

SECURITY OF SUPPLY ARRANGEMENT

BETWEEN

**THE DEPARTMENT OF DEFENSE OF THE UNITED STATES OF
AMERICA**

AND

**THE SECRETARY OF STATE FOR DEFENCE OF THE UNITED
KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND**

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Christophe McCray
Manufacturing and Industrial Base Policy (MIBP)
OUSD(AT&L)

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INTRODUCTION

The Department of Defense of the United States of America (U.S. DoD) and the Secretary of State for Defence of the United Kingdom of Great Britain and Northern Ireland (UK MOD), hereinafter referred to collectively as the “Participants,” desiring to enter into this Security of Supply Arrangement (the “Arrangement”);

Recognizing that this Arrangement sets forth the principles that the Participants intend to follow to provide each other with reciprocal priority support;

Recognizing that this Arrangement is not intended to be binding under international law;

Recognizing the benefits of improving cooperation on security of supply for national defense requirements and that it is in the national interest of both Participants to extend existing cooperation set forth in Annex VI (Meeting National Defense Requirements – Security of Supply) to the Memorandum of Understanding Between the Government of the United States and the Government of the United Kingdom of Great Britain and Northern Ireland Relating to the Principles Governing Cooperation in Research and Development, Production, Procurement and Logistics Support of Defense Capability (U.S./UK Reciprocal Defense Procurement MOU), which entered into effect December 16, 2004, as amended, and superseded by this Arrangement;

Noting that among the consequences of globalization and industrial restructuring are the creation of transnational defense companies, possible loss of certain domestic industrial capabilities and capacities, and increasing acceptance of mutual interdependence of supplies needed for approved national defense requirements;

Recognizing, in this environment, the value of dialogue, consultation, and agreements and arrangements that facilitate the supply of defense articles and defense services and the value of maintaining stable and sustainable supply lines; and

Recognizing that it is desirable that each Participant develop and/or utilize a Priorities System that enables it to provide for preferential treatment of contracts and subcontracts that promote national defense to each other;

Have reached the following understandings:

SECTION 1 - DEFINITIONS

1.1. For the purposes of this Arrangement, the following definitions are to be used:

- a. Accredited UK Company – A company incorporated in the United Kingdom and accredited under, and participating in, the Code of Conduct.
- b. Code of Conduct - A system of conduct established in writing between the Ministry of Defence of the United Kingdom of Great Britain and Northern Ireland and the Accredited UK Companies to describe the behaviors and responsibilities expected of an Accredited UK Company responding to a Priority System request from the U.S. DoD.
- c. Defense Priorities and Allocations System (DPAS) – The priorities system (15 U.S. Code of Federal Regulations Part 700) administered by the U.S. Department of Commerce that implements the priorities and allocations authorities under Title I of the Defense Production

Act of 1950, as amended, which have been delegated to the Secretary of Commerce by the President of the United States with respect to industrial resources.

d. Industrial Resources - Materials, services, and facilities, including construction materials, needed to meet approved defense requirements. This term includes any raw, in process, or manufactured material, article, commodity, supply, equipment, component, accessory, part, assembly, or product of any kind, technical information, process, or service. Industrial Resources does not include commercial end items commonly available in the country of the supplier, nor does it include construction or construction material supplied under construction contracts.

e. Priorities System - Procedures under which one Participant, with the assistance of the other Participant, can request a contractor to provide a priority to, including preferential acceptance and performance of, certain contracts (including subcontracts and purchase orders) over other contracts (including subcontracts and purchase orders), to meet approved defense requirements, subject to a Participant's applicable national laws, policies, regulations, and international obligations. As defined here, a Priorities System addresses only the Industrial Resources defined above.

f. Security of Supply - A nation's ability to ensure a supply of defense products, materials, and services sufficient to discharge its military commitments in accordance with its foreign and security policy requirements.

SECTION 2 - MAJOR PRINCIPLES

2.1. Security of Supply presupposes, where possible, cooperation and coordination, including the mutual acceptance and support of Industrial Resource priorities set by either Participant.

2.2. Complementary, mutual Priorities Systems arrangements between the Participants are important to enable each to acquire the Industrial Resources needed to meet urgent and critical defense requirements in a timely, effective, and efficient manner. Such Priorities Systems are not designed to rectify poor provisioning by either Participant and should not be used as a substitute for the normal contracting process.

2.3. Each Participant is to enable reciprocal priority support wherever possible. The UK MOD is to provide reciprocal priority support by utilizing a system based on a Code of Conduct signed by Accredited UK Companies. The U.S. DoD is to provide priorities support by utilizing the existing U.S. DPAS that is based on its applicable national laws and regulations.

2.4. If so requested, each Participant, to the greatest extent practicable and with due regard to its international commitments, is to consult immediately in a spirit of cooperation with the other Participant in order to enable each to:

- a. assign or support the assignment of priority, through its Priorities System, to specified defense contracts that are issued by the other Participant, or by contractors, subcontractors, or suppliers working on an approved defense program requirement of the other Participant, to suppliers located in its territory;

- b. facilitate or encourage the acceptance and priority performance by participating contractors, subcontractors, or suppliers located in its territory of designated defense contracts as necessary to meet customer delivery requirements;
- c. provide assistance, when requested, to seek to resolve problems in order to ensure timely delivery of Industrial Resources under designated priority contracts and seek to resolve conflicts between or among different contracts placed by the Participants; and
- d. on a reciprocal basis, endeavor to enter into security-of-supply agreements or arrangements, as appropriate, with other defense establishments of members of the North Atlantic Treaty Organization, the European Union, and other alliances or organizations to which the Governments of the Participants are members.

SECTION 3 - ACTIONS

3.1. For the UK MOD

3.1.1. In furtherance of the above principles, the UK MOD, acting within its authorities, is to invite specific UK companies to participate in a Code of Conduct System. Pursuant to the Code of Conduct with such Accredited UK Companies, the UK MOD is to use its best efforts to ensure that Accredited UK Companies will do all they can to provide priority support to U.S. DoD contracts supporting U.S. DoD programs, when requested to do so by the U.S. DoD point of contact identified in Section 4 (Designated Points of Contact and Review) of this Arrangement.

3.1.2. Priority support includes:

- a. an Accredited UK Company accepting that a contract that it is entering into or is participating in with the U.S. DoD, or with one of its contractors, is accepted as a contract falling under the Code of Conduct (these contracts are to be known as "Code of Conduct contracts");
- b. inserting into any subcontract provisions designed to ensure due performance of such a Code of Conduct contract;
- c. responding in a timely manner to requests of the U.S. DoD for amendments to the timing of deliveries provided that the U.S. customer and/or the U.S. DoD is willing to compensate the Accredited UK Company, per the relevant contractual provisions; and
- d. informing the Participants of priority conflicts between Code of Conduct contracts and other contracts.

3.1.3. The UK MOD is to provide an updated list to the U.S. DoD of the Accredited UK Companies. The UK MOD is to consult with Accredited UK Companies, their subcontractors, and suppliers as described below, when requested to do so by the U.S. Deputy Assistant Secretary of Defense (Manufacturing and Industrial Base Policy) and/or the involved Accredited UK Company. The UK MOD is to use its best efforts to facilitate U.S. DoD requests for priority.

3.1.4. In the event that an Accredited UK Company refuses, or intends to refuse, to provide the priorities support requested by the U.S. DoD, the UK MOD, acting within its authorities as detailed in the Code of Conduct, is to investigate the circumstances surrounding the case. The U.S. DoD is to have the opportunity to provide the UK MOD with details of the case. The Accredited

UK Company is entitled to respond either in writing or orally. The UK MOD is to take measures necessary to assess/evaluate the circumstances surrounding the case.

a. If the UK MOD considers that the Accredited UK Company has complied with the Code of Conduct, the UK MOD, if requested to do so by the Accredited UK Company, is to notify the U.S. DoD. The U.S. DoD is to act on that notification as it considers appropriate. The UK MOD is to use its best efforts with the U.S. DoD to resolve any remaining difficulties. Participation of the Accredited UK Company in the Code of Conduct and the benefits received under the system is not to be affected.

b. If the Accredited UK Company is deemed non-compliant with the Code of Conduct, the UK MOD is to use its best efforts to obtain assurance that the Accredited UK Company will take such steps considered necessary to rectify the situation and is to notify the U.S. DoD. Failure to comply with this request may result in the suspension or termination of the Accredited UK Company's participation in the Code of Conduct.

3.1.5. In the event that an Accredited UK Company cannot satisfy a request to amend a contract falling under the Code of Conduct without incurring a financial loss, and the relevant customer is unwilling to reimburse the Accredited UK Company or amend their contract, the Accredited UK Company may decline the request without any penalty being applied by the U.S. DoD.

3.1.6. The Participants recognize that the U.S. DoD, or one of its contractors, may require assistance in obtaining priority performance from a UK company that is not participating in the Code of Conduct. In such cases, if so requested by the U.S. DoD, the UK MOD is to request that such UK company join the Code of Conduct, or otherwise provide priority for the U.S. defense order.

3.2. For the U.S. DoD

3.2.1. In furtherance of the above principles, and when requested to do so by the UK MOD's point of contact identified in Section 4 (Designated Points of Contact and Review) of this Arrangement, the U.S. DoD is to use its best efforts to arrange for the UK MOD, or UK contractors, subcontractors, or suppliers, to use priority ratings on defense contracts placed with U.S. contractors, subcontractors, and suppliers to provide priority support. Priority is to be provided in accordance with the U.S. DPAS, when applicable to this Arrangement. The U.S. DPAS:

- a. establishes priority designations for contracts performed in the United States and provides preference in performance of those contracts;
- b. defines U.S. industry's responsibilities, setting forth rules to ensure timely delivery of Industrial Resources to meet approved national defense program requirements;
- c. provides procedures to request assistance if production or delivery problems arise;
and
- d. sets forth compliance procedures.

3.2.2. The Office of the Deputy Assistant Secretary of Defense (Manufacturing and Industrial Base Policy) is to keep the U.S. defense procurement community informed of all Accredited UK Companies participating in the Code of Conduct System.

3.3. For the UK MOD and the U.S. DoD

3.3.1. All activities under this Arrangement are to be carried out in accordance with the respective national laws and regulations and with any other obligations that are binding upon the Participants.

3.3.2. The Participants do not intend to place the financial responsibility of implementing this Arrangement in the United Kingdom for UK industry or in the United States for U.S. industry.

3.3.3. In fulfilling their understandings under this Arrangement, the Participants recognize that Accredited UK Companies and U.S. companies may have contracts with other customers, which the Participants do not wish to undermine.

3.3.4. Any dispute arising from the interpretation and implementation of this Arrangement, including prioritization of supply, is to be resolved by means of consultation between the Participants. Each Participant reserves the right to decide final prioritization requirements within its territory, and the other Participant is to give deference to such requirements.

3.3.5. Participation in the Code of Conduct System may be offered by Accredited UK Companies as an indication of their reliability in supplying Industrial Resources to the U.S. DoD and the contractors supplying it. Likewise, U.S. companies may offer being subject to the U.S. DPAS as an indication of their reliability in supplying Industrial Resources to the Ministry of Defence of the United Kingdom of Great Britain and Northern Ireland and the contractors supplying it.

SECTION 4 – DESIGNATED POINTS OF CONTACT AND REVIEW

4.1. Designated Points of Contact

4.1.1. Essential to the implementation of this Arrangement and the ability of the Participants to provide priority support to each other when needed is the designation of a point of contact for each Participant. This point of contact serves as the focal point for the implementation and administration of this Arrangement, and is the point of contact to whom all requests for priority support and related issues should be directed for approval.

4.1.1.1. UK MOD

- a. Requests for priority support and/or assistance in the United Kingdom should be directed to:

(1) The Head of the Defence Equipment and Support International Relations Group
Poplar 2a, #2215
MOD Abbey Wood
Bristol
BS34 8JH
UK

(2) The Head of the Strategic Supplier Management Team
Poplar 1a, #2119
MOD Abbey Wood
Bristol
BS34 8JH
UK

4.1.1.2. U.S. DoD

- a. Requests for priority support and/or assistance in the United States should be directed to:

Deputy Assistant Secretary of Defense (Manufacturing and Industrial Base Policy)
Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
3330 Defense Pentagon
Washington, DC 20301

- b. Copies of correspondence related to priority support and/or assistance in the United States should be provided to:

Director, Defense Programs Division
Office of Strategic Industries and Economic Security
U.S. Department of Commerce
Room 3876
Washington, DC 20230

4.1.2. In the event of any reorganization or reassignment of responsibilities of a point of contact of either Participant, that Participant is to notify the other Participant in writing of the new point of contact as soon as practicable. Such notification does not require amendment of this Arrangement.

4.1.3. UK MOD and U.S. DoD – Review of Priorities Systems Policies and Procedures

4.1.3.1. Representatives of the Participants are to review their established or developing Priorities Systems policies and procedures at the request of either Participant, and are to adjust them and the provisions of this Arrangement as feasible and necessary to conform with evolving national Priorities Systems and to provide Security of Supply.

SECTION 5 - EFFECTIVE DATE, REVISION, DURATION, AND DISCONTINUATION

5.1. This Arrangement becomes effective on the date of the last signature below. Requests for priority assistance may be made after both of the designated points of contact in Section 4 (Designated Points of Contact and Review) of this Arrangement have acknowledged receipt of notification that the respective internal procedures to effect this Arrangement have been established.

5.2. Any difference of view regarding the interpretation or application of this Arrangement is to be resolved by consultation between the Participants and is not to be referred to a national or international tribunal or third party for settlement.

5.3. This Arrangement may be revised by written consent of the Participants.

5.4. This Arrangement remains in effect until either Participant notifies the other Participant in writing of its intent to discontinue it. Otherwise, this Arrangement discontinues automatically ten years after the effective date of this Arrangement.

5.5. If either Participant considers it necessary to discontinue its participation under this Arrangement, it is to notify the other Participant in writing. The Participants are to consult immediately to evaluate the consequences of such discontinuation. If satisfactory arrangements cannot be reached, this Arrangement discontinues and ceases to have effect six months after the date of notification.

Signed in duplicate in the English language.

FOR THE DEPARTMENT OF DEFENSE OF
THE UNITED STATES OF AMERICA



Signature

Ellen M. Lord

Name

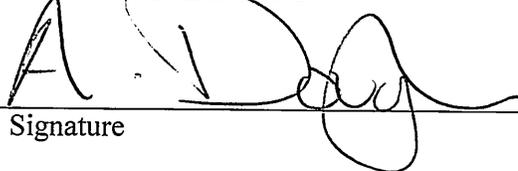
Under Secretary of Defense for Acquisition,
Technology, and Logistics

Title

London, UK November 21, 2017

Place and date

FOR THE SECRETARY OF STATE
FOR DEFENCE OF THE UNITED
KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND



Signature

A.S. DOUGLAS.

Name

Chief Executive Officer, Defence
Equipment and Support

Title

London, UK November 21, 2017

Place and date