Transforming the National Defense Stockpile to Meet 21st Century Requirements

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Agenda

• Bottom Line Up Front
• National Defense Stockpile (NDS) Overview
• NDS Study Background & Timeline
• DoD Working Group Conclusions
• Strategic Materials Security Program (SMSP)
• Risk Mitigation Strategies
• Benefits of the SMSP
• Why DNSC?
Bottom Line Up Front

• Global demand for scarce raw materials has escalated
  – Industrial surges in China, India, Russia, Brazil, and other developing
countries are depleting established resources of materials

• Must establish new, integrated and dynamic system to identify and
manage supply of strategic and critical materials to meet DoD
requirements
  – Integrate into current defense planning
  – Identify long and short term needs
  – Evaluate recycling and substitutions
  – Identify supply chain risks and vulnerabilities

• Why DNSC?
  – Successfully managed a multi-million dollar commodity sales program
    for DoD
  – Knowledge of material, market dynamics, industry practices and
    acquisition excellence to develop contracting strategies to leverage
    buying opportunities to support Military Services.
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
- Formal reviews of U.S. stockpiling strategies began in 2006
NDS Study Timeline

• In 2006, Congress asked for a review of current DOD policy to dispose of NDS materials.

• In 2007, Independent Study was conducted by National Materials Advisory Board (National Academy of Sciences).
  – Report raised concerns about DOD’s ability to supply material for defense programs given current market conditions & increasing reliance on foreign sources of supply for defense needs

• In 2008, Senate asked for info on materials critical to strategic defense interests, commodity suppliers, and availability of material during times of conflict.

• In 2008, USD (AT&L) established a Working Group to review report findings and to address issues raised by Congress.
Working Group Conclusions

• Reconfigure the National Defense Stockpile to be the Strategic Materials Security Program (SMSP)

• Modify the Stock Piling Act to grant the SMSP programmatic flexibility to:
  – Efficiently and effectively acquire the right materials
  – Ensure essential strategic materials are available to respond to current and future needs and threats
Strategic Materials Security Program

- Constant surveillance of global marketplace and assess ever-changing material needs
- Evaluate material requirements
  - Military conflict scenarios
  - Peacetime scenarios
- Dynamic list of material needs
- Country reliability
  - Willingness and/or ability to sell to US
- Risk mitigation strategies to ensure material availability
Risk Mitigation Strategies

• Strategic Sourcing
  – Leverage the buying power of DoD by aggregating materials requirements and negotiating long-term procurement agreements

• Traditional Stockpiling
  – Holding quantities of critical materials long term to ensure availability when needed

• Partnering with foreign nations
  – Establish agreements to enhance DoD’s ability to ensure current/future availability of materials not available domestically
Strategic Materials Security Program Benefits

• Monitor/identify changes in supply/demand concerns relative to material requirements and supply chain disruptions

• Flexibility of risk mitigation strategies
  – Strategic sourcing, traditional stockpiling, partnering with foreign nations

• Reduce lead time by establishing contract vehicles to ensure continuity of supply

• Cost Reductions/Savings
  – Aggregate quantity of material under one, Military Services-wide contract
  – No added charges to material
  – Implement “right to recover”
Example of Strategic Sourcing Contract (Titanium for Army/Navy)

• DNSC issued solicitation to procure titanium:
  – Navy Requirement: 50,400 to 268,800 lbs over 4 years
  – Army Requirement: 10,000 to 100,000 lbs annually
    (provided 10,000 lbs of offal material as feedstock)
    • IDQ with EPA for base year and four one year options

• Solicitation incorporated:
  – Army to receive a “credit” for the offal material provided as feedstock
  – “Right to recover” opportunity included

• Contract resulted in cost savings for Army and Navy
Benefits to Military Services

- DNSC, operating as a buying agent, can move discreetly in/out of markets without causing undue market disruption
- DNSC can facilitate release of materials to DoD contractors as Government furnished material, shielding the defense contracts from surging market prices
- DNSC can support the Military Services by ensuring timely availability of materials needed to satisfy defense contracts
Why DNSC?

• Recognized and respected by DoD and industry as commodity experts
  – Extensive market exposure through robust sales programs
  – Sales vehicles developed to maximize market contacts
  – Military Services requested DNSC’s assistance in procuring materials; e.g., titanium to support Army and Navy programs

• Pertinent staff capabilities available to:
  – Evaluate industry practices
  – Assess market needs/demands; pricing trends; timing in market
  – Evaluate recycling and substitution options
  – Measure consumption/production levels
  – Identify global sources of materials
  – Analyze potential geopolitical and logistical disruptions
  – Monitor markets for intelligence on new applications or uses for materials
  – Assess supply chain risks and vulnerabilities
QUESTIONS?

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