The Honorable Eric Fanning
President and Chief Executive Officer
Aerospace Industries Association

"Strengthening America's Defense Industrial Base, Workforce, and Production Lines to Deter War"
House Armed Services Committee
Wednesday, February 26, 2025 – 10:00 AM EST

Chairman Rogers, Ranking Member Smith, and members of the committee, thank you for the opportunity to testify before you today. My name is Eric Fanning, and I serve as the President and CEO of the Aerospace Industries Association (AIA). For over 100 years, AIA has advocated for America's aerospace and defense (A&D) companies and the more than two million men and women who are the backbone of our industry. AIA serves as a bipartisan convener, bringing people together to find consensus on important topics like effective federal investments and strategic policy frameworks that will unleash the full potential of our defense industrial base (DIB) for the 21st century and beyond.

Who We Are

Today, AIA represents nearly 300 American A&D companies ranging from family-run businesses to multinational corporations, operating up and down the supply chain. Our membership includes aircraft and engine manufacturers and companies that design and build cutting-edge military and dual-use technology. Our members have a worldwide reputation for global technological leadership rooted in a world-class workforce that is unparalleled in its imagination and ingenuity.

Every morning, more than two million Americans employed by the shared aerospace and defense industry, go to work with one mission in mind: increase the lethality, survivability, and chance of victory for the warfighter. It is our primary driver and provides for the defense and prosperity of our great nation. The industry supports jobs representing approximately 1.4 percent of the nation's total employment base. More than 58.7 percent of employment comes from the shared A&D supply chain, which is an extensive network of suppliers composed of thousands of small and medium-sized businesses located in all 50 states. Importantly, because of the nature of our work, the average salary in our industry is 50 percent above the comparable national average, providing well-paying jobs to millions of Americans and bolstering the U.S. economy.

Despite inflationary pressure, the industry's workforce generated $955 billion in sales in 2023, a 7.1 percent increase from the prior year. These economic contributions have an outsized impact on the U.S. economy – contributing 1.6 percent to U.S. Gross Domestic Product (GDP) in 2023.

America's A&D workforce and the larger industrial base are key strategic advantages for our warfighters and our nation, but the role and composition of both assets is often misunderstood. The DIB is not monolithic and has changed in size and scope since the "Peace Dividend" era following the collapse of the Soviet Union. Today, it is a diverse ecosystem, with companies of all sizes, each with its own part to play in enabling our national security. While small companies can be innovation incubators by virtue of their size and ability to speed decisions, prime contractors bring scalability, advanced capability, and cash flow, as well as a large talent pool with extensive experience. Primes can also afford to maintain a workforce in ready state to meet evolving or sudden needs, which benefits the entire ecosystem.

To understand how best to strengthen the defense industrial base, it is crucial first to understand our industry and the drivers of its overall health. The defense industrial base is largely shaped by a single customer: the federal government. This is what differentiates the DIB from the commercial marketplace – which has more customers and growth opportunities – and has an outsized impact on its products, people, and performance. The DIB depends on federal investment to help ensure the overall health and resilience of the industry. This means that the number of programs prescribed by the Pentagon has a direct correlation to the contours of the industry. For advanced fighters, bombers, and aircraft carriers, there simply aren't enough opportunities in the marketplace to support the scope of competition that existed when Pentagon budgets were 5 to 8.5 percent of GDP.

The U.S. defense industrial base is more relevant today than it has been, perhaps, since World War II. The wars in Ukraine and the Middle East have shown not only the complex security situation facing the United States and its allies, but also the asymmetric challenges posed by a constantly evolving class of cheap, easily acquired weapons, from rockets to drones. While American-made weapons remain effective, these conflicts have shined a light on the fragility of supply chains, which are still recovering from pandemic-driven disruptions and other economic challenges. These are challenges that only grow when you broaden the security lens through which we must view the future: an increasingly at-risk free and open Indo-Pacific, threatened by the adversarial and hegemonic aims of countries like China.

Therefore, it is incumbent on the Trump Administration and Congress to not just support but prioritize the defense industrial base. We need an all-of-the-above defense strategy, harnessing the traditional with the new, to fully outpace the threat. To meet this mandate, leaders must pull every lever available to ensure the United States has the skill and capacity to support both today's demands and the demands of tomorrow.

The Urgent Need for Reform and an All-of-the-Above Strategy

The defense industrial base is a diverse ecosystem of established primes, essential suppliers, and commercial companies adopting new patriotic missions, and innovative new entrants. America's national security depends on all of these companies and their ability to deliver decisive advantage to the warfighter. The U.S. government must adopt an all-of-the-above approach to the industrial base. The current defense acquisition system is not optimized to deliver that advantage.

This committee has devoted more oversight and legislative energy to this system over the last decade than perhaps any other national security issue, and it should be commended for its work so far to try to make it work better for the Pentagon, the warfighter, the DIB, the taxpayer, and the American people it's trying to protect. But now, members must confront of the harsh reality facing the current acquisition system. Despite the best efforts of many involved, including industry, this system no longer seems to serve any of these key stakeholders. It no longer supports adoption of critical technology for the warfighter in a timely manner. It is not designed to serve the taxpayer by keeping costs down. It does not enable rapid innovation. It forces companies into irrational and counterproductive business models. Every member on this committee has heard from constituents who could be doing more, faster, and at a lower cost were it not for the requirements imposed by the current system.

It is time to acknowledge publicly what every member of this committee knows to be true: The current system has serious, potentially insurmountable flaws, and we must consider new solutions to improve the process.

As we do, we must ensure the system positions the whole industrial base – primes, new entrants, suppliers, and commercial companies of all sizes – to meet the warfighter's needs and the nation's expectations. By elevating the entire ecosystem, we will be better be able to meet the threats facing us today – to move at speed, to expand production capacity, and to build the infrastructure, including the supply chain and the workforce, that underpins it all. This system should not create fast lanes for some companies while leaving others to suffer in gridlock. The nation needs and deserves the entire defense industrial base running full steam in defense of the country. That means we need an acquisition system that supports the ecosystem as a whole, not just the shiniest parts of it.

The Cost of Doing Business with the Department of Defense (DOD)

The aerospace and defense industry and the 2.2 million men and women it employs share the U.S. government's national security goals: to keep America safe, secure and prosperous, and to support the world's most lethal and superior military, ready to deter and, if necessary, defeat any enemy it encounters. To fulfill our mission, the DIB needs clear demand signals from Congress and the Executive Branch, sufficient federal investment, a healthy and resilient supply chain, and a regulatory environment that promotes both innovation and adoption.

The environment in which our industry operates today is one of the most challenging in U.S. history. During the last five years, we have seen supply chains break, company and DOD purchasing power eroded by record inflation, and significant increases in labor cost, which harms the recruitment and retention of qualified workers, while major wars in the Middle East and Europe are consuming stocks at alarming rates. The ever-increasing geopolitical threat posed by China compounds these challenges, revealing the shallowness of our stockpiles and straining our ability to replenish them.

Industry works incredibly hard to persevere through these challenges, but the contours of the DIB and its ability to meet the government's requirements are hindered by federal policy and funding decisions made years ago. While consecutive administrations and Congresses correctly recognized China's growing threat and the increasing instability around the world, our actions have never matched our rhetoric.

The levels of appropriated federal dollars, the annual reliance on short-term funding measures, and the constant specter of government shutdowns have created deep-seated and disruptive uncertainty in which few companies could operate successfully. These delays have prevented capabilities from getting to the warfighter quickly and have driven companies to stop participating in the DIB in favor of other commercial industries. Over the past 10 years, more than 40 percent of the small businesses in the DIB have stopped selling to the DOD. The result is reduced competition, lost manufacturing capacity, and hampered innovation.

The companies remaining in the DIB, particularly small and medium-sized businesses whose primary output is contributions to America's manufacturing base, are often hamstrung by regulations and requirements, inhibiting modernization and resiliency. This means our military can no longer access the full range of innovative solutions to meet the growing, geographically diverse, and evolving mission-set positioned against a backdrop of increasing global instability.

Furthermore, well-meaning but burdensome statutes and government policies drive up the cost and complexities of doing business with the federal government. Today, it takes close to 300 days on average to award prime contracts with estimated sales of more than $100 million. For commercial companies used to working quickly, the delays in awarding contracts and executing agreements are a strong disincentive to contracting with the DOD. In particular, small businesses simply cannot maintain sufficient cash flow over such a long horizon, causing them to exit the DIB altogether.

Retaining a qualified workforce amid these challenges is another struggle. To meet the growing demands on both delivery and innovation within the DIB, there is a systemic need to address workforce challenges, creating and sustaining a skilled talent pipeline on an ongoing basis.

Impacts of External Factors on the DIB

The stop-and-go cycle of congressional appropriations for the DIB makes sales of U.S. military equipment to partners and allies critical, providing reliable revenue streams that allow companies to maintain manufacturing production capacity when U.S. funding is in doubt. The recent Department of State announcement that fiscal year 2024 total arms sales and transfers (Foreign Military Sales and Direct Commercial Sales) is proof of the this — the first time in history that this total has exceeded $300 billion.

In fiscal year 2024, total arms sales to approved and trusted trade partners exceeded all of the DOD procurement and RDT&E accounts combined. Moreover, the total value of all open Foreign Military Sales cases nearly equals the entire DOD budget. Arms sales to allies and trusted partners have become a lifeline for American defense manufacturers, and we must continue to work with Congress to find ways to expedite those sales through the bureaucracy to offset funding challenges here at home.

Arms sales are not only a source of revenue for American defense manufacturers, but they also serve as a strategic tool to advance U.S. security interests abroad. The United States is experiencing threats from adversarial countries across multiple theaters, threats we cannot face alone. Our allies and trusted partners look to the U.S. DIB to buy best-in-class defense products and to bolster their contribution to collective security. Without U.S. leadership, we risk foreign partners turning to adversarial sources for their security needs which ultimately degrades U.S. interoperability and global influence. We must maintain a strong, secure, and robust DIB that allows U.S. manufacturers and their supply chains to be responsive to ally and partner need and to ensure the U.S. continues to be the partner of choice.

While federal investment is critical to the health of the DIB, companies also leverage outside investment to drive innovation, recruit the best talent, and reinvest in our national defense.

Obtaining outside investment requires a business model that demonstrates profitability. However, profit margins for most aerospace and defense companies are significantly lower than other industries such as oil and gas, technology, and utilities, which operate at profit margins double or even triple that of the A&D industry. These margins put our industry on a similar level to staple industries like food and healthcare, a situation that causes challenges when competing for talent in other sectors of our economy or when trying to attract commercial suppliers.

As a major U.S. manufacturing sector with supply chains that include both domestic and global sources, changes in U.S. trade and tariff policy could potentially impact our ability to provide the best value to the U.S. taxpayer. Unlike most U.S. manufacturing sectors, the DIB is not a consumer industry delivering goods to a private sector market. The primary customer for DIB products is the DOD, with the militaries of our partners and allies following closely behind. This makes the trade and tariffs changes unique to our industry, since the only “customers” are governments, including our own.

The DIB is also a “downstream” industry. We rely on other economic sectors for materials, parts and components – like titanium, aluminum, and steel – that come from “upstream” in the value chain. Changes in the “upstream,” whether through a pandemic, a global conflict, or even a change in tariff policy, has an impact on the “downstream.” Our industry is closely watching the potential change in U.S. trade and tariff policy, as well as any reciprocal changes in foreign trade and tariff policies, and we are adjusting our business operations accordingly to account for a dynamic global marketplace. However, the aerospace and defense industry should be the example of how to maintain – and grow – the manufacturing capacity of the United States. We enjoy a trade surplus; employing millions of American workers in stable, well-paid, career jobs; and deliver the best-in-class equipment around the world. Tariff policy, while effective in removing unfair market practices and reshoring manufacturing, should be done with careful consideration of adverse impacts, especially to the American taxpayer.

How We Win

To deter, defend against, and, if necessary, defeat our adversaries, the United States government must take an all-of-the-above approach to the defense ecosystem. A rising tide will lift all ships – strengthening the resiliency the DIB broadly, enhancing our manufacturing capacity, getting technology into the hands of the warfighter faster, refocusing on lethality, and ensuring we are prepared to meet the threats we face. This means finding new ways to empower new entrants, streamlining access for small and mid-sized businesses, and addressing the systems and policies that inhibit the success of the U.S. government’s long-standing partners in industry. This could mean wholesale change of the acquisition system; it certainly means improving procurement times, reducing burdensome regulations, and unleashing technology at scale and cost when it is needed.

Right now, companies seeking to enter the DIB must contend with a multitude of laws and regulations that are cost- and time-prohibitive, disrupt established supply chains, and require implementation of costly new systems, processes, and procedures. Congress and DOD have correctly recognized the need to expand the DIB and reduce the barriers to entry. This recognition, while important, is not translating into action, as Congress and DOD continue to add new laws and regulations every year before properly assessing current policies and the cumulative impact on the health of the DIB. Instead, Congress should focus on right-sizing the regulatory regime to encourage new entrants and support companies of all sizes within the DIB.

Mergers and acquisitions (M&A) should be viewed as a tool to strengthen the industrial base and provide stability to the workforce and business operations. Too often, these opportunities are reflexively dismissed rather than reviewed on the individual merits. M&A is a tool for companies to grow and to stabilize the workforce, unleash innovation, bolster performance, and strengthen capability and capacity. Some companies need to access the tools and resources of a larger company to continue development, while some investors view M&A as a faster path than becoming a program of record. Given the potential opportunity to bolster the health and resiliency of the DIB through these strategies, an effective government policy would fairly review the benefits and costs on a case-by-case basis considering the long-term health of the DIB.

Also of critical importance, federal investment in national defense must keep pace with the threats we face. For too long we were poised for peace, optimizing efficiency at the expense of capacity. Our adversaries are doing the opposite. China is investing in its military and innovation more than ever. DOD's 2024 China Military Report indicated China's military budget nearly doubled from 2013 to 2023, and Beijing's defense budget increased by 7.2 percent from 2022 to 2023. By comparison, President Biden's FY25 defense budget saw a 3.3 percent year-over-year increase – a decrease when adjusted for inflation.

At all costs, we must avoid a return to multiyear and arbitrary budget caps, insufficient defense funding, or defaulting to the use of stopgap funding legislation, which relies on two-year-old funding levels to meet the challenges of today. Continuing resolutions (CRs) waste money on programs no longer needed and prevents new programs from getting off the ground. Aside from the very real harm this inflicts on the wellbeing and morale of our military, CRs muddy the demand signals Congress sends the DIB, slow or even halt the development of cutting-edge technologies, and force businesses into stop-and-start cycles that are hugely inefficient and unsustainable.

Chairman Rogers and Chairman Wicker are correct: We need to increase defense spending now to regain our advantages over our adversaries and we need sustained, uninterrupted funding to maintain those advantages. While we welcome one-time budget increases included for defense in both the House and Senate budget resolutions, we cannot survive on one-time plus-ups alone. Returning to regular order and providing on-time, predictable, and sufficient funding for the departments and agencies that work with the DIB is the first and most important step.

China's historic military modernization is being buffeted by equally aggressive investments in innovation. Between 2000 and 2020, China's share of global research and development (R&D) rose from 4.9 percent to 24.8 percent. At the same time, China extended its super deduction for R&D expenses for manufacturing companies to an extra 100 percent of eligible R&D expenses in addition to actual expenses incurred — while a recent U.S. tax change reduced that deduction for American companies. That means for every $100 spent on innovation, Chinese companies can deduct $200, 10 times more than American companies in a similar situation.

To reduce this dangerous discrepancy, Congress must restore competitive R&D tax amortization rules to strengthen our global R&D posture relative to China. The tax code is imperative to incentivize the private sector, particularly the A&D industry to develop the next generation of technologies to keep the warfighter safe and maintain our global economic competitiveness.

On the international stage, our democratic industrial bases need the equivalent policy and regulatory runway to excel so that overall integrated deterrence is achieved. To this end, it is important the U.S. remove regulatory burdens to strengthen domestic manufacturing and supply chains and allow for closer cooperation with allies and trusted partners. Increasing domestic manufacturing and supply chain resiliency, easing technology sharing requirements, and growing our defense exports are key to a U.S. posture that effectively deters and out-innovates our adversaries. Partnerships like the AUKUS agreement have created regulatory fast lanes that allow us to work better and more cohesively with trusted partners to deter a shared adversary. We've seen great progress so far in this domain from the U.S. and our partner governments, but more can be done.

Building and strengthening the resiliency of the global supply chain while reducing our reliance on sole sources of supply are also strategic imperatives for the A&D industry and our government partners. This is essential to the health of the commercial aerospace sector, the DIB, and our overall deterrence. We are a long-lead supply chain industry. Our companies order strategic minerals, materials, parts, and components months in advance and are generally able to manage short- and medium-term disruptions. They also work on mitigation strategies in the event of long-term disruptions. For example, critical minerals have become a focus for our industry as our companies seek to reduce dependencies on adversarial sources, build both resiliency and redundancy into their supply chains, and manage cost as the strategic landscape demands the need for alternative sources of supply. Expanding the DIB with a balance of international and domestic suppliers in addition to commercial entities is vital to improving this resiliency, while also spurring innovation and competition.

Lastly, guaranteeing the DIB has access to the talent pipeline to sustain its work is foundational to these efforts. Investing in STEM education, reskilling current industry employees for new technologies, and enhancing our country's training efforts, including apprenticeship programs, on-the-job training, and certification and credentialing programs, are vital to expanding talent pools and ensuring a highly skilled, dynamic future workforce.

Conclusion

The President and this Congress are pursuing a policy of "Peace through Strength." The United States defense industrial base delivers that strength. Together, with the Executive Branch and Congress, the American aerospace and defense industry stands ready to bring about the changes we need to ensure the defense industrial base is prepared to deliver strength – today and tomorrow.