The original documents are located in Box 2, folder: "NSC Meeting, 8/9/1976" of the National Security Adviser's NSC Meeting File at the Gerald R. Ford Presidential Library.

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
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WITHDRAWAL ID 09228

REASON FOR WITHDRAWAL	National security restriction
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RECEIVER'S NAME	President Ford
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VOLUME	5 pages
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NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
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[ca 8/9/76]

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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MINUTES
NATIONAL SECURITY COUNCIL MEETING

DATE: Friday, August , 1976

TIME: 11:00 a.m.

PLACE: Cabinet Room, The White House

SUBJECT: Strategic Stockpile

Principals

The President
Acting Secretary of the State Philip C. Habib
Deputy Secretary of Defense William Clements
Secretary of the Interior Thomas Kleppe
Assistant to the President for National Security Affairs Brent Scowcroft
Acting Chairman, Joint Chiefs of Staff Admiral James L. Holloway
The Director of Central Intelligence George Bush
The Director of the Federal Preparedness Agency Major General Leslie Bray

Other Attendees

Treasury:	George H. Dixon, Deputy Secretary
Commerce:	Leonard Matthews, Assistant Secretary for Domestic and International Business
OMB:	Donald G. Ogilvie, Associate Director of the Office of Management and Budget
CIEP:	William F. Gorog, Deputy Assistant to the President for Economic Affairs
FPA Staff:	Lawrence Goldberg
White House:	Richard Cheney, Assistant to the President
NSC Staff:	Colonel Richard T. Boverie Major Edward R. Jayne II

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Classified by Brent Scowcroft

President Ford: Congratulations to those who put together the strategic stockpile study. It is well done, and lays out problems and choices for us here today. I see that there is some difference of opinion, and that is not unusual. We have got to come up with something better and we cannot just drift; it would not be good for the country. What we need is a solution that is justifiable before the Congress. Brent, you have overseen the stockpile study. Would you please lay out the background and issues for us?

General Scowcroft: For 30 years, the US has maintained a stockpile of certain strategic materials necessary for defense production and other economic needs and for which sources of supply might be cut off in wartime. The 1946 law concerning the stockpile gives us some leeway as to the overall size but does require that the stockpile protect basic national security and economic needs should supplies be disrupted. In 1973, President Nixon issued new guidance which reduced stockpile objectives from the then current $4.6 billion dollar inventory to approximately $700 million. A significant element of this guidance was the decision to base stockpile planning on only a one-year supply of wartime requirements. Key Congressmen, particularly Charlie Bennett, whose House Subcommittee handles stockpile legislation, felt that this policy could harm national security and has refused to act on any legislation for disposal from the stockpile. For three years, we have attempted to win interim approval from Congress to dispose of those portions of the stockpile that have been deemed surplus under even the most conservative criteria. In every instance, Bennett has refused to consider our bills pending some Presidential revision of stockpile guidance away from the 1973 guidelines and toward more traditional planning assumptions. Based upon this, Mr. President, you asked us last year to conduct a comprehensive interagency review of stockpile policy. That study effort has involved two parts: first, a review of our overall strategic stockpile policy requirements and assumptions; and secondly, procedures for the management of that stockpile to include the annual planning process for acquisitions and disposals of various materials. The 1946 stockpile law mandates that all acquisitions and disposals be made so as not to cause market disruptions. Our study's review of the 93 commodities involved in current stockpile planning concludes that none is in such a critical state as to require disruption of the market in either acquisitions or disposals.

President Ford: Six or eight years ago a program was developed to get rid of aluminum phased over five years or so. Where is that now?

General Bray: That is completed now and we reached agreement with the producers as to appropriate stockpile levels.

President Ford: Do we have a surplus of aluminum now? I see deficits listed for a number of materials.

General Bray: We could need aluminum and/or bauxite ore, depending upon the options elected.

General Scowcroft: The participating agencies have split in their views on the kind of guidance which should frame a new strategic stockpile policy. There are three key assumptions which determine the general stockpile level: (1) the type and scope of war postulated; (2) the number of years worth of stockpile to be held; and (3) the extent which the stockpile provides for civilian economic needs in addition to military requirements. Additionally, we need to examine the impact of alternative assumptions for mobilization warning time because these influence stockpile levels. Agency differences on these assumptions have led to development of five options -- three of which seem relevant for our further examination and discussion here.

As we review these options, we should keep two things in mind: First, we need to adopt realistic guidelines for a policy which provides for our national security at acceptable cost. Secondly, our new policy must abide by the statutes and at the same time, generate Congressional cooperation for action on our backlog of stockpile legislation. We need to get the Congress on board and proceed with implementing the new policy. I would like to ask General Leslie Bray to briefly review for us the assumptions, values, and costs associated with the various options.

General Bray: As the interagency group completed the stockpile study, there were two major agreed conclusions. First, that the current stockpile does not meet our needs under any options or assumptions concerning future military and economic requirements. Over 95% of the stockpile was purchased prior to 1960 and since that time, we have been primarily in a disposal mode, selling off older materials as changing technology and requirements have made them obsolete. The second major conclusion is that the planning mechanism is too rigid. Since 1973, it is apparent that stockpile requirements have changed and that the objectives set at that time are in need of review and reassessment. In short, we need a more dynamic planning process.

In the study, such a planning process is recommended. It includes a Presidential review every four years or sooner, continual update of data, as new information becomes available, and an annual material plan in

which all acquisitions and disposals will be developed based upon current economic factors, political requirements, national security inputs, market considerations, and other factors. These would be developed by an inter-agency review group and forwarded to the President for inclusion in the annual budget.

Let me now describe the three major issues and the alternatives developed for each issue which make up the options before us today. The major issue involves the type of war upon which planning assumptions are built. We postulated two major war scenarios. The first is a major two-front war in Europe and Asia or a major one-front war with significant forces redeployed from elsewhere in the world to support that effort. We have called this "Level I" mobilization. The second option involves a one-front war on a smaller scale with no redeployment, and we call this "Level II" mobilization. It is important to point out that neither of these options constitutes an all-out World War II-type conflict in which we would build everything we could produce in terms of military equipment.

For example, in both Level I and Level II mobilization, we plan to equip Army divisions in much the same way as current divisions are equipped; in other words, with a mix of infantry in armor rather than simply produce as many infantry divisions as possible. The total manpower involved for either of these two levels of warfare is not the five, ten, or fifteen million men under arms postulated in early stages of the stockpile study. The balanced force concept, i.e., the idea of equipping forces in the same mix of sophisticated support and armor equipment as found in the current force structure, limits us to 4.2 million men in Level I and 3.8 million for Level II.

The second major issue over which there was disagreement in the stockpile study and which significantly influences the nature of the stockpile, involves the amount of warning time assumed for various war scenarios. In other words, does M-Day -- the day on which mobilization starts -- occur simultaneously with the beginning of hostilities or does warning allow mobilization to begin earlier. We used two cases -- a zero warning and a one-year warning. The impact on stockpile levels works somewhat differently than one might imagine. The one-year warning assumption is the more conservative, as it increases the industrial base and stockpile requirements. The zero warning situation is less conservative and derives stockpile requirements based only upon the existing industrial capacity.

The third major issue involves the degree to which the stockpile provides for civilian economic requirements in addition to military ones. Within the stockpile model, we have already imposed certain austerity conditions. We have cut the basic standard of living by approximately 10%; we have reduced consumer durable production by 50% and housing construction by 75%; and have increased investments in industry by 20%. Having introduced this level of austerity on the economy, we have then calculated two categories of civilian economic requirements

The first category, called the "Essential Civilian," involves those materials and products which are more directly relevant to the war effort and which are less substitutable in their production by using non-strategic materials. The "General Civilian" category includes items which, while they are essential to the civilian economy, are less directly relevant to the war effort and which can in certain cases be produced with substitutable materials. These three factors significantly influence the nature of the options which we have developed.

A fourth factor, involving how long a war we ought to plan for, was considered at some length. Planning assumptions in this area have varied historically from five years to three years and now, under our 1973 stockpile guidance, one year. Each of the options presented in the study includes planning for a three-year supply of stockpile requirements.

[General Bray then presented a chart which displayed the options and assumptions and gave the values in dollar terms for Options A, B, C, D, and E. These range from a high of $10.2 billion dollars for Option A to a low $2.5 billion dollars for Option E.]

President Ford: What is the current value of the stockpile?

General Bray: We currently have an inventory of about $7 billion dollars. The increase from $4.6 billion dollars to $7 billion dollars from 1973 to today is simply the influence of inflation and increases in the value of various of materials.

President Ford: Are those other prices at current cost also?

General Bray: Yes. The $10.2 billion, etc., equates to the current $7 billion. But it should be remembered that for any option, what we are talking about are long-term figures. For example, Opation A would take over 15 years to acquire and all the variables, including cost, would change.

[General Bray then presented a chart on shorter range implications over the next five years for the various options.]

General Bray: This chart shows how portions of current inventories apply to the various options' goals. It illustrates the potential acqusitions and disposals for five years, using only the criteria of market impact in deciding on these levels. In other words, this chart does not include any

fiscal constraint on annual acquisitions. It indicates the potential inventory sizes and values which might be obtained after the first five years of policy implementation. For any of the options, it would be a better stockpile than what we have now -- one which would be more responsive to national security needs.

For the first five years, you can see that there is not that much difference between the five options. There are other considerations which are worth noting and which we address indirectly in the stockpile study. The first involves use of the stockpile as a hedge against future changes or supply in requirements. We have not included assistance to our allies in our planning, but is is apparent that the stockpile could be used for that purpose and can be useful against any peacetime economic embargos of materials contained in the stockpile. The presence of such supply could itself deter nations from attempting such embargos.

Let me add a note about the Congress. I have tried to keep the Congress abreast on the course of the study. I have briefed Congressman Bennett on this. He thought the study was extremely good and asked me to tell you, Mr. President, that he supported level I mobilization and the concept of supplying both Essential and General Civilian requirements. Since we have taken austerity steps, and since the law mandates that the basic health of the economy may be maintained, Bennett also indicated that he felt we needed three-years supply. Putting all of this together, Bennett concluded that he could go with either Option A or B.

Secretary Kleppe: In computing stockpile size, have you considered the domestic production?

General Bray: Yes, Sir.

Secretary Kleppe: For example, we are going to get our own nickel supplies, but now we import.

General Bray: Yes. As soon as we get new sources, we include changes to those objectives.

Secretary Kleppe: Concerning Bennett's insistence on both the Essential and General Civilian categories, is that basically necessary? Why?

General Bray: I support that; it is not a pure guns and butter economy. For example, the 10% reduction in standard of living and 50%

cut in consumer durables has a significant impact on automobiles. They would be reduced under these two cuts to 45% of current production. This 45% of current production falls in the General Civilian category, while trucks and heavy vehicles are in the Defense and Essential Civilian categories. Therefore, to cut General Civilian would include cutting out all commercial automobile production.

Secretary Kleppe: But everything in the auto is produced domestically. Would these domestic things be affected by the Essential Civilian and General Civilian categories?

General Bray: No. Only in the first -- the austerity reductions. The stockpile is only for shortfalls due to foreign cutoffs of supply.

Secretary Kleppe: I'm trying to figure how to judge between $7.3 billion and $4.5 billion.

President Ford: Autos average 10 million per year; 10% off that gives 9; then a 50% shift from consumer military production would give you four and a half million. Where do you get your trucks and other vehicles?

General Bray: These are all in the Essential Civilian category, while passenger cars are all in the General Civilian. Passenger cars would have much more substitution.

Mr. Ogilvie: Did you take any case study like autos? Do we know how many autos we could produce?

President Ford: If you went with Option A, how close are we to having the necessary legislation to go to the Congress?

General Bray: We would convene immediately the first Annual Materiel Plan to go into the FY 1978 budget, and we would consider fiscal constraints, market impact, and other factors. This budget proposal would be submitted in time to be included in this year's legislative process.

President Ford: Both for 1976 and 1977, did we recommend disposals?

General Bray: These were primarily disposals with only minor acquisitions. Bennett wants to be satisfied that we have a plan for new acquisitions before he agrees to disposals. Bennett will not dispose of any materials until he has our proposal for further acquisitions.

Secretary Clements: My first experience goes back three years, when OMB and Fred Malik were involved. Bennett has not changed one bit, and that fundamental building block -- our policy as to what to do, where to go, and how to get there on the stockpile -- must be changed. It is clear to Bennett that a three-year stockpile also means supply and resupply for that kind of war; that means ships. The basic premise of the three-year supply supports this, and the rest are almost details once the basic decision is made.

President Ford: What is now before the Congress?

General Bray: We cannot by law dispose of anything without Congressional approval.

President Ford: What items have we currently proposed?

General Bray: Tin, antimony, silver, and a few other minor items. Bennett agrees with this proposal but refuses to act without the new guidance cited by Mr. Clements.

Mr. Ogilvie: There were a series of options in last year's budget which included the current disposal bill. Everyone felt that this was a fairly rational approach at the time.

Secretary Clements: Not me; we would have the same problems with something around Option E.

General Bray: He (Bennett) prefers A or B.

General Scowcroft: The basic agency differences involved assumptions about mobilization and the question of whether to include only the Essential Civilian category or the General Civilian category also. Most agencies support Option A or, perhaps, B while others support E.

Secretary Clements: Brent is right. The options make a difference only in the long term. It just isn't going to happen that quickly and over the

first five years, the impact just isn't that great. As you update as you should, the program will change. I really don't attach that much difference between the options now.

General Scowcroft: I agree, and the Annual Material Plan lets us keep track each year and modify our objectives when necessary.

Mr. Cheney: What is the rationale for the one-year mobilization warning?

General Bray: In developing the stockpile model, we had to go beyond three or six months to actually change the industrial base.

Secretary Clements: Remember that warning would also bear on indicators. We may have some general warning which would allow us to begin to mobilize.

Mr. Gorog: Stockpile planning ought to be compatible with our other defense planning. How close are they?

Secretary Clements: We are taking a new hard look at our overall DOD planning, and a serious issue within that relook is that of NATO warning time and mobilization.

Mr. Ogilvie: We have not looked at this issue since 1969 in NSSM 3. We are concerned in OMB that the new assumptions in the Stockpile Study go opposite of our new look -- twelve months versus thirty days warning, three-year war versus one year or less. General Hollingsworth has recently argued that warning time will be much shorter. I see this stockpile issue taking our policy in two different ways.

General Scowcroft: Military planning and legislative realities have to come together. All the options have three years supply, in response to Bennett. He doesn't understand the current one-year supply assumption. It is for the first year of a war; after that we can do other things.

President Ford: Superficially, would it be hard to explain why these are different? Admiral?

Admiral Holloway: The 23-day warning is so firm that you are moving troops, issuing ammunition, etc. This is operational warning. Warning for a year implies a deteriorating international situation, where things are coming apart. We start gearing up then, while the other shorter warning (23/30 days) is really active pre-fighting.

Secretary Clements: The three-year problem involves much more -- scarcity, accessibility. Don (Ogilvie) is looking at the three years differently.

Mr. Ogilvie: But one year would let you do things regarding deployment, like airlift and sealift and Guard and Reserve enhancement, that we don't now plan to do. It's a problem of justification.

General Scowcroft: We don't plan as to the length of time of a war. Also, remember the embargo.

Secretary Kleppe: Another factor is that an error concerning the stockpile ought to be made on the side of a larger supply. While this could be costly for other kinds of purchases, the opposite is true for the stockpile -- it is increasing in value. There is no inconsistency, and it is left up to DOD to show how these fit together.

President Ford: If we send A or B, would Bennett probably approve it this year?

General Bray: Yes, he does have a pet project, his stockpile revolving fund. He changed the bill last Friday to combine the four materials, and called for all these specific receipts to be applied to acquisitions. He wants to hold on to the aggregate value of the stockpile, to ensure that it works toward a goal and principals with which he agrees. Without agreement on the fundamentals, he will continue the impasse.

Secretary Clements: Bennett points out the increased threat to our sealanes, our lines of communication. This all makes the stockpile more critical.

General Bray: Our study has led us to use variable factors. We use differing assumptions about shipping losses for the three categories of Defense, Essential Civilian, and General Civilian needs. We used variable assumptions. [Shows chart on tiers and priorities associated with each of the options, and shows the similarity in short-term costs and transactions for the various options.]

Secretary Clements: That's different from what you would need in a war if it started.

President Ford: How different would an Option A or B Annual Materiel Plan be from our current FY 1977 budget request?

General Bray: Both would involve significant new acquisitions and disposals for FY 1978, within market and budgetary constraints, but these would differ from current plans because those options involve moving toward new objectives.

President Ford: Could you also provide for FY 1977 supplemental acquisitions?

General Bray: Yes.

Secretary Clements: Exactly. Bennett and others would look favorably on that. A revolving fund would not help the budget problem.

President Ford: Without making a final decision, we ought to prepare a proposed supplemental acquisitions package for FY 1977. If we can talk him (Bennett) out of the trust fund . . .

Mr. Ogilvie: He is still on the trust fund, but only on a yearly basis.

General Bray: Bennett's concern is that there is no linkage between acquisitions and disposals. The nature of the Appropriations Committee is that there won't be support for acquisition appropirations, while he (Bennett) can dispose. He doesn't want to fritter away the stockpile; that's why he wants the fund, to tie the two. His staff sees possibilities to do it on a yearly basis, with a refund to the Treasury if not used for acquisitions. This would skirt the normal appropriations process.

President Ford: They wouldn't like that in the Appropriations Committees. If we go with options A or B, then it doesn't make any sense to wait for 1978. We would need to do it now for FY 1977, which hasn't even started yet. Let's concentrate on 1977 right now.

General Bray: Should you decide to go forward, we could get the agencies together this week, and could develop an FY 1977 acquisition supplemental within ten days to two weeks.

Secretary Habib: We continue to be concerned about possible market disruption, particularly internationally.

General Bray: We can look at this year's disposals, add to them, and as a matter of priority, work the acquisition first and other disposals next.

President Ford: We need to get some action this year.

General Bray: We would have to look at it more closely on additional disposals.

President Ford: Let's do the acquisition first and the disposals second and see if Bennett will cooperate.

General Bray: Bennett and the Senate staff will hold hearings soon.

Secretary Clements: This would be a good step forward.

President Ford: Thank you very much.

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MEMORANDUM

NATIONAL SECURITY COUNCIL 6508X

~~SECRET~~/XGDS December 15, 1976

MEMORANDUM FOR: BRENT SCOWCROFT

FROM: Jeanne W. Davis

SUBJECT: Minutes of the NSC Meeting Held on August 9, 1976

Attached are the minutes of the National Security Council meeting held on August 9, 1976 to discuss Strategic Stockpile.

Attachment

cc: William G. Hyland
Gen. Richard Boverie

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