

Testimony

Of

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Mr. Chairman, Ranking Member Bordallo, and members of the Subcommittee. On behalf of the 1715 corporate members and nearly 95,000 individual members of the National Defense Industrial Association, I am pleased to appear before the Subcommittee on Readiness concerning issues that are of great importance to the viability of the sustainment industrial base and therefore to national security. I am also very pleased to be sitting on this side of the table after 20 years on the other side as an Armed Services Committee professional staff member.

In trying to understand the immediate impacts of a continuing resolution and the impending government-wide sequestration, it is important to realize that many of the potential impacts of these actions are already occurring, especially for small business.

Some examples of companies and communities these real life impacts include:

- Cuts to primes on contracts such as the MRAP, which totals over \$6 billion in contracting, will impact over \$1.5 billion of sub-contracts performed by small businesses.
- A company in Oregon that manufactures periscopes, vision blocks, ballistic windows, transparent armor and specialty components for the past 35 years is shuttering their doors due to uncertainty of potential budget cuts and their concern over evolving trends in defense procurement practices.
- The manufacturer of one of a kind high tech "Hot Press" furnaces used in the manufacture of ceramic body armor plates and the manufacture of carbon tooling, special foils and other specialized products are close to going out of

business. It would take 18-24 months to reconstitute these capabilities, and at a huge cost to taxpayers.

Some of these examples may not be directly attributable to “sequestration” or the impact of year after year continuing resolutions, but are the realities of a reduction in the defense budget and the uncertainties of a normal appropriations process.

Sequestration will certainly “speed” up the process of plant closures for many, but the real danger here is the forced closures of critical technology suppliers at a time when we must maintain current levels of readiness and be prepared to face inevitable challenges to national security in the future. Reconstituting these capabilities, not if, but when needed again, will take a lot of time and a lot of money and will have a significant impact on readiness. Managing these realities is and will be a challenge for all.

Some of the big defense producers may be able to adjust to forced and unplanned changes that a sequestration and continuing resolutions will inevitably cause.

However, big businesses also heavily depend on second, third and sometimes fourth tier suppliers, who will be the most vulnerable to going out of business. Small businesses do not have the resources to “weather the storm.”

As concerned as we are about the ability for the defense industrial base to provide acceptable levels of support to sustain national security, it is also just as important to maintain an organic source of repair and maintenance in the Department of Defense.

Since the 1940's the nation's maintenance depots, arsenals, and shipyards have been the cornerstone of our ability to not only fight but overwhelming win any and all conflicts. After significant downsizing during the last several BRAC rounds and the current and future fiscal realities, the nation's organic maintenance capabilities are feeling the same pressures as the private sector. One of the major contributors to these pressures is the declining workloads due to the scaling back on our war efforts and that most of the work currently accomplished in our depots is on legacy systems. Fewer and fewer new weapons systems are being fielded, and those that are, do not require the heavy, long-term maintenance that our depot systems were originally designed. The military depots are also heavily dependent on the private sector for repair parts and equipment.

Overshadowing these fact-of-life realities is the impact of a sequestration, continuing resolutions, and the inevitable budget reductions. Sequestration will necessitate the cancellation of programmed work orders in the third and fourth quarter of this fiscal year, an action that will not only impact the readiness of material and equipment, but it will also leave us with a workforce with nothing to do - an expensive proposition as the losses this year will be carried over into next year's rates. Operating under a continuing resolution significantly restricts the department's ability to transfer funding between accounts - a major hindrance in the proper management of tax payers funds.

The debate on the most efficient manner of providing for the maintenance and repair needs of the department has been going on for decades. Over the past 30 years,

Congress has taken a special interest in public maintenance facilities by enacting legislation meant to ensure their continued viability, especially in times of a national emergency. Some would say that parts of existing legislation inhibit DoD's ability to economically and efficiently manage these needs. Over the past two years, there have been good faith efforts by Congress, the department and industry to find a solution agreeable to all. Unfortunately, to date these efforts have not been successful. It is clear that with the probable sequestration, continued continuing resolutions, and budget reductions irrespective of a sequestration, something must be done so that our world-class repair and overhaul capabilities, public and private, are not lost.

As budget constraints and force structure reductions make the management of an effective public and private depot-level maintenance capability more challenging, the framework in Chapter 146 of title 10 USC for the process of determining core logistics and minimum organic workload requirements, should be reviewed by representatives of all stakeholders in a structured and open process that would serve well to inform future decisions by the Congress and the Department of Defense on the efficient and affordable management of support. One way to achieve this much needed review is for Congress to direct DoD to establish an all-stakeholders panel to thoroughly review the applicable sections of chapter 146 of title 10, with the aim of updating and revising current legislation to ensure the viability and affordability of maintenance of logistics support and depot-level maintenance and repair activities of the department in the future.

DoD's new procurement policy, known as "Better Buying Power 2.0," calls for more efficient use of tax dollars, and endorses the concept of "performance-based logistics," or PBLs, as a mechanism to lower the cost of weapons maintenance and create incentives for suppliers to cut costs. Under a PBL arrangement, a contractor will agree to provide a certain "outcome" for a pre-negotiated price, rather than get paid for individual products and services. If the PBL is for aircraft engines, for instance, the contractor would be held accountable for ensuring that a certain number of engines are available at any given time. However at a time when DoD is advocating more efficient contracting methods, only 5 percent of the military's maintenance work is performed under such arrangements. About 87 PBL contracts are in place today, compared to more than 200 in 2005.

A proven solution is partnering. Partnering has been discussed for many years and would appear to be an efficient way of utilizing the public facilities capabilities along with industry. Legislation has been written, by this committee, over the years to incentivize and promote partnering. There have been some very successful partnership agreements, including the tank upgrade program at Anniston Army Depot, the engineering support and logistics services between GE and Corpus Christi Army Depot, and the upgrade of communications capabilities at Tobyhanna Army Depot to name a few. However, much more can and should be considered. Further integration of the

organic and private industrial bases will provide the additional flexibility demanded by an unstable and uncertain budget future.

Mr. Chairman, at a time when the Department of Defense and the defense industrial base must adapt to inevitable budget reductions, regardless of how they come about, there must be changes in how we all do business. Congress, the Department of Defense and industry must come together to find ways that will provide a manageable and affordable sustainment industrial base. As America's leading defense industry association, NDIA is committed to working with all stake-holders to ensure that we continue to provide cutting-edge technology and superior weapons, equipment, training, and support for our war-fighters.

Thank you Mr. Chairman and members of the committee.