

HOLD UNTIL RELEASED BY THE
U.S. HOUSE OF REPRESENTATIVES

STATEMENT OF

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BEFORE

HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON READINESS

ON

ASSURING THE VIABILITY OF THE SUSTAINMENT INDUSTRIAL BASE

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Chairman Wittman, Ranking Member Bordallo, and members of the Subcommittee, thank you for the opportunity to appear before you to discuss the viability of the Sustainment Industrial Base. I would also like to thank you for your continued support and interest in a topic so critical to the Department of Defense's ability to produce readiness.

SITUATION ASSESSMENT:

Over the past several months you have heard from the Department's senior leadership on the potential devastating impacts of the combined effects of operating under Continuing Resolution, implementation of sequestration, and shortfalls due to higher than expected costs in Overseas Contingency Operations (OCO). These assessments have clearly outlined the bottom-line effects on the strength and capabilities of our Nation's Military and the Department's ability to support our National Security Strategy. It is in this context that I offer my comments on the defense sustainment industrial base.

Before I get into the specific questions the Subcommittee has asked, I believe it is important to understand the basic fiscal and operational planning and dynamics that have governed our industrial base activities to fully appreciate the answers to your questions.

First, it is important to understand that the Department's total requirement for sustainment industrial base funding and, in turn, its ability to generate readiness is directly dependent on appropriate resourcing of both our Base Program and OCO requirements.

With respect to **contingency funding**, each Military Department had anticipated OCO funding levels sufficient to resource critical requirements associated with both operations in theater, as well as maintenance, repair and overhaul of military equipment returned from Iraq and Afghanistan. This later activity, or RESET of equipment, has for a decade been responsible for not only correcting damage induced by harsh environments and high OPTEMPOs, but also enabling extension of useful life of valuable equipment. Our success in RESET operations has drastically reduced the need for acquisition of replacement or new equipment. Equally important, it has enabled us to support the force

generation strategies of each Military Department that have been so critical in sustaining long-term operations in Iraq and Afghanistan.

With respect to operating under **Continuing Resolution**, there is not much I can add to what the Department's senior leadership has already explained. So let me just emphasize that operating under the restrictions of a Continuing Resolution, with an allocation of account-level funding that does not match our FY2013 requirements, has created an increased burden on the Operations and Maintenance accounts, effectively creating a shortfall in funding in the accounts that resource our industrial base operations.

With respect to **Sequestration**, if implemented, the funding implications are far greater in the O&M accounts than may appear at the surface. The President has exercised his authority to exempt Military Personnel accounts from sequestration in FY13, so other accounts must accommodate the full reduction to DoD. Moreover, the reduction to most base-budget O&M activities will be significantly greater than single-digit percentages being announced because of the need to protect OCO-funded programs directly supporting wartime operations. The impact of these reductions will then be effectively doubled by having to accommodate the full FY13 reductions in the last seven months of the fiscal year.

While each of these factors has significant negative impact in isolation, we must consider the combined effects to fully appreciate the impact on the National Industrial Base and, in turn, the impact on both near and far-term readiness. The combined potential shortfalls and cuts are so large, we anticipate reductions, delays and cancelations in work orders within our public depots and shipyards, and on contract with the private sector. These actions will begin as early as March and continue throughout the fiscal year. The Military Services will manage existing funded workload, resource the highest priority maintenance, and take all possible actions to mitigate the harmful effects on our sustainment industrial base capability, workforce and readiness. In addition, reversibility will play a key factor in prioritization of actions. However, given the magnitude of the combined, concentrated reductions, even the most effective mitigation efforts will not be sufficient to protect the sustainment industrial base. Both public and private sector

capability will sustain long-term damage and readiness will be seriously degraded. Full recovery, from just FY13 reductions, could take up to a decade. On top of that, current law requires additional reductions of approximately \$55 billion to defense funding caps in each year from FY14 to FY21.

With that backdrop, I will address each of the questions you posed in an attempt to provide the underpinnings of the top-level situation assessment I just offered.

IMPACTS ON WORKLOAD TRENDS FOR DEPOTS AND ARSENALS:

For the last decade, as we engaged, surged, and then executed a drawdown in Iraq and Afghanistan, our sustainment industrial base responded to ensure both the readiness of deployed forces and the effective execution of each Service's force generation strategy. Sustainment requirements and workload in our industrial base have followed this basic trend. Sustainment industrial base requirements in support of in-theater operations have appropriately led force deployment levels to ensure readiness in theater; while sustainment requirements in support of RESET of retrograde equipment have appropriately lagged force deployment levels. This later point is critical in the understanding of the requirement to ensure proper and timely RESET of our equipment as we withdraw from Afghanistan. This is particularly critical for the Marine Corps and the Army that are depending on this funding to complete their RESET operations. While continually exploring ways to expedite repairs, increase efficiency, and reduce requirements, past estimates have indicated that RESET requirements would extend 2-3 years post-redeployment.

It is equally important to understand, while we have been strict in application of OCO funding in accordance with how it has been appropriated, our contingency sustainment operations include requirements that will endure beyond cessation of operations in Afghanistan.

In this context, the combined effect of operating under Continuing Resolution, potential reductions associated with sequestration, and emerging additional OCO costs, radically

impact FY13 sustainment industrial base funding levels. With effects concentrated in the last half of the fiscal year, unavoidable and immediate actions will result in maintenance production slowdowns, deferrals and cancellations within our public depots and shipyards. This situation will also result in reduction of contract orders and delayed new starts. Examples include:

For the Army:

Major workload reductions at:

- Tobyhanna Army Depot impacting Standardized Integrated Command Posts, Tactical Operations Centers, Electronic Shelters, and Firefinder Radar
- Letterkenny Army Depot impacting PATRIOT,
- Corpus Christi Army Depot impacting Army Aviation airframes, engines, and components,
- Anniston Army Depot impacting M1s, M88s, Howitzers, and Field Artillery Ammunition Support Vehicles, and
- Rock Island Arsenal impacting joint manufacturing capabilities.

The Army will need to release approximately 3100 temporary workers and term employees, and reduce contracted support across its depots and arsenals.

For the Navy:

Major workload reductions will result in cancellation of approximately 70% of ship's maintenance in private yards in the 3rd and 4th quarters of FY13, to include deferral of up to 25 ship availabilities impacting approximately 7000 contract employees, and work stoppage on refueling and overhaul of two carriers (Lincoln and Roosevelt). There are no current plans to cancel FY13 ship maintenance availabilities in public shipyards, but production will be impacted by the combined effect of hiring freezes, furloughs, and limits on overtime. The Government hiring freeze alone will result in a shortfall of required labor of approximately 2,100 personnel by the end of FY13.

On the aviation side, all aircraft maintenance inductions will be cancelled in the 3rd and 4th quarter affecting the maintenance of approximately 320 airframes and 1200 engines with major workload impacts at Fleet Readiness Centers at Jacksonville, San Diego, and

Cherry Point. As a result, diminished operational availability of these platforms will degrade Navy's ability to support future Fleet mission requirements.

For the Marine Corps:

The depot maintenance base program supporting ground systems will be reduced to below 30% of the baseline requirement. Major workload reductions will be required at both Albany and Barstow resulting in the release of over 800 term and contractor support personnel (approximately 1/3 of the workforce). These actions will substantively affect the maintenance of M1A1s, MRAP vehicles, AAVs, LAVs and a variety of tactical trucks, and delay RESET for 12 to 18 months.

Marine Aviation depot maintenance is resourced from Naval Aviation accounts and will, therefore, be directly affected by the reduction in Naval Aviation depot maintenance. Over 100 Marine aircraft will not be inducted as scheduled in FY13 and overall F/A-18 availability could drop to below 50%.

For the Air Force:

Reductions of approximately 30% of remaining workload will affect all three Air Logistics Centers and result in deferred programmed depot maintenance inductions of approximately 150 aircraft (the equivalent of 8 fighter squadrons) and 85 engine overhauls, as well as deferred sustaining engineering tasks, to include structural integrity programs, across all fleets. Additionally, contractor logistics support will be significantly impacted, with reductions of up to \$750M, affecting numerous contractor sites and depot-industry partnerships. Collectively, these actions will push aircraft availability below standard on more than 30 weapon systems and degrade the Air Force's ability to support critical mission demands.

Department-wide:

These actions I just highlighted, across the Department, will degrade the condition of our military equipment, push substantial amounts of deferred maintenance and costs into the following years, and clearly impact our ability to execute future requirements. This is analogous to the effect a cancelled airline flight has on other scheduled flights – it creates

a ripple effect. Except the magnitude of the impact here is like the effect a major winter storm has on flights throughout the entire commercial airspace. In our case, the ripple effect will last for years and impact every part of our industrial base.

Further, the gross inefficiencies generated by these actions will also spill into future years. Financial losses generated within Working Capital Fund operations, as a result of reduced and cancelled 3rd and 4th quarter orders, will manifest themselves as substantial increases in rates, which will decrease the future buying power of the Services and defense agencies. As an illustration, a loss of \$1B in FY13 must be accommodated, by statute and policy, as a rate increase in FY15 equivalent to that \$1B. Those increased rates, then applied to FY15 workload, effectively reduce the amount of maintenance that can be purchased in FY15 by approximately that amount.

It is also important to understand the downstream effect reduced training and OPTEMPO have on sustainment industrial base requirements and operations. The anticipated operational reductions to accommodate the required funding reductions will, in turn, result in a reduction in spare parts demand. This reduction in spare parts demand has a downstream effect on the entire supply chain, to include depot workload associated with reparable parts. The lag time from a demand change in the field to the impact on depot orders is dependent on available inventory, but is typically between 3 and 9 months. With the magnitude of anticipated reductions in OPTEMPO for the remaining half of FY13, we should expect a significant decrease in funded depot and contract work orders for reparable parts in FY14, effectively creating another fiscal ripple that must be absorbed.

In the private sector, required actions will place a significant portion of our commercial industrial base capability in jeopardy. Large companies with diverse business bases will be able to absorb the impact; however, smaller companies and companies with strong Defense Department dependency will be at substantially more risk. Thousands of companies will be affected and hundreds will be placed at risk of bankruptcy. Any failures here will have direct impact on supply chain and maintenance operations and would likely take years to recover.

In the long-term, if sequestration is not reversed, the impacts on the sustainment industrial base will be severe. Our “Core” capabilities, or what we consider critical in support of our ability to support the national defense strategy, will be in jeopardy. Near-term measures to protect critical skills and capabilities will not be sustainable in the long-term. Future funding levels and associated workload reductions under sequestration and the associated out-year cap reductions will begin to drive industrial base capability below “Core” levels as early as FY14. And given our relatively fixed infrastructure and costs, work-hour rates will rise correspondingly, decreasing our efficiency and buying power.

IMPACTS ON FORWARD-DEPLOYED LOGISTICS:

In the near-term, there is no risk to forward-deployed logistics. The Department’s clear priority is the protection of in-theater capabilities in support of military operations. As a result, sustainment industrial base activity and supporting maintenance and supply operations will be resourced to cover essential requirements. While necessary, resourcing these priorities will result in a higher percent reduction in funding in other accounts.

If sequestration and related out-year reductions endure beyond 2013, our ability to surge, deploy depot teams, or provide reach back capability in support of contingency operations and emerging threats will be impacted. The magnitude of this impact will be directly related to the duration and magnitude of the reductions.

IMPACTS ON NEW WEAPON SYSTEM MAINTENANCE:

Early in the process of fielding and operations, new weapon system maintenance is typically executed using contractor support and funded out of procurement accounts. As fielded quantities increase and operational capability matures, system maintenance transitions to a mix of public and private sector support and is resourced out of operations and maintenance accounts. With regard to impacts on new systems, there is nothing significantly unique that separates them from legacy weapon systems. They are all

subject to cuts under Sequestration with priorities going to systems that support current wartime operations.

IMPACTS ON THE ARMY'S NEW ORGANIC INDUSTRIAL BASE

STRATEGY:

The Army's industrial base strategy is focused on three objectives: retain critical capabilities, maintain efficient operations, and ensure investment and regeneration. This strategy is founded on four basic tenets:

- manage capacity to satisfy sustained and surge operations as required,
- focus resources to meet operational requirements and sustain Depot "Core" and Arsenal critical manufacturing capabilities,
- promote public-private partnerships to leverage and protect critical capabilities in both sectors, and
- align decision-making at all levels to achieve common goals and continually improve efficiency and effectiveness.

I've summarized the Army's strategic approach here, but it should be noted these objectives and basic strategic framework are shared across the Military Services. This structured approach to managing the industrial base is particularly important to the Army as it adjusts to post-Iraq and Afghanistan operations. More than any other Service, the Army will undergo the most significant adjustment in its industrial base because of the relative magnitude of the past growth required to support wartime operations and post-conflict RESET. Their strategy is appropriately structured to enable a synchronized and responsible drawdown and yield a stronger, more agile and efficient industrial base as a result.

If sequestration is not reversed and the out-year reductions occur, the Army's, and each Service's, industrial base strategy is at risk. Adjustments in funded workload will exceed the Department's ability to responsibly adjust its workforce and evolve its industrial capability. As a result, critical skills will be lost, reduced investment levels will impact competitiveness and relevance, major inefficiencies will emerge, and key public-private

partnerships will be unsupportable. The bottom-line is the Army's, and each Service's, ability to support surge and sustained operations will be seriously damaged.

Thank you Mr. Chairman, Ranking Member Bordallo, and distinguished members of the Subcommittee for the opportunity to address these critical issues.