

98TH CONGRESS } HOUSE OF REPRESENTATIVES { REPT. 98-110
1st Session } { Part 1

DEFENSE INDUSTRIAL BASE REVITALIZATION ACT

MAY 12, 1983.—Ordered to be printed

Mr. ST GERMAIN, from the Committee on Banking, Finance and
Urban Affairs, submitted the following

REPORT

together with

SUPPLEMENTAL, MINORITY, AND DISSENTING VIEWS

[To accompany H.R. 2782 which, on April 27, 1983, was referred jointly to the Committee on Banking, Finance and Urban Affairs and the Committee on Education and Labor]

[Including cost estimate of the Congressional Budget Office]

The Committee on Banking, Finance and Urban Affairs, to whom was referred the bill (H.R. 2782) to amend the Defense Production Act of 1950 to revitalize the defense industrial base of the United States, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SHORT TITLE

SECTION 1. This Act may be cited as the "Defense Industrial Base Revitalization Act".

TITLE I—INDUSTRIAL MODERNIZATION AND STRATEGIC AND CRITICAL MATERIALS

SEC. 101. Title III of the Defense Production Act of 1950 (50 U.S.C. App. 2091 et seq.) is amended by inserting after section 303 the following:

"FINDINGS AND PURPOSE

"SEC. 303A. (a) The Congress hereby finds, with respect to section 303B, that—



"(1) the national defense and economic health of the United States depend upon the continuous maintenance of a strong and modern industrial base and the uninterrupted access to those critical and strategic materials needed to supply such base;

"(2) in recent years, several important industries, representing a significant portion of our Nation's second and third tier defense industrial base, have either virtually shut down or have substantially reduced their production capacity;

"(3) a major factor in the decline of this part of our national defense industrial base has been the inability of small- and medium-sized businesses to obtain access to sufficient capital to remain competitive in the face of increasing foreign competition;

"(4) as a result, important segments of the United States defense industrial base are now characterized by declining productivity, aging facilities and machinery, and a high degree of import penetration; and

"(5) at the same time, the United States has also found itself increasingly and dangerously dependent upon foreign sources for critical and strategic materials necessary to our defense capability.

"(b) It is the purpose of section 303B to strengthen the capability and capacity of the Nation's defense industrial base by assisting in the process of capital investment in certain small- and medium-sized businesses vital to our defense preparedness, and by encouraging the expansion of domestic production, processing, and conservation of strategic and critical materials.

"INDUSTRIAL MODERNIZATION AND STRATEGIC AND CRITICAL MATERIALS

"Sec. 303B. (a)(1) The President, utilizing the types of financial assistance specified in section 301, 302, and 303, and any other authority contained in this Act, shall take immediate action to assist in the modernization, improvement, and expansion of productive capacity of industries in the United States which are necessary to the manufacture or supply of national defense materials which are required for the national security or are likely to be required in a time of emergency or war.

"(2) Such assistance shall be provided only to small- and medium-sized businesses, as defined by the Secretary of Commerce, unless the President determines that the interests of national defense require an exception to this limitation.

"(3) The financial assistance provided under this subsection shall, to the greatest extent possible, be made available to small independently owned and operated businesses.

"(b)(1) The Secretary of Defense, in consultation with the Secretary of Commerce, shall—

"(A) determine immediately, and semiannually thereafter, those industries which should be given priority in the awarding of financial assistance under subsection (a);

"(B) determine the type and extent of financial assistance which should be made available to each such industry; and

"(C) with respect to the industries specified pursuant to subparagraph (A), indicate those proposals, received under subsection (d), which should be given preference in the awarding of financial assistance under subsection (a) based on a determination that such proposals offer the greatest prospect for improving productivity and quality, and for providing materials which will reduce the Nation's reliance on imports.

"(2) Each proposal shall include a financial plan which specifies how the assistance offered under this section shall be used to insure that the company involved, by receiving such financial assistance, will become more economically viable in the future.

"(c)(1) The President shall extend assistance under sections 301, 302, and 303, and any other authority contained in this Act, to persons engaged in the expansion of the domestic capability and capacity to produce or process critical and strategic metals, minerals, and materials, including—

"(A) the conservation, substitution, and recycling of such metals, minerals, and materials; and

"(B) the development of processes, alternate product designs and material selection systems, which lessen or obviate the need for such critical and strategic metals, minerals, and materials.

"(2) The President shall exercise the authority granted under this subsection in consultation with the Secretary of Defense, the Secretary of the Interior, the Secretary of Commerce, and the Director of the Federal Emergency Management Agency.

"(d) The President, in extending assistance under subsections (a) and (c), shall extend such assistance on the basis of proposals submitted in response to a series of public solicitations, the first of which shall be issued by the President within ninety calendar days following the date of the enactment of this section.

"(e)(1) Any contract for financial assistance which is awarded under subsection (a) or (c) and which utilizes financial assistance through purchase agreements specified in section 303 shall provide that the President has the right to refuse delivery of the items specified in such contract and to pay the person involved an amount equal to the amount by which the price for such items, as specified in the contract involved, exceeds the market price, as determined by the Secretary of Commerce, for such items on the delivery date specified in such contract.

"(2) Financial assistance under subsection (a) or (c) shall not be extended to assist establishments relocating from one area to another or to assist persons whose purpose is to divest, or whose economic success is dependent upon divesting, other persons of contracts theretofore customarily performed by them, except that such limitation shall not be construed to prohibit such financial assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary of such business entity if the President finds that the establishment of such branch, affiliate, or subsidiary will not result in an increase in unemployment in the area of original location or in any other area where such entity conducts business operations, unless the President has reason to believe that such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

"(f)(1)(A) There are authorized to be appropriated to carry out the provisions of subsections (a), (b), and (c) not to exceed—

- "(i) \$400,000,000 for fiscal year 1984;
- "(ii) \$600,000,000 for fiscal year 1985; and
- "(iii) \$800,000,000 for fiscal year 1986.

"(B) Such sums shall remain available until expended.

"(2)(A) In the use of loan guarantees, price guarantees, and direct loans as Federal financial incentives to accomplish the objectives of this section, the President may utilize the borrowing authority of the Treasury to the extent that the estimated ultimate net cost of such incentives to the Government does not exceed the total of appropriations made by the Congress to carry out the provisions of subsections (a), (b), and (c). Such estimates shall be based upon the past experience of the actual costs of Federal financial incentives under this Act and related expenses.

"(B) The use of loan guarantees, price guarantees, and direct loans under this section and the use of the borrowing authority of the Treasury under this subsection shall be effective for any fiscal year only to such extent or in such amounts as are provided in advance in appropriation Acts."

TITLE II—DEFENSE-RELATED SKILL TRAINING AND EDUCATION

SEC. 201. Title III of the Defense Production Act of 1950 (50 U.S.C. App. 2091 et seq.) is amended by inserting after section 303B, as added by title I of this Act, the following:

"FINDINGS AND PURPOSE

"SEC. 303C. (a) The Congress hereby finds, with respect to sections 303D and 303E, that—

"(1) there is a serious shortage of trained workers for many critical defense-related occupations;

"(2) in many such occupations, this labor shortage will worsen as the present defense buildup gets underway;

"(3) this labor shortage has the potential of seriously jeopardizing the Nation's defense preparedness;

"(4) there is currently no federally focused effort to remedy this threat to our national security by training workers specifically for critical defense-related jobs;

"(5) this labor shortage is occurring at the same time that vast numbers of skilled and semi-skilled workers have been permanently dislocated from their prior occupations; and

"(6) there is currently inadequate assistance being provided to institutions of higher education to assist them in obtaining and installing the modern equipment needed to train individuals for work in such occupations.

"(b) It is the purpose of sections 303D and 303E to train individuals, especially dislocated workers, for jobs in critical defense-related skills, as determined by the President, and to provide assistance to institutions of higher education to obtain and install equipment to train individuals in such skills.

"DEFENSE-RELATED SKILLS TRAINING PROGRAM

"SEC. 303D. (a)(1) The President shall take immediate action to develop and implement a national program to train workers in skills which the President determines are necessary in the industries identified under subsections (a), (b), or (c) of section 303B, and which the President determines are in short supply or are anticipated to be in short supply.

"(2) The Secretary of Defense, after consultation with the Secretary of Labor and the National Occupational Information Coordinating Committee, shall transmit to the President the recommendations of the Secretary of Defense regarding the determinations which the President is required to make under paragraph (1).

"(b)(1) Assistance under this section shall be in the form of a grant to a Governor to be allotted to a State board of vocational education or other agency or agencies designated in the State plan by the Governor of the State plan for a three-year program of skills training has been submitted by the Governor to the President and approved by the President.

"(2) The President may, to the extent possible—

"(A) provide assistance in coordinating the State plan developed under this section; and

"(B) provide technical assistance and support services in the implementation and conduct of programs of skills training which are carried out under this section.

"(c) The President, in determining the extent to which State plans shall be funded, shall make use of all appropriate and reasonable factors, but shall give particular emphasis to—

"(1) the present or anticipated short supply in that State of skilled workers for industries identified by the President under subsection (a), (b), or (c) of section 303B;

"(2) the number of labor surplus areas in such State; and

"(3) the extent to which the State plan is designed to train dislocated workers for skilled occupations in such industries which are presently in short supply or anticipated to be in short supply upon the completion of such training.

"(d) The President shall not approve for funding any State plan unless—

"(1) the State plan has been developed with representatives of the management and workers of the industries involved and with public and private educational institutions of the State;

"(2) the State plan includes on-the-job training, vocational, and other institutional training programs;

"(3) the State plan is designated to ensure meaningful opportunities for participation by minorities and women;

"(4) the Governor of the State has certified in writing that the State plan will be carried out in accordance with the requirements of this section; and

"(5) such State plan includes—

"(A) upgrading skills training; and

"(B) retaining of workers in depressed industries, in surplus labor areas, or with occupational skills which might become obsolete because of industries modernization or technological advancement, in skills which the President determines under subsection (a) are necessary in the industries identified under subsection (a), (b), or (c) of section 303B as necessary to the manufacture or supply of national defense materials which are required for the national security or are likely to be required in a time of emergency or war.

"(e) The State plan shall, where appropriate, include certified apprenticeship training pursuant to an apprenticeship plan.

"(f) Any bona fide public or private training program engaged in training workers in skills described in subsection (a) shall be considered eligible to deliver such training services upon written application, pursuant to a competitive process, to the State board of vocational education or other agency or agencies designated by the Governor of the State involved under subsection (b)(1).

"(g) The State job training coordinating council under Public Law 97-300 shall be given the opportunity—

"(1) to participate in the development of the plan;

“(2) to review the plan for thirty days prior to its submission to the President; and

“(3) to submit written comments along with the submission of the plan to the President.

“(h) The activities funded under this section shall not duplicate facilities or services available in the area (with or without reimbursement) from Federal, State, or local sources, unless the plan provides evidence that alternative services or facilities would be more effective or more likely to achieve the objectives specified in subsection (a) of this section.

“(i) The plan shall contain assurances that the activities funded under this section will be coordinated to the maximum extent feasible with other employment-related programs in the State, through joint agreements where practicable, or through joint administration, with programs funded under the Job Training Partnership Act to ensure maximum participation of eligible participants under such Act in training programs funded under this section, and through consultation and coordination with certified apprenticeship plans, where such plans are in effect, to ensure that the plan does not duplicate or undermine existing certified apprenticeship programs.

“(j) The State plan shall include a certification which assures the following labor training standards and requirements will be met:

“(1) conditions of training shall be appropriate and reasonable in the light of such factors as the type of work, geographical region, and proficiency of the participant;

“(2) health and safety standards established under State or Federal law, otherwise applicable to working conditions of employees, shall be equally applicable to working conditions of participants;

“(3) to the extent that a State workers' compensation law is applicable, workers' compensation benefits in accordance with such law shall be available with respect to injuries suffered by participants. To the extent that such law is not applicable, each recipient or subrecipient of funds under this section shall secure insurance coverage for injuries suffered by such participants, in accordance with regulations prescribed by the Secretary of Labor;

“(4) no currently employed worker shall be displaced by any participant (including partial displacement such as a reduction in the hours of nonovertime work, wages, or employment benefits);

“(5) no program shall impair existing contracts of employment;

“(6) no person shall be trained for a job—

“(A) when any other employee in the same workplace or plant is on layoff from the same or any substantially equivalent job; or

“(B) when the employer has terminated the employment of any regular employee or otherwise reduced its workforce with the intention of filling the vacancy so created by hiring a participant whose training is assisted under this section;

“(7) recipients of funds available under this section have given assurances that such funds shall not be used to assist, promote, or deter union organizing;

“(8) no funds available under this section may be used to assist, promote, or deter union organizing; and

“(9) no funds will be used to train workers for low skilled occupations.

“(k) Any grant under this section shall be extended in any year only after the State involved has provided a contribution, from public or private resources, to carry out the State plan in an amount equal to 10 per centum of the cost of the State plan for such year.

“(1) Each training program under the State plan shall include contributions and other types of active participation during the course of training from industry or labor organizations or both, except that the President, upon written request from a State, may exempt training programs in economically depressed communities from the contribution required under this paragraph.

“(m) A portion of a State's contribution may consist of 'in kind' contributions of equipment, facilities, personnel, or services to the extent that such 'in kind' contribution is utilized in carrying out the State's plan. No such 'in kind' contribution may include equipment acquired under section 303E.

“(n) The President shall act upon each State plan not later than ninety days after the date on which such State plan is received. Such action shall be based upon the recommendations of the Secretary of Defense, the Secretary of Labor, and the Secretary of Education.

“(o) No person shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied training in the administration of or in con-

nection with any program under this section because of race, color, religion, sex, national origin, age, handicap, or political affiliation or belief.

"(p) Not more than 10 per centum of the amount of any grant made under this section may be used by a State for administrative expenses incurred in carrying out a State plan.

"(q) Assistance under this section may be used to purchase and install equipment for training purposes. The purchase of any such equipment shall be done by means of competitive bidding.

"(r) For purposes of installing Government-owned equipment pursuant to section 303(e), the term 'industrial facilities', as used in such section, shall include vocational schools, other schools offering technical and vocational training programs, and any other location in which workers are trained pursuant to this section.

"(s) There are authorized to be appropriated to carry out the provisions of this section and section 303E not to exceed \$350,000,000 for each fiscal year beginning with fiscal year 1984 and continuing through fiscal year 1986, except that not more than \$100,000,000 is authorized to be appropriated for each such fiscal year to carry out the provisions of sections 303E. All such sums shall remain available until expended.

"DEFENSE-RELATED EQUIPMENT ASSISTANCE PROGRAM

"Sec. 303E. (a)(1) The President shall take immediate action to develop and implement a grant program to assist colleges, universities, and other institutions of higher education in obtaining and installing modern equipment which shall be used to train professional, scientific, and technical personnel who are needed in the industries identified under subsection (a), (b), or (c) of section 303B.

"(2) All students and faculty studying, teaching, or conducting research at such an institution of higher education shall have access to such equipment for use in accordance with regulations and practices of such institution of higher education.

"(b) Any college, university, or other institution of higher education which desires to receive a grant under this section may submit an application to such Federal department or agency as the President shall designate. Each such application shall—

"(1) certify the cost of purchasing and installing the equipment involved; and

"(2) contain such other information as the President deems necessary.

"(c)(1) Each college, university, or other institution of higher education whose application is approved under this section may be required to provide a matching share of up to 50 per centum of the cost of purchasing and installing the equipment involved.

"(2) The purchase of any such equipment shall be done by means of competitive bidding.

"(d) At the discretion of the President, equipment may be provided under section 303(e) to colleges, universities, and other institutions of higher education. For purposes of such section, the term 'industrial facilities' shall include colleges, universities, and other institutions of higher education.

"GENERAL PROVISIONS

"Sec. 303F. (a) Any equipment or plant financed through Federal assistance authorized by sections 303B through 303E shall be of United States origin to the maximum extent practicable. Exceptions to this limitation may be made whenever the Secretary of Commerce determines in writing—

"(1) that the foreign sourcing of such equipment or plant will not adversely affect the capability or capacity of the United States defense industrial base to provide national defense materials in a time of emergency or war; or

"(2) that such equipment or plant of United States origin is not available and is not practicable to obtain.

"(b) The Comptroller General of the United States shall monitor the implementation of sections 303B through 303E, conduct such audits as he determines to be necessary, and submit an annual report of his findings to the Congress at the beginning of each session of the Congress. The first such annual report shall be submitted in the year following the enactment of the Defense Industrial Base Revitalization Act.

"(c) In order to carry out the provisions of sections 303B through 303E, the Office of Technology Assessment shall, subject to approval of the Technology Assessment Board and in a manner prescribed by 2 U.S.C. 472(d), undertake a study of the public facilities or infrastructure essential to the defense industrial base and provide Congress with appropriate recommendations for infrastructure measures designed to avoid serious impediments to the production and distribution of materiel.

“(d)(1) All laborers and mechanics employed for the construction, repair, or alteration of any project funded, in whole or in part, by a guarantee, loan, or grant entered into pursuant to sections 303B through 303E shall be paid wages at rates not less than those prevailing on projects of similar character in the locality as determined by the Secretary of Labor in accordance with the Act entitled ‘An Act relating to the rate of wages for laborers and mechanics employed on public buildings of the United States and the District of Columbia by contractors and subcontractors, and for other purposes’, approved March 3, 1931 (40 U.S.C. 276a et seq.), and commonly known as the Davis-Bacon Act.

“(2) Guaranteeing agencies shall not extend guarantees and the President shall not make loans or grants for the construction, repair, or alteration of any project unless a certification is provided to the agency or the President, as the case may be, prior to the commencement of construction or at the time of filing an application for a loan, guarantee, or grant, if construction has already commenced, that these labor standards will be maintained at the project.

“(3) With respect to the labor standards specified in this subsection, the Secretary of Labor shall have the authority and functions set forth in Reorganization Plan Numbered 14 of 1950 and section 276(c) of title 40, United States Code.

“(e) On October 1, 1983, and on the first business day of every sixth month beginning after such date, the President shall transmit a report to both Houses of the Congress listing all loans, loan guarantees, and commitments for loan guarantees which were issued under section 303B during the six calendar months preceding the transmittal date of the report involved.

“(f) Notwithstanding any other provision of sections 303B through 303E, no funds are authorized to be appropriated to carry out such sections, unless all of such funds are attributed to a budget function or budget allocation other than one affecting or relating to education or labor, the Department of Education or the Department of Labor, the Committee on Education and Labor of the House of Representatives or the Committee on Labor and Human Resources of the Senate, or any subcommittee of the Committee on Appropriations of either House primarily responsible for appropriations for education or labor.

“(g) For purposes of sections 303A through 303E—

“(1) the term ‘apprenticeship plan’ means a plan approved by the Secretary of Labor pursuant to the National Apprenticeship Act (29 U.S.C. 50 et seq.);

“(2) the term ‘State’ means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, American Samoa, the Trust Territory of the Pacific Islands, or any other territory or possession of the United States; and

“(3) the term ‘United States’ means the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, American Samoa, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States.”.

TITLE III—AMENDMENTS TO DEFENSE PRODUCTION ACT OF 1950

SEC. 301. (a)(1) Section 2 of the Defense Production Act of 1950 (50 U.S.C. App. 2062) is amended to read as follows:

“DECLARATION OF POLICY

“SEC. 2. (a)(1) In view of continuing international problems, the Nation’s demonstrated reliance on imports of materials and components, and the need for measures to reduce defense production lead times and bottlenecks, and in order to provide for the national defense and national security, our defense mobilization preparedness effort continues to require the development of preparedness programs, defense industrial base improvement measures, and the expansion of domestic productive capacity and supply beyond the levels needed to meet the civilian demand. Also required is some diversion of certain materials and facilities from civilian use to military and related purposes.

“(2) These activities are needed in order to improve defense industrial base efficiency and responsiveness, to reduce the time required for industrial mobilization in the event of an attack on the United States or to respond to actions occurring outside the United States which could result in the termination or reduction of the availability of strategic and critical materials, including energy, and which could adversely affect the national defense preparedness of the United States. In order to insure the national defense preparedness which is essential to national security, it is also necessary and appropriate to assure the availability of domestic energy supplies for national defense needs.

"(b)(1) In order to insure productive capacity in the event of an attack on the United States, it is the policy of the Congress to encourage the geographical dispersal of the industrial facilities of the United States in the interest of the national defense, and to discourage the concentration of such productive facilities within limited geographical areas which are vulnerable to attack by an enemy of the United States.

"(2) In the construction of any Government-owned industrial facility, in the rendition of any Government financial assistance for the construction, expansion, or improvement of any industrial facility, and in the production of goods and services, under this or any other Act, each department and agency of the executive branch shall apply, under the coordination of the Federal Emergency Management Agency, when practicable and consistent with existing law and the desirability for maintaining a sound economy, the principle of the geographical dispersal of such facilities in the interest of national defense. However, nothing in this paragraph shall preclude the use of existing industrial facilities.

"(3) To ensure the adequacy of productive capacity and supply, executive agencies and departments responsible for defense acquisition shall continuously assess the capability of the defense industrial base to satisfy near-term requirements as well as increased mobilization production requirements. Such assessments shall specifically evaluate the availability of adequate production sources, including subcontractors and suppliers, materials, and skilled labor, and professional, scientific, and technical personnel.

"(4) It is the policy of the Congress that plans and programs to carry out this declaration of policy shall be undertaken with due consideration for promoting efficiency and competition."

(2) Section 101 of the Defense Production Act of 1950 (50 U.S.C. App. 2071) is amended by adding at the end thereof the following:

"(d) The Secretary of Defense may not enter into any contract of more than \$5,000,000 for any item of defense production from any manufacturer located in the United States unless that manufacturer agrees to conduct or sponsor the training of personnel in skills which the President determines are in short supply pursuant to section 303D, if the defense procurement contract will require the contractor or any subcontractor or the contractor to hire additional workers in any such skilled occupations, and the training of such workers is critical to the timely completion of work under the contract in the area in which the contract will be performed.

"(e)(1) Except as provided in paragraph (2), the President may not exercise the authority granted under subsection (a) or (b) regarding any change in approval Department of Defense urgency determinations for critical defense production programs (including any compilation or revisions of the master urgency list on defense production) unless both Houses of the Congress have been notified in writing of such proposed exercise of authority and 60 days of continuous session of the Congress have expired following the date on which such notice was transmitted to the Congress and neither House of the Congress has adopted, within such 60-day period, a resolution disapproving such exercise of authority.

"(2)(A) The provisions of paragraph (1) shall not apply in any case in which the President determines that immediate action is needed in the interest of national security and the President transmits a notice of such determination to both Houses of Congress. Such notice shall be transmitted to both Houses of the Congress on the date on which the President makes such determination.

"(B) Any determination by the President under this paragraph shall remain in effect if neither House of the Congress adopts a resolution disapproving the exercise of the authority involved within 60 days of continuous session of the Congress after the date on which the notice involved under this paragraph is transmitted to the Congress. If either House of the Congress adopts such a resolution of disapproval, the President shall cease to exercise the authority involved on the date on which such resolution is adopted.

"(3) For purposes of this subsection, the continuity of a session of the Congress is broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of such 60-day period.

"(f)(1) The President shall not exercise the authority granted under subsection (a) or (b) of this section to achieve the performance of any contract or order for an item of defense production if such item, or any component of such item, is obtained from any manufacturer located outside of the United States, unless—

"(A) such contract or order is for less than \$1,000,000;

"(B) the Secretary of Defense has determined in writing that such contract or order will not result in the United States becoming primarily dependent upon

- manufacturers outside of the United States for the supply of such items of defense production, or any component of such item; or
- “(C) the President has certified in writing to the Congress that entering into such contract is essential to the national defense.
- “(2) The requirements of paragraph (1) shall not apply—
- “(A) during any period in which there is in effect—
- “(i) a declaration of national emergency which is issued by the President;
- or
- “(ii) a declaration of war which is adopted by the Congress; or
- “(B) with respect to contracts or orders which are entered into under the terms of any treaty which is ratified by the Senate.
- “(3) For purposes of this subsection, the term ‘United States’ means the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, American Samoa, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States.”
- (b) Section 301 of the Defense Production Act of 1950 (50 U.S.C. App. 2091) is amended—
- (1) in subsection (e)(1)(A), by striking out “\$38,000,000” and inserting in lieu thereof “\$50,000,000”; and
- (2) in subsection (e)(1)(B)—
- (A) by striking out “60 days” and inserting in lieu thereof “30 days”;
- (B) by striking out “60-day period” each place it appears therein and inserting in lieu thereof “30-day period”;
- (C) by inserting “(i)” after “such proposed obligation and”; and
- (D) by striking out the period at the end of the first sentence thereof and inserting in lieu thereof the following: “or (ii) both Houses of Congress adopt a concurrent resolution approving such obligation. If the Congress adopts such a concurrent resolution, the guarantee involved may be made at any time after the date on which such concurrent resolution is adopted.”.
- (c) Section 302 of the Defense Production Act of 1950 (50 U.S.C. App. 2092) is amended—
- (1) by striking out “60 days” and inserting in lieu thereof “30 days”;
- (2) by striking out “60-day period” each place it appears therein and inserting in lieu thereof “30-day period”; and
- (3) in the second sentence thereof—
- (A) by inserting “(A)” after “such proposed loan and”; and
- (B) by striking out the period at the end thereof and inserting in lieu thereof the following: “or (B) both Houses of Congress adopt a concurrent resolution approving such loan. If the Congress adopts such a concurrent resolution, the loan involved may be made at any time after the date on which such concurrent resolution is adopted.”.
- (d) The first sentence of section 717(a) of the Defense Production Act of 1950 (50 U.S.C. App. 2166(a)) is amended by striking out “September 30, 1983” and inserting in lieu thereof “September 30, 1986”.
- (e) Section 720 of the Defense Production Act of 1950 (50 U.S.C. App. 2169) is hereby repealed.
- (f) Section 701 of the Defense Production Act of 1950 (50 U.S.C. App. 2151) is amended by adding at the end thereof the following:
- “(e)(1)(A)(i) Any person signing a contract which involves the sale of any defense article or defense service for use by a nation other than the United States and which includes an offset agreement in excess of \$5,000,000 shall file an annual report with the Secretary of the Treasury. Each such report shall include the total of all offsets, classified by the category of the defense material or defense services involved, entered into by such person during the three calendar years preceding the year in which such report is filed. The first such annual report shall be filed with the Secretary of the Treasury not later than June 1, 1984. Subsequent annual reports shall be filed not later than June 1 of each year.
- “(ii) Except as provided in subparagraph (B) and notwithstanding any other provision of law, including section 552 of title 5, United States Code (commonly known as the Freedom of Information Act), the Secretary of the Treasury shall not disclose, except to the Congress, any information required to be reported pursuant to this subparagraph.
- “(B) Not later than the first October 1 occurring more than ninety days after the date of the enactment of this subsection and not later than each October 1 occurring after such October 1, the Secretary of the Treasury shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and to the Committee on

Banking, Finance and Urban Affairs of the House of Representatives a report on the total number of contracts reported pursuant to subparagraph (A) and the total amount of offsets required by such contracts. Such report shall contain a breakdown of offsets by category of defense material or defense services involved and by recipient country.

"(2) For purposes of this subsection—

"(A) the term 'offset' means any international transaction between a buyer and seller that provides nonmonetary compensation which may include, but not be limited to, the transfer of production or technology to the buyer as a consideration for the purchase of a particular item or service; and

"(B) the term 'person' means any individual, sole proprietorship, partnership, or corporation.

"(3) This subsection shall cease to be effective five years after the date of the enactment of this subsection.

"(f) The Secretary of Defense shall report to the Committee on Banking, Housing, and Urban Affairs of the Senate and to the Committee on Banking, Finance and Urban Affairs of the House of Representatives any memorandum of understanding or similar agreement which involves actual, planned, or potential offsets in contracts involving the sale of defense articles or services in excess of \$5,000,000 not later than 30 days after the Secretary of Defense signs such memorandum of understanding."

INTRODUCTION AND BRIEF SUMMARY OF THE LEGISLATION

H.R. 2782 addresses a national problem of vital importance and great magnitude. The Nation's secure defense, and economic stability require: maintenance of a solid and modern defense industrial base; reliable and steady access to certain critical and strategic supplies; a full complement of properly trained workers and technicians to meet defense-related needs.

In recent years, it has become increasingly clear that the United States has not been meeting these requirements. Support industries are shrinking and in many cases disappearing. We are dangerously dependent on foreign imports for the critical materials that fuel our industries. Skilled workers are aging, while qualified replacements are not emerging in sufficient numbers. There is a shortage of manpower with the skills necessary to design, build, operate, and maintain modern machinery and equipment. Colleges, universities, and other institutions of higher education lack sufficient financial resources to furnish their classrooms and laboratories with the modern equipment needed to insure the highest quality education in rapidly changing scientific and technical disciplines.

H.R. 2782 would strengthen our Nation's defense industrial base by assisting in the process of capital investment in selected small- and medium-sized businesses crucial to our defense preparedness, and by encouraging the modernization and expansion of domestic production, processing, and conservation of strategic and critical materials. The bill also provides extensive funding for training and retraining workers, with a preference for dislocated workers.

The proposed legislation authorizes a 3-year, \$1.8 billion program in the form of direct loans, loan guarantees, and purchase agreements for defense-related businesses. In each case, the money must either be repaid, or a needed product provided to the Government or a domestic supply source assured for materials. Credit for plant and equipment modernization is limited to small- and medium-sized companies, which must present financial plans selected from

a "priority industries list", to be developed and updated biannually by the Departments of Defense and Commerce.

H.R. 2782 also authorizes up to \$350 million annually for fiscal years 1984, 1985, and 1986 for a worker training program, through grants to States that submit training plans. The President is instructed to determine the amounts in which each State plan should be funded. In making these determinations, he is to give particular consideration to any present or anticipated shortage in that particular State of skilled workers in defense-related industries, to the number of labor surplus areas in the State, and to the extent to which the State's plan is designed to train dislocated workers for skilled occupations in manpower-short defense-related industries.

There is a 10-percent State matching requirement. The grants are to be administered by State boards of vocational education or any other agencies designated by the Governor. Submission is required of a 3-year State plan that was developed with input from representatives of workers and management and public and private educational institutions, will fully coordinate programs with existing job-training programs, includes on-the-job, institutional and vocational training programs, and meets specified labor training standards.

The training of scientific, professional, and technical personnel will be facilitated through grants to institutions of higher education to purchase and install modern equipment. Up to 50 percent cost sharing may be required.

Firms with defense contracts over \$5 million would be required to offer skill training, if the contract involves work for which there is a shortage of skilled workers in the area.

Funding for this bill would be through the defense budget function. The total authorization would be \$2.85 billion and total estimated outlays would be \$1.25 billion over the 5-year period covering fiscal year 1984 through fiscal year 1988.

H.R. 2782 extends the authorities of the Defense Production Act for 3 years to September 30, 1986.

SUMMARY OF PROVISIONS OF H.R. 2782

A 3-year program of financial assistance to improve three areas of national need:

STRENGTHENING DOMESTIC INDUSTRY

Through credit and other assistance in the form of purchase agreements, price guarantees, loan guarantees and direct loans. In each case, the money must be repaid or a needed product provided to the Government, or a domestic supply source assured for materials.

(1) To modernize plant and equipment

Limited to small- and medium-sized companies (size defined by Secretary of Commerce), therefore at subcontractor and supplier level.

Businesses chosen from "priority industries list" developed by Departments of Defense and Commerce and updated every 6 months.

Preference to applications offering the best hope of increasing productivity, improving product quality, and lessening import dependence. Special priority to small business. Financial plan required.

(2) To expand domestic production and processing of critical and strategic minerals, metals and materials

Expansion must include conservation, recycling, substitution, and new processes, alternate product designs and material selection systems.

Size of business not a factor. Financial plan required.

WORKER SKILLS TRAINING

Through grants to states (with 10 percent State match), to train workers in critical skills in short supply needed in "priority" industries and materials expansion.

Emphasis on retraining dislocated workers in depressed industries and labor surplus areas.

Administered by state boards of vocational education or other agency or agencies designated by Governor, after submission of 3-year state plan which must insure that:

Plan was developed with input from workers and management, and public and private educational institutions;

Programs will be fully coordinated with existing State job training programs and procedures as provided for under the Job Training Partnership Act;

On-the-job and registered apprenticeship training programs are included;

Specified labor training standards will be met.

PROFESSIONAL TRAINING

Through grants to institutions of higher education to purchase and install modern equipment to train scientific, professional and technical personnel. Up to 50 percent cost sharing may be required.

FUNDING

\$1.8 billion over 3 years for industry credit and other assistance; \$350 million per year for worker training and technical equipment grants, with up to \$100 million authorized for the latter.

Total authorization \$2.85 billion. Total estimated outlays \$1.25 billion.

HISTORY OF THE LEGISLATION

The Subcommittee on Economic Stabilization has conducted extensive hearings throughout 1981, 1982, and 1983 on revitalization of the U.S. defense industrial base. Thorough examination of the condition of this base—the keystone of our national security and economic well-being—has revealed very serious problems.

The subcommittee heard from 146 witnesses during 30 days of hearings. Witnesses represented government at all levels, industry, businesses of all sizes, the financial community, educators, profes-

sional associations, citizens groups, the military, and Members of Congress.

During the course of these hearings, it became eminently clear that there are real dangers to our industrial base, which must be addressed immediately.

First, the entire U.S. economy is being undermined by an increasing trade deficit, a shrinking U.S. share in the world market, and the absence of a coherent industrial strategy.

Second, many basic industries are either closing down or cutting production. These industries produce and supply components and materials upon which the defense of the country depends.

Third, the skilled manpower and the trained technical, scientific and professional personnel needed in those industries are in short supply and that shortage is growing.

Fourth, for a number of strategic and critical materials, without which the necessary parts and components could not be manufactured, the country is dangerously dependent on foreign sources, some of them susceptible to abrupt supply cutoff. In a politically volatile world, we cannot afford to rely too heavily on other countries for our essential needs.

H.R. 2782 was developed to address these pressing problems through a series of amendments to the Defense Production Act of 1950. The amendments would establish three year programs that assist defense industries; encourage modernization and expansion of domestic production of critical and strategic materials; train or retrain workers for the defense industrial base; and provide funding to higher education institutions for state-of-the-art educational tools and facilities.

Representative John J. LaFalce, chairman of the Economic Stabilization Subcommittee, introduced H.R. 2782 on April 27, 1983, following subcommittee markup of H.R. 2057, an earlier version of the bill. H.R. 2057 was introduced by Mr. LaFalce on behalf of himself and 15 members of the committee on March 10, 1983, and hearings on it were held on April 13, 14, and 20, 1983. Witnesses who testified during these hearings were: William Monteith, president, Akromold, representing the National Tooling and Machining Association; Jerry Gulan, vice president, government affairs, National Small Business Association; Keith McKee, chairman, Coordinating Committee on Productivity and Innovation, American Association of Engineering Societies; Steve Miller, director, government policy analysis, Gould, Inc.; Charles E. Melbye, president, Anschutz Mining Co., representing the American Mining Congress; Kevin Boland, Senior Association Director, Energy and Minerals Group, Resources, Community and Economic Development Division, General Accounting Office; Richard E. Donnelly, Director of Industrial Resources, Office of the Under Secretary of Defense for Research and Engineering, Department of Defense; Paul K. Krueger, Assistant Associate Director of Resources Preparedness, Federal Emergency Management Agency; Eugene Bottoms, executive director, American Vocational Association; Robert D. Kersten, dean of engineering, University of Central Florida, representing National Society of Professional Engineers; John Jenness, director, manpower planning and development, Consolidated Edison of New York, representing American Society for Training and Development; Law-

rence J. Brady, Chairman, Industrial Mobilization Preparedness Board, Department of Commerce; Howard D. Samuel, president, industrial union department, AFL-CIO; Charles J. Wilson, secretary and treasurer, Industrial Fasteners Institute; Leon Reed, manager, contingency planning, Analytic Sciences Corp.

The subcommittee marked up H.R. 2057 on April 27, 1983, and, by a vote of 18 to 6, ordered the bill with amendments to be favorably reported to the full Committee on Banking, Finance and Urban Affairs.

On May 4, 1983, the full committee held a markup of the clean bill, H.R. 2782. By voice vote, the full committee voted to report the bill as amended favorably to the House.

THE NEED FOR AND PURPOSE OF THE LEGISLATION

TITLE I—INDUSTRIAL MODERNIZATION AND CRITICAL AND STRATEGIC MATERIALS

In recent years, several important industries, representing a significant portion of our Nation's second- and third-tier defense industrial base, have either virtually shut down or have substantially reduced their production capacity. At the same time, the United States has also found itself increasingly and dangerously dependent upon foreign sources for critical and strategic materials necessary to our defense capability.

The administration has already recognized part of this problem by requesting \$200 million in the fiscal year 1984 budget to fund purchase guarantees for certain critical and strategic materials and industrial products.

H.R. 2782 would go beyond the administration's program by recognizing what is a simple, but self-evident truth:

The United States cannot be a first-rate world power with a second-rate industrial base.

Title I would establish two programs:

(1) Limited and conditional financial assistance (principally loans and loan guarantees) to help modernize and make more efficient certain parts of the Nation's defense industrial base; and

(2) Conditional financial assistance (principally purchase agreements) to encourage the expansion of domestic capacity to produce strategic and critical materials.

Industrial modernization

H.R. 2782 recognizes that the defense industrial base is made up not only of a few hundred major companies which hold most of the Nation's defense contracts but that it also includes smaller industrial firms which provide thousands of component parts to the defense effort.

Estimates of the number of these companies vary, but the figure 50,000 is most commonly cited. For the most part, these are small- and medium-sized businesses making essential "nuts and bolts" components without which our warplanes, tanks, missiles, warships, and other weapons systems would simply not work.

It is toward this vital group of "second and third-tier" defense subcontractors and suppliers that H.R. 2782 directs its assistance.

By way of illustrative example, this group would include the following types of industries: tool and die shops; precision grinding; metal stamping; manufacturers of nuts, bolts, and other industrial fasteners; screw manufacturers; bearing manufacturers; plastic die-casting; molding; manufacturers of small machine tools such as jigs, fasteners, and gages; electronic components; various aircraft engine parts; plating and polishing plants; metal matrix composites; fabricated plate work; forging and blacksmithing shops; sheet metal fabrication; and parts rebuilders.

It is these types of companies that continue to have problems in obtaining sufficient capital at affordable costs to modernize to meet foreign competition. And it is also these types of small- and medium-sized companies that underpin not only our defense base, but also our civilian economy. The Department of Defense estimates that, in most cases, defense business utilizes less than 10 percent of such a typical company's total productive capacity.

What is the condition of this part of our industrial base? It is ailing financially. It is deteriorating with age and obsolescence. It lacks skilled people. And, it is losing the competitive war with foreign imports. In short, it needs help now.

That, in capsule form, is the collective judgment expressed by more than 146 witnesses who testified at 30 days of hearings held on this issue over the past 3 years by the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs.

Gen. Alton D. Slay, who retired from the Air Force early last year after years of struggling to meet the procurement needs of the armed services put it starkly in his testimony:

We are in the grip of a virulent industrial productivity disease which is sapping our strength and which, unless cured, will inevitably result in forfeiture of our position of leadership in the western world—leadership not only in an industrial sense, but militarily and politically as well.

Mending our military fences just must be a top priority program of the Government. But that fence-mending today has to be done with a faltering industrial base and with a consequently faltering economy. And conversely, the problems of a faltering industrial base and a faltering economy must be dealt with while having simultaneously to devote huge sums to military fence-mending.

General Slay also pointed to a key manufacturing field illustrating the problems facing industrial America. He said:

Fifteen years ago, the United States had a net 5 to 1 advantage on exports versus imports of machine tools. In 1965, we imported less than 5 percent of our machine tools; today, we import over 30 percent. The U.S. world market percentage has been halved in the last ten years and shows signs of plummeting in the next two years.

A large segment of our industry is under a concerted attack and is generally ill-equipped for the kind of compet-

itive battle in the world marketplace that will be required to stay alive over the next several years. The implications for our economy and for our defense preparedness are enormous.

Since General Slay testified, there has been little or no visible improvement. The National Machine Tool Builders Association reported on April 25 that machine tool orders for the first quarter of 1983 were almost 38 percent below the same period of the previous year.

James A. Gray, president of the association, while expressing hope for the future, noted ominously in the report that,

Things cannot get much worse for our industry. In constant uninflated dollars, industry activity is at the lowest level in 50 years.

What is perhaps most disturbing is that testimony in this Congress has indicated that, despite falling interest rates and the emerging economic recovery, many, if not most, of the small- and medium-sized businesses which constitute the defense industrial base will continue to have trouble raising the necessary capital to modernize their plant and equipment.

H.R. 2782 would provide needed financial tools and incentives to help modernize and revitalize important elements of our second- and third-tier industrial base. The legislation would make it possible for high-priority small- and medium-sized companies to purchase and install new plant and equipment through time-tested and proven credit assistance incentives under the Defense Production Act. These include loan guarantees, purchase agreements, price guarantees, and direct loans where necessary.

In all cases, the money would be repaid, a needed product provided to the Government, or a domestic supply source assured for materials. The Secretary of Defense, in consultation with the Secretary of Commerce, would determine the priority industries and update the list every 6 months. Preference would go to those companies submitting proposals offering the greatest prospect for improving productivity and quality and reducing the Nation's reliance on foreign imports. Special priority would go to small independently owned and operated businesses. The program would go forward on a "fast track" by requiring a call for proposals within 90 days following enactment of the legislation.

It must be understood and emphasized that the committee is not talking about assistance to large weapons systems makers or large prime contractors. Rather, the legislation concentrates on thousands of subcontractors and supplies, mostly small- and medium-sized businesses. They provide to prime contractors the essential elements, components, parts and materials that go into all of our defense systems. Examples might include the 10-employee machine shop, the 50-employee foundry, a small electronics firm, and a myriad of other similar manufacturing concerns. These companies are not captives of the military; they also make the every day items needed in our civilian economy.

But these companies, once the backbone of America's industrial power, are in great trouble. Their plants and equipment are often

old and outmoded. Their productivity rates have dropped. The percentage of reject parts is high. In many cases, there is a growing scarcity of skilled labor. Costs go up and deliveries are slow. These conditions make it virtually impossible to compete with the much more modern factories in Japan, West Germany, and other industrialized nations. As a result, U.S. companies are closing down or losing a major share of their markets to foreign imports.

There now exists a growing consensus that this problem must be addressed soon. This consensus has been developing over the past 3 years as numerous studies, by groups representing industry, labor, and government, have continued to cite the problem. For example, Representative Melvin Price of Illinois, chairman of the House Armed Services Committee, said the following after a special panel of that committee conducted extensive hearings on the problem in 1980:

In the event of war, the U.S. defense industry would find it almost impossible to expend its weapon production suddenly and dramatically in the number necessary to sustain a prolonged conflict.

Testimony given since that time during hearings before the Banking Committee has confirmed that several of the findings of the Armed Services Committee are still valid and in need of immediate additional remedial action:

The defense industrial base is unbalanced; while excess production capacity generally exists at the prime contractor level, there are serious deficiencies at the subcontractor levels; lead times for military equipment have increased significantly during the past 3 years; skilled manpower shortages exist now and are projected to continue through the decade; the U.S. is becoming increasingly dependent on foreign sources for critical raw materials as well as for some specialized components needed in military equipment; productivity growth rates for the manufacturing sector of the United States economy are the lowest among all free world industrialized nations; the productivity growth rate of the defense sector is lower than the overall manufacturing sector; and the means for capital investment in new technology, facilities and machinery have been constrained.

Some illustrative examples of our shrinking and weakening defense industrial base that have been noted during hearings on this legislation include:

Less than 15 years ago there were approximately 3,000 foundries in the United States. Now there are fewer than 1,200.

Less than one-third of the machine tools are under 10 years old. By contrast, two-thirds of the machine tools in Japan are less than 10 years old.

Commercially owned floor space for the production of U.S. aircraft has shrunk 21 percent in recent years and is now below the minimum required for some mobilization scenarios.

During a mobilization, our domestic production of small ball bearings would fall about five times short of the need.

U.S. import reliance is high in electronic semiconductors, aluminum sheet and structures, hydro turbines, and other power generating equipment, heavy steel plate, specialized forgings, copper, metal cutting and forming tools. This reliance raises serious questions about our ability to obtain these materials in a crisis situation.

Our dwindling manufacturing sector relies increasingly on a supply of critical and strategic materials from foreign sources, including platinum group metals, manganese, chromium, cobalt, tin, and nickel.

During the course of hearings, it was estimated that 8 out of every 10 nuts, and 7 out of every 10 bolts used in the United States today are made overseas. The U.S. fastener industry also has lost its world leadership, and by 1985 an estimated 70 percent of the American market is expected to be taken over by imports from Japan, Canada, Korea, and Taiwan. Industry spokesmen in the United States warn that this country could not respond to even a partial mobilization if foreign supplies, for some reason, were cut off. The United States literally could have the ability to produce the necessary component parts for F-18 fighter planes and army tanks, but nothing to hold them together.

Charles L. Wilson, Secretary-Treasurer of the Industrial Fasteners Institute, testified on April 20, 1983, that,

It has been extraordinarily difficult to convince boards of directors to reinvest (in new plant and equipment) because of the import trend, which has replaced large segments of industry and continues to do so. Testifying on the same day was Howard D. Samuel, President of the Industrial Union Department of the AFL-CIO, which represents 5 million workers belonging to 57 international unions. Samuel said the AFL-CIO regarded legislation on revitalizing the defense industrial base as a valuable and perhaps crucial first step on the road to saving the basic industrial foundation of the United States.

One of the most pressing tasks confronting the United States, is to revive our industrial base, put it back on its feet so that it can continue to anchor our economy, provide the job opportunities we need and give us the materiel on which we depend for our defense.

The National Small Business Association strongly supported the legislation in its testimony April 13, 1983. Jerome R. Gulan, vice president of government affairs for the association, noted that the Department of Defense is the largest customer in the United States and depends heavily on small business for a wide variety of products. Gulan said the small business sector represents 98 percent of all businesses in the United States.

The National Tooling and Machining Association also endorsed the Defense Industrial Base Revitalization Act. William H. Monteith, founder and owner of Akromold, Inc., of Cuyahoga Falls, Ohio, said approximately 20 percent of the Association's members do business either directly with the Department of Defense or as subcontractors to prime defense contractors.

“There is no major weapon system that can be produced without the work of our industry,” Monteith said, adding that the industry is characterized by high capitalization requirements for expensive machine tools and accessories. Monteith said, “The assistance it can provide for modernizing and upgrading our plants and equipment and the assistance it will provide in training the skilled work force so essential to our industry and the nation are both vitally needed.”

A Fortune 500 company, Gould Inc., which develops and manufactures high technology electronic equipment, vividly described how a large company depends on subcontractors and suppliers. Dr. Stephen Miller, director of government policy analysis for Gould, told the Subcommittee on Economic Stabilization:

It has recently become fashionable to predict that economic salvation for the United States can be found exclusively through high-technology and service-oriented industries. These predictions cause me grave concern. I question whether those who would have us become a nation producing only computers, satellites, gene engineered chemicals, and advanced aircraft understand that those products are manufactured from such exotic components as nuts, bolts, rivets, glass beakers, rubber tires and a very large variety of forged, casted, and stamped metal products.

Miller also said,

The Armed Forces have recently instituted an Industrial Modernization Improvement Program, which provides incentives for large defense contractors to modernize their facilities and share the savings with the Government. However, that program does not reach down to the level of general purpose parts suppliers whose customers are a mix of commercial and military companies. These small and medium-sized companies are caught in a “catch 22” situation. The recession, and price competition from abroad, have forced them into a position of severely restricted revenues. However, in order to adequately compete with the foreign competition, productivity must be dramatically increased.

Those productivity increases require large investments in automation-oriented capital equipment. The “catch 22” is that the capital equipment required, in order to help recapture lost market share, must be financed through commercial lenders. Even when the commercial lenders can be found to supply needed funds to these financially strapped companies, their interest charges are well above those for prime borrowers. This legislation will go far to alleviate this problem by sharing the risk, of loaning funds to these small companies, between the commercial lender and the Government.

Modernization of these facilities will not only strengthen the nation's essential defense industrial base, but will also have a ripple effect throughout the entire U.S. economy

leading to more jobs, higher industrial productivity, and reduced inflation.

Assistant Commerce Secretary Lawrence J. Brady was asked to testify on April 20, 1983, before the Subcommittee on Economic Stabilization in his capacity as chairman of the administration's Industrial Mobilization Working Group of the Emergency Mobilization Preparedness Board. Although not testifying specifically on the legislation—indeed, he stated that the administration opposed the legislation—Brady did comment on the readiness of industries to respond to defense needs in an emergency:

We're finding that readiness to be greatly impaired by a number of serious constraints. Of most critical importance to our defense preparedness and our economic welfare is a serious decline in fixed capital formation and capacity utilization. As the use of existing capacity slacks off, our industries fail to generate the funds needed to pursue technological innovation and to generate new fixed capital formation. In addition, unemployment creeps up and the industries slowly shrink and begin to die.

Brady specifically suggested that Government funds be used for:

First, a small number of loan guarantees for capital formation in the United States;

Necessary stockpiling of defense-related minerals and raw materials;

Competitively awarded grants for basic research related to the defense industrial base, and

Finally, purchase guarantees for certain defense items.

Brady said,

Our work has shown that, regardless of the exceedingly complex reasons which include exchange rates, recession and foreign government policies, import penetration is a major factor in the currently weak readiness of our private sector to respond to defense mobilization needs.

Critical and strategic materials expansion

An equally important objective of title I is to expand the domestic capability and capacity of this nation to produce and process strategic and critical minerals, metals, and materials.

An industrial society cannot function, let alone maintain a world leadership position, without an adequate, uninterrupted supply of critical materials. Despite the wealth of U.S. domestic minerals resources, the Nation continues to rely on imports to a very significant extent. The United States is currently more than 50 percent dependent on foreign sources for 23 of the 40 critical and strategic materials used in the defense industry as well as in industry as a whole.

This foreign dependence prompts serious concerns. One is the political instability of some of the major suppliers of a number of the most critical materials. Internal conflicts as well as military conflicts with neighboring countries can cause sudden supply disruptions, triggering worldwide inflation, industrial delivery delays,

and critical shortages. For example, an invasion of the cobalt mining areas of the Shaba Province in Zaire in 1978 resulted in curtailment of mineral output and a rationing of the available cobalt supply. During this period, the producer price increased from \$5 to \$25 per pound.

The United States imports 76 percent of its cobalt from Zaire and Zambia, who together produce over 60 percent of the world's supply. Cobalt is essential to the defense industrial base for its many applications, most important of which is its ability to withstand high temperatures. There is currently no cobalt production in the United States; therefore, the political stability of two particular African nations takes on vital importance to the United States.

By way of further example, two of the most critical materials for an industrial society—chromium, which is used as an alloy to increase hardness and impact strength in steel as well as increase its versatility; and the platinum-group metals (including palladium, rhodium, iridium, ruthenium, and osmium), which are used as corrosion resistant materials and as catalysts in the automotive and chemical industries and in petroleum refining—are concentrated in two areas of the world, southern Africa and the Soviet Union.

Most experts would say that import vulnerability exists for the following strategic materials: bauxite (aluminum), chromium, cobalt, columbium, manganese, the platinum-group metals, tantalum, and titanium. The question is how long can this Nation afford to remain vulnerable?

The concern over dependency and vulnerability is not new. In 1939, with the impending threat of war in Europe, the Strategic Materials Act was passed to determine which materials were strategic and critical, resulting in a list of 39 materials. The act was amended in 1946 by the Strategic and Critical Materials Stock Piling Act. The purpose was to assure preparedness in case of another emergency by developing domestic sources of supply where possible and by creating stockpiles of materials not in sufficient domestic supply.

The Strategic and Critical Materials Stock Piling Revision Act of 1979 revised and updated the previous legislation and strengthened the legislative role in stockpile matters. The act provides that stocks of strategic and critical materials be held in order to decrease dependence upon foreign sources of supply in times of emergency.

There could still be serious shortages, however. As Mr. Charles E. Melbye, who appeared on behalf of the American Mining Congress, observed at a subcommittee hearing on April 13, 1983,

Since stockpile objectives are to support three years demand under a full mobilization scenario, our current cobalt stocks are adequate for only one and a half years at most, and probably less due to limitations in quality.

Of the 61 family groups and individual materials in the stockpile, 37 fall below the established goal. Eight of the nine materials comprising the group of materials representing potential vulnerability fall short of stockpile goals.

Expanding domestic production and processing is a step toward decreasing this Nation's mineral dependence and potential vulnerability. The goal of H.R. 2782 is not total self-sufficiency but it is a greater measure of independence from possible shortages, cutoffs, cartel-like arrangements, and unreasonable price demands.

H.R. 2782 seeks to encourage domestic production and to stimulate new industries. The Defense Production Act has in the past been effective in doing just that. Through the use of the borrowing authority during the Korean conflict and the midfifties, title III was an effective tool for increasing domestic capabilities and thereby reducing stockpiling requirements and saving millions of dollars for the taxpayers. Thousands of transactions were carried out, resulting in the establishment of billions of dollars worth of new industry. Mr. Melbye told the Subcommittee,

I believe that use of Title III of the Defense Production Act in conjunction with the stockpile could prevent or ameliorate many of the adverse effects from supply disruptions.

Inclusion of materials processing is also an important facet of the materials expansion program. At the subcommittee's September 17, 1981, hearing, Simon Strauss, then chairman of the minerals availability committee of the American Mining Congress, stated:

It is in great trouble and we are sending some of our processing overseas * * *. Many plants were old and approaching obsolescence * * *. The zinc industry is perhaps the outstanding example where over two-thirds of the domestic zinc smelters have closed down in the last 12 years. A similar fate has befallen the ferromanganese and ferrochrome producers.

Last year the large copper-smelting processing complex in Montana was in a shutdown. The mines continue to operate, but the material is being shipped to Japan for processing * * *.

By exporting processing, our capability and capacity to meet the needs of a revitalized industrial base are weakened, and required industries and greatly needed jobs are exported.

H.R. 2782 provides financial incentives to maintain and reopen the domestic processing capability of this country and to develop new processes, alternate product designs and material selection systems.

This legislation also recognizes that the expansion of domestic capability and capacity to produce and process materials is not limited to mining. Not only does this Nation contain a finite supply of resources, but in some cases, such as columbium and manganese, there are no domestic reserves, i.e., portions of a resource that can be economically and legally extracted. What this Nation does possess is the ingenuity and innovation to develop alternatives.

Dr. Watchman cited a list compiled by Howard Mechlin of Westinghouse Electric called synterials, materials being developed to decrease dependence on critical materials through advanced technologies. The list includes reinforced plastics, amorphous metals, superconducting alloys, surface modified materials, electrically

active ceramics, high temperature ceramics, advanced glasses, and solid state materials. Dr. Watchman would add advanced modified alloys, rapidly solidified alloys, composite materials, advanced polymer technology, high performance ceramics, and glass ceramics to the synterials list.

In addition to materials innovations, there are also activities underway to improve materials performance and to conserve materials through design and processing changes.

Technology is a key in reducing our materials dependence. However, technically innovative companies are often viewed as high risk and financing is not readily available. During the Subcommittee hearing on April 13, Mr. Melbye of the American Mining Congress stated,

U.S. government support is essential to make investment by private industry feasible. Put simply, the market and political risk are too great to be undertaken solely by private industry.

H.R. 2782 would provide financial assistance for these innovative industries to continue their invaluable advancements and contributions to our national security and to foster new industries as well.

A further emphasis of H.R. 2782 is conservation, not only through improved design and production process changes, but through improved recovery techniques and recycling. Recovery of materials for reuse is essential in light of the fact that mineral resources are exhaustible. An emphasis on recycling can aid in creating a closed cycle of some materials use, so as to eliminate waste and conserve materials for future use.

All of the aforementioned conservation alternatives are technically feasible, according to Hope Babcock, Deputy Counsel and Director of Public Lands and Public Waters for the National Audubon Society. Some have been proven to be economically viable as well. For example, the Pittsburgh Pacific Processing Co. recycles the residue of stainless steel processing. Techniques and materials that reduce the amount of manganese needed to manufacture construction grade steels are used in construction of pipelines for Alaskan resources.

The importance of these alternatives for materials expansion is evident from an environmental and energy-saving standpoint. The committee considered the contribution that conservation, substitution, and recycling can make to this effort and mandated that serious attention be given to these activities.

It should be clearly understood that the committee, in offering this legislation, is not promoting the development of any particular minerals. That decision should be made on a case-by-case basis and solely on the merits of each case by those who are qualified to make such judgments in the executive branch.

The test is the national security of the United States.

TITLE II—DEFENSE RELATED SKILLS TRAINING AND EDUCATION

Title II of H.R. 2782 authorizes \$350 million annually for fiscal years 1984-86 for skills training for critical defense-related occupations and for financial assistance to enable institutions of higher

education to upgrade training equipment. The authorization for financial assistance in purchasing such educational equipment, however, may not exceed \$100 million annually.

The need for the defense-related skills training program

H.R. 2782 authorizes between \$250 million and \$350 million annually for fiscal years 1984-86 for a 3-year program of skills training for defense-related occupations for which the President has determined that there is a present or anticipated shortage of skilled labor. At least 150,000 to 200,000 skilled workers would be trained. To the extent feasible, such skills training would be made available to workers who have been permanently dislocated from their prior occupations (CBO estimates that there are over a million dislocated workers at the present time and the latest preliminary data from the Bureau of Labor Statistics indicates that there are approximately 1,775,000 U.S. workers who have been unemployed for 27 weeks or more).

The need for such a defense-related skills training program becomes more obvious and urgent every day. The committee notes that there is already a serious shortage of trained workers for many critical defense-related occupations. U.S. Department of Labor publications indicate that these include machinists, computer technicians, tool-and-die makers, machine tool operators, millwrights, computer system analysts, and many other related occupations. In testimony before the Subcommittee on Economic Stabilization on April 13, 1983, the National Machine and Tooling Association reported that a recent survey of its member companies showed a need for 31,772 journeymen—even under present slump conditions. They project that when the defense buildup accelerates, and if the economy recovers generally, these shortages will seriously affect both the defense buildup and economic recovery.

If nothing is done, this situation will not improve in the decade of the 1980's. In fact there is every indication that many of these skill shortages will become worse as the 1980's unfold, thus lengthening defense production lead times and increasing competition for existing skilled workers. Both of these factors will steadily inflate the cost of defense preparedness.

Unless action is taken soon, the skill shortages are projected to become worse for a variety of reasons:

A. Demographic change.—The labor market will grow at a 30-percent to 50-percent slower rate than in the 1970's as the percentage of new entrants, primarily youths and women, declines.

B. The Defense buildup.—In a March 1983 study prepared by Data Resources, Inc. for the Defense Department, it is estimated that one out of every five new jobs will be needed for defense-related supplies and services. Growth in defense-related industries will be substantially greater than in the 1970s. In nearly all industries, over 10 percent of net new jobs will be defense related. In several industries, such as aerospace and producers of ferrous and nonferrous metals, total new defense-related employment will exceed total net new jobs.

C. Increased competition for skilled workers.—Defense-related industries will be in increased competition with the civilian sector for skilled workers. Every occupational survey outlook recently pub-

lished underscores the enormity of the shift of American jobs toward occupations requiring higher competencies and skills. This is true in both the defense-related and civilian sectors of the economy. A September 1982 paper prepared by Charles Dale of the Personnel Policy Research Group at the U.S. Army Research Institute, indicates that competition for skilled workers, computer system analysts being an obvious example, will sharpen intensely, especially if the economy reaches a stage of full recovery.

D. Failure of education and training efforts to adequately address this problem.—By way of example, Harvard economist James Medoff, in a July 1982 paper for the American Society for Training and Development, states that insufficient employer-sponsored training has created a worsening imbalance of jobs and workers, both quantitatively and qualitatively, since 1970. The number of training hours afforded each worker has not changed since 1969, despite the accelerated introduction of new technologies. This worsening imbalance has had significant adverse impact on the Nation's productivity.

A November 1982 study conducted by Louis Harris and Associates on behalf of the Sentry Insurance Co. forecasts serious skill shortages in the precision metalworking industry but found that, in the face of the recessionary pressure in 1982, employment of skilled journeymen and machine operators declined only 4 percent while apprentices and trainees fell 18 percent.

Past and present Federal job training efforts have not focused on defense-related industry training need. The primary purpose of both the past program under the Comprehensive Employment and Training Act [CETA] and the present program under the Job Training Partnership Act [JTPA] is the training of economically disadvantaged persons to enable them to become economically self-sufficient. Those programs are not geared to filling defense-related jobs, nor can they be, since training priorities are locally selected and geared to the individual's needs. Second, many if not most of the workers with the work history and skill level to quickly profit from defense-related job training (such as dislocated auto and steel workers) are not economically disadvantaged: They may have spouses who work or they may be currently underemployed, etc. It is true that there is a dislocated worker program under title III of JTPA. But that program, until recent emergency legislation added \$85 million, was funded at only \$25 million and is not targeted to defense-related jobs.

The cumulative effect of all these factors will be increasing defense-skill shortages in many critical occupations throughout the 1980s, unless Congress acts to encourage skill training for such occupations. Nor will the skill shortages be isolated to one portion of the Nation. In late April the Subcommittee on Economic Stabilization received from the Defense Department a report prepared by Data Resources, Inc., on projected defense manpower needs through 1987, broken down by State and major labor market areas. Although the report has not yet been officially endorsed by the Defense Department, the picture it presents is clear enough—the demand for defense-related skilled manpower will outstrip supply in dozens of skilled occupations in virtually every major industrial State from Massachusetts to California and from Alabama to

Washington. For example, significant shortages are predicted for electric and electronic assemblers and aircraft mechanics in California, assemblers in New York and Connecticut, and similar shortages in Pennsylvania, Texas, Ohio, New Jersey, Illinois, Alabama, and other States. That is, shortages will occur in virtually every major industrial State and defense production area.

H.R. 2782 is specifically designed to remedy this skills shortage in defense-related industries by training at least 150,000 to 200,000 workers over the next 3 years. The bill authorizes between \$250 million and \$350 million annually for fiscal years 1984-86 to train skilled workers for priority defense-related industries identified by the President for which there is, or is anticipated to be, a shortage of skilled workers. The Secretary of Defense, after consultation with the Secretary of Labor and the National Occupational Information Coordinating Committee, is to advise the President with respect to determining such skills shortages. It is not the committee's intent by this language, however, to prohibit the President from delegating to the Secretary of Defense the authority to make such determinations. Nor is it the intent of the committee to prohibit the Secretary of Defense from delegating authority and transferring funds for the day-to-day administration of the program to another appropriate agency such as the Department of Labor. The committee expects such delegations to occur. The committee wants to emphasize, however, that it shall be the responsibility of the Secretary of Defense to insure that such funds are spent only for training for the industries and occupations designated by the Secretary of Defense or by the President.

Financial assistance for the program is to be in the form of grants to States. The Governors of the States will allot these funds, and will designate how the funds are to be allotted, to boards of vocational education or other agencies designated by the Governor. "Service delivery areas" established under the Job Training Partnership Act [JTPA] shall be deemed to be agencies for purposes of these allotments as shall be the State job training coordinating councils and private industry councils established under that act. It is not the intent of the committee to establish a new job training delivery system. It is the committee's intent that Governors have the flexibility to use existing training systems such as the vocational education system and the system established by JTPA to carry out this program. Nor does the committee intend to impose a "single State agency" requirement. Governors, therefore, may allot funds to several agencies, if provided for in their State plans.

The committee notes examples presented by the American Vocational Association of delivery systems developed by States, in cooperation with industry, to deliver employer-specific training in skill shortage areas through their vocational and technical programs. These efforts are carried out in a variety of ways and are of unusually low cost. The average training cost for each student in employer-specific programs is about \$800 since the expenses are usually shared by the employer. Some State mainstream unemployed workers into open slots in existing secondary and postsecondary vocational programs at an average cost of \$1,000 per person. Others establish second shift programs in the late afternoon or evening at

an average cost of \$2,000 per person; the money is used primarily to hire another instructor.

In Mississippi, more than 15,000 people have been trained for shipyard jobs in a unique program conducted jointly by Mississippi Gulf Coast Junior College and Ingalls Shipbuilding Co. The Corning Community College of New York provides training to the Shepard-Niles Crane and Hoist Corp., together with the Kennedy Space Center and the Watervliet Arsenal, to upgrade draftspersons, designers, and machinists. This joint effort is a 30 percent/70 percent (corporation/vocational education agency) split. In Tennessee, public vocational education has combined with the U.S. Navy to conduct several high-tech training projects, such as avionics, for Navy personnel.

The committee believes that these examples are particularly noteworthy because they involve instances in which vocational programs have worked closely with the private sector in terms of people, materials, facilities and services. This is consistent with the provisions of H.R. 2782 which specify that a State plan must be developed with representatives of management and appropriate labor organizations of the industries involved and that substantial contributions be made by employers and labor organizations involved in the training.

Under H.R. 2782 a grant may be extended only after the State involved has submitted a 3-year plan for carrying out a skills training program. The President may provide technical assistance to the States. Technical assistance includes planning, evaluation, national training conferences, and assistance in using existing information systems. Much of this technical assistance could be provided by institutions such as the National Center for Research in Vocational Education at Ohio State University.

The President, in determining the extent to which State plans shall be funded, shall make use of all appropriate factors, with special emphasis on the degree of present or anticipated defense skill shortages in the State, the number of labor surplus areas in the State, and the extent to which the State plan will train dislocated workers.

A State's skills training plan must be developed with representatives of management and appropriate labor organizations of priority industries and with the State's public and private educational institutions. The participation in the development of the plan by the private industry councils and/or the State job training coordinating councils established under JTPA shall be deemed sufficient to meet this requirement.

The State plan must include meaningful opportunities for participation by minorities and women; vocational, institutional and on-the-job skills training in the necessary skills of workers in industries which are depressed, workers in areas with surplus labor, and workers whose skills might become obsolete. Emphasis shall be placed on training permanently dislocated workers to the extent feasible. The committee expects that the vast majority of the funds will be used to train or retrain unemployed or underemployed workers rather than to upgrade the skills of workers already employed in defense-related industries.

Certified apprenticeship training is also authorized. The committee does not intend this to mean that other skills training activities, not specifically authorized, are prohibited. For example, the assessment of a worker's present skills and counseling on the proper training program is also an allowable activity.

Public and private training providers shall be selected through a competitive process. The committee expects that a substantial portion of the funds allotted by a Governor to a State agency or agencies will be used to financially assist training projects, selected on a competitive basis, operated by private (for-profit and nonprofit) and public education and skills training institutions. Competitive factors should include demonstrated effectiveness in prior training efforts, fiscal accountability, cost effectiveness, the degree to which trainees are guaranteed placement in defense-related jobs upon completion of the training, and the degree of cash or "in kind" matching offered by industry and labor organization training providers.

The development of the State plan must be coordinated with the State job training coordinating council under the Job Training Partnership Act. The committee does not intend by this to preclude a Governor from using such a council to actually develop the State plan. In such cases the council should submit the plan to other appropriate State agencies and to the public for a 30-day comment period.

Duplication of other Federal, State, or local programs, unless necessary to achieve the objectives of the skills training program, is prohibited. The committee also intends that training funded under this program shall be over and above that normally funded by non-Federal funds so that Federal funds are not merely substituted for such non-Federal funding.

The administration of the skills training program must be coordinated with, or at the Governor's option may be administered by, programs under the Job Training Partnership Act. Also required is coordination with other employment and training programs.

The State plan must certify that certain labor training standards and protections are met. Conditions of training must be appropriate and reasonable; health and safety standards established under Federal or State law and applicable to employees must also apply to working conditions of trainees; and workers' compensation benefits shall be available to trainees where an applicable State law exists, or, if no such applicable law exists, program operators must secure insurance to cover injuries suffered by trainees. Protection against currently employed or laid-off worker displacement and impairment of employment contracts must be provided. The plan must also certify that funds for the skills training program will not be used either to aid or deter union organizing.

The State must provide matching funds equal to 10 percent. A portion, that is, less than 50 percent, of that match may be in kind.

Industries and labor are to make cash or inkind contributions to particular training activities operated by them except that the President may exempt industry and labor in depressed communities.

The President must approve or disapprove a State plan, based on recommendations of the Secretaries of Defense, Labor, and Educa-

tion, within 90 days of receipt of the plan. The committee expects, however, that this process will normally take much less than 90 days.

Discrimination by race, color, religion, sex, national origin, age, handicap, or political affiliation or belief is prohibited.

A State may spend no more than 10 percent for administering the program. The committee expects the State agency or agencies which administer the program to allow an equitable portion of administrative funding to training providers.

Need for the educational equipment assistance program

A further objective of H.R. 2782 is to help universities, colleges, and institutions of higher education by authorizing up to \$100 million annually for fiscal years 1984, 1985, and 1986 for updating equipment used in the training of scientific, technical, and professional personnel who are needed in priority defense-related industries and in the materials expansion program.

With the advances in science and high technology and the growing international competition in these areas, the existing high demand for qualified scientific and technically trained workers is growing.

The Department of Defense projects a demand for more than 1.25 million engineers by 1987, and the Bureau of Labor Statistics foresees an annual average of 93,000 job openings for engineers through 1990. During this same timeframe, the Bureau would approximate an average annual supply of engineers at 77,000 leaving an annual shortfall of 16,000.

The educational institutions of this nation face a formidable challenge in educating and preparing students for the rapidly changing society in which we live. But several problems plague our institutions of higher education. One is the retention of qualified faculty. In the high-technology and science fields, the competition from industry for knowledgeable, experienced personnel is fierce. With the offer of higher salaries and better equipment, the "brain drain" is increasing. Baccalaureate students are choosing to pursue careers more often than advanced degrees, limiting the number of persons holding masters and Ph. D. degrees.

Equipment is another problem. A growing gap exists in both quality and quantity between instructional equipment and industrial equipment.

In testimony before the subcommittee on April 14, 1983, Robert D. Kersten, representing the National Society of Professional Engineers, The American Association of State Colleges and Universities, and the University of Central Florida, stated:

The recapitalization of the engineering education laboratory system is essential and it is a problem for higher education of the relative magnitude of refurbishing the steel industry or retooling the auto industry * * * but it must be done.

Review of the data reveals that the average laboratory equipment inventory per school declined from \$5,809,000 to \$856,000 during the period 1971-81. Based on 250 schools with one or more accredited programs, this leads to the conclusion that the cost of modernizing engineering

laboratories (at the 1971 level of enrollment) will cost \$1,238,250,000. If one considers the difference in enrollments (FTE) between 1981 and 1971 this figure increases to \$2,195,417,000.

Considering the life span of 10 years used in this study, expenditures per school for laboratory equipment should have been at the level of \$589,900 annually. Actual expenditures during the decade averaged \$152,600 per school per year.

While this shortfall appears on the surface to be a staggering sum an expenditure for laboratory equipment of about \$400/FTE student annually or of \$2,000/BS Degree awarded could have prevented this decline in laboratory quality. The investment required to bring engineering instructional laboratories up to date with state-of-the-art equipment should become a prime national priority.

To educate people properly for the jobs of tomorrow and to remain globally competitive in science and technology requires the most modern equipment and instrumentation in our institutions of higher education.

According to Dean John C. Hancock of the School of Engineering at Purdue University, equipment is usually the last priority for funding because salaries for faculty need to be increased in an attempt to keep pace with industry. The average life of laboratory equipment used 7 days a week, 12 hours per day, is 4 years, and this figure does not account for obsolescence.

By updating equipment, not only would our institutions be providing quality education and training to students, but the improved facilities and working conditions would provide an incentive for faculty to remain in academia and encourage students to pursue higher degrees in a quality environment.

Colleges, universities, and other institutions of higher education would be required to submit an application for a grant for the cost of the purchase and installation of equipment. In some cases, the applicant could be required to provide a matching share of up to 50 percent of the cost of the purchase and installation of the equipment. However, the committee intends that those colleges, universities, and institutions of higher education unable to provide part of the cost of acquiring equipment be given consideration equal to those applicants capable of providing all or a portion of a matching amount, taking into consideration the objective of the legislation.

In designing an agency to carry out the objectives of this program, the committee notes that the National Science Foundation has experience in administering similar programs, and the experience and expertise available in that agency may be a valuable tool in implementing this program. However, this program in no way is intended to replace existing equipment and instrumentation programs. This is a new effort, a necessary link in the broader initiative of revitalizing the industrial base.

Further, the committee intends that any equipment purchased with funds provided under this program be accessible to all students and faculty studying, teaching, or doing research at the institution, according to the institution's regulations or practices. How-

ever, the college, university, or institution of higher education may set priorities for the use of equipment in conjunction with the training for which the equipment was purchased.

TITLE III AND OTHER PROVISIONS

The legislation also updates some standard provisions of the Defense Production Act of 1950.

The declaration of policy has been rewritten to incorporate the thrust of major amendments contained in H.R. 2782 to modernize the defense industrial base. The key premise is that the United States should be at a level of industrial preparedness so we can deal with emergencies as they arise and not always after the fact, or in a catchup sense. No existing language in the declaration of policy was deleted.

Statements relating to diversion of certain materials and facilities from civilian use to military and related purposes and language relating to the encouragement of geographical dispersal of industrial facilities have been in the act for 30 years and represent nothing new in congressional policy. These provisions come into play principally in times of emergency or war.

H.R. 2782 also seeks to reverse the current emphasis in the law favoring direct loans over loan guarantees. Thus, the present \$38 million "trigger" mark when proposed loan guarantees must be sent to Congress was raised to \$50 million, reflecting also the need to take cognizance of the effect of inflation on the economy. The direct loan "trigger" mark remains unchanged at \$48 million. The review period when such proposals must remain before Congress was shortened from 60 days to 30 days. A provision permitting expedited action through a concurrent resolution also was incorporated. These changes reflect concerns that congressional action must be permitted to go forward quickly in those instances where it is justified. The costs of delay can be serious in their effect on the defense industrial base and uneconomical as well.

H.R. 2782 also contains an amendment authored by Representative Bruce F. Vento of Minnesota which requires the Department of the Treasury to develop a data base on offsets in foreign military sales. Offsets are nonmonetary, compensatory arrangements often included in transactions between defense contractors and foreign governments. Offsets may include, but are not limited to, the transfer of production or technology as a consideration for the purchase of a particular item or service.

The Subcommittee on Economic Stabilization held a hearing on offsets and foreign sourcing. Testimony was received that offset demands are increasing, and witnesses raised concerns that offsets may be adversely affecting our defense industrial base by forcing U.S. prime contractors to give preferential treatment to foreign subcontractors and suppliers as a condition for making sales. Clearly, offsets do appear antithetical to the objective of the Defense Production Act which is the enhancement of the U.S. defense industrial base.

Neither the Department of Defense nor the Department of the Treasury has been able to provide the committee with comprehensive data on the size or scope of offset use. Nor could either Department

ment provide information regarding how much of our defense production is conducted in foreign countries. The committee, in an effort to determine if offsets are harming American defense sub-contractors and suppliers, has directed in H.R. 2782 that defense contractors making sales which involve offset packages in excess of \$5 million file an annual report with the Secretary of the Treasury. To protect business confidentiality, the committee stipulated that defense contractors should disclose in their annual reports the total of all offsets, classified by the category of defense article or defense service involved, that they have entered into in the three past calendar years. The contractors annual reports shall be filed each June 1 beginning in 1984 and ending in 1988.

The Secretary of the Treasury is also directed to file an annual report with the Banking Committees of the House and Senate each October 1, beginning in 1984. This report shall show the offset totals, classified by category of defense articles or defense services and recipient country, entered into by all U.S. contractors during the three previous calendar years. Such report shall in effect comprise a summation of all annual reports filed by defense contractors.

Although four different uncoordinated executive branch studies on offsets are nearing completion, the only data that exists on the subject is a Treasury survey mandated by the committee. This study showed approximately 60 percent of our overseas sales of defense equipment to be offset. Out of \$15.2 billion in sales, offsets amounted to \$9.55 billion. The Treasury data, however, are incomplete in that some firms did not take part in the study. The data that was procured showed that the offset phenomenon is a major and growing problem. Beyond the sheer dollar problem, the prevalence of offsets raises disturbing questions on the loss of U.S. high-technology leadership and of compromise of technology security as well as the committee's core concern—that of the erosion of the U.S. defense industrial base. Even more disturbing was the finding in the Treasury report that the Department of Defense often encouraged foreign governments in their offset demands. The committee will attempt to monitor closely future Department of Defense activities in the offset area.

In light of the apparent lack of coherent executive branch policy on the issue, it is incumbent on the committee to exercise vigorous oversight. In order for this responsibility to be discharged effectively, an adequate, complete, and timely data base is essential.

Much of the Department of Defense activity in the offsets area originates in the negotiation and signing of Memoranda of Understanding—nonratified trade treaties negotiated between the U.S. Department of Defense and foreign governments. These have the effect of opening the U.S. defense market to foreign companies with consequent adverse effects on our domestic industrial base. Some of the details of these memorandums of understanding do not surface until foreign companies actually replace U.S. companies as part of our defense supplier network. By opening the U.S. defense market to foreign suppliers in this manner, these agreements often provide an impetus to foreign demands for offsets in their defense purchases. In order to aid the committee in its oversight of the problem of the overseas migration of our defense industrial base,

the bill contains language directing the Secretary of Defense to provide copies of all memorandums of understanding which involve present, future, or potential offsets to the committee within 60 days of their being signed.

The committee has had great difficulty in exercising proper oversight over the priorities and allocations authorities granted in subsections (a) and (b) of section 101 of the Defense Production Act. In the view of some Members, this difficulty arises because of the lack of specific statutory language mandating congressional review of such activities. Further, the committee has discovered that executive branch conduct of these activities has fallen into some disarray.

The committee did obtain the master urgency list which, with the industrial preparedness planning list, provides a major vehicle for the exercise of section 101 (a) and (b) authorities. This classified document showed the need for congressional oversight over the operation of the priorities system. All weapons systems of a particular kind were given the same priority—so that none, in effect has a priority. The responsible officials had not considered the problem that will occur at a large defense plant where four systems are accorded priorities and a fifth, just coming into production, is not, even though it has been repeatedly described as being its service's most important program. Further, although the committee was told that old systems were taken off the list when a successor appeared, documents provided to the committee showed this deletion had not in fact occurred in all cases and some old systems apparently remain as an item of highest priority.

The committee believes that the proper exercise of section 101 (a) and (b) priorities is essential, if the United States is to succeed in meeting current and future demands on defense production. At present these authorities are not being used properly.

Accordingly, the committee has added a new subsection to section 101 which requires that all changes in the Department of Defense urgency determinations for critical defense production items (primarily the master urgency list and the industrial preparedness planning list) be submitted to Congress for a period of 60 days before becoming effective. During this 60-day period, the changes will be subject to a resolution of disapproval by either House. However, the subsection allows for a temporary change to be effective immediately if the President determines that immediate action is necessary in the interest of national security. Such changes become permanent unless either House passes a resolution of disapproval during that 60-day period.

In order that the committee may be properly assisted in its oversight of the exercise of the priorities and allocations authorities, the Director of the Federal Emergency Management Agency is requested to submit to Congress in February of each year a report on the management and effectiveness of section 101 authority initiatives.

The Committee has a major concern for the adequacy of our defense industrial base and H.R. 2782 is an attempt to correct the erosion of that base which started in the early 1970s. In this context it was extremely disturbing to the committee to discover instances where the production of components of items of defense

production accorded the highest priority under Section 101 (a) and (b) were awarded to overseas suppliers with a consequent loss of U.S. capability to produce these particular subsystems. While the committee supports efforts to integrate the defense efforts (including defense industrial efforts) of the Western Alliance, it believes that it is prudent to insure that priority and surge capabilities be available for all components of those systems accorded section 101 priorities and allocations. This priority in contracts and orders and the guaranteed surge capability will only be available if there is a domestic production capability for each component.

Thus, the committee has amended the existing Defense Production Act to provide that the authorities of section 101(a) and section 101(b) may not be used for foreign manufactured items of defense production or their components unless the following exemptions are met: (a) the value is less than \$1 million; or (b) the Secretary of Defense determines that this will not result in the United States becoming primarily dependent upon the foreign source; or (c) the President certifies that the foreign purchase is essential to the national defense. This restriction would not apply while there is a war or national emergency, or if the restriction would violate a treaty ratified by the Senate.

Another major amendment to the existing Defense Production Act is proposed to help deal with skill shortages now and in those future years following the end of the current skill training program provided in H.R. 2782. The new section 101 language provides that those manufacturers receiving defense contracts in excess of \$5 million conduct or sponsor the training of personnel if the contract requires the hiring of persons with critical skills in short supply. Thus, the job skill training program of title I would be supplemented and complemented by ongoing programs sponsored by private industry and tailored to specific needs of specific contracts.

H.R. 2782 also calls for periodic studies to be made by the Office of Technology Assessment of public facilities or infrastructure essential to the defense industrial base.

H.R. 2782 also contains a "Buy American" provision. All equipment and plant financed through Federal assistance for the entire modernization, training, and materials expansion effort under this bill must be of U.S. origin to the maximum extent practicable. Exceptions could be made only with the written approval of the Secretary of Commerce determining that any item is not available and not practicable to obtain in the United States, or that the foreign sourcing of such equipment or plant will not adversely affect the capability or capacity of the U.S. defense industrial base to provide national defense materials in a time of emergency or war.

Funding provisions

H.R. 2782 authorizes a 3-year extension of the Defense Production Act beginning with fiscal 1984 and mandates programs to modernize the defense industrial base, train workers in high-priority skills, increase the domestic production of critical and strategic materials and provide equipment to train professional, scientific, and technical personnel.

The 3-year authorization would total \$2.85 billion. Of that amount \$1.8 billion (\$400 million in fiscal year 1984, \$600 million

in fiscal year 1985, and \$800 million in fiscal year 1986) would be earmarked in credit assistance, price guarantees, and purchase agreements for industrial modernization and critical and strategic materials; \$350 million annually would be authorized for fiscal years 1984-86 in cost-sharing grants for skills training, of which not more than \$100 million would be available for grants, with some cost sharing, for financial assistance to enable institutions of higher education to upgrade training equipment.

The committee does not intend through the special 3-year program in H.R. 2782 to restrict existing title III financial incentives under the Defense Production Act. The President still retains the authority to utilize the continuing authorization in section 711 as he sees fit, subject to approval in appropriations acts.

In the use of loan guarantees, price guarantees, and direct loans, the President may utilize the borrowing authority of the Treasury to leverage the sum set aside for industrial modernization and critical and strategic materials. However, the President is limited in this authority to the extent the estimated ultimate net cost does not exceed appropriations. The estimates shall be based upon the past experience of the actual costs of Federal financial incentives and related expenses under the Defense Production Act. All authorities and amounts are subject to such extent or in such amounts as are provided in advance in appropriation acts.

CONCLUSION

The committee asks the House of Representatives to approve H.R. 2782 and thus launch a series of actions by our Government and the private sector which should have the following beneficial results:

- (1) The modernization and strengthening of the defense industrial base, which is also the backbone of America's civilian manufacturing sector;
- (2) New employment, training and education in skills vitally needed for our national security and which also have wide application in peaceful pursuits;
- (3) Lower costs for defense in terms of greater domestic availability, improved productivity, quality and competition, shortened procurement leadtimes, and a lessening of labor cost inflation; and
- (4) The needed perception by industry and the financial community of a real market which is so necessary to spur investment in new plant, equipment, and jobs.

Over the past three decades, the Defense Production Act has been used to create or promote programs vital to America's defense and economic growth. The results speak for themselves: Doubling U.S. aluminum production; starting the new commercial synthetic fuels industry; helping complete the Alaskan oil pipeline; launching the naval nuclear reactor program which led to the nuclear power industry; initiating U.S. nickel mining; creating the titanium industry; and quadrupling U.S. tungsten production.

All of this work has generated nearly \$9 billion in economic activity through more than 1,000 industrial projects. The actual net

outlay has totaled approximately \$900 million, even before taking into account various offsetting tax revenues.

The committee believes this experience can be repeated.

It is also the committee's view that successful modernization of the type to be assisted by this bill can be translated into major savings in the defense budget.

The committee strongly believes that the United States cannot achieve projected defense production goals economically or efficiently without the type of industrial modernization envisioned within H.R. 2782.

STATEMENTS MADE IN ACCORDANCE WITH HOUSE RULES

In accordance with clauses 2(1)(2)(B), 2(1)(3) and 2(1)(4) of rule XI of the Rules of the House of Representatives, the following statements are made.

COMMITTEE VOTE (RULE XI, CLAUSE 2 (1) (2) (B))

The bill, H.R. 2782, was ordered reported favorably by a voice vote.

OVERSIGHT FINDINGS AND RECOMMENDATIONS (RULE XI, CLAUSES 2 (1) (3) (A), AND RULE X, CLAUSE (Z) (1))

The extensive hearings conducted by the Subcommittee on Economic Stabilization and the committee's findings and recommendations resulting from those hearings are contained, and described in detail, in the "History of the Legislation" and the "Need For and Purpose Of The Legislation" portions of this report. The committee finds that this legislation is needed to continue the authorities of the Defense Production Act and shore up the Nation's defense industrial base, and recommends that the House pass H.R. 2782 as ordered reported from the committee.

The committee has received no findings or recommendations from the Committee on Government Operations.

COST ESTIMATE OF THE CONGRESSIONAL BUDGET OFFICE PURSUANT TO SECTION 403 OF THE CONGRESSIONAL BUDGET ACT OF 1974 (RULE XI, CLAUSE 2(1)(3)(C))

The Congressional Budget Office has submitted the following report:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., May 5, 1983.

Hon. FERNAND J. ST GERMAIN,
*Chairman, Committee on Banking, Finance and Urban Affairs,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act, the Congressional Budget Office has prepared the attached cost estimate for H.R. 2782, the Defense Industrial Base Revitalization Act as ordered reported by the Committee on Banking, Finance and Urban Affairs on May 4, 1983.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

Alice M. Rivlin, *Director.*

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

1. Bill number: H.R. 2782.
2. Bill title: Defense Industrial Base Revitalization Act.
3. Bill status: As ordered reported by the House Committee on Banking, Finance and Urban Affairs on May 4, 1983.
4. Bill purpose: The bill amends Titles I, III and VII (in part) of the Defense Production Act of 1950 by adding new sections 303A through 303E and by changing the expiration date to September 30, 1986. The amended act authorizes the following:

Financial assistance in the form of direct loans, loan guarantees, purchase agreements or price guarantees to small and medium-sized businesses to be used for the modernization of domestic industries necessary for national defense, or the expansion of domestic capability and capacity to produce or process strategic minerals, metals and materials;

Establishment of a three-year national program in cooperation with the States to train workers necessary for the industries important to national defense;

Provision of grant assistance to institutions of higher learning for obtaining and installing modern equipment for training personnel needed in the priority industries and in the strategic materials expansion program;

Limitations on certain DOD contract awards of over \$5 million requiring worker training to be provided by the contractor;

Industrial defense mobilization activities of the Department of Commerce;

Certain emergency preparedness functions funded in the Federal Emergency Management Agency; and

The administration and disposal of inventory of materials procured under Section 303 of the Defense Production Act. This is funded within the General Services Administration under the Federal Property Resources Service account.

5. Estimated cost to the Federal Government: If activity under the Defense Production Act were to be simply extended at the real level of fiscal year 1983 activity, the cost of the three-year extension would be approximately \$4 million in estimated authorizations and outlays over the three-year span.

However, the addition of Sections 303A through 303E under the Defense Industrial Base Revitalization Act would expand the authorization levels by \$2.85 billion and estimated outlays by approximately \$1.25 billion over the five-year interval, through the outlays will depend on how the President chooses to use the authority given to him in the bill.

[By fiscal year, in millions of dollars]

	1984	1985	1986	1987	1988
Extension of termination date to September 30, 1986:					
Budget function 370:					
Estimated authorizations.....					
Estimated outlays.....	1	1	1	0	0
Budget function 050:					
Estimated authorizations.....					
Estimated outlays.....	(¹)	(¹)	(¹)	0	0
Provisions under new section 303:					
Budget function 050 industrial modernization (subsection 303B):					
Purchase/price guarantees:					
Authorization level.....					
Estimated outlays.....	400	600	800	0	0
State training Grants (subsection 303D):					
Estimated authorizations.....	(¹)	(¹)	(¹)	60	140
Estimated outlays.....	250	250	250	0	0
College equipment (subsection 303E):					
Estimated authorizations.....	125	315	250	60	0
Estimated outlays.....	100	100	100	0	0
Total:	50	130	100	20	0
Total:					
Authorizations.....	751	961	1,151	0	0
Estimated outlays.....	176	444	351	140	140

¹ Amount less than 500,000.*Basis for estimate*

Except where indicated, the authorization amounts are those stated in the bill. It is assumed that the full amount will be appropriated before each fiscal year.

The estimate for the cost of extending the existing provisions under the Defense Production Act is based on the administration's plans for 1984. These would require a little over \$1 million for the Department of Commerce mobilization activities and approximately \$0.2 million for activities carried out by the Federal Emergency Management Agency for each fiscal year of the extension. The 5-year estimate assumes a constant real level of activities with budget amounts adjusted to include CBO inflation assumptions.

The amendment to title I of the Defense Production Act of 1950 requiring contractors meeting certain specifications to undertake the training of workers is not expected to have a significant cost. The estimate assumes that most of the cost of training provided by contractors will be defrayed by participation in the State training plans authorized by the act, and that the remainder would be absorbed by the individual contractor. However, the number of contracts affected by this amendment is difficult to determine and there could be significant costs in terms of higher procurement prices to the Department of Defense if contractors are required to train a large number of workers.

The major cost of this bill is associated with implementation of titles I and II of the act, directing the President to expand and solidify the national defense industrial base. Three sections, 303B, 303D, and 303E authorize appropriations; outlays are estimated using several key assumptions.

The estimate of outlays for section 303B is based on the administration's 1984 budget proposal. For the first time, this administra-

tion has requested funds for expanding the use of Defense Production Act authority and has set forth a plan guiding the use of that authority. The administration has requested \$200 million in 1984 for Defense Production Act purchases. The estimate assumes that the administration's program would be expanded to the \$400, \$600, and \$800 million authorized by the bill. This funding would be used solely for purchases of strategic parts and materials from domestic producers. Under the administration's plan, the average purchase contract is expected to cover a period of ten years, with no estimated outlays in the first three years and outlays equal to approximately one-seventh the total amount of the contract in each of the remaining seven years of the contract. These authorizations are broad, however, and in the event of a major change in policy or plan, the budget impact of this section could vary widely.

The estimate of authorization levels for sections 303D and 303E assumes that the grants to be used for equipment purchases (section 303E) would reach the maximum authorized amount of \$100 million stated in the bill, and that the training programs would require remaining authorization amounts.

Outlays of the worker training in cooperation with the States authorized under section 303D have been estimated based on experiences of the Manpower Development and Training Act and the Comprehensive Employment and Training Act [CETA]. Outlays estimated for the first year of the program are assumed to be somewhat lower than outlay patterns of either of the above acts because of the stipulation under section 303D requiring extensive states' participation in the program. Outlays estimated for the first year are 50 percent of total authorizations. This is also consistent with the CBO's estimates for title I of the Job Training Partnership Act which required state participation in fiscal year 1983.

Finally, outlays associated with section 303E are estimated assuming a slow first-year spendout of authorized funds. This slow rate is typical of new programs. The spendout rate of funds authorized under this section is assumed to level off at a higher constant rate after the first year.

6. Estimated cost to State and local government: Section 303D of this bill would provide \$250 million for each of fiscal years 1984-86 to States to fund up to 90 percent of the costs of establishing a worker training program.

(By fiscal year, in millions of dollars)

	1984	1985	1986	1987	1988
Estimated State and local outlays.....	-120/20	-300/50	-240/40	-60/10	0

Because activities funded under this section will be coordinated with other employment-related programs in each State, there is no clear basis for estimating how much of the outlays shown in the above table would be expended by States in the absence of this bill.

Basis of estimate

Section 303D of this bill stipulates that in order to receive Federal funds for the job training program, States must provide 10 per-

cent of the cost of the State plan. This estimate assumes that, in order to receive the Federal grants in fiscal years 1984-86, States will voluntarily provide 10 percent of the costs of the plan. However, it is not known how much, if any, of the Federal funds received would simply be substituted for State spending on existing training programs. The bill does not contain either a maintenance of effort or a nonsupplant clause that would prohibit such substitution. Vocational education representatives from several States with labor surplus areas, heavy industrialization and large amounts of defense contracting were contacted. Given the high levels of State spending already occurring for training and education in skills which are likely to be among those covered by this bill, there is a high potential for the substitution of Federal expenditures for the current expenditures by each State. Proper administration of this program may prevent such substitution. Therefore, the above range shows the maximum amounts that would be saved by States if all of the Federal funds replaced State spending, and the maximum additional amounts that would be spent by States if implementation of this program resulted in new State spending to provide the required State contribution of 10 percent of program costs.

The range of outlays above also includes an estimate of administrative expenses. Ten percent of the administrative costs of the program are payable from the Federal grant. The additional administrative expenses are calculated based on averages experienced in the CETA programs.

7. Estimate comparison: None.

8. Previous CBO estimate: An estimate for S. 855 which also amends the Defense Production Act of 1950 was prepared by the CBO on March 23, 1983. However, the amendments proposed under S. 855 and H.R. 2782 result in significantly different provisions and associated costs.

9. Estimate prepared by: Barbara M. Hollinshead.

10. Estimate approved by: C. G. Nuckols (for James L. Blum, Assistant Director for Budget Analysis).

INFLATION IMPACT STATEMENT (RULE XI, CLAUSE (2)(1)(4))

There should be no inflationary impact of this legislation from its direct effect on budget outlays and the deficit. Based on the past experience of financial incentives used under the Defense Production Act, benefits in terms of economic activity, employment, and increased Federal, State, and local tax revenues far exceeded Federal funds actually spent. That ratio is at least 9 to 1 on the side of benefits.

If the legislation is implemented according to the full extent of its congressional mandate, industrial modernization should strengthen the subcontractor and supplier base, encouraging a strong competition among domestic firms for defense business and, indeed, in many civilian markets. Increases in production and worker productivity should dampen costs.

Improved quality and the reduction in reject parts also should bring cost savings. Less reliance on foreign imports will reduce the dollar outflow overseas and improve the Nation's trade balance and balance of payments, with corresponding favorable effects on

the exchange rate of the dollar. All credit assistance and grants under H.R. 2782 will be used and invested in high-priority national security objectives and will be wealth-creating in economic character because of their dual application to the civilian economy as well as the defense industrial base. Industrial capability and capacity are both strengthened to meet the needs of the projected defense buildup and any economic recovery.

The skills training and education programs authorized by the legislation should lower defense costs by making more skilled workers available, thus decreasing procurement lead times and lowering labor cost inflation. They should also result in cost savings resulting from reduced transfer payments such as unemployment compensation and trade adjustment assistance.

SECTION-BY-SECTION SUMMARY OF H.R. 2782

Section 1 states the title of the bill to be the "Defense Industrial Base Revitalization Act."

TITLE I—INDUSTRIAL MODERNIZATION AND STRATEGIC AND CRITICAL MATERIALS

Section 101 amends title III of the Defense Production Act of 1950 by adding sections 303A and 303B.

Section 303A, Findings and Purpose, contains congressional findings and specifies the purpose of new sections 303A and 303B to be the strengthening of domestic capability and capacity of the nation's defense industrial base by assisting in the process of capital investment in small- and medium-sized defense industries and encouraging the expansion of domestic production, processing and conservation of critical and strategic materials.

Section 303B—Industrial modernization and strategic and critical materials

Subsection (a) directs the President to act immediately to provide financial assistance for the modernization of U.S. industries which are necessary, or may be necessary in the event of emergency or war, to the manufacture or supply of national defense materials. Such assistance shall be in the form of loan guarantees, direct loans, purchase agreements, or price guarantees. The subsection limits such assistance to small- and medium-sized businesses as defined by the Department of Commerce, and specifies that, to the greatest extent possible, assistance shall be given to small independently owned and operated businesses. Larger entities may receive assistance only if the President formally determines that the national interest requires such an exception to the limitation.

Subsection (b) directs the Secretary of Defense, in consultation with the Secretary of Commerce, to specify immediately which industries should be given priority for financial assistance, and to update the list of priority industries every 6 months. In addition, the Secretary of Defense is required, in consultation with the Secretary of Commerce, to specify the type and extent of financial assistance for each priority industry, and to indicate which businesses within the priority industries should be given preference because their modernization proposals offer the greatest prospects for

productivity and quality improvement, and for reducing our reliance on foreign imports. Subsection (b) also requires that such proposals include a financial plan which shows how the assistance will aid the company to become even more economically viable.

Subsection (c) relates to strategic and critical materials expansion, directs the President to provide financial assistance in the form of loan guarantees, loans, purchase agreements or price guarantees, for the expansion of the domestic capability and capacity to produce or process strategic minerals, metals, and materials. In addition to existing production and processing techniques, this expansion is to include methods and techniques for conservation and recycling of, and substitution for, strategic minerals, metals, and materials as well as processes which will lead to a lessening or elimination of the need for traditional forms of strategic minerals, metals, and materials. This subsection requires that the Secretaries of Defense, Commerce, and Interior, and the Director of the Federal Emergency Management Agency, be consulted in carrying out the strategic minerals, metals, and materials expansion program.

Subsection (d) requires that financial assistance for the defense industrial base priority industries program of subsection (a) and the strategic and critical minerals, metals, and materials program of subsection (c) be provided on the basis of proposals submitted in response to public solicitations. The first such solicitation must be issued within 90 days of enactment of the bill.

Subsection (e) establishes the price guarantee financial assistance mechanism available under subsections (a) and (c) in connection with purchase agreements. It requires that purchase agreements must include the Government's right to refuse delivery of the materials ordered, and if the market price of the materials, as determined by the Secretary of Commerce, is lower than the contract price, the Government must pay the price difference.

Subsection (e) also prohibits financial assistance under subsections (a) and (c) to aid establishments in relocating from one area to another. Establishments may expand facilities provided that such expansion will not increase unemployment in the area of original location and will not result in the closing of any existing operations. Further, no financial assistance may be extended to assist persons in taking away contracts from those persons who customarily perform them.

Subsection (f) authorizes the appropriation of \$400 million, \$600 million, and \$800 million for fiscal years 1984, 1985, and 1986, respectively, with appropriated funds to remain available until expended, for carrying out the priority industries and strategic minerals, metals, and materials expansion programs of section 303B. This subsection also authorizes contingent liability financial incentives (loans, loan guarantees, and price guarantees) to be leveraged through use of Treasury borrowing authority, and based on estimated ultimate net costs of contracts to the Government. The estimated ultimate net costs may not exceed amounts appropriated by Congress. Ultimate net costs are to be estimated on the basis of experience of actual costs of these forms of financial incentives which have been utilized under the Defense Production Act. The use of contingent liability financial incentives and the Treasury borrow-

ing authority are limited to the extent and amounts provided in advance in appropriation acts.

TITLE II—DEFENSE-RELATED SKILL TRAINING AND EDUCATION

Section 303C, Findings and Purpose, sets forth congressional findings on the need for defense-related skills training and the need for Federal assistance for educational equipment for such training. It also states that it is the purpose of this section and sections 303D and 303E to provide assistance for such skill training, with special emphasis on training dislocated workers, and for such educational equipment.

Section 303D—Defense-related skills training program

Subsection (a) directs the President to establish and implement a 3-year national program to train workers in skills which are necessary in the priority industries identified in subsection (a) and (b) of section 303B and in the strategic and critical minerals, metals, and materials expansion program of subsection (c), and for which skills there is, or is anticipated to be, a shortage. The Secretary of Defense, after consultation with the Secretary of Labor and the National Occupational Information Coordinating Committee, is to advise the President with respect to determining such skills shortages.

Subsection (b) provides that financial assistance for the program is to be in the form of grants to State Governors who will designate how the funds are to be allotted to boards of vocational education or other agencies designated by the Governor, such as "service delivery areas" established under the Job Training Partnership Act [JTPA]. A grant may be extended only after the State involved has submitted a 3-year plan, certified by the Governor of the State and approved by the President, for carrying out a skills training program. Subsection (b) also authorizes the President to provide technical assistance to the States.

Subsection (c) states that the President, in determining the extent to which State plans shall be funded, shall make use of all appropriate factors, with special emphasis to defense skill shortages and labor surplus areas in the State and the extent to which the State plan will serve dislocated workers.

Subsection (d) sets forth requirements for the President's approval of a State's skills training plan: That it be developed with workers and management of priority industries and with the State's public and private educational institutions; that it include meaningful opportunities for participation by minorities and women; that it include in addition to vocational, institutional and on-the-job skills training, upgrading skills of already trained workers, and retraining in the necessary skills of workers in industries which are depressed, workers in areas with surplus labor, and workers whose skills might become obsolete.

Subsection (e) authorizes certified apprenticeship training.

Subsection (f) requires that public and private training providers be selected through a competitive process.

Subsection (g) requires coordination in the plan's development with the State job training coordinating council under the Job Training Partnership Act.

Subsection (h) prohibits duplication of other Federal, State or local programs unless necessary to achieve the objectives of the skills training program.

Subsection (i) requires coordination with, and authorizes the administration of the skills training program by, programs under the Job Training Partnership Act. It also requires coordination with other employment and training programs.

Subsection (j) requires that the State plan must certify that certain labor training standards and protections are met. Conditions of training must be appropriate and reasonable; health and safety standards established under Federal or State law and applicable to employees must also apply to working conditions of trainees; and workers' compensation benefits shall be available to trainees where an applicable State law exists, or, if no such applicable law exists, program operators must secure insurance to cover injuries suffered by trainees. Protection against currently employed or laid-off worker displacement and impairment of employment contracts must be provided. The plan must also certify that funds for the skills training program will not be used either to aid or deter union organizing.

Subsection (k) requires that States provide matching funds equal to 10 percent.

Subsection (l) requires industry and labor to make contributions or to otherwise actively participate, except that the President may exempt industry and labor in depressed communities.

Subsection (m) allows a portion of the State match to be "in kind".

Subsection (n) requires that the President take action on a State plan, based on recommendations of the Secretaries of Defense, Labor, and Education, within 90 days of receipt of the plan.

Subsection (o) prohibits discrimination by race, color, religion, sex, national origin, age, handicap, or political affiliation or belief.

Subsection (p) allows a State to spend no more than 10 percent for administering the program.

Subsection (q) permits the Federal grant assistance to be used for purchase and installation of equipment for training purposes but requires that such equipment be purchased through competitive bids.

Authority contained in section 303(e) of the Defense Production Act to install Government-owned equipment in private "industrial facilities" is extended by subsection (r) to vocational schools, other schools offering technical and vocational training, and other worker training facilities which are used in the program.

Subsection (s) authorizes to be appropriated to carry out the skills training program authorized by section 303D and the equipment assistance program authorized by section 303E, \$350,000,000 in each of fiscal years 1984 through 1986, of which up to \$100,000,000 is authorized to be appropriated each fiscal year for equipment assistance.

Section 303E—Defense-related equipment assistance program

Subsection (a) directs the President to begin immediately to develop and implement a program of grants to institutions of higher education for obtaining and installing modern equipment for training professional, scientific, and technical personnel needed in the priority industries identified under subsections (a) and (b), and in the strategic and critical minerals, metals, and materials expansion program of subsection (c) of section 303C.

Subsection (b) provides for an application for financial assistance process.

Subsection (c) states that grantees may be required to pay part, up to 50 percent, of the cost of equipment purchase and installation.

Subsection (d) states that, at the discretion of the President, Section 303(e) Defense Production Act authority to install Government-owned equipment in private facilities may be extended to include colleges, universities, and other institutions of higher education.

Section 303F—General provisions

Subsection (a) requires that equipment or plant financed under sections 303A-303E must be of United States origin, to the maximum extent practicable. The only exceptions to this requirement are when the Secretary of Commerce determines, in writing, that foreign sourcing will not adversely affect the capability or capacity of the U.S. defense industrial base to provide national defense materials during an emergency or war, or that the U.S.-origin plant or equipment is unavailable and not practicable to obtain.

Subsection (b) requires the Comptroller General of the United States to monitor and audit the implementation of sections 303A-303E and to report to the Congress each year at the beginning of each session of Congress.

Subsection (c) directs the Office of Technology Assessment to study the public facilities and infrastructure needs essential to the defense industrial base and to report to Congress with appropriate recommendations.

Subsection (d) applies the Davis-Bacon prevailing wage standards construction, repair, or alternation of projects funded by a loan, loan guarantee, or grant extended under section 303A-303E.

Subsection (e) Directs the President to report to Congress every 6 months, listing all loans, loan guarantees, and commitments for loan guarantees issued under sections 303A-303E.

Subsection (f) states that no funds are authorized to carry out sections 303A-303E unless the funds are attributed to a budget function or budget allocation other than one affecting or relating to education or labor, the Departments of Education and Labor, the House Committee on Education and Labor, the Senate Committee on Labor and Human Resources, or any subcommittee of the House and Senate and Senate Appropriations Committee primarily responsible for education or labor appropriations.

Subsection (g) contains definitions of terms used in sections 303A-303E.

TITLE III—AMENDMENTS TO THE DEFENSE PRODUCTION ACT OF 1950

Section 301(a)(1) amends section 2 of the Defense Production Act, the declaration of policy, to bring the purpose of the act in keeping with present-day national defense and national security needs. In particular, the amendment calls upon executive agencies and departments to assess continuously the capability of the defense industrial base to satisfy both near-term and increased mobilization production requirements.

Section 301(a)(2) amends section 101 of the Defense Production Act by adding:

A new subsection (d) to require, as part of any defense procurement contract of over \$5 million, a commitment by the contractor to conduct or sponsor skill training whenever additional skilled workers will be necessary and there is a shortage of such workers in the area in which the contract or a subcontract will be performed;

A new subsection (e) to prohibit the President, except under certain conditions, from exercising authorities under section 301 relative to priority performance of contracts and allocation of materials, unless he first submits to Congress for a 60-day period any change in approved Department of Defense urgency determinations for critical defense production programs. The change goes into effect if neither House of Congress disapproves the change. This requirement is waived if the President makes a determination that immediate action is needed in the interest of national security and transmits notice of that determination to Congress. The President's determination would remain in effect if after 60 days neither House of Congress disapproved it; and

A new subsection (f) to prohibit the President, except under certain conditions, from exercising authorities relating to priority performance of contracts and allocation of materials to carry out any defense contract for items or components of such items obtained from foreign manufactureres. The prohibition would not apply if the contract is less than \$1 million, or the Secretary of Defense determines the contract will not make the United States primarily dependent on foreign manufacturers for such items, or the President certifies to the Congress the contract is essential to the national defense. None of the requirements would apply if a national emergency or war exists or if a treaty ratified by the Senate would be violated.

Section 301(b) amends the loan guarantee authorizing section of the Defense Production Act (section 301) by increasing from \$38, million to \$50 million the threshold amount beyond which individual loan guarantees must be submitted for review by Congress. The subsection also amends the congressional review procedure for such loan guarantees by shortening the review period from 60 to 30 days of continuous session and provides for an expedited approval through a concurrent resolution of both Houses of Congress.

Section 301(c) amends the direct loan section of the Defense Production Act (Section 302) by reducing the congressional review period for loans over the threshold amount from 60 to 30 days of

continuous session and provides for an expedited approval for such loans through a concurrent resolution of both Houses of Congress.

Section 301(d) would extend the termination date of the authorities of the Defense Production Act from September 30, 1983, to September 30, 1986.

Section 301(e) would repeal section 720 of the Defense Production Act, the National Commission on Supplies and Shortages, the authority for which was terminated in 1977.

Section 301(f) adds a new subsection to section 701 of the Defense Production Act requiring any contractor entering into an offset agreement of more than \$5 million in connection with the sale of defense articles or services for use by a foreign nation to report annually to the Secretary of the Treasury the totals for the three preceding years of all such offsets, classified by material or services. Reports are due by June 1 of each year beginning with 1984. "Offset" means any international transaction between a buyer and seller that provides nonmonetary compensation which may include, but not be limited to, the transfer of production or technology to the buyer as a consideration for the purchase of a particular item or service. This subsection prohibits the Secretary of the Treasury from disclosing the reported information except to the Congress, and requires an annual report from the Secretary by October 1 to the Congress on the total amount of offsets broken down by category of material or services and by recipient country.

The offset reporting requirements of the new subsection terminate 5 years after the date of enactment of the subsection.

The Secretary of Defense shall report to the Congress any memorandum of understanding or similar document which involves actual, planned or potential offsets in defense sales contracts totaling more than \$5 million within 30 days following their signing.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

DEFENSE PRODUCTION ACT OF 1950

* * * * *

DECLARATION OF POLICY

SEC. 2. In view of the present international situation and in order to provide for the national defense and national security, our mobilization effort continues to require some diversion of certain materials and facilities from civilian use to military and related purposes. It also requires the development of preparedness programs and the expansion of productive capacity and supply beyond the levels needed to meet the civilian demand, in order to reduce the time required for full mobilization in the event of an attack on the United States or to respond to actions occurring outside of the United States which could result in the termination or reduction of

the availability of strategic and critical materials, including energy, and which would adversely affect the national defense preparedness of the United States. In order to insure the national defense preparedness which is essential to national security, it is also necessary and appropriate to assure domestic energy supplies for national defense needs.

【In order to insure productive capacity in the event of such an attack on the United States, it is the policy of the Congress to encourage the geographical dispersal of the industrial facilities of the United States in the interest of the national defense, and to discourage the concentration of such productive facilities within limited geographical areas which are vulnerable to attack by an enemy of the United States. In the construction of any Government-owned industrial facilities, in the rendition of any Government financial assistance for the construction, expansion, or improvement of any industrial facilities, and in the procurement of goods and services, under this or any other Act, each department and agency of the Executive Branch shall apply, under the coordination of the Office of Defense Mobilization, when practicable and consistent with existing law and the desirability for maintaining a sound economy, the principle of the geographical dispersal of such facilities in the interest of national defense. Nothing contained in this paragraph shall preclude the use of existing industrial facilities.】

DECLARATION OF POLICY

SEC. 2. (a)(1) In view of continuing international problems, the Nation's demonstrated reliance on imports of materials and components, and the need for measures to reduce defense production lead times and bottlenecks, and in order to provide for the national defense and national security, our defense mobilization preparedness effort continues to require the development of preparedness programs, defense industrial base improvement measures, and the expansion of domestic productive capacity and supply beyond the levels needed to meet the civilian demand. Also required is some diversion of certain materials and facilities from civilian use to military and related purposes.

(2) These activities are needed in order to improve defense industrial base efficiency and responsiveness, to reduce the time required for industrial mobilization in the event of an attack on the United States or to respond to actions occurring outside the United States which could result in the termination or reduction of the availability of strategic and critical materials, including energy, and which could adversely affect the national defense preparedness of the United States. In order to insure the national defense preparedness which is essential to national security, it is also necessary and appropriate to assure the availability of domestic energy supplies for national defense needs.

(b)(1) In order to insure productive capacity in the event of an attack on the United States, it is the policy of the Congress to encourage the geographical dispersal of the industrial facilities of the United States in the interest of the national defense, and to discourage the concentration of such productive facilities within limited ge-

ographical areas which are vulnerable to attack by an enemy of the United States.

(2) In the construction of any Government-owned industrial facility, in the rendition of any Government financial assistance for the construction, expansion, or improvement of any industrial facility, and in the production of goods and services, under this or any other Act, each department and agency of the executive branch shall apply, under the coordination of the Federal Emergency Management Agency, when practicable and consistent with existing law and the desirability for maintaining a sound economy, the principle of the geographical dispersal of such facilities in the interest of national defense. However, nothing in this paragraph shall preclude the use of existing industrial facilities.

(3) To ensure the adequacy of productive capacity and supply, executive agencies and departments responsible for defense acquisition shall continuously assess the capability of the defense industrial base to satisfy near-term requirements as well as increased mobilization production requirements. Such assessments shall specifically evaluate the availability of adequate production sources, including subcontractors and suppliers, materials, and skilled labor, and professional, scientific, and technical personnel.

(4) It is the policy of the Congress that plans and programs to carry out this declaration of policy shall be undertaken with due consideration for promoting efficiency and competition.

TITLE I—PRIORITIES AND ALLOCATIONS

SEC. 101. (a) * * *

* * * * *

(d) The Secretary of Defense may not enter into any contract of more than \$5,000,000 for any item of defense production from any manufacturer located in the United States unless that manufacturer agrees to conduct or sponsor the training of personnel in skills which the President determines are in short supply pursuant to section 303D, if the defense procurement contract will require the contractor or any subcontractor of the contractor to hire additional workers in any such skilled occupations, and the training of such workers is critical to the timely completion of work under the contract in the area in which the contract will be performed.

(e)(1) Except as provided in paragraph (2), the President may not exercise the authority granted under subsection (a) or (b) regarding any change in approved Department of Defense urgency determinations for critical defense production programs (including any compilation or revision of the master urgency list on defense production) unless both Houses of the Congress have been notified in writing of such proposed exercise of authority and 60 days of continuous session of the Congress have expired following the date on which such notice was transmitted to the Congress and neither House of the Congress has adopted, within such 60-day period, a resolution disapproving such exercise of authority.

(2)(A) The provisions of paragraph (1) shall not apply in any case in which the President determines that immediate action is needed in the interest of national security and the President transmits a notice of such determination to both Houses of the Congress. Such

notice shall be transmitted to both Houses of the Congress on the date on which the President makes such determination.

(B) Any determination by the President under this paragraph shall remain in effect if neither House of the Congress adopts a resolution disapproving the exercise of the authority involved within 60 days of continuous session of the Congress after the date on which the notice involved under this paragraph is transmitted to the Congress. If either House of the Congress adopts such a resolution of disapproval, the President shall cease to exercise the authority involved on the date on which such resolution is adopted.

(3) For purposes of this subsection, the continuity of a session of the Congress is broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of such 60-day period.

(f)(1) The President shall not exercise the authority granted under subsection (a) or (b) of this section to achieve the performance of any contract or order for an item of defense production if such item, or any component of such item, is obtained from any manufacturer located outside of the United States, unless—

(A) such contract or order is for less than \$1,000,000;

(B) the Secretary of Defense has determined in writing that such contract or order will not result in the United States becoming primarily dependent upon manufacturers located outside of the United States for the supply of such item of defense production, or any component of such item; or

(C) the President has certified in writing to the Congress that entering into such contract is essential to the national defense.

(2) The requirements of paragraph (1) shall not apply—

(A) during any period in which there is in effect—

(i) a declaration of national emergency which is issued by the President; or

(ii) a declaration of war which is adopted by the Congress; or

(B) with respect to contracts or orders which are entered into under the terms of any treaty which is ratified by the Senate.

(3) For purposes of this subsection, the term "United States" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, American Samoa, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States.

TITLE III—EXPANSION OF PRODUCTIVE CAPACITY AND SUPPLY

SEC. 301. (a) * * *

* * * * *

(e)(1)(A) Except as provided in subparagraph (B), the maximum obligation of any guaranteeing agency under any loan, discount, advance, or commitment in connection therewith, entered into under this section shall not exceed ~~[\$38,000,000.]~~ \$50,000,000.

(B) Guarantees which exceed the amount specified in subparagraph (A) may be entered into under this section only if the Com-