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Wednesday, December 18, 2002

Only readiness wins wars: Saving America's military infrastructure

Posted: December 18, 2002

1:00 a.m. Eastern

By Rand H. Fishbein, Ph.D.

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As President Bush presses forward with plans to attack Iraq, he does so in the knowledge that America's standing military force is considerably smaller than what it was during Operation Desert Storm. It is not simply that there are fewer air wings, Army divisions and Navy ships than existed in 1990-91, but the entire defense industrial base upon which America's military strength depends has shrunk as well.

A case in point is the Army's network of Government-Owned, Contractor-Operated Army Ammunition Plants. At the time of the Gulf War, there were 29 such plants in the federal system producing a wide assortment of munitions for the U.S. military. Today, there are only 10 – and if the Army has its way, even these remaining plants will be closed by the end of the decade. This will leave only commercial manufacturers to supply all of the ammunition needs of each of the three military services and the Marine Corps. Were this to occur, the consequences for U.S. national security could be grave.

After every major conflict of the 20th century, U.S. leaders have ignored the lessons of the past and hastily dismantled core elements of the nation's

manufacturing capacity. This has left the country woefully unprepared to meet future conflicts. Our soldiers have paid a heavy price for this lack of foresight.

Today, however, the administration has a unique opportunity to halt the decline of America's government industrial base and embrace a new approach to military readiness – one that builds upon a proven vision of industrial reengineering and the power of public-private partnerships.

The ARMS solution

The solution to the problem of military downsizing may well lie in a little known Army program called the Armament Retooling and Manufacturing Support initiative.

Established by an act of Congress in 1993, ARMS is today one of the most successful examples of real estate management in the Department Of Defense. Its purpose is simple: to offset the cost of plant ownership by encouraging private-sector investment in Army-owned ammunition plants. In so doing, Congress and the Army have successfully pioneered the application of sustainable development theory to the practical problem of industrial recapitalization.

Utilizing ARMS, revenue generated by new tenant businesses, asset sales or work performed by the contractor on behalf of his own corporation, can be used by the Army to pay for the operation and maintenance of its facilities. As funds accumulate, a portion may also be applied to environmental remediation and plant-modernization activities as well. The result is that scarce appropriated dollars can now be directed toward combat training and related activities rather than real estate management.

ARMS, is but one of the many tools now available to businesses wishing to partner with the federal government. As with the government's standard leasing authority (10 U.S.C. 2667), the newly enacted Enhanced Leasing Authority, CRADAs and buy-leaseback arrangements, ARMS enables both the Army and its tenants to structure financial arrangements that attract investment capital while

boosting asset value.

To date, ARMS has attracted over 170 small, medium and large business ventures to Army facilities and attracted over \$160 million in private investment.

Companies like Boeing, New River Energetics and Grucci Fireworks have all found a home on installations once exclusively devoted to ammunition production. Their economic impact has been enormous, generating over \$177 million in savings to the government in just over eight years. The Army expects this amount to grow to at least \$40 million annually for the indefinite future.

Moreover, ARMS is directly responsible for the creation of over 3,000 skilled jobs inside the gate and over 5,000 jobs outside the gate as a result of business ventures begun or expanded at the Army's installations. Between 1993 and 2001, there was an annual growth in tenant employees of 18 percent.

A recent analysis by the international accounting firm of PricewaterhouseCoopers concluded that the total economic output generated by this commercial activity amounted to over \$3.5 billion from 1993 to 2001. Put another way, this represents a return to local communities of approximately \$450 million per year on an annual investment of about \$20 million a year.

Origin of ARMS

ARMS began as a pilot program to rescue the government ammunition base from imminent collapse. Between 1985 and 1994, DOD ammunition procurement declined by 78 percent. During this period, "60 to 80 percent of all domestic ammunition workers were laid off. Of the 26,000 employees of government-owned ammunition plants in 1988, only 10,000 remained by 1995 – and the number has continued to fall.

ARMS stepped into this breach and quickly proved its worth. Within four years, so much commercial revenue was being generated at three of the Army's ammunition plants that they were being operated by the service at zero cost to its annual budget.

Four years later, an additional three plants were taken off budget, making these six federal installations the first in U.S. history ever to be maintained in a ready state at no expense to the American taxpayer.

This unprecedented success has not gone unnoticed. Around the country, other government entities have rushed to see how they could apply the ARMS principals to their own struggling facilities. These include the Department Of Energy, the Arizona National Guard, the Air Force through its City Base Project, and the Logistics Support Facility run by the Army's aviation branch in Huntsville, Ala. Even the Army's Office of Historic Properties is looking into adapting the ARMS model to the recapitalization of over 12,000 vintage structures under its care.

For ARMS's proponents, the program represents a preferred alternative to the Base Realignment and Closure process being championed by some in the Pentagon. Rather than disposing of a valuable asset and forgoing its production potential, ARMS seeks to make infrastructure not only affordable but, where possible, a profit center for a cash-starved military.

Moreover, ARMS is directly responsible for preserving scores of specialized skill sets deemed essential by the Army for emergency mobilization. The high tolerances and precision craftsmanship demanded of ammunition manufacture place a premium on experienced labor. On-site workers engaged in high-technology manufacturing constitute a ready reserve should the Army ever need to surge its ammunition production.

Secret of ARMS's success

The secret of ARMS success rests in its unique approach to public-private partnerships. Instead of the Army paying contractors to run its plants as it had done for over 50 years, the Army now receives consideration from these same contractors in exchange for the commercial use of the properties.

Buildings, equipment and support infrastructure not presently needed by the Army for ammunition production are made available for commercial reuse at

competitive rates. Should these assets ever be required for emergency mobilization, then contingency plans are in place at each plant to facilitate their transition back to full Army control.

Employing a concept known as Facility Use Contracting, a general contractor, not the Army, is granted the right to operate the government facility as if was owned by that contractor. This allows the service to concentrate on more pressing readiness concerns rather than on the day-to-day management of real estate.

Today, the administrative cost of ARMS stands at less than 2.0-2.5 percent of the savings generated to the Army, an insignificant sum by comparison to virtually any other government program.

Another innovative concept employed by ARMS is known as "consideration for use." Here, all commercial revenue generated on an Army installation is directed by the Facility Use contractor toward work requested by the service. Instead of transferring these funds back to the Army, the service is granted credits against which the contractor will perform tasks essential to the maintenance and upkeep of the facility.

There is a threefold advantage to this system. First, all revenue raised at a plant site stays at that site ensuring that it will benefit both the facility and the community in which it is generated.

Second, the facility contractor can execute repair and maintenance work the instant it is needed without having to vet his request up through the Army chain of command, a process that can take up to two years.

Third, the Army retains the full use and benefit of the funds generated by ARMS. Normally, any revenue raised on a federal installation must automatically be turned over to the Miscellaneous Receipts Account of the U.S. Treasury. The innovative ARMS approach ensures that there is a maximum incentive on the part of both the Army and the contractors to make their facilities profitable, thereby offsetting the need for an equivalent federal appropriation.

An array of incentives is available to tenant businesses resident at the Army facilities. Building improvements, equipment upgrades, bridge financing and loan guarantees are among the nearly 30 types of assistance approved for use under the program. A streamlined administration process, a flexible regulatory environment, long-term leases and a skilled work force make an ARMS partnership an attractive option for businesses looking to expand their operations.

Disassembling the ammunition base

The ARMS program has worked remarkably well despite the grumbling of some observers who believe the government should not own or manage industrial real estate. They contend that to become leaner and more efficient, each service must first divest itself of all but the most essential combat support activities. This includes government ammunition plants which, in their eyes, confer little or no direct benefit to Army readiness.

It is an argument that flies in the face of historical experience and the analyses of over a dozen independent studies performed by PricewaterhouseCoopers, the General Accounting Office, the U.S. Army Audit Agency, Pacific Northwest National Laboratory, the U.S. Army Cost and Analysis Center, and the U.S. Congress. Each has concluded that ARMS provides the government with significant cost savings and a robust return on investment, pegged by the Army at between 17 and 22 percent annually.

For military planners struggling to reconcile the long-term value of America's government-owned industrial base with the imperative to downsize DOD infrastructure, ARMS comes closest to proving the optimum economic environment in which to operate. Noted the former assistant secretary of the Army (Research, Development and Acquisition), Gilbert F. Decker, " [ARMS] ... may be the only 'defense conversion' program that has produced anything useful."

In May, 2000, a PricewaterhouseCoopers analysis stated: "The business case shows that the ARMS program is an economically sound program that reduces the overall ownership costs of the government facilities." Similarly, a year before,

PwC concluded: "... At a minimum, renewal of the program's mandate and increased funding will guarantee nothing less than a continuance of the remarkable momentum established by ARMS in its historic infancy, with confidence in its ability to deliver future benefits to all of its stakeholders."

As the new war on terrorism has reminded us, military real estate, and its important place in ensuring American defense readiness, is a critical part of our national security. Losing the in-house ability to produce and maintain valuable war stocks of ammunition could place United States security in severe jeopardy.

Even in circumstances where an ammunition plant is not needed, it is conceivable that its vast acreage and developed industrial facilities could be of future use to federal, state or local governments. Both civil and military authorities throughout the U.S. have long identified a shortage of open space for such activities as materials testing and evaluation, emergency response training, equipment storage and assembly, live-fire exercises, weapons demilitarization and alternative military production.

America's growing concern over homeland security also has placed a new premium on the preservation of our domestic installations. At both the Louisiana and Lake City Army Ammunition Plants, for instance, local police and fire departments are examining the possible use of these facilities to improve their response training.

In much the same way that President Theodore Roosevelt recognized the value to posterity of our nation's natural spaces and established the nation's national park system, so, too, should the government now recognize the intrinsic value of military land and ensure its preservation in perpetuity. Unlike earlier periods in American history, Washington no longer has an unlimited frontier from which to create large public-use facilities in the future.

While senior Pentagon planners continue to focus much time and attention on the latest generation of combat platforms, they have virtually ignored the slow decline of the ammunition industry. Faced with near collapse just over a decade ago, much

of the government-owned base remains in a near free fall, with no clear plan yet in place to ensure its stability.

Parochial infighting, muddled mission statements and a leadership in a seemingly constant state of transition, have made planning for the future nearly impossible. The last 15 years have seen the promulgation by the Army of no less than a dozen different visions of what the end state should be for the government's ammunition production base. None has stood the test of time.

This cacophony has exacted a heavy toll on the people and the infrastructure needed to keep the services supplied with adequate quantities of modern, well-maintained ammunition. As one long time munitions expert observed: "New weapons systems are fine, but unless you have enough lead to throw at the enemy, they're practically worthless."

The TNT debacle

Emblematic of this problem is the story of Trinitrotoluene, otherwise known as TNT, a high-energy explosive used in a significant number of bombs and projectiles in the U.S. arsenal.

At one time, the U.S. was one of the world's largest producers of this essential military commodity, but no longer. In fact, with the Army's 1997 closure of VAAP (the Volunteer Army Ammunition Plant) in Chattanooga, Tenn., and the inactivation of the production line at the Radford ammunition plant, the U.S. ceased all domestic manufacturing of TNT. Even Canada, at one time a back-up supplier of TNT, closed its last plant in 1996.

As a consequence, the U.S. now finds itself at the mercy of foreign TNT suppliers with little or no control over either its price or its availability. Restarting U.S. government production would require a substantial investment.

Unknown to most Americans, the U.S. today imports much of the TNT used by the U.S. military from the People's Republic of China. This is astonishing, given the prediction of many foreign policy experts that Communist China is one day

likely to challenge the U.S. for hegemony in the Pacific. If and when that day comes, the arsenal of democracy will be without an indigenous source of supply for one of its most critical wartime commodities.

Even the North American mining industry is today largely dependent upon China and smaller suppliers like Romania and South Africa, for between 10-20 million pounds of TNT per year.

Responsibility for military TNT procurement rests with the Army Materiel Command and its subordinate arm, the Operations Support Command. For over a decade, the two organizations have been at odds over the best way to manage the downsizing of the government's ammunition industrial base. Despite the success of ARMS, those advocating closure have gradually prevailed, with the result being that the U.S. military no longer has a wartime surge capacity for many critical munitions, including TNT.

At the time of its closure, the Volunteer plant was costing the U.S. Army virtually nothing to maintain. The effective application of the ARMS program and Facility Use contracting had reduced the overall cost from \$5 million a year to just under \$500,000.

In less than three years, commercial revenue had offset nearly every government cost at VAAP from repair and maintenance to fire coverage and waste disposal. Within two years, it would have become a "free" asset to the Army, requiring *no* taxpayer support. The Army's decision to excess this profitable plant and to terminate its business ventures has left the service with an unbudgeted liability of not less than \$20-30 million.

With the conflict in Afghanistan ongoing and the prospect of war with Iraq on the horizon, Army war planners have found themselves in a quandary. On June 17, 2002, OSC quietly began a market survey (NSN: 1376-00-628-3333) to determine if there were any U.S. or Canadian companies that still had the capacity to make TNT. As of this date, no company has stepped forward with an acceptable offer to provide this capability.

The effects of America's disarmament in the post-Cold War period have begun to bite.

A longstanding government responsibility

Government-owned ammunition plants have been a mainstay of the U.S. defense establishment for well over two centuries, producing the vast majority of the bombs, bullets and shells used by American soldiers in every theater of war from 1812 to the conflict in Afghanistan. Yet, as each conflict has ended, the government has moved rapidly to dismantle its military infrastructure, preferring instead to see defense expenditure as a drag on the economy rather than as a natural deterrent to war.

On the eve of World War II, Frankford Arsenal and Picatinny Arsenal were the only two federal facilities dedicated to loading ammunition. This was fine when rifles fired single rounds, aircraft could only carry one or two bombs apiece, and armored warfare was not yet fully developed. But this is no longer the world we live in.

It is a fact that, by the late 1930s, "the total production in the United States of smokeless powder and TNT ... was approximately 100,000 pounds each per day ... This is roughly the quantity sufficient to maintain an Army of only 100,000 troops in the field of active combat for a single day." Both commodities are basic to the manufacture of ammunition.

All of this began to change as war loomed in Europe and the Pacific. Overnight, the War Department put in place a crash program to massively expand the U.S. ammunition production base. Within 18 months, over 100 plants, most comprising hundreds, if not thousands of acres, sprang up around the country.

By war's end, U.S. facilities had churned out over 41 billion rounds of ammunition, an extraordinary sum when considering that the total worldwide production of ammunition in 2000 was just 15 billion units. Having vastly out-produced Germany and the other allied powers during World War II, America

emerged from the war as the world's single greatest arms producer.

Then, America's productive might rested on places like the Indiana Army Ammunition Plant, where eight manufacturing lines produced an array of energetic materials from black powder to nitrocellulose. Sprawling installations, known simply by their location, the Louisiana Army Ammunition Plant and the Scranton Army Ammunition Plant, forged metal parts used in an assortment of munitions from tank and artillery shells to rockets.

Once manufactured, this material was then shipped to facilities like the Kansas Army Ammunition Plant, where the explosives were loaded, assembled and packed and made ready for use.

But no more. As the Cold War ended, so too did the operational life of these plants and what remained of a vast ammunition manufacturing base. Victims of their own success, these plants had become anachronisms in the age of smart weaponry. Their large size and high-volume production lines were now viewed by their Army landlords as industrial dinosaurs, unneeded in the new world order. For Pentagon budget planners, these behemoths were simply too expensive to maintain.

A dearth of suppliers

Overlooked by senior Pentagon officials was the fact that the wars of the future are unlikely to have a long time horizon. They will be come-as-you-are affairs, unforgiving to those who are ill-prepared to fight.

According to the Army's own ammunition production readiness assessment completed at the time of the Sept. 11 terrorist tragedy, the "DOD may not be able to acquire, within desired time frames, sufficient quantities of some critical ammunition end items and components in an emergency. Without warning and advanced planning, the ammunition industrial base can produce sufficient end items and components to meet only about 10 percent of DOD's 'go-to-war' conventional ammunition inventory shortfall."

In contrast to commercial producers, plants belonging to the Department Of

Defense are a guaranteed source of supply for the American military. They are, in essence, a national insurance policy, ensuring that even in a fickle marketplace, the U.S. armed forces will always have bullets.

Today, however, all of the GOCO plants are on the verge of extinction, victims of a misguided Army policy that holds that the Department Of Defense should not be in the business of manufacturing commodities or owning real estate. This has meant that over the last decade, the DOD has presided over the wholesale dismantlement of some of its most valuable combat sustaining infrastructure, leaving it solely to the private sector to determine what it deems profitable to produce.

One senior civilian Army official, speaking to a group of industry executives two years ago, bluntly stated: "I think that the proper size of the organic base is zero-nothing. Remarked Dr. Kenneth Oscar, deputy assistant secretary of the Army for Acquisition, Logistics and Technology, "I can see no argument for why we need an organic base. There is nothing in our organic base that I can't buy from you." Oscar has been one of the principal architects of the Army's policy of closing government-owned ammunition plants.

Oscar's assertion, however, is false. Chaos and scarcity now rein in the ammunition worlds of both government and industry. Critical defense industries responsible for TNT and fuse production have withered, leaving the military with few reliable sources of supply. Of the 31 domestic fuse manufacturers in business just 20 years ago, only seven remain.

A similar story can be told for items ranging from batteries and electro-explosives to precision-guided munitions, gun-hardened electronics and pyrotechnics. According to recent congressional testimony by Lawrence Farrell Jr., president and CEO of the National Defense Industrial Association, "the only U.S. source for a critical raw material for combustible cartridge cases and the new modular artillery charge recently went out of business."

Today, for instance, there is only one U.S. manufacturer based at the Lake City

Army Ammunition Plant for all of the belt links used to join together small arms ammunition in a continuous ribbon. Without these links, all belt-fed automatic weapons would be rendered useless.

A call to account

And what has been the fate of those responsible for these costly and ultimately flawed decisions? Well, many have been promoted to positions of higher command authority while others have gone on to work for the very commercial interests that have benefited from the demise of the government-owned ammunition base.

To date, no one has been held to account for these poorly conceived and costly decisions. Congress, for its part, would do well to investigate how senior Army officials were persuaded to allow so many productive, revenue-generating plants to be quietly closed with little or no economic or strategic justification.

In fact, the impulse to downsize was so great in 1997, that one Army colonel responsible for excessing several of the most valuable and self-sustaining GOCO ammunition plants is known to have said that it was imperative that Army's industrial footprint be reduced as quickly as possible "without regard to economic considerations."

This management approach ignores some of the obvious realities of installation closure, a process that in many cases can take 25 to 30 years. When a facility is closed, there inevitably remains an environmental clean-up liability amounting to tens of millions of dollars, along with numerous other costs that suddenly come due.

In the case of the five ammunition plants excessed in 1997, Congress was never presented with a budget for how much these closures would cost. No detailed hearings were held and there was no public debate. The story of how these decisions were made has yet to be fully told.

And what of the commercial ammunition producers? Faced with irregular

procurement cycles and a dramatic drop in defense spending throughout much of the 1990s, the private sector has been reluctant to pick up the slack left by the closure of the government plants. By one estimate, between 1995 and 1999, the shipment of high-performance explosives from commercial suppliers dropped by almost 21 percent.

In 1978, there were 286 privately owned producers of ammunition in the U.S.. By 1995 that number had shrunk to just 52 and continues to decline.

Widespread industry consolidation coupled with skyrocketing costs has meant that only a relatively small number of companies today are able to make the sizeable investment necessary to sustain an ammunition production facility. Fewer suppliers have meant less competition, leaving the Defense Department straining to meet soaring domestic costs. Not surprisingly, DOD has turned to foreign producers of explosives and explosive components to meet its needs.

The end of the GOCO ammunition base would mean that the government could be held hostage by suppliers with little or no accountability except to their shareholders. In a free market, one secured by the blood and sacrifice of countless U.S. servicemen and women, the military could one day find itself unable to defend against two of its most insidious enemies, predatory pricing and foreign control.

Conclusion

Since the late 1980s, the U.S. Army has served as the single manager for most of the conventional ammunition produced or acquired by the U.S. military. In effect, the Army is responsible for ensuring that each of the services is supplied with a ready complement of both war reserve and peacetime munitions stocks. This is a monumental task, requiring not only long-range strategy, but inter-service coordination and contingency planning.

By divesting itself of its GOCO ammunition industrial base, the Army may be undercutting its own mission, while at the same time needlessly sacrificing a

critical element of U.S. national security. Without guaranteed market competition, a robust reserve stockpile and a quick-reaction surge capability, the war fighters of the 21st century could find themselves ill prepared for sustained combat. According to one estimate, over 60 percent of the Army's ammunition war reserve is currently rated as "substitute" instead of "preferred."

No one knows this better than the congressional defense committees, which have worked hard to provide the Army with both the funding and the authorities necessary for its post-Cold War transition. Even so, according to the Munitions Industrial Base Task Force, U.S. military munitions accounts were "under-funded by more than \$400 million in fiscal year 2002."

This is why programs like ARMS, 10 U.S.C. 2667 Leasing Authority and Enhanced Leasing Authority were established, to provide the Army and its sister services with new and innovative tools, as well as a mandate for reform. As such, the Army now has the extraordinary opportunity to change the way it does business and restore balance, depth and prudent planning to the ammunition industrial base. In the aftermath of 9-11, there is a new urgency to this task.

The Army, though, is slow to admit its mistakes and take corrective action. Of the five GOCO ammunition plants closed by the Army in 1997, three were completely self-financing, requiring no appropriated funds for their continued maintenance. Now, with the facilities retired, the Army estimates it will take at least \$125 million per plant, or a total of roughly \$650 million, to fully deaccession the facilities. This would include the clean-up of existing contamination, paying unfunded pensions and securing all buildings and infrastructure.

The lesson for the Pentagon is clear: The way to Secretary Rumsfeld's vision of transformation is through well-conceived and administered public-private partnerships. A strong, government-owned industrial base is essential to ensuring that our military is never wanting for the tools of the trade, particularly ammunition.

As a new Iraq conflict looms on the horizon, Americans will be watching to see if

the de-industrialization of the Army helps or hurts the war effort. To the soldiers on the battlefield, more than the judgment of history is at stake.

[Rand H. Fishbein](#), Ph.D., is president of [Fishbein Associates, Inc.](#), a public-policy consulting firm based in Potomac, Md. He is a former professional staff member (majority) of the Senate Defense Appropriations subcommittee, where he conceived of and authored the ARMS Act along with numerous other programs that benefit military readiness. Reply to author at: fishnet@pipeline.com.