



**THE DEFENSE SUPPLY AGENCY**

Rear Admiral Joseph M. Lyle, USN

NOTICE

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Reviewed by Col E. J. Ingmire, USA on 17 February 1964.

**INDUSTRIAL COLLEGE OF THE ARMED FORCES  
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THE DEFENSE SUPPLY AGENCY

11 February 1964

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Reviewed by: Col E. J. Ingmire, USA Date: 17 February 1964

Reporter--Grace R. O'Toole

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington 25, D. C.

THE DEFENSE SUPPLY SYSTEM

11 February 1964

GENERAL STOUGHTON: Congratulations to all you rugged-experienced Washington drivers who get here successfully this morning. I suppose most of you feel like my child did this morning when I got her out of the sack and told her that the District schools were open. She said, "What do they have to do around here? Drop a bomb to close the schools?" I guess you all feel the same way.

This morning, gentlemen, our speaker is Rear Admiral Joseph M. Lyle, who is the First Deputy Director of the Defense Supply System. Having existed through the many growing pains in getting an organization of this size going, I am sure that Admiral Lyle has many experiences and will be able to tell us a lot about the management problems which have existed, do exist, and will exist in running the Defense Supply Agency.

It is a pleasure to welcome Admiral Lyle and to present him to this audience.

ADMIRAL LYLE: Thank you, General Stoughton. Gentlemen: I am delighted to be with you this morning, and I want to add my compliments to those of General Stoughton for the brave souls who got through. I was kind of worried myself about whether I was going to make it, but the driver was more ingenious than most of my competitors on the way in, and we made it without any trouble.

As you perhaps know, General McNamara, my boss, had accepted and

was looking forward to this appointment with you, because he very keenly enjoys his challenging sessions with this group. Unfortunately, however, he had to undergo minor surgery late in January. He is home now and doing very nicely, and we expect him back on the job in a couple weeks. He asked me particularly to express his regrets at being unable to be with you.

I am going to start off this morning by tracing the evolutionary developments within the Department of Defense that led to the establishment of the Defense Supply Agency, which, for reasons of brevity, I will henceforth refer to as DSA, to save a little time. Then I will describe the organization and the functions and the current status of the Defense Supply Agency and some significant results which have been attained in its two years of operation. I will conclude with some personal observations regarding current trends and possible future developments in Defense logistics.

As a bit of background to start with, let me remind you that improvement in the management of common supplies and related services in the interest of effectiveness, efficiency, and economy had been strongly advocated by various Congressional committees, business organizations, and some military people for a number of years. These ideas and views were to a large degree reflected and crystallized in the recommendation of the Second Hoover Commission for an autonomous supply agency in the Department of Defense to handle common supplies and services.

There were differences in these various concepts, but a common

thread ran through all of them, that common supplies and services could and should be centrally managed. The Defense Establishment recognized the problems inherent in separate management and earnestly tried to eliminate them. A series of steps were undertaken dating back to the post-World-War-II era for the purpose of effecting improvements. Some of these actions are familiar to you, and I will not elaborate upon them. There was, for example, the Single Department Procurement Program, later called Coordinated Procurement, under which one department was assigned responsibility to buy a specified category of supplies for all of the departments of Defense. Next the Federal Catalog System was introduced, which required all of the military services to use the same name and number for the same item. This was an essential step toward more effective utilization of existing assets, because it permitted the pooling of inventories of common items. Then, in 1955 and 1956 the Department of Defense instituted the Single Manager System. Under this concept the Secretary of one military department became responsible for the procurement and distribution of a specified category of supplies for all of the services. The Army was assigned the mission of buying and distributing food, clothing, and textiles. The Navy was assigned medical and dental supplies and bulk petroleum. Each department organized multi-million-dollar purchases on inventory-control agencies to perform these jobs. They financed their stocks out of revolving stock funds. They bought what was needed, sold it to the military departments, and used the money received in turn to replenish

their stocks. Storage and distribution of single-manager supplies were accomplished by military service depots acting as agents of the single managers. Centralized management was also extended to certain common services at the same time. Army was given the mission for traffic management within CONUS. Navy was assigned sea transportation, and the Air Force was given the airlift assignment. Each department set up a single-manager activity to carry out its assigned service mission.

The original Single Manager Agencies compiled an excellent record of effective and economic support over a period of the five years that they were in operation. They reduced inventories by more than half a billion dollars. They reduced annual operating costs by \$20 million. Their performance clearly demonstrated the feasibility and the merit of Defense-wide management of common supplies and related services.

As a result of this experience, the Department of Defense decided to place additional commodities under single management in 1959 and 1960. The Army was assigned automotive, general, and construction supplies. The Navy was assigned industrial supplies. At about this same time, studies in the area of certain electronics and electrical classes indicated that these, too, were susceptible to integrated management.

However, one drawback was that each of the single-manager activities, understandably, developed its own systems and procedures, which usually reflected the practice of its parent branch and service. This did not pose a serious problem for the users when the number of agencies and

items furnished by them was relatively small. But, by 1961, when it became apparent that at least eight such agencies would be managing as many as one million items of supply, there was growing concern on the part of the services and the Office of the Secretary of Defense. The military activities faced the likely prospect of dealing with eight different supply systems in addition to those of their own services.

Recognizing this problem, but desiring to retain the benefits of integrated management, Secretary of Defense McNamara set up a study committee in March of 1961. This committee was composed of his General Counsel, now the Deputy Secretary of Defense, the Defense and departmental Assistant Secretaries for Logistics, and a representative of the Joint Chiefs of Staff. Mr. McNamara in effect asked this group to determine the best way to insure continued, sound progress in the integration of common supply activities while correcting some of the weaknesses inherent in the then current system. This study was known as Project 100.

Secretary Mc Namara's approach in this study was interesting from a management standpoint. He specifically said he did not want recommendations from the study group but only the advantages and disadvantages of three alternative courses of action, as follows:

1. Retaining the existing single-manager arrangements with some refinements and improvements. This generally elicited Air Force support.
2. Grouping all single-manager assignments and agencies under one

military department. The Army generally favored this choice.

3. Consolidating existing and future commodity and service agencies into a separate, joint agency reporting directly to the Secretary of Defense. This was obviously the most far-reaching of the three alternatives. In general the Navy tended to support this proposal.

The committee's findings were reviewed by Secretary McNamara, the Chairman of the Joint Chiefs of Staff, and the Secretaries of the military departments. The third alternative, that for a joint agency, was adopted. Secretary McNamara announced his decision on 31 August 1961 to establish DSA and to place under its control the existing, integrated supply and service activities with the exception of MSTS, which remained in Navy, and MATS, which continued in the Air Force. Lieutenant General A. T. McNamara of the Army was named the first Director.

It is important from this to note that DSA did not spring up overnight out of a vacuum, or, as someone said to me, it was not a coup sprung by leftist logisticians. Rather, it evolved from a series of related remedial actions, each of which contributed to restructuring the logistic system on the wholesale level in the direction of centralized management of common supplies and services.

The military departments provided a solid base in the form of their single-manager agencies on which could be built the new wholesale supply and service agency. DSA was activated on 1 October 1961. This was the day on which General McNamara received his initial and basic instructions from the Secretary of Defense. These instructions were to insure effective

and timely support of the operating forces in mobilization, war, other national emergencies, and peacetime, and at the lowest feasible cost.

These objectives and the way in which they were stated govern all DSA operations. They also constitute the criteria against which DSA performance is measured by the Secretary of Defense and our four principal customers, the Army, the Navy, the Air Force, and the Marine Corps.

Parenthetically, I am sure you know that General McNamara and Secretary McNamara are not related. A news reporter asked why it was that the Secretary of Defense and the Director of DSA had the same last name. General McNamara gave him the very logical reply, "Mainly because our fathers had the same last name."

This chart portrays the single-manager supply and service assignments as they were at the time of the decision to establish DSA. While no assignment was actually in effect in the area of electronics material, this category had been studied in depth and recommended for integrated management. Based on this, the Secretary's Directive covering DSA also directed the establishment of an integrated electronics supply center.

We show this element under the Air Force because it was built on and developed from the Air Force control center for electronics material at Dayton, which was turned over, lock, stock, and barrel, to DSA.

The Armed Forces Supply Support Center was administering Defense-wide programs for cataloging standardization and material utilization. It became the nucleus of our Defense Logistic Services Center, in which we combine the material utilization, surplus disposal, and cataloging

functions.

The conversion of departmental single-manager activities to DSA field activities began on 1 January 1962 and proceeded without major problem. These activities were taken over in place with assigned personnel, funds, equipment, and facilities, and concurrently DSA assumed management of their stock inventories.

One immediate benefit was the much shorter chain of command. Formerly the integrated supply manager reported through an Army technical service or a Navy bureau, then up the line through a military logistics chief to the departmental Secretary and thence to the Secretary of Defense. Under the new management the supply manager reported to the Director of DSA, who in turn reported to the Secretary of Defense.

There is a story to the effect that the Secretary of Defense was questioned about the organization of his department shortly after the creation of DSA. He allegedly replied that the Department of Defense consisted of the three military departments, the Joint Chiefs of Staff, and the two McNamaras, General and Specific. True or not, it makes a fairly good story.

Another benefit was the consolidation of wholesale-level inventories of DSA assigned commodities with consequent economies in inventory investment and in supply management and material-handling costs. In the overall view, from the logistics standpoint, perhaps the most significant benefit is that there is for the first time a Defense-level,

jointly staffed, military-oriented organization which can devote its total capabilities to improving logistic support of the services because it has no other competing mission.

Now, turning to the interrelationships with the services, DSA in general functions as the consolidated, wholesale source of common supplies and services.

This chart shows you in broad terms the defined areas of responsibility of the services and of DSA. The services determine their requirements, they tell us what they want, where, and when they want it. DSA computes system-replenishment requirements, decides how much to buy, how much to keep in wholesale stock, how best to distribute supplies, and insures that the required item is available to the retailer or the service supply manager at the time the customer needs it.

It might be said that, in its area of responsibility, DSA operates the wholesale portion of the pipeline while the services operate the retail portion by means of their organic supply systems.

GSA is a growing organization. Other commodity and service assignments followed the original decision. In the commodity area they involved the electronic-electrical items previously mentioned, common chemicals, and packaged petroleum products. The current major missions are listed on this chart.

In addition to its central supply management assignments, embracing more than one million items, DSA administers the Defense programs for material utilization, surplus property disposal, standardization, and cataloging. Its responsibilities in these program areas encompass all

of the 3.9 million items in the Defense portion of the Federal Supply Catalog.

Two service-type assignments were given to DSA during calendar year 1963. One involved the central control of Defense-owned industrial plant equipment, such as machine tooling used in the production and test of military materiel. A center has been established in Memphis, Tennessee, to perform this mission. It maintains the master inventory record of Defense assets in this commodity area and controls those items and quantities reported by the services as idle and excess. The requirements of the services and their contractors are screened against these idle-and-excess lists before new procurement can be initiated. The services continue to determine their requirements and to procure them after screening. This mission embraces an inventory of 150,000 items of production equipment, valued at more than one billion dollars.

The second new service supports Defense research and development programs. A Defense Documentation Center for scientific and technical information was established in March of 1963 as a successor to the Armed Forces Technical Information Agency, commonly known as ASTIA. Operational control of this Defense Documentation Center was transferred to DSA from the Air Force on 1 November 1963, while program direction and technical control continue under the office of the Defense Director of Research and Engineering.

The DDC is co-located with DSA Headquarters at Cameron Station in Alexandria.

Also DSA recently has been given a new DOD-wide mission to provide counsel and leadership in the development of programs and systems for the control of new items entering the military supply system. The rapid rate at which new items--more than 500,000 last year--are being added to the supply system is a matter of grave concern, and prompted action by the Assistant Secretary of Defense, Installations and Logistics, to establish the DOD Item Entry Control Office. The philosophy behind this action is to keep unnecessary items out of the system to begin with, rather than to be constantly striving to clean up the system after the fact.

The next chart will give you some measure of the growth and magnitude of DSA's mission. You will perhaps note the disparity between total procurement and stock-fund sales. This is due to the fact that in some areas, notably bulk petroleum, we function as a procurement agency but do not centrally manage service-owned inventories. The petroleum purchases alone total about \$1.2 billion annually.

The sharp rise in personnel strength deserves some explanation. All of these spaces were previously allocated to the military services. As functions were transferred to DSA the people who performed them were likewise transferred. In effect we obtained the experience and skills of these 25,000 people by transplant from our customers. Not one of these spaces represents an additional Federal employee. By the end of Fiscal '63 DSA was performing its task/3700 fewer spaces than had been required under departmental management for the same functions. This is

not surprising. It is the logical result of pooling stocks, resources, and functions.

We have allocated our military spaces to key operational and staff positions. This chart reflects the current service staffing and our projections through Fiscal '64. At present, Army has predominant representation. This was to be expected, since Army operated more of the single-manager activities than did the other services. However, we are following a policy of balanced representation and are moving in that direction on an evolutionary basis as current service tours expire. We have nine general and flag officers in the Headquarters, four Army, two Navy, one Marine, and two Air Force. The field command assignments are being rotated among the services. Admiral Northwood of the Navy succeeded General Beale of the Air Force as commander of the electronics setup in Dayton, Ohio. General Fenton of the Army has replaced Admiral Knickerbocker at the Medical Supply Center in New York. General Herman of the Air Force has succeeded General Huntsberry of the Army at the Construction Supply Center in Columbus, Ohio. This policy will continue, and we feel that it is paying dividends by promoting cross-fertilization of ideas and facilitating the development of multi-service orientation, which is our basic goal.

The distribution system by which DSA supplies move from producer to retailer developed from the design of an integrated system which began early in 1962. Primary emphasis was placed on responsiveness to customer demands. The services participated in the study, which was thoroughly

coordinated prior to its approval by the Secretary of Defense. We began implementing the improved system on 1 January 1963. It consists of specialized and principal depots plus certain direct supply-support points tailored to the Navy's special needs. The principal depots carry a wide range of DSA items and support all military installations in their assigned geographical areas. Two specialized depots handle selected commodities. One for clothing and textiles is co-located with the Clothing Supply Center in Philadelphia. Another for electronics is co-located with the Electronics Supply Center in Dayton. Both of these are under DSA's management and control. The Navy supply depots at Oakland and Norfolk are the other specialized depots. They supply DSA commodities to the fleet and Navy overseas installations and are the chief sources of DSA supply support to the Navy.

To assure effective support of shipyards and other large maintenance and supply activities at tidewater, a number of Navy installations have been designated direct supply-support points to act as DSA agents in the storage and issue of selected DSA-owned materiel for Navy use. This permits economies in the inventory, transportation, and handling costs.

As an essential part of the integrated system, inventory control of DSA-owned stocks was centralized in the Defense Supply Centers on 1 July 1963. Demands are electronically processed against system-wide accountable records which will permit us to keep inventory investment

at a minimum. Financial accounting, billing, and collecting are likewise performed on a centralized basis by these supply centers.

The distribution system assures improved support, better inventory utilization, and will reduce operating costs. We expect to operate the total system for some \$11 million a year less than formerly.

DSA was instructed to study another commodity area, with the help of the services, to determine whether it could be managed more efficiently. This was aeronautical materiel, and was truly an enormous undertaking, because there are 750,000 items, valued at approximately \$10 billion, in the total aeronautical materiel inventory. Because of its range and because it is a highly complex commodity, subject to change and directly related to service weapon systems, it was decided first to undertake a pilot study during 1962 to determine the merit of a full-scale study and how such a study might be conducted. As a result of the pilot study, DSA was instructed to proceed with a detailed study, limited to 11 classes, primarily related to engines, comprising about 150,000 items and an inventory estimated at \$5 billion.

The purpose is to determine how these items can best be managed, whether any or all of them might be centrally managed, and, if so, by whom. We have completed the study, and the report of our findings was forwarded to the Secretary of Defense on 20 January 1964. It has now been referred to the services for comment. We are well aware of the importance, complexity, and sensitivity of this subject, and have therefore exercised meticulous care to assure that the study is thorough,

competent, and completely objective. I would estimate that it will be well on into the spring, at the earliest, before any final decisions are made on this question.

Now I would like to give you some indication of the progress which DSA has achieved toward those objectives stated by the Secretary of Defense at the outset.

Performance has been our primary concern. In late 1962 the Cuban crisis subjected the DSA system to an unexpected, admittedly limited, but nevertheless realistic trial. Our responsiveness, procedures, and relationships with the Joint Staff and the services were fully tested. Continual liaison with service planning staffs kept us fully informed. DSA expeditors were dispatched to major user locations and an emergency supply operation center was activated in the Headquarters. We experienced a nine-fold increase in high-priority requisitions in the first three weeks of the crisis period. The number of requisitions reached almost twice the normal volume over the five-week period. In spite of this heavy workload, the supply centers maintained an average on-time fill of 89 percent by working around the clock. DSA's performance elicited numerous expressions of approval and appreciation from the service commands.

Currently our rate of fill is running in the high 90's in the case of the older and more experienced activities. The newer centers are gradually improving on an acceptable level as they gain control of their consolidated inventories.

With respect to the second objective of providing support at less

cost, significant progress has also been made. In their budget development for Fiscal '62 the services requested approximately \$31.3 million more for these functions than the Fiscal '63 DSA operating budget. In Fiscal '64 the accumulated total of these reductions was \$39 million. Most of this relates to the reduction in personnel spaces. We reported an inventory draw-down of \$261 million for Fiscal '63, and have projected another \$132 million draw-down for this current fiscal year. This means simply that we are living off the shelf, so to speak, without in any way jeopardizing our mobilization reserves.

Other economies have been achieved through consolidation of activities. There is one military clothing factory instead of two. There are 18 surplus sales offices instead of 34. There are 8 procurement support offices instead of 18.

Up until this point I have been talking about the background of DSA, its mission, organization, accomplishments, and current status. As I said at the beginning, DSA was the product of a series of evolutionary steps. This raises the obvious question of whether DSA itself is but a stage in the evolution of an ultimate logistic structure, whatever that may be.

So many unknowns and variables are involved that I think the best that we can do is to attempt an objective view of certain trends that seem to be shaping the course of Defense logistics and leave it to time to supply the final and definitive answer.

In discussing these trends, I would like to emphasize that these are

entirely personal views, since I do not have any privileged access to information beyond that which is generally available to the military services. We share the services' uncertainty about the long-range future. On the other hand, all of us can identify past and continuing trends, and from them attempt to determine the direction in which we and the services are moving.

I will mention several developments that seem to have direct bearing on the logistic structures of the present and the future. First, and **basic**, of course, there is the well-known and well-defined trend toward centralization or consolidation of authority and functions at the Defense level. This process began with the establishment of the Office of the Secretary of Defense in 1947 and has continued without interruption. It has been manifested in the enhanced stature of the Joint Chiefs of Staff and the Joint Staff, by the creation of the unified commands and the establishment of various Defense agencies, such as the Defense Communications Agency, the Defense Intelligence Agency, and the Defense Atomic Support Agency, all of which preceded DSA.

Centralization, of course, is by no means confined to Defense-wide activities. The military departments themselves have instituted reorganizations for the purpose of consolidating and clarifying and clarifying responsibilities in the areas of research and development and material support.

As you all know, the Air Force went through this process several years ago and created a systems command and a logistics command. The

Army more recently eliminated its technical services in favor of a single materiel command. The Navy is now undergoing a somewhat comparable realignment focused upon a strengthened Office of Naval Materiel.

The integration of common functions and services has received increasing attention. Transportation was the first such function to be successfully integrated. Since then DCA has taken over long-lines communication networks. Certain facets of intelligence were consolidated under DIA. DSA represents the integration of certain aspects of supply. Foreign-language instruction is being integrated. DSA was recently assigned responsibility for the consolidated management of storage and movement of household goods for military personnel. The Department of Defense is about to initiate a pilot test of centralized contract administration in the Philadelphia region as a possible forerunner to the application of this concept to much of the services' procurement. Printing-and-publications management is undergoing joint study now under the chairmanship of ODS. How many other areas will be studied is anyone's guess, but the Joint Economic Committee of the Congress, chaired by Senator Douglas, identified 40 functions as susceptible to possible integration.

As you all know, weapon-system management has already had significant impact on management systems and practices within the departments. Defense-level applications of similar concepts in materiel support are beginning to appear. The F-4 Program points to the use of

single-manager-type support in major weapon systems. The TFX quite likely will follow this pattern. Six months ago OSD assigned to Army the integrated management of combat and tactical vehicles and parts peculiar to them. From these decisions we may anticipate possible further consolidation outside of DSA. Conceivably, the aeronautical-materiel assignment, if one is made, could go to one of the departments rather than to DSA.

From the foregoing it seems clear to me that the trend toward Defense-level logistics management will continue, utilizing two types of systems, one, a specialized management system organized on a weapon or major-equipment basis, to include critical, peculiar repair parts and supporting equipment, and the other, general support systems organized either on a commodity or a functional basis or a wide range of supplies and services in support of the operating forces and the weapon-system managers. This dual pattern has existed within the services for some time, but its application on a centralized basis at Defense level is relatively new. Certainly, both types of management are required.

Another new development in Defense logistics is the recent emergence of the General Services Agency as a major supplier of commercial items to the military. As you may know, GSA was established in 1949 under Public Law 152 to function as the supply-management activity for the Federal Government. The increasing reliance upon GSA support is reflected in Fiscal '64 estimates of \$976 million worth of DOD material and services for total military use from GSA sources, an increase of \$200

million over the previous year. This is 66 percent of GSA's total volume. Part of the current year's estimate reflects the transfer of hand tools and paint to GSA in accordance with a recent Bu Bud-DOD-GSA agreement.

As to the utilization of GSA, DOD policy has been clearly stated by Secretary of Defense McNamara in these terms:

"Whenever we find that it is more economical to use the capabilities or facilities of other government agencies with no loss in military effectiveness and at the same or less cost, we should not and have not hesitated to do so."

In keeping with that policy and in view of the growing dependence of DOD upon GSA, we in DSA have been assigned responsibility for monitoring the effectiveness of GSA support to the military services. This is important, because the Project 100 Study Committee and the military logistics chiefs placed great stress upon the military aspects of integration and urged that whatever form it takes it must be controlled by military personnel, subject to policy guidance of civilian Presidential appointees.

such  
Finally, the advent of/new management tools as high-speed, random-access computers, electronic data-processing equipment, and communication networks, by which computers talk to computers, has not only made all these changes possible but has opened new horizons for logisticians.

The impact of automation defies accurate prediction but it is clear that enormous opportunities are at hand in information technology. As

a result, I would anticipate that new management concepts and devices, cutting across organizational and functional lines, will have even more profound influence upon Defense structures in the future. To mention only three areas of current major interest in this respect, I would point out that the Federal Supply Catalog central files have been automated to the point where rapid and effective screening of catalog information can be accomplished for a wide variety of purposes and uses, including item-entry control and increased utilization of total DOD assets. Next, the identification and retrieval of information in Defense-sponsored research reports will be increasingly automated to improve the service capability of the Defense Documentation Center about which I spoke. Third, the military services and DSA are working on projects leading to the establishment of a standard technical-data system that would be more susceptible to automation than present practices.

As our efforts progress, we will have a much greater capability to effectively pursue programs for improved procurement, standardization, cataloging, item-entry control, and reutilization of assets. While it is impossible at this point in time to estimate the total impact of these improvements, our experience has already demonstrated the substantial benefits that accrue from the introduction of these technological advances.

Now, to conclude and button this up, I would like to turn back to DSA and stress a few significant points concerning DSA in relation to Defense logistics. DSA and the concept of integrated supply management are not going to provide a magic solution to all military supply problems.

Many of these lie entirely outside of the reach of improvements in organization and method, being rooted in economic constraints or technological factors such as design unreliability and instability.

Second, I believe it is essential that the services recognize DSA as a full participant in the Defense logistics system. There is still a tendency in some quarters to regard us as intruding aliens or as just another supply source and to equate us with GSA, or to treat the two agencies, DSA and GSA, as if they are interchangeable, when they are not. While GSA has proved its effectiveness, it is an entirely civilian agency with a government-wide mission. DSA is a jointly staffed, military organization, capable of exercising military judgment based upon training and military skills. I don't think we have yet enjoyed full acceptance of DSA as a military logistics organization comparable to the Navy's bureaus, the Army's commodity commands, and other wholesale supply agencies within the military departments. I am convinced that acceptance of and reliance upon DSA in the military essential materiel categories is vital to the integrity of the military logistics system.

And, finally, while DSA is still young as military organizations go and has a long road to travel before it achieves its full potential, it has demonstrated that consolidated wholesale supply management will work. In the common-supply area, I am convinced that the concept is entirely sound and that we can perform effectively and save money. With respect to the more technical materiel areas I think we must proceed with great

caution, being sure that we do not overreach and dislocate or impair the support of service weapon systems.

Based on our performance over these past two years, I believe we are entitled to the services' confidence and support. I am confident that as we develop into maturity we will be accepted as an effective and an efficient supply organization filling a vital role in the national military structure.

COLONEL MULLER: Gentlemen, Admiral Lyle is ready for your questions.

QUESTION: Admiral, you didn't tell us anything about the Cuban crisis that caused the Joint Chiefs to be unhappy with the present chain of command of DSA, and you didn't tell us anything that caused you to change your operating procedures.

ADMIRAL LYLE: No to both questions, Colonel.

QUESTION: Admiral, the Defense Petroleum Center has \$70 billion to draw on for petroleum products each year. There have been recent proposals with respect to the balance of payments to turn this to the domestic market. Would you comment on what effect this might have on our military posture, and also the extra cost it might mean?

ADMIRAL LYLE: Colonel, I do not have detailed figures on this. I can speak on it in general terms. I don't think it has any military implications. I feel that the domestic industry could meet the requirements. I don't see any basis for real concern there. I think it's got deep-seated political concern, though, from the Caribbean and the Persian Gulf areas, which are obvious and, I am sure, known to you. This is one

of the main constraints against shifting the balance. It will undoubtedly cost us more to ship domestic in some of these areas. How much more I am unable to say at the moment.

Let me carry that a little bit further. As you perhaps know, in the cost of the balance of payments problem they have been trying to stabilize the foreign-source procurement at the past level. We have a firm limit imposed on us which we cannot exceed except with the express approval of the Secretary of Defense to keep the offshore procurement at the past level. So we aren't a free agent in this respect. When we come up against the stops of this limit, as we may toward the end of the fiscal year, we will then have to choose between the political and the balance-of-payments problems, because the only feasible way--on short notice, in any event--that we could pull back and still meet service requirements for petroleum products would be out of the Caribbean and out of the Persian Gulf area, as I have indicated before. Both of those would raise profound questions and problems in the international political arena.

We in effect get caught between the Treasury types who would like to see the balance of payments go our way and the State Department which hates like hell to have the boat rocked in these two sensitive, political areas.

QUESTION: Sir, could you please tell us a little bit more about the group which studied the aeronautical spares, that is, their rationale and what their recommendations were?

ADMIRAL LYLE: Could you go a little bit further on what you mean by rationale? Do you mean their general approach?

STUDENT: Yes, sir, and what boundaries were put on the study. Were they looking into the subject so far as specific weaponry support is concerned? Primarily, what were their recommendations?

ADMIRAL LYLE: Well, there weren't any particular limitations placed on them in entering the study, except that they were told that they could not consider and study the integration of the maintenance function itself, although they could look on maintenance in respect to its effect on supply. Obviously this raised some questions, because supply and maintenance are so closely interrelated that you can hardly look at one without the other. This gave us some concern, but, nevertheless, this was a mandate that we were given.

The general approach to the study was fairly straightforward--fact finding, data gathering from the services, a historical account of how the services do their business at the present time. We then identified what we called determinants, or the basic, most important, governing considerations, such as funding, weapon-system management, user supply relationships, maintenance from the standpoint of supply-maintenance interrelationships, and things of that sort. I think there were altogether 13 or 14 of these determinants.

These determinant areas were considered in depth in relation to the situation existing in the Department of Defense at the present time in general, and specifically for the services.

Then, having looked at it vertically in that sense, we considered the various alternatives that were open to the Secretary of Defense, alternative means of solving the problem. Basically these were integrated management or the status quo, maximizing improvements and refinements within the status quo, or integrated management. Within integrated management there were subalternatives--full integration under DSA, Air Force, Army, and Navy, or limited integration by, say, engines only, consumables only, or certain commodity areas only.

We did not submit any recommendations. We did this for two or three reasons. One was the Defense general practice, as reflected in the Project 100 Study, which I alluded to, of not having hard recommendations but rather pros and cons of the various alternative courses of actions. Another reason was that we didn't want to lock the services into any one particular mold, and we felt that we would get a more reasoned and a more thorough reaction from the services if we didn't give hard recommendations that appeared to foreclose or shape up inevitable doom. For this reason we didn't submit hard recommendations.

In general, vastly oversimplified, our findings and conclusions were that integration was feasible, that it was doable, that there would be some modest savings in the order of about \$25 million a year continuing annual savings, at various costs of change, at one time a transition cost which would be most under DSA and least under Air Force, with Navy intermediate, between.

You asked me to guess how it is going to come out. I just don't know. I first want to hear what the services say, and then the Secretary

of Defense is going to have to weigh it. There are undoubted economic advantages. There are also risks. These were carefully pointed out in the study. How he will react against them, I just don't know.

There's one more quick thing I'll say on this. I think from the service point of view and from the Secretary of Defense's point of view, it might readily come out that we really should not make a solution on the partial findings, that we need to look across the rest of the spectrum. To say it another way, any decisions on this particular model, this particular piece of aeronautical material, should be made in the light of the total. Also I feel rather strongly that you've got to take a look at the maintenance thing in conjunction with supply. I don't see how you can decide one without the other.

But these were the bounds that were put on us in making the study. We did the best we could within them.

QUESTION: Admiral, you mentioned <sup>the</sup> item-entry control office. Will you tell us a little more about how this all came about?

ADMIRAL LYLE: The office is just getting started. Its mission comprises primarily these things: To design systems programs for the control of the entry of new items; to orient the services in the use of these systems when they are designed and approved; and to monitor the application and execution of the systems.

It's not even fully staffed. It probably hasn't put word one on paper yet. So this is all that I can really say. I think the most important point, which I really referred to in my speech, is the awareness of the

need and the emphasis on the part of OSD to get going in this area and by some rational means to control the entry of new items. In this connection I should emphasize--and this wasn't touched on in my prepared remarks--that this has got to be done in a way that it doesn't improperly inhibit new design and new development. What we want to do is to control the unnecessary entry of new items. We cannot stultify design. We can't have the logistics tail wagging the design dog to this extent.

QUESTION: Sir, how do you handle the technical improvement of common support items-- I mean the garden variety of items--like tanks that you get from GSA. You still have the problems of tanks that are covered with rust.

ADMIRAL LYLE: I think a simple, straightforward answer to that is that specification control, technical control, over all commodities is in the hands of the services and remains so, basically in the hands of the service that has dominant interest. To use paint as an example, the Navy is mostly concerned in this. Air Force would specialize on aircraft paints and finishes. Specification control for the products will remain with Navy, and GSA will have to produce a satisfactory product to meet these specifications. The development of new paints and finishes is still a service responsibility--a Navy responsibility.

question; Admiral, I have always wondered why we didn't look toward the exchange program in integration. It seems to me to be more logical for integrated control than many of the others that have been placed under control.

ADMIRAL LYLE: That's a good point. It's one of those 40 that I mentioned that are on Senator Douglas's shopping list. But, I have never heard the word mentioned in DSA since it started. I suppose there might be two reasons for this. One is that we have been busy with a lot of other things, things that were thrust upon us, so that we haven't spent much time looking around for things to grow into.

The second reason, and probably the more important one, is that the exchange programs, as you well know, are very closely tied in with service command morale, and this sort of thing. The services might feel very strongly that this should remain with them.

Now, I realize that my point there is invalidated to some extent, because, in the case of Army and Air Force, you've got a common exchange service.

A practical answer to your question I would say is that ultimately they might well turn to this, but so far it hasn't been mentioned.

QUESTION: Sir, you mentioned that you were living off the shelf at the moment, drawing down certain stock, and that this is no detriment to your ability to support. Could you discuss the factors that bring this about? Was there a tremendous duplication of stockage among the services that brought this about? Has there been a new way of calculating requirements, or have the force levels against which the requirements are calculated changed?

ADMIRAL LYLE: I think some of all of that. First of all, there have been refined, tightened requirements determination methods and procedures imposed, if not volunteered, in all cases, by the services.

This is one factor. Another purely practical factor is the change in quantitative aspects of demand, such as a high demand level. Say we are going back to Korea or other intervening emergency periods, and you've got demands at a gross level higher than high in relation to current demands, so you use down and you don't have to buy. The third principal source of this is in the mechanics of consolidating wholesale inventories, formerly separate under the three departments, under one management. You can capitalize. You can eliminate some safety levels there, aggregating them, and with safety draw down somewhat on that.

So all of these have contributed to the draw-down process. While DSA claims credit for this draw down, and there is no reason why it shouldn't, because it happens under our management, we are quite alive to the fact that this would have taken place to a great extent under the single-manager agencies also.

So we don't claim that we are magic or that it is peculiar to us, but part of it does come strictly from the consolidation process.

QUESTION: Admiral, Congressman Curtis has given considerable testimony to the effect that the military man cannot serve two masters, and that in fact DSA should be manned by purple-suit military personnel. Further, the services have gone along in stating that they will lend our officers to DSA for only one tour, because we are afraid that they might become contaminated. Will you comment, sir?

ADMIRAL LYLE: I don't think we are really serving two masters.

I have never really thought about it in this context. I think any of us in the military, or probably any of us in any organization, has basically one master at a time, and we are loyal. It goes up the chain of command, and properly so. You can have strong convictions about this or that, and you can have very valuable knowledge of particular, peculiar service requirements which you can with profit inject into a joint agency. This doesn't mean that you are made schizophrenic by working for General McNamara and also working for General LeMay, or General Wheeler, or Admiral McDonald. So I don't really think that's a problem. All of us are broad-gage enough and flexible enough to know that, as you move from job to job, your direction and goals and your allegiance change. You are subject to the same sort of influences within the department as you move from job to job, whether you move from the shore establishment side to the operating forces, or whether you are in the logistics side versus the command elements. These same sorts of questions come up to you.

On the second question I wasn't aware that there was a hard and fast rule as to the length of tour. I think there is some merit in not spending a lifetime in a joint agency away from your service. We think that one is OK and that in some special cases two is in the interest of the Department of Defense as a whole. We found the services quite reasonable on this sort of thing. That doesn't give me any concern.

I think the basic idea is going back to the service and following

the basic career pattern in the service. I am sure all of you know that military -personnel career management remains a service responsibility and is strictly under service control. People are loaned to us for one and sometimes two tours, and then back they go. Particularly when you get up into the top grade and to the flag-officer grades, it may not make sense to do anything other than to stay in DSA. If you have achieved a particular knowledge or expertise in a DSA center as command of the center, it would seem to me to make obvious good sense to maybe move up to the Headquarters and serve as principal staff head in the Headquarters. I think the services would go along with this, in a case-by-case basis.

QUESTION: I would like to ask a follow-up question, sir. You have surely been involved in some personnel and promotion problems since the creation of DSA in the lower grades, below the colonel and captain level. Would you comment on these problems and how you propose to resolve them?

ADMIRAL LYLE: Would you go into a little more detail, because I am not aware of any, particularly?

STUDENT: Let's say he has been in DSA for 3 or 4 years. What are his chances? He still belongs to a service as far as promotion and personnel policy is concerned, and he is now out of that service for all practical purposes.

ADMIRAL LYLE: I see your point. I must admit that we are only two years old and there's no great body of experience on this thing. So far we watch this very closely and there is no indication that anyone

has been penalized by being in DSA or that there is any different selection or promotion percentage of DSA people than there is service-wide. I am not aware of any disparity or any discrepancy or any variation in pattern, at least not beyond normal variations in the pattern.

QUESTION: Sir, would you comment on one of the remarks you made on the civilian-military conflict? In other words, my question centers around what is uniquely military in DSA as opposed to GSA? How does the military actually make a contribution to wholesale logistics?

ADMIRAL LYLE: Well, I think the military can make its contribution in the wholesale logistics because, with military-oriented people knowing the basic requirements of the operating forces and the environment in which they work, they can assure sources of supply, and this sort of thing. I think they can make a distinct contribution. I think it is vital and an essential part of the total system.

I think your question also goes to a differentiation as to type of material. Many of the items that DSA manages, that are included in DSA's present management assignment, are vital to service weapons. We've got in the order of 14,000 items in the Polaris weapon system which are DSA managed. We have comparably high numbers of items of the Air Force Minute Man system and the Army's Hawk system.

Granted that these are by and large general-use-category items of standard hardware, with perhaps special stress or special design for screws, and this sort of thing, they are not common garden hardware-store varieties of materials. Valves and this sort of thing, used in

missile systems and aircraft systems, are managed by us. So that DSA, under the situation that already exists, is heavily involved in the management of items that are vital to service first-line weapon systems.

This is what I was really getting at. We feel that we are a part of the basic DOD military logistics system, that we are the steward for the common-use items, leaving to the services the weapon systems and the parts peculiar thereto. There is a great and discernible, definite difference between these and the things that are government-wide, general-use items, primarily commercial in nature, and that are the proper province of the General Services Administration.

QUESTION: Sir, you spoke about the test of consolidated procurement. I believe I have read that this test is being conducted under the direct control of the Secretary of Defense. What are the implications insofar as DSA is concerned on the assumption that this test is successful?

ADMIRAL LYLE: I think DSA is one possible assignee of this responsibility if the integrated assignment is made. I would say DSA is one of the leading possibilities. Of the other two one is an independent contract administration agency, coequal with DSA, DIA, and DCA. Parenthetically, I personally feel that this is less likely, in view of all the hub-bub that has been raised in the Congress in the past about independent Defense-level agencies. I would gess that Mr. McNamara might be less inclined to set up still another one for fear of reopening this issue. Also, as a practical matter, he might be inclined to tack

it on to an established management base rather than setting up a new one. It would be cheaper, for one thing. The third possibility, I think, is that the job would be divided up among the departments, perhaps on a geographical, regional basis, a single-manager-type thing. I can see either the DSA or the departmental thing happening. I see no assurance and no likelihood that DSA would be the one. I have heard nothing about it.

QUESTION: Admiral, we have heard from previous speakers that the DOD standardization program is making progress, that umpteen small engines have been replaced by five or six. Would you tell us how this ties in with the DSA program, whether it has permitted you to use off-the-shelf items a little more, and whether it has permitted you to draw down? What is the relationship?

ADMIRAL LYLE: I don't see any immediate relationship in the terms in which you put the question. I don't see any immediate relationship to the inventory draw-down thing, but, as a separate matter, there are obvious economies in reducing the variety of separate things stocked and carried. So that, as you use down those, you wouldn't replace them but stick with the standard item.

DOD uses the estimate that it costs DOD as a whole \$100 per year to carry an item in the supply system. So that, however many items you can eliminate, unnecessary items, unnecessary duplication, unnecessary variety, you save \$100 a year. This is a basic planning factor.

QUESTION: Sir, could you comment on your relations with Congress?

Are they satisfied with the progress you are making, or are you under pressure to move faster along the centralized course?

ADMIRAL LYLE: Our relations with Congress depend on what part of Congress you are talking about. The House Armed Services Committee, as will be readily appreciated by you, and the Senate Armed Service Committee, which, understandably, are service-oriented, tend to view with some concern the birth and proliferation of Defense agencies. As you perhaps know, we started out with basically a hostile hearing from a subcommittee of the House Armed Services Committee, composed of Mr. Porter Hardy and Mr. Bill Bates. Maybe hostile is too strong a word, but it was hard-hitting, let's say, anyway. As you perhaps know, they came to the conclusion that, since DSA existed, it had to be recognized and legitimized, but they had strong doubts as to its propriety, if not legality, in the first place.

Since then we have enjoyed good relations with even that committee. There has been no further indication of particularly critical interest in DSA.

In other elements of Congress, the Appropriations Committee, the Government Operations Committee, and the Joint Economic Committee tend to be strongly pro-DSA, because of these things that I talked about in my paper. To them it represents fulfillment of something that has been strongly needed badly, indeed, for a long time. They feel that it does save money, and so they are for it.

COLONEL MULLER: Admiral Lyle, on behalf of all of us, thank you

for driving through the snow to come over here and give us this clear insight on the role and mission of DSA.

