Building A Better Defense

September 14, 2009

Mr. Cornel A. Holder
National Defense Stockpile

History

• NDS Program established in 1939
• Purpose: to preclude dependence on foreign sources of supply in time of national emergency
• Prior to 1988, jointly managed by Federal Emergency Management Agency and General Services Administration
• Executive Order 12626 – President Reagan designated the Secretary of Defense as the “Stockpile Manager”
• Starting in Fiscal Year (FY) 1994, Congress began authorizing the sale of excess NDS inventory
• Since 1994, commodity sales have totaled approx $7 billion
• In 1994 there were 90 NDS-managed commodities; today there are 25
• In 1994 there were 85 NDS storage locations; today there are 17
• Market value of remaining NDS inventory is approx $1.6 billion
National Defense Stockpile

• 2006 Congress Expressed Concern
  ➢ Study began
    • DoD Disposal Policy
    • Should NDS be reconfigured
  
• Series of Events
  ➢ Interim Report – August 2006
    • Further study
  ➢ Independent Study – NAS
    • Report October 2007
  ➢ OSD Working Group
    • Reconfigure NDS to Strategic Materials Security Program
    • Modify Stockpiling Act
      » Greater flexibility
      » Ensure materials are available
SMSP Status

• Report sent to Congress – April 2009

• Testified before the Subcommittee on Readiness, House Arms Services Committee (HASC)
  ➢ Received positive/favorable response
SMSP Process

- Dynamic list of material needs:
  - Military weapon platforms
  - Military services
  - Industry

- Constant surveillance of global marketplace and assess against ever-changing material needs
- Country reliability – Willingness and/or ability to sell to US

Services Identify Vulnerable Platforms/Weapons

A List of Strategic Materials is Developed

- Identify materials
  - Defense strategic and critical materials
  - Essential Civilian

List of Materials is “Filtered” for Supply Chain Risks

- Risk Assessment
  - Military conflict scenarios
  - Peacetime scenarios

Mitigation Strategies are Selected and Applied

Traditional Stockpile Inventory

- Virtual Vendor Managed Inventory

Strategic Sourcing

- Buffer Stock
- Vendor-to-Vendor Transactions
- Increased Capacity

Partnering with Friendly Nations (e.g., JOGMEC)
Risk Assessment Factors and Conditions

Factors:

- Changes in global market conditions
- Economic changes
- Geo-political issues
- Competition for scarce/limited resources
- Changes in U.S. industrial base
- Loss of access due to natural/man-made disasters

Conditions:

- National security emergency scenarios, and
- Peacetime supply disruptions scenarios
DNSC Services

- Market intelligence and acquisition support
- Material risk assessments
- Provide/implement mitigation strategies
  - Ensure availability of materials
  - Lead-time reduction
Why DNSC

• Recognized as *material experts*
  - Able to maneuver in markets without undue disruption
  - Possesses solid understanding of global marketplace

• Act as *buying agent* for Services
  - Gives suppliers an opportunity to build relationships with a reliable, reputable and responsible buyer

• Perform role of logistics *facilitator*
  - Ensures the release of materials to DoD contractors, in a timely manner
SMSP Pilot Program

• DNSC tested strategic sourcing concept
  ➢ Issued solicitation to procure titanium to support select Army and Navy programs

• Solicitation incorporated:
  ➢ offal material as feedstock
  ➢ “Right to recover” opportunity

• Strategic Sourcing Concept:
  1. Gives suppliers an opportunity to forecast long term business solutions
  2. Provides periods of uninterrupted business
On-Going Initiatives

• Conduct outreach to Military Services
  ➢ Educate program and contracting officials on the merits of the new process
  ➢ Learn about material needs and issues of the services

• Establish a process to compile “live” data on materials used in weapon systems
BACKUP CHARTS