now using.

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OTHER FACTORS

- INCREASED COMMERCIAL SHIP ORDERS
- INCREASING WORKFORCE - DECREASED PRODUCTIVITY
- MARKET PLACE CONDITIONS
- UNDERESTIMATES BY NAVY/CONTRACTOR
- NAVY DIRECTED CHANGES

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There are other impacts, many of them economic related, that increase our ships costs in different degrees and that are not reflected in the pure inflation and escalation factors that I have just discussed.

For example, the greater rate of inflation experienced by foreign countries over the past few years have made our shipyards more competitive and this, coupled with the commercial shipbuilding emphasis brought about by the Merchant Marine Act of 1970, and the increasing energy demand resulted in a significant growth in our shipyard orders. As a result, the shipbuilding work force has been increased, especially in a number of yards that are also committed to Navy work.

Workforce increases often result in decreased productivity especially when journeymen become supervisors and are replaced by apprentices, we have also experienced craft shortages in certain skills because of competition with the building industry. Decreased productivity and skill shortages mean that increased man hours are needed to build the ship thus increasing costs and stretching out the building time.

Another factor causing increased costs results from market place conditions that are economically related, such as fewer suppliers in the shipbuilding business. Environmental regulations and higher costs force some vendors out of the business of supplying shipbuilders. Foundries, with their smoke and pollution problems are a good example. When this happens, overall capacity is reduced and this means fewer bidders and concomintantly higher prices.

There are also instances of cost underestimates by the Navy or lack of performance by the contractor on a particular contract. For instance both Litton and the Navy grossly underestimated the difficulties in starting up a new shipyard. In like manner both the Navy and Boeing underestimated the difficulties involved in starting a shipbuilding program—the PHM.

The Patrol Hydrofoil, which is being constructed in what is essentially an aircraft industry.

These higher costs are not the result of inflation but may be exacerbated by inflation in the sense that either the Navy or the contractor failed to foresee the changes in costs, productivity, or lead time evident today.

Another factor which has increased the costs of prior year shipbuilding programs are program changes, necessitated because of emergent requirements, changes in the threat, or changes needed to enhance a ship's performance upon delivery.

Aside from the impact of inflation and escalation and program changes which can be calculated, it is impossible to determine precisely the impact of each of these various other factors which led to higher costs.

The net effect of all of these factors has been lengthening of delivery times, a requirement that price for orders be established upon delivery rather than at time of placement of order—thus at higher costs—and a demand by shipbuilders for greater protection from the uncertainties of the economy by means of extended escalation coverage.

Finally there is the claims situation which drives ship costs upward. Claims generally result from reasons such as a desire to rectify a poor profit situation or in some cases the need to seek adjudication on an honest disagreement between the Government and the contractor.

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The result of all of the above puts the Navy SCN budget in a deficit situation for both fiscal year 1974 and prior programs and those for fiscal year 1975. The total SCN deficit amounts to $2,269.3 million.

$1,348.3 million of the total deficit stems from requirements on the fiscal year 1974 and prior year shipbuildings programs all of which are now under contract. The remaning $921 million is for the fiscal year 1975 programs.

The details of the deficiency on the fiscal year 1975 program are shown on this viewgraph.

[VG15.]

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FY 75 SCN PROGRAM

PROGRAM	PRIOR YEAR ADV. PROC.	APPROP. TOA	TRANSFERS IN PROCESS	TOTAL BUDGETED THRU FY 75	REPRICED PROGRAM	RESIDUAL DEFICIT BUDGETED IN FY 1976	CONTRACT ESCALATION	GFE INFLATION	PROGRAM CHANGES	TARGET TO CEILING	OTHER
SSBN (C)	82.9	104.6	+32.7	220.2	272.6	52.4	-	-	-	-	52.4
AS-FBM(C)	10.9	18.3	+1.5	30.7	30.7	-	-	-	-	-	-
TRIDENT	138.0	927.0	-	1,065.0	1,260.4	195.4	136.9	58.5	-	-	-
TRIDENT (AP)	-	239.8	-	239.8	239.8	-	-	-	-	-	-
OUTFITTING(FBM)	-	3.0	-	3.0	3.0	-	-	-	-	-	-
POST DEL (FBM)	-	3.4	+.4	3.8	3.8	-	-	-	-	-	-
SSN	78.0	502.5	-	580.5	654.0	73.5	60.0	8.9	-	-	4.6
DD	198.3	457.1	-	655.4	887.9	232.5	104.3	-	46.4	81.8	-
DLGN	113.6	152.3	+2.1	268.0	337.4	69.4	41.4	13.0	-	15.0	-
DLGN (AP)	-	92.0	-2.2	89.8	89.8	-	-	-	-	-	-
FHM	3.9	92.3	-	96.2	221.2	125.0	22.1	8.9	40.6	-	53.4
FF	-	186.0	-	186.0	295.3	109.3	33.4	34.1	8.3	-	33.5
AD	-	116.7	+11.0	127.7	187.5	59.8	33.0	4.1	-	-	22.7
T-AFF	-	10.8	-	10.8	14.5	3.7	2.5	.6	-	-	.6
SWOB	-	10.4	+.1	10.5	10.5	-	-	-	-	-	-
CRAFT	-	22.0	-	22.0	22.0	-	-	-	-	-	-
OUTFITTING	-	21.9	-	21.9	21.9	-	-	-	-	-	-
POST DEL.	-	27.0	-	27.0	27.0	-	-	-	-	-	-
COST GROWTH	-	70.0	-	70.0	70.0	-	-	-	-	-	-
ESCALATION	-	71.9	-	71.9	71.9	-	-	-	-	-	-
TOTAL	625.6	3,129.0	+45.6	3,800.2	4,721.2	921.0	433.6	128.1	95.3	96.8	267.2

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The complete status of funding on each fiscal year 1975 program is shown.

This shows the deficit of $921 million. We have broken that out and I will discuss the breakout in a little detail in a few moments.

The column titled "Residual Deficit Budgeted In Fiscal Year 1976" shows the ships and the specific amounts which make up the $921 million deficit on this program.

[VG15B.]

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FY 75 SCN PROGRAM

PROGRAM	CONTRACT ESCALATION	INFLATION OF GFE	PROGRAM CHANGES	TARGET TO CEILING	OTHER
SSBN (C)	-	-	-	-	52.4
AS-FBM(C)	-	-	-	-	-
TRIDENT	136.9	58.5	-	-	-
TRIDENT (AP)	-	-	-	-	-
OUTFITTING(FBM)	-	-	-	-	-
POST DEL (FBM)	-	-	-	-	-
SSN	60.0	8.9	-	-	4.6
DD	104.3	-	46.4	81.8	-
DLGN	41.4	13.0	-	15.0	-
DLGN (AP)	-	-	-	-	-
PHM	22.1	8.9	40.6	-	53.4
PF	33.4	34.1	8.3	-	33.5
AD	33.0	4.1	-	-	22.7
T-ATF	2.5	.6	-	-	.6
SWOB	-	-	-	-	-
CRAFT	-	-	-	-	-
OUTFITTING	-	-	-	-	-
POST DEL.	-	-	-	-	-
COST GROWTH	-	-	-	-	-
ESCALATION	-	-	-	-	-
TOTAL	**433.6**	**128.1**	**95.3**	**96.8**	**167.2**

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To the right of this column are listed the factors and the amounts which cause the overall deficit.

The contract escalation column reflects the additional amounts needed to fund the Navy's estimate of costs to be incurred under the escalation clauses and with the escalation rates now reflected in our ship cost estimates.

I have already discussed at length the fact that inflation has driven the basic costs of our ships upward and that escalation is computed on the value of the basic construction contract. I have also pointed out that leadtimes are increasing and that shipbuilders are requiring greater protection from economic uncertainties by means of escalation coverage. These factors are compounded by the significant increase in escalation rates we now project for both labor and material indices for the duration of the construction period. The result of the foregoing is the $433.6 million escalation deficit shown. This amounts to 51 percent of the overall deficit.

The remaining columns to the right of the contract escalation column show the ships which have experienced increased costs resulting from inflation on Government-furnished material, increased costs resulting from necessary characteristics or program changes, increased costs necessitated as we budget ceiling cost on two ship programs and cost increases resulting from a number of other factors which are difficult to quantify precisely.

As you can see there have been many causes for the deficit we have in the fiscal year 1975 program. I am prepared to address each program or amount in detail.

The $1,348 million amount for fiscal year 1974 and prior programs is attributed to the following causes:

	Millions
Additional escalation	$716.2
Program changes	118.6
Claims	150.0
Economic, inflation and other	363.5
Total	1,348.3

The Navy is required by the full funding policy to budget for the full cost of a ship program at its outset. The objective is to provide funds at the beginning of a program for the total estimated cost of a given item so that the Congress and the public can clearly see and have a complete knowledge of the full dimensions and cost when it is first presented for authorization and appropriation.

Because of the fluctuations in the economy I've discussed heretofor, the originally appropriated amount for a ship program will require adjustment each year so that the program remains fully funded.

In practice, in Navy shipbuilding, this means that each annual appropriation request must contain the funds estimated to be required to cover the additional total cost to be incurred in completing delivery of the ships already approved. Congress has provided budget line items to allow requests for deficiencies on prior year programs. Each year we must budget every ongoing program to a fully funded status. This we are doing in our fiscal year 1976 request.

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This procedure, with some reprograming of existing funds to insure proper allocation within line items, allows those programs under contract to continue without disruption. All of our fiscal year 1974 and prior programs are under contract and work is continuing.

The deficiency in the fiscal year 1975 program presents a different problem because a large portion of these ships are not under contract. Unless we are allowed some departure from the practice of having all funds, including those for predicted escalation and inflation, in hand prior to contract award, the Navy would be unable to contract for the badly needed new ships approved by the Congress in fiscal year 1975. The Secretary of Defense considered such a situation highly undesirable from both a national defense and economic standpoint. Any alternative which would reduce ship programs would also impact severely the Navy's urgently needed fleet modernization effort. The resulting program disruptions, canceled ships procurements, legal implications on subsequent claims, and higher costs was determined to be contrary to the Government's best interests.

Because of the critical need to implement the modernization of the fleet, DOD has granted a waiver to the full funding policy for the fiscal year 1975 shipbuilding program, in order to allow us to contract for ships for which we have, in hand, sufficient funds to cover the fiscal year 1975 contractural requirements. Funds for future costs and future escalation payments are budgeted in the Navy's fiscal year 1976 request.

The fiscal year 1976 request, as I've mentioned, fully restores all prior year shipbuilding programs to a fully funded basis. Not all the funds requested however must be obligated by the end of fiscal year 1976—the last period to be covered in this year's appropriation actions. This is because large amounts of the escalation request and a lesser amount of the cost growth request are reserved to pay for costs which will not require obligation until fiscal year 1977 or later. Preliminary estimates indicate approximately $735 million of the $1,149.8 million escalation request and $128 million of the $1,119.5 million cost growth request will not require obligation during fiscal year 1976 or 1977.

As the Chief of Naval Operations has stated, the Navy urgently needs the fiscal year 1975 ships in order to maintain an adequate modernization program for the fleet. Your concurrence in the course of action being taken by the Secretary of Defense to sustain this shipbuilding effort is requested.

Mr. MAHON. We will recess until 2 o'clock.

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AFTERNOON SESSION

Mr. MAHON. Admiral Gooding, you have a brief statement, I believe.
Admiral GOODING. Yes, sir, I have.
Mr. MAHON. Will you proceed.

BIOGRAPHICAL SKETCH, VICE ADMIRAL ROBERT C. GOODING, U.S. NAVY

Vice Admiral Gooding was born in New Orleans, La., on June 27, 1918. He attended high school in Pittsburgh, Pa., and in Alexandria, Va., and was appointed to the Naval Academy in 1938. He was graduated and commissioned ensign on December 19, 1941.

Upon graduation from the Naval Academy, he was assigned to USS *Washington* and served in the radar, engineering, and gunnery departments of that battleship until July 1944, when he was assigned to Massachusetts Institute of Technology for postgraduate study. After receiving his master's degree in 1946, he was designated an engineering duty officer and assigned to the Charleston Naval Shipyard. While there, he served as Ship Superintendent, Assistant Planning and Estimating Superintendent, Docking Officer, and Design Superintendent. Transferred to the Bureau of Ships in 1949, he spent the next 6 years in research on underwater explosions, over half of them at the David Taylor Model Basin (now the Naval Ship Research and Development Center). From 1955 to 1957, he served as the Maintenance and Logistics Officer on the staff of Commander, Mine Force, U.S. Pacific Fleet From August 1957 to July 1958, he was assigned to the staff of Commander, Task Group 7.3, where he was Navy Technical Director for two underwater atomic blasts in Eniwetok during Operation Hardtack. In July 1958, he was transferred to the New York Naval Shipyard, where he became the Shipbuilding and Repair Superintendent. In August 1962, he reported to the Special Projects Office as head of the Navigation Branch. In September 1964, he was promoted to Deputy Technical Director, and in February 1965, he was designated Technical Director of the Navy's Special Projects Office, which concerns itself with the Polaris and Poseidon weapons systems. As Technical Director, Vice Admiral Gooding was responsible for research, development, production, and support of the Navy's fleet ballistic missile weapons system.

Vice Admiral Gooding wears the American Defense Service Medal, the American Campaign Medal, the European Campaign Medal, the Pacific Campaign Medal, the World War II Victory Medal, and the National Defense Service Medal.

Vice Admiral Gooding is the recipient of the Rear Adm. William S. Parsons Award given by the Navy League of the United States for scientific and technical progress. He received this award on April 25, 1968, while serving as Technical Director of the Special Projects Office.

On August 30, 1968, Vice Admiral Gooding assumed command of the Boston Naval Shipyard, Boston, Mass.

For his "exceptionally meritorious service" as Technical Director in the Navy's Special Projects Office, Vice Admiral Gooding was awarded the Legion of Merit on December 3, 1968.

He was promoted to the rank of rear admiral on September 12, 1969.

On October 20, 1969, Vice Admiral Gooding reported for duty as Vice Commander, Naval Ship Systems Command.

On July 21, 1972, Vice Admiral Gooding became Commander, Naval Sea, then Ships, Systems Command. On September 19, 1974, he assumed his present rank.

Vice Admiral Gooding is past president of the American Society of Naval Engineers, is a member of the Society of Naval Architects and Marine Engineers, and a member of Sigma Xi.

Vice Admiral Gooding is married to the former Joyce Waller of Alexandria, Va.

STATEMENT OF COMMANDER, NAVAL SEA SYSTEMS COMMAND

Admiral GOODING. Mr. Chairman, members of the committee. I am Vice Adm. Robert C. Gooding. I am commander of the Naval Sea Systems Command.

Two additional aspects of the shipbuilding program seem worthy of some discussion: The Navy's efforts to improve the overall management of the program, and the workload and manning situation in the shipyards involved. I propose to discuss these two things briefly.

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MANAGEMENT ACTIONS

- MERGER NAVSHIPS & NAVORD
- COST AND SCHEDULE CONTROL SYSTEMS
- SPECIFICATIONS CHANGE CONTROL
- CHANGE ORDER CONTROL
- PROJECT MANAGERS STRENGTHENED

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The Navy has been involved for several years in intensive efforts to improve the planning for an implementation of the shipbuilding program. Just to name a few:

First. We have, this year, merged the naval ship systems command and the naval ordnance systems command to effect improved total weapon system integration from beginning concepts to final disposal.

Second. We are invoking cost and schedule control systems on major contractors to insure viable and visible internal management of our shipbuilding programs with adequate reports for everyone to have all necessary data.

Third. We have established much tighter control over the preparation and changes to specifications and designs.

Fourth. We have established rigid review and control over the issuance of change orders.

Fifth. We have greatly strengthened the project manager staffs, expanded the application of project management and increased the authority and responsibility of the project managers.

We believe that, except for the impacts of economy which, as has been indicated, are beyond the control of all of us, the Navy has, and will have, firm control over the programs.

However, to put the current problem in proper perspective just how much of the deficit was, or could have been, under Navy control. From the numbers Vice Admiral Price has just shown you it can be seen that not more than about $350 million was the direct result of actions or decisions or could have been controlled in any way by the managers of the program. This number compared to the new total program value of more than $16 billion for all the ships involved shows that the cost variance is barely more than 2 percent.

This is not to say that we shall relax our management efforts or cease to find better and more efficient ways to manage this program which is of such importance to the Nation.

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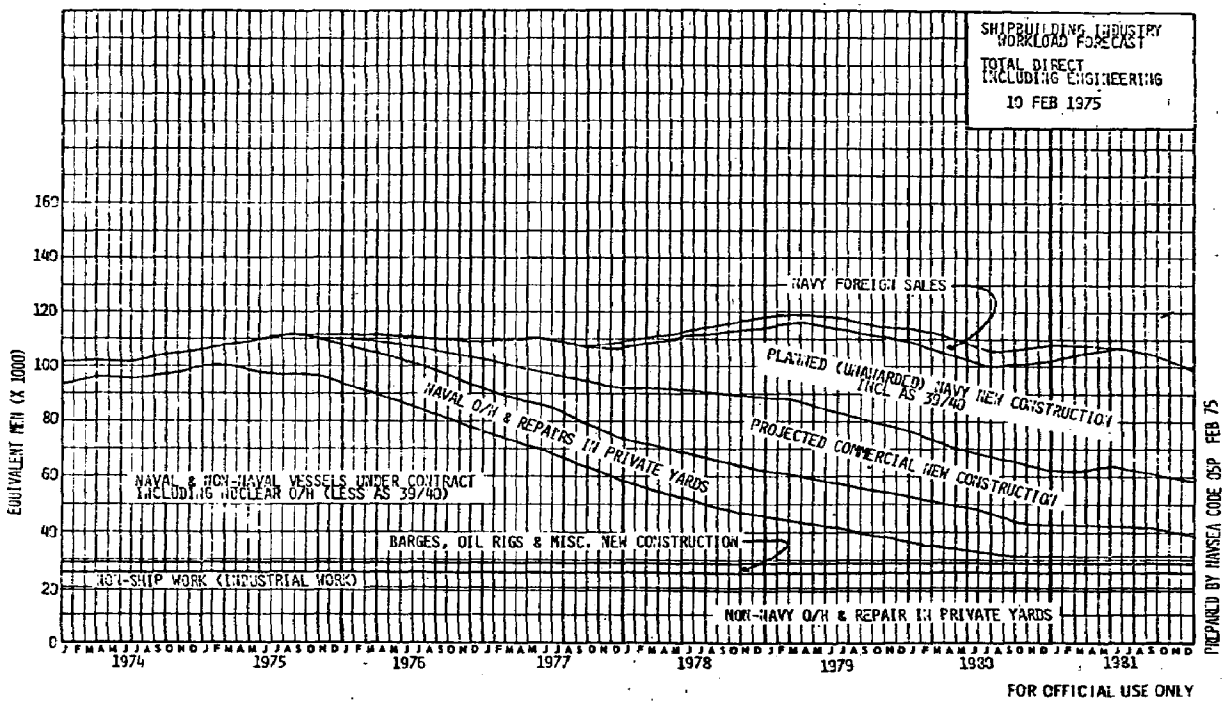

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Another aspect of the shipbuilding program which is worthy of some discussion is the workload situation in the industry. There has been considerable prior discussion relative to the industry's ability to absorb the workload involved in the future Navy shipbuilding programs. Slide No. 2 shows the direct labor workload projected for the industry through 1981. This chart shows the industry at about 103,000 equivalent direct labor employees in 1974 and growing slowly. This level of effort equates to the Bureau of Labor Statistics total direct employment level of 115,000 for 1974 after adjustments for absenteeism, vacations, holidays, and overtime. This in fact is the definition of an equivalent man-day. As this chart shows the industry would be expected to build to a level of approximately 119,000 equivalent persons by early 1979, a modest growth, well within the capability of the industry. This also presumes a fairly optimistic commercial workload which may not materialize. In fact, recently there has been a marked slackening in commercial demand.

Mr. Chairman, I am going to show you some workload curves of the shipyards involved. They are Navy estimates of the situation. They are not absolutely precise, and may not agree with the company data or estimates but do represent the Navy's best estimate of the situation.

I also brought with me charts showing workload projections of Avondale, Beth, Sparrows Point, Bath, National Steel, Todd's San Pedro yard and Seattle yard, Lockheed, along with the workload curves for Electric Boat, Newport News, and Ingalls. However, I intend to discuss only those of Electric Boat, Newport News and Ingalls rather than take up the committee's time with all of them unless of course, Mr. Chairman, I am requested to do so.

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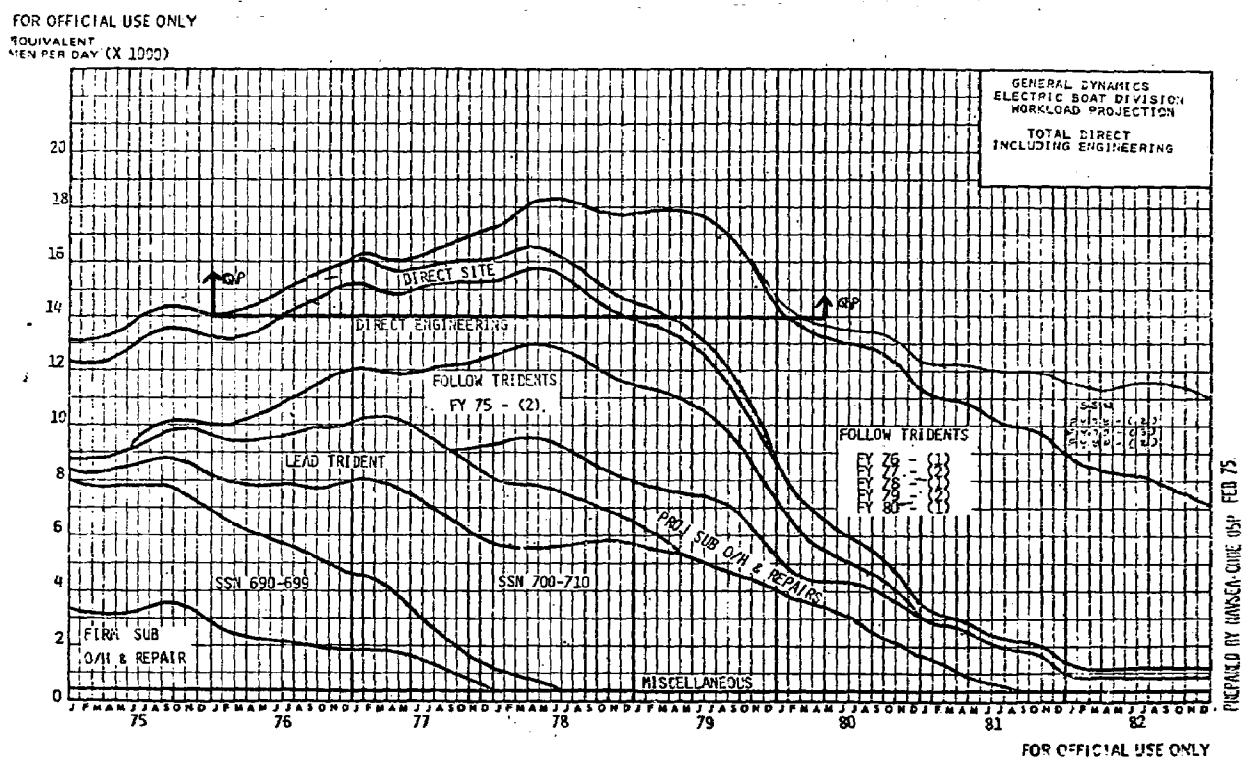

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First, let us take Electric Boat. Slide 3 portrays my estimate of both the firm and projected workloads at Electric Boat including the Trident program through fiscal year 1980. This chart reflects delays on an average of 8 months delay in delivery for each of the SSN 688 class ships. This is a more pessimistic evaluation of the Electric Boat situation than the company has provided. The company has advised the Navy that they anticipate delays in delivery of up to 11 months for the SSN 701, while maintaining the contract delivery schedules for SSN 708, 709, 710, the last three 668 class submarines currently under contract. My curve reflects an 8-month delay in delivery for each of the last three ships and also reflects a higher man-day estimate to complete these ships than is currently anticipated by the company.

Mr. Chairman, I want to reemphasize that the committee should not infer that I am saying all of these ships will slip by this amount. It is merely the conservative assumption which underlies the preparation of this chart.

I have included for illustrative purposes the projected fiscal year 1978, 1979 and 1980 program submarines on the chart. As you can see once the work force is built up to accomplish the Trident program the company can build these follow submarines readily and will require additional work to maintain the work force level. The Quonset facility will be used for more than just Trident work. However, I have also shown on slide 3 a straight line up toward the top cutting off the amount of workload required of the yard's new facility in Quonset, R.I. I have placed this line on the chart to show you the percentage of the workload that is planned by Electric Boat to be accomplished at the new Quonset Point facility. Before leaving slide 3 I would like to discuss the projected delays and deliveries of the SSN 688 class submarines. I previously stated that it was reasonable to be optimistic about Electric Boat's ability to deliver the later submarines on their contract delivery schedules.

However, a number of events occurred which unfortunately precluded this from happening. This included the delay in getting the Quonset Point facility into operation due primarily to long delays in negotiating agreement over use of the old Naval Air Station property with both the State and Federal governments. Another reason was the inability of the contractor constructing the land level facility in E. B. to obtain steel for that facility, as a result, that facility is being finished 6 to 8 months behind schedule and this has caused many of the delay problems, since the production schedules for the ships were tied to the new facility schedule. In summary, though I am somewhat more pessimistic than Electric Boat about their ability to build and deliver submarines to schedule, I have reasonable confidence that the schedules which we used in developing this curve which call for delivery of the lead Trident by its contract delivery date, are attainable.

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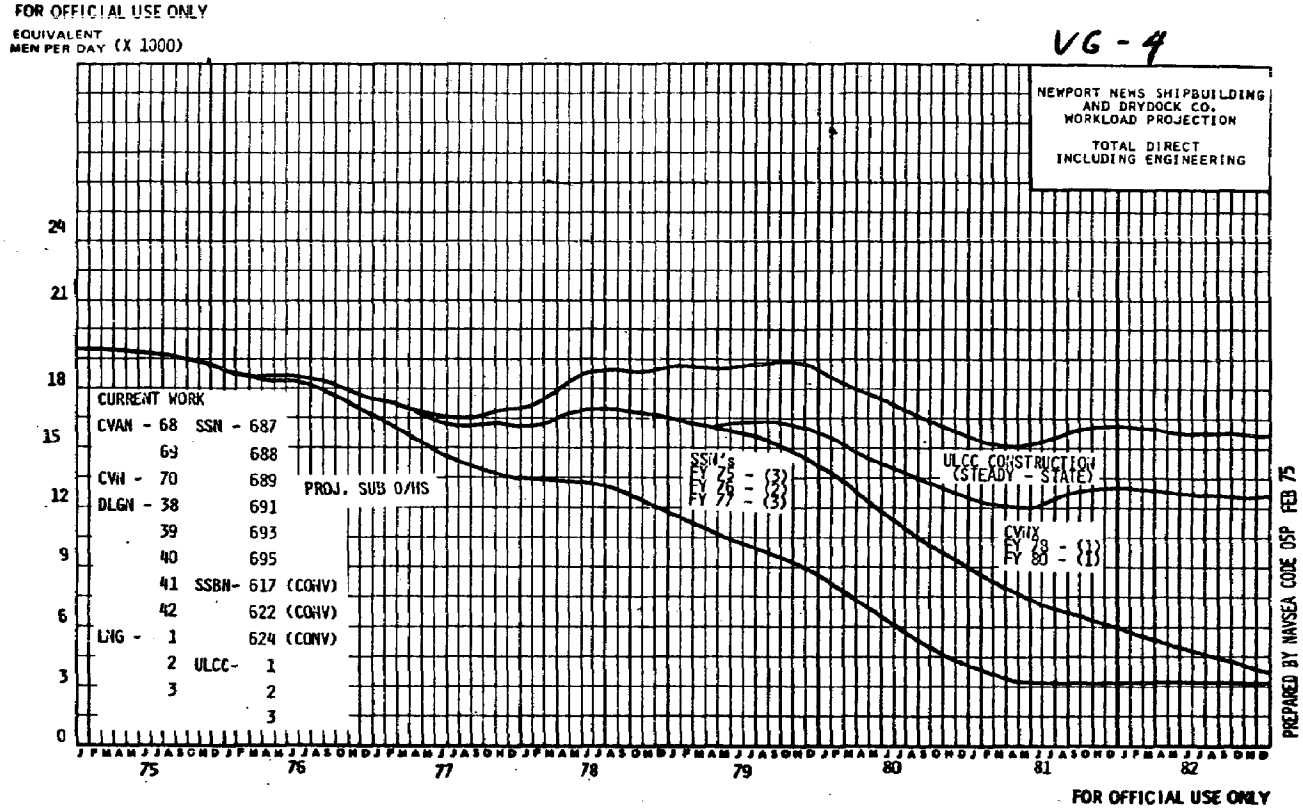

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Next I will briefly review Newport News workload as shown on slide 4. I have previously discussed the delays in delivery of the ships in that yard. When I appeared before the committee last year, I pointed out that, although the company was still in a buildup mode, the company's anticipated workload would start to rapidly decline in about 18 months, unless the company obtained new work. Because of economic conditions and future outlook, the company chose not to continue this buildup, but to dampen out its workload falloff by rearranging the construction schedules for the ships in hand. To illustrate the workload situation at Newport News as it now appears to me, slide 4 shows my estimate of the workload in that shipyard including the submarines in fiscal year 1975, 1976, 1977 programs, together with two nuclear aircraft carriers contained in the Navy 5-year defense plan as well as a steady state tanker workload for the new facility which Newport News is building in the north yard. In view of the current tanker market, the company's ability to be able to attain this steady state workload appears somewhat optimistic. This company obviously must find new business quickly if it is to maintain its current work force.

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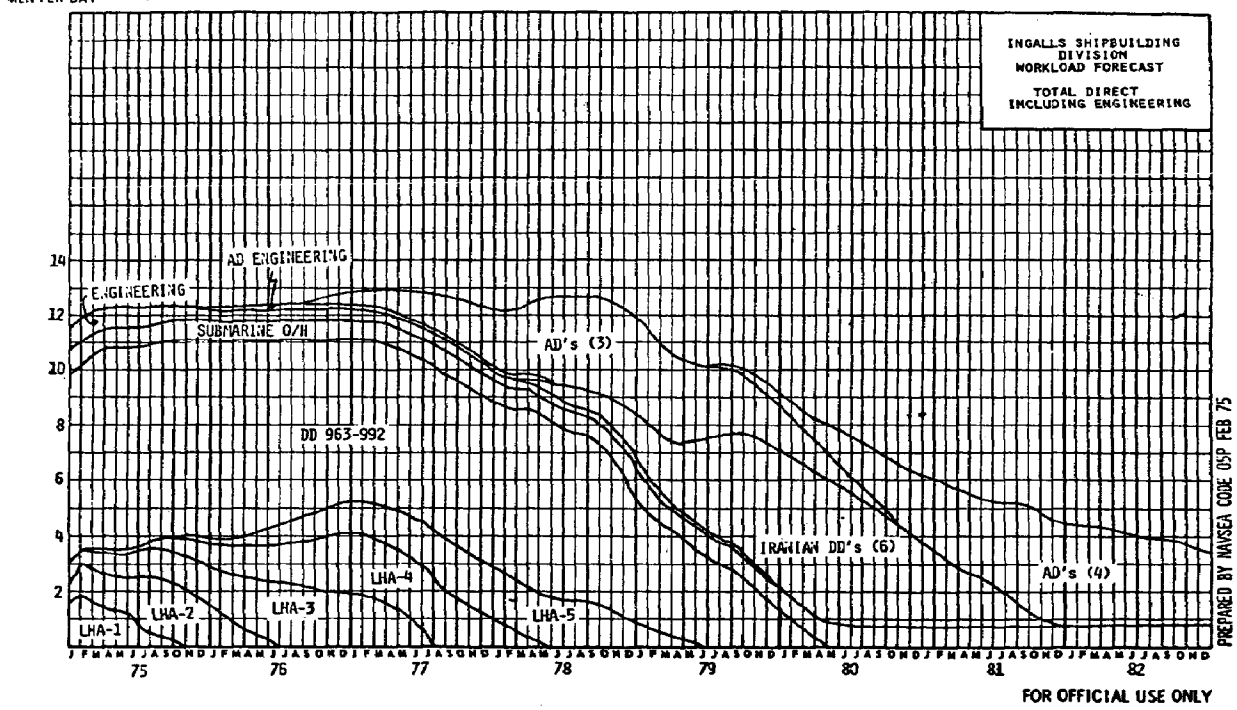

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Finally, slide 5 shows the Ingalls workload projection based on my estimate of man-days required to complete the ships with corresponding delivery schedules. This reflects a stretch out of the DD program with delivery of the last ship 20 months later than the current contract delivery schedule. I have previously discussed the Ingalls situation at length with this committee. Again I am considerably more pessimistic, or possibly more realistic, than the company. However, even with the pessimism and the projected Iranian DD program which will follow the Navy DD program, this yard needs additional work quickly if it is to maintain the workforce it now has. For illustrative purposes, I have shown the workload which would be generated by contracting to Litton the 7 AD's in the Navy's 5-year defense plan, as you can see this workload, or some other equivalent workload being awarded starting in fiscal year 1975, would fit nicely into the shipyards workload projection.

Thank you Mr. Chairman, that concludes my presentation.

Cost Growth in Shipbuilding Programs

Mr. Mahon. Thank you very much, Admiral Gooding.

I think it would be well at this time for Mr. Murphy of our staff to propound some questions in behalf of the committee with respect to the shipbuilding program. Can you proceed?

Mr. Murphy. Yes, thank you, Mr. Chairman.

Admiral, please provide for the record for each ship in the $2.3 billion request a comparison of (a) the contract award date used in the original budget submission with the actual or current estimated contract award date as applicable; (b) the estimated start of construction date used in the original budget submission with the actual or current estimated start of construction as applicable; (c) the date of launch used in the original budget submission with the actual or current estimated date of launch, as applicable; (d) the delivery date used in the original budget submission with the actual or current estimated delivery date as applicable; and (e) the man-hours of labor by fiscal years used in the original budget submission with the actual or current estimated man-hours of labor by fiscal year as applicable.

[The information follows:]

It is assumed that the purpose of the question is to determine how much of this $2.3 billion request results from a deviation in Navy planning or performance from the Navy original plan and I will endeavor to answer it in that context. First, let me point out that the intermediate dates between award and delivery such as, start of construction, keel, and launch dates have no real effect on the determination of the cost of the contract or on the escalation to be paid. I am therefore providing for the record the originally planned award and delivery dates for those ships involved in the $2.3 billion deficit, together with the actual or current estimated award and delivery dates. The difference between the original planned delivery schedules in the original budget and the original negotiated contract delivery schedules may have affected the amount of escalation which will ultimately have to be paid. However, the contract escalation clauses generally provide for payment of escalation to the original contract delivery schedules and are not usually adjusted to the actual delivery schedules. Therefore, I am providing a time phasing of the man-hour runout used at the time of the award of these ships and the one used for the current escalation calculation. In the case of the unawarded ships we have used the original planned time phasing and the current planned time phasing.

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Program year	Ship type and hull Nos.	Award [1]		Delivery	
		Original	Act/Est.	Original	Act/Est.
1964	DE–1056, 1059, 1061	3d qtr., FY 1964	July 22, 1964	4th qtr., FY 1967–2d qtr., FY 1968	8/69–2/70.
1965	DE–1068, 1072, 1075, 1077	4th qtr., FY 1965	do	4th qtr., FY 1969–3d qtr., FY 1970	5/70–12/70.
1965	AOR–1, 2	do	June 2, 1965	4th qtr., FY 1968–1st qtr., FY 1969	5/69–10/69.
1966	LPH–12	3d qtr., FY 1966	June 16, 1966	4th qtr., FY 1969	6/70.
1966	LSD–37–39	do	Feb. 25, 1966	4th qtr., FY 1969–2d qtr., FY 1970	8/70–4/72.
1966	DE–1078–1087	4th qtr., FY 1966	Aug. 25, 1966	2d qtr., FY 1970–2d qtr., FY 1971	4/71–8/72.
1966	AOR–3, 4	3d qtr., FY 1966	July 6, 1966	2d qtr., FY 1969–3d qtr., FY 1969	5/70, 10/70.
1967	LSD–40	3d qtr., FY 1967	May 2, 1967	3d qtr., FY 1970	11/72.
1967	DE–1088–1097	2d qtr., FY 1967	Aug. 25, 1966	2d qtr., FY 1971–1st qtr., FY 1972	10/72–10/74.
1967	AOR–5, 6	do	July 19, 1967	1st qtr., FY 1970–2d qtr., FY 1970	10/71, 7/73.
1969	LHA–1	July 1968	May 1, 1969	1st qtr., FY 1973	9/75.
1970	DLGN–38	3d qtr., FY 1970	Dec. 21, 1971	1st qtr., FY 1975	5/76.
1970	DD–963–965	1st qtr., FY 1970	June 25, 1970	2d qtr., FY 1975–4th qtr., FY 1975	4/75–12/75.
1970	LHA–2, 3	November 1969	Nov. 15, 1969	3d qtr., FY 1973–4th qtr., FY 1973	5/76–6/77.
1970	CVAN–69	1st qtr., FY 1970	June 30, 1970	3d qtr., FY 1974	6/77.
1971	DLGN–39	3d qtr., FY 1971	Dec. 21, 1971	1st qtr., FY 1976	1/77.
1971	DD–966–971	do	Jan. 15, 1971	1st qtr., FY 1976–1st qtr., FY 1977	5/76–6/77.
1971	LHA–4, 5	November 1970	Nov. 6, 1970	2d qtr., FY 1974–4th qtr., FY 1977	5/78–4/79.
1972	SSN–695–699	3d qtr., FY 1972	Jan. 24, 1972	1st qtr., FY 1977–4th qtr., FY 1977	10/77–7/78.
1972	DLGN–40	do	Jan. 21, 1972	4th qtr., FY 1976	9/77.
1972	DD–972–978	January 1972	Jan. 26, 1972	1st qtr., FY 1977–3d qtr., FY 1977	8/77–3/78.
1973	SSN–700–705	3d qtr., FY 1973	October 1973–December 1973	1st qtr., FY 1978–3d qtr., FY 1978	8/78–11/79.
1973	PF–109	April 1973	October 1973	June 1977	6/77.
1974	SSBN–726 (Trident)	2d qtr., FY 1974	July 25, 1974	2d qtr., FY 1978	4/79.[2]
1974	SSN–706–710	4th qtr., FY 1973	October 1973–December 1973	1st qtr., FY 1979–4th qtr., FY 1979	1/80–1/81.
1974	DD–979–985	February 1974	Jan. 15, 1974	4th qtr., FY 1977–2d qtr., FY 1978	6/78–4/79.
1974	DLGN–25 (Conversion)	2d qtr., FY 1974	November 1973	3d qtr., FY 1976	1/76.
1974	CVA–70	April 1974	Apr. 5, 1974	September 1980	9/80.
1975	SSBN–626 (Conversion)	October 1974	June 6, 1975	April 1976	1/77.
1975	SSBN–727, 728 (Trident)	2d qtr., FY 1975	Feb. 28, 1975	2d qtr., FY 1979, 4th qtr., FY 1979	4/80, 12/80.[2]
1975	SSN–711–713	3d qtr., FY 1975	June 30, 1975	1st qtr., FY 1980–2d qtr., FY 1980	1/80–1/81.
1975	DLGN–41	3d qtr., FY 1975	Jan. 31, 1975	October 1978	10/78.[3]
1975	DD–986–992	3d qtr., FY 1975	Jan. 15, 1975	2d qtr., FY 1978–4th qtr., FY 1978	5/79–4/80.
1975	PF–110–112	4th qtr., FY 1975	November 1975	3d qtr., FY 1979–4th qtr., FY 1979	11/79–1/80.
1975	PHM 3–6	4th qtr., FY 1975	Dec. 15, 1975	August–February 1978	9/78–3/79.
1975	AD–41	3d qtr., FY 1975	Aug. 30, 1975	1st qtr., FY 1979	9/79.
1975	T–ATF 166	3d qtr., FY 1975	May 1975	1st qtr., FY 1978	3/78.

[1] Also option/multiyear contract pickup date.
[2] Contract delivery date; contract also requires "best efforts" to meet earlier date.
[3] Contract option delivery date.

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[Man-hours in millions]

Program and submission	Fiscal year— 1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
70 DLGN–38—Original and current	0.147	0.653	2.478	2.453	0.569							
71 DD–966–971—Original		.294	.796	1.846	2.403	2.914	2.041	0.068				
71 DD–966–971—Current		.427	1.155	2.681	3.489	4.231	2.964	.098				
71 DLGN–39—Original and current	.049	.200	1.196	2.812	1.658	.285						
72 DLGN–40—Original and current		.011	.169	.760	2.414	2.064	.482					
72 SSN–695–699—Original and current				.233	3.108	8.533	7.905	1.631				
72 DD–972–978—Original			.321	.866	2.011	2.616	3.172	2.223	0.073			
72 DD–972–978—Current			.410	1.109	2.574	3.350	4.062	2.846	.094			
73 SSN–700–705—Original and current				.063	.533	2.983	6.896	9.509	2.516			
74 SSN–706–710—Original and current						.186	1.140	4.228	7.954	4.762	0.480	
74 DD–979–985—Original				.319	.863	2.001	2.605	3.158	2.213	.073		
74 DD–979–985—Current				.381	1.029	2.389	3.109	3.770	2.641	.086		
74 CVN–70—Original					.096	.608	2.656	8.640	12.256	7.488	.256	
74 CVN–70—Current				.032	.128	1.504	4.512	6.976	8.736	8.992	1.120	
74 DLGN(C)–25—Original					1.523	1.677						
74 DLGN(C)–25—Current					.967	2.232						
74 Trident–726—Original				.060	.936	4.476	4.992	1.536				
74 Trident–726—Current					.122	1.025	4.192	6.380	3.473	.108		
75 DD–986–992—Original					.319	.863	2.001	2.605	3.158	2.213	.073	
75 DD–986–992—Current					.365	.987	2.290	2.980	3.614	2.532	.083	
75 AD–41—Original						.140	1.080	2.440	.240			
75 AD–41—Current						.070	.420	1.840	2.070	.200		
75 T-ATF–166—Original					.005	.040	.226	.029				
75 T-ATF–166—Current					.001	.003	.158	.138				
75 DLGN–41—Original				.098	.203	1.386	2.569	2.562	.182			
75 DLGN–41—Current					.144	1.498	2.628	2.549	.381			
75 PHM–3–6—Original					.016	.249	.962	.223				
75 PHM–3–6—Current						.015	.178	1.194	1.114	.007		
75 PF–110–112—Original						.124	1.085	4.825	5.142	.124		
75 PF–110–112—Current						.021	.053	.904	3.464	.958		
75 SSN–711–713—Original							.047	.332	1.888	4.455	5.213	1.965
75 SSN–711–713—Current						.055	.414	2.346	5.023	4.319	1.546	.097
75 Trident–727, 728—Original				.112	.592	1.904	4.384	6.496	2.512			
75 Trident–727, 278—Current						.212	1.363	5.381	8.742	6.674	1.128	

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Mr. MURPHY. From fiscal year 1970 to fiscal year 1975, Congress appropriated $1,241.2 million budgeted by the Navy in each of those years for Shipbuilding and Conversion programs as claims, cost growth, escalation, and funds required to complete prior year programs. The Navy has subsequently adjusted that total to $1,292.8 million.

Admiral Price, will you provide for the record a table showing the fiscal year program and hull number of ships involved in this $1,292.8 million deficit, and identify for each the amount of increase that is due to claims, to escalation, and so forth?

[The information follows:]

Fiscal year and ship hull	Amount	Total change	Claims	ESC	Other cost growth
1957 DDG 2-9	3.1	0	0	0	0
1958 DLG 16-18	.2	0	0	0	0
1961 AGDE 1	.2	0	0	0	0
1961 CVA 66	1.3	0	0	0	0
1962 DEG 1-3	8.3	0	0	0	0
1962 DLG 29-34	2.4	0	0	0	0
1963 DE 1047-1051	6.1	0	0	0	0
1963 PG 84-85	1.1	0	0	0	0
1963 SSN 646-653	6.2	0	0	0	0
1963 LPD 7-10	19.5	0	0	0	0
1963 CVA 67	12.5	0	0	0	0
1963 AOE 2	2.0	0	0	0	0
1964 PG 86-97	.2	0	0	0	0
1964 DE 1052-1061	40.3	0	0	0	0
1964 DD 933	.2	0	0	0	0
1964 SSN 660-664, 671	9.5	0	0	0	0
1964 LPD 11-13	17.0	0	0	0	0
1965 DE 1052-1077	50.8	0	0	0	0
1965 PG 88-90	1.2	0	0	0	0
1965 SSN 665-670	5.7	0	0	0	0
1965 LST 1179	1.0	0	0	0	0
1965 AO 51, 98, 99	3.0	0	0	0	0
1965 AGS 31	.3	0	0	0	0
1965 AE 26, 27	10.6	0	0	0	0
1965 AOR 1, 2	5.6	0	0	0	0
1965 AS 36	20.5	+4.9	+4.9	0	0
1965 LPD 14, 15	14.0	0	0	0	0
1965 LKA 113-116	.2	0	0	0	0
1965 AGOR 12, 13	.2	0	0	0	0
1965 LCC 19	17.4	0	0	0	0
1965 LPH 11	11.6	0	0	0	0
1966 SSN 672-677	20.6	0	0	0	0
1966 LST 1180-1187	23.6	0	0	0	0
1966 AOR 3, 4	9.4	0	0	0	0
1966 AOE 4	5.0	0	0	0	0
1966 DE 1078-1087	49.3	0	0	0	0
1966 LCC 20	5.0	0	0	0	0
1966 AS 37	10.6	0	0	0	0
1966 AE 28, 29	7.0	0	0	0	0
1966 LSD 37-39	15.7	+1.4	+1.4	0	0
1967 SSN 678-682	13.7	−1.6	0	0	−1.6
1967 CRAFT CYFN 1236, 1237	1.2	0	0	0	0
1967 DE 1088-1097	54.7	−3.0	0	0	−3.0
1967 LST 1188-1198	20.8	0	0	0	0
1967 DLG(C) 17, 18, 21, 22, 24	2.7	0	0	0	0
1967 CVAN 68	48.9	−3.7	0	−3.6	−.1
1967 DLGN 36	25.4	+8.5	0	0	+8.5
1967 ASR 21	9.0	+1.5	0	0	+1.5
1967 LSD 40	2.9	0	0	0	0
1967 AOR 5, 6	7.7	0	0	0	0
1967 ATS 2, 3	2.7	0	0	0	0
1968 DLGN 37	42.0	+8.1	0	+.3	+7.8
1968 SSN 683-685	19.2	0	0	0	0
1968 AE 34, 35	2.8	−4.7	0	0	−4.7

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Fiscal year and ship hull	Amount	Total change	Claims	ESC	Other cost growth
1968 ASR 22	5.8	−1.2	0	0	−1.2
1969 SSN 686, 687	19.7	−2.7	0	−2.7	0
1969 LHA 1	55.8	+3.5	0	−1.0	+4.5
1970 CVAN 69	176.2	+14.0	0	+14.0	0
1970 SSN 688-690	4.6	+1.2	0	+1.2	0
1970 DLGN 38	29.6	0	0	0	0
970 LHA 2, 3	80.0	+4.7	0	−.7	+5.4
1971 DLGN 39	25.5	0	0	0	0
1971 DD 966-971	10.6	+7.9	0	+7.9	0
1971 LHA 4, 5	63.9	+7.2	0	+5.9	+1.3
1971 SSN 691-694	5.1	0	0	0	0
1972 AOR 7	1.3	0	0	0	0
1972 AS 39	38.9	0	0	0	0
1972 DLGN 40	3.8	0	0	0	0
1972 SSN 695-699	9.1	0	0	0	0
1972 DLG(C) 12, 13	0	−1.2	0	−1.2	0
1972 DD 972-978	29.2	+8.0	0	+.9	+7.1
1973 AS 40	37.1	0	0	0	0
1973 SSN 700-705	18.9	0	0	0	0
1973 PF 109	5.6	0	0	0	0
1973 DLG(C) 8	0	−1.1	0	0	−1.1
Total	1,292.8	+51.7	+6.3	+21.0	+24.4

Mr. MURPHY. Admiral Price, your statement indicates that the projection of 5 percent for labor and 3.5 percent for material per year in the past two budgets appeared to be sound until August 1973. In other words, actual performance coincided quite well with the economic factors the Navy relied upon in estimating its shipbuilding programs. And at the time the fiscal year 1975 President's budget was submitted in January 1974, the Navy had seen no significant deviation from its economic projections.

In view of this, how do you explain the $1.3 billion cost growth in shipbuilding programs since fiscal 1970, which is in addition to the $2.3 billion cost growth we are addressing today?

Admiral PRICE. I presume you mean, Mr. Murphy, the prior year escalation and cost growth?

Mr. MURPHY. Yes, Admiral. That $1.3 billion was budgeted by the Navy for claims, escalation, completion of prior year programs, and so forth.

Admiral PRICE. The claims situation I think I would ask Admiral Gooding to address. However, prior to 1972 budget, we were budgeting on a lesser degree of cost inflation both in labor and material than we saw. That was up in 1972, because there had been an increase. So part of that comes from estimates below what we were allowd to budget in the more recent programs.

That was part of the cost effort; I think probably the primary cause except for claims, and Admiral Gooding can address that one.

Admiral GOODING. I think it might be unnecessary to state, but nevertheless, let me say it.

In shipbuilding contracts since about 1951, we have included a thing called the escalation clause, which is designed to take some of the risk off the shipbuilder's back.

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CONTRACT ESCALATION FORMULA

$$\sum_{N=1}^{N} \frac{(L_N - L_O)}{L_O} (\%EL_N)(TC) + \sum_{N=1}^{N} \left(\frac{M_N - M_O}{M_O}\right)(\%EM_N)(TC)$$

WHERE: N = NUMBER OF QUARTERS BETWEEN START OF CONSTRUCTION AND DELIVERY DATE
L_N = ACTUAL QUARTERLY AVERAGE OF BLS LABOR INDEX
L_O = BASE LABOR INDEX VALUE
$\%EL_N$ = PREDETERMINED NEGOTIATED LABOR EXPENDITURE RATE
TC = TARGET COST - SPECIFIED IN CONTRACT
M_N = ACTUAL QUARTERLY AVERAGE OF BLS MATERIAL INDEX
M_O = BASE MATERIAL INDEX VALUE
$\%EM_N$ = PREDETERMINED NEGOTIATED MATERIAL EXPENDITURE RATE

This chart is an arithmetic description of the clause. It is not as complicated as it looks. It simply says that the first two terms in parentheses there are the Bureau of Labor Statistics Indices for labor in the first case, and material in the second.

The next one is an idealized curve which we negotiate at the time of the award with the contractor on how he is going to spend his labor and how he is going to spend his material.

The third is the target cost.

To those things in parentheses, if they go out of control as they have in the last couple of years, the contract says we owe the contractor money. This is not an overrun, not bad management; this is money we owe under the terms of the contract.

Now as to claims: We have not been sitting still on claims. On hand in NAVSEA is this kind of pock-marked area; you can see we are down to a figure of $228 million. The remainder has either been settled or contractor decision is in some form of litigation.

The problem drawn in black is the amount of claims now before the Armed Services Board of Contract Appeals. We are working our way down.

BUREAU OF LABOR INDICES

Mr. MURPHY. Do you use different BLI rates or escalation rates for various ships or do you use the same across the board?

Admiral GOODING. Same across the board.

Mr. MURPHY. For any kind of ship?

Admiral GOODING. Except for one variation in the Trident contract. There is a difference, there is a nonstandard material escalation index which Electric Boat preferred to the standard one, that we did not object to. Other than that, no.

Mr. MURPHY. Why did you follow the different rate in the Trident program?

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Admiral GOODING. Electric Boat thought, again these are all data from the BLS, we do not make up any data. They thought if it had a different mix of percentages track material costs better. We did not disagree.

Mr. MURPHY. Are your BLI projections of escalation for government-furnished equipment different from those for ship construction? If so, why?

Admiral GOODING. We do not use the BLI for escalation of GFE, Mr. Murphy. There is nothing in the indices which track Government material. Because it is nonstandard, BLS does not watch it, there is nothing available to track.

Mr. MURPHY. Do the man-hours of work for each ship in the fiscal year 1975 program remain the same? Or do they differ from the original budget submission in fiscal 1975 to the current request for additional funds?

In other words, have you changed the man-hours for each ship in any way?

Admiral GOODING. Yes. In case of PHM we have raised them considerably. And I certainly do not wish to mislead the committee. Both the company and the Navy blew that one.

We underestimated the man-hours to build that ship, significantly. In other ships there are minor variations in the man-hours between the amount in the budget and the amount in the contract. They vary both up and down.

Mr. MURPHY. We will get into the PHM in a few minutes.

Admiral GOODING. There is another one which Admiral Price reminds me of.

The man-hours required to complete the last three Poseidon conversions has increased.

PATROL HYDROFOIL MISSILE (PHM) SHIPS

Mr. MURPHY. What happened in the PHM program with respect to the man-hour estimate by the contractor and Navy?

How did you miss it so badly, as you indicated?

Admiral GOODING. Well, I think the first point to make is that we have not had all that much experience building hydrofoils. We built a total of four of them. Our data base therefore is kind of murky.

Second, the previous hydrofoil Boeing built, they had it built by a shipbuilder instead of doing it in their own plant. They underestimated the feet of welding by a factor of 2.4, and the cost of welding by a factor of 1.3, things like that.

Further, Boeing, who has been building good airplanes for a long time, assumed a learning curve which in our experience is optimistic.

Mr. SIKES. That factor seems very large; the differential factor seems very large. Are they more efficient in aircraft construction or was it a different type of operation?

What would explain that difference?

Admiral GOODING. They were welding light-gauge aluminum, Mr. Sikes, and some of it quite light. The amount of warpage and rework that they had to undertake was far in excess of their estimates.

In the 1976 budget you will find a figure of $40 million for tooling, hard tooling for construction. One of the principal purposes of that

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hard tooling is to eliminate a lot of this welding as being unnecessary. If you need different gauges of aluminum, you start out with half-inch thick and you gouge off a quarter of the second gauge which is something Boeing does all the time and they are very good at it. But we were startled at that differential, it was large.

Private Versus Public Shipyards

Mr. Sikes. Is there any significant difference in proficiency, normally, in a private contract operation and in a Government in-house operation?

Admiral Gooding. I would not say significant, no, sir. There are differences, yes.

Mr. Sikes. Differences on which side, the side of the private operator?

Admiral Gooding. On the side of the private operator in general.

Mr. Sikes. Why?

Admiral Gooding. A number of reasons. One is the pay of the average shipyard worker, pay and fringe benefits is somewhat higher than the average private shipyard worker.

Second, the mission of the navy yards is to repair ships and, in order to insure that is what they do, the CNO establishes a priority list of what they will work on first when it comes to a crunch. If you have a casualty at sea or a fire in an aircraft carrier, the navy yard is not permitted to refuse that work no matter how loaded he is. He will accept the work, stop the work on new construction because it is low on the priority list, and when the aircraft carrier, or whatever, is fixed, he will resume work.

This delay in construction is expensive.

Mr. Clements. Mr. Congressman, may I comment on that?

Mr. Sikes. Of course.

Mr. Clements. When you raise the issue of new construction and the differential between doing new construction in a navy yard and in a private yard, it is a very interesting and pertinent point. Under a considered policy, both in the Congress and in the executive branch, it was determined a number of years ago to cease putting new construction in navy yards for the conventional wisdom, that there was a 30 percent cost differential in favor of the private yards.

Today I am not sure at all that this is a valid number. And certainly if you consider the intangibles that have to do with some of the very things we talked about earlier this morning, adequate specifications, naval architects, learning curve on new construction and project management, some of the very things that Admiral Gooding has listed on his chart there, we in the Navy have lost those capabilities because we have no new construction underway in our naval shipyards.

We are using the naval yards completely for repair and maintenance of the fleet. That is a very important point. And we are getting ready to try to work back through OMB and back through Congressman Bennett's subcommittee and all, and bring back some small percentage—and there is no magical number here—5 or 10 percent of new Navy construction and put it in the navy yards in order for us to build this cadre of experience—of people who can help us solve some of the very problems we are talking about here.

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Mr. SIKES. I think it is very important that we have this explanation in the record.

Admiral GOODING. Mr. Sikes, if I may just add, another problem we have had with navy yards is normally we built one of a kind, a lead ship, which is always expensive. In the one instance I can think of where we did not do that—in connection with the POLARIS program, after building six ships, Mare Island was within $1 million of EB; Puget Sound turned out two POLARIS tenders and was competitive with Ingalls.

So the navy yard is not necessarily and de facto more expensive. It can be competitive if you choose to do it that way.

CHANGES IN MAN-HOURS OF WORK

Mr. MURPHY. Do the man-hours of work for each ship in the fiscal year 1974 and prior years remain the same as that on which your original budget was based? If not, will you provide the difference for each ship?

[The information was provided in answer to an earlier question.]

PATROL HYDROFOIL MISSILE (PHM) SHIP

Mr. MURPHY. We would like to turn to the patrol hydrofoil missile ship.

With respect to the welding problem in the case of the PHM, is the contractor now going to automatic welding procedures or is it still going to be manual?

Admiral GOODING. He is going to use as much automatic as he possibly can. There will be some unavoidable amount of stick-welding to be done. He is trying to eliminate all the welds he can get out of it. He has done very well in that respect.

Mr. MURPHY. Congress appropriated $65.8 million in the R.D.T. & E. budget to build two lead PHM ships. In fiscal year 1975, Congress provided a total of $92.3 million for the construction of four follow-on PHM's. You now advise us that you require $221.2 million for those four ships, an increase of $125 million. These four ships would now cost $55.3 million each instead of the $22.9 million we were told last year. Why do you charge $84.4 million of this $125 million increases to inflation and ecomonic escalation?

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PHM AVERAGE FOLLOW SHIP COSTS

28 SHIP PROGRAM	
ORIGINAL 1972 DCP GOAL (FY74$)	$18.0M
ESTIMATE CHANGES	+$ 7 6
HIGHER INFLATION AND ESCALATION	+$21 5
CURRENT ESTIMATE OF THAT PROGRAM	$47 1M
(IF FY 72 SCN APPLIED)	($ 47. 4M)
23 SHIP PROGRAM	
START UP COSTS	1. 7
OUTFITTING AND POST DELIVERY	2. 0
FCC	. 1
PROCUREMENT UNIT COST	$51. 2M
IF R&D PROGRAM ADDED	$52. 4M

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Admiral PRICE. If I could put up the chart on the PHM average cost, we must charge, although there have been increased man-hours, Mr. Murphy, and increased material costs, however, as you can see, our original 1972 design-to-cost goal was $18 million per ship in 1973 dollars. We have had estimate changes of $7.6 million, and this includes such things as the increased man-hours to build the ship, the fact that our original estimates were based on foreign ship costs of the gun and fire control system—we now have our own costs—things of that nature.

However, if you will notice $21.5 million is the result of higher inflation and escalation indices than we predicted originally. That is pure escalation inflation. That was on the 28-ship program, which we proposed at that time. For a 23-ship program, which we now are looking at, you can see that we have additional start-up costs that have to be prorated. Also our outfitting and post-delivery costs must now be increased because of higher costs. So the $51.2 million without R. & D. or $52.4 million with R. & D. are the current unit costs of this program. So you have roughly $25.6 million, made up of the $18 million and $7.6 million. The remainder of $21.5 million is strictly inflation and escalation.

Mr. MURPHY. Are you saying then that the increase in cost has nothing to do with the fact that it is going to take you longer building the ships, and they will be built in later fiscal years?

Admiral PRICE. No, sir. The $7.6 million includes the larger number of man-hours to build the ship, and things of that nature. We have said both the Navy and Boeing made bad estimates. The inflation and escalation just follow the natural trend of all programs. The lead times for material lengthened a bit. You have to pay for those things.

Of course, no contractor will take a contract unless he is adequately covered by what he thinks the escalation and inflation clauses will be. If it takes longer to get materials, of course that particular curve tends to be slightly elongated due to the fact that it takes longer to get the material and to build the ship.

Mr. GIAIMO. Do I understand that those ships which were originally to cost $18 million would now cost $47.4 million for the 28-ship program?

Admiral PRICE. That is correct.

Mr. GIAIMO. And $52.4 million for a 23-ship program?

Admiral PRICE. That is right, sir.

Mr. GIAIMO. How long ago was it that they were represented as being capable of being constructed at $18 million?

Admiral PRICE. It was actually in the 1973 program, but stated in fiscal year 1974 dollars.

Mr. GIAIMO. So that $18 million is in 1974 dollars?

Admiral PRICE. Yes, sir, as we predicted at the time we started the program.

Mr. GIAIMO. Is the $47 million 1974 dollars?

Admiral PRICE. No, that is current then-year dollars when the ships will be delivered.

Mr. GIAIMO. Is that current?

Mr. CLEMENTS. Then-year.

Mr. GIAIMO. Is that current?

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Mr. CLEMENTS. Yes, sir.
Mr. GIAIMO. Projected?
Mr. CLEMENTS. Yes, sir, as we project the cost to be.
Mr. GIAIMO. How many years hence?
Mr. SIKES. In what calendar year?
Admiral PRICE. The last ones will be completed——
Mr. GIAIMO. When will the first be completed?
Admiral PRICE. It is now floating.
Mr. GIAIMO. That then-year is this year?
Admiral PRICE. For that one.
Mr. GIAIMO. When will the last one be done?
Admiral PRICE. The last one will be budgeted for in 1978.
Mr. SIKES. Fiscal 1978?
Admiral PRICE. Fiscal year, yes. Delivered about 40 months from that.
Mr. GIAIMO. That is going to cost us how much?
Admiral PRICE. That last one? About $50 million a boat.
Mr. GIAIMO. In what year dollars?
Admiral PRICE. In 1978 dollars.
Mr. GIAIMO. You hope.
Admiral PRICE. Well, if the escalation and inflation indices follow the predictions we have made, yes, sir.
Mr. GIAIMO. These are those hydrofoil ships, are they not?
Admiral PRICE. Yes, sir.
Mr. SIKES. What did you say the cost of the last ship will be?
Admiral GOODING. About $50 million.
Mr. SIKES. About $50 million.
Mr. MURPHY. In what fiscal year?
Admiral GOODING. 1978.
Mr. MURPHY. 1978?
Admiral GOODING. Yes.
Mr. MURPHY. What is your building rate for this ship?
Admiral PRICE. Sir?
Mr. MURPHY. What is your building schedule for this ship? You have two in fiscal 1976.
Admiral PRICE. And nine in fiscal year 1977 and eight in 1978.
Mr. MURPHY. That is 19 ships.
Admiral PRICE. Sir? We had 4 in 1975, 2 in 1976, and that would make it 23, sir, with the one R. & D., we have a total program of 24 ships.
Mr. MURPHY. The additional year in which the last eight ships will be built is fiscal year 1978.
Admiral PRICE. That is when we fund, sir.
I would like to point out that our costs for those include our projected escalation during the building period, that is also in that cost.
Mr. CLEMENTS. The record should be clear that what we are really talking about here is the last ship out of this program will be delivered in 1983. And that program right there includes the payments for that ship in 1983. So these are then-year dollars.
Mr. MURPHY. That is what we have been trying to determine, Mr. Secretary.
Mr. CLEMENTS. That is right.

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Mr. MURPHY. What I would like to know is: When the program was presented last year, when was the last ship to be delivered? I recall they were all to be built in 3 years.

Admiral PRICE. Yes, sir. It would have been funded in——

Mr. MURPHY. I am looking for the comparable date of 1983.

Admiral PRICE. Yes, sir. The last one then would have been funded in 1983—I mean delivered, excuse me, delivered in 1981.

Mr. MURPHY. 1981?

Admiral PRICE. Yes.

Mr. SIKES. What is the cost of the ship which is now floating, the first ship?

Admiral PRICE. That cost, sir, is an R. & D. cost. That will be, to the United States it is $89.4 million. And, of course, both Germany and Italy have also paid a portion of the costs of that.

Mr. GIAIMO. Would you yield?

Mr. SIKES. Yes.

Mr. GIAIMO. You mean if we take out the portion of the cost paid by Germany and Italy, it would be more than the $89 million?

Admiral PRICE. No, sir; that is what it cost the United States. In addition to that, Germany and Italy paid $22 million.

Mr. GIAIMO. Right. So the total ship cost is what the United States plus Germany and Italy paid, or $111 million?

Admiral PRICE. Which is $111.6 million?

Mr. GIAIMO. $111.6 million?

Admiral PRICE. Yes, sir.

Mr. GIAIMO That is R. & D. expense?

Admiral PRICE. Yes, sir.

Mr. GIAIMO. One of four ships?

Admiral PRICE. No. There were two ships originally. When we had the overruns in cost, we suspended any construction on No. 2 and finished No. 1. We will pick what remains of No. 2 and it will be used in the first production run.

Mr. GIAIMO. Did you say that the current ship did cost $47 million?

Admiral PRICE. No, sir. I said that is the average cost, the average cost of the ships in the program.

Mr. GIAIMO. Will be $47 million?

Admiral PRICE. That is correct, sir.

Mr. GIAIMO. What did you pay for the last ship that you completed?

Admiral PRICE. I will have to provide that for the record, sir. It comes off a learning curve. I would have to get the last ship's cost.

[The information follows:]

The last ship of a 28-ship procurement would cost an estimated $50.7 million in fiscal year 1978 dollars.

Mr. MURPHY. I believe the first ship will cost, what, $90 million?

Admiral PRICE. The first ship?

Mr. MURPHY. The first R.D.T. & E. ship.

Admiral PRICE. That is $111.6 million.

Mr. MURPHY. The first ship cost $111.6 million?

Admiral PRICE. Well, it is finishing the one, plus we had ordered all the material, and it is on hand, for No. 2. But we are not going to complete No. 2 under R. & D. We propose to do that as part of the first construction buy.

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Mr. EDWARDS. How bad does the Navy really want this ship?

Admiral PRICE. Well, sir——

Mr. EDWARD. Is it a high-priority item?

Admiral PRICE. All of our ships, Mr. Edwards, are high priority items.

Mr. EDWARDS. That is no answer.

Admiral PRICE. No, sir. But we do have great usage for this ship. It has a lot of capability.

Mr. EDWARDS. I keep hearing that you folks have kind of lost interest in it, that the great salvation is going to be in sales to foreign countries. You have droped to 23 ships now, is that right?

Admiral PRICE. We have 23 currently in the budget, sir. The actual numbers of force levels, if there are any beyond that, will be determined in the program years as we go out, what we can afford and what our budgets are and things of that nature.

These ships will free up in a lot of areas our larger ships for the jobs they have to do out in the open ocean. They will be able to do quite well in a number of jobs and free up our larger ships for their prime missions.

Mr. MURPHY. Getting back to the escalation, if we could have that chart back, please, Admiral——

MODERNIZATION OF OLDER SHIPS

Mr. SIKES. May I ask a question before you do that?

A number of years ago we had some quite interesting discussions with Pentagon officials about improving, modernizing, making do with existing equipment rather than building new equipment.

One of the best examples that has come out of that is the tank. We were then thinking about the new main battle tank which, when developed, was going to be astronomical in cost, if and when we get one built. And while the plans are still being developed for a new main battle tank, we are refitting an older tank we have in inventory, a tank we actually had in inventory at the time of the discussion some 2 or 3 years ago.

There does not seem to be too much disappointment about the product. We get glowing acounts now of how effective it is going to be in comparison with other tanks.

Is the Navy overlooking a bet? Could we have or could we now refit and modernize existing ships at a substantial savings and yet find ourselves with effective, improved weapons?

Admiral HOLLOWAY. Let me start off, if you will, Admiral Price.

We have done this with virtually every successful ship program we have had. We took the World War II destroyers, and we rebuilt them as FRAM–I and FRAM–II ships and greatly extended their useful life.

I can point to the pre-World War II design *Essex* class carriers, such as the *Oriskany* and the *Hancock*, which will be retired this fiscal year.

The *Hancock* fought through three wars: World War II, Korean War, and Vietnam, because we did put maintenance money into the ship, and we modernized it to the point where it could operate modern aircraft which would meet the threat.

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But we do reach a limit. The *Hancock*, for example, we consider has reached its limit and cannot be operated beyond this fiscal year without putting exorbitant funds into completely rebuilding the ship. We feel that we have to retire that ship. But I will say that our efforts along these lines have not been fully explored and the Sea Systems Command is at the present time conducting a study looking at our aircraft carrier inventory to see if we cannot take, for example, the *Forrestal* class of carrier and put it through a progressive rework very similar to what we do with aircraft to extend the life of those ships out beyond the nominal 30 years.

At this point, though, I would say we have no real experience in successfully operating a major combatant beyond 31 or 32 years.

Admiral PRICE. Take the example of our DLG's. We have just completed modernization, Mr. Sikes, of those ships; given them updated weapons systems, radars, digital command and control sytems, to make them able to cope with the current threats and the ones which we project in the near future.

However, you do reach a point eventually where the electrical power in a ship, the actual condition of propulsion machinery, have deteriorated, the hull has also, and you cannot extend the life any longer. It then is cheaper to build a new ship than to update the old ones. We do try to update the old combatant ships once or twice during the lifetime of the ship.

Mr. SIKES. So you do not feel that there is a promising future in refitting and modernizing existing ships?

Admiral PRICE. Well, yes, we do, sir, and we do do this and plan on it, as I stated.

Mr. SIKES. I am talking about at the present time as a substitute for the high-priced new ships.

Admiral PRICE. No, sir.

Mr. SIKES. I know that you do modernize and refit ships. I am not talking about a new scheme, I am talking about something that could substitute for the cost of a new shipbuilding program.

Admiral PRICE. That would still leave us without building up to the number of ships we need.

Admiral HOLLOWAY. May I take that, Mr. Congressman?

The answer is that to get an old ship which is coming close to retirement at the age of about 30 years would require funding that would approach the construction of a new one and yet we would not have any assurance that we really had a good product.

I would like Admiral Gooding to comment on this. That is, I believe, from the broad aspect the way we see it today.

Admiral GOODING. Yes, sir.

When a ship is say 25 years old, you find out that the things that break cannot be fixed because the guy that made the thing is out of business or would not make spare parts.

Your piping runs are deteriorated, cable runs are deteriorated, the ship is probably too small or too slow to put in modern weapons systems anyway, they just will not fit, and if they would, you do not have enough room to put in the electrical power required to run them, and the air-conditioning. When you start out with a 25-year-old ship, where you have to replace hull plating because it is too thin, miles of piping because it is too thin, miles of wiring because the insulation has

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broken down, and then have to find room for new generators to power the new weapons systems, you face a bill that is absolutely astronomical.

Mr. SIKES. What are other navies doing, the Russians, the allies? I know what the Russians are doing, they are building modern ships, I do not know how many in comparison to ours. If you know, I would like to get it, particularly what are the allies doing about it. Are they making do with what they have, are they buying old ships from us, are they refitting and modernizing or building new and modern ships?

Admiral HOLLOWAY. Mr. Congressman, the major powers have a very modest shipbuilding program. The British and the French are retiring their marginal ships, and not attempting to keep them in the inventory because of the great expense. They are not modernizing but simply operating their ships from day to day.

You are absolutely correct in the case of the Russians, they have a very young navy, they are continuing to build. They have modernized some of their older cruisers, such as the old gun cruisers they have converted to command ships in a fashion very similar to what we did when we converted our gun cruiser to antiaircraft cruisers. The smaller navies——

Mr. SIKES. Is Russia building as many new modern ships as we are, or more?

Admiral HOLLOWAY. They are building substantially more.

In the past decade, they have expended, I think, three times as much in new ship construction as we have. They have outproduced us in the field of surface combatants over the past 5 years on a 2-to-1 ratio.

As you know, they built two helicopter carriers and then stopped that class. They are now constructing aircraft carriers about the size of the *Hancock*.

The South American navies do buy old destroyers that we plan to drop from the Active Force inventory. In the case of the Iranians, who have the money to conduct such a program, they completely overhauled the two *Sumner* class destroyers which we sold them. But generally speaking, the navies to which we provide our old ships find them very expensive to operate, and their capabilities are substantially less than what we are demanding in the way of our ships.

Mr. SIKES. You were talking about a complete rebuild of an aircraft carrier. Did you have in mind that the end product would be something like the sea control ship which was proposed some time ago?

Admiral HOLLOWAY. No, sir, With the U.S.S. *Forrestal*, for example, which will be 30 years old in about 1984, we are examining the concept of virtually rebuilding the ship to give it an active life of 10 to 15 years longer, to operate high performance, first line aircraft.

It is somewhat easier with a carrier than it is with a surface combatant, because the main battery of the carrier is the aircraft. Therefore, we simply need to modernize the propulsion plant and some of the logistic support facilities. The real modernization in the carrier force comes in its airplanes.

Mr. SIKES. Could you give us your comparison of the cost between the rebuilt and a new carrier of similar dimensions?

Admiral HOLLOWAY. We do not have the information yet, Mr. Congressman. I will ask Admiral Gooding to provide you with some information on when we expect the results of that study.

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I might add one other thing. The Navy has modernized old ships in those categories where combat performance was not the primary mission.

For example, we took old oilers and we jumboized them. We cut them in half and added new sections and substantially added to the life of those ships.

The Chinese have done something very interesting in that line. They have taken several LST's sold to them by the United States and completely disassembled them and replaced the wornout parts. This is a very expensive operation. In my opinion, I do not think that it is amenable to our type of industry.

Mr. SIKES. Not to waste steel.

Admiral HOLLOWAY. No, sir.

[The information follows:]

(Admiral GOODING.) Navy representatives have been working on the tradeoffs involved in extending the service life of aircraft carriers. The Navy study results and recommendations are not expected to be available for another six months.

Mr. SIKES. Mr. Murphy.

PROGRAM COST INCREASE

Mr. MURPHY. When the PHM program was presented to the Congress in fiscal year 1972, the Navy had an estimate of $604 million for 30 ships. In 1974, we were told 30 ships would cost $724.6 million in escalated dollars. In fiscal year 1975 we were told the 30-ship program would cost $756.5 million, or $22.9 million each. The PF program for fiscal year 1975 was in fiscal year 1976 dollars.

Can we assume, therefore, that the original fiscal year 1975 budget for the PHM program was also in fiscal year 1976 dollars?

Admiral PRICE. The program for the patrol hydrofoil, sir, was in the then-year dollars as we then knew them.

Mr. MURPHY. Fiscal year 1975 dollars?

Admiral PRICE. No.

In the years in which the ships would be delivered, then-year based on the 1975 dollar as we knew it then, but inflated and escalated to the best of our ability.

Mr. CLEMENTS. It is terribly important that the units remain constant to make those numbers valid. When you start reducing the program, the unit cost goes up significantly. As you push the program into the out-years and extend the delivery, the unit cost goes up. Both those factors have a significant influence on those costs.

Mr. MURPHY. Right.

As we just mentioned, we were told last year the Navy would receive 30 of these ships for $726.2 million. We understand that now only 24 ships will cost $1,258 million, an increase of $532 million and 6 less ships.

Why has the program been reduced to 24 ships?

Admiral PRICE. The current program as is laid out in the program is 24 ships. However, we have not set the total upper limit as to what number it will be.

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In other words, in future budgets we could well procure additional ships of this type as we go along. The 24 is within our funding constraints at the moment, is what we have budgeted for.

Mr. MURPHY. Why did you go from 30 to 24 ships?

Admiral PRICE. To stay within our allowed fiscal constraints.

Mr. MURPHY. You mean that OSD allowed $1,258 million and you could only squeeze 24 ships in that amount?

Admiral PRICE. Well, we do not do it exactly that way, sir.

What we do is have a certain amount for the Navy, and the Navy has to break that up into its various operating accounts, be it O. & M., shipbuilding, and so forth. When the Navy divides this up and figures out what it can buy, the total numbers of ships it can procure, the total number of aircraft, the total number of ships it can operate, repair, and maintain, then those fiscal constraints are divided into the various appropriations and in those we have to make adjustments in our program.

POTENTIAL FOREIGN BUY

Mr. MURPHY. Did the fiscal year 1975 submission, and does the 1976 budget submission assume a foreign buy of PHMs?

Admiral PRICE. No, the budget submission does not assume that; it shows the costs if only the U.S. numbers are procured.

Mr. MURPHY. If Germany or Italy buys PHMs, how much would that reduce the fiscal 1976 and the 1975 budget?

Admiral PRICE. It depends on how many they buy each year. That will reduce it, there is no question, because the more we produce the cheaper it will be.

However, we have at the moment no firm commitment on what those countries will buy. So when we lay out our budget we have to assume that the U.S. buy is the only one.

Mr. MURPHY. Could you for the record propose a range of ships that they might buy and how much the 1975 and 1976 budget could be reduced if this became a reality?

Admiral PRICE. Yes.

[The information follows:]

Decisions by Germany and Italy concerning the number of ships to be built in the United States will be reflected in the production supplement to the Memorandum of Understanding. This is still being negotiated. As stated in the MOU, an objective of the production stage is that each participating Government intends to procure the construction in the United States of at least one PHM. Such procurement will become a commitment only upon approval and signature of the production stage supplement.

The FRG has on accasion, indicated a desire to procure —— PHMs. The exact number has not yet been decided upon. Quantification of potential reductions to the United States fiscal year 1975 and fiscal year 1976 budget is dependent on agreements yet to be negotiated in the production supplement. The major influences on potential savings are the sharing of nonrecurring costs and the phasing of ship deliveries.

AMOUNT CHARGED TO ESCALATION

Mr. MURPHY. I would like to get back to the escalation. I am still trying to determine how you apply the amount for escalation.

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For example, under the program last year you were going to buy 30 ships, the last to be delivered in fiscal year 1981. This year we find that you are only going to buy 24 ships through fiscal year 1983.

Now, it would seem to me that because of the problems in welding, the underestimate of man-hours, and the general overall program slippage that the PHM program has experienced, this program slipped 2 additional years with six less ships; in view of that it would appear that for those 2 years of escalation, the reasons should be applied to the program slippage rather than to just pure escalation.

Do you understand what I mean, Admiral.

Admiral GOODING. I understand what you are getting at, yes, sir.

Mr. MURPHY. You see escalation is the end result of things that have happened. Escalation is not the reason that this program has increased in cost in total. It is the end result of program slippage which moved your program 1 year and 2 years down stream.

Admiral GOODING. No, that might actually decrease escalation.

Mr. MURPHY. But the reason that happened is not just escalation. The reason it happened is because of the problems you experienced in the PHM program.

Admiral GOODING. Well, you may describe it as you choose. The fact is that because a program has increased in building time for each ship we will, under the contract, owe more escalation dollars. Therefore, we are budgeting for more escalation dollars.

Mr. MURPHY. Right. But you see in the $2.3 billion funding deficiency we have before us, the Navy claims that one portion is due to Navy changes, another portion is due to escalation, and another portion due to inflation.

In this case it would appear that much of the dollars attributed to escalation is really the result of changes in the program either caused by the Navy or the contractor.

Admiral GOODING. I see what you are driving at.

Mr. MURPHY. You see there is a category missing here.

Admiral PRICE. As I mentioned, Mr. Murphy, when I went through the factors which affected our shipbuilding, I mentioned the fact of Navy changes and the fact of contractors not producing or various and sundry other things. That makes it very difficult to separate out from that what is actually the inflationary-caused impacts.

For example, part of the slippage is due to the fact that you cannot get material. If the material comes in about double the time which we had allowed in our estimates, that is an inflation-caused impact, even though it actually results in a slippage of the schedules. That is why in that other chart that I had we had a column marked "Other," which had those factors, which, though they are inflation-impacted, we cannot say they are all inflation of anything of that nature.

It was in that column that these costs that you are talking about do come about.

Mr. MURPHY. But if you made a Navy change and it caused the program to slip 1 year longer than you had anticipated the previous year, you would count that 1 year of escalation or charge it to escalation, not to the Navy caused program slippage?

Admiral PRICE. No, sir, we would price out that change.

I think Admiral Gooding can better address that than I.

Admiral GOODING. Let me make something clear.

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Escalation to the Navy is very rigorously defined. It is that money which we pay under the contract according to the behavior of the BLS indices.

For whatever reason we pay that money, it is escalation, because that is a nice easy definition.

Let me show you what happens. You remember in the formula for paying escalation I said we had an idealized spending curve, if you like. This is a real ship, a ship in the 1975 destroyer tender class.

The original number in the second term would have been that solid curve to the left. That is when he should have ordered his material, when he should have received his material, when he should have paid his bills.

The way he is going to get his material is that dotted curve. He pays on delivery. That is when he pays out. So if you take the 3½ percent which we used to use and what we are now forecasting for material and take the new curve instead of the old curve, instead of paying him $1.6 million in material escalation, we are going to pay him $23.5 million.

Now for whatever reason, that is escalation.

In the case of the PHM there were program slippages; material will be delivered late in that program as it will be in all the rest of them, along very similar lines. We call that escalation.

If you choose to say there is more in it than that I will not argue with you.

Mr. MURPHY. In the case of this ship, why is it he did not order his material in accordance with the previous plan?

Admiral GOODING. He did order it; he did not receive it. It is not awarded—we assume he will order his material at the proper time. But the longer lead times that are pervasive throughout the country, he will not receive it until later. That is that dotted curve, that is when he pays his bill.

Mr. MURPHY. When was that ship supposed to have been awarded?

Admiral GOODING. Fiscal 1975.

Mr. MURPHY. What date?

Admiral GOODING. In June.

Mr. MURPHY. When will it be awarded now?

Admiral GOODING. In June. We are ready.

Mr. MURPHY. When you originally budgeted it, that was the contract award date that you had planned?

Admiral GOODING. Yes, sir.

Mr. MURPHY. So you are anticipating delays in delivery and also a change in the way he funds his material?

In other words, he pays for material after it is delivered rather than when he orders it?

Admiral GOODING. He always paid for it on delivery. The problem is that delivery comes in a year later and he might pay the price at the time of delivery instead of having a firm fixed price in his hot little hands.

Mr. MURPHY. Why would he do it that way? Why would he not pay for the material at those rates rather than wait?

Admiral GOODING. It is very common that the subcontractors will not accept an order under those circumstances. They will say, "We will

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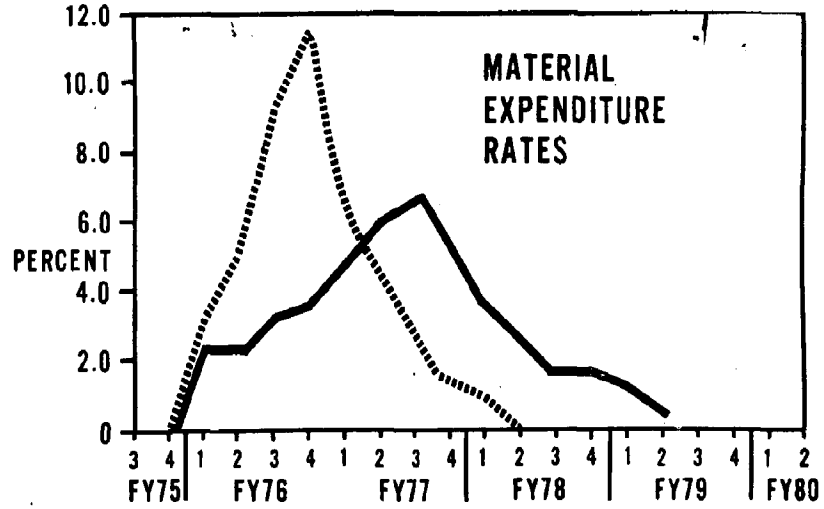
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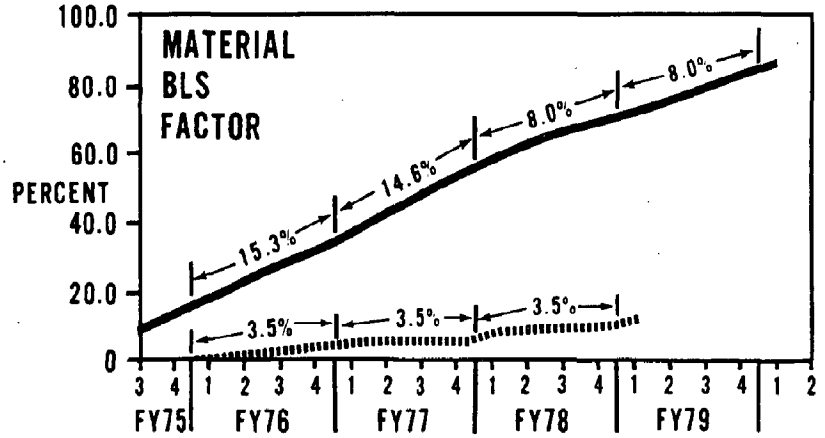
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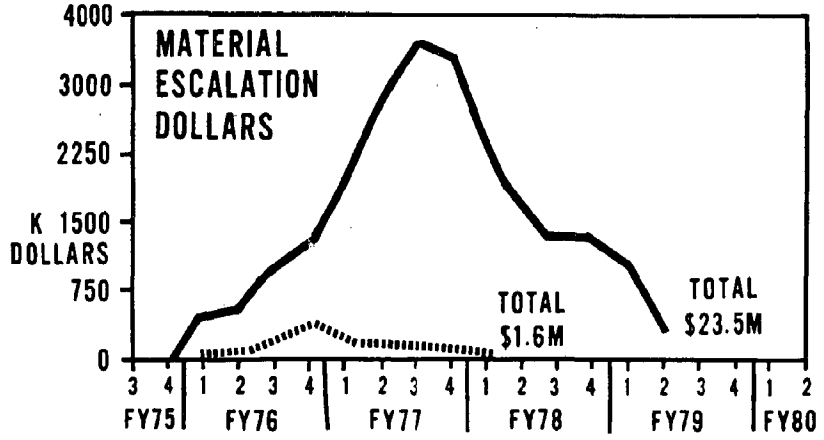
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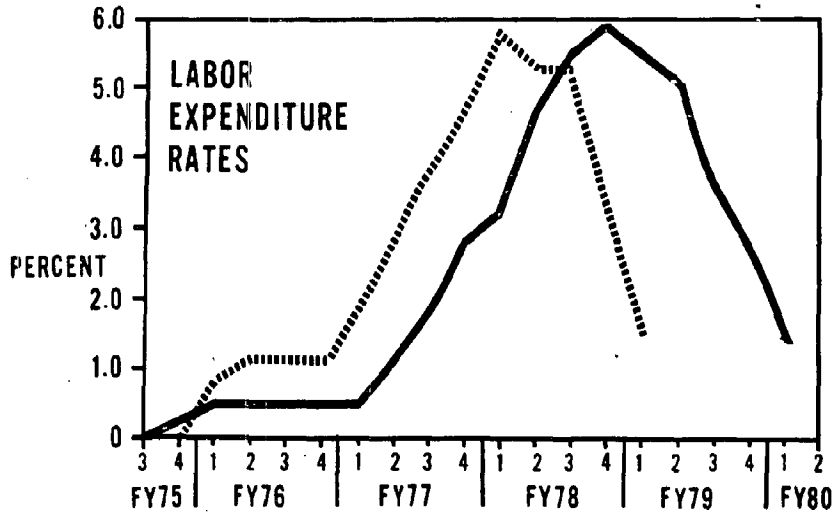

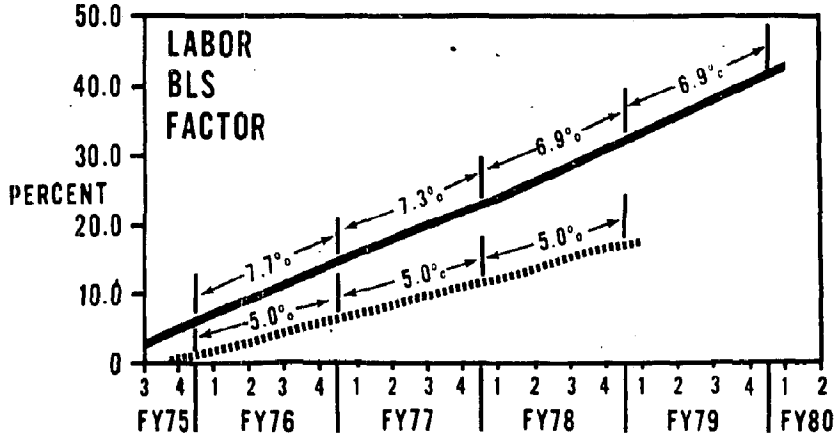

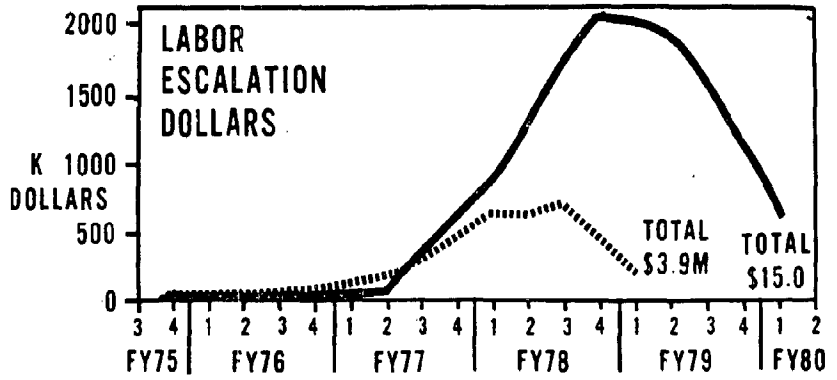

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be glad to provide you these pumps and tell you what they will cost when we put them on your loading docks, but will not quote a firm price at the time of the contract."

Mr. CLEMENTS. This particular situation that he is referring to now in procurements is a product of the last year or roughly plus or minus a year, of this very acute inflation that we have been suffering. And those subcontractors that he is talking about, you cannot expect them to take on that kind of risk; they cannot do it because they in turn are procuring their materials from mills.

In this instance this is an aluminum hull vessel and one of the items that has been greatly affected by this double-digit inflation are these aluminum procurements. Is that not right?

Admiral GOODING. Yes, sir.

I just brought one chart to illustrate this problem. This is a chart from one of our shipbuilders.

Mr. SIKES. I think I can explain it a lot simpler than any of you are doing.

A few years ago, when I was in the market, I bought a roll of barbed wire for $9; now it costs $36. Do not ask me how or why, but I know you have that problem.

Mr. CLEMENTS. Exactly, except our material is a little more exotic than barbed wire.

Mr. SIKES. Well, it is still hard to get that now, also.

Admiral PRICE. You can see what has happened there. The black line shows the data. In a standard bearing he was getting about 16 weeks in 1972 and in 1973 it took 45 weeks and in 1974 it has taken him 68 weeks. Quite often he can't get a price for that bearing until he receives it.

Mr. MURPHY. Is that because there are no other commercial sources for those standard bearings?

Admiral PRICE. No, sir. One is the natural gas shortage, the shortage of raw materials, the manufacturing lead time for his subcontractors. They are all in the same boat.

Mr. MURPHY. How about productivity?

Admiral PRICE. These are the product of a production line. I don't think it is really involved.

REDUCTION IN THE TEST PROGRAM

Mr. MURPHY. The latest SAR indicates that the R.D.T. & E. funds for two ships has been or will be used to complete only PHM–1, and that in August 1974 a stop order was placed on PHM–2. In addition, the Navy is not planning to restart construction of PHM–2. Is this true?

Admiral PRICE. As an R.D.T. & E. ship, that is correct. We intend to use the materials already procured and the parts already used as part of the first construction buy.

Mr. MURPHY. The Navy budgeted for these two ships in the fiscal year 1973 SCN budget. During testimony on April 17, 1972, Navy witnesses testified that the CNO determined that two lead ships would be required to accomplish the testing and evaluations required prior to a production decision in fiscal year 1974. One would be used to

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verify hydrofoil performance and the other would be used for weapons and sensor tests. We were also told that the two lead ships are the key part of the program. How can you now get along with only one ship and before your testing and evaluations are complete, enter construction on four production ships?

Admiral PRICE. Two things, sir. When that statement was made in 1972, we had planned on using two ships to reduce the risk—I think was the term we used—reduce the risk in the program in case something drastic happened. We would have another ship come along to make sure that we got through the test period without any major problems.

We have now reduced the program to one ship simply because that finishing the second one would take so long that it would no longer be a valid part of the test program. It would take 21 months after we started again to complete that ship and would be way past our test program schedule.

We have since revised the test schedule to be sure we had the same amount of test time using the one ship and the test weapons and sensors and the hydrofoil platform. We will have completed all the necessary testing required prior to DSARC III and getting permission of the Secretary of Defense to go ahead with the procurement.

It will give us more risk because we have no backup ship in case something happens to the first one.

Mr. MURPHY. Provide for the record a table showing the original test schedule using two PHM's and the proposed test schedule with only one. Show what tests were and are to be conducted, the length of each test, and so forth.

[The information follows:]

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	Factory tests	Launch	Engineering trials	Performance trials	Special trials	I.O.T. & E.	Weapons systems installation	Acceptance trials
Original contract test schedule (February 1973):								
PHM–1	March to October 1974.	September 1974	October to November 1974.	November 1974 to January 1975.	January to February 1975.	February to March 1975.	March to April 1975	April 1975.
PHM–2	July 1974 to February 1975.	January 1975	February to March 1975.	None	None	March to May 1975.	Performed during construction period.	May 1975.
Current test schedule (12 Jan. 1975):								
PHM–1	March 1974 to January 1975.	November 1974	February 1975	May 1975	June 1975	June to August 1975.	Performed during construction period.	September 1975.

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Admiral PRICE. PHM–1 begins foil-borne tests February 25.

CONGRESS TOLD THIS WAS LOW-RISK PROGRAM

Mr. MURPHY. Admiral, we were assured in testimony on the fiscal year 1973 budget that the Navy had at-sea testing of the USS *Flagstaff* and the USS *Tucumcari* hydrofoil ships which are in the 60-ton category. We were assured that to scale up the *Tucumcari* by a factor of two or three is not a high risk proposition; that the Navy knew it could do this because it had been done before. Admiral Price, we were assured by you in hearings on the fiscal year 1974 budget that there were no impending changes in the PHM's weight or other characteristics which could affect the cost or raise doubts about the advisability of going ahead with the program at the schedule provided to Congress. Yet in fiscal year 1975 we found that the program has increased in cost $29.4 million due to detail design modifications and an increase in ordnance costs due to changes made in the fire control system for PHM–1.

We were also assured by you in our fiscal year 1974 hearings that PHM–2 would be launched in January 1975 and it would have all of its weapon systems on board. You also assured us in hearings on the fiscal year 1975 budget that PHM–2 would be launched in March 1975 and would still deliver as scheduled in June 1975. Based on these assurances Congress funded the four fiscal year 1975 ships. Now we see another $40.6 million worth of Navy changes.

Admiral Price, why is it that the Navy did not have warning signs this program was in trouble as early as May 21, 1974, when you last testified before the committee about these ships?

Admiral PRICE. Well, I can say, sir—and then I will ask Admiral Gooding to talk about the details of the ships—that at the time we testified those were the facts as we knew them and as the Material Command knew them. We presented those as our most up-to-date information.

Admiral Gooding can address the things which have happened since that time.

Admiral GOODING. Let me address first of all the first question you raised, which was the engineering problem of scaling up to 215 tons on foil. We have not really had such problems with the engineering. The engineering is sound. At the request of the Assistant Secretary of the Navy for R. & D., I sent out a technically qualified team to spend a week going over the engineering. Their written report says the engineering is fundamentally sound.

Where we have had our problems, our grubby little details like feet of weld, and things like that which reached around and bit us in the small of the back. I am not concerned about the engineering of that ship.

Admiral PRICE. I think in essence the cost growth we have talked about and stated due to the fact it is going to take more man-hours, it will take longer to build, and those factors, including the materials, lead times and what-not, have increased the cost.

There is no question about that.

As far as the boat performing, I don't think we have any qualms with the boat performing.

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Admiral GOODING. There will be problems but it will perform.

This figure, $40 million of that is for hard tooling and other production startup costs. We have gone into this in some depth. If you buy more than six, it pays off. If you get less than six, you shouldn't pay the money for it.

Mr. GIAIMO. Could I get a time frame here between the last time you testified before the committee and you didn't know about these huge cost increases and then it was just about 4 or 5 months subsequently that you suddenly are hit with $40 million.

Admiral GOODING. It happened over a very short time span, that is right.

Mr. MURPHY. Our testimony was May 21, 1974.

Mr. GIAIMO. Did you have any inkling there would be anything in the nature of a $40 million increase?

Admiral GOODING. No.

Mr. GIAIMO. You didn't?

Admiral GOODING. No; we did not.

Mr. CLEMENTS. You were absent this morning and I spoke at some length about program management. You have a classic example here of inadequate program management on this project and if you ask the question, did I know anything about this, the answer is "No," I didn't. The real point is, we are trying in the Navy and in OSD to drastically restructure some of the Navy project management policies and I think that this is a fine example of why we are doing that. I think it is also true that that program manager is no longer on that project. Is that true?

Admiral GOODING. That is correct, sir.

Mr. CLEMENTS. We are not unaware of these problems and this is just a boo-boo. It is just that simple.

Mr. GIAIMO. The $40 million is one ——— of a boo-boo. Mr. Secretary.

Mr. CLEMENTS. I agree with that.

Mr. GIAIMO. I can understand you can get a project manager or somebody who makes a mistake, but didn't anybody know that in 4 months there was this huge change?

Admiral GOODING. Mr. Giaimo, if we had known that last May, we would have laid it out. It is not our policy to mislead the Congress.

Mr. GIAIMO. I know, it is not ever anyone's policy and I am not saying anyone in the executive branch—and certainly I know you gentlemen are not trying to mislead us, but time and again there is a terrible inadequacy of information that comes before us.

If I remember correctly, this whole program was in some question here back when we considered it originally. In fact there was serious question whether the House was in favor of this program, and here we are with a tremendous cost increase. I still wonder what real benefit we are going to get from these ships. We get back to Mr. Sikes' question where you have such great needs. I wonder if the money shouldn't be put elsewhere.

Go ahead.

Mr. CLEMENTS. I think your point is extremely well taken. When there is a program that has come under the scrutiny of this committee, as well as others, and is given particular attention, we should redouble our efforts of discipline and control over those programs and try to be sure that these kinds of fiascos do not happen.

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In this particular instance we have one that we have no pride in. It is just that simple.

PROGRAM COST INCREASE

Mr. McFall. I don't quite understand this. Is there a cost escalation

Admiral Price. I don't know that.

Mr. Price. I don't know that.

Mr. McFall. What is the amount?

Mr. Murphy. Mr. McFall, escalation is $22.1 million. Inflation is $62.3 million, and program changes, $40.6 million. Of course, that is just the tip of the iceberg. The overall total cost in this program is over $500 million.

Mr. McFall. The $40.6 is the figure I am interested in. That is program changes. The cost escalation and the cost inflation, we have no control over that.

Admiral Price. That is right, that $40.6 million, sir. $40 million of it is tooling and other startup costs. That is the cost of establishing a production capability.

Mr. McFall. Let's examine all the figures now. It is 62 what for inflation?

Admiral Price. The estimate of inflation and productivity is $62.3 million.

Mr. McFall. That is inflation?

Admiral Price. Some is. Some is due to other factors.

Mr. McFall. That is—would you define inflation again; that is, before you let the contract, before the award?

Admiral Gooding. Yes, sir.

Mr. McFall. You have no control over that. That is just prices. There is no manner of project management or anything else that can control that.

Admiral Price. That is correct, sir. The extension of the production time and so forth.

Mr. McFall. If you delay the award. In this case the award was not delayed.

Admiral Price. These ships have not been awarded yet. These are 1975 ships we are talking about now. We have not awarded those ships.

Mr. McFall. It is supposed to be June 1975.

Admiral Price. Yes, sir, and it will now be about September, sir, approximately. There will be a slight increase because of that.

Mr. McFall. It will be because of some delay but otherwise there is no fault that can be assigned to anybody; it is merely the cost escalation in materials and so forth.

Admiral Price. That is correct.

Mr. McFall. You are estimating the cost escalation to be how much?

Admiral Price. The contract escalation is $22.1 million, sir.

Mr. McFall. Now, this item of changes.

Admiral Price. Program changes were $40.6 million of which $.6 million was for some increased survivability alterations and $9 million was for tooling and $31 million for other production startup costs.

Mr. McFall. I see no fiasco involved in anything here. Where is the project manager at fault here? Are we talking about the same program?

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Admiral GOODING. In the cost increases expected, which is $125 million, in that $62.3 million I believe I am correct in saying that is where the underestimate of man-hours to construct is.

Mr. MCFALL. If there is any fault there would be an assignment to someone who underestimated the inflation.

Admiral GOODING. Underestimated the cost to construct. The cost to construct.

Admiral PRICE. Man-hours.

Mr. MCFALL. I am informed he didn't keep track of the costs in the first ship. You had an earlier ship than this?

Admiral GOODING. No, sir. This is the first.

Mr. MURPHY. In other words, what happened to cost and schedule controls that should have been used on this ship?

Admiral GOODING. It didn't work.

Mr. MCFALL. I am trying to track down whether or not there was any faulty judgment, faulty management. The Secretary said this is a fiasco. The project manager made a mistake and so on. I am trying to find out where it is.

You can't find it in changes because you bought $40 million worth of tools, so it is not there.

Admiral GOODING. You find it in inflation.

Mr. MCFALL. All right. Explain to me how it can be an inflation when you don't really have any control over inflation.

Admiral GOODING. These columns are largely the result of arithmetic.

Admiral PRICE. Mr. McFall, if I could address it, one of the problems is in the first two boats which are R. & D. which are not shown in here. We based our estimated number of man-hours originally on the man-hours that were based to a certain extent on how long they estimated it would take to build the first ship. From that we applied certain factors like learning curves to come up with what we thought production man-hours would be. Actually it was taking Boeing a lot more man-hours to build this ship than the number which was in the original estimate. In the time we testified in May the fact that it was taking more man-hours for these ships wasn't completely recognized by the project manager.

Mr. MCFALL. I thought in the original explanation this was described as changes but this is now not changes; this goes into the inflation category, or escalation category.

Admiral PRICE. It is basic cost, sir. There are two things. As I tried to show when I first started my presentation, we have a basic cost of the ship. That basic cost of that ship has gone up due to the fact it takes more man-hours to build it, we reckon, now, than it did when we first estimated it.

Mr. MCFALL. This is all an estimate. You haven't gotten into any construction or anything.

Admiral PRICE. Except on the first ship, we know what that has cost us.

Mr. MCFALL. That is your R. & D. ship. Your $112 million ship.

Mr. GIAIMO. That is not an inflation cost; that is an underestimate of the true cost. They charge it to inflation.

Admiral PRICE. No, sir.

Mr. GIAIMO. You said it is in the inflation package.

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Admiral PRICE. In this particular instance, Mr. Giaimo, this particular one is not representative, but what happens is that the basic cost of the ship on the right has gone up. It has gone up by $7.6 million on the average per ship over the 28 ships that I was talking about. Now we apply the inflation to that higher cost of ship.

Mr. GIAIMO. And you have a bigger inflation?

Admiral PRICE. Not a bigger one, but you get more in the inflation column, yes, sir.

Admiral GOODING. I would just like to point out that in underestimating the man-hours it takes to build one of these beasts, my project manager is certainly at fault, but he had help. This was a joint estimate between him and the company, so I don't want him to take all the lumps for it.

NEWPORT NEWS SHIPBUILDING AND DRY DOCK CO.

Mr. ROBINSON. I would like to refer to comments that were made before Congressman Bennett's subcommittee to which I made reference this morning. These pertain particularly to the *Nimitz* construction. He says this:

> In the course of our negotiations for the contract on CVAN-68, the 41.9 million man-hour estimate was communicated to the Navy. The Navy responded that the estimate was unacceptable because it resulted in too high a target cost.
>
> There was no serious effort by the Navy to demonstrate that our estimate was erroneous or unrealistically high, just that the resultant cost was regarded as unpalatable to Congress.
>
> The Naval Shipbuilding program, it was said, would suffer.
>
> The man-hour figure eventually negotiated for the target was 33.5 million man-hours representing a very highly optimistic estimate. As you know, this compulsory optimism proved quite unfounded. We now estimated that at completion 40.8 million man-hours will have been expended on the the *Nimitz*. An additional 2 million man-hours attributable to changes made in the course of construction.

Admiral HOLLOWAY. Mr. Congressman, could I just talk to that point? In general the shipbuilder is a businessman trying to make as big a profit as possible out of the construction of ships. We in the Navy are trying to safeguard the taxpayers' dollars.

We have a built-in adversary relationship.I think it does happen that the shipbuilder, or, in many cases the weapons producer, will estimate high on man-hours and I think he is certainly building in a fudge factor for himself.

We have experts look at the man-hours that he is putting against the project. We may say, "You are just charging too much for this item."

We look at experience and history and say, "You ought to be able to build this item with fewer man-hours. Now, let's get serious."

I think perhaps one way to examine Newport News' position, or, shall we say, a vendor's position, is that Newport News did eventually sign a contract which involved 33.5 million man-hours, as I understand it.

I think if they signed that contract, they must have felt there was some validity in the Government's position.

Admiral GOODING. I might also add both the shipbuilder's projections and our projections indicated Newport News would make money on that.

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Mr. ROBINSON. Up to this point in time it shows Newport News has steadily lost money on Navy contracts based on figures we accept as true in this report.

Of course, what has occurred is that we assume that will be a 5-year construction period and the ship isn't ready yet.

Admiral GOODING. Yes, sir, and that is due to late delivery of nuclear components which the Navy recognized, has admitted to and has paid Newport News off in so many thousand dollars per day of delay.

The ships which Newport News is losing money on are, with two exceptions, ships which they got as a result of competitive bids. No negotiations. Strict competition. I do not see that the Navy can take any blame for that whatsoever.

Mr. EDWARDS. I think the real question is whether the witness in this case, Mr. Diesel, was correct in saying the Navy got the man-hours way down in order to sell it to Congress. That is what he is saying. Is that a fair statement?

Admiral GOODING. That may be what he is saying. What actually happened in fact was the Navy negotiated a lower figure than the contractors coming in position—which is what we are paid to do. A great deal of the heat that was generated in those hearings can be translated as saying that the Navy drove a hard bargain.

Mr. EDWARDS. You didn't answer my question though. Does the Navy try to get these costs down in an effort to sell it to Congress? This would be pertinent as to whether the Navy tried to do it in this case. Did the Navy try to get the man-hours down to try to sell it to Congress?

Admiral HOLLOWAY. If I may, Congressman Edwards, again I go back to the basic principle: We feel that we are safeguarders of insuring that the taxpayer gets the most for his money. Therefore, we want to drive a hard bargain.

It is not a question of selling the ship to the Congress because we have to be prepared to go to contract on it. We would certainly want to come to you and say that we have the best price on this ship. I don't believe any of us would want to sit in front of you and say, "Well, we could have gotten it for 80 percent less than we are asking for."

We want to come in to you and say, "We believe this ship can be built for this amount of money and we have found a contractor that will build it for that amount of money."

Admiral GOODING. In the case of this ship, as a matter of fact, the question is a little off the mark. The fact we were negotiating a contract says we have sold that ship to the Congress because the Congress has appropriated the money. Otherwise we can't be negotiating a contract.

Mr. ROBINSON. Well, the figures, if they are accurate, reflect the fact the contractor was a lot more accurate in what man-hours would be required to build the ship than the Navy was.

Admiral HOLLOWAY. Yes, sir, that would be his performance, which may mean that he did not perform very well. Had good management produced at the level of performance that we have expected of our shipbuilders in the past, we think he should have gotten——

Mr. ROBINSON. You refer to good management, Admiral. He refers to the fact that there is substantial interference from 2,900 naval personnel that are there at the yard at the same time the ships are being built.

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Admiral HOLLOWAY. Yes, sir. Again, Mr. Congressman, I think we are both looking at it from two different points of view. We are trying to insure that he delivers the product that we have contracted for at the price we contracted for and we have to have inspectors.

Mr. MCFALL. If this is the fault of the shipbuilder because of his bad management, you wouldn't allow that kind of a plan. If you allowed his claim for more work, it is because you are agreeing that it is necessary and reasonable.

Admiral HOLLOWAY. Yes, sir, but I think the claim that Admiral Gooding referred to was based upon late delivery of Government-furnished equipment. Every claim that is made against the Government we examine on its own merits. If a claim is predicated on poor contractor performance, it would be the Navy's position that the claim not be paid. If a claim is based upon the fact that it is our fault—that he was late because we had a reactor to go in the ship and he can't build the ship and then put the reactor in after it is finished, and therefore the ship is delayed—that is our fault and therefore that is the kind of claim you saw that was settled.

But each claim is different and we work toward settling it on the validity of the contractor's position.

Mr. MCFALL. That would seem to be somewhat apart, though, from the original estimate of the number of hours necessary to complete the ship. The question was whether or not the contractor's estimate was better than the Navy's. I believe your reply was something to the effect that, well, it was a result of the contractor's bad management. Then my question was, well, you know, you are not going to grant him any additional money if his performance is due to bad management.

He says no; you wouldn't. So we go back to the point which was made by the other gentleman, that the contractor's original estimate at the time was better than yours, right?

Admiral HOLLOWAY. It was a more accurate prediction of what actually happened. I am being very careful to differentiate. If the Navy said, "a carrier just like this has previously been built with 35 million man-hours, and therefore we don't think you should charge more man-hours than this on the second or third carrier of a kind," and the contractor says, "No; it is going to take me 40 million man-hours," if we agree with him he certainly is going to take 40 million man-hours because he has no incentive to perform. The Navy tries to consider the contractor's position and insure that the contract represents a highly incentivized arrangement.

Mr. MCFALL. So you say the reason you didn't agree with the contractor in this particular case was because you wanted to provide him with an incentive, not to cut down the cost, because Congress might not approve the ship, which was what was alleged by the contractor.

Admiral GOODING. No, sir, it is not as high-minded as that. The Congress had already approved the ship and appropriated the money. It was the Navy's opinion that this ship could be built for 3 million man-hours and the contractor eventually signed a contract implying we were correct. He did sign the contract.

What you should recognize though is that this is a fixed price incentive contract and if he exceeds target costs we share the amount by which he exceeds target costs according to a formula in the contract. Eighty cents on every dollar from the Government. Twenty cents from the contractor.

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We go to a total assumption figure and then he goes on his own money. If he goes beyond the ceiling price, he loses money. On these two carriers neither of us predict there will be money lost on these contracts.

TOOLING AND START-UP COSTS

Mr. McFall. On the $40.6 million, $40 million of which is purchase of tools, why could you not have estimated this in advance? Wouldn't you have known this in advance, that you were going to buy these tools?

Admiral Gooding. No, sir, we did not know it in advance. We found out the hard way I am afraid on the first PHM that there was entirely too much welding in that ship. It was badly estimated in the first place, but there was too much in the second. There is no need for that much welding.

We have found out from studying the first ship that if you want to save money in this thing you are going to put up some hard tooling; you are going to buy and build different jigs and fixtures to establish a workable production line and your construction will be different and a good bit more economical.

Mr. McFall. The R. & D. ship was not built by Boeing?

Admiral Gooding. It was built by Boeing, but in a certain fashion. The production ships will be built in a different fashion. Much less man-hours involved.

Mr. Giaimo. You are counting now for miscalculations in this hydrofoil PHM program, is that right?

Admiral Price. Yes, sir.

Cost Growth in Shipbuilding Programs

Mr. Giaimo. You made it sound like this is an unusual situation where somebody made an error and the project manager, or whoever else, is not with you any more. But don't I understand that you are in here telling us that you're $2.3 billion short?

Admiral Gooding. That is correct.

Mr. Giaimo. Part of which is inflation?

Admiral Price. Fifty-one percent of it is pure inflation.

Mr. Giaimo. That is at least 49 percent and 49 percent of $2.3 billion is a lot of money. Am I supposed to assume then, or infer that these errors don't apply just to the PHM program, but to others also? Forgetting the inflation factor, now. You don't have any control over inflation, do you?

Admiral Price. No, sir.

Mr. Giaimo. You are stuck with that like everyone else is. But that 49 percent, am I to infer there were similar errors in judgment, or miscalculations, or underestimates such as you had in this program?

Admiral Price. No, you are not.

Mr. Giaimo. Well, what are they?

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FY 75 SCN PROGRAM

PROGRAM	CONTRACT ESCALATION	INFLATION OF GFE	PROGRAM CHANGES	TARGET TO CEILING	OTHER
SSBN (C)	-	-	-	-	52.4
AS-FBM(C)	-	-	-	-	-
TRIDENT	136.9	58.5	-	-	-
TRIDENT (AP)	-	-	-	-	-
OUTFITTING(FBM)	-	-	-	-	-
POST DEL (FBM)	-	-	-	-	-
SSN	60.0	8.9	-	-	4.6
DD	104.3	-	46.4	81.8	-
DLGN	41.4	13.0	-	15.0	-
DLGN (AP)	-	-	-	-	-
PHM	22.1	8.9	40.6	-	53.4
PF	33.4	34.1	8.3	-	33.5
AD	33.0	4.1	-	-	22.7
T-ATF	2.5	.6	-	-	.6
SWOB	-	-	-	-	-
CRAFT	-	-	-	-	-
OUTFITTING	-	-	-	-	-
POST DEL.	-	-	-	-	-
COST GROWTH	-	-	-	-	-
ESCALATION	-	-	-	-	-
TOTAL	**433.6**	**128.1**	**95.3**	**96.8**	**167.2**

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Admiral PRICE. As it shows here, sir—and this is the fiscal year 1975 program—everything that is in the contract escalation column is just contract escalation. That is due to the inflation of the economy.

Everything that is due to inflation in Government-furnished equipment is the additional cost that it now takes to procure in the climate we are living in now—in an economy with twice the inflation that it was when we originally estimated the ships.

The program changes listed are those things which the Navy has changed and which require added costs.

For example, in the one there shown for the DD, that $46.4 million is for characteristic changes where we have changed some weapons systems in the ship itself because we needed that to make it a more viable ship when it is delivered. Those are what those changes tend to be.

The target to ceiling column reflects added costs resulting from the contract itself. The ships were budgeted to target but the Government had liability to cover to the ceiling price on a share line. We feel those two ships will go to ceiling price, but the contract always stated that there would be a liability for ceiling price.

Mr. GIAIMO. You take all of those columns which are your reasons for increased costs, they only total what, about a billion dollars?

Admiral PRICE. This is the 1975 program alone, sir.

Mr. GIAIMO. That is all the shortfall.

Admiral PRICE. In fiscal year 1975, yes, sir.

The other columns were those we mentioned where poor estimates would come about. In the PHM, as you notice, $53.4 million there is just the thing we have been talking about. Increased man hours, the increased inflation and economic factors in those man hours and so forth. Those columns are due to a myriad of factors which I discussed this morning and said it is difficult to separate them out as to how much is one thing and how much is another.

As you can see, contract escalation on our over $900 million deficit in fiscal year 1975 program amounts to 47 percent of that total.

Mr. GIAIMO. The other costs account for about $167 million?

Admiral PRICE. Yes, sir.

Mr. MCFALL. It seems to me these changes in the number of man-hours necessary to make the ship ought to be labeled something else besides inflation.

Admiral GOODING. It is in the column labeled "Other" and that column is a result of arithmetic. When we have accounted for everything we can account for, that much is left over. We can explain some of it, but not quantify it very well.

Mr. MCFALL. I can understand how you would make an honest mistake in a new program with an airplane builder, and then you find out it is going to cost you more man-hours. Do you get that kind of a siutation with Electric Boat where they are buiding all kinds of——

Admiral GOODING. Look at the top line, "SSBN Conversion." These are the last three Poseidon conversions. They are the 616 class submarine, the oldest submarines which are being converted, and we found out last year that because of the age of the submarines and

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because of the way in which some of them were built it is going to take more man-hours to complete those conversions.

Mr. McFall. That in a sense is a new thing you have never done before, right?

Admiral Gooding. We have completed the 627 class, the 640 class, the 654 class, and now we are working on the 616 class. They are the hardest of the bunch. They are the oldest.

Mr. McFall. You have previous experience with another kind and this is a different kind, so you made a mistake?

Admiral Gooding. Yes, sir.

Mr. McFall. And you can excuse the other on the basis it is a new kind of a ship with a new contractor. But this is not any usual thing, is it, with an ordinary ship that is built by a company that has experience and so on? It is kind of an escalation in the number of man-hours—not in your sense of escalation, but increase in the number of man-hours. That is not something that occurs all the time, is it?

Admiral Gooding. It occurs, fortunately, rather rarely.

Mr. McFall. Somehow or another there ought to be a—I thought it was involved in this inflation. It was characterized as inflation and in my mind I would conceive it something apart from inflation, where I think of it as a result of factors way beyond your control.

Admiral Price. These particular increases, Mr. McFall, cost more than they normally would because inflation is higher, but that is the only way they are impacted by inflation.

INCREASE FOR NAVY PLANS

Mr. Murphy. Admiral, the committee transferred the first two ships from the procurement budget to the R.D.T. & E. budget in order for the Navy to complete the design of the ship, build two ships, get the change orders behind you, and thoroughly test these ships before making a production decision. We now find you budgeted $500,000 in fiscal year 1975 for plans and require another $100,000 for plans. Why do you need to draw up additional plans for this ship?

Admiral Price. The committee was more right than we on this. We felt we could go ahead and build the ship without it being in R. & D. and it turned out the committee was more right than we were by quite a bit.

As far as plans go, the plans that they build the ship to, as Admiral Gooding has mentioned. This new tooling we are going to use combined with the different procedures for construction which will reduce the number of man-hours that are in the ship will make a production data package and will represent the latest state of the art. This will be given to both Germany and Italy—they have paid for it—and will be used in future production of all the ships. This is what those particular funds are for.

Had we not had to change our method of production, if the first one would have gone off all right, then we wouldn't have needed additional funding for that, but we now have to and feel it is desirable to change since it will mean a cheaper product.

Mr. Murphy. For the record, will you provide a description of how you are changing your production from what you anticipated in the first place.

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[The information follows:]

The lead ship was constructed using the following methods:
Hand layout of all manufactured parts.
Manufactured parts were hand-built without the use of jigs.
A minimum of tooling was utilized in the construction process.
The hull was constructed and then the equipment was installed in the completed hull.
The construction process utilized only four structural and one outfitting positions.
The following ship production construction will use the following methods:
All major parts will be constructed in jigs made especially for that part.
Tools for multiship production, such as welding fixtures to construct frame subassemblies, router fixtures for constructing, parallel construction, and equipment installation prior to the compartments being closed.
Each position will be especially oriented toward construction worker learning. Also, the time span of construction of each module will be short to facilitate learning by rapid repetition of each task.
Construction and assembly tools and jigs will be designed for more rapid and less labor intensive ship assembly.

INCREASE FOR NAVY CHANGES

Mr. MURPHY. You also budgeted $4.8 million for Navy changes. Do you require another $3.3 million for Navy changes?

Admiral PRICE. That is correct, sir.

Mr. MURPHY. Why haven't you made all your changes in the R.D.T. & E. ships?

Admiral PRICE. The change order of $4.8 million that we had was our change order budget. Change order reserves—and Admiral Gooding can elaborate—are allowances for change orders during construction. They are not for change orders necessarily the Navy makes. They are for change orders that, as a contractor builds something he finds it is better if he builds it another way and therefore it costs him additional funding.

All of our ship programs have what we call a budgeted change order reserve to take care of those types of things.

Admiral GOODING. The contractor is drawing the plans. It is not particularly common, but it does happen that the guy who draws the pipe plans has a pipe going here and the guy drawing the vent plans has a vent going here and one has to move. The contractor says, "Let's put a 'U' in the duct and put it around the pipe," and that is a change order. The Navy is required to agree to that and pay for it. That is what we are talking about here.

Mr. MURPHY. But you have already built the first ship.

Admiral PRICE. We built that ship in a certain fashion and the production ship will be built differently. Every time when we have not done it, we have found it was imprudent not to have a reserve for change orders.

Mr. MURPHY. Then shouldn't this next ship be built in the R.D.T. & E. budget?

Admiral PRICE. The PHM's, sir?

Mr. MURPHY. You just stated the next one will be built in an entirely different fashion then the first one. Therefore, should we also build the second one using R.D.T. & E. funds?

Admiral PRICE. No, sir, we don't think so because we have learned what needs to be learned to build this one properly from building the first one.

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TOOLING AND STARTUP COSTS

Mr. MURPHY. When this program was presented to Congress and when the contract was awarded for the two ships, we had no notice there would be a requirement for $40 million worth of tooling and startup costs. What brought about this requirement?

Admiral PRICE. This came out of reengineering of ship No. 1 when we decided we must reengineer that thing and build it in a much more economical fashion without the welds.

This request for tooling and other production startup funding I would say, popped up last fall. The recognition of the magnitude of the requirement for these startup costs popped up some time last fall. I don't know the exact month.

Mr. MURPHY. It seems you could almost build a shipyard for $40 million.

Admiral PRICE. No way.

Mr. MURPHY. You are adding facilities to the electric boat for the Trident program at a cost of what?

Admiral PRICE. $150 million.

Mr. MURPHY. That is a huge construction facility for Trident submarines, much larger than PHM's.

Admiral PRICE. That doesn't buy your whole shipyard.

Mr. MURPHY. That still seems like it is an awful large amount for tooling and startup costs.

Why did the Navy award these ships to a contractor who didn't have the tooling to build them? What did your preaward survey show?

Admiral PRICE. We awarded the contract to Boeing on the basis of hardware competition between Boeing, who built the *Tucumcari* and Grumman, who built Flagstaff. These two design concepts were sufficiently different that the Navy fortunately was able to get enough money to build them and test them. They both performed in Southeast Asia. *Tucumcari* performed much better than the other hydrofoil. We picked Boeing as the design winner in the competition.

Now, Grumman, of course, is not a shipbuilder either. They are both aircraft builders.

Mr. MURPHY. Does the Navy normally provide tooling to private shipyards to permit them to build Navy ships under contract?

Admiral PRICE. We do not normally; no, sir.

Mr. MURPHY. The Navy and the contractor planned to build these two ships as production ships originally, and when the bid was submitted there was no requirement for tooling and startup costs, is that correct?

Admiral PRICE. That is correct.

Mr. MURPHY. Why does the Navy now feel it is their responsibility to provide the tooling and startup funds to the contractor?

Admiral GOODING. The Navy would just as soon not pay for their tooling and startup, but if it will help us to get follow-on ships in a much more economical manner, we will pay the bill.

Mr. MURPHY. Can you get a bid somewhere else, $40 million less, from some other shipbuilder to build these ships without that requirement?

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Admiral GOODING. You probably could, but I think it would be very questionable business. I think once you have sweated with a contractor for 3 years and you have him up on the step, turning out a decent product, trying to second-source or compete with that product, unless you have a rate problem, is generally insane.

Mr. SIKES. I don't know that it is a questionable procedure. Do you mean you could now find someone who could build a comparable ship for $40 million less?

Admiral GOODING. No, sir; I specifically do not mean that. I think if we went out for a second source it would probably cost a great deal more rather than less.

Mr. EDWARDS. Then you have to look at your earlier answer because that is not the way it sounded.

Mr. SIKES. It sounded as though you could find a contractor for whom you would not have to provide $40 million for tooling. Of course, $40 million is a part of the total cost of the ships.

Admiral GOODING. The question Mr. Murphy asked is, if it was possible that we could do this. Yes, it is possible. I don't know what would happen, but I suspect paying the learning curve of a new contractor, a new start on another lead ship, would quickly wipe out any $40 million worth of tooling and startup costs which he might want too, I don't know.

COST INCREASES ON COMMERCIAL HYDROFOILS

Mr. MURPHY. We understand that Boeing is also building commercial hydrofoils. Did their commercial customers have to pay $40 million for tooling and startup costs and have they experienced schedule slippages and huge cost increases anything like the Navy has?

Admiral GOODING. They have experienced schedule slippages and cost increases. The comparability, I don't really know, but they have been sizable.

Mr. MURPHY. Could you find out and put it in the record, and also did they have to pay $40 million worth of tooling and startup costs to build them?

Admiral GOODING. They did buy some tooling. I don't know the price. If Boeing will make that information available to us, I will be glad to transmit it to the Congress.

[The information follows:]

Boeing's commercial hydrofoil (jetfoil) is the only commercial hydrofoil vessel in production in the United States. Ship design began in late 1972 and production began in 1973. The lead ship has completed test and trials. The first production ship has been delivered. Five hulls are complete. Four additional ships will be delivered prior to September 1975. The program is tooled for 18 ships per year. Aircraft type production learning curve reductions in unit cost have been achieved. Startup costs, including tooling, exceeded estimates made in 1972 by 140 percent. Inflation experienced to date and projected through calendar year 1976 is 40 percent. These start up, nonrecurring costs are recovered by prorating them amongst a projected number of ships as determined by the expected market.

MAN-HOURS OF LABOR INCREASED

Mr. MURPHY. How many man-hours of labor were originally budgeted on the PHM and what is the current man-hours estimate?

Admiral PRICE. Originally it was around 426,000 man-hours, sir. Now it is 675,000.

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Mr. MURPHY. Could we have those again?

Admiral PRICE. They are on learning curves, sir. I can take it from the start of what we think the program will be. Originally it was 426,000 man-hours. Now it is 675,000.

Mr. MURPHY. How much does that add to the cost of this program, approximately? Put that in the record.

[The information follows:]

The original estimate for the fiscal year 1975 program of 426,000 man-hours and the current estimate of 675,000 man-hours are for the first ship of a 28-ship production program. The average increase in cost of the program due to the increase in labor is $6.7 million per ship.

[CLERK'S NOTE. For a 23-ship program, the total cost increase amounts to $154,100,000.]

Mr. MURPHY. The labor expenditure rate increased an estimated five quarters and the material expenditure rate increased an estimated 10 quarters. How much of this is attributable to a poor estimate by the Navy and/or the contractor?

[The information follows:]

The material curves had to be lengthened to take care of the fact that we now are forced to pay a price on delivery rather than determining the price at the time we order the material. In addition to this increase we find that the material is now being delivered later than previously anticipated due to the longer leadtimes for material. Labor expenditure curves actually were increased by four quarters. We increased the number of man-hours for the building of these ships by approximately 200,000 man-hours to reflect lead-ship production experience but this increase need not have caused any change in the delivery of these ships since it would have been possible to increase the manning levels in the yard to accommodate this increase in man-hours. However, with this reestimate of labor hours coupled with the increased leadtimes for controlling components, lengthening the contract intervals for these craft was the most prudent course of action to achieve an efficient as possible production line.

Mr. MURPHY. If the contractor did a poor job in building the first ship, why do you propose to increase the number of escalation quarters to which he is entitled?

Admiral GOODING. Because of the longer leadtimes in materials.

ESTIMATE TO COMPLETE PHM–2

Mr. MURPHY. The latest SAR indicates that if the Navy restarts construction of PHM–2 it will take 21 months to complete. It took 20 months from start of construction to the launching of PHM–1. If the welding and other problems have now been solved, if the contractor now knows how to build a PHM, and if PHM–2 was 77.8 percent complete as of August 1974, why should it take another 21 months to complete PHM–2?

Admiral GOODING. I don't recognize your percentage. PHM–2 consists of part of a hull and a complete delivery of all the material necessary to complete the ship, including the foils, the jet engine, the aluminum, the wiring, the piping.

That ship isn't 77.8 percent complete unless material delivery accounts for it.

Mr. MURPHY. The January 1, 1975 monthly progress report, upon which you base your planning and management, states PHM–2 was 77.8 percent complete.

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Admiral GOODING. That must be material, sir. Material is 100 percent. It is all there.

Mr. MURPHY. This relates to PHM-2?

Admiral GOODING. That is right. Part of the ship is the material to build it. It is not just labor.

Mr. MURPHY. Why would it take 21 months to complete a ship that is 77.8 percent complete? That is almost 80 percent complete. What does a ship that is 80 percent complete look like?

Admiral GOODING. I would like to provide that for the record, if I may. I can't defend that. That is a figure that Boeing and we mutually agreed on but the details of it I don't have.

[The information follows:]

In the January 1, 1975 monthly progress report (NAVSEA 250-574), PHM-2 was reported as 77.8 percent complete. This figure was comprised of labor progress and material progress, which, when multiplied by their respective weighted values (relative percentages of contract cost), result in total progress of 77.8 percent. However, the total progress of 77.8 percent is incorrect due to a faulty labor progress weighting factor being applied. In January 1975, a reevaluation of the PHM-2 estimate at completion was made. As a result of the reevaluation, the manufacturing labor weighting factor was increased significantly so that labor now represents a much larger percentage of the PHM-2 overall estimate at completion. The current labor progress is estimated at 21 percent. Almost all of the contractor furnished material to complete PHM-2 is in hand. Therefore, PHM-2 total progress is approximately 41 percent based on cost.

Mr. MURPHY. This is a report I presume the Navy relies on. If the information in there is erroneous, no wonder the Navy is having problems.

Admiral PRICE. If the materials costs are 50 percent of the cost of the ship, the minute the materials are delivered, the ship is 50 percent complete. When you look at the total amounts, saying how much is yet to be done, it can be that one heck of a lot of the labor is still needed to build that ship, and the assembly, and I think that is the situation.

Mr. MURPHY. Do you get that information from the cost and schedule control system you have?

Admiral PRICE. No, sir, a lot of other records.

Admiral GOODING. That is just an inspection of how complete the ship is, how much material has been received, and how much labor has been expended.

Mr. MURPHY. If the column says "Percentage completion of ship" 77.8 percent, then that means the data was obtained from an onsite inspection. It would appear if a ship is almost 80 percent complete, you are ready to put it in water, and just have to fit it out.

Admiral GOODING. No, sir. The materials costs in PHM are probably 60 percent of the ship. When that material is received, and it is all there, before you even strike an arc, that ship is 60 percent complete according to that report.

Mr. MURPHY. As I recall, we had testimony last year on the DD-963. We asked at the time of launching what was the percentage of completion of that ship.

Admiral GOODING. That is percentage labor completion or percentage outfitting in that case. That is percent outfitted. That is how much of the material is in the ship at time of launch. That is an entirely different percentage.

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Mr. MURPHY. And the percentage in this report is based on material?
Admiral GOODING. Total ship.

PROGRAM NOW UNDER REVIEW

Mr. MURPHY. The SAR indicates this program is still under review and subject to change. What does this mean?

Admiral PRICE. It means we now have 23 ships that are programed. If, as we go along, we decide we need more, we will increase the number of the ships and, conversely, if, for some reason or other, we had a tremendous fiscal problem, we might reduce the number, but right now we don't plan to reduce it, but there is a possibility as we go along that we would increase the number from 23 on up to some number toward the 30 we originally wanted.

Mr. MURPHY. Does it also mean you might terminate the program?
Admiral PRICE. No, sir, not that I know of.

FISCAL YEAR 1976 PROGRAM

Mr. MURPHY. The Secretary of Defense's posture statement indicates that 2 PHM's are budgeted in fiscal year 1976 instead of the 12 planned to "sustain Federal Republic of Germany interest by demonstrating a U.S. commitment to purchase at least 7 of these PHM's." What is magic about seven PHM's and why should we budget ships for that reason?

Admiral PRICE. We budget them for two reason, sir, in this particular case. One is that after the problems with the first one that we had, we wanted to make sure that the production was running properly before we went into high-gear production for follow ships.

Also, the number of six—the four we had, plus two additional requested in fiscal year 1976—is our best estimate of that point where the tooling costs would be amortized. In other words, it would be cheaper to get the tooling rather than trying to build them without the tooling. At the same time, an additional factor, but certainly not the primary one, was to have PHM's in each production year so that the foreign governments who have been with us would have a chance of procuring these ships at a reasonable rate in cost, or as reasonable as we can make them and show them the United States was going ahead with its hydrofoil program.

The main features though were the number that it took for the tooling, and we did want 12 because we wanted to be sure we had the production rights and the first boat has been well shaken down before we went on with the 12 a year that we intend to build up to.

So the factor you mention was one of the factors we considered, but the primary number of six, that is the place where tooling is a break-even point.

Mr. MURPHY. Admiral Holloway, is the Navy proposing to buy these ships regardless of what they cost, or is there a point at which they price themselves out of the market, so to speak?

Admiral HOLLOWAY. I don't know of any program where we are prepared to buy regardless of cost. We keep this aspect under constant evaluation and we look at it in comparison with other programs that we have with the objective of trying to fulfill our requirements in the most effective and efficient manner.

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REASONS FOR PROGRAM COST INCREASES

Mr. MURPHY. The Navy, I understand, relieved a project manager in the program on December 6, 1974.

Admiral GOODING. I don't recall the date, but his relief is on board.

Mr. MURPHY. In reviewing that—and we have other programs that we would like to review—we come down to this: Admiral Gooding, your statement describes the intensive efforts the Navy has made for several years to improve the planning for and implementation of the shipbuilding program such as cost and schedule controls, better reporting, tighter controls over changes of specifications and design, and so forth.

Admiral Price was appointed in August 1972 as Director of Ship Acquisition and Improvement with a staff of 37 people to give more intensive and coordinated management of the whole shipbuilding effort and report directly to the CNO.

In this PHM program, we have seen the Navy increase the size of this ship by 17 tons in February, 1973, delay in the award of the lead ship contract, change GFE to contractor-furnished, add GFE components, change the gun fire control systems for follow ships, and so forth. Yet when we look at the table we see we have attributed an awful lot of the $500 million cost increase to inflation and escalation. It is difficult to understand why it is the marketplace that caused the cost increase in this program, and not the changes that have been made and the slippages and the problems experienced by the contractor.

It seems the price increase should be attributed to those things and not just to escalation and inflation.

Admiral PRICE. 53.4 million dollars of the program is attributed to those things which you mention.

Mr. MURPHY. But the program will experience something like a 500 and some odd million dollar increase.

Admiral PRICE. As you go in the out years, those things multiply, sir, across the board.

I think that the changes, all of the changes we have made—you mentioned the fire control system. That was discussed with Congress and it was said that in order to check the U.S. production version of the fire control system against the original Dutch one. We bought one Dutch one to try out to make sure the U.S. version was producing in accordance with the original performance—that it met the original performance of the Dutch system.

Mr. MURPHY. It was to go on PHM-2?

Admiral PRICE. Yes, sir. Due to the fact it happened to arrive early, and due to the slippages which we have mentioned in the actual number one ship, we found it was possible to put it in the number one ship while it was being built. That was certainly much more economical than putting it in after the ship had been built.

So it was a fortuitous circumstance that this fire control system and the boat were at such a position that this could be done. That did not increase the cost of the follow-up programs any at all. It was a matter of happenstance and convenience that it arrived that way.

The fact that we underestimated the man hours I think we have admitted that is a problem and we did do that.

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The other factors had essentially very little—resulted in very little increase in cost to the total program.

Mr. SIKES. I think I would like to have the last part of the question repeated. I would like for Admiral Holloway to give his answer to that.

Mr. MURPHY. Admiral Holloway, in view of the history of program changes and underestimating of man hours, why does the Navy still attribute most of the cost increase to inflation and escalation, rather than poor management and planning by the Navy and/or the shipbuilder in this case of the PHM?

Admiral HOLLOWAY. I think we have tried to break out the cost figures as best we could, being somewhat circumscribed by nomenclature—inflation means different things to different people. We certainly haven't tried to mislead anybody and blame cost increases on the national economy when they should have been blamed on the Navy.

That was the purpose of the chart that you see over there. We do have some areas where we simply cannot now know to what source to ascribe the increase in cost. We certainly would be responsive to any guidance you might want to give us in presenting this in a revised format if that would make it clearer.

Mr. MURPHY. It seems like an oversimplification of the problems that you are experiencing in the shipbuilding program.

Admiral GOODING. Of the $125 million deficit budget in 1976 for PHM, 40 percent of it is ascribed to underestimate.

Mr. SIKES. All right, gentlemen. There are still a number of subjects which have not been covered and many questions which have not been asked. Some of those we will be able to submit for the record, Admiral Holloway, in the name of either myself or Mr. Mahon, with answers to be provided by you or the appropriate witness. We may have to have you back because this is a major item for consideration.

We must have all the facts that we can obtain in order to reach a sound decision at this level.

At this point I would like to inquire if there are general questions? Mr. Edwards, have you any general questions?

Mr. EDWARDS. I don't think so.

Mr. SIKES. On my right?

Very well, gentlemen.

Do you have anything else, Mr. Murphy?

Mr. MURPHY. Not at this point, Mr. Sikes.

Mr. SIKES. Very well. Thank you very much.

The staff will be in touch with you. If we see it is going to be necessary to bring you back, we will so advise you.

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TUESDAY, MARCH 11, 1975.

FUNDING DEFICIT IN THE SHIPBUILDING PROGRAM

WITNESSES

VICE ADM. F. H. PRICE, JR., U.S. NAVY, DEPUTY CHIEF OF NAVAL OPERATIONS (SURFACE WARFARE)
VICE ADM. R. C. GOODING, U.S. NAVY, COMMANDER, NAVAL SEA SYSTEMS COMMAND
REAR ADM. S. S. FINE, U.S. NAVY, DIRECTOR OF THE BUDGET AND REPORTS, OFFICE OF THE NAVY COMPTROLLER
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CAPT. F. T. SHAVER, U.S. NAVY, NAVAL SEA SYSTEMS COMMAND
CAPT. R. B. HOFFMAN, U.S. NAVY, SCN APPROPRIATIONS MANAGER, OFFICE OF THE CHIEF OF NAVAL OPERATIONS

Mr. MAHON. The committee will come to order and we will resume our hearings on the $2.3 billion funding deficit in the Navy's shipbuilding program. Mr. Addabbo, will you proceed.

NUCLEAR-POWERED AIRCRAFT CARRIERS

Mr. ADDABBO. The committee will now turn its attention to the question of nuclear-powered aircraft carriers.

CVAN–68 AIRCRAFT CARRIER

The CVAN–68 nuclear carrier, the U.S.S. *Nimitz*, was to have been delivered in September 1973. The September 20, 1974, selected acquisition report shows that delivery will be made in June 1975, with an uncertainty of plus or minus 3 months. This is a 2-year slip in the delivery of this ship. At least 15 months of the slippage was due to the late delivery of some nuclear propulsion plant components. Of the $218.6 million cost growth in this program, $6.7 million is attributed to Navy-caused program changes and the remaining $211.9 million, we are led to believe, is due to economic inflation and escalation.

Admiral Price, it would appear that the CVAN–68 program slippage is in large measure due to late delivery of Government-furnished equipment. Is this true?

Admiral PRICE. That is correct, sir. However, the increased funding request this year is not related to the delay in delivery of nuclear propulsion equipment.

Mr. ADDABBO. If the nuclear propulsion contractors caused the schedule slippage of 15 months for the U.S.S. *Nimitz*, how much of a penalty

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was he assessed and what profit will he receive on the CVAN–68 nuclear propulsion plant contract?

Admiral GOODING. I will ask Admiral Rickover who is responsible for the nuclear propulsion equipment, to answer this question for the record.

[The information follows:]

Admiral RICKOVER. I believe it's important for the members of this committee to understand the causes for delays in the *Nimitz* class carriers.

From the inception of the two-reactor aircraft carrier program in 1964 it was recognized that the reactor plant would control the *Nimitz* construction schedule all the way from design to delivery. It was also recognized that the components required would be the largest ever manufactured for the naval nuclear propulsion program-components, some of which required the largest forgings of their type ever manufactured in this country.

At the time Secretary McNamara approved proceeding with the two-reactor carrier plant in 1964 we had completed 5 years work on the development of a four-reactor plant for a carrier. No design work had been done on the two-reactor plant or its components—it was just a concept. The four-reactor plant had a 7-year core life; the two-reactor plant was designed for a 13-year core life.

In April 1964, Dr. Glenn T. Seaborg, Chairman of the Atomic Energy Commission, arranged a meeting I attended at the Bettis Atomic Power Laboratory with Secretary of Defense McNamara and Dr. Harold Brown, Director of Defense Research and Engineering. At this meeting Secretary McNamara was asked whether we could count on his not canceling the two-reactor project after we developed it, just as he had canceled the four-reactor project after 5 years effort. Secretary McNamara replied that we would not be able to count on it; that was a risk we would have to take. We replied that it would make more sense to build the already designed four-reactor carrier, and proceed to develop the two-reactor plant based on the lessons learned in completing work on the four-reactor plant. Secretary McNamara said that if he had to build a four-reactor carrier we could forget both projects. He asked how he could get the two-reactor plant without building the four-reactor one. We told him that we could develop it from what we knew, but that would be very difficult and would involve schedule risks. We said that was asking us to do the job the hard way. He said we would have to do it that way, or not at all.

The project was so large and of such importance that I decided to apply the resources of both the Bettis and the Knolls Atomic Power Laboratories, the first time we had ever done this for a single project. In parallel with designing the reactor and the propulsion plant we set up the special production lines in industry necessary to build the large components, and we staffed the industrial organization to design the individual parts.

It should be borne in mind that this effort was getting started at the same time the utility industry was beginning to place a large number of orders for central station nuclear powerplants which used up available industrial capacity for large nuclear components. Further, the United States entry into the Vietnam war the next year extended leadtimes for all machinery components in the United States, and created a shortage of machining capability throughout industry.

Our efforts to keep leadtimes for the controlling nuclear components to a minimum were thwarted by Department of Defense refusal to ask for advance procurement funds in the fiscal year 1966 budget. We had to wait until the entire ship was authorized in the fiscal year 1967 budget. Further, the original schedules were based on the assumption that the highest industrial defense priority would be assigned. This is called a DX priority. However, bureaucratic delays caused this priority to be withheld for many months. By the time the DX priority was granted all the controlling components had long been on order, so that much of the potential gain from the DX priority was lost.

By the time the *Nimitz* contract was definitized in 1970 the original development estimate of June 1972, for ship delivery was in jeopardy and the original shipbuilding contract delivery was negotiated to cover a period to September 1973. However, more development, manufacturing, and labor problems still had to be overcome before the major nuclear components were finally ready for delivery to Newport News. To account for the late delivery of these components the Navy negotiated with Newport News in early 1973 a contract modification which recognized that late components could cause delay in delivery

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of *Nimitz* up to December 9, 1974. This date allowed Newport News a 6 months longer time span to install and test the nuclear plant that had been planned by Newport News in setting the original contract delivery date. At that time Newport News and I thought that an earlier delivery date could be achieved, and Newport News tried to do it. However, the overall manning shortage at Newport News, as well as other problems caused Newport News to be unable to meet its reactor plant erection schedule in 1973 which made the reactor plant systems late in being turned over to testing relative to the December 9, 1974, delivery schedule.

In late January 1974, Newport News informed the Navy that due to the then current status of work they expected the delivery of the *Nimitz* to be delayed until March 1975.

No attempt has been made to prorate the cost of the *Nimitz* delay to the nuclear propulsion contractors that delivered components which caused delays in the *Nimitz* construction schedule. The individual contractors received payments including profit, and in some cases losses, in accordance with the provisions of their individual contracts. There is no practical way for the Government to determine the individual actual profits or losses on the *Nimitz* components for each contractor.

Admiral GOODING. I would like to clarify something in the committee's mind. The Navy has admitted that the late delivery of nuclear components to CVAN–68 was the cause of a delay. The Navy has negotiated with Newport News a bilateral modification of the contract, paid the bill and Newport News signed a quit claim to any claims arising out of that delay on the 68 and on the 69, if any. So those costs are included in the end cost of the contract.

Mr. ADDABBO. What was the amount paid for the quit claim settlement?

Admiral GOODING. $8.7 million sticks in my mind, Mr. Addabbo.

Mr. ADDABBO. The contract for fiscal year 1970 CVAN–69 nuclear carrier was awarded on June 30, 1970. Why is it that today you require $35.6 million due to inflation?

Admiral GOODING. That $35.6 million is target to ceiling; the inflationary impact results from the contractor's inability to man the CVAN–69 construction effort at the manning levels scheduled, thereby causing a portion of the direct labor man-hours to be worked as much as 2 years later than planned at higher labor rates than he is reimbursed for under base year rates and the contract escalation clause. Other factors which tend to increase the contract above the target price, which have occurred were low productivity by the shipbuilder's direct labor force (resulting in man-hour overruns) and the application of greater than anticipated overhead costs to the shipbuilding contract. It should be noted we do not add quarters of escalation to accommodate unrecoverable escalation. If the shipbuilder's actual costs for labor, material, and overhead exceed the amounts included in the target price and the amounts recovered under the escalation clause, the additional costs begin to encroach upon the contract ceiling price. To the degree the contractor moves from target price toward ceiling price he moves on a share-line wherein he foregoes some of his profit. It is in the best interests of both the Government and the shipbuilder to maintain the contract within the target price. That level produces the highest level of profit to the shipbuilder, and the lowest total cost to the Government.

On the basis of the Navy's and the shipbuilding contractor's current estimate of costs to complete the contract, the Navy has budgeted to ceiling.

Mr. MURPHY. The table we received to work with had three columns: Navy-caused program changes, inflation, and escalation, so it was

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difficult to understand on a contract you awarded back in 1970 how you could have inflation today.

The target to ceiling would explain it to me but why would you move the target and ceiling price?

Admiral PRICE. Inflation does have an impact on target to ceiling too, Mr. Murphy. Although we try to pay for, under the escalation clauses, material and labor costs and things of that nature which increase in cost over the building period, it is possible in accordance with the contract, that he could be charged more than he recovers in his escalation payments. Things like that amongst others tend to cause a growth toward ceiling price. We are therefore legally obligated under the contract to cover ceiling price.

I think that is an example of the type of thing that can happen.

Mr. MURPHY. We would like to have a little better explanation. I can understand if there is a slip in the program you can add quarters of escalation to take care of that.

Admiral GOODING. Additional escalation quarters would only be added for Navy caused delays. However, the contract schedule may be waived to reflect a legally excusable delay, or a compensable delay.

Mr. MURPHY. What is an excusable delay?

Admiral GOODING. Acts of God, strikes, hurricanes, and of course late delivery of Government-furnished equipment.

Mr. MURPHY. There is a delay in CVAN-68 of a total of about 2 years now?

Admiral GOODING. Yes, sir.

Mr. MURPHY. Some 15 months of it was attributed to late delivery of nuclear propulsion components and, as we discussed the other day, I think the Navy changes added something like 2 million man-hours of labor required.

Admiral GOODING. I can't dispute that figure, sir. I don't recognize it.

Admiral PRICE. Which figure is that, Mr. Murphy?

Mr. MURPHY. In answer to Mr. Robinson's questions in the hearings of a couple of weeks ago, I believe it was stated the Navy changes caused about 2 million man-hours and a total of something like 62 additional weeks in the construction.

Admiral GOODING. The 62 additional week period was due to late delivery of nuclear components, Mr. Murphy, and the Navy has adjudicated that change order and forward priced it. The 2 million man-hours in previous testimony referred to all other Navy changes to the CVAN-68 and CVAN-69 shipbuilding contract.

Mr. MURPHY. But where do the 62 weeks show up; in the escalation column, I suppose?

Admiral GOODING. No, sir.

Mr. MURPHY. Would this additional 62 weeks show up in the Navy change column?

Admiral GOODING. No, sir, the price of the change order was forward priced.

Mr. MURPHY. If late delivery of nuclear components to the dockside caused a 15-months slippage in the CVAN construction period, that means 15 months more of escalation you are going to have to pay because the program slipped those months, is that right?

Admiral GOODING. No, sir, not necessarily. In the contract there is a table of quarters of escalation and the end point of that is normally

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fixed and when that point has been reached we stop paying. That point will be reached in this shipbuilding contract in June 1975, and in fact we are not asking for any more escalation for this contract.

Mr. MURPHY. Even though the Navy or its vendors caused a 15-month slip in the program, do you say that the contractor building the ship is not entitled to additional escalation?

Admiral GOODING. We do not say that automatically. If it is the Navy's fault, we normally forward price a contract change which includes all projected costs. Therefore, any escalation due Newport News on CVAN-68 has been paid.

Mr. ADDABBO. Navy changes increased the fiscal year 1970 CVAN-68 program by $6.7 million. How much did the Navy changes increase the total program for inflation and escalation?

Admiral PRICE. The $6.7 million is for a future characteristics change for a tactical support center on the CVAN-69—fiscal year 1970 program ship—only. This amount is in fiscal year 1976 dollars and does not increase the total program inflation and escalation.

Mr. ADDABBO. Will you provide for the record a more meaningful explanation for the cost increases in the CVAN-68 program, detailing the direct and indirect cost increases associated with Navy changes which caused schedule slippages and now termed inflation and escalation cost growth? Do the same for cost increases due to delays in awarding contracts, cost increases attributed to delays in providing GFE, cost increases attributed to schedule slippages by the shipbuilder, his subcontractors and vendors, and so forth.

Admiral PRICE. The cost increases in the CVAN-68 program which are reflected in the fiscal year 1976 budget request are detailed as follows:

	Millions
CVAN-68/69:	
Basic ship construction contract (target to ceiling)	$35.6
Future characteristics change for tactical support center (CVAN-69 only	6.7
Total CVAN-68/69	42.3
CVN-70:	
Basic ship construction contract (increase to reflect changes in market conditions since original budget estimate)	19.4
Shipbuilding contract escalation (from base month through delivery)	190.9
Provision for inflation on Government furnished equipment since original budget estimate	12.5
Total CVN-70	222.8
Total CVAN-68 program	265.1

Except for the $6.7 million identified above for the tactical support center on CVAN-69, all the aforementioned amounts are attributable to changes in the economy and not due to schedule slippages, delays in awarding contracts, delays in providing GFE or Navy generated changes.

CVN-70 AIRCRAFT CARRIER

Mr. ADDABBO. Congress appropriated $956 million in fiscal year 1974 for the CVN-70 nuclear carrier, the U.S.S. *Carl Vinson*. You estimate that the ship will now cost $1,178.8 million, a cost increase of $222.8

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million. The September 30, 1974, SAR states that the schedule slippage on the CVAN-68 and CVAN-69 will have no effect on the delivery of CVN-70. Yet, as of that date, a contract for construction of that carrier had not been definitized and the shipbuilder has testified before the House Armed Services Seapower Subcommittee that certain agreements with the Navy must be reached before new Navy shipbuilding contracts will be undertaken. Admiral Price, what are the agreements that the shipbuilder is seeking?

Admiral PRICE. In fiscal year 1973 Congress appropriated $299 million for procurement of long leadtime material for the CVN-70—*Carl Vinson*—and in fiscal year 1974 Congress appropriated $657 million for balance funding, making a total of $956 million for this ship. The CVAN-68 and CVAN-69 shipbuilding contract with Newport News Shipbuilding & Dry Dock Co., Newport News, Va., contains an unprice option for construction of CVN-70. The Navy exercised this option on April 5, 1974, and construction of CVN-70 is proceeding as scheduled. The Navy and Newport News are continuously working to resolve areas of difference as they arise under each and every contract.

Mr. ADDABBO. Is construction proceeding on schedule on CVN-70 without a definitized contract?

Admiral GOODING. Long leadtime purchasing is proceeding, Mr. Addabbo and construction has not as scheduled.

Mr. ADDABBO. Do you know with any degree of accuracy what the CVN-70 will cost?

Admiral GOODING. We believe it will cost below the budgeted amount, but that remains to be seen.

The current estimate is about $1.2 billion.

Mr. ADDABBO. You are presently negotiating it. You have no contract?

Admiral GOODING. We have exercised an unpriced option and the contract is being negotiated, yes, sir.

Mr. ADDABBO. How firm is the September 1980 delivery date for the CVN-70?

Admiral GOODING. Newport News has agreed to that date in the contract. In my opinion it is attainable.

FUTURE CARRIER REQUIREMENTS

Mr. ADDABBO. After CVN-70, do you have any more plans?

Admiral GOODING. For aircraft carriers?

Mr. ADDABBO. Yes.

Admiral PRICE. Well, yes. Mr. Addabbo. If we are to maintain 12 carriers in the fleet that are modern and effective we will have to replace some of the aging *Forrestal* class ships, which, in about 1985, will start reaching the age of 30 years and therefore we are studying now what our replacement carrier program should be beyond the current CVN-70. I think the Secretary of Defense stated this was being reviewed, but that we would have to continue to replace these aging carriers.

For example, in the case of *Forrestal*, which will be 32 years old in 1987, that is beyond the service life that we plan for ships of that nature. So we do plan on a replacement program, but just exactly what that ship will be at the moment has not been decided.

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Mr. ADDABBO. If we continue to experience cost overruns, inflation and escalation, can we figure it will cost close to $2 billion?

Admiral PRICE. It would depend on what size carrier is decided upon and I would certainly hope that the inflation will ease off which will certainly affect the prices of our ships in the out years.

CVAN-68 AIRCRAFT CARRIER

Mr. ADDABBO. Admiral, the outfitting cost of CVAN-68 goes from $1.1 to $3.5 million. Why that tremendous increase?

Admiral PRICE. The outfitting cost pays for the material the Navy buys and puts in the storerooms in the ship as part of its outfitting load list. I have to assume that that increase is due to inflation, but I do not know specifically.

Mr. ADDABBO. Can you expand for the record?

Admiral PRICE. Yes, sir.

[The information follows:]

I cannot speak specifically to the $1.1 million to $3.5 million range you indicate since I do not recognize those specific numbers or know of their source. However, I will elaborate on the method of budgeting outfitting costs for the CVAN-68. Funds are requested for appropriation in accordance with anticipated commitment and obligation requirements in a given fiscal year. Because components procured under the outfitting P-1 line item vary in manufacturing and administrative leadtimes, procurements for a particular ship will normally be made in several successive years. The current estimated total outfitting requirements for CVAN-68 is $7.9 million and spans fiscal years 1970 through 1976. This estimate reflects an increase of $2.2 million to the previous estimate of $5.7 million. Of the $2.2 million, $1.7 million is due to inflation and $0.5 million is due to an increase in outfitting items for personnel safety (emergency breathing devices) which were not known at the time the previous estimate was developed.

Mr. ADDABBO. Postdelivery costs of CVAN-68 is shown at $8.9 million. How much was originally budgeted in prior years for postdelivery cost for this carrier?

Admiral GOODING. We will have to submit that.

[The information follows:]

The postdelivery budget that was submitted to Congress in fiscal year 1974 included $6 million for the CVAN-68. This was based on a September 1973 delivery. The delivery was delayed and funds were not appropriated by Congress. The fiscal year 1975 postdelivery request appropriated by Congress included $6 million for CVAN-68. A revised estimate of CVAN-68 postdelivery costs made subsequently to congressional approval, indicated an increase of $2.9 million. The $8.9 million for CVAN-68 postdelivery in fiscal year 1975 is estimated to be the total required for the ship.

Mr. ADDABBO. When CVAN-68 is delivered, will she have all the shop and electronics equipment necessary to maintain and repair the F-14 and S-3A aircraft?

Admiral GOODING. No, sir. She will be able to fly the F-14 and fly the S-3A. She will not be able to support those airplanes.

Mr. ADDABBO. Why?

Admiral GOODING. After a long period of review, the shipbuilder refused to negotiate a fully priced bilateral modification to install electronic shops and airwing support shops. Therefore the Navy determined it would be more economical to install those pieces of gear after the ship was delivered.

Mr. MURPHY. Why did the shipbuilder refuse to install them?

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Admiral GOODING. The shipbuilder some time ago adopted a policy of not accepting any bilateral changes to the contract until the Navy had done certain things, among them recognize a slip in contract delivery dates and accept the responsibility therefor. We do not agree that all of those slips are the Navy's responsibility and therefore we felt we could not do that.

So the shipbuilder has simply refused to estimate and negotiate change orders.

In the case of urgent changes, the Navy has been forced to issue them unilaterally.

Mr. MURPHY. I am still a little confused on this Navy change. Why would you make such a change now on this carrier, the contract for which was awarded, I believe, in fiscal year 1969, in order to accommodate the F–14 and S–3A?

Admiral PRICE. Because the equipment and things to be in the F–14 were not known at that time, Mr. Murphy, and until you know what electronic equipment and things are going to definitely be in an airplane, you can't decide what shop equipment and electronics equipment you need to support them.

Mr. MURPHY. The F–14 contract I think was awarded in January 1968, or February 1968, and the VAST program was scheduled to take care of testing the avionics. This was decided that far back, and it was in the F–14 program.

Admiral PRICE. I think, Mr. Murphy, the development contract for the F–14 can be let quite a long time before all of the particular equipments are completely definitized in that particular system.

For example, the Phoenix weapons system was under development at the time. Until it is completely developed, it is very difficult to determine in the VAST system, for example, what programing and everything else you need in order to support those aircraft and these systems. So we oftentimes let ship contracts with certain features—those we think might be required later in the ship—called out as space and weight items. These are not priced out, but we leave space; we leave weight and the ship is designed to take them. We leave things this way until such time as our knowledge is firm enough that we can then say specifically what we want. At that time, of course, we have to program the money if we want the particular items in the ship. We do that quite frequently and especially when you have a building program of 7 years for a ship. Oftentimes, when you start you know you want a capability, but you don't have a definitive knowledge of that capability, at least not sufficiently definitive to contract.

Mr. MURPHY. The CVAN–68 was budgeted in fiscal year 1967 and the Phoenix missile system has been in development at least since 1962.

Admiral PRICE. It hasn't completed development until just about a year and a half ago.

Mr. MURPHY. The Phoenix missile has been in production since 1970 and it was initially called out for the F–14 aircraft.

Admiral GOODING. To comment specifically on your question, Mr. Murphy, part of the change which Newport News refused to accept was the installation of VAST.

Mr. ROBINSON. Don't you think, Admiral, that part of that may be due to the fact there had already been more than 1,200 Government recognized changes in the ship?

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Admiral GOODING. I think that had very little to do with it, sir. Before the committee convened, I did a little arithmetic on the number of changes we have in the shipbuilding program and it turns out to be approximately 3.5 percent of the program value, which I don't consider particularly remarkable.

Mr. ROBINSON. Are we discussing just the *Nimitz* or the total program?

Admiral GOODING. The total shipbuilding program.

Mr. MURPHY. Three percent?

Admiral GOODING. 3.5 percent.

Mr. MURPHY. Of what?

Admiral GOODING. Of the program value.

Mr. MURPHY. How many billions of dollars?

Admiral GOODING. Approximately $17 billion.

Mr. MURPHY. That amounts to almost $600 million.

Admiral PRICE. There is another thing, Mr. Robinson, that often isn't clear. When we budget a ship, we allow money for changes, and we call that reserve the project manager's change order reserve. We need that reserve because, as you design a ship and start doing the detail design, you oftentimes find things that must be changed in order to make an effective ship. These changes then are modifications to what was specified in the original specifications.

Those things are changed, but they are paid for out of the contracting officer's change money which is budgeted when he budgets the ship because you know from past history that over a period of years of building a ship that these types of changes just of necessity must take place and therefore you budget a percentage which is based on historical fact as the type of thing which you experience.

Admiral GOODING. We generally budget an average of about 4 percent for the change order reserve. The statistics I have indicate that is just about enough. We are using about 3.5 percent of it.

Admiral PRICE. A number of those changes you mention are changes of that type. They are not instances where the Navy has changed the basic characteristics of the ship, the weapons systems or things of that nature. There are very few of those today. We control those very, very strictly. But these other changes are of the type where you say a pipe is here and, despite the blueprints, it can't go there, it must be run somewhat differently. Something has to take care of that.

NEWPORT NEWS SHIPBUILDING AND DRYDOCK COMPANY

Mr. ROBINSON. Since we are talking about this particular class, I will again quote, as I did earlier in our last hearing, from Mr. Diesel appearing before Mr. Bennett's subcommittee. He said this:

"Major problems in the Naval shipbuilding program have been caused by the Navy's insistence upon artificial delivery dates.

"Mr. Rule, when he appeared before you in April, said if we could make realistic delivery dates for these ships, if we did that one thing, we would have accomplished more than has been accomplished for the Navy in years. In the case of the *Nimitz*, reasonable allowance for problems inevitable in lead ships would have resulted in a ship being delivered in accordance with the contract schedule" and it slipped how much?

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Admiral GOODING. About 2 years. Some 15 months of that the Navy acknowledges to be its fault.

Mr. ROBINSON. The Navy in its process of renegotiation on these changes, does it take into consideration the effect on wages that has occurred in the meantime and such things as that? Are they always cranked in?

Admiral GOODING. If we are successful in signing a bilateral arrangement to the contract, the answer is yes, we do. We project that to the end of the contract and anticipate the raise in wages that ought to occur.

In the case of the contract itself, the escalation is paid on labor depending on what the Bureau of Labor Statistics Index for shipbuilding does.

Mr. ROBINSON. In another part of his statement Mr. Diesel said this, on which I would like your reaction, with respect to the comment you just made.

"In the light of our unprecedented inflation, the Navy's escalation clauses no longer afford adequate protection to the shipbuilder, especially because they provide protection only to the costs included in extremely unrealistic target prices and only for the period included in unrealistic schedules. We know that the Navy has been studying this problem and we anticipate improvements will be made eventually."

He goes on. I wonder to what extent that improvements have been made since this statement which was made last August. Have you been working on that, Admiral?

Admiral GOODING. Yes, and I confess to some sympathy for the shipbuilders. The escalation clause which we have used since 1961, I believe, was perfectly adequate in a time of a stable economy and the shipbuilders I think would agree that it adequately reimbursed them for the escalation which they experienced.

What has happened to us in the past couple of years is out of sight and the clauses in the existing contracts do not in fact in some cases recompense the shipbuilder for the escalation he perceives.

On the other hand, I must point out that Mr. Diesel says the delivery date was unrealistic and the price was unrealistic. I must point out that Newport News signed that contract. It takes two to make a contract, and if the company knew at the time that the cost was unrealistic or the delivery date was unrealistic, I question the wisdom of their signing the contract. I know of no way to force Newport News or any other shipbuilder to sign a contract he does not want to sign.

Mr. ROBINSON. It is obvious, of course, they did want to build the ship. There is no question about that. It is obvious, I think, too, that the Navy wants to keep Newport News in business just as much as we want to keep Todd in business.

Admiral GOODING. Yes.

Mr. ROBINSON. Here is another comment he makes in this same area: Incidentally, these comments are on page 48 of his prepared statement if you would like to refer to them at any time. He says:

> One of the most unconscionable developments in Navy shipbuilding contracting has been the proliferation of so-called anticlaims and contractor-risk clauses. These clauses previously identified to the subcommittee were the direct outgrowth of the Navy's attempt to shift responsibility for its deficient and/or outdated contracting and contract administration practices to the shipbuilder.

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How would you react to that statement, Admiral, for this subcommittee's edification?

Admiral GOODING. Mr. Robinson, I think the Navy would have been derelict had we not done something to prevent claims, to prevent the basis for claims. We pay off claims now at an average of about 35 to 43 cents on the dollar. It takes years of work; it takes millions of manhours of labor on the Navy's part and also on the contractor's part.

In the case of Newport News, and the other large shipbuilders, we wind up paying that in their overhead, and I think the fact that we pay off about 35 or 40 cents on the dollar gives you a message.

Had the Navy done nothing to prevent the future submission of these overinflated claims, I think we ought to be taken out in the backyard and shot.

Actually, the claims avoidance clauses are designed principally to surface the cause for a claim within 30 days of the occurrence, whatever it is—an action on the part of the Navy, a lack of action on the part of the Navy—just tell us. Put it on a piece of paper, sign your name to it and say "You have just made a constructive change to the contract and I am going to submit my bill later."

Mr. ROBINSON. In that instance you cite 30 days as being realistic Why in that case did it take 14 years to finish paying for the Ranger in terms of bringing to a conclusion the negotiation between the Navy and Newport News?

Admiral GOODING. Mr. Robinson, I don't desire to defend that 14 years. That is unconscionable. It has been settled.

Mr. ROBINSON. It has been settled, but it was a fact nevertheless; was it not?

Admiral GOODING. It was a fact, and I do not attempt to defend it.

Mr. ROBINSON. Thank you, Mr. Chairman.

Admiral PRICE. I would like to say one thing, Mr. Robinson. When people signed the contracts back in 1967 and 1968, about the time when the *Nimitz* was signed, no one foresaw the current rate of escalation. The provisions and everything which are in those contracts were perfectly acceptable to the contractor, the Navy, and everyone else. It is when we have a period of economic inflation that we have had recently that those contractual provisions then become burdensome to the contractor but neither the Navy nor the contractor could perceive that when that contract was let.

So that a lot of what we see now, and I think Mr. Bennett, in his report, if I recall—and I don't have the exact words—stated there were two sides to these stories, that the contractor obviously is putting forth one side and rightly so—he is putting forth the side which is to his best advantage. I think he would be derelict if he didn't, but I am stating that these things are not all one-sided. At the time these contracts were signed I am sure Newport News was perfectly happy with that contract or they wouldn't have signed it, as Admiral Gooding said. When we have inflation, we both get caught in these things.

Admiral GOODING. If I could invite the committee's attention to this viewgraph up here, those lines up there are the building periods. You take a 6-year building period like a nuclear aircraft carrier and you have only 10 percent per year inflation and you are talking about 30-plus percent inflation based on the target costs of the contract; in the case of a nuclear aircraft carrier that is a great deal of money.

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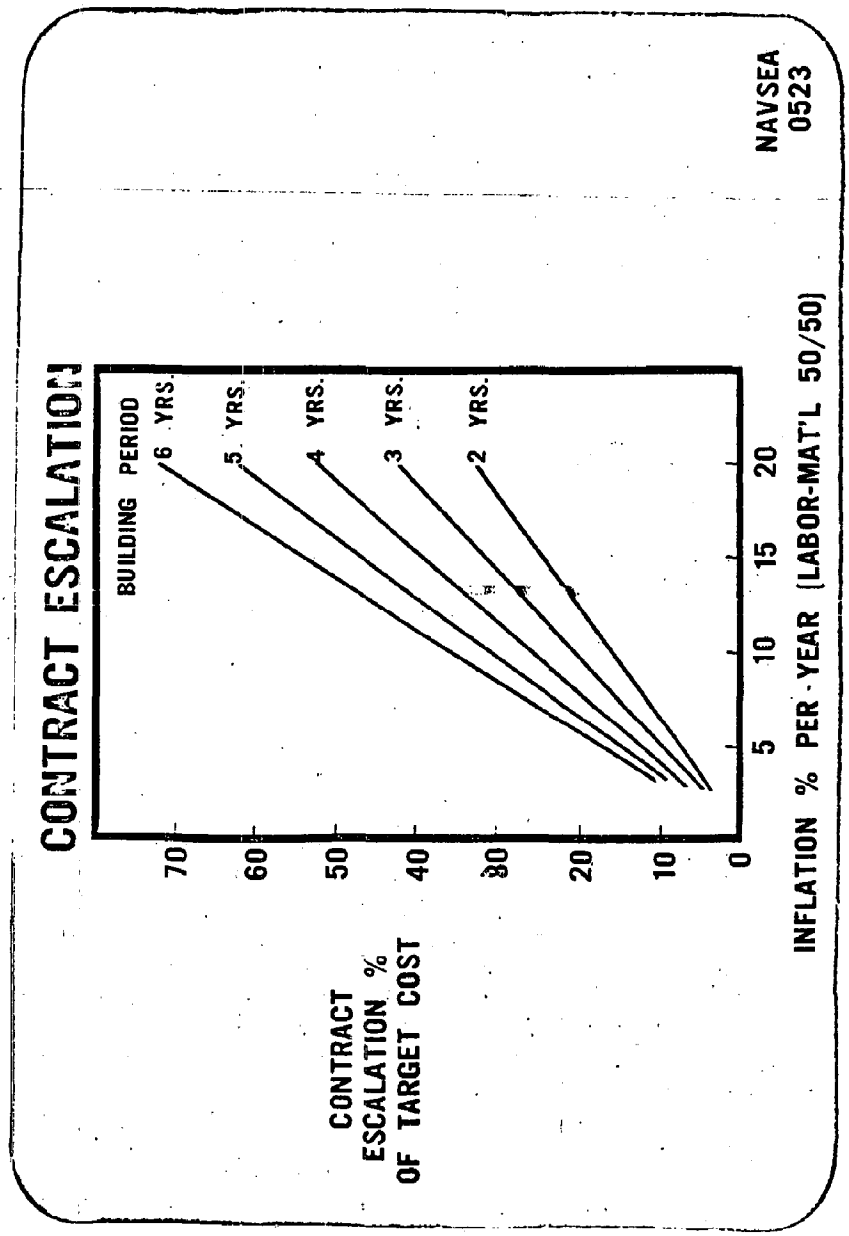

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If you are talking 5 percent a year, that is actually 12 percent of the target cost. You just double the rate of inflation and you treble the rate of cost increase.

CVAN–68 AIRCRAFT CARRIER

Mr. ADDABBO. Admiral, when will the CVAN–68 be equipped with all the equipment necessary to maintain and support the F–14 and S–3A, and what will be the cost?

Admiral GOODING. It will be completed in fiscal year 1977 after the completion of the ships first deployment. I will supply the cost for the record, sir.

[The information follows:]

The Government estimated cost to install aviation shops to support the F–14 on CVAN–68 is approximately $1.8 million. Aviation shop support for the S–3A, estimated at $1.8 million, is under consideration for accomplishment in fiscal year 1977 but as yet has not been programed.

Mr. MURPHY. Admiral Gooding, when did the Navy make the decision to install shop equipment in CVAN–68 to support the F–14 and S–3A?

Admiral PRICE. The decision to include the F–14 in the air wing composition of the carrier was made in 1972. When we define what aircraft are to be included in the air wing of a carrier, the Materiel Command can say what equipments, what other things have to be included to handle that particular air wing compostiion.

Now, at the time that the original carrier characteristics were put out by OPNAV though, we were working on the F–14, there was no assurance we would have an F–14, so the F–14 was not included in the air wing composition and the F–4 was the fighter which was in the original air wing composition. That was changed when we were authorized to contract for the F–14 and we knew it was coming into existence. We then changed the air wing composition which meant we had to then include the jet blast deflectors and other things which were required to handle F–14's.

That is what we go through in all ships when we can't foresee whether some of these actual programs are going to come to fruition.

Mr. ADDABBO. Any questions on the nuclear-powered aircraft carriers?

NEWPORT NEWS SHIPBUILDING AND DRYDOCK CO.

Mr. ROBINSON. Recalling that this statement was made last August, Mr. Diesel said this: "Over the past 4 years Newport News' returns on sales after taxes on its new naval ship construction has been as follows: 1970, plus 4.4 percent; 1971, plus 2.5 percent; 1972, minus 1 percent; 1973, minus 3.9 percent. And for the first 6 months of this year—meaning 1974—the comparable figure was minus 6.5 percent."

I wonder if the Navy did anything about verifying those figures? You talk about your audit procedure and what you are going to do and so forth.

Admiral GOODING. That would require access to the general ledger which we do not have and we have no means of verifying those.

I recognize the figures and assume they are correct, but we are unable to verify them.

Mr. ROBINSON. That is all, Mr. Chairman.

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LANDING HELICOPTER ASSAULT (LHA) SHIPS

Mr. ADDABBO. We now turn to the question of landing helicopter assault ships. Congress appropriated a total of $742.7 million for five LHA ships. Subsequent to that time Congress provided another $273.5 million in program adjustments and cost growth and escalation funding, to a current total appropriated amount of $1,016.2 million. You now want another $108.4 million, of which $100 million is to settle the shipbuilder's claim, $5.4 million for Navy changes, and $3 million for Navy project support.

NAVY PROJECT SUPPORT

Admiral Price, why do you require $3 million for the so-called Navy project support and how much has been programed for this purpose up to the present time?

Admiral PRICE. The $3 million is for increased project support including engineering services, support by other specialty naval activities and tests and trials support. These increased costs, as well as the increased costs for change orders, are for the same reason and are directly related to program delays and stretchout. How much we originally had in there for that I will have to provide.

[The information follows:]

Through fiscal year 1975, $18.1 million had been programed for these project support efforts.

Mr. MURPHY. Admiral, how much of the fiscal year 1976 request for cost increase is caused by late delivery of GFE?

Admiral GOODING. The amount of cost increase included in the fiscal year 1976 budget request associated with the LHA program is $108.4 million. This amount will fund necessary changes and program support to completion of the program. Also included is an amount to settle the shipbuilder's claim against this program. None of the requested amount is for contract escalation and none of the requested amount can be directly attributed to recent inflation.

There have been few incidents when late delivery of material has caused the contractor a financial problem. There has been no late delivery of Government-furnished equipment. The construction delays currently experienced may be related to his manpower problem. Earlier problems associated with yard startup, frequent management changes, et cetera have been dealt with earlier before this committee.

Admiral PRICE. The $3 million you are talking about in project support—I presume that is what Mr. Addabbo was talking about—is the support to the project and that comes, as I mentioned, through the necessity to keep sufficient reserves for the types of Navy support that continue throughout the building period of the ships.

ADDITIONAL NAVY CHANGES ANTICIPATED

Mr. MURPHY. Do you mean you anticipate more changes in the LHA program?

Admiral PRICE. Yes, sir. The changes we make are essential military and mandatory safety items which come up during the actual construction of the ship. The extended building period for these ships

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has increased the opportunity for this. Maybe Admiral Gooding can address that.

Admiral GOODING. It is quite plausible that we could find, for example, in the operation of the well deck where the landing craft are, a safety problem. We would want that fixed. That is what this change order money would pay for.

There are things of that sort.

Mr. MURPHY. Could you provide for the record how much has been funded thus far for this effort?

Admiral GOODING. Yes, sir.

[The information follows:]

Contract changes funded through fiscal year 1975 total $33.6 million. The additional $5.4 million requested in the fiscal year 1976 budget will bring the new total to $39 million, which is 3 percent of the total program.

Mr. ROBINSON. Would that infer a defect in design, Admiral?

Admiral GOODING. It would imply a defect in intellect in that whoever designed it was unable to see into the future. For example; such things as the location of a chock, by moving a chock a few feet you may make the operation safer. I don't feel apologetic about the designer not foreseeing that.

Admiral PRICE. For example, one thing he mentioned and about which we are quite concerned are such things as handling the small craft in the well deck of the LHA when she is ballasted down and you are in any kind of a seaway. It is a large ship and will have water in the well. You have the landing craft—floating inside and they have to be safely tended. The shipbuilder makes a design which looks both to him and to the Navy as being apparently a satisfactory design. When you actually get the ship out and flood it down, you may find for some reason or other the wave motion in that well deck is slightly different than what was anticipated and therefore you need extra lines or you need to move fittings or you need to make some changes to it to make it really a safe operation.

That sort of thing occurs and a ship is so complex it is impossible to look at some of these things and decide, "That is going to be all right and therefore I will never have to change it again." It is a very complex situation and a lot of it tends to be art in some cases.

Mr. MURPHY. What kind of landing craft are you addressing, Admiral?

Admiral PRICE. These are LCM's and things for which the ship was actually designed.

Admiral GOODING. This well deck will accept the hovercraft if it is built, but we are not building in anything for that.

Mr. ADDABBO. What changes are you making to this program at this late date that will cost $5.4 million?

Admiral GOODING. I have a page and a half of them, Mr. Addabbo, if you like I will hand them to the reporter.

Mr. ADDABBO. Supply it for the record.

[The information follows:]

ANTICIPATED LHA CONTRACT CHANGES AS OF JANUARY 1, 1975

Refurbish GFE (CPIC).—Defective or damaged GFE which is repaired by Contractor.

Survival support device.—Air breathing devices which would permit crew to escape smoke filled areas.

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MK-6 lifeboats.—New 25-man inflatable boats with new stowage containers.
Possible changes installed GFE (baselining).—Contractor effort to effect required change to GFE (software).
Helo lift slings.—Contingency—to procure more slings SPV/OPEVAL indicates shortages.
CMS-2Y complier mods.—Effort by contractor to integrate CMS-2Y complier mods effected by Government.
Removal of fuel oil heaters.—Recent change authorized to remove heaters and tank coils since NSFO no longer to be available.
UYK-7 core changes.—Increase in computer core if required to accommodate ITAWDS programs.
NAVCOMPARS changes.—Software changes to make compatible with Navy COM systems for automated systems.
SPS-52 computer cleaning kits.—Small kits for effecting required PMS.
Crypto security.—Contingency—if ship doesn't meet MEC for security inspection after space closed out.
T. & E. spec. REQ increase.—Contingency for FOT. & E. requirements.
Changes to GFE.—Impact costs if mandatory changes must be effected on GFE.
Field engineering changes notices.—Contractor costs related to any impact of GFE change notices.
Interior voice communications system (IVCS) changes.—Contingency for any Government mods required to obtain viable IVCS changes. May need more memory and change to permit Government software maintenance.
Navigation light modifications.—Contingency to make mods to Navlights, if required to obtain certification.
Fire retardant wood sheathing.—Being examined—otherwise self-explanatory.
A/C spotting dolly mods (software).
Rifle rack mods.—Contingency if current RR is not satisfactory for security. At least may have to procure locks for current racks.
National stock numbers.
Early support LHA-1.

Mr. ADDABBO. Will these changes cause shipbuilder delays and/or cost increases?

Admiral GOODING. They will not cause delays. There will be builder cost increases and we have requested that money in the budget. That is in the $5.4 million for contract changes.

Mr. ADDABBO. What is the additional amount of inflationary and/or escalation costs associated with these changes?

Admiral GOODING. There are no additional escalation costs due for these changes under this contract.

Mr. ADDABBO. You have a $900,000 increase in the fiscal year 1969 LHA-1 ship due to Navy program changes. Did those changes cause the $20 million claim for that ship?

Admiral GOODING. No, sir. The claim predates any of these changes, and is based on other business related matters.

Mr. ADDABBO. The Navy previously applied $55.8 million to cost growth and escalation funds and reprogramed another $8.7 million to the fiscal year 1969 LHA. Did the Navy changes to that ship cause that $64.5 million cost increase which we assume is classified as inflation and/or escalation?

Admiral PRICE. I don't quite know which numbers you have reference to, sir.

Mr. MURPHY. In the previous funding column, Admiral, $55.8 million and $8.7 million have been reprogramed, for a total of $64.5 million.

Mr. ADDABBO. You may supply it for the record.

[The information follows:]

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The $64.5 million cost increase on the LHA–1 represents $22 million cancellation costs, $21 million for increases from target price to ceiling price, $19.5 million for inflationary cost increases and $2 million for additional contract changes.

CONTRACTOR CLAIMS

Mr. ADDABBO. What are the reasons you require $100 million to pay claims on the LHA program?

Admiral GOODING. This amount is requested against the possibility we may be able to get the appeals out of the Armed Services Board of Contract Appeals and settle part of it.

Mr. ADDABBO. What was the amount of the claim?

Admiral GOODING. The appeal is for $373 million.

Mr. ADDABBO. Do you hope to settle for the $100 million?

Admiral GOODING. We put that in as a bogey. We have no validity for it particularly. We need some money to settle the claim. I consider that number particularly sensitive in that it might be considered as the Navy's estimate of what that claim is worth. We don't know what that claim is worth. We'll need some money to settle that claim.

Mr. ROBINSON. However, based on your previous statement that you settle for some place between 30 to 35 percent of the claim, that would be just about that figure, wouldn't it?

Admiral GOODING. Just about, yes, sir. That is how we got it.

Mr. MURPHY. Admiral, could you provide for the record the reasons for Litton's claim?

Admiral GOODING. Yes, sir.

[The information follows:]

The reasons for Litton's claim, as contained in their appeal to the Armed Services Board of Contract Appeals, are:

	Count
Changes	1
LHA delay costs and time extensions	2
Government's refusal to extend further the cost-incurred payment provision of article IV of the LHA contract's special provisions	3
Government's erroneous determinations concerning the application of clause 7 (payments of the general provisions)	4
Cancellation costs allowability	5
Escalation cost allowability	6
Liquidated damages	7

NAVY CHANGES

Mr. ADDABBO. Congress has provided a total of $217.5 million for LHA–1 through fiscal year 1975. Was the original appropriation $153 million for the lead ship?

Admiral PRICE. Yes; that is correct, sir. It was $153 million appropriated, but you must remember this was one of those contracts where you had a number of ships and all the startup costs were prorated across the total number of ships. There was not a lead ship cost in the sense that we have today in some of our other programs where we frontload the startup costs and say, "We will pay all these as lead ship costs."

Mr. ADDABBO. Apart from the reduction of four ships and termination charges of $109.7 million resulting from that program quantity reduction, can you give us now the total cost of Navy changes and for the record a description of each Navy change made in the program and the reason for each?

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Admiral PRICE. Yes, sir, we can.
[The information follows:]

The total cost of program changes in the 5-ship LHA program is $381.9 million. Included in this amount is $155.9 million for contract escalation and inflation on Government equipment, $103.8 million cost growth for a target to ceiling price increase, and $100 million included in the fiscal year 1976 budget for claims. These changes are for reasons beyond Navy's management control. Estimating cost increases, including necessary contract changes, total $10.5 million. Other minor support and engineering changes, including increases for schedule extensions, total $11.7 million. The fiscal year 1976 budget request includes $108.4 million for the LHA programs as follows: $100.0 million for claims, $8.4 million for support, and other necessary contract changes.

DELIVERY DATES UNCERTAIN

Mr. ADDABBO. The Secretary of Defense indicates in his posture statement that delivery of LHA-1 has slipped about 2 years and the remaining four ships by as much as 44 months. The latest SAR shows the last ship will slip 50 months. How much of this slippage is contractor-related and how much is Navy-related?

Admiral GOODING. This is a question we have asked the contractor, Mr. Addabbo. He dropped this latest slip—and my figures indicated 60 months, not 50 for the last slip—on our desks a month or so ago and we have written him a "hey, wait a minute" letter saying, "To whose advantage do these slips accrue? If it is to the Navy's advantage, please tell us why. If it is to your advantage, we would like some return on this and in general what is going on here?"

I do not consider that the slip is due to actions of the Navy. Privately I think the shipbuilder decided the DD-963 contract is a profitable contract and he is going to prosecute it and the LHA contract is a nonprofitable contract and he is not going to prosecute it as actively or with the same priority as the DD contract.

Mr. EDWARDS. If what you think might be the case, what is your recourse?

Admiral GOODING. There are several. The problem is that Ingalls is manpower-limited and they have made a management decision that the way to get the yard up on the step and increase the productivity is to stabilize the work force. I do not agree with Ingall's action, but I do not disagree with that rationale. That is absolutely right, but lacking enough manpower to prosecute both programs, he is pursuing the profitable one at the expense of the other one. Now, what can the Navy do?

The Navy can invite attention to the fact that when he signed the contract he incurred an obligation to acquire the manpower to complete the contract under its terms. We have done that. One has to ask oneself, "So what?" The letter says, "You really ought to hire 3,000 more men." What would such a letter do? If the contractor is unwilling to hire such people because he considers it improper to do so, the Navy has very little recourse there.

On the other hand, one thing we cannot do is to simply sit here and accept these slips without an adequate explanation, and we have asked for that.

Mr. ROBINSON. What do you call the man who is your ranking individual on the job in such a construction program as this?

Admiral GOODING. The Supervisor of Shipbuilding, Conversion and Repair.

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Mr. ROBINSON. He is the man in the yard where the ship is being built?

Admiral GOODING. Yes, sir.

Mr. ROBINSON. It would seem to me that with that man and his staff—and I know that the staff is quite large—that they would know about this slippage; that it wouldn't be necessary for you to get a letter from the shipyard saying that there is going to be a slippage of 60 months. Why aren't these things predictable based on the way the program is going, and why do you have to then write him a "hey wait a minute" letter?

Admiral GOODING. These things were in fact predicted by the supervisory staff over a period of years. The total slippage of 60 months obviously wasn't announced all at one time. The latest increment of 6 to 17 months was predicted some months ago. Simply watching the manning on LHA–3, 4, and 5, it has been obvious for I suspect up to a year that these latest slips were coming, and in fact the supervisor's prediction of the slip agrees within a month or so of the contractor's advertised dates.

Mr. ROBINSON. Well, wouldn't it then have been reasonable to make some comment regarding the situation to the shipbuilder a year ago rather than waiting until this point in time?

Admiral GOODING. Yes, sir, and it was done, repeatedly.

Mr. KEMP. No action was taken by the shipbuilder?

Admiral GOODING. Arm waving.

Mr. KEMP. As Mr. Edwards says, you have very little recourse?

Admiral PRICE. We have quarterly progress report meetings on all of these. I have attended some of them on this ship and on the DD–963 and the manning requirements and what-not are always highlighted as being a problem. The specific situation is laid out by the Navy as to what they see the situation to be, but little recourse to effect direct improvements if that is what you infer.

Mr. ROBINSON. With today's high unemployment, why is it that Ingalls is understaffed? Why? Is there a shortage? Is it again what you mentioned, that the way to hold the line is to hold down on manpower rather than the availability of manpower?

Admiral GOODING. They have decided to stabilize their work force and I might point out Newport News came to the same decision. These two shipbuilders have said, "We will never get this yard up on the step if we insist on hiring in large numbers and having to train in large numbers because it reduces our productivity."

Ingalls has no longer any active recruiting going on. At one time they were advertising countrywide for shipbuilding labor. They are no longer doing that and haven't been for some months. They will hire on the other hand any journeyman mechanic of any trade who applies for a job, so they are getting enough to replace attrition by that route. By hiring journeymen they are increasing their skilled to unskilled ratio which is always a good thing to do in a shipyard.

CONTRACT NOW PRICED AT CEILING

Mr. ADDABBO. Has the LHA program cost gone to or over ceiling?

Admiral GOODING. In my opinion over ceiling. The contract is now priced at the ceiling price. Unquestionably it will cost the contractor more to perform to the contract than he will receive under the terms of the contract.

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Mr. ADDABBO. How much has the contractor lost by going over ceiling?

Admiral GOODING. The contractor is in a loss position if he performs to the contract. When his costs exceed ceiling every dollar spent would be a loss to him unless he obtains legal relief.

DELAY IN DELIVERY PENALTY

Mr. ADDABBO. How much has been or will be paid to the LHA contractor in the form of incentives and what were those incentives?

Admiral GOODING. There were no incentives in that contract, sir, other than a delivery incentive which he has already lost.

Mr. ADDABBO. What penalties were provided for in the contract for delay in delivery of these ships and how much in penalties have been or will be assessed against the contractor due to missed delivery schedules?

Admiral GOODING. There was a maximum penalty of $600,000 per ship, a total not to exceed $3 million. The contractor has been notified that he is liable for those liquidated damages. We have not yet collected them. This is one thing we are considering in answer to your question on what the options are that are open to the Navy.

Mr. ADDABBO. Does the contractor expect to make any profit on these contracts?

Admiral GOODING. On the LHA contract? No, sir.

Mr. MURPHY. In a contract of this size, is a penalty provision calling for $600,000 per ship up to a maximum of $3 million a realistic penalty? You could almost be in the same position you are today. He will say, "I am going to slip these ships 50 and 60 months" because he knows it will only cost him $3 million.

Admiral GOODING. I agree. It is peanuts.

Mr. MURPHY. Can't you negotiate a better penalty than that?

Admiral GOODING. At a price I am sure we could. I am sure the company would love to have us negotiate a bigger penalty than that and pay the price for it.

Admiral PRICE. The trouble is, it is like insurance and what you paid for that, Mr. Murphy, would probably be fantastic.

Mr. MURPHY. But look at the position you are in now—wanting ships and can't get them because he is not delivering them.

Admiral GOODING. The incentive is no longer operating. It never was big and now it is no longer operating. It doesn't exist.

Mr. MAHON. Has this contract been a disaster for the Navy and a disaster for the contractor?

Admiral GOODING. Yes, sir.

Mr. MAHON. Is there anyway to improve the situation that will be reasonably fair and equitable from the standpoint of the Navy and contractor?

Admiral GOODING. We are discussing possibilities of that very thing with the contractor, Mr. Chairman.——

Mr. MAHON. How long would it be before this thing comes to a final climax and the decision is made one way or the other?

Admiral GOODING. Mr. Chairman, I am completely unable to say. I don't know.

Mr. MAHON. Is it a matter of years?

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Admiral GOODING. It could be a matter of years. It could be a matter of weeks. Months is more like it, but it could indeed be a matter of years. I simply can't say, I don't know.

NAVY RELATIONSHIP WITH SHIPBUILDERS

Mr. MAHON. Secretary Middendorf testified on the 11th of February, I believe, before the Committee on Armed Services of the U.S. Senate. As you know, there is a great deal of unhappiness in and out of Congress and I assume in and out of the Navy over the Navy shipbuilding program. In this testimony with regard to the relationship between the Navy and the shipbuilding industry, the Secretary said that the Navy has been intensively studying and correcting a variety of causes which has burdened our relationship in the past, meaning your relationship between business and the Navy, I believe. He was referring to escalation provisions. He said that the formulas used in the past have occasionally failed and the current environment would most certainly not suffice. You are familiar with his testimony?

Admiral GOODING. Yes, sir.

Mr. MAHON. Will you please explain the nature of the failure of past escalation formulas?

Admiral GOODING. The Navy and a shipbuilder agree to build a certain ship in, let's say 12 quarters and we agree to pay the shipbuilder labor and material escalation according to the behavior of the BLS indexes. We will pay off over those 12 quarters with whatever the BLS index says to pay according to a formula and table in the contract.

Now we have a similar formula for labor. If the leadtime of the material the shipbuilder buys goes up by a factor of two or three, and the cost by a factor of two or three, we might cover the cost but the delay means he cannot spend his labor until the material arrives. So by the end of the period of escalation the building period, the ship may be two-thirds built and the escalation payments cease. That, in fact, has happened in LHA. The ship is not yet delivered and escalation payments have ceased.

Mr. MAHON. Besides escalation, what are other examples of the variety of causes which has burdened our relationship in the past?

Admiral GOODING. The principal burden in my opinion, Mr. Chairman, is that the shipbuilders have not made money.

Mr. MAHON. Whose fault is that?

Admiral GOODING. It is a shared fault. If the shipbuilder hires incompetent labor, that is not the Navy's fault; that is his fault. If he lets the management of a shipyard go to hell, that is his fault. If the Navy issues changes to the ship, that is the Navy's fault and the Navy ought to pay for it, and the Navy is willing to pay for it if we can agree on the price.

Mr. EDWARDS. Say the management does go to the dogs as you have suggested, and you have your supervisor there in the yard and assuming he is on the ball and he can see that happening, aren't there some things the Navy can do to say to the company, "You either straighten up, or else?"

I don't know what the "else" is, but what can you do in a case like that where you see the trouble coming down the road?

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Admiral GOODING. This happens frequently. We see trouble coming. We invariably inform the company. If we should direct the company to change its management in some way, that is called a constructive change to the contract and the Navy is liable for the cost thereof, whatever it turns out to be. So we are very leery of making constructive changes. We have been bitten too often, but if we do see mismanagement in the company, we are not bashful about telling the shipbuilder.

Mr. EDWARDS. The problem is once you have got one of those keels laid and the ship underway and all this starts to happen, there is no way in the world you can pick all that up and move it to another shipyard; is there?

Admiral GOODING. Not practically. There is a clause in the contract which says you can do that.

Mr. EDWARDS. As a practical matter, it is not an answer to the problem?

Admiral GOODING. No way. No way.

SELECTING PROPER FORM OF CONTRACT

Mr. MAHON. The Secretary, in his statement on the 11th of February of this year, said that in addition to escalation the Navy is addressing itself to a "wide variety of improvements based on analysis of the problems encountered in the past."

As the first example he said, "We are carefully selecting the proper form of the contract for the procurement in question."

Now, this would infer that upon occasion an improper form of contract was selected by mistake. What is considered an improper form of contract?

Admiral GOODING. In the mid- and early sixties, Mr. Chairman, we used to award ships on a firm fixed price basis, just as the Maritime Administration and the commercial ship owners do today. In the late sixties when the economy took off, and certainly in the early seventies, we still had a couple of these firm fixed price contracts in existence.

Mr. MAHON. Was that an improper form?

Admiral GOODING. It was not improper when let, but in a 4- or 5-year building period it could turn out to be improper if the economy changes, in hindsight.

Mr. MAHON. Would you elaborate further?

Admiral GOODING. Yes, sir. We have had one or two firm fixed-price contracts in the past several years and they were for small craft. Tugs. We now go to a fixed-price incentive contract for follow ships and normally a cost-plus incentive type for a lead ship, per class.

Admiral PRICE. I don't think, Mr. Chairman, he meant improper in the terms that somebody intentionally picked an improper contract. He meant that when you look at the situation as it now exists it looks like the wrong form of contract was chosen. We want to have a form of contract that properly reimburses the builder for what he actually does and protects the Navy from any excessive cost. If that is not the case then I think it is improper in that sense.

Mr. MAHON. Is your statement based on your past experience?

Admiral GOODING. Yes, sir.

Mr. MAHON. What are some of the examples of contracts you refer to?

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Admiral GOODING. The LHA and the 963 are perfect examples.

Admiral PRICE. At that time, Mr. Chairman, we used what we call the total package procurement concept. This type of procurement is where the contractor designed the ship to performance specifications—there were no contract specifications such as we normally have in shipbuilding—and the Navy approved the design. It was at that time, the name of the game in town. We used it in those particular shipbuilding programs. In the light of hindsight it was not the best way to go and I hope we never have another one of those contracts.

Mr. MAHON. On the point of carefully selecting the proper form of contract, Secretary Middendorf stated that now cost-type contracts are used for most lead ships and that the follow ships are not scheduled until the design is substantially complete, and construction well along on the lead ship.

Now, is the opposite of this an example of selecting the wrong form of contract? In other words, is it the wrong form of contract to place a lead ship on a fixed price basis and to contract for the follow ships before the design is complete?

Admiral PRICE. It would depend on the particular ship program.

Admiral GOODING. There is no simple answer to that question, Mr. Chairman. I assume what you may have in mind is the fact that the contract for the lead Trident is a fixed-price-type contract?

Mr. MAHON. Right.

Admiral GOODING. I saw yesterday a letter from the General Accounting Office saying that they in essence did not disagree with the contract, did not feel it was a bad contract.

The Trident, after all, is being fully mocked up and we will know where the pipes and wires go prior to installation. There should be very little interference discovered on the building ways when this ship is being built.

Mr. MAHON. When is the Navy going to adjust contracts that were made on the wrong basis, on the wrong form, or is there any way to do it?

Admiral GOODING. The Navy has no plan to do that and there is a point of law which I am not adequate to discuss, which goes about like this: Normally in order for the Government to agree to modify a form of a contract, the Government must receive some measure of consideration. It has always been very difficult for me to figure out what consideration could be offered by the contractor. He could say, "Well, I will build you a ship if you will alter my contract," but I have got a contract which says he will build me a ship. The issue always comes apart on this matter of consideration. The contractor usually has none to offer and therefore the Navy is not allowed under the contract to alter the type or form of the contract.

Mr. MAHON. Should the Navy be allowed under the law to alter the contract?

Admiral GOODING. Mr. Chairman, I am not adequate to address that question. That is a question for the lawyers to answer. I am an engineer. Maybe it is also an ethics question.

Mr. MAHON. Admiral Price, have you any comment on that?

Admiral PRICE. I agree with Admiral Gooding that it is a legal question.

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I would say this: If a contract was let in good faith by both parties at a time when no one could foresee today's fantastic changes in the economy and whatnot, then this has happened, and it is neither the Navy's nor the contractor's fault, and although there may be no basis under the contract to grant relief, nevertheless there might well be some other means of properly handling the problem under Public Law 85-804.

Mr. MAHON. It is a free enterprise system. If a man makes a bad contract and loses his shirt, it is his hard luck. But this is, of course, a case where the public interest is involved and the national defense aspects are worthy of some consideration.

Admiral GOODING. I might add, sir, if you look at the behavior of the shipbuilders themselves with their subcontractors, they are just as hard-nosed as the U.S. Navy and maybe more so. There are any number of lawsuits by shipbuilders against subcontractors in the courts at this time trying to force the subcontractors to adhere to a firm fixed price contract awarded some years ago.

Mr. MAHON. It looks like the whole thing is an inglorious mess.

Mr. FLYNT. With regard to an improper contract, to me it is just as bad for a contract to be let far below actual construction cost as it is to be let above actual construction cost because it is not in the best interests of the Navy or in the national economy to have major contractors going broke because a poor contract was entered into when they had no other option except to buy that particular type of contract.

Admiral GOODING. You will find no disagreement in the Navy on that, sir.

Mr. MAHON. I have two or three more questions.

The Secretary said in his statement before the Senate that there are many programs still current based on procedures of the past. He must have conferred with pepole like you before he made this statement. I continue to quote:

> Many of these programs are continuing economic burdens to the shipbuilders involved and the Navy is addressing each contract in turn maintaining the interests of the Government, but responding to the legitimate requests for adjustment.

So this would indicate that adjustments are being made. Is that correct? What is your response to this question?

Admiral GOODING. I am not really sure what the Secretary had in mind, sir, unless it was the LHA and the 963. The Navy does not plan to reform contracts as a matter of rote or course.

Mr. MAHON. What form of adjustment or corrective action is being pursued by the Navy in situations of economic burden? This is the same question in a different form.

Admiral GOODING. We are obligated under the contract to fund the contractor up to ceiling price if he incurs that cost. The so-called target to ceiling spread. Perhaps that is what the Secretary was talking about. There is some money of that kind in the 1976 budget.

Mr. MAHON. If the wrong form of contract was selected by mistake, is the Navy recognizing that fact and changing to a different form under Public Law 804 of the 85th Congress? I am not too familiar with it.

Admiral GOODING. I am, sir. We have resorted to it in a couple of small contracts, but as a general rule, no.

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Mr. MAHON. How much of the $2.3 billion for shipbuilding is needed for the correction of existing contracts, if any?

Admiral PRICE. In the fiscal year 1974 and prior ships, which are all under contract, Mr. Chairman, we have a $1.35 billion deficit which is for the contracts which are already let. But that is for paying legitimate charges such as the escalation under the escalation clauses, the higher costs of materials and things of that nature which we have spelled out in our report to the committee.

Mr. MAHON. If you need funds, if funds are required legitimately for corrective action, where would these funds come from in this budget, or within the availability of funds that the Navy has?

Admiral PRICE. For example, we have target to ceiling costs which we have spelled out in some of these contracts. We have escalation increases, inflation increases. All those are budgeted in the fiscal year 1976 budget for the fiscal year 1974 and prior ships.

Admiral GOODING. These are not to correct inequities under the contract if they exist. These are moneys owed estimated to be required for the contracts already ongoing.

Mr. MAHON. The Navy shipbuilding program has been and is a chronic headache to Congress, as you know. Is everybody innocent? Has the Navy acted in the most discreet way possible under the circumstances? Is it inevitable that we have to live with this chronic headache over Navy shipbuilding?

Admiral GOODING. I said earlier that the question of an improper contract really is very sensitive to the calendar. The contract which might be proper under some circumstances is improper under others. I said in the early sixties we were in the habit of awarding firm fixed price contracts for ships.

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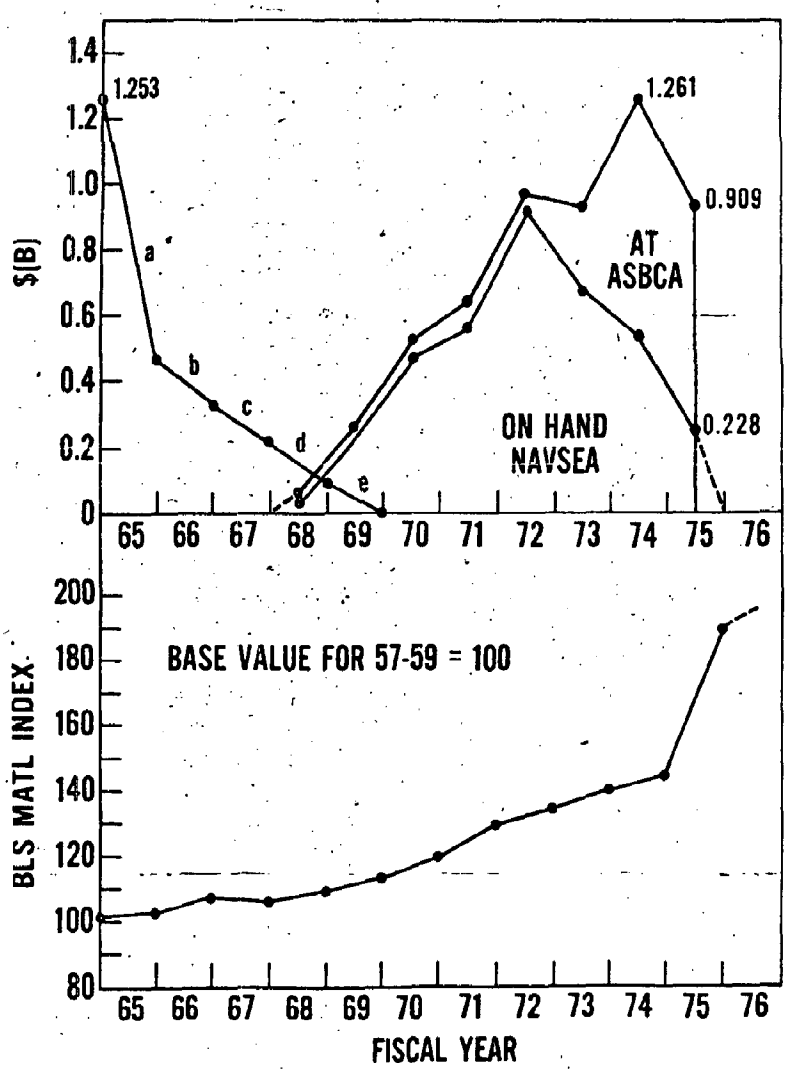
SCN ADJUSTMENTS - CLAIMS PROFILE



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In 1964 we had $1.25 billion in underruns on firm fixed-price contracts. Therefore I maintain that in that time frame a firm fixed-price contract was a perfectly proper form of contract. We were making money on that.

Mr. MAHON. Was it perfectly satisfactory from the standpoint of the shipbuilders?

Admiral GOODING. Yes; at the time they were building the ship. We had no claims in those years. This claims here [indicating]. This is the surplus money in the checking account, as I refer to it. These are the underruns. A combination of the Congress, the OSD and the Navy writing checks on it to pay for various good things like subsafe, and the Tartar, Terrier, and Talos missiles, and various other things. It drew the balance down to zero. Before we did that, we started getting claims, and oddly enough these two numbers are essentially identical. We had enough money in the bank to pay the face value of every claim we ever held, but the full funding concept was not allowed to work and the Navy is as guilty as anybody else. We wrote checks on our own account.

In those years shipbuilding could not have been a problem for the Congress. We were making money for you.

Admiral PRICE. I think, sir, when you say it is a headache to Congress, it is certainly a headache to us for several reasons. One, we need ships and two, we try our best to manage the program to get the ships.

As we stated in our earlier appearance this year, and as that particular chart on Bureau of Labor Statistics Indexes showed, when inflation started to occur—when it started to go above the trends that we had seen—then we started to run into difficulty in the shipbuilding program because our initial estimates that we had submitted to Congress to full fund the requested ships were no longer valid. Escalation and inflation were beginning to take charge.

We attempted to say, "All right, for the next year we will budget higher costs for inflation." Unfortunately, no one has a perfect crystal ball as to the inflation, so the inflation we see is higher than what we thought we were budgeting adequately for and this situation continues. It is the same way that cars today cost twice as much as they did 2 or 3 years ago. So when you say, is the Navy perfectly clean, I would say we are never perfectly clean, but I can assure you that we try our best to keep all of these things budgeted and under control as best we can.

Mr. MAHON. I am sure your intentions are good.

Mr. MURPHY. Admiral Gooding, are you advocating that we do away with fixed price contracts for Navy shipbuilding and go to some other form of contract?

Admiral GOODING. I would not dream of awarding a firm fixed price contract in today's climate. Fixed price incentive is a perfectly rational contract if properly negotiated.

Mr. MAHON. With escalation clauses?

Admiral GOODING. Yes, sir.

Mr. MAHON. But not a cost-plus fixed-fee contract?

Admiral GOODING. Cost-plus incentive for lead ships, that is not unreasonable. Where there is a sizable amount of risk to the shipbuilder, that is reasonable.

Mr. FLYNT. Admiral, you couldn't even count on a firm fixed price contract for follow-on ships in today's economic climate, could you?

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Admiral GOODING. I wouldn't even get a bid. The shipbuilding industry would not dare respond to that, except at some price so enormously high they couldn't possibly lose money; even if I thought a firm fixed price contract was proper these days—and I don't—I would get no response to it.

CONTRACTOR'S CLAIMS

Mr. KEMP. On the chart it had the claims in 1975 dropping to absolute ground zero. Did you have enough money to pay them off?

Admiral GOODING. No, we do not have enough money to pay them off and you will see in the 1976 budget some money to pay off what we think may be required. We predicted by the end of this calendar year we will have settled the outstanding claims which are some 14, I believe, for about a quarter of a billion dollars, in one way or another. Either by settling with the contractor and paying him, or agreeing to go to court. That is what is driving that thing down to zero. We have work going on on the subject of claims right now, some 275 people, and 4 years ago that number was 19.

SHIPBUILDING PROGRAMS ON SCHEDULE

Mr. ROBINSON. Admiral, how many major shipbuilding programs are now underway and how many of them are on schedule?

Admiral GOODING. I can't list the programs per se. There are some 87 ships and service craft. How many of them are on schedule—I think not very many. If you would like a precise answer, I will try to get one.

[The information follows:]

NAVSEA currently has 17 contacts for the construction of 87 ships and service crafts. Twenty-three of these are on schedule, based on contract delivery dates (10 ships and 13 service craft) and 64 are currently estimated to deliver later than the contract delivery dates (all 64 are ships).

Additionally, there are 12 contracts for the construction of 161 boats and small landing craft. One hundred eight of these are on schedule according to contract and 53 are currently estimated to deliver later than contract requirements.

In all, there are currently a total of 249 ships, service craft, boats and small landing craft under contract for construction. One hundred thirty-one are on schedule according to contract and 118 are currently estimated to deliver later than contract requirements.

NAVY RELATIONSHIP WITH SHIPBUILDERS

Mr. ROBINSON. I would appreciate it because it would seem to me that if a high proportion of them are not on schedule, then there is something wrong some place in terms of the negotiating climate.

Admiral GOODING. No, sir. I think you would have to conclude——

Admiral PRICE. The leadtimes are just killing people.

Mr. ROBINSON. Can't we acknowledge that some way or another? I am thinking of this propsition of no adjustment for escalation after the contract period has expired. Isn't that true?

Admiral GOODING. Yes, sir, that is true.

Mr. ROBINSON. Obviously that is going to be a deterrent to getting bids.

Admiral GOODING. And in future contracts we will acknowledge it and do plan to, but in existing contracts the element of consideration for the Government stops us in recognizing the actual facts of life.

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Mr. ROBINSON. And there is no process for renegotiation?

Admiral GOODING. The process which uses Public Law 85-804 is available. It requires the company requesting that assistance—and it must come from the company, not the Navy—to make full and frank disclosure of total financial problem.

It requires the company to make full and frank disclosure of his entire financial status. In the case of a privately owned shipbuilder they are generally willing to do that. In the case of a shipbuilder owned by a conglomerate parent, they are mostly unwilling to do that. Without that disclosure that relief is not available.

Mr. ROBINSON. That takes us back to what the chairman mentioned a few moments ago as to whether or not we need to do some legislative changing on this in order to make it possible for you to do what we are discussing, does it not?

Admiral GOODING. That is a question the Congress must consider, yes, sir.

Mr. FLYNT. Yet if you went too far on that, you would be obviating the rights of the contractor to begin with.

Admiral PRICE. Yes, sir. So it has to be a very nice balance.

CONTRACTORS' CLAIMS

Mr. VANDER SCHAAF. From looking at that chart and seeing the number of claims going to zero at the end of calendar year 1975, brings to mind the large number of people whose jobs in the Navy are directly or indirectly related to the examination and review of claims. If you no longer have a claims problem, what happens to all those jobs? Why don't we see those coming out of the Navy budget this year?

Admiral GOODING. I said we are going to settle it either by paying the contractor or going to court. If we go to court, I will need at least that number of people to try the case.

Mr. VANDER SCHAAF. Then the chart is sort of misleading. If it goes to court, then you still have a lot of unsettled claims. The chart appears to show they are all settled.

Admiral GOODING. There are two curves on there. Under this curve there are claims in court. I need people to try those claims. If some of these get settled, in the sense that we pay the contractor some money, then it disappears. If they go into court, it increases that number.

Mr. VANDER SCHAAF. It looks like the court number goes to zero too. It goes straight down. What is that number coming straight down at the end of calendar year 1975?

Admiral GOODING. That is just fiscal year boundary. I do not expect to settle all those claims at the end of the fiscal year. I expect to settle these, the ones I have in house or to refer them to the Armed Services Board of Contract Appeals.

Mr. VANDER SCHAAF. I think you ought to put in the record how many people the Navy has examining claims, and to what extent some reductions can be made in the numbers of people devoted to that.

Admiral GOODING. I will put it in the record right now. The number is between 270 and 280 and that is not enough.

Mr. VANDER SCHAAF. It won't be enough even if the claims are settled?

Admiral GOODING. It will be worse. It is at least five times the effort to settle a claim in court as it is to settle it out of court.

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Mr. EDWARDS. Along that general line, do you have lawyers at work right with you? Both of you said you couldn't answer a question a minute ago because you were engineers, I think you said. Do you have a good legal staff?

Admiral GOODING. Yes, sir, very good.

Mr. EDWARDS. But you don't generally change your contracts; you generally follow the same type of contract?

Admiral GOODING. No, sir, we are in the process of changing them right now and have been for the last year.

Mr. EDWARDS. It is a new program of trying to find better ways?

Admiral GOODING. I guess you could call it that, yes, sir. The lead Trident I guess is a forerunner of the new breed. I think it is an intelligent contract. I don't believe it is particularly hard or particularly easy. The escalation clause is an attempt to recognize the facts of life as the shipbuilder and we both know them.

REPROGRAMING ACTIONS

Mr. MURPHY. Gentlemen, could you address these two new reprogramings we received recently involving the shipbuilding program?

Admiral FINE. I will give an overview of fiscal year 75–30 and fiscal year 75–31 and submit a statement for the record on each one of them rather than go into them.

Basically, reprograming action fiscal year 75–30 will allow us to go ahead with one more fiscal year 1975 SSBN conversion and also give us some needed funds for SSBN post delivery, an SSBN submarine tender conversion which is now under way and since it was put into a naval shipyard the costs are up and we need funds for both fundings and for a new destroyer tender. New construction.

There was some discussion about this tender when we were discussing the Todd Shipyard problem. This is the destroyer tender that under the full funding rules is not fully funded in fiscal year 1975, will not even be fully funded under the full funding rules until we get the fiscal year 1976 appropriation, but in order to move ahead with this, to put it on contract, we need $11 million this fiscal year.

Now, again, this would be going to contract under a waiver of the full funding requirement.

The other reprograming, 75–31, basically addresses the fiscal year 1974 SSBN's conversion, two of them, a total of $10.5 million; one at Portsmouth, one at Newport News. Basically both of these are due to delays in the delivery of these submarines.

[The documents follow:]

Reprogramming Action: DOD Ser FY 75-30 P/A

Appropriation: Shipbuilding and Conversion, Navy (1975/9)

Subj: Additional Funding for program year 1975 SSBN Conversions FBM Post Delivery, FBM Submarine Tender (Conversion), and the Destroyer Tender (New Construction).

This prior approval reprogramming request provides $32.7 million to the FY 1975 Ballistic Missile Submarines (Nuclear) (Conversion) line item, $.4 million to the FBM Program Post Delivery, $1.5 million for the FBM Submarine Tender (Conversion), and $11 million for the new construction Destroyer Tender, all

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line items of the FY 1975/79 Shipbuilding and Conversion, Navy apprppriation. The latest cost estimates for these line items indicate that additional funding over the amounts now budgeted will be required to complete the programs.

The three FY 75 SSBN Conversions (USS JAMES MONROE 622, USS HENRY CLAY 625, and USS DANIEL WEBSTER 626) were originally programmed for FY 1974 but were subsequently slipped a year (in order to maintain force levels) without provision for additional funds. The revised costs for these three conversions are based on the most recent costs for 616 class conversions (with adjustments for work package differencies) at the same ship yards, the latest conversion shipyard cost estimates, and current schedule delays being experienced. The current revised cost also reflect reassignment of the 625 to Portsmouth Naval Shipyard instead of Electric Boat in Groton.

The original funding planned for the three 616 Class FY 75 ships was $196.5 million. Subsequently, return cost information on completing 640 class conversions indicated a reduction in funding to $187.5 million would be proper, and this is the amount appropriated by the Congress. Class 616 conversions now in process, however, have experienced cost increases for a number of reasons: late delivery of government furnished equipment (GFE), lower than anticipated ship productivity, and higher material and over head costs. Particularly for this last reason the FY 75 Class 616 ships now undergoing or scheduled to undergo conversion are also experiencing higher costs.

The current estimate for the FY 75 program is $272.6 million, an increase of $85.1 million over the current appropriation. This reprogramming action will provide $32.7 million in FY 1975, and there by permit award of two of the three ships. The balance of funding required ($52.4 million) is requested in the FY 76 Cost Growth line item. Thus the FY 76 budget request will permit award of the final FY 75 ship, and at the same-time fully fund the third ship.

Other reprogramming actions are in process to provide funds for the FY 73 and FY 74 programs. $27.7 million is being requested for the FY 73 ships and $10.5 million is sought for the FY 74 program.

In addition to the SSBN Conversions, this reprogramming action also provides an additional $400 thousand for Post Delivery funding for SSBN conversions as post delivery costs are now running at $1 million per hull. There is also $1.5 million for the FBM Submarine Tender Conversion, USS HOLLAND, AS-32. This increase reflects the impact of higher material and labor costs plus actual experienced costs on the USS HUNLEY (AS-31).

The final segment of this reprogramming action covers the new construction Destroyer Tender (AD). The sharp increases in labor rates and material cost have rendered the appropriated amount for this ship insufficient for award. The current estimate for this ship is now $187.5, or $70.8 million over the currently appropriated amount ($116.7 million). $11 million is requested in this action, which is enough to permit award of the ship during FY 75. The balance of funds required ($59.8 million) is requested in the FY 76 Cost Growth and Escalation line items. Both of these requests will restore the AD to full funding.

The source of funding for this reporgramming action ($45.6 million) is the Shipbuilding and Conversion, Navy 71/75 appropriation. The 71/75 SCN appropriation is also providing the offsets for the FY 74 SSBN Conversions ($10. 5 million), for a total give up of $56.1 million.

This reprogramming request requires the approval of the House and Senate Appropriations Committees, and the House and Senate Armed Services Committees. The Committees have not acted on this request to date.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 75/79	FY 75-30 P/A
APPROPRIATION SERIAL NUMBER: FY 1975-4 P/A	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

PRIOR APPROVAL ACTION

The purpose of this reprogramming action is to provide for sharply increased costs for conversion of the program year 1975 616-class SSBNs, for increased Post Delivery requirements for 616-class POSEIDON SSBNs, increased costs for the Submarine Tender (FBM) conversion, and increased costs on the Destroyer Tender. This action is submitted for prior approval since it involves Section 834 of P.L. 93-437. Funds for this purpose are being transferred from Shipbuilding and Conversion, Navy 71/75.

REPROGRAMMING INCREASES

FY 1975 Program

Budget Activity 1: Ballistic Missile Ships								
1. Ballistic Missile Submarine (Nuclear) (Conv) (SSBN)								
	3	(187,500)	3	(187,500)		(+32,716)	3	(220,216)
Less Adv Prod in Prior Year	XX	(-82,900)	XX	(-82,900)		(-16)	XX	(-82,916)
	3	104,600	3	104,600		+32,700	3	137,300

Explanation - Cost estimates for the 616-class POSEIDON SSBN conversions were based on comparable costs for SSBNs of the 640-class plus differentials in the shipyard conversion work package for the 616-class. These differentials included a complete SUBSAFE package on all 616's and new upper mount tube section and air-to-gas generator conversion on some hulls of the class.

The three program year 1975 SSBN conversions (SSBN-622 - USS JAMES MONROE, SSBN-625 - USS HENRY CLAY and SSBN-626 - USS DANIEL WEBSTER) were originally submitted for authorization as program year 1974 conversions, but were slipped to 1975, due to delays in SSBN overhaul schedules which impacted Pacific force levels, with no provision for increase to the $196.5 million end cost estimate for these three hulls. Approximately July 1973 return cost information from the 640-class SSBN conversions appeared to permit a reduction in program year 1975 616-class estimates to $187.5 million, which became the end cost total submitted in the President's Budget in January 1974, and subsequently authorized and appropriated by the Congress.

The latest information on conversion costs of the program year 1973 and 1974 conversions indicate that the amounts available for the program year 1975 SSBNs are not sufficient to complete conversion and re-deploy as scheduled. Costs for the 616-class SSBNs currently in conversion have increased due to a variety of factors including

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE								DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 75/79								FY 75-30 P/A
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)							
FY 1975-4 P/A								
LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

PRIOR APPROVAL ACTION

late delivery of government furnished equipment (GFE), lower than anticipated shipyard productivity and high material and overhead costs. In addition, there is great uncertainty as to the material condition of the 616-class ships and the installed equipment that will require corrective action in the course of the conversion (open and inspect portion of the conversion work packages). An additional $16 million for the program year 1973 SSBNs was requested and approved in prior approval reprogramming actions (appropriation serial numbers FY 1974-2 P/A and FY 1974-3 P/A). Increased funding for the program year 1974 SSBNs was provided by below threshold reprogramming.

Current increases reflect the continuing program year 1973 and 1974 616-class SSBN shipyard conversion schedule delays and cost increases and the effect on the 1975 program year SSBN cost estimates. This action reprograms $32.7 million to continue the FY 1975 conversion program to the extent feasible within available resources. Additional funding for these ships in the amount of $52.4 million is requested in the FY 1976 budget.

The revised cost estimates for the three program year 1975 ships are based on the most recent estimates for the 616-class SSBNs in conversion at the same shipyard adjusted for differences in work package, the latest conversion shipyard cost estimates, and the current schedule delays. The additional FY 1975 requirement includes funding to permit the reassignment of the SSBN 625 to Portsmouth Naval Shipyard vice the Electric Boat Division of General Dynamics Corporation, to result in the least likelihood of completion delays and cost increases for conversions and overhauls at both shipyards.

This estimate also includes the effect of a proposal received from the Electric Boat Division of General Dynamics Corporation for conversion of SSBN 626 and a revised proposal received from Newport News Shipbuilding and Drydock Company for conversion of SSBN 622.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 75/79	FY 75-30 P/A
APPROPRIATION SERIAL NUMBER: FY 1975-4 P/A	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
		PRIOR APPROVAL ACTION						
2. Post Delivery	XX	3,400	XX	3,400		+400	XX	+3,800

Explanation - Post delivery cost estimates for the 616-class SSBNs included in the amounts appropriated by the Congress for FY 1975 were based on the previous experience of amounts required for 640-class SSBNs for correction of deficiencies from shipyard conversion during the SSBN Post Shakedown Availability (PSA) period. Due to the problems encountered during the shipyard conversion of the 616-class SSBNs which have caused delays in scheduled completion and increases in the estimated end costs, post delivery cost estimates for these SSBNs have been revised based on the expected increased work and funding requirements. The previous estimate for 616-class SSBNs' post delivery requirements was from $0.7 million to $1.0 million depending on PSA requirements. Funding requirements are now estimated at $1.0 million for each hull plus escalation to provide for material and labor rate cost increases. The total amount for these three 616's and submarine tender requirements in FY 1975 is $0.4 million higher than the current Congressionally authorized and appropriated amount.

3. AS Submarine Tender (Conv)	1	(29,200)	1	(29,200)		(+1,480)	1	(30,680)
Less Adv Proc in Prior Years	XX	(-10,900)	XX	(-10,900)		(+20)	XX	(-10,880)
	1	18,300	1	18,300		+1,500	1	19,800

Explanation - The AS-32 (USS HOLLAND) commenced shipyard conversion to POSEIDON support capability in September 1974 and is scheduled to complete shipyard conversion in June 1975. Material and labor costs have increased faster than predicted in the cost estimates included in the FY 1975 Congressional submission which were authorized and appropriated by the Congress. The end cost estimate for the AS-32 in the FY 1975 Congressional submission was based on the cost of the previous submarine tender conversion, AS-31 (USS HUNLEY) at Puget, which was reflecting increased requirements of $3.7 million over its original estimate, and known conversion work package differentials for the AS-32. Subsequent increases of $1.2 million on the AS-31 included additional funding required due to higher material and labor costs. The increase of $1.5 million for the AS-32 reflects the impact of higher material and labor costs for this ship.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 75/79	FY 75-30 P/A
APPROPRIATION SERIAL NUMBER: FY 1975-4 P/A	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
			PRIOR APPROVAL ACTION					
Budget Activity 5: Auxiliaries and Craft								
1. AD Destroyer Tender	1	116,700	1	116,700		+11,000	1	127,700

Explanation - This increase is requested to provide sufficient funds to award the basic construction contract in FY 1975. Sharp increases in labor rates and material costs have made the amount requested and appropriated for this ship insufficient to meet the anticipated award price. The total increase currently estimated as required to complete the FY 1975 AD is $70.8 million, of which $11.0 million is requested in this action. The remaining $59.8 million will be requested in the Cost Growth and Escalation line items in the FY 1976 Budget to the Congress.

TOTAL PROGRAM INCREASES +45,600

NET CHANGE IN PROGRAM +45,600

This net change reflects the transfer of $45.6 million from Shipbuilding and Conversion, Navy, 71/75 under the authority of Section 834, Public Law 93-437.

REQUESTED (Signature and Date): ~~E. D.~~ PENISTEN 14 FEB 1975
~~Assistant Secretary of the Navy~~ (Financial Management)

APPROVED (Signature and Date): H. P. Clem Deputy FEB 18 1975

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REPROGRAMING ACTION FISCAL YEAR 75-31

Reprogramming Action: DOD Ser FY 75-31 P/A

Appropriation: Shipbuilding and Conversion, Navy (1974/8)

Subj: Additional funding for program year 1974 SSBN Conversions

This prior approval reprogramming request adds $10.5 million to the FY 1974 Ballistic Missile Submarine (Nuclear) (Conversion) line item of the Shipbuilding and Conversion, Navy appropriation. The latest cost estimates for conversion of these two FY 1974 authorized ships indicate that additional funding over the amounts now budgeted will be required to complete the conversions.

The FY 1974 conversions now requiring additional funds are the USS JOHN ADAMS (620) and USS WOODROW WILSON (624) . These conversions in process at Portsmouth Naval Shipyard and Newport News Shipbuilding and Drydock Company, respectively, are experiencing delays because of low manning, shortages of skilled personnel in the critical trades, and problems in the individual ship's work items. Specific problems associated with each ship are as follows:

SSBN - 620 -- Portsmouth. Scheduled completion slipped 2 to 3 months beyond the original completion date. Defueling was three months late, there is some late delivery of GFE, and eight of the mount tubes are behind schedule for upper section replacement and installation.

SSBN - 624 -- Newport News. Scheduled completion slipped 4 to 5 months beyond the original completion date. There was delay in undocking because of late delivery of main seawater valves and level one piping identification problems persist. 624 is also in competition with the 617 (FY 73 program) for available manpower at Newport News.

The source of funding for this reprogramming action is the Shipbuilding and Conversion, Navy, FY 71/75 appropriation. This appropriation is providing the offsets for the FY 74 SSBN Conversions, (10.5 million), the FY 75 SBN Conversions (32.7 million), FY 75 Fleet Ballistic Missiles ships Post Delivery (.4 million) FY 75 Submarine Tender Conversion (1.5 million), and the FY 75 Destroyer Tender (11.0 million), total $56.1 million. An additional 2.7 million in below threshold reprogramming requirements for the FY 1974 SSBN conversions was funded from Shipbuilding and Conversion, Navy 74/78 Reimbursable Program.

This reprogramming request requires the approval of the House and Senate Appropriations Committees, and the House and Senate Armed Services Committees. The Committees have not acted on this request to date.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 74/78	FY 75-31 P/A
APPROPRIATION SERIAL NUMBER: FY 75-3 P/A	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

PRIOR APPROVAL ACTION

The purpose of this reprogramming action is to provide additional funding for the program 1974 616-class SSBN POSEIDON Conversions. Funds for this purpose are being transferred from the Shipbuilding and Conversion Navy 71/75 Appropriation and from the Shipbuilding and Conversion, Navy 74/78 Reimbursable Program. This action requires Congressional prior approval since it involves Section 834 of P.L. 93-437.

REPROGRAMMING INCREASE

FY 1974 Program

Budget Activity 1: Ballistic Missile Ships

1. Ballistic Missile Submarine (Nuclear) (Conv) (SSBN)								
	2	(154,984)	2	(154,984)	-	(+10,500)	2	(165,484)
Less Adv Proc in Prior Year	XX	(-52,545)	XX	(-52,545)	XX	(+2,702)	xx	(-49,843)
	2	102,439	2	102,439	-	+13,202	2	115,641

Explanation - The latest estimates of cost for the shipyard conversions of the two 616 Class program year 1974 POSEIDON SSBNs (SSBN 620 - USS JOHN ADAMS and SSBN 624 USS WOODROW WILSON) indicate these ships will not be able to complete within the amounts now budgeted.

Cost estimates for all the 616 - class SSBNs were developed based on comparable costs for SSBNs of the 640 Class plus differentials in the shipyard work package for the 616 Class. These differentials included a complete SUBSAFE package on all the 616's and new upper mount tube sections and air-to-gas generator conversion on some hulls of the class.

Continuing delays in completion of the 616-Class SSBNs currently in shipyard conversion due to low manning, lack of skilled personnel in critical trades and problems in individual ship's work items have forced schedule slips for estimated yard completion of at least two to three

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REPROGRAMMING ACTION Page 2 of 2

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 74/78	FY 75-31 P/A

APPROPRIATION SERIAL NUMBER: FY 75-3 P/A

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY a	AMOUNT c	QUANTITY d	AMOUNT e	QUANTITY f	AMOUNT g	QUANTITY h	AMOUNT i

PRIOR APPROVAL ACTION

months against the original Chief of Naval Operations approved schedule. The latest shipyard estimates show two months additional schedule slips and require $10.5 million additional funding.

Specific problem areas for each ship include:

- SSBN 620 at Portsmouth Naval Shipyard was three months late in defueling, had eight mount tubes behind schedule for upper section replacement and installation and experienced additional late delivery of GFE. Selected overtime has been authorized for some of the shipyard work force.

- SSBN 624 at Newport News Shipbuilding and Drydock Company has the same level I piping identification problem as the SSBN 617 (program year 1973) at the same shipyard. There is a possible delay claim from the shipyard for impact on the SSBN 624 schedule due to the delay on the SSBN 617.

TOTAL PROGRAM INCREASE +13,202

REPROGRAMMING DECREASE

FY 1974 Program:

1. Reimbursement from sale of ships -2,702

Explanation - Reimbursements have been received from the sale of older, surplus Navy ships.

TOTAL PROGRAM DECREASES -2,702

NET CHANGE IN PROGRAM +10,500

Explanation - This net change reflects the transfer of $10.5 million from Shipbuilding and Conversion, Navy 71/75 under the authority of Section 834, Public Law 93-437.

REQUESTED (Signature and Date): G. D. PENISTEN 14 FEB 1975
Assistant Secretary of the Navy (Financial Management)

APPROVED (Signature and Date): FEB 26 1975
Deputy Secretary of Defense

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REPORT CONTROL SYMBOL DD-Comp (AR) 463

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FISCAL YEAR 1975 DESTROYER TENDER

Mr. MURPHY. Concerning the destroyer tender—will $11 million fully fund that ship or will you require more money in the fiscal year 1976 budget?

Admiral GOODING. We have additional funds required for the 1976 budget in the total amount of the cost-growth line in fiscal year 1976.

Mr. MURPHY. What will that amount to?

Admiral GOODING. $59.8 million in the fiscal year 1976 budget, sir.

Mr. MURPHY. Then the total cost of this destroyer tender would be $187.5 million instead of $116.7 million originally budgeted?

Admiral FINE. Yes, sir, that is correct.

Mr. MURPHY. Is this cost increase attributable solely to inflation or have you had a change in the design? What is the problem on that tender?

Admiral PRICE. It is a lead ship, sir, which accounts for part of it. We have not changed the design.

Mr. MURPHY. It was budgeted in fiscal year 1975, but you haven't awarded the contract. Is that true?

Admiral PRICE. We haven't been able to award it.

Mr. MURPHY. What is the reason for the increase of $70 million?

Admiral PRICE. It was a follow to the fiscal year 1973 tender. That fiscal year 1973 ship was cancelled, as you will recall. Congress canceled that one to fund the sub-tenders at the request of the Navy last year.

The cost that have gone up on that are the same costs we have seen going up on everything that we have had in 1975.

DLGN–38 CLASS NUCLEAR FRIGATES

Mr. ROBINSON. Admiral Price, if inflation increases occur before the construction contract is awarded, why do you have a $10.3 million inflation increase today on DLGN–38 nuclear frigate which was in the fiscal year 1970 program and the contract for which was awarded on December 21, 1971?

Admiral PRICE. The $10.3 million is the target-to-ceiling cost growth which is more related to the nature of the contracted effort but caused mostly by inflation and the economic situation. As indicated in prior-year testimony this type of contracting is used when, at the start of the contract, there are sufficient unknowns and risks because of the state of system development that the use of a firm fixed-price contract is not a viable form of contract, yet a cost-type contract is not called for.

Mr. ROBINSON. Navy program changes on DLGN–38 caused a $10 million increase in the program. Did these changes also cause the $10.3 million inflation increase and the $6.2 million escalation increase?

Admiral PRICE. No, sir. These changes did not also cause the inflation increase of $10.3 million and the escalation increase of $6.2 million. The $10.3 million is the net adjustment for an expected increase above the target price of the shipbuilding contract. This increase results from the shipbuilder's inability to build the ship at target-cost due to loss of productivity, unrecoverable escalation and similar reasons. The $6.2 million is for the effects of increased indices as it applies to the shipbuilding contract.

Mr. ROBINSON. Production started on DLGN–38 on December 22, 1971, on schedule, and nuclear propulsion plant components began

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to be delivered on June 15, 1972, also on schedule. Why is it that DLGN–38 was launched December 14, 1974, 1 year behind schedule? Whose fault was it?

Admiral PRICE. The contractor contends that the delay in launch from December 1973 to December 1974 is attributable to change-orders and other contract modifications. The Navy contends that the delay is due to contractor-responsible problems.

Mr. ROBINSON. You are requesting $7 million in Navy program changes, $1.8 million for inflation, and $8.9 million in escalation for DLGN–39. In addition, you have programed $2.7 million in Navy changes and $18.9 million in escalation for DLGN–40. The latest SAR indicated these two ships will be 9 to 12 months behind in their delivery. Does your current request before us today take into consideration those delays or will there be additional funds required as a result thereof?

Admiral PRICE. The Government considers some portion of the delay may be the responsibility of the Government and has budgeted funds to cover this liability. The remainder of the delay the Government considers to be the responsibility of the shipbuilder, and has not budgeted funds for this part of the delay.

Mr. ROBINSON. Why is it that you require $1.8 million for inflation for DLGN–39 and no funds for inflation for DLGN–40 which follows it?

Admiral PRICE. Program reserves were available to cover a similar growth on DLGN–40.

Mr. ROBINSON. You also require $28 million for inflation and $41.4 million for escalation on DLGN–41, the option for which was to have been exercised by January 31, 1975. The latest SAR indicates the shipbuilder has taken the position the option is not valid due to the economic factors existing today, and the matter will go to the courts. Why does Newport News refuse to recognize the option if you are prepared to pay him for abnormal economic inflation?

Admiral PRICE. The fundamental issue is that the Contractor proposes to delay the ship construction so that delivery will be in May 1980 in lieu of the option delivery date of October 1978, a delay of 19 months. Such a delay beyond the contract delivery date would entail escalation costs beyond those recognized by the present contract.

Mr. ROBINSON. Does all this mean that you have no idea what DLGN–41 will cost?

Admiral PRICE. The DLGN–41 cost estimate accurately reflects what the Navy estimates the Government will be obligated to pay under the existing contract for the DLGN–41, subject to the projected escalation factors being correct.

Mr. ROBINSON. The latest SAR shows that the program unit cost of the DLGN–38 class ships is $318.6 million. The submission before us indicates that the current estimate for DLGN–38 is $279.2 million. Does this mean that if Congress provides the additional funds for DLGN–38 in fiscal year 1976 you will still have a funding deficiency for that ship? If so, how much?

Admiral PRICE. The figures cited do not reflect a funding deficiency for the DLGN–38. The program unit cost is arrived at by dividing the total program cost of $1593.1M by 5—the number of ships. The

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$279.2M is the projected end-cost of the DLGN–38 which does not include outfitting and post-delivery funds, nor development costs.

Mr. ROBINSON. For the record, please provide the program unit cost for each of the five DLGN–38 class ships according to the December 13, 1974, SAR.

[The information follows:]

The program unit cost for each ship as reported in the SAR is constructed from the following:

[In millions of dollars]

	End cost estimate	Of/PD estimate	Development cost prorated	Ship unit cost
DLGN 38	279.20	12.20	4.24	295.64
DLGN 39	257.00	11.70	4.24	272.94
DLGN 40	270.00	11.80	4.24	286.04
DLGN 41	337.40	12.30	4.24	353.94
DLGN 42	368.00	12.30	4.24	384.54
Total	1,511.60	60.30	21.20	1,593.10

Note: 1,593.1 divided by 5=$318.62 SAR average unit cost.

Mr. ROBINSON. The latest SAR indicates the fifth DLGN–38 class ship will be delivered 2 years and 8 months behind schedule. Please provide for the record your most recent schedule of start of construction, date of launch, and delivery of each of the five ships in this program.

Admiral PRICE. As noted in the SAR, the delivery of the last ship in the development estimate addressed the third ship. The current estimate for the delivery of the last ship addresses the fifth ship. In addition, it was necessary to extend the award of the contract on DLGN–41 and the option for DLGN–42 because funds were not provided as originally anticipated. For the record the start of construction, date of launch, and estimated delivery of each ship is provided.

	Start construction	Launch	Estimated delivery
DLGN 38	[1] December 1971	[1] December 1974	May 1976.
DLGN 39	[1] August 1972	August 1975	January 1977.
DLGN 40	[1] November 1973	May 1976	September 1977.
DLGN 41	March 1975	May 1977	October 1978.
DLGN 42	March 1976	January 1978	June 1979.

[1] Actual dates.

SSN–688 NUCLEAR ATTACK SUBMARINES

Mr. MURPHY. Admiral Gooding, your statement indicated an average of 8 months delay in delivery for each of the 18 SSN–688 class submarines at Electric Boat. The company anticipates delays in delivery of up to 11 months for SSN–701, while maintaining the contract delivery dates for the last three submarines. You estimate, however, that the last three submarines each will be delayed 8 months, with a higher man-day estimate to complete those ships. The delay is due to getting the Quonset Point facility into operation and because the new facility at Groton is 6 to 8 months behind schedule. This all impacts on production schedules. The $2.3-billion-funding deficiency includes

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$259.6 million for the SSN–688 program. Why is this increase attributed to escalation when, in fact, it appears to be the result of a slippage in the construction schedule by the contractor?

Admiral GOODING. Mr. Murphy, I want to correct the apparent impression that all the ships will slip. I specifically did not mean to have the committee infer that every ship would slip and believe the record so states. That was merely a conservative assumption underlying the preparation of the workload curves down. The $259.6-million-funding request for the SSN–688 class program was to cover ship construction contract escalation increases of $246.1 million and cost growth of $13.5 million which covers inflation to materials and services not part of existing ship construction contracts. Contract escalation increases were not caused by delays in delivery schedules. Escalation payments are keyed to BLS indexes, and in current contracts are restricted to a specified number of quarterly payments starting from contract award and stopping at contract delivery date. The sole reason for the contract escalation funding deficiency is the rapid rise in BLS indexes due to inflation.

Mr. MURPHY. What does the contract call for in the nature of penalties as a result of the contractor's inability to delivery these submarines within the contract delivery dates?

Admiral GOODING. No specific penalties are included in the contracts for inability to deliver submarines by contract delivery dates. Generally, the longer a submarine stays under construction, the more it costs to build. Contractor cost overruns—above the contract target cost—impinge on his profit, because of the "fixed price-incentive fee" feature of the current construction contracts.

Mr. MURPHY. Does this mean you awarded 18 SSN–688 submarines to Electric Boat without any concrete assurance he could deliver them on time?

Admiral GOODING. The Navy made a preaward survey to determine the contractors' ability to deliver the submarines according to the proposed schedule. The information extent indicated Electric Boat was capable of meeting this commitment. However, some unfavorable circumstances arising since award of the contracts have occurred which were not anticipated; for example, delay in constructing new facilities, lower than anticipated productivity, et cetera, which have caused delays.

Mr. MURPHY. Why should the Navy pay the contractor $259.6 million in escalation quarters because he was unable to perform?

Admiral GOODING. The $259.6 million is not related to the contractor's performance to schedule. As I mentioned earlier the $259.6 million increase is due to higher actual performance of the Bureau of Labor Statistics "Indexes for Shipbuilding Labor and Material" we have experienced to date combined with higher projections for the future than we were previously allowed to use in our escalation calculations.

Mr. MURPHY. The contractor has one estimate of deliveries for these submarines; the Navy has another estimate. On what estimate is the $259.6 million based?

Admiral GOODING. The $259.6 million funding request for the SSN–688 class program is to cover ship construction contract escalation increases of $246.1 million and an increase of $13.5 million which covers inflation to materials and services not part of existing ship construction contracts.

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Contract escalation increases were not caused by delays in delivery schedules. Escalation payments are calculated quarterly, starting the month after contract award, and are restricted to a specified number of payments separately identified for labor and material. For each quarter there is a specified percentage of cost—labor/material—apportioned to the quarterly period. The only other factor applied is the BLS indexes. There has been no change contractually to the specified contract delivery dates, number of quarters, percentage of cost apportioned, nor percentage of initial target cost. What did change is the increases to the BLS indexes due to inflation.

It is recognized that the lengthened building periods will increase the cost of these SSN's. The contractor and the Navy will share these added costs as provided for in the incentive article of the contract. The Navy will bear 70 percent of the added cost up to the ceiling price of the contract and the contractor will lose his fee at the rate of 30 percent for each dollar of overrun. Once ceiling price is reached the contractor must pay 100 percent of any further overrun. The Navy's budget covers ceiling price for these SSN's.

Mr. MURPHY. How much would you require additionally under the contractor's current estimate and under the Navy's current estimate?

Admiral GOODING. None. The Navy budget covers ceiling price of both Electric Boat SSN-688 class contracts. However, there is increased funding required for coverage of material and labor escalation payments under the formula contained in the shipbuilding contracts which has been requested in the fiscal year 1976 budget. Escalation payments are a function of the Bureau of Labor Statistics indexes and do not become a part of the target cost, target price or ceiling price.

Mr. MURPHY. In fiscal year 1974 Congress appropriated $130 million in advance procurement funding for five SSN-688 submarines in fiscal year 1975. The Navy budgeted only three submarines in fiscal year 1975 and Congress appropriated $502.5 million for those three boats. We were told in hearings last year that the contract for those three submarines would be awarded in January 1975. Were they awarded in January? If not, why and when will they be awarded?

Admiral GOODING. The three fiscal year 1975 submarines were not awarded in January 1975 due to late receipt of proposals from the contractors. Award of these SSN's is currently targeted for June 1975. Further, as you know, the Congress has not authorized the Navy to proceed with these contracts because full funding is not available. The June target date is contingent upon congressional release to proceed to contract.

Mr. MURPHY. Admiral Gooding, you will recall that we were also told that Newport News, which designed the SSN-688 but has received only 5 of the 23 awarded on contract, was most anxious to bid on them, and that you had no reason to assume the Navy would not get decent competition for the submarines from Newport News. Do you believe that to be so today?

Admiral GOODING. Yes. We do expect to get decent competition from Newport News.

Mr. MURPHY. When the Navy awarded contracts for the SSN-688's you hoped to get these submarines in a little over 3 years—between the starting date of construction and contract delivery dates. According

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to the most recent information in your monthly progress report Newport News will now deliver its five SSN–688 class submarines between 4 years 6 months and 4 years 9 months. What happens to the learning curve which should permit a shorter period for these submarines.

Admiral GOODING. Contract awards for the first flight of the SSN–688 class (688–699) provided for intervals from start of construction to delivery ranging from 38 to 48½ months, or an average of 43 months. Newport News has been unable to achieve the anticipated amount of "learning" due to the large number of "new hires" which have been employed.

Mr. MURPHY. According to your January 1975 monthly progress report, Electric Boat will build its first submarine in 4 years 6 months, its second in 4 years 8 months, and its third in 6 years. What happened to the learning curve on these submarines?

Admiral GOODING. According to the most recent issue of the monthly progress report—February 1975—the second and third Electric Boat SSN's will be constructed over a period of 5 years and 5 years 6 months respectively. Electric Boat has been unable to achieve the anticipated amount of "learning" due to the large number of "new hires" which have been employed. As the work force stabilizes, "learning" should drive down the man-hours required to build later SSN's accompanied by a shortened building span.

Mr. MURPHY. Why is it that you do not have a start of construction date on SSN–701, which you have stated Electric Boat estimates will be delivered 11 months late, yet you have start of construction for the nine submarines that will follow SSN–701 in the Electric Boat shipyard?

Admiral GOODING. The scheduled start construction date for the SSN–701 is May 31, 1975. The construction start date for the SSN–701 was omitted from a single issue of the Navsea monthly progress report because the previous scheduled date had passed. Electric Boat was unable to provide a new date in time to be put in that issue of the report.

Mr. MURPHY. With the exception of SSN–701, your monthly progress report indicates that each of the last 12 submarines at Electric Boat will be built between 3 years 4 months and 3 years 6 months. How realistic are these estimates?

Admiral GOODING. The Navy considers the schedule to be achieveable although somewhat optimistic, depending on Electric Boat Division's ability to meet its productivity goals.

Mr. MURPHY. General Dynamics commenced construction on SSN–694 in October 1971, and on SSN–696 just 1 year later, October 1972. Current estimates indicate total construction time at General Dynamics of 6 years for 694 and 4 years 3 months for 696. What happened at General Dynamics in that year—October 1971 to October 1972—or since which resulted in an estimated reduction of 1 year 9 months in the construction time for this class submarine?

Admiral GOODING. Construction periods for SSN's 694 and 696 are now scheduled to be 5 years 6 months and 4 years 6 months, respectively. The lengthier building period of the SSN–694 reflects an early start due to the availability of structural manpower and material.

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This resulted in this phase of SNN–694 construction starting concurrently with the SSN–692, thus extending the SSN–694 construction period.

Mr. MURPHY. Admiral, we have seen yearly fluctuations in the building schedules for these submarines. We are not assured today that these boats will be built in the time frame the Navy wants them and needs them. There are two more in the fiscal year 1976 budget. Would you say that the continual budgeting and contracting for these submarines is indicative of good Navy planning and management?

Admiral GOODING. Navy planning and management are constrained by the economic and industrial climate that is affecting the entire Nation. Significant increases in leadtimes are now necessary for the procurement of materials that pace the construction of nuclear submarines. Any break in the tempo of material procurements brought about by a contract award hiatus would disrupt the SSN production program leading to increased unit costs, probable schedule delays and possibly a loss of capacity that will swing to other types of work.

TRIDENT SUBMARINE

Mr. MURPHY. Electric Boat has received the first three Trident submarines and there is one more in the fiscal year 1976 budget. Do you anticipate that Newport News will bid on the fourth Trident submarine?

Admiral GOODING. The Navy obtained options under its contract with Electric Boat for 2 fiscal year 1975 Tridents and the fiscal year 1976 Trident. Prior to exercising its option for the 2 fiscal year 1975 Trident submarines, the Navy provided Newport News an opportunity to compete for the fiscal year 1975 Tridents. The Newport News response stated that Newport News was not in a position to provide the Navy with a more favorable offer than the options the Navy held with General Dynamics. Recognizing that business conditions may be significantly different, Newport News will again be provided the opportunity to compete prior to an award of the fiscal year 1976 Trident. The Navy does not know what the Newport News decision will be.

Mr. MURPHY. What were the original start of construction and contract delivery dates for the first Trident submarine and what are the current dates?

Admiral GOODING. Trident lead ship contract award was originally scheduled for December 1973, with start of construction in spring of 1974. Extended contract negotiations were necessitated primarily because of the unpredictable nature of the economy, delaying the contract award to Electric Boat Division of General Dynamics until July 25, 1974. Actual structural fabrication of lead ship hull cylinder frames began in July 1974; however, material procurement was started prior to this under a long lead procurement contract.

The shipbuilder is required to meet a contract delivery date of April 1979, and to use his best efforts to achieve delivery in December 1977. Both the Navy and the contractor are confident that the 1979 contract date can be achieved. Although some material and component delivery dates estimated by subcontractors will not support the "best efforts"

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December 1977 delivery date, the 1979 contract delivery date is supported. The Navy and the shipbuilder are working to improve the delivery of controlling items to achieve the earliest practicable submarine delivery date.

Mr. MURPHY. You were scheduled to award the second and third Trident submarines by December 1974. Would you have been able to award these submarines by that date if you had the money?

Admiral GOODING. Yes. All administrative approvals except those related to funds availability had been obtained prior to December 1, 1974.

Mr. MURPHY. When were the bids received and when was evaluation of those bids completed? Was Newport News competitive?

Admiral GOODING. The original Trident proposals were received on November 5, 1973. On January 31, 1974, Electric Boat submitted a revised proposal on the basis of a fixed price incentive type contract. Both the EB and Newport News proposals were for the fiscal year 1974 lead Trident submarine and provided options for two fiscal year 1975 and one fiscal year 1976 Trident. Evaluation of the Electric Boat proposal was completed on March 14, 1974. Evaluation of the Newport News proposal was terminated on June 28, 1974, when it became apparent that they would not be willing to modify their proposal as necessary to become competitive.

The Newport News proposal was not competitive.

Mr. MURPHY. Are you prepared to award a definitized contract on the fiscal year 1975 Trident submarines today?

Admiral GOODING. A definitized contract for the two authorized fiscal year 1975 Trident submarines was awarded on February 28, 1975, as an option to the lead Trident submarine construction contract.

Mr. MURPHY. You require $290.2 million for the Trident submarine program—$94.8 million for the first one in the fiscal year 1974 program and $195.4 million for the follow-on two in the fiscal year 1975 program. The reason given for the cost increase is inflation and escalation. How much of the increase is due to the delay at Quonset Point and the slippage of 6 to 8 months in building the facilities at Groton?

Admiral GOODING. None. The change was due entirely to abnormal inflation and economic conditions already experienced and to revised forecasts of future inflation promulgated by OSD in August 1974.

Mr. MURPHY. What were your planning dates for start of construction and delivery of the 2 fiscal year 1975 Trident's and what is the current estimate?

Admiral GOODING. The Navy defines "start of construction" for ships as the date on which fabrication of structural parts is initiated. The definitive "start of construction" milestone is provided to the Navy after contract award by the shipbuilder, and is subject to some negotiation, since in complex ship construction, this date is somewhat flexible. The original Navy planning dates for start of construction for the two follow—fiscal year 1975—Trident submarines were third quarter calendar year 1975 and first quarter calendar year 1976 respectively. It is expected that contractor submitted milestones, when submitted in accordance with the terms of the recently executed contract option for these two ships, will be consistent with original Navy planned dates.

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The contract delivery dates for the two follow Trident submarines are April 1980 and December 1980. As with the lead ship, the contractor is required to attempt to attain a "best efforts" delivery date. For the second Trident, this date is 1 year after delivery of the lead Trident. For the third Trident this date is 8 months after delivery of the second Trident.

DD–963 Class Destroyers

Mr. Murphy. Congress appropriated through fiscal year 1975 a total of $2,738.6 million for 30 DD–963 class destroyers. Another $43.1 million was added through program adjustments and cost growth for a new total of $2,781.7 million. In late January 1975 we were told an additional $771.7 million would be required to complete the program. This would bring the total program cost of $3,553.4 million, or $118.5 per ship. The December 31, 1974, SAR shows the total program cost at $3,632.8 million or $121.1 million per ship. By letter of February 6, 1975, the Secretary of the Navy advised the committee that DD–963 was not delivered on December 27, 1974, and that delivery could be from 3 to 6 months later than that date. Admiral, the cost of this program seems to be increasing each month. Why has the program cost increased $79.4 million from $3,553.4 million to $3,632.8 million?

Admiral Price. The $3,553.4 million represents total ship end cost exclusive of outfitting/postdelivery and development costs. The $3,632.8 million reflects total program costs which includes outfitting and postdelivery and development cost. The total program cost has not changed in the period between December 1974 and January 1975.

Mr. Murphy. Does this mean that if Congress provides an additional $771.7 million for three ships in fiscal year 1976 they will still be underfunded.

Admiral Price. The fiscal year 1976 budget of $771.7 million includes all identified costs to meet full funding on this program provided the economy does not exceed our projection, except for outfitting and postdelivery costs which are covered in other line items in the budget.

Mr. Murphy. Included in the $771.7-million cost increase expected, $120.6 million is attributed to Navy-caused program changes. Will you provide for the record a chronology of these changes specifying the date each change was made, a description of each change, and why the change was made?

Admiral Price. The cost attributed to Navy program changes are not necessarily changes in the contract, but represent obligations under the shipbuilding contract or related contracts which were not previously budgeted for or contemplated changes awaiting budget approval. In the context, the following is provided:

(1) Basic construction contract silencing incentive. The silencing incentive was included in the basic contract award in 1970 and includes incentives on ship self- and radiated-noise. Based on an analysis by the Navy, it was estimated that Litton would earn the maximum incentives on ship silencing.

(2) Basic construction contract outfitting article. This change reflects an increase in contractor furnished on board spares and repair parts, equipage, consumables, and common and peculiar support equip-

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:nent. The change was made to cover an increase in contractor requirements.

(3) Shore station refurbishment. This change includes the refurbishment of command and control and propulsion half-ship set test equipment. This change was made to cover the cost of refurbished equipment which will be used on a later ship of the program.

(4) ASROC launchers. This change includes increases in Government-furnished equipment contract estimates. The change was made to cover cost increases due to poor contractor performance.

(5) NATO Sea Sparrow. This change includes increases in Government-furnished equipment contract estimates. It is estimated that an additional $9 million will be required upon definitization of the letter contract.

(6) LAMPS cables and foundations. This change includes cables and foundations for 30 ships in order to provide a full LAMPS capability not included in the initial ship characteristics. The change was made to increase the ship antisubmarine warfare capability.

(7) MK-86. This change includes increases to Government-furnished equipment contract estimates. The change was made to cover anticipated contract cost at ceiling price.

(8) Outrigger. This change provides for intelligence gathering systems on DD-987, DD-988 and DD-990. This change was made to cover an emergent Chief of Naval Operations requirement.

(9) Harpoon. This change provides for an antiship missile capability on the last seven ships. This change was made to cover a Chief of Naval Operations requirement. These systems will be installed on all 30 ships, with the last seven being funded within the envelope of the shipbuilding and conversion, Navy appropriation.

Item (1) was a contingent liability under the contract and was not budgeted until this year. Items (2), (3), (4), (5), and (7) represent a recognition of cost increases on these items identified in the summer and fall of 1974. Items (6), (8), and (9) represent characteristics changes authorized by the Chief of Naval Operations in the December 1974 time frame.

Mr. MURPHY. Admiral Price, you use the term inflation to describe cost changes which impact on the cost estimate before the construction contract is awarded. How can you attribute $319.1 million of the cost increase on the DD-963's to inflation when the construction contract was awarded on June 23, 1970, which is 4 years and 8 months ago?

Admiral PRICE. The $319.1 million is the target-to-ceiling cost growth which is related to the nature of the contracted effort but caused primarily by inflation and the economic situation. As indicated in prior year testimony this type of contracting is used when, at the start of the contract, there are sufficient unknowns and risks, because of the state of system development, that the use of a firm fixed price contract is not a viable form of contract, yet a cost type contract is not called for.

Mr. MURPHY. The first ship was to have been delivered on October 31, 1974; it is now scheduled for delivery in about May 1975, some 6 or 7 months later. How much of the $319.1 million in inflation and $332 million in escalation is actually attributed directly or indirectly to Navy changes over the life of the program, to contractor construction schedule slippages, and so forth?

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Admiral PRICE. None of the target-to-ceiling cost differential of $319.1 million or the $332 million in escalation is attributed to Navy changes over the life of the program. The target-to-ceiling differential is due to engineering development and production man-hour increases. The escalation estimate is strictly a runout of the fixed escalation provision of the contract, not related to any other activity under the contract.

Mr. MURPHY. Admiral Price, you testified last year that it is not true that the cost of this program could increase another $485 million; that that amount is what Litton is predicting they will recover from escalating payments. You pointed out that the press release in which that amount was mentioned gave an erroneous impression of what the true facts are; and that $469 million of that amount is already covered in the Navy budgets. You also testified that there is a possibility the target price could go all the way to ceiling which is $350 million over the target price. How do you reconcile your testimony last year with the current request for a $771.7-million cost increase, of which $120.6 million is due to Navy changes, $319.1 million is for inflation, and $332 million is for escalation?

Admiral PRICE. Last year, Mr. Murphy, the DD-963 contract was funded at target and Navy escalation reserves were based upon that target price and the Bureau of Labor Statistics indexes the Navy was allowed to use. I indicated last year that the "reset" proposal was under negotiation and that there was a possibility that the contract price could go all the way to ceiling which was $350 million over the target price.

Admiral Gooding pointed out in that same discussion that we were carrying $200 million in our fiscal year 1976 program to cover at least a part of the anticipated contract reset cost growth and $60 million to cover the escalation resulting from the anticipated contract reset cost growth.

Since then Mr. Murphy, the escalation rates have changed from the 4.25 percent composite labor and material we were allowed to use for last year's budget to the current rates which represent an additional year's actual experience plus our current "best estimate" projections of future BLS indexes.

The decision to budget this contract at ceiling which I raised as a possibility last year combined with the higher escalation indexes we now project have caused $651.1 million in additional costs for the DD-963 program.

The remaining $120.6 million increase which results from Navy changes, were not discussed last year because the estimated payment for the silencing incentive was still under review, because the inflationary impact on certain procurements was not known or because no decision had been made to incorporate the systems involved into the ships. The requested changes have in the main been dictated by firmer knowledge or by emergent requirements and the projected availability of equipments within the SCN funding envelop of certain ships of the class.

Mr. MURPHY. You also testified last year that escalation payments stop at a date stipulated in the contract. That date is September 30, 1978. The last ship is scheduled to complete contract trials in Decem-

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ber 1978. Has the Navy changed the escalation date? If so, to what date?

Admiral PRICE. The contract provides for payment of 33 quarters of labor escalation and 27 quarters of material escalation. Computed from contract award date the last payment under the labor clause will be September 30, 1978 and the last payment under the material clause will be March 31, 1977. These dates have not been changed since contract award.

Mr. MURPHY. Last year we were told that with the current capability to employ the SH-3H ASW helicopter, the only degradation from a full up LAMPS suite on the DD-963 is the nonavailability of a passive sonobuoy readout capability onboard the ship. We now note that of the $120.6 million in changes required, is a change to install LAMPS cables and foundations on the 30 ships at a cost of $13.2 million. This change does not appear to provide a passive sonobuoy capability. If not, why was this change made?

Admiral PRICE. The addition of the LAMPS MK I suite on the *Spruance* Class will provide an onboard passive sonobuoy readout and enable these ships to utilize the maximum capability of either the SH-2F (LAMPS) or SH-3H helicopter. This will be accomplished by installing cables and foundations for the necessary equipment, the data link receiver and the processor. These equipments will be drawn from pools and installed onboard ship when the ships mission requires a LAMPS capability.

Mr. MURPHY. When these ships are received from the contractor, what weapons and electronic systems originally planned for them will not be onboard?

Admiral PRICE. The systems which were originally planned for these ships and which will not be installed upon delivery include: (1) An active/passive electronic warfare suite; (2) a shipboard Chaff decoy system; and (3) the basic point defense surface missile system. These specific systems will not be installed on DD-963's during the initial construction phase due to problems in development, increases in acquisition costs and urgent fleet requirements. However, other systems, similar in function—passive electronic warfare equipment, Chaff and the NATO Sea Sparrow point defense system—are funded and will be installed after delivery but before these ships are turned over to the fleet for unrestricted service. The redirection of emphasis within the Navy toward hardkill systems for providing antiship missile defense, dictated a change in the originally planned DD-963 suite. Active EW has been eliminated and the basic point defense surface missile system is being replaced by the more effective NATO Sea Sparrow. If effective and low-cost active EW systems are forthcoming from the Navy's development programs, it may be desirable to backfit this equipment at a later date.

Mr. MURPHY. Harpoon is not listed in the SAR as armament for this ship. Will the last 7 ships of the 30 total have the Harpoon missile when delivered by Litton at a cost of $5.3 million? If so, why is this? When will the other 23 ships get Harpoon?

Admiral PRICE. Harpoon was not originally planed for the DD-963 class since the Harpoon system was in early development at the time of contract award for these destroyers. The Navy now intends to equip all DD-963 ships with the Harpoon system at the earliest

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possible time. The funding request for the final seven ships was based on the estimate that systems can be available for these ships within the SCN funding envelope. Backfitting of Harpoon in the remaining 23 ships will be accomplished through the fleet modernization program. The current installation plan is to backfit eight systems in fiscal year 1977, seven in fiscal year 1978 and eight in fiscal year 1979. The estimate of $5.3 million for seven Harpoon systems is based on installation of this equipment by the Navy following delivery. However contractor installation could be selected if cost and schedule impact were acceptable.

Mr. MURPHY. You will recall that last year we asked to be placed in the record changes to the terms and conditions of the contract proposed by Litton (p. 697). This information was notp rovided because the proposal was being negotiated. Will you now provide for the record a description of each change to the terms and conditions of the contract proposed by Litton and compare each proposal with what was actually negotiated?

Admiral PRICE. Reset negotiations have not been completed. When negotiations are completed a description of the Litton proposed changes and actually negotiated changes to the terms and conditions of the contract can be provided.

Mr. MURPHY. Has Litton filed a claim on the DD963 program? If so, how much is the claim and what does the Navy propose to do about it?

Admiral PRICE. To date, Litton has not filed any claims on the DD963 program.

SHIPBUILDING MANAGEMENT

Mr. MURPHY. Admiral, would you describe briefly the organizational struction through which you as the Secretary of the Navy's representative manage the "Shipbuilding, conversion and repair" activities of the Navy?

Admiral GOODING. Attached is an organization chart of the Naval Sea Systems showing the command structure used in managing the Navy shipbuilding, conversion and repair activities. The Commanders of Naval Shipyards and Supervisors of Shipbuilding, Conversion and Repair report to the Commander of NAVSEA through the Deputy Commander for Industrial and Facility Management (SEA 07).

[The information follows:]

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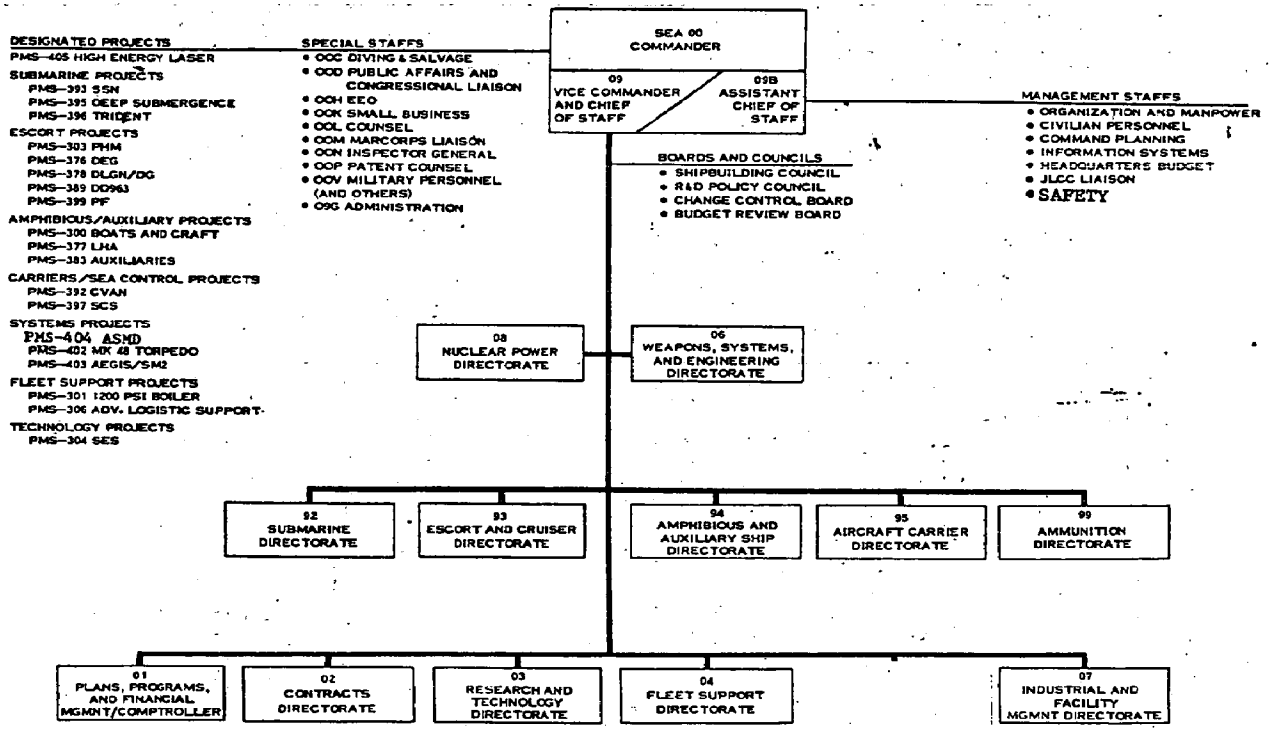
NAVAL SEA SYSTEMS COMMAND HEADQUARTERS

MAT 0401
12 JUNE 1974



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Mr. MURPHY. What organization structure do you use in the field to administer shipbuilding, conversion and repair contracts with private shipyards?

Admiral GOODING. The administration of Navy Ship Contracts is the responsibility of the Supervisor of Shipbuilding, Conversion and Repair, USN (Supship) activities and to administer this Navy workload, the Supships have about 2,675 civilian employees and 200 officers. The number and types of personnel at each Supship are determined by the amount and complexity of assigned work and range from as few as 25 to 401. In some cases, the work performed by one contractor is significant enough to require a separate Supship office for that contractor. In other cases a Supship may administer contracts with several private shipyards. At the present time, there are some 188 private contractors who have a total of about 160,000 employees, both white and blue collar workers.

The attached chart shows our standard Supship Organization. All Supships are not 100 percent organized to this standard. But all of the functions are performed by all Supships. The Supships are organized functionally.

[The information follows:]

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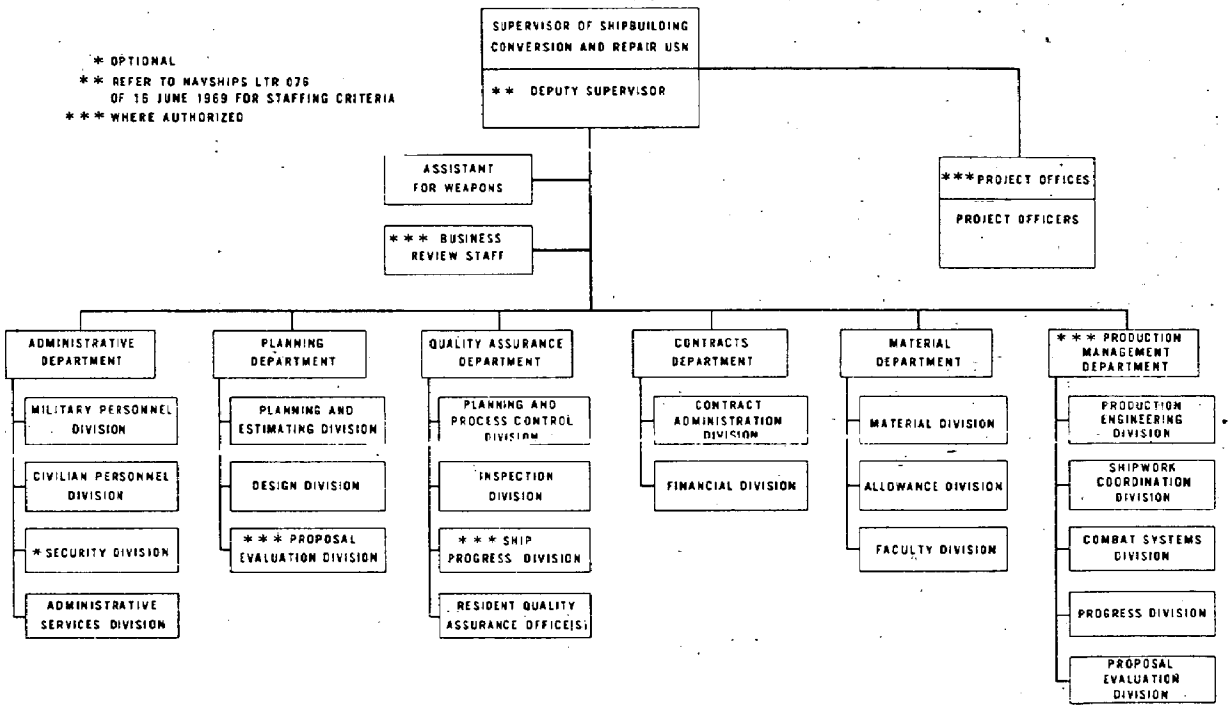
ORGANIZATION OF THE OFFICE OF SUPSHIP



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NAVAL SHIPYARD EMPLOYMENT

Mr. MURPHY. How many personnel, both civilian and enlisted, are assigned to each naval district for administration of shipbuilding, overhauls and ship work in private years?

Admiral GOODING. The following tabulation shows the number of personnel assigned to each naval district:

Naval district	*Number of Supship personnel*
1st	572
3d	127
5th	711
6th	566
8th	149
9th	35
10th	7
11th	424
12th	158
13th	178
14th	26

Mr. MURPHY. For the record, provide the number of personnel by naval district headquarters and by shipyard or repair facility and show precisely where the individuals are physically located. This information should include all personnel, military and civilian, Supship, plant representatives, headquarters activities, intermediate review, et cetera.

Admiral GOODING. Because Navsea Headquarters is functionally oriented, as well as project oriented, exact numbers are not possible. However, Sea 074 does have the numbers for specific Supship offices and Navseahqs, Supship organization and management functions, not including numbers for Navseahqs contract administration, security, legal, safety, funds administration, project management, et cetera functions. These numbers are only available from Navseahqs offices performing these functions. It should also be noted that the numbers of Subship personnel in the various contractor's plants can vary widely in the case of repair work as Supship personnel generally work out of the Supship office and are in the contractor's yard to perform such functions only when required to be done at the work site such as in the quality assurance area. Supships were located in a private contractor plant, total staff and full time, are marked by an asterisk.

Naval district/location	*Number of personnel*
1st:	
Bath Iron Works, Bath, Maine	*134
Boston, Mass	36
Electric Boat, Groton, Conn	*402
3d: Brooklyn, N.Y	127
5th:	
Portsmouth, Va	235
Newport News Shipbuilding & DD Co., Newport News, Va	*476
6th:	
Charleston, S.C	47
Mayport, Fla	127
Ingalls Shipbuilding Division, Pascagoula, Miss	*392
8th: New Orleans, La	149
9th: Sturgeon Bay, Wis	35
10th: San Juan, Puerto Rico	7

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Naval district/location	*Number of personnel*
11th:	
San Diego, Calif.	321
Long Beach, Calif.	103
12th: San Francisco, Calif.	158
13th: Seattle, Wash.	178
14th: Pearl Harbor, Hawaii	26
Naval Sea Systems Command Headquarters	[1] 16

[1] For performance of Supship organization and management functions.

Mr. MURPHY. The Navy budget for fiscal year 1976 includes a plan to add 4,000 positions at Navy yards. In view of the repeated testimony from Admiral Rickover which indicates that the yards have large numbers of unneeded people on their payrolls, why do you desire to hire more?

Admiral GOODING. The fiscal year 1976 budget, contains a requested fiscal year 1976 end strength of 64,428 for the eight naval shipyards compared to the current authorized end of fiscal year 1975 employment ceiling of 60,685 or an increase of 3,743 employees by the end of fiscal year 1976 to support the increased Fleet Maintenance and Modernization budget. To put the requested fiscal year 1976 naval shipyard employment of 64,428 in proper prospective, this increase over fiscal year 1975 employment would put the eight naval shipyards employment at approximately the level of actual employment on board in October 1974 before a total hiring freeze was imposed to reduce employment by attrition in an attempt to reach the reduced fiscal year 1975 employment ceiling due to the congressionally imposed Navy CIVPERS employment reduction in fiscal year 1975. Of the 3,734 employment increase requested for naval shipyards in fiscal year 1976 approximately 1,800 will be new apprentices required to offset the anticipated retirement of approximately 25 percent of current wage board personnel during the next 5 years and to increase the skill level of the naval shipyard workforce in an effort to improve productivity.

Mr. MURPHY. How many of these 4,000 personnel will end up in clerical management, supervisory or other white collar jobs in Navy yards?

Admiral GOODING. Current plans for utilization of the requested 3,734 employment increase for naval shipyards in fiscal year 1976 include increasing the production departments by 3,100, including 1,800 apprentice mechanics, hiring approximately 300 engineers and technicians in direct support of the production department workforce with the remainder distributed among the other production department support groups. This distribution is entirely consistent with that actually experienced during the employment buildup in the eight naval shipyards in late calendar year 1973 and 1974 due to the closure of Boston and Hunters Point and the redistribution of their workload to the other naval shipyards.

SUPERVISOR OF SHIPBUILDING

Mr. MURPHY. The supervisor of shipbuilding for the 8th Naval District has 148 civilian personnel but only 25 of them are located at contractor plants or shipyards, 7 at Avondale, 12 at Boland Marine,

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and 6 at Bell Aerospace. What are the remaining 123 people doing at the 8th Naval District?

Admiral GOODING. Supships are organized functionally for economical efficiency and personnel are assigned on-site in private contractor's plants for the performance only of functions requiring work to be done on-site such as quality assurance, witnessing of tests, and so forth. This work may require their presence for an hour or two, or for the duration of a contract. Supship New Orleans is not unique in this respect. All Supship offices perform all functions in a central group and location wherever possible for best possible performance and utilization of personnel.

Mr. MURPHY. Admiral Rickover has testified that shipyards "* * * have yard managers and supervisors who do not know what is going on because they rarely get out of their offices to check the work being done." Have you considered a program to move some of the supervisory personnel out to the yards where they can really check the work and/or do some of it themselves?

Admiral GOODING. A program to move supervisory personnel and high level managers out of their offices to check the work being done was established during 1973 (Navships Inst 4850.17 of 9 March 1973). This program provides for surveillance of worksite activity as one of the bases for observing and reporting trends of overall shipyard productivity. Management personnel are frequently assigned as observers. In addition to obtaining an indicator of productivity measured in terms of worksite activity the observers make notes of good or poor work practices, work place layouts and workflow as input to follow-on studies aimed at productivity improvement. Participation at all naval shipyards has included shipyard commanders, production officers, production group superintendents, and ship superintendents.

Mr. MURPHY. On February 22, 1972, Admiral Rickover brought to the attention of the Commander, Naval Ship Systems Command an example of where a particular Supervisor of Shipbuilding (Supship) hired an employee of a shipyard to help him analyze performance on Navy contracts held by his previous employer. Do you know how many of the Navy's Supship employees formerly worked for shipbuilders whose contracts are reviewed from the same Supship office?

Admiral GOODING. No. The precise number is not known. However, the number is estimated to be less than 2 percent, since, in each case of such hiring, an indepth analysis is required.

Mr. MURPHY. In 1972 instructions were supposed to have been issued making previous employment by the contractor an adverse factor when selecting employees for administration and surveillance positions in the Supship offices. Were such instructions ever issued and have they eliminated these hirings?

Admiral GOODING. Such procedures are still in effect and an indepth analysis is made of every former contractor employee before he is hired. Each individual potential selection is reviewed at Navseahqs by the Office of Civilian Manpower Management and the Office of General Counsel representatives prior to approval/disapproval being forwarded back to the supervisor.

Mr. MURPHY. Do most private ship contractors believe that the Navy has too many people supervising them, and as a result getting in each others way, causing extra work and creating inefficiency?

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Admiral GOODING. Most private shipbuilders are convinced that the Navy has too many people supervising them when the Government personnel endeavor to stringently enforce the appropriate contract provisions. However, when a delay is experienced in processing documents which affect the contractor's ability to proceed on his schedule or which affects his cash flow, the contractor becomes equally convinced that the Navy has an inadequate number of people to service his needs.

Mr. MURPHY. The committee has from time to time received reports from civilians in private shipyards that military personnel were being unnecessarily assigned to duties for which they are not qualified. For example, on December 31, 1971, a total of 1,499 military personnel were performing supervisory and administrative duties in the 10 Navy shipyards. Could efficiency be improved and production increased through the elimination of a portion of these positions?

Admiral GOODING. The figure quoted in the discussion of 1,499 military personnel includes both the shipyards and supervisors of shipbuilding. It also includes tugboat crews, communications personnel, messing personnel and other such necessary personnel.

The efficiency of the shipyard operation could not be improved and production would be adversely affected by elimination of these billets. These billets are required and essential to the operation of the naval shipyards.

The personnel occupying these positions bring to the shipyard a unique type of expertise in shipbuilding and ship repair by nature of their previous training gained through their extensive Navy career and academic qualifications.

Mr. MURPHY. Over the past several years Admiral Rickover has discussed shipbuilding problems and made specific recommendations for change to this committee and a number of other congressional committees. He has testified on (1) ineffective cost controls and cost reporting systems, (2) cost not related to progress in a manner that identifies potential overruns in time to take corrective action, (3) payment of excess progress payments or payment to the contractor before he pays his subcontractors, (4) subcontract procurement not managed in a businesslike manner, (5) excessive sole source procurement, (6) poor productivity including widespread idleness and just plain hiring more people to do a job than is necessary, (7) no control of overtime and examples of slowing down regular work to make overtime pay available, (8) attempting to "automate shipyards" when the concept was not appropriate to warships and the level of activity did not warrant the huge capital investment, (9) ineffective internal audit, (10) using claims to bring profit margins up or to offset the effects of poor management, and (11) improper handling of claims by the Navy.

Admiral Rickover has provided documented examples of these shortcomings on the part of the Navy and its contractors. Fortunately, the Navy and the shipbuilders have taken steps to correct some of these management problems.

We will not have time to go into each one of these areas (points 1 through 11 of Admiral Rickover's testimony) in detail today, so I would hope that you will provide for the record a detailed discussion of your efforts in each area, especially those which we are unable to cover adequately today.

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Admiral GOODING. The question is broken into 11 different items that deal with Admiral Rickover's previous testimony. Several of these responses overlap with other questions. However, the following responds to parts 1 through 11 in sequence:

Parts 1 and 2: (1) Ineffective cost controls and cost reporting systems, (2) cost not related to progress in a manner that identifies potential overruns in time to take corrective action.

Answer. The requirements of DOD Instruction 7000.2 (cost and schedule performance measurement) are implemented in all major shipbuilding contracts awarded in the past 12–18 months. In order for an award to be made to a builder he must show that he has or intends to provide an adequate management system that will provide the Navy with the capability to measure the performance of the contractor relation to both schedule and cost. Individual shipyards are now given greater and greater attention to this which, in turn, provides the Navy with the necessary overview as well as details in monitoring the constant progress. The Navy is thus making major strides in obtaining sufficient data to effectively manage the shipbuilding program.

Parts 3–5: (3) Payment of excess progress payments or payment to the contractor before he pays his subcontractors, (4) subcontract procurement not managed in a businesslike manner, (5) excessive sole source procurement.

Answer. The Navy has corrected the problem of premature payment of progress payments. This has been accomplished through training of personnel involved in contract administration as well as insuring that the material progress portion of total progress is measured based on the estimate at completion and that the contractors are given material progress credit only after they have paid for the material (not just received it).

Part 6: Poor productivity including widespread idleness and just plain hiring more people to do a job than is necessary.

Answer. The Supervisors have been directed to monitor contractors' productivity and address specific areas with contractor management where low productivity is found. Navsea cannot address the allegation of widespread idleness or of hiring more people to do a job than is necessary.

Part 7: No control of overtime and examples of slowing down regular work to make overtime pay available.

Answer. I have no concrete examples of this. However, I am sure that it is possible.

Part 8: Attempting to automate shipyards when the concept was not appropriate to warships and the level of activity did not warrant the huge capital investment.

Answer. Automated shipyards are not new in shipbuilding practices throughout the world. The most successful shipyards are those which have automated their facilities to maximize interaction of production and design to produce ships on an assembly line basis. In order to warrant huge capital investment to either construct or convert to an automated shipyard the level of activity in terms of large procurements of identical or similar type ships should be a controlling factor.

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Part 9: Ineffective internal audit.

Answer. Concerning internal audits, the Navy is carrying out on a continuing basis a concentrated effort to improve the effectiveness of its self-audit program. Included among these are:

a. Navsea performance evaluation team visits to naval shipyards on an annual basis, with appropriate followup visits.

b. A strengthened quality assurance audit program.

c. Implementation of a contractor surveillance and evaluation program for private shipyards.

d. Institution of a "Mr. Shipyard" concept wherein an assigned headquarters representative closely monitors and evaluates a broad spectrum of shipyard operations through regularly scheduled onsite reviews.

e. The continuing evaluation and use of the findings provided by Inspector General visits, GAO, and Navy Audit Office reports.

Parts 10 and 11: (10) Using claims to bring profit margins up or to offset the effects of poor management, and (11) improper handling of claims by the Navy.

Answer. NAVSHIPS has claims against many of its shipbuilding contracts primarily because of some time during contract performance the shipbuilder discovered that he was losing money, or was approaching a loss position, yardwide or under the Navy contract. Because their positions and reputations were at stake—and because of the profit motive—shipyard managers acted to minimize the loss or to return the shipyard to a profitable position. No matter what the cause of the loss situation, it became a general practice among shipbuilders to look to the Government to remedy for financial ills. This they have done—and are continuing to do—through the assertion of claims.

During the 1960's, loss position resulted from a number of causes. Shipbuilders sought and accepted more work than they could produce; they underpriced both Government and commercial contracts; and they misjudged the effect of the buoyant economy that then existed. Old problems became more severe, and new ones appeared. There were shortages in skilled labor; facilities were out of date and too few; shipbuilders' procurement capabilities were not equal to the task of buying increasingly sophisticated technical equipment; management systems were antiquated or inadequate; and management itself was inefficient due both to a paucity of qualified personnel and high turnover rate. Also, during the same period, some of the skilled shipbuilding labor migrated to higher paying industries; unemployment levels dropped; and there were fewer trainable people to fill the void. Inflation trends added to the problem, but in Navy contracts that impact was lessened by escalation provisions.

Contracts were initially underpriced for various reasons such as faulty estimating, failure to anticipate and consider requirements to technological advances in Navy ships, decisions of management to "buy in" on large programs in the expectation of lucrative follow-on contracts, and overzealous competitiveness.

To minimize losses, shipyard managers where feasible diverted their resources to commercial work since it was less complicated and would,

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therefore, enable a higher productivity rate, and also because many commercial contracts carried penalties for late deliveries while Navy contracts generally did not. Progress under Navy contracts suffered. Still, in the great majority of loss situations—irrespective of the true cause—the major thrust of the recovery effort has been through claims against the Navy. Such claims are asserted on the basis that the Navy by its actions or failures to act, has caused the predicament. Among the causes attributed to the Navy are defective specifications, late or defective Government-furnished property or information, faulty inspection, inaccurate contract interpretation, acceleration of performance and other so-called constructive changes. When a shipbuilder is a good manager and operates his shipyard at a profit, claims are rare or nonexistent. In such cases, the Navy, strangely, is not charged with wrongdoing.

The Navy, of course, makes errors and at times has been negligent and rightfully charged with one or more of the above named acts or omissions. But, in such cases, liability must be acknowledged and the obligation to provide equitable adjustment accepted. However, some claims by shipbuilders are totally without merit and justification; some are fractionally valid; and most are exaggerated and without documentary support even when some Government liability is apparent. Shipbuilding is a vital industry—for a national defense and mobilization—but its support cannot take the form of "bailouts" through the claims.

There can be little doubt that shipyards tried to reduce losses, or in some cases to make profits via the claims route. However, they have not succeeded in most cases because of the Navy's careful and detailed scrutiny of their claims from contractual, legal, and technical viewpoints. Claim settlements ultimately reached have been equitable but have not resulted in the shipbuilding industrry finding the claims route a sure one to profit.

ROTATION OF SHIPYARD OFFICIALS

Mr. Murphy. On May 10, 1972, Admiral Rickover testified that:

> Several years ago I made a survey of the naval shipyards that were engaged in nuclear work. I found that over a period of 18 years in these shipyards, one of the top three people—either the shipyard commander, who runs the shipyard, or the planning officer, who is in charge of all design work and cost estimating, or the production officer, who is in charge of all the construction and repair, was rotated on the average of every 6 months in every shipyard. This is still true today. Rarely is one of them in this position for a period of 4 years. You cannot run any sophisticated technical business that way.

Of course you cannot expect to operate either your own yards effectively or supervise private contractors when you are constantly moving those responsible for management supervision. Can you show that this situation has been corrected?

Admiral Gooding. The command has endeavored to maintain tours of duty in naval shipyards at 4 years. Transfer of key personnel prior end of tour is often due to more urgent commitments in other activities, statutory retirement requirements, or promotion to positions of command or greater responsibility, such as a deputy system commander at Navsea Headquarters.

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A review of the three top positions at naval shipyards, commander, planning officer, production officer, for the last completed tour shows the following:

Length of service

Years:	*Quantity*
6	1
5	2
4	5
3	8
2	5
1	3
Total	24

Sixty-six percent of the miltiary officers had job longevity of 3 years or longer. Additional continuity is provided by the civilian workforce at naval shipyards. The average length of service for GS–13 and above is 16 years.

CONTRACTORS' CLAIMS

Mr. MURPHY. Provide for the record the value of all claims filed against the Government each year and the amount paid each year for all claims since 1960. Also, indicate the stated number of employees assigned each year to manage these contracts on the same basis as your response to the previous questions. Also, show the number of personnel in Washington Headquarters actively involved in ship contract administration and negotiation.

Admiral GOODING. Yes, sir.

[The information follows:]

	Value of claims filed	Government paid
Fiscal year:	In Millions of dollars	
1967	39.0	0
1968	121.0	0
1969	336.9	96.5
1970	116.6	44.0
1971	405.1	38.7
1972	280.0	21.6
1973	29.4	3.5
1974	2.1	172.1

Note: No statistics available prior to 1967. The above figures include all claims, shipbuilding and other.

PERSONNEL WORKING ON CLAIMS AND APPEALS

	Headquarters	Field
Calendar year:		
1967	5	12
1968	6	24
1969	6	24
1970	6	6
1971	25	59
1972	25	60
1973	34	136
1974	54	192

Within Navsea, the two organizations most actively involved in ship contract administration and negotiation are the shipbuilders and overhaul purchase division and the contract administration division. These two divisions number 47 people. From time to time and on an as required basis other organizations within Navsea are called upon to assist the contracts directorate.

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Mr. MURPHY. Is the backlog of unprocessed claims staying at about $1 billion from the peak backlog which was reached in fiscal year 1973 of $1.3 billion?

Admiral PRICE. The backlog of unsettled claims remains in excess of $1 billion. However, this is not due to inactivity on the part of the Navy. Since the peak backlog of $1.3 billion in 1973, the Navy has settled five claims at a claimed amount of $126 million and issued a contracting officer decision on one claim at a claimed amount of $.3 million, which was subsequently appealed to the ASBCA. It is significant to note that approximately $900 million of the amount we are discussing represents Navy claims before the ASBCA and the Navy has no direct means of affecting the settlement of claims once they are before the board. The Navy is actively working on the remaining fourteen claims at a claimed amount of $228 million, and settlement of these claims is expected by the end of 1975. It should be noted that the $900 million in claims before the ASBCA includes $376 million on one claim, the LHA program. When this claim is resolved the unsettled backlog will be significantly less than $1 billion.

Mr. MURPHY. How much has the Navy paid in shipbuilding claims during each of the past 5 years?

Admiral GOODING. In shipbuilding claims only the Navy paid out the following amounts during each of the past 5 years: 1970, $44 million; 1971, $38.7 million; 1972, $21.3 million; 1973, $3.4 million; and 1974, $146.6 million.

Mr. MURPHY. Why, despite the assignment of thousands of personnel to administer and watch over the work at the various private shipyards, has the Navy been unable to prevent the shipbuilder from filing huge claims against the Government in nearly every recent major shipbuilding program?

Admiral GOODING. In general, claims arise from a variety of causes many of which would not be affected by the staffing of supervisor of shipbuilding offices. Furthermore, in 1973 only three claims totaling $29.4 million were received, and in 1974 only five claims totaling $2.1 million. None of the 1974 claims were on shipbuilding contracts.

Mr. MURPHY. The Navy has taken the following three steps to improve its claims management largely upon the urging of Admiral Rickover: (a) forced the senior company official or officials to certify the accuracy of the claim; (b) the Navy field contract administration officers have started keeping a daily log of significant events that delay schedules or increase costs in an effort to build a defense against future claims; and (c) the Navy has at least on one occasion hired outside legal and technical assistance to evaluate some aspects of a contractor's claim. As a result of these actions has there been a downturn in the number and value of claims?

Admiral GOODING. There has been a distinct downturn in the number and value of claims received in 1973 and 1974. Three claims totaling $29.4 million were received in 1973 and five claims totaling $2.1 million were received in 1974. Whether this situation results from improved claims management, improved system acquisition techniques, improved contract administration, or significantly different overall economic conditions prevailing in the industry is difficult, if not im-

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possible, to determine. Requiring senior company officials to certify the accuracy of claims will undoubtedly improve the accuracy of claim allegations by bringing in a more personal responsibility for them. Maintaining logs of significant events in the Subships Office will provide a significantly improved level of defense against some claim allegations. Both the downturn in receipt of new claims, and the normal time lapse between events and receipt of claims makes a precise evaluation of the significant events log effectiveness premature.

Mr. MURPHY. It would appear that some of the earlier claims may have been unsubstantiated and may have involved attempts to improve a profit margin or make up losses due to poor management, or resulted from the contractor underestimating his cost in submitting his initial bid. Have you attempted to prosecute any individuals for filing false claims?

Admiral GOODING. In two instances recently the Navy has referred claims to the Department of Justice for investigation of possible violations of various laws. One case involved claims filed by Litton Industries, Inc., under a nuclear submarine construction contract and the other involved claims filed by Lockheed Shipbuilding and Construction Co. under a destroyer escort construction contract. Both cases are currently under investigation. The status of any possible prosecution of individuals in these cases is unknown because the investigations are incomplete.

Mr. MURPHY. Have the contract administration logs proved helpful in cutting claims? If so, in what ways and provide examples for the record.

Admiral GOODING. The contract administration logs will prove to be very helpful. Their maintenance is required by regulations which the shipbuilders are well aware of. This knowledge alone will favorably influence the accuracy of any future claims allegations. Specific examples are unavailable because of the downturn in new claims received.

Mr. MURPHY. Did the Navy do better in handling the claims in which it employed outside technical assistance than you did on the average when such assistance was not sought?

Admiral GOODING. We have no basis on which to validate our performance in evaluating claims when using outside technical assistance rather than in relying solely on in-house capability. Augmenting in-house capability with outside assistance has definitely added flexibility in use and acquisition of scarce assets in certain technical disciplines.

Mr. MURPHY. Is there any indication that you have the wrong skills in-house to handle the details of claim review as Admiral Rickover believes?

Admiral GOODING. It is safe to assume that the Navy does not maintain in total all of the right skills in-house to handle all the ranges of technical issues that may arise in claims for to do so would not be cost effective. The skill mix and depth has been increased in the past several years and augmented as necessary by outside technical assistance.

Mr. MURPHY. Does the Navy still permit the shipbuilder to bill the Navy as an overhead item those costs associated with preparation of a claim? Is new legislation required to prevent these costs being paid by the Government?

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Admiral GOODING. New legislation is not required because the Navy does not permit shipbuilders to bill the Navy as overhead for all costs of claims preparation. Costs of shipbuilders outside legal and other professional services are disallowed. Normal levels of contractors in-house costs of claim preparation are allowed in settlement of issues under the "changes" clause of contracts whether such changes were "constructive" or formally issued.

Mr. MURPHY. If the contractor can bill the Navy for cost of hiring highly experienced personnel to develop his claim—incidentally these same personnel were often trained by the Government—how can he lose unless you are willing to prosecute for making a false claim?

Admiral GOODING. The Navy does not allow costs of a claimant hiring legal, technical or accounting assistance external to his organization. These costs are disallowed by Defense Contract Audit Agency in accordance with the ASPR chapter 15 cost principles, the applicable portion of which is quoted below:

> Costs of legal, accounting, and consulting services, and related costs, incurred in connection with organization and reorganization, defense of antitrust suits, and the prosecution of claims against the Government, are unallowable. Costs of legal, accounting, and consulting services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the contract.

The present system for settlement of claims has evolved from lessons learned. The Navy has established a claims handling which is highly refined. The process invokes the efforts and talents of contract, engineering, accounting and legal talent under the management of a contracting officer. The Navy recognizes its obligation under the contract "changes" clause to make equitable adjustments for changes, whether formal or constructive, made to its contracts. Utilization by some contractors of outside legal and accounting talent has not influenced the Navy in meeting its contractual obligations. This process is deliberate and equitable, and is resulting in settlement of a major portion of claims received. The expense of claims preparation decreases the contractor's profits since the contractor is audited to insure these costs are not passed on to the Government.

Mr. MURPHY. In the past there has been no limit on the number of times and ways in which a contractor can resubmit essentially the same claim. Have you put a stop to that or would legislation be required?

Admiral GOODING. The problem of restatement or resubmission of contractor claims under differing theories was primarily associated with the explosion of claims involving contracts awarded in the early 1960's. The problem appears to be diminishing as these old claims are resolved and no new legislation is believed to be needed at this time.

Mr. MURPHY. The Supreme Court decided about 3 years ago that the contractor has a right to appeal a claims ruling—*S. & E. Contractors* v. *United States*. Yet, the Navy does not enjoy the same right. Thus, in a close proceeding the judge is likely to side with the contractor since he knows the Navy cannot appeal. Have you requested legislation to give you the right to appeal? If not, why not?

Admiral GOODING. The pros and cons of a symmetrical Government right to judicial review of adverse BCA decisions were discussed by the Commission on Government Procurement in its December 31, 1972, report, vol. 4, recommendation 7, pp. 25–27. The Commission majority

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favored a Government appeal right. On June 28, 1973, Congressmen Holifield and Horton introduced a bill, H.R. 9062, whose section 9(e) was intended to give agencies judicial review rights; Congress took no action on H.R. 9062. Similarly, Congressmen Holifield and Horton introduced H.R. 16423 on August 14, 1974, for the same purposes; again the Congress has taken no action. The executive branch established an Interagency Steering Procurement; the Steering Group, including its DOD representatives, favored adoption of recommendation No. 7. At present the Office of Federal Procurement Policy is again studying proposed legislation to implement recommendation No. 7.

Mr. MURPHY. Is the Navy still following the policy of resolving the claim at the lowest level in the contracting framework?

Admiral GOODING. Yes. As a matter of fact, the basic thrust of the Navsea claims prevention program, in addition to their elimination, is to resolve a potential claim immediately under the "change clause" if Government liability is found to exist.

Mr. MURPHY. Claims of over $10 million or more are subject to review by a board of senior flag officers which is an additional duty for them. Is that correct?

Admiral GOODING. Yes. You have reference to the Naval Material Command General Board which is comprised of Chief of Naval Material Command's system command commanders.

Mr. MURPHY. Do your procedures tend to make the settlement of claims a routine thing, when maybe they should be treated as an extraordinary matter outside of regular contract negotiation?

Admiral GOODING. Our procedures for claim settlement decidedly do not make their handling a routine matter. The claims team effort is a separate entity with separate director/claims manager from the Supship who is the contract administrator. The claims team is physically separated from the Supship. The Supship provides on-site administrative support to the claim team effort and historical input to the team as required.

Mr. MURPHY. Tell us how flag officers trained to operate Navy ships possess the training, background, and experience necessary to deal with complex questions of fact and law which are involved in these claim settlements?

Admiral GOODING. We do not expect flag officers to be intimately familiar with all the technical and legal ramifications involved in a claim of $10 million or more. That view is performed at a lower level in which contracting, technical, legal, and financial disciplines are well represented. Rather, they provide another level of review which brings to it a reservoir of maturity, judgment and impartiality.

Mr. MURPHY. Why do you continue to treat claims as a matter of contract negotiation and not as a matter of law? What would be wrong with forcing all claims of over $10 million into the court?

Admiral GOODING. It would be neither cost effective or equitable to force all claims in excess of $10 million into the courts. As previously stated, our policy is to resolve claims at the lowest level possible. Determinations of legal responsibility can be made at a level below courts of law. If a determination of Government liability can be made,

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the contract should be equitably adjusted under the changes clause. Resort to the courts for claim resolution should only be turned to when all attempts to equitably adjust the contract, if required, fail.

CONTROL OF OVERTIME IN SHIPYARDS

Mr. MURPHY. It has been estimated that in excess of $100 million is spent by the Navy annually to pay unnecessary overtime in Navy yards. How do you control overtime payments in the yards?

Admiral GOODING. Overtime is allowed at the naval shipyards but is limited to cases of real necessity such as the following: urgent fleet readiness requirements, emergencies, safeguarding life and property and where substantial savings can clearly be demonstrated on an individual situation basis. Overtime limitations are allocated quarterly by shipyard. Shipyards report overtime usage monthly and this data is continually analyzed to determine allocations for the future.

OVERTIME PAY AT SHIPYARDS

Mr. MURPHY. For the record provide the amount of overtime pay at each Navy yard for the past 5 years and the estimated amount for fiscal year 1975.

Admiral GOODING. The information requested is contained in the following table:

AMOUNT OVERTIME PAY

	Fiscal year—					
	1970	1971	1972	1973	1974	1975 (estimate)
Portsmouth	$6,063	$6,209	$4,509	$1,697	$2,899	$3,233
Boston	5,414	4,798	4,246	2,784	1,110	0
Philadelphia	17,129	14,955	4,717	3,170	5,760	7,761
Norfolk	11,237	15,044	11,755	5,876	10,905	9,882
Charleston	7,087	9,597	5,663	2,720	5,612	8,676
Long Beach	10,053	9,696	8,474	6,837	7,392	7,762
Hunters Point	20,372	6,811	5,283	5,713	3,096	0
Mare Island		12,645	6,656	3,618	11,377	15,093
Puget Sound	13,019	10,784	10,476	3,608	9,477	12,643
Pearl Harbor	8,243	10,356	8,148	3,465	4,123	5,196
All yards	98,616	100,896	69,924	39,488	61,751	70,246

Mr. MURPHY. For the same years provide for the record the average number of employees at each yard, the overtime man-hours and the percent of overtime hours to straight time man-hours.

Admiral GOODING. The following tables provide numbers of employees and overtime data requested for naval shipyards:

MAN-YEARS OF EMPLOYMENT—AVERAGE EMPLOYMENT

	Fiscal year—					
	1970	1971	1972	1973	1974	1975 (estimate)
Portsmouth	7,631	6,656	5,901	5,429	5,495	6,627
Boston	7,202	6,138	5,740	5,203	2,102	0
Philadelphia	11,439	9,364	8,066	7,198	7,083	7,014
Norfolk	10,419	9,687	9,707	9,335	9,883	10,169
Charleston	7,474	7,096	6,889	6,315	6,346	6,949
Long Beach	7,340	7,118	7,163	6,678	7,076	6,581
Hunters Point		6,550	5,725	5,512	1,851	0
Mare Island	18,687	9,806	8,722	7,757	8,031	9,276
Puget Sound	9,913	9,131	8,676	7,974	9,262	10,365
Pearl Harbor	5,595	5,242	5,254	4,973	4,930	5,016
All yards	85,700	76,788	71,845	66,374	62,059	61,997

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OVERTIME MAN-HOURS AND THE PERCENT OF OVERTIME HOURS TO STRAIGHT TIME (MAN-HOURS)

[In thousands]

	Fiscal year—					
	1970	1971	1972	1973	1974	1975 (estimate)
Portsmouth:						
Straight time	15,933	13,898	12,369	11,292	11,430	13,836
Overtime	1,031	964	661	234	366	372
Percent overtime to straight time	.065	.069	.054	.021	.032	.027
Boston:						
Straight time	15,037	12,816	12,030	10,830	4,373	0
Overtime	901	729	616	372	139	0
Percent overtime to straight time	.060	.057	.051	.034	.032	0
Philadelphia:						
Straight time	23,885	19,552	16,907	14,972	14,732	14,645
Overtime	2,869	2,247	647	417	699	854
Percent overtime to straight time	.120	.115	.038	.028	.047	.058
Norfolk:						
Straight time	21,756	20,226	20,345	19,414	20,557	21,234
Overtime	2,007	2,408	1,820	857	1,459	1,177
Percent overtime to straight time	.092	.119	.090	.044	.071	.055
Charleston:						
Straight time	15,605	14,815	14,440	13,136	13,200	14,510
Overtime	1,190	1,478	804	362	669	923
Percent overtime to straight time	.076	.100	.056	.030	.051	.064
Long Beach:						
Straight time	15,826	14,861	15,014	13,889	14,718	13,740
Overtime	1,551	1,383	1,148	865	859	826
Percent overtime to straight time	.101	.093	.077	.062	.058	.060
Hunters Point:						
Straight time		13,677	11,999	11,466	3,850	0
Overtime		896	655	672	354	0
Percent overtime to srtaight time		.066	.055	.059	.092	0
Mare Island:						
Straight time	39,018	20,475	18,280	16,134	16,703	19,367
Overtime	2,919	1,639	815	403	1,178	1,416
Percent overtime to straight time	.075	.080	.045	.025	.071	.073
Puget Sound:						
Straight time	20,697	19,066	18,185	16,585	19,266	21,644
Overtime	1,941	1,442	1,366	433	1,065	1,279
Percent overtime to straight time	.094	.076	.075	.026	.055	.059
Pearl Harbor:						
Straight time	11,683	10,946	11,012	10,344	10,253	10,473
Overtime	1,242	1,401	990	392	431	480
Percent overtime to straight time	.106	.128	.090	.040	.042	.046
All yards:						
Straight time	178,940	160,334	150,591	138,061	127,084	129,450
Overtime	15,651	14,588	9,524	5,008	7,220	7,327
Percent overtime to straight time	.087	.091	.063	.036	.056	.057

Mr. MURPHY. We have been told that ship contractors charge for more overtime on cost type overhaul work contracts than of fix price type new construction contracts since this results in greater profit and less cost risk to the contractor. Is this true?

Admiral GOODING. I have not been able to verify that this is the case, but it may very well be.

Mr. MURPHY. What has the Navy done to prevent contractors from padding cost type contracts with overtime hours since they make a profit on every extra hour worked?

Admiral GOODING. Supships offices are reviewing the expenditure of overtime hours on each contract and are particularly attentive to the reasonableness of the quantity of hours used and the proper allocation of those hours to all contracts.

PRODUCTIVITY AT SHIPYARDS

Mr. MURPHY. Admiral Rickover has stated that loafing at yards appears to be between 30 and 50 percent. Is there anything the Navy

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can do about this or is it just a reflection of poor work habits by the average American worker?

Admiral GOODING. Increasing productivity among shipyard workers is a continuous problem and one that is receiving constant attention by all levels of management in both the naval and private sectors of industry. The need to increase productivity is not peculiar to the shipbuilding/repair industry. It is one of nationwide concern. There are indications that certain elements of industry may be realizing lower productivity levels than we are experiencing. Unlike assembly line operations or closed process plants, productivity in shipyards is difficult to measure in a precise input/output relationship because of the complexity of and the lack of consistency in the scope of work performed.

The outside imposition of civilian personnel ceilings which inhibit management from keeping the workforce and workload in balance is an example of a problem faced in naval shipyards today.

Mr. MURPHY. There is some indications that the limited or even nonexistant competitive situation allows shipbuilders to operate profitably regardless of their efficiency. Of course, Navy's management of claims, change orders and contract repricing does not appear to have helped force efficiencies in the industry. Is there anything that the Congress can do about this situation?

Admiral GOODING. No Congressional action is considered necessary. Efficiency is a problem for shipyard management to solve. The Navy can influence the situation, however, by choice of contract type to be used for ship construction programs. Fixed-price type contracts provide a greater incentive for management to improve productivity than cost-reimbursement contracts, which guarantee recovery of costs and, at least a minimal fee, regardless of shipyard efficiency. Further, with the apparent softening of the commercial shipbuilding program, competition will return and the shipbuilders will become more efficient.

SHIPYARD SUBCONTRACTING

Mr. MURPHY. Would basing profit calculations for all future Navy contracts on the capital investment of the contractor rather than on the cost of the ship, be a step in the direction of getting some control of these price increases?

Admiral GOODING. No. At present, the weighted guidelines procedure for profit determination is the best available approach. The capital investment procedure has not been successful to date and is still being studied.

Mr. MURPHY. How much of the activity between the prime contractor and his subcontractor and suppliers is done on a competitive basis?

Admiral GOODING. Contractor procurement system reviews—CPSR's—recently conducted at three major shipbuilders—Bath Iron Works, Electric Boat, Litton—showed that of a total of $173.3 million worth of purchases reviewed, competition was obtained on 77 percent or $134.1 million of the procurements placed. Of the remaining total noncompetitive procurements—23 percent or $39.2 million—14 percent or $24.1 million were adequately justified as single or sole source procurements while only 9 percent or $15.1 million of the total were

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considered to have been either inadequately competed or inadequately justified as single or sole source procurements.

Mr. MURPHY. What control and review power does the Navy have over these agreements?

Admiral GOODING. The Navy incorporates clauses into its major contracts which require contractors to submit certain subcontracts to the administrative contracting officer for review and consent—generally these are subcontracts over $25,000 in value when the prime contracts are cost reimbursement types and over $100,000 on fixed-price type prime contracts. In addition, the Naval periodically conducts contractor procurement system reviews—CPSR's—to evaluate major contractor's procurement operations and to insure that their procedures are efficient and effective and adequately protect the Navy's interests. The Navy also maintains an onsite day-to-day surveillance program to insure there is no deterioration in the contractors operations and to bring any deficiencies uncovered to the attention of the contractor for correction.

Mr. MURPHY. According to Admiral Rickover, shipbuilders "have been buying extensive amounts of material through distributors who perform little or no service for their markup. I looked into this area and found case after case where material was procured through distributors even though shipped directly from the manufactoring plant . . ."

The Admiral filed with the committee a memorandum to the commander, Naval Ship Systems Command dated April 11, 1974 which provides specific examples of this problem as well as the problem of noncompetitive procurement from wholly owned subsidiary companies. I would like for you to have a copy of that memorandum available for and make a part of this record.

Admiral GOODING. Copy of the April 11, 1974 memorandum from Admiral Rickover to commander, Naval Ship Systems Command is attached.

[The information follows:]

DEPARTMENT OF THE NAVY,
NAVAL SHIPS SYSTEMS COMMAND,
Washington, D.C., April 11, 1974.

MEMORANDUM TO COMMANDER NAVAL SHIP SYSTEMS COMMAND

Subject: Deficiencies in Procurement of Material by Private Shipyards.
Reference: (a) Navships 08 memorandum to Comnavships, Ser. 08H-1438 of April 14, 1971; (b) Supervisor of Shipbuilding Newport News letter to Comnavships, Ser. 403-122 of August 14, 1972.

1. In April 1971, I wrote to you about the higher than necessary prices being paid for nickel alloy products because of Newport News Shipbuilding and Dry Dock Co.'s practice of buying this material through distributors. Reference (a) pointed out that distributors for nickel alloy material provide little or none of the services ordinarily expected of a middleman such as stocking and delivering goods; acting as a liaison between the buyer and the manufacturer; billing customers; and receiving payment. Reference (a) reported that:

a. Material was not provided from the distributors' inventories; it was manufactured and shipped directly from the manufacturer represented by the distributor.

b. Shipyard questions regarding pricing, delivery, and technical ordering data were in most cases resolved by the shipyard directly with the manufacturer, not the distributor.

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c. Discrepant material received by the shipyard was returned directly to the manufacturer, not the distributor.

d. Manufacturers did not underbid their distributors. Two or three distributors often represented the same manufacturer and at times quoted identical prices. Whenever both the manufacturer and his distributor quoted on a shipyard purchase order, the manufacturer's price was either identical to or higher than the prices quoted by the distributor. Manufacturers on occasion even requested that the shipyard purchase materials from an area distributor in order that the distributors could receive the manufacturer's discount.

I estimated that the shipyard could save 5 to 15 percent of the cost of material if it purchased material directly from manufacturers and eliminated the markup to distributors in those cases where the distributors provided no meaningful services. Reference (a) recommended that Navships take action that would preclude the shipyard from paying unnecessary distributor markups in the procurement of nickel alloy materials.

2. In response to my memorandum, the supervisor of shipbuilding at the request of Navships conducted a review of Newport News' practice of purchasing nickel alloy material through distributors. His report, reference (b), confirmed my findings. According to reference (b) :

a. A leading manufacturer of nickel alloy products sold through distributors not only to Newport News, but to Electric Boat, Bath Iron Works, Litton Industries, Portsmouth, Mare Island and Charleston Naval Shipyards, Defense Construction Supply Center, Ships Parts Control Center, and the Tennessee Valley Authority.

b. As verified by DCAA audit, distributors' markup rates varied from 3 to 20 percent with 20 percent as the objective.

c. The only services provided by distributors representing the nickel alloy manufacturer consisted of pricing and preparing invoices.

d. A principal distributor doing business with Newport News is Gas Equipment Engineers which is another subsidiary of Newport News' parent corporation, Tenneco.

e. Newport News at the Navy's request attempted to procure nickel alloy material from one manufacturer but was unsuccessful.

Reference (b) concluded that the distributor issue should be resolved on a governmentwide basis because it was not an issue unique to Newport News. Accordingly, the supervisor recommended that Navships take the lead and provide the coordination necessary to resolve this matter.

3. To my knowledge no further action has been taken by the Navy on this issue. Recently I asked my representatives at Newport News and Electric Boat to conduct followup reviews to determine the status of shipyard procurement from distributors. They found :

a. In those cases where nickel alloy products are procured by Electric Boat and Newport News through distributors, these distributors provide little or no services that would justify paying the distributors markup. Moreover, the same pricing tactics used by manufacturers and distributors in 1971 still exist.

b. Distributors are not limited to nickel alloy products. They are also involved in selling such items as pipe, tubing, and fittings, electrical equipment and lumber.

c. At Newport News the principle distributor continues to be Gas Equipment Engineers, a Tenneco-owned subsidiary.

d. The total amount of purchase orders placed with known distributors on current Navy contracts at Newport News and Electric Boat is over $10 million. It is reasonable to assume that 5 to 10 percent of this amount, or $500,000 to $1 million could have been saved if shipyards had been able to purchase this material directly from manufacturers at the same price they charged their distributors.

e. There was no evidence that the Navy had taken coordinated action to require the direct procurement of material from manufacturers.

4. In view of the high cost of naval ship construction, we should be doing everything possible to stop paying unnecessary costs. One high-priority item should be the elimination of markups charged by middlemen who perform no substantial or essential services. Therefore, I recommend you take immediate action to eliminate paying these kinds of distributor markups at both Navy and private shipyards. As this problem undoubtedly is endemic throughout defense

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procurement, I also recommend that Navships bring this matter to the attention of higher officials within the Navy and the Department of Defense so that coordinated action can be taken to reduce the unnecessary additional costs caused by distributor markups on all defense procurement. Delay in obtaining corrective action will only lead to further unnecessary costs to the Government.

5. I would appreciate being advised of what action you take in this matter.

H. G. RICKOVER.

Mr. MURPHY. At that time Admiral Rickover concluded that:

There is no evidence that the Navy has taken coordinated action to require the direct procurement of material from manufacturers.

What has been done about this situation since April 1974?

Admiral GOODING. Actions taken to resolve the deficiencies in procurement by private shipyards as pointed out in the April 11, 1974, memo are as follows:

a. Huntington Alloys Division of International Nickel Co. was selected as the first subject for review because they had previously been involved as a manufacturer dealing almost exclusively through distributors, and do substantial business with shipyards over a wide geographical area. A letter questionnaire was sent to representative shipyards, three private and two navy yards, and statistics were gathered relating to the nature and quantity of business done with Huntington and their distributors.

b. The Navy Office of General Counsel, in response to a request from the Office of the Chief of Naval Material, rendered an opinion concluding that it is not illegal for a manufacturer to sell exclusively through distributors, Public Law 87-653, the Welch-Healy Act, and the antitrust laws not withstanding.

c. Based on the foregoing, a letter is being prepared for release by the Chief of Naval Material requesting information including the markup or other compensations distributors received for their services in order to ascertain whether the interests of the Navy might be better served by establishing a preference for direct procurement from the manufacturer.

PROGRESS PAYMENTS

Mr. MURPHY. Premature payment of progress payments used to be a matter of considerable concern. Often payments were made in excess of work actually completed and/or before subcontractors had been paid. In recent years we have not heard much about this problem but other problems have grown bigger and overshadowed it, or has the Navy effectively corrected this one?

Admiral GOODING. The Navy has corrected the problem of premature payment of progress payments. This has been accomplished through training of personnel involved in contract administration as well as insuring that the material progress portion of total progress is measured based on the estimate at completion and that the contractors are given material progress credit only after they have paid for the material—not just received it.

Mr. MAHON. Thank you very much, Admiral Price, Admiral Gooding, Admiral Fine, and Admiral Travers.

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TUESDAY, MARCH 4, 1975.

FISCAL YEAR 1975 REPROGRAMING HEARINGS

WITNESSES

OFFICE OF THE SECRETARY OF DEFENSE

HON. TERENCE E. McCLARY, ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)
FRED P. WACKER, DEPUTY ASSISTANT SECRETARY OF DEFENSE (PROGRAM/BUDGET)
DONALD B. SHYCOFF, DIRECTOR FOR OPERATIONS

DEPARTMENT OF THE ARMY

MAJ. GEN. R. L. WEST, DIRECTOR OF THE ARMY BUDGET
COL. D. E. KENNEY, CHIEF, R.D.T. & E. PROGRAMS AND BUDGET DIVISION, OFFICE OF THE CHIEF OF RESEARCH, DEVELOPMENT AND ACQUISITION
MAJ. GEN. L. E. VAN BUSKIRK, COMBAT SUPPORT SYSTEMS, OFFICE OF THE DEPUTY CHIEF OF STAFF FOR RESEARCH, DEVELOPMENT AND ACQUISITION
LTC R. B. DICKINSON, AVIATION SYSTEMS DIVISION, DIRECTOR OF WEAPONS SYSTEMS, OFFICE OF THE DEPUTY CHIEF OF STAFF FOR RESEARCH, DEVELOPMENT, AND ACQUISITION (AIRCRAFT)
MAJ. J. J. FRANCIS, MISSILE AND AIR DEFENSE SYSTEMS DIVISION, DIRECTORATE OF WEAPONS SYSTEMS, OFFICE OF THE DEPUTY CHIEF OF STAFF FOR RESEARCH, DEVELOPMENT, AND ACQUISITION (MISSILES)
COL. D. B. WILLIS, OFFICE, COMPTROLLER OF THE ARMY

DEPARTMENT OF THE NAVY

REAR ADM. S. S. FINE, ACTING DIRECTOR OF BUDGET AND REPORTS/FISCAL MANAGEMENT DIVISION
MAJ. GEN. M. P. RYAN, U.S. MARINE CORPS, DIRECTOR OF MARINE CORPS RESERVE, HEADQUARTERS, U.S. MARINE CORPS
R. MOLONEY, PROGRAMS AND RESOURCES ANALYST, OFFICE OF BUDGET AND REPORTS/FISCAL MANAGEMENT DIVISION
J. FELLENBAUM, DEPUTY DIRECTOR, OPERATIONS DIVISION, OFFICE OF BUDGET AND REPORTS/FISCAL MANAGEMENT DIVISION
L. SHAFFER, PROGRAMS AND RESOURCES ANALYST, OFFICE OF BUDGET AND REPORTS/FISCAL MANAGEMENT DIVISION
CDR. JOHN HEYDE, HARPOON PROJECT OFFICE, NAVAL AIR SYSTEMS COMMAND

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WITNESSES—Continued

DEPARTMENT OF THE AIR FORCE

BRIG. GEN. CHARLES C. BLANTON, DIRECTOR OF BUDGET
J. E. DEL VECCHIO, ASSISTANT FOR LOGISTICS, DEPUTY CHIEF OF STAFF SYSTEMS AND LOGISTICS
COL. HENRY J. SECHLER, CHIEF, FLYING HOURS AND PROGRAM ANALYSIS BRANCH, ALLOCATIONS DIVISION, DIRECTORATE OF PROGRAMS, DEPUTY CHIEF OF STAFF, PROGRAMS, AND RESOURCES
COL. RICHARD D. MONTGOMERY, CHIEF, OTHER PROGRAMS DIVISION, DEPUTY CHIEF OF STAFF, SYSTEMS, AND LOGISTICS
MS. BEVERLY J. HOOPER, MUNITIONS PROGRAM OFFICER, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS
LT. COL. D. L. RANS, CHIEF, PROGRAM CONTROL BRANCH, OPERATIONS DIVISION, DIRECTORATE OF BUDGET
MAJ. RICHARD B. MILLER, ELECTRONICS AND TELECOMMUNICATIONS PROGRAM OFFICER, DEPUTY CHIEF OF STAFF, SYSTEMS, AND LOGISTICS
MRS. JOYCE B. LUCKY, AIRCRAFT/MISSLE PROGRAMS DIVISION, DEPUTY CHIEF OF STAFF, SYSTEMS, AND LOGISTICS
COL. ORLANDO P. LORETTI, CHIEF, COMPTROLLER DIVISION, OFFICE OF THE AIR RESERVE
COL. WILLIS D. MUIR, COMPTROLLER, AIR NATIONAL GUARD

DEFENSE SUPPLY AGENCY

WILLIAM CASSELL, COMPTROLLER
REAR ADM. W. M. OLLER, USN, COMMANDER, DEFENSE FUEL SUPPLY CENTER

DEFENSE NUCLEAR AGENCY

PAUL CAREW, COMPTROLLER

Mr. SIKES. The committee will come to order.

Today and tomorrow the committee will consider a number of reprograming requests from the Department of Defense. Included also will be the discussion by the Department of Defense on use of travel funds appropriated for fiscal 1975 and for an increased civilian personnel strength in the Navy.

REPROGRAMING PROCESS

This is an open hearing. Not everyone is familiar with the reprograming process and I would like to say a few words about it.

Reprograming occurs when the Department of Defense requests permission to spend funds appropriated for one purpose for another purpose. Funds appropriated to the Department of Defense are in large, individual appropriations. Behind those large appropriations, the detailed justification, Congress acts on the detailed request.

It would be legal for the Deartment of Defense to spend funds within an appropriation for whatever purposes are covered by that appropriation.

However, the Department of Defense and congressional committees concerned have for many years maintained agreements by which the

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Department calls to our attention program changes and gives committees an opportunity to express themselves. Since the Department of Defense budget presented to Congress is some 6 months—pricing about 15 months prior to the fiscal year for which the funds are requested, we must find some way to cope with the inevitable changes that necessarily should take place over that period of time.

The answer is the reprograming process.

The total amount of reprograming the Deaprtment is requesting the committee to approve is about $500 million. The largest transfer is $347.8 million in the various operation and maintenance appropriation accounts. Funds going into O. & M. are to be derived by transfer from various procurement and R.D.T. & E. appropriations.

Most of the funds to be reprogramed propose the transfer under the authority of section 834 of the Defense Appropriations Act for fiscal 1975. The remaining transfer are proposed within various appropriations accounts.

We have with us today the Honorable Terence McClary, Assistant Secretary of Defense (Comptroller).

Mr. McClary will give us an overview as to the need for certain of these reprogramings and also discuss defense travel problems and the need for realinement of civilian employment within the Department.

Mr. McClary will first discuss the O. & M. reprograming. After his presentation and a period of questioning, we will have a presentation by the service Budget officers on the individual reprograming requests.

Later today we will get into travel funds for civilians.

Mr. Secretary, we welcome you again before the committee. You have always been very helpful. We appreciate your assistance. You have been with us for several days and have contributed substantially to our efforts.

We also welcome all the supporting witnesses and we will be glad for you to proceed with your statement at this time.

Mr. McCLARY. Very good, Mr. Chairman and members of the committee.

I appreciate the opportunity to meet before this committee on our reprograming hearings. I would like to suggest that, rather than read my formal statement on the inflation reprograming and the one on POL financing, I submit those statements for the record and then briefly summarize them.

Mr. SIKES. They will appear in the record as though given by you, and you may proceed in your own way.

Mr. MCCLARY. I would first like to recognize the supporting witnesses whom I have here at the table with me.

I have Admiral Fine for the Navy, General Blanton for the Air Force and General West for the Army.

We have a significant number of other supporting witnesses so that we are prepared to get into whatever details the committee desires.

[The statement follows:]

STATEMENT OF HON. TERENCE E. MCCLARY, ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

Mr. Chairman and members of the committee: I am pleased to appear here today to discuss our urgent requests for approval to reprogram available fiscal

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year funds to accommodate the impact of price increases upon defense operating costs. I am particularly concerned with reprograming actions fiscal year 1975–4, fiscal year 1975–5, fiscal year 1975–6, fiscal year 1975–7, and fiscal year 1975–8, which I refer to collectively as the fiscal year 1975 inflation realinement. Appropriations affected by these reprograming requests have been submitted for prior congressional approval under the provisions of section 834, Public Law 93–437, DOD Appropriations Act, 1975.

As you are aware, the DOD Appropriations Act, 1975, passed in October 1974, assessed cuts of $5 billion, or almost 6 percent against the $87.1 billion defense request. Included within the $5 billion were reductions of $2.3 billion applied in the operating accounts—military personnel and operation and maintenance. The $51.8 billion we requested in the operating accounts was reduced by more than 4 percent to $49.5 billion.

The operating programs approved by the Congress have been seriously eroded by inflation with the consequence that the funds appropriated simply will not finance them. Why is this so? Under rules established by the Office of Management and Budget, and which DOD must follow, substantially all of the $51.8 billion appropriation requests in the operating accounts was transmitted on the basis of pay levels and prices in effect in the fall of calendar year 1973—15 months removed from the average price levels being experienced in fiscal year 1975 program execution. While we expect military and civilian pay increases and retired military personnel CPI increases to be covered by supplemental appropriations, increases in nonpersonnel operating costs can be accommodated only through reprograming action in accord with the desires of this committee, as expressed in its report accompanying the fiscal year 1975 DOD appropriation bill.

Approximately $20 billion of the $49.5 billion appropriated for military personnel and operation and maintenance is for purchased goods and services. Inflation on these purchases from the fall of calendar year 1973 to the end of calendar year 1974 has been substantial. I have attached to my statement table 2 which shows the trends in indexes of consumer and wholesale prices and overall Federal Government purchases during the last calendar year. Defense operating costs affected by these increased prices include supply and equipment purchases, purchased utilities, travel and transportation, POL products, as well as contracts for maintenance, and base level services and training.

As reflected in the reprograming actions before you, the military departments have examined their programs, done their best to gage the impact of present and future price increases, and have recommended fund transfers to finance essential increases which cannot be offset by savings elsewhere within the same accounts. To a considerable degree, all the military departments and defense agencies have had to make tradeoffs within the operations appropriations. Some of these are apparent from the reprograming action documents themselves. The Army and Air Force witnesses are prepared to identify others. The Navy was unable to find lower priority investment funds as a source for transfers and must rely almost entirely upon internal reprograming within its operation and maintenance account. This situation results in deferral of ship overhauls and reduced operating activity.

The proposed transfers reflected in the individual reprograming actions and summarized on table 1 represent cost increases that, realistically, cannot be absorbed. The $347.8 million proposed for transfer into Army and Air Force active and reserve component operation and maintenance accounts is to cover those cost increases which cannot be absorbed within current funding without serious impact on readiness. The proposed transfers are needed primarily to cover increased costs of essential operating supplies ($109.3 million); purchased utilities ($92.1 million); fuels—aviation, diesel, motor gasoline, coal ($58.9 million); and transportation ($64.4 million). Further cost increases in these areas have been absorbed through general belt-tightening, program cancellations and stretchouts, deferrals of equipment purchases and maintenance projects, and drawdowns in operating stocks.

If the proposed transfers are not approved, further reductions below these minimum essential levels will be required with a corresponding reduction to military readiness.

Mr. Chairman, this completes my statement. I am accompanied by the budget officers of the three military departments; Maj. Gen. Richard L. West of the Army; Rear Adm. Stanley S. Fine of the Navy; and Brig. Gen. Charles C.

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Blanton of the Air Force. I also have with me Mr. Paul H. Carew, Comptroller, Defense Nuclear Agency. These gentlemen, except for the Navy representative, have short prepared statements. Following these statements, we will try to be responsive to any questions you may have and furnish any additional information you may require concerning the items I have discussed here today.

TABLE 1.—*Fiscal year 1975 inflation realinement: Summary of increases and decreases by appropriation*

Increases:	*Millions*
Operation and Maintenance, Army	+$152.4
Operation and Maintenance, Air Force	+178.5
Operation and Maintenance, Air Force Reserve	+4.5
Operation and Maintenance, Air National Guard	+12.0
Operation and Maintenance, Defense Agencies	+.4
Total increases	+347.8
Decreases:	
Aircraft Procurement, Army	−6.6
Missile Procurement, Army	−29.1
Procurement of Ammunition, Army	−15.5
Other Procurement, Army	−37.9
Research, Development, Test, and Evaluation, Army	−63.3
Aircraft Procurement, Air Force	−53.9
Other Procurement, Air Force	−141.1
Research, Development, Test, and Evaluation, Defense Agencies	−.4
Total decreases	−347.8

TABLE 2.—*Recent price increases December 1973–December 1974 (last 12 months)*

Consumer Price Index:	*Percent*
Overall	12.2
Less food	12.2
Wholesale Price Index:	
Overall	20.9
Durable goods	21.2
Nondurable goods	20.8
Industrial commodities	25.6
Federal Government purchases (per commerce) (quarterly) September–December 1973 to September–December 1974	21.2

INFLATION REALINEMENT

Mr. MCCLARY. First let me talk about the fiscal year 1975 inflation realinement. This is one where we propose transfers from investment accounts, Procurement and R.D.T. & E., into our operating accounts, O. & M. specifically. These involve transfers of $348 million.

I believe the committee really expects us to be here and I would like to read from page 6 of the House Appropriation Committee report accompanying the Department of Defense Appropriation bill, 1975. This is what your committee said to us:

> Recent testimony indicated that the impact of unanticipated economic inflation will not permit the Department of Defense to fund within the budgeted amounts the projected program for fiscal year 1975. To the extent that this is the case, it is the intention of the Committee that the funds required to continue high priority programs be obtained by eliminating and stretching out lower priority programs. Further supplemental appropriation requests should not be made.

Let me mention briefly the other reprograming items: The POL financing action will represent a transfer of $120 million from procurement accounts to the Defense Stock Fund.

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The third item represents Reserve Forces travel where we will be reprograming about $6 million. About $3 million is for the Marine Reserves, $2.2 million is for the Navy Reserve, and $1 million is for the Army National Guard.

The last item does not involve money, but does represent a realinement of the civilian personnel ceiling that has been directed by this Committee and we want to change that to increase the Navy civilian personnel by 2,128 spaces.

Let me now continue on the fiscal year 1975 inflation realinement. May I have the next chart.

[The chart follows:]

Fiscal year 1975 inflation realinement, summary of increases and decreases by appropriation

	Millions
Increases:	
Operation and Maintenance, Army	+$152.4
Operation and Maintenance, Air Force	+178.5
Operation and Maintenance, Air Force Reserve	+4.5
Operation and Maintenance, Air National Guard	+12.0
Operation and Maintenance, Defense Agencies	+.4
Total increases	+347.8
Decreases:	
Aircraft Procurement, Army	−6.6
Missile Procurement, Army	−29.1
Procurement of Ammunition, Army	−15.5
Other Procurement, Army	−37.9
Research, Development, Test, and Evaluation, Army	−63.3
Aircraft procurement, Air Force	−53.9
Other Procurement, Air Force	−141.1
Research, Development, Test, and Evaluation, Defense Agencies	−.4
Total decreases	−347.8

Mr. Chairman, here, as you can see, we are asking for increases of roughly $348 million in the Operation and Maintenance accounts and we are offsetting these increases by reductions of about $284 million in Procurement accounts and $64 million in R.D.T. & E. accounts.

Mr. BURLISON. Does that mean then in procurement—what is the total amount?

Mr. SIKES. There will be a discussion which will give you an interpretation of what they are proposing.

Mr. MCCLARY. Of that $348 million total, about $284 million represents funds that have been appropriated by this committee for procurement items and we are requesting that funds for these lower priority items be transferred to finance higher priority items in the Operation and Maintenance accounts.

Mr. SIKES. You are going to discuss them in order and tell us specifically what you are eliminating?

Mr. MCCLARY. That is correct.

Mr. BURLISON. Is it fair to say in general terms that you received $348 million more for procurement than you have use for?

Mr. MCCLARY. No; we could have used those funds for procurement. This is a matter, then, of determining whether higher priority items versus lower priority items will be funded.

Mr. SIKES. Is there not another explanation, Mr. McClary, in that you have found you must have additional funds for some items—particularly O. & M.; you have then either to come to Congress for a

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supplemental or you must make reductions in existing accounts. Since the initial budget and action of Congress was well in advance or somewhat in advance of the beginning of the fiscal year, there have been some changes in the requirement. You can now modify those requirements in an effort to keep the budget down.

You have chosen to take cuts in some areas rather than to come here for a supplemental for increases in other areas.

Mr. McCLARY. That is true.

We would have preferred to come here with a supplemental and received $348 million in additional funds, but this Committee directed us last year not to come up with a supplemental, but rather to use the reprograming route.

Mr. SIKES. Where possible. Every committee member recognizes there may be times when you will have to come in for a supplemental.

Mr. BURLISON. Does the $348 million represent everything that you are not going to use in procurement, or is there some sum that is being allowed to lapse or is being returned to the Treasury?

Mr. McCLARY. For the most part these represent realinements of procurement—deferrals, lower quantities, those kinds of actions. Later, we will get into details. In this inflation reprograming, keep in mind we are looking here at $348 million of realinement. When we get to the next subject, POL financing, we will be talking about another $120 million reduction in procurement in order to provide for that urgent need.

Mr. SIKES. Now, will you go ahead with your statement because all of this is going to be brought out as we proceed?

Mr. McCLARY. To give a little perspective on the $348 million increase in Operation and Maintenance, we should recognize that against our DOD appropriation request last year of $87 billion, there was a reduction of about $5 billion by Congress. Of the remaining $82 billion, $20 billion represented purchases of supplies and items priced out at Fall of 1973 prices. Dollars to cover anticipated inflation were not included, following current Office of Management and Budget guidelines.

I have included in my formal statement a brief table showing inflation rates, but generally we should recognize that in calendar year 1974 the Consumer Price Index went up about 12 percent and for wholesale-type items and Federal Government purchases price inflation was about 21 percent as indicated by indexes published by the Department of Commerce. What we are striving to do in this reprograming is to accommodate to that inflation.

You will observe that we have Army and Air Force reprogramings here; none for Navy. The Navy has had the same problem but has had to accommodate its reprogramings within its O. & M. funds. It had an opportunity to do that by deferring ship overhauls, again an action we would prefer not to take but, as you look at priorities, had to be taken.

The Navy did not have investment sources such as the procurement accounts to accommodate reprogramings to the O. & M. accounts. The Shipbuilding and Conversion account is badly underfunded, as you know, and it would be wholly inappropriate to reprogram from an account that is already underfunded.

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Let me go on now to the items for which we are requesting relief due to inflation, if we can have the next chart.

[The chart follows:]

Fiscal year 1975 inflation realinement—increased operation and maintenance costs

	Millions
Operating supplies	$109.3
Purchased utilities	92.1
Fuels	58.9
Transportation	64.4
Other	23.1
Total	347.8

This chart summarizes the $348 million by type of item. In operating supplies, the $109 million represents about 3.8 percent against the current fiscal year 1975 base. We have experienced inflation of 12 to 15 percent in the type of items included in that category.

On purchased utilities, the $92.1 million represents about a 10.6 percent increase from the base. Air Force has made some studies of the inflation in this area and has estimated that between September 1973 and June 1975, utility rates have gone up 38 percent in the continental United States and 45 percent overseas.

Here we are asking for a 10.6 percent increase. Obviously we have accommodated much of the balance through energy conservation.

In fuels we have——

Defense Energy Conservation

Mr. Sikes. I think it would be well if you would provide for the record at this point more specifics on what you have accomplished in the way of energy conservation.

Mr. McClary. Very good. We will provide that for the record.

[The information follows:]

The following two attachments summarize actions taken and highlight the effect of such action during fiscal year 1974:

Attachment No. 1.—Chapter 6 titled "Defense Energy Conservation" from the Department of Defense phase II report on Management of Defense Energy Resources dated July 22, 1974.

Attachment No. 2.—Copy of a General Accounting Office letter to Senator J. C. Stennis concerning Department of Defense conservation of petroleum dated February 24, 1975.

It should be noted that on page 2 of the letter it is stated that in fiscal year 1975 DOD expects to use 203.7 million barrels. The current estimate based on data reflected in the fiscal year 1976 President's budget is approximately 198.1 million barrels.

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CHAPTER 6.
DEFENSE ENERGY CONSERVATION

6.1 INTRODUCTION

This chapter reviews the progress of DOD energy conservation efforts since the publication of the DETG report. The review encompasses the following subjects, which correspond to major sections of this chapter:

- Quantitative measures of conservation performance
- Implementation status of individual recommendations contained in the DETG report
- Conclusions regarding energy conservation progress
- Recommendations for future action.

6.2 CONSERVATION PERFORMANCE

The Director for Energy monitors energy conservation performance through quarterly reports submitted by each Service and by major DOD agencies. The reports provide data on actual consumption measured against a baseline developed from FY73 energy use. The baseline data were adjusted to exclude fuel and energy sales to other agencies and the purchase of fuels by credit card, bunkering, and into-plane contracts. However, for FY75, only sales to other than DOD agencies are being excluded to provide a more complete record of consumption. Reported figures have been stratified by type of fuel or energy consumed in the two major consumption sectors — CONUS installations and mobile operations worldwide. The Director for Energy plans to shift to the Defense Energy Information System (DEIS) for monitoring conservation performance during FY75 on a worldwide basis, which requires a restratification of baseline data to correspond to DEIS format. At the same time, previously used Performance Vector Reports (DD-I&L-1284) will be discontinued.

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At the end of the third quarter, the cumulative reduction in energy use compared with the comparable FY73 period was 28 percent. Overall reductions in energy use went from 23 percent in the first quarter to 31 percent in the third. This outstanding performance exceeds the goal of the Presidential directive to reduce energy consumption by a minimum of 7 percent throughout the Government during FY74. It also surpasses the current DOD objective of achieving a reduction of 15 percent. Greater reductions have been accomplished in the mobile operations sector than in the operation and maintenance of installations. Cutbacks in the use of aviation fuels lead total energy savings in the former, while reduced use of heating oil accounted for the greatest increment of savings in the latter.

6.2.1 Qualifications of Performance Data

The performance data show substantial decreases in fuel and energy consumption in FY74 compared with the FY73 baseline. Ideally, these results should be qualified in order to isolate the increment of energy savings that can be attributed to active conservation efforts, as opposed to reductions stemming from changes in organization, operational missions, or market conditions. Data currently available do not permit a quantitative approach to this problem. Nevertheless, the following factors contributed to reductions in fuel and energy use in FY74:

- Phase-down of operations in Southeast Asia in FY73
- A modest decrease in the number of active installations and the partial closing of some facilities
- Supply problems including inadequate contract coverage and the embargo
- Temporary suspension of flying activity in National Guard and Reserve
- Budgetary constraints
- The unusually warm 1973 - 1974 winter.

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6.3 STATUS OF DETG RECOMMENDATIONS

The DETG report made 20 recommendations concerning energy conservation. This section summarizes the reported implementation status of each recommendation and identifies what remains to be accomplished.

6.3.1 Recommendations Addressed to ASD (I&L)

The first seven recommendations regarding energy conservation were addressed to the Assistant Secretary of Defense (Installations and Logistics). A statement of each recommendation below is followed by a summary of actions taken, significant problems encountered (if appropriate), and a statement of what needs to be done to achieve full implementation.

Recommendation 6-1.1

> Establish an office to manage its energy conservation program. This effort should include, among other specific actions, sponsoring a DOD-wide public affairs and education program. The logo and slogan (Save Defense Energy) developed by the Defense Energy Task Group should be adopted and distributed widely in the Department of Defense.

The ASD (I&L) established the Directorate for Energy on 15 November 1973. The Directorate includes an Assistant for Energy Conservation, who manages the DOD Conservation Program. The Directorate has helped to develop information and education programs throughout DOD and monitored their progress. The logo has been distributed to Service distribution centers and has appeared in a wide variety of military media. This recommendation has been fully implemented, but it is proving more difficult to maintain a high level of interest in the conservation program as crisis symptoms subside.

Recommendation 6-1.2

> Establish with the Services a utilities energy conservation package similar to the existing air and water pollution abatement program packages.

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On 6 December 1973 the Services were requested to survey all existing facilities to determine upgrading requirements in view of the need for energy conservation. The results are intended to help define the scope and funding requirements of a phased program to accomplish upgrading. The three Services delivered reports to Deputy Assistant Secretary of Defense (DASD) Installations and Housing (I&H) in the first week of May, and a review of the data should be completed in July 1974.

Survey data were compiled on a total installation basis; thus, the number of retrofit projects contemplated is unknown at this time. In dollar terms, preliminary analysis indicates that Army, Navy, and Air Force requirements will amount to approximately $385 million, $398 million, and $346 million, respectively. It should be noted that these totals probably understate the ultimate costs because of inflation and because the survey effort concentrated on the identification of major, readily apparent requirements. In any event, the total projected costs are on the order of $1 billion.

Preliminary estimates in energy savings through retrofit are unavailable at this time.

In addition to a comprehensive survey of energy conservation needs, the Services have also highlighted large, relatively rapid payoff (5 years or less) projects that merit priority consideration. For each Service, the total costs of these projects is from $50 to $60 million.

The survey data are intended to be the foundation for a budget request aimed solely at the funding of retrofit projects, in much the same way that discrete appropriations have been used to fund measures to comply with environmental standards. The creation of a phased program to accomplish the retrofits is planned for consideration in the Program Objective Memorandum FY76 (POM 76). Where possible, energy conservation measures are being incorporated into existing designs, usually at the expense of other features, such as living space, because of cost limitations.

Recommendation 6-1.3

Revise the military construction program funding to emphasize energy conservation and life-cycle costing considerations.

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DOD's current Construction Criteria Manual clearly calls for life-cycle costing (Section 1-4, Design Considerations), but does not specify this estimating method with respect to energy conservation features in general. However, it does call for studies employing life-cycle cost methodology regarding the projected operation, maintenance, and repair costs of utility systems. Thus, an area of important potential savings in fuel use is covered by existing instructions.

Adherence to these instructions has been generally limited by the amount of funds available for architect and engineering (A&E) services. (Most design and costing work is performed by A&E contractors.) Life-cycle costing in the energy conservation area, including utilities, is a low-priority task in the use of A&E services. A proposed remedy is to seek increases in spending limits for A&E services, which will not occur until preparation of FY76 budget submissions. It is anticipated that once funding levels can satisfy the need for A&E support in this area, specific references to energy conservation measures in the appropriate section of the Construction Criteria Manual will be added.

Recommendation 6-1.4

Require the preparation of energy impact statements for major new construction (i.e., greater than $1,000,000).

DASD (I&H) plans to issue guidelines for the preparation of energy impact statements for major new construction in July 1974. A decision must be made whether to issue omnibus guidelines or specific ones for existing and new construction. DASD (I&H) has noted that this decision will depend largely on the results of the energy conservation retrofit survey (see Recommendation 6-1.2).

Recommendation 6-1.5

Seek to revise current statutory limitations on dollars per square foot of personnel living space to include an appropriate amount for adding energy conservation features.

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Cost data for BOQs, BEQs, and family housing are normally submitted to DASD (I&H) at the close of the fiscal year and reviewed in July to determine the components of dollar-per-square-foot costs and necessary adjustments to these figures. Thus, action to increase spending limits in light of energy conservation needs cannot be taken until preparation of the FY76 budget submission.

DASD (I&H) has noted that it is more likely that cost ceiling increases can be obtained for the per-square-foot costs of bachelor quarters than for family housing. In the case of both types of housing, any increases in the statutory limits is threatened by inflation, which impedes the attainment of existing design objectives under present funding levels.

Recommendation 6-1.6

Investigate the establishment of a revolving fund of construction capital to be used for short-term, high-return energy conservation projects.

Analysis of this recommendation reveals obstacles to successful implementation in terms of appropriation structure and accounting practices. Present facility budget review procedures that favor short-term payback essentially achieve the objective of this recommendation.

Recommendation 6-1.7

Develop and incorporate energy conservation direction in all GOCO contracts.

DOD action on this recommendation has awaited leadership from the FEO, which has been considering such action, through GSA, for all Federal contracts. DOD has focused on motivating major defense contractors rather than Government-owned, contractor operated (GOCO) facilities alone. In January 1974, ASD (I&L) transmitted advance copies of Defense Procurement Circular Number 118 to the 100 largest defense contractors. The document requests adoption of conservation measures and provides procedures for dealing with fuel shortages, and was shortly thereafter sent to all DOD processing activities and contractors.

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Accordingly, the basic objective of the recommendation is considered to have been met.

6.3.2 Recommendation Addressed to the Joint Chiefs of Staff

Recommendation 6-2

> The Joint Chiefs of Staff should emphasize the need for energy conservation in tactical operations and should develop a methodology to quantify the impact of fuel shortages on readiness.

Since 6 September 1973 and periodically thereafter, the CINCs were requested to review all joint training activities, including those directed or coordinated by JCS, in an effort to reduce fuel requirements without degrading operational readiness or training. Each CINC was also requested to set priorities for approval of exercises, develop lower levels of force participation, and recommend cancellation of exercises in view of then current or anticipated fuel shortages. By the end of January 1974, two JCS-directed and four coordinated exercises had been canceled. Other CINC-sponsored exercises and joint training programs were also canceled, reduced in scope and/or frequency, or had locations changed to save fuel.

Regarding a method to quantify the impact of fuel shortages on readiness, the Joint Staff has stated that such impacts would be both immediate and long-term, and the degradation would vary from one command or geographical location to another. In order to monitor readiness status, the Joint Staff employs three types of reports—the FORSTAT, daily SITREPS, and special situation reports—submitted as required. The FORSTAT was revised on 20 December 1973 to reflect degradation in unit readiness resulting from fuel shortages by the addition of new reporting codes. The CINCs are instructed to use daily SITREPS to inform the JCS of significant changes in readiness caused by the fuel situation. While indicators of readiness may be expressed in quantified terms, the Joint Staff stated that judgments of readiness are necessarily subjective, based on the personal evaluation of the commander.

The Joint Staff believes that the net effect of fuel shortages on unit readiness has been minor, with only a small percentage of thousands of reporting units now indicating degradation for this reason.

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The impact of deferring joint and major exercises on overall readiness is indeterminate, and such deferrals have undoubtedly taken their toll.

6.3.3 Recommendations Addressed to the Services

The DETG report contained 12 recommendations for energy conservation actions by the Services. Service responses to the recommendations are summarized in Table 6-1. It should be recognized that these items, drawn from Service reports for the second and third quarters of FY74 to the Directorate for Energy, are only highlights and do not reflect the full range of actions taken.

Table 6-1 shows that many of the organizational and operational measures recommended have been taken, with six recommendations fully implemented according to Service reports to the Directorate for Energy. Significant problems encountered or foreseen in implementing the remaining recommendations are summarized below:

- Personnel actions. Four recommendations (6-3.7 through 10) directly concern changes in assignment, staffing levels, or grade structure of personnel assigned to utilities management and maintenance. Implementation of these measures is wholly dependent on human and financial resources currently available, both of which are under severe pressure. Actions reported thus far indicate that the necessary studies and reviews are taking place, but that full implementation may take some time. In some cases, existing resources are judged as adequate.

- Facilities. Recommendation 6-3.12 concerns the upgrading of the energy efficiency of temporary buildings or their elimination. The full implementation of this measure is closely tied to funding and therefore is still in the planning stage of review and study.

Assessment of the actual contribution to energy conservation of recommended measures is difficult. Most actions are not appropriate for direct quantitative measurement. Most Service reports of energy conservation actions do not clearly state anticipated payoffs in fuel or energy savings.

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TABLE 6-1

IMPLEMENTATION STATUS OF DETG RECOMMENDATIONS TO SERVICES AND EXAMPLES OF ACTIONS TAKEN

Recommendation	Army	Navy	Air Force
6.3.1 Reemphasize existing conservation programs and institute coordinated programs to include operations as well as installation support with single points of responsibility for energy use management. Status: Fully implemented.	• Points of contact and coordination for energy conservation matters established *in major commands and installations.* Army Energy Office set up. • Media campaign utilized to increase awareness of energy shortages and to promote conservation.	• Energy Conservation Task Group established in OPNAV, composed of a Review Group and Working Group. Review Group consists of flag officers responsible for developing and approving conservation policies. • NAVFAC initiated coordinated program of energy conservation surveys of facilities, with emphasis on high-payback actions. • Atlantic and Pacific Fleets curtailed *operations through such actions as* limiting ready carrier and air wing activity to minimum essential to maintain pilot proficiency, and reducing ship operations.	• Headquarters Air Force assigned conservation responsibilities within functional areas. Energy Management Division under DCS (S&L), set up in November 1973, includes a Conservation Branch. Air Staff Energy Conservation Task Group also set up to coordinate conservation efforts, evaluate them, and disseminate unified policy. • Energy Conservation Committees established at major command and base level. • Existing programs emphasized *through various communications to* the field.
6.3.2 Include in their schools and training programs at all levels orientation on the energy problem and the need for energy conservation. Status: Fully implemented.	• Five principal Army training agencies initiated two-part program that utilizes command information channels and formal training. • *Training in energy conservation* for managers, supervisors, and professionals identified as appropriate for integration into existing "environmental protection" instruction at service schools.	• *Chief of Naval Education and Training* directed incorporation of energy conservation orientation material into training and school curricula by activities under its cognizance. • Atlantic and Pacific Fleets began incorporation of conservation instruction into formal training programs. • NAVFAC undertook development of energy conservation course for COs, XOs, and utility engineers and managers. Plans also to formulate training at the operator level.	• *Major commands instituted training* and information programs to promote conservation and to provide appropriate technical training in maintenance engineering areas. • Civil Engineer School at Wright-Patterson AFB presently includes energy orientation in officer and officer-grade civilian continuing education programs. Civil Engineering School, Sheppard AFB, now provides training in energy conservation techniques for airmen and airman-grade civilians. AF Institute of Technology reviewing graduate course in design and construction of facilities with energy-saving features.
6.3.3 Institute energy conservation seminars and follow-on field surveys to maintain field level interest as well as receive feedback on accomplishments and problem areas. Status: Fully implemented.	• Representatives from 12 major CONUS commands and DA staff attended energy seminar held by the Army Energy Office in January. • Army Audit Agency evaluating effectiveness of energy-related activities. Audit of heating conservation efforts being completed.	• Chief of Naval Education and Training developed 1-week energy management course for commanders, public works *officers and civilian engineers. First* course scheduled for June 1974. • NAVFAC initiated Shore Facilities Energy Conservation Survey Program consisting of highest priority assistance to facilities, seminars at each activity and visits by survey team. • Naval Telecommunications Command scheduled quarterly field surveys on energy conservation matters.	• *In addition to training, Headquarters* has instituted such measures as the command conservation report, which *indicates conservation steps* taken in such functional areas as transportation and comments on adverse effects of such steps. • Numerous briefings and familiarization trips used to build awareness and practical knowledge of conservation techniques. Energy briefings provided to commanders of major commands and their chiefs of maintenance, civil engineering, and supply.

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TABLE 6-1

(CONTINUED)

Recommendation	Army	Navy	Air Force
6.3.4 Include specific energy conservation items for Inspector General and staff visits to all installations. Status: Fully implemented.	. IG visits completed for several major commands and subordinate activities. DA Circular 20-36, dated 29 April 1974, directs inquiry by all Army Inspectors General to determine the adequacy and effectiveness of command implementation of the Army Energy Conservation Program.	. CNO directed IG to include energy conservation items in its inspection program. Headquarters, USMC, took similar action. Several commands adopted energy conservation checklists for internal use.	. IG energy checklist widely publicized and used during inspections. Many commands developed their own checklists.
6.3.5 Establish an incentive awards program for utility and tactical equipment operators as well as managers. Status: Partially implemented; under study.	. DA directed that all commands make full use of honorary and cash awards to cite significant achievements in energy conservation.	. Several commands began emphasizing energy conservation in existing awards and suggestion programs. Headquarters, USMC, directed field activities to establish incentive awards programs within installations/organizations.	. Existing conservation awards at various levels given emphasis. (Awards pertain mainly to utilities conservation.)
6.3.6 Reestablish such conservation programs as the Fuel Economy Competition for petroleum-fueled ships in the Navy. Status: Fully implemented.	. Existing conservation program has employed standards or goals for each installation, activity, and command. Results in quarters of FY74 being disseminated to major commands to stimulate interest.	. Pacific Fleet directed monthly ship fuel economy trials to begin during third quarter of FY74. Atlantic Fleet scheduled the start of trials by 1 April 1974.	. No analogous program in Air Force since flight fuel consumption mainly determined by flight profile. Studies undertaken and recommendations made regarding improved profiles that could help to reduce fuel consumption.
6.3.7 Provide for more journeyman mechanics to improve operation of utility systems and facility maintenance. Status: Partially implemented.	. Chief of Engineers prepared recommendations on personnel needs to maintain and operate utilities systems. This need emphasized in DA message to field commands in January. Training programs to be established, as required.	. NAVFAC surveys to provide guidance to commanders on optimum staffing levels for journeyman mechanics. . Marine Corps noted that while it will attempt further improvement in the management of utilities and maintenance of other energy-consuming facilities, expansion of present program will require additional authorizations for personnel and funds.	. Improvement in utilities operation and facility maintenance within existing manpower authorizations to be carried out through training, conservation seminars, and IG visits.
6.3.8 Establish a utility conservation engineer position at major installations to monitor the conservation program and develop conservation practices. Status: Partially implemented.	. Existing facilities engineer position performs this function, which is being stressed in correspondence and direct contact with installations. Local conservation officers interviewed during visits to evaluate effectiveness of conservation measures.	. The Atlantic Fleet plans to establish utility conservation engineer positions on a collateral duty basis. . NAVFAC to provide commanders with technical guidance on staffing levels for utility conservation engineers to commanders.	. Existing ARM 91-12 calls for command utilities management and conservation officers and base conservation officers and specifies a program for improved management of utilities.
6.3.9 Increase grade structures in the Facilities Engineering career field to provide incentives for professional engineers at the installation level. Status: Under study; no implementation at present.	. Staffing and grade structure in facilities engineering field will be reviewed by end of fourth quarter of FY74.	. Several commands initiated reviews of grade structure in this field. . Headquarters, USMC, considers present grade structure to be adequate.	. No implementation in view of concern of Congress, OMB, and OSD regarding "grade creep" and difficulty in linking energy conservation incentives to promotions under CSC and military rules.

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TABLE 6-1

(CONTINUED)

Recommendation	Army	Navy	Air Force
6.3.10 Provide the services of expert utility rate engineers at the contract review level. Status: No implementation planned or under study.	. Incumbent utility rate engineers considered technically and professionally proficient. Engineers located in Office, Chief of Engineers, DA staff, and in engineer staff elements of major commands.	. Several commands noted that utility rate engineers are available and utilized. . NAVFAC is seeking authorization to provide additional utility rate engineering capability on regional basis.	. Existing commands and civil engineering functions have experience and procedures to negotiate utility service rates effectively. Authorization exists to hire consultants when personnel with appropriate expertise not available.
6.3.11 Develop contingency plans for dealing with energy shortages at individual installations. Status: Partially implemented.	. DA has tasked installations to develop contingency plans to cope with potential problems. IG and Army Audit Agency check these plans during installation visits.	. Many commands initiated the development of contingency plans at individual installations.	. Development of detailed contingency plans by location is 75 percent complete. Plans pertain to shortages of ground fuels and utilities. Those concerning phasedowns of critical operations due to aircraft fuel shortages are function of Headquarters.
6.3.12 Institute a vigorous campaign to eliminate or improve the efficiency of temporary buildings, which are characteristically inefficient in their consumption of energy. Status: Partially implemented.	. Over 1,000 structures were closed or winterized in response to directive to consolidate and close or winterize buildings. Report on requirements to improve heating efficiency for tempos being prepared for ASD on basis of a building-by-building survey at each installation.	. Chief of Naval Reserves has programmed replacement of 21 temporary buildings through FY75.	. Survey of all facilities in the 50 states is underway to develop work requirements and cost estimates for modifications intended to achieve a 15-percent reduction in consumption.

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It is recognized that Service efforts to conserve energy have ranged beyond steps suggested in the formal DETG recommendations. Most energy savings have, in fact, been achieved in the operations sector. DOD has responded to other Presidentially directed conservation efforts implemented by other agencies, such as the FEO-GSA efforts to implement a mandatory carpooling program. Although this program caused substantial administrative problems and impacted morale, it has been modified satisfactorily. To date approximately 525,000 DOD employees are carpooling with about 20 percent of those controlled parking spaces normally allocated for employee parking being used by carpools.

6.4 CONCLUSIONS

- Reductions in DOD energy consumption in FY74 have been significant. However, the extent to which decreases in usage can be attributed to purely energy conservation measures is indeterminate.

- Many of the energy conservation measures implemented wholly or partially in response to the DETG report represent a "first cut" at the problem and were largely concentrated in operational mission areas. Longer term and more complex methods to reduce fuel use and to create institutionalized mechanisms have not been fully developed.

- Present statutory limitations and programming inhibit the implementation of recommendations that require additional manpower and financial resources to make significant energy savings in the installation sector.

6.5 RECOMMENDATIONS

Recommendation 2/6-1

The ASD (I&L) should issue revised energy policy guidelines based on a long-term need to foster a strong conservation ethic vice a short period of limited supply caused by an embargo. The following policies are recommended for continued DOD-wide application:

a. Minimize the administrative use of vehicles, ships, aircraft, and support equipment.

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b. Strive to reduce energy consumption when operating mission equipment.

c. Within budgetary constraints, retrofit facilities for greater energy efficiency.

d. Maintain energy conservation task forces, committees, advisory groups, or officers at levels of command down to battalion, ship, and squadron, with direct access to the commander.

e. Minimize flight and weapons demonstrations to those essential for training and recruiting purposes. Energy-efficient equipment should be utilized whenever possible.

f. Buy compact/subcompact commercial sedans and station wagons.

g. Encourage employee suggestions through incentive awards.

h. Encourage the voluntary aspects of carpooling with the assignment of preferred parking to carpools.

i. Conduct periodic orientation and training seminars to exchange information on lessons learned as well as successful practices.

j. Incorporate energy conservation into troop training and information programs.

k. Maintain a strong in-house information program fostering the conservation ethic.

l. Keep large-scale energy-intensive exercises to the minimum level required to maintain readiness and include an energy analysis as part of the planning process.

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m. Consider energy consumption as a factor in the decision process during the design, development, and construction of new facilities and equipment. Prepare energy impact statements for projects costing more than $1,000,000.

n. Maintain the 50-mph speed limit for Government vehicles where safety and mission permit.

o. Maintain heating and cooling temperatures at 65° to 68°F and 78° to 80°F, respectively.

p. Reduce the fuel consumption of DOD- and GSA-owned administrative-type vehicles by 15 percent from FY73 levels. Mission-essential users, such as recruiting, are exempt.

q. Exercise control over TDY travel to maximize other means of communication such as tele-telephonic communications and multipurpose staff visits.

r. Continue to assign goals and monitor performance using the DEIS.

s. Include energy conservation as a special topic for Inspector General and command inspection teams.

t. Provide for consideration of energy conservation performance ratings into existing Officer and Enlisted evaluation systems in order to promote continued interest and strengthen the conservation ethic.

Recommendation 2/6-2

In concert with the ASD(C), the ASD (I&L) should give strong support to funding a 5-year facility conservation program and energy conservation features in new MILCON projects.

Recommendation 2/6-3

The Director for Energy should conduct periodic DOD energy conservation seminars to facilitate transfusion of experience among the Services.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-178205

FEB 24 1975

The Honorable John C. Stennis
Chairman, Committee on Armed Services
United States Senate

Dear Mr. Chairman:

Your letter of October 16, 1974, asked that we survey the Department of Defense's (DOD's) conservation of petroleum and comment on:

--The steps and extent of the measures already taken by DOD to conserve petroleum products, including gasoline and diesel fuel.

--The measures under consideration which could effect further savings.

--Any views GAO might have on additional economies that could be achieved.

--The savings that have resulted from any conservation policies, together with the added cost to DOD for petroleum resulting from the increase in the price of crude oil worldwide.

We did our work at the energy offices of DOD and the Army, Navy, and Air Force. To provide the above information within the timeframe established by Mr. Braswell of your staff, and as he agreed, we have not verified the information given to us. Also, as Mr. Braswell instructed, we have not obtained written comments from DOD on this report.

INTRODUCTION

Although petroleum fuels are DOD's major energy source, when compared to the entire nation DOD is a relatively small

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user. During fiscal year 1974 DOD used 185.7 million barrels of petroleum fuels--about 3 percent of national consumption. For fiscal year 1975 DOD expects to use 203.7 million barrels--about 3.4 percent of national consumption. These percentages are well below DOD's previous consumption percentages, which ranged from 5.7 percent of national consumption in fiscal year 1949 to 7.7 percent in fiscal year 1969.

Petroleum products account for approximately 72 percent of the energy DOD uses. The following chart shows, by military service and function, the amount of petroleum consumed in fiscal year 1974.

	Petroleum Consumption	
	Barrels	Percent
By service:		
Air Force	101,421,781	54.6
Navy	66,499,996	35.8
Army	17,832,402	9.6
Total	185,754,179	100.0
By function:		
Air operations	118,325,412	63.7
Ship operations	27,677,372	14.9
Installation support	27,120,111	14.6
Ground operations	12,631,284	6.8
Total	185,754,179	100.0

In June 1973 the President set a Government-wide goal of reducing fiscal year 1974 energy consumption by 7 percent, using fiscal year 1973 consumption as the baseline. DOD estimated that the cessation of combat activities in Southeast Asia would result in at least a 7-percent reduction in its energy consumption in fiscal year 1974, so, to comply with the President's directive, DOD set its energy-reduction goal at 15 percent of fiscal year 1973 consumption.

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To achieve this goal, DOD established a Defense Energy Task Group, under a steering group chaired by the Assistant Secretary of Defense (Installations and Logistics), to review energy-related problems and recommend solutions. In addition, the task group was to investigate DOD's existing energy conservation programs and identify specific actions which would increase these programs' effectiveness.

Reporting the results of its investigation to the Assistant Secretary of Defense (Installations and Logistics) in November 1973, the task group made a number of recommendations on (1) organizational changes needed to provide better management of DOD's energy consumption, (2) conservation actions that should be taken, and (3) other management actions needed to emphasize DOD's concern for energy conservation and to improve its reporting of energy resources and consumption. DOD's actions on the recommendations are discussed in the following sections of this letter.

ORGANIZATIONAL CHANGES

A Defense Energy Policy Council has been established to develop broad energy policy guidelines. It is chaired by the Assistant Secretary of Defense (Installations and Logistics) and is composed of representatives of the Assistant Secretaries of Defense (International Security Affairs, Program Analysis and Evaluation, Public Affairs, and Comptroller); the Defense Supply Agency; the Office of the Joint Chiefs of Staff; and the Office of the Director, Defense Research and Engineering.

A Defense Energy Action Group has been established to help coordinate the implementation of the Council's guidelines and to provide a forum for exchanging information. This group, composed of representatives from the services, the Defense Supply Agency, and the Office of the Joint Chiefs of Staff, is chaired by the Director for Energy (a newly established position).

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The Director for Energy reports to the Assistant Secretary of Defense (Installations and Logistics) and serves as a program manager for energy. His responsibilities include:

--Developing a petroleum logistics policy.

--Assisting in the development of DOD's energy budgets.

--Serving as DOD's principal point of contact on all energy matters and on implementation of energy policy.

--Managing DOD's energy conservation program.

--Monitoring the implementation of the task group's recommendations.

--Developing a Defense energy information system.

Each service has established its own organizations to deal with energy matters. The organizations are responsible for such matters as developing, coordinating, and recommending concepts, plans, policies, and systems with respect to the allocation, supply, and use of energy resources; helping to formulate and justify energy-related budgeting actions; and coordinating energy-related research and development (R&D).

CONSERVATION ACTIONS TAKEN

According to DOD reports, during fiscal year 1974 DOD used 29 percent--over 76 million barrels--less than it used in fiscal year 1973, the baseline period. It reported a 30-percent reduction--over 18 million barrels--for the first quarter of fiscal year 1975 in comparison with consumption in the first quarter of fiscal year 1973. Enclosure I shows a breakdown of these reductions by type of fuel. These figures are not precise, however, because of shortcomings in the systems used in those years for reporting and aggregating the energy consumption data. DOD has been reviewing its baseline data and developing an improved energy reporting system. Further details on the reporting system are on page 6.

DOD used less petroleum mainly by reducing flying hours and ship steaming hours and taking other actions to conserve

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aircraft and ship fuel. In fiscal year 1974 flying hours were reduced by over 2 million hours (compared with hours flown in fiscal year 1973) and steaming hours were reduced 373,000 hours. About 53 million barrels of aviation fuel and 14 million barrels of ship fuel were saved. (DOD's specific actions to conserve aircraft and ship fuel are listed in enclosure II, along with actions it has taken to reduce the military installations' petroleum consumption and the amount of petroleum used for transportation.)

Although these conservation actions no doubt contributed to reductions in petroleum consumption, DOD officials could not relate specific reductions to specific actions. The data available did not permit such analyses. According to DOD, the following factors also had an impact on reductions in petroleum consumption in fiscal year 1974.

--Phasedown of operations in Southeast Asia.

--A decrease in the number of active installations and the partial closing of some facilities.

--Supply problems, including inadequate contract coverage and the embargo.

--Temporary suspension of flying activities in the National Guard and the Reserves.

--Budgetary constraints.

--The unusually warm 1973-74 winter.

In the area of R&D, DOD has established a policy framework within which priorities for selecting energy-related R&D programs can be established. DOD has identified the extent to which it will participate in each R&D project category and has generally assigned responsibility for each category to one service in order to avoid duplication and to insure proper emphasis and coverage. The R&D categories are aircraft operations, ship operations, installations and buildings, and ground operations.

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OTHER MANAGEMENT ACTIONS TAKEN

DOD and the services have taken many other steps to focus attention on, control, and evaluate conservation efforts. A list of the major ones follows.

--Schools and training programs at all levels now include orientation on the energy problem and the need for energy conservation.

--Energy seminars, at all levels, and follow-on field surveys are now conducted to maintain field-level interest and to receive feedback on accomplishments and problem areas.

--Specific energy conservation items are included in Inspector General staff visits and internal audits.

--Incentive awards programs are being established for utility and tactical equipment operators as well as managers.

--A procurement circular requesting voluntary adoption of conservation measures has been issued to Defense contractors.

In addition the Defense energy information system (DEIS) was put into operation July 1, 1974. This system provides worldwide data on the consumption, receipt, and inventory status of all petroleum products on a weekly basis, aggregated by major service command as well as by Federal Energy Agency regions, continental United States commands, and unified commands. This system was needed to give DOD more current, reliable, complete, and objective energy data than that which had been available previously.

Since the data generated through DEIS is important for good management of petroleum resources, the Assistant Secretary of Defense (Installations and Logistics) asked the Deputy Assistant Secretary of Defense (Audit) to audit and evaluate the reasonableness of the data reported. The audit results showed that DEIS produced reasonably reliable data which DOD could use to monitor DOD-wide fuel consumption.

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DOD has had some problems in developing accurate fiscal year 1973 baseline data. Under the procedures in effect in that year, not all energy consumption had to be reported. Therefore, DOD made estimates to arrive at baseline figures which it believed to be within 10 percent of actual consumption in that period. DOD is continuing its review of this data and is studying the feasibility of adjusting it as major program changes occur so that the baseline will be compatible with consumption data for current programs.

CONSERVATION ACTIONS UNDER CONSIDERATION

To assess the status of the recommendations made in the task group's report (see p. 3), a follow-on investigation was made under the direction of the Defense Energy Policy Council. The results of this investigation, a report entitled "Management of Defense Energy Resources, Phase II Report," dated July 22, 1974, showed that the task group's recommendations generally had been implemented.

The report noted, however, that many of the conservation measures taken represented only a "first cut" at the problem and were largely concentrated in operational mission areas. The report recommended that the Assistant Secretary of Defense (Installations and Logistics) issue revised policy guidelines based on a long-term need to foster a strong conservation ethic, as distinguished from guidelines directed to a short period of limited supply caused by an embargo. The report also recommended that

--DOD continue to carry out its existing conservation policies (see enc. III),

--the Director of Defense Research and Engineering begin measuring energy effectiveness as well as cost effectiveness and mission effectiveness in developing DOD studies and in making management decisions concerning weapons system development and acquisition, and

--he make a comprehensive review of DOD energy-motivated R&D projects submitted by the services and the Advanced Research Projects Agency, to determine whether the projects conform to current guidance.

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IMPACT OF RISING FUEL PRICES

In spite of large decreases in petroleum consumption, the rise in fuel costs has had a substantial impact on DOD's energy costs. The following schedule shows the price increases in petroleum products since July 1, 1973.

Petroleum Price Escalation History

(average contract price per barrel)

Product	July 1 to Dec. 31, 1973	Jan. 1 to Mar. 31, 1974	Apr. 1 to June 30, 1974	July 1 to Dec. 31, 1974
Aviation gas	$7.91	$ 7.94	$13.48	$16.51
JP-4	6.12	9.65	12.52	13.73
JP-5	6.39	11.82	12.25	13.53
Navy distillate	5.40	11.29	12.92	12.31
Navy special	4.30	8.12	11.39	10.90
Motor gas	6.04	8.88	11.59	14.19
Diesel	5.65	10.11	12.07	12.31

Heating oil contract prices were omitted from the above schedule because this fuel was procured at the installation level and because DOD-wide average prices paid for the period shown above were not readily available. Consumption data was available for heating oil and has been included in the following overall consumption data.

The rising prices have put DOD in the position of spending more while using less. As shown in enclosure I, DOD cut its petroleum consumption by about 29 percent in fiscal year 1974, as compared to fiscal year 1973; however, its petroleum costs increased by about $496 million--over 50 percent. The impact of the higher prices can be illustrated by assuming that, if the amount of petroleum used in fiscal year 1974 had been the same as that in fiscal year 1973--about 262 million barrels--DOD's petroleum costs would have increased over $1 billion. Or, from another viewpoint, the petroleum DOD actually used in fiscal year 1974--about 186 million barrels--priced at fiscal year 1974 prices cost about

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$753.8 million more than the same quantity of petroleum priced at fiscal year 1973 prices.

OTHER POTENTIAL SAVINGS

In the past 2 years DOD has become very active in the area of energy conservation. It has initiated programs, established organizations, and made future plans, all of which have been directed towards conserving energy. Further potential exists, but DOD is constrained by financial limitations or, in some cases, saving energy is only one of many factors DOD has to consider. For example, DOD is studying a program to upgrade existing facilities in view of the need for energy conservation. However, this project is currently estimated to cost about $1.3 billion.

Also, DOD has studies underway to determine whether it would be feasible to reduce the number of permanent-change-of-station moves by military personnel and to evaluate the most desirable way to ship DOD cargo. Although budgeting concerns may be the principal influence in these studies, the potential for saving fuel should also be considered in the decision process.

Another way to promote energy conservation might be to give residents of military housing an allowance for energy costs and charge them for energy actually consumed.

One of the most important factors in conservation is that DOD must continue to keep its conservation programs alive and active. High-level interest is a must, along with continued monitoring to see that objectives are met.

We have ongoing reviews which will assess DOD's conservation programs and their implementation. Reports will be issued to the Congress and DOD as we identify areas for further energy savings.

We will be glad to discuss this matter with you or members of your staff at your convenience. We plan no further distribution of this report until it has been released by your office.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

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Mr. McCLARY. Of the $58.9 million for fuels, $49.4 million represents a partial recovery of an increase in fuel prices that was effective November 1, 1974. The other $9.5 million represents additional cost of coal. In that regard, our coal purchases are up $24 million; we have absorbed $14.5 million and here we are asking for the $9.5 million residual.

I hoped that Congressman Flood would be here today. He is probably as familiar with these statistics as I am. Since July 1973, anthracite coal has gone up 72 percent and bituminous coal prices have gone up more.

The $64.4 million for transportation principally represents additional fuel costs and commercial rates. In the "Other" category, $23.1 million, are included training supplies of about $16 million and printing costs of about $7 million. The printing costs, of course, consists of the additional costs of paper and paper products.

Now, Mr. Chairman, I have given you an overview of the inflation reprograming and at this time we can either go into an overview of the other areas or we can discuss this one in detail.

Mr. SIKES. Let me ask a few questions. Possibly there will be questions by members of the committee on your statements, Mr. Secretary.

In the second paragraph of your statement you mention that of the total $5 billion congressional reductions for the fiscal year 1975 defense request, $2.3 billion was applied against the $51.8 billion which you requested for the operation accounts that is military personnel and operation and maintenance.

You state that this $2.3 billion reduction equates to about 4 percent of the amount requested for the operating accounts.

Now, let's take into consideration that a large part of the $2.3 billion reduction included the transfer of funds to other accounts or appropriations.

For instance, $574.4 million MASF program funds transferred from Operation and Maintenance to a new appropriation. From that viewpoint, isn't your statement somewhat misleading?

Mr. McCLARY. It is incomplete in that I do not go into the details at this time of that category. It is certainly not intended to be misleading.

Let me provide for the record a structured detail of the specifics in there.

Mr. SIKES. Very well.

[The information follows:]

[Dollar amounts in thousands]

	Military personnel	Operation and maintenance	Total
Fiscal year 1975 appropriation request	$24,774,468	$27,049,343	$51,823,811
Fiscal year 1975 appropriation	24,214,108	25,330,103	49,544,211
Congressional reductions	560,360	1,719,240	2,279,600
Portion of congressional reductions applicable to MASF		625,300	625,300
Balance of congressional reductions	560,360	1,093,940	1,654,300
Percent of fiscal year 1975 appropriation request reduced by Congress	2.3	4.0	3.2

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Mr. SIKES. Would not the actual reduction be less when these transfers are taken into consideration?

Mr. MCCLARY. Yes; so far as the operation and maintenance accounts are concerned.

Mr. SIKES. You also stated that about $20 billion of the $49.5 billion appropriated for the operating accounts is for the purchase of goods and services. It would seem that $20 billion ought to be sufficient to procure goods and services in the fiscal year, even in times of high inflation.

Now, has every possible effort been made to keep these accounts within that amount?

Mr. MCCLARY. Yes; because we have been so constrained within our O. & M. appropriations that we have taken a significant number of actions to reduce costs, and these take a number of forms and cover many areas. One specific area we will be getting into later will be travel.

Again, travel costs have gone up due to inflation, but in that particular category we plan to live within the spirt of the Roth amendment and cut travel back.

I think we will find that in our conservation of energy—again in these O. & M. accounts, in the utility area—we have had to cut back significantly on our heat, our light and use of energy in order to accommodate to available funds.

Mr. SIKES. We want to be sure that we are on safe grounds if we concur in your request.

Could it be said properly that any part of these reprogramings are an attempt by the Department of Defense to recoup some of the congressional reductions made against the O. & M. account?

Mr. MCCLARY. I do not know of any, Mr. Chairman.

General BLANTON. Perhaps I could clarify it from an Air Force standpoint.

There's about $600 million inflation in the operating accounts. We are asking the committee to approve a transfer of $195 million for the three accounts, Air Force O. & M., Reserve, and Guard.

The remaining is being accommodated to by actions that our chief of staff has directed our field commanders to take.

In the real property maintenance area, we have directed field commanders to defer all but emergency work projects. As to supply levels, we have asked them to draw down the stock levels to lowest prudent operating levels. Contractual services—we have cut to an absolute minimum, where only the operational needs are being fulfilled.

A whole variety of these things we would be happy to supply for the record that have been directed on our field commanders to accommodate to that $400 million worth of inflation that you reflected in your opening statement, sir. Simply because of the fact that our budget was prepared in the fall of 1973, and this country of ours is experiencing inordinately high inflation and has since that time.

General WEST. From the Army standpoint, our situation is almost parallel to the Air Force. Our estimated inflation unprogramed and unbudgeted is something over $500 million now in the O. & M. Army account.

We have absorbed by similar types of action approximately $350 million of that and the $152 million for reprograming is the residual

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that we have now deemed essential if we aren't going to get any readiness degradation category.

The actions we have taken have been some curtailment of training, use of vehicles, use of aircraft; again a slowdown in our maintenance activities. We have had some freezes under civilians. We have curtailed joint exercises and in general we have reduced the purchase of repair parts and supplies from the stock fund which in effect artificially lessens the demand on the stock fund and creates an unfinanced requirement for next fiscal year.

Our situation is almost identically parallel to the Air Force.

Mr. SIKES. And the Navy?

Admiral FINE. We don't have a reprograming.

Mr. KEMP. Mr. McClary mentioned the constraints imposed upon the Air Force and the Army by inflation in the budget. Is there a different standard held for the Navy?

Mr. MCCLARY. Admiral Fine, you might talk briefly about some of the belt tightening that the Navy has undertaken.

One requirement the Navy had for internal reprograming within the O. & M. account was to pay for more utilities, pay higher prices for fuel, etc., which they have done through internal reprograming. They have offset some of those increases by deferring ship overhauls. They have been able to do this without transfers from other appropriations.

Now, when we say ship overhauls keep in mind these are full funded, meaning if we bring a ship in on June 1, we fully fund that overhaul. If we can defer the overhaul a month into July, that makes those funds available this fiscal year.

The Navy has taken advantage of that opportunity without too seriously degrading their overhaul program, but the Navy has undertaken belt-tightening measures just as much as the Army and the Air Force.

I would like to hear the admiral confirm that.

Mr. SIKES. Deferment of ship overhaul is not a recommended procedure; is it?

Mr. MCCLARY. No, sir. We have a backlog of ship overhauls but again we are looking at what are the urgent requirements, the urgent requirements necessary to get through fiscal year 1975 with some heat and some light and some fuel so that we can do the various things needed to have adequate readiness. It is a matter of looking at priorities.

Mr. SIKES. The committee recognizes your problem and realizes that you really are under the gun in trying to find ways to make funds available that must be spent, but I feel that any deferment of ship overhaul, a postponement of deferred maintenance on buildings, overhaul of equipment in the long run is bad business.

Admiral FINE. As far as the ship overhaul program is concerned, I think you will find in the 1975 column for the 1976 budget, as well as in the testimony you will receive later on, essentially the ship overhaul program is from a dollar point of view relatively intact.

What we found at the beginning of the fiscal year, there are some of these increases that have been mentioned—for example, our shipyards obviously were impacted pretty heavily by fuel price increases, by

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utilities, by water increases. Those of course are translated into increased costs of ship overhaul because of our accounting system in shipyards.

This meant very early in the year we recognized that in order to maintain an overhaul schedule that gave a reasonably full overhaul—we did cut back on the scope of most of our overhauls—we would have to reduce the number of ships overhauled to live within the dollars in the overhaul program. Again the same inflationary forces were active in the overhaul program as were active in the rest of the Navy economy.

As far as we could, we kept that program intact, paying for price increases within that program. It meant deferring some ships in order to accommodate those increases.

In other areas we have made reductions in order to live with the inflationary forces. I don't have a shopping list here specifically. I do have some items.

We found some of our flying hours were not being executed and we were very meticulous in insuring that we effected the flying and steaming program at the beginning of the fiscal year. As we found the aircraft were not obtaining the flying program that money was used to pay increased utilities costs.

In other words, we used aircraft fuel money not being used to pay for increased utilities costs at the air stations those planes fly from.

It has been a continuous tradeoff as the fiscal year has gone by. From the very beginning of the fiscal year, we have told our claimants they would have to live within the money Congress gave them. We have almost had a continuous—I mean daily, review. We have looked at procurement accounts. They were not in much better shape than the O. & M. accounts. We have had to cut back on aircraft numbers being procured on some line items; we have had to cut back on missile procurement in some items. but essentially we have tried to live within the O. & M. appropriations as best we could from the beginning of the fiscal year.

I don't want to indicate that as the days go by and we continue to review what we are doing, that we may between now and the end of the fiscal year not have to come back to the committee for some reprograming within O. & M. We may have to do some balancing between budget activities throughout the year, precluding perhaps having to come back.

I don't see it now, but we may have to come back for some last minute reprogramings. I do want to make the point that these later reprogramings may be from procurement accounts if we are desperate, but at the moment we don't see a desperate situation developing where we would have to come back for anything but perhaps an internal O. & M. reprograming.

Mr. SIKES. Mr. Secretary, the committee is always concerned that cutbacks in fuel consumption not be made which will interfere with needed training exercises. Now, a year ago, when the fuel shortage was much worse than it is now, I think probably you did cut too deeply into the use of fuel, by necessity, but it interfered with needed training exercises. Without training, we are not going to have effective forces. What is the situation now?

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Mr. McCLARY. A number of items are being talked about here with respect to fuel and supplies which are needed for training. There is one specific item, funding for the Military Airlift Command, that is urgently required in order for a major exercise to take place. This exercise would be under the cognizance of the Joint Chiefs of Staff. It would involve two Army divisions and, of course, the transport of those people to those locations.

Mr. SIKES. Let's talk about how meaningful these reprograming requirements are. When were these requests submitted to Congress?

Mr. McCLARY. In late November.

Mr. SIKES. That was after the conferees of the House and Senate completed action on the Department of Defense appropriation bill for fiscal 1975.

This is March 4. The committee recognizes we are late in getting to the reprogramings. That is not altogether our fault, because the attention of Congress has been required to a very unusual degree on organization and other matters and it is only in recent weeks we have gotten down to the matter of considerations of bills, reprogramings, and so forth.

Now, are the reprogramings which you submitted in late November still valid?

Mr. McCLARY. Yes. If we had to resubmit them again there would be modest adjustments.

Mr. SIKES. Obviously you have had considerable experience since these reprogramings were submitted late in November. Are there substantial changes? If so, I think we should know about them.

Mr. McCLARY. Let me ask the service budget officers to address that in detail.

General Blanton, could you state the Air Force position?

General BLANTON. Mr. Chairman, I think there are three or four principal things we should bring to the committee's attention that would update the original request. We asked the committee for $42 million for our fuel increase on November 1, and the committee has a copy of our 1976 budget request.

If you price out the 1975 column of that request, we can only defend $26 million of that request for the POL price increase, but we would ask the committee to consider the fact that the difference, the $16 million difference between that and the reprograming request is urgently needed to be applied to our unfinanced materiel escalation. Just in supplies alone, some $72 million.

Mr. GARRITY. Secretary McClary, wouldn't this indicate to you these reprogramings were too hastily prepared and submitted to the committee for action?

Mr. McCLARY. We really intended that the same congressional body that approved the fiscal year 1975 appropriation should be the one to act on it. We tried to get the action done before the 93d——

Mr. SIKES. In other words, you submitted them late in November when Congress was here?

Mr. McCLARY. We planned to do it before the 93d Congress expired.

Mr. SIKES. We don't fault you because no action was taken.

General BLANTON. A second change is, when we prepared the reprograming, we estimated that our airlift industrial fund loss through the end of fiscal year 1975 would be roughly $80 million. We now know based on data we have that loss will be about $126 million.

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There are about three principal factors that cause that.

The first of these is, because of the erosion of our buying power; the services' workload demands on the indutsrial fund have decreased to the tune of about $40 million. The CAB passenger rates have continued to climb on our passenger hauls to the tune of about another $20 million. There has been an offsetting decrease because we reduced our flying hour program from the time we prepared our request from 337,000 flying hours for the C–5 and C–141 to 327,000 hours. That would save about $16 million from the date of the request.

In sum, these actions mean the loss to that industrial fund will be about $126 million. We are therefore requesting that the committee approve a transfer of $39.3 million into the industrial fund to make it fiscally sound.

In light of these changing circumstances, we have to say that the request for $11.2 million for commercial augmentation will simply have to be applied against the growing cost of our passenger lift. We cannot justify increasing our cargo procurement when we have an added bill of $20 million we have to pay. So I would say these circumstances are the major changes in our request.

Mr. EDWARDS. Do you have all those figures in any one place?

Mr. SIKES. Mr. Secretary, I would like a table from each of the services updating your reprograming request based on experience since the initial submission.

[The information follows:]

[In thousands of dollars]

Item	Request	Change	Revised request
Air Force:			
Supplies	34.2	+16.0	50.2
Utilities	37.8	–	37.8
Fuel	42.1	—16.0	26.1
Transportation	64.4	–	64.4
Logair and Commercial Transportation	(13.9)	–	(13.9)
Airlift Service industrial Fund	(39.3)	(—11.2)	(50.5)
Commercial Augmentation	(11.2)	(—11.2)	0
Total	178.5	0	178.5

Note: The Army has no change to the current request and the Navy has not submitted a reprograming request in this area.

Mr. SIKES. Now, may we hear from General West?

General WEST. Mr. Chairman, our reprograming request, as now submitted, is valid with the exception that inflation has gone beyond our original estimates. We don't intend to reapply our reprograming to items others than we have indicated, but in operating supplies we indicated about $84.1 million and inflation has increased that on the order of $10 to $15 million since our submission.

For utilities we had recommended reprograming of $51.8 million. We are now about $12 million beyond that estimate.

There is a new item which does not appear in the reprograming action and which we have covered internally that is the currency revaluation in Europe, which is a serious problem right now.

In addition to the supplemental amount which we submitted, we now have another $37 million which we must cover for currency revaluation if the dollar stays at its present level.

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What we have done is additional belt-tightening in the areas that I mentioned. In terms of timeliness, this is more or less a critical time from our standpoint. We would have to go, within a month, to the second tier of belt-tightening, which would do some things that would definitely impact on readiness: undesirable curtailment of training, reduced firing, and so forth.

Mr. SIKES. And the Navy?

Admiral FINE. We have no reprograming.

Mr. EDWARDS. The Navy did have some internal reprogramings. Has the Navy treated its reprograming differently than the Air Force or the Army?

Mr. BURLISON. Would my friend yield to me on that point?

Mr. EDWARDS. Yes.

REPROGRAMING PROCEDURE

Mr. BURLISON. I think this is another way of asking what the gentleman from Alabama is getting at. Is there a figure where the service does not have to come back to the Congress to reprogram?

Mr. MCCLARY. Yes; there are reprogramings up to about $5 million.

Mr. BURLISON. If you don't have to ask for more than $5 million, you do it on your own without coming back to the Congress, is that true? If not, what is the case?

Mr. MCCLARY. Let my director of operations answer that.

Mr. SIKES. We may be able to help you from this side of the table on that. We have an expert here.

Mr. GARRITY. If you are transferring under section 834 of the Appropriations Act from one appropriation like procurement to O. & M., you must come back and get authority to do it. No matter what the amount. If it is only $5. You have to get the authority to do it.

If you are reprograming within an appropriation for O. & M. or military personnel, it is $5 million. Above that you must come back and get approval. It is for use within that appropriation.

Mr. SIKES. Not a crossover to another appropriation?

Mr. GARRITY. If you are transferring funds within the procurement appropriations like aircraft procurement, Air Force, the threshold is $5 million—any amount of $5 million or more must be referred to the committee in form of a notification so that the committee may have an opportunity to approve or disapprove the proposed reprograming.

In R.D.T. & E., the figure is $2 million, to go and transfer. Over $2 million you must come to the committee.

Now, we have found instances in the past where the services would—what we call "under-the-threshold reprograming"—transfer up to $1.9 million, start a new program and then later on transfer more in there. We found instances like that and we watch it very carefully to make sure they don't transfer.

But there are specific rules under which they can reprogram those moneys.

Mr. EDWARDS. May I reclaim the floor?

Mr. SIKES. In just one moment you can.

First I want to ask Mr. McClary if his witnesses would say amen or yes.

Mr. MCCLARY. I would like Don Shycoff to speak.

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Mr. SHYCOFF. Admiral Fine covered his ship overhaul price increases within the ship overall program. In other words the total dollars in the ship overhaul program are at the same level as appropriated and that is why we do not have a reprograming action.

Mr. SIKES. Now everybody understands the problem.

Mr. BURLISON. Mr. Chairman, may I make a request, if my friend will continue to yield?

Mr. EDWARDS. Yes, go ahead.

Mr. BURLISON. Could we have in the record a detailed and total outline of this procedure at this point in the record, please?

Mr. MCCLARY. Very good.

[The information follows:]

SHIP OVERHAUL REPROGRAMING

The Chief of Naval Operations determined that it was necessary to adjust the fiscal year 1975 President's budget request to Congress for the overhaul and modernization of 95 active fleet ships at $1,056.3 million by deleting a net of 15 overhauls and $44.8 million. The deletion of $44.8 million was required by the Appropriation Act's provision for reduced funding for civilian personnel. While the deferral of 15 overhauls provided an asset of $153.4 million, all except the $44.8 million was retained in the ship maintenance-modernization program. This $108.6 million was required to pay increased material and private labor costs and increased work packages on the ship maintenance and modernization work already underway.

Mr. EDWARDS. Now then, is it your statement, Mr. McClary, that the Navy has complied with all the rules that Mr. Garrity has just cited?

Mr. MCCLARY. Yes. I think Admiral Fine's discussion of ship overhaul—keep in mind there are something like 60,000 people in Navy shipyards and they use a lot of supplies, utilities, energy, what-have-you—indicates that even though there have been significant increases there, the adjustments have been within that particular activity. The outgo has been less in the way of overhaul effort, but the Navy has been able to accommodate it.

Admiral FINE. Mr. Edwards, I guarantee you we have complied to the nearest nickel so far as I know with the reprograming rules that we live under.

Mr. EDWARDS. And the Navy has not done anything differently, the Army or the Air Force, in arriving at these conclusions?

Mr. MCCLARY. No, they have not, and we could go into other specifics I am sure, such as increased costs of fuel which have been accommodated by less steaming hours and I believe the Secretary of Defense showed you the other day how the various fleets had had to cut back on their number of days steaming in each quarter in order to accommodate to these higher costs; but again those would be adjustments within the O. & M. account.

Mr. EDWARDS. I would like to have you supply for the record just what the Navy did do. What adjustments the Navy did make.

Mr. MCCLARY. Yes.

[The information follows:]

The following specifics are cited as examples of actions taken:

1. Unbudgeted cost increases for purchased utilities have been accommodated by savings generated under the fuel program through conservation efforts and changes in DFSC standard price for Navy fuels. In the latter context, price increases for aviation POL products have been more than offset by decreases for ship-type fuels (ND and NSFO).

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2. Unbudgeted increases in the ship maintenance-modernization program for material price increases, private-labor wage increases, and increased repair packages have been funded by a net deferral of 15 scheduled ship overhauls.

3. Early implementation of new aircraft maintenance procedures, less costly than the traditional progressive aircraft rework, have enabled the program to maintain approximately the same repair levels within available resources.

4. It has been necessary to accept short-term degradation in the Navy's physical plant. While statutory amounts for real property maintenance will be expended, return on each dollar decreases as inflation continues.

Mr. ROBINSON. With respect to deferring ship overhauls, do these pertain to overhauls that would have been done in Navy yards?

Admiral FINE. I would have to provide that for the record. I think it would be a mixture of Navy yards and private yards, sir. I know specifically which ones we have deferred. I have a listing and can provide that for the record.

[The information follows:]

The net adjustment of 15 overhauls deferred in fiscal year 1975 includes a net reduction of 14 overhauls scheduled for Navy shipyards and a net reduction of one overhaul scheduled in private shipyards. These deferrals and a rescheduling of work have resulted in an increase in the percentage for work done in private shipyards to 26.8 percent compared to the 23.6 percent planned in the fiscal year 1975 President's budget.

Specifically, the following ships scheduled for overhaul during fiscal year 1975 have been deferred:

BARBEL (SS–580)
SCULPIN (SSN–590)
BLUEFISH (SSN–675)
HORNE (DLG–30)
JOHN KING (DDG–3)
BENJ. STODDART (DDG–22)
RICH. E. BYRD (DDG–23)
GUAM (LPH–9)
MANLEY (DD–940)
BLANDY (DD–943)
ALBERT DAVID (DE–1050)
BADGER (DE–1071)
BLAKELY (DE–1072)
KANSAS CITY (AOR–3)
YOSEMITE (AD–19)
DETROIT (AOE–4)
NESPELEN (AOG–55)

Partially offsetting the above overhaul deferrals are the currently scheduled overhauls of the *Finback* (SSN–670) and the *Raleigh* (LPD–1) resulting in the net reduction of 15 overhauls from the scheduled 95.

Mr. ROBINSON. Have there been any layoffs in Navy yards as a consequence of deferrals? Or are the yards working full time with full personnel?

Admiral FINE. No, sir, not because of that. Essentially we kept the funds within the overhaul program so perhaps what we are really talking to is increased costs on the ships that are undergoing overhaul rather than less work being done at the shipyards because those funds were not available.

Mr. MCCLARY. We will be getting into it later on the third or fourth action here today on Navy personnel and then I think we will hit more directly this matter.

Mr. SIKES. I think we should have a little clarification on Navy procedures. The committee may not be fully informed. Mr. Preston has just pointed something out and I would like for him to pursue it.

Mr. PRESTON. Mr. McClary, it appears that the testimony has led to some confusion so far in that I think the Navy has not requested permission to reprogram funds into a broad spectrum of items in which there are cost increases due to economic escalation, as are the Air Force and the Army at this point in time.

The Navy's reprogramings to which you made reference are for very specific matters involving the overhaul of ships, but they have

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not taken ship overhaul money and applied it to fuel costs and things like that. Is that right?

Mr. McCLARY. That is true.

Mr. PRESTON. So there is a difference here today in the way the Navy is handling the inflation problem and the O. & M. account and that the Army and Air Force are proposing to do as reflected in the programing request?

Mr. McCLARY. That is true.

Mr. ROBINSON. With regard to the overhaul, Admiral, do you, in terms of reducing the overhaul load, always reduce the total overhauls or do you reduce to some extent or degree the extent of such overhauls?

Admiral FINE. Both. We have cut back both on the numbers and the scope within each overhaul.

Mr. SIKES. Are there further questions, Mr. Edwards?

Mr. EDWARDS. No, thank you.

Mr. SIKES. On December 20, 1974, the committee informed the Department that action on the Operation and Maintenance reprograming would be deferred until after the convening of the 94th Congress. The Department was advised that it should notify its appropriation accounts managers to continue to operate at a rate which would insure that they did not incur obligations for the fiscal year in excess of the funding level provided in the Appropriation Act. Did you so advise your accounting managers?

Mr. McCLARY. Yes, Mr. Sikes, the admonition of the committee was passed on to the operating managers.

Mr. SIKES. Are they still managing at that level?

Mr. McCLARY. Management action is being taken and will continue to be taken to insure that obligations will not exceed the funding level provided in the Appropriation Act. Neither the OMB nor my office has issued obligation authority for the transfer amount which would permit an increase to the amount in the act. However, I am sure you recognize that, on a day to day basis, we are bearing the inflationary costs for which the transfer is requested—and that the transfer only covers a portion of the inflationary impact projected for the operating accounts in the fiscal year. While we have cancelled some programs and reduced others to live within projected availability we have not set aside moneys for programs in the second or third quarters which would equal the phasing of the items in the transfer. We must in fact take further action in the fourth quarter to cancel or defer other programs to the extent that the transfer is not approved. We are already impacting readiness from the actions taken to offset inflationary costs. The effect will become more significant if we cannot overcome some of the deferrals that were taken to avoid overexpenditure.

We hope this will not be necessary but if it is, we are prepared to make the decisions required to stay within availability.

We have been concentrating on the use we intend to make of these funds in the O. & M. accounts.

We have statements from the budget officers as to the sources of these funds. I do not know whether the committee wants to get into detail on the sources of these funds or not, but we do have statements that would indicate where they are coming from.

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IMPACT ON READINESS

Mr. SIKES. You state that these reprogramings cover cost increases which can't be absorbed within current funding without serious impact on readiness. The Department received appropriated funds of over $25 billion for operation and maintenance to keep our forces in a readiness state. You have price increases of $347.8 million, a little less than 1.5 percent. There would be some who will say, well, how can that modest amount, comparatively speaking, have a serious effect on readiness? Now, why don't you tell us in simple language why this is the fact?

Mr. MCCLARY. I think the best way we can express that is by the additional actions we will need to take in belt tightening in these areas if we do not get this reprograming approved. So again let me turn to the Budget Officers and have them give a couple of instances in each case as to further actions we must take if these reprogramings are not approved.

Mr. SIKES. Very well.

General BLANTON. Specifically in the case of the $39.3 million requested for the Military Airlift Command, we are currently planning on flying 327,000 flying hours this year with the C–5 and C–141. That will meet our needs to upgrade our pilots and copilots so that they will be capable of manning the force and should that be necessary in a contingency, meet the requirements to deploy our forces.

If we do not receive approval of the reprograming, we are going to have to hold the force at roughly a 299,000 flying hour program. It is our best estimate that that would mean that roughly 25 percent of the 468 copilots in that force would not be eligible for upgrading and we would have to, therefore, institute other policies in order to maintain the readiness of that force. That is a specific example.

I think in general I would have to say that we would have to continue the actions that I cited earlier, that our Chief of Staff directed in November, which will impact on readiness, particularly in the material area, by not being able to buy supplies to support our aircraft; not being able to buy supplies to do the necessary maintenance.

I think those are two principal examples in readiness.

Obviously in order to abide by the sense of priority we would have to cut back in the administrative and support areas as well and defer every possible item we could into fiscal year 1976.

General WEST. Mr. Chairman, from the Army's standpoint, as I mentioned before, we are on two-tier program where we have tightened as much as we could initially this last belt-tightening is where it becomes critical from the standpoint of readiness.

If we don't get this reprograming, we have a plan. We will further cancel or eliminate training exercises and that, in conjunction with our inability to buy POL and supplies, will probably lower the readiness condition of our major combat units about one readiness condition across the board.

Mr. SIKES. What does that mean?

Gesneral WEST. The readiness condition, as you know, is in four categories, rated as 1. 2, 3, and 4. 1 and 2 mean they are operationally ready but to a somewhat different degree. 3 is marginally ready and 4 is not ready.

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Most of our combat units are 1. There are a few that are rated at 2. So the category 1 units will go to 2 and the 2 units will go to 3. That is fairly general across the board.

In addition, we will probably have to suspend most of the supply purchases from stock funds by the end of May, which would, in effect, result in a freeze on purchases in June.

Also, we will have a civilian hire freeze. We will not hire our temporary employees during this fiscal year which we normally bring aboard for the summer months.

Mr. SIKES. You are speaking of college students and others who want summer employment?

General WEST. Yes; we have quite a support requirement for the Reserve components during the summer. Some of them are college students, some are people who depend on this kind of summer employment—part-time farmers and people of that nature. Camp Drum is a good case in point.

In addition to that, we will have a general degradation in our support activities on the installation because the civilian hire freeze and the lack of summer hire will mean additional diversion of our military troops in the summer to take care of support activities. But the readiness condition is the one thing we are most concerned with.

Mr. SIKES. The House has rescinded only $60.3 million rather than $120.6 million recommended by the President for real property maintenance. If the Senate concurs in the House action, will additional funds increase the readiness posture of our military forces?

Mr. MCCLARY. I think you are talking about the real property maintenance.

Mr. SIKES. That is correct.

Mr. MCCLARY. We would feel the responsibility, Mr. Chairman, if that amount is not rescinded, to spend it on real property maintenance. In total we are talking about $120 million and we would plan to spend all of that in this fiscal year for real property maintenance. To do otherwise we feel would be an impoundment, and, incidentally, on March 1st——

Mr. SIKES. In other words, it would have only a marginal effect upon the readiness posture, is that what you are saying?

Mr. MCCLARY. The real property maintenance?

Mr. SIKES. Yes.

Mr. MCCLARY. It would have only a modest one, yes. But, as you pointed out earlier, those are the things that are not good business because in a subsequent year we are going to have to do it and probably at higher cost. But on this matter of rescissions, as you may know, the Congress not having acted by March 1st, the Office of Management and Budget has released those funds and we are now in the process of planning to spend that whole $120 million, so if Congress is going to take further action, the sooner it does it the better because we are starting down the road to spend that $120 million.

Mr. SIKES. Then do the O. & M. reprograming requests include any funds to start new programs or new projects?

Mr. MCCLARY. No.

Mr. SIKES. We have before us a letter from Senator McIntyre to the Secretary of Defense, speaking to the reprograming action.

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[The following letter was read by Mr. Sikes:]

MARCH 3, 1975.

HON. JAMES R. SCHLESINGER,
Secretary of Defense, Department of Defense,
Washington, D.C.

DEAR MR. SECRETARY: The Department of Defense reprograming action No. FY 1975–2 for the research, development, test, and evaluation, Army 1975–76 appropriation proposes to transfer $63,309,000 from this appropriation to the operation and maintenance, Army 1975 appropriation. This reprograming action presently is under consideration by both bodies of the Congress.

The proposed reprograming action does not require specific authorization action, and therefore, has not been submitted to the Armed Services Committees of the House and Senate for their consideration. However, this reprograming action has a direct bearing on the Senate Armed Services Committee pending action on the authorization request for the fiscal year 1976 research, development, test, and evaluation Army appropriation. It is also noted that there is pending a proposed supplemental request for fiscal year 1975 research, development, test, and evaluation Army appropriation seeking an additional $25,386,000 to cover wage board and civilian pay raises during the current fiscal year.

I request that the $63,309,000 be retained within the Army fiscal year 1975 research, development, test, and evaluation appropriation and that further action not be taken pending the following:

1. Final action by the Congress on the pending Department of Defense rescission package which includes $57.7 million of Army funds. $41 million of this amount is in the Army Operation and Maintenance appropriation and could be available to offset in part the requirement of $63,309,000. The remaining $16.7 million involves three other Army appropriations and would be also available for transfer to the Army Operation and Maintenance account.

Since the President had proposed these amounts for rescission, presumably there is no need for these funds to support the purpose for which they were appropriated by the Congress.

2. Action by the Senate Armed Services Committee on the fiscal year 1976 authorization request for the Army Research, Development, Test, and Evaluation appropriation, will include consideration of the proposed transfer of $63,309,000 with respect to the following items among others:

(*a*) The previously mentioned requirement of $25,386,000 for pay raise costs,

(*b*) The request for fiscal year 1976 and fiscal year 1977 funds in the amount of $21.6 million for the Army UTTAS program and $7.9 million for the Army AAH program to reimburse contractors for costs estimated to be incurred by them in excess of congressional authorization and appropriation for these programs in fiscal year 1975. These amounts were identified in letter from the Assistant Secretary of Defense, Comptroller, dated February 24, 1975.

Will you please acknowledge receipt of this letter and your intention to comply with my request.

Sincerely,

THOMAS J. MCINTYRE,
Chairman, Subcommittee on Research and Development.

Mr. SIKES. What action does the Department plan to take on this letter?

Mr. MCCLARY. We intend to respond to Senator McIntyre. Our first view of this and first study is that we will need to respectfully deny his request and to proceed as we are currently proceeding.

For example, on the first page of his letter in his paragraph identified 1, he talked about $57.7 million of Army funds that are available. Now, this $57.7 million, includes $41 million in O. & M., $1.4 million in Army Reserve, and $1.8 million in Army National Guard relating to real property maintenance. The remaining $16.7 million he talks about relates to the UH–1. The $16.7 million proposal rescission was later reduced to $5.7 million making $49.9 the new Army total proposal for rescission as reflected in the fiscal year 1975 column of the fiscal year 1976 President's budget.

Since the Congress did not pass a rescission bill within the 45-day period, the Office of Management and Budget has released their funds

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for their original purpose and we are proceeding to spend them in compliance with what we perceive to be the will of Congress. Thus, the funds Senator McIntyre is talking about are not available for reprograming purposes.

He also mentions $25.4 million pay raise cost applicable to R.D.T. & E. This amount is included in a separate pay supplemental which we will be discussing before this Committee later this month. As you know, that supplemental pertains to all Government departments and agencies as a consequence of pay raises granted Federal military and civilian personnel.

Mr. SIKES. But you will take these actions respectfully?

Mr. MCCLARY. We will deny these respectfully, yes.

Mr. GARRITY. Mr. McClary, can you explain to the committee how you can say that you are going to respectfully decline the request of the Senate Armed Services Committee since they are an authorizing committee, and this is R.D.T. & E. dollars that you are transferring into operation and maintenance? Don't they have a right to object to transfers just the same as other committees of the Congress?

Mr. MCCLARY. They have a right to object, but the reprograming approval action is really before the Appropriations Committees.

Mr. GARRITY. You are transferring it into O. & M. but you have to recognize it is coming out of R.D.T. & E., which is an authorized account.

Mr. MCCLARY. Yes; we are discussing in detail with the Senate Armed Services Committee. The House Armed Services Committee had a hearing on this subject the other day and appropriate members appeared before that committee. But Senator McIntyre, to my knowledge, has not called for a hearing on this subject, but we would be prepared to discuss in detail with him these actions we are taking.

REPROGRAMING OF FUNDS DURING LAST 5 YEARS

Mr. BURLISON. Can you state how much last year was reprogramed for the Department of Defense?

Mr. MCCLARY. We will supply that for the record, but our reprograming last year was relatively modest.

[The information follows:]

The value was $199 million.

Mr. BURLISON. Would you supply that information for the last 5 years?

Mr. MCCLARY. Yes; we will.

[The information follows:]

Amount approved

[In millions of dollars]

Fiscal year:	
1970	2,385
1971	3,146
1972	1,680
1973	1,255
1974	199

Mr. BURLISON. Will you also supply for the record for the same period of time what money, if any, was returned to the Treasury?

Mr. MCCLARY. Yes.

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[The information follows:]

The following amounts were returned to the Treasury for the periods indicated:

[In thousands of dollars]

Fiscal year:	
1970	34,604
1971	57,852
1972	79,840
1973	626,374
1974	302,104

Inflation Estimates

Mr. Burlison. Is inflation factored into your budget request?

Mr. McClary. In fiscal year 1975 we did not include a factor for inflation in that budget anywhere except in major weapons systems and military construction. Those were the only areas where projections for inflation were permitted by the Office of Management and Budget. With respect to the military and civilian wage board increases, as well as the effect of the Consumer Price Index on retired pay, we do submit a supplemental appropriation request that is an annual requirement, as you may recall. But inflation in all of the nonpersonnel areas in O. & M. and the miscellaneous procurement—which is about half of our procurement—in fiscal year 1975, was not included in the fiscal year 1975 budget request.

Now, in fiscal year 1976 we have permission from the Office of Management and Budget to include inflation for all of our procurement. We can anticipate inflation in all of our procurement accounts and we have done so. We still do not have provision in fiscal year 1976 for anticipated inflation in our O. & M. accounts. We are estimating that we have a potential shortfall of roughly $1.5 billion dollars. That is obviously a guess at this point because we don't know what the rate of inflation is going to be during fiscal year 1976.

We estimate we are short in our fiscal year 1976 budget request at this time by about $1.5 billion due to potential inflation affecting the O. & M. accounts.

Mr. Edwards. Why does OMB persist in this myth, or this fiction?

Mr. McClary. I think it was probably developed over a period of years when inflation in this country was at a relatively modest amount. Three or four percent a year. In that case it was a matter of putting a bit of a squeeze on each department and agency, picking things up through productivity and better ways; it was the kind of inflation that could be absorbed by doing better. With the rate of inflation we have today, that is just entirely unrealistic. We just can't work that much harder and smarter to compensate. I think it is really a carry over from an earlier period. We believe that it is in recognition of these high rates of inflation that we did receive some relief this year for all procurement. I would hope next year OMB will permit the reflection of inflation in the operating accounts as well. We have proposed that for the last 2 years. We have been denied the past 2 years but we will ask again.

Mr. Edwards. You are really here then with an unrealistic budget. You have said publicly there is going to be $7 or $8 billion of inflation built into this budget but you haven't really told the whole story.

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Mr. McCLARY. That is true. We would like to add another $1.5 billion for other anticipated inflation in many of these operating accounts.

TEMPORARY CIVILIAN EMPLOYEES

Mr. ROBINSON. In the face of the unemployment situation, I am interested in knowing how many temporary civilian employees, due to the civilian work force freeze, will not be available this year based on the statistics we have been given from the three services. What is the number you ordinarily employed?

Mr. McCLARY. We will provide that for the record.

[The information follows:]

At the end of fiscal year 1974, the Department of Defense had 41, 471 temporary employees while at the end of fiscal year 1975, there are planned to be 33,585 temporary employees.

Mr. KEMP. Mr. Chairman, may I ask a question?

Mr. SIKES. Go right ahead.

Mr. KEMP. Admiral Fine, who directed the Navy to live within its budget?

Admiral FINE. This committee.

Mr. KEMP. Who passed the word down to make your reprograming internal rather than having to come back to the committee for approval?

The statement was made by Mr. McClary that the differences between the approach the Navy took and the Air Force and the Army is that they were told to live within the constraints imposed by the budget.

Admiral FINE. May I spend about 30 seconds to a minute to explain the financial management of the Navy to give you a better understanding of how this develops? The funds are passed to the Secretary of the Navy from the Secretary of Defense who allocates to the Marine Corps and Navy.

At the beginning of the fiscal year before we merged the Secretary's the CNO's Financial Offices, I was CNO's financial manager; 3,679 allocations flowed from CNO to me out to the major claimant as well as the appropriation managers in the Navy materiel command. At the beginning of the year, the CNO made the major decision that the Navy would live within the O. & M. funds that were appropriated; that we could expect no relief from Congress, except a pay raise.

Mr. KEMP. That is the answer.

Mr. McClary, would the same thing be relayed to the Army and Air Force?

Mr. McCLARY. Now you are getting into how do we run the Department of Defense.

Mr. SIKES. A lot of people would like to know.

Mr. McCLARY. I think we will find that when we get to our POL adjustment that the Navy will be required to come up with $40 million of procurement funds in order to accommodate to that particular item. But one item that was apparent early in the Navy was the fact that they had such significant underfunding in their ships' conversion and shipbuilding account that they really could not be looking for opportunities external to each appropriation for transfer. So they had a little bit stronger guidance.

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I might also add that topside in DOD we have discouraged the services, discouraged them to the extent practicable, to use a transfer authority. We have received this fiscal year transfer authority of only $750 million. In view of the great inflation and other adjustments that might take place we frankly discouraged each service from using transfer authority. At the present time we have used $622 million of the $750 million transfer authority available, meaning that we have only $128 million left and still have a number of months to go during this fiscal year. And we have a number of things that have not been accommodated. I believe Admiral Fine has mentioned the possibility that the Navy may not be able to live within this great constraint.

We heard General West talk about currency devaluation in Europe. Now, that is an item, if we look into history, we have accommodated that through reprograming. Really, we haven't known the significant currency devaluation that has taken place in Europe because most of it has happened in the past couple of months. No one could have anticipated that.

We look upon reprograming, frankly, as a bad thing.

First of all, if we have not properly anticipated correctly in the budget, that is our fault. If Congress has failed to appropriate in the proper accounts, we feel that we have not been sufficiently persuasive; we have failed.

I think we will show Mr. Burlison in this tabulation of reprogramings that until the present time we have had a very good record in reducing both the numbers of reprogramings and the dollar values.

In fact I believe that was probably published in your report last year. We have taken pride in reducing the reprogrammings and therefore we are somewhat ashamed and embarrassed when we need to appear before this committee to seek these accommodations. We discourage reprogramings.

Mr. VANDER SCHAAF. Mr. McClary, in response to Mr. Burlison's question about do you or do you not put inflation in your estimate, you say you do not put it in your O. & M. account. In the O. & M. account there are literally thousands or hundreds of thousands of different items, small items which are not tracked by budget officers up through the management chain, not reviewed here at all in the Congress.

I am referring to such things from typwriters on down to screwdrivers. Everything and all manner of items.

How do you police the system to insure that the manager doesn't put his inflation estimate into his item estimate by budgeting for more items than he really needs, then taking care of his inflation through reduced purchase of items?

Mr. MCCLARY. Let me have some of the professionals in that area answer that. General Blanton.

General BLANTON. It is based on the prices in effect at the time the estimate is reviewed. As to the detailed items that need to be reviewed, my good friend back here, Mr. Shycoff, and his staff, take a look at every page in our budget estimate and review that pricing in detail to make sure it is based on the price levels in effect and recognized by the Department of Defense at that point in time.

Mr. VANDER SCHAAF. But General Blanton, those details that go to Mr. Shycoff and people there are already consolidated from base officers around the Air Force and Command and on up through Air Force Headquarters, and they do not reflect the items to be purchased.

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He sees an item that says "supplies," or "materials" and it contains thousands of items and he looks at it comparing 1 year to the last year rather than looking at individual units that make up the budget. The question is, what prevents the base level commander from taking care of his inflation in that estimate?

Mr. McCLARY. Let me ask Mr. Shycoff to answer. He has been referred to here. Let him speak.

Mr. SHYCOFF. I think the answer, Mr. Vander Schaaf, is that while it is true that we don't see the price of the individual typewriter, we do use workload measures; we do look at the level of activity of the specific base, the unit, the squadron. We look at the cost per flying hour as an example, so you would see in the aggregate if anybody had built into his price the inflation. I am sure there may be somebody here and there who has managed to get something past us, but I am confident Mr. Garrity catches the ones that I miss.

In looking at it the way we do, I am quite confident that inflation is not built into these estimates. I think a very good example—where most of the material is, is in cost per flying hour. We can look at what it was last year and what it is in the proposed year.

Mr. VANDER SCHAAF. Wouldn't you admit that there is the possibility that some inflation can be cranked into the O. & M. estimate without necessarily you or us knowing about it?

Mr. SHYCOFF. It is possible, but not likely.

General BLANTON. Not without driving up the cost per flying hour he is talking about.

Mr. VANDER SCHAAF. That is not a good example because flying hours can be related to POL but you can buy hundreds of thousands of gallons of POL on a base, having the base commander probably knowing that if he wants to fly those—he may not intend to fly all those hours and not buy that fuel, but put it in his budget for something else.

General BLANTON. You have flying hours, base support structure, manpower levels and if the support and material costs get out of balance with the trends in these other areas, it is certainly very highly visible.

Mr. McCLARY. I think we might hear the Army on this subject as well.

General WEST Mr. Vander Schaaf, what you say, of course, is a possibility, but there are checks and controls which indicate trends.

In terms of all our installations, we check on support cost in terms of variable dollars per military man year and the mission support cost. In real or constant dollars they have gone down. They have gone down from a year ago. In terms of the actual demand on the stock fund, that has gone down. In terms of the stockage we have for our units, with which you are familiar—the ASL and the PLL; basically the spare parts stockage—that has gone down. We are at less than the level we should be, so we have now determined that, in fact, we are not spending as much to support troops in the field in constant dollars; we aren't buying as much from the stock fund and are, in fact, drawing down off the shelf. This would indicate that there can't be any aggregate padding of the budget.

Mr. CASEY. A total of $63.3 million in the Army R.D.T. & E. is to be transferred to Operation and Maintenance, Army. Reductions in 52 separate R.D.T. & E. program elements are to be made. Of these 52

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programs, 22 were considered by House and Senate conferees during the conference on the fiscal year 1975 appropriation. Most of the 22 programs had been reduced by the Senate and the House conferees attempted to reinstate the funding based on strong appeals by the Army.

For example, the House version of the appropriations bill provided $82 million for the Kwajalein Missile Range. The Senate reduced this to $73.6 million. The Army appeal to the conferees requested restoration to $82 million to avoid serious degradation of the range's capability to collect radar and optical data during the conduct of Army, Navy and Air Force strategic missile tests. A total of $77.8 million was finally appropriated for Kwajalein. Now, $2 million is to be reprogramed to O. & M. Would you describe the serious degradation in the range's capability to collect data resulting from this additional reduction in funding for Kwajalein? And I only cite this as one example of the reductions.

Mr. McCLARY. I am glad you asked. We brought with us today many backup witnesses who are prepared to answer that question in detail.

Colonel KENNEY. At the time of the appeal, Mr. Casey, the Army was concerned about the degradation of the modernization of instrumentation at the missile range and that was the basis for our appeal to the congressional cut. The additional reduction further degrades that modernization of instrumentation. It was partly eased by a reduction of SAFEGUARD procurement missiles testing. Now, even though the Army wants to improve the instrumentation modernization—it is a question of priorities in the O. & M.A. account, and we chose to, in part, reduce this and defer that instrumentation and modernization until fiscal year 1976 and our budget request for 1976 shows that deferral.

Mr. CASEY. How much is in the 1976 budget for the items that you have postponed until next year?

Colonel KENNEY. We will have to provide that. I haven't the details.

In an aggregate we have instrumentation and modernization in the 1976 budget for Kwajalein which will in part be some of this deferral. We will provide that for the record.

[The information follows:]

The KMR fiscal year 1976 budget request includes $6.7 million for modernization and improvement items. This includes approximately $2 million for items which were first in the fiscal year 1975 budget request but had to be deleated because of the congressional reduction or the reprograming action.

Mr. GARRITY. Are you inferring because of taking this money out of R.D.T. & E. you are forced to put it in the 1976 program?

Colonel KENNEY. We still have the requirement for the modernization of the instrumentation there and if we don't buy it this year, we will buy it next year. There is still a requirement for it.

Mr. McCLARY. I might point out on that, Mr. Garrity, both on the inflation reprograming and also on the POL reprograming, these were items that we had calculated before we finalized our fiscal year 1976 budget, so you will find that many of these adjustments that we are making here this year in 1975 simply represent deferrals and postponements into a subsequent period and they would be included in our fiscal year 1976 budget.

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General WEST. I might add a comment here. In R.D.T. & E. there are bother eliminations and deferrals. In general about $20 million are eliminations and about $43 million are in the deferred category. That is, they would be done later.

Mr. SIKES. Gentlemen, I suggest that this is a good breaking point.

Mr. BURLISON. Mr. Chairman, may I make one final question for the record?

Mr. SIKES. Yes.

REPROGRAMING AUTHORITY AND TRANSFER AUTHORITY

Mr. BURLISON. Would you please include a very detailed analysis of the distinctions between reprogram authority and transfer authority? A full detailed discussion of those distinctions?

Thank you, Mr. Chairman.

[The information follows:]

General transfer authority is provided for in the general provisions of the DOD Appropriation Act, section 834 in fiscal year 1975, and authorizse the transfer of up to a certain value of funds, $750 million in fiscal year 1975, between DOD appropriations, interappropriation. Use of the authority requires a determination by the Secretary of Defense that such action is necessary in the national interest and the approval of the Office of Management and Budget. Notwithstanding the authority of the Secretary of Defense under the law, he, by mutual agreement with the Defense Oversight Committees, requests their prior approval, as applicable, before taking transfer action. In this regard the Department's reprograming procedures are applied since the net result is moving funds from one approved program to another.

Reprograming proposals—interappropriation—as opposed to transfers, utilize the same procedures. These procedures have been developed in consultation with the congressional committees concerned with the DOD Appropriation Act, and the authorizing act related thereto. These criteria are the same for this category of reprograming as it is for reprograming through use of the general transfer authority, and are based on the generally accepted view that rigid adherence to the amounts justified in budget estimates proposed 12 to 18 months in advance of appropriations may unduly jeopardize the effective accomplishment of programs in the most businesslike and economical manner. As time passes, unforeseen requirements emerge, changes in operating conditions, revisions in price estimates, wage rate adjustments also occur and each require some diversion of funds from the specific purposes for which they were justified. Reprograming procedures are designed to provide a firm basis for retention of congressional control over the utilization of Defense appropriations by assuring that congressional intent is carried out, while at the same time providing a timely device for achieving flexibility in the execution of Defense programs.

Mr. SIKES. We will reconvene at 2 o'clock this afternoon.

AFTERNOON SESSION

Mr. SIKES. The committee will come to order.

Mr. Secretary, we had completed your general statement and had completed questions on it.

Now, we are ready to hear from the service witnesses. This will be a reprograming request, 75–4 P/A, "Operation and maintenance, Army."

The request is for program increases of $152.4 million and covers such items as operating supplies, utility cost, training operations, printing supplies, and contract labor cost.

We will insert the reprograming request in the record at this point.

[The document follows:]

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
OPERATION AND MAINTENANCE, ARMY 2152020	FY 75-4 P/A

APPROPRIATION SERIAL NUMBER: OMA FY 1975-1 P/A

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY b	AMOUNT c	QUANTITY d	AMOUNT e	QUANTITY f	AMOUNT g	QUANTITY h	AMOUNT i
This reprogramming is submitted for prior approval for the transfer of funds under the provisions of Section 634 of Public Law 93-437, DOD Appropriation Act, 1975. Funds to continue high priority programs have been and will continue to be obtained by eliminating and stretching out lower priority programs as directed in House Report 93-1255. Price increases of $152.4 million cannot be accommodated within the appropriation. This reprogramming is for the increased price of operating supplies for unit training/exercises ordered from the Defense Stock Fund ($68,102,000); for the increased prices and rates of purchased utilities ($51,798,000); for increased non-personnel cost of training loads at service schools/training centers ($16,000,000); for increased prices of coal purchases for Europe ($9,500,000); and increased cost of printing supplies and contract labor costs ($7,000,000).								
REPROGRAMMING INCREASES:								
1. GENERAL PURPOSE FORCES - MP-2		1,771,553		1,771,553		+115,844		1,887,397
Explanation: This increase is for price increases of operating supplies for unit training/exercises ($+67,743); a coal contract price increase ($+9,500); and for price and rate increases for purchased utilities ($+38,601).								
2. INTELLIGENCE AND COMMUNICATIONS - MP-3		392,783		392,783		+236		393,019
Explanation: This increase is due to rate and price increases for purchased utilities ($+236).								
3. CENTRAL SUPPLY AND MAINTENANCE - MP-7		1,816,700		1,816,700		+1,052		1,817,752
Explanation: This increase is due to increased cost of operating supplies for unit training/exercises ($+359); increased printing costs ($+385); and rate and price increases for purchased utilities ($+308).								
4. TRAINING, MEDICAL, AND OTHER GENERAL PERSONNEL ACTIVITIES - MP-8		1,570,208		1,570,208		+28,803		1,599,011
Explanation: This increase is for increased non-personnel cost of training loads ($+16,000); increased cost of printing ($+150); and rate and price increases for								

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE		DOD SERIAL NUMBER
OPERATION AND MAINTENANCE, ARMY 2152020		FY 75-4 P/A
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)	
OMA FY 1975-1 P/A		

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY b	AMOUNT c	QUANTITY d	AMOUNT e	QUANTITY f	AMOUNT g	QUANTITY h	AMOUNT i
purchased utilities ($-12,653).								
5. ADMINISTRATION AND ASSOCIATED ACTIVITIES - MP-9								
		448,752		448,752		+6,465		455,217
Explanation: This increase is for increased cost of printing supplies and contract labor costs.								
TOTAL FY 1975 PROGRAM INCREASE						+152,400		
NET CHANGE IN PROGRAM						+152,400		
Explanation: This reprogramming action requests the transfer of funds under Section 834, Public Law 93-437. Transfers are from the following:								
Aircraft Procurement, Army 75/77						-6,640		
Missile Procurement, Army 75/77						-20,500		
Procurement of Ammunition, Army 75/77						-15,451		
Other Procurement, Army 75/77						-37,900		
Research, Development, Test and Evaluation, Army 75/76						-63,309		
Missile Procurement, Army 74/76						-8,600		

REQUESTED (Signature and Date) 20 NOV 1974

APPROVED (Signature and Date) NOV 23 1974

Deputy Secretary of Defense

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Mr. SIKES. General West, I believe you are the Army witness and the new Army Budget Officer, is that correct?

General WEST. That is correct, sir.

Mr. SIKES. This is your first appearance before the committee and we will insert your biographical sketch in the record at this point.

[Biographical sketch follows:]

MAJ. GEN. RICHARD L. WEST, U.S. ARMY

Maj. Gen. Richard L. West is a 1945 graduate of the U.S. Military Academy where he was commissioned a second lieutenant in the Corps of Engineers. His early assignments in the Army were as an Army engineer including duty at the Engineer Research and Development Laboratories at Fort Belvoir, Va.

Following graduate study at Princeton University, where he received a master's degree in engineering, General West was reassigned as an engineer in the Azores prior to moving to the Command and General Staff College where he served, after graduation, as a faculty member.

Korean duty followed, where he was assigned to Headquarters, 8th Army, before returning to the United States to command the 17th Engineer Battalion at Fort Hood, Tex.

Following his graduation from the Industrial College of the Armed Forces and duty at the Institute of Special Studies of the Combat Developments Command, he moved to the Pentagon in the Office of the Assistant Secretary of the Army for Financial Management.

His Vietnam duty included command of the 79th Engineer Group and service as engineer for II Field Force before returning to New Mexico as District Engineer for the Albuquerque District becoming involved with water resources activities.

He was then assigned as Deputy Chief of Staff, Comptroller at Headquarters, U.S. Continental Army Command, and upon reorganization of the Army was assigned to the U.S. Army Forces Command as Deputy Chief of Staff, Comptroller.

His present assignment is with the Office, Comptroller of the Army as Director of Army Budget.

He holds three awards of the Legion of Merit and the Air Medal as well as the Bronze Star Medal and Army Commendation Medal.

Mr. SIKES. Mr. Secretary, do I understand this is the first appearance for you in your present capacity and the three principal supporting witnesses, or just the supporting witnesses?

Mr. MCCLARY. Just the supporting witness.

Mr. SIKES. We are sure they are all wisely chosen. Just a word to the wise. It is not a difficult job, you just have to be smarter than the member of the committee and that may not be very difficult, but you also have to know more than the staff and that is something of a problem.

Since this is your first appearance in this capacity and it is like the blind leading the blind, I will give you a little hint about procedure. Back when Mr. MacNamara used to come before the committee, he never quit talking. He just talked until everybody forgot what he was talking about, went to sleep or left. That way he didn't have to answer any questions. We are going to put your statement in the record. Why don't you give us a 2-minute summary of what you propose?

[The statement follows:]

General WEST. I appreciate the opportunity to appear before the committee to present the case for the "Operation and maintenance, Army" (OMA) reprograming request.

In preparing the request, we took every reasonable action to defer and reduce, eliminate, and stretch out lower priority programs and activities. We imposed selective hire freezes, made some reductions in force, reduced the equipment overhaul program, reduced flying hours and POL consumption, reduced and de-

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layed some training exercises, reduced temporary duty travel, deferred some supply replenishment actions, and made reductions in installation support activities—general support maintenance, transportation services, custodial and KP contracts, commissary operation, welfare and recreational services, and replacement supplies and equipment. These actions, which have adversely affected the readiness status of some of our units and the standard of living at Army installations, were not sufficient to offset increased costs of operation due solely to inflation. The inflation bill is conservatively estimated at over $500 million—we have absorbed with great difficulty about $350 million. The balance constitutes our reprograming request for $152.4 million.

The major portion of this request is for supplies to support unit training and exercises ($68.1 million) and to support individual training centers and schools ($16 million). A random sample of 192 items out of the total of 36,000 Army stocked items emphasizes the escalating increases in costs.

For these items alone, the total added supply cost as of July 1974, the price levels we used in preparing the reprogramming request, was $30 million. Since that time, for these 192 items alone, the additional increase in supply costs on an annual basis is $86 million. Approximately 95 percent of these sales are made to OMA funded customers. Consequently we are absorbing substantially greater increased supply cost than we expected when we submitted this request.

These increases in supply costs cover every commodity. For example:

Replacement tracks for the M-60 tank are up more than 100 percent, adding over $32 million to supply costs.

Magazines and stocks for the M-16 rifle are up 16 percent, adding one-half million dollars.

Starters for the 2½ ton truck are up 30 percent, adding almost one-half million dollars.

Indicators for the UH-1 helicopter are up 37 percent, adding one-half million dollars.

Toilet tissue is up 33 percent, adding $1 million.

Truck batteries are up 50 percent, adding almost $2 million.

Increases in utility costs are similar but more of a problem. We must pay utility bills; in the case of supplies we can delay or defer some of the procurement. Even with major utilities conservation measures implemented during fiscal year 1974, total utility costs are continuing to increase.

Increases in electricty, natural gas, water, sewage and coal increase purchased utilities requirements more than $87 million over the budgeted level; $26.2 million of this is being absorbed; the remaining requirement of $61.3 million is included in this reprograming request. Utilities costs are continuing to rise. Since this reprograming request was submitted, electricity has gone up an additional 6 percent, and natural gas for heating has gone up an additional 28 percent. These increases since November have added $12 million to utilities billings.

Included in the requirement for utilities is $9.5 million for coal for Europe. Increased contract unit prices have added $24 million to total European coal costs. We are absorbing $14.5 million of this added cost; the balance of $9.5 million is included in this request. The majority of coal requirements are for anthracite—391,000 tons. Unit prices per metric ton have increased since July of 1973 by more than 72 percent. Bituminous increases are even greater. For a requirement of 230,000 tons, the unit price has increased almost 99 percent. Coal cost increases in the United States follow a similar pattern.

The request for $7 million due to increasing printing costs again is only a portion of the total requirement. Increases of more than 39 percent in average printing costs increase the total printing bill for regulations, pay forms, W-2 forms, medical blank forms, and maintenance publications, to a total of $42 million. Without major reductions in printing work, this requirement would be even larger. For example, in the past 2 years we have reduced the number of periodicals from 83 to 36, and have as reduced pages and color in the remainder. Funds for centralized printing in the budget request total less than $31 million. The additional $7 million in this reprograming request will permit printing of the most essential requirements.

The balance of $4 million will be absorbed by extending existing publications and deferring work to fiscal year 1976.

In accordance with the committee letter of December 20, we have not distributed to Army commands any of the funds associated with this reprograming request. However, since relatively fixed costs of utilities and civilian personnel

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must be paid, we are being flooded with messages from Army commands detailing alarming and severe problems due to funding shortages.

The CDR, V Corps in Europe is postponing major field exercises for the 8th Infantry and 3d Armored Divisions. Suspension of requisitioning has been initiated in most units. The number of vehicles used in training has been reduced materially. Reduction of one readiness level is expected.

The CDR, Training and Doctrine Command has reduced tank gunnery firing, engineer equipment operator training, tactical mobility and driver training, and other weapons firing.

The CDR, Usareur has canceled, modified or reduced training and qualification testing for all Usareur tactical units. Vehicle density in training areas has been reduced by 15 to 25 percent; up to 50 percent reduction has been made in missile firing; tanks used in training exercises have been reduced by 20 percent; 11 exercises/tests have been canceled. A reduction of one level in readiness status for all major units is expected.

Compounding the inflation problem is the continued decline in the value of the dollar in relation to the Deutsche mark. This decline has added $75.4 million to the OMA fiscal year 1975 fund requirements. This decline, from 2.67DM to $1 to the latest rate 2.29DM to $1 was not known at the time the reprograming request was submitted. The pay supplement includes $37.6 million against this currency exchange rate requirement of $75-plus million, funding pay for German nationals at 2.47 to $1. The balance of the requirement is currently unfunded.

These are just indicators of the magnitude of the funding problem. Without additional funding, any action we take will seriously degrade our readiness posture—we expect a decline of at least one level in readiness status for all major fighting units. Further, we cannot expect to recover in fiscal year 1976.

The fiscal year 1976 budget is designed to maintain readiness levels—not to recover from a lowered readiness status. Of course, the fiscal year 1976 budget request is being eroded by the same inflation that is plaguing us in fiscal year 1975.

To survive within the currently enacted appropriation level, as supplemented by pay increases, we will have to take the following additional actions:

Administrative deadline of combat vehicles and aircraft.

Complete hiring freeze; RIF temporary employees; prohibition on seasonal employment.

Increase diversion of military personnel to installation support activities.

Suspend most unit training above platoon level.

Suspend supply requisitioning before mid-May.

Suspend direct and general support maintenance.

Further reduction in installation support activities—KP and custodial contracts, installation bus services, commissaries, automatic data processing, special service activities.

To quickly summarize—

Inflation has increased our costs by over $500 million, with indicators in supplies and utilities making the cost increases even greater. Decline in currency exchange rates adds $38 million to the fiscal year 1975 funding shortage.

We are absorbing a major portion of this inflation and are accepting adverse impacts in civilian employment, installation support and risking maintenance of readiness.

This reprograming request for $152 million is needed to prevent significant declines in readiness status, maintain an austere standard of living, and to prevent ever greater funding problems in fiscal year 1976.

We are not asking for additional funds to meet this requirement. Instead, we are asking you to approve the reprograming of funds from the investment accounts, which can be stretched out or deferred to later years, into the operating accounts. We propose to reprogram $89.1 million from procurement accounts and $63.3 million from R.D.T. & E.:

Procurement:	89.1
Aircraft, Army 1975–77	6.6
Missiles, Army 1975–77	20.5
1974–1976	8.6
Ammunition, Army 1975–77	15.5
Other, Army 1975–77	37.9
R.D.T. & E., Army 1975–76	63.3
Total	152.4

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The transfer of procurement funds will result in a reduced level of acquisition and program deferrals to subsequent years of certain low priority items. In R.D.T. & E., the transfer of funds will eliminate certain defense research science projects, reduce some current studies and analyses, terminate several aircraft avionics technology programs, and cause a general reduction at major R.D.T. & E. facilities.

Mr. SIKES. General West, why don't you give us a summary of what you propose?

INCREASES DUE TO INFLATION

General WEST. To summarize: Inflation has increased our costs by over $500 million and the decline in the currency exchange rate adds $38 million to the fiscal year 1975 funding shortage in O. & M., Army. We are absorbing a major portion of this inflation with difficulty. This reprograming request for $152 million is needed to prevent significant declines in readiness status, maintain an austere standard of living and prevent even greater funding problems in fiscal year 1976. We are not asking for additional funds to meet this requirement. Instead, we are asking you to approve the reprograming of funds from the investment accounts which can be stretched out or deferred to later years into the operating account.

We propose to reprogram $89.1 million from the procurement accounts and $63.3 million from R.D.T. & E. The breakout by appropriation is as follows:

From the procurement accounts, $89.1 million broken down into "Aircraft, Army, fiscal year 1975," $6.6 million.

"Missiles, Army, fiscal year 1975," $20.5 million.

"Missiles, Army, fiscal year 1974," $8.6 million.

"Ammunition, Army, fiscal year 1975," $15.5 million.

"Other procurement, Army, fiscal year 1975," $37.9 million.

"R.D.T. & E., Army, fiscal year 1975," $63.3 million, for a total of $152.4 million.

The transfer of procurement funds will result in a reduced level of acquisition and program deferrals to subsequent years of certain low priority items. In R.D.T. & E., the transfer of funds will eliminate certain defense research science projects, reduce some current studies and analyses, terminate several aircraft avionics technology programs, and cause a general reduction at major R.D.T. & E. facilities.

We can expand on the subitems included in each of these as desired. I have backup and would propose that I open the discussion for questions.

Mr. SIKES. Very well. Thank you.

Mr. EDWARDS. Do they have any proposed changes similar to those of the Air Force?

General WEST. We have no proposed changes. The additional requirements that have surfaced have been absorbed by internal actions. All the reprograming proposed here is still valid and will be used for the intended purposes.

Mr. SIKES. We talked this morning to some extent about how seriously the lack of these funds would affect the Army with particular emphasis on readiness. Do you want to bring out anything that wasn't brought out this morning in that regard?

General WEST. Mr. Chairman, I think we adequately covered that this morning, including the impact of what we would do now.

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Mr. SIKES. Suppose you didn't have all the printing supplies you need, what effect would that have on readiness?

Colonel WILLIS. If we suspended the printing requirement there would be an indirect impact on readiness. We would not have some maintenance forms available for reporting on the maintenance status of vehicles and the equipment status reports. Also, we would not have some of the medical standard forms available. We could not pass to the field the revisions of regulations and the maintenance publications for maintaining of the vehicles.

Mr. SIKES. A lot of people would think it is a good thing.

Colonel WILLIS. Yes, sir. We could live with the older regulation.

Mr. SIKES. I don't want to spend too much time on forms, but I had quite an exchange with the Secretary of the Treasury and the Director of the Office of Management and Budget in the overview hearings of the full Appropriations Committee earlier this year. There are many forms that have become a nuisance in business circles and they may have become a nuisance in military circles. Do you need all the forms that you have to fill out?

General WEST. Mr. Chairman, let me pick this up.

In our own budget review, we reduced significantly the amount of money for printing. A reduction of about $4 million. Our problem now comes from the commitments which we have currently ongoing that are driven by inflation. Critical items are the W–2 form and other military pay forms. We have a shortage of $6.5 million of the $7 million for administrative publications including these pay forms.

Mr. SIKES. You picked a good one for illustration. I think you are going to do all right as a witness.

Mr. MCCLARY. Mr. Chairman, let me interject at this point that we have a top level DOD effort under way to reduce all sorts of forms and reports.

Mr. SIKES. Have you reduced any?

Mr. MCCLARY. Yes; we have. We have already identified savings of $27 million throughout DOD as a result of these reductions and we are continuing that effort.

Mr. EDWARDS. And it hasn't hurt your operation a bit, has it?

Mr. MCCLARY. No, it has not.

Mr. BURLISON. Have any of those funds been reprogramed?

Mr. MCCLARY. No, sir.

Mr. SIKES. You list a number of areas in which decreases are to be accomplished. Aircraft procurement, missile procurement, ammunition, other procurement, research, development, test and evaluation, all of which are considered very important when we take up the budget requirements, all of which are stoutly defended by the Army at the time that we had hearings last year on the fiscal year 1975 program, some of which were cut much below what you thought was a safe level at that time.

Now, how can you come back to us and say we propose to take more cuts in these items? Are you on safe ground? How do you select these items?

General WEST. Mr. Chairman, it is essentially a matter of the relative criticality in priorities for the various programs. At the time they were defended, this was the balanced program. However, in the current year the inflation has caused the operating accounts to get out

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of line disproportionately and they have to be rebalanced. We are at the present time sorting out ways to achieve a new balance. This represents the Army's current list of priorities.

These items were selected in the procurement and the R.D.T. & E. accounts, based on our knowledge of those things which were slipping anyway or which could be deferred to the out years without serious impact. In other words, these have the least impact on the Army's present program.

Mr. SIKES. According to information provided the committee, the Army is incurring increased operating cost for programs which were not anticipated when the budget for fiscal year 1975 was finalized. Such cost are for unit activations—$25.5 million—base closure cost—$8.1 million—amnesty program cost—$3.4 million—and increased combat capability in Europe—$8.4 million. Since these are actually known increased costs not included in the budget, why were they not included in the reprograming request rather than an item such as operating supplies for unit training?

General WEST. Sir, the costs for unit activations and base closures were discussed with the committee during the hearings on the fiscal year 1975 budget request. These actions and the directed requirements for the amnesty program and the increased combat capability in Europe were time sensitive requirements which could not be deferred until funds became available through the reprograming process.

Mr. SIKES. Did you rationalize that the Army's chances for obtaining approval of the reprograming request was better by emphasizing inflation rather than by pointing out additional program requirements?

General WEST. No, sir. The Army is seeking approval of the reprograming request only after absorbing within the Operation and Maintenance, Army Appropriation, the major portion of the impact of inflation and unprogramed requirements. The request for reprograming from outside the appropriation for inflation was submitted only after every other means of solving the problem was examined.

Mr. SIKES. What criteria was specifically used in deciding which items to include in the reprograming request?

General WEST. Sir, the only criteria used were the minimum essential operating requirements of the Army and how best to meet these requirements with the least possible impact on the Army's readiness and mission.

Mr. SIKES. General, you imply that the total request of $152.4 million is all due to inflation. How did the Army determine which part of its O. & M. appropriation is subject to inflationary factors and which is not?

General WEST. The Army measured the impact of inflation on the Operation and Maintenance, Army Appropriation by excluding all personnel costs paid directly by the Government and determining the inflation impact on the various categories of goods and services which the Army is buying. Inflation impacts on the entire appropriation either in the form of increased costs for material and service or in the form of pay raises for employees.

Mr. SIKES. What inflationary factors were used?

General WEST. The inflation factors used by the Army are based on data published by the Bureau of Labor Statistics for the period

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July 1, 1973, to June 30, 1974. The data was then extrapolated into inflation factors by the various categories of goods and services from the prices contained in the fiscal year 1975 President's budget—July 1, 1973, level—through those expected through the end of the fiscal year. The reprograming request was based on prices in effect in November 1974, the time the reprograming action was completed.

Mr. SIKES. General, you state that the requirement to fully offset inflation was determined several months ago. When was this determination actually made?

General WEST. The Army's decision was to not fully offset the impact of inflation through reprograming, rather to reprogram only those funds required to prevent the severe impact of inflation in critical Army programs. The Army originally identified the underfunding of fiscal year 1975 due to inflation during hearing before this committee on the fiscal year 1975 budget in May 1974. The reprograming requirement was finalized in November.

Mr. SIKES. How could the Army make a determination that its O. & M. budget was inadequate before or shortly after funds were actually appropriated?

General WEST. The President's budget was finalized in December 1973 and a complete review of field funding requirements was completed in June 1974. The impact of inflation has been monitored from the time the President's budget was submitted to Congress. The field input for the June review provided further details of the impact at local levels. The Appropriation Act was enacted on October 8, 1974, however, the committee marks were available as early as August. This enabled the Army to conduct a comprehensive review of OMA funding requirements prior to requesting the reprograming.

Mr. SIKES. Let us concentrate for a few minutes on some of the items for which you are requesting additional funds. The largest item is $68.1 million for operating supplies for unit training and exercises. What was the total amount appropriated for such supplies for fiscal year 1975?

General WEST. Sir, approximately $543 million was appropriated for fiscal year 1975 for these types of supplies.

Mr. SIKES. The Army is reducing the JCS exercises. Why would you require additional funds for operating supplies?

General WEST. Mr. Chairman, as you know, JCS exercises are only a small piece of the operational requirement of the forces. The daily activities and operations and training continue to go on. The operating account is one of the areas where we really have suffered our greatest impacts from inflation. Although we are proposing to reprogram something over $80 million into operating supplies, actually by our latest check—and this is a very recent one—we have incurred additional costs on the order of about $146 million to buy supplies. The rest is part of the absorption we are taking by internal action. The JCS exercise is only one of those belt-tightening things we are doing.

Mr. SIKES. To what extent would the Army's operating supplies inventory be drawn down if this request were denied?

General WEST. Sir, denial of the request for additional supply funds would result in severe supply constraints throughout the Army.

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For example, Korea would be faced with a 9 percent supply deficit and Japan would draw all inventories to virtually a zero balance. In general, supplies at the combat unit level and the first supporting level would be drawn to almost zero balance. Commands would be forced to eliminate most unit training in the fourth quarter of the fiscal year. The impact on the supply system would be drastic because lack of funds would cause the demand for supplies to be understated resulting in lower supply buys which would create supply shortages in the future. The overall impact of denial would be to decrease the readiness posture of major Army combat units one level.

Replacement Tracks for M–60 Tank

Mr. Sikes. General, you cite several examples of increases in supply cost. For instance, you state that replacement tracks for the M–60 tank are up over 100 percent adding over $18 million to supply cost. Was it inflation alone that solely caused this tremendous increase in cost or are there other factors involved?

General West. That particular one is inflation alone. It is the same track with two prices. There are two tracks for the tank. One track is better than the other so you will see differences in price, but this particular increase is due to inflation alone.

Mr. Sikes. What are these other factors and what effect do they have on the overall percentage increase?

[The information follows:]

General West. The only factor in this cost increase is inflation.

Flying Hour Program Reduced

Mr. Sikes. Information provided the committee shows that the Army has reduced its fly-hour program by 138,029 hours. General, what was the savings realized by this cutback in the flying-hour program?

Colonel Willis. That was $11 million.

Mr. Sikes. How did you determine how much this could be cut back?

Colonel Willis. We determined it by examining the requirement of command and administrative aircraft, the proficiency flying time to maintain combat readiness skills, the flying required with exercises; altogether the combination of those factors brought it to about a 10 percent reduction in the program flying-hours.

Mr. Sikes. If you had ample fuel, would you restore some of those flying-hours to the program?

Colonel Willis. Sir, we couldn't afford to buy the fuel to restore the flying-hours.

Mr. Sikes. Do you need the flying-hours?

Colonel Willis. Yes, sir, to maintain optimum proficiency flying and readiness flying requirements, particularly for our major units. We could fly more hours.

Mr. Sikes. "Could" is not the word I had in mind. "Should" you?

General West. I think we are probably at about minimum levels. We are all right if we can get funded right now. We could use a little more, but I don't think we would choose to go any higher at this time.

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Mr. SIKES. That figures out at about $80 a flying-hour. Isn't that quite low when you consider the various costs; such as POL, spare parts, maintenance, et cetera, which are included in a flying-hour cost?

General WEST. No sir, the $80 per flying-hour is the average operating cost that is chargeable to the "Operation and maintenance, Army" appropriation for POL and minor repair parts. This cost, of course, varies by type of aircraft.

Mr. SIKES. When you cut back the flying-hour program, which engenders a large demand for operating supplies and spare parts, would this reduce stock fund requirements and in turn reduce the need for additional funds for the increased price of operating supplies?

General WEST. Mr. Chairman, a cutback in fuel does have the concurrent effect of cutting back use of repair parts. However, we have already cut back and we have already reduced our demand correspondingly in repair parts. The funding situation we are faced with is over and above that.

PRINTING REQUIREMENTS

Mr. SIKES. How much material is the Army having printed which generates a $7 million additional requirement?

General WEST. Mr. Chairman, the Army is programed to print 6,000 less jobs in fiscal year 1975 than in fiscal year 1974. The fiscal year 1975 budget was based on fiscal year 1973 printing prices and a 25 percent workload reduction was planned because of the reorganization. Unfortunately, no one predicted the 40 percent increase in printing prices. As a result the $7 million is requested to print only public law and mission essential requirements such as Freedom of Information Act procedures, enlistment contracts, Federal tax and FICA tables, pay vouchers, W-2 Forms, and technical data on operational equipment.

Other printing requirements have been deferred and the Army printing stocks on regulations, manuals and blank forms will be close to a zero balance by June 30, 1975.

PROCUREMENT DECREASES

Mr. SIKES. Do you propose to restore any of these items in these decreases proposed for fiscal year 1976 and subsequent budgets?

General WEST. Yes, sir. Some are deferrals and some are cancellations. I can supply for the record the exact breakout.

Mr. SIKES. If you will, please.

[The information follows:]

General WEST. The breakout of proposed cancellations and deferrals within the fiscal year 1975 procurement appropriations, Army, are as follows:

AIRCRAFT

Budget activity 2—Modification of aircraft:

CH–47 Cargo helicopter

Add AN/APN–209 radar altimeter—deferred to fiscal year 1976.

UH–1 Utility helicopter

Add improved main driveshaft—deferred to fiscal year 1977.
Add fuel cross fitting assembly—deferred to fiscal year 1976.

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Add elastomeric main rotor bearing—cancelled.
Budget activity 4—support equipment and facilities:

Avionics shop, shelter mounted, AN/ASM–146—Canceled.

COMMON GROUND EQUIPMENT

Self-propelled maintenance crane—deferred to fiscal year 1976.
Shelter, portable, aircraft maintenance (SPAM)—deferred to fiscal year 1977.
Dolly set, M689—deferred to fiscal year 1977.

MISSILES

Canceled.
Dragon.—$7.8 million for procurement of 300 AN/TAS–3 night sights.
Tow.—$0.3 million for procurement of 300 mounting brackets for the AN/TAS–3 night sight.
Nike Hercules.—$5.4 million for the curtailment of the type IV test equipment procurement program.
Spares and Repair Parts.—$3.6 million—reduction because of cancellations in the Nike Hercules program.
Production base support.—$1.7 million—reduction because of cancellations in the Nike Hercules program.
The following programs were deferred:
Pershing.—$1.7 million was deferred as a result of the decision to assess the effects of the proposed modifications on the responsiveness of our deployed forces. An estimate of $2.6 million for initiation of a 5-year program to modify the Pershing IA missile has been placed in the fiscal year 1977 budget request.

OTHER PROCUREMENT

The Army does not plan on restoring any of the other procurement, Army, decreases in fiscal year 1976. Similar items that now appear in the fiscal year 1976 budget request were planned programs to meet requirements in addition to those contained in fiscal year 1975. Fiscal year 1977 and subsequent year programs will be adjusted if the requirement for the fiscal year 1975 quantities still exists.

Ammunition

Cancel fuze, MT f/Arty and 4.2" mortar:

Quantity	243,000
Amount	$15,451

Mr. SIKES. Let us discuss the decreases for a few minutes. You propose to use $6,640,000 in aircraft modification funds from the fiscal year 1975 aircraft procurement, Army, appropriations to partially fund this reprograming action. Please provide for the record specifically what modifications will not be accomplished, the amount for each modification, why each modification can be delayed or terminated, and which ones are budgeted in fiscal year 1976 and the amount for each.

[The information follows:]

General WEST. Sir, of the $6.6 million that we propose to reprogram from the fiscal year 1975 aircraft procurement, Army appropriation, $2.7 million is from aircraft modification funds and $3.9 million is from budget activity 4, support equipment, and facilities. Specific details of our proposal follow:

Budget activity 2—modification of aircraft:

Modification of the CH–47 Cargo Helicopter to install the AN/APN–209 radar altimeter. Defers $.5 million of the fiscal year 1975 non-recurring cost to fiscal year 1976 because of developmental delays. The fiscal year 1976 cost for this effort is estimated to be $.512 million.

Modification of the UH–1 Utility Helicopter to install an improved main drive shaft. Defers $.6 million to fiscal year 1977 because of developmental delay and required additional testing. The cost is expected to increase from $.6 million to estimated $.8 million.

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Modification of the UH-1 Utility Helicopter to install a fuel cross fitting assembly. Defers $.064 million to fiscal year 1976. This modification was deferred as a low priority maintainability project. Fiscal year 1976 cost is estimated to be $.065 million.

Modification of the UH-1D/H Utility Helicopter to install an elastomeric main rotor hub bearing fiscal year 1975 cost: $1.536 million. The modification has been canceled because of undesirable flight control characteristics during certain emergency operating conditions.

Budget activity 4—support equipment and facilities:

Procurement of the Avionics Shop, Shelter Mounted AN/ASM-146 fiscal year 1975 cost $.8 million. This procurement was canceled because of force structure changes after approval of the fiscal year 1975 budget which reduced the requirement (AAO) to a point slightly less than the on-hand inventory.

Procurement of Common Ground Equipment fiscal year 1975 funds for reprograming total $3.140 million. These funds include $1.250 million for 50 self propelled maintenance cranes: $1.050 million for 50 shelters, portable, aircraft maintenance (SPAM) and $.840 million for 125 M689 dolly sets. The self-propelled maintenance crane has been deterred to fiscal year 1976 at a cost of $1.75 million. This was considered a lower priority requirement. The SPAM shelters and the M689 dolly sets have been deferred to fiscal year 1977 pending reevaluation of the Army's requirement for these items. The estimated costs for these items in fiscal year 1977 are $1.5 million for the SPAM shelter and $.9 million for the M689 dolly set.

Mr. SIKES. Will you explain on what programs you are receiving reimbursement—the amount is $8.6 million in the fiscal year 1974 Missile Procurement, Army appropriation and the source of each reimbursement.

General WEST. The $8.6 million is in a category we call free assets. They were based on sales, foreign sales, that we are not replacing out of stock. The account is not uniquely identified by item.

Mr. SIKES. Will you also provide for the record the source of the $20.5 million being reprogramed from the fiscal year 1975 Missile Procurement, Army appropriation.

[The information follows:]

General WEST. The fiscal year 1975 missile procurement, Army appropriation, $20.5 million being reprogramed or scheduled to be reprogramed, comes from the following programs:

Dragon.—$7.8 million for 300 AN/TAS-3 night sights. Program canceled.

Tow.—$0.3 million programed to procure 300 mounting brackets to be used with the AN/TAS-3 night sight. Program canceled.

Pershing.—$1.7 million scheduled to be used to modify the safe and arming devices in the Pershing IA missile. Program deferred until fiscal year 1977.

Nike Hercules.—$5.4 million for procurement of Type IV test equipment was canceled.

Spares and Repair Parts.—$3.6 million. Reduction caused by cancellations in the Chaparral, Dragon, and Nike Hercules programs.

Production Base Support.—$1.7 million. Reduction caused by cancellations in the Nike Hercules program.

Mr. SIKES. One source of funds for the reprograming action is other procurement, Army, $37.9 million. Comparing the revised fiscal 1975 levels as identified in the reprograming action to the fiscal 1975 program levels, as identified in the fiscal 1976 procurement budget, it appears further reductions have been made to five of these line items for a total of $5.2 million. Partial restoration has been made to three line items totaling $500,000.

Eight line items—½-ton stake semitrailers; 12-ton van semitrailers; ambulance trucks; 19,000 GVW stake trucks; PP-4127A battery chargers; 600,000-gallon fuel-system supply-point equipment; fork-lift trucks; and Department of the Army command-and-control system equipment—have been zeroed out by this reprograming action and

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show zero funding in fiscal year 1976. What happened to the requirements for these items?

General WEST. Mr. Chairman, may we supply it for the record?

Mr. SIKES. All right.

[The information follows:]

General WEST. The Army has valid requirements for all of these items. Need for funding of PP 4127A battery chargers and DA command-and-control systems has slipped to fiscal year 1977. For the other items, overage assets are being retained to fill requirements.

Mr. MURPHY. General West, with respect to the question on the free assets, I believe you said you were unable to provide the source of those reimbursements; is that true?

General WEST. Let me explain this. The receipts from sales are accumulated in the records of the appropriation and represent nonrecurring and production costs. The balance of the account is not identified by the particular item that was sold.

We can provide you examples of what we sold in fiscal year 1974. Some of these resources have since been used, as you know, for various reprogramings.

Mr. MURPHY. We are hoping you could provide us with the source of those free assets from sales in fiscal year 1974. Can you tell us what types of equipment were sold, at what price, the quantity, and how much of the free assets have already been utilized and the balance on hand?

General WEST. We can supply for the record the entire record for fiscal year 1974 where funds have already been utilized.

Mr. MURPHY. That is what we would like to have.

[The information follows:]

The following tabulation indicates the fiscal year 1974 free assets by appropriation generated from reimbursable customer orders and the subsequent application to other DOD programs.

Application of free assets

	Thousands
Aircraft procurement (free assets generated):	
Direct Army program increase for CH-47 modification	$3,800
Transfer to weapons and tracked combat vehicles—tank program, 1975	21,000
Transfer to defense stock fund—POL—1975	600
Free assets to be generated to finance fiscal year 1974 direct program (congressional)	5,000
Total	30,400
Missile procurement (free assets generated):	
Free assets to be generated to finance fiscal year 1974 direct program (congressional)	10,000
Transfer to operations and maintenance, Army—1975	8,600
Transfer to weapons and tracked combat vehicles—tank program, 1975	21,500
Total	40,100
Weapons and tracked combat vehicles (free assets generated procurement):	
Free assets to be generated to finance fiscal year 1974 direct program (congressional)	5,000
Transfer to weapons and tracked combat vehicles—tank program, 1975	4,000
Transfer to weapons and tracked combat vehicles 1975 program	3,000
Total	12,000

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Ammunition procurement (free assets generated):	
Free assets to be generated to finance fiscal year 1974 direct program (congressional)	10,000
Transfer to weapons and tracked combat vehicles—tank program, 1975	10,000
Total	20,000
Other procurement (free assets generated):	
Free assets to be generated to finance fiscal year 1974 direct program (congressional)	5,000
Direct Army program increase for mobile assault bridge units	6,300
Total	11,300
Total fiscal year 1974 generation	113,800

Five-Ton Trucks and Concrete Trucks

Mr. Sikes. Modification of the 5-ton, all-body-type truck has been eliminated by this reprograming action, but is being reinstated in full in the fiscal year 1976 and fiscal year 197T programs. This is also true of the 8-cubic-yard concrete truck. What is the actual requirement for these trucks? Will the fiscal year 1976 funds be used for procurement of these trucks?

General West. We will supply that for the record, sir.

[The information follows:]

General West. The fiscal year 1975 and 1976 requests for the modification of 5-ton trucks are for the conversion of existing trucks from one body style to another. The Army, as a result of it's "Wheels" study has reduced overall 5-ton truck requirements and has not procured this truck since fiscal year 1972. This has resulted in some body styles being in short supply while others have a slight excess. A delay in fielding the SAM–D missile system deferred the need to convert 5-ton trucks in fiscal year 1975. The funds were then identified for this reprograming action. The current fiscal year 1976 budget request of $1.3 million is required to support conversion of trucks for the Ribbon Bridge.

The Army has a requirement for 208 each 8-cubic-yard concrete trucks for Engineer construction battalions. With the deletion of the fiscal year 1975 program the fiscal year 1976 budget request for $3.2 million will be the first year buy of a planned 4-year program.

Mr. Sikes. The concrete truck just mentioned was programed initially for fiscal year 1975 at a unit cost of $40,000. The delay until fiscal year 1976 involves an increased unit cost to $80,000 for 40 of the 60 trucks needed, with the remaining 20 trucks programed for fiscal year 197T at a unit cost of $100,000. The delay, therefore, is costing us $2,800,000, or more than twice the original program; is that correct?

General Van Buskirk. The reason we had to delay the buy is that when we got into the procurement we had an excessive cost on the chassis for the truck in excess of the budget estimate.

Mr. Sikes. Do you mean $40,000 for a concrete truck is unrealistic?

General Van Buskirk. The initial cost we had in the budget was unrealistic when we went to make the buy.

Mr. Sikes. What would they have cost had you bought them in fiscal year 1975?

General Van Buskirk. I don't have that figure.

Mr. Sikes. Then how do you know this is unrealistic?

General Van Buskirk. I haven't the figure with me.

Mr. Garrity. Based on your statement there, then your 1976 cost figures are due to be unrealistic also because the ones you are going to buy in 1975 were at a unit cost of $40,000 and you say when you got

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into contracting negotiations it was unrealistic. Now you are coming in for 40 more at a unit cost of $80,000, twice as much, so it appears still to be unrealistic. Why are you putting them in the budget now?

General VAN BUSKIRK. What we did was to go back to the user and attempt to reduce the requirements for the commercial construction equipment. We are trying to reduce the requirements to get the cost where we can procure the trucks within what we think is a proper amount. The amount that we put in was the estimate of the cost we thought it would be for the 1976 buy.

General WEST. The fiscal year 1975 cost figure is unrealistic.

General VAN BUSKIRK. When we went out to buy them in fiscal year 1975, we could not buy them for the $40,000.

Mr. SIKES. Do you know what you could have gone on and bought them for?

General VAN BUSKIRK. I haven't that figure with me.

Mr. SIKES. We are trying to determine whether this delay in procurement is going to cost $2,800,000 or what it is going to cost.

Now, do you know what they would cost in fiscal 1976 and fiscal 1977 or whenever you procure them?

General WEST. May I give you a sheet on that one?

Mr. SIKES. Yes; but if it is going to cost a lot of money to defer this purchase, it is poor policy to do so.

Mr. MURPHY. Is this a commercial, off-the-shelf concrete truck?

General WEST. Yes, commercial construction equipment.

Mr. MURPHY. How could the Army be so far off in its estimate? You could pick up a telephone and find out what they sell for.

Mr. SIKES. They picked up the wrong telephone.

General VAN BUSKIRK. The budget estimate that went in was a fiscal year 1974 figure and now we have the inflation for fiscal year 1975 and now fiscal year 1976.

Mr. MURPHY. Have concrete trucks increased in cost that much in the last year, or was it just a poor estimate? This is just difficult to understand.

Mr. MCCLARY. We have significant increases in automotive equipment as you have observed in such things as tanks. We will supply that information for the record. It is not good business practice to postpone from one year to the next if it is going to cost twice as much. I think we can get up to date quotes for fiscal year 1975 and also a projection for fiscal year 1976.

Mr. SIKES. What surprises us is that you don't know more about this situation.

[The information follows:]

General VAN BUSKIRK. The item that the Army is planning on procuring is a concrete mixer mounted on a 20-ton truck chassis. It will carry sufficient unmixed dry bulk cement, sand, coarse aggregate, and water to any job site or pour point to produce 8-cubic yards of concrete.

The unit cost for this item as reflected in the fiscal year 1975 budget was developed from cost data received from commercial sources for the mobile mixer, and from an on-going 20-ton dump truck contract for the chassis. Using these sources, it was estimated that the mixer would cost $17,000 and the chassis $22,000. Other miscellaneous cost resulted in a program unit cost of $40,000.

The first step bid opening in June 1974 of a two-step procurement method for this item reflected substantial increases for the mixer and the chassis. Based on this data it was estimated that the program unit cost for fiscal year 1975 would be $72,900 and require a total of $4.374 million to procure. The fiscal year 1976 program unit cost of $80,000 was developed from the estimates received in June 1974.

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Mr. MURPHY. This is a commercial off-the-shelf item; automobiles haven't doubled in price.

FORKLIFT TRUCKS

Mr. SIKES. The 4,000-pound forklift was initially funded at $3,800,000 for 307 trucks. The reprograming request reduces the program by $1,300,000 and 107 trucks. The fiscal year 1975 column of the fiscal year 1976 budget shows zero in this program. What happened to the $2,500,000 and 200 trucks remaining after the reprograming reduction?

Supply that for the record.

[The information follows:]

General WEST. The program was deleted and funds used for the procurement of 130 each rough terrain forklift trucks valued at $1,900,000 and 130 each mobile loading ramps costing $900,000. These items were required in Europe in support of the containership program and were considered to be of a higher priority.

Mr. SIKES. The Congress initially funded 100 15,000-pound forklifts at $7,700,000 at a unit cost of $77,000. The reprograming action eliminates the buy. The fiscal year 1976 program reinstates the buy, but at a unit cost of $99,510. In light of this 29 percent increase in price, should we be deferring procurement of these trucks? Are those figures accurate?

General WEST. Yes, sir, they are accurate.

Mr. SIKES. In the light of this 29 percent increase in price, should we be deferring procurement of these trucks?

General WEST. This inflation is about what we have experienced during this period.

Mr. GARRITY. The thrust of the question is, General: Here we are taking money from the procurement accounts; we are putting it into O. & M. to cover inflation. At the same time you are coming in in 1976 and you are asking for money for items that are going to cost you 29 percent more, and in the other instance, $2.8 million more. Is it really realistic to take the money from your procurement account and put it into O. & M.? That is the thrust of the question.

General WEST. Let me point out one thing that I think overtook us all between the fiscal year 1975 and fiscal year 1976 budget. The fiscal year 1975 budget was underinflated in terms of procurement and we in fact made a quantum jump to bring it into line in the fiscal year 1976 budget. In most cases there was a double jump; one was catchup inflation, the other was real inflation.

CEMENT TRUCKS

Mr. ADDABBO. Mr. Chairman, will the gentleman yield?

Can we go back to the cement trucks?

The testimony I understood here was that we are talking about an 8-cubic-yard cement truck; is that correct?

General VAN BUSKIRK. Eight-cubic yards, yes.

Mr. ADDABBO. For your information, I just called one of my friends back home. He will sell you all the 8-cubic-yard cement trucks you want retail, not wholesale, for $45,000 in today's market; a 15-cubic-yard truck would cost you a little over $60,000. So where you are getting your figures from, I don't know. If this is the type of estimates

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we are getting in the Defense budget, no wonder the budget is up to $97 billion. The prices I quoted are based on one phone call to a commercial yard.

Mr. McCLARY. Mr. Addabbo, we are dealing in budget estimates——

Mr. ADDABBO. But not double. Maybe that is why we have a $97 billion. Defense budget for fiscal year 1976.

Mr. McCLARY. We would certainly hope our procurement people do——

Mr. ADDABBO. I am not using double inflationary figures.

Mr. McCLARY. Yes.

Mr. EDWARDS. I think they see the Defense Department coming and the price goes up the minute they walk in the door.

Mr. SIKES. You take bids on these; don't you?

General VAN BUSKIRK. Yes, sir.

Mr. ROBINSON. What are the cement trucks supposed to be used for?

General VAN BUSKIRK. These trucks are used in our construction units. Combat and construction battalions.

Mr. ROBINSON. Combat construction?

General VAN BUSKIRK. Engineer construction battalions.

Mr. ROBINSON. And they are standard equipment for them?

General VAN BUSKIRK. That is correct.

Mr. McCLARY. I think we should point out, Mr. Robinson, that all of the services have made a dedicated effort to get away from military-specified vehicles to commercial, and there has been a significant savings accomplished through that.

Mr. SIKES. The committee has been insisting on that for many years.

We don't seem to be getting much information, Mr. Secretary. It does raise some question about the wisdom of the items which have been deferred from the standpoint of what they are going to cost in the future, if your figures are correct.

Mr. McCLARY. We will submit for the record these fiscal year instances where there are significant increases from fiscal year 1975 to fiscal year 1976 to make sure that we really have the facts as to the real cost increases versus budget estimates and then I think on the basis of that information you can make a determination as to whether these are appropriate deferrals to a future period, where the costs are higher.

Mr. SIKES. Possibly there are factors which had to do with the selection of the items for decreases, which have not been explained to the committee, and which would help us to understand why you followed this course.

Mr. McCLARY. I think we should realize, Mr. Chairman, that our real desire would be to have supplemental appropriations so we can do all of the things we had planned to do in fiscal 1975. We have had to determine what are some of the other actions that we can take to defer, or degrade readiness in this period and it has been a choice among undesirable alternatives. There has been no easy way.

Mr. SIKES. That is a good statement and the committee understands that you do have a difficult problem. There are some accounts you have to pay from some source. If you don't have the money and you are not allowed to send a supplemental to Congress, and you have to choose as best you can from among the items that you think can be deferred, or eliminated.

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Let's talk about ammunition.

Mr. BURLISON. Mr. Chairman, will you yield on that point?

Mr. SIKES. Yes.

SUPPLEMENTALS FOR FISCAL YEAR 1975

Mr. BURLISON. Could you provide for the record, Mr. Secretary, how many supplementals you have sent to the Congress in this fiscal year for military purposes? Are you not saying that we have had no defense supplementals?

Mr. MCCLARY. We have strived to have no supplementals. There have been two exceptions. One is the pay supplemental. This is becoming a regular thing and I am sure that the committee is not surprised that it will be coming, not only from the Department of Defense, but all departments and agencies. And then we have also recently submitted a supplemental for South Vietnam. Again, that is an unusual event, an unforeseen action that we are treating independently but aside from those two it has been our intention not to submit supplementals during this year, at the direction of this committee.

Mr. BURLISON. I did want the record to show that this fiscal year has not been devoid of supplemental requests for the Defense Department.

AMMUNITION

Mr. SIKES. We will talk about ammunition.

You are transferring $15,451,000 for O. & M., A. in three line items and the fiscal 1976 program for all three items is zero. Are you discontinuing procurement of these three line items?

General VAN BUSKIRK. The mechanical time fuze is the item used to support the O. & M. reprograming action for $15.5 million. What we are doing is balancing procurement of the fuzes to match the projectiles we are able to buy with the money that we have in this fiscal year and in prior fiscal years. We are not discontinuing that item but we do not have a buy in fiscal year 1976.

Mr. SIKES. You budgeted initially close to $101 million. Does this mean you have enough in the inventory to last through fiscal 1976 without the $15,451,000?

General WEST. That is correct, sir. The fuzes match the projectiles. There is sufficient quantity without this buy to match the projectiles.

Mr. SIKES. According to our calculations you have reductions totaling $78,800,000. You are using $15.5 million to transfer to O. & M., A. What would the remaining $63,400 be used for?

General WEST. Sir, the total ammunition was in two parts. The first of $63.4 million was for the MPA reprograming which was previously addressed by this subcommittee and denied. This remaining portion, of $15.5 million, was applied to O. & M., A., and is identified with the mechanical time fuzes.

The proposed reprograming to the MPA appropriation has been denied by congressional action. The Senate Appropriations Committee in their actions directed that the balance of the $63.4 million could not be reprogramed without their consent. Use of these funds will be coordinated with that committee as appropriate.

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Mr. SIKES. Please provide for the record a table, by line item affected, showing the quantities and amounts (*a*) approved by the Congress for fiscal year 1975, (*b*) reduced in the reprograming action, (*c*) reflected in the fiscal year 1975 column of the fiscal year 1976 budget, and (*d*) programed for fiscal year 1976 and fiscal year 76T in the fiscal year 1976 budget. Provide for each procurement appropriation addressed in the reprograming action.

[The information follows:]

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(Dollars in Thousands)

Line Item Nomenclature	Approved By Congress FY 75 Qty	Amount	Reduced In The Reprograming Action Qty		Amount	FY 75 Column Of FY 76 Budget Qty	Amount	Programed For FY 76 Qty	Amount	Programed For FY 76T Qty	Amount
AIRCRAFT PROCUREMENT, ARMY											
Helicopter, Cargo Transport, CH-47 (CHINOOK) Modification	XX	8,500	XX	-	500	XX	8,000	XX	6,100	XX	1,200
Helicopter, Utility UH-1 (IROQUOIS) Modification	XX	20,100	XX	-	2,200	XX	15,300	XX	14,500	XX	3,300
Avionics Shop Shelter Mounted AN/ASM-146	89	800	- 89	-	800	0	0	0	0	0	0
Commond Ground Equipment	XX	6,200	XX	-	3,140	XX	2,600	XX	6,800	XX	0
MISSILE PROCUREMENT, ARMY											
DRAGON, (XFGM-88A, XFTM-77A)	15,200	86,500	XX	-	7,800	14,350	78,600	19,300	106,800	5,940	25,100
TOW, (BGM-71A - BTM-71A)	23,860	104,600	XX	-	300	23,860	104,300	23,813	140,200	6,000	20,500
PERSHING, Modification	XX	11,100	XX	-	1,700	XX	9,400	XX	0	XX	0
Spares & Repair Parts, All Other	XX	18,000	XX	-	3,600	XX	12,600	XX	17,400	XX	4,300
Production Base Support	XX	5,500	XX	-	1,700	XX	3,800	XX	4,500	XX	1,600

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(Dollars in Thousands)

Line Item Nomenclature	Approved By Congress FY 75 Qty	Amount	Reduced In The Reprograming Action Qty	Amount	FY 75 Column Of FY 76 Budget Qty	Amount	Programed For FY 76 Qty	Amount	Programed For FY 76T Qty	Amount
PROCUREMENT OF AMMUNITION, ARMY										
Fuze, MT f/Arty & 4.2" Mortar	276	17,600	- 243	- 15,451	0	0	0	0	0	0
OTHER PROCUREMENT, ARMY										
Semitrailer, Stake, 12 Ton	100	700	- 100	- 700	0	0	0	0	0	0
Semitrailer, Van, 12 Ton	110	800	- 110	- 500	0	0	0	0	0	0
Truck, Ambulance	89	700	- 89	- 700	0	0	0	0	0	0
Truck, Cargo, Pickup 4x4	697	3,200	- 206	- 1,000	294	1,400	197	1,200	0	0
Truck, Dump	280	4,700	- 67	- 1,000	213	3,200	306	5,800	0	0
Truck, Stake, 19,000 GVW, 4x2	600	4,200	- 267	- 2,100	315	2,100	197	1,400	0	0
Truck, Stake, 19000 GVW, 4x4 & 6x4	70	700	- 70	- 700	0	0	0	0	0	0
Truck, Tractor, 6x4	240	5,700	- 132	- 3,700	90	2,000	0	0	0	0
Truck, 5 Ton, ABT Modification	XX	1,300	XX	- 1,300	XX	0	XX	1,300	XX	0

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(Dollars in Thousands)

Line Item Nomenclature	Approved By Congress FY 75 Qty	Approved By Congress FY 75 Amount	Reduced In The Reprograming Action Qty	Reduced In The Reprograming Action Amount	FY 75 Column Of FY 76 Budget Qty	FY 75 Column Of FY 76 Budget Amount	Programed For FY 76 Qty	Programed For FY 76 Amount	Programed For FY 76T Qty	Programed For FY 76T Amount
OTHER PROCUREMENT, ARMY (CONT'D)										
C&E Facilities/Projects	XX	1,300	XX	- 1,300	XX	0	XX	2,100	XX	0
Civil Defense	XX	900	XX	- 900	XX	0	XX	700	XX	0
Spares & Repair Parts (STARCOM-NON DCS)	XX	700	XX	- 700	XX	0	XX	400	XX	0
Interrogator, Computer, KIR-1A/TSEC	836	1,900	- 478	- 1,200	358	900	171	500	0	0
Transponder Computer, KIT-1A/TSEC	836	1,400	- 167	- 300	669	1,200	0	0	0	0
Base Communication (Other)	XX	1,500	XX	- 1,500	XX	100	XX	900	XX	0
DA Command & Control System (DACCS)	XX	100	XX	- 100	XX	0	XX	0	XX	0
Charger Battery, PP4127A	500	700	- 500	- 700	0	0	0	0	0	0
Production Base C&E Equip	XX	5,000	XX	- 500	XX	4,500	XX	13,400	XX	0
Fuel System Supply Point 600,000 Gal	16	500	- 16	- 500	0	0	0	0	0	0
Distributor, Water, 6,000 Gal, Semitrailer Mtd (CCE)	110	1,900	- 110	- 1,900	0	0	100	2,100	0	0

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(Dollars in Thousands)

Line Item Nomenclature	Approve By Congress FY 75 Qty	Approve By Congress FY 75 Amount	Reduced In the Reprograming Action Qty	Reduced In the Reprograming Action Amount	FY 75 Column Of FY 76 Budget Qty	FY 75 Column Of FY 76 Budget Amount	Programed For FY 76 Qty	Programed For FY 76 Amount	Programed For FY 76 Qty	Programed For FY 76 Amount
OTHER PROCUREMENT, ARMY (CONT'D)										
Truck, Concrete, 8 Cu Yd (CCE)	60	2,400	- 60	- 2,400	0	0	40	3,200	20	2,000
Truck, Fork Lift, DE, FT, RT, 15,000 LB	100	7,700	- 100	- 7,700	0	0	204	20,300	0	0
Truck, Fork Lift, Electric SRT, 4,000 LB	307	3,800	- 107	- 1,300	0	0	0	0	75	1,100
Tractor, Whl, Industrial 4 Whl, Medium, Modification	XX	2,200	XX	- 1,200	XX	1,000	XX	0	XX	0
Items Less Than $500,000 Other Support Equipment	XX	22,600	XX	- 600	XX	20,900	XX	29,300	XX	10,900
Training Device Non System	XX	11,300	XX	- 3,400	XX	7,900	XX	21,200	XX	2,300

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Mr. SIKES. Was the item for decreases selected at the same time that the increases were calculated and forwarded to Congress, in early December?

General WEST. That is right.

Mr. SIKES. Have you had any second thoughts on wisdom or lack of wisdom in the selection of these items? Would you like to make changes in the items that you are proposing to decrease?

General WEST. I have been advised by the appropriations director that this is still in priority and would be used.

I might say here—and this gets back to your other question as to how the items were selected—they are the items least urgently needed. Either the AAO is higher or they are not as critical for use in combat and tactical units. Therefore, they do fall in a lower category.

SITE DEFENSE PROGRAM

Mr. SIKES. The House approved $100 million for site defense. The Senate provided an authorized amount of $123 million. The conferees agreed on $118 million. The Army appeal to the conferees stated, and I quote:

> The House reduction would cause delay in the solutions of the five identified key terminal ballistic missile defense technical problems—operation in nuclear environments, bulk filtering, discrimination, development of tactical engagement software, dormant/unmanned operations—reduce the probability of successful SAL negotiations; jeopardize the U.S. capability to counter the probable threat if the SAL negotiations fail to produce an acceptable limitation of the threat; and reduce the ability to maintain a lead over the Soviets in BMD component technology.

This reprograming requests authority to transfer $3.2 million of site defense funding to O. & M.

How was this $3.2 million selected? How did you determine you could reduce the amount for site defense?

Colonel KENNEY. The impact is to delay some of the developmental work in the site defense program an additional 4 months and losing 150 contractor employment spaces throughout the whole system.

The $3.2 million additional reduction in gross terms does not impact on SALT as much as did the more intensive cut directed by the Congress. The program still has a degree of viability, albeit some of the work will be slipped 4 months.

Mr. SIKES. You will have to accept only a 4 months delay in the program, is that what you are saying?

Colonel KENNEY. Yes, sir; by the $3.2 million cut and, of course, that is in addition to any delays previously announced as a result of the Congressional cut.

Mr. SIKES. Given the recent increased Soviet development effort on ABM systems, why is the site defense program being reduced?

Colonel KENNEY. The reports of the SASC, the Joint Authorization Committee, and the HAC each contain guidance which required a redirection of the program from a protovpe demonstration leading to a deployable system toward an advanced development component technology program. For the new program, the Army is requesting only $140 million in fiscal year 1976, whereas to continue the prototype demonstration would have required about $160 million as a minimum and considerably more if the development were to be completed for near-term deployment.

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Mr. SIKES. The reprograming requests that $300,000 be transfered from the evaluation of foreign components program. The House had approved $9.5 million and the Senate $4.4 million. The conferees provided $6.9 million. The appeal states that at least 1 year's delay in the exploitation of foreign material would result if the Senate amount were provided. Describe the delay that results from the $2.5 million reduction in the originl request and the additional delay resulting from this reprograming.

Colonel KENNEY. The impact of the congressional reduction of $2.5 million was not as critical as originally anticipated and, in some cases, we had programed for acquisition of complete systems but were able to obtain only portions of the system. With regard to the $300,000 being reprogramed to OMA, proponency of certain items was transferred to other services. Therefore, the $300,000 reduction had no adverse impact.

Mr. SIKES. Appeals were also made for aircraft avionics technology; joint advanced tactical command, control, and communications; missile effectiveness evaluation; and support operational test and evaluation of combat equipment. For each of these programs, describe the impact of the additional reductions for the record.

[The information follows:]

	Amount of reduction (thousands)
Aircraft avionics technology	—$1,000

Explanation—This reduction will terminate efforts on cockpit display for nap-of-earth (NOE) requirements for advanced scout helicopter program; delay power margin estimations flight test; terminate efforts to evaluate high quality heading reference units (HRU) for use with Doppler navigation system. Also the effort to establish a technological base for airborne application of global positioning system equipment will be reduced.

Joint advanced tactical command, control, and communication program	—$750

Explanation—This reduction will delay documentation effort in the joint GAMO program by reducing effort on the design, plan, implementation plan, management plan, and interface concepts plan.

	Amount of reduction (thousands)
Missile effectiveness evaluation	—$473

Explanation—This reduction delays tactical software for 1 year and reduces the fiscal year 1975 level of effort in storage reliability of missile material.

Support operational test and evaluation combat equipment	—$1,863

Explanation—This program reduction is accomplished by terminating planned contractural efforts to develop the test bed aircraft and delaying development of intervisibility prototype instrumentation needed for antitank missile testing.

Mr. SIKES. Secretary Augustine recently gave the staff a list of priorities for R. & D. in the Army. The highest priority has been assigned to the preservation of the technological base. This reprograming provides for a total reduction of about $10.5 million in 17 basic research and exploratory development programs. Would you explain this apparent inconsistency?

Colonel KENNEY. It is a question of balancing the total appropriation. The tech base did enjoy much less of a cut than the total appropriation. In the meanwhile, we had dipped further into our other programs that are not up for reprograming and restored $500,000 to

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the basic research program, recognizing that we needed to do much work in the area of basic research mathematics. Part of the impact on the tech base has thereby been attenuated.

Mr. SIKES. You are still taking $10 million out and we have been told time and again that R. & D. is very, very important, that we are not providing enough money in R. & D. and you took some rather substantial cuts in the last budget in R. & D. at the hands of Congress.

Colonel KENNEY. Yes, sir. We took about a $200 million reduction from the Congress and, of course, there is another $63 million in this reprograming proposal. The combined action has been very agonizing to the R. & D. community, but we recognize at the same time that on balance, the Army has higher priority requirements this fiscal year in the operating account to maintain readiness as General West and the Secretary just pointed out. It is a question, again, of relative priority.

Mr. GARRITY. Could it be that you just say, "OK, we will put so much money into basic research and R. & D. in the budget," knowing full well that after the fiscal year starts it is there to be reprogramed to O. & M. or one of the other accounts?

Colonel KENNEY. No, sir. If you check the record in past years, there have been no appropriation transfers from R. & D. into the other accounts. This is the first time in a number of years that this thing has come about.

I would say no also if you would address that to an intra-R.D.T. & E. reprograming analysis. We do not pad it as a source for reprograming to bail out either the R. & D. or other appropriation accounts.

SAFEGUARD

Mr. SIKES. This committee made a detailed review of the funds requested for Safeguard. Of the $60.8 million requested in R. & D., $45 million was appropriated. This reprograming will reduce Safeguard funding by an additional $11 million. What work originally planned will not be completed and what impact will this have on completing the R. & D. on Safeguard?

Colonel KENNEY. This additional $11 million reduction resulted from management efficiencies and retrenchments in the Safeguard program and does not adversely impact the completion of Safeguard development. The Safeguard system test program at KMR was completed on a highly successful basis and schedule, thereby releasing funds which might otherwise have been required to complete the program. Additionally, the Grand Forks site installation and test program proceeded with fewer difficulties than anticipated. The KMR and Grand Forks achievements not only resulted in significant savings, but also allowed earlier than planned reductions of contractor personnel at all locations. As a result of these favorable events the $11 million savings would have been returned to the Army regardless of the fiscal year 1975 reprograming action.

Mr. SIKES. A total of $75 million was provided in OMA for Safeguard. Are Safeguard O. & M. funds being used for other programs?

General WEST. The $75 million provided for Safeguard OMA in fiscal year 1975 was reduced by $4.2M, the amount assessed against Safeguard to cover the general—not specified to particular programs—fiscal year 1975 congressional reduction. After adding $0.9M

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for the October 1974 civilian pay raise, this leaves fiscal year 1975 Safeguard OMA at $71.7M. Safeguard OMA funds are not being used for other OMA programs.

Mr. BURLISON. On page 2 of your statement, General West, you set out some items in which the increase in cost has been most dramatic. The M-60 tank cost increase of 100 percent is attributable to what we generally have in mind when we say inflation?

General WEST. That is right, sir. That was a pure cost increase. It is inflation. It is the tank track we are referring to here.

Mr. BURLISON. On the next page of your statement you say, "Since this reprograming request was submitted, electricity has gone up an additional 6 percent and natural gas for heating has gone up an addition 28 percent. These figures since November have added $12 million to utilities bills." How do you propose to make up that $12 million? Is that part of this?

General WEST. That is not part of this reprograming. We have done that by actions we have already taken such as of restricting the amount of mileage we are using during training exercises, more restrictions on flying hours, some judicious civilian hire freezes and things of that nature.

Mr. BURLISON. You have used the Navy system of reprograming so as not to come to the Congress with it?

General WEST. We have had more requirements, but we are doing additional belt-tightening.

Mr. BURLISON. On page 5, about the middle of the page, you say that the fiscal year 1976 budget "is designed to maintain readiness levels."

Secretary McClary, you can correct me on this, but we had Chairman Brown and Secretary Schlesinger here for about 3 days and it is my recollection their testimony was that there is about a $15 billion increase, 1976 over 1975 for obligational authority and somewhere in the neighborhood of $8 billion increase in outlays, and about half of that is attributable to inflation, and half of it to growth. Is this accurate? Is this consistent with the statement that I have just read?

General WEST. Yes, sir, that is correct.

As you know, the Army has some force initiatives and we do have some program growth, particularly in the procurement area, for equipment that is aimed toward our long-term acquisition objectives.

What the statement says is that our operating costs next year are intended to take off from our present readiness condition. That is, if the unit is in readiness condition 1, we will go into fiscal year 1976 with that and maintain it, but not recover it from a degraded position, which would happen if we had to stop buying supplies and live off the shelf.

COST INCREASE FOR TANK TRACKS

Mr. BURLISON. General West, I am still perplexed with this 100-percent cost increase for tank tracks. I asked what I thought was a difficult question and I got a very easy answer. It is just simply inflation. Has the labor that goes into the production of these tank tracks gone up 100 percent?

General WEST. The tank track is a combination of labor and materials.

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Mr. BURLISON. First, let us clarify this. It is up 100 percent from when? Perhaps that would help us out.

Colonel WILLIS. I can go through this on the M–60 tank tracks. The unit costs at June 30, 1974, $67 a unit. That is a combined cost of materials and labor. That is the standard price that the Army pays which includes contract costs plus handling charges. The unit cost in November 1974, for that same item was $133.80. Now, that entire increase in effect is the increased cost of materials, labor and overhead passed onto the Army by the manufacturer of that item.

Mr. BURLISON. Is it a sole source negotiation or is it competitive? Can you elaborate on that?

General WEST. I cannot answer that question.

Mr. BURLISON. Would you provide that for the record?

General WEST. Yes, sir.

[The information follows:]

The contracts for tank tracks are awarded on a competitive basis to three manufacturers, Goodyear, Firestone, and Standard Products, Co.

Mr. BURLISON. I would like as complete a breakdown as you can give on this 100-percent increase. Whatever you can attribute to materials or labor. Maybe it doesn't lend itself to that type of analysis. If not, I want a complete evaluation of the type of negotiation that has evolved into a 100-percent increase between one month and another month.

I would like to have the same sort of analysis for the final item that you mentioned, General West, the 50-percent increase in truck batteries

General WEST. All right, sir.

[The information follows:]

Contracts for both tank tracks and batteries are let on a competitive basis to multiple contractors. The major reason for cost increases in tank tracks, in addition to the general inflation the country is experiencing is due to a scarcity of foundries and the increased cost of pollution control measures which is being passed to the customer. The increase in the cost of batteries is caused by the increased price of raw materials (lead) and the general inflation.

FORKLIFT TRUCKS

Mr. ROBINSON. To go back to a question which I think was placed in the record rather than being answered, which refers to the 4,000-pound forklift trucks, and the decrease in amount of $2.5 million and the 107 quantity decrease in trucks, does this infer that you can get the trucks for a price that you achieved by dividing 200 into 2,500,000? That reflects no increase at all. It reflects a decrease.

General WEST. You might be citing data we don't have here.

Mr. ROBINSON. Do you want to put that in the record?

General WEST. Let me put that in the record.

Mr. ROBINSON. The arithmetic doesn't make sense. I know the price of forklifts has gone up

[The information follows:]

The unit cost estimate of $12,500 used for the fiscal year 1975 budget was based on a fiscal year 1973 contract award of $8,147 escalated to October 1973. Based on today's inflation rates it is estimated that this item would now have a program unit cost of $14,200.

Mr. ROBINSON. That is all, Mr. Chairman.

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TUESDAY, MARCH 4, 1975.

REPROGRAMING, FISCAL YEAR 1975, DEPARTMENT OF THE AIR FORCE

WITNESSES

BRIG. GEN. CHARLES C. BLANTON, DIRECTOR OF BUDGET, HEADQUARTERS USAF
J. E. Del VECCHIO, ASSISTANT FOR LOGISTICS, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS
COL. HENRY J. SECHLER, CHIEF, FLYING HOURS AND PROGRAM ANALYSIS BRANCH, ALLOCATIONS DIVISION, DIRECTORATE OF PROGRAMS, DEPUTY CHIEF OF STAFF, PROGRAMS AND RESOURCES
COL. RICHARD D. MONTGOMERY, CHIEF, OTHER PROCUREMENT PROGRAMS DIVISION, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS
MS. BEVERLY J. HOOPER, MUNITIONS PROGRAM OFFICER, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS
LT. COL. D. L. RANS, CHIEF, PROGRAM CONTROL BRANCH, OPERATIONS DIVISION, DIRECTORATE OF BUDGET
MAJ. RICHARD B. MILLER, ELECTRONICS AND TELECOMMUNICATIONS PROGRAM OFFICER, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS
MRS. JOYCE B. LUCKY, AIRCRAFT/MISSILE PROGRAMS DIVISION, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS
COL. ORLANDO P. LORETTI, CHIEF, COMPTROLLER DIVISION, OFFICE OF AIR FORCE RESERVE
COL. WILLIS D. MUIR, COMPTROLLER, AIR NATIONAL GUARD

Mr. ADDABBO. The committee will now receive testimony from the Air Force with respect to various reprogramings.

General Blanton, you may place your prepared statement in the record at this point, and then summarize it.

Please proceed.

[The statement follows:]

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STATEMENT OF DIRECTOR OF BUDGET, USAF

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I appreciate the opportunity to present the Department of the Air Force request for transfer of funds under Section 834 of the Public Law 93-437.

This request for transfer of $195.0 million is for price increases for fuel, supplies, and utilities as well as for the additional cost of strategic airlift. These funds are being transferred to the Operation and Maintenance Appropriations (Air Force, Air Force Reserve and Air National Guard) from the Aircraft and Other Procurement, Air Force appropriations.

The FY 1975 budget for the operating accounts was based upon prices prevailing in the Fall of 1973 and amended only for the April 1, 1974, fuel price increase and for civilian wage board pay increases through April 30, 1974. The rate of inflation experienced since the Fall of 1973 is significant, amounting to over one-half billion dollars in the operating accounts. The required increases are for fuel, $49.0 million; utilities, $40.3 million; strategic airlift, $50.5 million; commercial transportation, $13.9 million for a total of $195 million. Of this total amount, $178.5 million is for Air Force, $4.5 million is for Air Force Reserve and $12.0 million is for the Air National Guard.

The Air Force is continually reassessing its operations to sustain the highest priority programs. Field commanders have been required to compete their highest priority programs and to absorb many of the inflationary price increases by deferring, stretching out or eliminating lower priority programs. Price increases, in many areas are being absorbed -- travel, communications, equipment, printing, contractual services, among others.

In spite of the very austere measures, it is necessary to transfer a total of $195 million.

SOURCE OF FUNDS

The proposed sources of these funds are $53.9 million from Fiscal Years 1973, 1974 and 1975 Aircraft Procurement, Air Force, Appropriation and $141.1 million from the FY 1975 Other Procurement, Air Force, Appropriation.

In the Aircraft Procurement Appropriation, $45.8 million is from Fiscal Year 1975. $15.1 million of this amount will be obtained by rephasing a B-52 modification because the hardware is currently undergoing reliability and flight testing and production lines have not been established. The slippage of completion of RDT&E on the Air Force Satellite Communications System (AFSATCOM) airborne terminals results in a delay from FY 1975 to FY 1976 in initiating the modification for the EC/RC-135 aircraft and provides an additional $7.0 million. A total of $18.0 million can be made available from the Other Aircraft Modification line as the result of two actions: (1) the programs to replace the obsolescent, tube-type TACAN with solid-state equipment, and to add channels on the ILS equipment have been rephased to buy smaller quantities in FY 1975 ($17.0 million), and (2) the modification to upgrade a component of the EB-57 aircraft has been cancelled ($1.0 million). Late delivery of ALQ-131 ECM pod prototypes has led to a slip in the flight and quality testing from 4th quarter/FY 1975 to 2nd quarter/FY 1976. Consequently, the procurement contract will not be awarded until FY 1976, making $5.7 million available for transfer from FY 1975 Other Production Charges.

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A total of $3.1 million is to be transferred from the FY 1974 Aircraft Procurement Modification Program by deferring the return of two NF-106B aircraft to the training configuration.

FY 1973 F-4E funds of $5.0 million are being made available through management actions to delete or defer lower priority items.

OTHER PROCUREMENT

In the Other Procurement Appropriation, 57 individual procurement line items approved in the Budget for Fiscal Year 1975 have been reduced or cancelled to provide the $141.1 million for transfer. The deferment of 41 of these line items must be reinstated in subsequent year budget requests. Adjustments to the rest of the items, totalling $41.1 million, are the result of decreases in requirements, training needs, related First Destination Transportation costs and do not require reinstatement in subsequent year budgets. I will cover briefly the reductions in each of the four budget activities.

In the Munitions area, decreases in requirements for rockets and launchers, cartridges, bombs, targets, fuzes, and other items encompass 22 line items and total $87.0 million. Twelve of these adjustments, totalling $34.1 million, do not require restoration. The major items involved are PAVE ROCK, an aircraft shelter penetrating weapon for $4.6 million, and the CBU-71 for $11.7 million. Re-evaluation of the PAVE ROCK weapon determined that the item had limited operational effectiveness; therefore, procurement is not recommended by the Tactical Air Force. The WRM requirement for the CBU-71 has been revised enabling a reduction of $11.7 million without an outyear impact. Revised training programs involving the use of the 500lb. MK-82 Bomb (Empty) and the Anti-PAM BLU-27 Bomb (Empty) result in cancellation of these requirements for $3.3 million and $3.0 million, respectively. First Destination Transportation was reduced by $4.9 million commensurate with the munitions reduction leaving a balance of $10.0 million in the program.

Reductions to the other 10 line items, totalling approximately $53.0 million, are deferral actions and funding must be restored in subsequent year budgets. Of this total amount, $52.0 million is for munitions War Reserve Materiel (WRM). High value WRM items deferred, reducing production to minimum sustaining rates, include the 2.75" Rocket Motor and the 2.75" Rocket Head, totalling $16.1 million. $13.0 million is included in the FY 1976 Budget to restore a portion of these WRM assets.

Restoration of the balance will be required during the FY 1977-1978 time period. Planned procurement of ROCKEYE for WRM at $4.5 million was cancelled pending re-evaluation of the requirement. FY 1975 WRM requirements for Laser Bomb Guidance Kits can be deferred to the FY 1976-1977 time period, enabling a reduction of $9.1 million in this program.

In the Vehicle activity, 14 line items were reduced for a total of $10.3 million. Restoration of these funds is required in subsequent budgets except $.3 million for additional P-10 Fire Trucks which are no longer required. Items deferred are 28 light, sedans, 124 buses, 181 cargo and utility trucks, and 184 tow tractors. Other deferrals include materials handling and base support equipment. Replacement of these vehicles has been programmed. Initial procurement of the High-Capacity Fire Truck has also slipped to the FY 1977-1979 time period because of changes in the First Article Acceptance Test schedule. This change, however, will

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not delay the program.

In Electronics and Telecommunications, eight line items were adjusted, resulting in a reduction of $28.1 million. Of this amount, $4.6 million for First Destination Transportation, $.6 million for AN/PRC-90 Radios, and $1.4 million for Radio Dropsondes will not require restoration because of reduced requirements and reduced consumption. A portion ($1.5 million) of the reduction made in the Joint Surveillance System has been deferred because of a revised operational concept, and, subsequently, a revised procurement schedule.

Items deferred to FY 1977 include KY-65 and KY-75 Narrow Band, analog, half-duplex secure voice equipment because of delays in testing; AN/TSC-60 Radios, pending review of estimated cost increases and a review of less costly alternatives; and the modification of Eastern Test Range radar tracking systems because of a rephased schedule.

In the last activity, Other Base Maintenance and Support Equipment, 13 line items were reduced for a total of $15.7 million. Most of these funds were derived by deferring programs for replacement of overaged depot plant and base mechanized equipment, generators and other electrical equipment, photographic equipment, and a variety of other equipment required for base support and special projects. These deferred programs require restoration in the Fiscal Year 1977 budget to minimize the O&M impact of retaining overaged equipment and makeshift facilities in the inventory. The program for procurement of relocatable buildings was also deferred but has been restored in the Fiscal Year 1976 Budget.

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General BLANTON. This request for a transfer is for price increases for fuels, supplies, and utilities as well as for additional costs of the strategic airlift. The rate of inflation experienced since the fall of 1973 is significant, amounting to over one-half billion dollars in the operating account. The required increases are for fuels, $49 million; supplies, $41.3 million; utilities, $40.3 million; strategic airlift, $50.5 million, and commercial transportation amounting to $13.9 million for a grand total of $195 million.

Of this amount $178.5 million is for the Air Force, $4.5 million for the Air Force Reserves, and $12 million for the Air National Guard.

The proposed sources of these funds are $53.9 million from the fiscal 1973, 1974, and 1975 "Aircraft Procurement Air Force appropriation," and $141 million from the fiscal year 1975 "Other proceurement Air Force appropriation."

Breaking those out, in the 1975 other procurement appropriation—excuse me, aircraft procurement appropriation, there is a total of $45.8 million. In the 1974 aircraft procurement appropriation there is a source of $3.1 million and in fiscal year 1973 Aircraft Procurement, there is a source of $5.0 million.

The Other Procurement appropriation, there is a total of 57 individual procurement line items approved in the budget for fiscal 1975 which have been reduced or canceled to provide $141 million for this transfer.

That completes my statement.

Mr. ADDABBO. We will place reprograming actions 75–5PA, 75–6PA and 75–7PA in the record at this point.

[The documents follow:]

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Pg 1 of 2

REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
OPERATION AND MAINTENANCE, AIR FORCE	FY 75-5 P/A
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)
FY 75-1 P/A	

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

This reprogramming is submitted for prior approval for the transfer of funds under the provisions of Section 834 of Public Law 93-437 DOD Appropriation Act, 1975. Funds to continue high priority programs have been and will continue to be obtained by eliminating and stretching out lower priority programs as directed in House Report 93-1255. Price increases of $178.5 million cannot be accommodated within the appropriation. This reprogramming is for the increased price of fuels (aviation fuels, and motor gasoline) announced by the Defense Fuels Supply Center effective on Nov 1, 1974 ($42,100,000); for airlift flying hours ($39,300,000); for the increased prices of purchased utilities ($37,800,000); for increased prices experienced for essential supplies ordered from the Defense Stock Fund ($34,200,000); for rate increases for commercial transportation of cargo ($13,900,000); and for procurement of commercial cargo airlift ($11,200,000).

REPROGRAMMING INCREASES

FY 1975 PROGRAM

1.	Strategic Forces	1,471,018			+	39,150	1,510,168	
2.	General Purpose Forces	1,274,991			+	43,140	1,318,131	
3.	Intelligence and Communications	568,272			+	5,050	573,322	
4.	Airlift and Sealift	219,687			+	53,665	273,352	
5.	Central Supply and Maintenance	2,464,702			+	20,085	2,484,787	
6.	Training, Medical	811,293			+	15,710	827,003	
7.	Administration and Associated Activities	250,531			+	1,700	252,231	

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
OPERATION AND MAINTENANCE, AIR FORCE	FY 75-5 P/A
APPROPRIATION SERIAL NUMBER: FY 75-1 P/A	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
8. Support of Other Nations		1,536				-0-		1,536
TOTAL FY 1975 PROGRAM INCREASE						+178,500		
NET CHANGE IN PROGRAM						+178,500		

Explanation: This reprogramming action requests the transfer of funds under Section 834, Public Law 93-437. Transfers are from the following:

Aircraft Procurement, AF	1973/75		-	5,000
Aircraft Procurement, AF	1974/76		-	3,100
Aircraft Procurement, AF	1975/77		-	45,800
Other Procurement, AF	1975/77		-	124,600

REQUESTED (Signature and Date) NOV 1 1974

APPROVED (Signature and Date) NOV 23 1974

Deputy Secretary of Defense

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
OPERATION AND MAINTENANCE, AIR FORCE RESERVE	FY 75-6 P/A

APPROPRIATION SERIAL NUMBER: FY 75-1 P/A

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

This reprogramming is submitted for prior approval for the transfer of funds under the provisions of Sections 834 and 843 of Public Law 93-437 DOD Appropriation Act, 1975. Funds to continue high priority programs have been and will continue to be obtained by eliminating and stretching out lower priority programs as directed in House Report 93-1255. The total impact of price increases and inflation in the appropriation have been estimated in excess of twelve million dollars based upon both actual and anticipated inflation throughout FY 1975, exclusive of civilian pay raises. Price increases of $4.5 million cannot be further accommodated within the appropriation. This reprogramming is for increased prices experienced for essential supplies ordered from the Defense Stocks Fund ($2,261,000); for the increased price of fuels (aviation fuels, and motor gasoline) announced by the Defense Fuels Supply Center and effective on Nov 1, 1974 ($1,598,000); for the known increased prices of purchased utilities ($641,000).

REPROGRAMMING INCREASES								
FY 1975 PROGRAM								
1. Mission Forces		192,654				+3,009		195,663
2. Depot Maintenance		31,605				-0-		31,605
3. Other Support		62,421				+1,491		63,912
TOTAL FY 1975 PROGRAM INCREASE						+4,500		
NET CHANGE IN PROGRAM						+4,500		

Explanation: This reprogramming action requests the transfer of funds under Section 834, Public Law 93-437. Transfer is from the following:

Other Procurement, Air Force 1975/77						-4,500		

REQUESTED (Signature and Date): [illegible] WOODRUFF [illegible] 1974
[illegible] Air Force

APPROVED (Signature and Date): NOV 23 1974
Deputy Secretary of Defense

REPORT CONTROL SYMBOL

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
OPERATION AND MAINTENANCE, AIR NATIONAL GUARD	FY 75-7 P/A
APPROPRIATION SERIAL NUMBER: FY 75-1 P/A	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

This reprogramming is submitted for prior approval for the transfer of funds under the provisions of Sections 834 and 843 of Public Law 93-437, DOD Appropriation Act, 1975. Funds to continue high priority programs have been and will continue to be obtained by eliminating and stretching out lower priority programs as directed in House Report 93-1255. The total impact of price increases and inflation in the appropriation have been estimated in excess of $25.0 million, based upon both actual and anticipated inflation throughout FY 1975, exclusive of civilian pay raises. Price increases of $12.0 million cannot be further accommodated within the appropriation. This reprogramming is for the increased price of fuels (aviation fuels and motor gasoline) announced by the Defense Fuels Supply Center and effective on Nov 1, 1974 ($5,332,000); for increased prices (except motor gasoline) experienced for essential supplies ordered from the Defense Stocks Fund ($4,768,000); for the known increased prices of purchased utilities ($1,900,000).

REPROGRAMMING INCREASES

FY 1975 PROGRAM								
1. Operation of Aircraft		122,598				+ 5,232		127,830
2. Logistical Support		90,133				-0-		90,133
3. Training Support		426,075				+ 6,768		432,843
4. Medical Support		605				-0-		605
5. Servicewide Support		3,089				-0-		3,089
TOTAL FY 1975 PROGRAM INCREASE						+12,000		
NET CHANGE IN PROGRAM						+12,000		

Explanation: This reprogramming action requests the transfer of funds under Section 834, Public Law 93-437. Transfer is from the following:

Other Procurement, Air Force FY 75/77	-12,000

REQUESTED (Signature and Date)

APPROVED (Signature and Date)
NOV 23 1974
M. P. Sanna, Jr.
Deputy Secretary of Defense

DD FORM 1415 (Preceding Edition is Obsolete) Air Force
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ADEQUACY OF O. & M. FUNDS

Mr. ADDABBO. In the last few years has the Air Force been able to live within the funds appropriation for O. & M. requirements?

General BLANTON. Yes, sir. In fact, the Air Force is quite proud of its record last year. In fiscal year 1974 we were able to operate for the year without a reprograming action requiring this committee's review.

Mr. ADDABBO. That was accomplished without reprograming?

General BLANTON. Yes, sir.

Mr. ADDABBO. Would you say that the Air Force presently is in a good readiness posture?

General BLANTON. I would say the Air Force is ready but certainly the inflation we have been experiencing this year and the need for these added resources will have an impact on that.

Mr. ADDABBO. At the present time would you say you will be ready for combat and could you possibly sustain that position until the end of the fiscal year under the O. & M. funds now appropriated?

General BLANTON. I would have to say there are two significant areas of impact. First of all, in our flying program, without the added resources we would have to reduce flying hours. At the present time, with the funds that we have available, we have data that indicates that our crew members are not receiving complete training that we would like to have, the desired level of training.

As an example, a fighter pilot on an air superiority mission in an interceptor, like the F–15, would be trained to be primarily capable in air-to-air type role. We would also like to have him have a level of competence in air-to-ground roles. It is in this second area, the secondary missions we would like to have qualification in, that our data begins to indicate we are not achieving the required standards and we attribute that to the reduction in flying hours that have been necessary this past year.

In the Military Airlift Command, we have an equally serious situation we are concerned about. We are having to hold our C–5's and C–141's to a flying hour program of 299,000 hours without this reprograming. Our data indicates that from the point of view of upgrade of our copilots to the pilot position, so we can fly the required sortie rates, should a contingency occur, will be degraded to the point that 25 percent of our copilots will be ineligible for upgrading because they haven't flown the required amount of time twenty-five percent of the total copilots of around 468.

Mr. ADDABBO. According to the presentation last year, this wasn't given that high a priority. Are you saying because you might have their excess money around, to possibly go into extracurricular activities, things that just don't have that kind of priority—it is something you would like to have but isn't absolutely necessary?

General BLANTON. Mr. Chairman, did anyone in this room know we were going to have the inflation we had this past year when the budget was prepared in 1973? Did any of us anticipate the kind of inflation this country has gone through?

FLYING-HOUR PROGRAM

Mr. ADDABBO. General, you spoke about the reduction in flying-hour programs. You were funded at a given level and we find for the first

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two quarters of fiscal year 1975 there is a reduction in flying hours of 66,753, and the revised third quarter plan is to underfly the program by 14,891 hours. You will probably have, by the end of the third quarter, 81,000, plus. This program of underflying seems to fall in the same pattern as in the past few years. If you have underflown at this point over 81,000 hours, that has realized some saving. Do you have a figure on that?

General BLANTON. Earlier in my introductory comments I indicated to the committee that, based on the 1975 report to the Congress, in the 1976 budget—1975 column of the 1976 budget, that to finance our flying-hour program that is currently in that budget for fiscal year 1975 would not require the full $42 million that we asked for for POL. Instead, based on the same data you are citing, we would estimate that the requirement is $26 million instead of the 42 requested.

The difference, however, of $16 million, we solicit the committee's support to be applied against unfunded supply inflation to the tune of $71 million. To say it another way, we feel the flying-hours and the supply requirements are equally required. We have recognized the underflying you state.

Mr. ADDABBO. You save money in flying-hours, but when you fly less there is a drawdown of less from the defense stock fund and you have certain other savings there. Have you applied those savings any place?

General BLANTON. Yes, sir, and we would point out the reason that those underflies have occurred is, we put out a mandate in November of this past year——

Mr. ADDABBO. We know they have occurred. Now, because they have occurred you saved dollars. How much in actual dollars? About $32 million?

General BLANTON. No, sir, I wouldn't speculate with a number. The primary savings because of a temporary underfly would be POL costs. Obviously you are going to have to maintain the aircraft. It is not our objective, however, to reduce the flying-hour program.

We still are pointing toward a $2.7 million—excuse me—2.7 million flying-hour program for the Air Force. The objective I mentioned earlier. To maintain readiness of our crews and to get better capability in the secondary mission——

Mr. ADDABBO. We do have combat readiness and today we can't go for superlatives. We are trying to make do and try and work within the figures and the money we have available.

We would love to go to superlatives but in today's market, the dollar market, we can't do it. So again, you have underflown and even with the underfly we are still combat ready.

Now you are requesting $39.3 million for airlift flying and you state that the strategic airlift forces have been seriously impacted by a series of events and causal factors and needs to maintain a minimal level of airlift readiness capability.

What are the causal factors which affect the airlift forces?

General BLANTON. We are holding the Military Airlift Command for the C–5 and C–141 total flying-hour program of 299,000 hours. We are having to do that because of an erosion of the financial position of the airlift industrial fund that finances these flying-hours. There are three principal factors attributable to that. Earlier we advised the committee when we prepared his reprograming request that we ex-

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pected the loss through the end of 1975 in the industrial fund to be approximately $85 million.

We now know that is going to be about a $126 million loss. Three major reasons result in that change. First of all, because of the inflation that is occurring in both the Army and the Navy, there has been a decrease in the workload levied on the Military Airlift Command that hauls cargo for the Army, Navy, and the Air Force. That workload decrease has reduced revenue expected by $40 million.

In addition to that, the OAB rates have continued to increase because of the mounting cost of fuel. That has cost us an additional $20 million. The causal fact that we have pulled back our flying-hour program, in this reprograming request, we would hope to be able to fly 327,000 hours in lieu of the earlier requested program of 337,000 hours. That would save some $15 million.

The net figure then, sir, is about an increase of $45 million to $46 million in the operating loss that the industrial fund will have to bear through the end of fiscal year 1975. We feel therefore it is just not prudent for us to not come before the Congress and ask for financing support to be able to hold to that 327,000-hour program.

Mr. GARRITY. General, you talk about holding back to a 299,000 flying hours program and this big reduction you took.

Now, where did you apply that reduction? Did you apply it to your strategic airlift or did ou apply the reduction to your administrative support aircraft?

General BLANTON. The reduction to the 299,000 flying hour program was for the C–5 and C–141 strategic airlift.

Mr. GARRITY. And you didn't take any flying hours out of your administrative support aircraft program?

General BLANTON. Our administrative support aircraft program has been held to an absolute minimum to maintain the readiness of those crews. We feel that reduction is in balance with our crew training.

Mr. GARRITY. Woudn't it be most logical to take it out of your administrative support aircraft rather than take it out of your strategic equipment?

General BLANTON. If that were possible, certainly we would do that.

As you know, in the fiscal year 1976 budget we have a proposal to phase out, and we are in the process of doing that this year, over 400 support aircraft for the very reasons you have stated. It is just not possible to accelerate that phaseout any beyond what we have programed.

We certainly support your point, Mr. Garrity, to get to the objective of reducing support aircraft. Our Chief has hit that point very hard in his testimony. We do plan to phase out over 400 reciprocating aircraft by the end of fiscal year 1976.

Mr. ROBINSON. I don't understand why it is possible to phase it out completely next year and not partially phase it out this year.

General BLANTON. When you have aircraft in your operating inventory it just takes time for the Military Airlift Storage and Disposition Center down at Davis-Monthan to gear up and process those aircraft in storage. We have a flow-time problem in phasing those aircraft out and mothballing them so they will be stored and perhaps available in a usable state for foreign sales.

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Mr. ROBINSON. Will the overall action you are proposing result in any aircraft being laid up?

General BLANTON. Next year?

Mr. ROBINSON. This year? What we are talking about, right now.

Gentral BLANTON. I will ask Colonel Sechler, our flying hour expert.

Colonel SECHLER. We are in the process now of phasing down to that some 400 aircraft we intend to reduce in our fiscal 1976 budget. In fact, when we spoke about underfly in the program I would rather say we curtailed the flying hour program to the tune of some 81,000 hours. Of the 81,000 hours some 30,000 support aircraft flying hours were reduced.

We are in the process now of reducing, I would say, in the order of some 200 aircraft in this fiscal quarter. That phaseout will continue in the fourth quarter. So we are taking that action to be down some 400 aircraft in fiscal 1976. But now Mr. Garrity's question, sir, about why we cannot use support aircraft. The support aircraft flying hours are much less expensive than the C–141 and C–5. Though we have reduced 30,000 support aircraft hours, it would not compute to as many dollars as the C–5 and C–141 program require. The latter are also under ASIF funding, which is dependent on workload conditions. We reduced our C–5 and C–141 program to save money and stay within the ASIF funding.

Mr. ADDABBO. $39.3 million is requested for airlift flying. Will that go to cover the prospective loss in the Airlift Service Industrial Fund?

General BLANTON. We do that to assist us in allowing the command to stay within the 327,000 flying hour program. It would leave us with a roughly $86 million loss and draw down the cash we have in this fund to about 10 to 12 days cash, which is the lowest we think we can operate with and pay our bills and all in an orderly basis.

In addition to crew readiness, the Secretary of Defense has asked the Department of Air Force to look at the possibility of undertaking additional exercises in order to effectively use that capability, in order not just to use it for training, but also use it for exercises.

It is their plan that Gallant Shield 1975 would be undertaken the 14th of April to the 2d of May wherein we would conduct an air-ground exercise involving an infantry division, an air mobile division and six tactical fighter squadrons. The airlift cost for that exercise is some $24 million.

We would use the flying hours approved by this committee to generate this additional training on the part of the Army and the Air Force.

Mr. ADDABBO. My question was, you are requesting $39.3 million for airlift flying. Is that money going to be used to cover the projected loss of the airlift services industrial fund, or will you use it for other purposes? You show a projected loss in airlift service. Now is this $39.3 million going to be placed into that to cover that loss?

General BLANTON. It would help cover the flying hour cost and reduce the loss from $126 million to $86 million.

Mr. ADDABBO. The loss in the Airlift Service Industrial Fund last year, 1974, was $16.3 million. What is the projected loss for June 30, 1975?

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General BLANTON. The projected loss, with this reprograming——

Mr. ADDABBO. Without this reprograming.

General BLANTON. Without this reprograming. Flying 327,000 flying hours would be $126 million.

Mr. ADDABBO. For this year as against $16 million last year?

General BLANTON. That would include the loss of last year. That is a cumulative figure.

Mr. ADDABBO. If last year was $16 million, that means you have a loss of $110 million?

General BLANTON. That is correct. When we prepared our 1975 budget and submitted it to this committee, we had an expected loss at that time in 1975 of $83.3 million.

Mr. ADDABBO. Wasn't there an increase in airlift rates during last year?

General BLANTON. Yes, sir, there have been increases in the rates.

Mr. ADDABBO. Doesn't that cut down your losses?

General BLANTON. The increases don't keep up with the mounting inflation. I should point out that the rates are difficult to increase once this committee appropriates money. If we even increase the rates, we have to go back to the Army and Navy to finance that cost. That would generate a reprograming to finance that itself.

Mr. ADDABBO. You increase the rates and receive additional revenue?

General BLANTON. Not sufficient.

Mr. ADDABBO. How much additional revenue did you receive?

General BLANTON. I haven't that detail with me.

Mr. ADDABBO. Will you supply it for the record?

General BLANTON. I will, sir.

[The information follows:]

If the workload had continued as was projected in the fiscal year 1975 operating budget, additional revenue to be generated as the result of the July 1, 1974, tariff rate adjustments would have provided an additional $128 million into the fund, however, due to mounting inflation and declining workload, the revenue is expected to be $124 million less than was projected on July 1, for fiscal year 1975. Following is a tabulation of revenues and workload:

[In millions]

	Expected July 1, 1974 without tariff adjustment	Expected with July 1, 1974 tariffs	Expected end of fiscal year 1975
Revenue	$581.4	$710.1	$585.8
Ton-miles	2,522.8	2,522.8	2,219.5

Mr. ADDABBO. Was there an additional increase in 1975 rates? You had an increase in April 1974. Was there an additional increase in 1975?

General BLANTON. There was one increase in fiscal year 1975.

Mr. ADDABBO. The last increase was April 1974?

General BLANTON. No, sir. July 1, 1974.

Mr. GARRITY. General, when the defense stock fund increased their prices in November, do you mean to tell me MAC didn't increase theirs? Effective November 1?

General BLANTON. No, sir. The reason they could not change that tariff is that this would impact on the cargo being hauled for the Army and Navy and had that been done you would have the Army and Navy seeking additional money to finance the problem.

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The decision was made to not increase those rates until July 1 and include them in our 1976 budget.

Mr. GARRITY. You did not increase your MAC rates so the other services wouldn't have to come in for additional funds?

General BLANTON. The rates could not be increased by that action. At the time of the increase it was done so it could be put in the budget of the other services.

Mr. GARRITY. How many times in fiscal 1974 did MAC increase its rates?

General BLANTON. I do not know. I will have to supply that for the record.

[The information follows:]

Tariff rates were adjusted July 1, 1973 and January 1, 1974.

Mr. SHYCOFF. Mr. Garrity, we have looked into this and we have noted that as we have increased our rates we have not seen an increase in revenue in the industrial funds because the customers cut back their program. We are attempting to stabilize these rates, trying to stabilize the management, to give the manager of the industrial fund a better idea of what his program requirements will be.

As a result, we have not changed the rates this year, neither MSC nor MAC rates and we are continuing with the rates we have put into effect on July 1.

Mr. GARRITY. Then you are using the industrial fund to finance operations of the other services?

Mr. SHYCOFF. It could be so construed. I think we have concluded if we had raised the rates, the revenue of MAC would have been exactly the same or very close thereto. I think you will hear about the same situation when we talk about the defense stock fund.

Mr. ADDABBO. You have made these projections of loss. This program was submitted, I believe, in November of last year on the basis of only one quarter operating experience. Don't you feel it may have been a little premature to anticipate this loss?

General BLANTON. No, sir. In fact, the record has shown that the loss has become greater from the estimate we gave the committee back in November of $80 million to $126 million today. So, instead of being premature, there has been an indication that it was a very appropriate action to bring this to the Committee's attention.

Mr. ADDABBO. In refinancing or financing the industrial fund, wouldn't a better way—maybe you can answer this, Mr. Secretary—be for direct appropriation rather than transfer of funds?

Mr. MCCLARY. We believe there are some benefits of operating the Military Airlift Command via an industrial funded activity. However, in 1976 we are having a modification and in that modification we are going to have a portion of the flying-hours of the Military Airlift Command financed by Air Force O. & M., so we are going to have a dual approach in 1976 that we believe will be an improvement over our current operation.

We are trying to really keep the benefits of both kinds of funds in 1976.

Mr. VANDER SCHAAF. Mr. Secretary, maybe the industrial fund was doing exactly what it was supposed to do when Mr. Shycoff mentioned the phenomenon that he saw when you raised the prices: The revenue didn't go up to the raised prices. That is the idea of the indus-

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trial fund. The customer, instead of using air freight, will go to trains and buses and build in these efficiencies and economies. So the industrial fund is doing precisely what we and you intended it doing.

Mr. McCLARY. The problem with the Military Airlift Command is that we really need to fly the C-5's and C-141's is a certain period of time. What we are finding is that sometimes these are not fully occupied. So we could or do want to encourage a use of those because for the most part it represents free available space. That is why the exercise "Gallant Shield" is so advantageous.

We are going to be not only flying those aircraft and training the C-5 and 141 crews, at the same time we are going to have a lot of other utilization in computing the readiness of two Army divisions and all the command and support structure that goes along with it.

Mr. VANDER SCHAAF. Maybe this will come out later on when we talk about another industrial funded operation. Perhaps I could wait for the question then. I think we ought to follow up on this to some extent. I am wondering if you are following the rules of the industrial fund and the establishment when you don't charge the users the full cost. I think maybe that will come up later.

Mr. GARRITY. Mr. Secretary, isn't it true the industrial funds are supposed to be operated at a break-even point?

Mr. McCLARY. That is true. They should be so operated.

General BLANTON. On that point, we have prepared our 1976 and transition budget from July to September with the view of having the industrial fund break even. At the time we prepared the 1976 budget, we were unaware of the factors I just mentioned to you, in fiscal year 1976, so our 197T will carry a loss as well.

Mr. VANDER SCHAAF. Wouldn't normal rules of procedure require that the Department of Defense institute an increased cost for the MAC industrial fund right now because they know they are not in balance?

General BLANTON. It would need a source of funds from the customer. The customer is Army, Air Force and Navy O. & M. Is it any different if we ask for a transfer into the industrial fund or have a transfer into the operating accounts of the Army, Navy and Air Force?

Mr. ADDABBO. We would have a better handle on knowing how much it costs to operate their departments rather than hiding it some place else.

General BLANTON. Certainly the Air Force is prepared to abide by committee guidance in this matter.

Mr. ROBINSON. Regarding the break-even operation of the industrial phase of flying, is that on a flight by flight basis or on a total basis? You mentioned empty time. Empty flying time. How much of the flying time is empty at the present time?

General BLANTON. We base it on the total. We would be coming up with a calculation at the beginning of the year as to what will be all of the flying and what will be the cost and then try to determine what will be the capacity and then determine the charge. In that regard, we do not have a separate price for a fully loaded aircraft.

Just to reinforce that, if I may, the 1976 budget which is before you does have a tariff increase for both passengers and cargo which are aimed at the point you are making, to try to have the industrial

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fund break even on a total basis by the end of the transition budget, but as the clock has turned and events have transpired, there is a larger loss in 1975 upon which that estimate is based so there will be about a $40 million loss carried beyond fiscal year 1976. That, of course, assumes no other events occur between now and the end of fiscal year 1976 to erode the buying power of the industrial fund.

Exercise Gallant Shield/Flying Hours

Mr. Robinson. How many flying hours are involved in the training exercise in Gallant Shield?

General Blanton. The military airlift cost is $24 million. I would have to translate that into flying hours for you.

[The information follows:]

1,350 C–5 flying hours; 11,100 C–141 flying hours.

Mr. Robinson. I wondered how it reflected on the flying hours you have already mentioned.

General Blanton. We are asking for $39 million to cover additional flying, to go from 299,000 to 327,000 hours. That $39 million would be used up—about $24 million of that would be just for Gallant Shield, so about two-thirds of it. It would be a very effective use of the airlift.

Mr. Addabbo. Mr. Chairman, you show a need for an additional $13.9 million for rate increases for commercial transportation of cargo. Does the transportation of this cargo and billing pass through the airlift service industrial fund also?

General Blanton. Yes, sir. Mr. Chairman, you weren't present when I—I am sorry, Mr. Chairman.

You are not referring to the commercial, you are not referring to military airlift transportation. You referred to $13.9 million.

Mr. Addabbo. That transportation is broken into two major parts. First is a LOGAIR transportation rate increase of 88 cents per plane mile for a total of $10.5 million. The other piece of that is for commercial transportation rate increases which amounts to about $15.59 per ton on our budgeted ton-miles for $3.4 million. The total therefore does not have any impact on the industrial fund. It is a separate part. It would be our shipments by LOGAIR which route through our bases, and commercial transportation which is procured separately.

Mr. Addabbo. Wasn't there a firm fixed price contract with LOGAIR?

General Blanton. The LOGAIR contract provides for rate increases when such things as POL go up. As an example, in this $10.5 million under the contract we were required to add $7.4 million to the contract just for POL alone. In addition to that, for the CAB-approved rate increases, $3.1 million was added.

So under the terms of the contract we did have to provide these added funds for the LOGAIR contract.

Mr. Addabbo. You mention that $3.4 million was for commercial cargo airlift. Aren't you also requesting $11.2 million for the procurement of commercial cargo airlift?

General Blanton. That is the point I thought you were referring to earlier. As I amended my comments earlier to the committee, based on these fairly untoward circumstances in the industrial fund, to include, as I mentioned, an increase in the passenger tariff rates by CAB to the tune of $20 million, we just did not feel it would be prudent to

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procure additional commercial augmentation but instead would propose to apply that $11.2 million against the increased passenger tariffs. The increased passenger tariffs financed by the industrial fund.

Mr. ADDABBO. Will the Airlift Service Industrial Fund require the carriers to actually fly some cargo, or just buying standby space which may or may not be used?

General BLANTON. We would use all of the $11.2 million capability for passenger calls currently required. There would be no cargo augmentation procured with the $11.2 million in 1975 and the reason for that is we feel we can carry all of the cargo that we need to carry within our organic capability without further augmentation. It didn't seem fiscally prudent to pursue that further.

Mr. GARRITY. You are saying instead of going ahead with the program you envisioned, with this $11.2 million program you are now going to turn it around and you will not be hauling any cargo at all?

General BLANTON. We will not be adding to the commercial cargo augmentation, which the committee approved for 1975. We will not add $11.2 million.

INCREASED TARIFF RATES FOR COMMERCIAL PASSENGER TRAVEL

Mr. GARRITY. You are going to use $11.2 million for a purpose other than which the reprograming request was submitted?

GENERAL BLANTON. We would ask the committee's concurrence to allow us to apply that $11.2 million to the increased tariff rates for commercial passenger travel.

Mr. GARRITY. Is it going to go for commercial passenger?

General BLANTON. It will be for commercial passenger, yes, sir.

Mr. GARRITY. How much other money do you have in here for the CAB rate increases?

General BLANTON. The total, sir, as I can see it is in the LOGAIR, $3.1 million for CAB rate increases. The entire amount of commercial transportation of $3.4 million is because of ICC rate increases approved first of all, nine of them on the rails, and five for trucks. Of course, this entire amount of $11.2 million would not cover the passenger increases for CAB which has added to our loss here of some $20 million.

All of those are attributable to CAB rate increases, since our budget was prepared and submitted to the Congress in January of last year.

Mr. ADDABBO. When flying MAC cargo missions, will the aircraft be fully loaded to capacity?

General BLANTON. Generally on the outbound legs. The 141's do carry a good load. On the inbound legs, on retrograde, there is less than a full load.

I am sorry. Did you say CRAF, Mr. Chairman?

Mr. ADDABBO. CRAF; yes.

General BLANTON. We only procure and order the commercial cargo augmentation, or passenger augmentation to meet specific needs. We call it up to meet specific needs. Generally they are heavily loaded, if not fully loaded.

Mr. ADDABBO. This program is not a way to subsidize some of these airplanes within the CRAF program?

General BLANTON. We don't view it that way, no, sir. In fact, the participants in the Civil Reserve Air Fleet, the CRAF fleet, over the

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past several years have faced a declining availability of demand. We have gone from $146 million back in 1972 down to this year some $9.8 million worth of demands on the participants in the CRAF fleet. We believe there is an absolute minimum to properly train the participants in the CRAF fleet in the logistical supply system of the Air Force so in the event of a contingency they will be able to participate in that capability.

Mr. ADDABBO. How much unused capacity has MAC purchased for fiscal year 1975 from CRAF? Have we purchased any?

General BLANTON. No, sir, none, to my knowledge.

Mr. ADDABBO. If the record shows differently, you will change the record?

General BLANTON. Yes, sir, I will.

[The information follows:]

MAC has not purchased unused capacity from CRAF carriers in fiscal year 1975 or any other year. The MAC commercial contract augmentation capability is always used to move passenger and cargo requirements.

ASIF OPERATING AT LOSS

Mr. ADDABBO. Is this CRAF one of the reasons the airlift services industrial fund is operating at a loss?

General BLANTON. Virtually every item in the ASIF expense base has increased in cost. Commercial augmentation is about 23 percent of the expense base and therefore, is a reason for the ASIF deficit position. The ASIF tariffs cannot account for CAB adjustments that occur subsequent to the implementation of ASIF tariffs, in fact, the increase in CAB rates for passenger movement after ASIF traiffs were established for fiscal 1975 has contributed $19.8 million to the ASIF loss for fiscal year 1975.

Mr. ADDABBO. If the airlift services industrial fund is operating at a deficit, how can it afford to finance $9.8 million of this purchase of expanded commercial airlift capacity?

General BLANTON. The $9.8 million was considered an absolute minimum to properly train the participants in the CRAF fleet in the logistical supply system of the Air Force. In the event of a contigency, they will be able to participate in that capability.

TARIFF RATE INCREASE REQUIRED

Mr. ADDABBO. Will this necessitate an increase in the tariff rate and in effect require all the services to finance a part of the cost of this program?

General BLANTON. Yes, the fiscal year 1976 budget reflects tariff increases for both passengers and cargo to be implemented on July 1, 1975.

Mr. ADDABBO. Please provide a table showing the program sources and amounts for each aircraft program being reduced in the fiscal year 1973, fiscal year 1974, and fiscal year 1975 Aircraft Procurement, Air Force appropriations; show what specific aircraft and modification to each aircraft will not be done, the amount for each, and whether or not each is budgeted for in fiscal year 1976.

General BLANTON. Yes, sir.

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[The information follows:]

AIRCRAFT PROCUREMENT, AIR FORCE APPROPRIATIONS

[In millions of dollars]

	Reprogramed, fiscal year—			Included in fiscal year 1976 budget
	1973	1974	1975	
Combat aircraft: F-4E	—5.0			No.
Modification of in-service aircraft:				
F-106: Reconfiguration NF-106B aircraft		—3.1		No.
B-52: Airborne early warning system			—15.1	Yes.
C-135: Air Force satellite communication program			—7.0	Yes.
Other aircraft			—18.0	
Tactical air navigation (TACAN)			—12.0	Yes.
Instrument landing system (ILS)			—5.0	Yes.
EB-57, AN/APR-9 radar receiver			—1.0	No.
Aircraft support equipment and facilities:				
Other production charges: ALQ-131 ECM Pod			—5.7	Yes.

B-52 Modifications

Mr. Addabbo. Can you tell us now what modifications will not be done to the B-52's?

General Blanton. Sir, we are not deleting any modifications from the B-52 by this reprograming. We are deferring only the kit procurement for the airborne early warning electronic counter measures, AEW, ECM, equipment. This results in a stretch out of that program.

Mr. Addabbo. Please update the table appearing on page 1103 of last year's procurement hearings showing the amounts budgeted for each B-52 modification, the amount appropriated for each, and the current program for each.

General Blanton. Yes, sir.

[The information follows:]

B-52 MODIFICATIONS, FISCAL YEAR 1975

[In millions of dollars]

	Budgeted	Appropriated	Current program
Automated offsets	6.4	6.4	6.
Phase VI ECM	58.5	58.5	58.5
AEW ECM	25.4	25.4	10.3
Quick start	4.6	4.6	4.6
Radar warning receiver	.5	.5	.4
Satellite communications terminals	15.6	15.6	0
Wing structure	72.5	72.5	72.5
ALT-28 frequency control module	2.8	2.8	2.8
Improve preload bomb rack	1.6	1.6	1.6
Auto deploy survival kit	1.4	1.4	1.4
AIMS correction	.2	.2	0
Bomb-Nav simulator update	.9	.9	.8
ALT-32 fuse improvement	.6	.6	0
ASQ-38 radar modulator improvement	.2	.2	.2
Miscellaneous deficiency corrections	.2	.2	.5
ALT-28 heat exchanger			.7
Total fiscal year 1975	191.4	191.4	160.7

Mr. Garrity. You just finished telling us about flying your C-141's and C-5's without any cargo or passengers aboard, that it was necessary in order to keep their crews trained.

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Well, in that instance why don't you shift your personnel, fly your personnel and your cargo on C-141's and the C-5's instead of using your commercial augmentation?

General BLANTON. Sir, on the domestic runs we have not been permitted in the past to do that. On the basic points, however, Mr. McClary mentioned there is a certain minimum level of flying hours that are required to maintain the readiness of the crew and it is in recognition of that concept that the 1976 budget will include the training hours funded as a part of the operating cost of the Air Force, in order to get out of the current dilemma we are in, at least to some small extent.

Mr. GARRITY. You are permitted to fly your troop movements?

General BLANTON. That is right?

Mr. GARRITY. Even within the United States?

General BLANTON. That is right, and we do fulfill those requirements.

Mr. GARRITY. Overseas you don't have to use CRAF aircraft?

General BLANTON. That is correct.

Mr. GARRITY. So are you using the C-141's and C-5's to the fullest extent possible for overseas flights?

General BLANTON. We believe so; yes, sir.

Mr. GARRITY. Even though you are still buying commercial airlift at the same time?

General BLANTON. As I pointed out, Mr. Garrity, the $9.8 million for commercial cargo augmentation is a figure we feel is the absolute minimum in the light of the trend I have shown you since 1972 to properly energize and train those participants in the content of the Civil Reserve Air Fleet and to make sure that they are fully knowledgeable on how we operate our logistical depots and European route ports.

Mr. GARRITY. Is this a good time to be buying commercial airlift in order to train their pilots and their crews in operation of logistic programs of the Air Force?

General BLANTON. Most of the peacetime training needs of any military force, if measured by that criteria, should be eliminated. You have to have peacetime training, sir, to go to war.

Mr. GARRITY. But this is for CRAF people. This is for civilians, not military.

General BLANTON. I understand; and deployment of forces is an equally vital aspect of the capability of the military force to conduct war should that occur. The CRAF fleet is a vital part of the capability of the Air Force to deploy.

Mr. ROBINSON. General, what does that $9 million buy?

General BLANTON. It buys additional cargo haul from the participants in the CRAF fleet—additional carrying of cargo.

Mr. ROBINSON. I understand that as being the purpose, but how much is that buying? What are you getting for your money?

General BLANTON. As I indicated earlier, since the callup of the CRAF, the Civil Reserve Fleet is on an item-by-item, or load-by-load basis; they are generally fully loaded. I should footnote one other point that in the light of the general circumstances I have articulated here; the Congress saw fit in the past several years to mandate that

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$100 million should be the floor which we would use to energize the Civil Reserve Air Fleet.

Mr. ROBINSON. Is that on a time basis or do you pay for modifications of the aircraft out of these funds in terms of modifying it for certain missions?

General BLANTON. No, sir, this is on a mission-by-mission basis. Perhaps you are thinking of some of the things that are in the 1976 budget to modernize the Civil Reserve Air Fleet capability which will be discussed when we come over with the 1976 budget.

Mr. ROBINSON. Thank you, Mr. Chairman.

Mr. ADDABBO. Mr. Burlison.

Mr. BURLISON. Thank you, Mr. Chairman.

If your reprograming request is denied, will the money involved in the request be spent?

General BLANTON. No, sir.

Mr. BURLISON. How can you be sure of that?

General BLANTON. We will have to take action to have funding remain available should this committee choose not to approve the request.

Mr. BURLISON. What I mean is, will the money be spent for the purposes for which it was originally appropriated?

General BLANTON. Yes, sir, we would restore those balances, as approved by the Congress, and if there were any subsequent reasons to apply them elsewhere, we would be back to this committee to seek its concurrence prior to the implementation of action, which is a part of the standard reprograming procedure.

Mr. BURLISON. So even though they weren't needed or were not essential for the purpose from which you propose to reprogram them, if the request is denied, you will manage to spend the money for the purpose for which it was originally designated?

General BLANTON. No, sir, I wouldn't mean to imply that and I wouldn't necessarily agree with your characterization that they were not required. Many of these adjustments were painful and difficult to come by. As reflected by the fact that we had to go into our Other Procurement accounts for approximately 60 items. That was a difficult analysis just to arrive with enough funds to provide $195 million out of the $600 million inflation we are experiencing. It was a painful process. It did not necessarily—in fact, it would not fly if those requirements were not valid.

In those cases where flights were necessary, we have included funds in our 1976 budget to replace those resources.

Back to your basic point, sir, if this committee were to direct us to remain within the funds we have available, we would have to take action, as I indicated in the morning, which would have impact on the readiness of the Air Force.

We have a general idea of the kind of impacts we would have and we would have to live with that and we will do so, sir.

Mr. VANDER SCHAAF. I would like to follow up on one point. You mentioned earlier that when you raised the industrial funded rates you felt revenues would not increase because the user could fall out and go elsewhere with their limited dollars.

Now, the CAB comes along and raises rates for civilian airlines and you come before the committee and say you need 11—or whatever the amount of dollars is—more dollars to pay civilian airliners.

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What I don't quite understand is why do the same rules not apply to the CAB or the civilian airlines and the management of that rate structure as handled by the CAB, as applied to your own airlines in the management of that rate structure as done by MAC? Why do you meet the CAB's price increase but you don't meet your own airlines' price increase?

Mr. SHYCOFF. I think the answer to that, Mr. Vander Schaaf, is we are looking at total Department of Defense costs. We have determined that an increase in MAC rates will not increase revenue significantly. If the material is still moving and moves by train or truck, and we are still flying the airplane to maintain the readiness of these pilots, then we would increase the total cost to the Department of Defense. Our goal this year was to try and reduce the total Department of Defense costs.

Mr. VANDER SCHAAF. I am not sure I follow you.

Mr. SHYCOFF. We have a problem here of maintaining readiness of the C–5 and C–141 pilots and there is an attempt here to try and fly sufficient hours to maintain their readiness.

Mr. VANDER SCHAAF. You are going to fly those anyway. Now, I am asking when the rate increase came up on both sides of the equation, why you didn't augment and pump the money into your own airlines rather than put the money into the civilian sector of the economy?

Mr. SHYCOFF. Well, we have. That is why we are here for $39.3 million.

Mr. VANDER SCHAFF. You say you didn't make an increase to MAC because you couldn't do it.

Mr. SHYCOFF. Yes; but we have come up for reprograming.

General BLANTON. On the passenger augmentation, I spoke of a $20 million erosion of our buying power because of CAB rate increases. I am sure you realize there is a certain minimum level required to support our force. We don't necessarily have the capability to say we are not going to employ or not fill our slots overseas, and that is a—once this committee agrees to a base structure and an Air Force operating support posture, it is difficult to reduce that substantially.

Mr. VANDER SCHAAF. Let me ask the question another way: I happen to know there are Army contracts for full airplanes for charters from McGuire Air Force Base to Frankfurt, Germany, on a regular basis. I don't know how often, but it is through MAC for Army personnel moving to and from Europe. How many of those flights could have been flown by your C–5A and C–141s which were flying empty simply by not taking the contracts through the commercial contract but using your own cargo aircraft?

General BLANTON. You have to begin with a premise. Do you accept the Civil Reserve Air Fleet as being an essential part of the deployment needs of the U.S. Department of Defense?

CRAF CONTRACTS

Mr. VANDER SCHAAF. Are all of these contracts Civil Reserve Air Fleet contracts, these charter contracts?

General BLANTON. I believe they are, but we will clarify that for the record. I think that is a basic premise and I point out in the past it has

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been the judgment of Congress we are not energizing this capability enough.

[The information follows:]

MAC commercial contract augmentation for international operations is procured only from commercial carriers who participate in the CRAF program. However, as the single manager operating agency for airlift, MAC also procures a limited amount of domestic non-CRAF commercial capability for other DOD agencies to satisfy peculiar requirements that are incompatible with the MAC organic and CRAF carrier capability.

REPROGRAMING REQUESTS

Mr. BURLISON. Mr. Secretary, would you provide for the record a 5-year history, that is, the last 5 years on these reprograming requests? I think we will probably find that most all of them, or virtually all of them have probably been approved, but I'd like for you to provide that for the record. For those that were not approved, will you please provide for the record what happened to that money.

Mr. MCCLARY. Yes, sir.

[The information follows:]

DEPARTMENT OF DEFENSE, REPROGRAMING ACTIONS FOR MILITARY FUNCTION APPROPRIATIONS

[In millions of dollars]

	Fiscal year—				
	1970	1971	1972	1973	1974
Number of actions forwarded to Congress	129	132	82	56	24
Amount requested by appropriation:					
Military personnel	54	366	287	222	10
Operations and maintenance	212	585	697	923	88
Procurement	1,744	1,792	669	224	82
Research and development	421	523	213	84	39
Total requested by DOD	2,431	3,266	1,866	1,453	219
Total approved by Congress	2,385	3,146	1,680	1,255	199

The amounts requested for reprograming but which were denied were either spent for the original purpose of the appropriation, utilized in subsequent applications of transfer authority, or returned to the Treasury.

Mr. ADDABBO. One source of funds for this reprograming action is "Other Procurement," Air Force. A total of $141,100,000 has been identified among 57 line items. Comparing the revised fiscal year 1975 program levels as identified in the reprograming action to the fiscal year 1975 program levels as identified in the fiscal year 1976 procurement budget (P1), it appears that further reductions have been made to 14 of these line items, for a total of $34,520,000, which have not yet been reported to the committee. Offsetting this are partial restorations to four line items, totaling $840,000. Twenty line items totaling $36,079,000 have been zeroed out by this reprograming action and show zero funding in fiscal year 1976. What happened to the requirements for these items? Why did you initially budget for these items if there is no continuing requirement or if the current inventories would suffice through fiscal year 1976?

General BLANTON. Sir, we will provide that information for the record.

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[The information follows:]

2.75" WTU–1 PRACTICE INERT

At the time of the fiscal year 1975 budget submission, we were projecting a monthly training expenditure of $11,166. This requirement was subsequently reduced to zero at the time of the fiscal year 1976 budget estimate since rockets will not any longer be required by the Air Force in the attack role.

RBU–1/A (PAVE ROCK)

At the time of the fiscal year 1975 budget submission, the Air Force anticipated a WRM requirement for the Pave Rock weapon. Subsequently, initial operational test and evaluation by the tactical Air Forces disclosed the weapon had limited operational effectiveness when employed in a high threat, low-ceiling environment such as eastern Europe. Therefore, procurement was not recommended and the program was canceled.

105MM W.P.

At the time of the fiscal year 1975 budget submission, we were projecting a monthly training expenditure of 416 cartridges plus 50 per firepower demonstration. This requirement was reduced to zero based on a downward trend in the Special Operations Forces.

ENGINE STARTER MXU–4A

This item was included in the fiscal year 1975 budget request based on anticipate peacetime operational requirements for jet engine starting. Expenditures have not equaled this projection. Sufficient assets are on hand to satisfy fiscal year 1975–76 requirements.

40MM HEI–P PGU–9B

Subsequent to submissionof the fiscal year 1975 budget request, the Air Force special operating forces—AC–130 aircraft—were reduced. Fiscal year 1975 procurement and restoration of these items are deferred pending reevaluation of the requirement.

BOMB, G.P., 500 LB, MK–82

These funds were originally intended for load assemble and pack (LAP) of bomb body metal parts previously procured. A reevaluation of the production base determined that a larger quantity of bombs could be stored as metal parts than originally estimated and still meet mobilization demands.

BOMB, 500 LB, MK–82, EMPTY

At the time of the fiscal year 1975 budget submission, the annual projected consumption was 45,174. Actual expenditures by using commands have been only 7,861, thereby eliminating the need for a fiscal year 1975 procurement. Based on the revised expenditure forecast, sufficient assets are on hand to support requirements through fiscal year 1976.

ANTI-PAM, 500 LB. BLU–32

This item was being procured for war reserve stocks for the allies. Based upon an update of the Asian allies inventory posture and the relative low priority of this requirement, procurement was deferred because of higher priority Air Force requirements. Unless the requirement increases and legislative relief to the Foreign Assistance Act of 1974 is authorized, no subsequent procurement will be requested.

BOMB, FUFO, TYPE 3C

This item is a nuclear weapon/warhead trainer designed for weapons maintenance/explosive ordnance disposal training. Based on a slippage of the parent weapon, procurement of this item will not be requested until fiscal year 1978.

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BIDOPS SCORING SENSOR

Air Defense Command revised training requirements for this item eliminates the need for fiscal year 1975–76 procurement.

FLARE, TARGET MARKING, LUU–1

This item is used for rescue and target marking operation. At the time of the fiscal year 1975 budget submission, our major commands expected to use 618 per month. This projected use rate did not materialize and sufficient asests were available to support fiscal year 1975 requirements.

There is a continuing requirement for this item and we have included $404,000 in our fiscal year 1976 items less than $500,000 (other items category) budget request for procurement of 8,906 flares.

FMU–56 proximity fuze: The FMU–110 fuze is an improved version of the FMU–56 fuze. Based upon favorable test results of the FMU–110, further procurement of the FMU–56 was deferred in favor of the FMU–110 which has an improved capability. Fiscal year 1975 funds were approved for initial production of the FMU–110 and funds for follow-on production will be requested in future budget requests.

Bus, 41 passenger: There is a continuing requirement for the 41 passenger bus. The Air Force plans to request reinstatement of all the deleted buses in fiscal year 1977.

Bus, 20 passenger, 4 by 4: There is a continuing requirement for 20 passenger buses 4 by 4. Subsequent to the submission of the reprograming action, the Air Force deferred the remaining three vehicles in the fiscal year 1975 program to cover price increases on other higher priority vehicles. These are included in the fiscal year 1977 Air Force program.

Truck, fire, p–10: The deletion of 25 trucks reflects fact-of-life changes. Between submission of the President's Budget and the reprograming action, authorizations for P–10 fire trucks were reduced by 8 trucks. To take advantage of a lower unit price offered for a higher quantity buy, fiscal year 1974 funds were used to purchase the remaining 17 trucks required.

KY–75: The KY–75 procurement has been slipped to fiscal year 1976 because of delays in testing. There is a continuing requirement for the KY–75 equipment. The fiscal year 1976 budget contains $3.2 million to procure 530 in the TAC secure voice line, P–1 item 160.

KY–65: The KY–65 procurement has been slipped to fiscal year 1976 because of delays in testing. There is a continuing requirement for the KY–65 equipment. The fiscal year 1976 budget contains $2.1 million to procure 394 in the TAC secure voice line, P–1 item 160.

AN/TSC–60 radio: There is still a requirement for these radios. A significant cost increase for this radio and the requirement to provide for urgent O. & M. requirement necessitated deferral of procurement until fiscal year 1976. The fiscal year 1976 budget contains $12.8 million in the TAC comm equipment line, P–1 item 235, to procure 25 radios. The Air Force is reviewing the total requirement to identify a less costly alternative for satisfying some of the requirements. However, there is a definite requirement for at least the 25 AN/TSC–60 radios included in the fiscal year 1976 budget.

Generator sets, 30 kilowatt: There is a continuing requirement for replacement of 30 kilowatt generators. The requirement for the generators was deleted in the reprograming action because of possible changes in the power requirements for deployment. This is under study. The deleted generators will be reinstated in fiscal year 1977 if the deployment support study shows a requirement. However, 64 each 30 kilowatt generators to replace overage equipment have been included in the fiscal year 1976 budget in the items less than $500,000 category.

Generator sets, 60 kilowatt: Deferment of the 60 kilowatt generators to provide funds for this O. & M. request was possible by retaining overage generators in the inventory. Requirements for replacement 60 kilowatt generators are still valid and 30 each 60 kilowatt generators are included in the fiscal year 1976 budget in the items less than $500,000 category. Additional generators will be reinstated in subsequent years.

Mr. ADDABBO. In fiscal year 1974, the Congress deleted all funds for sedans and station wagons. Why is it that the Air Force can additionally reduce sedans funded in fiscal year 1975 by 29?

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General BLANTON. It is a painful action, as I mentioned earlier, of deferring our procurements in order to be able to finance the impact of inflation on O. & M. It is a question of priority. We believe that is compatible with other guidance the committee gave us.

Mr. McClary pointed out earlier there would be no supplementals and in recognition at mid-year when the appropriation bill was nearing signing, that the Departments would be expected to accommodate to the impact of inflation by usual reprograming action, and I believe that the committee guidance and this action are compatible.

Mr. ADDABBO. You had no funding request in the fiscal year 1975 R.D.T. & E. budget for the RBU–1/A Pave Rock rocket and Congress appropriated $4.6 million in fiscal year 1975 to buy 950 of them. The Air Force proposes to give up those funds. Why?

General BLANTON. I will call on Ms. Hooper.

Ms. HOOPER. Based on an evaluation by the Tactical Air Forces, it was determined the system had limited operational effectiveness and therefore procurement was not recommended.

GBU–2 PAVE STORM CLUSTER BOMB

Mr. ADDABBO. Congress reduced your $30.9 million request in fiscal year 1975 for the GBU–2 Pave Storm cluster bomb and provided $18.9 million instead. Air Force witnesses testified last year that all 22 ground tests of the improved fuze were successful, that the GBU–2 cluster bomb successfully completed I.O.T. & E. tests in August 1973, and it is ready for procurement. You now propose to use $7.7 million of the $18.9 million appropriated for this reprograming. Why?

Ms. HOOPER. I.O.T. & E. has been completed in 1973 as we testified last year. As you will recall, we had a requirement in the fiscal year 1974 supplemental for an initial 1,000 of these systems. That request was denied, so we therefore restructured our 1975 program to buy the initial pilot production quantity with the 1974 supplemental. We restructured on the basis of the disapproval of the supplemental.

Mr. MURPHY. Why was it reduced, if you didn't get your first increment?

Ms. HOOPER. The first increment planned in the 1974 supplemental was to buy an initial quantity for operational tests and evaluation. We feel that the 1975 program now at this reduced level will still provide assets for the initial operational test and evaluation and an additional quantity for the inventory. In other words, we are not trying to buy a larger quantity initially than was originally planned.

Mr. MURPHY. Thank you, Ms. Hooper.

LASER BOMB GUIDANCE KIT PROGRAM

Mr. ADDABBO. You are taking $9.1 million from the laser bomb guidance kit program we discussed at length with Air Force witnesses a year or two ago. At that time, this was an urgently needed program and in fiscal year 1975 we provided the money. Has there been a problem in the new laser guidance kit development?

Ms. HOOPER. Yes, sir, that is the reason for the delay. We have experienced technical difficulties which will delay the initiation of the contract into the fiscal year 1976 time frame. It is still an urgent

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requirement. We have not completed initial operational test and evaluation and therefore procurement can be delayed.

Mr. ADDABBO. Supply for the record the nature of the problem.

Ms. HOOPER. Yes, sir, I will.

[The information follows:]

The improved laser guided bomb (LGB) program schedule was initially structured to allow production verification flight testing and a 4½-month initial operational test and evaluation (I.O.T. & E.) to be completed in December 1974. This would allow for a production decision and contract award by mid fiscal year 1975.

The program has experienced technical problems that could be categorized as those typically encountered on a production engineering or extensive modification and test effort. Among these were: (1) a rework of the tailfins which provides for more reliability in the popout fin design; (2) installation of a filter in the hot gas generator to preclude hot gas particle contamination of a pressure relief valve; and (3) a modification to the LGB coding scheme to improve seeker compatibility with both ground and airborne laser designators. Again, these types of problems are those which can be expected on a program of this nature and which can be corrected with little or no schedule impact.

However, as the production verification flight tests progressed, the program began to experience periodic unexplained failure. In July 1974, the test program was restructured to include telemetry instrumentation kits on each test drop to gain more data and help define the nature of the unexplainable failures. Due to the lead time in procuring additional telemetry kits over and above those already programed, flight test activity was slowed until October 1974.

Additionally, many tasks that were planned to be completed earlier, had to be deferred until the periodic failure problem was corrected. In November 1974, sufficient data was collected to more clearly identify what was causing the failures. Subsequent ground tests on delivered prototype kits confirmed that the random failures were attributed to poor quality control. At the same time, an evaluation was made of the contractor's quality assurance program and on-the-spot corrections were made. Subsequent reliability drops have verified correction of the problem.

However, by November 1974, the time projected to complete the remainder of the production verification flight test and conduct the TAC I.O.T. & E. did not leave sufficient time to allow for a fiscal year 1975 contract award. This projection has proved to be correct since the production verification flight test, hampered by bad weather during January and February of this year, is now nearing completion and the I.O.T. & E. will be initiated in late March 1975. An August 1975 production decision is now projected to support a fiscal year 1976 initial procurement of improved LGB's.

RELOCATABLE BUILDINGS

Mr. ADDABBO. The fiscal year 1975 program initially included $4,750,000 for 269 relocatable buildings, a unit cost of $17,658. This reprograming action zeroes out the fiscal year 1975 program. The fiscal year 1976 program includes $7,500,000 for 250 buildings, a unit cost of $30,000. In light of the projected price increase of 70 percent, is it wise to defer this program?

Colonel MONTGOMERY. The price estimate was included in the submission for the fiscal year 1975 budget. It was prepared on the best figures available in 1973. Subsequent to that, in 1975, and late 1974, we tried to go on contract. In fact, the unit price is approximately $30,000, as shown in the budget submission for fiscal year 1976. Therefore, that was what we would have had to pay in 1975. It is approximately the same as we anticipate paying in 1976. There is no opportunity to save money. One was a budgetary estimate, the other is based on the latest facts and figures as a result of inflation.

Mr. MURPHY. Is this a commercial item or special purpose?

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Colonel MONTGOMERY. This is a commercial item that is built by a mobile home-type builder and it is not limited type competition.

Mr. MURPHY. Before submission of the budget estimate for fiscal year 1975, did your people call the contractor to find out approximately what they would cost?

Colonel MONTGOMERY. Yes, sir, and that was the contractor's estimate. At the time of the budget submission and preparation back in 1973. From that time until the time we were ready to go on contract, after the money was appropriated.

Mr. MURPHY. Do you mean you based your fiscal year 1975 budget estimate on fiscal year 1973 dollars?

General BLANTON. We prepared our 1975 budget in December, 1973.

Mr. MURPHY. You added nothing for inflation?

General BLANTON. It was not allowed at that time.

Mr. MCCLARY. Only on major weapons systems, and military construction. Now, starting this year, in fiscal year 1976, we will be able to anticipate inflation for other types of procurement, but not O. & M.

Mr. MURPHY. Not even a fudge factor was put in?

Mr. MCCLARY. No, sir. We follow the rules.

FULL FUSING OPTION NUCLEAR BOMB MAINTENANCE

Mr. ADDABBO. Why is it that you no longer plan to buy the 11 type 3C full fusing option strategic nuclear bomb maintenance and handling trainers?

General BLANTON. Sir, we do plan to buy this item in our future budget requests. The FUFO bomb is a nuclear weapon/warhead trainer designed for weapons maintenance/explosive ordnance disposal training. Based on a slippage of the parent weapon, procurement of the FUFO will not be requested until fiscal year 1978.

AN/TSC-60 RADIO SYSTEMS

Mr. ADDABBO. I also note you are taking $11.4 million appropriated for 30 AN/TSC-60 radio systems. That zeroes out the program. Does the Air Force have funds in the fiscal year 1976 budget to buy these radio systems? If so, how much for how many systems?

Major MILLER. The fiscal year 1976 budget contains $12.8 million to procure 25 systems.

Mr. ADDABBO. The fiscal year 1975 program initially included $2,986,000 for 17,562 anti-PAM BLU-27 bombs, empty—a unit price of $170 per bomb. This reprograming action zeroes out the fiscal year 1975 programs. The fiscal year 1976 program includes $2,200,000 for 9,000 bombs—a unit cost of $244 per bomb. In light of the projected price increase of 44 percent, should we defer this buy?

Ms. HOOPER. If I may, I would like to provide information for the record.

[The information follows:]

Prior to submission of the fiscal year 1976 budget request, it was the policy of OMB not to permit inclusion of escalation allowances in this appropriation. Accordingly, the unit price of $170 per bomb was developed in the fall of 1973, at the time the fiscal year 1975 budget was prepared. Had we procured this item during the first half of fiscal year 1975, we would have had to reduce the quantity to approximately 12,400, based upon the fall 1974 unit cost estimate of about

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$240 per bomb compared to the fall 1973 unit price of $170 per bomb. This action would have been necessary to stay within the approved fiscal year 1975 funding. However, based upon under-consumption of projected training expeditures by our using commands, sufficient assets are on hand to support requirements through the fiscal year 1975 funded delivery period (FDP), thereby permitting these funds to be reprogramed to support our operating forces. Procurement unit cost of this item in fiscal year 1976 is estimated at $247 per bomb as reflected in the exhibit P-1.

Mr. ADDABBO. The CBU-71 cluster bomb, does the fiscal year 1975 complete the buy?

Ms. HOOPER. Yes, sir.

Mr. ADDABBO. Did you overestimate your requirements by almost $12 million?

Ms. HOOPER. Subsequent to the fiscal year 1975 budget enactment, we reduced our requirements for that item. That accounts for the reduction we are proposing.

Mr. GARRITY. Did you reduce it in order to get the money available for this reprograming?

Ms. HOOPER. No, sir. It was an annual reevaluation of one of our requirements.

WAR RESERVE STOCKS

Mr. GARRITY. Everybody has been talking about war reserve stocks increasing and a need to increase them and now we come along and take it out. What is the reason for that, general?

General BLANTON. The reason is we should move along. Technology provides new weapons. Individual items will fall out and be replaced with improved capability.

Mr. GARRITY. Only because of improved capability? A better system?

General BLANTON. I would say that is a reason, certainly. We constantly, as you know, each year, reevaluate our WRM requirements, as we move through the preparation process of each year's budget.

Mr. ADDABBO. Provide for the record a table by line item affected, showing the quantities and amounts (a) approved by the Congress for fiscal year 1975, (b) reduced on the reprograming action, (c) reflected in the fiscal year 1975 column of the fiscal year 1976 budget, and (d) programed for fiscal year 1976 and 76-T in the fiscal year 1976 budget. Provide for each procurement appropriation addressed in the reprograming action.

[The information follows:]

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PROGRAM TRACK

Item	Congressional Approved		Reprogramming Action		FY 75 Column FY 76 Budget		FY 1976		FY 197T	
	Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount
Munitions & Associated Equipment										
Rockets & Launchers										
2.75" Rocket Motors	876,869	26.5	-576,869	-14.1	-	-	754,656	31.9	90,000	3.3
2.75" Rocket Head, Frag.	520,329	8.8	-298,436	- 2.0	99,300	3.1	327,656	9.8	75,000	2.1
RBU-1/A (Pave Rock)	950	4.6	- 950	- 4.6	-	-	-	-	-	-
2.75" WTU-1 Practice Inert Cartridges	107,328	.5	-107,328	- .5	-	-	-	-	-	-
105MM, W.P.	8	.5	- 8	- .5	-	-	-	-	-	-
40MM HEI-P, PGU-9B	241	1.8	- 241	- 1.8	-	-	-	-	-	-
Engine Starter, MXU-4A	3	.1	- 3	- .1	-	-	-	-	-	-
Bombs										
Dispenser & Bomb, CBU-71	9,532	14.3	- 8,022	-11.7	1,510	2.6	-	-	-	-
Cluster Bombs, MK-20(Rockeye)	1,800	4.5	- 1,800	- 4.5	-	-	4,800	19.2	-	-
Bomb, GP, 500lb., MK-82	-	2.6	-	- 2.6	-	-	-	-	-	-
Anti-PAM, 500Lb., BLU-32	9,012	1.8	- 9,012	- 1.8	-	-	-	-	-	-
Bomb, 500Lb., MK-82 Empty	35,202	3.3	- 35,202	- 3.3	-	-	-	-	-	-
Anti-PAM, BLU-27 Empty	17,562	3.0	- 17,562	- 3.0	-	-	9,000	2.2	-	-
Bomb, FUFO, Type 3C	11	.9	- 11	- .9	-	-	-	-	-	-
GBU-2 (PAVESTORM)	1,746	18.9	- 746	- 7.7	1,000	11.2	1,000	10.5	-	-
Laser Bomb Guidance Kit	4,800	33.1	- 1,323	- 9.1	-	3.0	8,042	51.0	-	-

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Item	Congressional Approved Qty	Amount	Reduction Qty	Amount	FY 75 Column FY 76 Budget Qty	Amount	FY 1976 Qty	Amount	FY 197T Qty	Amt
Targets										
BIDOPS Scoring Sensor	208	.7	- 208	- .7	-	-	-	--	-	-
Other Items										
Flare, Target Marking LUU-1	11,500	.5	- 11,500	- .5	-	-	-	***	-	-
Flare, I.R. RR-119	100,000	5.6	- 52,000	- 2.9	48,210	2.7	38,090	2.2	-	-
First Destination Transportation	-	14.9	-	- 4.9	-	9.0	-	12.0	-	2.7
Fuzes										
FMU-56 Proximity	4,660	1.4	- 4,660	- 1.4	-	-	-	-	-	-
FMU-54A/B	82,995	10.4	- 66,995	- 8.4	10,000	2.3	48,150	6.6	-	-
SUB TOTAL-MUNITIONS & ASSOCIATED Equipment	-	158.7	-	- 87.0		33.9		145.4		8.1
VEHICULAR EQUIPMENT										
Passenger Carrying Vehicles										
Sedan, Light, 4Dr, 4x2	580	1.4	- 29	- .1	-	-	150	.4	-	-
Bus, 28 Passenger	225	2.2	- 112	- 1.1	-	-	149	1.7	-	-
Bus, 41 Passenger	9	.5	- 9	- .5	-	-	-	-	-	-
Bus, 20 Passenter 4x4	6	.1	- 3	- .1	-	-	-	-	-	-
Cargo & Utility Vehicles										
Truck, Stake&Platform, l 1/2T,4x2	420	1.7	- 110	- .7	310	1.5	227	1.4	-	-
Truck, Cargo, 2 1/2T, M-35	225	3.3	- 25	- .3	138	3.0	218	5.0	-	-

*** Qty 8,906, $.404 included in Items Less Than $500,000.

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Item	Congressional Approved		Reprogramming Action		FY 75 Column FY 76 Budget		FY 1976		FY 197T	
	Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount
Items Less Than $500,000	-	3.2	-	- 1.5	-	1.1	-	5.3	-	-
Truck, Panel, Multi-Stop 1T,4x2	666	2.3	- 46	- .1	620	2.2	807	4.1	-	-
Special Purpose Vehicles										
Tractor, Tow, AGE, Wheeled	282	1.2	-184	- .8	98	.4	119	.7	-	-
Items Less Than $500,000	-	2.9	-	- .1	-	1.0	-	2.7	-	-
Firefighting Equipment										
Truck, Fire P-10	25	.3	- 25	- .3	-	-	-	-	-	-
Truck, Fire, High Capacity	7	2.3	- 7	- 2.3	-	-	10	3.1	2	.7
Materials Handling Equipment										
Items Less Than $500,000	-	1.3	-	- .6	-	.1	-	1.5	-	-
Base Maintenance Support										
Items Less Than $500,000	-	3.2	-	- 1.8	-	1.1	-	2.6	-	-
SUB-TOTAL-VEHICULAR EQUIPMENT		25.9		-10.8		10.4		28.5		.7
Electronics & Telecommunications Equipment										
Comm Security Equipment (COMSEC)										
KY-65	357	1.5	-357	- 1.5	-	-	394	2.1*	-	-
KY-75	292	1.5	-292	- 1.5	-	-	530	3.2*	-	-
Special Comm-Electronics Projects										
Joint Surveillance System (Joint Control Centers)	-	10.3	-	-6.3	-	3.8	-	11.9	-	5.7

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Item	Congressional Approved Qty	Congressional Approved Amount	Reprogramming Action Qty	Reprogramming Action Amount	FY 75 Column FY 76 Budget Qty	FY 75 Column FY 76 Budget Amount	FY 1976 Qty	FY 1976 Amount	FY 197T Qty	FY 197T Amount
Organization and Base										
Radio Dropsonde	4,982	1.5	-4982	- 1.5	-	-	3025	.8	-	-
AN/PRC-90 Radio	2,219	.6	-2219	- .6	-	-	3000	.7	-	-
AN/TSC-60 Radio	30	11.4	- 30	-11.4	-	-	-	12.8**	-	-
First Destination Transportation	-	12.0	-	- 4.6	-	- 7.4	-	9.2	-	2.6
Modifications										
Eastern Test Range	-	1.6	-	- .7	-	.4	-	1.5	-	.2
SUB-TOTAL Electronics & Telecommunciations Equipment		40.4		-28.1		-11.6		42.2		8.5
Other Base Maintenance Support Equipment										
Personal Safety & Safety Equipment										
Items Less Than $500,000	-	2.0	-	- .5	-	1.2	-	1.5	-	.6
Depot Plant & Materials Handling Equipment										
Depot Plant Modernization		14.3		- 1.6	-	10.0	-	15.7	-	-
Base Mechanization Equipment		12.1		- 3.1	-	9.0		13.5	-	-
Items Less Than $500,000		2.4		- .2	-	2.2	-	2.6	-	.3
Electrical Equipment										
Items Less Than $500,000		2.9		- .5	-	2.4	-	3.3	-	.6

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	Congressional Approved		Reprogramming Action		FY 75 Column FY 76 Budget		FY 1976		FY 197T	
	Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amou
Generator Sets, 30KW	197	1.5	-197	- 1.5	-	-	-	***	-	-
Generator Sets, 60KW	67	.6	- 67	- .6	-	-	-	***	-	***
Base Support Equipment										
Relocatable Buildings	269	4.7	-269	- 4.7	-	-	250	7.5	-	-
Items Less Than $500,000	-	2.4	-	- .5	-	2.0	-	3.0	-	.6
Photographic Equipment	-	2.9	-	- 1.9	-	1.0	-	1.1	-	-
Special Support Projects										
Intelligence Production Activity	-	1.9	-	- .1	-	1.8	-	1.4	-	.4
Scientific & Technical Intelligence	-	4.5	-	- .2	-	4.2	-	4.5	-	-
AF Technical Application Center	-	4.7	-	- .3	-	4.5	-	1.7	-	.3
SUB-TOTAL-OTHER BASE MAINTENANCE & SUPPORT EQUIPMENT		56.9		-15.7		38.3		58.8		2.8
TOTAL PROGRAM DECREASES		281.9		-141.1		94.2		271.9		20.1

* TAC Secure voice (Item No. 160) in FY 1976 P.1
** TAC Com equipment (Item No. 235) in FY 1976 P.1
***

	76		7T	
30KW	64	.493	-	-
60KW	30	.350	15	.173

- Included in Items Less Than $500,000

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Item	Congressional Aporoved Qty	Congressional Aporoved Amount	Reprogramming Action Qty	Reprogramming Action Amount	FY 75 Column FY 76 Budget Qty	FY 75 Column FY 76 Budget Amount	FY 1976 Qty	FY 1976 Amount	FY 197T Qty	FY 197T Amount
B-52 MODS		191.4		- 15.1		160.7		68.2		13.2
C-135 MODS		21.9		- 7.0		12.1		40.1		4.6
Other A/C MODS		91.7		- 18.0		72.9		89.1		24.9
Other Prod Charges		122.3		- 5.7		115.5		146.3		58.6

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JOINT CONTROL CENTER

Mr. ADDABBO. You are taking $6.3 million from the Joint Control Centers operated with FAA. This was to be a $117.6 million program through fiscal year 1980. We appropriated $2 million for this program in fiscal year 1970, but you used only $100,000 of that amount before the funds expired. Now you propose to take another $6.3 million, leaving $4 million for fiscal year 1975. Is this an important program or not? Where is the remaining $4 million?

General BLANTON. It is an important program and there has been a change in concept.

Major MILLER. The original Joint Control Center project envisioned the location of Air Force personnel at 13 FAA Air Traffic Control Centers. Our Air Defense Command evaluated this concept to determine it would not provide the necessary command and control capability necessary for direction of air defense forces during a peacetime mission. So the concept of the joint program has been changed where we will share radar data with the FAA and will have four regional operational control centers solely manned by Air Force personnel. This change in concept and the subsequent delay in implementing the program has allowed us to defer procurement of equipment to support the program.

Mr. ADDABBO. I took up this question with the Secretary of Defense and it appears with the dual operation—I don't know if it is a causal factor, but in the last year or so we have had more air crashes than we had previously. I am wondering whether the dual operation is proper or whether we should retain the single operation working through FAA? Has any study been made as far as that is concerned?

Major MILLER. No, sir, this has nothing to do with approach control and landing of aircraft.

Mr. ADDABBO. What does it have to do with?

Major MILLER. It is just a joint surveillance system for air defense purposes.

Mr. ADDABBO. Just surveillance, no control operation at all?

Major MILLER. It will have control of Air Force interceptors in an intercept mission.

Mr. ADDABBO. And training missions. In other words, in training it is also on a control basis; isn't that correct? You are controlling your own?

Major MILLER. Yes, sir. Only control of interceptors in Air Defense training exercises. Not control of traffic on routine flights.

Mr. ADDABBO. You are constantly conducting training programs, are you not? Not as much as you would like, but you are still conducting training programs?

Major MILLER. Yes, sir.

The radar data will be used by FAA for surveillance and control of aircraft flying the airways.

Mr. ADDABBO. Are they going to be controlling or will the Air Force people be under separate control? Will there be dual control or one central control?

Major MILLER. There will be dual control. The Air Force under this system will be controlling only the Air Force interceptor missions training in peacetime. FAA, using the same radar provided data, will

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be controlling normal air flights in the airways throughout the United States.

General BLANTON. For the movement of aircraft, the radar data on the training missions flown and controlled by the Air Force will be fed to the Air Force Traffic Control Center by the FAA. They would still execute the control responsibilities, and are charged with that responsibility. That would not be affected in any way.

Mr. ADDABBO. Transferring out the $3 million gives up the aircraft safety.

General BLANTON. This has nothing to do with the mission of FAA, sir.

JOINT CONTROL CENTERS

Mr. ROBINSON. I would like to go back to this question you were asking regarding the joint control centers and make certain that they do not refer in any way to what we heard a lot about in the last session, the flight control centers. Are these in any way tied together?

Major MILLER. No, sir. The joint surveillance system will not affect or degrade the FAA Air Route traffic control system. They will just share and use the same radar information allowing the Air Force to close out or in some cases transfer to the FAA operation of radar sites in the continental United States.

Mr. ROBINSON. In the last Congress the administration wanted to phase out—I wasn't on this committee then and I don't know whether or not it was a military request or an administration request, but somebody wanted to phase out Flight Control Centers and we caught a lot of flack about it as individual members and I wanted to be sure this does not refer in any way to it. Is this a unilateral decision and is it agreed to by all concerned?

Major MILLER. It is definitely not a unilateral decision. This is a Joint Air Force-FAA program. I am not familiar with the reference to flight centers you referred to.

TRAVEL LIMITATIONS

Mr. SIKES. This has to do with the reversal of the OMB interpretation on the Roth amendment on travel restrictions. Do I understand the Roth amendment is no longer applicable?

Mr. MCCLARY. That is true.

Mr. SIKES. Is there any trouble now about travel restrictions insofar as the Air National Guard is concerned as a result of congressional or OMB action?

Mr. MCCLARY. No, sir. I would like to clarify——

Mr. SIKES. Let me go through this and then I want you to clarify it.

OMB decided that the base line of application of the Roth amendment travel restriction must be in the President's fiscal 1975 budget, thus denying to the Air National Guard the $293,000 added by Congress to support five Air National Guard units restored by Congress.

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The Congress appropriated $4,561,000 for ANG travel. Minimum essential cost for fiscal year 1975 was $5,189,000. Apparently the House Appropriations Committee was asked to approve a Senate letter, a letter from Mr. McClellan to Secretary Schlesinger on this matter, so that planning for unit conversions could be accomplished in fiscal year 1975 and 1976, so the conversions wouldn't be delayed, so that curtailment, undesirable curtailment of exercises would not be encountered. Is that situation now cleared up or is further action required either by this committee or by the Department of Defense?

Mr. McCLARY. The Roth amendment no longer applies.

Mr. SIKES. Explain it for the record. Tell us where we are now and what must be done to clear up this matter if it isn't cleared up. Will you do that?

Mr. McCLARY. I shall do that.

Mr. SIKES. I want the facts on it because if additional action is required, I would like to at least take steps to see that it is done.

[The information follows:]

Mr. McCLARY. On February 28, 1975, Public Law 94-6 was enacted, which repealed section 205 of Public Law 93-554 (Roth amendment). This action lifted the statutory travel limitation on the Department of Defense. No further congressional action is required. Secretary Schlesinger on March 1, 1974 informed the military departments of his intention to comply with the spirit of the Roth amendment by holding total fiscal year 1975 Department of Defense travel to the minimum level consistent with military readiness, efficient management and overall economy.

O. & M., AIR FORCE, AIR FORCE RESERVE AND AIR NATIONAL GUARD

Mr. ADDABBO. Now, turning to operation and maintenance, Air Force, Air Force Reserve and Air National Guard.

Mr. Sikes.

AIR FORCE RESERVES

Mr. SIKES. General, for fiscal year 1974 the Congress provided $239.1 million for Air Force Reserve operations. The original budget request for 1975 was $278.2 million. The amendment to the budget of June 1974 requested an additional $10.6 million, for a total request of $288.8 million and an increase of $49.7 million above the amount appropriated for fiscal year 1974. The Congress provided $286.7 million for fiscal year 1975 which was only $2.1 million below the budget request but $47.6 million above the amount appropriated for fiscal year 1974. Now you are requesting an additional $4.5 million. This would provide an increase of $52.1 million for the fiscal year not including the supplemental budget request of $7.2 million which the committee has not considered, as yet. How do you expect to spend all these additional funds?

General BLANTON. Mr. Chairman, there are many reasons for the dollar increase in fiscal year 1975 and they all relate either directly to the continuing expansion and modernization of the Air Force Re-

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serve or to inflation. For example, in fiscal year 1975 the Air Force Reserve is operating two additional bases, Hamilton and Ellington. An expanded strategic airlift surge mission has been assigned to our C–141/C–5 associate units. Our flying-hour program is up 14,000 hours since fiscal year 1974. Selected Reserve strengths are up 4,000 and civilian man-years are up 800. Seven flying units which converted to more sophisticated aircraft during fiscal year 1974 are in the fiscal year 1975 program for a full year at the higher costs as are two C–141/C–5 associate units which activated during fiscal year 1974. POL related costs have increased almost $22 million over fiscal year 1974 due to price increases. The calculated inflation impact on the nonpay areas of this appropriation is $14 million or almost an 11-percent erosion of resources. We are seeking transfer of $4.5 million which will cover only a small portion of the inflation. The remainder of about $9.5 million is being absorbed at the expense of our mission programs. We have deferred facility projects, drawn down our supply stocks, and taken other management actions to live within our means. Our obligation goals are being met or exceeded as of February. We flew 100 percent of our flying-hour program through the first half of the year. All of our civilians are onboard. The Air Force Reserve will continue to closely monitor program progress to insure that mission requirements are fulfilled within the total fiscal year 1975 fund availability. Attainment of this objective will be difficult if inflation continues to escalate.

Reserve Reprograming Capability to Absorb

Mr. Sikes. Why can't this $4.5 million requested in this reprograming be absorbed within the $286.7 million already provided? Do you know that this request represents only 1½ percent of the funds already appropriated?

General Blanton. The total appropriation of $286.7 million includes $155.3 million for civilian pay. The balance of $131.4 million is subject to inflation. The calculated inflation impact on this amount is $14 million or almost an 11-percent erosion of resources. The Air Force Reserve is absorbing $9.5 million of the $14 million through internal reprograming. The requested transfer of $4.5 million represents the balance of inflation for which reprograming offsets could not be identified. The Reserve has already absorbed the cost of approximately 23,000 flying-hours in fiscal year 1975 which were required to bring our flying units to flying minimums. These flying-hours were not included in the fiscal year 1975 President's budget. The shortfall resulted from extreme measures taken due to fuel conservation directives which were subsequently modified. No flexibility remains in the fiscal year 1975 program. If the Reserve is forced to absorb $4.5 million this late in the fiscal year, there will be no alternative except to reduce our flying-hour program in an amount sufficient to generate $4.5 million. This action would have a significant impact on Reserve combat readines.

Air National Guard/Capability to Absorb

Mr. Sikes. The Air Guard is requesting an additional $12 million in reprograming request 75–7 P/A. For fiscal year 1975 the Congress appropriated $642.5 million for the operation of the Air National

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Guard. This was an increase of $99.6 million over the amount appropriated for fiscal year 1974. The original budget request for 1975 was $596.1 million. This request was increased by $32.4 million by the budget amendment of June of 1974. The total request for the fiscal year amounted to $628.5 million. The Congress in its goodness appropriated $642.5 million. This was due primarily to an increase in personnel from the budget request of 89,739 to the authorized strength of 95,000. The amount requested in this reprograming is only 1.8 percent of the funds appropriated for the fiscal year. Why cannot this small increase in operating be absorbed within funds already provided?

Colonel MUIR. The Air National Guard total O. & M. appropriation of $642.5 million includes $332.5 million for civilian pay. The calculated inflation on the balance is $26.9 million, or approximately 9 percent. The Air National Guard is absorbing $14.9 million through internal actions and is requesting the $12 million transfer to fund that portion for which we could not identify offsets.

Although the Congress increased the fiscal year 1975 appropriation by $14 million over that initially requested, and we are very grateful for this action, the increase was specifically to fund the impact of retention of the additional five units, and the restoration of flying-hours which Congress recognized as essential to the readiness of ANG units. A requirement to absorb an additional $12 million would again force a reduction in the flying-hour program, with a corresponding impact on combat readiness.

STEPS TO ELIMINATE UNNECESSARY OPERATIONS

Mr. SIKES. Have you taken any administrative action within the Air Guard to eliminate all unnessary operations?

Colonel MUIR. Yes, sir, in addition to actions taken to absorb inflation similar to those identified by General Blanton, we have limited the number of pilots permitted to fly to those essential to accomplish mission requirements. Further, we have taken action to reduce energy consumption in all areas, including a 15-percent cutback in motor vehicle fuel and a 17-percent reduction in utilities.

Mr. SIKES. The reprograming request states that $5.3 million is requested because of the increased price of fuel and $4.8 for the increased price of supplies ordered from the Defense stock fund. However, information provided the committee shows that the Air Guard underflew its flying-hour program by 1,762 hours in the first quarter and 6,401 hours in the second quarter of the fiscal year. This underfly of some 8,000 hours saves the Guard a substantial amount of funds. What was the amount of savings actually realized from this underfly in the first two quarters?

Colonel MUIR. Sir, based on our planned quarterly phasing of the current flying-hour program, the ANG underfly by 5,479 hours through December 1974. This was primarily due to the seasonal impact of local adverse weather conditions and some severe problems we were having with the A–7 engine, which has since been corrected. The program was only 1.3 percent off target at end of December and will be back on schedule by early spring. These hours are vital to keep our aircrews in a combat-ready status.

Mr. SIKES. When you underfly the program, does not this result in savings of fuel, spare parts, supplies, and maintenance?

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Colonel MUIR. A small underfly in the flying-hour program has little impact in spare parts, supplies, and maintenance, since additional corrective maintenance can be accomplished when aircraft are available for longer periods of time. Fuel requirements, however, would vary directly with changes in flying hours.

Mr. SIKES. What did the Guard do with the funds saved as a result of this underfly of the flying-hour program?

Colonel MUIR. The ANG intends to use the funds in accomplishing the full program.

Mr. SIKES. What is your estimate of the number of hours the program will be underflown in the third and fourth quarters of the fiscal year?

Colonel MUIR. We do not anticipate any underfly in the third and fourth quarters and will fully accomplish our annual program.

OPERATION AND MAINTENANCE, DEFENSE AGENCIES, REPROGRAMING FY 75-8 P/A

Mr. ADDABBO. We will now discuss reprograming request No. 75-8 P/A, "Operation and Maintenance, Defense Agencies." The request is for a transfer of $400,000 from R.D.T. & E. into operation and maintenance for fuel price increases.

We have with us to present this request Mr. Paul H. Carew, Comptroller, Defense Nuclear Agency. Mr. Carew, it is a pleasure to have you with us and you may proceed with your statement. At the conclusion of your statement, please place the reprograming document in the record.

[The statement follows:]

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today in defense of DOD reprograming action, No. 75-8 concerning the Defense Nuclear Agency. This reprograming action requests approval to transfer $400,000 from research, development, test and evaluation (R.D.T. & E.), defense agencies to operations and maintenance (O. & M.), defense agencies. This reprograming is required to fund the fiscal year 1975 impact of unbudgeted fuel price increase experience during fiscal year 1974. The following tables reflect consumption and cost data in support of this transfer.

POL CONSUMPTION AND COST

	Gallons	Unit cost (in cents)	Amount (in thousands)	Surcharge	Amount (in thousands)
Fiscal year 1975 President's budget:					
Diesel	4,620	20.5	$947	$141	1,088
Mogas	252	27.4	69	10	79
Total	4,872		1,016	151	1,167
Current fiscal year 1975 estimate:					
Diesel	4,024	34.7	1,396	126	1,522
Mogas	126	36.5	46	4	50
Total	4,150		1,442	130	1,572

The Defense Nuclear Agency has reduced fuel consumption to the minimum levels required for maintaining ongoing operations. However, these efforts have been more than offset by the increased costs of fuel. Since no funds are available within O. & M. to finance this requirement, a transfer from R. D. T. & E. is requested. The reduction to R. D. T. & E. is made possible due to the delay in execution of an underground test event.

Mr. Chairman, this concludes my statement and I will be pleased to answer any questions you may have.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE: Operation and Maintenance, Defense Agencies - FY 1975
DOD SERIAL NUMBER: FY 75-8 P/A
APPROPRIATION SERIAL NUMBER: FY 75-2
(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

The purpose of this reprogramming action is to transfer funds in accordance with Section 834 between RDT&E, Defense Agencies and O&M, Defense Agencies. Funds transferred will be used to purchase POL.

REPROGRAMMING INCREASES:

FY 1975 Program

Defense Nuclear Agency 3. Intell & Comm	-	21,215	-	21,215		+400		21,615

Explanation

During the period 1 Jul 73 to 1 Apr 74 the price of diesel fuel increased from 16.3¢ gallon to 34.7¢ gallon. The impact was to create a $400,000 fund deficiency in the O&M, Defense Agencies funds available to the Defense Nuclear Agency. The unbudgeted increase cannot be accommodated within the O&M appropriation.

TOTAL PROGRAM INCREASES						+400		
TOTAL PROGRAM DECREASES						-		
NET CHANGE IN PROGRAM						+400		

REQUESTED (Signature and Date): 14 Nov 74
WARREN D. JOHNSON, Lieutenant General, USAF

APPROVED (Signature and Date): NOV 23 1974
Deputy Secretary of Defense

DD FORM 1415 REPLACES DD FORM 1415, 1 DEC 68, WHICH IS OBSOLETE
REPORT CONTROL SYMBOL

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Mr. ADDABBO. For fiscal year 1975 DNA received an appropriation of $21,215,000. Why cannot this small amount be absorbed within funds already appropriated?

Mr. CAREW. Mr. Addabbo, absorption of the $400,000 within the appropriation is precluded primarily due to the magnitude of relatively fixed costs within the appropriation, such as the Johnston Atoll operations contract, Enewetak caretaker contract, civilian personnel salaries, building and equipment rentals, and communications. If the transfer is not approved it will become necessary to either reduce civilian personnel or cut back on the contract for operating Johnston Atoll. At this late date in the fiscal year, it would be both counterproductive and highly disruptive to achieve the necessary savings by reducing civilian personnel levels. A reduction of contract operations at Johnston Atoll would also result in the laying off of contractor personnel to achieve the desired savings and could present legal problems which would negate any savings achieved. The impact of this latter course of action would also result in the deferral of routine maintenance at Johnston Atoll which is considered both unwise and costly since past experience has shown that, due to the highly corrosive atmosphere, deterioration of the facilities will accelerate if minimal maintenance effort is not performed on a continuing basis. Major repair projects have already been deferred into fiscal year 1976 due to inadequate funds.

FUEL PRICE INCREASE

Mr. ADDABBO. According to the reprograming request, these funds are being requested to cover fuel price increases from July 1973, to April 1974. Were these funds requested in the budget amendment of last June which covered fuel price increases, especially the April 1, increase?

Mr. CAREW. No, sir, these funds were not included in the budget amendment.

Mr. ADDABBO. Why were they not included since it appears that would have been the proper place for them?

Mr. CAREW. Mr. Addabbo, DNA fuel data on which this reprograming action is based was submitted to OSD for possible incorporation in a budget amendment. However, OSD considered the amount relatively insignificant compared with service requirements and felt that DNA should attempt to solve the problem within our total obligational authority. When apportionment guidance was issued by OSD an option to utilize transfer authority was included. Our internal analysis indicated that was the only feasible route and this decision resulted in the submission of the reprograming action.

Mr. ADDABBO. According to information provided the committee, these funds are to cover the increased cost of fuel being used on the Johnston and Enewetak Atolls. I thought I read somewhere that we significantly reduced our operations in the Pacific. Is that true and if so, will these funds still be required?

Mr. CAREW. Sir, our operations in the Pacific have not been reduced. We are charged with the operation of Johnston Atoll, our primary readiness facility, as part of the National Nuclear Test Readiness Program (NNTRP). This program supports our capability to resume atmospheric testing in the event the Limited Test Ban Treaty is

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abrogated. We are further charged with host-management responsibilities at Enewetak Atoll pending commencement of cleanup operations which will lead to the eventual resettlement of these islands by the Enewetak people. These missions remain unchanged with no reductions in operations.

Mr. ADDABBO. Since this reprograming was submitted in November 1974, have you looked for alternate sources of funding this requirement?

Mr. CAREW. Mr. Addabbo, since this reprograming action was submitted we have earnestly attempted to find an alternate source of funding this requirement. However, we have concluded that because of fixed expenses and cost growth in other areas, there are no funds available which can be diverted to satisfy this requirement.

Mr. ADDABBO. Gentlemen, we appreciate your testimony.

The committeee will stand in rcess until 10 a.m., tomorrow morning.

THURSDAY, MARCH 6, 1975.

DEFENSE STOCK FUND

Mr. BURLISON. The committee will come to order.

We will now consider reprograming requests 75–13 P./A. The reprograming is for the transfer of $120 million to the Defense Stock Fund. The funds are to be obtained from several procurement appropriations.

The purpose of this reprograming is to augment the cash position of the fund.

We will insert the reprograming request in the record at this point.

[The document follows:]

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE							DOD SERIAL NUMBER	
Defense Stock Fund							FY 75-13 P/A	
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)							
FY 75 - 1 P/A								
LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

PRIOR APPROVAL

The purpose of this reprogramming action is to provide additional funding in the amount of $120.0 million for the Defense Stock Fund. This action is submitted for prior approval since the increase is financed by a transfer pursuant to Section 834 of P.L. 93-437.

REPROGRAMMING INCREASE ($ in Thousands)

FY 1975 Program 120,000

Explanation: By 30 June 1974 Defense Stock Fund cash had dropped to $39 million; according to criteria based on volume of business, the balance should have been $260 million. Principal cause of the cash depletion was POL transactions, where standard prices could not be changed fast enough to keep up with increasing costs. The 1 April 1974 price increase, which was based on then current contract coverage and the best available information at the time, was insufficient to cover the rapidly rising costs of fuel. The expanding inflation rate that followed the lifting of price controls in April 1974 put the DSA hardware centers in the same condition that had existed in POL; price changes could not be made fast enough to keep up with inflation.

On 30 November 1974, the cash balance was $55 million, an increase of $16 million from June, but $100 million had been transferred from the Industrial Fund, and $60 million in invoices which normally would have been paid were deferred to protect the fund's liquidity. Effectively from July through November 1974, there was a net outflow of $144 million cash. A 1 November 1974 increase in POL standard prices was designed to break even, and therefore will not improve the unacceptably low cash balance in the Defense Stock Fund. Consequently, an immediate cash augmentation of $120 million is urgently required. The only alternative is to draw down inventories, and only in POL is the volume and turn over such as to provide the cash within the required time.

A draw down of 8 million barrels of POL would generate the required $120 million. Of this, $3.1 million would come from peacetime operating stocks and $4.9 million from war reserves. In view of the current uncertainty of continued availability of product, any reduction of POL inventory would constitute an unacceptable risk to defense readiness, and is not considered a viable option. Therefore, it is proposed to transfer $120 million to the Defense Stock Fund. This reprogramming involves an interappropriation transfer of funds under the authority of Section 834, P.L. 93-437, therefore, requires the prior approval of the Congress.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE							DOD SERIAL NUMBER	
Defense Stock Fund							FY 75-13 P/A	
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)							
FY 75 - 1 P/A								
LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
			PRIOR APPROVAL					
NET CHANGE IN PROGRAM						120,000		
Explanation: This net change reflects the transfer of funds from the following appropriations:								
Aircraft Procurement, Army, 1973/1975						1,500		
Aircraft Procurement, Army, 1974/1976						600		
Aircraft Procurement, Army, 1975/1977						5,000		
Missile Procurement, Army, 1973/1975						10,000		
Missile Procurement, Army, 1975/1977						5,400		
Procurement of Weapons and Tracked Combat Vehicles, Army 1973/1975						500		
Procurement of Weapons and Tracked Combat Vehicles, Army 1975/1977						5,000		
Procurement of Ammunition, Army, 1975/1977						12,000		
Procurement of Aircraft & Missiles, Navy, 1973/1975						5,900		
Weapons Procurement, Navy, 1975/1977						4,200		
Other Procurement, Navy, 1975/1977						26,700		
Procurement, Marine Corps, 1975/1977						3,200		
Aircraft Procurement, Air Force, 1974/1976						13,300		
Aircraft Procurement, Air Force, 1975/1977						12,700		
Other Procurement, Air Force, 1974/1976						12,000		
Other Procurement, Air Force, 1975/1977						2,000		
REPROGRAMMING DECREASES						120,000		

REQUESTED (Signature and Date)
Director, Defense Supply Agency

APPROVED (Signature and Date)
28 DEC 1974
DEPUTY SECRETARY OF DEFENSE

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Mr. BURLISON. Mr. McClary, I understand you are going to present this request with the assistance of Mr. Cassell, Comptroller of Defense Supply Agency.

We welcome all of you before the Defense Subcommittee this morning.

Secretary McClary, we will be pleased to hear from you. I understand you have a prepared statement.

GENERAL STATEMENT

Mr. MCCLARY. Yes; Mr. Chairman, I have a prepared statement that I would like to present for the record and then, if I may, briefly summarize by the showing of two visual aids.

Mr. BURLISON. We will insert your statement, then you proceed in your own way.

[The statement follows:]

STATEMENT OF HON. TERENCE E. MCCLARY, ASSISTANT SECRETARY OF DEFENSE

Mr. Chairman and members of the committee, I am pleased to appear here today to outline our reasons for proposing the reprograming of certain funds from procurement accounts to the Defense Stock Fund. This reprograming action is required to augment the Defense Stock Fund cash to preclude drawdown in DOD fuel inventories. Appropriations affected by these proposed transfers are summarized on table 1. This reprograming request has been submitted for prior congressional approval under the provisions of section 834, Public Law 93-437, DOD Appropriation Act, 1975. I have with me military department representatives who will discuss the changes in procurement programs.

Reprograming action fiscal year 1975-13 would provide an additional $120 million to the Defense Stock Fund in order to maintain an acceptable cash balance and to preclude an 8-million barrel drawdown in fuel inventories. With the uncertainty of continued availability of POL products, such a reduction would represent a serious risk to defense readiness.

As of June 30, 1974, the cash balance of the Defense Stock Fund was $39 million against an objective of $260 million. This cash balance, to support fiscal year 1975 operations, reflects the extreme deterioration which occurred during the preceding 3 months, from a cash balance of $118 million as of March 31, 1974.

The principal cause of the cash depletion was bulk petroleum transactions wherein standard prices could not be changed fast enough to keep pace with increasing product costs. Price increases which became effective April 1, 1974, based on contract coverage at that time, proved insufficient to cover rapidly rising costs of fuel. The expanding inflation rate that followed the lifting of price controls in April 1974, placed all other commodity areas in the same condition as existed for fuel—price changes could not be effected fast enough to recoup rising product costs.

In an effort to live within resources available to the Department of Defense, actions have been taken to: one, transfer $100 million from the industrial fund; two, redistribute $95 million from the military department's stock funds; three, reduce procurement quantities for inventory replenishment commensurate with the fall-off in customer orders due to increased prices; and four, accelerate billing transactions to the maximum extent. These actions provided a Defense-wide stock fund cash posture equal to four days of average daily disbursements. This low level in disbursement capability obviously places the defense stock funds in a highly vulnerable position. The slightest increase in invoices from suppliers or reduction in customer orders—both conditions highly possible in today's climate—could place the stock fund cash balances in a deficit position. Even with the actions already taken together with the $120 million proposed transfers, we project a June 30, 1975, cash balance in the defense stock fund of only $61 million.

Having taken all prudent actions to relieve the cash problem, the only remaining alternative for an immediate solution is to draw down 8 million barrels in

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POL—3.1 million from peacetime operating stocks and 4.9 million from war reserves. I believe any reduction in inventory is a risk we should not take. In fact, in our fiscal year 1976 budget, we are requesting funds to increase our POL reserves by 10 million barrels. For all of the foregoing reasons, an immediate cash augmentation of $120 million is required.

Mr. Chairman, this completes my statement. I am accompanied by witnesses of the three military departments: Major General Richard L. West of the Army; Rear Admiral Stanley S. Fine of the Navy; and Brigadier General Charles C. Blanton of the Air Force. I also have with me Mr. William J. Cassell, Comptroller, Defense Supply Agency. These gentlemen, except for the DSA representative, have short prepared statements. Following these statements, we will try to be responsive to any questions you may have and furnish any additional information you may require concerning the item I have discussed here today.

TABLE 1.—*POL financing action*

	Millions
Increase:	
Defense stock fund	+$120.0
Decreases:	
Aircraft procurement, Army	−7.1
Missile procurement, Army	−15.4
Procurement of weapons and tracked combat vehicles, Army	−5.5
Procurement of ammunition, Army	−12.0
Procurement of aircraft and missiles, Navy	−5.9
Weapons procurement, Navy	−4.2
Procurement, Marine Corps	−3.2
Aircraft procurement, Air Force	−26.0
Other procurement, Air Force	−14.0
Other procurement, Navy	−26.7
Total decreases	−120.0

SUMMARY STATEMENT

Mr. MCCLARY. We are asking here for an increase in the Defense stock fund of $120 million. The resources for this transfer will come from procurement; specifically, $40 million from the Army, $40 million from the Air Force; and $40 million from the Navy.

I have indicated there in that visual aid the procurement appropriation accounts for each of the services.

You acknowledged Mr. Bill Cassell, Comptroller, Defense Supply Agency. In addition, as a witness on this subject with respect to the need for this $120 million, we have Rear Admiral W. M. Oiler, who is commander of the Defense Fuel Supply Center. He is the defense expert on defense fuel requirements, cost, and distribution.

Mr. BURLISON. I have been told that Admiral Oiler has been before the committee before and he is surely an expert in defense fuel operations. We are most pleased to have the Admiral back with us once again. Proceed Mr. McClary.

Mr. MCCLARY. I appreciate your recognition of Admiral Oiler. Now to continue, on the resources side, we have the three budget officers here from the services who can speak to the sources of funds.

Our Defense Stock Fund cash position at the beginning of the fiscal year, July 1, 1974, was $39 million. Yet we had a requirement for $260 million. Actions we have already taken within DOD to live within this cash shortage has been to transfer $100 million from the Industrial Fund and to redistribute $95 million from service stock funds. Also, we have reduced procurement commensurate with the fall-off in customer orders, and we have accelerated stock fund billings.

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Despite that, the Defense Stock Fund cash position on December 31, 1974, was $55 million. What we require now are additional transfers of $120 million.

Even with this, we will have an insufficient Defense Stock Fund cash balance at the end of the fiscal year 1975, on June 30, 1975, of only $61 million.

Our alternative, should this reprogramming not be approved, will be to draw down fuel inventories by 8 million barrels. The effect of that course will be to increase our POL deficit from a 10 million barrel to an 18 million barrel deficiency, and that imposes serious risks to defense readiness.

Mr. Chairman, that summarizes the request that we are making here.

STOCK FUND OPERATIONS

Mr. EDWARDS. For the purpose of those of us who are less well informed, everything you say and everything in your statement presupposes we all know what the Defense Stock Fund is. How about telling me what the Defense Stock Fund is?

Mr. MCCLARY. Let me have the Comptroller of DSA, Mr. Bill Cassell, explain the stock fund.

Mr. CASSELL. The stock fund is a working capital fund, which is a revolving fund. It finances the operating inventories of the military services. It pays for the pipeline.

Under normal circumstances, once the stock fund is established by the Congress and the authorization of appropriations to procure inventories is provided, the stock fund is intended to be a self-sustaining operation.

We buy products from our suppliers, pay them, and sell those stocks to our customers which are principally the military services, although we do support NASA and a few other Government agencies. The prices we charge are supposed to be sufficient to maintain the corpus of the fund.

In the past several years, going back about 8 years I would say, there have only been two occasions on which we have had to request appropriations.

Both of those occasions are related to the significant buildup in requirements associated with the Vietnam war. The corpus of the fund simply was not large enough to buy the added inventory which were required at times.

Our balance, during the past 8 years through the medium of drawing down inventory, has, in fact, produced rather large profits which have been reported to this committee and have been used to offset requirements in other appropriations. Those profits, as a matter of fact, exceed $1 billion in the past 8 years.

The situation that exists today is—as the witnesses discussed on Tuesday—that the Defense Stock Fund has got caught up in the very rapid increase in the rate of inflation. The prices we were paying to procure items were higher than the prices at which we sold to our customers. It takes some time for us to adjust our prices.

Mr. EDWARDS. Is that something that can be corrected, the time it takes to adjust prices?

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Mr. CASSELL. Yes, sir. If I may draw a distinction between bulk petroleum, which has caused this problem, and other commodities, I can answer that question very well.

In the bulk fuel commodity area we now let contracts for a 6-month period, January through June, and then July through December. By the time we establish the standard prices for those products, we have fairly complete coverage.

We have all of our contracts signed and they have unit prices in them, so under normal circumstances you would expect us to be able to know exactly what the prices are. However, the first problem we ran into was started by the Arab embargo. It occurred at just about the time we were starting the negotiations for the January through June period of 1974.

As a consequence, we didn't get any bids at all, so we had no pricing data on which to base a revision to our standard price.

When the Defense Production Act was invoked, we had very little data, but nevertheless we used it, and changed our prices in February 1974, knowing we would probably have to change them again.

We got more complete coverage when the mandatory allocation program was put into effect and we raised our prices in April of 1974. At that time the price included not only a break-even amount, but also an amount to make up for the losses that we had incurred during this period where we didn't know exactly what price to charge.

However, there are a couple of factors in the petroleum area that have hit us. One of them is what is referred to as the host country take.

To give you a hypothetical illustration, a country from whose territory oil is being extracted, a foreign country, may say to that producer that 20 percent of the oil that comes out of those wells belongs to us and 80 percent is yours—which in a sense is a cost to him, of course.

They then will unilaterally—and they have done this—go to that producer and say, "Our take is now 40 percent, and furthermore, it is effective 6 months ago," so we have what amounts to a retroactive escalation. That hit us in the April price which not only turned out to be insufficient to get well, it was insufficient to pay the prices we were paying and we were still losing money.

We raised our prices again in November on the basis of the July through December contracts and we had 100 percent coverage at the time and once again we are losing money as a result of these retroactive price changes. The second factor is, of course, the OPEC nations, when they changed their prices, that gets escalated in our contracts too.

So in petroleum we have yet to be able to pinpoint what we are really going to pay during a given period, even though all the contracts have been signed.

Now, in the other commodities we have been hit with an unfortunate timing circumstance. In addition to the rapid acceleration of inflation, we find ourselves switching over from our normal cataloging process into a new defense-wide integrated data system through which all price changes other than POL and subsistence passed. In switching from one system to another, the file load has been such that we are unable to change any price at all. In this brown-out period the system would just not take changes. The last changes we could process on the

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other commodities were computed in September. They were put into effect on the first of January, but they were based on September data. This brown-out period will last until the 10th of April when the system will begin processing again, but the prices will not be effective until the 1st of June.

As a practical matter in our other commodities we have to go from last September to this June without being able to make any price changes resulting from inflation during that period.

Mr. GARRITY. Mr. Cassell, would you please explain how your stock fund works. The defense stock fund is an umbrella stock fund under which you have several different stock funds. Will you explain how that works and how it is consolidated in the final financial reporting?

Mr. CASSELL. Do you mean the various commodities?

Mr. GARRITY. You have the petroleum stock fund, you have the equipment stock fund, you have the commodity stock fund, you have the stock fund for perishable goods and others.

Mr. CASSELL. Yes, sir.

I believe there are eight categories. We call them commodities. They are actually divisions of the stock fund. There is one on petroleum, subsistence, medical, clothing, electronics, construction material, industrial material, and a catchall which we refer to as general supplies.

We attempt to break even in each one of those commodities. We do not subsidize general supplies by overcharging in POL or any such thing. Each commodity is intended to stand on its own.

Mr. GARRITY. Then for the benefit of the members too it should be known that each service has its own stock fund and they have also various breakouts within their stock fund. So there are several stock funds in each service and the Defense Supply Agency—the Defense Supply Agency stock fund is the one that generally supplies materials—the same type of materials to all the services. Like your fuel, your various supplies that are interservice, they supply them.

Now, the particular stock funds, the Army has certain ones they control the supplies for and then the Air Force has its own stock fund.

The Air Force used to have and control—all the services had their fuel stock funds and it was only consolidated into the Defense Supply Agency stock fund beginning on July 1, 1973.

What happened is that when they established the defense fuel stock fund, they transferred the assets from the various services into there. They transferred everything except cash.

Now, this is where we have one of the problems. We got into it extensively last year in the hearings on the budget amendment when they came in for a large fuel increase and that is what caught them in this bind. I wanted to let you know what all the particular circumstances are here so when we get into it later you can be aware of some of the problems.

Mr. BURLISON. What has been the total amount of cash which has been transferred to the Defense Stock Fund since the beginning of fiscal year 1974?

Mr. CASSELL. $165 million.

Mr. BURLISON. Does that amount take into consideration the increase in the surcharge which was included in the services' supplemental request for fiscal year 1974?

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Mr. CASSELL. No, sir. I was talking of specific transfers, not sales.

Mr. BURLISON. The budget amendment for fiscal year 1975 included about a billion dollars for fuel price increases. This also includes an increase in the surcharge in order to generate additional cash for the Defense Stock Fund. It amounted to about $150 million. Is that correct, Mr. Cassell?

Mr. CASSELL. That is my recollection, but I would like to correct it.

Mr. BURLISON. You may submit that figure for the record.

[The information follows:]

The figure is $184 million.

Mr. BURLISON. Was the fuel price adjusted to eliminate this extra cash income?

Mr. CASSELL. No, sir, it wasn't.

As I mentioned, we found out that not only was it not generating extra income, it was in fact losing money.

Our two largest products in petroleum are JP–4 and JP–5. They constitute about 73 percent of our total dollar sales. In JP–4 the actual price we were paying was 2 cents and 1 mill more than we were collecting. Now, 1 cent in JP–4 loses us $40 million. In JP–5, we were paying 2 cents and 7 mills more than we were collecting and in JP–5 1 cent costs us $10 million, so we thought we would be generating extra money, but we were not. We were in fact losing money.

Mr. BURLISON. Is not one of your problems the fact that when the defense fuel stock fund was established and assets transferred to it from the Air Force no cash was included and as a result the fund started out in a deficit cash position?

Mr. CASSELL. Yes, sir.

Mr. BURLISON. Mr. McClary, have you ever gone back to the Air Force and directed them to transfer the cash it had in its fuel stock fund to the DSA fund?

Mr. MCCLARY. I believe we did have stock fund cash transfers from the military services.

General BLANTON. That is right.

Mr. BURLISON. How much was that?

Mr. MCCLARY. We will supply it for the record. As I recall in total it was $95 million.

Mr. CASSELL. The total to be transferred was $95 million. We received $65 million.

Mr. MCCLARY. $65 million has been transferred.

Mr. BURLISON. General Blanton, what was the cash position of the Air Force fuel stock fund on June 30, 1973?

General BLANTON. I will have to supply that for the record.

[The information follows:]

The cash position of the Fuels Division of the Air Force stock fund on June 30, 1973, was $17,168,139.

Mr. BURLISON. What was the cash position of the Air Force stock fund as of December 31, 1974?

General BLANTON. Approximately $46 million.

Mr. BURLISON. As of December 31, 1974, the Defense fuel stock fund had accounts receivable of $239.5 million. Has that income been collected?

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Mr. CASSELL. Some of it has, sir. Our accounts receivable are anywhere from 60 to 90 days old.

Mr. BURLISON. You run about 60 to 90 days behind in collecting your receivables?

Mr. CASSELL. Yes, sir.

Mr. BURLISON. What is the explanation for the hiatus or that time in collecting?

Mr. CASSELL. It was caused by the Defense Supply Agency picking up the bulk petroleum systems from the services which were three different systems. We embarked on an effort to lower the age of those receivables, hopefully down to 30 to 45 days. You can appreciate, I am sure, the development of that kind of a system takes time. However, we have a system where right now we have the capability of advancing our receivables by 30 days. However, the service stock funds first of all probably couldn't bear that and, second, in recognition of the fact that our receivables were behind, money was advanced against those receivables by the services last spring. If we were to advance that billing we would be obliged to pay them back and we would be right back where we were.

Mr. BURLISON. How much of the Defense Stock Fund cash has been used to increase inventories of all items?

Mr. CASSELL. We haven't used it to increase inventories in terms of quantities. We have used it to increase inventories because prices have gone up. As a matter of fact our fuel inventory is a couple of million barrels lower than it was when we prepared the reprograming request in December.

Mr. GARRITY. What is the status of your inventory?

Mr. CASSELL. I believe it is 59 million barrels.

Mr. MCCLARY. With respect to our inventory levels we are hopeful that by this reprograming action we will then stand only 10 million barrels short of what we feel is an adequate level. That additional 10 million barrels we have in our fiscal year 1976 request with a requirement for $150 million at that time.

Again we would have asked for that additional $150 million now if we could find the appropriate resources from which to do additional reprograming but we have had to make a decision that we will take the necessary risk by not bringing our tanks up to the appropriate level.

Mr. CASSELL. The inventory of POL on the 14th of February was 59.4 million barrels. I think to be further responsive to your question about building up inventories, one of the items on the chart showed restrictions in procurement.

In our non-POL commodities in the second quarter of this fiscal year we placed severe restrictions on our inventory control point with the result that they deferred some 41,000 procurement requests which had a dollar value of roughly 18 percent of that quarter's requirement.

We didn't buy the items that were needed simply because we would not have been able to pay for them when they arrived.

Mr. GARRITY. How essential are these items now compared to what they would have been a couple of years ago? When you set inventory levels and they have been in existence for a number of years now, when we are not at war—we are at peace, and we can cut back on our inventory levels and things like that. How vital are they?

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Mr. CASSELL. The inventory levels, sir, are recomputed at least annually, depending on the demand, and the "frequency of buy" even more than that.

Now, in fiscal year 1973, as a result of drawing down inventories, we transferred $204 million out of the stock fund. In fiscal year 1972, for the same reason, we transferred out $445 million. In fiscal year 1971 it was $119 million. In fiscal year 1970 it was $127 million and in fiscal year 1969 it was $300 million, so we have drawn down our inventories.

Mr. GARRITY. Was that as a result of drawdown in your inventories or a result of the fact you were charging higher prices to the services?

Mr. CASSELL. The former.

Mr. GARRITY. You also had a surcharge on there too, did you not? On your commodities?

Mr. CASSELL. There are three elements in the standard price. One is the procurement cost; a second is transportation to the user; and a third is allowance for loss. Annually each of those is computed against actual. I don't have with me anything back past fiscal year 1973, but I can assure you that in fiscal year 1973 it was not the surcharge; it was a drawdown.

Mr. BURLISON. What is the amount of cash you are planning to use for the remainder of fiscal year 1975 to increase the inventories of the various supply items?

Mr. MCCLARY. I will provide that information for the record.

[The information follows:]

We have no plan to increase inventories in terms of quantities. The cash is required to maintain established inventory objectives within current market costs.

Mr. BURLISON. How much cash is tied up in defense stock fund inventories at the present time compared with the end of fiscal years 1973 and 1974?

Mr. MCCLARY. I will provide that information for the record.

[The information follows:]

The value of Defense stock fund inventories was $2,499 million at the end of fiscal year 1973, $3,392 million at the end of fiscal year 1974 and $3,559 million as of January 31, 1975. It should be noted that the change in inventory values reflect the reevaluation based on price increases, capitalizations and other actions not affecting stock fund cash. Based on purchased receipts of $4,195 million against sales of $4,251 million made in fiscal year 1974, actual inventories decreased by $56 million. During the period June 30, 1974, through January 31, 1975, purchased receipts were $3,067 million for an inventory increase to date of $31 million.

Mr. BURLISON. Mr. McClary, the other reprograming request we previously discussed included funds for the purchase of materials from the Defense Stock Fund. Presumably these funds, the $68.1 million in the Army and the $76.3 million in the Air Force, will generate cash for the Defense Stock Fund; that is, if they are used for that purpose. With the anticipation of this $144.4 million going into stock fund cash, will you really need the $120 million in this reprograming?

Mr. MCCLARY. Yes. That is simply part of the operation of the Defense Stock Fund, where the military services place their orders, pay for the items, and then, of course, the Defense Stock Fund uses the cash collected to replenish the inventories sold.

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I think we can recognize at this point—again relevant to those other reprograming—that if we had raised the sales price of items in our Defense Stock Fund, we perhaps could have generated sufficient cash to have not required the $120 million. However, because of the higher prices, the military services would now be in the position of requesting an additional $120 million. We would have required the $120 million in one form or another.

Mr. GARRITY. Well, Mr. Secretary, Mr. Cassell just finished saying that he has 60 to 90 days of accounts receivable outstanding with the services. Now, wouldn't it be fair to assume that this $144 million, $68.1 million for the Army and the $76.3 million for the Air Force, could be taken by them and used to pay off their accounts payable and in effect the receivables through the Defense Stock Fund?

Mr. MCCLARY. Let's have a response to that question from General West of the Army.

General WEST. Most of the $68.1 million is against Army-managed commodities in our Army stock fund. Therefore, the majority of that is not against DSA items.

A second point which is important is the fact that the Defense Stock Fund is programed on a certain sales volume, as is our own stock fund; consequently, the $68.1 million is necessary to buy the things which are already programed for sale.

Without customer purchases, the faucet is going to get turned down and the stock funds will be in an overstocked position by the end of the year.

I think the stock fund is already feeling the lack of sales because of increased prices. You have to have a buyer with the money or he can't buy.

Mr. GARRITY. That is true, General, but if they don't sell, they don't have to resupply. So, therefore, they won't need any cash.

Mr. MCCLARY. I think, you will find, Mr. Garrity, that as the turnover in a stock fund slows down, and we have apprehensions that may happen in May and June of this year, in some of the military services stock funds, that the Defense Stock Fund will not have this flow through of cash sufficient to pay bills. We will then be put in a significant bind with respect to cash position.

We are skating on a very thin edge right now in all of our stock funds and even with this $120 million the Defense Stock Fund is going to be well below what we feel is a prudent level of cash for appropriate management. Such situations in the stock fund give rise to the deferral of payment to vendors, certainly an inappropriate conduct, in my opinion, on the part of government.

Mr. BURLISON. Mr. McClary, you mention in your statement that in lieu of obtaining this $120 million in cash, the other alternative is drawing down the petroleum reserves by 8 million barrels; 3.1 million from peacetime operating stocks and 4.9 million from war reserves. Then you immediately advise us that the fiscal year 1976 budget requests funds to increase the oil reserves by 10 million barrels. Should one assume that the purpose of this information is to advise us that at this time you can draw down the stock and replace them in 1976. Therefore, there is no need to approve this reprograming?

Mr. MCCLARY. I will provide that information for the record.

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[The information follows:]

The purpose of this information is to show that we have considered all possible alternatives in attempting to satisfy the cash problem. The most practicable alternative for generating cash would have been a drawdown in fuel inventories by 8 million barrels. Fuel is the only commodity with an inventory turnover rate sufficient to generate the amount of cash required in a short span of time. Having examined this alternative, it was determined that the risk on readiness would be too great. This risk is emphasized by our request to build-up fuel inventories by 10 million barrels in fiscal year 1976.

Mr. BURLISON. Suppose we do approve this reprograming, can we then delete the funds for the 10 million barrels from the 1976 budget request?

Mr. MCCLARY. No, sir. I would like to quote briefly from a letter from General Brown. I can only quote a part and cannot submit it for the record since it is classified secret, but I will give some comments here to indicate his interest.

This is a letter from Gen. George Brown, Chairman of the Joint Chiefs of Staff, to the Secretary of Defense. He stated:

In my memorandum of November 19, 1974 on the subject "Cash Position of the Defense Stock Fund Versus Petroleum Inventory Levels," I point out the desirability of increasing bulk inventory up to tankage capacity to assure maximum preparation for Middle East contingencies.

The general then went on to comment on the numbers of days of the various types of stock we would have on hand in the event of heightened activities—and that is classified—but he then concluded by saying, "This dramatizes the urgency of increasing petroleum inventories as insurance against supply failure as well as being able to respond to contingencies requiring increased consumption."

We have agreed with General Brown that bulk inventory should be increased up to tankage capacity in fiscal year 1976.

I may go on to point out that the Chairman of the Joint Chiefs of Staff proposed going beyond that and acquiring additional storage capacity. Such action was denied in the budget request, again, because we were striving to hold our fiscal year 1976 request to a lower level. I believe that the request for fiscal year 1976 is a minimum requirement on the part of DOD.

Mr. BURLISON. Is this scenario an endeavor on the part of the Department of Defense to place the Congress in the position of having to make management decisions which are your responsibility?

Mr. MCCLARY. I will provide that information for the record.

[The information follows:]

As I previously discussed, the information is furnished to show the considerations given to the cash problem. The Department of Defense has made the decision that the cash transfer is the most prudent action to be taken.

Mr. BURLISON. Mr. Secretary, what is the number of barrels of reserve stocks in both our peacetime and our war reserve inventories?

Mr. MCCLARY. I have a document classified secret. Let me ask Bill Cassell to respond to that. I believe you have unclassified data there.

Mr. CASSELL. I don't have it with me. I know what the answer is, but I don't know whether it is classified or not.

Mr. BURLISON. Let's put it in the record after checking.

Mr. MCCLARY. We can provide the document for your reading.

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Admiral OLLER. Lumping the two together will keep it unclassified. We have about 60 million barrels, both peacetime and operating stocks, in the wholesale inventories, which is our present goal.

Mr. BURLISON. Thank you.

Mr. Secretary, do you think that the reprograming method is the proper way to induce cash into the corpus of the stock fund?

Mr. MCCLARY. Yes, sir, I do. If we could more accurately project these requirements, they should be included in our regular budget request. For fiscal year 1976 we do have a request for additional stock fund budget authority, again, because we are having to operate at such a minimum, imprudent level during fiscal year 1975.

Mr. BURLISON. What legal authority does the Department believe is usable in defending this position?

Mr. MCCLARY. I will provide that information for the record.

[The information follows:]

The transfer authority provided by section 834, Public Law 93-437.

CASH ON HAND IN STOCK AND INDUSTRIAL FUNDS

Mr. BURLISON. Mr. McClary, what was the total amount of cash on hand in both the stock and industrial funds of the Department of Defense as of January 31, 1975?

Mr. MCCLARY. I will provide that information for the record.

[The information follows:]

We do not have reports for January. The amount of cash at the end of December 1974 was $263 million in the stock fund and $479 million in the industrial fund for a total of $742 million.

FUEL PRICE INCREASES

Mr. GARRITY. Admiral Oller, last year we had quite a lengthy discussion about your fuel situation and your fuel price increases in connection with the budget amendment. I believe the additional dollars for fuel was in the amount of about $900 million. In that colloquy we had at that time we found that there was a certain amount of the request which was due to the fact that your pricing structure wasn't too good. Have you made any changes in that recently?

Admiral OLLER. In the 18 months that we have been operating under Defense Stock Fund, we have been able to refine the determination of exact prices that go to each class of fuel by each of the services. Essentially what we are charging—what we would like to charge is the cost to recover what we paid for the fuel, what we paid for the transportation, what we paid for the normal losses in the handling of fuel and what we pay for services such as the laboratory work required, the quality assurance, the quality surveillance; what we paid contractors to operate some of the fuel facilities and similar charges that we have.

JP-4 FUEL PRICES

Mr. GARRITY. One of the big problems is the price of JP-4 between the Defense fuel system and the commercial airlines. Have you done anything in negotiations?

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Admiral OLLER. We just completed a round of negotiations for the 6 months period starting January 1 for domestic bulk JP–4. Prices we have contracted for during this period of time average about 2 cents a gallon less than the prices we paid for the last 6 months. Now, in terms of relative prices, what the domestic airlines are paying in the United States, you will find the price range today is based on the CAB form 41 or 43 report, the latest one being issued last Friday for the month of January, and it indicates commercial airlines are paying anywhere from 14 cents a gallon to about 36 cents a gallon.

You might wonder why they are paying such a wide range in prices, but if you examine this report and subsequent reports going back over the past year, where they were exposed to an escalation of crude costs as high as fourfold, you will find that as their long term contracts have expired—and I can give you a case in point of Piedmont Airlines, who was paying 18 cents in December, in January their prices jumped to 30.3 cents per gallon. Their long-term contract expired. When it expired, the price went to the going price today.

We have been buying, as I think I related last year to this committee, in the spot market which we are still doing—we are buying 6 months at a time—and there was a distinct advantage in doing this. They were shaving out prices to us and selling products they wouldn't otherwise sell because of surpluses 2 years ago and, of course, these have disappeared. With this price advantage, we couldn't then turn to long-term contracts.

We have looked at this business of jet fuel from the standpoint of the refiners as well. I can cite a case of one refiner who has been providing an eastern airlines corporation. With jet fuel averaging about 17 cents a gallon and the price had gone, I think, to about 19 cents a gallon, but the contract expires in July. I know this company is not going to renew it because all of the fuel they are selling on short term basis, and the companies who do not have any long-term contracts, is averaging between 30 cents and 32 cents a gallon at the moment. So you get this wide range within the industry itself, and a distinct jump in prices when the long-term contract expires, and an absolute refusal on the part of the refiners to continue long-term contracts when they do expire, because when you sell fuel to an airline at 16 cents you are selling it at less than its costs to make it from the crude that is available to that refinery.

Mr. GARRITY. Wasn't one of the problems that refiners were recouping some of their losses by charging such customers as the Defense Department and other airlines with a contract to cover expired prices?

Admiral OLLER. I don't know, but I would comment on the regulations that were in effect say 6 months ago from FEA as opposed to those we are using today. There is a crude equalization program in effect today which provides essentially that all refineries, large and small, in the United States, regardless of their source of fuel, whether it is $5.25 or $11, new uses, or $12 foreign import crude, it ends up with an equalized crude cost by one company being required to provide funds to a company who is paying more for fuel than they are paying so what has happened now, these costs to the refineries have all been equalized or nearly so, and one refiner does not have to charge more than another refiner.

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Another element that entered into this relative cost was classes of fuel. Jet-4, which we use for the U.S. Air Force, and the domestic Jet-A, or A-1, were two different basic types of fuel and this was a consideration. The commercial airlines use a kerosene-based fuel. The U.S. Air Forces use essentially one that is similar to gasoline and there is a different market in the United States for these different products. As the FEA regulations viewed it 6 months ago, but what we are finding is a rapid narrowing of the price ranges that will be paid for fuel so far as the commercial airlines are concerned here in the United States.

Mr. GARRITY. You have 6 months contracts. Are these fixed price contracts?

Admiral OLLER. They are not. We can't obtain a fixed price contract from anyone for fuel these days. They just refuse to sign a contract based on no escalation. From a purely business standpoint, I think you can understand why. I can cite an example. When OPEC nations met in October, September of last year, I believe, they raised the basic prices of fuel. One country, Venezuela, made the price retroactive to January 1, 1974, and this was in October when they made this move. When you consider, as I mentioned earlier, the fact that crude oil was costing anywhere from $2 to $2.50 a barrel worldwide in 1973 and it now costs up to $12 a barrel here in the United States, you can understand the reluctance on the part of refineries to jeopardize their entire corporate structure with a contract which could be disastrous, as some of them have been in past months.

Mr. GARRITY. Therefore, every delivery made to the Department of Defense could be priced at a different amount.

Admiral OLLER. That is right. Every delivery made to any customer under a new contract today could be priced at a different amount. Not just the Department of Defense.

Mr. GARRITY. Do you find sometimes your deliveries are less than they were the previous month?

Admiral OLLER. That has happened, but not too frequently. Fortunately we have been able to get the overall basic contract prices down in each instance, however, and we don't anticipate the same level of escalation we have seen in past months for several reasons. I think you have seen in the press the cost of world crude is easing just a little. The upward spiral has literally stopped for the moment and there is a little softening in some of the higher priced crude.

Mr. GARRITY. Your OPEC countries have not increased their price greatly in the last few months.

Admiral OLLER. That is correct. In fact, OPEC hasn't increased any prices in the last few months. One of the OPEC members has officially lowered prices in the past month, Abu Dhabi with the sanction of OPEC, but that can be misleading because he was charging up to 70 cents a barrel more than most OPEC nations because they were selling a crude oil that had less sulfur and a better specific gravity on the others, which means the yield for commercial products, at the higher price, would be better.

SURPLUS OF CRUDE OIL

Mr. ROBINSON. How about the recently reported 20-percent production surplus, tankers laid up and so forth, that we are reading about?

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Admiral OLLER. Insofar as tankers are concerned, at the moment there appears to be a surplus. The tanker rate—they use what they call a world scale to measure—tanker rates have dropped from a 400 scale to a 40, almost an all-time low. Some tankers are being chartered at cost to the point they are losing money. There is a glut in the tanker market. There is a glut in the crude market. There is anywhere from 10 to 12 million barrels of crude oil which could be produced each day which is not being produced today. There's about 8 million barrels of refining capacity which is available each day which is not being used. The recession, inflation, the rapid rise in cost of oil has all brought this about.

Mr. ROBINSON. I read that at one point in time tanker rates were such that the supertankers were paying for themselves in one trip.

Admiral OLLER. I don't think they could pay in one trip, but two or three trips in some instances actually paid off. When they were put into service, the world tanker rates were very high.

We must remember if we were dealing in a free market place I don't think we would have the problem but with the OPEC cartel, when you look at softening of prices, you find that it is still costing upward of $12 to land a barrel of crude oil in the United States. There just hasn't been that much in the way of reduction. It still averages $12 a barrel. You will find in the Western free world, for example, gasoline prices, and prices for all products are substantially higher than they are in the United States because they are using all their expensive non-U.S. crude.

Mr. KEMP. I am glad to hear your endorsement of the free market approach to meeting the problems of energy. There are still some of us in the Congress who support that principle as well, but there is a softening in the world price and especially in credit terms. You mentioned that you don't have a fixed contract, and obviously that allows for the price to go up to you, but conversely, if there were a softening a little more dramatic than we have seen, but nonetheless that is slowly coming about, would it be reflected in your price on that side of the equation?

Admiral OLLER. Contracts have been written on it will go either way. We have had only two instances where it has gone the other way. But that softening, although it appears to be most encouraging, still leaves the foreign crude about $4 more, where it is, than what we are paying here in the United States for domestic crude on the average. This is the problem. It isn't a real softness when we get right down to it. Credit terms are much better. They are offering up to 120 days cash now and every 30 days you get there is about 6 cents reduction in the barrel of crude.

Mr. KEMP. The best thing we could do to break that cartel is to abolish the FEA.

Mr. ROBINSON. I have one other question that pertains to a comment you made, Admiral. You referred to a factor in pricing of normal losses in handling fuel. How much of a factor is that?

Admiral OLLER. It is a fraction of percent, sir.

Mr. ROBINSON. What are such normal losses?

Admiral OLLER. It is normal operation. There is nothing you can do about that one.

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Mr. VANDER SCHAAF. Will the proposals to add up to a $3 importation tax on foreign crude have any impact at all on defense fuel prices?

Admiral OLLER. Yes, sir.

Mr. VANDER SCHAAF. You will not be exempt in any way from that?

Admiral OLLER. There is no practical way, apparently, to do this if it is on crude.

Mr. VANDER SCHAAF. The reason I am asking, if that is the situation, then have you considered building up your inventories up at a faster rate now with this glut of oil in the market, and before this tax comes into effect, in order not to have the tax impact upon you greatly later?

Admiral OLLER. It is a matter of dollars, frankly.

Mr. VANDER SCHAAF. That is why you are up here asking for more dollars to build up that stock fund. Then you could afford to do it. If you had more cash in the stock fund, you could up your inventory.

Mr. CASSELL. This $120 million is not to build inventory. It is simply to allow us to get through this fiscal year in a liquid condition.

Mr. VANDER SCHAAF. But $120 million more cash would allow you to build more inventory?

Mr. CASSELL. No, it just negates the necessity of drawing it down.

Mr. VANDER SCHAAF. Now, do you think the key to whether we do this or not is at what level inventory Defense should have at any given time?

I would like to know to what extent the decision not to take any fuel from Elk Hills but to put it in a position to produce crude in a relatively short time will permit some reduction in the stockage levels of defense fuels in peacetime. Have you taken that into account?

Mr. MCCLARY. There is no relationship between production at Elk Hills and its use either in the stock fund or by the services. The proposal for production at Elk Hills would represent a selling of that petroleum.

Mr. VANDER SCHAAF. I understand that. I am not talking about that. I am saying if you are in a position to produce oil at Elk Hills and you don't sell the oil to someone else, or even if you do sell it, you have a rapid source of inventory recovery, come a war, and you have less of a war emergency reserve on hand than you did previously.

Now, have we, in effect, reduced our war reserve requirements for petroleum based upon the improving situation at Elk Hills?

Mr. MCCLARY. No. Keep in mind we are talking here about refined petroleum products in the stock fund and crude oil at Elk Hills.

Mr. VANDER SCHAAF. I realize that, sir, but there is a period of time between the pumping of the crude until you get refined fuel. That would take war reserve stocks to cover it.

Mr. MCCLARY. We are prohibited by legislation from producing there. As you know, we have made a request of the Congress to have production.

Admiral FINE. If war came, we would not need Elk Hills. We would get U.S. production wherever it is. On that day, I would imagine that the U.S. Defense Department would get first priority on whatever fuel there is. You are not really talking to that sort of requirement. Production of stuff coming out of the ground.

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Mr. VANDER SCHAAF. I am trying to determine how you determine what the size of your fuel reserves should be. Do you determine the current marketing price?

Mr. MCCLARY. The size is really based on barrels rather than price. Price is irrelevant to determining requirements. Then we are talking about barrels of oil. Then the requirement on the JP–4, JP–5, diesel, black oil, and so forth, all of those are predicated upon the use, both peacetime and wartime, of the various fuel-burning elements. The ships, the aircraft, the tanks, et cetera.

I have quoted from General Brown's letter. He is most concerned that even after the fiscal year 1976 request—bringing our stockage levels up 10 million barrels beyond what we are proposing here—even then there will be a prudent risk at that particular level, and that all things considered, if funds were available he would rather go higher.

Mr. GARRITY. Isn't it a fact that your peace and wartime reserve stocks are based upon a scenario which is, how many operating days in case of an emergency that we would have to go with our inventory before we could get into an accelerated production?

Mr. MCCLARY. That is true.

Mr. GARRITY. Take it in and implement the Defense War Reserve Act, or Defense Production Act.

Mr. MCCLARY. That is true.

Mr. GARRITY. That is the basis on which you set your inventory levels.

Mr. MCCLARY. That is true, yes.

Mr. GARRITY. Now, in order to find out whether or not they are too high, we of the committee would have to go in and look at your scenarios and find out what you really base it on?

Mr. MCCLARY. That is true. I just quoted from a letter from General Brown to the Secretary of Defense where he stated some of those statistics as to the days of usage on hand and it is his opinion that even after considering the 8 million barrels represented by this $120 million and the 10 million barrels requested next fiscal year, it is still too low.

You may wish to look at some of those statistics contained in General Brown's letter.

Mr. BURLISON. You propose to reprogram $26 million appropriated in fiscal years 1974 and 1975 to provide for a fatigue test article in the current C–5A aircraft configuration and for design effort for the option "H" wing modification.

Have you spent or obligated any fiscal year 1974 and 1975 funds on these efforts?

Mr. MCCLARY. Let me have the Air Force talk to those funds.

General BLANTON. Yes, sir; we have obligated a total, as of the end of December, a little less than $5 million. $2 million of that is in the aircraft procurement account and the balance is in the R.D.T. & E. account based on the 1974 supplemental approved by the committee.

C–5A PROGRAM

Mr. BURLISON. What C–5A program redirection has taken place so as to render these funds no longer required and now available for reprograming?

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General BLANTON. The Air Force last year was before the committee to describe two basic efforts. First, a fatigue article which was in the configuration of the last aircraft produced by Lockheed, ship 81. In addition to that, we had asked for in fiscal year 1975, $15.5 million in aircraft procurement to initiate design of a modification on the wing of the aircraft. Almost in the same time period, the fiscal year 1974 supplemental was passed to accelerate the fatigue article again in the configuration of the last aircraft being produced, and the Congress gave us an additional $5.8 million for that purpose.

Since all of these events occurred, the Air Force has continued to monitor and look at the expected wing life of the C-5 and based on data now available to the Air Force which will be described in depth to the committee this afternoon on the C-5 reprograming, we now realize we must accelerate that effort and get the wing modification in the aircraft on a much earlier date.

Based on that, we feel it is now necessary to design the fatigue article in the configuration of the option H wing modification. To increase that wing life hopefully to the original design specifications of 30,000 hours. To do that a total of $10.6 million is required through fiscal year 1975. A combination of the $2 million in aircraft procurement, the $5.8 million in R.D.T. & E. provided by this committee in the 1974 supplemental, and a $2.8 million reprograming in R.D.T. & E. to complete the design—I should say continue the design of that fatigue article in the configuration of the H wing modification.

We are seeking there in that separate reprograming this afternoon, R.D.T. & E. funds because the design effort involved is substantial and will be in the configuration of something new, a new wing. We feel that request is compatible with the basic guidance that this committee has given us on this fatigue article in terms of what should properly be financed in the R.D.T. & E. appropriation.

These efforts, redirection of the program, leave the balances in the aircraft procurement account available to be applied to the priority needs being discussed this morning. I would ask that the committee, in the discussion of the C-5 itself, hold questions if they would for description on the C-5 program itself in the hearing this afternoon when the team of Air Force witnesses will be here.

I would be very happy to answer any financing questions on how we freed up the resources for this reprograming. The description of the C-5 modification itself and the redirection of the program, General Chapman will be over with a team of witnesses this afternoon to cover that reprograming.

Mr. GARRITY. I think it would be better if we withheld further questioning on this subject until this afternoon when we can do it all at one time.

OTHER PROCUREMENT, NAVY

CBU-59/B CLUSTER BOMB

Mr. BURLISON. On Other Procurement, Navy, the source of funds for this reprograming action is the CBU-59/b, an air-launched cluster bomb. The initial program was $48,300,000 for 8,100 bombs. The reprograming action reduces this by $26,700,000, leaving $21,600,000 in the

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program. Yet the fiscal year 1975 column of the fiscal year 1976 budget shows only $13,800,000 in the programs, a difference of $7.8 million. Where has the $7.8 million gone? Having established the relatively low priority of this item, by virtue of its being reduced in the reprograming action, how do we justify the fiscal year 1976 program level of $36.4 million, an increase of $22.6 million over the revised fiscal year 1975 program?

Admiral FINE. I will have to supply that for the record sir. Basically in reviewing this program during the wrap-up of the 1975 column of the 1976 budget, we examined first the requirement for a second producer. We found that based on our inventory objective review we did not need a second producer. Therefore, these funds became available, since we would continue with only one producer of this particular weapon.

Additionally, in looking at the mix of Rockeyes, the cheaper Rockeye would be the best. Funds were available from this line to reprogram, part of which went to this and part to other programs in the OPN appropriations which we will supply for the record.

Mr. BURLISON. Having established the relatively low priority of this item by virtue of its being reduced in the reprograming action, how do we justify the fiscal year 1976 program level of $36.4 million, which is $22.6 million increase over fiscal year 1975?

Admiral FINE. Basically, sir, we will be continuing this line with one producer. Part of our problem was in getting on contract late so we could not really produce as many as we thought we would during the fiscal year. We have contract problems, we have cost problems, we had an inventory objective review which indicated that for this fiscal year 1975 the $13.8 million would be the appropriate level. The $36.4 million in fiscal year 1976 will be used to achieve an inventory objective in 1980 for that particular weapon.

Mr. MURPHY. Admiral, could you explain the use of the Rockeye against what kind of targets?

Admiral FINE. Basically the Rockeye is a cluster bomb, 750 pounds. APAM is 700–715 target discriminating bomblets. It would be eventually aimed at personnel.

Mr. MURPHY. The CBU–59/B?

Admiral FINE. Yes, sir.

Mr. MURPHY. That is used to replace Rockeye?

Admiral FINE. The Rockeye continues to be produced. We have found that the Rockeye, in a cost-per-kill, which is the way we try to determine inventory objective, the Rockeye appears to be the more cost effective weapon so we have somewhat shifted our inventory into the Rockeye.

Miss GREGORY. Would you provide for the record information on some of the problems you have had? You have mentioned some contract problems.

Admiral FINE. We will provide that for the record.

[The information follows:]

The fiscal year 1975 CBU–59/B (APAM) program was submitted to Congress in January 1974, requesting a total quantity of 11,300 weapons at $68.3 million. This request was based on the following production plan:

(1) 4,800 units funded in fiscal year 1974 to be awarded to developer (Honeywell) in April 1974.

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(2) 3,500 units of fiscal year 1975 follow on production to Honeywell to be awarded in June 1975.

(3) 7,800 units of fiscal year 1975 funded units were to be awarded to a competitive second source.

The above would have resulted in a total monthly production capability of 1,600 units on a one shift basis. It was further planned to procure 14,800 per year starting in fiscal year 1976, with the largest portion going to the lowest bidder until the inventory objective of 56,800 units was achieved.

The first program change was dictated by a slip in the development program, in addition the unit cost estimate and production leadtime increased. Based on these preaward problems the Senate Appropriations Committee recommended, and the Congress accepted, a $20 million reduction to the fiscal year 1975 budget for APAM.

The slip in the fiscal year 1974 award and increased production leadtimes and unit cost has reduced the followon procurement requirement from 3,500 units to 2,100 units. Due to the increased unit cost, from an estimated $5,400 to $7,000, the inventory objective of this weapon has been reevaluated and reduced in favor of an increased Rockeye inventory objective. With the reduced inventory objective there is no requirement for a second APAM production source. Therefore, 7,800 units programed for fiscal year 1975 award to start up a second source are not required. Funding in fiscal year 1976 through the out-years is programed and budgeted to sustain production at one producer at a rate of 650 weapons per month. Fiscal year 1976 provides for an average of 400 units per month; this is due to the fact that the producer will still be in the production build-up stage.

The trade off weapon, Rockeye, differs substantially in price with a unit cost of $3,000. Both Rockeye and APAM are comparable as an antimaterial weapon in that the shaped bomblet charge will penetrate armor. Rockeye has 247 bomblets and APAM has 717. The APAM bomblets differ in that they have a discriminating feature which results in a pop-up once a "soft" target is hit. This higher level explosion increases the antipersonnel features of the weapon. Under the revised inventory objectives the dual employment of APAM is minimized and its planned deployment in the target spectrum will lean toward personnel targets. Rockeye, on the other hand, in the spectrum will lean toward hard targets such as armor, artillery, and vehicles.

As for the disposition of the balance of the APAM assets of $7.8 million, they have been reprogramed to cover cost increases in the AN/BQQ-5 and SATCOM shore terminal programs at $4.7 and $3.1 million respectively.

Procurement, Marine Corps

Mr. Burlison. Procurement, Marine Corps. The initial funding for 105 millimeter tank Heat cartridges was $4,300,000 for 72,160 cartridges. This reprograming action reduces the program $970,000 and 8,205 cartridges. The fiscal year 1975 column of the fiscal year 1976 budget shows a remainder of $5,100,000 for 51,975 cartridges. This is a further reduction of 11,980 cartridges, but an increase in funding of $1,770,000. Why the fluctuation?

Admiral Fine. I will have to supply that for the record.

[The information follows:]

Subsequent to the fiscal year 1975 Presidential Budget Submission, the unit price of 105 millimeter tank Heat cartridges increased substantially due to inflation. In order to prevent drastic cutbacks in this program, the Marine Corps reprogramed $1.8 million from other activities. Even with this increase in funding, price increases forced reduction of 11,980 cartridges from the authorized fiscal year 1975 quantity of 72,160. Now further economic pressures (for example, the need to support the DOD stock fund) have led the Marine Corps into a further reevaluation of its planned fiscal year 1975 procurements. This review led to the decision that a reduction of 8,205 cartridges at a cost of $970,000 in the fiscal year 1975 buy would represent an affordable risk.

Mr. Burlison. On Procurement of ammunition, Army, would you provide a line item break for the $12 million identified from Procurement of ammunition, Army?

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General WEST. At the present time there is no line item break of the amounts to be generated from ammunition sales to be transferred to finance the Defense stock fund shortage. These resources are in the free-asset category, and represent sales from inventory that will not be replaced. This is an ongoing fiscal year 1975 program and these sales will continue during the remainder of the fiscal year. It is based on a projection for fiscal year 1975. In fact, our sales are exceeding our projections, so we are adequately covered.

Mr. BURLISON. If to be funded from sale of free assets, which line items are affected?

General WEST. A review of the ammunition sales program to foreign governments, which generates free assets, is partially identified as follows:

Mine, antitank, M15;
Fuze, mechanical time super quick, M564;
Cartridge, 105mm heat, M456A1;
Fuze, mechanical time, M565;
Mine, anti-tank, HE, M19;
Cartridge, 106mm, M581, Apers; and
Grenades, hand fragmentation.

Mr. BURLISON. Are we then anticipating sales of free assets? What happens if the sales do not materialize?

General WEST. Yes; the Army originally identified the resources as anticipated sales to foreign governments not to be replaced in the inventory. If the sales (free assets) are not generated, it would be necessary to cancel or reduce the Army procurement program, but this is unlikely.

Mr. BURLISON. What is the total cost associated with free assets, from which we anticipate sales?

General WEST. The planned customer orders to be received in the Army in fiscal year 1975 for ammunition are approximately $2.1 billion, of which $12 million are the free assets estimate at this time.

Mr. BURLISON. How did we end up with so many free assets? Was ammunition overfunded in prior years?

General WEST. Free assets are based on sales of items not replaced in inventory. The generation of free assets in the procurement accounts is difficult to estimate and program in outyear budgets. The requirements of foreign countries vary due to changing political relations and economic situations; it would be very difficult and financially unwise to forecast with any degree of accuracy free assets in the budget presentation to Congress. The ammunition procurement program for the U.S. forces was not overfunded in prior years.

Mr. BURLISON. To which countries do we anticipate selling these free assets?

General WEST. The major portions of the free assets generated in the procurement appropriations are from sales to Middle East countries, that is, Israel, Kuwait, Saudi Arabia, and Iran. Sale of military equipment and munitions is also made to military aid countries, Germany, Turkey, and other free world countries.

Mr. BURLISON. What is the Army's estimate of free assets for fiscal year 1976? Is it reflected in the procurement appropriation?

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General WEST. No estimate of free assets has been made for fiscal year 1976 and no free assets projection is reflected in the fiscal year 1976 procurement accounts.

TRAVEL RESTRICTIONS—ROTH AMENDMENT

Mr. BURLISON. We will go to the subject of travel restrictions under the Roth amendment.

The supplemental appropriations act of 1975 contained a proviso more commonly referred to as the Roth Amendment which requires a 10 percent reduction in travel during the second half of fiscal year 1975 and an overall reduction of 5 percent for the full year.

This provision was repealed in the Urgent Supplemental Appropriation Act which passed the Congress last week.

Before being repealed, the Roth amendment had caused some consternation in the Department of Defense, mainly due to an OMB interpretation which applied the reduction at the appropriation account level rather than to the department as a whole.

Even though a reduction in travel is not now required, we thought it might be of benefit to discuss the subject for a few minutes.

Mr. Secretary, I believe you have a statement to make and you may proceed with that at this time.

Mr. MCCLARY. I can submit the statement for the record.

[The statement follows:]

STATEMENT OF HON. TERENCE E. MCCLARY, ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

Mr. Chairman and members of the committee, another item I would like to discuss with you does not involve a reprograming action. Rather, this item relates to the Roth amendment, or section 205 of Public Law 93-554—Supplemental Appropriations Act, 1975. Although the Congress has since repealed this provision, I would like to discuss its potential impact upon the travel programs of the Department of Defense. Its application, as interpreted by the Office of Management and Budget, imposed unreasonable restrictions on essential travel of DOD military and civilian personnel.

Section 205 read as follows: "None of the funds appropriated by this or any other act which are available during the fiscal year 1975 for travel expenses, including subsistence allowances, of Government officers and employees may be obligated after the date of the enactment of this act, at a rate for the balance of the fiscal year which exceeds 90 percent of the budget estimates for fiscal year 1975 for such expenses which were submitted for appropriations or otherwise provided by law; *Provided*, That none of the limitations on travel included in the regular appropriations for fiscal year 1975 shall be exceeded."

The Office of Management and Budget, in its Bulletin No. 75-11, specified that section 205 was to be applied at the appropriation account or fund level.

Chairman John L. McClellan, Committee on Appropriations, U.S. Senate, in a letter to the Secretary of Defense dated January 23, 1975, provided the following interpretation: "This is to advise you that the intent of section 205 was to achieve a 5 percent reduction in travel funds (10 percent of one-half of the fiscal year 1975 funding). Therefore, section 205 requires a $67.6 million reduction in fiscal year 1975 travel obligations (Object Class 21—including industrial-fund activities). This reduction is to be made from amounts previously appropriated in the fiscal year 1975 Defense Appropriations Act. The reductions are to be allocated to the services and defense agencies by your office so as to fund only the highest priority travel requirements. In no individual appropriation program may obligations for travel exceed the amounts requested in the President's fiscal year 1975 budget request plus the normal below-threshold reprograming limit."

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Senator McClellan's letter recommended the application of the Roth amendment to appropriation programs and permitted limited reprograming. We believe this interpretation was appropriate and would have provided DOD with sufficient flexibility to allocate travel funds for essential needs.

Although the late enactment of the Roth amendment made its application difficult, the Department of Defense developed a plan to achieve the overall reduction in travel that was required. However, unless relief from the more limiting application imposed by OMB Bulletin No. 75–11 was provided, drastic curtailment of essential military programs during the remaining months of fiscal year 1975 was required. For example, the Army estimated that non-MOS (Military Occupational Specialty) training would be reduced by 60 percent. Approximately 5,000 planned Air Force entries into technical training during the last half of fiscal year 1975 would have to be eliminated. Similarly, the Navy would be forced to reduce "A" school inputs due to lack of travel authority. These severe reductions in essential training would have impacted adversely on military readiness since trained personnel would not be available to meet requirements.

Other significant actions resulting from inadequate travel authority would have included curtailment of JCS and field training exercises, restrictions on required NATO training, possible cancellation of SSBN prepatrol briefings, degradation of essential maintenance due to the inability of technical assistance travel such as audit and inspection suurveys, and the travel of government attorneys to Armed Services Board of Contract Appeals hearings involving multi-million dollar claims and appeals.

The items I have enumerated merely reflect some of the more dramatic examples of the impact of the travel limitation as applied under OMB Bulletin No. 75–11. However, by applying the limitation at the DOD level, rather than at the appropriation level, the congressional reduction intended could be achieved and the impact on vital programs could be minimized.

Although section 205 has been repealed, the Secretary of Defense intends that DOD continue to comply insofar as possible with the spirit of the Roth amendment; namely, to reduce unessential travel.

Mr. Chairman, this completes my statement. I am accompanied by the budget officers of the three military departments; Maj. Gen. Richard L. West of the Army; Rear Adm. Stanley S. Fine of the Navy; and Brig. Gen. Charles C. Blanton of the Air Force. We will try to be responsive to any questions you may have and furnish any additional information you may require.

TRAVEL LIMITATION PROGRAM WITHIN DEPARTMENT OF DEFENSE

Mr. McCLARY. I would like to comment briefly on our travel limitation program within DOD.

[Chart follows:]

ROTH AMENDMENT—FISCAL YEAR 1975 TRAVEL LIMITATION

[In millions of dollars]

	Fiscal year—			Reduction from fiscal year 1975 budget request
	1975 budget request	1975 apportionment plan	1975 current program	
Army	467.5	511.4	444.1	−23.4
Navy (including Marine Corps)	397.1	366.0	351.6	−45.5
Air Force	454.7	423.8	432.0	−22.7
Defense agencies	31.9	33.9	32.6	+.7
Total DOD	1,351.2	1,335.1	1,260.3	−90.9

Travel for the Department of Defense in our fiscal year 1975 budget request was $1,351.2 million. We made an apportionment which redistributed those funds among the military services and the defense

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agencies and then we have established, essentially in compliance with the objectives of the Roth amendment, a current program which totals $1,260.3 million. This, as you can see, Mr. Chairman, is a reduction of $90.9 million from our fiscal year 1975 budget request. If the Roth amendment had not been repealed, we would have proceeded on the course indicated here, and would have come near the amount shown in the current program column.

I should point out that the Roth amendment required a reduction of 5 percent from the fiscal year 1975 budget request which amounts to about $67.6 million. Therefore, in the anticipated $90.9 million reduction we have about a $20 million reserve. We intend to live with the 5 percent reduction. That $20 million reserve will be allocated to the military departments as they present urgent requests for additional travel funds.

On March 1 the Secretary of Defense wrote to the Secretaries of the military departments on the subject of travel. I will quote from that memorandum.

On February 27, 1975, the Congress completed action to repeal Section 205 of the Public Law 93–554 (Roth amendment). Presidential approval is expected. It is still my intention to reduce the Department of Defense travel to the minimum level consistent with military readiness, efficient management, and overall economy. It is the Department's policy, as contained in my memorandum of January 9, 1975, that every effort must be made to restrict administrative travel for the purposes of conferring, consulting, and orientation.

Accordingly, your planned obligations of travel during the remainder of fiscal year 1975 submitted in response to the Assistant Secretary of Defense (Comptroller) memorandum of February 7, 1975, are approved. These amounts should provide sufficient authority for essential travel for the remainder of fiscal year 1975. I intend that Department of Defense travel not exceed 95 percent of the fiscal year 1975 President's budget as amended.

Mr. ROBINSON. With respect to your chart, first I would like to know what, under the Navy category "Including MC" what does that mean?

Admiral FINE. Marine Corps.

Mr. ROBINSON. Second, why is it that all services are reduced but defense agencies are increased under the reduction?

Mr. MCCLARY. Mr. Shycoff, could you explain?

Mr. SHYCOFF. I think it was generally that there was less flexibility available to overcome some of this. In some of the agencies travel is an important part of the job. For example, the Defense Contract Audit Agency and Defense Investigative Service have missions which require them to go out on travel. With these people, if they don't travel, they cannot do their job. In this case we have increases that affected them.

As you know, we were planning on being up to $33.9 million, which was a substantial increase. The amount of travel taking place is coming down, but cost increases have taken place. I think basically the short answer is that we have a higher percentage of jobs that are travel-intensive in those defense agencies.

Mr. ROBINSON. Most of that travel is commercial.

Mr. SHYCOFF. Just about all of it is commercial.

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Mr. VANDER SCHAAF. Mr. Secretary, the funds you intend to save, the $65 and $70 million, will they be available to help offset the pay-raise increases in the supplemental now?

Mr. SHYCOFF. Because of the constrained fiscal year 1975 funding situation, the reduced travel costs have already been assumed as available for spending on other programs in the fiscal year 1975 column of the fiscal year 1976 budget request.

Mr. VANDER SCHAAF. Are you going to send up more reprograming actions for that purpose then? The amounts are so small when spread out over these different agencies, it wouldn't result in any reprograming actions?

Mr. MCCLARY. I will let the Air Force give an example here.

General BLANTON. We have looked at this situation and the Roth amendment was in for about 2 months and we would estimate during that total period there would have been a constraint of about $6.4 million worth of travel due to the impact of the amendment itself. Much of that was a result of deferral of travel for schools and the like and to a large extent on a priority basis we hope to be able to get our training programs back on schedule.

In some a small amount of savings materializing here to date will go to cover that as well as the added cost of travel which really has not been financed this year.

Mr. VANDER SCHAFF. The letter the Secretary read from the Secretary of Defense to the secretaries of the services indicated they would have to live with a 95 percent travel budget.

General BLANTON. That is correct.

Mr. VANDER SCHAAF. Some of that money was removed by the Congress in its actions in the original submission, I suppose?

General BLANTON. The Roth amendment did not result in any removal of funds. Only limitation.

Mr. VANDER SCHAAF. Those funds are there. Now, since the Secretary of Defense says you also have to save and you can't use them for travel, under what authority are you going to reprogram for other services and why couldn't they be reserved to be used for the pay raise?

Admiral FINE. We have in fact already with internal reprograming, reprogramed approximately $4.5 million, of which $4 million went into ship maintenance and $500,000 went to budget activity 7, going into refit and restoration.

What we, in effect, did, was we told the claimants, "The money you had budgeted to travel, you are no longer allowed to use the travel; you have to use the higher priority items."

That was the action we, for example, took to accommodate it.

General WEST. May I say something here? In our case, we have tentatively reserved any recoupment here for currency revaluation, which already exceeds this amount and is not part of our reprograming.

Mr. BURLISON. Why did the Department have so much trouble in complying with the "Roth amendment"?

Mr. MCCLARY. The primary reason the "Roth amendment" adversely impacted the Department of Defense was the application of the limitation by Office of Management and Budget Bulletin No. 75-11 of January 8, 1975, at the individual appropriation level.

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Mr. BURLISON. In the Department's budget request for fiscal year 1975, was the object class for travel understated?

Mr. MCCLARY. In individual appropriations, the travel plan we would have executed, prior to the "Roth amendment," was significantly higher than was submitted in the fiscal year 1975 President's budget, as amended. For example, in the Operation and Maintenance, Army appropriation, the fiscal year 1975 budget request was $135 million. The Army plan, prior to the fiscal year 1975 limitation, projected obligations of slightly over $200 million. In fiscal year 1974, that appropriation had actual obligations of $180 million. It is obvious in this particular instance that the fiscal year 1975 estimate was understated.

Mr. BURLISON. How did this happen?

Mr. MCCLARY. Generally, this reflects the same rapid rate of inflation which we have discussed here yesterday and today. In the operation and maintenance appropriations, we cannot budget for projected inflation. The fiscal year 1975 budget as submitted last year to the Congress reflected fall of 1973 price levels. A specific example in the area of travel would be airline passenger rates which, due to higher operating costs, including fuel costs, have increased significantly. In June 1974, there was a 7.6 percent increase in minimum round-trip air passenger charge per passenger mile; in October 1974, another 5.6 percent increase; and in January 1975, a 22.7 percent increase was approved by the Civil Aeronautics Board. Also, in the past, we have not focused a great deal of attention on the object classification distribution.

Mr. BURLISON. Does the Department of Defense manage its appropriations by object classification; and if not, why not?

Mr. MCCLARY. Generally speaking, no; the Department does not manage by object class. The departmental accounting system does accumulate data by object class or element of expense, yet resources are managed by programs or elements of programs. This is in keeping with the structure established by the Department as a result of the program, planning, and budgeting system implemented several years ago.

As an example of this, in the Air Force, you would find management being exercised for B-52 squadrons, Minuteman squadrons, Strategic Air Command communications or the like at the element level which, when aggregated to the highest program level, would constitute the budget activity "Strategic Forces."

It is the responsibility of the manager to accomplish the planned program in the most efficient and economical manner and, as a result, object class identification tends to reflect the results of decisionmaking rather than become the primary focus of the decision process.

Mr. BURLISON. Is it true that at the last minute, in preparation of the fiscal year 1975 budget request, the Department decided to reduce the request to show a large savings in energy and fuel consumption and applied it all to the object classification for travel?

Mr. MCCLARY. During the review of the fiscal year 1975 budget request from the Military Departments and Defense Agencies, in the fall of 1973 when the oil embargo was in effect, the Department reduced planned fiscal year 1975 travel to reflect national policy. This

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travel program reduction was reflected in the budget submitted to the Congress.

Mr. BURLISON. If you had applied the "Roth amendment" at the appropriation account level, what would have been the cutback in travel funds during the second half of fiscal year 1975?

Mr. MCCLARY. The application of the "Roth amendment" at the appropriation account level, including industrial funds, would have resulted in a second half reduction to our apportionment travel plan of $153 million.

Mr. BURLISON. What would the reduction be by applying it on a departmental basis?

Mr. MCCLARY. The total limitation, including industrial funds, at the Department of Defense level would have been $1,284 million. This compares with $1,335 million which was our plan at the time the "Roth amendment" was enacted.

Mr. BURLISON. Mr. Secretary, you mention all of the bad effects the "Roth amendment" would have on Defense operation. These are the "horror" examples. Are there any good effects you can cite?

Mr. MCCLARY. Well, Congressman Burlison, it has certainly made us very aware of the myriad defense activities which can be impacted by an across-the-board limitation on travel, particularly one which comes in the middle of the fiscal year. And I think it has made Defense managers at all levels much more conscious of need to be sure that travel is only approved when it can directly contribute to personal health and safety, mission performance, operational readiness, and overall economy.

Mr. BURLISON. You mention, Mr. Secretary, that the Secretary of Defense intends that the Department continue to comply insofar as possible with the spirit of the "Roth amendment." I believe Chairman McClellan's letter, which you mention in your statement, required the Department to reduce travel funds by $67.6 million. Are you still going to make this reduction?

Mr. MCCLARY. Secretary Schlesinger, on March 1, 1975, announced his intention that fiscal year 1975 Department of Defense travel not exceed the total limitations which would have applied to the Department in total under the "Roth amendment." The $67.6 million referred to in Chairman McClellan's letter is the difference between the departmental limitation of $1,284 million under the Roth amendment and the total in the fiscal year 1975 President's budget request as amended of $1,351 million.

Mr. BURLISON. Can this reduction be applied against the pay supplemental which is still pending before the Congress?

Mr. MCCLARY. No, sir. That amount is the difference between the base for calculating the travel limitation under the "Roth amendment," that is the fiscal year 1975 President's budget request, as amended, and the total Department fiscal year 1975 limitation which would have applied under the "Roth amendment." In support of the full amount of the fiscal year 1975 pay supplemental now pending before the Congress, I must reiterate that the proposed transfer actions discussed before this committee yesterday only partially offset the impact inflation has had on Defense programs. To the extent that the requested pay supplemental is not approved, further program stretchouts and reductions will be necessary.

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Civilian Personnel, Navy

Mr. Burlison. We will move to the subject of increased civilian personnel strength for the Navy.

For fiscal year 1975, the Department of Defense requested a civilian employee strength of 1,027,327. The authorizing committee established a strength of 995,000; a reduction of 32,327 positions below the number requested by the Department.

Based upon the action of the authorizing committees, the Appropriations Committee applied a reduction of 19,900 positions to the Army, 8,000 to the Navy, 3,139 to the Air Force, and 1,288 to the Defense Agencies. The allocation of these reductions is stated on pages 86 and 87 of the committee's report on the Department of Defense appropriation bill, 1975 (H.R. 93-1255).

After applying these reductions, the civilian strength of the services and Defense Agencies were as follows:

Army, 338,817; Navy, 315,529; Air Force, 266,570; and Defense Agencies 74,084, for a total of 995,000.

On September 30, 1974, the Secretary of Defense requested a reallocation of the civilian personnel strength reductions. The Secretary requested that the Navy reduction of 8,000 be reduced to 5,500 and the difference of 2,500 positions be applied to the Army, Air Force, and Defense Agencies.

Of the additional 2,500 positions required for the Navy, 250 were associated with the retention of the Boston design office, 1,800 for shipyard operations, and 450 for base operations of fleet commanders. The committee allowed the full increase for the Boston design office, but only 1,000 for shipyard operations and none for base operational support of fleet commanders. The Department held the 1,250 positions not approved in reserve for the Navy. The committee had requested they not be filled.

In a letter to the committee dated February 11, 1975, the Deputy Secretary of Defense requested that the civilian personnel strength of the Navy be increased by 2,128 new positions.

The Secretary requests an additional 1,433 positions for shipyard operations, 862 for the conversion of contractor personnel to U.S. direct hire at the Defense Attache Office in Saigon, 142 for the foreign military sales program, 246 for the Naval Training Center at Bainbridge, and 245 because of functional transfers of responsibility to the Navy from the other services.

We will insert a copy of the Secretary's letter in the record at this point.

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THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

FEB 11 1975

Honorable George Mahon
Chairman, Committee on Appropriations
House of Representatives

Dear Mr. Chairman,

The purpose of this letter is to request an increase in the Navy's civilian employment above the level currently authorized by the House Appropriations Committee.

Public Law 93-365 approved a total of 995,000 direct hire civilian end strength, and this ceiling has been allocated under the law as follows:

Army	337,517
Navy	318,029
Air Force	265,609
Defense Agencies	73,845

However, in order to conform to the wishes of your Committee, as expressed in your letter of October 1, 1974, the Navy end strength has been limited to 316,779, and shipyard employment has been limited to 60,685.

The recent review of the Navy budget indicates that, since the Committee's review, unforeseen requirements have added 2,928 to the Navy's manpower needs above the 316,779 employment level, approved by your Committee.

The additional manpower was required for the following unanticipated efforts:

	Direct Hire Civilian End Strength
Additional Foreign Military Sales Workload at Naval Shipyards	1,433
Conversion of Contractor Personnel to U. S. Direct Hires at DAO, Saigon	862
Administrative and Technical Effort for Additional Foreign Military Sales Agreements	142

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Slippage in the Timetable for the Closure of the Naval Training Center, Bainbridge, Md	246
Functional Transfers of Responsibility Between the Services	245
Total	2,928

Due to personnel savings elsewhere in the Department, I am requesting an increase of only 2,128 in Navy employment to accommodate these new requirements. This increase will not cause the Department of Defense to exceed the originally authorized employment level of 995,000. The following table summarizes previous Congressional actions and shows how our manpower will be distributed, by Service, if you approve this reprogramming:

	Current Statutory Authorization (P.L. 93-365)	Approved by the House Appropriations Committee	Requested Revision
Army	337,517	337,517	336,760
Navy	318,029	316,779	318,907
Air Force	265,609	265,609	265,578
Defense Agencies	73,845	73,845	73,755
Total	995,000	993,750	995,000

I am also asking that the Committee rescind its specific limitations on employment for Naval shipyards.

As you recall, on September 30, 1974 the Department asked for an increase of 2,500 to the civilian personnel limitation established in the conference report on the appropriation bill. The request included an increase of 1,800 for the Naval shipyards. I have interpreted your subsequent approval of 1,000 for the Naval shipyards as establishing a FY 1975 reprogramming limitation of 60,685 which is included in the Navy's current limitation of 316,779. The Department has now completed a review of the FY 1975 program during which I became concerned with the material condition of the Navy's ships and the need to do additional ship maintenance work. As a result, the President's FY 1976 budget will show a substantial increase in shipyard employment for next year, even though overall DoD employment will decrease. However, continued adherence to the Committee's wishes in shipyard employment for FY 1975 will

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require reductions-in-force (RIF's) at various shipyards totaling 1,300 jobs by the end of this year. Since the same shipyards could be hiring again in FY 1976, these RIF's would subject the Department to understandable criticism. Of course, I recognize that your Committee review of the FY 1976 budget could result in lower manpower in Naval shipyards than is being requested in the President's Budget. However, the juxtaposition of these RIF actions in FY 1975 and the higher employment levels for the shipyards proposed in the FY 1976 budget would make it difficult to defend our actions at this time.

If the Committee approves the reprogramming, I shall inform the Congress of the Department's intention to use the flexibility provided by the authorizing legislation to increase the statutory ceiling of the Navy from 318,029 to 318,907. We urge the Committee to act on our requests prior to February 28, 1975, so that the Navy will know whether or not to proceed with substantial RIF's in the last quarter of the year. Pending your decision I am holding in abeyance one such RIF involving 773 jobs at the Philadelphia Naval Shipyard.

I respectfully request your early and favorable consideration both for the increase in the Navy's overall employment and for the lifting of employment limitations on Naval shipyards.

Sincerely,

Bill Clements

Deputy

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Mr. BURLISON. Mr. Secretary, you may proceed with your summary on this subject.

Mr. MCCLARY. Let me read the statement, since it is quite brief.

I am pleased to have this opportunity to discuss our request to increase the Navy's civilian employment above the level established by the committee. As you know, the committee's report on the fiscal year 1975 appropriations and the chairman's letter of October 1, 1974, recommended decreases in civilian employment for the Navy and specifically cited the naval shipyards. The Department of Defense has interpreted these reductions as establishing civilian personnel limitations which cannot be exceeded without the prior approval of the committee. Accordingly, the Secretary of Defense on February 11, 1975, asked the committee to approve an increase in the Navy's 1975 manpower in order to accommodate unforeseen personnel requirements and to avoid unnecessary personnel actions.

The committee has previously approved a civilian end strength of 316,779 for the Navy, which includes 60,685 for the naval shipyards. Our recent review of Navy manpower indicated a need for more people to meet requirements which have developed since the last congressional review. Therefore, the Department of Defense seeks a Navy civilian end strength of 318,907—an increase of 2,128 over the existing limitation.

The Department also requests that the limitation on shipyard employment be lifted. This higher level of employment is needed to do the work requested by shipyard customers.

If the committee approves this reprograming, the Secretary of Defense intends to use the flexibility provided by the authorizing legislation to increase the statutory ceiling for the Navy. I want to emphasize that even with these increases the Department of Defense does not plan to exceed the 995,000 year-end strength originally authorized by the Congress.

I have with me today, Mr. Chairman, Rear Adm. Stanley S. Fine of the Navy who also has a prepared statement. We will be happy to answer any questions the committee may have about our request.

Mr. BURLISON. Admiral Fine.

Admiral FINE. The statement is rather long. I can summarize it.

Mr. BURLISON. Submit the statement for the record and summarize briefly.

[The statement follows:]

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The request that is currently before this Committee asks for approval to increase the Department of the Navy's direct-hire civilian employment to a level of 318,907.

The FY 1975 Presidnet's Budget contained 323,529 direct-hire Navy civilian end-strength. P.L. 93-365, the Appropriation Authorization Act, authorized 995,000 end-strength for the Defense Department (a reduction of 32,327 from the submission). The bill provided that this end-strength be apportioned by the Secretary of Defense among the Defense components within 60 days of enactment.

The Appropriations Committees apportioned the civilian manpower reductions by program and reduced funding. The Department of the Navy was specifically reduced 8,000 civilian end-strength to a level of 315,529 and the Operation & Maintenance, Navy appropriation was reduced by $107 million.

The Secretary of Defense requested redistribution of the 995,000 civilians so as to levy a 5,500 reduction on Navy rather than 8,000 and bring end-strength levels in line with the statutory limit of 318,029 approved by the House and Senate Armed Services Committees following notification by the Secretary of Defense of his distribution of the 32,327 DoD reduction. The difference was requested for:

Retention of Boston Design Office	250
Shipyard Operations	1,800
Base Operations of Fleet Commanders	450
	2,500

The Chairman of the House Appropriations Committee, responding to the Secretary of Defense, allowed an increase of 1,000 for Shipyard Operations plus the 250 for Boston Design Office, and specifically denied any increase in civilian employees for base operational support of fleet commanders. It was interpreted that this decision by the Appropriations Committee established a limit of 316,779 Navy civilian end-strength, and a sub-ceiling of 60,685 on naval shipyards.

Recently, unforseen manpower requirements have added 2,928 to the Navy's employment needs above the Committee approved employment levels. However, the increase requested by the Deputy Secretary of Defense is limited to 2,128 spaces since we have accommodated about 800 end-strengths from elsewhere within the Navy. The additional civilian employment is required for the following:

a. Approximately 1,000 foreign nationals performing commissary and motor pool functions at the Defense Attache Office Saigon were converted from contractor to Navy direct-hire status in order to improve management control and achieve estimated annual savings of $286,000 in the DAV Appropriation. Improved performance and a management review of staffing needs have reduced this requirement to 862 civilians indicating that the conversion has proved advantageous.

b. Increased administrative, technical and training support is required for Foreign Military Sales agreements signed since submission of the FY 1975 President's Budget. These agreements involve primarily Saudi Arabia and Iran and require 142 civilians.

c. Shipyard Foreign Military Sales agreeements for ship overhaul and repair work with Italy, Peru, Brazil and Australia were signed after Congress acted on the FY 1975 President's Budget. A total of 1,433 civilian positions are required at naval shipyards to meet these commitments. The foreign governments will reimburse $26.8 million to the shipyards at standard rates governed by Navy Industrial Fund regulations.

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d. The Naval Training Center Bainbridge which was scheduled for closure in FY 1975 cannot now be closed until FY 1976 because of construction slippage at Orlando, Florida which has delayed the relocation of the Nuclear Power School from Bainbridge to Orlando. Because these personnel were deleted from budget estimates, a temporary restoration of 246 end-strengths is requested for FY 1975 only.

e. There are also various inter-service and inter-agency functional transfers, amounting to a net increase of 245 personnel that are included in the FY 1976 President's Budget but which occurred after submission of the FY 1975 President's Budget.

The requested increase of 2,128 in Navy employment to accommodate these new requirements will not cause the Department of Defense to exceed the originally authorized employment level of 995,000. The reprogramming request will also adjust naval shipyard employment to an estimated level of about 61,910 which will preclude the need for reductions-in-force of between 1,200 and 1,300 personnel, including 773 at the Philadelphia Naval Shipyard, which would otherwise be required to meet the current shipyard sub-ceiling of 60,685. The FY 1976 President's Budget reflects a substantial increase in shipyard employment in FY 1976. While this request may subsequently be adjusted by congressional action, implementation of reductions-in-force in FY 1975 would be inconsistent with current FY 1976 shipyard employment plans, and would not allow for adequate staffing consistent with funded workload requirements under Navy Industrial Fund procedures. Elimination of any sub-ceiling on shipyard employment is therefore strongly recommended.

In summary, the requested 2,128 positions will increase the House Appropriation limit for Navy from 316,779 to 318,907 and the Authorized Navy employment level will increase by 663 from 318,274 (including the 245 functional transfers) to 318,907.

The reprogramming request requires the approval of the House Appropriations Committee only.

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SUMMARY OF STATEMENT

Admiral FINE. I think one of the key things I would like to point out on the people the Navy is requesting is that for all intents and purposes there is no increase required to Department of Defense appropriations in order to put these people on the Navy payroll.

The 800 in Saigon was the result of people on the scene converting from contractor to in-house, and was done, at that time, in ignorance or knowledge of Navy ceiling restrictions. However, we saved $286,000 in the DAV appropriation.

Originally they wanted a 1,000 figure. It actualy ended up something like 862.

The foreign military sales agreement—I think you have heard of this by numerous others who have testified on military sales—essentially the people we want to put on that have to be put on in order to insure that we properly handle foreign military sales, administration, No. 142. These civilians are paid for by foreign governments. They are not paid for by the Defense Department or even by the U.S. Government.

There are civilians that we want to put on at the naval shipyard. With the eight naval shipyards there are only two that can do work on foreign ships. Long Beach and Philadelphia. The other six are nuclear yards and accordingly cannot do work on foreign ships. This means there is a concentration at these two yards. We did not have any people in our budget in fiscal year 1975 at the beginning of the fiscal year, the one submitted to Congress, to handle the foreign military sales cases. We normally, in the past, did not really anticipate them in our budget because they were things that came in after the fiscal year and without civilian ceilings we felt we could accommodate them with the ups and downs of the shipyard.

This fiscal year we have ship overhauls from Italy, Peru, Brazil, and Australia. They translate into approximately 1,443 end strength required. They are being paid for by these governments. In effect, $26.8 million is going to shipyards for this work. These shipyard workers are also not being paid for by the Department of Defense.

NTC Bainbridge: Because of a SER slippage, we have to keep 246 people on board at the end of the fiscal year. Essentially most of these people were budgeted for just about a complete man-year per man through fiscal year 1975, since we anticipate that Bainbridge would not close down until close to the end of fiscal year 1975. We will have some costs in phasing it down in fiscal year 1976.

Finally, there are functional transfers, ins and outs, which number 245 personnel between us and the other services. These also were either in the Navy budget, those that moved out, or in the other services budget, moving over to the Navy.

These are functional transfers between the services which are fully funded functional transfers. We don't accept people without dollars from the other services and generally in this day and age they don't accept them from us. These are essentially the numbers of people needed and the financing of these people who will be coming on board, sir.

OVERSTRENGTH IN SHIPYARD PERSONNEL

Mr. BURLISON. Mr. Robinson, do you have questions?

Mr. ROBINSON. In the second supplemental request for fiscal year

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1974 the Navy requested 2,600 new civilian positions; 1,300 for shipyard operations and 1,300 for the Naval Air Rework Facilities. This request for additional civilian employees was denied by the Congress on the basis that the shipyards and rework facilities employed sufficient personnel to produce the work planned. These same 2,600 positions were again denied as part of the 8,000 reduction in Navy civilian personnel for 1975. Notwithstanding the fact that the request for additional civilian personnel was denied, the Navy increased its shipyard strength by 2,285 positions from 61,034 at June 30, 1974, to 63,319 at January 31, 1975. The end strength planned for June 30, 1975, is 61,910. If you add, to the beginning strength for 1975 of 61,034, the 1,000 additional personnel the committee approved, the total authorized strength for shipyards would be 62,034. This means that at January 31, 1975, the shipyards were overstrength by 1,285 positions. Now Mr. Secretary, should the committee conclude that the request of February 11 for the additional 1,433 positions is just to sanction the shipyard overstrength?

Admiral FINE. Mr. Robison, basically the shipyards are industrially funded activities. The people on board at any given time are somewhat a function of the amount of work that we have on board from customers to keep them employed.

The workload is generally predicted on a 3-year basis and, of course, continuously reviewed. Obviously what we have in the 1976 budget, for example, will be used to predict the workload at the yards during fiscal year 1976 and the people we need on board both during the year and at the end of the year.

We have certain things that happen in the shipyards which explain some of these increases as the year goes by.

First, we have, as you recognize, had to make plans for future increases in shipyards. The 1976 budget reflects a significant increase, almost 4,000, in the Navy shipyards to take care of the workload in fiscal year 1976. In order to do that, we have to bring large numbers of apprentices on board.

As of January 31, 1975, for example, we had 5,396 apprentices on board. As of the end of June 1974 we had 4,258, so a portion of this increase is bringing apprentices on board.

We have approximately 2,000 temporaries at the shipyards and these temporaries, if they are on our rolls they are counted against end strength. We use them to some extent to accomplish fluctuating workload without having to RIF permanent positions.

During any fiscal year the number of personnel we have on board is really a function of the workload we have for them as well as the personnel ceilings that we have to live under. Our plans reflect what we think we can do to get down to the number Congress has mandated for us by the end of the fiscal year.

At any given time we have to take both those into account, peak workload as well as, this year certainly, congressional ceilings. We did not anticipate those, sir.

Mr. MCCLARY. I would like to put this in a practical sense of expression. What we are faced with here, if we cannot raise the ceiling on Navy shipyards, we will need to lay off 1,206 civilians and place them into the already swollen job market. As Admiral Fine has commented, part of the need for this, going higher than previously antici-

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pated, is due to foreign military sales. I believe you identified Long Beach and Philadelphia, and so roughly 1,000 of these people that will be laid off are being financed by foreign dollars.

We have the money. All we need now is the civilian strength in order to keep those people productively employed.

PERCENTAGE OF FOREIGN WORK TO TOTAL WORKLOAD

Mr. ROBINSON. You mentioned the factor of the work on foreign ships at these two yards as being one of the considerations that we have had to look at. Just how much of the total workload at these two yards does this work on foreign ships constitute?

You have mentioned the missions but not the extent of the work.

Admiral FINE. There are four ships at Philadelphia during this fiscal year and one ship at Long Beach. An Australian ship at Long Beach and four submarines at Philadelphia. The ability to put submarines in the commercial yards is practically negligible now. They are diesel, World War II types or post-World War II. The Navy Yards are just about the last yards that have capability to do anything with these subs.

Mr. ROBINSON. That speaks to the number of ships, but it doesn't answer the question as to the proportion of the workload that the foreign work constitutes.

Admiral FINE. In this fiscal year, sir, we have 80 ships projected for overhaul in both Navy yards and commercial yards.

Mr. ROBINSON. I just want it with regard to these two yards because apparently most of these people we are talking about are at these two yards.

Admiral FINE. I will have to supply that for the record. Philadelphia is quite significant.

[The information follows:]

The proportion of foreign ship work to total ship work at Philadelphia is 14.9 percent. At Long Beach Naval Shipyard the proportion is 4.7 percent.

Mr. MCCLARY. We are talking about 233 people at Long Beach, 773 at Philadelphia, and 200 at Puget Sound. Those would be the people employed in these activities who would be laid off. I might add, we need action on this reprograming promptly because time is running out and we will have to give these notices soon.

Mr. ROBINSON. I think the extent to which this foreign ship work is a proportion of the total workload at these two yards is very significant in this particular consideration. Further than that, I wonder to what extent—knowing there is a general diminishing of productivity on a per-worker basis under the circumstances of these times—to what extent these new positions reflect a lowered productivity on a man-hour basis in terms of the work that is going on.

Admiral FINE. I would probably venture a guess, sir, that being able to keep these workers on board and employed probably improves the productivity of the yard rather than decreasing it. We would have to get rid of productive workers if this work was not there for them to do.

Mr. ROBINSON. I am thinking about the per worker productivity. I am sure the addition of the workers will increase the productivity of the yards. If it doesn't there is certainly something wrong.

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Admiral FINE. I would say in general our experience has been that when we get rid of people out of shipyards, we get rid of more production people than we do the overhead people. It is easier to get rid of production workers, or it is has been in the past, than it has been people who are in the overhead areas so generally when we have to reduce the productivity per worker usually goes down.

OVERSTRENGTH IN PERSONNEL

Mr. ROBINSON. Why did the Navy continue to employ additional personnel when the Congress had denied the new positions?

Admiral FINE. The employment of the personnel basically, sir, was to match workload that was in the Navy budget, and the additional workload of these foreign military sales came after we had submitted the budget.

Mr. ROBINSON. If the committee bails you out again will this encourage you to continue to employ additional personnel?

Admiral FINE. Mr. Robinson, I am bothered by the words bail out frankly and truthfully.

We can, if the committee decides not to let us have these people, we obviously can and must get down to end-year numbers and we will get down to the end-year number. We will comply with the committee's request. I want to say this correctly. This is work to be done at these shipyards that is directly related to the condition of the fleet. There is additional work that comes in through these foreign military sales which to some extent are commitments above and beyond anything the individual shipyard or perhaps even the Naval Ship Systems command can turn down. So we have a situation where we are asking the committee to allow us to employ people to handle this segment of the work that has to be done because this segment of the work is going to be done as a commitment to a foreign country and we will have to do something else to the U.S. Navy portion of it.

CHANGES IN 1975 SHIP OVERHAUL SCHEDULE

Mr. ROBINSON. Your statement was to the effect there were 95 ships in the fiscal year 1975 overhaul schedule.

Admiral FINE. Yes, sir.

Mr. ROBINSON. Of this number, 63 were to be overhauled in Navy yards and 32 in private yards?

Admiral FINE. Yes, sir.

Mr. ROBINSON. Has the schedule changed since the Defense Appropriations Act was approved last October to the extent that that is reflected in any way in what we are talking about here?

Admiral FINE. We have reduced the overhaul schedule to 80 ships rather than the original 95 ships. There were two major reasons for the reduction. Reason No. 1 was for increased costs and I think I mentioned to you the other day during the reprograming hearings that we recognized early in the year we could not accomplish the ship overhaul program on the basis of the dollars we had in it, with the workload and the cost increases that we have experienced. Accordingly, we did reduce the number of ships to be overhauled and used those funds to make sure the other ships were being given more complete overhauls.

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We had another group of ships that we did delete from the overhaul schedule as a result of the reduction that was taken by Congress, both in dollars and in people during the fiscal year 1975 budget markup. At that time the Congress took $107 million in O. & M. funds, and also directed us to delete 8,000 people from the Navy budget and they were rather explicit as to how those 8,000 people were to be deleted.

Mr. GARRITY. The committee didn't reduce directly any funding for the ship overhaul program. The only applicable reduction you had to consider was the 1,300 positions that were designated for the shipyards. Other than that, there was no designated reduction in the ship overhaul program. Am I correct?

Admiral FINE. We interpreted the 2,000 that were reduced on the basis of our F–MAG's as also against the ship maintenance program. We had to take 2,000 people out.

Mr. VANDER SCHAAF. The Navy has testified repeatedly that the fleet MAG had no tradeoff between the civilian and military employment; that if we added the additional sailors to repair ships, we still had to have all the civilians. We couldn't trade the one off against the other. Now, your answer says you ought to trade them off.

Admiral FINE. No, sir, the Congress directed us to trade them off.

Mr. VANDER SCHAAF. We did in the end. Do you agree with us now?

Admiral FINE. No, sir, I do not agree with you. What I am saying is, the Congress, in the markup of the appropriations bill, directed us to take 2,000 civilians out of shipwork because we had the F–MAG work. We did not agree at that time we should, but however, given a congressional direction, we really didn't have any choice.

Mr. GARRITY. Admiral, we have been into this fleet MAG program and your new program for your sea-to-shore rotation program, but I believe that the Navy testified that most of the positions were not at shipyards; they were at other locations throughout the whole overhaul program both in the shipyards and out in the other areas. Most were in other areas.

Mr. VANDER SCHAAF. Most of them were in home ports.

Admiral FINE. Do you mean civilians or military?

Mr. VANDER SCHAAF. Military positions in the fleet MAG's.

Mr. GARRITY. And the civilian positions affected by the substitution were in locations other than the shipyards.

Mr. SHYCOFF. The F–MAG's did not substitute for civilian positions. They augmented the maintenance, which was already military. The basic question I think you are talking about is whether or not, by achieving more maintenance from the F–MAG's we will be able to ultimately reduce either the frequency or the amount of work being done in the overhaul. And so I think the question really is, at some point in time, as to whether or not less work will be done in the shipyards because we are doing more at the F–MAG's, which is a new and ongoing activity. But it seems to me we are getting a little off the point, Mr. Garrity, and this almost gets into the heart of the industrial organization. We ask for and get approval at times of programs. The Congress has approved a ship overhaul program. The Congress has approved dollars for a ship overhaul program and what we now run into is a third restraint which is the number of people and I recognize

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at times in our planning and bringing together these three ingredients —as we have gone into this year, we have found that to achieve the program that has been approved which has been augmented by these foreign sales, we find that to do that job and to do it in the most efficient manner—maybe not as well as some would like, but to do it as well as we can, we need these man-years, we need this personnel schedule for the year.

It also lends itself to a smooth operation in these particular shipyards.

What we are really talking about here is that these are the people we need to do the programs that are approved, and the dollars are there and the program is there and it has been approved. We will not be able to do the work possibly if we don't get the people.

Mr. McCLARY. To reinforce that and to state it so we don't misunderstand it, we do believe that a limitation imposed personnel ceiling on industrial funded activities is an unnecessary and imprudent restraint.

Mr. ROBINSON. When the workload is being lowered in terms of the number of ships that are being overhauled and yet you are asking for increased personnel to do the job, there is some kind of a signal being given which I think we ought to understand. It indicates to me that at the outset you are either underestimating cost or overestimating the productivity, one or the other. Any time that you come in and say how many men you need and how many ships you are going to overhaul then you cut back on the number of ships you overhaul and you want more men to do the job, something is faulty in the equation.

Mr. SHYCOFF. I should point out that we don't have the money to pay the people merely by changing the numbers of overhauls. If in fact we were to have more people than we needed, we wouldn't have the dollars. These people are matched by the dollars. Numbers of overhauls can be very misleading because we may be talking about a minesweeper or we may be talking about a carrier or a submarine. You almost have to look at the composition of the total workload. All I can really say is that the dollars and people are in balance and if we increase the number of people, we have to pay for them.

Mr. ROBINSON. In terms of dollars that have been appropriated to do the job as compared to people that you need in order to accomplish the overhauls, to what extent is it necessary for additional people caused by the lack of money to pay them in underestimating what it takes to get these people on hand?

Mr. SHYCOFF. It would be just the opposite. If we didn't have the money, we would have to reduce people. We are really asking for the people to match the program and dollars that are approved. If we were adding people and we didn't have the money, we would be in here with a Navy reprograming action asking for the dollars. It is just the opposite. We have the dollars and are trying to get the people to match.

Mr. ROBINSON. I can't help but come back to the point that you have both the people and the dollars and then cut back on the program.

Mr. McCLARY. When you say cut back on the program, you are referring to the number of ships being overhauled, I presume, that does not necessarily mean that we are doing any less work. Our estimate of how much work needed to be done on each ship was no doubt faulty

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and could not have been estimated with complete accuracy. It is only when the ship comes in, the equipment gets pulled out, and the ship is closely examined that the real nature and extent of the overhaul becomes really known.

SOURCE OF DELETED OVERHAULS

Mr. ROBINSON. Is it customary that you cut back from the beginning of the year estimate of overhauls?

Admiral FINE. Let me address that.

The Navy, as far as the original ceiling is concerned, given by the House Appropriations Committee—last September—has matched the program to people. So in effect these 1,433 we are asking for are really to take care of the additional program being provided by foreign military sales.

As far as matching people and programs, when we received the letter from Mr. Mahon last September, we adjusted the program at the shipyards to match the people that we were told we could have.

Now, the additional work, the 1,433 that we were talking to, is really based on the additional program being put into those shipyards by foreign military activities.

Had the work not come in, we probably would have been phasing down faster, but the work is there to be performed.

Mr. ROBINSON. How many of the deleted overhauls came out of work that was originally scheduled for Navy yards?

Admiral FINE. I would have to supply that for the record, sir. I think most of the deleted work probably did come out of the Navy yards. At least we deleted the work on the basis of having to reapply dollars. I think those are all Navy yard overhauls.

[The information follows:]

Of the net adjustment deleting 15 overhauls, 14 were scheduled at Navy yards.

Mr. ROBINSON. I have a figure that seems to reflect that probably you deleted 17 and this this brings up the question as to why you again—which we have gone into—why you require 1,433 new employees when you have deleted 17 overhauls, but, of course, we have had some explanation of that.

Admiral FINE. We actually deleted 17 and added 2 back.

Mr. SHYCOFF. One other thing that might help is the fact that we are talking about an end strength; we are talking about overhaul to begin this year. Overhauls vary in length. Some run 13 or 14 months. For example, we were talking the other day in the previous reprograming session about some overhaul slippage from June to July. We have many overhauls that will be in the shipyards on June 30 and there will be workload carryover into the succeeding year. This is why we have a difficult job just relating funding in 1 year, overhaul starts in 1 year, and the number of employees required on 1 day, June 30. The question involves looking at the entire workload schedule of the individual shipyards. You don't always see a direct 1-for-1 relationship between a change in number of overhauls and its impact on the June 30 end strength. I would say the most significant reason for not seeing the 1-for-1 change you were looking for in going from 95 to 80 is that many overhauls are still going on and much of the workload from this year's funding may be accomplished next year.

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We fully fund the overhaul, and when we ask for money we are asking for the total cost of that overhaul to be accomplished, even though some of the work might be accomplished in the next year.

Mr. ROBINSON. In that sphere of inquiry, how many ships in the 1975 schedule were actually in the yards when this request was submitted?

Admiral FINE. I will have to supply that for the record, sir. Do you mean in the yards right now?

Mr. ROBINSON. Yes.

[The information follows:]

As of September 1, 1974, 20 of the ships in the fiscal year 1975 overhaul schedule were actually in the yards. The following list identifies the ships and yards involved:

	Ship	Yard
DDG-16	Joseph Strauss	Puget Sound.
DE-1048	Sample	Pearl Harbor.
DE-1066	Marvin Sheilds	Long Beach.
DE-1067	Francis Hammond	Do.
DE-1077	Ouellet	Do.
LKA-115	Mobile	SupShip Long Beach.
LKA-116	St. Louis	Do.
LST-1185	Schenectady	SupShip San Diego.
LST-1187	Tuscaloosa	SupShip Seattle.
PG-90	Canon	Guam.
SSBN-618	Thos. Jefferson	Mare Island.
SSN-588	Scamp	Pearl Harbor.
AOE-3	Seattle	Norfolk.
LCC-20	Mt. Whitney	Philadelphia.
LKA-117	El Paso	SupShip Norfolk.
LPD-1	Raleigh	Do.
SSN-585	Skipjack	SupShip Groton.
SSN-591	Shark	SupShip Pascalouga.
SSN-664	Sea Devil	Portsmouth.
SSN-670	Finback	Norfolk.

Mr. GARRITY. This goes back to the heart of the subject. Mr. McClary stated that when the ships come in you find some of the machinery is in worse condition than anticipated but how many of those ships that you used for your matching purposes to determine the number of civilians were actually in the yards at the time?

Admiral FINE. At which time, sir?

Mr. GARRITY. When this request was made for an additional 1,433 people.

Admiral FINE. Let me go back again to the discussion we had before. When you and I met last September to discuss this, the 1,433 was something we knew was coming. At that time we knew it was coming. It was something we were going to discuss with the Secretary of Defense and the timing was bad. It was about the time we were going to put in our 1976 budget. We knew it was coming at the time. The number that finally came out was a number that you gave us, to match the U.S. Navy workload and I want to emphasize that we did as much as possible to tailor our workload to that end strength number as we could.

The additional foreign military sales work had not been in the original 1975 budget, had not been in our calculations used in the 1975 budget, and therefore when we sorted out the number of ships canceled and those deferred, the number of people we anticipated we would have on board at the end of the fiscal year, as well as the phasing of when those people would come in and go out was based on U.S.

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workload. We have to rephase some of that in order to accommodate the foreign military sales, but in effect last September, when I talked to you, given the final number we got from this committee, we made every major attempt to phase people, workload and dollars to the U.S. Navy program with this additional number recognized as something we somehow would either have to come back to you or to the Secretary of Defense to try to accommodate for the additional workload.

Status of Foreign Overhauls

Mr. Kemp. Admiral, what is the status of those five foreign ships for overhaul?

Admiral Fine. I will have to supply that for the record. I think there is either one or two in Philadelphia and I think the Australian may finally be out of Long Beach, but I will have to supply that for the record.

Mr. Kemp. Will these ships be overhauled first and then turned over to foreign governments?

Admiral Fine. No; these are ships that belong to them.

Mr. Kemp. Have they already been turned over?

Admiral Fine. Yes, sir, they are recycling.

Mr. Kemp. Have the overhauls been completed? Let us know when they were originally scheduled for overhaul, when they actually went in, when you expected them out or when they did come out.

Admiral Fine. We will supply that.

[The information follows:]

	Country	Starting date	Completion date
Status of the 4 foreign ships beginning overhaul in fiscal year 1975:			
Amazonas	Brazil	September 1974	June 1975.
Pedrera	Peru	December 1974	*To be determined.*
Pacocha	do	March 1975	Do.
HMS Perth	Australia	September 1974	June 1975.
Status of the overhaul started in late fiscal year 1974:			
R. Rohei	Italy	March 1974	March 1975.

Note: All of the above overhauls are being done at the Philadelphia Naval Shipyard except the HMS Perth which is being overhauled at the Long Beach Naval Shipyard.

Funds Realized From Overhaul Deletions

Mr. Kemp. Can you estimate the amount of savings realized as a result of the deletion of those 15 ships from the overhaul? That is U.S. ships.

Admiral Fine. I am sorry, sir. Could you clarify what you mean by savings?

Mr. Garrity. How much did you save when you deleted 15 ships from the 1975 overhaul program? These ships were in at a certain dollar cost for overhaul. Now, when you take them out, that money is used for other purposes?

Admiral Fine. The money all stayed within the overhaul program with the exception of the funds that were deleted in response to the $107 million reduction made against O. & M.N. The remaining funds did stay in the overhaul program. I believe that we cancelled seven ships and reallocated about $95 million.

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I would like to correct the exact number for the record, that were reallocated within the overhaul program. The remainder of the dollars having been deleted obviously could not be used for the overhaul program.

Mr. KEMP. Do you consider the money reallocated to be a saving?

Admiral FINE. No, sir, that was required for increased costs to the remaining ships in the overhaul program.

For example, the U.S.S. *Truxton* is under overhaul now at Puget Sound. She is running approximately $12 million above our original estimate. Not because of that much in cost growth due to increased costs of people or material, but due to increased work that has to be done on her. To keep the overhaul program intact in effect we had to find another source for that money within the overhaul program. So to some extent some of those cancellations were due to having to reapply funds from within the overhaul program to cost growth on ships in which the overhaul scope has increased.

Mr. KEMP. You paid a salary to the additional employees?

Admiral FINE. We don't keep people onboard at the shipyards just to pay them. We keep them to work. If there is no work, we make a major effort to get them off the rolls.

Mr. SHYCOFF. This gets back to the point made before; while it took additional people to do the work on the *Truxton*, in order to get the money to pay them we had to cancel other overhauls.

Mr. GARRITY. When was the *Truxton* in for overhaul?

Admiral FINE. The work started in March 1974.

Mr. KEMP. What was the amount of funds provided in the 1975 budget for cost overruns in the overhaul program?

Admiral FINE. I will have to answer that for the record.

[The information follows:]

Only those additional funds required for increased overhaul costs are included in the overhaul program.

Mr. KEMP. Was it about $100 million?

Admiral FINE. I believe the original 1975 budget had about $107 million in there. I would have to correct that for the record though.

Mr. KEMP. Would you look at it?

[The information follows:]

The amount reprogramed for increased ship overhaul costs is $108.6 million.

Mr. KEMP. Will you explain what that money is for?

Admiral FINE. Cost overruns?

Mr. KEMP. Yes.

Admiral FINE. Generally for prior year ships, sir, that are continuing to be overhauled during the fiscal year.

Mr. KEMP. Or for ships that come in this year that you think you need more money for?

Admiral FINE. Generally we try to fully fund in the budget the ships that we are putting in the fiscal year, sir. I don't know of any time in my memory, which is the last couple of years that I have been in this program, that we have put in a false number into the budget to fully fund a ship. I can't speak for the past. I can only speak for the last 2 budget years.

Mr. KEMP. So if you fully fund a ship that goes into the overhaul program and then you take that ship out, then you realize that money that was in there, and you can use the funds for other purposes?

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Admiral FINE. Yes, sir, but within the overhaul program. At least within the last 2 budget years I can speak to.

I recognize, Mr. Garrity, in the past there have been some problems that we both are familiar with. I think that that history has long since gone, through.

Mr. ROBINSON. Mr. Chairman, I think at this point in the record it would be helpful if over the period of the last 3 years, for example, we could have an accounting of overhauls that took place, and the extent to which the cost of the overhaul was either underestimated or overestimated. I want to know how consistently—and this is what I am afraid I am going to find out—how consistently the Navy underestimates the overhaul.

Admiral FINE. I would say 100 percent we underestimate, sir, and that is built into the budget process. We are not allowed to budget in advance for inflation. Now, we do get pay raise supplementals that do take care of our blue collar workers generally in the year that the overhaul is in or continuing in, but there is no question that the budget process, where we are not allowed to budget for escalation either in material costs or in the private sector—we cannot budget for pay raises in the private sector, for example, for shipbuilding in a private yard. I can categorically state in any year where we have significant inflation we are underbudgeting the overhaul program.

Mr. ROBINSON. I understand the legal restrictions that you have not been able in the past to put a factor in for inflation. I don't know whether the new relaxation in that regard will permit you to do it in overhaul.

Admiral FINE. No, sir, it will not. In effect, what I am telling you, sir, is that our 1976 program categorically is understated.

Mr. ROBINSON. You can't do it when you submit your budget, but there is no reason we can't talk about it because we have to take it into consideration and that is what we are trying to do right here.

Admiral FINE. Yes, sir.

ADDITIONAL EMPLOYEES FOR FOREIGN SALES

Mr. KEMP. Why would the Navy employ an additional 142 civilians to assist in the administration of the foreign military sales program?

Admiral FINE. These personnel are required under agreements signed with the foreign governments involved to provide administrative, technical, supply, and training support. The major increases were for the Saudi naval expansion program (26 civilians in support of 17 ships, 4 landing craft and electronics equipment and material support), the Iranian aviation/missile program (50 civilians in support of F–14/Phoenix), and foreign military training (38 civilians at various activities). Personnel costs are fully reimbursed the foreign customers.

Mr. KEMP. Are these new positions already filled?

Admiral FINE. An individual head count would be extremely time-consuming, as they are employed at a variety of installations. As hiring authority was granted some months ago, it may be assumed that most of the positions have been filled.

Mr. KEMP. According to the information provided the committee, most of these civilians will be employed in training and support-type

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operations. Why should the U.S. Government employ and pay the salaries of civilians engaged in training foreign nationals?

Admiral FINE. First, I would like to point out that these personnel costs are fully reimbursed by foreign customers. Second, while the Navy encourages use of private sources for training where possible, in many instances highly specialized technical training of the kind required to support modern weapons systems is only available at in-house Navy installations. Consequently, Navy training support on a reimbursable basis is often the only reasonable alternative available.

Mr. KEMP. Why are they not hired and paid by the foreign country that purchases the ships or equipment?

Admiral FINE. Individual foreign countries often find it impractical and uneconomical to set up localized training programs. It is more logical to make use of existing Navy installations which already possess the required professional expertise and complex equipment often required.

DEFENSE ATTACHÉ OFFICIAL IN SAIGON

Mr. KEMP. When did the Navy assume responsibilty for the civilians supporting the Defense Attaché Office in Saigon?

Admiral FINE. I believe that was 2 years ago, sir, 2 fiscal years ago.

Mr. KEMP. Why was it changed from a contract to direct hire?

Admiral FINE. This was made locally—let me back off to this extent. These are only an increment, these 800 and some odd. I believe we have some 2,000 others we have had since 1973—fiscal 1973. These conversions were done as a cost-effective measure on the scene to save funds. There is an estimated $286,000 that was saved out of this appropriation by this conversion.

Mr. SHYCOFF. This is the replacement of U.S. citizen employees by contractors with foreign nationals who end up on our rolls. There was an attempt in one of the laws last year to direct that we reduce U.S. citizens in Vietnam. I don't recall whether that ultimately became law or not, but this is a part of the process to get the U.S. citizens out of the country.

Mr. KEMP. What kind of support services do they provide?

Admiral FINE. I think pretty well across the board, almost all logistics services, motor pool, guard, just about everything. They are relatively low-priced.

Mr. SHYCOFF. It would include maintenance personnel where the contractor had U.S. citizens doing maintenance, for example. It may have been an Air Force contract. There are now foreign nationals on the rolls of the DAO doing the work. All of these people will show up on Navy rolls as being in one place, but the Navy has no responsibility as such for the work performed.

OTHER EMPLOYEE TRANSFERS

Mr. KEMP. To my knowledge there was no reduction in the overall civilian personnel strength of the Navy when it was decided to transfer the Nuclear Power School from Bainbridge to the Naval Training Center in Orlando. Was there not a reduction of civilian strength at Bainbridge with a corresponding increase in strength at Orlando?

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Admiral FINE. Savings from the shore establishment realignment were reflected in the fiscal year 1975 President's budget. That submission contained a reduction of 356 civilians from the budget for the Naval Training Center, Bainbridge. Seven of these civilians were to transfer to Orlando and 349 were to be dropped from Navy rolls. Orlando was not scheduled for an increase corresponding to the decrease at Bainbridge.

Mr. KEMP. If so, why cannot those positions be transferred back to Bainbridge again until the school is opened in Orlando?

Admiral FINE. The positions originally scheduled for transfer to Orlando will be retained at Bainbridge until the nuclear power school moves to Orlando. The requirement for 242 civilians is part of the 349 positions originally dropped from the budget and is in addition to the positions retained for transfer.

Mr. KEMP. How many unfilled civilian positions did the Navy have at December 31, 1974?

Admiral FINE. We had 324,643 direct-hire civilians at the end of December 1974, which is 7,864 above the 316,779 limit established by the Congress. The December actual is 5,736 above our reprograming request of 318,907.

RESERVE COMPONENTS TRAVEL REPROGRAMINGS

Mr. BURLISON. We will next discuss the three reprograming actions concerning travel funds for Reserve components. Copies of these reprogramings will be inserted in the record at this point.

[The document follows:]

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE							DOD SERIAL NUMBER	
Reserve Personnel, Marine Corps							FY 75-15 P/A	
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)							
FY 75-1 P/A								
LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
BUDGET ACTIVITY 1: RESERVE COMPONENT PERSONNEL								
1.	-	$62,285		$62.285	-	-0-	-	$62.285
Travel	-	($ 4.683)	-	($ 4 683)	-	(+$3 003)	-	($ 7,686)
Pay & Allowances	-		-		-	(-$3 003)	-	

This action requests approval for the transfer of $3.0 million from pay and allowances to travel, both sub-activities within the Reserve Personnel, Marine Corps, FY 1975 appropriation. This action is submitted for prior approval since the program increase is a matter of special Congressional interest.

REPROGRAMMING INCREASES

FY 1975 Program

BUDGET ACTIVITY 1: RESERVE COMPONENT PERSONNEL

1. Travel $62,285 ($ 4.683)

Pay & Allowances

Explanation: This requested increase in travel is essential to Marine Corps Reserve units in order that they continue their planned annual training duty programs and field exercises. The availability of funds is made possible due to realignment of funds resulting from strength shortfalls in prior year impacting on FY 1975. None of the funds in the requested reprogramming would be used for "Overseas Training Travel."

TOTAL REPROGRAMMING INCREASE -0-

REQUESTED (Signature and Date)		APPROVED (Signature and Date)	
	18 NOV 1974		JAN 3 1975
		DEPUTY SECRETARY OF DEFENSE	

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Reserve Personnel, Navy, 1975	FY 75-18 P/A
APPROPRIATION SERIAL NUMBER: FY 75-1 PA	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

This reprogramming action is to provide an additional $2,220,000 to cover increased travel costs for FY 1975. This action is a matter of special Congressional interest and requires Congressional approval prior to implementation.

REPROGRAMMING INCREASE:

FY 1975 Program:

BUDGET ACTIVITY 1: RESERVE COMPONENT PERSONNEL								
1.	-	186,444	-	186,444	-	-0-	-	186,444
Travel	-	(11,439)	-	(11,439)	-	(+2,220)	-	(13,659)

Explanation - The increase in Travel requirements can be related to the revised manyear average for FY 1975 and the continually increasing transportation costs subsequent to the FY 1975 Congressional review. Funds to provide for the increase were made available by adjustments to the manpower plan, plus a reduction in the number of clothing items issued to reservists.

TOTAL PROGRAM INCREASE -0-

REQUESTED (Signature and Date): 11 DEC 1974
Secretary of the Navy
(Financial Management)

APPROVED (Signature and Date):
DEPUTY SECRETARY OF DEFENSE

DD FORM 1415 REPORT CONTROL SYMBOL DD-Comp (AR) 413

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
National Guard Personnel, Army	FY 75-19 P/A
APPROPRIATION SERIAL NUMBER	**(Amounts in Thousands of Dollars)**
75-1 P/A	

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
INTRODUCTION: The purpose of this reprograming action is to provide for funding for required travel in the National Guard Personnel, Army appropriation. The funds required of $1 million are available within the appropriation. This action is submitted for prior approval due to Congressional reduction.								
REPROGRAMING INCREASE:								
FY 1975 Program								
3100 Travel		19,080		19,080		+1,000		20,080
3100 Readiness Drills		9,041		9,041		-1,000		8,041

EXPLANATION: The Travel funds requested for FY 1975 were $21,980,000. This amount was reduced by Congress, $2,900,000 resulting in $19,080,000 for travel. The actual cost of travel in FY 1974 was $19,453,000. The adjusted requirements for FY 1975 are now $20,080,000. This increase of $627,000 over the FY 1974 actual is due to increased travel costs due to rate changes and increased travel for the approved Battalion Affiliation Program. The number of individuals participating in additional readiness drills is being reduced 2,900 in order to make $1 million available for transfer to meet the travel requirement which is more critical.

REQUESTED (Signature and Date)	APPROVED (Signature and Date)
[illegible] 5 DEC 1974	JAN 24 1975

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Mr. BURLISON. Mr. McClary, please proceed with your prepared statement.

[The statement follows:]

STATEMENT OF HON. TERENCE E. MCCLARY, ASSISTANT SECRETARY OF DEFENSE

Mr. Chairman and members of the committee, the next three reprograming actions are related to travel requirements in the Reserve personnel, Navy, Reserve personnel, Marine Corps, and National Guard personnel, Army appropriations. These reprograming requests are submitted for prior approval, since fiscal year 1975 Reserve travel programs were the subject of specific reductions by the Congress.

Every effort has been made, in all appropriations, to achieve the intent of the reduction imposed by the Congress by reducing or deferring planed travel whenever possible. For example, prior to this year, Marine Corps policy provided for air travel for travel beyond 400 miles and bus travel under 400 miles. The policy was changed to 800 miles in order to reduce travel costs. After a few months, it became apparent that it was taking approximately 2 days more travel time thereby losing up to 30 percent of the training time available at the training sites. The 400-mile policy was, therefore, reinstituted. Units which trained away from their home stations last year were rescheduled to train at home this year whenever possible. Efforts have been made to utilize other Service training sites nearer the Reserve home site where practical. There has been cooperation among the Services to use organic airlift rather than commercial transportation. As directed by the Joint Conference Committee, overseas travel has been eliminated except by Reserve component aircraft, pending a complete review.

In spite of these efforts, the effect of inflation on costs of travel would require further reduction which we believe are beyond those intended by the Congress.

In the Army National Guard, severe impact would be felt in fourth quarter annual training requirements. The Marine Corps will stop most training travel in the month of April. The Navy will curtail remaining programs requiring travel funds, causing an adverse impact on the effectiveness of the training.

The amounts requested for Reserve personnel, Navy and National Guard personnel, Army are less than would have been allowed under the most stringent interpretation of the recently repealed Roth amendment. Since the request before you for Reserve personnel, Marine Corps would exceed such a limitation by $251,000, the request can be reduced by that amount based on the currently planned program.

Funds to support the increases requested are available from lower priority programs or from experienced strength shortfalls.

Representatives of the Army and Navy are here to answer specific questions on these reprograming requests.

Mr. BURLISON. Section 843 of Public Law 93-437 which is the Department of Defense appropriation action of fiscal year 1975 contains a rather strict limitation on the reprograming of funds. This section prevents the reprograming of funds "... unless for higher priority items, based on unforeseen military requirements, than those for which originally appropriated and in no case where the item for which reprograming is requested has been denied by the Congress." While travel funds were not entirely denied to the Reserve components, they were substantially reduced by the Congress. How do you rationalize the submission of these three reprogramings in view of the applicability of section 843?

Secretary MCCLARY. It is our belief that the provisions of section 843 do not preclude these reprogramings.

Mr. BURLISON. Is it your conclusion that approval of these reprogramings would not place the committee in a position of violating a principle of reprograming which it has established in law?

Secretary MCCLARY. Yes. As indicated in the previous response, it is our belief that section 843 does not preclude the reprograming requests in question.

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Mr. BURLISON. It is readily apparent in view of the high levels of inflation which have occurred since submission of the original fiscal year 1975 request that all of you could probably make very good use of these additional travel funds. However, before any approval of these funds could be granted, I believe that the committee would want a complete assurance that they will not be utilized for overseas training travel. Will any of these funds be so utilized?

General WEST. There are no Army National Guard units being trained overseas in fiscal year 1975 using funds requested by this action.

Admiral FINE. The Navy Reserve has terminated all overseas training travel for reservists, except that travel expressly allowed by Congress. None of the funds in the reprogramming request will be used for overseas training travel.

General RYAN. None of the funds provided the Marine Corps Reserve for travel in fiscal year 1975 will be utilized for overseas training travel.

Mr. BURLISON. Secretary McClary, in your statement you say that efforts have been made to utilize other Service training sites near the Reserve home site where practical. Yet your statement offers no concrete examples of where savings have been made by application of this technique. Do any of you gentlemen have any examples to offer and how much were you able to save by utilizing each other's training sites?

General WEST. Army National Guard training plans are closely integrated with Army plans, Army Reserve training and joint service exercises to increase effective asset utilization and promote cost and/or energy conservation. Primary ARNG interchange in facility use is with the active Army and with limited use of Air Force and Marine Corps areas. Examples of Army National Guard units training at active Army posts include units scheduled at Forts Bragg, Knox, Riley, and Stewart. The interchange of facility use with the Marine Corps includes Camp Pendleton, Parris Island, Fort Irwin, and Salinas, Puerto Rico. The use of these Marine Corps facilities, by ARNG, is estimated to avoid $439,000 in additional travel costs in fiscal year 1975.

Admiral FINE. The training requirements of the Naval Reserve are in most cases not compatible with that of the other Services. Consequently, little training of Naval Reservists is accomplished at another Service training site. Construction battalion (CB) training for a Boston-based unit was accomplished this year at Fort Drum, N.Y. vice Alaska or Gulfport, Miss. Travel savings for this evolution was $100,000. Other CB units have trained at the Marine Corps base closest to their home base. However, this is a phase of their normal cyclic training schedule and does not generate a cost savings.

General RYAN. We have reprogramed units to Camp Drum, N.Y.; Camp Grayling, Mich., and Indiantown Gap in Pa. I am sorry, Mr. Chairman, I don't have the total funds involved. The number of people involved are 1,557 officers and enlisted and I don't have the figures on the savings that were achieved.

Mr. BURLISON. Will you supply that for the record?

General RYAN. I will, yes, sir.

[The information follows:]

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The Marine Corps Reserve rescheduled annual training duty in fiscal year 1975 to facilities of other Services in some instances. The location and savings are as follows:

Home location	Number people	Original ATD site	New ATD site	Savings
Pennsylvania and New Jersey	877	Hawaii	Camp Greyling, Mich	$455,000
Pennsylvania	350	Oklahoma	Indiantown Gap, Pa	53,550
New York	330	North Carolina	Camp Drum, N.Y	21,350
Total				529,900

In addition, the 800-mile bus policy, rescheduling of 1,322 reservists to train at home and air lifts from the Air National Guard has generated a savings of $1,070,100 for a total savings of $1.6 million.

Mr. BURLISON. The committee has also stressed in the past that it felt that the Reserve components should be provided with additional training travel through the use of organic DOD aircraft. Have you been able to make any improvements in this area during the past 6 months?

General WEST. All ARNG AT travel requirements are first evaluated to determine the maximum use of organic transport consistent with economic considerations and training effectiveness. Following this the travel requirements above organic capabilities are screened against any available organic DOD aircraft, primarily Air National Guard which does provide maximum training type support without reimbursement. The remaining active duty training travel requirements are then processed to determine the most economical way to be accomplished by commercial means.

Admiral FINE. The Naval Air Reserve's aging and limited organic airlift capability is only able to provide a very small portion of the overall training travel requirements of the Naval Selected Reserve. Since we have historically made maximum use of these aircraft for transportation of reserve component personnel, no relief is available from that source.

General RYAN. The Marine Corps Reserve has obtained three airlifts from the Air National Guard and may be able to get a fourth, depending upon availability after the Air Guard schedules National Guard requirements for annual training duty. Our travel requirements were made known to the active forces, but they have only been able to provide limited assistance because inflation has reduced their capability to meet the requirements of their own units. To date, a round trip airlift for a rifle company from Philadelphia, Pa., to Camp Drum, N.Y., has been provided.

Mr. MCCLARY. A more complete reply to this question involves a further explanation of the Department of Defense transportation policy regarding the use of organic DOD aircraft. I will request the Assistant Secretary of Defense (Installation and Logistics), who is responsible for establishing and implementing our basic transportation policy, to provide by separate correspondence a further reply to this question within a reasonable period of time.

General RYAN. I might add one other thing, that selected units which were not scheduled to train at their home centers during the fuel crisis have been rescheduled to train at their home centers; 1,322 officers and enlisted will train at their home training centers.

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Mr. VANDER SCHAAF. I would like to ask this question: Have you ever used a C–5A or C–141 aircraft? Has any Reserve component ever been granted free time on these aircraft?

General RYAN. No; we have not because the point-to-point shipment must be paid for. If you are having a joint training exercise, there are a certain number of hours available. We have not participated in that.

Mr. VANDER SCHAAF. We had testimony the day before yesterday to the effect that DOD had to fly the C–5 and C–141's essentially empty in order to provide the pilots and crews additional and necessary training time.

I have a hard time understanding why the Reserve components can't schedule some of their training to fit in and you would both benefit from it.

General RYAN. If we could get that lift, we would do it.

The current regulation, as we understand it, is that point-to-point lift must be paid for.

Mr. VANDER SCHAAF. Where is the trouble? With the industrial fund, with the Air Force, where? Somewhere in OSD?

General RYAN. I think it is the regulation relating to the use of MAC airlift, that only in joint exercises can the Air Force funds be used. If we are using them for point-to-point lift, which would be our type, when we are going to active duty, we have to pay.

Mr. VANDER SCHAAF. Why don't you change the regulations?

General RYAN. I would be delighted.

Mr. MCCLARY. As a consequence of our discussions the other day relating to commercial airlift and the situation we have here, we do plan to look into that and see what opportunities are available for more efficient use of our organic aircraft.

Mr. SHYCOFF. We have taken steps this year—not in this particular case, but we will—in the cargo area to establish some coverage for cargo and we will look into this. This is worth looking into.

Mr. BURLISON. I would now like the sponsor of each of the reprograming—No. 15, Marine Corps, No. 18, Navy, and No. 19, Army National Guard—to tell the committee in turn precisely what additional travel this requested approval will provide or vice versa, what will have to be dropped if the request is not approved, and second, to explain the impact on your organizations if these funds are to be denied.

General WEST. The available funding provides for only 50 percent of the bona fide second half fiscal year 1975 travel requirements. Unit funding will be based on the highest priority for mobilization and deployment, the type training to be conducted, and the distance to be traveled. Denial of the requested funds will severely impact on the Army National Guard training program to develop improved readiness. Such a drastic curtailment of programed travel would affect a large portion of the units requiring commercial travel support during fiscal year 1975 and would cause a serious loss of training effectiveness.

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Additionally, this would create unprogramed demands on Operation and Maintenance accounts to provide alternate travel by organic vehicles where such travel could adversely impact on the length or quality of training. In general, denial of this request would be inconsistent with other programs designed to support essential mission tasks.

Admiral FINE. Denial of the requested $2.2 million travel reprograming request would require cancellation of the ACDUTRA travel for many inland based reservists to coastal fleet training sites. These reservists are assigned to various ship/squadron reinforcement unit and require yearly training periods with active duty units if their mobilization readiness is to be maintained. Curtailment of this travel to fleet sites will necessitate performance of active duty for training (ACDUTRA) at the reservists' home base where this valuable fleet-type training cannot be provided.

General RYAN. Only $1.4 million is currently needed for reprograming for travel as compared to the $3 million in the Marine Corps Reserve's original reprograming request; $1.6 million in savings has been realized due to actions taken to reduce travel requirements. The savings will be applied to the 1,138 personnel, in units, over the current budgeted strengths.

The Marine Corps Reserve will be unable to fund annual training duty for approximately 5,100 personnel in fiscal year 1975, if reprograming of $1.4 million is not approved. I will insert a list which shows the inclusive dates of training, the number of personnel involved, and the site of training relative to the annual training duty that will not be funded without the approval of the requested reprograming action:

[The information follows:]

Dates	Number of people	ATD site
June 16–30	440	29 Palms, Calif.
June 7–21	15	Camp Pendleton, Calif.
June 14–28	151	Do.
Do	205	Do.
June 7–21	791	Coronado, Calif. (Amphibious Operations).
June 21–July 5	505	Do.
June 7–21	42	San Diego, Calif.
Do	25	Barstow, Calif.
June 14–28	714	Ft. Sill, Okla.
June 7–21	53	29 Palms, Calif.
June 14–28	53	Do.
June 7–21	345	Camp Lejeune, N.C.
June 14–28	16	Do.
June 21–July 5	240	Do.
June 7–21	853	Little Creek, Va. (Amphibious Operations).
Do	21	Albany, Ga.
June 14–28	6	Do.
June 20–July 12	7	Do.
June 28–July 12	8	Fort Bragg, N.C.
June 14–28	124	El Toro, Calif.
June 21–July 5	350	Indiantown Gap, Pa.
June 14–28	13	San Diego, Calif.
Do	31	Ft. Schuyler, N.Y.
June 7–21	10	Hudson, Ohio.
June 14–28	8	Des Moines, Iowa.
June 1–15	20	Sweetwater, Tex.
June 15–29	20	Do.
Total	5,071	

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Mr. BURLISON. Are there further questions?
The committee will stand adjourned until 2 p.m., this afternoon.

WEDNESDAY, MARCH 5, 1975.

FISCAL YEAR 1975 REPROGRAMINGS

WITNESSES

REAR ADM. S. S. FINE, USN, ACTING DIRECTOR OF BUDGET AND REPORTS/FISCAL MANAGEMENT DIVISION
REAR ADM. E. P. TRAVERS, USN, DEPUTY COMMANDER FOR PLANS, PROGRAMS AND FINANCIAL MANAGEMENT/COMPTROLLER, NAVAL SEA SYSTEMS COMMAND
REAR ADM. J. H. NICHOLSON, USN, DIRECTOR STRATEGIC SUBMARINE DIVISION, OFFICE OF THE CHIEF OF NAVAL OPERATIONS
MR. R. MOLONEY, OFFICE OF BUDGET AND REPORTS/FISCAL MANAGEMENT DIVISION
MR. B. H. KAHN, DIRECTOR OF PLANS AND PROGRAMS, U.S. NAVY STRATEGIC SYSTEMS PROJECT OFFICE

Mr. EDWARDS. Admiral Fine, we will take up reprogramings fiscal year 1975–26N and 1975–29N on the shipbuilding and conversion, Navy programs, and then we can dismiss the shipbuilders and get on to other areas.

Admiral FINE. I have a statement on each one of these reprogramings.

Mr. EDWARDS. You may put those in the record and you may summarize both statements.

STATEMENTS OF ACTING DIRECTOR OF NAVY BUDGET AND REPORTS

[The statements follow:]

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Reprogramming Action: DOD Ser FY 75-26N

Appropriation: Shipbuilding and Conversion, Navy (1973/7)

Subj: Additional funding for program year 1973 SSBN Conversions

This notification reprogramming request adds $27.7 million to the FY 1973 Ballistic Missile Submarine (Nuclear) (Conversion) line item of the Shipbuilding and Conversion, Navy appropriation. This additional funding is requested because the latest cost estimates for the conversion of four of the six SSBNs authorized in FY 1973 indicate that these ships will not complete conversion within the amounts now budgeted.

The four conversions experiencing cost increases are the USS LAFAYETTE (616); USS ALEXANDER HAMILTON (617); USS ANDREW JACKSON (619); and USS NATHAN HALE (623). The cost increases result from delays caused by low manning levels and lack of skilled manpower at Electric Boat, plus delays due to conversion problems with all four SSBNs. Specific problems associated with each ship are as follows:

SSBN-616 -- Electric Boat. Scheduled completion slipped seven months beyond original completion date. Launch tube installation and hydraulic plant problems delayed dock trials and fast cruise. Fair water plane problems caused the first sea trial to be aborted.

SSBN-617 -- Newport News. Scheduled completion has slipped a total of nine months beyond original completion date. Shipwork problems include rod drive motor replacement, Level I piping identification requirements, and shaft cooling water modifications.

SSBN-619 -- Electric Boat. Scheduled completion has slipped a total of ten months beyond original completion date due to low manning and skill levels at the shipyard caused by other competing ships requirements. Also the lack of chilled water for ship's air conditioning system required for equipment environmental testing was a contributing factor.

SSBN-623 -- Puget Sound Naval Shipyard. Scheduled completion has slipped a total of five months beyond original completion date. Two months' slippage resulted from problems in the main seawater system area, and three months' slippage was due to box girder repair problems and diversion of manpower

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to USS ENTERPRISE for selected restricted availability.

In addition to the above, this reprogramming request adds $9.1 million to the FY 1973 Cost Growth line item to cover increases on ships in the FY 1972 and prior programs. These increases are part of the overall increases being experienced in the Shipbuilding area and are financed here due to the availability of the asset in FY 1973.

The sources of funds for these reprogramming actions are the FY 1973 AD and FY 1973 outfitting line items. The FY 1973 AD was cancelled and $70 million of the budgeted amount of $103.6 million was transferred by the Congress to FY 1975 in order to award program year 1972 and 1973 AS's. The balance, $33.6 million will be used to offset SSBN reprogramming and partially offset the cost growth increases. Delays in shipbuilding programs permit transfer of funds from the outfitting line item to complete the funding for the 1973 cost growth line item.

This reprogramming request requires the approval of the House and Senate Appropriations Committees, and the House and Senate Armed Services Committees. The Committees have not acted on this request to date.

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REPROGRAMMING ACTION Page 1 of 3

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 73/77	FY 75-26 N

APPROPRIATION SERIAL NUMBER: FY 75-2 N

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

NOTIFICATION ACTION

The purpose of this reprogramming action is to provide additional funding for the program year 1973 616-class SSBN POSEIDON conversions, and for Cost Growth in FY 1972 and prior programs. Funds for this purpose will be offset by the cancelled FY 1973 program AD.

REPROGRAMMING INCREASES

FY 1973 Program:

Budget Activity 1: Ballistic Missile Ships

1. Ballistic Missile Submarine (Nuclear) (Conv) (SSBN)								
	6	(452,739)	6	(448,550)	-	+27,700	6	476,250
Less Adv Proc in Prior Year	XX	(-169,742)	XX	(-163,721)	-	(-0-)	XX	(-163,721)
	6	282,997	6	284,829		+27,700	6	312,529

Explanation - The latest estimates of cost for the shipyard conversions of the four 616 Class program year 1973 POSEIDON SSBNs (SSBN 616 - USS LAFAYETTE, SSBN 617- USS ALEXANDER HAMILTON, SSBN 619 - USS ANDREW JACKSON and SSBN 623 - USS NATHAN HALE) indicates these ships will not be able to complete within the amounts now budgeted.

Continuing delays in completion of shipyard conversion effort due to low manning, lack of skilled personnel in critical trades and problems in individual ship's work items have forced schedule slips for estimated yard completion of from four to ten months against the original Chief of Naval Operations approved schedule. The latest shipyard estimates show additional schedule slips of from one to five months and cost increases totaling $27.7 million vice the schedules and cost estimates that were the basis for the previous prior approval reprogramming actions for the program year 1973 SSBNs.

Specific delays and problem areas for each of these four SSBNs include:

- SSBN 616's completion at General Dynamics, Electric Boat Division (GDEB) slipped two additional months to seven months later than the original CNO approved date. Launch tube installation, hydraulic plant problems and late system turnover to ships' force delayed scheduled dock trials and fast cruise. Fast cruise was aborted due to missing valve foundations.

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REPROGRAMMING ACTION — Page 2 of 3

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 73/77	FY 75-26 N

APPROPRIATION SERIAL NUMBER: FY 1975-2 N

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

NOTIFICATION ACTION

REPROGRAMMING INCREASES: (Cont'd)

Fair water plane problems caused the first sea trial to be aborted. Shaft cooling water modifications are required during the post INSURV period. The 616 completed conversion 7 Nov 1974.

- SSBN 617's scheduled completion at Newport News Shipbuilding and Drydock Company (NNEW) has slipped four additional months (total: nine months) and the shipyard delay claim estimate has increased. Shipwork problems include rod drive motor replacement, Level I piping identification requirements and shaft cooling water modifications.

- SSBN 619's scheduled completion at GDEB has slipped an additional five months to a total of ten months late, reflecting the low manning and skill levels at the shipyard due to competing ships' (including SSBN 616) requirements. Problem areas for this ship were the lack of chilled water for the ship air condition system for equipment environmental testing and correction of missile compartment reference plane installation.

- SSBN 623's scheduled completion at Puget Sound Naval Shipyard (PSNY) has slipped two additional months reflecting problems in the main sea water system area following the previous three month slip which was due to box girder repair problems and diversion of manpower for the selected restricted availability of the USS ENTERPRISE.

Prior approval reprogramming actions for the program year 1974 and 1975 SSBNs conversions are also being processed requesting $10.5 million and $32.7 million, respectively, reflecting the impact of shipyard conversion effort delays on those ships.

Budget Activity 5: Auxiliaries and Craft								
2. Cost Growth	XX	75,900	XX	67,039	XX	+9,107	XX	76,146

Explanation - This increase provides for increased costs on ships in the FY 1972 and prior programs.

3. Resources available for reprogramming.						+4,576		
TOTAL PROGRAM INCREASES						+41,383		

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 73/77	FY 75-26 N

APPROPRIATION SERIAL NUMBER: FY 1975-2 N

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
		NOTIFICATION ACTION						
REPROGRAMMING DECREASES								
FY 1973 Program								
Budget Activity 5: Auxiliaries and Craft								
1. Destroyer Tender (AD)	XX	86,900	XX	33,600	XX	-33,600	XX	0
2. Outfitting	XX	32,600	XX	32,600	XX	-7,783	XX	24,817
TOTAL PROGRAM DECREASES						-41,383		

Explanation - Congress cancelled the FY 1973 program AD, transferring $70.0 million for escalation and cost growth on prior year programs, ref: P.L. 93-437, Title IV. This action withdraws the balance of $33.6 million.

Explanation - Delays in shipbuilding programs permit transfer of these funds to other higher priority requirements in the FY 1973 program.

REQUESTED (Signature and Date): 22 JAN 1975
[illegible] IN PERSON
ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT)

APPROVED (Signature and Date): FEB 11 1975
DEPUTY SECRETARY OF DEFENSE

DD FORM 1415 2

REPORT CONTROL SYMBOL

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Reprogramming Action: DOD Ser FY75-29N

Appropriation: Shipbuilding and Conversion, Navy (1971/75)

Subj: Additional funding for program year 1970 DD 963 Program

This notification reprogramming request makes available an additional $35.8 million for the 1970 DD 963 program. These funds are requested because of the higher costs in government furnished equipment, expected increases in the basic contract, inflation, and some Navy initiated program changes.

DD 963, 964, and 965 are expected to increase in cost by $50.4 million over the amount currently budgeted for these ships. This reprogramming request will provide $35.8 million of the increased costs, and the remainder, $14.6 million, is requested in the FY 1976 Cost Growth line item. The total request of $50.4 million will fully fund these ships.

The sources of funds for this reprogramming action are the FY 1970 and FY 1971 Submarine (Nuclear) (SSN) programs. The FY 70 program will provide $16 million for the offset, and the FY 71 program makes $29.6 million available, to bring the offset up to $45.6 million. $35.8 million of this offset will fund the FY 75 required funds for the DD 963 FY 70 program, and $9.8 million will remain as a Resource Available for Reprogramming. These give-ups from SSN's reflect the latest end cost estimates to complete these older ship programs.

This reprogramming request requires the approval of the House and Senate Appropriations Committees, and the House and Senate Armed Services Committees. The Committees have not acted on this request to date.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 71/75	FY 75-29 N

APPROPRIATION SERIAL NUMBER: FY 1975-5 N

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

NOTIFICATION ACTION

This reprogramming action provided $35.8 million additional funding for the FY 1970 program DD 963 class ships. Funds for this purpose will be provided from assets in the FY 1970 and FY 1971 program SSNs.

REPROGRAMMING INCREASE

FY 1970 Program

Budget Activity 2: Other Warships								
1. DD 963 Class Destroyer	5	(342,700)	3	(308,600)	XX	(+30,182)	3	(338,782)
Less Adv Proc in Prior Years	5	(-25,000)	XX	(-25,000)		(+5,600)	XX	(-19,400)
	5	317,000	3	283,600		+35,782	3	319,382

Explanation - This increase is requested to provide for higher costs on DD's 963, 964, and 965. The total increase now estimated to complete the FY 1970 DD 963 class program is $50.4 million above the current approved reprogramming base of which $35.8 million is requested in this action. The remaining $14.6 million will be funded in the Cost Growth line item in the FY 1976 budget request. The increase is required to fund expected increases in the basic construction contract, inflation and price increases on government-furnished equipment, and some Navy-initiated program changes.

TOTAL PROGRAM INCREASE	+35,782
2. Resources Available for Reprogramming	+9,788
TOTAL INCREASE	+45,570

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 71/75	FY 75-29 N

APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)
FY 1975-5 N	

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
		NOTIFICATION ACTION						
REPROGRAMMING DECREASE								
FY 1970 Program								
Budget Activity 2: Other Warships								
1. Submarine (Nuclear) (SSN)(Lead Ship)	1	(230,600)	1	(230,600)	-	(-7,000)	1	(223,600)
Less Adv Proc in Prior Years	XX	(-22,500)	XX	(-22,500)	XX	(+5,040)	XX	(-17,460)
	1	208,100	1	208,100	-	-1,960	1	206,140
2. Submarine (Nuclear) (Follow Ships)								
	2	(305,400)	2	(305,400)	-	(-14,000)	2	(291,400)
Less Adv Proc in Prior Year	XX	(-9,000)	XX	(-9,000)	XX	(-)	XX	(-9,000)
	2	296,400	2	296,400	-	-14,000	2	282,400
Explanation - Reflects latest end cost estimates to complete FY 1970 SSNs.								
FY 1971 Program								
Budget Activity 2: Other Warships								
3. Submarine (Nuclear) (SSN)	4	(664,000)	4	(664,000)		(-28,000)	4	(636,000)
Cost Less Adv Proc in Prior Year	XX	(-67,500)	XX	(-67,500)		(-1,610)	XX	(-69,110)
	4	596,500	4	596,500		-29,610	4	566,890
Explanation - Reflects latest end cost estimates to complete FY 1971 SSNs.								
TOTAL PROGRAM DECREASES						45,570		

REQUESTED (Signature and Date) 14 FEB 1975

G. R. PENISTEN
Assistant Secretary of the Navy
(Financial Management)

APPROVED (Signature and Date) FEB 21 1975

DEPUTY SECRETARY OF DEFENSE

DD FORM 1415-2

REPORT CONTROL SYMBOL

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Admiral FINE. In effect these are reprogramings for funds needed in fiscal year 1975 within the SCN appropriation to proceed on the continuation of programs started in previous years.

In other words, essentially the first reprograming, fiscal year 1975–26, is to complete programs in the fiscal year 1973 SSBN conversion program. These ships will generally deliver this year and these funds are needed to complete the funding of these ships at their time of delivery.

The second one is for the DD 963 program, serial 75–29. We need additional funding for three 1970 DD–963's to carry them through this fiscal year.

We have additional funds budgeted in fiscal year 1976 to in effect complete these three ships on a fully funded basis, but the funds we are requesting in this reprograming are to insure that we have sufficient obligational authority in this fiscal year in order to continue the work on these ships. Essentially, sir, that is the summary of the two reprogramings.

SSBN POSEIDON SUBMARINE CONVERSIONS

Mr. EDWARDS. We will start then on some questions on fiscal year 1975–26.

In reprograming action fiscal year 1975–26 you are proposing to transfer $27.7 million to the fiscal year 1973 SSBN Poseidon submarine conversion program to cover increased costs for four of the six submarines in that program. Your justification data indicates that the cost increases result from delays caused by low manning levels and a lack of skilled manpower at Electric Boat, plus delays due to conversion problems associated with the four submarines.

Admiral, this cost increase was not included in the programs we discussed earlier involving the $2.3 billion deficiency in the shipbuilding program; is that correct?

Admiral FINE. No, sir.

Mr. EDWARDS. We also understand that you are adding $9.1 million to the fiscal year 1973 cost growth line item to cover cost increases on ships in the fiscal year 1972 and prior year programs. Will you provide the fiscal year program and hull numbers of those ships and the reasons for the increase, for the record, please?

Admiral FINE. Yes, sir, I will.

[The information follows:]

The increase to the fiscal year 1973 cost growth line item will provide funds for the fiscal year 1968 program DLGN (hull number 37) and the fiscal year 1972 program DD's (hull numbers 972–978).

DLGN–37 delivered on 15 November 1974. These funds are required to support the Navy estimate of final contract settlement, now being negotiated with the shipbuilder.

The Navy is budgeting the difference between target and ceiling on the DD–963 class ship contract. Most of the funds for this increase are budgeted in the fiscal year 1976 cost growth line item. However, assets in the fiscal year 1973 program enabled Navy to budget part of the cost of going to ceiling on DD's 972–978 in fiscal year 1973 cost growth vs fiscal year 1976 cost growth.

Mr. EDWARDS. Of the four submarines involved, SSBN–616 and 619 are at Electric Boat, SSBN–617 is at Newport News, and SSBN–623 is at the Puget Sound Naval Shipyard, is that correct?

Admiral FINE. Yes, sir.

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Mr. EDWARDS. If SSBN–619 conversion slipped 10 months beyond the original completion date in part due to low manning and skill levels at Electric Boat caused by other competing ships requirements, why must the Navy pay for this cost increase?

Admiral TRAVERS. Mr. Edwards, these contracts in all cases for this particular class of conversion are cost-reimbursable contracts and we are contractually bound to pay the cost of doing the work.

Mr. EDWARDS. Even though Electric Boat did not have the skill levels that you need to complete the conversions in a timely manner? In other words, when you contract with the shipbuilder, doesn't the contract presume that he will have skilled personnel to work on your ships?

Admiral TRAVERS. That presumption is made, but we cannot exercise the leverage over the contractor to insure that he keeps these skilled people on board the ship on an individual or group basis per se. So long as the contractor mans the ship at the level that he has indicated the contract is satisfied. He may man the ship with less productive people. I don't think that we in the Navy can control the contractor to that degree.

Mr. EDWARDS. I guess we really shouldn't pursue this too deeply, but isn't there a way to resolve that? Has the Supervisor of Ships gotten into that problem in the past?

Admiral TRAVERS. Yes, sir, we have been very concerned about trade imbalance, and rework that has to be done at a cost to the Government on a cost contract. I believe that our supervisor in Groton, is pursuing this to be sure productive people are employed on these contracts.

Mr. EDWARDS. Is this a general problem? Is it becoming more of a problem?

Admiral TRAVERS. That is a difficult question to answer, sir. It was becoming a difficult problem a year ago when there were many contracts in all shipyards and the shipyards were spreading their people over many contracts. At the present time with the downturn in commercial contracts and so forth, it is becoming less of a problem.

Mr. EDWARDS. Is it a price we are paying for our lack of shipbuilding in years gone by, where we lost these skills?

Admiral TRAVERS. I am not prepared to be very specific about that. I can say only that I think it is recognized Electric Boat Co. is in a buildup condition because of the workload there and their skills are more dispersed than they would anticipate at this point in time.

Mr. EDWARDS. Are there any penalties involved in your conversion contracts if the contractor causes a delay in the schedule?

Admiral TRAVERS. I would like to answer that one for the record, Mr. Edwards. I am not prepared to make that statement at this time.

Mr. EDWARDS. All right, and if you answer that there are penalties, then I think you should go further in your answer and explain what action is being taken with regard to the penalty provisions.

[The information follows:]

Conversion contracts are cost plus incentive fee (CPIF) types and do not contain a specific penalty clause. The CPIF contract is negotiated at a target cost and target fee (usually 8–10 percent of target cost). The incentive cost sharing features of the contract provides the contractor a part of any cost savings if actual costs are less than the negotiated target costs and assesses him if actual costs are more than the negotiated target cost. For example, contractor responsible actions which cause increased cost (delays, low productivity, errors, etc.)

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will result in higher actual cost relative to the target cost and therefore provide the contractor with less fee.

Mr. EDWARDS. The slippage on SSBN-619 was also due to lack of chilled water for the ship's air-conditioning system which prevented equipment environmental testing. Whose fault was that?

Admiral TRAVERS. That is perhaps poorly worded, sir.

Mr. EDWARDS. My question or your statement?

Admiral TRAVERS. The statement in the reprograming request. During testing by the contractor of the ship's lithium bromide air-conditioning plant, the contractor was unable to achieve a high vacuum within the machine, upon which the machine depends for proper operation. Considerable delay was experienced by the contractor in order to correct the defects in the equipment so that it would operate reliably to cool the ship's air conditioning chilled water system.

Mr. EDWARDS. The other submarine at Electric Boat—SSBN-619—slipped 7 months because launch tube installation and hydraulic plant problems delayed dock trials and fast cruise, plus the fact fairwater plane problems caused the first sea trial to be aborted. Who was at fault for these problems, the Navy or Electric Boat?

Admiral TRAVERS. I believe you are talking about the SSBN-616.

Mr. EDWARDS. Right.

Admiral TRAVERS. The Lafayette, is at Electric Boat. In these contracts, Mr. Edwards, it is difficult to scope work and for this reason we award a cost-plus contract. So when you get into opening up all the machinery and you find additional work which is required, the work is authorized and the cost is charged to the Government. To say the hydraulic plant problems or the launch tube problems were the fault of the Navy—you could say it was because we did not know the conditions that existed inside those systems.

Mr. EDWARDS. When you open up a tube and you find there is more damage than you think is in there, does the Navy and the contractor sit down and try to come to some reasonable conclusion?

Admiral TRAVERS. Yes, sir.

Mr. EDWARDS. Is the cost shared by both parties?

Admiral TRAVERS. We have a process we go through wherein the additional work, not scoped in the contract, will be estimated by the contractor and the Navy and that cost will be added to the contract.

Mr. EDWARDS. Is Electric Boat, which has or will have contracts for the construction of 18 SSN-688 class submarines and the first three Trident submarines, still having manning and skilled manpower problems?

Can we look down the road and see we are going to have problems in the future based on what we know now?

Admiral TRAVERS. I believe Admiral Gooding testified before this committee last week that yes, sir, Electric Boat is in a building phase but they do not anticipate any problems in achieving the work force to execute the building program.

Mr. EDWARDS. Their judgment earlier would have been, I am sure, that they did not anticipate the problems they are now having. Do you have a judgment as to whether they will have those problems?

Admiral TRAVERS. I have not been to the Electric Boat Co., nor to the Quonset facility, but my superior, Admiral Gooding, has visited both recently and my information from Admiral Gooding is that the

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training is extremely good in all areas. For example, welder trainees are producing almost fault-free welding. So I have no reason to believe they will have skill problems in this critical area.

Admiral NICHOLSON. If I may, the trades and trade mix is different for new construction ships than it is for overhaul ships. It is much more of a problem than it is in the new construction which is more of a welding and less of a skilled mechanic-type thing.

Mr. EDWARDS. Looking back do you think you put too much work in the Electric Boat shipyard?

Admiral TRAVERS. I would like to refer to my prior answer. It takes a while before these financial documents get to you gentlemen to consider. No, Electric Boat does not have too much work now. What we are doing now is reviewing what happened in the past year rather than what is occurring right now. Last summer when these reprograming actions were initiated, I would have said Electric Boat did not have enough talent in critical trades.

Mr. EDWARDS. You are very confident that the problems I am asking about have been generally overcome or will be?

Admiral TRAVERS. Yes.

Mr. EDWARDS. Have you experienced cost increases on the other two submarines in the fiscal year 1973 program? If not, why?

Admiral TRAVERS. There are two other submarines, SSBN-658 and 659. They have completed their conversion. The reason they have completed is that they are follow-on ships to that class of ballistic submarine that we had converted in prior years without problems. Because the work package was well defined, those ships completed on schedule. The 616 class which are the last ballistic submarines to be converted, and are the oldest class to be converted were built too early to have the subsafe work accomplished. This work plus other extensive work packages, not required on later-class ships has required more man-days than was anticipated. Therefore, there are problems which have developed in this particular class which were not foreseen.

Mr. EDWARDS. The 9-month slippage on SSBN-617 at Newport News was due to rod drive motor replacement, level I piping identification requirements, and shaft cooling water modifications, among others. Was the Navy or Newport News at fault for these problems? Or is this the same kind of situation we were talking about earlier?

Admiral TRAVERS. The reactor drive rod, drive motor was discovered to be noisy. They checked out the noise and found the rod drive motor bearings worn and they had to replace them. In checking out the cooling water to the shaft they found on this particular ship the amount of cooling water flowing to the shaft needed to be increased and therefore the pipe size needed to be increased. It was this type of an operation. We did not foresee all of these problems at the time we contracted for the work.

Mr. EDWARDS. Why would you have a problem identifying level I piping requirements? Where was SSBN-617 built originally? Was it a drawing or technical data deficiency?

Admiral TRAVERS. It was the control procedure used by the shipyard to keep control of this purified inventory of level I equipment. Once a piece of equipment which has been cleared and pedigreed is ready for use in a subsafe system, you must have a very tight inventory system to insure only these pedigreed components are used in these vital

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systems. The contractor changed his system of inventory control so the Navy stopped the work on this ship at Newport News until we validated—confirmed—that the contractor had absolute control over these parts.

Mr. EDWARDS. Was that a contractor problem?

Admiral TRAVERS. The contractor had a good system but we wanted to verify it. We did not want to put a ship together which was not certifiable as safe.

Mr. EDWARDS. Have either the House or Senate Armed Services Committees acted on this reprograming as yet?

Admiral TRAVERS. No, sir.

Mr. EDWARDS. Any other questions?

Mr. KEMP. Not from me, Mr. Chairman.

I will yield to Mr. Robinson on the DD–963.

[The document follows:]

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DD-963 CLASS DESTROYERS

Reprogramming Action: DOD Ser FY75-29N

Appropriation: Shipbuilding and Conversion, Navy (1971/75)

Subj: Additional funding for program year 1970 DD 963 Program

This notification reprogramming request makes available an additional $35.8 million for the 1970 DD 963 program. These funds are requested because of the higher costs in government furnished equipment, expected increases in the basic contract, inflation, and some Navy initiated program changes.

DD 963, 964, and 965 are expected to increase in cost by $50.4 million over the amount currently budgeted for these ships. This reprogramming request will provide $35.8 million of the increased costs, and the remainder, $14.6 million, is requested in the FY 1976 Cost Growth line item. The total request of $50.4 million will fully fund these ships.

The sources of funds for this reprogramming action are the FY 1970 and FY 1971 Submarine (Nuclear) (SSN) programs. The FY 70 program will provide $16 million for the offset, and the FY 71 program makes $29.6 million available, to bring the offset up to $45.6 million. $35.8 million of this offset will fund the FY 75 required funds for the DD 963 FY 70 program, and $9.8 million will remain as a Resource Available for Reprogramming. These give-ups from SSN's reflect the latest end cost estimates to complete these older ship programs.

This reprogramming request requires the approval of the House and Senate Appropriations Committees, and the House and Senate Armed Services Committees. The Committees have not acted on this request to date.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE: Shipbuilding and Conversion, Navy 71/75

DOD SERIAL NUMBER: FY 75-29 N

APPROPRIATION SERIAL NUMBER: FY 1975-5 N

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

NOTIFICATION ACTION

This reprogramming action provided $35.8 million additional funding for the FY 1975 program DD 963 class ships. Funds for this purpose will be provided from assets in the FY 1970 and FY 1971 program SSNs.

REPROGRAMMING INCREASE

FY 1970 Program

Budget Activity 2: Other Warships

1. DD 963 Class Destroyer	5	(342,700)	3	(308,600)	XX	(+30,182)	3	(338,782)
Less Adv Proc in Prior Years	5	(-25,000)	XX	(-25,000)		(+5,600)	XX	(-19,400)
	5	317,000	3	283,600		+35,782	3	319,382

Explanation - This increase is requested to provide for higher costs on DD's 963, 964, and 965. The total increase now estimated to complete the FY 1970 DD 963 class program is $50.4 million above the current approved reprogramming base of which $35.8 million is requested in this action. The remaining $14.6 million will be funded in the Cost Growth line item in the FY 1976 budget request. The increase is required to fund expected increases in the basic construction contract, inflation and price increases on government-furnished equipment, and some Navy-initiated program changes.

TOTAL PROGRAM INCREASE	+35,782
2. Resources Available for Reprogramming	+9,788
TOTAL INCREASE	+45,570

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REPROGRAMMING ACTION

APPROPRIATION/ACCOUNT TITLE	DOD SERIAL NUMBER
Shipbuilding and Conversion, Navy 71/75	FY 75-29 N

APPROPRIATION SERIAL NUMBER: FY 1975-5 N

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
		NOTIFICATION ACTION						
REPROGRAMMING DECREASE								
FY 1970 Program								
Budget Activity 2: Other Warships								
1. Submarine (Nuclear) (SSN) (Lead Ship)	1	(230,600)	1	(230,600)	-	(-7,000)	1	(223,600)
Less Adv Proc in Prior Years	XX	(-22,500)	XX	(-22,500)	XX	(+5,040)	XX	(-17,460)
	1	208,100	1	208,100	-	-1,960	1	206,140
2. Submarine (Nuclear) (Follow Ships)	2	(305,400)	2	(305,400)	-	(-14,000)	2	(291,400)
Less Adv Proc in Prior Year	XX	(-9,000)	XX	(-9,000)	XX	(-)	XX	(-9,000)
	2	296,400	2	296,400	-	-14,000	2	282,400
Explanation - Reflects latest end cost estimates to complete FY 1970 SSNs.								
FY 1971 Program								
Budget Activity 2: Other Warships								
3. Submarine (Nuclear) (SSN)	4	(664,000)	4	(664,000)		(-28,000)	4	(636,000)
Cost Less Adv Proc in Prior Year	XX	(-67,500)	XX	(-67,500)		(-1,610)	XX	(-69,110)
	4	596,500	4	596,500		-29,610	4	566,890
Explanation - Reflects latest end cost estimates to complete FY 1971 SSNs.								
TOTAL PROGRAM DECREASES						45,570		

REQUESTED (Signature and Date): G. R. BENISTEN 21 FEB 1975
Assistant Secretary of the Navy (Financial Management)

APPROVED (Signature and Date): N. P. Clemm FEB 21 1975
DEPUTY SECRETARY OF DEFENSE

DD, FORM 1415 -2

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Mr. ROBINSON. Reprograming action fiscal year 75–29 proposes to utilize $35.8 million from the fiscal year 1970 and fiscal year 1971 SSN–688 class submarine programs to cover cost increases in the fiscal year 1970 DD–963 class destroyer program.

Your justification data shows that the total cost increase for DD–963, 964, and 965 is expected to be $50.4 million over the amount currently budgeted for these ships, and that the remaining $14.6 million required is included in the $2.3 billion deficiency budgeted in fiscal year 1976, is that correct?

Admiral TRAVERS. That is correct.

Mr. ROBINSON. Included in that $2.3 billion is $259.6 million for SSN–688 class submarines in the fiscal year 1972, 1973, 1974, and 1975 programs. As a matter of interest, why was not the $45.6 million available in the fiscal year 1970 and 1971 SSN–688 programs used for the shortfall in the follow-on SSN–688 programs?

Admiral FINE. We are going to get into the policy of reprograming. By using the SSN–688 class fiscal year 1971 and prior funds we were able to do it without using section 834 transfer authority. In other words, this is an internal reprograming. To a great extent this is an attempt to minimize the transfer authority made available to us by the Congress.

Mr. ROBINSON. If you have significant cost increases in the follow-on SSN–688 programs, how can you be certain that you can give up $45.6 million from the fiscal year 1970 and 1971 programs, especially since the Navy testified a few short weeks ago that there will be an average of 8 months delay in delivery of each of the 18 SSN–688 class submarines at Electric Boat?

Admiral TRAVERS. We feel the reserves available in the project manager's account are sufficient to satisfy any additional cost incurred as a result of any delays in the production of these ships. This was a very conscientious decision. We feel there are sufficient reserves for the project manager to complete the contracts and deliver the submarines.

Mr. ROBINSON. Even with the delay which is projected?

Admiral TRAVERS. Yes, sir.

Mr. ROBINSON. Do you believe that there is a distinct possibility that you will require additional funding for SSN–690 in the fiscal year 1970 program and SSN–692 and SSN–694 in the fiscal year 1971 program—all at Electric Boat?

Admiral TRAVERS. We do not anticipate that we will require any funds in excess of those already appropriated by the Congress for those three ships.

Mr. MURPHY. But you are taking money away from those programs. Are we going to see a reprograming later, putting that money back?

Admiral TRAVERS. No.

Mr. ROBINSON. Does it appear that there will be an additional requirement to fund SSN–688 and SSN–689 in the fiscal year 1970 program and SSN–691 and SSN–693 in the fiscal year 1971 program—all at Newport News?

Admiral TRAVERS. No, sir. Once again, for the fiscal year 1970 and the 1971 programs which are split between Newport News and the Electric Boat Co., we feel we have sufficient resources to execute those

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programs even with these funds being moved to the DD–963 program.

Mr. EDWARDS. Have you ever seen a man on a high wire juggling several balls at once? That is the feeling I get.

Mr. ROBINSON. Where are these funds if they are available and you will not require any additional?

Admiral TRAVERS. When we budgeted for these submarines which are the first of a class, we budgeted on each ship reserves for future characteristic changes. However, because we have not changed the ship and we have not had the change order growth we anticipated and funds are available.

Mr. MURPHY. Excuse me. I thought the first two ships—the lead and the follow ship—were at Newport News.

Admiral TRAVERS. The SSN–690 is at Groton.

Mr. ROBINSON. What were the original contract delivery dates and the latest delivery dates for each of the seven SSN–688 class submarines in the fiscal year 1970 and fiscal year 1971 programs?

Admiral TRAVERS. May I supply that for the record?

[The information follows:]

SHIP DELIVERY DATES

	SSN	Original contract	Current estimate
Fiscal year:			
1970	688	August 1974	November 1975.
1970	689	May 1975	July 1976.
1970	690	June 1975	December 1975.
1971	691	September 1975	January 1977.
1971	692	October 1975	October 1976.
1971	693	February 1976	July 1977.
1971	694	February 1976	April 1977.

Mr. ROBINSON. How confident are you that $50.4 million will be sufficient to fully fund DD–963, 964, and 965?

Admiral TRAVERS. I would like to address that in the aggregate. That is part of the requirement for the DD–963, 964, and 965. As submitted, the fiscal year 1976 budget contained additional funds required for their completion.

Mr. ROBINSON. How much?

Admiral TRAVERS. $14.6 million.

Mr. ROBINSON. In addition to the $50.4 million?

Admiral TRAVERS. No, sir; this reprograming action requests $35.8 million for the fiscal year 1970 DD–963's and the fiscal year 1976 budget contains $14.6 million which total $50.4 million.

Mr. ROBINSON. Now again, has either the House or Senate Armed Services Committee acted on this reprograming?

Admiral FINE. No, sir.

FBM SUBMARINE TENDER CRANES

Mr. EDWARDS. Any witnesses not needed any further may leave.

We will put your statement and justification in the record at this point and if you will, summarize the statement.

STATEMENT OF ACTING DIRECTOR OF NAVY BUDGET AND REPORTS

[The statement follows:]

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Reprogramming Action: DOD Serial FY75-21 N

Appropriation: Other Procurement, Navy

Subj: Fleet Ballistic Missile (FBM) Submarine Tender Cranes

This notification reprogramming request provides $2.5 million for the procurement of 2 missile cranes for the USS SIMON LAKE (AS-33), a submarine tender. The cranes are required to enable the tender to accommodate the handling of the new C-4 (TRIDENT I) missile which will be carried by certain SSBN's. The cranes have a production lead time of 24 months, and must be available for installation at the time the USS SIMON LAKE begins overhaul in March 1977. The cranes currently installed on the USS SIMON LAKE do not have the capability to handle the heavier C-4 missile.

The sources of funds for this reprogramming action are savings realized from the use of a multi-year contract in the award of a Submerged Ship Control Training Device ($1.7 million), and the reduction in the inventory objective of the Marine Location Marker ($1.5 million). The two reductions total $3.2 million or $.7 million greater than the amount required for the cranes. The $.7 million has been reprogrammed within the OPN appropriation.

This request requires the approval of both the Senate and House Appropriations Committees, neither of which has acted on this request to date.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
OTHER PROCUREMENT, NAVY 75/77	FY 75-21 N

APPROPRIATION SERIAL NUMBER: OPN 75-1 N

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY b	AMOUNT c	QUANTITY d	AMOUNT e	QUANTITY f	AMOUNT g	QUANTITY h	AMOUNT i

NOTIFICATION

This reprogramming action is required to provide funds for the procurement of two (2) Missile/Boat Cranes for the USS SIMON LAKE (AS-33) to enable this ship to accommodate the handling of the new C-4 missile which will be carried by certain SSBNs. The cranes have a production lead time of 24 months and must be available for installation in March 1977 when the USS SIMON LAKE goes into overhaul.

REPROGRAMMING INCREASES

FY 1975 Program

BUDGET ACTIVITY 1: Ships Support Equipment

1. FBM Submarine Tender Cranes	XX	-	XX	-	+2	+2,500	2	2,500

Explanation: The missile and boat cranes currently installed on the USS SIMON LAKE (AS-33) do not have the capability to handle the new C-4 missile which will be carried by certain Fleet Ballistic Missile Submarines (SSBN). The cost of the replacement cranes is estimated to be $1.25 million and will require 24 months from contract award date until delivery. The cranes must be available for installation at the start of overhaul. The USS SIMON LAKE is currently scheduled to commence regular overhaul March 1977. It is therefore imperative that a contract for the replacement cranes be awarded not later than March 1975.

2. Resources Available for Reprogramming						+ 700		

Explanation: As a result of savings realized from the use of a multi-year contract in the award of a Subship Control Training Device, these assets were made available for reprogramming. The assets

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
OTHER PROCUREMENT, NAVY 75/77	FY 75-21 N
APPROPRIATION SERIAL NUMBER: OPN 75-1 N	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY b	AMOUNT c	QUANTITY d	AMOUNT e	QUANTITY f	AMOUNT g	QUANTITY h	AMOUNT i
REPROGRAMMING INCREASES (Cont'd) NOTIFICATION identified as available for reprogramming have been reprogrammed within the OPN appropriation.								
TOTAL PROGRAM INCREASE:						+3,200		
REPROGRAMMING DECREASES								
FY 1975 PROGRAM								
BUDGET ACTIVITY 3: AVIATION SUPPORT EQUIPMENT								
3. Marine Location Markers	XX	1,500	XX	1,500	XX	-1,500	XX	-
Explanation: As a result of a reduction in the inventory objective of the marine location marker, these funds are no longer required.								
BUDGET ACTIVITY 7: PERSONNEL AND COMMAND SUPPORT EQUIPMENT								
4. Device 21C7, Sub Ship Control Trainer	1	2,500	1	2,500	-	-1,700	1	800
Explanation: As a result of the use of multi-year contract options over a three year period savings in FY 1975 of $1.7 million were realized.								
TOTAL PROGRAM DECREASE:						-3,200		

REQUESTED (Signature and Date): [illegible] 11 DEC 74

APPROVED (Signature and Date): A. P. Clements FEB 4 1975

DEPUTY SECRETARY OF DEFENSE

DD FORM 1415 (REV. 1 JAN 68) OPD 910.9SU — Assistant Secretary of the Navy (Financial Management)

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Admiral FINE. Basically, this reprograming is for replacing the cranes on the U.S.S. *Simon Lake*, which goes into overhaul in March of 1977. This is a reprograming within the OPN appropriation, however, it is essentially a new item in excess of $2 million which requires notification to Congress.

Mr. EDWARDS. This reprograming action provides for procurement of two 115,000-pound-capacity cranes for use on the U.S.S. *Simon Lake*, an FBM submarine tender servicing Poseidon SSBN's. The currently installed 95,000-pound-capacity cranes cannot handle the heavier Trident I (C-4) missiles which will be carried on certain Poseidon subs. The U.S.S. *Simon Lake* is scheduled to begin regular overhaul in March of 1977. Allowing for a 2-year lead-time on the crane delivery, a contract for replacement cranes must be awarded this month.

What are the Navy's plans for use of the Trident missile in Poseidon subs?

Admiral NICHOLSON. We plan to backfit 10 Poseidon submarines with Trident 1 missiles. One ship in 1979, three in each of the following years.

Mr. EDWARDS. At what cost per ship?

Admiral NICHOLSON. The total cost of the Trident I backfit program including missile procurement, spares, and military construction is $2.545 billion in out-year dollars, that is, including estimated inflation.

Mr. EDWARDS. What will be the remaining life of the subs after the backfitting for the Trident missile?

Admiral NICHOLSON. The average life of the submarines assuming a 25-year life, which is our best estimate as an average for that class submarine, will be 7 to 10 years——

Mr. EDWARDS. Remaining?

Admiral NICHOLSON [continuing]. Remaining.

Mr. EDWARDS. Where will they be homeported?

Admiral NICHOLSON. The crews are homeported either in New London, Conn., or Charleston, S.C.

Mr. EDWARDS. What are the Navy's plans for homeporting of Trident subs?

Admiral NICHOLSON. We are planning to homeport that submarine at Bangor, Washington.

Mr. EDWARDS. Will they all be there?

Admiral NICHOLSON. Yes, sir.

Mr. EDWARDS. Will any be based on the east coast?

Admiral NICHOLSON. At the present time the plans are for a ten-ship Trident force all based in Bangor, Washington.

Mr. EDWARDS. Do you have any plans beyond the ten?

Admiral NICHOLSON. The Department of Defense has directed us for planning purposes to keep open the option of going beyond ten in our 5-year defense plan. That will not come into an authorization program until 1978, but we are planning at the present time on a continuing basis.

Mr. EDWARDS. Would any of those be based on the east coast?

Admiral NICHOLSON. That decision has not been made. It is possible and we have a study underway to determine or make a recommendation as to where they would be based, sir..

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Mr. EDWARDS. I guess we are concerned about what happens when the Poseidon submarines are retired. That is in your planning but you do not have an answer as yet?

Admiral NICHOLSON. That is right, sir.

Mr. EDWARDS. The traditional defense for use of tenders is the requirement for deployability, to provide forward maintenance capability in case of war or conflict. The Trident missile, however, was justified partly on the basis of its greater range, eliminating the requirement for forward basing. Why then do we continue to require tenders; why not provide permanent facilities on the east coast similar to the facility at Bangor, where we have no tenders programed to support the Trident submarine?

Admiral NICHOLSON. When the initial 41 Polaris and Poseidon submarines were built, the range was such that they did have to be forward based, therefore, the tenders were built. It is our feeling now that with the longer range missile where we have the capability of reaching the targets essentially from our waters, it is not mandatory to have a tender for the Trident ballistic missile submarines, although it is, in our opinion, for attack submarines.

We have essentially not addressed the possibility of a base in place of the tender, so far, because we have the tenders, so we have been planning on using them, and continuing to use them.

Mr. EDWARDS. So you do not have any plans right now for forward basing of the Trident submarine?

Admiral NICHOLSON. No, sir.

Mr. EDWARDS. You come back to my question. Why do we need tenders then?

Admiral NICHOLSON. You mean for the backfitted Trident submarines?

Mr. EDWARDS. I am talking about any submarine requiring a tender.

Admiral NICHOLSON. We have no plans for forward basing of the Trident submarines with the Trident missile. It may be that we would base some of the Poseidon submarines that are planned to be backfitted with a Trident missile at one of the bases overseas, operate them out of the bases over there.

Mr. EDWARDS. You have me confused.

Ms. GREGORY. Could you explain under what circumstances you would forward base a Poseidon submarine that is backfitted with the Trident missile?

Admiral NICHOLSON. It would depend on a number of factors, including the facilities available at each of the candidate sites. We are presently planning to operate the Trident I (C–4) backfitted SSBN's from tenders in order to have flexibility as to the selection of the refit site. Current planning envisions supporting the Trident I (C–4) missile backfitted submarines from a CONUS based tender, but we want to retain the option of operating them from bases outside of CONUS as well.

Mr. EDWARDS. Are you inhibited in any way in talking about this in an open hearing?

Admiral NICHOLSON. I do not think so. I think we would like to finish if we can. If we do, I will so state, Mr. Chairman.

Mr. EDWARDS. Could you not make better use of these tenders with the new SSN–688 subs?

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Admiral NICHOLSON. This proposal or suggestion that this be considered, we have taken aboard just recently and we have instituted a study within the last couple of weeks to look into the cost tradeoff of accomplishing just that. It appears to have merit and we see it as being a very good idea to do a thorough study on that and we have it started. It will take, I would estimate, about a year before we have that finished but we are putting our best people on it.

Mr. EDWARDS. You do not know whether you would request any additional tenders for the SSN-688 subs?

Admiral NICHOLSON. There are some tenders planned. We will have to put that in the record. There are some planned, I am not sure whether it is 77 or 78.

Mr. EDWARDS. What is the cost to overhaul the *Simon Lake* tender?

Admiral NICHOLSON. I will have to provide that for the record.

Ms. GREGORY. Could you give us a ball park figure?

Mr. KAHN. The conversion cost of the AS-32, the *Holland*, which includes overhaul, runs about $30 million. I would estimate the converting without overhaul would be something under $30 million.

Mr. EDWARDS. Half way or where?

Admiral NICHOLSON. I suggest we provide that for the record.

[The information follows:]

The cost to overhaul the *Simon Lake* will be approximately $20 million including proposed alterations and crane procurement.

Mr. EDWARDS. How often are the tenders overhauled?

Admiral NICHOLSON. Every 5 years.

Mr. EDWARDS. What is the remaining life of the U.S.S. *Simon Lake* after the fiscal year 1977 overhaul?

Admiral FINE. She was built in the mid 60's, and will probably remain in the fleet 15 to 20 years beyond the scheduled overhaul period.

Mr. EDWARDS. What will be done with the 95,000-pound cranes to be removed from the *Simon Lake*.

Admiral FINE. We are planning on installing them on an attack submarine tender which needs a larger crane.

Mr. EDWARDS. How will the C-4 Trident I missiles be handled while the *Simon Lake* is in overhaul or being repaired? Will the Navy be requesting modification to another tender at a later date for a backup tender?

Admiral NICHOLSON. We are going to be requesting funds for another tender in 1979. But we are reviewing that request along with the study we are undertaking of shore base support versus tender usage.

Mr. EDWARDS. Has any study been made by the Navy concerning the cost-effectiveness of tenders versus permanent facilities for Trident missile-carrying subs?

Admiral NICHOLSON. No, sir. That is the one we just started.

Mr. EDWARDS. It will take about a year.

Admiral NICHOLSON. Yes, sir.

Mr. EDWARDS. Do you have any questions, Mr. Robinson?

Mr. ROBINSON. You mention the total cost of backfitting the 10 Trident subs will be $2.5 billion?

Admiral NICHOLSON. Yes, sir.

Admiral FINE. May I go on record for amplification? I am hypothesizing without going into closed session. The backfit program

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is such that for a period of time there will be a mixed force of both Trident's and Poseidon's. You have to be in a position of being able to service both off one tender and obviously the tender has to be in a position to handle the heaviest of the two. So there is a case that a tender will have to be deployed overseas as long as that mixed operating force is there and must therefore be able to handle both the heavier missile and the lighter missile. That will have to be the case until we get an operating force which is more homogeneous.

Mr. KAHN. At the present time, the plans are to backfit 10 of 31 Poseidon subs with Trident missiles, the other 21 Poseidon C–3 carrying submarines would for some time in the future need to be forward-based, and consequently require tender support.

Admiral NICHOLSON. The total cost of the program most of which is for the missiles themselves, is $2.545 billion.

Mr. ROBINSON. That adds up to $245 million per sub and you say most of it is for missiles rather than modification?

Admiral NICHOLSON. Yes, sir, it is almost all for missiles.

Mr. KAHN. The hardware cost for converting from a C–4 Poseidon (C–3) capability to a Trident I or C–4 capability averages $6.6 million per hull.

Mr. ROBINSON. That sounds much more reasonable than $245 million per submarine. I was just going to ask how much did they cost in the first place?

Admiral NICHOLSON. It is mostly the missile cost and includes our projection of the effects of inflation on costs.

Mr. ROBINSON. The *Simon Lake*, I gather, is the only one of its class?

Admiral NICHOLSON. There is one more.

Mr. ROBINSON. You mention a 5-year frequency of overhaul, is that a high frequency?

Admiral NICHOLSON. That is comparable to all surface ship overhauls, in fact, a little bit greater interval than most of our surface ships. They range from 3½ to 5 years.

Mr. ROBINSON. In the testimony we had earlier this afternoon while we were talking about cranes for another purpose, it was mentioned there is an inventory of surplus cranes. I presume that has been examined.

Admiral NICHOLSON. Yes, sir. We have canvassed the entire country and have looked in foreign spots, all over the world, trying to find some other way to do it.

Mr. ROBINSON. It also occurs to me that when you go from a 95,000-pound crane to 115,000 pounds, the difference is not that great. I suppose modification has been examined to see if that is possible?

Admiral NICHOLSON. Yes; it can possibly be done. It results in a lot more time in the shipyard. On a cost-effective basis, this is the best way.

Mr. ROBINSON. Plus you do not get the use of the two 95,000-pound cranes you already have.

Thank you.

Mr. EDWARDS. Mr. Kemp.

Mr. KEMP. No questions.

Mr. MURPHY. Where will the backfitted submarines be homeported?

Admiral NICHOLSON. If a decision is made to homebase all the sub-

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marines at Charleston, then the families will be moved down to Charleston and eventually they will all wind up in the same place with the tender. But to start with, the families will be in these two locations, Groton, Conn. and Charleston, S.C. As the ships are converted, they will then be moved to the eventual site and the families will be moved down there. The decision has not been made. The submarine crews are homeported right now in Charleston and Groton.

Mr. MURPHY. You have the equipment to homeport in Groton?

Admiral NICHOLSON. Groton is where the families live.

Mr. EDWARDS. I was asking where the subs would be.

Admiral NICHOLSON. Overseas.

Mr. MURPHY. The Trident carrying SSBN submarines? Where will those subs reside when they are in port?

Admiral NICHOLSON. We have not made that decision. We anticipate that it will be Charleston, but we have a site survey, environmental impact statement and all the ramifications which are underway right now.

Mr. MURPHY. How many FBM tenders do you have?

Mr. KAHN. Five tenders at the present time.

Mr. MURPHY. All five are Poseidon capable?

Admiral NICHOLSON. No, the AS-19, is only capable of supporting the Polaris A-3 system. It is in Guam.

Mr. MURPHY. The question the staff had in mind in connection with the reprograming is: With the Trident missile there would not be any further requirement for overseas basing of backfitted SSBN submarines; therefore, why should we spend the money in converting these tenders? Would it not be more cost-effective to build a crane facility at the home port? Of the 10 we are talking about here and of the remaining 31, at least 10 of those Polaris subs will eventually be going out of service.

Mr. KAHN. There are 10 Polaris A-3 submarines. Of the 31 Poseidon's, it is planned to convert 10 of those 31, to have a C-4 or Trident capability. We would still have 21 Poseidon submarines.

Mr. MURPHY. You have a schedule of eventually phasing out those older submarines. I imagine there is a phasing plan where as you phase in the Trident submarines, eventually some of the older Poseidon submarines will be phased out.

Mr. KAHN. I submit that with respect to the Poseidon SSBN's you are talking about quite a considerable number of years out in the future since the 10 Polaris A-3's, the oldest submarines, would be phased out first before considering decommissioning Poseidon (C-3) carrying submarines.

Mr. MURPHY. If you knew where you were going to put those 10 Trident-equipped SSBN submarines we are talking about today, you could put the needed cranes on shore and not go through the necessity of modifying the tenders with the larger crane.

Admiral NICHOLSON. We have looked at this again after you brought it up. There is no way we can possibly provide the capability to maintain the Trident missile in the Trident I (C-4) backfit submarines within the time specified without getting this crane and modifying the tender. The study we have in mind and which we have undertaken to accomplish what you have suggested, will determine whether or not

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it is cost-effective or not and how much it would be necessary to request in the way of a base facility to replace a tender. Then it will be necessary, if it is more cost-effective to get it into the budget process, which will take much longer than having it ready in 1979.

Mr. MURPHY. Will this decision be made before you have to convert the Canopus to a Trident capability?

Admiral NICHOLSON. Yes. We will have this studied and we will have the answer for you before we come in again.

E–2C EARLY WARNING AIRCRAFT

Mr. MURPHY. We will move now to the E–2C early warning aircraft.

Admiral FINE. I have a statement which I would like to submit for the record.

Mr. EDWARDS. It will be put in the record at this point.

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Reprogramming Action: AP,N FY 75-28N

Appropriation: Aircraft Procurement, Navy

Subj: E-2C Advance Procurement

This non-prior approval reprogramming action provides $7.7 million for FY 1975 E-2C advance procurement requirements.

Subsequent to final Congressional action on the FY 1975 budget and during FY 1976 DOD budget deliberations SECDEF approved procurement of 6 additional E-2C aircraft in FY 1976. Since the FY 1975 budget had not envisioned FY 1976 E-2C procurement no advance procurement funds were requested. It now becomes necessary to provide for E-2C advance procurement funds in FY 1975 in order to maintain E-2C production continuity and preclude the diseconomies that result from production disruption.

The sources of these funds are the FY 1975 aircraft spares and Versatile Avionics Shop Test (VAST) programs. The aircraft spares funds become available due to changes in DOD spares procurement policy which minimizes initial outfitting requirements and the VAST compatible aircraft.

This reprogramming request requires the approval of the House and Senate Appropriations Committees, and the House and Senate Armed Services Committees. The Committees have not acted on this request to date.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Aircraft Procurement, Navy 1975/1977	FY 75-28 N

APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)
FY 75-1N	

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

NOTIFICATION ACTION

The purpose of this reprogramming action is to provide advance procurement funds, current year, for the E-2C program. Funds for this purpose will be offset by the savings due to changes in DOD spare procurement policy ($4.8 million), and a decrease of three VAST stations ($4.0 million).

REPROGRAMMING INCREASES

FY 1975 PROGRAM

BUDGET ACTIVITY 1: Combat Aircraft

1. E-2C Advance Procurement, Current Year	XX	-	XX	-	XX	+7,700	XX	7,700

Explanation: The E-2C is an all-weather, carrier based, combat information center airplane, used mainly to extend task force defense perimeters by providing early warning of approaching enemy units and by vectoring interceptors into attack position. The Navy plans to procure 6 more E-2C aircraft in FY 1976 towards its stated goal of an all E-2C force of 12 operational squadrons. To permit orderly execution of the FY 1976 program, advance procurement funds are needed in FY 1975 to procure various items of Contractor Furnished Equipment (CFE) and Government Furnished Equipment (GFE) that require extended production leadtimes. Careful timing of procurement of E-2C aircraft is becoming critical since modification of older and less capable E-2B aircraft has been denied. This reprogramming will provide the $7.7 million required in FY 1975 for timely phasing of procurement of the FY 1976 increment so that a costly production gap will not occur.

Resources previously reprogrammed below threshold.						+1,089		
TOTAL PROGRAM INCREASES						+8,789		

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(Classification)

REPROGRAMMING ACTION

Appropriation Account Title	DOD Serial Number
Aircraft Procurement, Navy 1975/1977	FY 75-28 N

Appropriation Serial Number: FY 75-1N

(Amounts in Thousands of Dollars)

Line Item	Program Base Reflecting Congressional Action		Program Previously Approved by SEC DEF		Reprogramming Action		Revised Program	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
a	b	c	d	e	f	g	h	i
		NOTIFICATION ACTION						
REPROGRAMMING DECREASES								
FY 1975 PROGRAM								
BUDGET ACTIVITY 6: Aircraft Spares and Repair Parts								
1. Spares and Repair Parts	XX	373,400	XX	373,400	XX	-4,789	XX	368,611

Explanation: Anticipated savings in the FY 1975 spares program will permit application of the above funds to the urgent E-2C requirement. These savings result from new SECDEF guidance which minimizes the depth of initial stockage pending achievement of a more optimum mix based on actual demand, and revised support requirements for the AH-1J aircraft.

BUDGET ACTIVITY 7: Aircraft Support Equipment and Facilities								
2. Common Ground Equipment	XX	120,500	XX	120,500	XX	-4,000	XX	116,500

Explanation: These funds became available when the rephasing of procurement of VAST stations to fit revised carrier outfittings dictated a decrease of three VAST stations from the FY 1975 increment, thus allowing reapplication of these funds to the E-2C requirement.

TOTAL PROGRAM DECREASES						-8,789		

Requested (Signature and Date): PENISTEN 3 FEB 1975
Assistant Secretary of the Navy (Financial Management)

Approved (Signature and Date): FEB 21 1975
Deputy Secretary of Defense

DD Form 1415 -2

Report Control Symbol

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Admiral FINE. These advance procurement funds were not budgeted in the original 1975 budget as there was then no plan to procure the E–2C in fiscal year 1976. During this fiscal year's review a decision was made by the Secretary of Defense to allow the Navy to continue this program in fiscal year 1976. We then required long lead funds to be put into fiscal year 1975. This is a nonsection 834 transfer reprograming.

I have with me Captain Roth, who can answer your questions on this.

Mr. EDWARDS. I will yield to Mr. Kemp.

Mr. KEMP. In reprograming action fiscal year 1975—28 you are proposing to initiate a new E–2C early warning aircraft advance procurement line item in the amount of $7.7 million for the fiscal year 1975 program.

Captain, is the Navy's stated goal of an all E–2C force of 12 operational squadrons an OSD-approved program?

Captain ROTH. Both the Secretary of the Navy and Admiral Houser the DCNO (air warfare) have said the goal of the Navy is an all E–2C force. The OSD has not approved that program. It has only approved procurements through fiscal year 1977.

Mr. KEMP. How many E–2C squadrons do you have approved thus far?

Captain ROTH. Thus far, five.

Mr. KEMP. How many E–2A's and how many E–2B's do you have in inventory at present?

Captain ROTH. We have 42½ E–2B's. I say one-half because one is badly damaged after striking a fire bottle. We have no E–2A's, we have two TE–2A's. They have the avionics removed. They are for pilot training.

Mr. KEMP. Just the training model?

Captain ROTH. Yes, sir.

Mr. KEMP. How many E–2C's are in inventory?

Captain ROTH. 34 through fiscal 1975.

Mr. KEMP. When does the E–2C line stop with the fiscal year 1975 buy?

Captain ROTH. The first delivery is in February 1976; and the last in December 1976.

Mr. KEMP. Why is it necessary to require advance procurement funding now?

Captain ROTH. Because the lead time for many items is in excess of 24 months; the castings for the main landing gear is an example.

I have a list of things we are planning to procure with that advance funding. Main items include: landing gear, flap drive, engines and props, and the navigation system.

Mr. KEMP. Why don't you budget sufficient aircraft in fiscal year 1976 to preclude the necessity for advance procurement funding in future years?

Captain ROTH. Would you please restate that question?

Mr. KEMP. Why don't you budget sufficient aircraft in fiscal year 1976 to preclude the necessity for advance procurement funding in future years?

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Captain ROTH. I am sorry, sir, I do not understand how any quantity of airplanes budgeted in 1976 would nullify the problem of long leadtime money.

Mr. MURPHY. We have a similar problem with the F–15. The Air Force went from a building rate of six per month to nine per month. Then in fiscal year 1975, dropped down to six per month again. The House and Senate Armed Services Committee indicated that was a poor way to build airplanes and wanted them to compress the production rate to nine a month for the 72 aircraft budgeted in 1975. This left a 4-month gap in the fiscal 1975 building period.

They asked for permission to use advance procurement funding of $30 million to take care of that 4-month gap. The reason they had to do that was due to the fact they did not have enough aircraft budgeted in the following year.

There is a way to get away from the necessity of asking for advance procurement funding each year. That is to budget for airplanes beyond the rate you are going to build them that year. If you could build more E–2C's you could get away with the advance procurement funding.

Captain ROTH. They would not be delivered in the funded delivery period.

Mr. MURPHY. No.

Admiral FINE. I think, Mr. Murphy, you would have to tinker with the rules we live under at the Department of Defense. You budget long lead time items to maintain production continuity in an established production line. To eliminate advance procurement would require fully funding up to 6 months of aircraft procurement and most of the funds will sit there unused because you are budgeting more than you are going to use that year.

Mr. MURPHY. The Air Force has been doing it with the F–15 airplane. They were told to compress their building schedule from 12 months to 8 months. They had to put in advance procurement funding now so they could make up for that 4-month gap. But the F–15 program had been funded each year without advance funding.

Admiral FINE. To my knowledge, Mr. Murphy, I do not think we have been able to budget that way.

Mr. EDWARDS. I think it is something you might look at for the future.

Captain ROTH. I would like to consider that.

Mr. KEMP. Do you propose to increase the production rate in fiscal year 1976?

Captain ROTH. No, sir, nor in fiscal year 1977.

Mr. KEMP. Why do you have one aircraft funded in the transition budget?

Captain ROTH. Again, to try to retain the production rate with no fluctuation in the workflow. There is a 3-month period in fiscal year 1977 and to keep the workflow even, you should budget one and one-half airplanes, which we cannot do.

Mr. KEMP. When do you propose to contract for that one aircraft?

Admiral FINE. It is going to depend on how the 1976 budget is finally appropriated by the Congress. If it is appropriated as presently

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in the budget, we might be able to put them on contract at the same time. It depends on how the language of the Appropriations Act comes out.

COMPARISON WITH AIR FORCE AWACS AIRCRAFT

Mr. KEMP. Captain, you are aware that your sister service, the Air Force, has an AWACS aircraft that performs a mission similar to your E–2C aircraft. The AWACS has a program unit cost of $111.1 million; the E–2C has a program unit cost of $26.3 million. How would you compare the capabilities of your E–2C with that of the Air Force AWACS?

Captain ROTH. Sir, I am the project manager for the E–2C but I have never actually seen an AWACS airplane. I would be a poor man to make a comparison.

Mr. EDWARDS. You want to go with me to look at one?

Captain ROTH. I have tried several times to see one but have not been able to because of the press of business in my office.

Mr. EDWARDS. Will the Air Force people let you see it?

Captain ROTH. Certainly.

Mr. KEMP. Give us some of your expertise on the E–2C.

Mr. EDWARDS. If you will yield. I think it is interesting that your unit cost is about one-fifth or one-fourth of the AWACS. I know there are a lot of reasons why that might be, but I am going to be interested in learning more about the two, to see why there is this difference.

Captain ROTH. We have a very fine airplane.

Mr. KEMP. For the record, Captain, if you would submit data on the following respects: (*a*) Its maritime surveillance capability with respect to size of targets capable of being detected in what sea state; (*b*) program and flyaway cost; (*c*) operating and maintenance factors to include crew size, fuel capacity, and number of maintenance specialists required; (*d*) time on station at what range from base; (*e*) detection range against tactical size targets; (*f*) tracking capacity; (*g*) whether or not target acquisition and target tracking is manual or automatic; (*h*) runway take-off requirements; (*i*) automatic intercept capability; (*j*) radar blind speeds (radial velocity); (*k*) supplemental sensor capabilities; and (*l*) susceptibility to jamming, including its ARPS capability.

Have either the House or Senate Armed Services Committees acted on this reprograming yet?

Captain ROTH. No, sir, they have not. I can answer most of those questions but if you would rather, I will submit them for the record.

Mr. EDWARDS. For the record will be sufficient.

[The information follows:]

(a) E–2C Hawkeye maritime surveillance capability with respect to size of targets capable of being detected in what sea state: No specific detection tests have been conducted against surface targets because the E–2C APS–120 radar system was designed to operate against air targets. However, observed data yields the following approximate results: ———.

Sea state has little effect on the detection range of surface targets. The maritime surveillance capability has received more attention recently. The excellent

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performance of this bonus operational mode has been praised by operational commanders.

(b) Program and flyaway costs: Total program acquisition cost, including APN, R.D.T. & E., and MilCon, is $1,291 million for 49 aircraft through fiscal year 1977; gross program unit cost is $26.3 million per aircraft. Total program flyaway cost is $764.7 million for 47 production aircraft through fiscal year 1977; unit flyaway cost is $16.3 million per aircraft.

(c) Operating and maintenance factors to include crew size, fuel capacity, and number of maintenance specialists required:

The E–2C carries a crew of five composed of two pilots and three operators. The fuel capacity is 1,824 gallons or 12,400 pounds of JP–5 fuel. A four plane E–2C squadron has an allowance of 117 enlisted maintenance personnel—including six enlisted flight technicians—although the squadron is usually manned at 80–90 percent of allowance. The specification value for direct organizational maintenance man hours/flight hour (DMMH/FH) for a deployed squadron is 23 hours. Thus far we are experiencing only 12.8 DMMH/FH. The all-Navy E–2C aircraft utilization rate, June–November 1974, has been 50.7 aircraft flight hours/aircraft/month.

(d) Time on station at what range from base: The E–2C will operate for 3.5 hours at 200 nautical miles from the carrier.

(e) Detection range against tactical size targets: The table below provides required contract specification performance of the E–2C APS–120 radar system against an A–6 aircraft target. The E–2C APS–125—APS–120 with ARPS modification—specification performance is also provided.———.

(f) Tracking capacity: The E–2C can automatically initiate and maintain up to ——— tracks from the radar and IFF systems. Additionally, the system can provide up to ——— tracks for combinations of passive detection, data link targets and operator initiated aids/points of interest.

(g) Whether or not target acquisition and target tracking is manual or automatic: All radar target acquisition and tracking is automatic for both the APS–120 and APS–125. ———. Both systems allow for manual operator intervention.

(h) Runway take-off requirements: Nominal runway requirement for E–2C operation is 4,000 feet. The E–2C operates from carriers and can be deck launched without a catapult.

(i) Automatic intercept capability: The E–2C is capable of handling up to ——— simultaneous intercepts with the command data being passed automatically to the interceptor via digital data links. The system is also able to compute up to 15 additional simultaneous vectoring solutions for operator use.

(j) Radar blind speeds (radial velocity): Radar blind speeds do not make a radar "blind" but they do make a target at that speed more difficult to detect. The width of the blind speed depends upon target size, range and background clutter. In the E–2C radar ——— to greatly reduce blind speed effect.

(k) Supplemental sensor capabilities: The E–2C sensor suite is comprised of the APS–120 radar, the RT–988A IFF system, the ALR–59 passive detection system, the ALQ–108 interrogator/receiver and supplementary digital data links.

(l) Susceptibility to jamming, including its ARPS capability: The APS–120 and APS–125 (ARPS) radar systems are, like all other radar systems susceptable ———.

Any questions, Mr. Chairman?

Mr. MAHON. No questions, Mr. Chairman.

Mr. EDWARDS. I may never be the same.

Mr. MCFALL. If I had known I could get you to smile like that over at my subcommittee, I would call you chairman more often.

Mr. MAHON. I want, for the record, to thank Mr. Edwards for acting as chairman of the subcommittee for the afternoon. You have been very helpful.

Mr. EDWARDS. Meeting adjourned.

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THURSDAY, MARCH 6, 1975.

OTHER PROCUREMENT, AIR FORCE, REPROGRAMING ACTION FISCAL YEAR 1975–20N

WITNESSES

MAJ. GEN. OTIS C. MOORE, DIRECTOR OF OPERATIONS, HEADQUARTERS USAF

MR. JACK K. UMPHREY, CHIEF, INVESTMENT APPROPRIATIONS DIVISION, DIRECTORATE OF BUDGET, HEADQUARTERS USAF

COL. JAMES PHELAN, SPECIAL ASSISTANT TO DIRECTOR OF OPERATIONS FOR TACTICAL CONTROL, HEADQUARTERS USAF

COL. RICHARD D. MONTGOMERY, CHIEF, OTHER PROCUREMENT PROGRAMS DIVISION, DIRECTORATE OF LOGISTICS PLANS & PROGRAMS, HEADQUARTERS USAF

LT. COL. WALTER S. DENHAM, JR., SYSTEMS MANAGEMENT STAFF OFFICER, DIRECTORATE OF POLICY & RESOURCE MANAGEMENT, ASSISTANT CHIEF OF STAFF FOR INTELLIGENCE, HEADQUARTERS USAF

LT. COL. DOUGLAS E. MOODY, COMMUNICATIONS-ELECTRONICS STAFF OFFICER, DIRECTORATE OF COMMAND CONTROL & COMMUNICATIONS, HEADQUARTERS USAF

MOTION AND VOTE TO CLOSE HEARING

Mr. MAHON. I move the session be closed this afternoon because of classified material to be discussed.
Mr. SIKES. The motion requires a rollcall vote.
Mr. MURPHY. Mr. Mahon.
Mr. MAHON. Aye.
Mr. MURPHY. Mr. Sikes.
Mr. SIKES. Aye.
Mr. MURPHY. Mr. Flood.
[No response.]
Mr. MURPHY. Mr. Addabbo.
Mr. ADDABBO. Aye.
Mr. MURPHY. Mr. McFall.
[No response.]
Mr. MURPHY. Mr. Flynt.
Mr. FLYNT. Aye.
Mr. MURPHY. Mr. Giaimo.
[No response.]
Mr. MURPHY. Mr. Chappell.
[No response.]
Mr. MURPHY. Mr. Edwards.
Mr. EDWARDS. Aye.
Mr. MURPHY. Mr. Robinson.
Mr. ROBINSON. Aye.
Mr. MURPHY. Mr. Kemp.
Mr. KEMP. Aye.

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Mr. MURPHY. Mr. Cederberg.

Mr. CEDERBERG. Aye.

Mr. MAHON. Eight members have voted in the affirmative, none in the negative, and a quorum being present, the motion is agreed to.

Mr. Sikes.

CONSTANT KEYSTONE

Mr. SIKES. The committee this afternoon is going to consider reprograming No. 75–20N, other procurement, Air Force, beginning with Constant Keystone. This reprograming action provides for the program authority of $4,130,000 to establish a new line item for a large underground bunker facility at ———, Germany. This facility will provide a combat operations center—static war headquarters—for the effective command and control of all United States and Allied Air Forces which come under the operational control of CINCUSAFE as commander, Allied Air Forces, central Europe, in time of war.

General Moore, do you have a statement on this?

General MOORE. Yes, sir.

Mr. SIKES. It will be inserted in the record at this point.

[The statement follows:]

STATEMENT OF DIRECTOR OF OPERATIONS, HQS., AIR FORCE

Mr. Chairman and members of the committee: I am pleased to appear before this committee to present for your consideration reprograming action, DOD Serial Number FY 75–20N. This action provides for reprograming $4.13 million within the other procurement, Air Force, appropriation in fiscal year 1975 to establish a line not previously considered in the electronics and telecommunications equipment budget activity. This new requirement is for procurement of command-and-control equipment to provide a combat operations center in Germany.

In June 1974 NATO approved the reorganization of Allied Air Forces Central Europe and the establishment of a wartime operations center to improve the defense posture and provide more effective command and control of airpower. The Commander-in-Chief, United States Air Forces in Europe, has been designated as the NATO Commander, Allied Air Forces Central Europe.

The requirement to establish a single air commander for an area of operations is based on sound principles and doctrine established and proven during World War II. These principles have been further validated by combat experienced in every conflict since that time. The inherent flexibility and wide-ranging capabilities of airpower demand that command and control be centralized to assure optimum employment of these assets and assure a rapid capability to apply forces where and when they are most needed. To exercise effective command and control in modern warfare, the commander must have near real-time information on the situation, status of forces, and the ability to direct and control his forces.

The Federal Republic of Germany has offered and NATO has accepted the use of an existing facility for the location of the wartime operations. Because of the urgent requirement for this capability, the Secretary of Defense and the German Federal Minister of Defense have agreed on a bilateral plan to modify the facility and install the necessary command and control equipment. Equipment to be installed includes improved communications and internal information distribution and display system plus automatic data processing to handle the volume of data necessary for planning and decisionmaking. This new command and control capability will significantly improve the capability for employment of forces in Central Europe.

As a part of the bilatreal agreement construction/modification of the facility will proceed with notification to NATO of the intent to prefinance which is required in order to seek recoupment at a later date.

The planned configuration for this facility has been held to the minimum essential level that will provide the needed capability. Cost is being held down by accomplishing planning and engineering services with USAF and German Air

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Force personnel. USAF manpower requirements will be accommodated from within existing resources of USAFE.

NATO has been informed of the United States/Federal Republic of Germany intention to prefinance the project and the German Federal Minister of Finance has already awarded a contract for the architectural and engineer services needed to design the modifications to the existing structure. The Secretary of Defense has approved the use of $1.5 million of his military construction contingency authorization for the United States portion of the modification and has notified the Appropriations and Armed Services Committees of the Congress. The Air Force will not obligate these funds until this reprograming is approved.

The funds required to procure equipment for this project have been made available from the munitions and associated equipment budget activity by reducing procurement for the 7.62mm M–13 link cartridges. Production of this cartridge to support the war reserve material objective can be reduced to a lower rate in fiscal year 1975 by extending deliveries from prior year programs while sustaining a minimum economical production base.

Mr. SIKES. We will insert the reprograming document in the record at this point.

[The document follows:]

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REPROGRAMMING ACTION — Page 1 of 2 Pages

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
OTHER PROCUREMENT, AIR FORCE, 1975/1977	75-20 N

APPROPRIATION SERIAL NUMBER: FY 75-8

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

NOTIFICATION ACTION

This Reprogramming provides program authority of $4.130 million to establish a new line item for CONSTANT KEYSTONE which was not previously considered. The funds are for the procurement of command and control equipment for a large Deleted facility at Deleted This facility will provide a combat operations center (static war headquarters) for the effective command and control of all U.S. and Allied Air Forces which come under the operational control of CINCUSAFE as Commander, Allied Air Forces Central Europe in time of war. This project has the nickname 'CONSTANT KEYSTONE".

REPROGRAMMING INCREASES

FY 1975 Program

Electronics and Telecommunications Equipment

Special Comm-Electronics Projects

1. CONSTANT KEYSTONE	-	-0-	-	-0-	-	+4,130	-	4,130

Explanation - These funds will be used to procure a large screen display, ADPE, a closed circuit TV, intelligence communications, high-speed teletype terminals and various other communications equipment necessary to improve the ability to effectively utilize and control the large numbers of USAF rapid reactor and follow-on forces which would deploy to the theater following M-Day. All equipment will remain U.S. property and under U.S. control.

TOTAL PROGRAM INCREASE						+4,130		

REPROGRAMMING DECREASES

FY 1975 Program

Munitions and Associated Equipment

Cartridges (Thousands of Rounds)

2. 7.62MM M-13 Link	96,048		96,048		-58,181		37,867	

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ASSIFICATION

REPROGRAMMING ACTION Page 2 of 2 Pages

APPROPRIATION ACCOUNT TITLE: OTHER PROCUREMENT, AIR FORCE, 1975/1977

DOD SERIAL NUMBER: 75-20 N

APPROPRIATION SERIAL NUMBER: FY 75-8

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
		6,818		6,818		-4,130		2,688

Explanation - The Fiscal Year 1975 buy is to meet War Readiness Materiel (WRM) requirements. Acquisition of the WRM inventory objective will be adjusted to a lower rate through extending deliveries from prior year funding while maintaining a minimum economical production base.

TOTAL PROGRAM DECREASE -4,130

NET CHANGE IN PROGRAM -0-

JAN 14 1975

REQUESTED (Signature and Date)

WILLIAM W. WOODRUFF
Assistant Secretary of the Air Force
(Financial Management)

APPROVED (Signature and Date)

H. P. Clausen 23 JAN 1975

Secretary of Defense

DD FORM 1416 REPORT CONTROL SYMBOL

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Mr. SIKES. When will the facilities design be completed?

General MOORE. In about May of this year, sir.

Mr. SIKES. Why are you funding equipment prior to completion of the facility design and the completion of construction?

General MOORE. This is not a new facility. This is construction pertaining to the rehabilitation of an existing facility. We know exactly what the dimensions are of all the rooms.

Mr. SIKES. Will the facility be completed at the time the equipment is ready for installation?

General MOORE. Yes, sir.

Mr. SIKES. Why is the Air Force introducing a new program as a reprograming action? This essentially I would consider to be a new program. Is that right?

General MOORE. Yes, sir.

Mr. SIKES. Then why is it here as a reprograming action?

General MOORE. That pertains to the urgency of the program and the fact that——

Mr. SIKES. Why is it an emergency?

General MOORE. The urgency is such that, as I mentioned, the reorganization was approved as of last summer establishing a single commander. However, we do not have the facilities for the single commander to execute his job. His present facilities are soft and they are fragmented in different places and this really gets it all together for the first time, underground.

Mr. SIKES. Is Germany the only other participant in the construction?

General MOORE. Yes, sir.

Mr. SIKES. Is there a signed agreement with Germany on this?

General MOORE. There is not a signed agreement per se.

However, we have a detailed plan which was developed in conjunction with the Germans.

Mr. SIKES. Have the Germans released funding?

General MOORE. They have submitted their intent to prefinance with NATO, with the progress and payments committee. They did this once on 6 February for the architectural and engineering services and again they submitted the entire program on the 27th of February.

Mr. SIKES. What are the anticipated recurring costs, speaking primarily of O. & M. and military personnel?

General MOORE. The O. & M. costs are about—fiscal year 1976, $84,000 total of which $38,000 is expected to be reimbursed by NATO for a net U.S. cost of $46,000. Then starting in fiscal year 1977 and continuing, $334,000 total, of which $153,000 is expected to be reimbursed, a net to the U.S. cost of $181,000 annually.

Mr. SIKES. How many U.S. personnel are involved?

General MOORE. A total of about 384 people, and our portion of that is about 25 percent, so we are talking about, including support types, about 100 people. These are not new people; these are people that are just being transferred from one place to the other so there is no additional manpower resource requirement.

Mr. SIKES. Do you anticipate any further costs not yet identified?

General MOORE. No, sir, this is the total investment cost as far as the Air Force program is concerned.

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Mr. SIKES. The source of funds for this action is munitions, 7.62 mm M–13 link cartridges. Your reprograming request states that acquisition of the War Readiness Materiel inventory objective will be adjusted to a lower rate through extending deliveries from prior year funding while maintaining a minimum economical production base.

Why then does the fiscal year 1976 program show a resumption of higher levels of production?

That would appear to be a contradiction to the reprograming request.

General MOORE. I think that hinges on the Foreign Assistance Act of 1954 where no other funds could be used for the purpose of munitions. These funds were not on contract as of December 30, 1974, so we couldn't spend them in the 1975 budget period.

Mr. SIKES. You will have to replace them later?

General MOORE. Yes.

Mr. SIKES. The reprograming request shows the revised fiscal year 1975 program at 37,867,000 rounds and $2,688,000. The fiscal year 1976 P1 shows a fiscal year 1975 program of 52 million rounds and $6,400,000. Why was the fiscal year 1975 program decreased to fund the ——— project, then increased again? What is the source of funds for the increase?

I assume it wasn't to fund the ——— project, as you described before?

Colonel MONTGOMERY. There was a decrease in the program in 1975. There was $5.9 million which was reduced by Congress, taking out the MASF support. There was also a price increase. We had to consider that and make adjustments there in the number of rounds. We made the adjustment. There were $400,000 which didn't match to the unit price and we internally reprogramed that. The price increases on the rocket and also on the 2.75 warhead, make the $263,000.

Excuse me, sir. It should be $223,000.

Mr. ROBINSON. Did we lose any sort of a similar facility when we were expelled from France?

General MOORE. No, sir. As I said, the strategy has changed, also. The need is different now.

Mr. ROBINSON. To what degree would you consider this to be a hardened installation when it is finished?

General MOORE. We consider it to be extremely hard, as far as conventional war is concerned. I don't know whether you are familiar with psi, but this is ——— psi, which is pretty high.

The Germans have let a contract for $700,000 for the architectural and engineering design, so they are on contract for $700,000.

Miss GREGORY. I might have missed something just a moment ago. The reprograming action dated January 23 shows the remaining balance of funds for this cartridge at 2,688,000 for fiscal year 1975. The P–1, which is your procurement budget and which is also a January submission, shows the fiscal year 1975 level at $6.4 million.

Colonel MONTGOMERY. Yes, the reprograming action was included as assuming to be approved in the P–1. Am I tracking with you on that?

Miss GREGORY. No, because if the reprograming had been included in your procurement budget submission, then the level that I would see in the budget would be 2.688.

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Colonel MONTGOMERY. I will have to check that out and supply the answer.

[The information follows:]

The reprograming action was prepared subsequent to the budget submission and, therefore, is not included in the P–1. However, prior to the Constant Keystone reprogramming action, we applied $446,000 of the 7.62MM program to the MB–1 rocket and the 2.75'' rocket W.P. warhead as part of a quantity/unit cost realinement. This accounts for the variance in the reprograming baseline and the amount reflected in the P–1.

Mr. SIKES. Thank you very much.

URGENCY AND TYPE OF EQUIPMENT TO PURCHASE

Mr. MURPHY. I believe we have a form 1391 indicating that the A. & E. design of this facility will be completed June 15, 1975. I understand that although the outside dimensions of the present bunker remain the same, there would be demolition of walls and so forth, and you would need an A. & E. design to reconfigure the inside of the bunker.

In view of that, how do you know what kind of equipment to buy at this early date? In other words, it would appear that your design within the bunker would dictate the size and configuration of the equipment you are going to have to buy. What is the urgency of buying $4.1 million worth of equipment. Is it a little early in view of this situation?

Colonel PHELAN. No, sir, Mr. Murphy. The equipment is, for the most part, equipment off the shelf with the exception of the display which is, again, a pretty well known design. Largely, it is communications which is used now within the Air Force. Communications equipment and computers are well known designs so we are able in the preliminary design work with the Germans, who are working with their blueprints on a facility they have today and which they have been maintaining for over 10 years, to establish a very good preliminary design and there is no question in our minds that the equipment will fit into the facility.

Mr. MURPHY. That is the reason for my question. It is commercial off-the-shelf equipment. You have equipment like it in the Air Force inventory. You do not have a long leadtime problem to develop it. Therefore, what is the urgency of this equipment request which is several months in advance of the A. & E. designs?

Colonel PHELAN. We have had a German Air Force team and a U.S. Air Force team each headed by a brigadier general working since last summer to develop this capability and they have designed the facility right down to the individual circuit for each functional position within the bunker. It has been extensively gone over for a number of months. This plan, then, was the basis of a some 600-page plan on which both the United States and the Federal Republic of Germany agreed to fund the effort. It was the basis for the German Federal Minister of Defense agreeing to the cost breakout which is reflected here.

Mr. MURPHY. Why do you need an A. & E. design if all this work has been done?

Colonel PHELAN. The facility has been used for some 11 years, I believe it is, and during the course of this time, there has been a certain

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amount of wear in the ventilation systems. There have also been advances in the filtration needed to filter the air for operating under buttoned-up conditions, under NBC conditions; the Germans intend to modify some of these features with later and better capability. So it is more than wall moving.

They are going, within the German portion of the funding, to update all of the equipment by overhaul and start with a first-class facility.

THURSDAY, MARCH 6, 1975.

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION, AIR FORCE, REPROGRAMING ACTION FISCAL YEAR 1975–17N

WITNESSES

MAJ. GEN. KENNETH R. CHAPMAN, ASSISTANT DEPUTY CHIEF OF STAFF, RESEARCH, AND DEVELOPMENT
BRIG. GEN. HAROLD E. CONFER, DEPUTY FOR STRATEGIC FORCES, DEPUTY CHIEF OF STAFF, RESEARCH, AND DEVELOPMENT
COL. BILLY D. THORNTON, DEPUTY CHIEF, AIRCRAFT DIVISION, DEPUTY CHIEF OF STAFF, RESEARCH, AND DEVELOPMENT
COL. JOHN L. GILBERT, ASSISTANT FOR REQUIREMENTS, DEVELOPMENT, AND ACQUISITION PROGRAMING, DEPUTY CHIEF OF STAFF, RESEARCH, AND DEVELOPMENT
COL. MARC S. BARTHELLO, JR., AEROSPACE DOCTRINE DIVISION, DEPUTY CHIEF OF STAFF, PLANS, AND OPERATIONS
COL. WILLIAM BATHURST, CHIEF INVESTMENT APPROPRIATIONS DIVISION, DIRECTORATE OF BUDGET

B–52/HARPOON PROGRAM

Mr. SIKES. Gentlemen, we are now ready to consider the reprograming request fiscal year 1975–17N, R.D.T. & E., for the Air Force.

The request is for $400,000 to begin the B–52 Bomber/Harpoon program. We will insert the reprograming request in the record.

General Chapman, are you the principal witness?

General CHAPMAN. Yes, sir. The way we are going to approach these four reprogramings, Mr. Chairman, if we may, I will be principal; General Confer will discuss the Harpoon; General Partin will discuss the radar; General Mathis, who is the program director, will discuss the F–15 and I will make the statement on the C–5.

Mr. SIKES. Is all of that associated with fiscal year 1975–17N or is that only what General Confer is to talk about?

General CHAPMAN. General Confer.

Mr. SIKES. General, I see that you have a relatively short statement. Please proceed?

General CONFER. Thank you.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
RESEARCH, DEVELOPMENT, TEST & EVALUATION, AIR FORCE	FY 75-17 N
APPROPRIATION SERIAL NUMBER: 75-3	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

NOTIFICATION ACTION

(U) This reprogramming action provides initial funding for the B-52/Harpoon program within the Air Force FY 1975 RDT&E appropriation. This program was not included in the FY 1975 RDT&E Budget Estimate submitted for Congressional review and approval. The Advanced Ballistic Reentry System (ABRES) will be used as a source for the required funds. This action is submitted in view of significant follow-on funding involved.

REPROGRAMMING INCREASE

FY 1975 Program

Aircraft and Related Equipment

1. B-52/Harpoon	XX	-0-	XX	-0-	XX	+400	XX	400

(U) Explanation: The $.400 million is required to accomplish an Integration and Program Management Plan for the B-52/Harpoon program which will provide the Air Force with a long range air-to-surface aircraft/missile system which will augment the Navy's mission. The B-52 will be modified to enable it to carry and deliver the U.S. Navy developed Harpoon missile. This FY 1975 RDT&E effort will: (1) define the interface required between the B-52 and the Harpoon; (2) determine cost and performance trade-offs for the number of missiles to be carried per aircraft; and (3) it will develop costs and schedules.

TOTAL PROGRAM INCREASE						+400		

REPROGRAMMING DECREASE

FY 1975 Program

Missiles and Related Equipment

2. Advanced Ballistic Reentry System (ABRES)	XX	119.943	XX	114.143	XX	-400	XX	113.743

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
RESEARCH, DEVELOPMENT, TEST & EVALUATION, AIR FORCE	FY 75-17 N
APPROPRIATION SERIAL NUMBER: 75-3	(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

(U) Explanation: Further reductions in the amount of $.400 million were made in the area of the Advanced Ballistic Reentry Vehicle for reprogramming to support a higher priority effort in the B-52/ Harpoon program.

						-400		
TOTAL PROGRAM DECREASE								
NET CHANGE IN PROGRAM						-0-		

REQUESTED (Signature and Date) SEP 27 1974

APPROVED (Signature and Date) JAN 21 1975

DD Form 1415 (Financial Management)

DEPUTY SECRETARY OF DEFENSE

REPORT CONTROL SYMBOL

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STATEMENT OF BRIG. GEN. HAROLD E. CONFER

Mr. Chairman and members of the committee, I am pleased to appear before you to discuss the B–52/Harpoon reprograming action.

The Navy asked the Air Force in 1971 to consider equipping B–52's with Harpoon. A feasibility study was subsequently accomplished that showed the Harpoon could be carried and launched from the B–52. The Air Force asked for $600,000 in the fiscal year 1973 budget to conduct studies for the application of Harpoon to the B–52. The Congress denied those funds on the basis that there was no approved DOD plan for the mission, the Harpoon was early in the development state, and many of the B–52's were in Southeast Asia. The Congress, also stated they would consider such a mission when the B–52's returned from Southeast Asia.

The Air Force has taken action to satisfy the objections expressed by Congress and has developed a JCS-approved plan that addresses B–52 contingency capabilities. We have also flown training missions against representative ship targets that confirms radar detection at sufficient ranges to employ Harpoon.

The Secretary of Defense has directed the Air Force to provide an austere B–52/Harpoon capability to assist the Navy in the event our sea lines of communications are challenged.

The program was not budgeted in fiscal year 1975, but to achieve the Secretary's directed IOC—initial operational capability—the funds requested by this reprograming are required in this fiscal year to complete an aircraft configuration definition and integration study. This study will define the interface between the B–52 and the Navy developed Harpoon missile, and determine exact aircraft configurations, modification costs and schedules.

The development R.D.T. & E.—contract must be let early in fiscal year 1976 so that prototyping, testing, and modification kit development can be accomplished in time to meet the IOC.

We plan to begin B–52 modification kit procurement and join with the Navy in procuring our first Harpoon missiles in fiscal year 1977.

To finance the aircraft configuration and definition study in fiscal year 1975, we are requesting approval for reprograming $0.4 million from the advanced ballistic reentry system (ABRES) in the Air Force fiscal year 1975 R.D.T. & E. appropriation.

For your information, we have not been asked to appear before any other committees to discuss the program at this time.

I will be pleased to respond to your questions.

Mr. EDWARDS. General Confer, why is it necessary to start this new program at this time and to start it with a reprograming?

General CONFER. Sir, in order to make the ——— IOC, we must get the program started now and this is directed by the Secretary of Defense.

Mr. EDWARDS. You say you have reached a point where you don't have any other choice but to go now?

General CONFER. That is correct, and to have a program that wouldn't require advance funding, heavy funding, and Congressional scheduling, this would be the time to start.

Mr. EDWARDS. How much is included in the fiscal year 1976 budget for the program?

General CONFER. The fiscal year 1976 budget has $7.3 million included in it for this program.

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Mr. EDWARDS. The reprograming explains that the B–52 Harpoon program will provide the Air Force with a long range air-to-surface aircraft missile system which will augment the Navy mission. The fiscal year 1976 Air Force budget justification states that the B–52 Harpoon program is a collateral function of the Air Force. On one hand, the reprograming states that we are increasing—augmenting—our sea control capability. On the other hand, this increase apparently is a secondary—collateral function—to be performed by the Air Force. What is the primary mission assigned to the B–52D aircraft and under what conditions would these aircraft be used for the sea control mission?

General CONFER. The B–52D aircraft's primary mission is the SIOP role. The collateral mission you speak of is a secondary role. The way it would be used, to answer that, I guess, would be in response to the threat we were faced with at the time. The national command authorities would direct how the airplane would be used. Now, if the Navy was being threatened by a Soviet surface fleet and they needed help, then it would be at the national command authority's direction, or their approval, to use the B–52 in this role and it would be in a non-nucleartype war situation.

Mr. SIKES. Where would you anticipate B–52 bombers so used would be based?

General CONFER. They would be utilized right out of the same home bases as they are used now. SAC bases. Or they could be used from any of the worldwide bases.

Mr. CASEY. Does the B–52D have a primary SIOP mission or a secondary SIOP mission, with the B–52G and H aircraft having the primary SIOP mission?

General CONFER. We have about 30 percent of the B–52D's on alert today and they have the primary SIOP role.

Mr. CASEY. The D's we are talking about for the Harpoon program would be among those 30 percent?

General CONFER. Not necessarily. They could be any of the airplanes. We will have all of them configured to carry the Harpoon and the ones that are on alert, of course, are still committed to their SIOP role. They are configured for their SIOP role.

Mr. CASEY. The B–52G carries four nuclear bombs and 20 SRAM and the H does also, whereas the D only carries four internally.

General CONFER. Four gravity bombs, that is correct.

Mr. CASEY. Would it be correct to assume the D would only be used if the G and H's didn't make it or something like that?

General CHAPMAN. No, sir. Subject to discussions by the national command authorities, we would expect to employ the D model right along with the G and H models. However, I think it is a correct statement to say the G and H is the primary offensive bomber that we have today. We are not modifying the B–52D's to have the full advanced penetration capability that we have in the G's and H's. Nonetheless, the D's still have a primary mission of strategic offensive warfare. This modification doesn't change that primary mission. What we have been asked to do is provide for a collateral mission that the Air Force has had on the books for a number of years which the Navy has asked us to support, which is to provide for long-range capability against surface vessels.

Mr. SIKES. That is nonnuclear?

General CHAPMAN. Yes, sir.

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Mr. SIKES. How will the Harpoon be launched? How will it be mounted?

General CONFER. The Harpoon will be launched from between ——— feet with the B–52. It can be launched as low as ——— feet, with the engine started. What we plan on with the B–52 is to launch it ———.

Mr. SIKES. Will it be carried internally or externally?

General CONFER. Either way. The configuration definition study should show exactly how many we should carry, but we could carry about 20 of them on the B–52D.

Mr. SIKES. Does this configuration provide for both types of launching, external and internal?

General CONFER. Yes, it will.

Mr. EDWARDS. In hearings before the Senate Armed Services Committee on February 11, 1975, the Chief of Naval Operations stated that the B–52 Harpoon program will have no effect on Navy ship requirements. He said the Air Force has a collateral mission of maritime surveillance and any Air Force units equipped with an antiship capability must be considered in this collateral context, as their commitment to the primary function may prevent their availability for the collateral mission of ocean surveillance.

On February 26, 1975, Senator McIntyre wrote a letter to the Secretary of Defense stating that the Chief of Naval Operations' statement does not concur with the importance that the Air Force attaches to the B–52 Harpoon program. Senator McIntyre wrote that "there is a significant distinction between the Air Force statement that the system would 'augment the Navy mission' and Admiral Holloway's statement that 'it will provide a beneficial adjunct to the Navy's sea control capability.'" Moreover, his statement that "as their commitment to their primary functions may prevent their availability for the collateral mission of ocean surveillance," further degrades the need for this capability. Senator McIntyre questioned the ultimate investment of $44 million for development, the urgency for a start this year, and whether there is a clear need for the capabilities.

Can you comment on the Air Force position with regard to the questions raised by Senator McIntyre?

General CHAPMAN. Let me start with a general comment. The collateral mission was given to the Air Force in the early days and goes back to the formation of the current Department of Defense organization. We had not exercised to a full degree our responsibilities in the collateral mission. In the late 1960's Admiral Zumwalt came to the Air Force asking us to undertake full responsibility in this role.

That is when I think the B–52 Harpoon was first brought over to Congress.

Since Admiral Holloway appeared and since we have heard from Senator McIntyre on this matter, the OSD staff has asked the Admiral to clarify, and in his clarification said that he feels his previous statement may have been misunderstood, that there is no doubt in his mind that the Navy needs Air Force assistance in this area and he supports the Air Force B–52 mission with Harpoon.

General CONFER. Could I make one correction to General Chapman's statement? He said Admiral Zumwalt came to us in the sixties. I believe it was 1971.

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Mr. EDWARDS. The draft selected acquisition report for December 1974 shows that 2,870 Harpoon missiles are to be procured at a procurement unit cost of $424,000. The SAR shows that Harpoon missiles are to be air-launched from P–3 and S–3 aircraft and ships. In other words, it appears the Harpoon missile requirements for B–52 bombers have not been incorporated into the Harpoon SAR. Commander Peterson, would you explain why the SAR has not included this requirement?

Commander PETERSON. Let me just say it is not a specific requirement. However, we have included it in our overall probable procurement plan. That is to say, 2,870 is what we, the Navy, intend to procure. You add to that 220 Air Force missiles for a total requirement of 3,090 in the U.S. long-range procurement plan, sir.

Mr. EDWARDS. If that is a requirement, shouldn't the SAR show it?

Commander PETERSON. I am unable to answer that question.

Mr. EDWARDS. I assume it affects the price and everything else?

Commander PETERSON. Yes, sir, it certainly does. It could affect unit price if in fact the quantity were increased and as we look at this projected fiscal year requirement, the Air Force portion is 15 percent 1 year as we have tentatively laid it out, 16 percent another, and 5 percent another, and yes, it certainly would affect unit prices.

General CHAPMAN. I think the thing we are debating here is the difference between an approved and funded program that they would normally reflect in their acquisition program.

If we proceed with this reprograming and with the Harpoon program, our 3020 account in fiscal year 1977 will reflect a buy of Harpoons which I then presume would be sufficiently certified in the sense of the appropriation and the authorization going through that the Navy would then reflect that in their SAR report.

At the moment we haven't an official buy prior to fiscal year 1977. We would only have that if this program gets underway with this reprograming.

Mr. EDWARDS. You think it is too early for that?

General CHAPMAN. I think it is too early in that we do not have an official go-ahead in the sense of congressional approval for proceeding with this modification.

Mr. SIKES. Do you still require congressional authorization on the reprograming you are asking here?

General CHAPMAN. So far we have not been to any other committee in Congress for this reprograming action. On the others we have been before the Authorization Committee in the House.

Mr. SIKES. You are speaking about a reprograming authorization similar to the one you are asking us for?

General CHAPMAN. Yes.

Mr. EDWARDS. Commander, does the Navy still plan to deploy the Harpoon missile on the S–3?

Commander PETERSON. Yes, sir, we ——

Mr. EDWARDS. We ask this because we understand the Navy was considering the deployment of Condor missiles on the carriers rather than Harpoon missiles.

Commander PETERSON. Yes, sir; we are still planning to deploy Harpoon missiles on our S–3 aircraft.

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Mr. EDWARDS. Another question relative to the B–52 Harpoon program relates to the decision to use the Harpoon missile rather than the Condor. The Harpoon missile was developed for use against ship targets. The Condor was developed for land targets, however, with its E/O seeker it can also be used against ship targets. In other words, if the Condor were placed on B–52's it could be used against targets both on land and at sea. Why was the Harpoon rather than the Condor selected?

General CONFER. I will comment on that. The Systems Command ran a study in 1973 that included the Condor and the Harpoon for this role and mission. The Harpoon was the most cost-effective of the missiles considered and, of course, the Harpoon has all-weather capability due to the radar seeker, whereas the Condor is day, VFR, without the dual mode seeker.

COST GROWTH OF HARPOON

Mr. EDWARDS. Staff reminds me that since 1973 the price on the Harpoon has doubled.

General CONFER. Even above that we must have an all-weather capability on the weapon and the Condor does not come so equipped.

General CHAPMAN. Perhaps the Commander could address that question on cost. If that is true, I expect the Condor has also increased.

Commander PETERSON. It is correct that the Harpoon has experienced some cost growth. However, I prefer you direct these questions to our project manager.

COST OF CONDOR

Mr. SIKES. Has Condor experienced a similar cost increase?

Commander PETERSON. I do not know the answer to that, sir.

General CHAPMAN. We can furnish that for the record.

Mr. EDWARDS. I wish you would. We expect it has.

[The information follows:]

COST GROWTH IN HARPOON AND CONDOR

The total program acquisition cost for Condor has increased slightly due to the addition of 45 missiles, the break-in procurement, and reestimation and application of revised outyear inflation factors. However, the program unit cost has decreased, from the $736,000 each estimated in the fiscal year 1975 budget submission to a current average total program unit cost of $721,000.

Mr. CASEY. Last year in the Navy's request for the Condor missile there was also an R. & D. request for the development of the dual mode seeker. This committee deleted not only the Condor buy of missiles, but also the development of the seeker, principally because the quantity of Condors we were going to buy was so low that it didn't appear cost effective to buy any.

If an additional requirement on the Air Force side was to be input into the Navy's requirement and the capability to use it both against land and sea targets may be sufficient justification to restart a dual mode seeker development program.

General CHAPMAN. Yes, sir.

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Mr. CASEY. The question is, would that capability against land and sea targets be worth going to the Condor versus the Harpoon?

General CONFER. There is one other consideration, sir. The Harpoon is more survivable than the Condor. The Condor's altitude is ——— feet. The Harpoon can go down as low as ——— feet, which makes it a very difficult weapon to track and therefore it is more survivable. I think it will always come out better in that respect.

Mr. SIKES. You say the Harpoon is more survivable?

General CONFER. Very much so.

General CHAPMAN. We have been looking at the Condor, along with the Navy, for a Condor variant we might use in our inventory for the exact reason you mentioned, and that is to see if we can find a cost saving. To date the studies that I have seen which are as recent as I guess a month ago, indicate that we probably don't have a place for Condor, at least in our land target mission.

As far as the ocean, surveillance antiship mission is concerned, I think it would be very difficult to say that the Condor is a better system because the Harpoon was specifically designed for the antiship role. It has a number of features, one of which we just mentioned. The radar seeker feature, and the engine itself, all of which are pretty much peculiarly tailored to the antiship. The Condor was not designed to that mission and I think there would be considerable redesign involved.

We have not looked at the Condor for this mission we are discussing today, in detail, because our study shows that the Harpoon is the correct missile and is the most cost-effective missile for this job.

Colonel THORNTON. When we addressed the ASD study in fiscal year 1973 as General Confer pointed out, one of the driving factors was how many weapons could be carried on the B–52. The Condor it turns out is too long to fit two missiles in tandem within the bomb bay, whereas the Harpoon can, so you get increased carriage on the B–52.

Mr. CASEY. I didn't want to indicate that the Condor is better than the Harpoon. I am merely bringing out that you would have an additional capability.

Another point would be that you can guide the Condor. You have a data link. Harpoon does not.

General CHAPMAN. That is right.

Mr. CASEY. You drop it and leave it and it goes on its way. Does the fact that the Condor has a data link, has that been considered? Would that provide any advantages?

General CHAPMAN. I don't know how to answer the question—has it been considered, but let me address the point of the data link. There are advantages and disadvantages. With the data link if you have optics working correctly, you have last minute control. I think we are convinced that Condor is adequate in that regard.

In other words, the data-link provides last minute control to hit the target. On the other hand, that data link can be also interfered with, so one has a mixed blessing.

The point that General Confer brought out, I think there is some merit in the Harpoon application in that particular role. As we look ahead in our own inventory to the possibility of some protection on our ships and so on, to have a survivable missile, one that you can

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launch, and leave—I am not sure the data link in this particular application is an advantage. I am not sure we have looked at that question. I will provide additional information for the record.

[The information follows:]

Data link was evaluated in the 1973 AFSC/ASD antiship weapon study. The Condor data link electro-optical sensor requires it be used in day, visual conditions with weather minimums of ——— foot ceiling and ——— miles visibility. The probability of Condor employment based on the stated weather minimums for the principal ocean areas of concern are: ———

Mr. SIKES. How many Condors could be carried on a B–52D?

Colonel THORNTON. Twelve, sir.

Mr. SIKES. About half as many as a Harpoon?

Colonel THORNTON. That is right.

Mr. EDWARDS. Would the B–52 bombers armed with air-to-ground missiles be included in the ceiling of 2,400 ICBM's, SLBM's, and bombers established in the Vladivostok agreements?

General CHAPMAN. I guess we have to assume they are. We have no clarification that I know about that spells it out by aircraft numbers.

Mr. SIKES. This is not a strategic weapon, is it?

General CHAPMAN. Maybe I misunderstood the question. I thought you said are the B–52's included in total delivery capability.

Mr. EDWARDS. The air-to-ground missile.

General CHAPMAN. With the Harpoon? We do not imagine the Harpoon would be included in that limitation.

Mr. CASEY. The bomber would not be included——

General CHAPMAN. If it were dedicated to this particular air-to-ground role, is my understanding. As long as the bomber was dedicated to the nuclear role, I think we believe it will be, is that correct?

General CONFER. Yes.

Colonel POTEETE. The B–52 is a strategic heavy bomber and is considered in the 2,400 aggregate regardless of whether it can carry a Harpoon. Since it has strategic capability, and is defined as a heavy bomber, it is so considered.

TRANSFER OF FUNDS FROM ABRES TO OTHER PROGRAMS

Mr. EDWARDS. The committee has heard extensive testimony from the Secretary of Defense on the strategic initiatives included in both the fiscal year 1975 and 1976 budget requests. One of the major program elements involved in funding these initiatives is the advanced ballistic reentry system program. This is the third reprograming that this committee has received, which transfers funds from ABRES to another program. Would you explain the apparent inconsistency?

General CONFER. Well, the reason we were able to have what we consider some extra money in the ABRES line, specifically the line that we are talking about, is Pave Pepper. This program had a late start and therefore they were not able to spend the money at the rate they thought they would be able to. It was supposed to start in February. It got started in May, so there was about $2 million available that we could use for this high priority program.

Mr. CASEY. General Confer, we recently had a briefing on the Minuteman and ABRES programs and the fiscal year 1976 budget, as I recall, has $2 million in it for Pave Pepper.

General CHAPMAN. That is correct.

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Mr. CASEY. In other words, you are taking the money in Pave Pepper to use it on this program and we have to give it back to you next year?

General CONFER. It will take $2 million next year to finish the program.

General CHAPMAN. Let me address that in a broader sense. The ABRES program started the year with an appropriation of $119.9 million. During the fall, I guess the late summer or fall, there were a number of things that happened, including some late starts and there were some things that were changed within that.

Our interest in a particular guidance system—I can detail these by number. The result of all of those was $8.1 million that we saw that was available in the ABRES line. We have been looking at that line then during the fall and winter as a possible reprograming source. We agreed with the OSD folks that $8.1 million would not be spent this year. There are a number of actions. This is one.

You will see another one on the radar, a number of actions we are requesting the Congress to approve against that $8.1 million. In some cases the one particular case that you just asked about, that money is in fact deferred because the work didn't get under way; we couldn't obligate it this year. We were forward financing in effect so therefore we have asked to take it out of this year's budget. We will ask that it be included in the 1976 appropriation.

Now, the other work is essentially work we are not doing or that we have deferred to a later time, and the aggregate of all of that I can give you on the other pieces of that program that we have identified for reprograming.

Mr. EDWARDS. I wish you would put that in the record.

[The information follows:]

A total of $8.1 million has been identified for reprograming from the ABRES line in fiscal year 1975 as follows:

Two million dollars came from the Pave Pepper effort which, as mentioned previously, showed strong signs of forward financing into fiscal year 1976;

Three million four hundred thousand dollars was obtained from the maneuvering area or, more specifically, the effort associated with the precision guided reentry vehicle (PGRV). The results of in-house investigations revealed that some of the projected effort ——— should not proceed. In particular, the ——— effort was determined to be infeasible in its present form due to the ———;

Two million seven hundred thousand dollars was obtained through a reduction in some——— penetration aid effort. The ——— penetration decoys and penetration technology assessment being reduced are applicable against ——— interceptors. Lower priority is assigned to this work since it is in the longer range time frame and is sensitive to the defense constraints of SALT which limit both numbers of sites and interceptors.

Mr. EDWARDS. I guess it seems a little strange to this committee that you have taken a system that apparently has been assigned a secondary function and you have moved it ahead, or it appears you are moving it ahead, of the high priority ABRES program. I gather from what you say you are not really doing that.

General CHAPMAN. What I am saying is that $2 million was for Pave Pepper. We were going to obligate in fiscal year 1975 on that.

Mr. SIKES. You are not moving this ahead of ABRES; you just haven't had a need for all of the money in ABRES?

General CHAPMAN. We are going to reprogram this year and it will be requested again.

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There is $3.4 million of the money that is a reduced scope on our precision-guided reentry vehicle. There is some sensor evaluation and development follow-on analysis that we are simply taking out the precision-guided reentry vehicle.

There are some penetration technology assessment and penetration aids. The reason for that is that the threat those are against has not developed. We are sending that downstream until we see a more pressing need for it. The result of this action makes available to us some reprograming possibilities of which we are exploring two today.

Mr. EDWARDS I believe you said you have not been asked to appear before either of the authorization committees, or the other appropriations subcommittee on this particular one?

General CHAPMAN. Yes, sir.

Mr. CASEY. Have you responded to Senator McIntyre's letter?

General CHAPMAN. So far as I know the Secretary of Defense has not signed an answer to that. We are certainly aware of it, but we don't know if the answer has gone back.

DETECTION RANGE OF B–52 RADAR

Mr. SIKES. At what range will the B–52 radar be able to detect ships?

General CONFER. That detection range is between 120 and ——— miles.

Mr. SIKES. Does the range decrease in high sea status?

Colonel THORNTON. The initial detection range will be between ——— miles and then we can pick out individual targets within a convoy between ——— miles.

Your second question, yes, sir, it does affect radar range.

Mr. SIKES. How much?

Colonel THORNTON. I would say ——— miles and include sea state in that.

Mr. SIKES. Does the B–52 radar require any modifications?

Colonel THORNTON. No, sir, it does not.

Mr. ROBINSON. Is the Harpoon missile in our inventory?

Commander PETERSON. It is due to be introduced to the fleet this calendar year, sir, so it is not in our inventory.

Mr. ROBINSON. It is not yet in inventory?

Commander PETERSON. That is correct.

Mr. ROBINSON. I note from the statement that the Navy asked the Air Force in 1971 to consider equipping B–52's with the Harpoon to assist them with the cruise missile threat as posed by the cruise missiles that we know the Soviets have.

The other day when the Secretary was here, he showed us a chart reflecting the comparative forces and weapons systems of the NATO countries and the Warsaw Pact countries, and there was quite a column there for cruise missiles on the Warsaw Pact side, but absolutely zero on the NATO side. If this has been considered in the cruise missile category, I just wondered why that is. If this is to be our cruise missile, why don't we call it such? Why isn't it on this chart also?

General CONFER. I don't think this is considered a cruise missile.

Mr. ROBINSON. Isn't this going to function as a cruise missile in this respect?

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General CHAPMAN. In the sense that it will cruise 60 miles, yes, sir. I don't think we so categorize it. When we talk about a cruise missile, we are talking about what we normally refer to as a sea-launched cruise missile which is a Navy variant that is being looked at and the air-launched cruise missile which is the one we are looking at, going back to the SRAM kind of missile. I think, it is in that category of strategic weapons that we normally speak of a cruise missile as opposed to this sort of a thing which is a Condor, Maverick, Walleye, Harpoon, in that class of offensive—I am sorry—defensive weapons.

Mr. ROBINSON. But from the technical standpoint?

General CHAPMAN. I have a semantic problem here. I am sorry.

Mr. ROBINSON. One other question has to do with the increasing cost of this as represented as being 100 percent. I wonder how many suppliers we have for this Harpoon missile.

Is that a single source?

Commander PETERSON. We have one development contractor and we have one pilot line missile production contractor who is the same, McDonnell Douglas, sir.

Mr. SIKES. Other questions?

Very well, gentlemen. Thank you very much.

THURSDAY, MARCH 6, 1975.

RESEARCH, DEVELOPMENT, TEST AND EVALUATION, AIR FORCE, REPROGRAMING FISCAL YEAR 1975—22 P/A

SLBM PHASED ARRAY RADAR

WITNESSES

MAJ. GEN. KENNETH R. CHAPMAN, ASSISTANT DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT
BRIG. GEN. BENTON K. PARTIN, DEPUTY DIRECTOR OF DEVELOPMENT AND ACQUISITION, DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT
COL. WILLIAM D. BATHURST, DEPUTY CHIEF, INVESTMENT APPROPRIATIONS DIVISION, DIRECTORATE OF BUDGET
COL. JOHN L. GILBERT, ASSISTANT FOR REQUIREMENTS, DEVELOPMENT AND ACQUISITION PROGRAMING, DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT
LT. COL. LARRY L. TAYLOR, SLBM PROGRAM ELEMENT MONITOR, DIRECTORATE OF COMMAND, CONTROL AND COMMUNICATIONS, DEPUTY CHIEF OF STAFF, PROGRAMS AND RESOURCES
CAPT. JESSE T. McMAHAN, SLBM RADAR PROJECT OFFICER, DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT

Mr. SIKES. The next reprograming request to be considered is 75–22 P/A, research, development, test and evaluation, Air Force. The request is for $750,000 of initial funding for development efforts that are prerequisites to procurement of two long range SLBM phased array radars.

We will insert the reprograming request in the record at this point.

[The document follows:]

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Research, Development, Test and Evaluation, Air Force	FY 75-22 P/A

APPROPRIATION SERIAL NUMBER: 75-5 P/A

(Amounts in Thousands of)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REP		ED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

This reprogramming action provides initial funding for development efforts that are prerequisites to procurement of two long range Phased Array Radars that will significantly upgrade current capability to provide tactical warning and characterization of a Sea Launched Ballistic Missile (SLBM) attack on the Continental United States. This action is necessary to permit the use of procurement funds already appropriated in FY 1975. Funds to finance this effort have now become available from the Advanced Ballistic Re-entry System (ABRES) due to reduced priority of certain penetration aid and evasion maneuvering technology. It is a prior approval request because funds were originally denied, although without prejudice, pending further studies in this area. The SLBM program is now considered a higher priority than those efforts in ABRES from which funds can be made available.

REPROGRAMMING INCREASE

FY 1975 Program								
Military Astronautics and Related Equipment								
SLBM Phased Array Radars		-		-		+750		750

EXPLANATION: The $.750 million is required to initiate the R&D tasks for the SLBM Phased Array Radar (PAVE PAWS) program. The WWMCCS Council Plan for Evolution of Warning Systems and the House Appropriations Committee Surveys and Investigations Staff study titled "Defense Warning Systems of the Department of Defense" transmitted 6 Jan 1974 have clearly highlighted the need to phase out existing less effective warning systems and replace them with the SLBM Phased Array Radars. The deployment of the SLBM Phased Array Radars is essential in order to provide unequivocal and credible warning of an SLBM attack.

Deployment of these radars does not violate the Strategic Arms Limitation (SAL) Agreements.

Deleted

TOTAL PROGRAM INCREASE +750

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
Research, Development, Test and Evaluation, Air Force	FY 75-22 P/A

APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)
75-5 P/A	

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
REPROGRAMMING DECREASE								
FY 1975 Program								
Missiles and Related Equipment								
Advanced Ballistic Re-entry Systems (ABRES)		119,943		113,743		-750		112,993
EXPLANATION: Further reductions in the area of Advanced Ballistic Re-entry Vehicle for reprogramming to support this higher priority effort. Subsequent reinstatement is not contemplated.								
TOTAL PROGRAM DECREASE						-750		
NET CHANGE IN PROGRAM						-		

REQUESTED (Signature and Date) JAN 1975

WILLIAM W. WOODRUFF

Assistant Secretary of the Air Force
(Financial Management)

APPROVED (Signature and Date) 6 FEB 1975

DEPUTY SECRETARY OF DEFENSE

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Mr. SIKES. General, do you want to proceed or do you have your witnesses ready?

General CHAPMAN. General Partin, we will insert your statement in the record at this point.

[The statement follows:]

General PARTIN. Mr. Chairman and members of the committee, I am pleased to appear before you to discuss the sea launched ballistic missile phased array radars reprograming action.

The original fiscal year 1975 Air Force R.D.T. & E. request was denied by the House Armed Services Committee on the basis that the Air Force did not establish that the technology of the proposed system was necessary to meet early warning requirements. The request was denied without prejudice in conference and allowance was made for later reprograming should further study conclude that this type of system is required. The study was to address replacing older systems which have excessive logistic support and maintenance costs relative to their operational effectiveness. $37.9 million other procurement funds were appropriated by the Congress. However, no action has been initiated to apply these funds to system acquisition until R.D.T. & E. funding is authorized.

Two studies: The worldwide military command and control system (WWMCCS) warning plan study and the House Appropriations Committee survey and investigation report, titled: "Defense Warning Systems of the Department of Defense," June 6, 1974, both clearly support the necessity of replacing older, less effective warning systems with new phased array radars. The House Appropriations Committee report also pointed out a need to phase out certain existing warning systems. The Air Force is taking action to be compliant with the desires of the committee. Approval of this reprograming request will allow immediate response to fill this need.

The SLBM phased array radars system (Pave Paws) is essential to provide reliable and credible early warning of an SLBM attack on the United States. Pave Paws will provide two long-range phased array radars, one on each coast. These radars will replace the radars of the 474–N SLBM detection and warning system, resulting in greatly increased coverage and confidence in attack warning. Pave Paws is a high priority addition to the worldwide military command and control system (WWMCCS).

The requested reprograming for $750,000 of fiscal year 1975 R.D.T. & E. funds will provide initial funding for development efforts that are prerequisites to procurement of the radars.

This reprograming request has been approved by the House Armed Services Committee. No other congressional committees have as yet held hearings on the request.

I will be pleased to respond to any questions you may have.

Mr. SIKES. What will the total cost be?

General PARTIN. The total cost is $111 million for the whole system research and development plus the procurement.

Mr. SIKES. Over what period of time; how many years?

General PARTIN. Roughly about 6 years, sir.

Mr. SIKES. All right.

General PARTIN. Failure to initiate the program in fiscal year 1975 fielding this urgent requirement by at least six months.

Mr. SIKES. On June 11, 1974, the committee advised the Secretary of Defense of the results of a surveys and investigations staff review of Defense warning systems, including the proposed SLBM phased array radar system. The study concluded that assuming a credible SLBM detection and warning system is a national requirement, the SLBM radars could be justified provided that certain other costly and limited capability warning systems are terminated. First, will all of the 440–L forward scatter OTH radars—transmitters and receivers—including the correlation center at ——— and a data and analysis center at McGuire AFB, N.J., be phased out by June 30, 1975?

General PARTIN. Sir, we have underway right now action to close down that system and phase it all out.

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Mr. SIKES. What other stations are involved?

General PARTIN. We have closed down the Laredo station.

Mr. SIKES. Has it actually been closed?

General PARTIN. Yes, sir. The transmitter has been shut down. We are picking that capability up in the AN/FPS–85 at Eglin. That is why we could close that facility down. There are six others which we will keep operational until we can bring the other Pave Paws systems in line.

Mr. SIKES. What are the six locations?

Captain MCMAHAN. The AN/FSS–7 locations are at Charleston AFS, Maine; Fort Fischer AFS, N.C.; MacDill AFS, Fla.; Mount Laguna AFS, Calif.; Mill Valley AFS, Calif.; and Mount Hebo AFS, Wash.

Mr. SIKES. All of them will be phased out when this one is available; is that correct?

Captain MCMAHAN. When the two Pave Paws systems are brought in they all six will be phased out, yes, sir.

Mr. SIKES. Has the AN/FPS–40 SLBM radar at Moorestown, N.J., been phased out?

Captain MCMAHAN. Shut down in December, sir.

Mr. SIKES. You may have answered this one, at least in part.

Will the FSS–7 radar at MacDill AFB, Fla., be closed when the modification of the space track radar at Eglin AFB, Fla., is completed and it has a SLBM warning capability?

Captain MCMAHAN. The MacDill site will remain operational. The Laredo site will be closed down as its coverage will be redundant to that of the AN/FPS–85. MacDill does provide unique coverage.

Mr. SIKES. When will the Cobra Dane radar at Shemya AFB, Alaska, become operational?

General PARTIN. March 1976.

Mr. SIKES. How long must it be tested and operated before the BMEWS site at Clear, Alaska, is terminated?

General PARTIN. As soon as it is brought on and checked out we will be able to close down the other site.

Mr. SIKES. When do you think that will be?

Captain MCMAHAN. Sir, on the Clear, Alaska, BMEWS, we intend to test both Cobra Dane and the west coast Pave Paws site to insure the two of them provide coverage that is provided at the present time. That would be in ——— sir.

Mr. CASEY. I thought we had agreed that the Clear, Alaska, BMEWS would be closed up as soon as Cobra Dane came on the line, and wasn't related to the west coast radar.

Captain MCMAHAN. As I understand it the Cobra Dane radar and Pave Paws would be looked at.

General CHAPMAN. Mr. Clements, I think, in his response asked that we be given an opportunity to look at the Cobra Dane operation before it was decided to close the other radar.

Mr. CASEY. I knew that, but I didn't know we had to wait until the SLBM phased array radar is completed.

Colonel TAYLOR. That wasn't part of the response. We are at the present time conducting a study presuming the coverage of Cobra Dane and Pave Paws. The study will be completed this summer which will give us a better handle on the capability of Cobra Dane.

Mr. SIKES. While not directly related to this reprograming, we understand that there is an experimental OTH–B facility at Ava

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and Dexter, N.Y. Is this facility to be closed, since the OTH–B radar prototype is to be constructed in Maine?

General PARTIN. Sir, we will have to respond to the record for that.

[The information follows:]

General PARTIN. No. Present plans are to continue using the OTH–B facility at Ava and Dexter, N.Y., for OTH technology research and development of techniques which support the development of the prototype in Maine.

Mr. SIKES. The question is if we have an experimental over-the-horizon B in New York, why should we build a prototype in Maine?

General PARTIN. The prototype in Maine is covering a large segment, and it will be fully operational with power compatible with the whole system. The other facility that you mentioned is an experimental, basically a research facility.

Mr. CASEY. The OTH–B program in Maine provides for a limited coverage?

General PARTIN. That is right, limited coverage in angle.

Mr. CASEY. Is the coverage in that radar significantly greater than the one at New York?

Captain MCMAHAN. Sir, the OTH prototype to be located in Maine is located and its coverage is such that it can address our coverage in areas of disturbed propagation such as in the auroral zone. The one in New York is not directed in the proper angle for that nor is its coverage of such extent nor is that radar equipped to make analysis of our ability to track aircraft over a significant area.

Mr. SIKES. Questions?

Very well, gentlemen. Thank you.

THURSDAY, MARCH 6, 1975.

REPROGRAMING ACTION FISCAL YEAR 1975—24 P/A AIRCRAFT PROCUREMENT, AIR FORCE

F–15 Fighter Aircraft

WITNESSES

MAJ. GEN. KENNETH R. CHAPMAN, ASSISTANT DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT
MAJ. GEN. ROBERT MATHIS, F–15 SYSTEM PROGRAM DIRECTOR, AERONAUTICAL SYSTEMS DIVISION
COL. WILLIAM D. BATHURST, CHIEF, INVESTMENT APPROPRIATIONS DIVISION, DIRECTORATE OF BUDGET
COL. JOHN L. GILBERT, ASSISTANT FOR REQUIREMENTS, DEVELOPMENT AND ACQUISITION PROGRAMING, DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT
LT. COL. NORMAN E. REED, AERONAUTICAL SYSTEMS DIVISION, DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT

Mr. SIKES. Reprograming action 75–24 P/A.

Congress appropriated $756.9 million in fiscal year 1975 for the production of 72 F–15A fighter aircraft at a production rate of six per month. At the urging of the House and Senate Armed Services Com-

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mittees, the production rate was increased from six per months over a period of 12 months, to a production rate of nine per month in a period of only 8 months. This lines up the fiscal year 1975 production rate with the fiscal year 1974 production rate. The economics of both reduced overhead allocation and reduced fixed costs associated with producing 72 aircraft in only 8 months results in a savings of $30.9 million.

Prior approval reprograming action 75–24 proposes to apply the $30.9 million savings against a newly established advanced procurment line item in the fiscal year 1975 program. This $30.9 million would permit 36 of the 108 aircraft budgeted in fiscal year 1976 to be delivered in the 4-month period previously planned for the fiscal year 1975 funded deliveries. Is this correct, General?

General MATHIS. Yes, sir.

Mr. SIKES. Let's have the reprograming action in the record, and your statement, General Mathis.

[The statement follows:]

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Statement of F-15 System Program Director

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to present for your consideration Reprogramming Action 75-24 to the Air Force procurement appropriation.

The purpose of this reprogramming request is to obtain authorization for advanced funding of the F-15 FY 75 buy which requires action to open a P-1 line in FY 75. Approval of this request will enable the F-15 program to achieve a more efficient production rate reaching nine per month in May 1976 at the end of the FY 74 buy and continued through the FY 77 buy.

The original F-15 program, which allowed the production rate to reach this nine per month rate in the FY 74 buy, also called for the procurement of 144 aircraft in the FY 1975 buy thus building the production rate up to 12/month. However, in December 1973, because of fiscal and force structure constraints OSD made the decision to slow the F-15 program beginning with the FY 1975 buy. This resulted in a reduction of the FY 1975 request from 144 to 72 aircraft. The request for 72 aircraft which was approved by Congress provides a 6/month production rate over a 12 month period.

At the time the FY 1975 procurement program was being considered by the Congressional Committees, a potential foreign military sale was pending which, if completed, would have added 3 aircraft/month to the FY 75 production thus maintaining the production rate at nine per month. The foreign military sale did not materialize; however, the Air Force continued to look for a way to maintain the more economical 9/month production rate. Additionally, during testimony in May 1975 the Congress, recognizing the benefits to be gained from a sustained production rate, recommended that the FY 1975 F-15 program be produced at a nine per month rate. The Air Force and OSD support this recommendation. Maintaining a nine per month production rate through FY 1977 will lead to significant program cost savings estimated at $61 million. The 9/month production rate can be accomplished within the 72 aircraft authorized for FY 75 by compressing the production schedule to 8 months instead of the originally planned 12 months (from July 76 to March 77 rather than July 76 to July 77). This necessitates starting delivery of the FY 76 procurement 4 months early. This compression of 4 months, combined with lead time requirements and a constant fiscal buy creates a need for advanced funding commitment to cover long lead requirements for the next fiscal year. The cost savings generated in FY 1975 as a result of the more economical higher production rate will satisfy the advance buy funds requirement for FY 1975. Accelerating the production rate will also allow earlier equipage of F-15 squadrons and accelerated modernizations of the Air Reserve Forces. Beginning with the third F-15 squadron, equipage can be advanced by at least three months. Full equipage of the remaining wings can be accelerated. As a result, F-4s can be transferred to the Air Reserve Forces at a more rapid pace, thus providing accelerated modernization by replacement of older F-100s and F-105s.

In summary, approval of this reprogramming request will allow the F-15 production rate to be maintained at the more economical nine per month rate through FY 1977 without adding funds to the FY 1975 F-15 program. Overall program savings will be approximately $60 million and the increased F-15 production will allow us to modernize both the active and reserve forces at an earlier date.

This completes my statement. I will be happy to answer any questions which you may have.

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE	DOD SERIAL NUMBER
AIRCRAFT PROCUREMENT, AIR FORCE, 1975/1977	FY 75-24 P/A

APPROPRIATION SERIAL NUMBER: FY 75-6 PA

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

PRIOR APPROVAL ACTION

The purpose of this reprogramming request is to provide advance procurement funds to maintain a nine per month F-15 production rate plan beginning with the FY 1975 procurement program. This reprogramming follows the recommendation made in both the Senate Armed Services Committee Report No. 93-884; May 29, 1974, and the House Armed Services Committee Report No. 93-1212, July 24, 1974. This reprogramming action is to establish a P-1 line item in FY 1975 for F-15 advance procurement of manufacturing long lead time items for the FY 1976 year buy. Funds for this line are realigned from within the FY 1975 F-15 funding program through savings that will result from production of the aircraft at a nine per month rate versus the present less economical six per month rate.

REPROGRAMMING INCREASES

FY 1975 PROGRAM

Combat Aircraft

1. F-15A Advance Procurement	XX	XX	XX	XX	XX	+30,900	XX	30,900

Explanation: Production of the F-15 aircraft reaches a nine per month rate during the FY 1974 buy. The FY 1975 program was approved for 72 aircraft which supports a six per month production rate. The current plan provides for producing the FY 1975 buy of 72 aircraft over an eight month period at a rate of nine per month. Savings to the F-15 P-1 line item in FY 1975 due to the increased efficiency of production at the accelerated nine per month rate are estimated at $30.9 million. The FY 1976 budget request for 108 aircraft will complete the funding of the nine per month production rate for the FY 1976 buy. Cost avoidance on the entire F-15 program as a result of this change in production rate is approximately $61.0 million. In order to deliver FY 1976-funded aircraft in the 4 month period previously planned for FY 1975-funded deliveries, this reprogramming action to establish an FY 1975 advance procurement is required.

Accelerating the production rate will also allow earlier equipage of F-15 squadrons and accelerated modernization of the Air Reserve Forces. Beginning with the third F-15 squadron, equipage can be advanced by at

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE: AIRCRAFT PROCUREMENT, AIR FORCE, 1975/1977

DOD SERIAL NUMBER: FY 75-24 P/A

APPROPRIATION SERIAL NUMBER: FY 75-6 PA

(Amounts in Thousands of Dollars)

LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

least three months. Full equipage of the [redacted] wings can be accelerated by approximately [redacted]. As a result, F-4s and A-7s can be transferred to the Air Reserve Forces at a more rapid pace, thus providing accelerated modernization by replacement of older F-100s and F-105s.

TOTAL PROGRAM INCREASE +30,900

REPROGRAMMING DECREASES

FY 1975 PROGRAM

Combat Aircraft

2. F-15A	72	756,900	72	756,900	72	-30,900	72	726,000

Explanation: Production of the FY 1975 F-15 buy of 72 aircraft over an eight month period will yield savings of $30.9 million. This saving is attributed to the economies of both reduced overhead allocation and reduced fixed costs associated with producing 72 aircraft in eight months in lieu of twelve months as well as the learning curve benefits of an increased production rate.

TOTAL PROGRAM DECREASE -30,900

NET CHANGE IN PROGRAM -0-

REQUESTED (Signature and Date) JAN 14 1975

WILLIAM W. WOODRUFF
Assistant Secretary of the Air Force
(Financial Management)

APPROVED (Signature and Date) 11 FEB 1975

DEPUTY SECRETARY OF DEFENSE

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PRODUCTION RATE OF F–15 AIRCRAFT

Mr. SIKES. Under the original budget, when would the last F–15 in the fiscal year 1974 program be delivered?

General MATHIS. I have that here, sir. In June of calendar year 1976, sir.

Mr. SIKES. And when would the last F–15 in the fiscal year 1975 program be delivered?

General MATHIS. Under the current program, sir, it would be in June 1977, and we would move that up to February 1977, if we accelerate it.

Mr. SIKES. Why is it that the fiscal year 1974 program was at a production rate of 9 per month and yet you budgeted 72 aircraft in fiscal year 1975 at a production rate of only six per month? Why was that done?

General MATHIS. Originally, sir, we had 77 aircraft in the fiscal year 1974, and the Congress cut that down to 62 aircraft for fiscal year 1974. The F–15 contract requires a 9-month delivery period for the fiscal year 1974 buy beginning with a 3-per-month production rate and building to nine per month. The original F–15 program called for 144 aircraft which would have brought the production rate to 12 aircraft per month. The Secretary of Defense decided to stretch out the program for several reasons.

One of them is he wanted to keep the production line open into the 1980 time period and with the original program fiscal year 1979 was our last buy year. The other reasons given by the Secretary of Defense for stretching the program into the 1980's were budget and force structure constraints.

In changing to this particular approach, we will still maintain the basis for the Secretary's original decision. That is we will still keep the production into the 1980's.

Mr. SIKES. This matter was not brought to our attention during our hearings last year, was it?

General MATHIS. No, sir, I don't believe so.

Mr. SIKES. Is there any reason why not?

General MATHIS. No, sir. I believe that last year the Congress did come back and recommend, at least in authorizations, that we proceed with nine a month. This is our method of accomplishing it.

Mr. SIKES. Your fiscal year 1976 program reflects a nine-per-month production rate—36 in the 4-month period previously covered by the fiscal year 1975 buy, and 72 during the fiscal year 1976 funded delivery period. This means you will require $37.2 million in fiscal year 1976 for advance procurement funding for fiscal year 1977.

Why didn't you budget sufficient aircraft in fiscal year 1976 to avoid the advance procurement funding requirement?

General MATHIS. What we are doing, sir, we will be requesting congressional approval to fully fund 108 aircraft in fiscal year 1976 to maintain the 9-per-month production rate. Trying to get toward a more normal fiscal year operation in fiscal year 1976 would require requesting 36 more aircraft which would have a great impact on the fiscal year 1976 budget. Therefore, we will be requiring some advanced procurement funding for long lead parts. Should the Congress not

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approve the Air Force request for the following year, then those parts of course would be available for spares.

Mr. MURPHY. Up to this point we haven't had advanced procurement funding in the F–15 program, as you are well aware.

Does this mean from now on we will have requirement for advance procurement funding each year?

General MATHIS. Yes, sir.

Mr. MURPHY. Is there any way that you could budget additional aircraft and avoid advance procurement funding in the out years, after fiscal year 1976? In other words, maybe you can explain to us why the program was structured in such a way that advance procurement funding was not required, and now in view of this action, we are going to be faced with advance procurement requests each year.

General CHAPMAN. I think I can address that.

Another reason that General Mathis didn't give for the 72 aircraft request in fiscal year 1975 was an anticipation of some foreign sales. Those foreign sales would have filled the buy up, so to speak, to the nine per month. That would have filled then what we call the bathtub through those years 1975–76. We had structured the program and the authorization appropriation provided us the lower buy. The foreign sales did not develop and we were left with what I would categorize as an inefficient production schedule.

We are trying to fill that gap now. In 1976, 197T and 1977 we will be requesting aircraft quantities and funds to maintain the nine per month and then go above, nine per month in fiscal year 1978 and beyond. It turns out that by going to nine per month the efficiencies that we achieve will be adequate in dollar compensation to provide for the advanced procurement funds required for the next year.

STRIKE AT MCDONNELL DOUGLAS CO.

Mr. SIKES. McDonnell Douglas is on strike. When did that strike begin?

General MATHIS. It began in the first week in February, sir.

Mr. SIKES. Is there any prediction about when a settlement can be achieved?

General MATHIS. At the time they went out on strike, sir, it appeared about 4 to 6 weeks. It is into that time period. At this time I don't know specifically how much longer it will last.

Mr. SIKES. What is this doing to your program in the way of slippage?

General MATHIS. Currently on the aircraft deliveries we have slipped two of the three February aircraft. We are scheduled to be delivering three aircraft a month at this time. The two remaining aircraft scheduled for February delivery will be delivered in March. It appears that we will be able to get through March with little impact on the schedule. I think what will happen eventually is that we will be falling behind the farther the strike goes, since there are no new aircraft starts. We have to be starting aircraft at the same time that we are delivering them.

Mr. SIKES. What is the strike doing to the cost of the program?

General MATHIS. It is not affecting the cost currently, sir. This gets to be a complex problem, but if you go out and deliver the aircraft

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over a given period of time, say, the next 2 years, you have to pay for the same amount of overhead. If you get the same number of airplanes, the cost will run about the same. There will be some minor perturbations but until we get an exact time on the strike, I am not sure that we can tell, but I would say it would be minor cost change, unless it extends for a long period.

Potential Foreign Sales of Aircraft

Mr. Sikes. Are there any potential foreign sales for this aircraft that would make unnecessary the additional funds that you are requesting? What is the prospect for foreign sales?

General Mathis. Sir, we have been asked to prepare some costing for foreign sales. I am unaware, I do not believe that there is a letter of offer out at this time.

Mr. Sikes. No indication of any immediate or early foreign sales then?

General Mathis. None that I am aware of.

General Chapman. We do not have a letter of offer.

Mr. Sikes. What countries are interested, do you know?

General Mathis. Yes, sir. We have had inquiries from the ———.

Mr. Robinson. Iran?

General Mathis. Iran has looked at it and opted in favor of the F–14 program.

Mr. Sikes. Mr. Flood?

Mr. Flood. No questions.

Mr. Sikes. Questions on my left?

Staff questions?

Mr. Murphy. Yes, Mr. Chairman.

Will you be able to achieve the 9-month production rate in view of the strike situation?

General Mathis. Yes, sir, I think we will be able to. I think the strike is a fairly temporary thing. I can't give a definitive answer as to when it will end, but certainly we will be able to reach the 9 per month as scheduled in April 1976. They have settled out on the west coast. They are having day-to-day meetings and I don't know what the results of those are.

Mr. Murphy. General, I wonder if you could provide for the record an Air Force analysis of the McDonnell-Douglas proposal to provide the Air Force with additional F–15s at a unit cost of $5.8 million that came up some time last year?

General Mathis. Yes, sir, I will be glad to.

[The information follows:]

Analysis of McDonnell Douglas Proposal

In August 1974, McDonnell-Douglas submitted an unsolicited proposal to build additional F–15 aircraft concurrent with the production of the presently planned 729 aircraft. The incremental unit flyaway price quoted by McDonnell-Douglas for 300 additional F–15s in constant fiscal year 1975 dollars was $5.8 million. As indicated by McDonnell-Douglas in their proposal, the $5.8 million unit flyaway price is incremental to the cost for Air Force planned 729 aircraft procurement and is valid only if this planned procurement is consummated. The Air Force estimate of the incremental unit flyaway cost for 300 additional F–15s in con-

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stant fiscal year 1975 dollars is approximately $6.2 million. The McDonnell-Douglas proposal of $5.8 million includes estimates for Government furnished engines and the tactical electronic warfares set which are below the Air Force estimate.

Mr. SIKES. Thank you very much, gentlemen.

THURSDAY, MARCH 6, 1975.

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION, AIR FORCE, REPROGRAMING ACTION, FISCAL YEAR 1975-27 P/A

C-5A PROGRAM

WITNESSES

MAJ. GEN. KENNETH R. CHAPMAN, ASSISTANT DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT
MAJ. GEN. PAUL F. PATCH, DIRECTOR OF TRANSPORTATION, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS
COL. JAMES H. MARSHALL, C-5A PROGRAM DIRECTOR, AERONAUTICAL SYSTEMS DIVISION
COL. WILLIAM D. BATHURST, DEPUTY CHIEF, INVESTMENT APPROPRIATIONS DIVISION, DIRECTORATE OF BUDGET
COL. JOHN L. GILBERT, ASSISTANT FOR REQUIREMENTS, DEVELOPMENT AND ACQUISITION PROGRAMING, DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT
MRS. JOYCE B. LUCKY, AIRCRAFT AND MISSILE PROGRAM DIVISION, DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS

Mr. SIKES. The next reprograming request to be considered is 75-27 P/A, research, development, test, and evaluation, Air Force. The request is for $2,800,000 to provide initial funding for the rewinging of the C-5A airlift aircraft.

We will insert the reprograming request in the record at this point.

[The information follows:]

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE							DOD SERIAL NUMBER	
RESEARCH, DEVELOPMENT, TEST & EVALUATION, AIR FORCE							FY 75-27 P/A	
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)							
75-6								
LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i

PRIOR APPROVAL ACTION

This Reprogramming Action provides funding for the C-5A program within the Air Force FY 1975 RDT&E Appropriation. This Reprogramming Action is being submitted for prior approval since it is an item of Congressional interest. The Air Launched Cruise Missile (ALCM) will be used as a source for the required funds.

REPROGRAMMING INCREASE								
FY 1975 PROGRAM								
AIRCRAFT AND RELATED EQUIPMENT								
1. C-5A	XX	-0-	XX	-0-	XX	+2,800	XX	-2,800

Explanation: Part of the "airlift enhancement program" included in our FY 1976 budget request is the re-winging of the 78 C-5A aircraft to extend their useful service life from about 10,000 hours to about 30,000 hours. The re-winging (designated as option "H" configuration) consists of a prototype design effort totaling about $130 million and a modification program totaling about $767 million. In order to catch the oldest C-5A's as they reach their 10,000 hours wing life expectancy, we need to start the prototype effort on the modified wing now. The attached Reprogramming Action provides the amount required ($2.8 million) during this last quarter of FY 1975.

TOTAL PROGRAM INCREASE						+2,800		
REPROGRAMMING DECREASE								
FY 1975 PROGRAM								
MISSILES AND RELATED EQUIPMENT								
2. Air launched Cruise Missile (ALCM)	XX	66,500	XX	66,500	XX	-2,800	XX	63,700

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REPROGRAMMING ACTION

APPROPRIATION ACCOUNT TITLE							DOD SERIAL NUMBER	
RESEARCH, DEVELOPMENT, TEST & EVALUATION, AIR FORCE							FY 75-27 P/A	
APPROPRIATION SERIAL NUMBER	(Amounts in Thousands of Dollars)							
75-6								
LINE ITEM	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
a	b	c	d	e	f	g	h	i
Explanation: Reductions in the amount of $2.8 million were made in the ALCM development to support this higher priority effort for the C-5A Option "H" modification.								
TOTAL PROGRAM DECREASE						-2,800		
NET CHANGE IN PROGRAM						-0-		

REQUESTED (Signature and Date) 4 FEB 1975

APPROVED (Signature and Date) 19 [illegible]

DEPUTY SECRETARY OF DEFENSE

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Mr. SIKES. General Chapman, we will insert your statement into the record at this point.

[The statement follows:]

STATEMENT OF ASSISTANT DEPUTY CHIEF OF STAFF, RESEARCH AND DEVELOPMENT

General Chapman. Mr. Chairman and members of the Committee:

I appreciate this opportunity to present for your consideration reprogramming action 75-27 to the Air Force RDT&E appropriation.

As you know the C-5A, our largest transport airplane, provides a fast reaction capability to airlift combat or support units worldwide under war and peacetime conditions. It is unique in its capability to airlift "outside" cargo such as tanks, helicopters, and large field ordnance, and it was this capability that brought the C-5 wide renown for its part in the 1973 Mideast War. Currently there are seventy-eight C-5s in the Air Force inventory.

In fiscal year 1975 the House Appropriations Committee approved the $5.8 million in the Air Force's FY 74 Supplemental request for acceleration of a third fatigue article which was to be used to confirm the life expectancy of the current wing. Although requested in the procurement account, based on your direction the $5.8 million for this effort was transferred to RDT&E. Subsequently, the $15.5 million contained in the Air Force's fiscal year 1975 request was appropriated for the design of a modification to the wing with the objective of providing a 30,000 aircraft service life.

In 1971 the Air Force recognized the existence of structural problems in the C-5 wing when a failure occured in the static test article. This established the 2.5g payload at 150,000 pounds, a figure less than the design load of 220,000 pounds; however, through the use of a Passive Lift Distribution Control System which helped to relieve wing stress, we were able to get the payload back up to 190,000 pounds.

We have had two C-5 fatigue test articles, both of which were to have been tested to four lifetimes, which is a standard verification technique used by the Air Force to establish confidence that the structure will achieve one lifetime performance. Both experienced general cracking in the lower wing surface at about one lifetime, or about one-fourth of the required testing.

In 1972 an independent scientific review team performed an extensive analysis of the entire aircraft structure and concluded that the controlling factor in the C-5 service life was its wing fatigue problems. The team also provided a matrix of both short term and long term fixes from which the Air Force could select one of a combination. We have initiated and are pursuing certain of those short term fixes to reduce wing fatigue damage. We have revised the manner in which fuel is managed or sequenced from individual tank locations in flight to reduce bending stresses. We have developed an Active Lift Distribution System, or ALDCS, which senses gust and maneuver loads on the wing and automatically actuates the appropriate flight control to eliminated or reduce these loads.

In our FY 74 and FY 75 budget testimony we discussed our long term plans for fixing the wing. In this testimony we indicated that although we had not made a decision on the actual modification of the fleet, we were proceeding with the 30,000 hour service life goal. This fix would involve extensive modifications to the basic wing structure to

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reduce the stress levels to be comparable with those of the C-141, a transport which has good fatigue life qualities.

Since it was first determined that the existing C-5 wing would not meet the projected service life of the rest of the aircraft structure, it has been our objective to do everything possible to minimize the fatigue damage accumulated and thereby prolong the wing life. An intensive program designed to optimize the operational utilization of the aircraft was implemented and the operator has endeavored to use the C-5 in a less damaging set of mission profiles to maximize the service life.

As we have had the opportunity to analyze actual aircraft flight data and refine the calculations pertinent to the safe life limit of the wing, we have reached significant conclusions which have caused us to reconsider our planned course of action. Our most recent analysis of the wing safe life limit using fracture mechanics and studies of crack growth, indicated that the Independent Review Team(IRT) was optimistic in its approisal of the available life, and teardown inspections of the fatigue articles support this finding. We have also recently confirmed that previous estimates of the life extension to be realized from the Active Life Distribution Control System were overly optimistic by as much as fifty percent. Further, althougn the operator has reduced his flying to that minimum essential to keep the aircrews proficient, even the more benign or so called "10 mission" profiles set as a goal, have not been achieved.

To briefly summarize, the short term measures have all helped to alleviate some of the problem, but will not allow us to carry the Force as far as previously estimated. Accordingly, we must now accelerate the long term fix with respect to allowable flying hours at the time of modification. This modification will reduce stress levels in the wing by replacement of the inner and center wing boxes with new redesigned structure and a rework of the outer wing.

Mid-1979 is now our target date for incorporation of the long term modification on a high time line aircraft. Installation would continue through 1985 until the total force is modified.

Laying out the tasks that must be accomplished prior to the 1979 kit installation date indicates that we should immediately initiate changes in our existing program to meet these new dates and preclude unnecessary fund expenditures. We are, therefore, requesting the following changes to the program previously presented:

a. Build the third fatigue test article to the new wing design configuration.

b. Target for initial production modification to begin in 1979.

We will, of course, continue to investivate all feasible alternatives to extend the usefulness of the current C-5 wing.

To finance the revised program, we are requesting approval for reprogramming $2.8M from the Air Launched Cruise Missile in the FY 75 RDT&E Air Force account. This amount will cover the cumulative program incremental funding requirement through FY 75 which is $10.6M. The balance of $7.8M would be financed with $5.8M approved by the Congress in the FY 74 supplemental appropriation and $2.0M already expended in the aircraft procurement appropriation.

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We believe the C-5 is a valuable National asset. For approximately 20 percent of the original investment, we anticipate realizing a 300 percent increase in the service life of the C-5 force. Accordingly, we consider modification of the C-5 wing to be the most prudent course of action in terms of the benefit to be received from this investment. Your concurrence in redirecting the previously authorized program to this effort is respectfully requested.

The House Armed Services Committee approved this reprogramming request on February 27, 1975. Hearings before the Senate Appropriations Committee and Senate Armed Services Committee have not been scheduled.

We will be pleased to answer any questions you may have.

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Mr. SIKES. Why is it necessary to start this program with a reprograming request?

General CHAPMAN. I think the urgency of the program, Mr. Chairman, is in our mind at least extreme. This, however, is not a new start but rather a program realignment that we are requesting.

Mr. SIKES. This is not something you just learned about. If you waited this late and the fiscal year 1976 program is now before us, couldn't this be delayed until the fiscal year 1976 program is acted on?

General CHAPMAN. May I retrace the history somewhat to answer that question?

We have had in this program a series of test articles, of which one static test article failed at a load weight of about 126 percent, was patched up, and failed again. We have had two fatigue articles, both of which have shown significant cracking at between 8,000 and 9,000 hours, both of which have shown a failure, one at around 15,000 and one at 30,000 hours. As a result of those and our operational experience we have made efforts to patch those wings and get additional insight as to what the life length of the system would be.

During last spring and summer with additional examination of the test articles that we have already tested, with additional specimen tests and additional support from the scientific community we now believe that the life of the C–5 aircraft is somewhere between 8,000 and 9,000 hours. There are variations in there that we can contribute to somewhat by load alleviation, by judicious use of the fuel during flight, by reducing the number of landings, by reducing the cargo carry, but nonetheless we are talking about an 8,000- to 9,000-hour airplane.

Now that sum is below the numbers that we had a year or so ago in our testimony which was like 11,000 to 17,000 hours. We thought with the load distribution system and other precautionary measures we could take the airplane up perhaps to 20,000 hours.

The reason I mention all this is because if our information is correct, and we have to believe it is, because it is supported by all the evidence we have, then we are going to start grounding airplanes in 1979 if we don't start this modification now.

Mr. SIKES. How long will the modification take per plane, and what will be the total——

Colonel MARSHALL. About 9 months, at stabilized maximum, sir.

Mr. SIKES. Each?

Colonel MARSHALL. Yes, sir.

Mr. SIKES. When will the total program be completed?

Colonel MARSHALL. In 1985.

Mr. SIKES. What will be the total cost of the program?

General CHAPMAN. $896.3 million is the total estimated cost.

Mr. SIKES. This is a program which wasn't anticipated originally, of course. You thought you were building a 30,000-hour aircraft, did you not?

General CHAPMAN. Yes, sir.

Mr. SIKES. What has happened?

General CHAPMAN. I think to go back to the beginning, we thought we were building a 30,000-hour airplane. The contract asked for a

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specification against a 30,000-hour airplane. There were a number of other factors that came into play regarding the weight of the aircraft as it was developed and produced that caused some material to be taken out of the wing. That turned out to be an unfortunate decision. The wing was weakened. What we ended up with then was a 30,000-hour airplane with essentially a 8,000- to 9,000-hour wing.

Our objective now is to try to get the wing up to where we will again have a 30,000-hour system.

Mr. SIKES. You are doing now what you proposed to do originally?

General CHAPMAN. We propose to bring the airplane back to that lifetime that we had hoped.

Mr. SIKES. You are doing now what you would have done originally had the plans not been changed when the plane was built?

General CHAPMAN. I don't want to say there is a one for one correspondence because I think we have learned some things about design in the wing that we probably didn't know then. I think what we will do now is perhaps a little better than we might have done in the original design in terms of the wing itself.

Mr. SIKES. Very much more costly now.

General CHAPMAN. Perhaps so.

Mr. SIKES. What has been the average usage in hours on the C–5A's in inventory?

General CHAPMAN. The average is about 900 hours per year.

General PATCH. It is running about 4,500 actual flight hours now. Load time is under 1,000.

Mr. SIKES. So that you are getting close to——

General CHAPMAN. The high time airplane is getting within a year or so of being critical, yes, sir.

C–5/TOTAL COST

Mr. SIKES. General Chapman, the C–5 aircraft were purchased in the past and have been in our force for some time. How much have we invested in the C–5A aircraft, to include R. & D., procurement of the aircraft, and modifications?

General CHAPMAN. Sir, the Air Force has invested $1,025.6 million in R.D.T. & E., $3,403.3 million in procurement of the aircraft, and $57.3 million in modifications through fiscal year 1974.

PLANNED MODIFICATIONS FOR THE C–5A

Mr. SIKES. The reprograming indicates that the cost of rewinging the C–5A force is $897 million, including $130 million for R. & D. and $767 million for the modification program. The fiscal year 1976 aircraft modification budget request includes (1) $4.8 million for redesign of the nose landing gear door activation system, (2) $6.8 million to update the inertial doppler navigation equipment, (3) $2.2 million to redesign/replacement of upper deck floor panels, (4) $3 million for modification of the cargo floor, and (5) $2.4 million for the active lift distribution control system. General Chapman, would you provide for the record a list of all planned modifications with the total cost for the next 5 years that are applicable to the C–5A?

General CHAPMAN. Yes, sir.

[The information follows:]

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General CHAPMAN. The total estimated costs, including R.D.T. & E., procurement, spares, AGE, and installation labor, for C–5A modifications underway or planned in the 5-year period fiscal year 1976 to 1980, are itemized below:

	Millions
Simulator visual capability	$0.7
Redesign nose landing gear door actuation system	12.3
Inertial doppler navigation equipment	10.8
Cargo floor	14.2
Replace keel beam	7.1
Beef up loading ramp	4.6
Inertial measurement unit reliability	3.1
Revise malfunction analysis detection and recording system (MADARS)	2.7
Replace upper deck floors	7.6
Improve central air data computer (CADC)	1.9
Replace Ni-cad batteries	2.4
Flight structural monitoring system	4.8
Improve reliability of components	2.6
Active lift distribution and control system (ALDCS)	7.2
Option H wing modification	267.3
TF–39 engine reliability improvement	.5
Total known	349.8

In addition to the known modifications, we can expect other requirements through fiscal year 1980 to correct safety problems, improve reliability, reduce support costs, and improve communications and traffic control. Many of these will stem from technological improvements in materials, metallurgy, and component fabrication. For these yet to be defined modifications, we estimate additional funds for the 5-year period of approximately $50 million.

ORIGINAL C–5 SERVICE LIFE SPECIFICATION

Mr. SIKES. The reprograming states that the modification program—rewinging—is required to extend the useful service life of the C–5A aircraft from about 10,000 hours to about 30,000 hours. What was the service life requirement specification, if any, in the original C–5 aircraft R. & D. and procurement contracts?

General CHAPMAN. There was no service life requirement specified in the contract; however, 30,000 hours was established as a design goal.

DESCRIBE LOAD ALLEVIATION SCHEMES

Mr. SIKES. The fiscal year 1976 R. & D. justification of the C–5A states that an independent review team provided a matrix of options to increase the life of the aircraft, from which the Air Force selected both a near term and long term option. The near term solution includes several load alleviation schemes to reduce stresses on the wing. Would you explain exactly what this means?

General CHAPMAN. The load alleviation schemes are methods to reduce the bending stresses imposed on the wing during flight. Three separate methods are employed. The first method employs a revised schedule of sequencing fuel from the tanks. This has the effect of reducing stresses in the wing root due to bending of the wing. The other two methods involve changes in the flight control system and are referred to as the passive lift distribution control system and the active lift distribution control system. The passive system involves revising the rigging of the ailerons to a 6° up normal position. This also re-

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duces the bending stresses in the wing by moving the fulcrum inboard along the wing. The PLDCS mod has been accomplished.

The active system involves detection of sudden gust and aircraft maneuver loads, and automatic flight control responses to eliminate or reduce the loads on the wing in flight. This system has been developed and tested and is now being installed on the first aircraft.

C–5 DESIGNED MAXIMUM WEIGHT

Mr. SIKES. In tons, what is the designed maximum weight that the C–5A should be able to carry?

General CHAPMAN. The C–5A was designed to carry a payload of 110 tons (220,000 lbs.) at 2.5g's.

Mr. SIKES. According to the reprograming, the long term option selected is referred to as option H. Tell us briefly what that is.

General CHAPMAN. Yes, sir. Again I would like to go back for a moment. We had a modification to provide a third fatigue article started in 1974, and that was the beginning of the money change from procurement to R. D. T. & E. It was to be modified to ship 81 configuration. Basically it was a wing that corresponded to what would have been the 81st article off the line.

The H modification is essentially a wing replacement of the inner wing structure and the center wing structure, and a rework of the outer wing structure, where we replace a large number of the fasteners, about 11,000 fasteners in the outer wing. In effect it is almost a new wing as opposed to a modified or a patched wing in the ship 81 configuration, so we are really talking about almost a new wing on the C–5, except for the outer panels which will be redrilled and refastened.

Mr. SIKES. Do you anticipate any other problems that will require significant modifications of the C–5A?

General CHAPMAN. We know of no other major structural modifications with the testing we have done to date or with the operational experience that we have had.

LONG-TERM OPTIONS TO INCREASE C–5A LIFE

Mr. SIKES. Provide a detailed description of the various long-term options considered to increase the life of the C–5A aircraft, and the basis for selecting option H. Also provide the cost estimates applicable to each option.

General CHAPMAN. The independent review team (IRT) recommended 10 options for consideration, 3 of which were of long-term nature. These long-term options represented increasing amounts of rework and replacement that would provide at least a 30,000-hour service life. The options were arrayed by gross cost estimate based on a consistent set of pricing assumptions and the least costly option that would provide a 30,000 hour service life was selected. The process of developing details of the option from the IRT concept are the results of later testing and analysis. The modification has therefore been refined so that it now consists of replacement of the center and inner wing boxes and rework of the outer wing. This plan was then subject to the more detailed costing presented to the committee.

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COST OF OPTION H

Mr. SIKES. A total of $15.5 million was provided in the Air Force procurement appropriation to design a C–5A modification to extend the service life of these aircraft. In the fiscal year 1975 hearings, the committee was told that the plan was to replace the inner and center wings and utilize the existing outer wings. The inner and center wings would be made of stronger material. The total estimated cost, including operation and maintenance, engineering, modification of the test article, and flight test of the aircraft, was only $530 million; as compared to the $896 million cited in the reprograming. Apparently, the option presented earlier this year is different than option H or a significant cost increase has occurred. Would you explain what has happened?

General CHAPMAN. The difference is due primarily to higher allowances for economic escalation. That factor alone accounts for $206.5 million of the $366 million differences. Changes in scope of work adds $101.2 million, and higher contractor estimates for labor rates and overhead adds $31.8 million.

COST OF FATIGUE ARTICLE

Mr. SIKES. A total of $5.8 million was provided in the second supplemental in fiscal year 1974 to procure a third C–5A fatigue article. The 1976 R. & D. budget justification states that the test article will not be built in the old configuration. Instead, it will be built in the improved or option H configuration. Will the test article cost more than $5.8 million?

General CHAPMAN. Yes, sir.

Mr. SIKES. How much more?

Colonel MARSHALL. Well, sir, it was always going to run close to $20 million. We can get that if you need it, sir.

[The information follows:]

ADVANCED TANKER/CARGO AIRCRAFT

The fabrication of a test article kit is now estimated to cost $32.2 million in "then-year dollars." This cost coupled with the installation, design, testing, and mission support cost comprise the total R.D.T. & E. program of $127.6 million.

Mr. SIKES. In program 64214F, Advanced Tanker/Cargo Aircraft, $5.2 million is requested for engineering development leading to the procurement of a derivative of a current, wide-bodied transport in the 747, DC–10, L–1011, and C–5 class. According to the fiscal year 1976 budget, source selection of one of five aircraft candidates will be made. The candidates include the KC–135, DC–10, C–5B, 747, and L–1011 aircraft.

General Chapman, what is a C–5B aircraft, as compared to the C–5A currently in the force?

General PATCH. The C–5B aircraft is what we call an austere version of the C–5 taking out a number of the relatively exotic systems in the existing C–5A. The C–5B proposal is contained in the aerial refueling system whereby you would be able to refuel both from the center as well as the wing booms and accommodate transports, tactical aircraft, and strategic aircraft during operations. It was a new proposal for a new procurement aircraft.

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Mr. CASEY. Is the C–5B to be configured only as a tanker if selected?

General PATCH. No, it is a tanker/cargo aircraft. In other words the cargo features of the aircraft would be retained so it would retain the capacity of cargo refueling or cargo operations.

Mr. CASEY. Would it have the capacity that the C–5A does as far as payload capability?

General PATCH. It would have a greater capacity because of the reducing of the weight by taking out some of the systems that are in the aircraft, an actual increase of somewhere around 26,000 pounds if I remember correctly in all.

Mr. FLOOD. You have no trouble carrying tanks in the C–5A?

General PATCH. No, sir, we can carry the M–60 tank, two of those.

Mr. FLOOD. You don't have any other aircraft that can carry the M–60, do you?

General CHAPMAN. We have no other aircraft.

Mr. SIKES. It is a very useful aircraft, there is no question about that. We have a great investment in it. While this in itself is a very large investment, it would appear that it is almost essential that you take steps that are going to be necessary to keep it in operation.

Are you sure this will do the job?

General CHAPMAN. Yes, sir. I guess at this point in time we absolutely are sure. We do have concurrent with—not concurrent but as part of this program—two additional test articles, which will be in the "H" configuration. Really that is what we are discussing today: getting the first one of those test articles started. At the time we are approaching the actual aircraft modification, we will also be approaching about 30,000 hours of additional testing on this article in the fatigue rig. We certainly hope this is the last time we have to appear before you on a major change to the C–5 program.

Mr. SIKES. For the record, give us an estimate of how much each of the five aircraft candidates would cost, and how many of each would be necessary.

General CHAPMAN. In what application, sir, may I ask? In the advance tanker/cargo?

Mr. SIKES. Right.

General CHAPMAN. Yes, sir, we will.

[The information follows:]

COST OF ADVANCED TANKER/CARGO CANDIDATE

The estimated average unit procurement costs in fiscal year 1975 dollars of the four wide-bodied candidates are as follows: 747, $45 million; C–5B, $47 million; DC–10, $31 million; L–1011, $31 million. Although a modified, improved version of the KC–135 is under consideration, it would offer little additional refueling capability in comparison with the wide-bodied candidates and would be far less capable overall. The unit cost of this option would vary from $5–$10 million per aircraft depending on the extent of the modification.

Force sizing requirements are dependent on the candidate aircraft selected. For planning purposes, 60 to 100 wide-bodied aircraft are being considered for augmentation of the current KC–135A force.

Mr. SIKES. Can a 747 cargo aircraft carry an M–60 tank?

General PATCH. Not in its present configuration, sir. It would require extensive modification. Only by putting a very large side door on the aircraft and with extensive beef-up of the main cargo deck.

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Mr. SIKES. Do you propose to do that in the purchase which is now under consideration on this or any other aircraft to make it accommodate an M–60?

General PATCH. No, sir. Our current projections on modifying airplanes for cargo do not include the capacity to carry an M–60 tank.

Mr. EDWARDS. How about an XM–1? That is even heavier. You don't have any plans to haul that either?

General PATCH. Not on the 747. The C–5 could accommodate it.

Mr. CASEY. The 747's I am referring to here are the ones you are considering in the advanced tanker cargo program and not the CRAF program.

Will that aircraft be capable of carrying tanks?

General PATCH. There are two versions of the advance tanker/cargo aircraft involving the 747. One is a new aircraft which would have the nose door opening enlarged to 11 feet in height versus the 8 feet in height that is the current capacity. That aircraft would have the capability of accommodating the M–60 tank.

Mr. CASEY. Two of them?

General PATCH. Two.

Mr. EDWARDS. How about the XM–1?

General PATCH. I would have to get that for the record, sir.

[The information follows:]

The B–747 advance tanker/cargo aircraft with the 11-foot nose door will be able to carry the XM–1 tank.

Mr. FLOOD. On the C–5A you told us last year—we had a lot of trouble trying to understand how you were taking wings apart. You were taking the middle and center wing and you were going to use the outer wing.

What is the matter with it now? What do you mean you are going to use the outer wing and you are going to change the inner wing and the center wing? Are you going to get stronger material? This is what I can't understand now. You are going to get stronger material now for the inner wing, and still use the outer wing? That was the original option.

Now you come along with this option H. What in the world is that? That came over the left-field wall. What happened? What is this option H?

General CHAPMAN. Let me say——

Mr. FLOOD. Aren't you confused about that yourself? You must be.

General CHAPMAN. The option H really didn't come off the left-field wall. It came out of the independent review group study.

Mr. FLOOD. All right, that is worse.

General CHAPMAN. Which gave us a whole list of options. We had, I think, A through J or something.

Mr. FLOOD. What is this new material business? Did somebody go in one of my coal mines and find some new material?

General CHAPMAN. No. There is no new material as a fundamental to this modification.

Mr. FLOOD. Sure, last year you told us you were going to use new material.

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General CHAPMAN. They are going to replace the fasteners in the outer wing with a different type of material. I don't know of any new material in the exotic sense.

Mr. FLOOD. No, new material was the term you used, "new material."

Colonel MARSHALL. We will use a slightly different aluminum designation. We used 77——

Mr. FLOOD. I am not against it but what is the new material? What is so new about it?

Colonel MARSHALL. It will be a tougher aluminum.

Mr. FLOOD. That is good.

Colonel MARSHALL. That has more corrosion resistance properties, and it is tougher to crack.

Mr. FLOOD. Did somebody give birth to that since this last time? Why didn't we get it before? What is new about it? It is not new.

Colonel MARSHALL. It is a type of material that has evolved since the original C–5 was built.

OUTSIZE CAPABILITY/CRAF MODIFICATION

Mr. SIKES. The fiscal year 1976 budget also requests $22 million to initiate a modification program of commercially-owned 747 and other wide-bodied aircraft. This is referred to as the civilian reserve air fleet program. If this program is approved in fiscal year 1976, it was denied in fiscal year 1975, will the modified aircraft be capable of carrying M–60 tanks and other large outsized equipment items?

General PATCH. The modifications we have projected for the civil reserve air fleet will not be capable of carrying the M–60 tank or other outsize equipment. Instead, we developed various modifications to the 747's and DC–10s that will accommodate oversize equipment since our mobility studies indicate this category of cargo represents the largest workload and currently is the constraint in unit deployments. Oversize cargo includes large trucks, armored personnel carriers, towed/self-propelled howitzers, and numerous other wheeled vehicles.

Mr. SIKES. The budget justification states that it is planned to contract the design of the rewinging modification with the Lockheed Georgia Co., the original equipment manufacturer. Why is this a sole source procurement?

General CHAPMAN. The current procurement plan, sir, is to contract for the design and fabrication of two test kits with the Lockheed Corp. on a sole source basis.

Mr. SIKES. Why sole source?

General CHAPMAN. The reason for that is that the experience in that company, and the lack of experience in other aircraft companies—and we have been to some others—indicates that that is the most reasonable way.

Mr. SIKES. Are other companies interested in this competition?

General CHAPMAN. None have shown a specific interest in the early part of the design fabrication. We are trying to protect the option for other company interests in subsequent phases, which will be the kit fabrication and the actual installation. We think there may be some other company interest in the installation of the modified wing.

Mr. SIKES. It doesn't appear that Lockheed has a very good track record.

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Now we are going to have to replace the wing, rewing the aircraft with less than a third of the hours of use that you anticipated when the plane was manufactured, but you say no others are interested at this time in competing for the job.

General CHAPMAN. In the early part of this modification program we have not found any companies.

Mr. SIKES. Have you made an effort to find out? Have you sent out an RFP on it?

General CHAPMAN. No, we have not formally in that sense. We have informally inquired, including review of our own capabilities in depot, in-house. There has been some interest expressed if the appropriate design transfers and technology could be made. Whether that matures into a possible competitive posture we are not sure.

Mr. FLOOD. The option you told us about earlier in the year is entirely different than option "H"?

General CHAPMAN. Yes, sir.

Mr. FLOOD. Is this the cost problem? Is it going to cost a lot more? They are an entirely different set of options. Option "H" is a different ball game than the one earlier in the year.

General CHAPMAN. Let me see if I can describe it, sir. The option that we proposed about a year ago was the so-called configuration 81. I hate to get into the nomenclature, but configuration 81 was essentially a modification of the existing last article off the production line wing, in which we modified and installed certain fixes that we knew had to be made based on our test experience.

Subsequently we found that the situation in the wing was more serious than we thought. It became unreasonable in our opinion to make that kind of a configuration modification in so-called 81 design. We are now going to an "H" modification, which is essentially a replacement as opposed to a modification of the wing, and that decision has been very carefully looked at, so it is really the same thing. We knew we had to fix the wing. It is only a question of the degree. Do you modify something that you have, or do you replace it? The decision has been made to replace it.

The earlier modification proposal I think you are referring to in last year's hearings was that if we went with the so-called design 81, I think we gave you a number something like $350 million.

Mr. FLOOD. Haven't you got a substantial or material cost?

General CHAPMAN. We are now saying that this program will cost around $896 million. I think the number we gave you last year was about $530 million for the other approach, which was a modified as opposed to replace.

Mrs. LUCKY. May I amplify?

The fatigue article was to be built in ship 81 configuration and we were going to test it just as the aircraft had flown, installing the ALDCS, which is a modification that we are going to put on the aircraft to test it to see what it would give us——

Mr. FLOOD. That is before anybody thought of option "H"?

Mrs. LUCKY. No, sir. In our 1975 budget we had the design of option "H" on which we intended to procure a kit and put on that fatigue article that would have been in the configuration of the current aircraft at the point that we would have incorporated the mod into the force.

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Mr. FLOOD. You are alking about the wing, not the aircraft?

Mrs. LUCKY. The fatigue article is the wing.

Mr. FLOOD. The inner wing, not the outer part?

Mrs. LUCKY. The inner and center wing is new, and the outer wing was to be beefed up.

Mr. FLOOD. Beefed up?

Mrs. LUCKY. Yes, sir. That is still the same modification that we are talking about except that we are asking you to let us put that into the fatigue article initially instead of modifying the fatigue article later in the program at the 11,000 test hours.

Mr. FLOOD. That makes sense.

Mrs. LUCKY. When we thought we would put it into the force.

Mr. FLOOD. That makes sense.

Mrs. LUCKY. But it was still the same modification that was in our 1975 budget that we are talking about now. It was the design that we had the $15.5 million in the 1975 aircraft procurement budget for the design of this mod. However, when we changed the configuration of the fatigue article on your instructions that should be an R. & D., when it made the design of the fatigue article the design became applicable to the R. & D. program.

Mr. FLOOD. That is a good statement.

Mr. SIKES. Don't confuse him with the facts now. You are ahead.

Mr. MAHON. General, to what extent have we determined who is at fault for the expensive project that we are now discussing? Did Lockheed make a monumental error? Did the Air Force make it? Who made the error or was an error made? How do we explain or excuse what has occurred?

General CHAPMAN. I am not sure we can excuse it, Mr. Chairman. We are both at fault obviously. We anticipated results from this airplane in terms of performance that caused the contractor to shave the corners, so to speak, in the sense of taking the weight out of the structure. That in turn weakened the structure. We had no warranties in the contract that would have caused a correction of the deficiency on the part of the contractor. The performance goals were expectations as opposed to warranted goals. As a result, I guess that you can say both the Air Force and the contractor are at fault.

Mr. MAHON. Is the contractor reaping a big windfall? Could this be one of the greatest things that could have happened to the contractor? He got the original contract. Now he is getting an additional contract as a result of his misconfiguration; is that right?

General CHAPMAN. I am afraid that is right.

Mr. SIKES. What grounds do you have to feel that you are going to get back to the original 30,000 hours of usage from the aircraft for this expenditure?

General CHAPMAN. I think the test work that we have done, the scientific review, gives us fairly high confidence—I can ask Colonel Marshall to speak to that—that the "H" modification is indeed a 30,000-hour modification.

Mr. FLYNT. Before we get away from the question of who was at fault, may I ask a question?

Mr. SIKES. Yes.

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DECISION AGAINST MODIFYING C–5 WING DURING PRODUCTION

Mr. FLYNT. General Chapman, it is my recollection that there was a third factor in this "monumental mistake." My recollection is, and I want to see if your recollection agrees with mine, that the contractor in writing recommended against the modification of the wing during the construction process.

The Air Force was inclined at that time to concur with the contractor's recommendation against taking certain weight out, I mean making certain weakening modifications during the initial period of the building in order to reduce the weight.

I was told at the time that this was a decision made by the Department of Defense over the objections of both the Air Force and the contractor.

Can you address yourself to that?

General CHAPMAN. I think the answer is yes.

Mr. FLYNT. So your earlier statement that it was the contractor and the Air Force was not complete.

General CHAPMAN. I say that in the sense that we were the executive agents at that time on behalf of the Department of Defense.

Mr. FLYNT. My recollection further is that the Air Force recommended against the decision which the Department of Defense made, but once the Department of Defense made it, the Air Force had to execute the decision because they were the excutive agent.

Mr. SIKES. Would you document that for the record?

[The information follows:]

General CHAPMAN. The following paragraph is taken from a review of the C–5A program transmitted by Phillip N. Whittaker, then Assistant Secretary of the Air Force (Installations and Logistics) to the Honorable Robert C. Seamans, Jr., Secretary of the Air Force on July 24, 1969.

"Major portions of the Lockheed redesigns, and subsequent use of advanced material and production techniques, were associated with weight reduction to meet the contract weight empty requirements. As an example of the predominant management emphasis on performance, in early 1967, Lockheed and GE made a joint proposal to increase the thrust of the TF–39 engines, remove the empty weight guarantee, but retain the payload, take-off, climb and other performance requirements. Removal of the weight guarantee would obviously have resulted in growth of the empty weight. While performance guarantees would have remained, the engine thrust increase to enable this performance at higher weights would have reduced the thrust growth potential anticipated from the engine component improvement program, and thus would have reduced the potential for future performance improvements. For these reasons primarily, the proposal was rejected."

[NOTE.—No documents can be found which would indicate that the Air Force was forced into that decision.]

The document continues.

"In retrospect the cost effectiveness of the decision can be questioned * * *. It would appear, however, that a trade off analysis, recognizing the impact of the schedule slippages, redesign, and exotic materials and techniques on production costs would have been valuable. * * * The basic management philosophy at that time, however, was based on having a tight contract and 'holding the contractor's feet to the fire' to insure that it lived up to the contract commitments."

Mr. FLOOD. On the life expectancy you talked about earlier from 10,000 to 30,000 hours, what was the life expectancy? When we orig-

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inally talked about the R. & D. on this thing some time ago, what was the life expectancy then, and in the specifications for the contract were they spelled out?

General CHAPMAN. 30,000 hours.

Mr. FLOOD. What happened?

Mr. FLYNT. That is what we were just talking about.

Mr. FLOOD. I know but it is the other way around, the R. & D. specs, were they the same as the contract specs?

General CHAPMAN. In the early work we had a 30,000-hour plane. We anticipated a 30,000-hour airplane. That 30,000 hours was a requirement in the contract with Lockheed. It was not a requirement in the sense of a warranted product.

Mr. FLOOD. I understand.

General CHAPMAN. And so we were left with a situation in which we both had high expectations, but the results of the program as it developed and was produced has given us something less than 30,000 hours.

LEGAL ACTION AGAINST LOCKHEED

Mr. SIKES. For the record, explain whether the Department of Defense has any right to legal action against Lockheed as a result of the low service life?

[The information follows:]

General CHAPMAN. At this time, the Department of Defense does not have any right to legal action against Lockheed. Pursuant to the correction of deficiencies (COD) clause of the C–5A restructured contract (now expired), Lockheed was required to correct, at cost and without fee, only those supplies that were "defective in design, material or workmanship, or otherwise not in conformity with the requirements" of the contract and only when so directed by the Government. Criteria that were stated in terms of "goals" or "desired" levels of performance—such as the 30,000 hour service life—did not fall within the scope of the COD clause because they do not constitute "requirements" of contract. This conclusion is supported by the fact that although both parties were aware, at the time of contract restructuring, that the desired service life would not be attained; the restructured contract, under which the parties' rights must be determined, did not alter the equivocal "goal" language of the original system specification contained in the original C–5 contract.

TYPE CONTRACT/DESIGN OF WING MODIFICATION

Mr. SIKES. For the record, describe the type of contract you would award for the design of the rewinging modification?

[The information follows:]

General CHAPMAN. We plan to award a cost-no profit contract with Lockheed for the design effort. Under this type of contract, Lockheed would be reimbursed all reasonable and allowable costs plus a "nominal" fixed fee deemed sufficient to offset those business expenses normally incurred but not reimbursed a government contractor under the guidelines of ASPR XV; however, no provision is made in the negotiated "price" for profit in the conventional sense.

STORAGE OF C–5S/REACTIVATE FOR EMERGENCY

Mr. SIKES. Could the C–5A fleet, except for a few training aircraft, be placed in storage but maintained in a ready status, so that flying hours are held to a minimum. Then, in an emergency, issued to haul out-sized and other cargo? In other words, while no emergency exists,

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use other means of transportation; for example, land, sea, C-141 and C-130 aircraft and save the C-5A fleet for surge operations in an emergency.

General CHAPMAN. If the C-5A were to be placed in storage it could not be maintained in a ready status. In order to maintain the C-5 in a status capable of responding to contingencies and emergencies, a proper mix of maintenance and stabilized flights must be maintained to keep aircrews and maintenance support, throughout the entire MAC worldwide route structure channel system, up to an acceptable standard capable of meeting a wartime readiness posture. By maintaining only a few aircraft for training purposes, there would not be enough hours available to train the entire crew force to the necessary proficiency level required to meet a full wartime effort. Flying safety would be compromised to an unacceptable degree as proficiency levels fell. At the present time, C-5 flying time per crew/per year is at the absolute minimum that will insure successful accomplishment of the wartime mission. In the past, when the flying rate was reduced in the C-5 program, excessive maintenance created by increased preflights and shorter flight periods reduced the total system reliability by over 50 percent and the operational readiness rate was not maintained at an acceptable level. Thus the result of drastically reducing the flying hours on the C-5 force would be to degrade the wartime flying rate requirements and result in a serious shortfall in support of DOD forces. Additionally, a need for additional commercial augmentation, not quantifiable at this time, would be needed and require extensive dollar expenditure to make up for the reduction in peacetime cargo airlift, which is an economical byproduct of the peacetime training hours flown in the C-5. Further, without the C-5 there would be no outsize capability within the strategic airlift forces, requiring vital high priority cargo to be shipped by surface transportation necessitating unreasonable time periods.

C-5A FLYING HOURS/EACH AIRCRAFT

Mr. SIKES. Provide for the record, for each C-5A aircraft, the total number of aircraft flying hours accumulated as of February 28, 1975, and the planned flying hours for fiscal year 1976.

[The information follows:]

General CHAPMAN. The following information is submitted in answer to your question.

Aircraft tail No.	Aircraft hours [1]	Aircraft tail No.	Aircraft hours [1]
66008304	2,146.7	68000224	3,112.0
67000168	2,802.5	68000225	2,395.0
68000221	1,705.4	69000003	2,771.3
69000009	2,266.4	69000005	2,608.0
70000464	974.9	69000006	2,732.1
66008307	2,051.4	69000008	2,726.4
67000170	2,697.1	69000014	2,613.0
67000173	3,252.1	69000015	3,124.0
67000174	2,465.7	69000018	2,898.6
68000212	3,011.9	69000019	2,667.0
68000214	4,495.9	69000021	3,095.8
68000215	2,358.6	69000024	2,926.7
68000217	2,395.7	69000026	2,823.6
68000219	2,784.3	70000445	2,422.7
68000220	2,476.0	70000447	1,864.6
68000222	4,497.9	70000448	2,157.7

See footnote at end of table.

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Aircraft tail No.:	Aircraft hours [1]
70000452	2,005.8
70000454	1,881.2
70000455	2,024.2
70000456	1,935.4
70000460	1,567.5
70000463	1,519.1
70000465	2,117.2
70000466	1,317.1
70000467	1,665.7
66008306	2,513.7
67000167	3,508.5
67000169	1,563.5
67000171	2,576.8
68000211	3,080.9
68000213	2,694.6
68000216	3,221.9
68000218	2,330.6
68000223	2,342.1
68000226	2,001.4
68000228	2,704.8
69000001	2,652.4
69000002	3,895.9
69000004	2,630.5

Aircraft tail No.:	Aircraft hours [1]
69000007	2,957.1
69000010	2,589.6
69000011	2,503.6
69000012	2,554.3
69000013	2,496.2
69000016	2,368.2
69000017	3,724.6
69000020	2,432.5
69000022	3,394.9
69000023	2,577.0
69000025	2,523.5
69000027	2,281.7
70000446	2,303.0
70000449	2,097.4
70000450	1,897.2
70000451	2,126.8
70000453	1,954.3
70000457	1,564.2
70000458	1,759.8
70000459	958.1
70000461	1,874.3
70000462	1,870.9

[1] During fiscal year 1976, each C-5 is programed to fly approximately 842 hours for the year. This is based on the programed flying utilization rate of 2.34 hrs per day per aircraft.

C-5A OPERATIONAL STATISTICS

Mr. SIKES. For the 12-month period ending on February 28, 1975, provide the following information for each C-5A aircraft:

(*a*) Number of training flight hours?

(*b*) Number of individual flights?

(*c*) Number of flights where the cargo load did not exceed 10, 20, 30, 40, 50, 60 tons.

(*d*) Number of flights made where no cargo was carried. Explain why each of these flights were made.

(*e*) Number of weeks in overhaul.

(*f*) Number of days each aircraft was not in operationally ready status.

[The information follows:]

Tail No.	Total fly time	Training fly time	NBR flights	NBR [1] empty flight	NBR weeks OVHL	NBR day NOR
00445	401.7	100.4	93	16	29.3	278.5
00446	675.8	110.0	143	23	15.1	247.2
00447	641.5	56.7	127	16	20.1	236.3
00448	469.7	66.3	104	16	22.1	270.3
00449	482.9	50.5	100	18	25.6	265.5
00450	599.4	109.4	115	14	12.3	257.9
00451	606.8	98.1	119	10	22.7	257.4
00452	621.4	139.6	120	5	20.6	262.6
00453	685.1	92.5	136	7	19.3	229.5
00454	942.2	140.6	189	29	1.7	167.5
00455	746.7	153.2	148	13	7.4	211.0
00456	624.1	84.6	135	27	15.9	246.6
00457	576.0	212.4	129	8	16.9	255.1
00458	693.2	144.7	141	5	12.4	242.6
00459	628.7	404.9	152	15	16.7	250.2
00460	477.9	94.7	103	11	13.0	254.4
00461	1,052.8	103.2	220	33	2.6	106.9
00462	741.6	182.4	157	17	1.0	235.4
00463	746.7	273.4	156	21	9.4	238.1
00464	738.6	409.5	168	13	7.6	234.8
00465	1,343.3	133.2	228	25	1.6	167.7
00466	544.1	145.1	99	8	16.7	258.0
00467	745.2	140.8	147	13	13.7	231.5
68304	437.3	385.0	112	2	0	276.9
68306	808.5	304.9	176	14	5.1	243.0
68307	596.4	171.9	118	11	0	250.5

See footnote at end of table.

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Tail No.	Total fly time	Training fly time	NBR flights	NBR[1] empty flight	NBR weeks OVHL	NBR day NOR
70167	558.1	100.0	112	17	10.0	260.1
70168	815.2	620.6	193	6	0	212.5
70169	754.8	188.1	154	15	0	141.5
70170	590.7	107.9	111	13	12.6	243.1
70171	665.2	85.4	135	15	0	240.2
70173	887.5	142.2	179	26	0	192.5
70174	507.7	89.2	94	10	17.0	266.7
80211	564.5	81.1	115	14	0	238.4
80212	669.9	148.4	122	11	.7	229.0
80213	523.4	261.5	120	16	10.0	281.7
80214	1,590.7	97.5	261	12	0	140.0
80215	514.9	185.9	113	11	15.3	280.1
80216	709.6	143.6	147	21	11.0	243.3
80217	613.6	238.2	110	5	14.9	253.5
80218	463.4	84.4	96	13	12.9	289.8
80219	963.7	108.5	186	32	0	192.8
80220	865.0	125.0	154	11	0	206.7
80221	249.1	244.8	80	2	4.6	310.3
80222	1,349.5	120.3	237	23	0	143.5
80223	930.3	131.9	196	17	0	192.6
80224	842.9	205.7	161	17	0	210.7
80225	831.6	153.5	166	19	0	201.8
80226	515.3	40.0	111	27	0.6	232.8
80227	262.7	249.6	77	3		
80228	790.3	146.6	154	21	6.0	237.4
90001	704.2	87.4	151	15	.3	217.9
90002	1154.3	96.4	225	20	0	160.0
90003	735.0	57.7	183	32	6.1	215.1
90004	560.5	58.3	110	8	13.6	233.2
90005	888.1	118.2	174	35	0	190.5
90006	777.1	134.5	152	22	.7	221.4
90007	1,067.0	107.6	213	26	0	183.2
90008	575.2	57.1	110	15	21.4	254.9
90009	346.8	186.0	88	2	19.1	288.9
90010	609.2	58.8	110	5	5.1	257.9
90011	615.0	58.5	124	15	19.1	271.2
90012	650.5	224.5	151	20	0	248.7
90013	518.0	62.4	113	19	17.7	254.3
90014	266.2	57.5	49	5	16.4	321.0
90015	731.0	287.7	135	13	11.9	200.0
90016	569.3	186.0	118	12	18.4	265.9
90017	1218.0	73.6	230	30	0	158.3
90018	678.0	48.2	117	11	12.9	231.8
90019	412.9	97.6	75	7	25.6	270.4
90020	443.0	50.6	82	9	21.6	283.6
90021	587.0	158.3	115	11	17.3	260.7
90022	781.1	222.2	165	16	1.0	231.5
90023	548.8	68.2	110	17	18.1	260.2
90024	665.8	121.0	129	24	14.9	252.0
90025	571.6	107.3	110	18	18.3	253.1
90026	591.6	108.8	112	21	18.7	270.2
90027	463.8	59.8	86	10	14.4	283.4

[1] Does not include flights used for local training nor does it include July 1974 since the computer compiled data base was inadvertently destroyed.

The major portion of C–5 NOR time is due to maintenance at the depot and unit levels. At the unit level a large number of norm hours are generated during periods of low aircraft use; i.e., it is good maintenance policy to work aircraft that have no operational requirements against them. Usually, the aircraft being worked in this manner can be returned to operational status within 12 hours, if required.

Distribution of payloads by tail number are provided below. Data excludes July 1974; 0 to 10 column excludes flights listed in paragraph above.

Tail No.	0 to 10	10 to 20	20 to 30	30 to 40	40 to 50	50 to 60	60 plus
00445	7	6	5	13	19	3	1
00446	7	7	8	8	33	10	3
00447	11	6	8	14	29	8	0
00448	7	6	8	10	19	1	1
00449	5	5	7	12	11	3	3
00450	12	5	8	12	26	4	8
00451	3	9	14	13	17	0	5
00452	8	7	4	12	21	4	0
00453	6	9	16	22	33	4	1

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Tail. No	0 to 10	10 to 20	20 to 30	30 to 40	40 to 50	50 to 60	60 plus
00454	18	7	18	25	31	5	7
00455	11	5	13	10	42	7	1
00456	11	8	6	9	29	5	2
00457	5	5	6	2	26	0	3
00458	8	6	4	17	45	2	0
00459	7	2	4	7	6	0	0
00460	9	7	6	2	15	6	3
00463	12	12	10	24	72	4	5
00462	13	6	11	13	29	5	10
00463	14	10	10	5	26	4	3
00464	8	9	4	5	6	7	2
00465	21	21	18	26	45	8	6
00466	7	4	5	13	27	3	0
00467	16	7	13	6	28	5	3
68304	1	2	0	0	2	1	3
68306	8	10	6	9	24	6	7
68307	11	3	3	6	19	2	12
70167	3	3	5	13	36	4	2
70168	7	3	1	2	10	2	0
70169	10	5	20	12	41	7	3
70170	13	8	9	11	26	3	4
70171	6	2	8	11	41	4	6
70173	11	9	16	20	34	4	8
70174	8	10	6	1	34	2	2
80211	9	9	8	15	23	6	0
80212	9	11	8	12	17	5	1
80213	6	3	3	5	19	9	1
80214	38	22	30	22	76	9	9
80215	9	7	6	10	5	5	2
80216	13	4	5	11	19	9	0
80217	6	8	8	10	21	0	1
80218	9	7	4	3	28	4	0
80219	18	17	15	11	42	9	4
80220	16	6	5	12	37	8	0
80222	23	21	21	26	56	8	9
80223	13	15	11	18	55	8	5
80224	9	4	9	9	44	8	1
80225	11	21	16	8	32	14	2
80226	7	5	10	8	19	8	3
80227	1	0	0	0	0	0	0
80228	8	12	4	21	38	9	1
90001	10	11	11	12	35	3	1
90002	16	7	18	26	78	13	6
90003	27	12	10	13	43	2	1
90004	7	2	5	13	36	6	3
90005	24	8	4	11	39	2	8
90006	12	6	14	14	30	7	6
90007	15	13	14	21	68	15	4
90008	10	9	8	17	29	7	3
90009	4	4	1	4	15	0	2
90010	12	8	7	12	28	9	1
90011	6	6	10	13	24	8	1
90012	5	2	11	11	25	2	2
90013	5	5	7	8	38	10	3
90014	1	4	1	3	8	4	0
90015	9	1	6	9	24	5	1
90016	5	4	6	8	27	10	2
90017	15	15	14	41	65	11	2
90018	7	18	3	7	24	6	1
90019	7	2	6	10	18	3	1
90020	13	6	7	12	14	6	1
90021	8	3	6	9	21	4	1
90022	10	9	4	8	28	8	3
90023	7	2	12	16	27	8	2
90024	10	5	7	6	29	3	5
90025	7	10	7	9	24	8	2
90026	14	10	11	10	21	0	0
90027	3	2	9	8	23	13	4
Total	778	580	664	901	2,274	425	219

Reasons for flights without cargo are provided below. Data are summarized for the total force for your convenience. Detailed data by tail number are available.

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Exercises: Recycle, 45; positioning, 45; and depositioning, 131.

Collateral missions: Transfer of assignment, 77; unit support, 25; and route familiarization, 16.

Channel: Positioning, 7 and depositioning, 38.

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Cargo data not in computer, 481. The cargo information for these flights is available, however, it must be extracted by hand and will take approximately 2 weeks.

Mr. FLYNT. This proposed modification that we are discussing now, has that been identified in your earlier testimony as the program depot maintenance's update for these, or is that a separate program altogether?

Mrs. LUCKY. I believe you are talking to the maintenance program, the program depot maintenance?

Mr. FLYNT. Yes.

Mrs. LUCKY. The O&M account?

Mr. FLYNT. That is not in here?

Mrs. LUCKY. No, sir, it is not. There will be a part of this program that will go to O&M. The installation part will be a charge to the O&M account in the out-years after the kits are delivered, so the O&M account will get into it, and is included in the total cost of the $900 million that we are talking about.

Mr. FLYNT. Then this question may have to be answered.

Mrs. LUCKY. But in our budget——

Mr. FLYNT. This question may have to be answered at a later hearing. If you are not prepared to comment on this, I will just reserve the question for further hearing. The contractor has been performing PDM's update on the C–5 for the past 3 years, and a total of 34 aircraft have been processed under this program so far. The quantity during fiscal year 1975 was reduced to eight aircraft per year. I have been informed by Department of Air Force officials and by contractor officials that this figure is not an economically sound figure, that it is inadequate to provide the substantial number of permanent employees engaged in this program, and if the number of permanent employees is decreased to accommodate a lesser number than the desired 14 per year, that it will raise the cost per modification per aircraft to a point where it would not be economically as desirable for either the contractor or the Air Force.

Are you prepared to comment on that, or would you rather I defer it until a later time?

Mrs. LUCKY. Sir, I think that is in the O. & M. area. I know that is under study now. We have had some correspondence on it recently from our logistics command headquarters in speaking to the numbers that would be there, but that again is the installation of the update modifications, and it is labor work. It is not a part of the procurement account.

Mr. FLYNT. My thought on it being—that if it can be done on a more economical basis per aircraft by increasing the number per year, that it would be advantageous to the Air Force, to the Air Force O. & M. account, in order to do so.

Mrs. LUCKY. Yes, sir. Our whole workload capability in our depot at San Antonio plays in that picture, and they are studying it right now and the man-hours that they could put in to the contractor.

[Additional information follows:]

ECONOMICAL USE OF CONTRACTOR MANPOWER FOR PDM

The Air Force recognizes it is currently in our best interest to retain a C–5 PDM workload at Lockheed. Such a policy will insure we have an alternate source of capability to draw on should an unforeseen surge in maintenance

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requirements absorb a disproportionate share of our organic capability. Identification of the optimum number of aircraft and man-hours which will allow Lockheed to maintain a viable C–5 work force yet be economically advantageous to the Air Force during fiscal year 1976 is currently under review. We have not yet settled on a specific number of aircraft or manhours.

Mr. SIKES. Are there staff questions at this point?

Mr. CASEY. General, this morning we discussed briefly the reprograming of $26 million in the 1974 and 1975 aircraft procurement Air Force appropriation for the C–5A, the fatigue test article and the design of wing modification to the defense stock fund. This afternoon we discussed the reprograming of $2.8 million for R. & D. on the C–5A fatigue test article and design of the option H wing modification.

In addition the fiscal year 1976 R. & D. budget requests $22.3 million to continue development of the C–5A fatigue test article and wing modification.

Would it be possible to transfer the $26 million in the procurement appropriation for the C–5A to R. & D. for work on the C–5A and eliminate the $22.3 million requested in 1976 and the $2.8 million reprograming that we are talking about right now where you are taking it out of the air launch cruise missile?

General CHAPMAN. From the standpoint of the dollars involved, it is certainly a reasonable match but I think there is some reason. I would like to ask Colonel Bathurst to address the different colors of money between the procurement account and the R.D.T. & E.

Colonel BATHURST. There are several items of consideration here. No. 1 is preservation of transfer authority within the Department of Defense. It was felt that this would help to reprogram within the R. & D. appropriation that $2.8 million, rather than move it consecutively.

The second point is that in moving to the research and development appropriation, it would be more money for the funding of the design effort for fiscal year 1975 than would be required, and you would be in a forward financing position.

Mr. CASEY. We are only talking about 3 or 4 months before the new fiscal year starts.

Colonel BATHURST. And if you did it with 1975 money, which is what we are discussing, the 3 months, that is why you would then be in a forward financing position.

Mr. SIKES. We don't have a very good track record about having our bills ready at the beginning of the fiscal year. It is not our fault, of course.

Is there anything else?

Mr. Robinson?

Mr. ROBINSON. Thank you, Mr. Chairman.

Over what period of time, General, was delivery taken on the C–5A?

Colonel MARSHALL. 1968 to 1973.

General CHAPMAN. Five years.

Mr. ROBINSON. I find it a little difficult that this problem comes up now when it was recognized, based on your statement in 1971, and yet you took delivery on planes for two additional years after that recognizing a structural problem. It would seem to me that certainly at that point you would have done something about it rather than waiting until now when it is going to cost this astronomical figure, which certainly would have been far less then than it is now.

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Colonel MARSHALL. In 1970, when it became clear that we had this problem, my predecessor did a complete review of the program to see where we stood. At that time, this is August 1970, the 40th airplane was in final assembly, and the 60th article, the parts were all built for it. The remaining articles, the materials were coming right along, and we were essentially beyond the point of no return at that time. Of course also in that time frame we didn't have a good handle on whether we had a 10,000 hour airplane in our hands or a 15,000 hour or exactly what we had.

As I go back and review the history, the decision seems prudent to continue the program at that time, based on the fact that so much was already done.

Mr. ROBINSON. Of course that decision has since been proven to have been a poor one, because I know very well that even if you have the components on hand, that it is easier to modify a component than it is to modify the whole finished airplane.

General CHAPMAN. Yes, sir, and I think Mrs. Lucky can address this in more detail. There were modifications made in process during that period of time, so that the initial design did not apply through the entire buy of aircraft. There were some 40 completed at the time that we began to have an understanding of the problems.

Can you give more detail on that?

Mrs. LUCKY. There are some incorporated into the production line and also we have done some splice mod since but I think we didn't know the extent of the problem. Had we known that it would only be the 8,000 to 9,000 hours that we do know now, we probably would have had, even at that point, second thoughts about proceeding without changing it significantly.

Mr. ROBINSON. Do you have any information as to what extent the splice model was effective with regard to the earlier airplanes versus the later delivered planes?

General CHAPMAN. Let me comment on that because I confused it earlier and Mrs. Lucky clarified it fortunately. The 81 configuration, so-called, which was to test the design, the changes that had already been put in—in other words, that was the test article by which we were going to establish, through this 11,000 hours of tests, including the automatic lift distribution system, was going to verify the changes that had been put in this process.

Is that correct?

Mrs. LUCKY. Yes, sir, plus the different mission profile that we had tested the article to, and we reduced the mission profile on the airplane. Therefore we were going to test that article to determine what all of the actions that we had taken to reduce loads on the wing actually gave us in terms of flying hours.

General CHAPMAN. In other words, this was to verify our inservice in production situation. That was the purpose of that.

Mr. ROBINSON. Of course what I am leading up to is a question as to whether or not there is a possibility that the more recently delivered planes will not require this modification.

General CHAPMAN. I think we now believe there isn't. I wish we could believe there is.

Mr. ROBINSON. You have mentioned you have options "A" through "J". Obviously all of these options were considered to be practical or they wouldn't have been made, in terms of suggestions.

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General CHAPMAN. Yes, sir.

Mr. ROBINSON. I wonder whether "H" is best and cheapest, that is what is the price range in terms of the modifications.

General CHAPMAN. Let me say when I say options "A" through "J", I don't mean they are all major modifications to the airplane. Some of them have to do with such things as the passive lift distribution, sequencing of fuel, other things which we have done.

Mr. ROBINSON. You mean "H" is a combination?

General CHAPMAN. "H" happens to be a replacement of the wing, the inner box, center box, four or five others that had to do with the wing modification itself. I think there were four. "H" is the one that was the most dramatic in the sense you are now going to replace the thing. You finally give up fixing and are going to replace it. That is why it was called option "H". There were other options. All of them had to do with extension of life.

Colonel MARSHALL. They were more expensive. "H" was the cheapest of the options that reduced the stress levels in the wing. Because all that weight had been taken out the stress levels in that wing were high, and all of the others were just efforts to try to get more life, but they weren't necessarily going to get you the 30,000 hours. To get that with confidence you had to go replace. You had to lower those stress levels.

Mr. ROBINSON. That is all, Mr. Chairman.

Thank you.

Mr. MAHON. Are there any further questions?

LOAD-CARRYING CAPABILITIES OF C-5A

Mr. MURPHY. Mr. Chairman, I think it would be well if we placed in the record at this point the original design load carrying capability of the C–5A, and compare that with the current peacetime restrictions on the C–5A load carrying capability.

Do any of the gentlemen here have that information now?

General CHAPMAN. We can provide that answer now.

Mr. MURPHY. Could you give us a ball-park figure?

General PATCH. The original aircraft was designed for a 220,000-pound payload. When we ran into problems with the wing, that was reduced down to 150,000 pounds. With subsequent modifications it was increased back up to 190,000 pounds. However, with recent—I say recent, over the past year or so, further degradation in the wing structure, in order to preserve the wing life out to the 1979–80 time period for peacetime operations we have reduced the peacetime operating loads to 100,000 pounds. This does not mean that we will not use the airplane to its fullest extent in a contingency. If we go into a contingency operation where the outsized cargo movements are required we will in fact use the aircraft up to its full 190,000-pound payload.

Mr. MAHON. You could do that safely for a shorter period of time.

Colonel MARSHALL. Yes, sir. What this would do, we are saving structural life by not operating at that level. We would accept the degradation to that structural life for the contingency.

General CHAPMAN. Is that sufficient detail, sir?

Mr. MURPHY. Yes.

Could we also have the same type of information for the gross weight of the aircraft? I would like to add one more point.

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Do I recall reading a few years ago where the Boeing 747 lifted off at a gross weight of something like 270- or 280,000 pounds, or was it payload?

General CHAPMAN. 800,000 pounds.

General PATCH. I have seen some recent figures on that of a 747–200, which is an 830,000 pound gross weight airplane that had a payload up somewhere around the 260- or 270,000 variety.

Mr. MURPHY. Yes, this occured about 2 years ago.

General PATCH. Yes, sir. It was a -200, which is the higher gross weight aircraft.

Mr. MURPHY. Thank you, gentlemen.

GROSS WEIGHT OF C–5A

General CHAPMAN. Do you want me to read into the record the numbers on the gross weight or would you rather I supplied it?

Mr. MURPHY. Supply it for the record.

[The information follows:]

With a fuel load of 215,000 lbs. and 190,000 lbs. payload, the maximum design (2.5g) gross weight of the airplane will grow from the current 728,000 lbs. to 769,000 lbs.

PAYLOAD AND WEIGHT-AFTER MODIFICATION

Mr. FLYNT. I would like to follow up that question by asking you to include for the record what the payload capability and the gross weight capability will be after the proposed wing strengthening modification.

General CHAPMAN. I will be glad to, yes, sir.

[The information follows:]

The payload and gross weight capability after the modification will be 190,000 lbs. and 769,000 lbs. at a 2.5 g. factor.

Mr. EDWARDS. Mr. Chairman, it has been suggested to me that you have got unused transfer authority available that you could use for this, perhaps an amount of $127 million.

Is there any reason why you are not going to use some or all of that?

Colonel BATHURST. The Department of Defense transfer authority is, for the most part, used in the reprogramings before the Congress now for the inflationary impact, such as the defense stock fund that you heard this morning. To the extent that those are not approved, it could be used, yes, sir.

Mr. EDWARDS. But even after including all that you still have $127 million left, don't you?

Colonel BATHURST. I am not aware of the department's total number at this date, sir.

Mr. CASEY. We just obtained this from DOD.

Mrs. LUCKY. I think Secretary McClary brought that out in his testimony the other day. He does have that. However, he does not know how many more transfers he will have because of the inflationary cost increases we will have. I think it was in an effort to reduce the amount that must go through that transfer account that OSD selected to have us reprogram within the R. & D. appropriation for the $2.8 million, so that we would not have to use the transfer account.

Mr. MAHON. Thank you very much.

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