



23 July 2010

DASN (A&LM)
Attn: Clarence Belton
1000 Navy Pentagon, Room BF992
Washington, DC 20350-1000

Dear Mr. Belton:

The Aerospace Industries Association (AIA) appreciates the opportunity to provide comments and recommendations on the proposed Department of the Navy (DON) Preferred Supplier Program (PSP). AIA is the association representing the nation's leading manufacturers and suppliers of civil, military and business aircraft, helicopters, unmanned aircraft systems, space systems, aircraft engines, missiles, material and related components, equipment, services and information technology.

The Navy Preferred Supplier Program (PSP) would reward contractors (*i.e.*, preferred suppliers) based on the contractor's demonstration of exceptional corporate level performance in the areas of cost, schedule, performance, quality, and business relationships. As energy efficiency is a critical Navy requirement, preferred suppliers will also be evaluated on this factor. Under the pilot program, the Deputy Assistant Secretary of the Navy, Acquisition and Logistics Management (DASN (A&LM)) would be responsible for identifying PSP candidates at the corporate level. Affiliates and subdivisions would not be rated. Being granted Preferred Supplier Status (PSS) would entitle contractors to special contract terms and conditions, such as:

- more favorable progress payments,
- recognition of PSS in development of profit or fee based upon weighted guidelines,
- tailored contract reporting requirements, and
- special award fee pools.

One of the favorable terms noted above relates to "progress payments." This term should be expanded to also include "performance based payments." Another favorable term available to PSP contractors is recognition of Preferred Supplier Status in developing profit or fee based upon the weighted guidelines. The PSP should make it clear that Contracting Officers may award profit or fee in addition to the profit/fee that would otherwise have applied. We question whether this will be done consistently, in accordance with weighted guidelines policy, given the varying interpretations related to weighted guidelines and profit.

If the PSP remains as drafted, it needs to clearly state that the CPARS ratings are only for USN contracts (not Army, Air Force, etc.). Further, the Star rating system should be clarified. For instance, if a contractor has a Purple CPARS rating and an Energy Efficiency Program, would its rating be a 4-Star (3 CPARS Stars plus 1 EEP Star)? In deciding whether a contractor is eligible for the PSP, will they be given an opportunity to provide supplementary information to CPAR to support their prior performance track record? Will contractors with no CPAR history even be considered eligible for the Navy's program? What type of scoring standard will be applied across the numerous Navy commands and will certain programs hold greater weight or will they all be treated equally? Finally, if a contractor performs well on Navy contracts, but poorly on contracts for another agency, would the contractor still be eligible for the PSP?

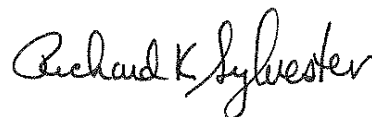
We are concerned that the Navy's rejection of a contractor from the PSP could be considered a new indicator of negative performance. If the Navy determines that a contractor should not be placed on the Preferred Suppliers List, there must be an alternative administrative or legal process through which the contractor can challenge their exclusion from the program.

Industry is also concerned that the Navy's preferential treatment for PSP-approved contractors will inevitably lead to a *de facto* nullification of the Competition in Contracting Act's (CICA) standard of "full and open competition." If the contracting officer believes that PSP participants will bid on a contract, he/she can include more favorable terms in the solicitation that will be applicable after award (assuming that the PSP participant is the awardee). If PSP status is not an evaluation criterion, the fact that program participants might be submitting proposals based on assumptions of different contract terms creates a flawed and unequal playing field. Dividing the contracting community into the "haves" and "have nots" will only serve to stratify the competitive process.

We understand that the PSP was intended to capture the benefits of commercial preferred supplier programs. Commercial programs are based on long-term agreements and preferential treatment. Given the Government contracting environment, we question whether the Preferred Supplier Program can truly prove to be more effective in improving contractor performance than the current practice of contract-by-contract negotiation. While the proposed pilot program may result in some slight improvements to the Navy's acquisition process, we believe that based on the number of outstanding critical questions that remain to be answered, implementation of the pilot program should be postponed until its impact is more fully measured and those questions are answered.

On behalf of its member companies, AIA thanks you for the opportunity to provide these comments and welcomes an opportunity to discuss them further with you. If you have any questions or need any additional information, please contact Susan Tonner at 703-358-1087 or susan.tonner@aia-aerospace.org.

Sincerely,



Richard K. Sylvester
Vice President, Acquisition Policy