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REPORT TO THE CONGRESS



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Management Of Selected Aspects Of The Strategic And Critical Stockpile B-125067

Office of Emergency Preparedness
General Services Administration

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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DEC. 9, 1971



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on management of selected aspects of the strategic and critical stockpile by the Office of Emergency Preparedness and by the General Services Administration.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Director, Office of Emergency Preparedness; and the Administrator of General Services.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

Strategic and critical materials continue to be stockpiled to prevent a dangerous and costly dependence of the United States on other nations for these materials in time of a national emergency.

The Office of Emergency Preparedness (OEP) establishes the stockpile objectives, the minimum quantity of a material which should be stockpiled. Guided by OEP, the General Services Administration (GSA) buys, sells, and maintains the stockpile.

The General Accounting Office (GAO) has reviewed the management of certain strategic and critical materials to consider whether they should be stockpiled, are physically suitable for use, and are stored economically.

At June 30, 1970, the stockpile contained 46 million short tons of materials having a market value of \$7.3 billion. These materials were stored at 136 locations around the country.

FINDINGS AND CONCLUSIONS

Three materials--molybdenum, cordage fibers, and vegetable tannin extracts--having a total market value of \$181 million no longer need to be stockpiled for an emergency and therefore should be eliminated from the stockpile.

Synthetic substitutes are available for cordage fibers and tannins. After GAO's completion of fieldwork and discussions with OEP officials, OEP eliminated the stockpile objective for molybdenum. (See p. 7.)

These materials cost about \$12.5 million (including interest) annually to maintain. (See p. 8.)

Certain materials in the stockpile--such as rubber, cordage fibers and, to a lesser degree, magnesium, tin, high-carbon ferromanganese, and antimony sulfide ore--are deteriorating in quality. When excess quantities of some of these materials were sold, GSA realized less than market prices from their sale because the materials were deteriorated.

In June 1970 there were 2 million tons of these stockpiled materials that would have had a market value of \$1.4 billion if the materials were in good condition. (See p. 21.)

Although stockpiling law provides for the rotation of materials--the replacement of materials in the stockpile with new materials--to prevent deterioration, none of the materials which are subject to deterioration have been rotated since 1962.

OEP and GSA should determine whether a long-range rotation program is required to maintain the quality of the materials at a level necessary for emergency use. An adequate rotation program should maintain the quality of the stockpile and could be less costly to the Government than losing part of the investment in materials through deterioration. (See p. 21.)

In the 20 years or more that strategic and critical materials have been stockpiled, objectives have been reduced and materials sold. As a result many of the GSA depots now have unused storage space. In June 1970 about 16 million of the 44 million square feet of storage space at the 30 GSA depots was not being used--including about 4 million of the 14 million square feet of warehouse space. Maintaining these depots costs GSA about \$4.8 million annually. (See p. 28.)

Although further study is required for the formulation of specific plans, it appears that substantial reductions in storage costs are possible by closing some depots with considerable unused storage space and closing certain warehouses at other depots. The materials at the depots and warehouses could be sold where feasible, or moved to other depots.

A number of factors should be considered, however, in reducing the number of depots and the amount of warehouse storage space, such as costs of moving materials, depot locations, types of storage available at various depots, further reductions of stockpile objectives, and the ability to sell excess storage space. (See p. 28.)

RECOMMENDATIONS OR SUGGESTIONS

OEP and GSA should join in an intensified effort to effect economies in stockpiling. Specifically:

- The Director of OEP should eliminate the stockpile objectives for cordage fibers and tannins and adopt measures that will result in more prompt identification of materials in the stockpile which no longer need to be stockpiled for an emergency. (See p. 19.)
- The Director of OEP and the Administrator of GSA should consider developing and implementing a long-range program for rotating perishable materials. (See p. 26.)

--The Administrator of GSA should review the use of storage areas in the depots and, where possible and economically feasible, intensify GSA's efforts to consolidate materials in warehouse space and dispose of unneeded depots. (See p. 35.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

OEP is of the opinion that cordage fibers and tannins are no longer needed in the stockpile. OEP has asked the Department of Commerce to confirm this view. (See p. 19.)

OEP did not comment specifically on GAO's recommendation that it adopt measures that would result in more prompt identification of materials which no longer need to be stockpiled for an emergency. OEP noted, however, that the resources necessary to carry out detailed studies involved in revising stockpile objectives were limited, and therefore these resources were allocated to achieve the most immediate results, such as allocation to materials with an apparent immediate disposal market. (See p. 19.)

Because disposal arrangements cannot be undertaken until materials have been freed from classification as stockpile objectives, it is important for OEP to effect prompt changes after the conditions that warrant adjustment of these objectives have occurred. (See p. 19.)

OEP and GSA acknowledged that certain materials in the stockpile were deteriorating in quality. They believe, however, that deterioration has not precluded usefulness of the materials. (See p. 26.)

The quality of these materials is less than it was when the materials were acquired for the stockpile. Under these circumstances GAO believes that OEP and GSA should consider rotation of the deteriorated materials making up the stockpile objectives. (See p. 27.)

GSA believes that appropriate attention is being given to the consolidation of warehouse space and disposal of unneeded facilities. GSA states that it will inactivate two depots by the end of fiscal year 1973. GAO recognizes that GSA is reducing storage space and that many factors must be considered in making the reductions. The fact remains, however, that many of the GSA depots contain a high percentage of unused open and warehouse storage space.

GSA is in a position to bring about further economies by consolidating materials in warehouse space and disposing of unneeded depots. Disposition of cordage fibers, tannins, and deteriorated rubber would enhance GSA's ability to consolidate storage facilities. (See p. 36.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Improvements are needed in the management of the strategic and critical stockpile.

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ABBREVIATIONS

GAO General Accounting Office
GSA General Services Administration
OEP Office of Emergency Preparedness

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In June 1970 there were 2 million tons of these stockpiled materials that would have had a market value of \$1.4 billion if the materials were in good condition. (See p. 21.)

Although stockpiling law provides for the rotation of materials--the replacement of materials in the stockpile with new materials--to prevent deterioration, none of the materials which are subject to deterioration have been rotated since 1962.

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CHAPTER 1

INTRODUCTION

Over \$7 billion of strategic and critical materials are stockpiled in the United States. In recent years the Congress has been concerned with the management of these materials by the Office of Emergency Preparedness and the General Services Administration.

We have reviewed the management of certain materials stockpiled in the United States. We have considered whether the materials (1) should be stockpiled, (2) are physically suitable for use, and (3) are stored economically.

The Congress intended that strategic and critical materials should be acquired and stockpiled to prevent a dangerous and costly dependence of the United States on foreign nations for these materials in time of a national emergency (Strategic and Critical Materials Stock Piling Act, 50 U.S.C. 98). Also some materials were acquired and stockpiled under other acts.

OEP establishes the stockpile objectives (the minimum quantity of a material which should be stockpiled) for strategic and critical materials. Guided by OEP, GSA buys, sells, and maintains the materials in the stockpile (Executive Order 11051, September 27, 1962, 27 F.R. 9683).

OEP's Stockpile Policy Division is responsible for programs for stockpiling materials and the impact of these programs on our national security.

The Stock Piling Act and OEP policy and procedures provide for setting objectives, rotating materials, and disposing of excess materials.

--Objectives

Strategic and critical materials shall be available in the stockpile to meet a 3-year emergency period without having to rely in the first year on foreign sources other than Canada, Mexico, and the Caribbean.

In the succeeding years other foreign sources may be used.

OEP obtains advice and information from Federal agencies and interdepartmental committees in setting the quantities of materials to be stockpiled. For example, the need for some materials is determined by the Departments of Agriculture and Commerce for civilian purposes and the Department of Defense for military purposes. Objectives are to be reviewed periodically.

--Rotation

Certain materials which deteriorate over time are to be rotated to maintain the good condition of the stockpile for use in emergency. Materials in the stockpile are replaced with equivalent quantities of the same material.

--Disposal

Excess materials are to be disposed of only after approval by the Congress unless the material is found to be obsolescent because of deterioration, development or discovery of a new or better material, or no further wartime use. They can be transferred to another Government agency or sold to industry. The United States, however, is to be protected against avoidable losses on sales of the materials. Further, the producer, the processor, and the consumer are to be protected against avoidable disruption of the market for these materials.

The stockpile objectives were originally based on the quantity of each material which would be needed in an emergency period lasting 5 years. In 1958 this period was revised to 3 years. As a result the quantity of some materials in the stockpile was greater than would be needed in a 3-year emergency period. Further, subsequent revisions in objectives have resulted in excess materials in the stockpile.

At June 30, 1970, the stockpile contained 46 million short tons of materials having a market value of \$7.3 billion (acquisition cost of \$6.5 billion). Of these materials

23 million short tons having a market value of \$4.5 billion constituted the stockpile objective and 23 million short tons having a market value of \$2.8 billion constituted the excesses.

As of June 30, 1970, the stockpile contained 71 materials with objectives and 16 materials without objectives. These materials were stored at 136 locations--30 GSA depots, 35 military depots, 39 industrial sites, and 32 other locations.

We evaluated certain aspects of the management of eight materials--molybdenum, cordage fibers, vegetable tannin extracts, rubber, magnesium, tin, high-carbon ferromanganese, and antimony sulfide ore. The market value of these materials was \$1.6 billion at June 30, 1970.

CHAPTER 2

REQUIREMENTS FOR STOCKPILING MATERIALS

NEED TO BE REVISED

OEP should eliminate molybdenum, cordage fibers, and tannins having a total market value of \$181 million from the stockpile because they are no longer needed in the stockpile to meet an emergency. Molybdenum was stockpiled because its production facilities were concentrated in certain geographical areas. OEP, however, has eliminated geographical location as a criterion for stockpiling. Synthetic substitutes are available to replace cordage fibers and tannins. OEP criteria provide that strategic materials are to be replaced with nonstrategic materials in all end products where substitution is known to be feasible.

OEP officials told us that the stockpile objectives for the three materials probably would be eliminated eventually. They indicated, however, that, because the stockpile contained excess materials which had not been sold, eliminating the objectives would only result in additional excess materials being in the stockpile. Consequently one reason for not having reduced the stockpile objectives was that the market conditions prevented the selling of the excess materials. Although we recognize that market conditions affect the sale of excess materials, these conditions, in our opinion, are not satisfactory criteria for maintaining or revising stockpile objectives.

Another reason given by OEP for not eliminating the objectives was that many bills were pending before the Congress for disposing of materials. We believe that this is not a valid reason for postponing action in evaluating stockpile objectives and making appropriate revisions. Further the provision of the Stock Piling Act which permits disposals without specific congressional approval under certain circumstances would seem to apply to cordage fibers and tannins.

Because the elimination of a material from the stockpile must be preceded by a determination by OEP that the

material is no longer strategic and critical to emergency needs, the more promptly that OEP makes this determination, the sooner the objective can be revised and arrangements for excess material disposal can be made. Disposal arrangements cannot be undertaken until the materials have been freed from classification as stockpile objectives. Therefore it is important for OEP to effect prompt changes in stockpile objectives after the conditions that warrant adjustment of these objectives have occurred. Consideration of congressional work load or current market conditions should not be viewed by OEP as a basis for delaying action.

The annual cost of maintaining molybdenum, cordage fibers, and tannins in the stockpile was \$12.5 million. (See table.)

Quantities, Market Value, and Annual Maintenance
Costs of Molybdenum, Cordage Fibers, and Tannins
As of June 30, 1970

<u>Material</u>	<u>Stockpile classification</u>	<u>Material quantities</u>	<u>Market value</u>	<u>Annual maintenance costs</u>		
				<u>Interest (note a)</u>	<u>Storage</u>	<u>Total</u>
(millions)						
Molybdenum (pounds)	Objective	36,500,000	\$ 66.5	\$ 4.0	\$0.1	\$ 4.1
	Excess	<u>6,302,263</u>	<u>11.0</u>	<u>.6</u>	<u>.0</u>	<u>.6</u>
	Total	<u>42,802,263</u>	<u>77.5</u>	<u>4.6</u>	<u>.1</u>	<u>4.7</u>
Cordage Fibers (pounds)	Objective	125,000,000	14.6	.9	.3	1.2
	Excess	<u>158,471,295</u>	<u>22.4</u>	<u>1.4</u>	<u>.4</u>	<u>1.8</u>
	Total	<u>283,471,295</u>	<u>37.0</u>	<u>2.3</u>	<u>.7</u>	<u>3.0</u>
Tannins (long tons)	Objective	69,600	18.3	1.1	.2	1.3
	Excess	<u>184,693</u>	<u>48.3</u>	<u>2.9</u>	<u>.6</u>	<u>3.5</u>
	Total	<u>254,293</u>	<u>66.6</u>	<u>4.0</u>	<u>.8</u>	<u>4.8</u>
Total for the three materials	Objective		99.4	6.0	.6	6.6
	Excess		<u>81.7</u>	<u>4.9</u>	<u>1.0</u>	<u>5.9</u>
	Total		<u>\$181.1</u>	<u>\$10.9</u>	<u>\$1.6</u>	<u>\$12.5</u>

^aComputed by multiplying the market value and cost of storage by the average effective interest rate of 5.986 percent at June 30, 1970, on U.S. Treasury marketable obligations.

The table shows that about \$6.6 million of the maintenance costs were applicable to the materials constituting the stockpile objectives and that about \$5.9 million were applicable to the materials constituting the excesses. The maintenance costs include interest (annual savings in interest costs that would occur if the revenues from sales of

these materials were applied to the public debt) and GSA storage costs. The entire savings in maintenance costs (\$12.5 million) will not be realized until all the materials are sold and entire depots or entire activities at depots are inactivated through relocation of remaining materials.

In February 1971, after completion of our fieldwork and our discussions with OEP officials, OEP eliminated the stockpile objective for molybdenum.

MOLYBDENUM

Because molybdenum no longer needs to be stockpiled as a strategic and critical material it should be declared excess and sold. These actions could have been taken as early as February 1970 when OEP eliminated the criterion for stockpiling molybdenum. The disposal of all the molybdenum will result in an annual savings in maintenance costs of \$4.7 million.

The United States is not dependent upon any foreign source of supply for molybdenum and apparently will not be dependent for the remainder of this century. For example, 100 million pounds of molybdenum--70 percent of the total free-world production--were produced by the United States in calendar year 1969; the demand for molybdenum in the United States was 57 million pounds. According to a commodity report of the Department of Interior, the projected annual production of molybdenum by the United States for the year 2000 ranges from 168 to 332 million pounds whereas the projected annual U.S. demand ranges from 95 to 150 million pounds.

As of June 30, 1970, about 42.8 million pounds of molybdenum having a market value of \$77.5 million were in the stockpile. Of this total 36.5 million pounds constituted the stockpile objective and 6.3 million pounds were excess.

Molybdenum, a metallic element of the chromium group, is used to harden and strengthen steel and to increase the resistance of steel to corrosion and high temperatures. Molybdenum was stockpiled because the production facilities were concentrated in Arizona, Colorado, New Mexico, and Utah, and the roasting facilities were concentrated in Pennsylvania. For materials like molybdenum, a criterion was established in 1954 which provided that the material would be stockpiled if it was produced at facilities which were concentrated geographically (Defense Mobilization Order 8600.1A, 33 F.R. 19079). These materials were to be stockpiled to cover the risk of loss by bombing of any facility which produced more than 20 percent (changed to 25 percent in 1963) of the U.S. emergency supply.

In February 1970 the Director of OEP eliminated this criterion in establishing stockpile objectives on the basis that it was unrealistic in the light of the existing threats to national security. During congressional hearings in March 1970, the Chief of OEP's Stockpile Policy Division stated that, because the criterion had been eliminated, the objective for molybdenum would also be eliminated.

The objective for molybdenum, however, had not been eliminated as of June 1970. An OEP official stated that there were too many bills pending before the Congress for disposing of excess materials. He stated also that there was no immediate need to eliminate the objective for molybdenum because the 6.3 million pounds of excess molybdenum would have to be sold first and that there was a poor market for molybdenum in June 1970.

There was a good market previously. About 13 million pounds of molybdenum were sold by GSA to producers of molybdenum products during the period September 1969 to May 1970. GSA arranged with the producers to purchase the molybdenum at prevailing market prices.

In February 1971, after completion of our fieldwork and our discussions with OEP officials, OEP eliminated the objective for molybdenum.

CORDAGE FIBERS

In October 1964 we reported¹ to the Congress that, because synthetics were available, OEP should eliminate the objective for cordage fibers and dispose of them orderly without disrupting the market for these fibers. OEP subsequently lowered the objectives for these fibers.

We believe that the existing stockpiles of the cordage fibers--abaca and sisal--should be declared excess and should be sold since synthetics are available for use in an emergency. We recognize that the March 1964 objectives of 100 million and 300 million pounds for abaca and sisal, respectively, were lowered to 50 million and 200 million pounds, respectively, in June 1965 and were further lowered to 25 million and 100 million pounds, respectively, in April 1970. We believe, however, that OEP and GSA should eliminate the remaining cordage fibers from the stockpile. Such action would save annual maintenance costs of \$3 million for stockpiling cordage fibers.

OEP officials told us that the objective for cordage fibers probably would be eliminated after their next review of objectives. We believe that OEP should immediately eliminate the objectives for cordage fibers so that GSA can plan for disposing of these materials.

Abaca is a plant of the banana family. The sisal plant is related to the fleshy-leaved century plant. As of June 30, 1970, the stockpile contained about 83.5 million pounds of abaca with a market value of \$19.6 million and 200 million pounds of sisal with a market value of \$17.4 million. Of these totals 25 million pounds of abaca and 100 million pounds of sisal constituted the stockpile objective and 58.5 million pounds of abaca and 100 million pounds of sisal were excess. Details on our review of the need for abaca and sisal fibers in the stockpile follow.

¹Report to the Congress on "Questionable Need for Stockpiling Cordage Fibers" (B-125067, October 26, 1964).

Abaca

Abaca was originally stockpiled because it was needed to produce marine and other heavy-duty cordage (rope). Recently, however, a majority of the abaca making up the 25-million-pound stockpile objective was designated for use by the paper industry for producing specialty paper products. The remaining portion of the stockpile was still designated for use in marine cordage.

Substitutes for abaca are available for producing marine cordage. An OEP study of cordage fibers dated March 1970, on which the current objective is based, stated that:

- There are few uses for which synthetic fiber rope cannot be used in place of natural fiber rope when cost is not a major consideration.
- Synthetic fiber rope compared with natural fiber rope is less expensive over a longer period of time for most marine cordage uses because of its greater strength and longer service life.
- Synthetic fiber ropes--nylon, polyester, and polypropylene--have an advantage over natural fiber ropes because they do not rot and do not require drying. In addition, polypropylene rope floats.

Synthetic fibers are being used more and more in place of natural fibers. A Cordage Institute report shows that in April 1970 sales of abaca rope in the United States were 79 percent of the sales in April 1969. This reduction in sales continued the downward trend in sales since 1966.

Because there are synthetic fibers available to meet an emergency, the current objective for abaca to produce marine cordage appears unrealistic. In April 1970 a Department of Commerce official responsible for reporting to OEP on requirements for cordage fibers informed us that there was no current need for stockpiling abaca and that sufficient synthetic rope was being produced to meet the nation's needs in an emergency.

Regardless of the use intended for abaca, it is deteriorating in the stockpile. Representatives for the Cordage

Institute--which is composed of rope and twine producers--informed us that, because of the age of the abaca and the small objective quantity, abaca should be eliminated from the stockpile. Further, GSA stated that a substantial portion of the cordage fibers had aged to the extent that the fibers would no longer meet OEP's standard of quality. Deterioration of cordage fibers is discussed in chapter 3.

A majority of the abaca in the stockpile is to be used in an emergency for specialty paper products such as abrasive backing materials, sausage casings, electrical cable fillers, and dielectric paper. The study used by OEP to establish the objective for abaca, however, contained no statistics showing abaca consumption in connection with the production of the above paper products. Further, the study indicated that no reliable estimates of this need for abaca could be made. In our opinion, any study used to establish an objective for a material should demonstrate the need to stockpile the material and should contain reliable supporting estimates and statistics.

There is a market for abaca. A GSA official informed us that about 22 million pounds of abaca was sold during fiscal year 1970. Further, he stated that annual sales from the stockpile were limited to 12 million pounds by an informal agreement between the Department of State and the Philippine Government--the main supplier of abaca. Because Philippine production was curtailed, however, GSA was allowed to sell an additional 10 million pounds.

Sisal

The 100 million pounds of sisal constituting the objective is stockpiled primarily for use in baler twine for agricultural products. In an emergency, however, all the sisal in the stockpile could not be converted into baler twine because of the limited production capability in the United States to make such conversions.

Most natural fiber twine is produced by one company. In June 1970 a GSA official informed us that the company was cutting back its production of agricultural twine (baler twine) and would produce high-price natural fiber twine in the future. Consequently its need for sisal will be substantially reduced.

Even though there is limited production capability for natural fiber baler twines, representatives for the Cordage Institute stated that synthetic twine production was sufficient to meet the needs of agriculture and industry in the United States. Synthetic baler twine, such as polypropylene, is being produced by more than 20 manufacturers in the United States and three manufacturers in Canada.

According to representatives of the Cordage Institute, agricultural and industry twines made from henequen--a suitable substitute for sisal--could be acquired in an emergency from Mexico. Further, Mexico has both the production capability and sufficient henequen to produce natural fiber twines in large quantities. In fact the Mexican industry was established by the United States during World War II to supply cordage fibers and has since expanded to seven producing plants.

The June 1970 Foreign Agriculture Circular, distributed by the Department of Agriculture, stated that demand for both sisal and henequen as raw material for cordage continues to be depressed due mainly to competition from synthetic fibers. A Cordage Institute report shows that, in April 1970, sales of sisal twine in the United States were only 73 percent of sales in April 1969--the continuation of a downward trend since 1966.

TANNINS

In our opinion, tannins should be eliminated from the stockpile because synthetics are available for use in an emergency. Further, the military and civilian uses of the three types of tannins--chestnut, quebracho, and wattle--in tanning and treating leather are now negligible. Also, the oil-drilling industry is using a synthetic in its drilling fluids in place of the tannin quebracho. The elimination of tannins from the stockpile would save annual maintenance costs of \$4.8 million.

The objective for tannins specifies the quantities needed in an emergency to (1) process a specific number of cattle hides into sole leather for shoes for military and civilian uses and (2) sustain oil-drilling operations. The stockpile contained 254,293 long tons of tannins with a market value of \$66.6 million as of June 30, 1970. Of this total, 69,600 long tons constituted the objective and 184,693 long tons were excess.

The tannin chestnut is made from the wood of the chestnut tree, the tannin quebracho is made from the heartwood of the quebracho tree, and the tannin wattle is made from the bark of the wattle tree. Details on the military, civilian, and oil industry needs for these tannins follow.

Military requirements for tannins

The information used in determining the amount of tannins to be stockpiled to meet military needs may be outdated. The last change in the objective was made in January 1967 based on information reports prepared by the Department of Defense in 1963.

To ascertain the need for stockpiling tannins for military footwear, we determined the number of combat boots and dress shoes ordered by the Defense Supply Agency in calendar year 1969 and the amount of leather in the footwear which required tanning by natural tannins. About 4.1 million pairs of combat boots and 955,000 pairs of dress shoes or about 5.1 million pairs were ordered.

Most of the combat boots were made entirely of synthetic materials which did not require tanning. Of the 4.1 million pairs of combat boots, only 6,084 pairs contained any leather which required natural tanning. The leather was a welt (a narrow strip of leather between the upper part of the shoe and the sole to which each part is stitched).

The dress shoes were made of leather, but the leather in the upper part of the shoe was chrome tanned synthetically. The sole, insole, and welt were designated for natural tanning; however, a synthetic has been developed for tanning this leather.

Civilian requirements for tannins

In producing civilian footwear, tannins are used primarily in treating heavy leather for soles. Information supplied by OEP, however, shows that a synthetic has been developed which can be used to tan heavy leather. In addition, synthetic materials are being substituted for leather in some products, such as shoes. As a result less tanning of leather is required. According to an OEP study of tannins dated December 31, 1968, there has been an upward trend in the use of synthetics for producing soles and a downward trend in leather tanning for over a decade in the United States.

Although there are still some uses for tannins, the domestic leather industry cannot use tannins on a large scale. An OEP official told us that, because the leather industry could not use a substantial supply of tannins, the excess tannins in the stockpile might have to be written off.

Oil industry requirements for tannins

About 30 percent of the objective of 50,600 long tons of quebracho is designated for use as a thinning agent in oil-drilling fluids which, according to OEP, is the most important use of this tannin. (The drilling fluids support the walls of the oil well to prevent cave-ins.) However, a substitute product for quebracho is available. Consequently this portion of the stockpile of tannins could be eliminated.

GSA officials informed us that the oil-drilling industry was using waste products (humic acids) of the paper manufacturing industry in place of quebracho. These waste products, according to industry sources, are satisfactory replacements for tannins and are less expensive.

We asked OEP officials about the substitute and they informed us that they had not performed any studies to determine whether quebracho could be eliminated from the stockpile.

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OEP officials stated that the objective for tannins would probably be eliminated during their next review which would be conducted in about 1 to 2 years. In our opinion, OEP should eliminate immediately the objective for tannins so that GSA can plan for disposing of these tannins when market conditions or possible future technological changes permit. A future technological change could make the tannins marketable, as happened with abaca. The demand for abaca only recently rose because of the interest expressed by the paper industry in using abaca in certain paper products.

RECOMMENDATION

We recommend that the Director of OEP eliminate the stockpile objectives for cordage fibers and tannins and adopt measures that will result in more prompt identification of materials in the stockpile which no longer need to be stockpiled for an emergency.

AGENCY COMMENTS

OEP and GSA commented on a draft of this report in letters dated May 20, 1971, and June 15, 1971, respectively. (See app. I and II.)

OEP stated that its current analysis of the cordage fibers and tannins indicated that our findings that these materials were no longer needed in the stockpile were accurate. OEP has asked the Department of Commerce to make a detailed study of these two materials to confirm this analysis. OEP stated also that, after completion of the detailed study, it planned to review the possible applicability to these two materials of the provision of the Stock Piling Act which permits disposals without specific congressional approval under certain circumstances.

OEP did not comment specifically on our recommendation that it adopt measures that would result in more prompt identification of materials which no longer need to be stockpiled for an emergency. OEP noted, however, that the resources necessary to carry out the detailed studies involved in revising stockpile objectives were limited, and therefore these resources were allocated to those areas where there would be the most immediate results, such as allocation to materials with an apparent immediate disposal market.

As stated previously, although we recognize that market conditions may prevent the sale of excess materials, these conditions are not satisfactory criteria for maintaining or revising stockpile objectives. Future technological changes could make unmarketable materials marketable. Disposal arrangements cannot be undertaken until the materials have been freed from classification as stockpile objectives.

Therefore it is important for OEP to effect prompt changes after the conditions that warrant adjustment of these objectives have occurred.

CHAPTER 3

ROTATION OF MATERIALS SHOULD BE CONSIDERED

Certain materials in the stockpile--rubber, cordage fibers, and to a lesser degree, magnesium, tin, ferromanganese, and antimony--are deteriorating in quality. When excess quantities of some of these materials were sold, GSA realized less than market prices from their sale because the materials were deteriorated. In June 1970 there were 2 million tons of these stockpiled materials that would have had a market value of \$1.4 billion if the materials were in good condition.

The Stock Piling Act provides for the rotation of materials--the replacement of materials in the stockpile with new materials--to prevent deterioration. Nevertheless none of the materials which are subject to deterioration have been rotated since 1962.

In some years GSA did not request funds in its budget for rotating materials; in other years GSA requested funds for rotating only one material, cordage fibers, but the request for funds was removed from the budget by the Office of Management and Budget. In fiscal year 1970 funds for handling costs were approved for rotating cordage fibers. To minimize Federal expenditures, however, OEP directed GSA not to rotate the cordage fibers.

We believe that OEP and GSA should determine whether a long-range rotation program is required to maintain the quality of the materials at a level necessary for emergency use. An adequate rotation program should maintain the quality of the stockpile and could be less costly to the Government than losing part of its investment in materials through deterioration.

The condition of the six materials and the need for their rotation are discussed below.

RUBBER

The rubber in the stockpile is deteriorating. Neither GSA nor the rubber industry consider the rubber to be high-

quality natural rubber. Because the rubber does not meet OEP's standard of quality, we believe that the rubber needed to meet the objective should be considered for rotation and the rubber in excess of objective should be sold rapidly to avoid further loss of revenues because of increasing deterioration.

OEP established an objective for rubber which required that high-quality natural rubber (Number 1 Ribbed Smoked Sheet) be stockpiled. In a national emergency, the rubber would be used primarily to produce truck and airplane tires. The following data indicates, however, that the rubber in the stockpile is not high-quality natural rubber.

--During congressional hearings in December 1970, a GSA official acknowledged that there had been a deterioration in the quality of the rubber.

--In November 1970 representatives of three major rubber companies told us that the quality of rubber in the stockpile was less than high-quality natural rubber.

--As of March 1970 GSA inspectors had recommended that 123,000 tons of rubber be sold to deter further deterioration.

--In late 1969 the National Bureau of Standards and three major rubber companies at the request of GSA studied the condition of rubber in the stockpile. The study showed that the rubber was losing its strength and was not a high-quality natural rubber. The study showed, however, that the rubber could be used when blended with other rubber.

--We observed at various depots that bales of rubber were moldy, stained, and distorted. GSA representatives told us that most of the rubber in the stockpile had been stored for about 20 years.

Because the rubber has deteriorated, GSA must reduce the price of the excess rubber that it sells from the stockpile. Between January 1968 and September 1970, GSA sold 89,000 tons of excess rubber for \$40 million which is

\$5 million below the then-prevailing average market price. During this period GSA had to increase the discount (reduction) from market price because the rubber continued to deteriorate. By the first part of fiscal year 1971, the average discount was about 3 cents a pound, or 15 percent of the average market price.

GSA representatives told us that discounts from market price of 2 cents a pound would be likely if GSA sold any of the rubber required to meet the stockpile objective. As of June 30, 1970, 356,000 tons of rubber having a market value of \$167 million were in the stockpile. Of this total 200,000 tons constituted the stockpile objective and 156,000 tons were excess. We estimate that discounts from market price totaling \$17 million would be needed to rotate the 200,000 tons of rubber and sell the excess.

CORDAGE FIBERS

Substantial portions of the cordage fibers are deteriorating, and as a result do not meet the standard of quality set by OEP. Further, synthetic fibers are now available within the United States to replace cordage fibers. (See ch. 2.) Therefore GSA should not continue stockpiling cordage fibers.

Although these cordage fibers currently are not needed in the stockpile, at one time they were needed and should have been rotated to maintain the good condition of the stockpile. None of the cordage fibers have been rotated since fiscal year 1962.

GSA criteria call for the periodic rotation of cordage fibers, and inspection reports show that some of the cordage fibers have been weakened because of deterioration. A GSA representative told us that the cordage fibers had lost perhaps 10 percent of their original strength.

In its fiscal year 1970 budget request, GSA stated that a substantial portion of the cordage fibers had aged to the extent that the fibers would no longer meet OEP's standard of quality. GSA noted, however, that the fibers were of a quality which could be used in industry in the production of many commercial products.

OTHER MATERIALS

Other materials--magnesium, tin, ferromanganese, and antimony--are also deteriorating but to a lesser degree than rubber and cordage fiber. Some of these materials may have to be considered for rotation and the portions which are excess should be sold.

These materials have specific uses in a national emergency. Magnesium is used in producing structural forms and sheet metal for aircraft. Tin is used in plating sheet steel and in producing solders and bearings. Ferromanganese is used in producing all grades of steel, and antimony is used in producing alloys. Details on the condition of these materials in the stockpile follow.

Magnesium

Some of the magnesium is deteriorating at nine of 10 depots, according to GSA inspection reports. We observed at one storage site that bars of magnesium were pitted, flaked, and chipped.

In March 1970 magnesium was removed from the list of materials to be stockpiled. Consequently the magnesium in the stockpile--104,000 tons having a market value of \$76 million, as of June 30, 1970--is excess. Because the magnesium has deteriorated, price discounts of \$432,000 were required to obtain sales of \$18 million made during the 15-month period ended June 30, 1970.

Tin

Some of the tin is deteriorating at five of 18 depots, according to GSA inspection reports. We observed at one depot that some bars of tin had blisters on the surface and were crumbling at the edges.

As of June 30, 1970, 254,000 tons of tin having a market value of \$949 million were in the stockpile. Of this total the stockpile objective was 232,000 tons having a market value of \$865 million, leaving an excess of 22,000 tons. A GSA official told us that, when sales of excess tin are authorized, the deteriorated tin will be sold first.

Ferromanganese

GSA inspection reports showed that some of the ferromanganese was cracking and crumbling at six of the 14 depots. One inspection report recommended that, when sales are authorized, the deteriorated ferromanganese should be sold first. We also observed at one storage site that some ferromanganese was cracking and crumbling.

About 1.2 million tons of ferromanganese having a market value of \$178 million were in the stockpile as of June 30, 1970. Of this total the stockpile objective was 600,000 tons valued at \$91 million, and the remainder was excess material.

Antimony

GSA inspection reports on one of two locations noted that some antimony had turned to a white powder as a result of oxidation. We observed at the other location that the antimony had started to oxidize.

As of June 30, 1970, about 2,200 tons of antimony having a market value of \$7.6 million were in the stockpile and constituted the stockpile objective.

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GSA officials told us that tin, ferromanganese, and antimony had not deteriorated to the extent that rotation was needed.

RECOMMENDATION

We recommend that the Director of OEP and the Administrator of GSA consider developing and implementing a long-range program for rotating perishable materials.

AGENCY COMMENTS

In commenting on our draft report, OEP stated that, although certain materials had deteriorated in storage, the deterioration had not precluded their potential usefulness in a period of national emergency. With regard to rubber, OEP noted that the study by the National Bureau of Standards and three major rubber companies in late 1969 had pointed out that rubber in the stockpile, although somewhat deteriorated, could be blended with other rubber to meet national security needs.

GSA stated that rotation of the six materials had not been pursued because the strategic, technical, and marketing conditions did not warrant the initiation of rotation programs. According to GSA, although there are undoubtedly some situations under which active rotation programs should be pursued, to rotate stockpile materials with the sole objective of improving the quality of the stockpile inventory is not necessarily always advantageous to the Government.

GSA stated also that rotation might not be warranted in some cases if the material was currently usable and reasonably satisfactory to industry in its present form or in cases where the stockpile objectives were likely to be reduced or eliminated. GSA stated further that there was no assurance of an eventual increase in financial return to the Government from the sale of the replacement material through rotation because subsequent technological changes and continuing deterioration of the replacement material can nullify the advantage of a rotation program.

GSA acknowledged that most of the organic products such as rubber and cordage fibers would undergo change with the passage of time. GSA stated that rotation had been practiced when it had unfilled objectives but in recent years, after the objectives had been reduced to quantities

which were considerably below the inventories on hand, emphasis was placed on the disposal of the lower grades or qualities of these materials. GSA also acknowledged that inert materials such as tin, ferromanganese, and magnesium would undergo alteration of character and some loss of value. GSA stated that over the years this matter had been the subject of a number of research projects.

GSA believed that our report tended to overstate the amount of material affected by time as well as the degree of change. GSA, as did OEP, noted that the study by the National Bureau of Standards and three major rubber companies showed that rubber in the stockpile could be used when blended with other rubber.

The Stock Piling Act provides for the rotation of materials to prevent deterioration. Everyone seems to agree that certain materials in the stockpile--particularly rubber and cordage fibers--are deteriorating in quality.

In the case of the cordage fibers, GSA attempted to start a rotation program in recent years but did not receive approval to do so. As stated previously, we believe that GSA should not continue stockpiling cordage fibers because of the availability of synthetics. Therefore a rotation program for cordage fibers is not needed.

In the case of rubber and the other materials, GSA and OEP apparently do not believe that the quality has deteriorated to the extent that a rotation program is required. The fact remains, however, that the quality of these materials is less than it was when the materials were acquired for the stockpile. Under these circumstances we believe that GSA and OEP should consider rotation of deteriorated materials making up the stockpile objectives.

CHAPTER 4

POSSIBLE REDUCTIONS IN STORAGE SPACE

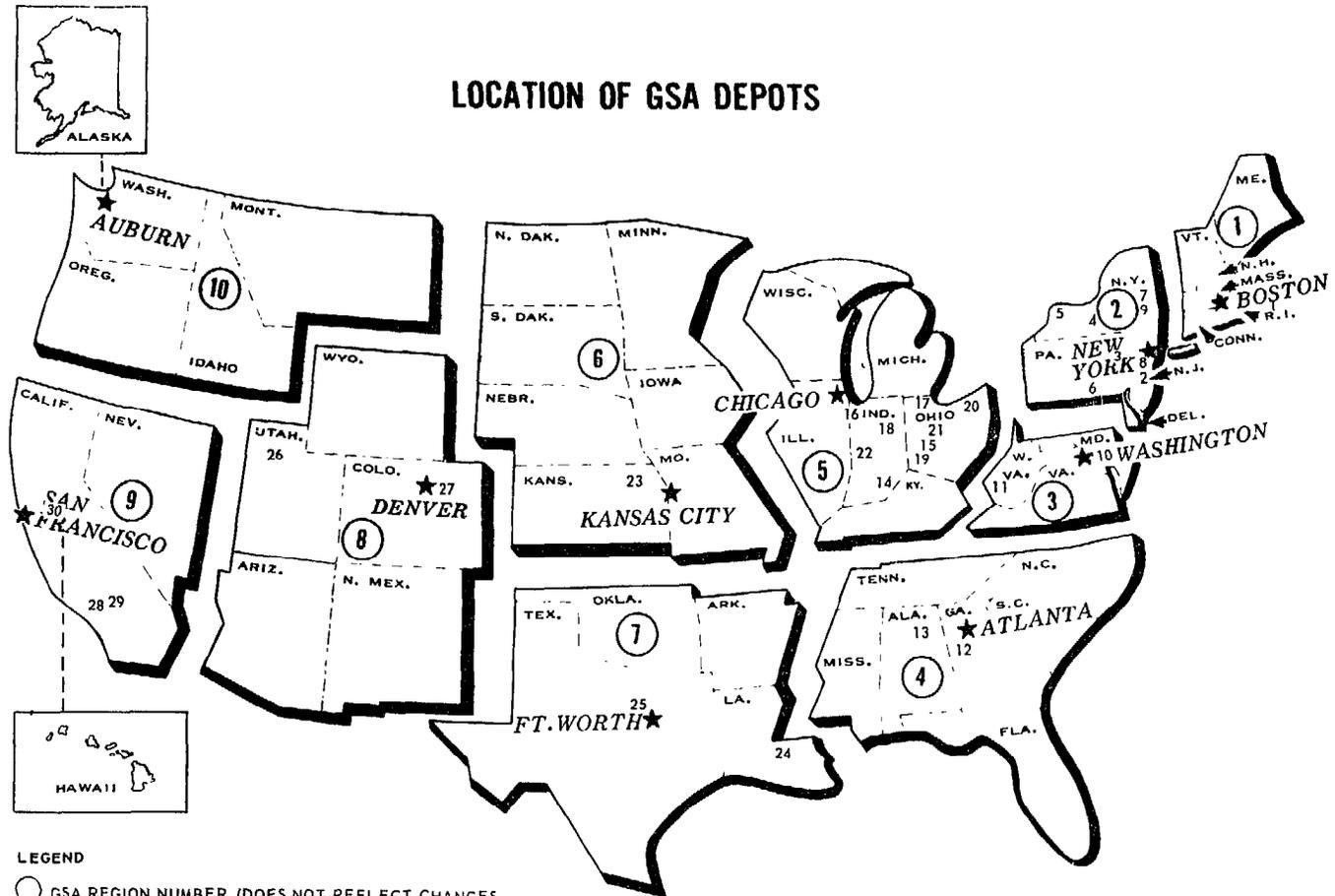
In the 20 years or more that strategic and critical materials have been stockpiled, objectives have been reduced and materials sold. As a result many of the GSA depots now have unused storage space. Further unused storage space would result from the sale or consolidation of the materials discussed in chapters 2 and 3.

Although further study is required for the formulation of specific plans, it appears to us that substantial reductions in storage costs are possible by closing some depots having considerable unused storage space and closing certain warehouses at other depots. The materials at the depots and warehouses could be sold where feasible, or moved to other depots. We recognize, however, that a number of factors should be considered in reducing the number of depots and the amount of warehouse storage space, such as costs of moving materials, depot locations, types of storage available at various depots, further reductions of stockpile objectives, and the ability to sell excess storage space.

GSA incurred storage costs of \$6.8 million in fiscal year 1970--\$4.8 million at GSA depots, \$1.9 million at military depots, and \$0.1 million at commercial and plant sites. A map on page 29 shows the locations of the 30 depots operated by GSA. Our review of the storage of materials was limited to the GSA depots.

About 16 million of the 44 million square feet of open and warehouse storage space at the 30 GSA depots was not being used as of June 1, 1970. The table on page 30 shows by GSA region the percent of storage space not used.

LOCATION OF GSA DEPOTS



LEGEND

- GSA REGION NUMBER (DOES NOT REFLECT CHANGES IN REGIONAL BOUNDARIES EFFECTIVE 7/1/71)
- ★ GSA REGIONAL OFFICE

GSA DEPOTS

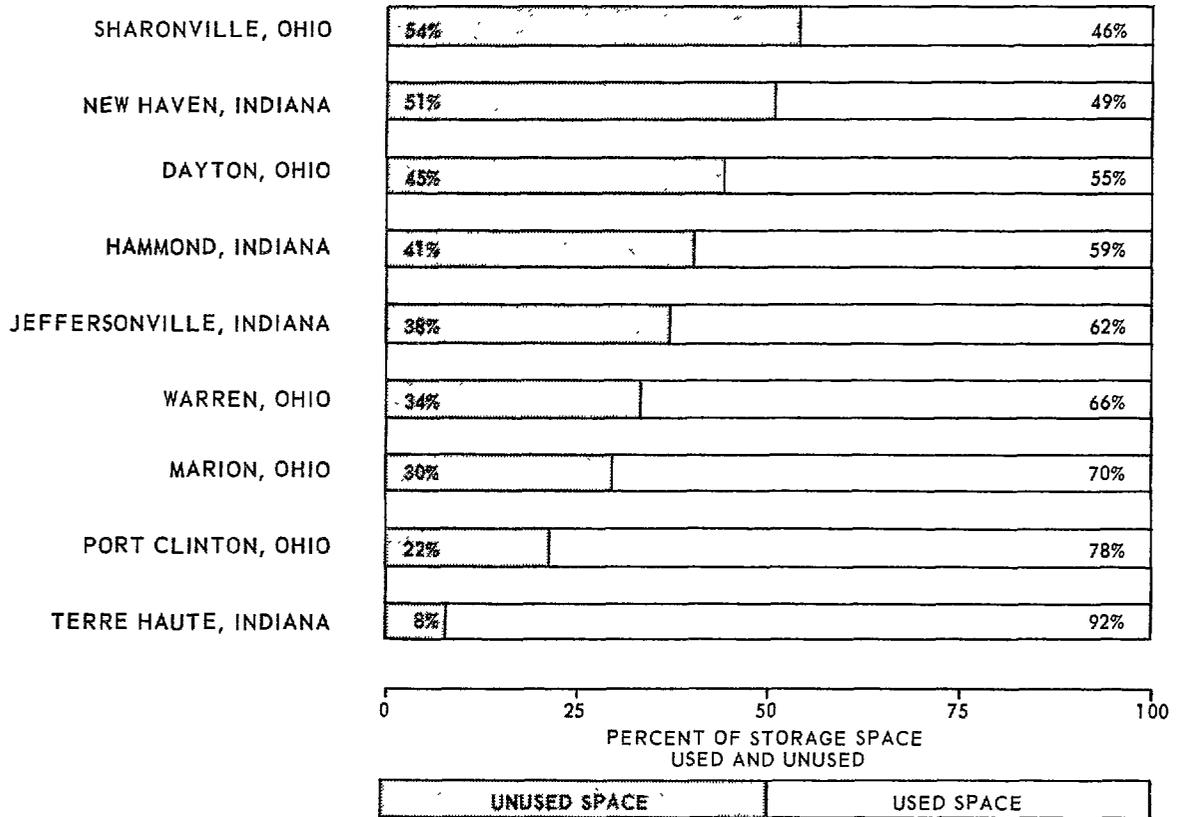
- | | | |
|--|--|--|
| <ul style="list-style-type: none"> 1. NEW BEDFORD, MASSACHUSETTS 2. BELLE MEAD, NEW JERSEY 3. BETHLEHEM, PENNSYLVANIA 4. BINGHAMTON, NEW YORK 5. BUFFALO, NEW YORK 6. MARIETTA, PENNSYLVANIA 7. SCOTIA, NEW YORK 8. SOMERVILLE, NEW JERSEY 9. VOORHEESVILLE, NEW YORK 10. CURTIS BAY, MARYLAND | <ul style="list-style-type: none"> 11. POINT PLEASANT, WEST VIRGINIA 12. EAST POINT, GEORGIA 13. GADSDEN, ALABAMA 14. JEFFERSONVILLE, INDIANA 15. DAYTON, OHIO 16. HAMMOND, INDIANA 17. PORT CLINTON, OHIO 18. NEW HAVEN, INDIANA 19. SHARONVILLE, OHIO 20. WARREN, OHIO | <ul style="list-style-type: none"> 21. MARION, OHIO 22. TERRE HAUTE, INDIANA 23. TOPEKA, KANSAS 24. BATON ROUGE, LOUISIANA 25. FORT WORTH, TEXAS 26. CLEARFIELD, UTAH 27. DENVER, COLORADO 28. BELL, CALIFORNIA 29. MIRA LOMA, CALIFORNIA 30. STOCKTON, CALIFORNIA |
|--|--|--|

<u>GSA region</u>	<u>Number of depots</u>	<u>Total space (square feet)</u>	<u>Space not used (square feet)</u>	<u>Percent of space not used</u>
Region 1	1	850,115	121,766	14
Region 2	8	12,930,568	4,874,247	38
Region 3	2	4,649,913	771,212	17
Region 4	2	576,035	242,875	42
Region 5	9	17,538,482	7,678,902	44
Region 6	1	478,394	29,794	6
Region 7	2	6,125,819	2,257,336	37
Region 8	2	343,677	53,667	16
Region 9	<u>3</u>	<u>684,400</u>	<u>203,940</u>	30
Total	<u>30</u>	<u>44,177,403</u>	<u>16,233,739</u>	37

The total space includes 13,808,082 square feet of warehouse space, of which 3,667,976 square feet, or 27 percent, was not used.

Because Region 5 has more total storage space and more unused storage space than any other region, we reviewed how space was used and what materials were stored in Region 5. About 7.7 million, or 44 percent, of the 17.5 million square feet of storage space at the nine GSA depots in Region 5 was not being used as of June 1, 1970. The total Region 5 storage space includes 5.6 million square feet of warehouse space, of which 1.6 million square feet or 29 percent was not used. The following graph shows the percentage of total storage space used and unused at the nine depots.

GSA DEPOTS



The total costs of storage in fiscal year 1970 at the nine depots in Region 5 follow.

<u>GSA depot</u>	<u>Storage cost</u>		
	<u>Warehouse storage</u>	<u>Outside storage</u>	<u>Total</u>
Sharonville, Ohio	\$ 31,929	\$ 67,108	\$ 99,037
New Haven, Indiana	456,064	69,132	525,196
Dayton, Ohio	115,518	-	115,518
Hammond, Indiana	188,143	45,931	234,074
Jeffersonville, Indiana	94,859	1,563	96,422
Warren, Ohio	313,339	84,657	397,996
Marion, Ohio	248,130	5,067	253,197
Port Clinton, Ohio	27,418	13,233	40,651
Terre Haute, Indiana	18,105	2,583	20,688
	<u>\$1,493,505</u>	<u>\$289,274</u>	<u>\$1,782,779</u>

Storage costs consist of payments for salaries, utilities, guard service, and maintenance.

Two depots in Region 5, in our opinion, could be closed since a significant portion of their storage space is unused. Further, the used storage space contains materials which should be sold or disposed of by rotating and consolidating the replacement materials with similar materials at other depots.

--At the Dayton depot 45 percent of the storage space is unused. (See graph on p. 31.) Further, of the space used--359,000 of 650,000 square feet--most (330,000 square feet) is filled with deteriorated rubber and cordage fibers.

GSA inspectors have recommended disposal of the rubber. We are recommending disposal of the cordage fibers. (See ch. 2.) If these materials are sold, this depot could be closed by moving the remaining materials to other depots. As a result, the annual storage cost of \$115,518 could be eliminated. (See table on p. 31.)

--At the Jeffersonville depot, 38 percent of the storage space is unused. Materials are stored in 229,000 of the total storage space of 372,000 square feet. Most of this space (170,000 square feet), however, is used to store deteriorated rubber and cordage fibers that are no longer needed.

If the rubber and cordage fibers were disposed of and the remaining materials moved to other depots, the Jeffersonville depot could be closed. Annual storage costs of \$96,422 could be eliminated.

Not only could two depots be eliminated but materials in warehouse storage space in two other depots could be consolidated. The Marion and Warren depots have warehouse storage space of 2.5 million square feet of which only 1.7 million square feet (69 percent) was being used for storage as of June 1, 1970. As shown in the following table most of this space was used for storing rubber, cordage fibers, and tannins.

	<u>Warehouse storage (square feet)</u>		
	<u>Marion depot</u>	<u>Warren depot</u>	<u>Total</u>
Total warehouse storage space	<u>1,161,586</u>	<u>1,351,800</u>	<u>2,513,386</u>
Total space used	867,859	876,604	1,744,463
Percent of space used	75	65	69
Space used for rubber, cordage fibers, and tannins	572,820	586,100	1,158,920
Percent of used space	66	67	66
Space used for all other materials	295,039	290,504	585,543
Percent of used space	34	33	34

If the rubber, cordage fibers, and tannins were sold or consolidated with similar materials at other depots, economies could be achieved by closing and disposing of unused warehouse storage space and would thus reduce protection, maintenance, and utility costs through consolidation. After these actions only a small portion of the total warehouse storage space at the Marion and Warren depots would be used--585,453 square feet of the total storage space of 2.5 million square feet or 23 percent.

At the Hammond depot some consolidation of storage space, and resultant reduction in storage costs, has already occurred. Since the institution of a program in July 1968 to consolidate materials and operate the depot on a smaller scale, GSA has reduced the overall size of the depot from 132 acres to 70 acres and the amount of warehouse storage space from 739,000 square feet to 137,000 square feet. The reduction in storage costs from \$424,000 in fiscal year 1968 to \$234,000 in fiscal year 1970 clearly demonstrates the advantages of consolidating storage space. The unneeded part of the depot was essentially deactivated in July 1969; however, GSA did not declare the property excess to its needs until May 1971.

Of the 137,000 square feet of warehouse storage space remaining at Hammond, 123,000 square feet was being used. About 58 percent of this space was used for storing tannins. If the tannins were sold or consolidated with similar material at other depots, consideration then could be given to relocating the minor amount of material remaining in warehouse storage, and the closing and disposition of the warehouses.

The New Haven depot has 1.7 million square feet of warehouse storage space of which 1.3 million square feet (76 percent) was being used for storage as of June 1, 1970. About 48 percent of this space was used for storing rubber, cordage fibers, and tannins. If these materials were disposed of, economies could be achieved by eliminating unused warehouse storage space.

At the three remaining depots in Region 5 (Port Clinton, Terre Haute, and Sharonville) either a high percentage of the total storage space is being used or low-cost outside storage is being used. Further, at the Sharonville depot all but one warehouse is being offered for sale.

GSA officials agreed that the disposition of rubber, cordage fibers, and tannins would enhance their efforts to reduce the number of depots and the amount of warehouse storage space.

RECOMMENDATION

We recommend that the Administrator of GSA review the use of storage areas in the depots and, where possible and economically feasible, intensify GSA's efforts to consolidate materials in warehouse space and dispose of unneeded depots.

AGENCY COMMENTS

In commenting on our draft report, OEP stated that specific comments on whether certain depots could be closed must be left to GSA. OEP noted, however, that it had instructed GSA to use cost-effectiveness analysis in the determination of disposal plans and in the selection of materials to be held against stockpile objectives. A part of this selection process is the determination that, if technical quality of the stockpile material is adequate for national security needs, the decision on which material to hold will be based on cost-benefit factors, including the possibility of reducing storage costs.

GSA stated that our conclusion that GSA could use its storage space more effectively and economically by selling the excess and deteriorated materials, consolidating several depots, and disposing of unneeded depots was in complete accord with GSA's policy. GSA stated also that it was constantly reviewing the utilization and operating cost of storage facilities with the goal of reducing and consolidating activities so that maximum efficiencies and economies would be realized.

GSA summarized the actions that had been taken at the GSA depots and other storage locations to eliminate or reduce storage space and realize resultant economies. According to GSA the selling of excess materials stored in warehouses, particularly rubber and cordage fibers, is the key to these economies. By thus reducing stocks, the point is reached where the expense of relocating remaining stocks is justified by the resultant savings in recurring storage costs.

GSA states that the disposal of partial quantities of materials from a depot does not result in specific economies unless the entire depot or an entire activity at the depot

is completely inactivated through relocation of remaining materials to other depots. Without this inactivation, expenses of protection, maintenance, and utilities would continue at substantially the same level.

GSA was of the opinion that statistics showing underutilization of open areas at the GSA depots presented an unrealistic picture because most of the depots were acquired from the Department of Defense and a large portion of the open areas have never been utilized in the stockpile program. In such cases we believe that GSA should consider declaring the unused areas in excess of their needs and initiate disposal action.

GSA believes that appropriate attention is being given to the consolidation of warehouse space and disposal of unneeded facilities. We recognize that GSA is reducing storage space and that many factors must be considered in making the reductions. The fact remains, however, that many of the GSA depots contain a high percentage of unused open and warehouse storage space. Therefore we believe that GSA is in a position to bring about further economies by consolidating materials in warehouse space and disposing of unneeded depots. We recognize also that disposition of rubber, cordage fibers, and tannins would enhance GSA's ability to consolidate storage facilities.

In commenting on the Region 5 depots discussed in this report, GSA stated that it will inactivate the Dayton and Jeffersonville depots by the end of fiscal year 1973 and achieve annual savings of \$210,000. GSA stated that, after the rubber, cordage fibers, and tannins at the Marion and Warren depots are sold, economies would be achieved by consolidating the remaining materials. GSA believes that the cost of consolidation prior to the sale of the three materials would be prohibitive.

GSA stated that, because of the large quantities of materials in open storage at the Hammond depot, operations at the depot would continue at substantially the same level even if all the materials in the warehouse were sold or relocated. GSA stated that the three remaining warehouses at the Hammond depot were situated in the central part of the depot and disposal of these buildings would not be feasible

until surrounding areas utilized for metal storage were vacated. GSA noted that savings in operating costs could result if the sale of metals reduced the inventory to a point where the guard force could be reduced.

Implementation of the above plans, particularly at the Dayton and Jeffersonville depots, should achieve substantial reductions in storage costs.

CHAPTER 5

SCOPE OF REVIEW

To evaluate the management of the stockpile of selected strategic and critical materials, we:

- Examined pertinent laws, regulations, and policies of OEP and GSA.
- Examined production and consumption statistics, reports on stockpile activities, and minutes of meetings on the stockpile to ascertain the need for stockpiling molybdenum, cordage fibers, and tannins.
- Examined inspection reports to determine the condition of rubber, cordage fibers, magnesium, tin, ferromanganese, and antimony.
- Interviewed representatives for the Cordage Institute on the extent of deterioration in cordage fibers and the availability of synthetics.
- Interviewed officials of the major rubber companies on the extent of deterioration in rubber.
- Observed the use of storage space and conditions of selected materials at the GSA storage sites in Ravenna, Marion, Port Clinton, Sharonville, and Warren, Ohio; Scotia, New York; and Mechanicsburg, Pennsylvania.
- Interviewed officials of the Departments of Agriculture, Commerce, Defense, and Interior to determine the need for stockpiling certain materials.
- Discussed our review with officials of the OEP and GSA headquarters in Washington, D.C.

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OFFICE OF EMERGENCY PREPAREDNESS
WASHINGTON, D.C. 20504

MAY 20 1971

OFFICE OF THE DIRECTOR

Mr. Max A. Neuwirth
Associate Director
General Accounting Office
Washington, D. C. 20548

Dear Mr. Neuwirth:

This is in reference to your draft report transmitted to me for review and comment, entitled "Management of the Strategic and Critical Stockpile." OEP comments and suggestions on the draft report follow.

First, the reference to the obsolescence authority contained in the Stock Piling Act, made on page 2 of the draft report under the heading of DISPOSAL, accurately notes the three reasons for which an obsolescence determination can be made, but fails to mention that the entire procedure is based upon "obsolescence". I suggest that the last paragraph on page 2 be revised as follows: "Excess materials are to be disposed of only after approval by the Congress unless the material is found to be obsolescent because of (1) deterioration, (2) development or discovery of a new or better material or materials, or (3) no further usefulness in time of war." The possible applicability of the obsolescence authority to the tannins and cordage fibers will be reviewed by this Office upon completion of a detailed study of these two material areas that we have requested from the Department of Commerce. It should be noted, however, that all three of the tannins and the two cordage fibers, abaca and sisal, are still in daily commercial use in the U.S.

[See GAO note, p. 41.]

In Chapters 2 and 3, references are made to the annual costs of maintaining (including interest) molybdenum, cordage fibers, and tannins in the stockpile. The implication from the text is that the costs given are the costs of retaining these materials against stockpile objectives. However, as the table on page 11 indicates, the cost figures used represent costs of maintaining the entire inventory of these materials including that portion classified as excess. Opportunity cost of maintaining materials against stockpile objectives should relate only to that portion which is considered to be held against stockpile objectives, i.e., the \$12.5 million indicated on page 4 includes \$5.9 million in cost for the

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excess in inventory. Finally, the use of opportunity costs of maintaining materials in the stockpile includes the assumption that the subject material could be readily sold. All three referenced materials have substantial excesses authorized for sale, yet sales have been slow or nonexistent.

Our officials, in their discussion with your representatives, did indicate that preference in allocation of OEP resources for revisions of objectives was given, and would continue to be given, to those materials for which there is an apparent immediate disposal market. The resources necessary to carry out the detailed studies involved in revising stockpile objectives are limited and it seems only reasonable that these resources should be allocated to those areas where there would be the most immediate results.

[See GAO note, p. 41.]

Our current analysis of the cordage fibers and tannins indicates that your report's comments appear to be accurate. As indicated, we are undertaking a detailed review of these two materials.

[See GAO note, p. 41.]

Chapter 4 of your draft correctly states that OEP withdrew rotation authority in 1970 because expenditure of funds would adversely affect a budget already in deficit. Although certain materials are subject to deterioration in storage (particularly agricultural materials), current analysis has shown that deterioration has not precluded usefulness in a period of national emergency. As pointed out by the National Bureau of Standards and three major rubber companies in late 1969, rubber in the stockpile, although somewhat deteriorated, could be blended with other rubber to meet national security needs.

Specific comment on whether or not certain storage locations could be closed and thus save costs to the Government must properly be left to the General Services Administration. In August 1969, OEP instructed the General Services Administration to use cost effectiveness analysis in the determination of disposal plans and in the selection of materials to be held against stockpile objectives. This has meant that in terms of holding materials for the stockpile, a part of the selection process is the determination that if technical quality is adequate for national security needs, the decision on which material to hold would then be based on cost benefit factors, including the possibility of reducing costs of storage. It is our understanding that since that time, the General Services Administration has been following this policy, and that they have been reducing the number of storage locations. During calendar year 1970, two storage locations were closed, and efforts are being made to close other sites. Your report correctly mentions that closure of a storage site may involve transportation and other costs for the remaining stored materials which must be compared with the savings from closing a site.

If your staff desires, members of my staff will keep them informed on developments in the analysis of stockpile objectives for cordage fibers and tannins. Your staff may make these arrangements by calling Mr. William Lawrence, Chief, Stockpile Policy Division.

Sincerely,


G. A. Lincoln
Director

GAO note: The deleted comments relate to matters which were discussed in the draft report but were omitted from this final report.

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UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, D.C. 20405



JUNE 15 1971

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Staats:

Thank you for the opportunity to review your draft report on the management of the strategic and critical stockpile.

In the chapters covering rotation and storage of materials, the report sets forth many pertinent observations. We must suggest, however, that any study of these comments would be more meaningful if they gave recognition to the constant attention and planning which General Services Administration (GSA) is now and has for many years, been devoting to the program areas therein discussed such as consolidation of materials, elimination of unneeded depot space, as well as to the deterrence of deterioration of stockpile materials.

The report concludes that GSA could use its storage space more effectively and economically. In this respect, we are constantly reviewing the utilization of these facilities and the cost of operating them, with the goal of reducing and consolidating activities so that maximum efficiencies and economies are realized.

In the last ten years, four GSA depots have been inactivated and nine storage activities at other depots have been reduced or eliminated, resulting in annual savings of \$1.6 million. Storage functions at two additional GSA depots (Dayton and Jeffersonville) are planned for inactivation for annual savings of \$210,000.

Our emphasis on economical space utilization has not concentrated only on GSA depots, but on military depots, commercial warehouses, and leased sites as well. Overall, going back over the 20 years of stockpiling mentioned in the report, we have reduced the total number of storage sites in use from a high of 318 in 1953 to the present number of 134. Annual savings resulting from these actions are in the millions of dollars.

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The selling of excess materials stored in warehouses is the key to these economies. Due to the prohibitive transportation and handling expenses which must be incurred in the relocation of large quantities of materials from one depot to another, the vacating and inactivation of facilities are predicated on the prior disposal of maximum quantities of excess materials, particularly rubber and cordage fibers. As these and other materials are sold, not only will storage functions at the two GSA depots mentioned above be inactivated, but stocks at other depots will also be reduced to the point where the expense of relocating remaining stocks can be justified by resultant savings in storage costs.

In discussing unused storage space, it should be pointed out that many GSA depots have a substantial amount of open storage area which is not utilized. Most of our GSA depots were at one time operated by the Department of Defense, and these open areas were part of the depots when acquired by GSA. A large portion of these areas has never been utilized in this program and, as a matter of fact, utilization was never contemplated. Statistics, as set forth in the draft report, showing underutilization of these areas present an unrealistic picture. No recurring storage costs are incurred in relation to these unused areas. In many instances, property lines have been redrawn and unneeded acreage disposed of.

In relation to the utilization of storage space, it should also be pointed out that the disposal of partial quantities of stockpile materials from a depot does not result in specific economies unless the entire depot, or an entire activity at the depot, is completely inactivated through relocation of remaining commodities to other depots. The total cost to operate a depot remains substantially the same regardless of the total tonnage stored. The removal of a portion of the tonnage would not result in savings in operating costs as expenses of protection, maintenance, utilities, etc., would continue at substantially the same level.

We believe that maximum effort has been given to the consolidation of warehouse space and disposal of unneeded facilities and agree with the statement made in the report that the disposition of the major warehouse materials (rubber, cordage fibers, and tannins) would enhance our efforts to reduce the number of depots and the amount of warehouse storage space.

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As is quite well established, most of the organic products such as rubber and fiber will undergo change with the passage of time. When we had unfilled objectives for these materials rotation was practiced. In recent years, however, since the objectives have been reduced to quantities which were considerably below the inventories on hand, emphasis was placed on the disposal of the lower grades or qualities of these materials.

In addition, we have been aware for a long time that many so-called inert materials such as tin, ferromanganese and magnesium also undergo alteration of character and some limited loss of value. Over the years, we have had a number of research projects in this phase to try to determine such things as (a) what causes the change, (b) how can it be avoided when purchasing new materials, if possible, (c) what is the net effect on the consumer, etc. Our studies on tin for example began as early as 1953 and even earlier in trying to determine the relationship of the strength of fiber to its age.

While pertinent comment is offered concerning the changes on some of the commodities in the stockpile, we do believe that the report as written tends to overstate the amount of material affected by time as well as the degree of change.

[See GAO note, p. 51.]

Specific comments concerning the report now follow; these comments are confined to subjects appropriate to a GSA response. We have been advised that OEP will comment on other portions of the draft.

Page 4. "GSA could use its storage space more effectively and economically by selling the excess and deteriorated materials, consolidating several depots and disposing of unneeded depots..."

Comment. This statement is in complete accord with GSA's policy: "Government depots which have become uneconomical to operate will be partially or completely evacuated, and the tonnage will be reduced in commercial warehouses to the maximum extent possible, as revised storage criteria permit and as more economical space becomes available." (GSA Policy Manual, Chap. 8-8-b(2))

During the past ten years (1962 - 1971) 13 storage operations at GSA depots have been reduced or eliminated by selling excess materials and consolidating remaining stocks at other depots, resulting in recurring savings of \$1.6 million annually. During the same period, over 200,000 tons of materials were removed from commercial warehouses for an additional recurring savings of \$1.8 million annually. Further action in this area is planned.

The selling of excess materials is the key to these economies. By thus reducing stocks, the point is reached where the expense of relocating remaining stocks is justified by the resulting savings in recurring depot costs.

Page 7. "- - the Administrator of GSA review the use of storage areas in the depots and, where possible and economically feasible, increase GSA's efforts to consolidate warehouse space and dispose of unneeded depots."

Comment. As stated above, this is the policy of GSA and aggressive action during the past ten years in carrying out this policy has resulted in recurring savings of \$3.4 million annually. This element of our program is constantly under critical review and will continue to be so.

Pages 4, 6 and 7. Mention is made that OEP and GSA have not rotated certain stockpile materials which are deteriorating in storage.

Comment. Rotation of the six mentioned materials was not pursued because the strategic, technical and marketing considerations did not warrant the initiating of costly rotation programs, and thus such rotation programs were not considered to be in the best interest of the Government.

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While there are undoubtedly some situations under which active rotation programs should be pursued, to rotate stockpile materials with the sole objective of improving the quality of the strategic stockpile inventory is not necessarily always advantageous to the Government. From a strategic point of view, rotation may not be warranted in some cases if the material is currently usable and reasonably satisfactory to industry in its present form. From an economic view caution should also be exercised in the undertaking of costly rotation programs in situations where the stockpile objectives are likely to be reduced or eliminated. Further, there is no assurance of an eventual increase in financial return to the Government from the sale of the replacement material through rotation since subsequent technological changes and continuing deterioration of the replacement material can nullify the advantage one might expect from a rotation program.

[See GAO note, p. 51.]

[See GAO note, p. 51.]

Pages 12, 14 and 19. - Molybdenum, fibers, tannin. - The report indicates that several million dollars in annual maintenance costs can be eliminated if the above commodities are removed from the stockpile.

Comment. As shown on page 11 of the report, the annual storage costs of the three materials total \$1.6 million. These costs would not automatically be eliminated by disposing of the materials for the following reasons:

1. Substantial quantities of these materials are stored in military depots. Under GSA's cross-servicing agreement with the Department of Defense, we reimburse DoD for use of the space only as long as the space is occupied, and space charges terminate when the space is vacated. Although the charge to GSA for space use would cease, there would be very little, if any, effect on the total cost of operating the military depots involved.
2. Disposing of these materials from GSA depots would not result in any substantial savings until such time as it becomes economically feasible to relocate remaining stocks to other depots and inactivate the depots involved. Costs of operating these depots (fire and guard protection, maintenance, utilities, management, etc.) would continue at substantially the same level until consolidation action could be completed.

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3. Also, the claim of considerable savings assumes early disposition of the entire inventory which could not be accomplished even with immediate disposal authorization. Marketing considerations in connection with disposal program clearance with other Government agencies would undoubtedly rule out the feasibility of such large scale releases of materials. For example, the excess tannins now available for sale, plus the quantities requested in legislation now before Congress provide more material for disposal than can be sold in the next several years - without major objections from other Government agencies and possible disruption of the market. GSA currently is selling tannins as fast as the market will absorb and under programs that the State Department, for foreign policy considerations, can agree to.

[See GAO note, p. 51.]

Pages 24 and 25. - Rubber - The subject of the rubber excess should be clarified. When the OEP lowers the objective of a stockpile commodity, our normal procedure is to review the on-hand inventory and designate the best material for retention under the objective. The balance is then considered to be excess to stockpile requirements. The 123,000 tons of rubber mentioned in the report is a portion of the excess rubber in the stockpile.

[See GAO note, p. 51.]

Referring to the study conducted by the National Bureau of Standards and three major rubber companies, it should be pointed out that the worst-looking bale, as well as the best-looking bale, at five depots were the basis for the testing and evaluation. Quoting the report of GAO, "The study showed, however, that the rubber could be used when blended with

other rubber." In this respect we wish to point out that blending is a normal procedure in rubber processing with fresh imported rubber, as well as stockpile rubber.

We note the comment that the GAO representatives "observed at various depots that bales of rubber were moldy, stained, distorted [See GAO note, p. 51.] The fact that some bales of rubber may have shown stains does not of itself mean that the rubber is not of good quality. The bales would have to be checked to determine whether or not the stain had penetrated the wrapper sheet and caused damage to the rubber. Some of the rubber accepted into the stockpile originally was stained and allowances were obtained by our inspectors at that time.

Distortion of a bale does not affect the quality. The greatest percentage of distortion would have occurred during shipment from the source country and in the initial stages of storage while the rubber was soft. The weight of bales piled on one another in this condition would cause some distortion on the lower bales in the pile. Further distortion ceased when the rubber became frozen in our warehouses. Allowances granted by us for distorted bales are for the extra handling costs incurred by the purchaser and not for loss in quality.

[See GAO note, p. 51.]

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Pages 25 and 26. - Cordage fibers - Again, the opening statement on cordage fibers, that substantial portions are deteriorating, should be clarified.

In our fiscal year 1970 budget request, we stated that a substantial portion of the fibers held in the stockpile to meet objectives has aged to such an extent that it no longer meets required standards for use in an emergency. The standard of quality referred to meant the policy to retain abaca for seven years and sisal for nine years. This policy was established after considerable study and these periods of time were considered to be the maximum periods we could safely store these fibers and have a wholly useable and dependable material in times of emergency.

Our budget request also stated that these materials are of a quality which can be used in industry in the production of many commercial products. Our sales experience and absence of quality complaints support this statement. No inspections of fibers are made by respective purchasers unless we advise the material is damaged. The fibers are purchased on the basis of our records with respect to type, grade and quality, and year of receipt into the stockpile. We have received no complaints from purchasers on the quality of any of the fiber sold since July of 1965. Since the purchasers of the fiber are repetitive buyers it must be assumed that they are receiving satisfactory deliveries.

[See GAO note, p. 51.]

[See GAO note.]

Page 26. - Other Materials - We believe that the first paragraph should begin with the words "A very limited amount of". As the statement is now written, it would infer that all of these materials are deteriorating while this is far from the case.

[See GAO note.]

Page 27. - Tin - The tin at the five locations which is reported to be deteriorating is a very limited amount. We believe that the condition implied by the first paragraph would be placed on a more factual basis if the following statement is added to this paragraph:

"However, no sales discount has ever been allowed by GSA because of this condition, and the quantity of tin lost because of granules that formed due to this condition is surely less than 1/10 of 1 percent of the original quantity."

Page 27. We note the final paragraph states that "GSA officials told us that tin, ferromanganese, and antimony has not deteriorated to the extent that rotation is needed at the present time." We wish to reaffirm this advice.

Page 30. "About 16 million of the 44 million square feet of storage space at 30 GSA depots was not used as of June 1, 1970."

Comment. Including both open and closed space, statistics do not show a true picture. Most depots have large quantities of open storage space,

GAO note: The deleted comments relate to matters which were discussed in the draft report but were omitted from this final report.

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some of which was never used. Whether or not consolidations are feasible depends, for the most part, on the utilization of warehouses. The following table shows current statistics on warehouse space only:

<u>GSA Region</u>	<u>Warehouse space (sq. ft.)</u>	<u>Not used (sq. ft.)</u>	<u>Percent not used</u>
1	737,700	64,200	9
2	3,889,531	939,674	24
3	896,301	244,316	27
4	508,159	210,549	41
5	5,594,676	1,894,800	34
6	478,394	37,394	8
7	987,686	246,586	25
8	201,115	61,115	30
9	<u>65,000</u>	<u>2,000</u>	<u>3</u>
Totals	13,358,562	3,700,634	28

Page 31. "About 44 percent of the storage space at nine GSA depots in Region 5 - - 7.7 million square feet - - was not being used as of June 1, 1970."

Comment. As stated above, this presents a misleading picture. The current percentage of unused warehouse space at each Region 5 depot is shown below:

<u>Depot</u>	<u>Unused warehouse space</u>
Sharonville, OH	1%
New Haven, IN	28%
Dayton, OH	51%
Hammond, IN	18%
Jeffersonville, IN	34%
Warren, OH	42%
Marion, OH	27%
Port Clinton, OH	45%
Terre Haute, IN	8%

Page 33. "If these materials are sold, this depot (Dayton) could be closed by moving the remaining materials to other depots."

"If the rubber and cordage fibers were disposed of and the remaining materials moved to other depots, the Jeffersonville depot could be closed."

Comment. We agree. We have long planned that these two depots will be closed when stocks of rubber and fibers are reduced by disposal actions to the point where it is no longer economical to operate the depots. Current plans are to inactivate both depots by the end of fiscal year 1973, but this may be earlier or later, depending on disposal program. Plans for the inactivation of these two depots have been under consideration since 1967.

Page 34. "If the rubber, cordage fibers and tannins (at Marion and Warren) were sold or consolidated with similar materials at other depots, economies could be achieved by eliminating unused warehouse storage space."

Comment. The costs of consolidation of materials at these depots prior to the sale of rubber, cordage fiber, and tannins would be prohibitive. We agree, however, that economies can be achieved by consolidating remaining materials after these three materials are sold. As an example of these high costs, it would cost an estimated \$441,000, based on present transportation tariff rates, to relocate the 18,658 tons of materials stored in warehouses at Jeffersonville, Indiana. However, if the entire quantity of rubber and cordage fiber (13,577 tons) were sold and the remaining stocks relocated to other depots, expenses of relocation would be reduced by some 70 percent.

Page 35. "If the tannins (at Hammond) were sold or consolidated with similar material at other depots, further economies could be achieved by eliminating unused warehouse storage space."

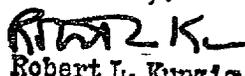
Comment. Due to the large quantities of materials in open storage at Hammond, operations at the depot would continue at substantially the same level even if all the remaining warehouse materials were sold or relocated. As indicated on page 34, consolidation actions already effected have resulted in substantial savings, and any further reduction in annual operating costs will depend primarily on the sale of metals, reducing the inventory to a point where the guard force can be reduced. In respect to the three remaining warehouses at Hammond, these are situated in the central part of the depot and disposal of these buildings, even when vacant, would not be feasible until surrounding areas utilized for metals storage are also vacated.

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Page 35. "GSA officials agreed that the disposition of rubber, cordage fibers, and tannins would enhance their efforts to reduce the number of depots and the amount of warehouse storage space."

Comment. We wholeheartedly agree!

Sincerely,


Robert L. Kunzig
Administrator

Enclosure [See GAO note.]

GAO note: The enclosure relates to matters which were discussed in the draft report but were omitted from this final report.

PRINCIPAL OFFICIALS RESPONSIBLE FOR
THE POLICIES AND THE CONDUCT OF THE
ACTIVITIES DISCUSSED IN THIS REPORT

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

OFFICE OF EMERGENCY PREPAREDNESS

DIRECTOR, OFFICE OF EMERGENCY
PREPAREDNESS:

George A. Lincoln	Jan. 1969	Present
Price Daniel	Oct. 1967	Jan. 1969

GENERAL SERVICES ADMINISTRATION

ADMINISTRATOR OF GENERAL
SERVICES:

Robert L. Kunzig	Mar. 1969	Present
Lawson B. Knott, Jr.	Nov. 1964	Feb. 1969

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