

1 TO RECEIVE TESTIMONY ON DEFENSE INNOVATION
2 AND ACQUISITION REFORM

3
4 Tuesday, January 28, 2025

5
6 U.S. Senate
7 Committee on Armed Services
8 Washington, D.C.
9

10 The committee met, pursuant to notice, at 9:30 a.m. in
11 Room SD-G50, Dirksen Senate Office Building, Hon. Roger
12 Wicker, chairman of the committee, presiding.

13 Committee Members Present: Senators Wicker
14 [presiding], Fischer, Cotton, Rounds, Ernst, Sullivan,
15 Cramer, Scott, Tuberville, Mullin, Budd, Schmitt, Banks,
16 Sheehy, Reed, Shaheen, Gillibrand, Blumenthal, Hirono,
17 Kaine, King, Warren, Rosen, Kelly, and Slotkin.

1 OPENING STATEMENT OF HON. ROGER F. WICKER, U.S.

2 SENATOR FROM MISSISSIPPI

3 Chairman Wicker: This hearing will come to order.
4 Thank you-all for coming. The committee meets this morning
5 to discuss the topic that is of great interest to every
6 member of this panel. We're here to talk about defense
7 innovation. We must change the way the Pentagon does
8 business, otherwise there's no way we can maintain
9 deterrence particularly against China.

10 Today, we'll hear from three experts. Shyam Sankar
11 serves as the Chief Technology Officer at Palantir, which
12 has done important work for the military. Mr. Sankar has
13 published widely on innovation, and we look forward to
14 hearing his ideas today. We'll also hear from Nate Diller,
15 who has worked at both the Department of Defense and the
16 House Appropriations Committee, where I previously worked
17 in another life. Today, Mr. Diller is the CEO of Divergent
18 Technologies, which is seeking to make revolutionary
19 changes in manufacturing, and we need revolutionary changes
20 in DOD.

21 And finally, James Geurts, is with us today. In
22 addition to having one of the coolest nicknames around
23 Hondo, he is ably and successfully served this country as
24 the acquisition executive for both SOCOM and the Navy. So
25 thank you-all for being here to talk about innovation.

1 The past few years have been marked by some success in
2 innovation improvements, but we have much more work to do.
3 Most of our work is actually ahead of us in this regard. I
4 believe we're poised to go faster and further than we have
5 thus far. I'm optimistic that many of my colleagues' ideas
6 for improvements and reform will have an enthusiastic
7 reception in this new Pentagon team.

8 I appreciate my friend, Ranking Member Reed, for
9 holding a hearing in the previous Congress on the planning,
10 programming, budgeting, and execution of the Reform
11 Commission. I expect we can continue to make progress in
12 this new Congress. As a matter of fact, Mr. Reed, and my
13 colleagues, we need a game changer, and we need it right
14 now.

15 The committee took steps last year to remove
16 unnecessary steps from the acquisition process and get
17 defense innovators more powerful hiring authorities. We
18 can and should continue on that positive trajectory. I
19 recently released the FORGED Act, and published this white
20 paper entitled Restoring Freedom's Forge: America's
21 Innovation Unleashed.

22 And I must say, I appreciate the positive comments and
23 response that we've heard from industry and from government
24 officials. The white paper lays out in specific detail my
25 plan to implement smart spending practices at DOD. The

1 FORGED Act proposes the most comprehensive set of budgeting
2 and acquisition reforms in decades.

3 It focuses on five areas. First, we must cut the red
4 tape that burdens our defense workforce. Our regulations
5 are full of outdated and excessive compliance requirements.
6 Addressing this is exactly the type of work that DOGE is
7 contemplating, and I hope we can make progress in this
8 area. Contracting regulations total more than 6,000 pages.
9 Financial regulations add up to more than 7,000 pages. I'm
10 interested to hear our witnesses address how this committee
11 can reduce the statutory and regulatory burdens, even as we
12 retain the core elements of good policy.

13 Second, we should harness one of our nation's core
14 advantages; our world class tech sector, which is built by
15 American entrepreneurial spirit. Government unique
16 requirements, have made it nearly impossible for commercial
17 companies and startups to do business with the Department
18 of Defense. We need to reward commercial innovation by
19 making it possible for innovative companies to work with
20 the Pentagon.

21 Third, we must create competitive pressure by rapidly
22 qualifying new suppliers to help build our weapon systems.
23 More than 20,000 suppliers have exited the Navy
24 shipbuilding industrial base in the past 20 years, and
25 that's just the Navy's industrial base. 20,000 suppliers

1 gone. I hope our witnesses will address how we can lower
2 barriers to second sources, and how we can adopt
3 technologies like 3D printing, which can dramatically
4 reduce costs and expedite production schedules.

5 Fourth, we must enable senior officials to manage
6 programs by reducing the bureaucracy's ability to veto
7 their decisions. A typical acquisition must satisfy nearly
8 50 documentation requirements and get 50 external sign-
9 offs. We need to be careful about the taxpayer's money,
10 but that is excessive. We need to give program managers
11 all of the tools they need to success while retaining an
12 appropriate level of checks and balances.

13 Finally, we should modernize the Defense budget
14 process by allowing money to move as fast as technologies
15 and threats change. It currently takes at least two years
16 to request and receive funding. Meanwhile, the commercial
17 sector deploys new generations of technologies in less than
18 two years, and the Pentagon is continually lagging behind.

19 We cannot keep conducting business as usual. I repeat
20 We need a game changer in this regard, and we need it now,
21 because the United States is entering the most dangerous
22 period we've faced since World War II. Our adversaries are
23 rapidly innovating and leveraging commercial technologies.
24 In response, we must expand our capacity to produce and
25 sustain high-end weapons like ships, aircraft, and

1 missiles. At the same time, we must adopt autonomous,
2 adaptive, and networked or swarming systems.

3 This is not an either-or effort. We must produce
4 traditional and innovative systems quickly, and at the
5 scale of relevance. Doing so will ensure that we can deter
6 our adversaries from taking action against us and our
7 interest. In other words, peace through strength. I look
8 forward to discussing those initiatives and more with our
9 witnesses. And again, I welcome all three of them to our
10 hearing, and I recognize my friend, Ranking Member Reed,
11 for his remarks.

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1 STATEMENT OF HON. JACK REED, U.S. SENATOR FROM RHODE
2 ISLAND

3 Senator Reed: Thank you very much, Mr. Chairman. And
4 let me join you in welcoming our witnesses, Mr. James
5 Geurts, Mr. Shyam Sankar, and Mr. Nathan Diller. Thank
6 you, gentlemen. You bring unique and important
7 perspectives to this discussion, and this is a very serious
8 and important discussion.

9 For many years this committee has examined various
10 challenges for the defense acquisition system. Time and
11 time again, we have heard the system is too slow, too
12 rigid, and too outdated to keep pace with the changing
13 world. As such, the committee has worked hard and made
14 progress towards streamlining the acquisition system.

15 Importantly, we have helped provide the Department of
16 Defense with significant flexibility in the acquisition
17 authorities, including initiatives like middle tier
18 acquisition, rapid acquisition authority, and other
19 transaction authority. These authorities are intended to
20 enable the department to tailor acquisition strategies and
21 contracting approaches to fit the needs of each program.

22 Indeed, lengthy risky programs demand more rigor and
23 oversight, whereas less risky non-development programs may
24 move quicker with fewer bureaucratic checks on the process.
25 I would ask our witnesses for their views on the successes

1 and shortcomings of these acquisition authorities.

2 Responsible regulation is key to the success of the
3 acquisition and innovation ecosystem. Decentralizing
4 certain aspects of the system is beneficial, but going too
5 far may result in poor coordination among officers, and
6 could introduce duplication and waste. The lack of
7 coordination among the services or stove piping is
8 especially problematic for programs that are intended to
9 improve jointness throughout the force.

10 Several years of legislation to reform stove piping
11 has helped alleviate the issue. And further deregulation
12 in some areas may be useful, but I would caution against
13 quick decisions that could undercut the progress we have
14 made. Many existing statutes and regulation exist because
15 of past failures by the department, or poor behavior from
16 industry, and it's important that we remain uncompromising
17 stewards of taxpayers' dollars. And I would ask for the
18 witness's views on this issue, also.

19 Further, we must remember that our acquisition network
20 is only as strong as our workforce. To meet growing
21 demands, the acquisition workforce must grow accordingly to
22 include contracting officers, subject matter experts, and
23 skilled technicians in the defense industrial base. In
24 this regard, I'm concerned that we have already begun to
25 see attacks on the department civilian workforce. The

1 Trump Administration has taken pride in the threat to slash
2 the bureaucratic workforce, arguing a false equivalence
3 between fewer personnel and greater efficiency.

4 Ironically, reducing the acquisition workforce is
5 likely to increase the contracting timeline and eliminate
6 positions that support acquisition professionals will
7 inject new inefficiency into the network. I would
8 appreciate our witness's thoughts on the interdependencies
9 of the acquisition workforce and their recommendations to
10 make sure that acquisition workforce is appropriately sized
11 and trained.

12 Finally, I would like to point out that innovation is
13 more than technology. Improving the Defense Department's
14 innovation strategies will require more than overhauling
15 systems or increasing funding. It will require bold
16 thinking by leaders at every level of the enterprise. I'm
17 reminded of a quote attributed to Winston Churchill,
18 "Gentlemen, we have run out of money now. We have to
19 think." Successful innovation requires creative people to
20 not only adapt to new technologies, but to adapt processes
21 to new situations where technology is not yet available.
22 Now, we must think.

23 To help us do so, I look forward to hearing from this
24 insightful panel of experts, and I hope we can work
25 together to develop a better understanding of how the

1 Department of Defense can adapt quickly to a changing
2 world. Thank you again to our witnesses, and I look
3 forward to your testimony. Thank you, Mr. Chairman.

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1 Chairman Wicker: Thank you very much, Mr. Reed. And
2 let me say, we're going to hear from our witnesses now, and
3 we'll have a round of five-minute question and answer. I'm
4 going just so that this Senator will understand and be
5 prepared. I'm going to yield my five minutes to Mr. Sheehy
6 because he has to preside in a few moments. So, after the
7 opening statements, Mr. Sheehy will ask questions and
8 they'll be followed by the ranking member, and then we'll
9 go forward with Senator Fischer and on down.

10 Mr. Sankar, we're delighted to have you and you are
11 recognized for as much as five minutes.

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1 STATEMENT OF SHYAM SANKAR, CHIEF TECHNOLOGY OFFICER
2 AND EXECUTIVE VICE PRESIDENT, PALANTIR TECHNOLOGIES

3 Mr. Sankar: Well, thank you, Chairman Wicker, Ranking
4 Member Reed, members of the committee. Thank you for the
5 opportunity to testify today. Mr. Chairman, I want to
6 commend you on your proposal. I was fist pumping in the
7 air when I was reading it, and this is exactly the kind of
8 reform that we need to win.

9 I've spent nearly two decades at Palantir fighting the
10 bureaucracy to deliver cutting edge technology to our war
11 fighters. And my message today is simple; that defense
12 innovation and procurement are broken at precisely the
13 moment. We need them to deter and defeat our adversaries,
14 and for reasons that are profoundly un-American.

15 The root of the problem is that the Pentagon is a bad
16 customer. It's also the only customer. The defense market
17 is functionally a monopsony where a sole buyer shapes the
18 market with prescriptive requirements, complex regulations
19 in five-year plans worthy of Stalin, the Cold War is over,
20 and everyone has given up on Communism except for Cuba, and
21 seemingly, with the DOD.

22 The monopsony has created a divide between defense and
23 commercial sectors. I call this the great schism, but you
24 can think of it like the Berlin Wall. On the commercial
25 side of the wall, companies are free to compete and to

1 innovate. On the Defense side, a dwindling number of
2 contractors toil away for the monopsony. More and more,
3 they resemble state-owned enterprises instead of the
4 innovative founder-driven companies that they were once
5 were. The companies fit enough to climb the wall and
6 defect to the free world did so long ago.

7 Mr. Chairman, if we're going to win again, we need to
8 tear down this wall. And your report helps us do just
9 that. First, cut the red tape. Defense procurement is
10 constrained by mountains of regulations that paralyze
11 leaders and punish creativity. This is not what was
12 intended, but this is reality.

13 And the road to hell is paved with good intentions.
14 For example, the DOD 5,000 series, it was 7 pages when
15 David Packard wrote it in the '70s. It's now 2,000 pages.
16 That's an 11 percent compounded growth rate. One of the
17 few areas the Department outperforms the market.
18 Eliminating burdensome regulation must be a priority
19 because no amount of process can save us, but it can
20 destroy us.

21 Second, unleash innovation. To do that, we need to
22 reverse this great schism. During the Cold War, 6 percent
23 of Defense spending on major weapons went to defense
24 specialists. Chrysler made cars and missiles. General
25 Mills made serial and torpedoes. That great schism, we

1 need to turn it on its head. Today, that 6 percent has
2 turned into 86 percent going to defense specialists.
3 America needs our primes, and that's precisely why we need
4 to ensure that they are subject to commercial incentives
5 and to market pressure to keep them fit.

6 We can fix this by ending the cost-plus mentality,
7 which makes us slower, poorer, and dumber. SpaceX reduced
8 launch costs by 85 percent. That simply isn't possible in
9 a cost-type domain. We also need to stress a commercial
10 first mindset in procurement. FASA is already the law of
11 the land. Perhaps we should just enforce it.

12 Third, increased competition. Yes, please. But also,
13 we need to increase competition inside of government.
14 During the early Cold War, the services competed against
15 each other to develop the best ballistic missiles. The
16 Navy's Polaris, and the Air Force's Minuteman ultimately
17 won, but not before the Jupiter, Thor, Atlas, and Titan
18 were developed in some form.

19 Today, the bureaucracy would disparage that that
20 contest as duplication. I see a competitive market with
21 multiple buyers' pressure to innovate and no single point
22 of failure for the department.

23 Fourth, enable decisive action. We are a nation born
24 of Founding Fathers. We understand the importance of great
25 creative leadership. In place of the cargo cult that

1 worship's process. Let's empower our people. We wouldn't
2 have ICBMs without Schriever, the nuclear Navy without
3 Rickover, the Apollo program without Gene Kranz. I
4 challenge you to name a comparable figure overseeing most
5 major programs today. And it's not for a lack of talent,
6 but we need to stop rotating people like fungible cogs
7 every two or three years, and give them the time and the
8 space to create.

9 Fifth, modernize the budget process. A budget is a
10 plan, and right now we are planning to fail. No private
11 company could survive if it took two years to budget for
12 projects internally. They would be completely outcompeted
13 in the market. The fiscal OODA loop is not survivable, and
14 that's what sets the pace for the industrial base.

15 Decision-makers in the building deserve to be treated
16 like decision-makers with a pot of money and the discretion
17 to reprogram rapidly to meet new threats unless we actually
18 do believe in central planning.

19 We shouldn't be under any illusions about how hard
20 these changes will be. You have to mobilize talent around
21 it and attack the problem again and again, and that's why I
22 think this hearing and this proposal is so valuable.

23 Mr. Chairman, I look forward to taking your questions.
24 Thank you.

25 [The prepared statement of Mr. Sankar follows:]

[COMMITTEE INSERT]

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1 Chairman Wicker: Thank you very much, Mr. Sankar.
2 Mr. Diller, you're recognized.

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1 STATEMENT OF NATHAN P. DILLER, CHIEF EXECUTIVE OFFICER
2 DIVERGENT INDUSTRIES INC.

3 Mr. Diller: Chairman Wicker, Ranking Member Reed, and
4 distinguished members of the committee, it is an honor to
5 discuss defense innovation and acquisition reform with you
6 today.

7 At the core of this discussion, we must focus on
8 ensuring America's ability to deter aggression and create
9 that overwhelming strength, while minimizing risk to human
10 life, and reducing the burden on the taxpayer.
11 Unfortunately, America's ability to deter is at its lowest
12 point in many, many decades.

13 That said, the FORGED Act coupled with a multitude of
14 other successes, leaves me more optimistic today that
15 America cannot only reverse this trend, but actually do it
16 in a way that creates a renaissance in American
17 manufacturing and actually unlocks human creativity. But
18 we must act today.

19 I think the word forge provides some personal markers
20 for me. America's manufacturing output tripled that of
21 China during the time that I was pulling forged plows
22 growing up on a farm. By the time I flew F-16s dropping
23 forged bombs, we were at parity. Today as we discussed The
24 FORGED Act, China more than doubles our manufacturing
25 output.

1 After years in defense innovation and acquisition, I'm
2 convinced that a nation that does not manufacture
3 technology cannot maintain a technological and military
4 advantage. And this is what led me to transitioning to
5 divergent technologies today led by Kevin Czinger and his
6 son Lucas, where they are truly revolutionizing the factory
7 today, bringing us an ability to actually turn great ideas
8 into hardware for deterrence.

9 Daily, Divergent seemingly transforms a car factory
10 into a weapons factory. It is operating at production
11 scales, leveraging 700 patents driven by AI. And right
12 now, we are literally printing our 253 mile an hour
13 hypercar in the morning and cruise missiles in the
14 afternoon. This can be done. It is all made in America.

15 We're in agreements with most defense primes and many
16 of our great American startups delivering capabilities for
17 air, land, sea, and space. The capital efficiency that
18 comes from this agility can reduce taxpayer burden,
19 increase war fighting capability, and quickly rebuild U.S.
20 global innovation and manufacturing dominance.

21 What acquisition reform is needed to bolster defense
22 innovation and attract companies like Divergent to create
23 American military advantage? First, we have to be very
24 clear of turning America's software advantage into a
25 hardware advantage. We must foster competition for fully

1 digital and AI-driven design and production systems so
2 America can build.

3 We must scale innovation successes. New acquisition
4 paths and organizations have created access to mobilize a
5 broad industrial base with the ability to create a hedge
6 portfolio of software-driven hardware. But it is not clear
7 that we have the structure to scale this to success.

8 Three, we need to build a civil reserve manufacturing
9 network so America can build. The factory is the weapon.
10 The taxpayer buys billions of dollars of weapons every year
11 solely for war. Why are we not buying some factories as a
12 service? These factories distributed, could produce parts
13 for legacy platforms to ensure we can fight tonight, can
14 scale a hedge portfolio, or produce commercial goods in a
15 way that bolsters competition, increases our military
16 resiliency and capabilities, and saves billions of dollars
17 to the taxpayer.

18 The term forge is fitting to express the gravity of
19 this moment. This act of forging is literally defined eras
20 in civilization going back to the Bronze Age as societies
21 use the process to turn ideas into hardware. The title
22 FORGED Act is appropriately to communicate the emergency
23 situation that we are in in America today as our eroded
24 capacity of turning ideas into hardware is creating this
25 national crisis.

1 Fortunately, visionaries mobilize a whole-of-nation
2 effort in World War II. It is time for Freedom's Forge
3 2.0. And while we're in emergency state, I am optimistic
4 because I believe the ingredients are present for a general
5 generational shift in manufacturing and defense innovation
6 that could be more notable than going from the Stone Age to
7 the Bronze Age. I'm confident America will forge that
8 peaceful and prosperous era together. Ladies and
9 gentlemen, it's time to build.

10 [The prepared statement of Mr. Diller follows:]

11 [COMMITTEE INSERT]

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1 Chairman Wicker: Thank you very, very much, Mr.
2 Diller.

3 Mr. Geurts.

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1 STATEMENT OF HONORABLE JAMES F. GEURTS, FORMER
2 ASSISTANT SECRETARY OF THE NAVY, RESEARCH, DEVELOPMENT AND
3 ACQUISITION

4 Mr. Geurts: Chairman Wicker, Ranking Member Reed,
5 distinguished members of the committee, it's good to be
6 back here with you, again. And it's quite an honor to be
7 here for this discussion. Having spent the last almost 40
8 years of my career trying to drive innovation in
9 acquisition as a person in uniform, as a civilian, as an
10 appointee, and now in the private sector, it's a subject
11 that's near and dear to my heart, and I think critically
12 important for our nation.

13 I've had the honor to lead some of the nation's finest
14 acquisition teams in time of war and global competition.
15 And I've seen what's possible when there's a clear
16 understanding of intent, a sense of urgency at all levels
17 of the organization, a close connection between the
18 acquirer and the operator, a robust and diverse network of
19 industry partners, transparency to all the stakeholders,
20 and an empowered and accountable acquisition workforce.

21 Unfortunately, over the last several decades, our
22 ability to do this at scale across the department has
23 decayed. The industrial base that service so well after
24 World War II is not up to the challenges right now that we
25 need as a nation alone. The accumulation of decades of

1 statutes, regulations, processes, special interests, all
2 well-intentioned about which permeate the bureaucracy, have
3 hobbled our ability to adapt and change

4 The risk-averse culture that that's driven has
5 diffused accountability across multiple organizations,
6 departments, and the workforce so that it's unclear who's
7 actually accountable to deliver, and they are not empowered
8 to actually deliver the results we need from them.

9 The challenges facing the department and nation are
10 many. The nation needs to be innovative, productive, and
11 agile; while also ensuring they're relentless stewards of
12 the taxpayer dollar rather than trying to rebuild the
13 industrial base we once had. I believe we need to focus on
14 building the future industrial network that we need that
15 gives us the ability to scale and the ability to be agile
16 in this time of global competition.

17 Harnessing our collective capabilities, talents, and
18 innovations into such a dynamic and aligned network will
19 help overcome the limitations, and linear thinking, risk-
20 averse approaches that have been impairing the nation's
21 competitive capability.

22 Since I'm thankful that this committee is placing such
23 an emphasis on this issue and am optimistic with the tenets
24 of the FoRGED Act, we have a systematic issue and we've got
25 to attack it systematically. We've tried over the last

1 couple of decades tweaking, making some changes here,
2 making some changes there. But if we're really going to
3 act at the scale and with the speed, we need as a nation,
4 we need to overhaul both our approach to the industrial
5 base, focusing on this industrial network, as well as
6 leveraging a clearly accountable and empowered acquisition
7 workforce.

8 Thanks for the opportunity to appear before you, and I
9 look forward to your questions.

10 [The prepared statement of Hon' Geurts follows:]

11 [COMMITTEE INSERT]

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1 Chairman Wicker: Thanks to all three of you. I'm
2 going to add for the benefit of the listening public and
3 those in the audience. Typically, in a hearing like this,
4 where there are three witnesses, the majority suggests two
5 of the witnesses, the minority suggests one. It would be
6 hard for the listening public to know which witness today
7 was a majority witness and which witness was a minority
8 witness. So, I do appreciate your thoughtful testimony.
9 And at this point for it to begin our questioning, Senator
10 Sheehy, you were recognized for five minutes.

11 Senator Sheehy: Thank you, Chairman.

12 Everything you guys said, of course is, I think,
13 pretty blatantly accurate for everybody. And the word
14 innovation is thrown around a lot for defense acquisition
15 and systems development. And I don't think we really have
16 an innovation problem. Private companies innovate. We
17 have all these fusion labs within the military that
18 innovate actually pretty well. The challenge is adopting
19 the innovation on a programmatic level and then fielding it
20 quickly.

21 And I think, Hondo, you know, when you and I were in
22 together, you know, I served as a SEAL team leader and we'd
23 have IED threats that would -- the enemy would watch with
24 the binoculars how we would disarm an IED or what
25 technology we'd use. And the next day they would change

1 their design. Literally, the next day. I mean, they go
2 back to their garage, they'd rewire it, and then come out
3 the next day. And our policies for fielding equipment to
4 counter those IEDs were stuck at the pace of our defense
5 acquisition system. We'd send that feedback back home, and
6 maybe a year or two later, we'd get a new jammer or a new
7 tactic out and God bless the guys out there doing it which
8 is me a lot of the time.

9 Unfortunately, our ability to innovate, we didn't
10 innovate at the speed of the threat. We innovated at the
11 speed of bureaucracy. And we can innovate, but adopting
12 that quickly is the biggest challenge. So, I mean, it's
13 open to anybody, especially you, Hondo, coming from a
14 career in that acquisition system. You know, what's the
15 single biggest change we can make as a legislative body
16 quickly to encourage adoption of the innovation that
17 already exists?

18 Mr. Geurts: Yes, sir. Thank you for the question. I
19 concur. Many of our roadblocks are self-inflicted and
20 culturally reinforced, and it's for a lot of different
21 reasons. I think the number one thing you can do is that
22 you can empower the program manager and hold them
23 accountable. Right now, program managers answer to a --
24 you know, dozens and dozens of folks they have to go get
25 permission to move a dollar to a better priority. If they

1 see a new technology that comes out, they have to spend
2 years creating a program to adopt. I think that's one.

3 And then, two, breaking down this barrier so that --
4 listen, we need defense primes. As Shyam said, we need new
5 entrants, we need commercial providers. We need program
6 managers that have the authority to actually pick, have
7 visibility of all those things, and then rapidly be able to
8 choose the best performer.

9 And then, finally, we've got to break down the barrier
10 that we've created between the person buying the equipment
11 and the person using the equipment. Again, well-
12 intentioned headquarters staffs that have accumulated over
13 time reviewing that reviewer to doer ratio. So get the
14 doers doing, get them aligned with the operational needs,
15 give them the flexibility to make the best decisions and
16 then hold them accountable to deliver.

17 Senator Sheehy: And Mr. Sankar, a question for you.
18 I love your writeup, by the way. Agree 100 percent. And
19 when I got out, I actually started a defense company
20 myself. We ended up having to split the company in two
21 largely for investment purposes, because what you refer to
22 as, you know, that wall, which is very accurately
23 portrayed.

24 But in addition to the acquisition regulations and
25 the, you know, DCAA accounting requirements and all that,

1 there's also a restriction of you can innovate something
2 commercially and to bring that innovation back in and have
3 a cross-feed valve where the defense technology benefits
4 from commercial innovation is almost not allowed. And
5 therefore, we're missing out on a massive pool of --
6 especially as we move into machine learning models and AI,
7 we can't benefit from commercial.

8 In your experience, how can the DOD better leverage
9 commercial innovations to make sure that the defense
10 innovation is adopted at the speed that private sector
11 innovation is?

12 Mr. Sankar: Well, thank you. You know, I think
13 Congress and its wisdom saw this in the '90s, right? This
14 is why we have the Federal Acquisition Streamlining Act,
15 which is that the commercial, you have a much broader
16 market around which you can amortize your R&D in the
17 commercial world, and you can bring that stuff at a lower
18 risk and with much greater speed to the DOD.

19 We were able to deliver the operation warp speed
20 supply chain in two weeks during Operation War Seed,
21 because actually two years before that, we had built very
22 similar solution in oil and gas. You can't connect those
23 dots prospectively. I didn't make that investment in oil
24 and gas because I knew it would pay off when the nation
25 needed it for a Covid vaccine distribution.

1 But really, if you're going after these hard problems,
2 you can benefit whole-of-nation. At some point in time,
3 every car, camera, and serial box that Americans bought
4 actually subsidized our national security. So, I think I
5 would attack this systematically by thinking about what are
6 the barriers that have meant that we have developed a
7 defense industrial base and lost our American industrial
8 base.

9 Now, I think the real issue here, to your point, we
10 don't have an innovation problem. You know, innovation
11 doesn't need capital. America's capital markets are the
12 deepest and richest in the world. Dare I say, if you're
13 unable to finance your idea, that probably tells you
14 something about your idea in this country.

15 But innovation does need customers. And so,
16 shortening that OODA loop, the fiscal OODA loop. I think
17 we'd be better off spending half the money twice as
18 quickly. It's really time, speed has a quality all of its
19 own here. And that's how we drive up commercial adoption.
20 It will pull these folks into the industrial base in a way
21 that we really need.

22 Yes, we need to cut the red tape. We need to get rid
23 of some of these regulations. But I think the biggest
24 barrier is encouraging adoption, empowering our people. So
25 much of this, I couldn't agree more with Senator Reed's

1 comments that technology is -- it's not a technology
2 problem. It's actually a people problem, a leadership
3 problem. You can't chop off a lot of our regulations. You
4 know, something goes wrong, we come up with a new rule.
5 We're trying to chop off one end of the distribution of all
6 the things that can go wrong. You can't do that without
7 making sure nothing can go right either.

8 Chairman Wicker: Thank you, Mr. Sankar. Mr. Reed.

9 Senator Reed: Thank you very much, Mr. Chairman.

10 Mr. Geurts, we all recognize how critical a workforce
11 is to get anything done, and this is particularly a case in
12 acquisition. What's your assessment of the department's
13 acquisition workforce today in terms of its capacity and
14 capability?

15 Mr. Geurts: I think it is mixed. We have a very
16 talented workforce that's been hobbled for a bunch of
17 years. But they're also not fully informed on the full
18 market that's available to them. And so I think as we make
19 -- as a committee here makes all of these what it's look
20 like very value-added changes, we've got to make sure we
21 handle the implementation step. Because right now we have
22 lots of great authorities in the department. We have not
23 implemented them to their full extent, nor trained the
24 workforce to be able to leverage them to their full extent.

25 So, part in part with change in the authorities and

1 rules needs to be rapid implementation guidance, and then
2 rapid training, and then hold everybody accountable after
3 you've done those two steps.

4 Senator Reed: One of the observations that I made,
5 particularly in regard to submarine construction, is Covid
6 sort of triggered a premature retirement of a lot of
7 government supervisors, workforce acquisition specialists,
8 et cetera. And we're lacking in those people, their
9 experience, frankly. And it comes down to people, as Mr.
10 Sankar said. Do we have to make a special effort to
11 rebuild that workforce?

12 Mr. Geurts: Sir, I would do two things. One, we've
13 got to review the reviewer to doer ratio. So we have a lot
14 of the workforce tied up in multiple levels of review that
15 could be deployed to help immediately and get those assets
16 doing work, not reviewing other people's work they're
17 doing.

18 Secondly, we need to create a training pipeline, which
19 fully informs them of how commercial markets work, how
20 venture capital markets work, how traditional manufacturing
21 works, how new advance manufacturing works so they're
22 exposed to all of these opportunities, and then hold them
23 accountable for creating a strategy that bets leverages all
24 of those capabilities.

25 Senator Reed: Thank you, Mr. Sankar, thank you for

1 your testimony. One of the approaches we took was trying
2 to attract the non-traditional defense contractor. That
3 was a term that's sort of changed over time because now
4 many of these non-traditional defense contractors are
5 actually defense contractors. In addition, they also have
6 access to and involved with governments in many different
7 capacities. Would you recommend any changes to this
8 approach of the non-traditional defense contractor?

9 Mr. Sankar: Thank you. I think what we seek with
10 non-traditionals is the same power of the American economy,
11 which is that people will take their private capital and
12 put it at risk to build new things and offer it to the
13 government, not at the taxpayer's expense. And if it
14 works, that's great, and if it doesn't, no harm to the
15 taxpayer.

16 And that's what you see with the non-traditionals,
17 that they're going and raising private capital. They're
18 putting their balance sheet at risk, they're delivering
19 these innovations. If I was to contrast that to the
20 traditional market, what the monopsonist prefers is I will
21 pay you by the hour. I will control everything you're
22 doing. I will own what you ultimately create. And then we
23 are surprised that that category of traditional player
24 isn't investing more in R&D. Well, I think, literally,
25 we've gotten the industrial base that we've incentivized

1 getting. So, I think, you know, my hope is actually we
2 could find more ways of turning what we today view as the
3 traditionals into non-traditional, that would be the
4 alchemy that really powers our national security.

5 Senator Reed: One other aspect. Just observation and
6 we all understand that the defense industrial base has
7 shrunk dramatically from 20 years ago. A lot of that was
8 through mergers, acquisitions. In some cases, looking at a
9 threatening young competitive company and buying it for
10 reasons that might not be appropriate. How can we sort of
11 stop that?

12 Mr. Sankar: Well, I'm spending my time personally on
13 that. So, I think the antidote to the Last Supper, this
14 consolidation wave that happened is what we should call a
15 first breakfast. You know, how do you know as Palantir has
16 blazed a trail, survive the valley of death? I want to now
17 lower the ladder and make it possible for many more new
18 entrants to get there.

19 How do I reduce the time it takes to get
20 accreditation? How do I enable it to field, yourself, not
21 in an exercise that's not real, but in the actual war
22 fighting needs. Get more feedback and more scale as a
23 consequence. We need a positive-sum mindset here. And the
24 big shrinking that happened during the Last Supper
25 encourages a zero-sum thinking, which we need to get out

1 of.

2 Senator Reed. Thank you.

3 Chairman Wicker: Thank you very much, Mr. Reed.

4 Before I turn to Senator Fischer, Mr. Geurts, this changing
5 the reviewer to doer ratio we could do that without a
6 changing the statute, could we not?

7 Mr. Geurts: In some cases, yes, in some cases, no.
8 So, there are certain parts of the statute that require,
9 you know, different offices review things. I think over
10 time, we've let the functional side get -- you know, the
11 contracting folks have to review it independently,
12 independent flight test authority. So many of those are
13 internal, but a lot of those are driven by either statute
14 or intent from external stakeholders.

15 Chairman Wicker: Thank you very much. Senator
16 Fischer. You're recognized.

17 Senator Fischer: Thank you, Mr. Chairman.

18 Mr. Geurts, the impact of CRs on the department, it's
19 well documented whether limiting new starts or the
20 challenges of increasing production rates. While CRS
21 result in concrete negative impacts, the department has
22 little influence over whether a CR actually occurs since
23 appropriations are the purview of Congress. Based on your
24 experience, are there any specific recommendations you have
25 that would enable the department to continue to make

1 progress on certain programs, even through a CR?

2 Mr. Geurts: Thank you. Yeah, CRs are very damaging
3 to a rapid and agile workforce. One of the reasons is you
4 have to -- if you're applying an award of contract for the
5 year and now the CRS occurring, you're doing it in, you
6 know, three-month increments or two-month increments, and
7 it ties up both sides. So, I think anywhere we can create
8 authorities, if it's small programs, if it's programs that
9 we're know --

10 Senator Fischer: Sir, is there any place right now
11 that the department can continue its progress or does it,
12 do you know of anything or it's all shut down?

13 Mr. Geurts: It's really challenging because of the
14 specificity of the CR and the challenges. I think some of
15 the services have asked for special authorities in areas
16 that are very dynamic. I know the Army has asked for
17 authorities to be able to rapidly reprogram and be flexible
18 in like electronic warfare, and UASs, counter-UASs. So I
19 think there's areas where it's really a dynamic environment
20 that I think we could work together to build a trust to be
21 able to have more flexibility in the CR period.

22 Senator Fischer: Okay. Thank you. Mr. Diller, do
23 you have anything to add from a private sector perspective
24 on this?

25 Mr. Diller: Yes, Senator, I think there have been

1 some notable changes just over starting with the Fiscal
2 Year 2024 Defense Appropriations Bill, that that provided
3 some of that agility that is key. If we look at how
4 quickly our acquisition model works, where we're budgeting,
5 and in instances, it's taking four years for something to
6 actually come available.

7 That certainly is not the case from a private sector.
8 If we look at the pace that large language models in
9 artificial intelligence have occurred right there. Those
10 budgets were being built two to four years ago. And so I
11 would commend the work of the appropriators that have
12 looked to see what type of flexibility allows the speed of
13 innovation that is actually happening in the private
14 sector.

15 It gets to this question of adoption, of innovation.
16 And so, I think really great pilots have happened. And
17 when we look at the ability to scale, it certainly -- at
18 some point the measure needs to be how can we get the
19 funding that actually allows that production and the
20 movement?

21 And I think there's been increased abilities. We look
22 at digital approaches to actually creating trust across the
23 Potomac River, where the Pentagon and the Congress can
24 actually get a higher degree of assurance that the money is
25 being spent quickly. This is being piloted right now with

1 DIU and I think that is going well. It's good for
2 industry, it's good for trust across the legislative and
3 executive branch.

4 Senator Fischer: Thank you. Mr. Sankar, in your work
5 with the department, what are some of the key factors that
6 limit your company's ability to innovate?

7 Mr. Sankar: I think really if you think about our --
8 when we first started the business, I thought our
9 competition was going to be the primes. That the primes
10 would be threatened by the innovation of what we were
11 creating. But actually, the entity that was most
12 threatened was the existing program of record. So, it's
13 our inability to tolerate heterogeneous innovation coming
14 from a number of places.

15 You know, all innovation starts off as something that
16 is heterodox. It's going to challenge the status quo; it's
17 going to upset the apple cart. So, we need to enable more
18 flowers to bloom, and to recognize that innovation is
19 fundamentally messy and chaotic. And any attempt to put
20 process around it and make it clean destroys the
21 innovation.

22 Senator Fischer: Mr. Geurts, as a former acquisition
23 official, what do you think are DODs most promising
24 initiatives to be able to take advantage of that commercial
25 innovation?

1 Mr. Geurts: So, I think, if I look back 10 to 15
2 years ago, I think there was a divide between the
3 commercial industry's interest in national security and the
4 government's trust that they could actually deliver
5 something relevant to national security. And if you look
6 over the last 5 years in particular, that has, that element
7 is broken down. So, the conversations are starting to
8 occur, the trust is starting to occur, the demonstrated
9 success is starting to occur. Now, we have to do that at
10 scale as a matter of business, not as an exception.

11 Senator Fischer: Thank you. Thank you, Mr. Chair.

12 Chairman Wicker: Thank you, Senator Fischer. Senator
13 Shaheen.

14 Senator Shaheen: Thank you, Mr. Chairman. And thank
15 you to each of our witnesses for being here today.

16 I recently took over as the ranking member of the
17 Senate Foreign Relations Committee. And one area that
18 comes up over and over again is ensuring that our foreign
19 military sales process works not just for us, but for our
20 allies, for our military, and for our industries. And to
21 ensure that we maximize the capabilities of our alliances,
22 we need to focus on being able to fight in an interoperable
23 and coordinated way with our allies and partners. I assume
24 that you would each agree with that. You're nodding.

25 So, Mr. Geurts, how should industry and government

1 think about and be working to ensure that American
2 businesses can work with our counterparts, with our allies
3 in Australia and Japan and South Korea to ensure that
4 systems are built on compatible architectures that allow
5 coordination between our forces in combat?

6 Mr. Geurts: I think a couple things. One would be
7 anywhere we can reduce the FMS burden in terms of
8 regulation, and statute, and things that make it hard to do
9 FMS sales, and things that disincentivize our allies and
10 partners wanting to use the FMS system.

11 Secondly, I think as commercial --

12 Senator Shaheen: Are there specifics that you would
13 point to?

14 Mr. Geurts: I think there's been a number of studies
15 on areas that we can break down. A lot of it's the review
16 timeline. A lot of it's the external authorities. I think
17 there's work to be done there. And then I think as
18 commercial is global, there are areas where we can leverage
19 commercial capabilities that do span many of our allies and
20 partners that are already interoperable from the start and
21 leverage those versus trying to back in interoperability
22 from a custom DOD-made area. We've got to differentiate
23 it. It's not one or the other. We need both.

24 Senator Shaheen: I certainly agree with that. Mr.
25 Diller, one of the things that has happened as the result

1 of the war in Ukraine is that we've watched how creative
2 the Ukrainians have been with many of their responses to
3 that war. Do you think that there are lessons that we
4 should be taking from what the Ukrainians have been able to
5 do?

6 Mr. Diller: Yes, ma'am. Unfortunately, I don't know
7 that our defense primes or our startups responded in the
8 way that we necessarily would want to that type of crisis.
9 I do think, fundamentally, as has been discussed with my
10 colleagues, this is an industrial-based problem in America,
11 not just a defense industrial-based problem.

12 And so how do we look at taking the next leap that
13 allows the factory to be part of that war system, that war
14 fighting system? You see agility in Ukraine that you are
15 actually getting hardware to evolve at the speed of
16 software.

17 On your previous question about FMS, if we can
18 actually have 21st century manufacturing system that is
19 digitally driven. It allows us to actually have that
20 factory evolving at the pace of the war to close that OODA
21 loop, as it's called, and to create both interoperability
22 between nations, and to be able to scale and remain agile
23 in warfare.

24 Senator Shaheen: Thank you. Mr. Sankar, I'm a big
25 proponent of small business. They create 16 times more

1 patents than large businesses. One of the ways that we try
2 and take advantage of that innovation is through the Small
3 Business Innovation Research Program, which has been very
4 successful. I know it's a program that Palantir has worked
5 with extensively.

6 So, I am very concerned about the order that just came
7 out from the acting director of the Office of Management
8 and Budget that essentially puts on hold any financial
9 assistance that's dedicated to any programs like SBIR.
10 There are 82 of those programs within the Department of
11 Defense. What does it do to the research that's going on
12 in our small businesses when there's that kind of a halt on
13 the program, and we don't know how long it's going to last,
14 and we don't know whether it's going to be forever, or if
15 they're going to be able to resume what they're doing?

16 Mr. Sankar: Well, what I can certainly speak to is
17 the value of small business. So, if we think about the
18 American system. This is about David versus Goliath, and
19 you know, we need the small business program to continue to
20 encourage many more Davids to get out there. But we should
21 be clear that we want David to get big. You know, where,
22 where the small business program may be failing our
23 existing entrepreneurs is it's just enough to keep them
24 small. A class of indentured servants living as small
25 businesses. But that's not what we aspire for them. We

1 want the small guy to have an opportunity to become the
2 next king.

3 And so, if there were ways of continuing to evolve
4 that program so that we were holding ourselves collectively
5 more accountable to how many of our small businesses were
6 able to get big, how many of them are now defining the next
7 frontiers of what we're doing in defense innovation, I
8 think the nation would be much better off.

9 Senator Shaheen: I certainly agree with that, and
10 hope that we can look at the next stages of the SBIR
11 Program to do that.

12 Chairman Wicker: Thank you, Senator Shaheen. Senator
13 Rounds.

14 Senator Rounds: Thank you, Mr. Chairman. First of
15 all, let me thank all of you for being here today and
16 helping us in this project.

17 Albert Einstein, in a letter to President Roosevelt,
18 identified the risk of losing to Nazi Germany with regard
19 to the possibility of a nuclear bomb. He talked about the
20 need the United States to take lead role and basically
21 begin that project. At the same time, once that occurred,
22 the Manhattan Project was ordered, we started a process
23 within our industrial base and within the scientific
24 community that was unbelievable at the time. And part of
25 it had to do with a whole lot of really, really bright

1 people talking to one another, both from within the
2 Department of Defense, within the National Laboratories as
3 they had existed back then, the universities, but also the
4 military, and the political leaders.

5 Today, I guess my question, to begin with, we face a
6 very similar situation right now with the implementation of
7 AI, and with adversaries who are moving very, very rapidly.
8 And this tool that we have, this AI tool, the countries
9 that are best able to incorporate it and to move it forward
10 as quickly as possible, are going to win the race
11 militarily and economically as well.

12 Mr. Geurts, in the time that you were within the
13 Department of Defense, how often did you actually have a
14 round table or a visit with some of the key thought
15 leaders, industrial base leaders, innovators? Did you ever
16 sit down and just have a round table with them, or is that
17 restricted?

18 Mr. Geurts: Yes, sir, I did. I would, both of my
19 time in special ops and in the Navy, we would create the
20 forum for those kinds of discussions. And I would concur.
21 Having those kinds of discussions is fully available within
22 the statute and critically important to understanding the
23 opportunities that are in front of us and how to leverage
24 the full ecosystem.

25 Senator Rounds: Mr. Sankar, Palantir is recognized as

1 an innovative organization, a thought leader a proven
2 facilitator in many cases with regard to AI implementation.
3 How often are you invited into the Pentagon to sit down and
4 to visit, to talk about how you can coordinate with our
5 purchasing organizers, the acquisition people, in terms of
6 actually acquiring the best and coordinating it with the
7 weapon systems that we have today?

8 Mr. Sankar: I'd say it's pretty a mixed bag. There
9 are certain parts of the community that are very proactive
10 in seeking advice and interest from outsiders, actually
11 even seeking help and pulling together the right groups of
12 folks who would be completely non-traditional and very far
13 away from defense. And there are others that have a more
14 captive sort of approach to this.

15 Senator Rounds: You ever been invited in to sit down
16 and talk?

17 Mr. Sankar: A few times I have, yes.

18 Senator Rounds: Mr. Diller?

19 Mr. Diller: So that, I think, if we look at the
20 innovation progress that's happened over the last, you
21 know, decade or so. I think you kind of see three
22 different eras of this starting with the conversation with
23 the launch of DIU. Eventually, though, that conversation
24 needed to move into something more meaningful, which I
25 think started where we got to contracts, where notable

1 civil reform allowed those conversations to happen against
2 sometimes large inertial hurdles that thought that
3 conversation couldn't happen.

4 I think we need to get to this third era that actually
5 is how do we turn this into capability? How do we actually
6 scale to get hardware and software so that this is not an
7 episodic conversation, but this is the way we conduct war
8 in America, this is how we mobilize America for war. And
9 that is still a gap that I think is needing to be filled.
10 But I'm optimistic that we're on a path building on these
11 successes and these pilots that is possible.

12 Senator Rounds: Look, I agree with you that that's
13 the path forward. I'm just questioning whether or not our
14 acquisition process today will allow that to happen.

15 Mr. Geurts, we have a rapid acquisitions process that
16 some of the branches are able to access. Is there any
17 reason why all of our acquisitions shouldn't be based upon
18 a rapid acquisitions approach?

19 Mr. Geurts: Sure. I couldn't agree more. I get a
20 little frustrated when we have the rapid acquisition
21 community and then everybody else. We should all be rapid.
22 And to your previous point, I'm a huge believer in the
23 networks, and we do have a culture of lawyers that look to
24 everything bad about having conversations versus what's
25 appropriate. And I think that's an area where we can do

1 much, much better as a community. In fact, we have to.

2 Senator Rounds: Mr. Sankar, rapid acquisitions.

3 Mr. Sankar: I could not agree more that everything
4 should be rapid. You know, speed is our greatest strength.
5 The American entrepreneurial spirit of, essentially, when
6 everything is on the line, we throw away the rule book and
7 we execute.

8 Senator Rounds: Mr. Diller, you agree?

9 Mr. Diller: 100 percent.

10 Senator Rounds: Thank you. Thank you, Mr. Chairman,

11 Chairman Wicker: Mr. Sankar, if there were a round
12 table and your competitors were invited and not you, you'd
13 have a problem with that?

14 Mr. Sankar: Well, arguably that's what's happening
15 today. I mean, it happens. People need to get the best
16 counsel they can. We need to move together. There are
17 going to be lots of opportunities to keep competing. What
18 we need to move away from is a big monolithic approach
19 where you had one chance to get involved to actually every
20 quarter we are adapting new technologies, and there's a
21 constant kind of reshuffling of who are the performers on
22 the work.

23 Chairman Wicker: Very helpful. Senator Hirono.

24 Senator Hirono: Thank you, Mr. Chairman. Mr. Diller,
25 as one of the authors of the recently released Blueprint

1 for Breakthroughs in Defense Innovation report, you
2 recommend giving the combatant commanders, including
3 INDOPACOM, the largest AOR, specific funding to accelerate
4 the rapid fielding of new technologies to solve theater-
5 specific problems.

6 What advantages would such a change inject into the
7 defense acquisition system, and how would you address
8 concerns from those who argue the combatant commanders
9 already have a say in how DOD prioritizes and procures
10 emerging technologies?

11 Mr. Diller: Yes, Senator, those recommendations were
12 specifically building on the success that Chairman Calvert
13 on the House Appropriations Committee championed when he
14 added \$220 million of colorless funding to ADIU, Agile, and
15 enterprise fielding capability.

16 There's been incredible success in being able to
17 provide that flexibility directly to the combatant command,
18 who right now is urgently developing capabilities to ensure
19 the potential 2027 risk is deterred and to make sure that
20 there is proper balance. This was specifically how do we
21 move into 21st century acquisitions of making sure that
22 there's a digital thread, there's digital accountability
23 between the appropriators, making sure that that is tied
24 back into a resourcing approach that is institutionalized
25 in the Pentagon and is tied directly to that war fighter

1 capability.

2 So, it's not necessarily acquisition, it's not
3 acquisition authority, but it is something that's much more
4 stronger than just the combatant command, asking to
5 actually have a say of where dollars go.

6 Senator Hirono: I think that is an important kind of
7 we looking at who gets to make these kinds of decisions and
8 who gets to weigh in. And I agree with you that I think
9 the combatant commanders should have a greater say.

10 For Mr. Geurts, everyone agrees that DODs acquisition
11 workforce must manage complex requirements pathways and
12 extensive reporting structures, which does create a risk-
13 averse culture. It's been acknowledged that the DOD has a
14 risk-averse culture. What kind of training or tools do
15 acquisition professionals need to better leverage the
16 existing innovative procurement pathways like OTA? It's
17 the other transaction authorities or the middle tier
18 acquisition pathway. So we've tried to create innovative
19 ways for faster acquisition, but not if people do not take
20 advantage of these pathways.

21 Mr. Geurts: Yes, Senator. There are plenty of
22 pathways. At SOCOM, I think we created 17 different ways
23 to buy things, and then we empowered program managers to
24 pick the right one and held them accountable to deliver.

25 I think we have to get away from the idea that we're

1 efficient if we pick one way to do everything, and then
2 train everybody to one standard as opposed to exposing them
3 to all the different opportunities and then training them
4 what's the right tool to pick for what's the right job.
5 Part of that is empowering the program manager so they have
6 the authority to pick that tool, and it's not spread out
7 between what legal thinks, what contracts thinks, what the
8 operator thinks. I think that will go a long way.

9 Senator Hirono: Do the other panelists agree with Mr.
10 Geurts' approach?

11 Mr. Sankar: Yes, I do agree. If I was to add one
12 thing on top of that is it's really bringing acquisition
13 closer to the operators, to the war fighters. There's a
14 way in which, where we divide these things up so cleanly
15 and expect that acquisition can deliver on its own.

16 Another way of thinking about your question on combat
17 commanders is it's the answer to the monopsony. You know,
18 we have 13 SOCOMs, we can introduce a lot more demand
19 signal. We should be celebrating the heterogeneity and the
20 needs across our SOCOMs rather than having a unitary
21 solution driven by the services that that needs to be
22 universal.

23 Senator Hirono: Before I run out of time, I wanted to
24 mention the importance of SBIR, and this is a way for us to
25 really support and encourage particularly small companies

1 to be innovative and creative. And we should be supporting
2 it. But now, apparently, there's a pause on the, these
3 initiatives, SBIR. So, Mr. Sankar mentioned, I think that
4 you understand the importance of SBIR. I'd like to know if
5 the other two panel members agree. Mr. Miller?

6 Mr. Diller: Yes, ma'am. I, as the director of
7 AFWERX, I issued thousands of them a year. There are
8 reforms that should happen, but it has done incredible
9 things to help mobilize the American industrial base.

10 Senator Hirono: Mr. Geurts, you agree?

11 Mr. Geurts: Yes, ma'am.

12 Senator Hirono: Thank you.

13 Chairman Wicker. Thank you, Senator Hirono. Senator
14 Ernst.

15 Senator Ernst: Thank you, Mr. Chair. And gentlemen,
16 thank you for being here today. I am particularly excited
17 about the discussion today, and I hope that we can take
18 this information and your thoughts, and actually act on it.

19 So I'll start with you Mr. Diller. I serve as the
20 chair of the Senate Committee on Small Business and
21 Entrepreneurship, and I'm working on a bill to actually
22 reform SBIR. While it's important, I agree, it needs to be
23 reformed. So what I'd like to do is revamp phase 3
24 acquisitions, and a number of the efforts you've helped
25 create have been very successful in scaling technologies

1 from innovative small businesses to the war fighter.

2 So, Mr. Diller, how can we reform SBIR and expand on
3 this work across the DOD innovative ecosystem?

4 Mr. Diller: Yes, ma'am. First, thank you for your
5 leadership and being a champion for small businesses. We
6 talk about mobilizing America. This particular capability
7 with SBIR is key. When we picked it up in AFWERX, it was
8 not a perfect program, but it was a tool that we had. And
9 thanks to the help here on Capitol Hill, it has been better
10 year after year.

11 I think there are three important things that we need
12 to do in the SBIR program. One, I think expanding the
13 number of companies who can get in. This frustrates to
14 sometimes the venture capitalists because they can't pick
15 easily. But this is a venue, the conversation about how do
16 we bring in many companies for the conversation. This is
17 the venue for that conversation. So, actually, more SBIRs
18 with lower dollar amounts initially, but we also need to be
19 very deliberate about scaling, and only scale and scaling
20 quickly.

21 Those best companies, we need to be better at
22 judicious reviewers of which companies to scale. And then
23 building on things like the stratify program that can
24 literally take a company from a \$50,000 program in one year
25 to a \$50 million program the next year through proper due

1 diligence internal to the Department of Defense.

2 The last piece of that is that due diligence. Making
3 sure that the dollars that are going through the SBIR
4 Program are actually going to American companies and are
5 not feeding the adversary. And that piece is making sure
6 that that is consistent and rigorous across the department
7 with clarity for those companies that want to make sure
8 they have clean capital. How is that conversation
9 happening? And there's more opportunity to build the
10 proper relationship with industry to get everyone on board
11 with that mobilization?

12 Senator Ernst: That's fantastic. And making sure the
13 dollars go to American companies is extremely important as
14 well. I have focused on that.

15 Mr. Sankar, as chair of the Senate DOGE Caucus, I
16 couldn't agree more with your Defense Reformation paper
17 where you state that small business program should not be
18 welfare. I agree wholeheartedly. And in the past decade,
19 25 companies they're notoriously known in my circles as
20 "SBIR Mills" received 18 percent of all award dollars at
21 DOD amounting to about \$2.3 billion. That's a \$92 million
22 windfall per company in a program meant for small
23 businesses.

24 GAO reports that these frequent flyers have lower
25 sales and investments and fewer resulting patents. We have

1 a problem here. So, Mr. Sankar, how can we eliminate this
2 waste of taxpayer dollars, and reorient the SBIR program to
3 its original purpose as a source of merit-based seed
4 funding?

5 Mr. Sankar: I could not agree more. That's clearly
6 an abuse of the intent here. One thing we could think
7 about is time limiting; how long a company is eligible.
8 It's not just about the size and staying below some sort of
9 threshold. But look, we aspire for this small company to
10 get big, and I don't know if the right threshold is five
11 years or 10 years, but there's some amount of time that we
12 would expect you to have the opportunity to get big. We're
13 going to bet on other entrepreneurs in the future.

14 The other part is more of a top down. As we measure
15 the efficacy of the SBIR Programs, we should really be
16 thinking about how many big companies were we able to
17 create. And I think that will help us have a clear head as
18 we think about the next rounds of investments that we're
19 going to make.

20 Senator Ernst: Yeah, I agree. And if you go back and
21 you look at the companies that are benefiting from these
22 programs right now, most of them exist on the East and West
23 Coast. Very few of those dollars are actually getting
24 spread into Middle America. And I do think that that this
25 will change in the future and provide opportunity for more

1 small businesses.

2 Mr. Geurts, I will get back with you on questions for
3 the record, but I appreciate your service to our nation.

4 [The information referred to follows:]

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1 Mr. Geurts: Thank you, ma'am.

2 Senator Ernst: Thank you. Thank you, Mr. Chair.

3 Chairman Wicker: Thank you very much, Senator Ernst.

4 A few of our members of the committee have referred to a
5 paper written by Mr. Sankar, entitled The Defense
6 Reformation, consisting of 19 Pages. Some of them are just
7 title pages, but I ask unanimous consent that we enter that
8 into the record right after Mr. Sankar's testimony.
9 Without objection, it is so ordered.

10 [The information referred to follows:]

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1 Chairman Wicker: And Senator Kaine, you are
2 recognized.

3 Senator Kaine: Thank you, Mr. Chair. And thanks to
4 our witnesses. I appreciate this hearing. I think it's
5 really important that we dig into this.

6 And if I could, Mr. Chairman, I'd like to recommend,
7 as we're looking at this topic, that we also think about a
8 hearing on workforce, because I think acquisition reform is
9 needed. I think a lot of our challenges are also around
10 inadequate workforce in the defense industrial base. And
11 I'd love to have a committee hearing on that topic as well.
12 This is something Mr. Geurts and I have talked about
13 before.

14 Mr. Diller, you mentioned DIU, the Defense Innovation
15 Unit, and I want to ask you, and then the others, if you
16 care to comment. How would you assess? I've been
17 impressed with their mission, and I've been impressed with
18 some of what they've done, but I haven't been involved with
19 it in a day-to-day way. Maybe you-all have. How would you
20 assess both the performance of DIU, but maybe more
21 importantly, the promise of DIU?

22 Mr. Diller: Certainly, from a performance
23 perspective, this is a startup inside a very, very complex
24 bureaucracy. For years, those startups internal to the
25 bureaucracy largely get eaten by the bureaucracy. You can

1 look at the rate of hiring to actually be able to build the
2 organization. Even when the top leadership in the Pentagon
3 says go higher, the frozen middle certainly makes that a
4 challenge. I saw the same thing when I was in AFWERX.

5 So given those headwinds that they must address, I
6 think it provides -- they've been making great progress.
7 There have been great companies that are getting built
8 because of the collaboration. Real contracts are now
9 turning into capability that is actually deterring an
10 adversary.

11 Senator Kaine: What advice would you give to the
12 Pentagon today about DIU and the way they should sort of
13 position DIU within the DOD?

14 Mr. Diller: I think the NDAA that had been passed
15 over the last couple of years of elevating specifically --
16 the challenge that we've had with innovation in the past is
17 when these new technologies come to the forefront. It does
18 not necessarily fit in with our traditional program
19 executive officers. It doesn't necessarily fit in with our
20 training and adoption pipelines. And many times, it
21 doesn't necessarily have an obvious fit in one of the
22 services. And this is nothing pejorative to the service.
23 It's just new, and we don't have a home for it.

24 And so, DIU is fit that place of actually identifying
25 joint capabilities to support the joint war fighter. And I

1 think that elevation as it is being reported directly to
2 the Secretary of Defense, so that the conversation with
3 great companies in this ecosystem can be free and open, so
4 that it is encouraging actual use of existing authorities.
5 Right? Is a culture change that is using existing
6 authorities to create the speed so that we can actually
7 move in in a relevant pace?

8 And I think that structure is there. There's a lot
9 still to build out in that structure. DIU is the small
10 acquisition piece of this. There's an adoption piece on
11 the back end that might not quite be there, and there's
12 some questions of what specific problems are these
13 organizations solving that doesn't fit into the beginning
14 either. So, there's room.

15 Senator Kaine: Let me switch gears. A lot of the
16 testimony this morning has been about encouraging
17 innovation and emerging technologies that, as you say,
18 might not fit directly within the silo mentality. I want
19 to talk about acquisition innovation in an ongoing area
20 that we've had a lot of problems in that shipbuilding and
21 subs.

22 We had to put \$5.7 billion at the end of the year into
23 the Virginia Class Sub program to try to move it more into
24 on-time, on-budget. And that was after we did a
25 supplemental bill in April, putting money into the program

1 on top of the base budget. Mr. Geurts and I have dealt
2 with this. What would be a way to think of acquisition
3 reform in the context of like ship and sub building? How
4 should we look at different contract vehicles? What would
5 your thoughts be on that?

6 Mr. Geurts: Yeah, sir. I think we should look at
7 innovation acquisition reform in all phases. There's great
8 technology. We spend over \$10 billion a year on ship
9 repair. There's state of art technology that could enhance
10 that today, reduce those bills, get throughput up.

11 I go back to this. We need a network of performers.
12 We need a big ship building -- you know, capital-intensive
13 shipyards, but we need to have them connected to a whole
14 network. Whether it's commercial service providers that's
15 got digital data, whether it's Nate's rapid manufacturing
16 and adaptable things. That's a piece I think we're
17 missing.

18 We have these kinds of pockets of old legacy things,
19 new commercial things we haven't yet tied that together
20 into a well-performing network where people can come in and
21 out of that network as their performance merits.

22 Senator Kaine: Others have thoughts on shipbuilding
23 in particular in my last 17 seconds?

24 Mr. Diller: Just briefly, if you go look at --

25 Mr. Geurts: Take the whole 30 seconds. I'm

1 Mr. Diller: We are living in an industrial age that
2 does not match the talent pool that we have out there. We
3 really must think about what the next leap is in
4 manufacturing.

5 Senator King: So back to the workforce question. I
6 appreciate that. Thank you, Mr. Chair.

7 Chairman Wicker. Thank you very much, Senator King.
8 Senator Budd.

9 Senator Budd: Mr. Geurts, thanks for your service at
10 the SOCOM. So, what are some of the takeaways that you've
11 had from SOCOMs approach to rapid acquisition? And do you
12 think it's realistic to apply those lessons learned to
13 military services?

14 Mr. Geurts: Absolutely. I think a couple of those
15 key things are rapid decision-making, creating venues to
16 get exposed to all the technical capabilities and
17 performance that are out there, like soft works. I think
18 it is having the trust of Congress and the relationship to
19 be flexible. And I think it's empowering the program
20 executive officers to manage a portfolio, not manage
21 individual programs.

22 Senator Budd: Appreciate that. Mr. Sankar, Mr.
23 Diller. Mr. Sankar, we'll start with you first. So,
24 what's been your company's experience having navigated the
25 Pentagon's accounting and invoicing standards regulatory

1 requirements terms of payment, all that. How has that
2 affected your ability to do business with the DOD, and you
3 said you've been there, I believe, a couple of decades, Mr.
4 Sankar, so maybe in the early days as a smaller company,
5 maybe much more intimidating at that point. So, if you
6 want to go back in history a little bit, what was it like
7 as a startup trying to do business with DOD?

8 Mr. Sankar: It was quite complicated. I can't tell
9 you the number of times we submitted invoices and somehow
10 didn't fill out the right, you know, tick box somewhere.
11 And that meant the invoices would get kicked back. People
12 always say you can count on the government to pay its
13 bills. I think you can in the end, but perhaps not always
14 on time, just given how byzantine the process is.

15 So, I think it's not commercial. That's kind of the
16 reality of it. And we should be thinking about where the
17 divergence from commercial standards helps the taxpayer,
18 helps the government, and where is a vestige of how we've
19 built the system over time. I think it does act as a
20 deterrent and to new entrants coming in.

21 Senator Budd: So, as for the small business folks
22 that are out there listening, what would payment terms be
23 like for a small business perhaps in the early days? What
24 would be expected?

25 Mr. Sankar: Well, everything is paid in arrears, of

1 course. So, you can't structure it any other way. Maybe
2 the payment terms are quite reasonable, net 30, something
3 like this.

4 Senator Budd: Then what's the difference between that
5 and reality?

6 Mr. Sankar: You could probably add a couple months on
7 that.

8 Senator Budd: Ouch. Well, I'm glad you survived.
9 Mr. Diller?

10 Mr. Diller: Sure. We have one contract right now
11 with the government that is a cost accounting. If we can
12 avoid it, we will not do that again. It does not serve --
13 I don't think the government well for this type of work,
14 and it certainly does not serve the small business well.
15 And so, I think there -- you know, going back to this
16 question of the reviewer versus the doer, we still have
17 failed to get the Department of Defense into the 21st
18 century to digitize the reviewer part at a pace of
19 relevance so that there can be more doers.

20 And that work still is lacking significantly. It's
21 slowing down the government. It is creating waste, and it
22 is keeping us from getting the best technologies in the
23 hands of our war fighter.

24 Senator Budd: Thank you. Mr. Geurts, acquisition
25 professionals, they often cite the high costs, the robust

1 penalties, and disincentives to taking programmatic risks.
2 And I think it results in a culture of compliance over
3 innovation. You've mentioned that a little bit this
4 morning.

5 So, in contrast, in the non-DOD world, many industry-
6 leading companies, they celebrate failure and they adopt an
7 iterative approach to learning quickly. How might program
8 managers be able to achieve rapid iteration while
9 minimizing the risks of failure?

10 It seems to me, if you want to address the cultural
11 issue here, and I don't know if it's a class or a -- I've
12 heard somebody ask, what tools do you need? I think it's
13 more than that. I think it's a cultural issue. So, if you
14 agree or disagree, please weigh in on that a little bit,
15 too. It is absolutely a cultural issue. There's training
16 you can do to expose people to the tools.

17 Mr. Geurts: Yeah. But if they're in the wrong
18 culture, they won't take advantage of the tools. And so, I
19 think it goes back to being outcome-focused, having unity
20 of command, who's in charge, and then holding that person
21 accountable. And in the SOCOM world, there was more of
22 that than there was, and there was flexibility.

23 You can create strategies where you'll have rivalries
24 and multiple performers because you can act very
25 efficiently. And then if a company performs well and has a

1 product, the operator wants you buy more of them. If they
2 don't, you buy less and go to a different product. That
3 doesn't align well with a centrally planned -- you know, 30
4 percent of our program elements are less than \$10 million a
5 year where you send 47,000 pages of budget documentations,
6 and then you get hauled up in front of a staffer if you
7 make a decision that's the right decision, but doesn't
8 align with that bureaucracy. We've got to get to a better
9 spot in that regard.

10 Senator Budd: Thank you.

11 Chairman Wicker: Thank you, Senator Budd. Senator
12 King.

13 Senator King: Thank you, Mr. Chairman. I'd like to
14 go back to Senator Reed's opening statement at the end
15 where he talked about Churchill and the necessity of
16 thinking fast. The first step, it seems to me in this
17 process is to have a better focus on what we need in the
18 future and not what we needed in the past.

19 The prime examples to me are hypersonics and directed
20 energy. The ground-based interceptor program. Those
21 missiles up in Alaska that are designed to hit a bullet
22 with a bullet are \$70 million apiece. By the way, I got
23 that number from an AI app on my phone. But the point is,
24 we have been fighting the last war. Instead of talking
25 about directed energy, which costs 50 cents a shot rather

1 than \$70 million the focus has been on missiles and
2 missiles. And by the way, those missiles won't do anything
3 with hypersonics. That's another technology that we were
4 late on.

5 And so, this process has to start with acquiring the
6 right things. New technologies win wars. Genghis Khan
7 conquered the world because of the invention of the
8 stirrup. The Battle of Agincourt was won by the longbow.
9 World War I, the tank, World War II, the atomic weapon. So
10 I think this discussion has to start before we get to all
11 the processes that we're going after the right products.

12 Mr. Sankar, do you have any thoughts on that?

13 Mr. Sankar: Yes, I do. I love the tank example in
14 particular because it was the Royal Navy that built the
15 tank. It was widely --

16 Senator King: They were called tanks because the code
17 name was tankers for the Eastern front or something like
18 that.

19 Mr. Sankar: And I think this shows you, I think, even
20 before the tank, there was the land boat, which Churchill -
21 - you know, this seems to be a hearing about Churchill in
22 many ways. But the reason I think that's really important
23 is it was a heterodox approach. If you had asked the
24 British Army to think of what they were going to need to
25 win World War I, they would've been wrong. In fact, they

1 were wrong.

2 Senator King: They would have said more troops and
3 deeper trenches.

4 Mr. Sankar: We have to recognize that the innovation
5 to fight and win the next war will come from the edges of
6 our military. The people who are closest to those
7 problems. It's very unlikely to come from this city.

8 Senator King: And we wouldn't have had a nuclear
9 navy, but for Admiral Rickover.

10 Mr. Sankar: And as Zumwalt said, the Navy had three
11 enemies; the Soviet Union, the Air Force, and Hyman
12 Rickover. So he was not widely loved, but I think we need
13 more tolerance for the heretics, you know, because these
14 heretics end up being our heroes.

15 Senator King: Well, I hope that -- and I don't know
16 how you inject creativity into the process. Mr. Geurts, do
17 you have any thoughts on that?

18 Mr. Geurts: I also think, sir, that we need to invest
19 in the capacity to act quickly. So back to Mr. Diller's
20 comment, even if we plan much better, if we don't have the
21 industrial network that can react quickly, then we're going
22 to -- if we have to wait to create that to decide the
23 perfect thing we want. And so, I'm also a fan of the plan
24 for the unplanned, create the capacity to rebuild. We've
25 lost the middle of our industrial base. We've got very big

1 performers, a lot of little small performers. And that's
2 where I think the commercial marketplace venture, you know,
3 scaling into that middle becomes really important.

4 Senator King: Speaking of acting quickly, this is a
5 chart that derived from our dear departed chairman, Jim
6 Inhofe. It compares the time it takes from concept to a
7 new product starting back in 1945. The dark line is
8 military aircraft. The light blue line is a commercial
9 aircraft, and the red line is an automobile.

10 So back around in the '60s and '70s, those three
11 things took about the same time to get to prototype and
12 actually going. But something happened. And now, a
13 military aircraft is like 25 or 30 years from concept to
14 development. Commercial aircraft much, much faster. And
15 an automobile has gone down. So, I believe that a lot of
16 this is because of the bureaucratic things that we've been
17 talking about today, the impediments to actually getting
18 some of these products to market.

19 The other thing that bothers me is the proclivity of
20 the Pentagon to have its own product. It can't buy
21 something off the shelf. Senator Tillis used to bring the
22 spec for the handgun which was I don't know how many
23 thousand pages. Instead of going to commercially available
24 handgun, all of that would require -- requirements creep as
25 another problem. The definition of requirements and then

1 requirements keep stacking up. Mr. Diller, do you have any
2 thoughts on those ideas?

3 Mr. Diller: Sure. The Air Force has emptied the
4 museums and the boneyards for C130 hub caps. This took us
5 days to build. It will take months to get it certified.
6 It finally was to fly. It took months to certify. Nothing
7 changed. The data was available on day one. The hardware
8 was available on day one. It did not change. We have to
9 change the pace of adoption. We must digitize our
10 industrial base. We must digitize our bureaucracy

11 Senator King: With your indulgence, Mr. Chairman, one
12 of the problems is the risk-averse, which has been
13 discussed. As I've observed the development of
14 hypersonics, for example, the Chinese seem willing to fail.
15 They do tests and fail. We have to have every test work.
16 And that has dramatically, in my view, slowed down our
17 development of some of these important technologies. Mr.
18 Sankar, you're nodding your head. Is that correct?

19 Mr. Sankar: I mean, just like the Starship. Elon
20 learns more from the Starship breaking up than he does from
21 an inherently waiting and slowing down to get the right
22 perfect launch one time around.

23 You know, the value, the rate of learning. The first
24 derivable learning is our competitive weapon. It's how
25 quickly we are adapting, not what are we capable of doing

1 today. It's how much are we changing tomorrow? I could
2 not agree more.

3 Senator King: Thank you. Thank you, Mr. Chairman.

4 Chairman Wicker: Well, thank you very much. Now,
5 before I recognize Senator Banks, I think we need to add to
6 the record a smaller copy of that chart.

7 Senator King: I'll provide it to the committee.

8 [The information referred to follows:]

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1 Chairman Wicker: Provide it. I find it very
2 interesting. And also, Mr. Diller, if you don't mind,
3 Senator Banks, what is the object that you just picked up?
4 And tell us a little more about that.

5 Mr. Diller: So, Senator Wicker, going to your first
6 point. If America goes to war tonight, we will go to war
7 with the multi-trillion-dollar legacy force that we have
8 today. When we talk about innovation, while there are
9 great third offsets, hedge forces, replicators of
10 autonomous robots, we must make sure that innovation is
11 supporting the multi-trillion dollar force that we have
12 today.

13 The C-130, as the Air Forces said, did not have a
14 supply chain for hubcaps. They had emptied the museums;
15 they had emptied the boneyards. This is available to be 3D
16 printed, literally designed by Kevin Czinger and his team
17 at Divergent Technologies, and he did it in days digitally
18 designed. You know, there was a degree of data available
19 that is unprecedented with legacy approaches.

20 But the challenge of getting this adopted into the DOD
21 bureaucracy is one that -- it goes back to this risk
22 aversion; it goes back to how do we digitize this entire
23 system? How do we use digital engineering and digital
24 manufacturing because this saves the taxpayer billions of
25 dollars, and it allows aircraft that are available today in

1 a legacy force to fly tonight. Many of them cannot do that
2 today because of the horrific, horrific debt that we have
3 at our depots and in our sustainment enterprise. This
4 means innovation. It is there and available.

5 Chairman Wicker: Be a little more specific about what
6 the holdup is.

7 Mr. Diller: The holdup is the risk-aversion. Look,
8 there are things that fail. It goes through our
9 airworthiness processes as you look at this, right? In
10 some instances, there are some parts that if they fail, it
11 is a loss of human life. And how is it that we make sure
12 that we're using digital approaches to identify where are
13 those safety critical things? How do I consume data in a
14 21st century manner that is a digitized touch to that
15 engineering design, that is taking a degree of data, when
16 we are certifying cars parts for Aston Martin, Bugatti,
17 McLaren, we are doing that with data sets that are
18 unprecedented and unconsumable today by the Department of
19 Defense.

20 Those companies, the highest brand name companies in
21 the world, would not be offering those safety critical
22 parts on their vehicles if they did not have assurance of
23 those data sets.

24 When we look at the Department of Defense, that's
25 going to take years unless there is encouragement. And

1 thanks to your team, this initial language started with the
2 25 NDAA, we must build on it. We must drive that adoption.
3 There are incredible innovators in the Department of the
4 Air Force that want to do this, but it is going to take a
5 nudge to actually digitize and to make sure that that
6 massive risk aversion is saving dollars for the taxpayer
7 and providing war fighting capability.

8 Chairman Wicker: Thank you very much. Senator Banks,
9 you've been indulgent, and the chair will be indulgent with
10 you on your questions.

11 [Laughter]

12 Senator Banks: Thank you, Mr. Chairman.

13 Mr. Sankar, what kind of a difference would it make if
14 we gave the combatant commands their own acquisition
15 authority?

16 Mr. Sankar: I think it is the single biggest
17 difference that we can make here. You know, the Department
18 of Defense is the only institution I know of that divides
19 up supply and demand. The integration of supply and demand
20 is the beating heart of any company, that consensus driving
21 process.

22 The SOCOMs handle the demand, real world events, the
23 services, man train equipped, they provide the supply.
24 That would work if we really thought every SOCOM and all
25 needs were perfectly knowable and unitary across space and

1 time here. But actually, all of our advantage comes from
2 the fact that we might need slightly different things and
3 the signal for where that comes from is the combatant
4 commander.

5 So how do we give the people closest to the fight, the
6 ability to express a little bit of competitive demand
7 signal? 90 percent of what you want is probably coming
8 from the services, but that 10 percent gap is what's going
9 to make or break us in that fight.

10 How do we give them a little bit of budget, a little
11 bit of authority and ability to break the monopsony and
12 introduce something like a free market where there's
13 multiple demand signals coming.

14 And, you know, if we go back to world war, like how
15 did we have a world where every service was competing to
16 build an ICBM? Well, maybe a SOCOM commander should decide
17 whether the Navy or the Air Force has the better idea and
18 concept for their specific force employment or the emergent
19 needs that they're actually seeing. And I think that
20 competition will get us all to be better.

21 Senator Banks: It seems like common sense. Why
22 aren't we doing that already?

23 Mr. Sankar: You know, I think having the luxury of
24 having won the Cold War, is we view that as duplication.
25 We view that as wasteful. Why can't we just pick the right

1 answer upfront? I think our system is exquisitely designed
2 to solve all problems that can be solved, deductively, top
3 down, we can think our way through it.

4 But the promise of America, is that there's so much
5 messiness, it's all inductive, you know, and our system is
6 very, very bad. It's poorly set up currently. To find the
7 things you got to reason your way through. You got to
8 experience it, roll up your sleeves, get dirty and realize
9 new insights as a consequence of doing that. I think we
10 solve that by giving a little bit of strategic autonomy to
11 the SOCOM commanders to buy what they need and to build
12 what they need.

13 Senator Banks: So, play that out. How would the
14 services and the defense agencies react if they had to
15 compete with another buyer?

16 Mr. Sankar: Well, I think, you know, like most people
17 don't really like competition. Of course, a part of that's
18 going to be a threat. But I think if you get past the
19 initial hysteresis, you'll have the next step from that is,
20 okay, well, how do I actually change what I'm building so
21 that the SOCOM commander wants what I'm building? That's
22 where we're going to start to get the leverage from that.

23 I can think about it as this is also the idea around
24 competing programs and competing program managers that I
25 saw in the Forge deck, where if we have -- what is the

1 incentive for a program manager to adopt new commercial
2 approaches that actually disrupts their existing program?
3 So, I think today's incentive with a unitary effort is
4 deny, deny, deny, pretend it doesn't exist, block it.
5 Versus actually I'm competing against another great
6 American one corridor down. I want to be the first person
7 to adopt the disruptive technology so that I can win.

8 Senator Banks: Do you have a good example where the
9 combatant command's, lack of acquisition authority caused
10 delays, or even hurt the mission?

11 Mr. Sankar: Well, I think you could look at the
12 success of Project Maven, which really didn't come from the
13 services. You know, people love to deride OSD level
14 efforts as bureaucratic or not sustainable. But that
15 innovation really came from the 18th Airborne. It came
16 from CENTCOM. It came from UCOMM, it came from the Afghan
17 NEO. It came from the emerging demand signal in the world,
18 the crisis that had to be responded to, the learning that
19 could only happen there, folded in capabilities that
20 ultimately scaled to the force.

21 Senator Banks: Mr. Geurts, program managers in the
22 private sector are obviously paid more than government
23 employees. They also get bonuses and stock options for
24 good performance. But in DOD, the uniform military
25 personnel and civilians managing our critical weapons

1 programs get paid the same whether they deliver or not. Do
2 you think the limited pay for performance system that the
3 DOD has tried, has worked?

4 Mr. Geurts: My experience both personally and
5 professionally, is it's not a pay issue. The high majority
6 of program managers want to deliver an operationally
7 relevant capability for the war fighter. They are just
8 mired in a bunch of distractions, a bunch of outside
9 stakeholders. Many more people can say no than can say
10 yes. And so, they spend 90 percent of their time managing
11 your bureaucracy, not managing the effort.

12 And then I think the other piece is we've got to also
13 get to the point to be innovative, you have to start things
14 quickly, we also have to be able to kill things quickly.
15 And for lots of different reasons and I think that's one of
16 the challenges If you give SOCOMs acquisition authority,
17 we'll start a lot of things. But if we can't kill the
18 things that aren't performing for whatever reason, then you
19 won't have a highly functioning adaptive system.

20 Senator Banks: Well put. I yield back.

21 Chairman Wicker: Thank you very much. Senator
22 Cramer.

23 Senator Cramer: Thank you, Chairman Wicker, Senator
24 Reed, thank all three of you for being here.

25 I've stayed the whole time because this, frankly, this

1 is why I'm here -- is what you're talking about. I'm not
2 sure of all the solutions, but so far, I like what I'm
3 hearing. And this is exactly why by the way, Senator Kelly
4 and I stood up the Defense Modernization Caucus. So, thank
5 you for your comments today.

6 I'm going to go a completely different direction than
7 I was planning to, or that my staff was planning me to. I
8 was thinking back to my first days on -- in the Senate.
9 And it was at that time when DOD was looking for somebody
10 to, you know, to win a contract for cloud computing. And
11 the Jedi, remember the Jedi competition? And I remember
12 they chose Microsoft and Amazon early 2019 to compete, late
13 in 2019, they awarded Microsoft. And what resulted in that
14 was, of course an immediate protest.

15 And then they went on a while longer, flipped the
16 script, chose, you know, Amazon, then Microsoft protested,
17 and then NSA took over. Anyway, about five years later, we
18 have companies doing cloud computing. I was very
19 frustrated by the ability for a company who didn't win the
20 contract, regardless who the company is, to protest the
21 company who did, and then hold up, you know, modernization
22 by five years now, a lot of things were happening in the
23 meantime.

24 But then we fast forward to today, where we read about
25 now what I believe to be the most innovative agency within

1 the DOD, the Space Development Agency, which has been under
2 attacks since the day we stood it up by swamp creatures and
3 legacy space operators and legacy acquisition of
4 procurement officials and a protest that I almost guarantee
5 you, will slow up the proliferated war fighter space
6 architecture, which is the worst thing that could happen.

7 And it's even led as, you know, to a PIA claim that
8 looks more political than it does real to me, quite
9 honestly. And I would just like each of your comments or
10 opinions about the protest regime and whether there's more
11 that can be done there. Don't get me wrong, competition
12 requires the ability to challenge, but it shouldn't provide
13 the opportunity to make the country less safe. And I'll
14 just start with you Mr. Geurts, we can just go down from
15 there.

16 Mr. Geurts: Yeah, sure. I do agree there needs to be
17 an avenue, but that avenue over time has gotten abused.
18 One thing I suggested early on was you get one bite at the
19 apple; you could protest the GAO or court of federal claims
20 you couldn't protest twice. I also think there should be
21 some look at behavior over time and some disincentive for
22 what I would call chronic protesting, particular by
23 incumbents.

24 Mr. Sankar: I agree. It's also been abused that I
25 think it's a hard problem for the reasons that you've

1 already articulated. But I think one way that we could
2 really buy this down is by doing more bakeoffs, more things
3 in parallel, getting more things fielded, because anyone
4 can win a fiction writing contest. You know, it has no
5 correlation to your ability to perform.

6 But when we have the satellites in space, we'll be
7 able to tell one way or another, maybe we'll decide,
8 actually, we should have 50-50. Maybe we should have
9 multiple performers. Maybe we're working bad decisions
10 because we're evaluating you through a fiction writing
11 contest instead of empirically in the field.

12 Senator Cramer: I thought, by the way, the examples
13 one of you used a little bit ago, Elon Musk learning more
14 from blowing up. I was at the Starship launch with
15 President Trump, and it was very confusing for several of
16 the business people there to hear Elon speak so positively
17 about the booster that didn't come back. And they had to
18 put in the water and like, but we learned so much.

19 You know that's a tough culture in our business and in
20 government but it's one we have to foster. Mr. Diller,
21 your comments on the protest.

22 Mr. Diller: Sure. It gets to that risk. I went to
23 the French test pilot school and the speed that my 5-year-
24 old was able to learn French compared to me, he didn't
25 care. Right. He did not have this risk averse culture.

1 It's the same with Elon Musk. When we look at these
2 protests, if we take this approach or chairman of the joint
3 chiefs of staff use this phrase, "acquire to require", and
4 it's exactly what Sean was saying, how do we slowly build
5 trust? Because it's at the core, it's a trust issue. If
6 we actually work together at the beginning in ways that OTs
7 allow us to, that trust can be billed.

8 Chairman Wicker: Thank you very much, Senator Cramer.
9 Mr. Sankar, before I go to Senator Warren, do we have the
10 statutory authority in place to have the type of bake off
11 that you described?

12 [Laughter.]

13 Mr. Sankar: We absolutely do. And we have
14 participated in just those sorts of down select processes.

15 Chairman Wicker: Okay. So it's just a matter of the,
16 folks in charge doing that. Senator Warren

17 Senator Warren: Thank you, Mr. Chairman, and thank
18 you for holding this hearing. So, DOD buys a lot of stuff
19 from defense contractors and to protect the military and
20 taxpayers, it's long been the law that defense contractors
21 must give DOD contracting officers certified cost and
22 pricing data, to help verify that a price that's being
23 charged is fair and reasonable.

24 One of the big exceptions to this though, is for
25 "commercial goods and services" based on the principle that

1 the market will make sure it's a fair price. If you could
2 buy it on Amazon, that's a fair price. You don't have to
3 go into all the background on how you got there. I get
4 that, and I am all for commercial buying.

5 But the fact is, this is turned into a massive
6 loophole where big defense contractors withhold data, even
7 though there's no market and DOD effectively, the only
8 customer, doesn't have this information so that these giant
9 companies can price gouge the military.

10 So I want to give you an example here. For years, the
11 Army was buying Chinook helicopter engines from Honeywell,
12 and Honeywell successfully lobbied Congress so its engines
13 would be treated as commercial, and Honeywell wouldn't have
14 to turn over the certified cost and pricing data. Now, Mr.
15 Sankar, you're the CTO of Palantir, a billion-dollar tech
16 company that contracts with DOD. Once Honeywell got the
17 engine moved to a commercial engine, what do you think
18 happened to the price?

19 Mr. Sankar: I'm not familiar, Senator.

20 Senator Warren: Well, it went up, not down by a
21 hundred percent. And that's the problem we've got here.
22 Too often, DOD is outgunned when it is negotiating with
23 these giant defense contractors, which is exactly why it
24 needs the cost and pricing data to avoid being ripped off.
25 Now, Mr. Sankar, your company Palantir, is looking to

1 create a consortium with another defense tax company
2 Anduril, is that right?

3 Mr. Sankar: Yeah.

4 Senator Warren: To jointly bid for something called
5 "other transactions agreements", or since we have to give
6 everything initials OTAs, where the government also waives
7 taxpayer protections on how to get pricing information.
8 And I'm sure it's not your intent to team up with another
9 organization in order to price gouge the military. So,
10 this next question should probably be easy here.

11 DODs Inspector General recommended requiring bid
12 contractors to alert military contracting offices when the
13 price of a good or service goes up by 25 percent. In other
14 words, move it up so other people -- and can get eyes on
15 it. Mr. Sankar, do you agree with the IG's recommendation?

16 Mr. Sankar: I do agree. I think the price signal is
17 part of the competitive market and encouraging more
18 entrants and capital to efficiently be allocated to improve
19 things.

20 Senator Warren: Excellent. And will Palantir agree
21 to do that voluntarily?

22 Mr. Sankar: I would defer to my team here, but I
23 don't think we would've any conceptual disagreement with
24 that approach. Okay.

25 Senator Warren: So, can I treat that as a yes?

1 Mr. Sankar: I would defer to my team.

2 Senator Warren: Well, I want to be clear here,
3 because --

4 Mr. Sankar: As the CTO we don't speak on the business
5 side.

6 Senator Warren: We only know about most of these
7 overcharges because of the work that the Department of
8 Defense Inspector General has done. This is the person who
9 President Trump just illegally fired on Friday night, along
10 with at least 16 other IGs. I am deeply concerned that
11 this administration is removing exactly the cops on the
12 beat, that we need to identify waste and to prevent these
13 kinds of increases.

14 So, Mr. Sankar, do you think it helps or hurts
15 national security to have Senate confirmed watchdog who can
16 be there on pricing questions like this to call balls and
17 strikes?

18 Mr. Sankar: As a technologist, what I can speak to
19 is, when you look at Intel in the late sixties, 96 percent
20 of the market for integrated circuits was the Apollo
21 program and the DOD, but Bob Noyce says the co-founder of
22 Intel, the co-inventor of the transistor, always envisioned
23 a bigger commercial market, our ability to deliver a salt
24 breaker and ultimately have an asymmetric threat against
25 Soviets --

1 Senator Warren: I'm sorry, can you relate that to the
2 question I just asked?

3 Mr. Sankar: Yeah, I promise it'll get there. So, our
4 ability to deliver a salt breaker was because actually he
5 could create integrated circuits that were thousands of
6 times cheaper than when we were building Apollo. That was
7 only possible because he had an eye towards the commercial
8 market.

9 So I completely agree that if you have a fake
10 commercial item that doesn't actually have commercial
11 applicability, if the company is not able to leverage a
12 diversified R&D base that goes beyond the government, that
13 that is the promise that should lead to price performance
14 improvements for the government, then you're not getting
15 the value of the commercial item.

16 But when we look at space, for example, I grew up in
17 the shadow of the Space Coast. The cost to get a kilogram
18 into orbit for the shuttle was \$50,000 a kilogram. So the
19 cost with Starship heavy reuse will be 10 bucks. So,

20 Senator Warren: Mr. Sankar, I very much appreciate
21 that you're trying to push here on cost, I am too. The
22 question I had asked you is whether or not we need IGs, who
23 are the whistleblowers, who say people are cheating on the
24 cost, for example, on the definition of commercial, are
25 somebody who can help us bring these costs down.

1 Pentagon is spending \$440 billion this year on
2 contracts. It's important for us to get better procedures
3 in place to get some eyes on what they're doing. And IGs
4 help us do that. Thank you.

5 Chairman Wicker: Thank you very much, Senator.
6 Perhaps Mr. Sankar would like to respond on the record to
7 that last matter. And with regard to deferring to your
8 team, once you've had a chance to do that, perhaps, Mr.
9 Sankar, you could supplement your question on the record
10 along with other things.

11 [The information referred to follows:]

12 [COMMITTEE INSERT]

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1 Chairman Wicker: Senator Schmitt.

2 Senator Schmitt: Thank you, Mr. Chairman.

3 And I'll start where Mr. Sankar left off and ask a
4 question. And all three of you feel free to chime in. I
5 also serve on the Commerce Committee. And to my surprise,
6 in my first year, I was named the ranking member of the
7 Space and Science Subcommittee. I would not have put that
8 on my Bingo card in coming into the Senate in my first two
9 years. But I found it fascinating because of the
10 innovation that's happening in space, driven by the
11 commercial private sector, right?

12 One of the things that we were able to do was to
13 extend the learning period which is kind of essentially
14 allowing these companies to innovate and any regulations
15 that would come really sort of follow the path of what has
16 worked.

17 So not to artificially constrain the innovation on the
18 front end with a bunch of bureaucrats who are just sort of
19 making it up, not really knowing where the rules of the
20 road really should be. I'm wondering is there a scenario
21 or how would we construct something similar? I mean, we're
22 all getting at this challenge of innovation. And how do
23 you unlock it in what seems to be a Pentagon that has just
24 sort of been captured by centralized planning.

25 I mean, I think our great advantage against communist

1 China is our ability to innovate, they're really good at
2 copying. We're really good at innovating, but if we
3 hamstring our ability to innovate, we lose our advantage,
4 right?

5 So, this example of a learning period as it relates to
6 commercial space, what would be a version in your mind
7 that, that we could sort of replicate in the NDAA?

8 Mr. Sankar: Well, I think the commercial SpaceX is a
9 great example where -- you know, SpaceX wasn't given the
10 monopoly. They had to earn it. We had multiple competing
11 approaches to get to space, and they thought that they
12 could do that at a price performance level, no one else
13 could. And that's clearly been proven to be true. And I
14 think if we applied that more generally, which is like the
15 inductive bottoms up innovation is the American spirit,
16 that is our competitive advantage. How do we get more
17 shots on goal for all the efforts we're going to? Less
18 certainty in the top-down centralized planning, more space
19 to have new performers, new entrants, present the heterodox
20 ideas.

21 I think for that to really take hold, you either need
22 to have competitive program offices within the services or
23 you need to empower the SOCOMs to create that sort of
24 demand signal that varies, that pushes the adoption of
25 innovation.

1 If I look at our own company, the history, all of our
2 adoption came from the field. It came from Iraq; it came
3 from Afghanistan. It didn't come from the program offices.
4 It actually came despite the program offices. They were
5 resistant to this as something that was going to screw up
6 their cost schedule performance.

7 And so, I think the kiss of death would be trying to
8 create some sort of smooth process to go from new ideas
9 that are innovative to scaling them. I promise you that is
10 always going to be hard, that is always going to be messy,
11 it's going to be interpersonally friction full. If we wrap
12 that in process, we will kill it and smother it. But if we
13 enable ourselves to lean into that friction, we will be
14 able to field the cutting-edge technologies we need.

15 Senator Schmitt: So, in addition -- I want the other,
16 two to chime in too. In our meeting, prior to this
17 hearing, we talked a little bit about having the
18 competition among services is an idea. Combatant
19 commanders having some flexibility to adjust so whether
20 it's sort of a separate pot of money dedicated for that,
21 we've talked about in this committee about having a
22 separate pot for smaller players, the disruptors, who might
23 come into the marketplace, what other concrete ideas exist?

24 And I guess, because I won't have time to ask the
25 second question, but in the context of, if we were at war

1 right now, like, let's say we're at war with China
2 tomorrow. Like what would we do differently? Like, what
3 would we do differently that we're not doing now?

4 Mr. Geurts: Yeah. Just quickly and happy to do a
5 follow up, but I think we leveraged the full, I go back to
6 this industrial network. We have tremendous commercial
7 capacity we aren't tapping into and leveraging. We have
8 tremendous -- we have to rebuild manufacturing, but not
9 rebuild what we used to have, rebuild it with modern
10 technology that's flexible. We have to think about, let's
11 take contested logistics, leveraging electric vehicles,
12 things that already exist, rather than trying to recreate
13 this giant purpose-built force, become really fast
14 adopters, integrators, and not try and be the inventors of
15 everything.

16 There's plenty of invention around. We need to be
17 super-fast at importing it, integrating it, and then
18 getting it into the hands of our women and men in service.

19 Mr. Diller: I think there are models that exist.
20 They have been practiced over the last few years. They
21 were not scaled. I don't know that we have the structure
22 to actually scale those currently. We have done incredible
23 work; the department should be commended on incredible work
24 of these multiple pilot projects. Eventually, that must
25 turn into, without becoming overly bureaucratic, right?

1 This is the risk, build on those successes of reaching out
2 to thousands of companies.

3 And speed is everything. How do you scale them in a
4 relevant timeline? It's possible. It does require some
5 flexibility. It requires transparency from the department
6 that's going to create the trust for speed.

7 Thank you.

8 Chairman Wicker: Thank you, Senator Schmidt. Mr.
9 Sankar, I'm so glad Senator Schmidt asked that question.
10 If we found ourselves at war immediately, go ahead and be
11 the third response to that question.

12 Mr. Sankar: I think we would lean in heavily into the
13 primacy of people. Do you have the right person in charge
14 of these programs? You'd stop rotating them immediately.
15 You'd go deep on focus. You'd probably do a lot more with
16 vertical integration of the capabilities, not reliant on
17 thin horizontal supply chains.

18 But I think we would organize around the most credible
19 people and humans we have and limit the number of programs
20 we have, concentrate our arrows behind those things. And
21 today, we kind of have this bingo card approach to rotating
22 our general officers around making sure in the spirit of
23 jointness, that they have this array of experiences. I
24 think that probably helps you in peace time, but I think it
25 strictly hurts you.

1 You know, you haven't even been in the role long
2 enough to learn from the mistakes you've made. You don't
3 even know their mistakes yet. It takes a long time for
4 these programs to get to the point where you're up the
5 learning curve. I don't think you could just randomly
6 replace Elon or Glenn Shotwell and expect these rockets to
7 keep working. They have accumulated this knowledge over 20
8 plus years of building them.

9 Chairman Wicker: Are we in peace time now?

10 Mr. Sankar: In my opinion? No. but I think we got
11 to get the whole country to realize that.

12 Chairman Wicker: Thank you very much. Senator Rosen.

13 Senator Rosen: Well, thank you, Chairman Wicker and
14 of course, Ranking Member Reed. Really an important
15 hearing. I'd like to thank each of you for being here to
16 and testifying today. You know, I want to build upon a
17 little bit about what Senator Warren brought up on
18 competitive pricing, because consolidation of our defense
19 industrial base is concerning, to say the least. Because
20 since the 1990s, the number of U.S. aerospace and defense
21 prime contractors have shrunk from 51 down to 5. 51 to
22 five.

23 As a result, the Department of Defense is increasingly
24 dependent on a small number of contractors for critical
25 defense capabilities. This constrains us in many ways and

1 I hope for a bigger conversation on the value of early-
2 stage research and what it can teach us. You've been
3 speaking to that, but that's a much larger conversation we
4 can't have in five minutes.

5 Mr. Diller, how should DOD help support advanced
6 technology?

7 Our small businesses that do that, especially those
8 who struggle to find private capital, we want them to be
9 more attractive for investments so they can survive the
10 infamous valley of death stage, accomplish technology
11 transition, and become part of our defense industrial base.

12 And for Secretary Geurts, I'm going to ask you a
13 follow up. For those defense-focused small businesses who
14 can't find the private capital, they don't make it across
15 the valley of death. How might public private partnerships
16 incentivize domestic investors to help support them? So,
17 Mr. Diller and then Mr. Geurts?

18 Mr. Diller: Yes, ma'am. Thank you. When we launched
19 what we called AFWERX 2.0 in 2020, we created this process
20 called AFWERX Prime Process. You can say what you want the
21 particular marketing around that. But what it did is it,
22 recognized that there are many technologies, emerging
23 technologies, that DOD can actually become an incredible
24 incubator to: one, reduce the technical risk, two, reduce
25 the regulatory risk, and three, reduce the re adoption

1 risk.

2 And we were able in a few instances to actually, I
3 think establish a dual set of technologies to some degree,
4 an actual market in America, because of that approach.
5 Because very quickly, some of those companies at the
6 beginning came in on a \$50,000 small business contract that
7 we've been talking about, but were given authorities to
8 turn that \$50,000 contract into a \$50 million contract over
9 the course of a year.

10 And so speed is everything. Getting the department to
11 understand the critical nature of speed, and as we are in a
12 wartime footing, that is yet ever more critical. Those
13 things have been piloted. There have been initial moose by
14 the department to create the flexible funding to actually
15 get them to scale. We must double down and make sure that
16 that success can scale.

17 Senator Rosen: Mr. Geurts, what do we do if they
18 don't make it across? How do we incentivize these public-
19 private partnerships --

20 Mr. Geurts: I think we need to be careful that I
21 don't think every company is going to make it across. And
22 we want to make sure we don't over rotate the other way, so
23 that you know, if you don't have a product that meets a
24 need at a price that's affordable and reasonable, then you
25 may not make it across.

1 Where I do think we have to focus more is how to
2 quickly scale the products and services that we need. And
3 in many cases, these small businesses have a piece of the
4 solution, but aren't the whole solution. And so that's
5 where I think there's opportunity to create a network where
6 either they get together or they band together with either
7 commercial or another company that can help get them
8 across.

9 Senator Rosen: You can connect them; they can
10 potentiate their value together. Well, I want to keep a
11 little bit on this potentiation, because technology supply
12 dependent a fragile global supply chain from critical
13 minerals to semiconductors. Nevada, of course, my home
14 state, we mine lithium, magnesium, and other critical
15 minerals.

16 Well, we have a role to play in these technologies
17 too, but only if we make a concerted effort to
18 strategically leverage our resources, leverage our
19 advantages to overcome our global supply chain challenges.
20 So again, Secretary Geurts, what specific strategies can
21 the U.S. employ to mitigate these vulnerabilities,
22 investing in domestic industry to help it strengthen our
23 supply chain resilience?

24 Mr. Geurts: Yeah, I'm really optimistic on the focus
25 of not only owning our supply chain, but adding multiple

1 sources of supply to build resilience. And I think, you
2 know, five years ago, that wasn't part of the conversation.
3 It's part of every conversation now, and looking at all the
4 resources we have, and then how do we incentivize that is
5 going to be critically important, whether it's the rare
6 earth and minerals all the way to being able to, you know,
7 remanufacture a part that's been out of production for 30
8 years.

9 Senator Rosen: Thank you. And I'll submit this
10 question for the record, but as the only former software
11 developer here in the United States Senate, I want to talk
12 a little bit about high quality systems and software and
13 how we prioritize across the enterprise DODs management of
14 technical debt, which cost of choosing speed over quality,
15 and when we develop software systems. I'll submit that for
16 the record for you. Thank you.

17 [The information referred to follows:]

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1 Chairman Wicker: Thank you, Senator Rosen. Senator
2 Scott.

3 Senator Scott: Thank you, Chairman. Thank you for
4 holding this hearing. Mr. Geurts, when I was in business,
5 I had a written purpose for everything we spent money on.
6 When I went to Wall Street to raise money, they wanted to
7 get a return on their investment. When I became governor
8 of Florida, there's 4,000 lines to the budget, what we did
9 was we had a written purpose for every line. And if they
10 didn't meet the purpose, we didn't continue to fund them.
11 Is that how DOD works?

12 Mr. Geurts: I would say yes and no. I would say
13 there's a written purpose in about a stack of budget docs
14 this thick, where there's a purpose against every budget
15 line. Are those looked across and are they scrubbed the
16 way they need to be? No. Is return on investment looked
17 at as close as it needs to be? No. And are we good at
18 stopping things we started, we're horrible at that. And
19 that's one of our biggest inhibitors to innovation, is we
20 can't stop things that aren't adding value to fund things
21 that we need to be working on.

22 Senator Scott: Can you give me an example where it
23 didn't hit a purpose and there was some accountability?
24 Like, did they stop a program? Did somebody lose their
25 job? Can you gimme one example of, you know, there was a

1 written purpose for something, it didn't happen, and some
2 where there was change made?

3 Mr. Geurts: Not sure I have a clear example of that
4 as much as many times we are issued sometimes through
5 congressional budget changes activities to go work on that
6 were not in our original plan. Some of that can be value
7 added. Some of that may not be value added. I can't give
8 an example of where there was a purpose for funding that
9 and somebody didn't execute the purpose. You could argue
10 whether the purpose was the right purpose but I can't give
11 an example.

12 Senator Scott: So you don't have an example where
13 anybody was ever held accountable for not fulfilling their
14 purpose?

15 Mr. Geurts: Well, I think there's plenty of examples
16 of that. You can look at what I did as a Navy secretary
17 and the Ford Program manager.

18 Senator Scott: So, what happened? Did somebody get
19 fired?

20 Mr. Geurts: Yes, he did.

21 Senator Scott: And why? What didn't he do?

22 Mr. Geurts: Didn't execute the outcomes I expected as
23 a program manager.

24 Senator Scott: Good. Mr. Sankar, Mr. Dillard, do you
25 guys like to compete?

1 Mr. Sankar: I love it.

2 Senator Scott: How about you?

3 Mr. Diller: Absolutely.

4 Senator Scott: Okay. So, to compete, does it make
5 you better?

6 Mr. Sankar: 100 percent. Without exception.

7 Senator Scott: So, have you lost?

8 Mr. Sankar: Yes.

9 Mr. Diller: Often.

10 Senator Scott: Okay. And when you did, what'd you
11 do?

12 Mr. Sankar: Get better.

13 Mr. Diller: Try harder.

14 Senator Scott: Okay. So do you feel like that's the
15 way DOD operates, where they're out trying to get people to
16 go compete, to find out the best product service, things
17 like that?

18 Mr. Sankar: I think it attempts to but sometimes the
19 nature of the competition can be a fiction writing contest,
20 like an RFP. Sometimes the competition is so constrained
21 and not real world enough that it doesn't provide a long
22 enough runway. Sometimes the competitions are just too
23 short, where actually what you want is, you want to be able
24 to get a bunch of people in continuous competition that
25 just because you're winning today, I want to have an

1 incentive to invest my private capital into R&D and show up
2 next month with a better mousetrap, and try to win with
3 that and show up the month after that and do that again.

4 Senator Scott: And are you rewarded for that?

5 Mr. Sankar: Spiritually, right now we are, but I
6 think we're at the beginning of a broader transition with
7 DOD, where I think that can result in the sort of rewards
8 that make this sustainable.

9 Senator Scott: Okay. For both of you, if you had
10 three things you're going to do to, you know, to force big
11 change at DOD, what would you do?

12 Mr. Sankar: I feel like I'm starting to sound like a
13 broken record, but my two core suggestions, the first would
14 be have competing programs. Do not give a program a
15 monopoly on a certain capability area. Let multiple
16 departments, organizations, units, programs within the
17 government compete with each other. That's why SpaceX is
18 so innovative right now, is because it is a food fight
19 between various different agencies. We should embrace that
20 when we were winning that's what it looked like.

21 The second one is, push more authority to the
22 combatant commanders to decide what they need. Use that to
23 drive signal and reformation to the services and the
24 department broadly.

25 Senator Scott: Mr. Diller.

1 Mr. Diller: Digitize. The future is digital, and we
2 are not there yet. Second, be clear that there are
3 different types of portfolios that attract different types
4 of companies that need a different culture, and make sure
5 that there is a path of doing that.

6 And lastly, make sure that we actually have the
7 ability to manufacture in America. DOD could be the
8 catalyst to actually shift American manufacturing.
9 Manufacturing is not a DOD problem; this is an American
10 problem. And it must be solved to avoid the crisis that we
11 have in building, turning ideas into hardware.

12 Senator Scott: Thank you, Chairman.

13 Chairman Wicker: Very good. Senator Scott. Senator
14 Kelly.

15 Senator Kelly: Thank you, Mr. Chairman. Thank you,
16 all of you for being here today. As the Ranking Member of
17 the Airland Subcommittee and the co-chair of the Defense
18 Modernization Caucus, along with Senator Cramer, I'm
19 focused on maintaining our competitive edge over our
20 adversaries. To achieve this, we've got to ensure that our
21 military is not only equipped with cutting edge technology,
22 but also as the infrastructure to remain effective in
23 contested environments, where supply chains and sustainment
24 could be disruptive.

25 I don't know if the three of you saw an order from OMB

1 from the White House last night or yesterday, an expansive
2 order with repercussions across the country. And it's
3 unprecedented in this order and I'll explain here in a
4 second where I think the defense impact could be. But this
5 is cutting, pausing Medicaid health plans, Pell Grants,
6 Meals for Kids, nutrition programs for pregnant mothers,
7 programs to help homeless veterans.

8 And it appears that it also may freeze federal funding
9 and grants for Department of Defense Research in
10 manufacturing technology and other small business
11 innovation programs.

12 So, I want to ask each of you, starting with Mr.
13 Geurts, have you looked at this memo that was issued last
14 night? And are you concerned that a blanket freezing of
15 these funds -- how would it impact our readiness and
16 ability to compete with China and other adversaries? I
17 want to start with Mr. Geurts.

18 Mr. Geurts: Sir, I have not seen the exact memo you
19 referenced. But more globally, one of the challenges with
20 the DOD as a customer is there's lack of trust that they'll
21 be there and they will start, stop, start, stop. And I
22 think that could send a bad signal to business. And then
23 also, if we stop a bunch of research and are not staying on
24 the technical edge, that could be detrimental to the force.

25 Senator Kelly: And Mr. Sankar, for Palantir

1 specifically, let's just say in a couple days, you find out
2 that that contract payment that you were about to receive,
3 you're not going to receive it, and you're not going to
4 receive it next month or the month after that. Could you
5 talk specifically about how it would impact your company?

6 Mr. Sankar: I think you can imagine that it causes
7 quite a bit of heartburn, particularly for services already
8 rendered. But it's a difficult environment.

9 Senator Kelly: And where are your employees?

10 Mr. Sankar: All over.

11 Senator Kelly: All over how many

12 Mr. Sankar: 4,000 total.

13 Senator Kelly: If you didn't get paid by the federal
14 government for the next three months, how many of them do
15 you think you'd have to lay off?

16 Mr. Sankar: I would rather not think about it.

17 Senator Kelly: You'd rather not think about it.

18 Okay. Mr. Diller, for divergent, what would be the impacts
19 if your federal dollars contract payments were to stop?

20 Mr. Diller: As a dual use company that really is just
21 starting into the defense space, certainly, it would deter
22 us from continuing that. I think, you know, we've seen
23 this over the years, and this is one of the many things
24 that creates risk for companies. And in some instances
25 when I was a director of AFWERX, you simply could not

1 convince some commercial companies to go do business with
2 the Department of Defense. And so obviously, trust is key
3 on these things. And understanding continuity of
4 agreements made is important.

5 Senator Kelly: Yeah. So you're going to find out in
6 the next probably 24 hours if it's going to impact you and
7 your company and your employees and people who live in
8 those communities. But this is an unprecedented overreach
9 from the White House, with a directive from OMB to freeze
10 programs that folks on this committee, in the United States
11 Senate authorized money to be appropriated for very
12 specific programs.

13 Programs -- I'll get back to, that help homeless vets,
14 nutrition programs for moms, but also programs that affect
15 our safety, our readiness, and our troops to make sure that
16 they have the combat power that they need to win, win in a
17 very tough environment.

18 So I'm very concerned about this action that the White
19 House took without, I guess they notified us. They say it
20 goes into effect at 5:00 PM, I suggest when you get back to
21 your companies that you take a close look and see what the
22 impact is going to be to you and your employees and our
23 readiness. Thank you, Mr. Chairman.

24 Chairman Wicker: Thank you. Senator Kelly. Senator
25 Sullivan.

1 Senator Sullivan: Thank you, Mr. Chairman. I'll
2 comment on follow up on Senator Rosen comment about
3 critical minerals, ill actually comment on a really good
4 executive order. And the critical mineral issue, is the
5 good news is Biden's out Trumps in, especially for my
6 state. We have incredible resources of critical minerals
7 for our military.

8 And Joe Biden spent four years shutting down Alaska
9 because radical environmental groups said, don't mine in
10 Alaska, get it from China. So that's what we did for four
11 years. And Donald Trump is changing that on day one.

12 So Senator Rosen asked about critical minerals, the
13 good news, the most important news for critical minerals
14 for America is, Biden's gone and Trump's in. And that is
15 really good for the people in my state who have been
16 sanctioned more than fricking Iran and Venezuela by the
17 last administration.

18 But let me, I'm venting here a little bit, Mr.
19 Chairman. Sorry. Let me get to the point of the hearing.
20 Thank you for holding this hearing. This is really
21 something all three of you're going to have experience on.
22 So I really want to get a sense of it. Mr. Sankar, you
23 might remember at the lunch that you and I were at
24 recently, where Admiral Paparo was talking about
25 contracting officers who are in the middle of their

1 careers, don't want to rock the boat. This idea of a
2 frozen middle in the Pentagon.

3 We all love our military, I think Mr. Diller, you
4 actually served as a contracting officer, acquisition
5 officer. What are some of the ways that we can best
6 incentivize contracting officers in the Pentagon to take
7 risks on newer companies as opposed to always default to
8 Lockheed and Raytheon and, you know, take the easy route.

9 Because I think the culture in the Pentagon is one
10 thing we got to work on, and you all have experience on
11 that so I'd love to get your sense quickly, because I have
12 some other questions, but culture contracting officers, how
13 do we incentivize risk taking without people being scared
14 in the big bureaucracy of the Pentagon? Go ahead. All
15 three of you take a crack at it.

16 Mr. Sankar: I'll offer a thought here. First is get
17 them out of the Pentagon. You know, maybe we need to have
18 our contracting officers or acquisition folks forward
19 deployed closer to where the problems are, understanding
20 the ways viscerally, you know, there's a reason SpaceX
21 locates their R&D engineers on the production floor, that
22 is a heterodox approach that we certainly would not see in
23 the defense industrial base. But that's where you observe
24 the problems, you change your design, you're able to close
25 those loops very quickly.

1 Chairman Wicker: We could do that now. Could we?

2 Mr. Sankar: We could. The second part is, have
3 another American one corridor down that they're competing
4 against. Yes. You're, you know, that the risk of
5 disrupting your schedule is outweighed by the fact that
6 that person's going to win, and you're going to lose that.

7 Senator Sullivan: I love that idea. Anyone else, Mr.
8 Diller?

9 Mr. Diller: Incentivize speed. In AFWERX, we went
10 from no contracting shop, and we deliberately were saying
11 we are establishing a different culture. There are people
12 in the Department of Defense, I would say most of them
13 actually, that want to move at speed. As Mr. Geurts
14 mentioned, this is not necessarily about money. It is a
15 mission that they actually want to engage in.

16 And when leadership actually takes on the risk
17 themselves and unlocks the people working for them, you can
18 attract incredible contracting officers. There are so many
19 of them out there, and they're ready to move with speed to
20 buy the right things.

21 Senator Sullivan: But they need to be told from the
22 top-down percent, Hey, it's okay to, you know, contract
23 with this up and coming upstart versus the big guy who's
24 going to take 15 years to get his product out. Correct?
25 Yeah.

1 Mr. Geurts: Yes, sir. One, you got to get them
2 aligned with the program manager so that they're not on an
3 island of their own. And then that team puts together the
4 strategy and is held accountable for looking across the
5 entire thing. The second thing, which the -- is helping,
6 the burden we put on a contract officer to award a
7 contract, the number of things they have to sign, the
8 number of certifications is ungodly. Yeah. And so, this
9 committee could really help by scrubbing a bunch of that
10 underbrush --

11 Senator Sullivan: Is that not in statute, is it?

12 Mr. Geurts: Yes, sir. I mean its statute, which then
13 we propagate in implementation and processes. And then
14 well --

15 Senator Sullivan: Maybe for the record, if you have
16 some ideas on that real quick, I want to just ask one final
17 question.

18 Mr. Sankar, you did a great job on your Defense
19 Reformation piece published in October, but there's and I
20 love the idea of competition between programs, but how do
21 you envision the acquisition system working when the
22 services have a lot of, you're very focused on the
23 combatant commands, and I get that, that makes a lot of
24 sense, but the services also have a lot of skin in the game
25 and is there a challenge that if you're moving it to

1 combatant commands, the services are going to be, hey,
2 that's my piece of the territory. What do we need to do
3 and how do you make them work together better?

4 Mr. Sankar: Well, I think if we thought about it at
5 the margin, a little bit of overlap is actually what gets
6 them to rise to the occasion.

7 Senator Sullivan: That's your competition thesis.

8 Mr. Sankar: Yes. And so I think, you know, I'm not
9 sure you'd say Air Force, please go build me an aircraft
10 carrier, you know, but it's really like, where are we on
11 the margin? One example, when we were trying to build
12 JADC2, we have Overmatch, we have a BMS and we had Project
13 convergence, but each of those was just trying to build
14 software or JADC2 within their service, which you could
15 argue is a little bit of a contradiction on the concept of
16 JADC2 to begin with.

17 Maybe a more productive frame would've been, each of
18 them is actually seeking to field software and capabilities
19 to the combatant commanders across components, across
20 services, and that's going to create the productive tension
21 to win. And that would also force interoperability, it
22 would force a lot of the things that we aspire for. It
23 would be MOA in practice instead of MOA on paper. And so I
24 think we forget that first you have to be effective before
25 you can focus on efficiency.

1 Chairman Wicker: Members can supplement their
2 answers. Thank you. Thank you very much. Senator
3 Slotkin.

4 Senator Slotkin: Thank you, Chairman. Thank you for
5 holding this hearing. I was glad that our first official
6 hearing beyond a confirmation hearing was on something
7 where we should have very bipartisan approach to this
8 issue. I'm a former CIA officer and Pentagon official, so
9 I feel like I saw a lot of this up close.

10 And I think the most important stat for me that I
11 think about, that I measure our success or failure at is
12 someone told me that to go for the Chinese government, to
13 go from concept to fielding a program in their military is
14 a one-year string. And for the United States, it's a
15 three-year string, right? And I can't imagine all the man
16 hours in between those, those three years.

17 And so to me, I mean, we hope we never have a conflict
18 with China or anybody else, but we have to have the speed
19 of decision making to change on a dime.

20 I have seen in three tours in Iraq, particularly with
21 some special authorities the special forces have, to really
22 innovate in the field. The most exciting stuff I've ever
23 seen was just where the flash to bang was like, boom, we
24 got a problem, we have authority to go do it, let's go do
25 it.

1 And so I would describe, I did six years on the House
2 Armed Services Committee, that our committee in a
3 bipartisan way was ready to hurl authorities at the
4 Pentagon if we thought it would actually help move things.

5 You have an open you know, sort of door, I think with
6 Democrats and Republicans. I have come to believe that
7 culture is critical. The idea that a mid-level contracting
8 officer is going to break out and do something new when
9 they're not getting their pressure in a chain of command
10 organization is like saying that, you know, Senator
11 Wicker's mid-level staff should be doing something on his
12 behalf. At the end of the day, the buck stops with him.

13 And so I think a Reform-minded Secretary of Defense,
14 again, I'm not talking about party, is the most important
15 thing to taking this on and prioritizing it. I hope that
16 the Secretary of Defense again, gets through what I see as
17 really sort of side issues and gets back as he says, he
18 wants to, war fighting, which is the speed of decision
19 making and taking a home hold of that acquisition system
20 and changing it.

21 But to me, this is about culture. And until we get
22 that right, we're just going to be spinning our wheels. I
23 would also note that you guys, you know, in the private
24 sector, you get to gamble with your shareholders or with
25 your investors', money, gambling with taxpayer dollars is

1 just a higher threshold, right? It's going to be a higher
2 threshold. It's never going to be like the private sector.
3 And we all complain when the F-35 goes over budget and all
4 these things because they're wasting taxpayer dollars.

5 So there's a conundrum there that doesn't make DOD
6 perfect as an analogy for the private sector. But we're in
7 violent agreement that we need to do something to speed
8 things up. I just think it has to be top down. And I hope
9 we can push that agenda in a bipartisan way together.

10 In the meantime, I do have to say, following on what
11 Senator Kelly just said, Senator Wicker, we have a
12 constitutional issue going on right now, where this body
13 has appropriated money for defense programs and a million
14 other things. And the Trump administration has come in and
15 contravened your own and all of our guidance on programs in
16 the past, I'm not talking about programs in the future,
17 every president gets to decide how they want to create
18 programs that they want to implement.

19 But for things that have already been appropriated,
20 right now, the military health system as, research projects
21 are all on hold. Talk about service members safety and
22 health, funding for the Fisher House, wounded Warriors on
23 hold, all Army contracts on hold. Okay. I don't see how
24 this isn't just purely throwing the baby out with the bath
25 water.

1 I get that Mr. Trump is going to make changes. I won
2 on the same ballot as Mr. Trump. I understand that, but
3 this is to me breaking the constitutional rules that we
4 have set up here. So, I would assume we're going to see
5 some serious action from this body, I hope, on a bipartisan
6 basis.

7 I've filibustered my entire time but all this to say
8 Mr. Chairman, you have a friend in this cause. I want to
9 make it a top-down cause so we actually move the needle,
10 otherwise, we're just giving scraps at the margins for
11 contract officers who are going to do what their boss says,
12 If their boss demands action. I'll leave it at that.

13 Chairman Wicker: Thank you, Senator Slotkin. And let
14 me just respond very briefly. I think all three of these
15 witnesses have not had a chance to read the memo to which
16 you and Senator Kelly referred and questions are being
17 asked around Capitol Hill at this very moment about that
18 and they'll be more visiting about that issue.

19 So it is almost the end of the first round, and I'm
20 the last questioner. Let me ask a thing or two. Mr.
21 Sankar, you said the stockpile is not the deterrent, the
22 flow of mass production is the deterrent. And Mr. Diller,
23 you say the factory is the weapon, and if we need more
24 factories for sustainment and war, we should be buying that
25 capacity. Now you're both saying the same thing there, are

1 you not nodding?

2 Now, Mr. Diller, when you say we should be buying that
3 capacity, you're not talking about ownership of the
4 factory, are you?

5 Mr. Diller: No, Senator. But what I'm suggesting is
6 that today we have a crisis in sustainment. And there is
7 an instance because of the -- both from a national
8 industrial based perspective and because of some of the
9 challenges in defense innovation, we have locked our depots
10 and our sustainment out of being able to actually create
11 the parts that are needed today to fill the multi-trillion-
12 dollar portfolio we have. Those depots could actually
13 field today, factories as a service, that would have
14 incredible agility to ensure that the legacy force that we
15 must have, that we've invested trillions of dollars in, is
16 ready to fight tonight. That needs to be a wildly agile
17 factory as a service.

18 That same factory, as honorable Geurts had mentioned,
19 becomes this network then, so that small companies are able
20 to go build entirely new things. If we call these hedge
21 portfolios, right? The autonomous light a charitable mass,
22 the agility of these factories that are available in an
23 entirely new step of American manufacturing, that is
24 possible today.

25 Our depots could be an incubator for that type of

1 thing to actually go through digital certification
2 processes for tools like this to be able to save the
3 taxpayer dollars, to be able to drive information

4 Chairman Wicker: As Mr. Diller holds up the hubcap.

5 Mr. Diller: Yes, sir. Yes.

6 Chairman Wicker: Now, Mr. Geurts, shall we make it
7 unanimous on that point?

8 Mr. Geurts: Yes, sir. And I'd also add we are really
9 enthusiastic about prototyping and we're completely
10 underperforming in production. We are actually not
11 producing much new capability, and in the cases in
12 replicator we have, we may spin up a production and then
13 shut it down six months later. So I do think a focus on
14 production, both in terms of capacity, how to network that
15 production, how to digitize that production and get to
16 producing more and getting our iteration speed up, would do
17 two things.

18 One, it would allow us to grow this manufacturing
19 capacity. That in itself is deterrence. Secondly, it
20 would allow us to field new things to the field versus just
21 doing one-off prototypes and doing one-sie two-sies.

22 Chairman Wicker: Mr. Sankar, in your white paper, you
23 say on page nine, that our centralized predictive program
24 budgeting management and oversight process values time
25 spent rather than time saved. Will you elaborate on that?

1 And then we'll let our other two witnesses give their
2 views,

3 Mr. Sankar: The way that we want to provide resource
4 is based on how expensive is it to do something. But that
5 is a complete disincentive for reimagining things. My
6 critique around production versus stockpile is really that
7 we do not have the necessary incentive to design for
8 manufacturability.

9 You know, we are so proud of the exquisite weapon that
10 we made as a prototype to -- point here, but we didn't
11 think through, can I make 10,000 of these? How long will
12 it take, you know, if it takes two years to build a single
13 munition, that's not going to scare sheep, you know, so
14 really, we need to be thinking about manufacturability from
15 the very beginning here.

16 And that I think then leads us to thinking about
17 entirely different classes of weapon systems and different
18 ways of organizing ourselves and our industrial base to go
19 accomplish that.

20 Chairman Wicker: Honorable Geurts, time spent versus
21 time saved.

22 Mr. Geurts: I would agree with that. I do think we
23 have to differentiate the market. So the DOD buys a lot of
24 stuff. And so we're not -- we need lots of different ways
25 to do things, not try and pick one that's, you know, we'll

1 do everything well. And I think that's an opportunity. I
2 think the second piece is, we need to get to continuous
3 competition on many of our products, so that we can bring
4 in new entrants and continually drive the system.

5 Because right now, because of the time to budget for a
6 program and the rigidity of all the planning, it's kind of
7 a big bang theory. We have one big contract award, and
8 then you're stuck with that for 15 or 20 years versus what
9 I would say, continuous competition, which then
10 incentivizes all the kind of behaviors we're looking for.

11 Chairman Wicker: Mr. Diller, anything to add?

12 Mr. Diller: The technology is there. It is available
13 to rapidly transform our department of defense today. It's
14 adoption, adoption, adoption. We have to engage with this
15 bureaucracy, accelerate this at bureaucracy, so that we are
16 actually mobilizing that entire industrial base because it
17 is urgent. This is a critical time and I am very, very
18 optimistic that America is going to be able to build
19 together.

20 Chairman Wicker: Thank you very much. Senator
21 Slotkin, do you have other questions? I do. We'll begin
22 round two, and its only Senator Wicker participating.

23 Gentlemen, Mr. Sankar thinks it's a shame that
24 companies that used to make other products, non-defense
25 related, are no longer in that business, only 6 percent.

1 Chrysler used to make cars and missiles. Ford made cars
2 and satellites. General Mills made cereal and artillery
3 and guidance systems. Does he have a point there, Mr.
4 Geurts?

5 Mr. Geurts: Absolutely. The second I would add to
6 that is that we've also systematically lost the middle of
7 our industrial base. And this is where I think a lot of
8 the venture backed companies, we need to scale him quickly
9 so that we've got companies that are agile enough to move
10 quickly, right? But big enough to move at scale. And
11 that's one of the things I think as we build this
12 industrial network of the future, we've got to build back
13 the middle of the industrial base.

14 Chairman Wicker: Mr. Sankar, there's a reason that
15 happened. And can it be reversed?

16 Mr. Sankar: Yeah, it can be reversed. I think we
17 have to remember the industrial base we had today; we think
18 of it as Northrop Grumman, but it was Jack Northrop. It
19 was Leroy Grumman, it was Glen Martin, not Lockheed Martin.
20 You had these difficult founders. We would recognize them
21 as Elon Musk type personalities who were interested in
22 doing something big.

23 It was not about this quarter's results. It was
24 actually, they were dual purpose, not just dual use. You
25 know, it wasn't about the cereal. It was everything I

1 learned building machinery to process cereal, I could turn
2 into artillery to defend the nation.

3 And we have those founders back. \$120 billion of
4 private capital has been deployed into national security
5 companies. That's funding founders. It's funding the
6 Palmer Luckys of the world, the Sang brothers of the world.
7 We need to empower them. And I think that's how we get
8 back this long-term commitment to the problems and
9 challenges our nation actually face, the
10 reindustrialization of the nation.

11 We can't have an anodyne view of capital. Europe has
12 created zero companies worth a hundred billion dollars or
13 more in the last 50 years. We created all of our trillion-
14 dollar companies in America in the last 50 years, with
15 founders.

16 Chairman Wicker: Is that a mindset or a statute that
17 needs to be changed?

18 Mr. Sankar: I think it's a mindset. It's,
19 recognizing that within our buyers in the Pentagon as well,
20 you know, why did these people leave the industrial base?
21 You know, as much as we want to point at the last supper,
22 as the moment, it actually, those conversations started in
23 the boardrooms of America in the seventies and the
24 eighties.

25 And what was slowly building up, is where I started

1 with my oral, is that the Pentagon is a bad customer. It
2 doesn't actually -- if you just look at it purely
3 financially, it makes more sense for Ball to sell aluminum
4 cans than to build satellite buses. And as a monopsonist,
5 the Pentagon needs to look at that and say, how do we fix
6 that? I want Ball building satellite buses. I want the
7 American industrial base, not a group of yes men in the
8 defense industrial base who have permuted their businesses
9 to serve just me.

10 Chairman Wicker: On that issue, Mr. Diller, do you
11 wish to weigh in?

12 Mr. Diller: Certainly, look for all the pejorative
13 things that we've said about the Department of Defense. It
14 has done incredible things, and it has actually an
15 opportunity to do something that I don't know that any
16 other institution can. And it has created incredible
17 things. I was a program manager in the global positioning
18 system. It drove adoption of one of the most incredible
19 networks in the world.

20 There are instances where DOD has been the catalyst
21 for wild change. And with all the great things that we've
22 said about commercial, you cannot look at a downward trend
23 for many decades now of the loss of not defense industrial
24 manufacturing, but of American industrial manufacturing.

25 And now, Chairman, is the time for DOD to be that

1 catalyst again. It is possible to do exactly what Shyam
2 has said. Divergent is today manufacturing cars. We are
3 today printing missiles. We are today printing satellite
4 buses in the same exact factory floor.

5 If we look to a future that is going to actually
6 counter an adversary, there are people who dislike change.
7 There are three groups of people that very much dislike
8 change. One, they're the bureaucrats. They like to
9 continue doing what they have done in the past. I would
10 say industry to some degree, doesn't like change, because
11 we have built ourselves on legacy approaches to
12 manufacturing. And they, look at this and they don't want
13 the uncertainty.

14 The last group that doesn't like change is the enemy.
15 The enemy hates change. If we want to deter, we must be
16 agile. We must force the bureaucracy to be agile. We must
17 force the industry to be agile. That can happen today, but
18 America cannot afford \$200 million facilitation cost for
19 every new munition factory, especially when it's a legacy
20 munitions factory.

21 It is possible today to create a network of 21st
22 century AI-driven industry 5.0, pick your buzzword, but it
23 does not look like anything that has ever been manufactured
24 in the history. It is a step change. It literally is
25 going from the stone age to the bronze age. It could

1 happen today. It's the only way that you can afford real
2 deterrence. Where you have a dual use factory, you have
3 dual use capabilities that come out of that factory. You
4 have dual use capital that is coming from an incredible
5 source of American strength, and most importantly, it is
6 dual use talent.

7 We can't talk about a workforce problem; we're telling
8 our sons and daughters to go back and pound rivets and weld
9 in the same way that their great grandparents did.
10 Children have grown up playing Lego, robotics, playing in
11 AI. That is not what our factories look like today.

12 It could be, this committee could be the catalyst for
13 that change, and is the only way that we are going to
14 create real deterrence in a timely manner that must happen
15 for America to remain in its lead, both from a
16 manufacturing perspective, from an economic perspective,
17 from a technological perspective, and from a military
18 perspective.

19 Chairman Wicker: By the same token, Mr. Diller, we
20 hate it when our enemies engage in change.

21 Mr. Diller: 100 percent.

22 Chairman Wicker: Yes, absolutely. Well, a couple
23 more questions and you've been most helpful to us. Mr.
24 Geurts, let's talk about the requirements process. Does it
25 often overly specify solution that then gets turned over to

1 industry? Should programs be able to develop multiple
2 capabilities within a requirements portfolio broadening the
3 scope of the acquisition management?

4 Mr. Geurts: Yes, sir. I think we need to transform
5 our thinking into -- we've got a problem statements, not
6 requirement statements, and then you empower a portfolio
7 acquisition executive to go tackle those problems with
8 close association to their operator.

9 Back to your previous question, we have program
10 managers that want to go out and meet need, right? They
11 want to go drive change. They have not been incentivized
12 or rewarded for moving outside the system. With the top
13 cover of this committee is putting forth in the Forge Act,
14 with those actions, I think you'll see, you know, that
15 culture Senator Slotkin talked about. That's what we've
16 got to go off and attack.

17 Chairman Wicker: Thank you. And, finally, Mr.
18 Sankar, do you sometimes find yourself competing not with
19 other businesses, but with the government itself?

20 Mr. Sankar: I would say quite often. More often do
21 we find ourselves competing with the government than with
22 other industries. Sometimes that takes the form of FFRDCs,
23 where they have a privileged position. You could say
24 there's maybe even a conflict of interest where they're
25 deciding what needs to be built and then specifying how

1 it's going to be built in a way that is structurally anti-
2 commercial.

3 I'd say the very beginning of our company, we were a
4 threat to certain programs of record. And the way that
5 they were doing it. I don't think the industrial players
6 were resisting us so much as the acquisition community was
7 resisting us, despite the signal from the war fighter. And
8 I think we solved these problems by embracing the fact that
9 there were going to be heterogeneous approaches. There was
10 going to be constant new technology insertion, and that
11 actually you as a program of record, don't have a monopoly.
12 There's someone, a corridor down who could move faster on
13 this new capability, and that provides you the incentive to
14 move faster.

15 Chairman Wicker: Thank you, gentlemen. This has been
16 one of the most informative, two and a half hours that I've
17 ever had as a member of this committee. And also, I'm
18 proud of the members of this committee, and I hope you are.
19 There's a lot of talent and a lot of brain power and a lot
20 of thought that has gone into this hearing, and I
21 appreciate the participation. We had a 100 percent
22 attendance today, and I appreciate that.

23 Now, let me check and see if I need to make an
24 announcement with regard to the record remaining open or
25 anything of that nature. There will be questions for

1 record, and we'll notify the witnesses as to the time
2 constraints. And with that, the hearing is adjourned.

3 [Whereupon, at 12:00 p.m., the hearing was adjourned.]

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