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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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Dear Mr. Eshleman:

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1 Your letter of October 21, 1971, requested that we
2 furnish information on the requirement of a Government contract that the Hamilton Watch Company purchase jewel bearings from the William Langer Jewel Bearing Plant, Rolla, North Dakota. D-0321
D-01730

The Government-owned, contractor-operated Langer plant was established by the Government to provide a domestic source for the jewel bearings needed in defense production so that the United States could be free of dependency upon foreign sources of supply that might be cut off in the event of war. The continued operation of the plant, the only facility in the continental United States capable of producing jewel bearings in large quantities, is considered by the Office of Emergency Preparedness (OEP) to be essential to the national security. The Langer plant is the mandatory source for jewel bearings contained in items purchased by the Government and for jewel bearings purchased for the national stockpile.

The Government contract awarded to the Hamilton Watch Company provides for supplying the normal wristwatch requirements of the General Services Administration (GSA) Region 6 supply depot for the period from July 1, 1971, to June 30, 1972. The estimated contract amount is \$452,836 for 19,680 wristwatches. The contract requires that Langer plant jewel bearings be used in the performance of this contract or, alternatively, be used in equal quantity in commercial production.

On October 19, 1971, the Hamilton Watch Company ordered 334,560 jewel bearings from the Langer plant at a cost of \$85,214. Deliveries of the jewel bearings were scheduled to begin on December 1, 1971, when 25 percent of the total quantity was due.

We discussed the procurement and the use of Langer plant jewel bearings with representatives of GSA and OEP who stated that the Langer plant was an essential part of the national mobilization base and that its continued operation as a domestic source of jewel bearings was essential to the national security. GSA representatives stated also that the Langer plant was not competitive in price with the Swiss jewel-bearing industry because of the Langer plant's relatively high cost of labor and low volume of production. Swiss production of watch jewels is about 1,000 times greater than Langer

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plant production. GSA representatives stated further that the higher price paid for jewel bearings from the Langer plant was necessary to support operations of this essential plant and that the higher price represented a charge borne by the Government to ensure that the production capability of the Langer plant would be available when needed during a national emergency.

The sales of jewel bearings from the Langer plant are made to Government contractors at prices that cover the costs of production, and such costs presumably are included in the price of Government contracts. In this way the Government pays a subsidy for operation of the Langer plant. On the basis of the bearings needed for one 17-jewel watch, the subsidy is equal to the Langer plant cost of about \$4.30 less the Swiss price of about \$.70, or \$3.60. If the manufacturer has no alternative use in commercial production, the subsidy may increase to the full cost of \$4.30.

Your letter stated that the Hamilton Watch Company would discard the jewel bearings purchased from the Langer plant because the company used imported movements (with jewels in them) which were completely assembled when imported. Therefore we asked OEP about the ramifications of discontinuing the production of watch jewel bearings at the Langer plant. An OEP representative told us that the production of watch jewel bearings at the Langer plant was necessary at the present time to maintain the operations of the plant. He stated that the current overall production of 40,000 jewel bearings a week, or about 2 million jewel bearings a year, was about the minimum level at which the Langer plant could be operated.

The OEP representative stated also that OEP would reconsider the need to produce watch jewel bearings at the Langer plant when orders from Government contractors for other types of jewel bearings increased sufficiently so that the plant could be operated on these orders alone at a level that would employ the key workers and maintain their skills. According to the OEP representative, the Department of Defense and GSA are currently checking the extent to which Government contractors are not complying with the mandatory requirement to

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purchase jewel bearings from the Langer plant. He stated that preliminary indications were that improved compliance would increase the orders placed on the plant.

Sincerely yours,



Deputy Comptroller General
of the United States

The Honorable Edwin D. Eshleman
House of Representatives