primary objective of establishing fair and reasonable prices and the obligation of the contracting officer to require contractors to submit the cost or pricing data necessary to comply with Public Law 87-653.

Each year we obligate a tremendous sum of money on non-competitive buys - where cost or pricing data forms the basis for negotiating the price. During FY 1967 alone we obligated $22.8 billion without the benefit of competition. We have a compelling need, then, for cost or pricing data to accomplish our pricing responsibilities. We are also required to comply with Public Law 87-653.

The basic objective of all Government contracting is to obtain necessary supplies and services at fair and reasonable prices - calculated to result in the lowest overall cost to the Government. We meet this objective in two environments - price competitive buys and procurements where price competition is not possible.

Where competition is possible, we are concerned mainly with price. We rely on competition to establish the reasonableness of price and then make award to the lowest responsible bidder. Unfortunately, the majority of our requirements from the standpoint of dollars expended are of the types that cannot be competed. Therefore, we must use the various negotiation policies which apply and we are forced to evaluate price reasonableness by means of techniques we refer to as price analysis and cost analysis. Where competitive market forces are lacking or are inadequate to insure a reasonable pricing result, price analysis usually is not enough and we must have cost analysis.

What is cost analysis? It's the evaluation of factual cost or pricing data and those judgmental factors used to project price from this data. We conduct this evaluation to determine, as best we can, the probable costs of contract performance assuming reasonable economy and efficiency. To accomplish this evaluation we ask the contractor to submit a breakdown of his projected costs based on factual information, price trends, and other intelligence he used in the preparation of his proposed price.

Thus, cost analysis is based largely on evaluation of the contractor's own cost or pricing data - information produced by his own accounting and estimating systems. Obviously any price evaluated and negotiated on this basis can only be as good as the factual information furnished by the contractor.