

STATEMENT BY

MS. HALIMAH NAJIEB-LOCKE
DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR INDUSTRIAL BASE
RESILIENCE

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Overview

Chairman Fallon, Ranking Member Bush, and distinguished Members of the Economic Growth, Energy Policy, and Regulatory Subcommittee, thank you for the opportunity to testify on the importance of mitigating strategic and critical materials supply chain risk within America's defense industrial base.

In my role as the Deputy Assistant Secretary of Defense for Industrial Base Resilience, I work together with colleagues across the Department of Defense as well as the interagency to strengthen the defense industrial base across key sectors, including strategic and critical materials, technology, workforce, and more.

The Department needs secure, reliable access to a range of strategic and critical minerals for everything from large capacity batteries and microelectronics, to conventional munitions and missiles, and new chemistries for next generation weapons and aircraft. Strategic and critical materials are key components of the microelectronics that power computation for DoD weapons systems, including semiconductors and advanced microelectronics necessary for space operations and satellites. Battery materials, such as lithium, cobalt, manganese, graphite and nickel are necessary for the large capacity batteries that power DoD vehicles and ships. Missiles and munitions also rely on strategic materials such as antimony, magnesium, and other chemical precursors. Specialty metals, such as titanium, tungsten, and high purity aluminum are essential to manufacturing turbine engine parts, aircraft structures, unmanned aerial vehicles (UAVs), vehicle armor, and much more. Finally, rare earth elements are vital to a range of defense systems and electronics. Rare earth permanent magnets are needed to power UAVs, Virginia and Columbia-class submarines, and DoD aircraft such as the F-35.

It is clear that strategic and critical materials are necessary for national defense, but these supply chains are vulnerable to disruption, including by adversarial attempts to restrict supply. In recent months, the People's Republic of China's (PRC) export restrictions on gallium, germanium, and graphite have demonstrated the PRC's capacity to cause such a disruption to critical U.S. supply chains – and highlighted the urgency of securing our supply chains against such tactics.

Executive Order (EO) 14017, *America's Supply Chains*, worked to identify our weaknesses and provide recommendations to increase the resilience of strategic and critical materials supply chains. In response to EO 14017, I would like to highlight the DoD's approach to securing strategic and critical materials supply chains, which centers on four key tools:

- Stockpiling to reduce our vulnerability to sudden disruptions;
- Investments to build long-term capacity through the Defense Production Action Title III (DPA T3) and the Industrial Base Analysis and Sustainment (IBAS) programs;
- DoD acquisition policies that root DoD supply chains in secure sources;

- And finally, international partnerships that leverage the strengths of the U.S. and our allies to mutually secure strategic and critical materials supply chains through Security of Supply Arrangements (SOSAs).

Strengthening the National Defense Stockpile as an Asset to Reduce U.S. Vulnerability

A key pillar of the Department's approach to secure supply chains is strengthening United States stockpiles. The National Defense Stockpile (NDS) is the nation's stockpile for strategic and critical materials. A robust stockpile reduces U.S. vulnerability to sudden supply disruptions by serving as a critical buffer in emergencies. Stockpile reserves allow us to release materials to keep key production lines operating until long-term supply lines are restored. A strong stockpile can also deter adversaries who may otherwise consider trying to disrupt supply. Moreover, a stockpile that is coordinated with stakeholders across the U.S. Government can maximize the impact of U.S. policy efforts to build resilient supply chains by sending a strong demand signal to trusted suppliers.

IBP has worked to revitalize the NDS to meet the complex and emerging needs of the 21st century threat environment. The NDS has undergone changes in recent decades. A period of relative peace, and a prevailing trust in globalized supply chains to supply the materials necessary for defense applications and critical civilian infrastructure, led to a reduction in NDS inventory during the years immediately following the end of the Cold War. U.S. leaders now recognize that today's threat environment is very different from that of the early post-Cold War era. With the PRC's recent actions to strengthen their controls on exports of key materials, it is more urgent than ever to bolster the NDS to respond to these threats.

A priority effort in the revitalization of the NDS is the implementation of a new Board of Directors. This Board will serve a key role in convening stakeholders across the U.S. government and Congress to enhance the NDS's ability to respond to U.S. needs.

We recognize and applaud Congress's support for the NDS as a strategic asset for building resilience and readiness for today's complex threat environment. In fiscal year 2022, Congress appropriated funds to the NDS for the first time in nearly three decades. Over the last two fiscal budgets, Congress appropriated over \$238 million total to stockpile the materials most critical to sustaining defense capabilities in the event of a disruption. But material shortfalls remain. The NDS needs robust material inventories to ensure that it can sustain defense capabilities in case of an emergency disruption or adversarial action. DoD and NDS estimates show that NDS inventories are currently not sufficient, based on calculated scenario analysis. To bolster the NDS inventory and hedge against materials risk to our defense capabilities, I recommend that Congress fund the President's Budget Request for National Defense Stockpile acquisitions.

DOD Investments Build Long-Term Resilience

In addition to stockpiling to mitigate sudden disruptions, the DoD is also making important strides in establishing long-term resilience by investing in domestic capabilities and production of the minerals we need. The Department has used key authorities such as the DPA T3 and IBAS programs to invest in private sector projects to build domestic production capacity for a wide range of critical minerals necessary for defense and critical civilian applications. As of November 16, 2023, MCEIP has awarded \$645M and committed another \$394M across 33 Strategic and Critical Materials projects since FY22. This funding is comprised of funds from the Ukraine Supplemental and Inflation Reduction Act as well as other Congressional adds and base funding. The DoD has invested in capabilities to mine and process rare earth elements, minerals needed for semiconductors, battery minerals, as well as specialty metals that enable the advanced capabilities of DoD systems and the warfighter.

More investments are planned to meet U.S. and defense needs for critical materials. Over the long-term, these investments are laying the foundation for a more secure defense industrial base, bringing production of key minerals back to the U.S at every stage of the supply chain.

To continue investing at the level needed to ensure that our industrial base can meet both current and future demands in today's volatile threat environment, I recommend that Congress support the full Presidential Budget Requests for DPA T3 and IBAS.

DOD Acquisition Policy Roots DOD Supply Chains in Secure Suppliers

These strategic investments and stockpiling actions are also coordinated with DoD acquisition policies which restrict the sourcing of strategic and critical materials that are incorporated into DoD end products, from aircraft to weapons systems. Acquisition policy roots defense supply chains in secure suppliers and directs the DoD's demand signal to support domestic and allied sources.

Specifically, many of IBP's investments are coordinated with a key shift in DoD acquisition policy. Effective in January 2026, policy changes enacted in the 2021 National Defense Authorization Act (NDAA) will require that DoD suppliers must source certain metals and rare earth permanent magnets that are entirely produced outside of the covered nations: namely the PRC, Russia, Iran, and North Korea. This "mine-to-metal" or "mine-to-magnet" policy shift, effective in 2026, is a significant change for DoD acquisition policies for critical minerals. DoD acquisition policy for these specific minerals will now require more secure sourcing, beginning at the mine-tier of the mineral supply chain.

Rooting DoD supply chains in reliable and responsive sources is imperative to national security, and we recognize the challenges inherent to securing the rare earth "mine-to-magnet" supply chain. To meet these challenges, the DoD is coordinating all available tools, including policy and investment, to succeed in this national security imperative.

Building International Partnerships to Strengthen Critical Materials Supply Chains

While bolstering domestic capacity is important, we also recognize that critical minerals supply chains are truly global, with many nations playing unique and strategic roles across these complex and diverse supply chains. In addition to bolstering stockpiles and investing in domestic production, we must engage our allies and partners to diversify global critical material supply chains and remove dangerous bottlenecks endangering secure access.

Partner nations with strong mining sectors, such as Canada and Australia, are poised to play a key role as secure and sustainable global sources of critical materials. To strengthen security partnerships such as AUKUS and to invest in and leverage the unique capabilities of our allies, the Administration has advocated for a legislative proposal that would allow DPA T3 to invest in projects with Australia and the United Kingdom (i.e. consider these countries as ‘domestic sources’).

Beyond investment, the Department has entered into agreements with partners that allow the U.S. and our allies to leverage our strengths to mutually bolster our defense supply chains in case of disruption. These agreements, called Security of Supply Arrangements (SOSAs), are bilateral, reciprocal, non-binding arrangements which outline a formal process for the Department, foreign counterparts, or industry partners to request or provide priority support for industrial resources that are required for national defense purposes. SOSAs are one of the most unique tools available to the Department as it seeks to secure global supply chains.

The Department has concluded seven new SOSAs within the last 13 months with Latvia, Lithuania, Estonia, Japan, Denmark, the Republic of Korea, and Israel. The Department continues to leverage existing SOSAs and pursue opportunities to conclude new SOSAs with our allies and partners to enhance our industrial base resilience.

Conclusion: The Path Forward

These international partnerships, in combination with revamping the National Defense Stockpile, investing in our domestic industries, and rooting DoD supply chains in secure sources, are the key tools in the Department’s comprehensive approach to securing strategic and critical materials supply chains. These actions are part of the framework to be released in the Department’s National Defense Industrial Strategy, which will put forth the principles and priorities for equipping our industrial base for the challenges of the 21st century.

Recent disruptions and adversarial actions have underscored what we have long recognized: That it is more urgent than ever to build capability and resilience in the supply chains for critical

minerals and other key sectors of the defense industrial base. The United States of America does not get dissuaded by the complex challenges we face. As we have throughout our history, we will rise to meet any and all threats to the nation.

Thank you for providing me an opportunity to testify before you today. I look forward to your questions.

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