

to dispose of this plant; under the terms of the deed, all easement rights and privileges except the easement covering the access road to a public highway would then terminate. This would adversely affect the value of the property to anyone other than Olin and, under the terms of the agreement, in the event of disposition of the property Olin has the option to purchase the property at the highest price offered by any other prospective buyer.

The contractor requested a fee of \$720,000 for the production process "know-how" and experience which it, in effect, was giving to the Air Force in constructing the plant. The Air Force did not permit this fee under the facility construction contract but included it in the price for the production contract.

Olin would not accept a cost-plus-a-fixed-fee contract for the production of fuel, but stated that it would accept a fixed-price redeterminable contract subject to certain conditions, the principal condition being the explicit provisions for a 20-percent profit on selling price. The Air Force would not agree to the inclusion of such a provision in the contract. In our opinion, the form of contract proposed would not have been acceptable from a legal standpoint.

A fixed-price production contract was negotiated. However, we found that certain of the contractor's costs were estimated primarily on its production experience at another Olin plant where only limited quantities of the fuel were produced. Other costs were estimated on the basis of anticipated performance at the new Government plant even though Olin had no prior experience with the new production processes or the equipment to be used. Thus, in our opinion, there was no sound basis at the time for establishing a fixed price and the Air Force had no assurance that the price proposed was reasonable.

Officials of the Air Force agreed to this arrangement because they considered it imperative to establish promptly a source for volume production of this fuel and because they believed Olin to be the only contractor capable of satisfying the requirements in the time available. In the performance of this production contract which eventually totaled \$28 million during 1961, 1962, and 1963, Olin realized a profit of \$9.2 million, or the equivalent of about 49 percent on the total costs of \$19 million. This profit does not include an additional profit of \$1.8 million which, we estimate, the contractor realized in the price of raw materials supplied by its own chemical plant.

In our opinion, the lower costs incurred and the resulting substantial increase in profit beyond the rate estimated stemmed, in part, from (1) the uncertainty as to the costs that would be incurred and (2) the contractor's refusal to accept a form of contract more appropriate to the circumstances.

Olin's contribution to the timely success of the missile program must be acknowledged. The contractor performed creditably and, in so doing, successfully met the Air Force's required delivery schedule even though no missile fuel plant of this size had ever been built and this fuel had never been produced in such large quantities before.

In view of the important considerations of national security and urgency that were involved in negotiating the facility and production contracts covered by this report, it appears that the Air Force could not have taken an alternative action and met its critical requirements.