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Material Procurement in the U.S.

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“Buy American” Act and DBE (Consideration for Minorities)

In our U.S. projects, we are obliged to use many U.S.-made parts. This is mainly because of the following requirements:

- Application of the “Buy American” Act
- Use of companies designated as DBEs (Disadvantaged Business Enterprises)

The “Buy American” Act demands that U.S.-made parts used in a final product should account for at least 60% of the amount of a relevant contract; and that final products should be assembled in the U.S. This act is applied when the customer applies for funding from the federal government to supplement its own fund for procurement, and when a federal fund is granted upon the approval of this application. Therefore, the act does not apply if the customer can finance its procurement of vehicles for itself. Even in such a case, however, authorities may demand final assembly on a local site to secure the employment of local workers.

DBEs refer to those enterprises which are of a scale smaller than a specified one, and which are owned or managed by a woman or a person belonging to a minority. Each customer sets a target regarding the use of DBEs, and the achievement of this target is obligatory. A contractor must submit a regular report to the customer regarding the fulfillment of these requirements. Sometimes, the customer may audit relevant matters.

Besides the above requirements, there are other factors that contribute to higher costs of the use of parts and materials from outside the U.S., including the application of such U.S. standards as railway and military standards under customer specifications. In these circumstances, it is all but impossible to deliver vehicles made only of Japan-made parts.

Procurement of Parts from U.S. Manufacturers

Though there are no home-grown U.S. vehicle manufacturers at present, some vehicle part manufacturers have survived for reasons explained in the above. However, they are small in number, and have only a small market. Given few choices, vehicle manufacturers must compete with each other to secure parts suppliers in the U.S.

In addition, there are some signs of the reinvigoration of railway transportation, and the number of railway users is growing, owing to such factors as the aggravation of traffic jams in urban areas, a heightened citizen consciousness of global warming and other environmental problems, and the recent rise of gasoline price due to a higher crude oil price.

With the number of ordered vehicles increasing in this situation, all parts manufacturers are extremely busy, and it is difficult to have them observe a delivery schedule. Also, their point of view or policy on quality is very different from that of Japanese manufacturers. If possible, we would demand that the ratio of non-defective items to all delivered items should be 100%. On the contrary, the policy of U.S. manufacturers is that it is a matter of course for a few defective items to occur, for which an appropriate measure should be taken case by case. This kind of policy is unacceptable for a Japanese vehicle manufacturer. Though we have implemented some measures to contain non-defective items, including a thorough inspection before shipment, they have proved unsuccessful in achieving a perfect containment. Therefore, I think that there is an urgent need for us to take additional steps.

Transportation of U.S.-made Parts

Even if we succeed in solving these various problems and ensuring the shipment of satisfactory parts, we may still be confronted by difficult problems involved in transportation. A delay in shipment often forces us to use air transportation to send heavy and/or large cargoes to Japan. So far, we have had no experience of sending completed vehicles by air. Under unavoidable circumstances, however, we once sent cargoes with a total weight of more than 10 tons to Japan, which contained such articles as wheel set assemblies. In one case, we tried to send parts by air because they were delivered too late to be in time for a manufacturing process in our main factory. However, they landed in Singapore due to a mistake by a transportation business. We had the parts returned in a hurry, but they stopped again in Manila where they were blocked by customs officials. Eventually, it took nearly one month for the parts to be brought into our factory. This experience gave me a pain beyond crying, so to speak. In another instance, some parts bound for a final assembly plant in the U.S. arrived nearly too late for use in a manufacturing process. We immediately chartered a truck to send the parts, but the driver was caught speeding during transportation, resulting in a delay of two days. There have been too many transportation problems of this kind to enumerate.

A U.S. project always involves many problems, so much so that I cannot describe all of them here due to space limitations. At the same time, however, I feel a joy greater than on any other occasion when I see vehicles completed by solving these problems, and delivered to the customer successfully. Our Phoenix and Seattle projects have now

entered the stage of final assembly, which represents the last step toward inauguration. I would like to conclude by expressing my hope that our future projects will invariably be completed on schedule without any problems.