



STRATEGIC MATERIALS  
ADVISORY COUNCIL

November 27, 2012

The Honorable Timothy Geithner  
Secretary of Treasury  
1500 Pennsylvania Ave. NW  
Washington, DC 20220

Dear Secretary Geithner:

The Strategic Materials Advisory Council, a coalition of former U.S. military senior leaders and industry experts, writes to express its grave concern about the economic and national security implications of the proposed acquisition of A123 Systems, Inc. by China's Wanxiang Group Corporation. This transaction would no doubt result in the loss of American jobs and the transfer of technologies critical to our nation's infrastructure and military hardware to China. We urge the Committee on Foreign Investment in the United States (CFIUS) to oppose this acquisition to prevent serious harm to U.S. national interests.

For over thirty years, China has pursued an overt economic strategy of acquiring both natural resources and promising technologies. This strategy creates Chinese dominance of entire supply chains for selected materials and related technologies. Allowing Wanxiang to acquire A123 Systems would continue this trend and make the U.S. dependent on an unreliable foreign source for yet another critical defense component. For example, China has a near monopoly of rare earth production that allows it to manipulate the supply for a range of defense and renewable energy products, including nickel-metal hydride battery production. The U.S. must not allow China to acquire a similar position with A123's lithium-ion battery technology and dominate its supply-chain as well.

The sale of Indianapolis-based Magnequench in 1995, and the shuttering of the last U.S. Magnequench plant in 2005 is a telling example of how U.S. government inaction can result in the loss of jobs and key technologies and ultimately create reliance on non-allied nations for key military technologies. That sale, which CFIUS did not review, eliminated domestic capability to manufacture sintered neodymium iron boron magnets that are critical to munitions and advanced computing systems. In addition to the U.S. jobs that were lost, the intellectual property and equipment to produce the Magnaquench permanent magnets, all invented and originally developed and built domestically, was lost to China.

A similar outcome is likely if the A123 sale to Wanxiang is allowed. Clearly, the U.S. government recognizes the criticality of advanced lithium-ion batteries. This technology is found in civilian and military vehicles, renewable energy sources and deployable electrical

power systems. For example, A123 products increase the reliability of power transmission and allow for integration of new, renewable energy sources into the electrical grid. This technology's potential is widely recognized and has earned at least nine Department of Defense (DoD) contracts and nearly \$250 million in American Recovery and Reinvestment Act grants.

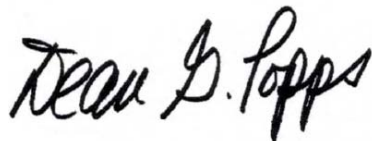
If this purchase follows the pattern of Magnequench, the buyer would transfer all of A123's intellectual property to China, surrendering yet another United States-developed next generation technology. CFIUS must ensure that this does not happen.

Risk mitigation seems unlikely to succeed due to the dual-use nature of this technology. Our nation must protect all of A123's intellectual property, as the sale of any one segment of the company will allow the reverse-engineering of the other parts as well, due to the similarity of the company's product lines.

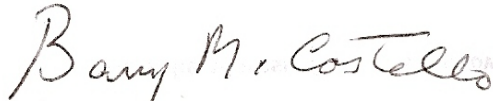
We believe it is in the best interests of the United States to block this transfer, as CFIUS has successfully done in similar situations. Aside from the national security risk, American taxpayers should not pay for development of a technology that is freely transferred to a non-allied nation.

Thank you for your attention and consideration. If you have any questions, please do not hesitate to contact our offices.

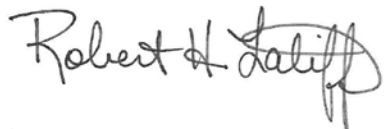
Sincerely,



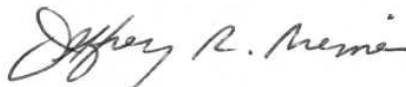
Dean G. Poppo  
Co-Chair, Strategic Materials Advisory Council



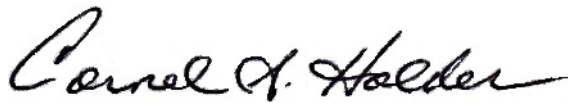
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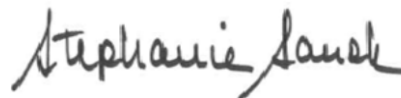
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