

United States Senate
WASHINGTON, DC 20510

April 15, 2025

The Honorable Pete Hegseth
Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

Dear Secretary Hegseth:

I write out of concern regarding the impact of President Trump's trade war on our defense industrial base (DIB) and military readiness. So far this year, new tariffs have been placed on imports from virtually every country in the world, including allies like Canada, the European Union and Japan, in addition to product-specific tariffs on aluminum, and more tariffs are expected. According to the Chamber of Commerce's Defense and Aerospace Council, "prices will increase" for DOD's defense acquisitions due to these tariffs,¹ and I am concerned these increased costs will hurt both DOD's purchasing power and small contractors.

As you may know, these tariffs would come on top of the pressing budgetary pressures highlighted by the Congressional Budget Office (CBO) in a November 2024 report on the Future Years Defense Program (FYDP) for Fiscal Year 2025. According to CBO, if the Department's costs grow at rates consistent with CBO's economic forecast (in areas such as compensation) or historical trends (in areas such as weapons acquisition), they would be about 4 percent higher from 2025 to 2029 and about 5 percent higher from 2025 to 2039.² To accommodate those higher costs, CBO said the Department of Defense (DOD) would need to scale back its plans or request larger budgets than are anticipated in the 2025 FYDP.

Adding unexpected tariffs on top of the budgetary risks cited by CBO will place even more unnecessary burdens on the DIB. In the past decade, more than 40 percent of small businesses left the DIB supply chain, and over 15,000 U.S. suppliers are at risk of leaving the defense industrial supply chain in the next decade, according to the Government Accountability Office.³ In the short term, the announced tariffs alone will increase costs for U.S. defense industrial supply chain companies. DIB companies and their suppliers may be forced to absorb those costs which could drive more companies and jobs out of the defense industrial supply chain, stifling innovation. In the long term, tariffs will drive up DOD's contracting and procurement costs, limit DOD buying power and ultimately harm the warfighter and our military readiness.

¹ <https://www.politico.com/news/2025/04/03/trump-tariffs-defense-weapons-supply-chains-00006481>, April 3, 2025

² Congressional Budget Office. *Long-Term Implications of the 2025 Future Years Defense Program* (November 2024), <https://www.cbo.gov/publication/60665>.

³ *Small Business Contracting: Actions Needed to Implement and Monitor DOD's Small Business Strategy*. [GAO-22-104621](https://www.gao.gov/products/GAO-22-104621). Washington, D.C.: October 14, 2021.

Moreover, without proper planning and thoughtful consideration of U.S. productive capacity, these tariffs have the potential to balloon the DOD budget far beyond CBO's expected increases. According to a former Pentagon acquisition official, "[t]here's going to be shortages of supplies... [s]ome potentially vital supplies are either going to cost a whole heck of a lot more than what they did or they're just not going to be available."⁴

Additionally, we are concerned about DOD's ability to secure its own supply chains and fully assess how much of its industrial base is foreign-sourced. The average American aerospace company relies on roughly 200 first tier suppliers. The second and third tiers have more than 12,000 companies. With the globalization of supply chains, these suppliers and their goods come from a wide array of places. Some foundational industrial supply chain sectors, like optical instruments, mechanical gears, welding equipment and printed circuit boards source a large part of their components from outside North America.⁵

Lastly, Chapter 98 of the Harmonized Tariff Schedule typically allows for duty-free entry of material procured by authorized agencies and certified by the Commissioner of Customs. However, given the number of different tariff actions announced this year, it is unclear how widely Chapter 98 applies. Providing clarity on this front would help businesses throughout the defense supply chain.

Therefore, it is critical that the Department keep an account of these actions to prevent cost overruns. I request answers to the following questions no later than April 30, 2025:

- What critical imported supplies are currently subject to new tariffs this year?
- How do you calculate the monetary impact of tariffs on DOD contracts?
- How is DOD factoring increased costs due to tariffs into fixed-price contracts?
- What is the impact of increased costs due to tariffs on DOD's purchasing power?
- Can DOD defense industrial base contractors continue to use Chapter 98 of the Harmonized Tariff Schedule to purchase critical materials without duties under all tariff actions this year? If not, which actions does this apply to?

Thank you for your timely response to my questions.

Sincerely,



Jeanne Shaheen
United States Senator

⁴ <https://www.politico.com/news/2025/04/03/trump-tariffs-defense-weapons-supply-chains-00006481>, April 3, 2025

⁵ *Securing Defense-Critical Supply Chains: An action plan developed in response to President Biden's Executive Order 14017*. Office of the Deputy Secretary of Defense. <https://apps.dtic.mil/sti/citations/AD1163223>. February 2022

CC:

The Honorable Dan Driscoll, Secretary of the Army

The Honorable John Phelan, Secretary of the Navy

Mr. Gary Ashworth, Acting Secretary of the Air Force