

Security of Supply

(Reciprocal Priorities Systems)

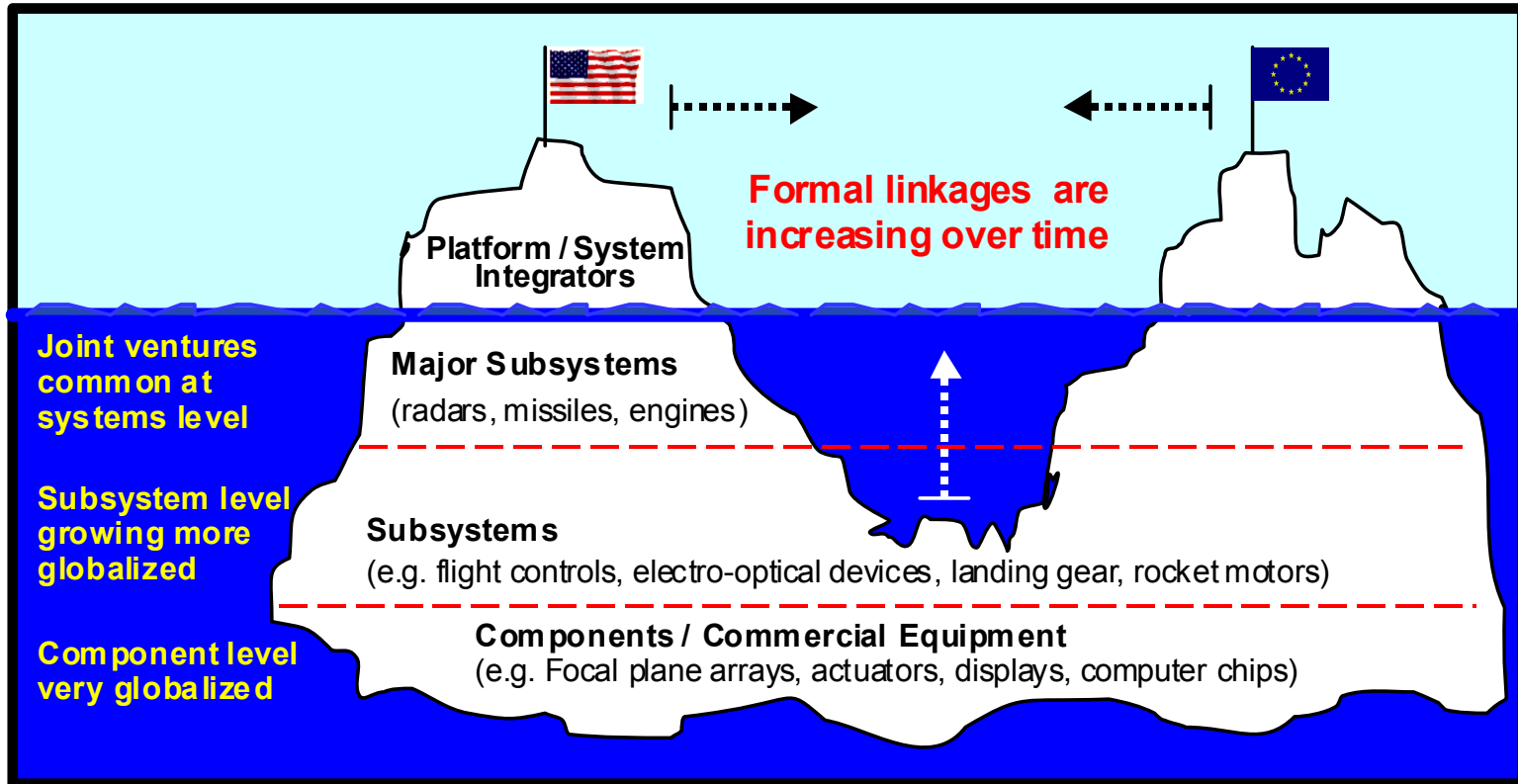
- NATO Agreement: Priorities and Allocations Systems Within the Alliance
- LOI Framework Agreement: Prioritisation and Allocation of Defence Articles and Defence Services
- U.S. Defense Production Act: Bilateral Security of Supply Arrangements

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Reciprocal Priorities Systems

- Industrial consolidation reducing number of capable suppliers on both sides of Atlantic
- Globalization leading to:
 - Transnational defense companies
 - Possible loss of domestic industrial capabilities
 - Increasing degree of mutual defense interdependence
- U.S. DoD prefers access to a broad base of competitive, capable suppliers
 - Including non-U.S. suppliers
- Pursuing reciprocal priorities systems to mitigate risks
 - Multilateral (egs., NATO)
 - Bilateral

An Increasingly Integrated Industrial Foundation Among U.S. and European Allies



Strong foundation for future cross-border relationships already exists

DPA Title I Priorities & Allocations

The President is authorized to:

- Require acceptance and priority performance of contracts and orders necessary to:
 - Promote the national defense
 - Including allied nation defense procurements in U.S.
 - Meet emergency preparedness requirements
 - Respond to major natural disaster or terrorist attack (Stafford Act)
- Allocate materials, services, and facilities
 - Would be used only during a major war requiring national mobilization, or in response to a major natural disaster or terrorist attack
 - Materiel must be strategic or otherwise critical to defense
 - Utilized only if defense requirements would not otherwise be met

Defense Priorities & Allocations System (DPAS)

- Methodology
 - Administered by DoC for industrial resources
 - Establishes priority ratings for contracts
 - Defines industry's responsibilities, setting forth rules to ensure timely delivery of industrial materiel and services to meet national defense program requirements
- Benefits
 - Facilitates timely delivery during peacetime modernization
 - Minimize delayed deliveries, increased costs, readiness impacts
 - Expedites delivery of goods and services during crises

Discussions with Key Trading Partners

- Arrangement in place with U.K.
 - 9 April 2002 Annex to U.S./U.K. Reciprocal Procurement MOU
 - Each Government will:
 - Provide reciprocal priorities support
 - Implemented via law (U.S.) and industry code of conduct (U.K)
 - » Code of Conduct established 4 July 2002
 - Applicability not limited to “crisis, emergency or armed conflict”
 - Facilitate the other’s requests with industry within its territory
- Arrangement imminent with Sweden
 - Based on US-UK arrangement model
- Discussions ongoing with Netherlands, Italy, Norway, and Spain