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STATEMENT BY

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Chairman Sullivan, Ranking Member Kaine, and distinguished Members of the Readiness and Management Support Subcommittee of the Senate Committee on Armed Services, thank you for the opportunity to testify today on matters related to the Defense Industrial Base.

Before the unprecedented challenge of COVID-19, the Department was working proactively to secure and strengthen the Defense Industrial Base (DIB), in line with the 2018 National Defense Strategy (NDS), and the recommendations of the October 2018 “Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States” Report to President Trump in Fulfillment of Executive Order 13806 (EO 13806 Report). Our EO 13806 Report developed the foundational risk framework DoD uses to identify and address risks and issues in the DIB. The Department uses that framework to continually update the assessment, and to focus DoD’s resources to address the industrial base’s shortfalls. COVID-19 has had a profound impact on the Nation; and in response, the Department has mounted an aggressive response to mitigate new challenges facing the DIB. With Secretary Esper’s leadership, the Department of Defense (DoD) has made a significant contribution to the Administration’s Whole-of-Government response.

Today I will outline the achievements the Department has made to strengthen and secure the DIB, both before and since the President issued “Proclamation on Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak” on: March 13, 2020. I will describe key elements of how the acquisition enterprise, under my direction, has used existing authorities, as well as new authorities provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act in support of the DIB and other Federal agencies.

The 2018 NDS provides a clear roadmap for the Department to address the re-emergence of long-term strategic competition from near-peer competitors. The strong support provided in the National Defense Authorization Act (NDAA) and the DoD Appropriations Act for Fiscal Year (FY) 2020 displays the confidence Congress has in our DoD leaders to accomplish the defined priorities and related tasks to meet the NDS objectives. This confidence is not taken lightly, and we have made tough decisions to ensure our highest priorities are adequately funded.

The mission of the Office of the Under Secretary of Defense for Acquisition & Sustainment (A&S) is to enable the delivery and sustainment of secure and resilient capabilities to the Warfighter and international partners quickly and cost effectively. My role as Under

Secretary is to ensure that we have an acquisition system that moves at the speed of relevance. I am also committed to sustaining our important weapon systems and platforms, ensuring both their availability and affordability. Proactive sustainment drives readiness.

The DIB is an essential component of the A&S mission. America's manufacturing and defense industrial base consists of innovators, both private and public, that design, produce, and maintain the end-to-end set of capabilities, platforms, and weapon systems upon which our Warfighters depend. We regularly engage with the industrial base to be better partners in executing the NDS. The Department's Office of Industrial Policy assesses, promotes, and protects the DIB. This office regularly conducts assessments to ensure the DIB's health and resilience, and to identify risks and issues. DoD leverages its various authorities such as the Title III of the Defense Production Act to promote the DIB and mitigate those risks and issues. Protecting the DIB includes monitoring foreign investments through the Committee on Foreign Investments in the United States (CFIUS), and tracking defense-related merger and acquisition activity.

Using the NDS lines of efforts, I will describe how we have mitigated industrial base risks in order to support the NDS and DoD objectives.

NDS Line of Effort 1: Build a More Lethal Force

As the NDS states, the United States faces a return to great power competition, as well as continued threats from terrorism and regional adversaries. Ensuring we are able to address those threats requires a coordinated effort between DoD and our industry partners. Delivering high-quality systems to the Warfighter is a core acquisition mission, which includes ensuring our DIB can support the requirements of the Service's platforms and weapons.

Since 2017, A&S has created acquisition-focused Munitions War Rooms to improve Department readiness. We conduct deep dives into weapon system supply chains to identify and then mitigate production constraints and inventory shortfalls for existing systems. These War Rooms are also designed to ensure that industry has the capability and capacity to produce our new weapons. Our War Rooms have enabled us to increase production for key munitions by mitigating supply chain constraints. For example, this year, we established the Hypersonic Weapon System War Room, to ensure we can produce these weapons once they pass the current

prototyping phase. We also created the Strategic Systems War Room to ensure industry can accommodate the large ramp in weapons and platforms associated with nuclear modernization, while sustaining the existing systems until new systems become available. The DIB is and will be stressed as multiple new hypersonic weapons systems transition to production at the same time that DoD's nuclear modernization systems are also ramping up production. These War Room activities will help alleviate that stress and enable the Department and industry to make informed strategic decisions on investments to increase capability and capacity where necessary.

For strategic systems, the 2018 Nuclear Posture Review reaffirmed the need for a modernized nuclear triad. DoD's FY 2021 budget request contains \$28.9 billion to sustain and modernize all three legs of the triad, with key investments in the Ground-Based Strategic Deterrent missile, the Long-Range Stand-Off missile, the B-21 stealth bomber, the Columbia-class submarine, and enhanced nuclear command, control, and communications (NC3) systems.

With its core mission of ensuring the United States maintains a safe, secure, effective, and reliable nuclear stockpile, our partners at the Department of Energy/National Nuclear Security Administration (DOE/NNSA) require secure and resilient supply chains to support timely deployment of U.S. nuclear warheads. As the chair of the Nuclear Weapons Council – the joint DoD and DOE/NNSA body responsible for alignment, coordination, and prioritization of nuclear stockpile modernization and sustainment activities – I work with NNSA to ensure the safety, security, and robustness of their supply chains, as they are critical to meeting the demands of these activities.

DoD's FY2021 budget also reflects our commitment to maintaining technological superiority by investing \$106.6 billion in research, development, testing, and evaluation (RDT&E), which represents the largest RDT&E budget in our history. DoD's focus on research and technology efforts to bring advanced capabilities to the field will ensure we maintain overmatch against near-peer competitors. This budget request maximizes the amount of money we can effectively and responsibly spend on these critical and emerging technologies.

Reduced U.S. capability in microelectronics is a particularly troublesome area for the DIB. Government incentives and low labor costs in foreign countries have been the main drivers for the migration of microelectronics manufacturing, packaging, and testing to off-shore suppliers. This strains our ability to acquire and sustain microelectronic components embedded in systems critical to national security and national defense. Reliance on non-U.S. suppliers for

microelectronics leaves DoD vulnerable. The risks of this reality include: availability of microelectronics in case of embargo; loss of U.S. intellectual property from offshore dependency; and loss of confidence the technology will function as intended due to possible malicious activity by foreign fabricators.

A&S, in conjunction with the Office of the Under Secretary for Research and Engineering, is proposing a new model to help restore U.S. microelectronics, which requires novel business concepts allowing DoD to leverage commercial market advancements and demand, which drive the microelectronics industry. Such novel relationships will allow government and industry to collaborate and co-invest to build and sustain domestic microelectronics capability that neither can afford to fund independently. Investment in industry's capability to produce high volume state-of-the-art microelectronics would provide the commercial sustainability that would then allow the production of low volume state-of-the-present and legacy parts DoD requires.

A&S leverages multiple authorities to mitigate industrial base vulnerabilities. Last year presented significant challenges with the F-35 Lightning II program's global supply chain, and we have worked expeditiously with our industrial base partners to strengthen those supply chains and mitigate risk. In July 2019, the President issued a Presidential Determination (PD) authorizing the use of Defense Production Act (DPA) Title III authorities to expand the domestic production capacity for Integrally Bladed Rotors essential to the production of the F-35 engine. A contract for that expansion was in place within days of the PD issuance, which is expected to reduce schedule impacts stemming from the disruptions to the supply chain in 2019 by half. Authorities such as those in DPA Title III provide essential tools for the Department to take expedient action to mitigate strategic risk, and strengthen the health and resiliency of the supply chains upon which our Warfighters rely. Indeed, even before COVID-19, the Department had nearly quadrupled DPA Title III funded projects from \$34.4M in FY 2018 to \$125.4M in FY 2019.

NDS Line of Effort 2: Strengthen Alliances and Attract New Partners

The United States' competitive advantage is not only a result of our unrivaled warfighters, state-of-the-art weapon systems, and materiel, but also our unmatched network of

alliances and partnerships. The U.S. military works every day to strengthen and expand its alliances and partnerships, enabling security and prosperity for millions around the world.

Working with our closest allies and partners is an increasingly important tool for DoD to mitigate shared industrial base risks. Strategic partnerships focused on international cooperation and acquisition enable the Department to obtain advanced technologies from the global DIB. Within the National Technology Innovation Base (NTIB), collaborative activities with Australia, Canada, and the U.K. are underway for critical chemicals, strategic materials such as rare earth elements, and shipbuilding. In the two years since the expansion of the NTIB to include Australia and the U.K., the group has achieved a number of successes that directly support shared national security objectives. These include ways to address interoperability before equipment gets to the field, joint projects on co-development and co-production of critical technologies, a mechanism to resolve specific supply chain problems, and adoption and harmonization of measures to protect against adversarial foreign investment.

Additionally, DoD has built partnerships with India and Japan, including fostering industry-to-industry ties. The Defense Technology and Trade Initiative (DTTI) continues to be an important bilateral tool for advancing defense trade with India. The DTTI Industry Collaboration Forum – adopted in December 2019 – provides a standing mechanism for dialogue between U.S. and Indian industry.

A&S continues to deepen its already-robust relationship with Japan on industrial cooperation, with a special focus on foreign direct investment, rare earth elements, and microelectronics. For instance, the Industrial Base Analysis and Sustainment (IBAS) program has an agreement with a Japanese-backed rare earth element producer to perform an engineering and market research study on developing U.S. processing capabilities for heavy rare earth elements.

NDS Line of Effort 3: Reform the Department for Greater Performance and Affordability

The Department seeks to ensure a secure and resilient industrial base, and to improve the speed and ease of acquisition. A&S has spearheaded the most substantial change to acquisition policy in the last several decades called the Adaptive Acquisition Framework (AAF). It has allowed us to improve the process of acquiring warfighting capability, and to be a better partner to industry. The AAF replaces the “one-size-fits-all” approach used in the past, and includes six acquisition pathways, each tailored specifically to the unique characteristics of the capability

being acquired. Of note, we have begun implementing the Middle Tier of Acquisition (MTA) Policy to rapidly prototype and field mature technologies in an operational environment within five (5) years. As of September 2020, there are 74 MTA programs. Broken out by Service/Component, the Air Force has 32, the Navy has 16, the Army has 14, USSOCOM has 11, and DISA has 1. Additionally, the Software pathway facilitates the rapid and iterative delivery of software capabilities to the operational environment. This pathway integrates modern software development practice such as Agile Software Development, DevSecOps, and Lean Practices.

Additional efforts include the Cybersecurity Maturity Model Certification (CMMC) program. CMMC will establish cybersecurity as a fundamental aspect of DoD acquisition, and combines various cybersecurity standards to secure the DoD supply chain. In parallel, DoD released its first policy on Intellectual Property (IP) to support more effective approaches and customized strategies for acquiring and licensing IP and technical data rights. This will enable DoD to better support the entire life-cycle of its programs, as well as more clearly communicate with industry while leveraging best practices.

The Department also uses interagency cooperation to mitigate risks to the industrial base, particularly via CFIUS. This committee reviews certain transactions involving foreign investment into U.S. businesses. New regulations implementing the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA), which became effective on February 13, 2020, allow CFIUS to more effectively address current national security concerns arising from foreign investment transactions. Among other things, FIRRMA expanded the types of transactions that CFIUS can review to include certain non-controlling, non-passive investments into specified U.S. businesses—including those involved in critical technologies. This further enables the U.S. Government to address national security challenges posed by the inbound flow of capital from threat actors and protects the National Security Innovation Base (NSIB).

Supporting Small Businesses remains imperative to the Department. Last December, we released our Small Business Strategy, outlining efforts to reduce barriers to entry for small businesses to become part of the DIB, and to educate and train the Small Business community on cyber security readiness. Since the revision of the DoD 5000 series, the Department has spent more than \$73 billion on prime contracts with small companies.

In November 2019, we launched the Trusted Capital program, which seeks to align venture capital and private equity investment to supplement DoD's investment programs. Trusted

Capital offers small- and medium-sized critical technology companies an alternative to adversarial capital, in particular from China or Russia. The Department's first Trusted Capital event, where we partnered with the Texas A&M University System, was aimed at developing a domestic industrial base for small unmanned aerial systems, an area where China dominates.

The Department has established new mechanisms to address industrial base challenges. In December 2019, A&S re-energized the Industrial Base Council (IBC) to synchronize DIB efforts across the Department. Comprised of the Service Acquisition and Sustainment executives, the Joint Staff, and OSD, the IBC addresses risks and issues in the industrial base, prioritizes and aligns mitigation efforts to DoD's strategic priorities, and develops policy to address industrial base vulnerabilities identified in the EO 13806 Report. Since the report was published in October 2018, the risks to the DIB and the needs of the defense industrial base have evolved; however, the Department continues to utilize the EO 13806 framework to track known risks, identify emerging risks, and prioritize mitigation actions as appropriate and necessary.

A&S has been working to re-shore critical industrial base capabilities to address the foreign dependency risk identified in the EO 13806 Report. We have made significant progress in the long-term objective of re-establishing domestic rare earth element production – which is key to reducing Chinese dependency. We are using both IBAS funding for domestic separation capability, and DPA Title III funding to re-establish capability to produce the Neodymium Iron Boron (NdFeB) magnets used in precision guided munitions and electric vehicles. IBAS funds have also been used to establish a new domestic capability for large, heavy section weld assemblies for critical parts in the new Columbia Class submarines. DPA Title III funding has been provided to the small unmanned aerial systems industrial base to reduce a large Chinese dependency for these systems.

COVID-19 Response

COVID-19 required A&S to pivot from a purely offensive strategy with regards to DIB activities and investments toward a defensive strategy to combat the impacts of the pandemic on the DIB. Companies that were healthy and able to provide what the Department needed were suddenly faced with issues such as shut downs directed by local governments, reduced workforce due to either COVID-19 infections or social distancing requirements, and loss of sub-tier

suppliers for some of the same reasons. These factors led to distress within the DIB that threatened our ability to procure the items and systems we needed.

CARES Act Funding

In addition to DIB stresses due to COVID-19, the pandemic identified significant shortfalls in domestic capacity for critical medical resources needed to combat the virus. On March 25, 2020, I established the COVID-19 Joint Acquisition Task Force (JATF) to serve as the single DoD entity to support the interagency acquisition and logistics needs during this global pandemic.

Initially, the JATF supported the immediate response to the national health crisis, leveraging unique authorities of the Department to support the Federal Emergency Management Agency (FEMA) and the Department of Health and Human Services (HHS) in execution of DPA authorities. JATF's role was to prioritize and increase production capacity of needed medical resources as well as assist in acquisitions using multiple DoD contracting teams, including the Defense Logistics Agency (DLA).

A&S worked with HHS leadership, entering into a Memorandum of Understanding (MOU), to expand and replenish the Strategic National Stockpile and increase domestic production of critical medical supplies and PPE. In short, DoD helped HHS develop a medical supply chain capability with a focus on domestic sources of supply.

As the COVID-19 pandemic evolved, the Department realized the structure and processes developed in operationalizing the JATF should be formally codified in a playbook and sustained under our existing Joint Rapid Acquisition Cell (JRAC) so we are prepared for future national emergencies. Based on lessons learned from this national response, the JATF will continue to support our HHS colleagues, with a plan to transition our support as a more permanent structure under the JRAC.

Over the last six months, DoD has invested nearly \$638 million in industrial base expansion efforts to support increased capacity in the areas of: screening and diagnostics, N95 masks, respirators and filter media, injection technology, ventilator media and supply chain, gloves, surgical masks, and blood plasma technology. Of the nearly \$638 million DoD has invested, \$213.1 million comes from the DPA Title III for Health Resources, \$407.5 million comes from HHS CARES Act funding, and \$17.6 million comes from the Health Care Enhancement Act.

DoD received \$1 billion in DPA Title III funding through the Coronavirus Aid, Relief, and

Economic Security (CARES) Act. DoD is using \$687 million of CARES Act funding to retain critical DIB companies significantly impacted by COVID, and has dedicated \$100 million to support implementation of Executive Order 13922 to execute the DPA Title III loan program in collaboration with the International Development Finance Corporation (DFC). In order to re-shore critical healthcare manufacturing capability, \$213 million was used to increase capacity and throughput for the healthcare supply chain.

The \$687 million of CARES Act funding will offset financial distress in the DIB caused by the COVID-19 national emergency targeting those regions most severely impacted to sustain essential domestic industrial base capabilities and spur local job creation. The Industrial Base Council (IBC) has identified prioritized risks that can be mitigated with this funding. To date, the Department has awarded \$663.4 million of CARES Act funding to support essential DIB partners. In accordance with the CARES Act Spend Plan submitted to Congress in May 2020, the IBC continued to evaluate and reprioritize efforts to address impacts to the DIB caused by COVID-19. For example, as the significant impacts to the nation's aircraft industrial base emerged, the Department acted quickly to respond to a financially distressed propulsion industry and make targeted investments to retain essential national capabilities. This constant evaluation and prioritization has resulted in the following investments:

- \$252.1 million to sustain and preserve the aircraft and propulsion industrial base,
- \$236.0 million for the shipbuilding industrial base,
- \$35.5 million to support and maintain the space industrial base,
- \$20.9 million to support body armor, force protection, survivability equipment, uniforms, and sustaining the soldier survivability industrial base,
- \$79.1 million to support the electronics industrial base, and
- \$39.8 million to preserve at-risk essential materials suppliers and support and maintain the hypersonics industrial base.

DPA Title III CARES Act efforts to-date mostly target the supply chains in aircraft, shipbuilding, soldier systems, microelectronics, space, and rare earth elements. Investment projects in products and services for these fragile DIB sectors will stimulate the sub-tiers and small businesses that support programs critical to national security, and enable companies to persevere through COVID-19-related challenges.

DPA Title III Loans through the U.S. International Development Finance Corporation (DFC)

To enable execution of Executive Order 13922 the DoD allocated \$100 million to the DFC for the domestic production of strategic resources needed to respond to the COVID-19 outbreak, and to strengthen any relevant domestic supply chains. Loans will help create, maintain, protect, expand, or restore domestic industrial base capabilities supporting the national response and recovery to the COVID-19 outbreak, and improve the resiliency of domestic supply chains.

CARES Act Section 3610 Funding Implementation

Since early March, we have taken proactive measures in response to the COVID-19 crisis by implementing Congressional direction, empowering the contracting workforce, and ensuring a healthy DIB through continued guidance and direction.

Section 3610 of the CARES Act allows agencies to reimburse contractors for payment associated with the preservation of workforces prevented from working due to COVID-19 facility closures or other restrictions. The Department moved swiftly to provide the contracting community the ability to implement this legislation.

It is important to note that section 3610 authorized, but did not appropriate, the funds needed to make these reimbursements. While the Department may be able to use other appropriated funds to reimburse contractors, the cost for 3610 is likely well beyond the Department's resourced ability to do so without significantly jeopardizing modernization or readiness efforts. Based on Rough Order of Magnitude estimates (ROMs) provided by just our largest prime contractors, approximately \$3 billion in 3610 reimbursements would be necessary. When extrapolated to all affected contracts, that number could be two to three times higher.

Section 3610 leave costs are just one category of COVID-19 related costs impacting the DIB. Other COVID-19 related costs include those associated with contracting officer direction such as a stop work orders, purchasing PPE, cleaning and sterilization costs, impacts related to implementing Centers for Disease Control and Prevention guidance, such as spacing out factory floors, and the costs associated with schedule delays emanating from the supply chain. The Department issued guidance on this category of costs on July 2 so that, when determined to be in the best interest of the government, the costs could be reimbursed, subject to the availability of

funds. As with section 3610, the Department currently does not have the funding to cover these costs. Using the same ROM information discussed earlier, approximately \$4 billion in costs would fall into this category for just the major primes and their affected subcontractors.

The Committee is aware that in the early stages of the pandemic, the Department increased the progress payment rate from 80% to 90% for large businesses, and from 90% to 95% for small businesses, to address what industry identified as the number one issue it was facing due to COVID-19: liquidity or cash flow issues, specifically within the supply chain and with small businesses. This change will infuse an estimated \$3 billion in cash to all levels of the DIB. As of mid-August 2020, over \$2.6 billion has already been paid out. The Department has also partnered with the major primes to ensure this increase in cash was quickly making its way throughout the supply chain.

Conclusion

Our objective within Acquisition and Sustainment is to ensure that our Defense Industrial Base can support the requirements of the Service's platforms, weapons, and equipment to meet our warfighters' assigned missions in the near- and far-terms. We have had numerous accomplishments over the last three plus years that have increased the security and resiliency of our industrial base, which includes companies of all sizes. COVID-19 has forced us to pivot some of our efforts to a more defensive strategy – to rescuing our existing, once healthy DIB companies from the effects of the pandemic – but we are still aggressively pursuing offensive DIB mitigations as well. COVID-19 has highlighted how fragile our industrial base is, especially due to our reliance on foreign suppliers. We are working to re-shore critical DIB capabilities to lessen our dependence on adversarial countries, and being extra vigilant to prevent adversarial influence within our supply chain.

The Department's response to COVID-19 addresses a full spectrum of needs. I am incredibly proud of the Department's response to this national emergency, including our work helping our inter-agency colleagues in the fight against COVID-19. And I am proud of our dedicated employees, who have worked so diligently on behalf of the American people.

A&S is well postured to fulfill its mission going forward, and I look forward to continuing to work with Congress to ensure the resiliency and security of the DIB. With Congressional support, we will focus on fragile DIB areas, such as microelectronics and rare earth elements, but it

will require a multi-pronged approach utilizing investments, legislation, and policy solutions. We intend to work to re-shore these critical capabilities, and to strengthen the domestic defense industrial base, but we will need your help. At the same time, we will continue to support the Department's, and the Nation's response to COVID-19. I appreciate the opportunity to brief you today, and look forward to answering your questions.