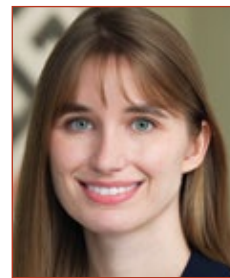


Exploring the Evolving Regulatory Landscape: Supply Chain Security for Service Contractors



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The incoming Trump-Vance administration has service contractors preparing for changes in the regulatory environment. While there is considerable speculation about which Biden-Harris administration initiatives may diminish, equally significant are the emerging issues that are expected to remain a priority, such as supply chain security.

Historically, contractors have often viewed supply chain security compliance as a concern mainly for companies that provide products rather than services to the government. However, as the federal government continues to place significant emphasis on safeguarding federal agencies from supply chain attacks, service contractors are increasingly facing heightened scrutiny and compliance expectations in this area.

Recent and upcoming regulations are focused on prohibiting contracts with companies excluded or removed from federal procurement by the Federal Acquisition Security Council (FASC)—a key executive branch interagency council established to investigate potential security risks in the federal supply chain—or those listed on the Department of Defense’s (DoD) Chinese military companies list. These efforts are likely to continue, with potential direct and indirect impacts on service contractors and their suppliers.

Historical Supply Chain Security Requirements

Service contractors have long been subject to certain supply chain security requirements, particularly those introduced during the previous Trump administration. One of the most notable is the obligation to monitor their own supply chains to ensure that no services provided to the government involve covered telecommunications equipment or services. This requirement, implemented by the Federal Acquisition Regulation (FAR), was established under Section 889(a)(1)(B) of the John S. McCain National Defense Authorization Act for Fiscal Year 2019, signed into law by President Trump.

Recent Developments in Supply Chain Security

Supply chain security has become a bipartisan priority in recent years, with President-elect Trump signaling continued support for these efforts. FASC has begun identifying contractors with potential ties to foreign adversaries.

FASC’s broad authority enables it to investigate the foreign connections of service contractors at any level in the supply

chain, including those providing services. Companies identified as potential threats may face exclusion or removal orders from the Departments of Defense, Homeland Security, or National Intelligence. Contractors, especially those serving defense agencies, may already be subject to an interim rule restricting the use of products or services from companies deemed security risks by FASC. The FAR Council is also preparing a final rule to implement these provisions.

Potential Prohibitions on Chinese Military Companies

Service contractors supporting defense agencies may soon face new restrictions on procurement from companies identified as “Chinese military companies.” Section 1260H of the National Defense Authorization Act for Fiscal Year 2021 authorized the DoD to maintain a list of Chinese military companies operating in the U.S. DoD is in the process of drafting a Defense Federal Acquisition Regulation Supplement (DFARS) clause that is expected to prohibit procurement of certain goods, services, and technologies from entities on that list. This regulation, still in development, aligns with the incoming administration’s stance on limiting Chinese government interference.

Enforcement of Supply Chain Security

Federal agencies have consistently enforced supply chain security requirements, and with the incoming administration’s strong focus on these issues, service contractors can expect increased scrutiny and enforcement. Contractors with foreign ties may face closer examination of their relationships with foreign governments, while companies without such ties may see heightened oversight of their supply chain practices and the products they use to support government services.

With the increasing sophistication of foreign adversaries seeking to access sensitive federal data, ensuring a secure supply chain has never been more critical. Contractors must be prepared for continued government attention to the integrity of their supply chains, and compliance with security regulations will remain an ongoing priority. ■

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