

ARMED SERVICES COMMITTEE

NATURAL RESOURCES COMMITTEE

SMALL BUSINESS COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515-0606

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October 13, 2011

Administrator Ronnie Favors
DLA Strategic Materials
8725 John J. Kingman Road, Suite 3229
Fort Belvoir, Virginia 22060-6223

Dear Administrator Favors:

In the last two years, officials from both the legislative and executive branches have frequently discussed the issue of our nation's dependence on potentially unreliable foreign sources for those critical rare earth materials that are so important to high-technology, "green energy", and military applications. As the Department of Defense (DoD) finalizes its congressionally-required assessment of supply-chain vulnerabilities and identifies those high-demand rare earths that are most susceptible to supply-chain interruption, I expect that this report will also explore the potential for incorporating those materials into DoD's Annual Materials Plan (AMP).

To be clear, I support the procurement of such high-demand, at-risk rare earth materials to help fulfill DoD requirements and reduce this supply-chain vulnerability. By using the Annual Materials Plan as a vehicle, the Department can identify critical rare earth oxides, alloys, metals, or magnets, depending on what best suits DoD's needs, and then fulfill a portion or the entirety of the associated requirements. Such a program should serve as a catalyst to the development of downstream technologies such as rare earth separation, metal, alloy and magnet production. By leveraging DoD's demand with numerous domestic and ally nation companies capable of meeting that need, the Department can serve an important role by investing in the future of a competitive, multi-source domestic rare earth industry. Such an investment would have the dual benefit of both providing much needed domestic demand for metal, alloy and magnets, while also providing enough rare earth material to serve as an "insurance policy" for our national defense. Quite simply, a rare earth inventory plan could alleviate the rare earth issue for the Department and should be pursued aggressively.

For example, the Department can address its clear and pressing need for neodymium iron boron permanent magnets – without which several pivotal military applications cannot function – by procuring neodymium iron boron alloy in a variety of grades from domestic sources. DoD officials could then utilize the Authorization and Consent Clause of the Federal Acquisition Regulations through patent expiration to issue a small production contract and thereby stockpile blocks of neodymium iron boron magnets in the necessary grades using U.S. produced neodymium alloy. Industry could then access such blocks to fabricate finished components that meet DoD's needs. This limited program would reestablish a capability that is non-existent in the United States and leaves us totally dependent on unsecure foreign sources of supply.

Our current reliance on China for rare earth materials is disturbing, to say the least. The global market has proved tumultuous over the last year as mining permits decrease, environmental laws and regulations increase, and export quotas limit supply while dramatically increasing prices. I am particularly disturbed by the ongoing migration of global manufacturers into China as demonstrated by the planned relocations of rare earth companies Showa Denko and Hitachi and major manufacturers such as Toyota, all presumably moving to access scarce rare earth materials. At the same time, Department officials do not seem able to arrive at a consensus on the need for a secure rare earth supply-chain let alone take action to create one. It is clear that the Department's delay is a contributing factor in allowing the United States to become ever more dependent on China for not only rare earth oxide and metal, but also alloys, magnets and eventually entire components and assemblies that comprise our major weapon systems. This is a future that can and must be avoided.

It is encouraging that the Department acknowledged the national security implications of our rare earth dependence in the 2011 Annual Industrial Capabilities Report. As you know, creating a strategic reserve of such materials is included in the list of potential risk mitigation strategies. I look forward to the Department fully developing their analysis, which will contribute to the development of multiple sources of rare earths within the United States.

U.S. national security experts must think creatively about how to ensure stability of supply for critical materials, including rare earth oxides, alloys, metals, and magnets. The Defense National Stockpile Center has long served as a leader with the Department in ensuring the United States has ample stocks of critically needed items. I encourage you to maintain that proud tradition of vision and initiative and to establish an inventory of such rare earths, as I have outlined, through your organization's Annual Materials Plan or other contractual mechanisms as appropriate.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Coffman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mike Coffman

U.S. Congress

Cc: Undersecretary of Defense, Acquisition, Technology & Logistics