

REPORT TO CONGRESS

DEPARTMENT OF DEFENSE FISCAL YEAR 2006

PURCHASES FROM FOREIGN ENTITIES

March 2007

Office of the Under Secretary of Defense (Acquisition, Technology & Logistics)

Background

Section 827 of the National Defense Authorization Act for Fiscal 1997 (Public Law 104-201), as amended by section 812 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261), requires the Secretary of Defense to submit a report to Congress on the amount of Department of Defense (DoD) purchases from foreign entities in Fiscal Year 2006. The report is to separately indicate the dollar value of items for which the Buy American Act (BAA) was waived pursuant to any reciprocal defense procurement memorandum of understanding (MOU), the Trade Agreements Act (TAA) or any international agreement to which the United States is a party.

Discussion

The information presented in this report addresses Fiscal Year 2006 and is based on data from the Federal Procurement Data System – New Generation (FPDS-NG), data compiled and distributed by DoD’s Defense Manpower Data Center, Statistical Analysis Information Division, and data published by the Defense Security Cooperation Agency (DSCA). DSCA data include commercial export data from the State Department’s Office of Defense Trade Controls. The FPDS-NG data addresses contracting procedures, competition, financing, statutory requirements, socioeconomic programs and other information relating to DoD acquisitions. In some instances, the exact information required by section 827 is not available and DoD has made assumptions in order to complete the report. In those cases, the report identifies the methodology and assumptions made by DoD in responding to the reporting requirement.

Section 1 - All procurements from foreign entities

DoD procurement actions recorded in FPDS-NG during FY 2006 totaled approximately \$295 billion. Of that amount, approximately \$21.4 billion or 7.3 percent was expended on purchases from foreign entities. Of this amount, approximately \$21.1 billion is for contracts with a place of performance outside the U.S. and the remainder,

\$.3 billion is for contracts with a place of performance within the U.S. A detailed breakout of the dollars by country is contained in Table 1.

The \$21.4 billion covers military hardware, subsistence, fuel, construction, services, and other miscellaneous items that are for use outside the U.S. Defense equipment constitutes approximately 10.5 percent of the purchases from foreign entities. Services, subsistence, fuel and construction account for 10.7 percent, 5.6 percent, 27.0 percent and 9.1 percent, respectively, or approximately 52 percent of the total purchases from foreign entities. Table 2 provides a breakout of the \$21.4 billion by category and percentage of total.

Based on DSCA data, foreign purchases of U.S. defense articles and services in Fiscal Year 2006 totaled \$18.3 billion in FMS and \$2.6 billion in non-FMS for a combined total of \$20.9 billion in Security Assistance Sales (SAS). In addition, data from the State Department reflect that in Fiscal Year 2006, U.S. Commercial Exports of hardware sales totaled \$19.8 billion and sales of defense services totaled \$46.8 billion.

Section 2 - Dollar value of items for which the BAA was waived pursuant to any MOUs, the TAA or other international agreements

DoD has no central repository for waivers of the BAA and such information is not available in the existing DoD database. It is, therefore, not possible to identify which of the manufactured articles identified in section 1 of this report required a waiver of the BAA. Instead, this report attempts to identify the dollar value of DoD purchases of manufactured goods for which it is believed that the BAA may have been waived as a result of various international agreements. The following methodology was used to estimate dollars in this category:

1. Since the BAA does not apply to purchases for use outside the U.S, contracting actions by overseas buying offices were excluded from the data. Purchases by these offices are included in the data for Section 1 above.

2. It is assumed that all procurements covered by MOUs, the TAA and any other international agreement resulted in a waiver of the BAA. It should be noted, however, that using this methodology overstates the dollar value of items for which the BAA was waived. The Act does not apply when a domestic item's cost is unreasonable, the domestic preference is not in the public interest, or sufficient quality and quantity is not available domestically. Since we do not have data on when the Act did not apply in these circumstances, adjustments to the data were not made for those events.

Table 3 contains a detailed breakout of procurement actions by country and type of agreement. This breakout reflects the following procurement actions:

1. Actions pursuant to the Caribbean Basic Economic Recovery Act
2. Actions under World Trade Organization (WTO) Agreement on Government Procurement
3. Actions under Free Trade Agreements (FTAs)
 - a. The North American Free Trade Agreements (NAFTA).
 - Canada and Mexico
 - b. Australia FTA
 - c. Bahrain
 - d. Central America Free Trade Agreement (CAFTA)
 - e. Chile FTA
 - f. Morocco FTA
 - g. Singapore FTA
4. Actions under MOUs.

DoD purchases under numbers 1, 2 and 3 above all fall within the same supply categories and are comprised of mostly commercial and dual use items. Defense equipment is excluded from coverage under these agreements. The thresholds for the various trade agreements vary in terms of applicability and are subject to revision by the U.S. Trade Representative every two years. In some instances, a country may have an FTA with the U.S., be a signatory to the TAA, and also have an MOU with DoD. As a result, purchases will be reported in more than one category, but are segregated so as to not be duplicative. The following is a breakout of how DoD purchases are reported in those instances:

Canadian products subject to NAFTA coverage equal to or exceeding \$25,000 but below the Fiscal Year 2006 TAA threshold of \$193,000 are reported under NAFTA. Procurement actions equal to or exceeding \$193,000 with Canada for TAA code covered products are included under the TAA portion of the report. All other procurements of Canadian products are reported under the MOU section.

Mexico is not a party to the WTO Agreement on Government Procurement and does not have a reciprocal procurement MOU with the U.S. Accordingly, all DoD purchases of Mexican products equal to or exceeding \$64,786 are reported under NAFTA. There were no DoD purchases from Mexico under NAFTA in FY 2006.

Australian products subject to FTA coverage equal to or exceeding \$64,786 are reported under the Australian FTA. Australia is not a party to the WTO Agreement on Government Procurement but does have a reciprocal procurement MOU with the U.S.

Therefore, all DoD purchases of Australian products not covered by the FTA are reported under the MOU section.

Bahrain is not a party to the WTO Agreement on Government Procurement and does not have a reciprocal procurement MOU with the U.S. Therefore, all DoD purchases of products from Bahrain equal to or exceeding the FTA threshold of \$193,000 are reported under the Bahrain FTA.

The CAFTA includes El Salvador, Guatemala, Honduras, and Nicaragua. These countries are not parties to the WTO Agreement on Government Procurement and do not have a reciprocal procurement MOU with the U.S. Therefore, all DoD purchases of products of these countries equal to or exceeding \$64,786 are reported under CAFTA.

Chile is not a party to the WTO Agreement on Government Procurement and does not have a reciprocal procurement MOU with the U.S. Therefore, all DoD purchases of Chilean products equal to or exceeding \$64,786 are reported under the Chile FTA. There were no DoD purchases of Chilean products in FY 2006.

Morocco is not a party to the WTO Agreement on Government Procurement and does not have a reciprocal procurement MOU with the U.S. Therefore, products subject to FTA coverage equal to or exceeding \$193,000 are reported under the Moroccan FTA. There were no DoD purchases from Morocco in FY 2006.

Singapore products subject to FTA coverage equal to or exceeding \$64,786 but below the FY 2006 TAA threshold of \$193,000 are reported under the Singapore FTA. Procurement actions over \$193,000 with Singapore for TAA code covered products are included under the TAA portion of the report. DoD does not have a reciprocal procurement MOU with Singapore.

Using the methodology described above, the various international agreements for which it is assumed that the BAA was waived totaled approximately \$4,959.7 million in FY 2006.

1. Caribbean Basin Economic Recovery	\$ 9.4
2. Trade Agreements Act (including Least Developed Countries)	3,974.3
3. NAFTA (Canada)	26.9
4. Australia FTA	51.9

5. Bahrain FTA	391.2
6. CAFTA	.6
7. Singapore FTA	.3
9. MOUs	<u>505.1</u>
Total	\$ 4,959.7 Million

A breakout by country is contained in Table 3.

TABLE 1

FISCAL YEAR 2006 DEPARTMENT OF DEFENSE PURCHASES FROM FOREIGN ENTITIES BOTH OVERSEAS AND IN THE UNITED STATES

The following list includes all DoD purchases with foreign entities for supplies, services, fuel and construction.

COUNTRY	DOLLARS	COUNTRY	DOLLARS	COUNTRY	DOLLARS
AFGHANISTAN	962,080,294	FINLAND	6,936,096	MONTENEGRO	73,143
ALBANIA	644,151	FOREIGN	105,776,356	MOROCCO	714,473
ALGERIA	20,000	FRANCE	165,103,850	MOZAMBIQUE	24,350
AMERICAN SAMOA	23,756	GABON	19,758,894	NEPAL	4,644
ANDORRA	9,410	GAMBIA, THE	5,050	NETHERLANDS	199,383,363
ANGOLA	139,638	GEORGIA	174,422	NETHERLANDS ANTILLES	109,640
ANGUILLA	10,012,393	GHANA	173,887	NEW ZEALAND	6,357,145
ANTIGUA & BARBUDA	9,590,731	GERMANY	1,306,489,588	NICARAGUA	135,062
ARGENTINA	113,380	GIBRALTAR	308,904	NIGER	153,640
ARUBA	183,770	GREECE	490,240,536	NIGERIA	620,930
ASMORE & CARTIER ISLANDS	43,000	GREENLAND	89,353,340	NIUE	130,668
AUSTRALIA	78,823,061	GUAM	55,481	NORTH KOREA	1,462,997
AUSTRIA	5,352,719	GUATEMALA	1,422,674	NORWAY	29,802,436
AZERBAIJAN	1,100,547	GUYANA	66,000	OMAN	2,641,424
BAHAMAS, THE	1,108,123	HONDURAS	4,475,157	PAKISTAN	142,753,399
BAHRAIN	466,132,404	HONG KONG	3,814,151	PANAMA	2,509,353
BARBADOS	114,483	HUNGARY	1,089,581	PARAGUAY	245,668
BELGIUM	84,708,430	ICELAND	15,798,490	PERU	998,500
BELIZE	40,024,467	INDIA	279,842	PHILIPPINES	33,039,982
BOLIVIA	171,432	INDONESIA	2,279,366	POLAND	339,746
BOSNIA & HERZEGOVINA	5,383,177	IRAQ	5,112,687,015	PORTUGAL	30,270,239
BOTSWANA	38,486	IRELAND	2,428,744	QATAR	113,634,880
BRAZIL	5,433	ISRAEL	75,477,106	ROMANIA	77,787,446
BRITISH INDIAN OCEAN TERRI	191,901	ITALY	554,892,660	RUSSIA	19,642,266
BRUNEI	4,050	JAMAICA	218,838	SAO TOME & PRINCIPE	21,996
BULGARIA	1,393,753	JAN MAYEN	6,016	SAUDI ARABIA	651,219,469
CAMBODIA	287,462	JAPAN	1,612,734,940	SENEGAL	6,293,806
CANADA	682,015,132	JORDAN	48,806,948	SERBIA	75,779
CHILE	15,300	KAZAKHSTAN	6,715,405	SEYCHELLES	833,125
CHINA	4,382,835	KENYA	88,203,680	SIERRA LEONE	1,690
COLOMBIA	77,648,469	KIRIBATI	135,201,900	SINGAPORE	28,260,844
COMOROS	17,198	KOREA, REPUBLIC OF	2,159,583,229	SLOVAKIA	37,520
COSTA RICA	130,000	KUWAIT	2,807,970,683	SOLOMON ISLANDS	298,312
CROATIA	1,249,984	KYRGYZSTAN	17,239,470	SOUTH AFRICA	16,484,934
CUBA	56,042	LAOS	2,439,067	SPAIN	108,090,801
CYPRUS	5,929,070	LITHUANIA	339,069	ST. KITTS & NEVIS	46,837
CZECH REPUBLIC	550,780	LUXEMBOURG	75,754,485	SUDAN	683
DENMARK	22,990,713	MACE DONIA	324,660	SWAZILAND	1,669,386
DJIBOUTI	91,767	MALAYSIA	131,246	SWEDEN	112,707,551
DOMINICA	483,535	MALI	655,001	SWITZERLAND	272,754,207
DOMINICAN REPUBLIC	800,169	MALTA	70,797	TAIWAN	(5,000)
ECUADOR	590,585	MARSHALL ISLANDS	1,974,723	TAJIKISAN	10,313
EGYPT	1,820,701	MAURITIANA	309,450	TANZANIA	202,281
EL SALVADOR	1,021,572	MEXICO	50,132	THAILAND	10,887,741
ETHIOPIA	15,090	MOLDOVA	169,587	TUNISIA	22,214
FIJI	162,751	MONGOLIA	1,428,789	TURKEY	190,334,243
Subtotal	\$ 2,467,672,144	Subtotal	\$ 14,919,415,305	Subtotal	2,063,084,126

TABLE 1 (continued)

FISCAL YEAR 2006 DEPARTMENT OF DEFENSE PURCHASES FROM FOREIGN ENTITIES BOTH OVERSEAS AND IN THE UNITED STATES

<u>COUNTRY</u>	<u>DOLLARS</u>
TURKMENISTAN	17,769,196
UGANDA	1,849,646
UKRAINE	695,934
UNITED ARAB EMIRATES	676,315,717
UNITED KINGDOM	914,787,842
UNITED STATES	251,771,827
URUGUAY	528,101
VANUATU	107,614
VATICAN CITY	69,690
VENEZUELA	71,984,640
VIETNAM	1,440,468
YEMEN	155,384

Subtotal 1,937,476,059

TOTAL \$ 21,387,647,634

TABLE 2

FISCAL YEAR 2006 PRIME CONTRACT AWARDS TO FOREIGN CONCERNS/ENTITIES

DCP	DOD Claimant Program	Actions	Dollars	Percent
A1A	Air Frames & Spares	848	\$ 348,925,447	1.63%
A1B	Aircraft Engines & Spares	763	\$ 178,892,452	0.84%
A1C	Other Aircraft Equipment	559	\$ 183,125,924	0.86%
A2	Missile & Space Systems	79	\$ 18,766,253	0.09%
A3	Ships	3,913	\$ 194,992,474	0.91%
A4A	Vehicles - Combat	564	\$ 143,865,747	0.67%
A4B	Non Combat	504	\$ 373,639,450	1.75%
A5	Weapons	156	\$ 312,060,982	1.46%
A6	Ammunition	71	\$ 156,256,678	0.73%
A7	Electronic & Communication Equipm	1,022	\$ 337,091,321	1.58%
A8A	Petroleum	290	\$ 5,780,300,343	27.03%
A8B	Other fuels & lubricants	217	\$ 3,351,566	0.02%
A8C	Containers and Handling Equipment	5	\$ 192,189	0.00%
A9	Textiles, Clothing & Equippage	62	\$ 2,653,610	0.01%
B1	Building Supplies	71	\$ 4,983,623	0.02%
B2	Subsistence	7,455	\$ 1,204,387,768	5.63%
B3	Transportation Equipment	15	\$ 91,969	0.00%
B9	Production Equipment	14	\$ 1,938,170	0.01%
C2	Construction	5,911	\$ 1,947,555,885	9.11%
C9A	Construction Equip	243	\$ 12,292,006	0.06%
C9B	Med & Dental Supplies/Equipment	841	\$ 26,708,118	0.12%
C9C	Photographic Supplies/Equipment	69	\$ 1,315,715	0.01%
C9D	Materials Handling Equipment	131	\$ 7,762,225	0.04%
C9E	All Other Supplies & Equipment	56,263	\$ 7,862,761,867	36.76%
S1	Services	24,219	\$ 2,283,735,852	10.68%
	Overall Total	104,285	\$ 21,387,647,634	100.0%

TABLE 3

FISCAL YEAR 2006 PURCHASES FROM FOREIGN CONCERNS UNDER TRADE AGREEMENTS AND MEMORANDA OF UNDERSTANDING

TRADE AGREEMENTS

COUNTRY	DOLLARS
Caribbean Basin Economic Recovery Act	
Antigua & Barbados	\$ 8,981,411
Dominica	\$ 398,625
Total	\$ 9,380,036

(1)

COUNTRY	DOLLARS
Free Trade Agreements	
Australia	\$ 51,858,696 (2)
Bahrain	\$ 391,156,699 (1)
Canada	\$ 26,885,248 (3)
Guatemala	\$ 141,665 (2)
Honduras	\$ 95,844 (2)
Singapore	\$ 364,267 (2)
Total	\$ 470,602,419

COUNTRY	DOLLARS
Designated Country - Agreement on Government Procurement	
Austria	\$ 574,999
Belgium	\$ 23,842,860
Canada	\$ 145,966,729
Denmark	\$ 1,829,263
Finland	\$ 5,495,752
France	\$ 26,490,865
Germany	\$ 33,023,401
Greece	\$ 465,801,759
Ireland	\$ 1,481,885
Israel	\$ 8,077,015
Italy	\$ 390,545,349
Japan	\$ 726,198,099
Korea	\$ 850,552,029
Netherlands	\$ 187,282,054
Norway	\$ 12,833,473
Singapore	\$ 200,404
Spain	\$ 49,542,626
Sweden	\$ 643,554
Switzerland	\$ 30,257,859
United Kingdom	\$ 350,681,893
Total	\$ 3,311,321,868

(1)

COUNTRY	DOLLARS
Covers all purchases not reflected under the Trade Agreements	
Australia	\$ 335,290
Austria	\$ 1,182,301
Belgium	\$ 9,752,224
Canada	\$ 196,175,557
Denmark	\$ 855,720
Egypt	\$ 92,780
France	\$ 5,443,812
Germany	\$ 13,586,362
Israel	\$ 16,902,204
Italy	\$ 1,155,790
Netherlands	\$ 802,205
Norway	\$ 3,129,090
Spain	\$ 13,677,723
Sweden	\$ 67,441,635
Switzerland	\$ 349,711
United Kingdom	\$ 174,280,419
Total	\$ 505,142,823

MEMORANDA OF UNDERSTANDING

COUNTRY	DOLLARS
Least Developed Countries	
Afghanistan	\$ 661,390,210
Uganda	\$ 1,629,701
Total	\$ 663,019,911

(1)

- (1) The threshold for procurements for these agreements is \$193,000.
- (2) The thresholds for these FTA procurements is \$64,786
- (3) Per NAFTA, represents procurements with Canada over \$25k and under the TAA threshold of \$193,000..