

DLA Strategic Materials

~~Defense National Stockpile Center~~

The Defense Logistics Agency Strategic Materials (DLA Strategic Materials) is responsible for providing safe, secure and environmentally sound stewardship for strategic and critical materials in the United States National Defense Stockpile (NDS). DLA Strategic Materials stores 28 commodities with a market value, as of 2010, of over \$1.4 billion, at 15 locations in the US. Commodities range from base metals such as zinc, cobalt, and chromium to the more precious metals such as platinum, palladium, and iridium. There is no private sector company in the world that sells this wide range of commodities and materials. As of 2010, DLA Strategic Materials employed approximately 80 people working at 3 staffed depots and the DLA Headquarters at Fort Belvoir, Virginia.

The National Stockpile was created shortly after World War II to acquire and store critical strategic materials for national defense purposes. Its primary mission was to protect the nation against a dangerous and costly dependence upon foreign sources of supply for critical materials in times of national emergency.

In the United States the concept of stockpiling materials for national defense dates back to World War I, when shortages caused an imbalance in production schedules and delays in implementing programs (some would say that the idea of stockpiling for national defense dates back to the biblical story of Moses and the Israelites). By the end of World War I, on 11 November 1918, the Army General staff had gotten the message concerning the need at least for including critical military materials in overall planning requirements. This led to development of a consolidated listing of 42 different materials, called the Harbord List, which the military found fundamentally critical in planning requirements. Later, the task of materials analysis passed to the Office of the Assistant Secretary of War, but with a broadened agenda dealing with more than just solving specific wartime shortage problems. It also encompassed programs and policies to expand materials resources, and looked at ways to improve the availability of materials coming from outside of the United States.

The first real initiative to establish a reserve inventory of critical, or strategic military materials began with passage of the Naval Appropriations Act of 1938. This legislation provided funds to procure certain materials. A year later, acting upon

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recommendations from the Army and Navy Munitions Board, Congress passed the Strategic Materials Act of 7 June 1939 (Public Law 76-117). Several other governmental agencies working in conjunction with the Army and Navy Munitions Board, had successfully anticipated such a move by Congress. The act allowed for the Army and Navy Munitions Board to set policy regarding what materials to stockpile, and provided for the expenditure of \$70 Million, of a total authorization of \$100 Million, for the purchase of such materials as rubber, tin, quartz crystals, and chromite. The Munitions Board had already established three separate lists of materials categorized under strategic, critical, and essential for wartime production. Materials gradation depended upon the degree of accessibility. Interestingly, midway through World War II, this list served as the basis of policy for the formation of a postwar stockpile.

Prior to 2010, DLA Strategic Materials was known as the Defense National Stockpile Center (DNSC), a field activity of the Defense Logistics Agency (DLA), which had 11 staffed depots and 66 unstaffed depots worldwide as of 2005. DNSC stored over 80 commodities with a market value of approximately \$5 billion. After 1992, it had generated over \$2.2 billion in sales that went back into military readiness accounts. The staffed depots were located in Scotia, New York; Binghamton, New York; Somerville, New Jersey; Curtis Bay, Maryland; Point Pleasant, West Virginia; Warren, Ohio; New Haven, Indiana; Hammond, Indiana; Baton Rouge, Louisiana; Clearfield, Utah; and Stockton, California.

The National Stockpile operated under authority of the Strategic and Critical Materials Stockpiling Act (50 U.S.C. 98-h-2(a)). This act provided that strategic and critical materials were stockpiled in the interest of national defense to preclude a dangerous and costly dependence upon foreign sources of supply in times of national emergency. The Defense National Stockpile Center administered the storage, management, and disposal of the Nation's inventory of strategic and critical materials essential to the military and industrial requirements of the United States in times of national emergency.

The stockpile was a physical reserve of definite quantities of materials, owned by the United States government, stored mostly on government-owned property and in government warehouses. There are 68 different commodities stockpiled nationwide. It was an inventory of raw materials with a cash value. That market value was approximately \$3 Billion. These were recoverable assets owned by the people of the United States. In this sense, the stockpile acted like an insurance policy with an outlay return of many-folds over the original costs should the stockpile be used, and yet until used, it retained indefinite value (at whatever the market value might be). It was a basic element and an integral part of the national defense structure. However, it was not solely a military element, but rather, it was intended for all essential civilian and military uses in times of emergencies. The function was closely linked to the whole arrangement of provisions for the national security relating to military and civilian requirement staking into account the formulation of DNSC objectives. There is a direct relationship with industrial mobilization planning with particular respect to the disposition of the stockpile in time of national emergency.

The need to procure materials escalated tremendously with the prospect looming of the United States becoming involved in World War II. As a result, Congress passed additional legislation in 1940, giving the Reconstruction Finance Corporation (RFC) broad powers of authority to produce, acquire, and transport materials for national defense. Thus situated, most of the strategic materials procurement and other activities remained with the RFC's Division of Stockpiling and Transportation throughout World War II.

The United States began preparing for a postwar national strategic stockpile well before the war ended. The old Army and Navy Munitions Board policies received new stockpile definitions and guidelines based on the need for stockpiling. The Surplus Property Act of 1944 provided for additions to the Strategic Stockpile and also authorized the transfer of postwar surplus government stocks of minerals to the Stockpile. Furthermore, the act required the military services to report on the need for additional strategic stockpile materials, which they carried out in 1945. This led Congress to enact perhaps the most sweeping legislation ever associated with the Strategic Stockpile. On 23 July 1946, Congress passed the Strategic and Critical Materials Stock Piling Act (Public Law 520), which remained the basis for the existing stockpiling law even after the turn of the millennia. This law (SCM) extended the need for stockpiling strategic materials beyond the war years and made it a permanent US priority concerning national defense measures. Over the years this milestone legislation underwent amendments and expansions, and the National Defense Stockpile fell under different agencies for administration, but it remained an essential aspect of our national defense policy.

For a short time after World War II, the strategic and critical materials stockpile program operated in the Purchase Branch of the Procurement Division, Treasury Department. During this time, the stockpile program began to gradually elevate in importance and in 1947, the Procurement Division became the Bureau of Federal Supply. In July 1949, the Bureau of Federal Supply became part of the newly created General Services Administration (GSA). In December 1949, the Bureau of Federal Supply took the new name of Federal Supply Service (FSS). Astonishingly the stockpile program never made it past this reorganization and the FSS dispersed its functions among the other organizational divisions.

With the build up for the Korean War, the stockpile program regained its previous momentum expanding to the point of becoming a separate and independent organization. GSA assigned the stockpile program to its newly created Emergency Procurement Service on 1 September 1950. This organization became the Defense Materials Service on 7 September 1956, with the responsibilities of managing not only the stockpile, but also the National Industrial Equipment Reserve Program, and the Civil Defense Emergency Program.

Between 1949 and 1988, the General Service Administration and Federal Emergency Management agency were responsible for the program. In 1988, the responsibility for the program was delegated to the Secretary of Defense who assigned the program to the Defense Logistics Agency (DLA). The Defense National Stockpile Center (DNSC) was established within DLA to manage the program.

In 1992, Congress directed DNSC to sell the bulk of these commodities. Examples of some critical commodities are platinum, used for chemical catalyst applications including catalytic converters to treat automotive emissions, as well as in jewelry and dental restorations; germanium, used for detectors, fiber optic systems and infrared optics; and ferrochrome, a metal additive used in stainless steel and other specialized alloys.

The interagency National Defense Stockpile Market Impact Committee (MIC) provided expert advice to the Department of Defense National Stockpile Center (DNSC) on the projected domestic and foreign economic effects of all acquisitions and disposals of materials from the National Defense Stockpile (NDS) that were to be included in the Annual Materials Plan (AMP) submitted by the DNSC to Congress. This advice helped DNSC to meet its statutory obligation to limit undue market impact caused by material acquisitions or disposals while also protecting the government from avoidable loss. Formally established under the National Defense Authorization Act of FY93 (amending the Strategic and Critical Materials Stock Piling Act), the MIC was co-chaired by the Departments of Commerce and State and includes representatives from the Departments of Interior (Geological Survey), Treasury, Transportation, Agriculture, Energy, and Defense (DNSC), and the Federal Emergency Management Agency. Commerce was represented on the MIC by SIES staff with technical support provided by the Office of Materials, Machinery, and Chemicals of the Department's International Trade Administration. These agency representatives brought substantial experience and expertise in mineral commodities markets to MIC deliberations. The NDS was a reserve of strategic and critical materials that were unavailable in the US in sufficient quantities to meet anticipated national security emergency requirements.

DNSC continued their aggressive disposal program to meet inventory reduction targets. The type and quantity of each commodity chosen for sale in a fiscal year was based on statutory sales authority and on the Annual Material Plan (AMP), approved by the Market Impact Committee and submitted to Congress in accordance with section 11(b) of the Strategic and Critical Materials Stockpiling Act (50 U.S.C. 98h-2(b)). The revenue, however, was based on commodity market conditions. Volatility of the market could result in significant fluctuation of commodity prices and revenue to DNSC.

Historically the DNSC operated as an international commodity broker of strategic and critical materials for the US Government, primarily to meet national security requirements. It had the experience of over nearly half a century in buying, selling and warehousing industrial materials. The DNSC, as a component of DoD's Defense Logistics Agency with a staff of less than 275 employees, sold more than \$462 million of excess raw or semi-processed materials in FY98. Sales efforts were expected to continue at a similar level to assist the Military Services program efforts. Proceeds would be determined by market responses to the Government's sales offerings of excess metals, ores, industrial minerals or materials, and medicinals.

The FY99 Strom Thurmond National Defense Authorization Act, 105-261, provided for the sale of commodities, depending on market conditions, in order to transfer specified target amounts to the Treasury and to the Secretary of HHS. In accordance with this statute, \$102 million and \$97.0 million would be transferred to the Treasury during FY99 and FY00, and \$3.0 million and \$22.0 million would be transferred to the Secretary of HHS during the same 2 fiscal years. In addition, this budget included the transfer of \$150 million per year to the Military Departments during FY00 and transfers to the US Treasury in the amounts of \$66.0M in FY99, and \$46.0 million in FY00. This latter transfer was to offset the loss of receipts that would have been levied as a surcharge on Foreign Military Sales. Increasing concern over the environmental liability caused by DNSC's aggressive sale of inventory requires action for a long-range disposal and cleanup of hazardous materials.

As of 2010, since 1993, DLA Strategic Materials sales had totaled approximately \$6.6 billion. Sales of excess NDS materials produced revenue for the Treasury General Fund and a variety of defense programs such as the Foreign Military Sales program, military personnel benefits, and the buy-back of broadband frequencies for military use. The sale revenues also funded operations to make what had become DLA Strategic Materials a self-sustaining organization.

There were 4,408 metric tons of mercury safely stored in 4 secure locations in the United States. The DNSC was preparing an environmental impact statement (EIS) because the stockpiled mercury had been declared excess to national defense needs. The Mercury Management EIS would help identify alternatives for the management of the mercury and analyze potential impacts.

Also, in 1997 the Defense Logistics Agency began realigning designated missions and personnel to enduring DLA activities pursuant to recommendations by the Base Realignment and Closure (BRAC) Commission and related discretionary action plans. The plan would enclave Defense National Stockpile (DNSC) material at Letterkenny Army Depot, Chambersburg, Pennsylvania; Seneca Army Depot, Romulus, New York; and Sierra Army Depot, Herlong, California. It would also involve the sale strategic materials and ores and return sites to the permitting military service at Savanna Army Depot, Savanna, Illinois; Defense Distribution Depot Memphis, Tennessee (DDMT); and Naval Surface Warfare Center, Louisville, Kentucky.

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