



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

JUN 17 2008

The Honorable Rick Larsen
U.S. House of Representatives
Washington, DC 20515

Dear Representative Larsen:

Thank you for your letter to the President regarding the source selection decision in the KC-X competition and the dispute settlement proceedings filed by the United States Trade Representative (USTR) that are pending before the World Trade Organization (WTO) against the European Communities and Certain Member States concerning certain subsidies they provide for large civil aircraft made by Airbus. You expressed concerns with the coordination between our defense procurement policy and the nation's trade policy.

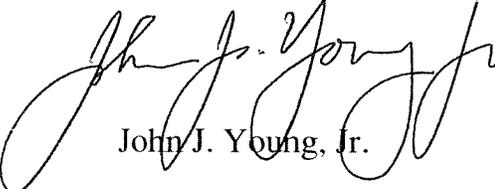
The USTR has indicated that the dispute involving Airbus is focused on subsidies the named governmental entities provide to Airbus for the production of large civil aircraft. USTR claims these are WTO-inconsistent subsidies as they benefit Airbus and cause adverse effects to the commercial interests of U.S. producers of large civil aircraft. There is a parallel case filed by the European Communities against the United States, also pending before the WTO, claiming that Boeing also receives WTO-inconsistent subsidies for the large civil aircraft that it makes. USTR, with the support and assistance of the Department with regard to alleged subsidies provided to Boeing by the Department, rejects and is defending against the European Communities' claims at the WTO. Neither the United States nor the European Communities has included in the scope of its claims before the WTO any assertion that military aircraft benefit from WTO-inconsistent subsidies or that its military aircraft industry has been harmed by such subsidies.

The Department has precluded any possibility of cost impact to the KC-X program resulting from any rulings that may be made by the WTO in either case. Both the KC-X solicitation and resulting contract include a special provision that would bar from the contract price – and make unallowable against the contract – any direct or indirect cost imposed by a Government entity as a sanction, enforcement or implementation measure resulting from any such rulings.



A similar letter has been sent to each of the other 26 Members of Congress who co-signed your letter to the President.

Sincerely,



John J. Young, Jr.