

**Opening statement for Dr. Laura Taylor-Kale
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**House Financial Services Committee Hearing
Subcommittee on National Security, Illicit Finance, and International Financial Institutions
“The Reauthorization of the Defense Production Act: DoD’s Perspective”
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Good afternoon, Chairman Luetkemeyer, Ranking Member Beatty, and Members of the Committee. Thank you for the opportunity to testify today in support of reauthorizing the Defense Production Act (DPA). Today is a most appropriate day for this hearing. Seventy-nine years ago, today the nation was celebrating what we now call “VE-Day” – the victory in Europe that ended World War II in the European theater. That victory was made possible because the United States had become what President Franklin Roosevelt had said in late 1940 it had to be: the “Arsenal of Democracy.” And the nation rose to that challenge.

Today we face circumstances both different and yet similar in significant ways. We now face geoeconomic and technological competition with peer and near peer adversaries that impact our economy and military posture. Around the world our friends and allies are asking us to once again be the Arsenal of Democracy. Doing so will require the help the Congress and this Committee. So, I seek your support in taking a most important step: the reauthorization of the DPA.

As the first Senate-Confirmed Assistant Secretary of Defense for Industrial Base Policy, my top priority is overseeing the effective management and execution of DPA authorities and appropriations. The DPA is a critical tool for national defense and the successful implementation of the National Security Strategy, the National Defense Strategy and the recently-released National Defense Industrial Strategy. Since Congress enacted the DPA in 1950, the executive branch has invoked DPA authorities to manage the nation’s defense-related production capacity, defense critical supply chains, and to protect and strengthen the U.S. industrial base in war, peace, and during national emergencies. I would also like to thank the Congress for adding the United Kingdom and Australia to the definition of domestic sources for Title III awards in the FY2024 National Defense Authorization Act. Allowing the DoD to enter agreements with companies the U.S., Canada, U.K., and Australia reinforces important alliances and short- and long-term development of secure defense critical supply chains. Going forward, the Defense Production Act will remain a critical national defense tool to mitigate supply chain risk vulnerabilities in our key weapons and defense systems, and for building capabilities with our important global allies and partners.

Defense production, undergirded by a strong industrial and innovation ecosystem, is a deterrent. The DoD uses the Defense Production Act every day in our mission to safeguard vital U.S. national interests. Fully executing DPA authorities is a priority for defense industrial policy. Our adversaries attempt to use supply chain vulnerabilities to weaken the U.S. economy and military. Through DoD’s role on the Committee on Foreign Investment in the United States (CFIUS) and elsewhere, we see how steps must be taken to ensure that adversarial capital investments in the U.S. technological base do not serve to weaken the United States by robbing the industrial base of technological leadership in areas affecting United States national security. The DoD remains concerned that adversaries use unfair trade and predatory acquisition and investment strategies to

weaken the U.S. defense industrial base. In January of this year, the Department of Defense published the first-ever National Defense Industrial Strategy (NDIS), which highlights four strategic priorities for building a modernized resilient industrial ecosystem that can support national defense for today and tomorrow: 1) resilient supply chains, 2) workforce readiness, 3) flexible acquisition strategies, and 4) economic deterrence. As such, the full use of the Defense Production Act is vital to the successful implementation of the NDIS.

TITLE I: PRIORITIZING INDUSTRIAL RESOURCES FOR NATIONAL DEFENSE

The Department of Defense utilizes DPA Title I authority through the Defense Priorities & Allocations System (DPAS), which is administered by the Department of Commerce to prioritize contracts and orders in support of DoD needs within industrial supply chains and to allocate scarce components to spur production and support allies and partners in times of war. This prioritization ensures that defense programs do not experience supply chain disruptions that inhibit meeting their program objectives in day-to-day operations and national emergencies. The DoD places DPAS priority rated contracts and orders for industrial resources over 300,000 times a year at no cost to the taxpayer to help ensure DoD procurements meet cost, schedule, and performance parameters by proactively mitigating supply chain risks.

Since the last DPA reauthorization in 2018, the Department of Defense, , in coordination with the Department of Commerce, has leveraged Title I authority to directly contribute to national defense and prioritize the delivery of weapons and materiel to allies and partners. The DoD has signed 16 Security of Supply Arrangements (SOSAs), non-binding, reciprocal agreements to provide mutual support for industrial resources, including six new SOSAs in 2023 with Japan, Israel, Latvia, Denmark, Lithuania, and Estonia. The DoD has also endorsed Special Priorities Assistance (SPA) requests for DPAS rating authority to Commerce to expedite delivery of military supplies at any level of the supply chain to allies. For example, in 2023, the Department of Defense's national defense determinations and endorsement, Commerce authorized use of DPAS priority rating used Title I authority to formally resolve thirty-seven requests for Special Priorities Assistance (SPA), two of which were in support of Ukraine-related efforts, including cases which supported the National Security and Defense Council of Ukraine's cybersecurity infrastructure, prioritized the delivery of tanks, and expedited the manufacturing and transfer of more than 20,000 radios and other communications capabilities.

TITLE III: EXPANDING PRODUCTION AND ENABLING RESILIENT SUPPLY CHAINS

The DoD's DPA Title III program is a key investment tool to build and strengthen the defense industrial base. Title III allows DoD to alleviate pain points in supply chains and expand domestic capacity in manufacturing, critical technologies, critical minerals and strategic materials, and vital defense capabilities. Congress has markedly increased DPA Title III appropriations in recent years. In FY2018 and FY2019, the DoD's DPA Title III appropriations, including Congressional adds, totaled \$67.4 and \$53.6 million respectively. By FY2022 appropriations totaled nearly \$1.4 billion as Congress and the Administration increased DPA appropriations to expand domestic manufacturing capacity, protect defense-critical supply chains from adversaries, and counter predatory investment and acquisition strategies. In FY2024, the Department of Defense is on-

track to execute over \$1 billion in DPA Title III awards and continues to remain postured to execute the authorities provided under the DPA to support the warfighter.

The Department has prioritized using Title III to expand domestic capacity of the most sensitive materials and critical minerals vital to national security, thereby reducing reliance on adversarial foreign sources, and tackling the long lead times of critical materials that inhibit industry's rapid production of key weapons systems. For example, DoD has obligated \$358.3 million to support replenishing U.S. stockpiles of missiles, munitions, and strategic and critical materials supplied to Ukraine including Guided Multiple Launch Rocket Systems (GMLRS), Stinger, Javelin and 155mm ammunition. Additionally, DoD has obligated \$128 million of Inflation Reduction Act funding for critical materials in large capacity batteries.

It is important to underscore that the Department cannot exercise Title III authorities unless the President has issued a formal determination or waiver that an industrial resource, material, or critical technology item is essential to the national defense. Since the 2018 DPA reauthorization, the President has issued 22 determinations and three waivers. President Biden's February 2023 Supply Chain Waiver has been the most far-reaching in allowing DoD to swiftly act to avert shortfalls in defense-critical supply chains and quickly execute Title III awards.

As a result of the 2023 Presidential Supply Chain waiver, in FY 2023, the DoD executed \$733 million in DPA Title III awards that helped to strengthen supply chain resilience across sectors, including:

- **Microelectronics (\$22 million):** Investments were made to sustain and/or expand manufacturing capabilities and establish a robust domestic microelectronics ecosystem in support of radiation-hardened microelectronics, printed circuit boards, advanced packaging, discrete components, and other electronics.
- **Strategic & Critical Minerals & Materials (\$329 million):** Established and expanded domestic industrial mining, refining, processing, and manufacturing capabilities required to field weapon systems, including rare earth elements required for magnets, energetic materials required for munitions, structural materials for aircrafts, and upstream battery materials.
- **Kinetic Capabilities (\$351 million):** Expanded existing production and onshore capabilities for critical chemicals required for DoD missiles and munitions; increase capacity for ball bearings and solid rocket motors for missiles and munitions.
- **Energy Storage & Batteries (\$31 million):** Invested in domestic battery cell manufacturing capabilities to enable the Department to have a stable, qualified, and secure supply.

Additionally, DoD announced \$192.5 million in DPA Title III awards in February 2024 to establish, expand, and modernize capability to manufacture twenty-two defense-critical chemicals and reduce reliance on foreign sources, particularly the PRC. These awards will result in production of several chemicals deemed critical for the proper functioning of defense and weapon systems. Many of these chemicals are also used in numerous commercial applications (including but not limited to pharmaceuticals, consumer products, agriculture, automotive, and energy),

resulting in products that will be competitive in the marketplace and increase resiliency of domestic critical chemical supply chains.

Launching DIBC OTA to Improve Execution of Title III Awards

The rapid scaling of DPA appropriations following the COVID supply chain crisis and Russia's invasion of Ukraine strained DoD's internal capacity to swiftly execute Title III awards. It has been my priority to quickly improve execution and align the Department's use of the authorities to the implementation of the National Defense Industrial Strategy (NDIS). To that end, the Department of Defense announced the establishment of the Defense Industrial Base Consortium (DIBC) Other Transaction Authorities (OTA) in January 2024.

Along with the Air Force Executive Agent, DoD's launch of the DIBC OTA positions the DoD to shorten the time of execution of DPA awards, lessen the administrative burden, and allow my office to be the "Program Executive Office" for the defense industrial base. The OTA directly aligns with the four strategic priorities in the NDIS by providing a vehicle to rapidly research, prototype, and manufacture commercial solutions for defense requirements and innovations from private industry, academia, and firms not traditionally part of the defense contracting systems. The OTA will allow for increased competition and entrance of non-traditional defense contractors, non-profit research institutes, and small businesses that will lead to an expansion of the defense industrial base, increase innovation, and increase the transition of new technologies into production. Additionally, the OTA can execute interagency requirements aimed at enhancing critical domestic supply chains.

TITLE VII: COMBATTING ADVERSARIAL CAPITAL IN U.S. INDUSTRIAL BASE

The Department of Defense most actively uses Title VII authorities to combat adversarial investments and predatory acquisitions in the U.S. industrial base. DoD is one of the most active members of the CFIUS and uses information garnered from CFIUS about emerging threats to the defense industrial base to inform Title III investment priorities. While reviewing investment transactions, DoD is crucially concerned with protecting military installations, supply chains, and technology from foreign ownership and influence. CFIUS caseloads are at an all-time high. The DoD has dedicated significant time and resources to the successful execution of the Title VII CFIUS authorities, and DoD is co-lead agency on 60% all CFIUS cases. Additionally, DoD actively evaluates "non-notified cases," those investments that may have closed without CFIUS oversight. My team evaluates thousands of such transactions every year and often refers potential non-notified transactions to Treasury.

FULLY EXECUTING DPA AUTHORITIES: REAUTHORIZATION PRIORITIES FOR DOD

Sufficient investment in the defense industrial base through the DPA is critical to ensure the defense industrial ecosystem can continue to meet the production requirements of the U.S., and our partners and allies. Industry demand is high for Title III support. To date, my office has received and favorably evaluated over a hundred proposals valued at \$5.9 billion. This calendar year alone, DPA Title III has received industry white papers requesting a total of \$793.3 million in government funding. Continued support of the U.S. industrial and technological base in the development and scaling of defense critical capabilities ensures that the United States has a

resilient industrial ecosystem that serves as a deterrent to our adversaries. We will continue to work to ensure that the highest value propositions are funded.

DPA Title III authorizes the use of direct purchases, purchase commitments, guarantees of purchases or leases of advanced manufacturing equipment, and loans or loan guarantees. Currently DoD only has the capacity to issue Title III grant awards. Essentially DoD only uses one of the four Title III sections.

To support fully executing the potential of DPA authorities, the Department of Defense supports two key changes to the existing DPA law to respond to increasing requirements. We submitted these legislative proposals to Congress in early April. Specifically, the DoD supports legislative amendments that would raise the DPA annual fund balance and remove designation of the Secretary of the Air Force as the sole and exclusive executive agent.

First, **raising the DPA Fund annual fund balance ensures that the DPA Title III Program will not be penalized for increased and supplemental appropriations.** As DPA authorities are increasingly leveraged to respond to the needs of other agencies as well as the most critical national defense requirements, the balance of the DPA Fund is anticipated to rise accordingly. While the DPA Title III Program always pursues the most expedient path to execution, some acquisition or mitigation strategies cannot be completed in the span of a year. As such, the law should be amended to allow for an increased balance so that funds that are appropriated or transferred into the DPA Fund are not returned to the Treasury and are allowed to be utilized for their intended purposes.

The second change that the Department supports is the **elimination of the sole and exclusive Executive Agent in favor of access to multiple execution offices.** The designation of the Secretary of the Air Force as the sole and exclusive Department of Defense executive agent for the DPA Title III program unnecessarily constrains the ability of the program to execute efforts in support of national security requirements. While we will continue fully utilizing the Air Force resources devoted to DPA execution, the increased appropriations to the program require DoD to use all available contracting mechanisms to expediently obligate funds. Amending the designation of the Secretary of the Air Force as “the sole and exclusive Department of Defense Executive Agent” to “an execution office for the Department of Defense” would allow access to additional execution offices for the DPA Title III program, enabling the Department to leverage additional contracting resources when necessary.

I want to highlight DoD’s support for **increasing the period of availability of funds.** Currently, only purchases are utilized due to the recent change in period of availability for appropriations from non-expiring to five years in the last Appropriations Acts. If Congress appropriates non-expiring funds in the future, DOD can issue purchase commitments, loans, and loan guarantees through DPA authorities. Purchase commitments, in particular, would help spur advanced material procurement and make DOD demand more predictable.

CONCLUSION

In closing, to ensure America is ready, the Department strongly supports the reauthorization of the DPA. DoD will continue to focus on increasing execution of DPA Title III funding and look for opportunities to utilize more of the authorities to include purchase commitments, loans, and loan

guarantees. I cannot over-emphasize how important the Defense Production Act is to ensure the Department of Defense can protect and strengthen the U.S. industrial base, and work with our closest allies and partners to secure defense-critical supply chains. We look forward to working with Congress and the interagency on the successful reauthorization of the Defense Production Act and support for DoD legislative proposals to fully align DPA execution with the defense critical needs.