



June 5, 2007

The Honorable Carl Levin
Chairman
Armed Services Committee
U.S. Senate
Washington, DC 20510

The Honorable John McCain
Ranking Member
Armed Services Committee
U.S. Senate
Washington, DC 20510

Dear Chairman Levin and Ranking Member McCain:

On behalf of the member companies of the Information Technology Association of America¹, Electronic Industries Alliance², and the Semiconductor Industry Association³, we are writing to express our strong opposition to Sections 808, 809, 845 and 846 of H.R. 1585 and to ask that these provisions related to the use of specialty metals be stripped from any final conference language. Our specific concerns relate to electronic components and the ability of the Department of Defense (DoD) to continue to acquire in a timely fashion the latest technologies for the warfighter in the battlespace.

The premise behind the House proposals is that any and all items in the defense supply chain can be made compliant with the domestic sourcing requirements of 10 USC 2533(b). The fallacy of such a premise becomes glaringly obvious when applied to the information technology and electronic component supply chains. For many years, the industry has used a global supply chain to source the raw materials and the end item components for their products. Requirements to track the source of those raw materials are not part of the business practices of this industry and would be too great an expense and burden to create, forcing many of DoD's largest IT suppliers from the government market, limiting options for the government and raising costs for the taxpayer.

Congress acknowledged this condition last year and granted DoD flexibility to implement workable solutions to preserve access to technology for the warfighter, while protecting domestic specialty metals production capability. Unfortunately, these sections of H.R. 1585, when coupled with the Skelton/Hunter letter of May 1, 2007, challenge the exercise of that flexibility and call into question the use of determinations of domestic non-availability (DNAD) employed by DoD to implement the provisions related to specialty metals. This challenge includes the DNAD issued for populated circuit cards – the heart of most IT electronic components – and for fasteners, as well as and the use of “classes” for these determinations.

The use of “classes” of items was rightly adopted to avoid the extremely cost prohibitive analysis that would be necessary if each and every item was analyzed

for compliance with the language of 10 USC 2533(b). For IT and electronics, DoD correctly determined that they could identify "classes" of individual items populating a circuit card to create assemblies and, therefore, make a determination to address all of these individual items collectively. Items that have been treated as "classes" in the circuit card assembly DNAD include semiconductors, diodes, resistors, transistors, microprocessors and capacitors, just to name a few. The House action specifically challenges the use of "classes" and establishes that all DNADs - including the one for populated circuit cards and any others for electronics that may be under development - must undergo a regulatory promulgation. Such a restriction on the traditional authority granted by the Congress to the Secretary of Defense to determine that an item is critical for national security is a move in the wrong direction, as it would delay or outright prohibit DoD's ability to equip the warfighter with IT and electronic components and the capabilities they bring.

Our concerns about the language of H.R. 1585 are multiplied when viewed in light of the additional "electronic component" items still awaiting guidance and acceptance from DoD. Additional items that will be impacted should the House language be adopted include power supplies and transformers, wires, connectors, fasteners, storage media, switches and the racks, panels and enclosures that encase and support these electronic components.

For these reasons, we ask that you oppose and reject any efforts to add these restrictive provisions to the Senate bill and that Congress reject Sections 808, 809, 845 and 846 in final deliberations on the FY08 National Defense Authorization Act. Should you have any questions related to this issue, please contact Trey Hodgkins on the ITAA staff at 703-284-5310 or thodgkins@itaa.org. Thanks for your attention to our concerns.

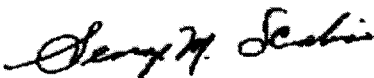
Sincerely,



Phillip J. Bond
ITAA President & CEO



Matthew J. Flanigan
EIA Interim President & CEO



George M. Scalise
SIA President

Cc: Senate Armed Services Committee Members

¹ ITAA provides global public policy, business networking, and national leadership to promote the continued rapid growth of the IT industry. ITAA consists of over 325 corporate members throughout the U.S. and a global network of 67 countries' IT associations. The Association plays the leading role in issues of IT industry concern, including information security, taxes and finance policy, digital intellectual property protection, telecommunications competition, workforce and education, immigration, online privacy and consumer protection, government IT procurement, human resources and e-commerce policy. ITAA members range from the smallest IT start-ups to industry leaders in the Internet, software, IT services, ASP, digital content, systems integration, telecommunications, and enterprise solution fields. For more information visit www.ita.org.

² EIA, headquartered in Arlington, Va., comprises nearly 1,300 member companies whose products and services range from the smallest electronic components to the most complex systems used by defense, space and industry, including the full range of consumer electronic products. The Alliance is composed of four sector organizations: the Electronic Components, Assemblies and Materials Association; the Government Electronics and Information Technology Association; the JEDEC Solid State Technology Association; and the Telecommunications Industry Association.

³ The Semiconductor Industry Association (SIA) is the premier trade association representing the U.S. semiconductor industry. Founded in 1977 by five microelectronics innovators, SIA unites 95 companies responsible for more than 85 percent of semiconductor production in this country.



- The fastener industry estimates that 80-85% of all aerospace fasteners are dual-use (commercial off-the shelf) fasteners, interchangeable between commercial and defense applications.
- Based on best industry expert analysis and historical trends, the total worldwide aerospace fastener market was approximately \$2.2 billion in SALES in 2005. The total US aerospace fastener market in 2005 was \$1.5 billion in sales. Of that \$1.5 billion, approximately \$500 million was for defense contracts. Of that \$500 million, approximately \$300-350 million (60-70 %) were dual-use fasteners, and approximately \$150-200 million (30-40%) were military unique.
- The raw material cost relative to the total manufacturing cost for fasteners varies by size, complexity, and type of material used. For example, a simple fastener has a higher raw material cost relative to manufacturing cost because less engineering and fewer value-added processes are involved in making the fastener. On the other hand, a highly engineered fastener has a much lower raw material cost relative to the manufacturing cost.
- Some examples of specific dual-use fasteners and their raw material cost relative to the manufacturing cost are:
 - Simple 8740 Alloy Steel fastener (3/16" diameter, 1/2" long) –Raw material is 3% of the total cost of the fastener. Raw material cost is 11% of the cost for the same fastener design in a larger size (1/2" diameter, 1" long).
 - 8740 Alloy Steel generic screws with few finishing operations (3/16" diameter, 1/2" long) - Raw material cost is 37% of total cost.
 - High performance 8740 Alloy Steel (5/8 "diameter) - Raw material cost is 45% of total cost.
 - INCONEL 750 (Nickel-based alloy) fastener (1/2" diameter, 1.50" long) – Raw material cost is 34% of the total cost.
 - Multi-piece high performance blind bolt specialty fastener made of titanium, stainless steel and nickel - Raw Material cost is 11% of total cost.
- Of the \$500 million in 2005 defense fastener sales, the industry estimates that \$150 million of those fasteners were made of alloy steel. Sales figures are estimated to be about twice the manufacturing cost, so of the \$150 million in defense sales of all alloy steel fasteners, \$75 million would be manufacturing costs. Applying an average of 24% raw material cost/manufacturing cost relationship from the alloy steel examples above means \$18 million would be alloy steel costs. Most industry analysts suggest that an 8% raw material cost/manufacturing cost ratio is more accurate, which would equate to \$6 million in alloy steel costs. Therefore, even if all alloy steel military aerospace fasteners were considered dual-use, the maximum impact on the specialty metals industry is between \$6 million and \$18 million annually.
- Applying that same analysis to the \$350 million of titanium/nickel-based fasteners supplied to the military, \$175 million would be manufacturing costs. Using an average of 22.5% raw material cost/manufacturing costs, \$39.375 million would be titanium/nickel costs. Even assuming the highest raw material cost/manufacturing cost percentage of 34%, titanium/nickel costs would be \$59.5 million. Therefore, even if all titanium/nickel-based military aerospace fasteners were considered dual-use, the maximum impact on the specialty metals industry is between \$39 and \$59 million annually.
- Examples of specialty metals industry revenues:
 - Carpenter Technologies (titanium and specialty steels): FY 2006 Net sales: \$1.57 billion, increased from \$1.31 billion in FY 2005.
 - Allegheny Technologies, Inc (titanium and specialty steels): 2006 Net sales: \$4.94 billion, increased from \$3.54 billion in 2005.
 - RTI (titanium and specialty steels): 2006 Net sales: \$505.3 million, increased from \$334.8 million in 2005.
 - Timet (titanium): 2006 Net sales: \$1.18 billion, an increase of 58% over 2005 net sales of \$749.8 million.

CONCLUSION: Exempting dual-use, commercial off-the-shelf fasteners from the specialty metals provision of the Berry Amendment helps US fastener manufacturers and distributors, many of whom are small and medium sized businesses, remain a viable part of the US defense supplier base – without causing a substantial loss of business to the specialty metals industry.

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June 2007

Senate Armed Services Subcommittee on Airland Holds Hearing on Military Aviation Programs

LIST OF PANEL MEMBERS AND WITNESSES

....LIEBERMAN:

General Hoffman, thank you for being here.

HOFFMAN:

Mr. Chairman, I thank the committee for the opportunity to discuss our Air Force programs. In addition to support for the requested amounts in the president's budget, there are two areas that I would ask this committee for support. First is on the Berry Amendment. Last year's authorization language allowed integrated circuits with de minimis amounts of specialty metals to be exempt from Berry compliance.

We very much appreciate this relief, but ask that this logic be extended to fasteners and small parts or that we incorporate a market-basket approach to the actual production facility.

We spend an enormous amount of government and industry time validating information to waive the Berry Amendment. As an example, for the NRAM (ph) missile, we spent over 2,200 man-hours to review 4,000 parts and produce an eight-inch document to waive items worth \$1,400 on a \$500,000 missile.

In the B-22 program, we just completed six months of work on a waiver package for 1,751 non-compliant parts that represent only 0.14 percent of the value of that system.

One example is a \$0.13 nut that meets military standards, but is non-compliant. To produce an equivalent nut that is compliant would take 48 weeks and cost 40 times as much.

Commercial buying practices have the potential to save the government significantly amounts of money, but buying commercial items in compliance with Berry are not compatible, as the global supply system does not track the original metal source for small parts.

The second area we could use relief on is in simulator training. Last year's authorization language restricted our ability to use O&M dollars to purchase simulator training and requires us to develop and procure the simulators.

We would like the flexibility to evaluate both approaches to determine the best value to meet the warfighter's needs. We have very successful examples of simulator services for our F-15 and AWACS crewmembers, and we would like to keep that avenue as an option. I look forward to your comments and questions. Thank you.