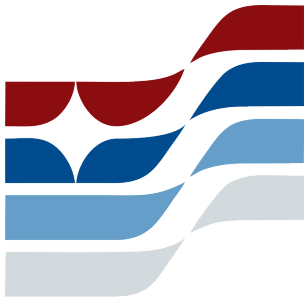




SMI INSIGHT

FROM CONCEPT TO CAPABILITY

HOUSE DEFENSE POLICY BILL SEEKS TO RESTRUCTURE SOURCING RULES FOR CRITICAL MATERIALS

By Dr. Aisha Haynes, Vice President, and Mark Gillman, Senior Vice President

KEY POINTS

- The U.S. military relies on imports for numerous critical materials, some of which are sourced from strategic competitors and are essential for current military applications.
- The House Armed Services Committee's FY27 National Defense Authorization Act would restructure procurement requirements for critical materials imports by establishing a two-tiered rules system:
 - Tier I would restrict procurement of critical materials from most foreign nations unless at least half of the cost is attributable to domestically owned entities; and
 - Tier II would establish a phased timetable to eliminate procurement of critical materials from "covered nations," such as China and Russia. The percentage spent on procurement of such materials from covered nations would be capped at 75% in 2028, 50% in 2029, and 25% in 2030, with a complete prohibition in 2031.
- The bill establishes a "Preferred Domestic Manufacturer" designation for entities that comply with sourcing requirements. This designation would provide prime contractors' assurance of their subcontractors' compliance.

In May, the Department of War (DoW) convened, and SMI hosted, the 2026 Advanced Materials Summit (AMS 26). The summit brought together leaders from DoW, national labs, Congress, and other parts of the federal government as well as the defense industry to discuss the current state of critical materials production, the need to accelerate the development of alternatives and substitutes for supply-constrained materials, and pathways to strengthen the domestic supply chain.

No challenge loomed larger at AMS 26 than DoW's dependence on foreign sources for a number of critical materials. DoW senior officials highlighted the fact that we are 100 percent reliant on imports of gadolinium, gallium, samarium, and terbium. For other materials, such as praseodymium and neodymium, the U.S. is 70 percent import reliant. Each of these materials is on the U.S. government's Critical Minerals list and has existing military applications.

We are staking our nation's future military superiority on stable trade flows with foreign nations, including strategic competitors. This is a risk that Congress is taking steps to eliminate so that DoW is less vulnerable to supply shocks.

House NDAA's Two-Tiered Sourcing Restrictions for DoW

The recent House Armed Services Committee's (HASC) Fiscal Year 2027 National Defense Authorization Act (NDAA) would restructure requirements for sourcing critical materials. Section 1803 of the NDAA would establish a two-tiered system to put DoW on a footing to reduce its reliance on imports of listed materials – while granting the Pentagon authority to add materials to either tier.

Under Tier I, DoW would be permitted to procure critical materials from foreign nations – other than "covered nations" – if half or more of the cost of the material can be attributed to domestically owned entities. Tier I materials include neodymium-iron-boron and samarium-cobalt permanent magnets; tungsten metal powder, tungsten heavy alloy, or any finished or semi-finished component containing tungsten heavy alloy; neodymium oxide and metal, praseodymium oxide and metal, and neodymium-praseodymium oxide and metal, and ores and concentrates from which these oxides and metals are sourced; tantalum, including tantalum ores and oxides, concentrates, metal, tantalum powder, and tantalum alloys; molybdenum metals, gallium, and germanium.



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Tier II is designed to restrict DoW's procurement of critical materials from "covered nations" (China, Iran, North Korea, and Russia). Materials in this tier include items composed in whole or in part of oxides, metals, alloys (and intermediate products) of gadolinium, samarium, neodymium, praseodymium, neodymium-praseodymium, and terbium; items of tungsten, including tungsten ores and concentrates, ammonium paratungstate, ammonium metatungstate, tungstic acid, sodium tungstate, and tungsten oxides, and tungsten carbide; and items composed in whole or in part of niobium oxides, metals, and alloys.

The bill sets a timetable to fully end DoW's procurement of these materials from covered nations by 2031. Specifically, it would require that a minimum percentage of the cost of DoW's procurement of these materials be attributable to sources *outside* of the covered nations – reaching 100 percent by 2031.

To ensure compliance, the bill mandates that prime contractors certify that they have contracted with "sources outside of covered nations in amounts sufficient to satisfy [those] percentages." Primes would also be obliged to produce documents validating the certification. However, they would be permitted to rely upon certifications made by subcontractors and would not be required to independently verify such claims "absent actual knowledge of facts that would cause a reasonable contractor to question the accuracy of the certification."

Preferred Domestic Manufacturer

Notably, the bill also grants the Secretary of War authority to designate "preferred domestic manufacturers" of critical materials. This designation would be available to domestic or foreign businesses that produce materials within the United States in a manner compliant with the bill's sourcing requirements. This designation would offer prime contractors a degree of certainty concerning their subcontractors' compliance with sourcing requirements. The bill also authorizes the Pentagon to use this designation for other purposes, such as giving priority in the processing of qualifications, participating in pilot programs, or providing credit in source selection.

National Security Waiver Authority

Finally, it is worth noting that the bill grants DoW a waiver to the Tier I and II sourcing requirements provided that the Secretary makes a determination that compliance would lead to a "significant adverse effect on national security, defense production, readiness, sustainment, or timely contract performance." A waiver would be effective for up to two years, but it could be renewed if the Secretary issues subsequent need determinations.

What's next

HASC approved the bill on June 5th and ordered it to be reported out to the full House. Looking ahead, the House's FY2027 NDAA proposal suggests that Congress appears ready to bolster DoW's ability to move beyond risk awareness and fragmented solutions and toward a tactical sourcing framework that incentivizes transparent and domestic sourcing, reduces dependence on adversary-controlled supply chains, and gives DoW new tools to prioritize compliant producers. For industry, companies that can demonstrate resilient and secure domestic materials supply chains will be in the strongest position as these requirements continue to evolve.