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SECTION: FRONT, Pg. A9

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HEADLINE: SHIPBUILDERS UPSET THAT PENTAGON MAY BUY FOREIGN GOODS;
BUSH ADMINISTRATION PROPOSAL WOULD RELAX "BUY AMERICAN" LAWS

BYLINE: DALE EISMAN THE VIRGINIAN-PILOT

DATELINE: WASHINGTON

BODY:

Shipbuilders and other defense contractors are mobilizing to block a Bush administration bid to relax "Buy American" laws requiring that U.S. weapons systems and their major components be manufactured by and purchased from domestic firms.

As part of a proposed "Defense Transformation for the 21st Century Act," shipped quietly to Capitol Hill this month, the administration asked for the authority to waive domestic-purchasing requirements whenever the secretary of defense decides "security interests are served" by using foreign suppliers.

"We need more flexibility," a Pentagon spokesman said Monday. There are no plans to buy supply ships, aircraft, tanks and other major systems from foreign firms, and the proposal wouldn't permit it, he asserted. Some components are more readily and more cheaply available overseas, the spokesman suggested.

But an industry lobbyist charged that the proposal would give Defense Secretary Donald Rumsfeld and his successors essentially unlimited power to buy foreign-made weapons as well as components. She argued that the administration is trying to capitalize on the popularity flowing from its success in the war in Iraq to broaden its supplier base.

"They feel that they're riding high and maybe now is the time to strike so they can have access to the cheapest systems in the world," said Cynthia Brown, president of the American Shipbuilding Association.

Brown argued that the administration initiative endangers the jobs of thousands of U.S. workers and could leave the military at the mercy of foreign suppliers who might stop the sales of critical items just when they're most needed.

"The war in Iraq clearly demonstrated that Americans cannot depend on foreign governments and foreign companies to defend our security interests at home and abroad," Brown asserted in a letter dispatched Friday to U.S. Sen. John W. Warner, R-Va., chairman of the Senate Armed Services Committee.

Brown's group is part of a coalition of industry groups and labor unions, including the U.S. Business and Industry Council and the United Steelworkers of America, that has been pressing lawmakers to strictly enforce defense-manufacturing laws to protect U.S. defense firms.

"The pressure for waivers, circumvention and emasculation of our laws continues unabated," the group charged in a letter earlier this month. The administration's proposals "could bring our great nation to the point of no longer being self-reliant in the defense area," it said.

Though the administration boasts of securing aid from more than 60 countries in the Iraq war, American and British troops did virtually all the fighting. Usually reliable U.S. allies including Saudi Arabia and Turkey refused to allow use of their bases, though they did permit U.S. planes and missiles to fly over.

Brown argued that with the U.S. trade deficit running in excess of \$400 billion annually - more than the total defense budget - "we don't want to spend more of those dollars overseas."

Since taking office, and particularly in the wake of the Sept. 11 terrorist attacks, President Bush has escalated defense spending sharply. The administration projects that defense budgets could reach \$460 billion annually by 2007, up from \$382 billion this year.

But defense stocks have performed unevenly at best, with most companies' share prices falling along with the rest of the market.

The surge in defense spending has been particularly slow to reach shipbuilders. The budget for shipbuilding this year is actually less than in 2002, though the Navy and the administration are proposing major increases in 2004 and beyond.

The Navy needs to acquire about 10 ships per year to sustain a fleet of around 300. Through the 1990s, the building rate averaged just six ships per year; the 2004 budget proposal calls for seven new ships.

In addition to relaxing restrictions on the purchase of foreign-made weapons and supplies, the proposed "transformation act" would overhaul military personnel policies and relieve the Pentagon bureaucracy of requirements that it prepare annual reports to Congress on dozens of programs.

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June 25, 2003, Wednesday

KR-ACC-NO: VP-CONTRACTOR

LENGTH: 524 words

HEADLINE: Owner of Norfolk, Va., Military Contracting Firm Violates 'Buy American' Law

BYLINE: By Tim McGlone

BODY:

NORFOLK, Va.--A local contractor who has obtained millions of dollars in government contracts pleaded guilty Tuesday to violating the Buy American Act, a law that mandates the use of U.S.-made products.

Thomas A. Sheets, owner of T.A. Sheets Mechanical General Contractor, admitted using foreign-made piping and other supplies in a \$ 1.8 million contract to replace the water system at Langley Air Force Base in Hampton.

Sheets, based on Cooke Avenue in Norfolk, has been suspended indefinitely from obtaining any federal contracts, federal officials said. He did, however, complete the repair work at Langley.

According to a federal prosecutor, Sheets ordered workers to use a grinder to carve out the name of the country of origin for pipe fittings and other parts while installing the new system from 2000 to 2001.

Employees also spray-painted over the name of the foreign country on some parts and on the containers they arrived in, Assistant U.S. Attorney Alan M. Salsbury told a federal judge. The cheaper parts were imported from China, Brazil, India and Mexico, he said.

The violation was discovered during a routine inspection of the project. The Defense Criminal Investigative Service and Navy and Air Force officials were called to investigate.

According to a plea agreement filed Tuesday, Sheets will pay a \$ 100,000 fine plus another \$ 150,000 on behalf of his corporation. The misdemeanor offense carries a maximum penalty of a year in jail but the government is not calling for incarceration.

Sheets' attorney, John N. Nassikas III of Washington, said the parts that came from other countries amounted to less than \$ 15,000 of \$ 500,000 in parts used in the project.

Salsbury said there would be no way to prove the amount without digging up miles of piping, an impractical endeavor.

Sheets issued a statement Tuesday acknowledging the violation and declaring that the company will stick to the terms of the Buy American Act from now on.

"I have accepted personal and financial responsibility for these actions and have vigorously responded to this case by implementing a comprehensive ethics and compliance training program," the statement says.

Congress passed the Buy American Act at the height of a Great Depression as a way to bolster U.S. businesses. It has been amended several times and allows for exceptions. Sheets, however, never applied for an exception.

Sheets has obtained hundreds of government contracts for water, sewer and gas pipeline work during the past 30 years. Contracts worth tens of millions of dollars were awarded to the company over the past decade by the Army, Navy and Air Force, according to federal records.

A Pentagon panel will review the case to determine if Sheets should remain barred from obtaining federal contracts, officials said.

Local contracts would not be affected. This week, the company was awarded a \$ 1.4 million contract for the Lafayette Boulevard sewer and water replacement project in Norfolk.

U.S. Newswire

July 8, 2003 Tuesday

SECTION: National Desk

LENGTH: 459 words

HEADLINE: Aerospace Suppliers Object to 'Buy American' Provision in Visit to Hill

DATELINE: WASHINGTON, July 8

BODY:

American aerospace suppliers will tell members of Congress tomorrow that U.S. manufacturing jobs would be lost, not gained, as a net result of the so-called "Buy American" amendments in the FY04 Defense Authorization Act (H.R. 1588) as passed by the House of Representatives last month. The Senate declined to include any parallel provisions in its version of the bill.

About 40 members of the Suppliers Management Council (SMC) of the Aerospace Industries Association of America (AIA) will convene their first annual Washington conference Wednesday with the goal of educating key legislators on the public policy issues of importance to small and medium-sized industry manufacturers. The SMC represents 150 military and civil aerospace transportation sub-contractors that employ approximately 75,000 workers.

The suppliers will urge legislators to oppose the H.R. 1588 amendments which require the Defense Department to buy weapons components exclusively from domestic sources. The proposed requirements also set a deadline of 2007 for limiting "major defense acquisition" contracts to bidders with 100 percent American-made machine tools.

"The Buy America amendments would put many aerospace vendors out of business by closing the door to manufacturing components, such as silicon chips and flat panel displays that companies can obtain only from offshore suppliers," said Judy Northup, Vice President of Dallas-based Vought Aircraft and SMC chair.

Northup noted that the machine tool provision of H.R. 1588 could force many SMC members to make a grim choice between a multi-million dollar re-structuring of production lines or bankruptcy.

John W. Douglass, AIA President and CEO, said "American aerospace workers depend on a global supply chain that begins and ends in the United States." He said that while many companies have to buy tools and materials from abroad, the industry as a whole leads the economy in manufactured exports. He added that offshore markets, by consuming 40 percent of U.S. aerospace products annually, create and stabilize jobs at home.

SMC delegations will also call for bipartisan support of a Senate-passed amendment to the FY04 FAA Authorization Bill that provides \$300 million over six years to modernize the country's air traffic management network. In addition, they will ask Congress to adopt pending bills that streamline the export licensing process for commercial satellite systems and create NASA and FAA scholarship programs to support college students who choose aerospace-related courses of study.

The SMC conference, which runs through July 10th, will include symposia on Small Business Administration policies and post-Cold War Pentagon procurement reforms
<http://www.usnewswire.com>

Defense Week

April 28, 2003, Monday

SECTION: Volume 24, Number 17

LENGTH: 1252 words

HEADLINE: Contractors, DOD Spar Over Buying American

BYLINE: BY NATHAN HODGE

BODY:

Several U.S. defense contractors are fighting their best customer, the Pentagon, in an effort to preserve "Buy American" laws.

Such laws prevent foreigners from competing to make certain products for the U.S. military. The Pentagon, though, wants to find the world's best values on the components that go into U.S. weapons systems. So the Defense Department this month for the first time took aim at the statute that sanctions protections for U.S. firms.

Industry is responding to the challenge just as directly-with an intense lobbying campaign. And a vocal minority of free traders has also joined the fray.

On April 10, the Defense Department delivered a legislative package to Congress called "Defense Transformation for the 21st Century Act." Among other things, the legislation proposed giving the defense secretary broad power to waive "domestic-source requirements" that the Pentagon buy a broad range of products-from socks to steel hulls-from American suppliers.

The Pentagon has long opposed Buy-American laws on the grounds that they restrict the department's choices and increase costs. But up to now, the Defense Department has sought to whittle away at the laws by regulatory or administrative methods-not by trying to get broad authority to waive the law.

The new legislation is part of Defense Secretary Donald Rumsfeld's campaign to overhaul business practices at the Pentagon.

According to the measure, the department could realize "significant cost savings" if it is allowed to buy some components and finished products overseas. A few years ago, the Pentagon estimated that eliminating Buy-American restrictions could net the U.S. military \$5.5 billion a year.

For many domestic suppliers, however, the proposal is a call to arms.

'Astonishing' proposal

In an April 18 letter to the Senate Armed Services Committee Chairman Sen. John Warner (D-Va.), the American Shipbuilding Association, which represents naval shipbuilders, urged the senator to reject the Defense Department's move to roll back "Buy American" provisions.

"It is astonishing that the Department of Defense would recommend the repeal of U.S. laws requiring that weapons systems produced for our national defense be manufactured in America," wrote Cynthia Brown, the association's president. "The war in Iraq clearly demonstrated that Americans cannot depend upon foreign governments and foreign companies to defend our security interests at home and abroad."

In a separate letter to Warner, the Business-Labor Coalition to Save the Defense Industrial Base, a new group representing major labor unions and manufacturing associations, said the administration's legislative proposals were part of a pattern of "initiatives to emasculate and circumvent" the so-called Berry Amendment and other domestic-source restrictions contained in Title 10 of the United States Code.

"These [initiatives] in turn have adversely affected the productive capacity of our domestic defense manufacturers," the letter said. "... As the U.S. defense industrial base continues to shrink, there will be increased pressure to procure additional components and systems from foreign firms."

Congress has included the Berry Amendment in the Defense Department appropriations bill for over half a century. Initially put in place to protect the domestic manufacture of a limited number of items, it has gradually extended protection to a wide range of finished products and component materials.

For instance, body armor is currently covered under the Berry Amendment. In a recent legislative update posted on its Web site, the American Apparel and Footwear Association, which represents the clothing and textile industry, said it was concerned the Defense Department's legislative package would mean "the exclusion of body armor from Berry protection."

And the shipbuilding industry is particularly anxious about measures that might enable the Pentagon to circumvent the statutory protections.

"There is one statute that's near and dear to my heart, along with many others, but it's [section] 7309 of title 10, which says the hull and superstructure of a vessel for all branches of the armed forces shall be constructed in the United States," Brown told Defense Week. "There is also a provision that says the overhaul and repair of ships home-ported in the United States shall be conducted in a shipyard in the United States."

'Flexibility' sought

Following the Quadrennial Defense Review in 2001, Defense Department officials have pledged to bring greater "flexibility" to defense procurement. According to Brown, Rumsfeld is using that as an excuse to ride roughshod over necessary protections for domestic manufacturers.

"They use flexibility and I think that it is a misstatement," said Brown. "Clearly, Rumsfeld directed all of his people to come up with legislation in the acquisition area; [he said] don't let legislation or statutes be an impediment to any of your proposals; be aggressive, do [away with] anything that needs to be done away with."

For example, Brown said that the administration's defense request for fiscal 2004 looks to waive the domestic-source requirements for countries with which the United States has a memorandum of understanding for reciprocal defense procurements. But she called the defense-transformation legislative package "the most egregious" effort to eliminate U.S. manufacturing requirements for defense systems.

"If you really want to be honest, his transformation legislation basically says, repeal Title 10," she said.

However, opponents of protectionism argue that the Berry Amendment and other "Buy American" measures hobble competition and ultimately keep U.S. weapons prices high.

Jack Deschauer, a partner with Patton Boggs LLP, a Washington law firm that has represented foreign clients on defense-related issues, said of the Buy-American laws and those who would keep them: "Generally speaking, these are all attempts to thwart competition. If there's a legitimate reason—for example, to preserve a sole-source supplier—the existing Competition in Contracting Act that's codified in provisions of Title 10 gives DOD all sorts of latitude in making sure that foreign competition doesn't kill the sole-source American manufacturer."

According to Charles Peña, a defense-policy analyst with the libertarian Cato Institute in Washington, D.C., lifting protectionist rules does not mean the Pentagon will start looking overseas to buy major military platforms.

"I think you can make the case that if we're going to build a new aircraft carrier, we're not going to ask the British or French to build it for us," he said. "On the other hand, subcontracting out various components is not necessarily a bad deal—if the British, the French or the Bulgarians are better at making that particularly subcomponent ... and they're more competitive than an American supplier."

Peña said the outcry over preserving the defense-industrial base masked a broader protectionist agenda.

"This is not unique to just the defense industry; all American industry asks the American government to protect it," he said. "And if you are an advocate of free trade in a globalized economy, as I am, then American industry shouldn't be protected from foreign trade."

The irony, Peña added, is that "U.S. companies want to be able to compete in foreign defense markets, and we go to great lengths to make sure that that happens."

Associated Press Online

June 27, 2003 Friday

SECTION: WASHINGTON DATELINE

LENGTH: 550 words

HEADLINE: Pentagon Criticizes 'Buy American' Bill

BYLINE: ROBERT BURNS; AP Military Writer

DATELINE: WASHINGTON

BODY:

The Pentagon has launched a public assault on House legislation that would expand the list of defense items that can be purchased only from American suppliers. It argues that the restrictions, designed to protect the U.S. defense industry, would do more harm than good.

"Our industrial base is not unhealthy, and we just don't need protectionist legislation," Michael Wynne, the acting undersecretary of defense for acquisition, said in an interview Friday.

Wynne argues that the legislation, part of the 2004 defense authorization bill passed by the House, would hurt U.S. national security in the long run by limiting international partnerships.

"As we isolate ourselves, I'm afraid of the loss of technology," he said. "If we begin to go to essentially Fortress America, what's to prevent Europe from going to Fortress Europe - something we feared not long ago?"

Wynne said the legislation would do major damage to the Joint Strike Fighter, the next-generation fighter that is in development with numerous international partners, including Britain.

Current laws already give preference in Pentagon weapons programs to U.S. defense companies.

The House legislation, whose biggest backer is a Republican, Rep. Duncan Hunter of California, would go further by requiring that 65 percent of components in items purchased by the Pentagon be made in America, compared to 50 percent under current law. It also would add to the number of items that could be made only in America, including machine tools and aircraft tires.

Hunter argues that the Pentagon has become too dependent on foreign suppliers, which he believes means U.S. defense interests could be compromised by suppliers in countries that object to U.S. policies.

The Senate version of the 2004 defense authorization bill does not contain the same restrictions. A House-Senate conference to work out differences in the two bills is expected this summer.

Some elements of the defense industry oppose the House legislation. The Information Technology Association of America, representing computer, telecommunications and other information technology companies, issued a report Thursday predicting the legislation would have a "disastrous result."

"If all procurement of commercial information technology products by the Department of Defense were conducted under the terms of the Buy American Act ... procurement would come to a crashing halt," the report said.

Harris N. Miller, president of the Information Technology Association of America, said it is "nearly inconceivable" that U.S. companies could comply with a provision in the legislation that would require suppliers to report the country of origin for information technology products. This is so because the country

of origin for components in some products on the commercial market - especially computer software - are nearly impossible to determine, he said.

Among elements of the U.S. defense industry that would be helped by the legislation is the machine-tool industry; the legislation requires that only U.S. machine tools be used in defense products.

Wynne said the Pentagon was unaware that the domestic machine-tool industry needed protection. As a result of the House legislation, the Pentagon will conduct an in-depth study of that industry, he said.

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Defense Week

June 23, 2003, Monday

SECTION: Volume 24, Number 25

LENGTH: 1260 words

HEADLINE: Fight Brewing Over 'Buy American' Legislation

BYLINE: BY NATHAN HODGE

BODY:

Defense and aerospace companies are girding for a fight with legislators who are normally counted as friends over proposed legislation to require more American-made parts in the Pentagon's weapons, according to people involved in the battle.

At issue are sections of the House-passed defense-authorization bill for fiscal 2004. One provision would require the Defense Department to buy "critical" items from domestic sources. Another section would provide that, if an item is only available from foreign sources, the Pentagon should set up a \$100 million fund to help domestic suppliers make components.

The bill's "buy-American" provisions have the support of the shipbuilding industry. But they have prompted concern among the major aerospace companies, who fear that it will significantly increase the cost of buying key components, particularly for information technology (IT) and electronics. And the aerospace firms are concerned that the reporting requirements proposed under the rules would increase the cost of doing business with the government, thus driving away qualified suppliers, regardless of nationality.

However, the measures have the backing of Rep. Duncan Hunter (R-Calif.), the powerful chairman of the House Armed Services Committee. In a telephone interview Thursday, Hunter told Defense Week the proposals were reasonable, particularly as the United States copes with a decline in its domestic manufacturing base.

"What I think we have to do is move forward with a practical package of what I would call 'strong America' initiatives to maintain a reliable domestic base for ... critical components," he said. "I don't think anybody disagrees with that notion. I think the question of how you get there is a question that divides people."

Lawrence Farrell, president of the National Defense Industrial Association (NDIA), did not agree. He said Hunter's proposal was a "shotgun" approach to shoring up domestic-sourcing provisions.

"We think it will have a lot of unintended consequences," he said.

The battle over buy-American rules is not new: The Bush administration, like others before it, has pressed for more power to waive "domestic-source requirements" in military procurement, giving the Defense Department greater latitude to buy parts and supplies overseas. But the debate has been given greater urgency by the war in Iraq.

According to Hunter, the flow of critical parts was potentially put in jeopardy during the war, when certain countries refused to deliver parts.

"The JDAM, which is arguably our most effective weapon, has a crystal that was made in Switzerland," he said. "We were denied that crystal during the Iraq war. That could have had, in an extended war, major detrimental ramifications for the United States."

Free trade advocates within the Pentagon, added Hunter, "are rethinking that position, and understanding that you have to have a reliable American source for certain critical components."

Break it down

The House-passed bill does not list the "critical" items that would fall under the new protections. But it would require the Defense Department to produce a list, called the "military system breakout list," which would document critical parts and determine how difficult it would be to switch to domestic production if the parts are made overseas.

In order to make that assessment, the department would be required to collect more data from its suppliers. That provision, for one, has contractors worried about the cost of compliance.

Jon Etherton, vice president for legislative affairs at the Aerospace Industries Association (AIA), a major defense and aerospace lobbying group, said companies that devote a relatively small portion of their business base to defense might stop selling to the Defense Department.

"For a lot of companies, this is not their big business-their commercial market is a big business and they sell to DOD as one of their customers," he said. Proving your company's U.S. status could require burdensome paperwork that could dissuade commercial companies from doing business with the Pentagon, he said.

That, in turn, will drive up costs for major military contractors and systems integrators, Etherton said, particularly in buying electronics and IT.

There will be "less access to technology and higher costs, because rather than having the market set prices-now you're in a situation where you have to deal with a supplier whose only customer is DOD and there's really no commercial market to set prices," Etherton said. "You have to do it by regulation, which is costly. There's a lot of overhead associated with it. And, historically, it has not been the most effective way to control costs."

AIA and NDIA member companies are now mobilizing to ensure that the measures as passed by the House do not make it through a House-Senate conference hammering out a compromise bill this summer. And the groups are preparing studies that they say will illustrate the impact of the proposed legislation.

Last week, the companies prepared talking points to take to Capitol Hill.

Among the concerns raised is the buy-American laws' impact on international programs such as national missile defense and the F-35 Joint Strike Fighter. The "go-it-alone" approach, they warn, could also undercut U.S. companies' ability to sell equipment to both NATO and non-NATO allies.

Said Farrell: "We can't go and sweep away all of these beneficial relationships [with allied countries]. It doesn't make sense to anybody."

"The talking points are a way of saying, these are the issues that we've identified," Etherton said. "What the companies then need to do is look at their individual programs and see how applicable they are and to what extent the impacts are going to be felt."

For example, Farrell suggested the measures would restrict access to sophisticated machine-tool equipment from overseas.

"For industry to comply with that would drive huge dislocation, huge costs," he said. "What if domestic machining doesn't meet the needs of the process?"

Having it both ways?

Hunter said the industry was trying to have it both ways, with lobbyists from one company often seeking relief from foreign competition in some instances, while opposing "buy American" provisions for some of their other systems.

Hunter had strong words for some major companies, suggesting that they were speaking with more than one voice on the issue.

"For example, Boeing wants to make sure that we buy American with respect to the [Air Force] tanker fleet, and when Airbus tries to inject itself into that program, Boeing strongly objects to that, on the basis that we should buy American," he said. "On the other hand, they also have a set of lobbyists that want to buy, when they buy components, to be able to buy foreign."

The same applies to shipbuilding, Hunter said.

"You've got other companies like Northrop [Grumman]-a great company-that makes ships, and advocates buying American with respect to buying ships, even though Korea, for example, makes ships for about 50 percent of the cost of American," he said. "On the other hand, they have another set of representatives who advocate buying foreign when they're buying their components."

Cynthia Brown, the president of the American Shipbuilding Association, acknowledged that different sectors within large, complex corporations like Northrop do not always share the same lobbying priorities. But shipbuilders are united, she said, in support of Hunter's effort.

San Jose Mercury News

August 7, 2003, Thursday

SECTION: BUSINESS AND FINANCIAL NEWS

KR-ACC-NO: K0361

LENGTH: 744 words

HEADLINE: Buy American campaign for Pentagon stirs hornet's nest

BYLINE: By Heather Fleming Phillips

BODY:

WASHINGTON _ Patriotism is sweeping the halls of Congress after the fight against terrorism and Iraq. So what better way to promote U.S. industry and protect the homeland than requiring the Pentagon to purchase more American products?

At least that's the intent of legislation passed by the House last month. The 2004 Defense Authorization Bill would strengthen "buy American" laws, requiring the Pentagon to purchase products with at least 65 percent U.S.-made parts. Current regulations on Pentagon purchases require that at least 50 percent of a product's components be made domestically.

Rep. Duncan Hunter, R-San Diego, is the force behind the latest "buy American" legislation. "Having a dependency on foreign countries for our military resources is not in the best interest of America's national security policy," explained Hunter spokesman Michael Harrison.

But the technology industry says the requirement is impractical, even ludicrous, because what tech product today does not have a significant amount of foreign-made parts?

From software to hardware, and telecom equipment to chips, scores of tech products would fail to meet the Defense Department's new requirement, says the Information Technology Association of America.

For Pentagon suppliers, "it's putting them in a position where they have to provide a unicorn," said Harris Miller, president of the Information Technology Association of America. They would have to provide products that simply don't exist, he said.

Miller said the first suppliers to feel the impact would be big "systems integrators," such as Lockheed Martin, Northrop Grumman and Raytheon, that work with dozens of sub-contractors to build cutting-edge battlefield technologies.

Flat panel displays for notebook computers and hard drive disks are two critical components for computers that are simply not manufactured in the United States, ITAA said in an eight-page white paper on the issue released last week. But it's not just that so many electronic parts are made overseas; it's also that it isn't always black and white where a product is "made."

Take for instance software. In many cases, software developers are setting up global work groups so that a product can be worked on around the clock. So is that final product made in the United States? Or the United Kingdom? Japan? Or maybe even India?

Hardware has similar issues. For instance, semiconductor chips that power everything from cell phones to PCs could be made in the United States, but sent to foreign plants for "encapsulation" _ a high-tech packaging process. Under existing U.S. Customs rules, the country of origin is considered the place where the chip is encapsulated. It's questionable under the proposed rule, whether enough chips are "made" in the United States to meet the Defense Department's demand, the ITAA white paper said.

The tech industry is joined in its opposition to Hunter's proposed rule by the defense industry and the Bush administration. The Defense Department says Hunter's legislation could jeopardize a number of critical military projects, including the missile defense system and Joint Strike Fighter project. Other countries, including the United Kingdom, have contributed \$4 billion toward the fighter project.

If the United States is forced to back out of existing contracts for the fighter project, it would disrupt relations with key allies, said Suzanne D. Patrick, deputy undersecretary of defense for industrial policy.

The fate of Hunter's "buy-American" provision is uncertain. The Senate's version gives the Pentagon more flexibility in its purchases.

Yet, Hunter, as chairman of the House Armed Services Committee, carries significant political weight and he'll be a chief negotiator as the House and Senate hammer out the differences between the two versions of the legislation.

"He's a very formidable opponent," said ITAA's Miller.

Yet, tech has an important ally on the issue _ Secretary of Defense Donald Rumsfeld.

"The broad and insidious nature of the consequences of this legislation are such that we don't see a lot of room for negotiation on the various provisions, and that makes it particularly problematic," Patrick said. "We've just been surprised, mystified and disappointed that this legislation is there."

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The Washington Post

June 26, 2003, Thursday, Final Edition

SECTION: FINANCIAL; Pg. E01

LENGTH: 1340 words

HEADLINE: Fearing a 'Buy American' Law; U.S. Defense Firms Expect Foreign Backlash

BYLINE: Renae Merle, Washington Post Staff Writer

BODY:

As Congress considers tightening restrictions on the Pentagon's foreign purchases, U.S. defense contractors are concerned that such a move could hurt their sales overseas and possibly derail large weapons programs such as the Joint Strike Fighter, a key international project led by Lockheed Martin Corp.

Industry officials worry that any effort to further restrict defense imports could prompt retaliation in foreign markets. The U.S. defense industry already sells six times as much to Europe as the Pentagon buys there, said Joel Johnson, vice president for international affairs at the Aerospace Industries Association. A move to restrain imports "would play into the hands of the European protectionists who see the future of their defense industry based on excluding American defense products," he said.

The House passed its version of the 2004 defense authorization bill with provisions that would strengthen "buy American" laws. While current laws already give preference to U.S. defense companies, the provisions would increase even further the dominance of American manufacturers and parts suppliers. Under the current legislation, 65 percent of components in items purchased by the Defense Department would have to be made in America, up from 50 percent.

The provisions also expand the list of items the Pentagon can buy only from U.S. suppliers, including the packaging for ready-to-eat meals, tires for ground vehicles, and aircraft and bomb fuses.

The Senate's version would give the Pentagon more options in buying from foreign suppliers. "The Senate bill recognizes that while the overwhelming bulk of America's military budget will continue to be spent on domestic products, our forces need the flexibility to procure the best of existing technologies and avail themselves of the strength of the global market," said John Ulliyot, spokesman for the Senate Armed Services Committee.

Industry officials and the Pentagon are especially concerned that the provisions would throw programs such as the Joint Strike Fighter and the missile defense system into turmoil. Restrictions on the use of foreign parts could force the fighter project to be revamped. In a written response to the legislation, the Pentagon said the "buy American" provisions would "require that international cooperative programs, such as Joint Strike Fighter, be modified or terminated drastically."

The fighter's development has depended on support from other countries. Britain has contributed \$ 2 billion and Italy has provided \$ 1 billion, industry officials said. The Pentagon cannot afford to build this next generation fighter jet without those kinds of contributions, the officials said, adding that cooperation could evaporate if participating countries find that they are frozen out of supplying certain parts for the program.

The countries are expecting a hefty return on their investment. For its \$ 2 billion, Britain could potentially receive \$ 43 billion in revenue through 2026 from the aircraft's production, according to a Defense Department report. Italy stands to collect \$ 4.8 billion in manufacturing revenue on its \$ 1 billion investment, the report said.

"There was a feeling that if you're asking countries to bear the cost of development, they want to see some participation in the program by their industries," said Jon Etherton, vice president of legislative affairs for the Aerospace Industries Association.

Rep. Duncan Hunter (R-Calif.), the powerful chairman of the House Armed Services Committee, dismissed concerns that the provisions could upset the fighter program. "It hasn't been demonstrated to the committee that this would result in damaging the Joint Strike Fighter program," he said in a recent interview. "Other countries just have to understand . . . we have to do everything we can to protect our defense industrial base. That is a legitimate national interest for this country."

Hunter argued that the U.S. defense industry has become too dependent on foreign components. During the Iraq war, he said, a Swiss manufacturer refused to provide a component for the Joint Direct Attack Munition, a smart bomb. Switzerland had banned military exports for war operations. An alternate U.S. supplier was found and production was not interrupted, said a spokesman for Boeing Co., which builds the weapon.

"If the war taught us anything, it's that we can't rely on our usual allies," said Joel D. Joseph, chairman of the D.C.-based Made in the USA Foundation. Referring to France and other European countries that opposed the war, Joseph said: "They have a right to be independent, and we have a right to be independent. The way to stay independent is for our industry to be self-sufficient."

Still, the proposed regulations worry many of the defense companies they are intended to protect. Boeing and Lockheed, for example, oppose a part of the provision that requires that only American-made titanium be used for military products. The companies say they need to use foreign metals to meet the Pentagon's cost requirements.

Raytheon Co., one of the country's largest defense contractors, recently established a joint venture with Thales Inc., a French defense firm, aimed at boosting sales for each company in the other firm's domestic market. "Clearly we have concerns with the 'buy American' provisions, and we're currently assessing the potential impact on Raytheon," said Dave Shea, a company spokesman. "Among our concerns is the potential damage they might do to our international business, which is about 20 percent" of Raytheon's total business.

The provisions could also impair the industry's ability to court foreign customers, the companies say. As part of their sales pitch, defense contractors often offer to allow a country to produce in its own market part of a weapons system a contractor purchases, industry officials said. "In any country with developed aerospace capabilities, they want to make part of what they buy," said Robbin Laird, a defense industry consultant.

A sales agreement might also stipulate that the part produced overseas would be incorporated into future versions of the weapon, the officials said. But under the proposed provisions that would limit foreign content, such agreements would become harder to negotiate, the officials said.

The United Kingdom supports an open and competitive market, a British Embassy spokesman said in a statement. "It will be no surprise, therefore," that the minister of defense would be opposed in principle "to any legislative steps that acted to limit such competition. . . . The UK Government regrets this move," the statement said.

U.S. defense contractors have been frustrated recently by resistance in parts of Europe to American weapons sales. As evidence of what they call "Fortress Europe," industry officials point to a recent competition between Hartford, Conn.-based United Technologies Corp. and EuroProp International, a consortium of European engine builders, for an Airbus Military contract. Airbus extended the deadline on bidding for the \$ 3 billion contract to provide the engines for a fleet of European military transport vehicles so that EuroProp could submit a new offer closer to one presented by United Technologies, industry officials said. The contract went to EuroProp.

U.S. defense contractors were already leery of the European bidding process, and the Airbus Military competition proved their doubts, said Richard Aboulafia, an aviation analyst for Teal Group Corp., a Fairfax-based defense research firm. "If you talk to an international program manger, they will tell you they feel snubbed" in Europe, he said.

At the Paris Air Show earlier this month, Robert Trice, Lockheed Martin's senior vice president for corporate business development, said: "When we see European governments . . . holding economic 'competitions' only to make the final award based on political criteria, we realize that there is still a lot of work to be done."

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HEADLINE: "Buy American" plan for Pentagon clears hurdle despite warnings

BYLINE: ROB LEVER

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With some lawmakers fuming over opposition by US allies to the Iraq war, Congress is weighing a plan to force the Pentagon to buy more US-made goods despite warnings from industry and the administration.

A "Buy America" amendment was passed by the House of Representatives in May as part of a defense authorization bill, requiring 65 percent of components in items bought by the Pentagon be made in the US, compared to 50 percent under current law. It would also require some components such as machine tools to be 100 percent US-made. However, the Senate turned aside a similar effort, and the two bills must be reconciled before being sent to the White House.

Representative Duncan Hunter, who has spearheaded the campaign, feels "it does not serve our national interest to have our national security dependent on foreign countries," said spokesman Michael Harrison.

Hunter and others cite a delay in obtaining a component from a Swiss manufacturer for precision-guided munitions during the Iraq war as evidence that the US needs to be more self-sufficient.

But the administration of President George W. Bush and many industry leaders warn that such a measure may lead to higher prices, retaliation from US trading partners and an inability to obtain some components.

In a statement on the bill, the White House said it "objects strongly" to the provisions "because they are burdensome, counterproductive, and have the potential to degrade US military capabilities."

Critics of the bill note that many US defense projects, such as the Joint Strike Fighter, have international partners, and point out that some high-tech goods are now produced only in Asia, making compliance with the proposal problematic.

"The passage of this proposed legislation -- while it sounds good on the very shallow surface -- would have devastating effects on the (Defense) Department's ability to provide cost-efficient parts for weapons as well as negatively impact cooperative programs with allies such as Canada and the UK on programs like the Joint Strike Fighter and missile defense cooperative issues," said a Pentagon spokesman, who asked not to be identified.

Harris Miller, president of the Information Technology Association of America, which represents many high-tech firms, called the measure ill-advised, saying IT companies would spend billions and take years to comply with the proposed requirements.

An ITAA study noted that some components, like memory chips, flat panel monitors and software used in defense, come from Asia or elsewhere based on current industry trends.

"Components in most IT products are manufactured in hundreds of different locations in dozens of countries every day, and plant locations change regularly based on numerous cost and logistical factors," Miller said.

"The US IT industry is the world leader, but it is part of a truly global marketplace. Compliance by IT companies with proposed country-of-origin requirements ... is nearly inconceivable on many critically important IT products."

Aerospace firms are also concerned about the impact of such a move.

"The Defense Department would have to pay more for its products and wouldn't have access to the most advanced electronics and information technologies from the commercial marketplace," said a statement by the Aerospace Industries Association.

"Aerospace platforms use information technologies and electronics systems such as flat computer panels that are not made in the United States ... Because the number of companies willing to sell to the government would decrease, there would be less competition, less innovation, and fewer new technologies in the hands of our frontline war fighters."

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