



ACQUISITION
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

JUN 15 2004

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515-6035

Dear Mr. Chairman:

I am writing to express the views of the Department of Defense (DoD) on proposed changes to existing domestic preference statutes. The Department supports the Senate's efforts to make improvements to existing domestic preference statutes rather than increasing and imposing additional preferences. We also are concerned about protecting U.S. industrial base. However, we must balance the actions that we take so that we meet our overriding national security objectives.

It is essential that the Department have the ability to procure defense articles and services from those sources that can provide the most advanced state-of-the-art technology for our weapon systems. The U.S. does not necessarily possess, and may not be the first to develop or produce, state-of-the-art technology in every area affecting national security. For example, in some electronics and information technology areas, suppliers in other countries are more advanced than U.S. suppliers. In such cases, the DoD must **be able to capitalize** on those **efforts** and **incorporate** their technologies into our weapon systems. At the same time, the Department believes that the U.S. must invest in its industrial base to ensure that our companies continue to be world-class leaders in their core competencies.

However, domestic preference provisions are sometimes counterproductive. They send a negative message to our allies. They challenge the good will of friendly countries that currently do not maintain barriers against U.S. defense industry and invite retaliation against U.S. suppliers. The United States has a very favorable balance of trade in defense articles with our allies. This favorable trade balance and the jobs it represents would be negatively impacted should these countries cease to procure U.S. defense equipment either through FMS or through direct sales. We also run the risk that their governments would retaliate by passing comparable legislation restricting the import of U.S. products.

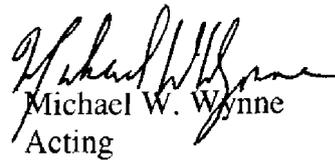
The Department believes that encouraging investment in America is the best strategic approach to making our industries strong. Our companies will be the preferred



supplier of choice worldwide due to their better technology, workforce and performnncc rather than because of a statutory preference.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report for the consideration of the committees.

Sincerely,


Michael W. Wynne
Acting

cc:
The Honorable Ike Skelton
Ranking Member