

I desire that the Assistant Secretary of Defense (Installations and Logistics) and the Assistant Secretary of Defense (Comptroller) issue implementing instructions to place the above policies into effect.

PAUL H. NITZE.

In summary, Mr. Chairman, I believe that actions have been taken on a broad front to improve the effectiveness of our regulations and their implementation, and we can assure you that full implementation of Public Law 87-653 will have continuing emphasis. We recently completed a 4-day conference on contract pricing—attended by 280 top procurement officials, the material secretaries, the Director, DSA, and the Assistant Comptroller General. Particular stress was given to the importance of Public Law 87-653 during this conference.

3. SPARE PARTS BREAKOUT PROGRAM

In fiscal year 1961, GAO reported that the noncompetitive procurement of aeronautical replenishment spare parts was depriving the Defense Department of significant price savings. We immediately launched a major effort to obtain sufficient technical information regarding spares and repair parts to obtain competition.

Since fiscal year 1962, we have maintained records which reveal the percent of such procurements placed after obtaining price competition. This percent rose from 28 percent in fiscal year 1962 to 45.5 percent in fiscal year 1967—60 percent improvement—despite the greatly increased volume of urgent procurements during fiscal year 1967.

In addition to obtaining competition whenever possible, cost reductions are being achieved on an additional 20 percent of these purchases by buying direct from the manufacturer of such items rather than from the prime contractor. By this action we are able to avoid paying the overhead and handling costs of the prime contractor.

The results stated above have been achieved through the "high dollar" approach to spare parts breakout, the formula for which requires that each military department endeavor to obtain competition or direct procurement on that segment of its replenishment spares which account for 80 percent of its annual procurement. This approach has been used for two reasons:

First, it assures us of concentrating on those items which will be repetitively bought and which represent annual purchases of significant size (generally \$2,500 and up) and on which vigorous competition is therefore possible. Between 300,000 and 400,000 items currently fall in this category.

Second, it avoids dissipating our actions over an additional million or more items on which purchases are highly erratic and typically of small size.

Now that we have achieved major improvement in the procurement of the "high dollar" segment, we are turning our attention to the small purchase area. I would like to comment further on this particular area of opportunity.

4. SMALL PURCHASES

We initiated an appraisal by each military department and DSA last August on the adequacy of our performance in the small pur-