

DEPARTMENT OF DEFENSE BUDGET PRIORITIES FISCAL YEAR 2007

HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED NINTH CONGRESS SECOND SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 1, 2006

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**DEPARTMENT OF DEFENSE BUDGET
PRIORITIES FISCAL YEAR 2007**

WEDNESDAY, MARCH 1, 2006

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 9:30 a.m., in room 210, Cannon House Office Building, Hon. Jim Ryun presiding.

Members present: Representatives Ryun, Crenshaw, Wicker, Barrett, Hensarling, Campbell, Conaway, Bradley, Lungren, Ryan, Garrett, Hulshof, Spratt, Edwards, Capps, Baird, Cuellar, Cooper, Schwartz, and Allen.

Mr. RYUN [presiding]. Good morning and welcome to today's Budget Committee hearing. Pleased to have with us The Honorable Gordon England, Deputy Secretary of Defense, The Honorable Tina Jonas, Under Secretary of Defense, and Admiral Edmund Giambastiani, Vice Chairman of the Joint Chiefs of Staff.

I will note that with the very tight schedule of today's witnesses, we have had to begin today's hearing during the regular Republican Conference Meeting, and as we learned just last week, sandwiched in just prior to the joint session of Congress to meet with the Italian Prime Minister.

Unfortunately, we are not going to have as much time as we would like, but, again, we certainly appreciate your joining us, and I will do my best to keep my remarks brief so that other members can get in their questions as well.

Today we are here to review the administration's fiscal year 2007 budget request for the U.S. Department of Defense (DOD). To put this year's request in perspective, take a quick look at the budgeting of DOD for these past few years.

Since September 11, and issuing war against terror, this Nation and this Congress have shown to be more than willing to provide whatever is needed to defend our country and support the need of our troops. Starting 12 September 2001, this Congress went fast and furious to rebuild New York, our Pentagon, shore up our Nation's defenses, and assure that further terrorism attacks were not at hand.

From the charts you will get a bit of an idea of our spending. Over the past little over 4 years, DOD budget, excluding any of the costs of fighting the wars in the Persian Gulf has grown by an average of \$22 billion or about 6.3 percent per year.

This year the President's request for the DOD military base budget is \$439.3 billion which is an increase of about \$28 billion or roughly 6.9 percent from last year's enacted level. But I think

few would argue that these numbers alone represent an accurate picture of our defense spending.

Could I have the next chart. Since 2001, our Nation has spent more than \$383 billion to fund DOD to fight the wars in Iraq and Afghanistan, and assuming the President's most recent supplemental request of \$68 billion for DOD passes Congress, we will have obligated ourselves to over \$451 billion for these conflicts. And all of this is money we have spent outside of the Federal budget, via regular, 2-year, two per year, supplemental or emergency request.

Now let me be clear. I am not arguing that this wasn't right or the needed amount to spend, but I have made no secret in my past disappointment with the administration's ad hoc funding request for these wars. This committee is charged with crafting a credible and responsible budget for this Nation, and in order to do that, we have got to have the best possible information, as to the likely future costs of the Department of Defense, which is one of the largest components of our budget.

I believe we have not had that in the past and that is why for the past two budgets, we have included in our budget on the House side, a \$50 billion placeholder for providing for war costs.

I am particularly pleased to note that this year, for the first time since the war began, the administration included a war-funding placeholder of \$50 billion in their budget proposal. We know that it is probably not going to be the right number, but it is a lot closer than zero, and so I certainly think that it is a big step in the right direction and I commend the administration for their decision to do this.

As we look back to the past few budgets, there has been, and I think rightly so, no greater priority than providing for the defense of our country and the needs of our troops. I can tell you now that there will be no greater priority in this year's budget.

That said, providing for our defense needs isn't our only priority. Even with our enormous entitlement programs such as Medicare, Medicaid, and Social Security taken out of the equation, we have a limited pie from which we must fund our only—not only defense—but homeland security and every other domestic program area such as education, science, environment and agricultural—and we have a deficit we have got to deal with as well and to reduce that.

So when we decided that defense is our highest priority, that meant that every other domestic program had to be the peril of that decision, or in other words, everything else had to do with less, so defense could do with more.

Now let us take a look at what we have since 11 September 2001. The national defense budget, which we have included supplementals, have increased about 70 percent or by an average of 11 percent per year, for the past 2 years.

I would say we have had generous growth for the past previous 5 years, we have also realized that we have had to put the spending breaks on somewhere. To achieve this we have held non-defense, nondiscretionary spending to 1.3 percent growth in 2004, to near freeze last year, and this year the administration has asked for actual cut of roughly a half percent to all non-defense, non-secu-

rity spending, and I would guess that this Congress will likely follow in that direction.

Again my purpose in noting this isn't to say that those decisions weren't the right ones to make, but to recognize that particularly when our Nation's budget is being stressed as it is, every dollar we increase in one area, we have got to balance that spending with a decrease somewhere else. I think that this puts tremendous pressure on not only the administration and DOD, but also on this Congress to ensure that the money we spend is being wisely spent, judiciously, effectively and with proper planning and oversight.

I am sure our witnesses today who have asked—will ask—the American taxpayers for roughly \$1.2 billion per day for base or non-war fighting operations will agree that it is certainly important to monitor both the funding and the spending of those funds to ensure we are doing the best job possible to ensure every dollar is hitting its intended target, and fewer and fewer of these dollars are being lost to waste, fraud, and abuse.

So I would appreciate our witnesses today to briefly include in their remarks what steps they have taken in the past few years to make sure that this is the case. I welcome our witnesses and we look forward to your testimony. Mr. Spratt, I turn to you for any comments you would like to make.

Mr. SPRATT. Thank you very much, Mr. Chairman, and let me, too, welcome our witnesses. We very much appreciate your coming because this is a discussion we need to have.

For the most part for the last several years, defense has been more or less immunized from budget pressures; there has been overriding national interests that had to be protected and supported, and you have had support from both sides of the aisle.

This morning, however, the Senate counterpart to this committee, Senator Judd Gregg is quoted at length in the Congressional Daily as saying that "to start with massive increases for defense, augmented by emergency funds that do not have to fit under budget caps, are becoming too much of a practice."

On page 12, he said, "it is a very strange approach to budgeting that they have taken, the DOD, because essentially what they are saying is everything else in Government is going to be subject to severe limitations and spending. But the area we are most interested in is going to have no budget process at all. It is simply going to be done outside the budget process through emergencies."

One of the points that he makes is that most Americans would agree that the greatest threat we face, the one that is the hear and now, closest to us, is the homeland security threat, the threat of security to our homeland by terrorists.

To date, some time ago, the Coast Guard took a look, to take one slice of that particular problem, at seaport security and looking at very mundane things like lighting and fences and new technology to surveil the premises of seaports. They came up with a budget of \$5.4 billion to be implemented over a period of 10 years, specifically for seaport security, outside their regular budget.

To date, only \$700 million of the \$5.4 billion has been provided to the best of my information. This is, I think, what the Dubai ports controversy is all about. It is not about whether Dubai, as Arab and Muslim, and therefore friendly to us, so maybe might en-

gage in some kind of clandestine activity or cooperation with our enemies.

It is about whether or not we are really taking seaport security as seriously as we should. What we have done for our seaports pales in comparison to what we have done for our airports, and that is what the Dubai controversy is all about.

As we look through this budget, we don't find any new emphasis on homeland security. There is about \$40, \$50 billion, depending on what you want to put in there. About half of that was already being incurred before 9/11. There have been increases, obviously, but are the increases commensurate to the risks that we are facing? That is the question we would like to explore with you this morning.

The one thing we have consensus on, bipartisan consensus, is that homeland security needs more attention. There is also some consensus on something else. When Senator Kerry and President Bush had their Presidential debate, they were asked what do you consider the gravest threat facing the United States today. Both of them had the same answer. Both of them said it is nuclear terrorism. They both agreed that terrorists armed with nuclear weapons or nuclear devices or logical dirty weapons pose the gravest threat.

But if you look through this budget and previous budgets since 2001, you will find precious little increases for what we call cooperative threat reduction (CTR), Nunn-Luger, or the other associated programs in Energy and State and elsewhere that come to a little over a billion dollars.

The question we have for you this morning is: given our fixation on conventional defense and given our commitment in the Middle East, are we ignoring the tiger in our very room, the elephant in our room, homeland security and its needs and port security in particular, and are we ignoring or not doing as much as we might to mitigate what may be the gravest threat facing us—nuclear terrorism?

Let me just show you two charts, and then I will end my opening statement. This chart indicates the defense increases during the Bush administration, run out over the initial 10 years of the Bush administration from 2002 through 2011.

As you can see if you take the fit-up and run it out through its period and then you adjust defense spending per CBO for inflation thereafter, there has been an increase from \$3.6 trillion in January of 2001, to \$5.3 trillion today. That is an increase of \$1.6, \$1.7 trillion, a pretty big increase.

And the question that I have for you is does this budget table right here, and almost as it is, capture all the costs that we are truly confronting, for example, the costs, the looming liability for repair, reconstitution, and replacement of equipment that are either wearing out at a faster rate than typical for ops tempo or equipment that we are simply leaving behind because it is not worth bringing back to the United States of America? That is the question, one of the questions I have for you, and let me show you the next chart.

Just to give you the magnitude of the increases in defense, and raise the question, can we get from here to there, can we truly fol-

low the upper edge of this curve and fund the budget that you have more or less planned in your fit up?

As you can see, from 2000 to 2011, if you add and layer all of these costs together, they come to about \$600 billion in the year 2011. We will increase what we are spending on defense by a hundred percent over that period of time.

My question to you is, is this attainable, and if it is not attainable, what has to give? Is this representative of the kind of budget thinking you have got, and if so, do you honestly think, given the problems with the deficit of the budget, that we can get there?

I was here in the 80s. I was here in the 90s, and I'm here again. Lord knows what will happen next year, but I saw the budget preferences and priorities shift completely from precedence given to Defense for the first half of the 80s to the precedence given to the deficit in the second half of the 80s, and I can see that happening again on the distant horizon, not this year, but in the foreseeable future.

And when it happens, I want to know do we have programs underway and transformation of things. Do we have the wherewithal to do what you think we need to do for transformation, for repairing equipment, for personnel and increasing costs of personnel? Can we capture all of this and afford it in a budget that also is moving the balance?

Thank you for coming. We look forward to your testimony and to the questions we put to you afterwards. Thank you, Mr. Chairman.

Mr. RYUN. Thank you, Mr. Spratt. Now we would like to go to our panel and I would like our first testimony to come from The Honorable Gordon England, Deputy Secretary of Defense.

STATEMENTS OF HON. GORDON ENGLAND, DEPUTY SECRETARY OF DEFENSE; ADM. EDMUND P. GIAMBASTIANI, JR., VICE CHAIRMAN, JOINT CHIEFS OF STAFF; HON. TINA W. JONAS, UNDER SECRETARY OF DEFENSE, COMPTROLLER

Mr. ENGLAND. Representative Ryun, thank you. Representative Spratt, thank you, and thanks for your comments, and members of the committee, good morning. It is a pleasure to be here, and I thank you for the opportunity. This is the first time I have testified before this committee, and I do look forward to a constructive dialogue and interchange, so I thank you very much for the opportunity for this interchange this morning.

I have two of my very close colleagues and friends with me today, Comptroller Tina Jonas and also the Vice Chairman of Joint Chiefs of Staff, ADM Ed Giambastiani. The three of us have been deeply involved personally in this process of setting the Department's priorities and working this budget request. So hopefully we can inform you, and, also answer your questions about any issue dealing with the budget. We will certainly try to do that today.

As you know, this is a very critical time for our country. We are a Nation at war, and this war is indeed a daily reality for our men and women in uniform who are stationed around the world or serving here at home, defending freedom and liberty along with our friends and allies.

Now America is fighting against a dispersed network of terrorist extremists. This enemy is adaptable, relentless and will continue the attack whenever and wherever he finds the opportunity. We did not choose this fight, but we also do not have the option of walking away.

Now the long war is only part of our current national security challenge. Hostile states or non-state actors, as you discuss, could acquire and use weapons of mass destruction, and they could do that to devastating effect.

Guarding against this threat and preparing for the possible consequences of a WMD event require new technologies, new skills as well as enhanced counter-proliferation efforts.

The Nation also faces a possibility that major or emerging power could choose a hostile course. Accordingly, it is important that we shape the force to discourage a peer military competitor and be able to defeat such a military if necessary.

Now meeting these potential challenges requires fostering cooperation with emerging powers while hedging against possible surprise by maintaining our military superiority.

Traditional state-based threats are still a concern and they have been kept at bay precisely because our Nation has been so well prepared, and I thank the Budget Committee for letting us do that.

Now, of course, all of these challenges, again as you mention, have a bearing on the security of our homeland. Detecting, deterring, and defeating threats far from our shores is the best and likely the only way to keep America safe, but the Department of Defense is also prepared to defend America closer to home as the Department continues to provide support to other agencies of the U.S. Government for homeland security missions.

In short, our Nation faces far more diverse challenges and far greater uncertainty about the future global security environment than perhaps ever before. And I urge this committee to fully support the President's national defense budget, including the \$50 billion allowance for the fiscal year 2007 war costs.

The Department is asking you for \$439.3 billion this year in the President's budget, and this is, as you have mentioned, almost 7 percent over the budget that was enacted in 2006, and this is, indeed, a lot of money. However, I would like to put this in perspective.

We are spending a much smaller percentage of our GDP on defense now than we have in the past. This year's requesting, including supplementals, is projected to be about 3.7 percent of GDP, but it was about 4.6 percent in 1991, during the Gulf War. It was almost 9 percent in 1968, during the Vietnam War, and it was between 11 and 12 percent in 1953 at the height of our involvement in Korea.

So it is a lot of money, but frankly, it is important for the Nation's defense and it is now about 4 percent, which, in my view, is an insurance policy to protect freedom of liberty for our society.

Now a critical initiative that we do seek and need your help with, we need explicit Budget Committee support in our proposed change to TRICARE fees, and that is essential if we are to sustain the outstanding military healthcare program we have today.

I do want you to know that you have my personal commitment and the personal commitment of all my colleagues in the Department of Defense that with the budget you entrust to us, we will be diligent in ensuring that we spend these funds wisely.

We owe it to our men and women in uniform to provide them with the resources and the support they need to get the job done, and we owe it to our Nation to correctly assess the security challenges we face and to prepare appropriately to meet them, and the budget before you responds to these needs.

Now I do want to comment that meeting these goals will require a strong bipartisan consensus on national security of the kind that defeated the communist threat which we faced for 40 years across many administrations and many congresses. We had a strong bipartisan support for our national security.

As we go forward, it will also require that unity of effort and a sustained will of the Congress and the American people, so this is a war of commitment and will, and it is very important that we have the resolve, commitment and will over a sustained period of time, to prevail in this war.

With that united will and the hard work and sacrifices of our men and women in uniform, the Department of Defense will be able to provide the security so inseparable from the freedom we all enjoy.

So I thank you for your commitment to this very, very profound endeavor to protect and defend the security and freedom of the United States and we do look forward to your questions and your dialogue and I would like to now turn it over, if I could, to my colleague, ADM Ed Giambastiani.

Admiral GIAMBASTIANI. Good morning, Congressman Ryun, Congressman Spratt, Members of the Budget Committee, to all of you, I thank you for the opportunity to appear with the Vice Chairman for my first time in front of the Budget Committee.

I am also pleased to be here with my Pentagon shipmates, as I will call them, Gordon England and the Comptroller, Tina Jonas. We, as a group, with many other senior civilian and military leaders have worked over the last 7 months, since I have returned to the Pentagon as a combatant commander, on the many issues that bring forward the President's budget request for the Department of Defense for the next fiscal year.

I would like to make three brief points this morning, and then I look forward to answering your questions. First, I would like to thank each and every one of you in Congress for your strong support of our men and women in uniform and your continued support in the midst of a long war against extremists and terrorists, one where the enemy is trying to destroy the resolve of the American people.

We have carefully examined our requirements against available resources. We believe that the President's budget allocation of the \$439.3 billion maintains a support at the right level.

I look forward to discussing in more detail the capabilities this budget will deliver to our troops. While this is a considerable sum of money and we recognize it is a considerable sum of money, it is less than we have historically spent during any previous wartime period that I am aware of as a percentage of our national wealth.

I, too, along with the Deputy Secretary, am fully committed to ensuring the taxpayers' money is well spent.

Second point. We come to you here today, having completed several year-long processes of fundamental importance to the Department. The first one is the Quadrennial Defense Review. The second one is something that happens on the military side which is the Chairman of the Joint Chiefs' assessment of our ability to execute the National Military Strategy.

And, finally, of course, the President's fiscal year 2006 budget development. In all these processes, there has been in my view, unprecedented collaboration and dialogue, not only amongst the senior military, but amongst the senior military and civilian leadership of the Department and not just inside the Pentagon, but from our commanders in the field and their staffs, represented by the combatant commanders around the world.

We have spent literally thousands and thousands of hours—I have gone through and had my staff calculate this—questioning, analyzing and learning together as we work together to recommend the way ahead in the Department. In my experience, I have never seen this level of collaboration go on, and I have been through a lot of these processes and budget developments.

Based on this, I can tell you categorically that your Armed Forces are fully capable of executing every part of your National Military Strategy and that this budget supports prosecuting the war on terror, accelerating transformation, enhancing joint war fighting, and improving the quality of life of our troops and our families.

The final point I would like to make, as we fight this long war against a ruthless enemy, is that we are doing so with an all volunteer force, 2.4 million Americans, active and reserve, protecting 300 million of their fellow citizens. This is significant and we need to ensure this commitment is fully recognized, rewarded and valued. I know that all of you value this, as I do, and we thank you for your support of these men and women in uniform.

Because this is the first war we have fought with an all volunteer force, attraction and retention of quality people are more important than they have ever been in our history. The fact that it will be a long war amplifies this very consideration.

Although we are on new ground in some respects, experience has taught us that we recruit individuals but we retain entire families inside the military. The keystone of recruiting and retaining the best America has to offer is maintaining the superb healthcare system that Congress authorized for service members and families back in 1995.

As you know, the cost of that benefit has increased substantially since it was authorized in 1995. Let me give you some figures here. In the last 5 years, from 2001 to 2006, the cost of this has doubled from \$19 billion to \$37 billion, and is projected to increase in 2015 to \$64 billion total.

Despite this increase, there have been no premium changes in this program since 1995, when you instituted it. At that time, the cost to the individual was about 27 percent of the actual medical cost. Today the cost is about 12 percent.

All of us in the Joint Chiefs of Staff have discussed this in length and in great detail. We believe the legislation you passed in 1995 was superb then, and we believe it is superb today, and we want to see this program sustained and going forward.

Because of that, and our belief that the cost to the individual was reasonable in 1995, we recommend that you renorm in 2006 the cost shares that we had in 1995, when you instituted this program.

This will allow us to maintain this superb benefit for not only our members, families and retirees, but ensure that it is with us 20 years from now.

Some very important points to underscore about this recommendation that are included in the President's budget. Number one, active duty troops are not affected by this request. Number two, it only applies to retirees under the age of 65. And number three, it maintains the catastrophic cap of \$1000 for active duty families and \$3,000 for retirees.

So fundamentally our recommendation is to take the benefit, enacted by you in 1995, and update it in fiscal sense to 2006.

Thank you again for the opportunity to testify here today and to represent our men and women in uniform and the civilians and families that support them around the world. I look forward to answering your questions, sir.

Mr. RYUN. Thank you very much. We will go to questions at this point. I would like to begin by just saying first of all, I agree with the President's policy that he doesn't really want to have a time certain that we continue to wait as we train up the troops.

The Iraqi forces, the evidence of that, you know, I have actually seen in my district, where at Fort Riley we had a brigade that was supposed to rotate out the end of December, but did not because it is becoming more clear that the Iraqi forces are becoming more ready.

Now having said that, recently there was a great deal of violence at which the Iraqi forces responded to, do you feel that they were well enough prepared and are prepared for what might lie ahead, and I leave that question to anyone on the panel who would like to respond.

Admiral GIAMBASTIANI. Just about an hour-and-a-half before this hearing started, I came off a video teleconference that the Secretary of Defense, the Chairman and I were attending with General Casey, and General Chiarelli, who is the new multi-national corps commander, and let me just tell you a little bit about what General Chiarelli said to us, and I think it is important to recognize this.

He served in Iraq for a year and was essentially the Baghdad U.S. Commander and left Iraq about 13 months ago. So he has been gone for a year. He came back and has been now in command for about 6 weeks of the multi-national corps. He relieved Lieutenant General John Vines, who is the head of the 18th Airborne Corps.

And what General Chiarelli told us this morning is he was incredibly pleased, No. 1, with the performance of the Iraqi Army and the fact that the Iraqi security forces took the lead after this latest round of violence caused by the destruction of the Golden

Dome mosque in Samara and that they were leading this security effort inside Iraq, not coalition forces.

And No. 2, the fact that the Iraqi security forces not only were taking the lead, but that they had done it in an exceptional manner. Frankly, he gave a number of quotes, one from an Iraqi commander—it was very impressive—on what he was doing to protect certain folks as they were marching in a demonstration.

Actually the number of attacks that are going on from improvised explosive devices today, are less than they were a number of months ago. There is a downward trend here. And the fact that the Iraqi security forces are performing well, in particular, the Iraqi Army, I think is significant.

The final point I would make to you is when he left Iraq 13 months ago, there were only two battalions of the Iraqi Army that were in charge of battle space. Today that number has grown by somewhere up in the forties. I will have to take a look at the exact number, but it is substantial, and this is a big deal, because the American forces, coalition forces, were not in the lead here.

It is a long answer, but I hope that was helpful.

Mr. RYUN. Well, that helps. I would also insert as a follow up, I mean we are seeing improvements. Did he offer any suggestions as to how those improvements might be—how you can improve on those areas with regard to what the Iraqi security forces could do for the future?

Admiral GIAMBASTIANI. Well, let me just say to you, the strategy that we have, we have embedded training teams across the entire Iraqi Army. We have got them established. In the fall, the Defense Department took over the responsibility for training up the Iraqi police force, and now we are bringing in additional folks to embed in the Iraqi police forces.

So this is significant because when we say Iraqi security forces, we mean army and police. So we are making a concerted effort to bolster, help train up, and work with the Iraqi police forces today.

The final thing I would say to you along this point is today, 60 percent of the instructors of the Iraqi Army and Iraqi security forces are Iraqis. They are not Americans. And by the end of this year, that number will be somewhere around 90 percent. That is a pretty significant change, in fact, to make sure that this type of training expertise is turned over to the Iraqis, because obviously it is their country and it is important they do it right.

Mr. RYUN. Well, I think I share the President's view on this, too. When the Iraqis take greater ownership, they will have even greater success. And I want to thank you for your answer. At this point, I would like to turn to Mr. Spratt for any questions he might have.

Mr. SPRATT. Thank you and thank you once again for your testimony and for being here today.

Let me go back to the theme of seaport security, because I really think this is at the bottom of all the reaction to the Dubai ports issue. It is not that the ownership country will be an Arabian and Muslim firm, but that we have sat through briefings, closed and open, where the deficiencies and vulnerability in our ports have been outlined.

And there is a widespread suspicion here that we haven't done nearly enough to secure the seaports of this country and that raises

a question as to whether or not we will aggravate these deficiencies if we delegate the operation of our ports to a foreign firm.

Am I correct in reading the Coast Guard's proposal that they proposed \$5.4 billion about 3 years ago for upgrades in our seaports, surveillance and fences and very basic stuff, of which only \$700 million has been funded today?

Mr. ENGLAND. Mr. Spratt, I mean you are going to have to ask that question to Department of Homeland Security. I mean that is not in our budget, and I am not in the position to comment on that.

Mr. SPRATT. Were you a member of the Farm and Investment Review Committee?

Mr. ENGLAND. Yes, sir. As a deputy, I am part of that committee, yes, sir.

Mr. SPRATT. Did that issue get discussed in your committee?

Mr. ENGLAND. It was not discussed as part of this review, no, sir.

Mr. SPRATT. Whether or not designated, perceived deficiencies have been addressed since 2001 and since the Coast Guard rendered its report? That didn't get addressed at all?

Mr. ENGLAND. Mr. Spratt, we look specifically—CIFUS looks at each specific case. So each case we look at, we don't look at what the funding is on any given—if you look at a specific company, I mean your comment—I do want to correct you in one area. We already have a foreign firm. You know, it is a UK firm being replaced by the firm from UAE. So this is one foreign firm replacing another firm.

We looked at that specific firm and in the Department of Defense, we had it looked at by 17 departments and agencies within the Department of Defense and we had no adverse comments regarding that firm. So we did look at it in great detail, regarding the security of the ports for this firm.

We did not go back and examine the whole approach in terms of security. I do know, however, that Homeland Security has an in-depth approach, that is, security is not just at a given port, it is in depth.

They actually start at foreign ports and UAE, as you know, was one of the very first countries—I believe the first country to join us in this initiative to inspect cargo at foreign ports, as opposed to waiting for them to get to America. So it is, I think, a much larger issue than just this one particular acquisition.

Mr. SPRATT. Under the law if there are significant national security questions, there is a mandatory 45-day period. It's a Byrd amendment, adopted in 1993. Does this issue then become a DOD issue when the 45-day period kicks in and that analysis begins?

Mr. ENGLAND. Mr. Spratt, how it has worked since the 1990's, I believe about 1996—don't hold me exactly to that date—but the way that has happened at the meetings of the CIFUS committee, if there was any comment made, that is, any objection by anybody for any reason, it automatically went into the 45 days.

In this case there were no comments at all that would have triggered the 45 days. Now my understanding is that the—

Mr. SPRATT. Well, DOD is on the committee. You sit in behalf of the Department of Defense.

Mr. ENGLAND. Yes.

Mr. SPRATT. You had the opportunity to raise national security concerns if you had any, and you apparently had none?

Mr. ENGLAND. No, we had none. Neither did anyone else. Now Mr.—so it didn't go into the 45 days, but Mr. Spratt, understand that what will happen is the company has agreed to come back for a 45-day review. They will be providing additional information.

So the committees, when that is refiled by the companies, my understanding is that the committee will rejoin, and we will then start another 45-day review to look at new data or any concerns raised by the Congress. So this will be an opportunity to a more in-depth review to look at new data provided by the company and to address any concerns of the Congress.

So I would suggest—I mean this is a national security issue, not a political issue. I mean our obligation is the security of the United States of America, as is yours, and with that obligation and that from your oversight and us from an action point of view, we would be pleased, any concerns any member of the Congress has, to look at these, because we do want to make sure—

Mr. SPRATT. Well, one of our concerns is that nearly 10 million containers move through our ports every year and that number increases every year. And a minute fraction of those containers is actually cracked open and inspected.

I have seen the number of 5, 6 percent, but as I understand it, that includes dog sniffings as opposed to actually taking a container, opening it up and finding out if the contents correspond to the bill of lading and the manifest.

Mr. ENGLAND. Well, Mr. Spratt, though in reality, we actually don't want to inspect any container in the United States. What you want to do is verify what is in a container in a distance port. You actually don't want cargo coming to America you are unsure of. So the approach—and now I am going to say this from my own knowledge in helping to put the program together when in Homeland Security—was to inspect ports so the security initiative is to inspect ports outside the United States, verify what is in containers and on ships, so that we know when they come to the United States' ports, that they are safe.

What you would like to do is only physically inspect suspect. You would like to inspect 100 percent of the suspect containers, but not 100 percent of the containers that have already been verified.

So the 5 percent number, frankly, is a little bit misleading because the 5 percent is hopefully 100 percent of the containers that cause you concern as opposed to the 95 percent that have already been inspected and have a high degree of confidence.

Mr. SPRATT. My time is up, but if we have further time, I would like to come—

Mr. ENGLAND. No, I would be happy to come meet with you on this, but I frankly believe that obviously the most knowledgeable person here and the most knowledgeable people are the Coast Guard, because the Coast Guard is responsible for the port security, and they are obviously the most knowledgeable to discuss this subject or the folks from Homeland Security. But hopefully this discussion has clarified this issues somewhat.

Mr. SPRATT. If I could just have one 30 seconds to share something with you. Years ago, when we were concerned about textile

fraud, shipments coming into this country, we appropriated \$3 million and gave money to New York, Miami, and L.A., to intensify the inspection of incoming cargo containers and to open up quite a few more than they had been accustomed to.

They came back in a year's time with \$21 million dollars in fines, fees and penalties because of the discrepancies between the manifests, the bills of lading, and the actual contents of the goods coming in, quota evasion, tariff evasion, misdeclaration, and everything else.

And I went up to the New York and met with the customs people up there, the room was full of them. They said we have been telling our superiors this for years, that fraud is rampant in this business, and here is the proof of it.

And that is my concern. I know you have got 36 different ports abroad where you can check everything, but surely you want to have the potential shipper of a nuclear device, where it will be caught, if not in the foreign port, in the United States when it comes here. I would think we would want that second line of defense.

And particularly given the widespread suspicion that these contents don't always correspond to the external documents that come with the container.

Mr. ENGLAND. Mr. Spratt, there is a layer of defense, and, again, I mean it is a combination of a lot of checks and balances in the system, so it is the ports of the United States but it is also the ports, the shippers, the personnel, and there is a whole layer of defense system that is in place and not just the ports.

But, again, I think it would be very appropriate to have this discussion with the folks from Homeland Security.

Mr. RYUN. And I will encourage you to maybe continue the discussion a little bit later when we perhaps have some more time. I will remind members that we have a limited schedule this morning and I know others would like to ask questions, so I would appreciate it if you could stay the clock.

At this time, I would like to recognize Mr. Crenshaw.

Mr. CRENSHAW. Thank you, Mr. Chairman, and thank you, Mr. Deputy Secretary. Thank you for your work as Secretary of the Navy and I assume that is a promotion now that you are the Deputy Secretary, but we welcome you here.

Mr. ENGLAND. Thank you.

Mr. CRENSHAW. And I have got kind of a broad question. It is not unlike the issues that we face as Members of Congress or on the Budget Committee. You know, we are going to appropriate about a third of our overall budget in the discretionary spending, and we are trying to get a handle on that.

And we hear a lot of testimony in this committee from folks talking about entitlements, Social Security, Medicare, Medicaid, those kind of issues that seem to grow faster than the discretionary spending grows.

And it seems to me that you all face kind of a similar problem in the Department of Defense. The request is an awful lot of money, as you point out, \$439 billion, and you kind of have the same situation, where on one hand, you have got the quality of life issues, healthcare, pay raises, housing, and I think that was one

of the President's priorities, and I think we have taken some giant steps toward dealing at that.

On the other hand, one of the priorities is to make sure that the men and women have the best equipment there is, modernized, procured, all those kind of things.

So I guess when I hear you talk about healthcare doubling in the last 5 years from \$17 to \$39 billion, and it is going to be \$64 billion by 2015, then that is kind of startling trend, because it seems to me you are going to have to balance those quality of life issues with the modernization and procurement aspect, because you can have a great quality of life, but if you don't have the kind of equipment you need to fight in a modern world, there is a real problem.

And so we had a hearing, I think, in military quality of life and the entire military budget of Germany is \$39 billion and we will spend more than that on healthcare. We only spent \$11 billion to build new ships, I think, this year.

So if you look out in the future, I mean, I know in this budget you talk about some additional fees, enrollment fees and deductibles, and that is probably a place to start and have a discussion.

But how do you plan on dealing because we can't sustain, just like we can't keep spending money, you know, as a country on some of these entitlement programs. And I am not sure we can continue to just automatically fund every Defense request. So can you tell us kind of what you are doing other than this good start to really deal with this long-range problem of balancing, you know, the modernization aspect with the quality of life.

Mr. ENGLAND. Mr. Crenshaw, you are right, and thanks for the opportunity to discuss this. Look, this is a start. I mean frankly we, quote, get a lot of help on this subject. I mean we have a lot of laws enacted by the Congress that increase benefits. Not always do we ask for them.

So first if you would ask the Congress to help us in this regard and moderate your own desires in terms of improving the benefits. We have we believe an excellent salary and benefit package for our men and women and their families who wear the cloth of our Nation, and but it is important that we not just have this trend that just goes up and up.

Again, as ADM Giambastiani commented, just to reset the cost bases back to 1995 or 1996, I believe across our FYDP, that saves up \$11.2 billion, just in the FYDP for this one relatively small step, which is to reset the fees to the original baseline. And then I believe there is another \$1.5 billion that accrue savings to the Treasury. So this is close to \$13 billion just to reset the fees back to the 95, 96 baseline when that was first enacted by the Congress.

So this is a step. And I will tell you this is a large step, that is, we now have the support of all of the Joint Chiefs, all of our Service Chiefs, the Chairman and the Vice Chairman, and the civilian leadership. So this is, you know, has wide support in the Department of Defense.

It is very important that the Congress and specifically this Budget Committee, support us in this regard, because if we cannot take this step, I mean if we can't take this step, which is just to reset and adjust for the inflation of fees, then there is frankly nothing

else we are going to be able to do except come back to this committee and ask for more money every year.

So we need your help this year, specifically, in this one small step that does indeed save us a lot of money to try to break these trend lines.

The all-volunteer force is an expensive force, but it is also the most effective force we have ever had in the country in terms of the quality of our men and women who wear the uniform. So this is a magnificent force we have. It is a volunteer force; and, therefore, it is important that we pay and reward our people appropriately.

Mr. CRENSHAW. I think he wanted to add something if he could. My time is—

Mr. RYUN. A brief comment, yes.

Admiral GIAMBASTIANI. If I could very quickly, just to add to what the Deputy has mentioned. In the acquisition area, we are looking very carefully at life cycle costs of systems, and when we look at building aircraft, bombers, ships, we take a look at the life cycle and the amount of crews that these take, and if we can reduce crews and get the job done, be as effective, efficient, militarily sound as a force, then in the long term, getting the number of personnel costs down is substantial. So I just wanted to tell you in addition to the healthcare and others, these are some areas we are focusing on.

Another very important one is the use of our reserve forces. This is both Reserve and National Guard. They are a very effective force for us. Clearly we can keep a large number of them around, and obviously you get them for a certain amount of time and you don't have to pay the full salaries and the rest while they are doing just regular reserve support.

But what we have done is we are making them an operational reserve at the same time they are a strategic reserve. And by combining them on a military side and making them more effective when we use them on active duty, that saves us substantial money. So there is a significant portion of what we call a total force in how you use them.

I guess the last thing I would say to you is, is that as we look at performing functions around the Department, we look at what we already have and how we can rebalance it underneath that top line as opposed to just asking for more, and we try to use that as a last resort if you will. If we need them, we will come up to you and we will talk to you about it, but our point is how can we redistribute under that top line to use them more effectively and efficiently. That is all I have, sir.

Mr. CRENSHAW. Thank you.

Mr. RYUN. Mr. Spratt, for a brief comment.

Mr. SPRATT. Mr. Chairman, we were to have Steve Kosiak testify today, but then in light of the schedule, we are—would ask simply to have unanimous consent for the testimony of Steven Kosiak to be entered into the record.

Mr. RYUN. Without objection, so ordered.

[The prepared statement of Steven Kosiak follows:]

PREPARED STATEMENT OF STEVEN M. KOSIAK, DIRECTOR OF BUDGETS STUDIES,
CENTER FOR STRATEGIC AND BUDGETARY ASSESSMENTS

Mr. Chairman and members of the committee, it is a great honor to have the opportunity to appear before you today to discuss the administration's fiscal year (FY) 2007 defense budget request, the 2006 Quadrennial Defense Review (QDR) and related issues.

Today we face a remarkable range of challenges to our national security. There is the terrorist threat, which was demonstrated so cruelly and tragically on September 11, 2001; the ongoing wars in Iraq and Afghanistan; the threat posed by the proliferation of weapons of mass destruction (WMD); and the possibility that, over time, the United States will face a major power competitor.

Meeting and managing these challenges effectively while also addressing competing demands on our national resources, such as preparing for the retirement of the baby boomer generation toward the end of this decade, is a complex and difficult task. But it is a task that falls very much within the purview of this committee. It is my hope that I might be able to help you, in some small way, with this task through my testimony today.

My remarks highlight a handful of observations, questions and conclusions concerning US funding for defense and the latest Department of Defense (DOD) plans, as reflected in the QDR and the FY 2007 defense budget request. Specifically, I would like to emphasize the following:

- Funding levels for defense are, today, very high by historical standards, and are projected to continue to grow under the administration's latest plan.

- The level of funding provided through special war-related appropriations has grown enormously in recent years and now accounts for a major portion of DOD's overall budget.

- The true cost of ongoing military operations is unclear, and there is a danger that DOD is coming to rely on special war-related appropriations to cover some of the military's peacetime modernization, readiness and force structure costs.

- Notwithstanding today's high defense budget levels, due to cost growth in many weapons programs, deficit concerns and other factors, the administration's defense plan is probably not affordable over the long run.

- The 2006 QDR includes a substantially revised, and improved, diagnosis of the challenges facing the United States, as well as some positive programmatic adjustments.

- Unfortunately, taken together, the 2006 QDR and FY 2007 defense budget request would do little to improve the affordability of DOD's long-term plans.

- The administration has deferred most of the hard choices that will eventually have to be made to ensure that DOD's plans, including many of the new initiatives outlined in the QDR, are affordable over the long run.

For the remainder of my time, I would like to discuss and expand upon these points.

TODAY'S DEFENSE BUDGET IS VERY HIGH BY HISTORICAL STANDARDS

The Bush administration has requested some \$441 billion to cover DOD's peacetime modernization, readiness and force structure costs in FY 2007. In addition, the administration plans to amend its request to include \$50 billion as a down payment to cover the cost of military operations next year. Thus, altogether, under the latest plan DOD is projected to receive some \$491 billion in FY 2007. It is likely that at some point in FY 2007, the administration will submit a supplemental request for additional war-related funding as well. The administration's FY 2007 request also includes \$22 billion for Department of Energy (DoE) and other defense-related programs, bringing the total projected for national defense to \$463 billion, exclusive of war-related funding, or \$513 billion including such funding.

The administration also recently submitted a \$70 billion request for supplemental appropriations to pay for military operations in Iraq and Afghanistan in FY 2006. Since Congress already provided \$50 billion for war costs in the recently enacted FY 2006 defense appropriations act, this would bring total funding for military operations this year to \$120 billion, and total funding for national defense to some \$562 billion. In real (inflation-adjusted) terms, this would mark the highest level of funding for defense since the height of the Korean War (FY 1952). If the administration were to request a similar size supplemental in FY 2007, the defense budget would be even higher next year.

Nor are today's high defense budget levels solely the result of wartime spending. Exclusive of war-related funding, the FY 2007 budget request represents about a 7 percent nominal and a 4.4 percent real (inflation-adjusted) increase from this year's level. Including the projected \$50 billion in war-related funding, the FY 2007

budget for national defense would mark roughly a 50 percent real increase from FY 1998 (the budgetary low-point of the 1990's).

Moreover, under the administration's new plan, the peacetime defense budget (i.e., the defense budget exclusive of funding designated as war-related) would increase in nominal terms by 7 percent in FY 2007 and by an average of 2-4 percent annually over the FY 2008-11 period. This is a much slower rate of increase than has occurred over the past 5 years. Nevertheless, as a result of this continued growth, by FY 2011, funding for defense would, in real terms, be comparable to the levels reached during the years of the Reagan administration-historically, the peacetime peak for the defense budget.

SPECIAL WAR-RELATED APPROPRIATIONS ACCOUNT FOR A GROWING SHARE OF DEFENSE SPENDING

Since 2001, the administration and Congress have provided DOD a total of about \$331 billion for military operations. This includes about \$226 billion for Iraq, \$76 billion for Afghanistan and \$29 billion for homeland security-related and other activities. As noted above, the administration recently submitted a supplemental request for an additional \$70 billion to help cover the cost of military operations in FY 2006, and plans to amend its FY 2007 defense budget request to include \$50 billion as a down payment on FY 2007 costs related to military operations. This would bring the total amount received by DOD for military operations to some \$451 billion.

The vast majority of this funding has been provided through special appropriations. Until FY 2004, the funding was provided almost solely through emergency supplemental appropriations. However, in FY 2005, to its credit, Congress insisted on funding military operations, at least partially, through the annual defense appropriations act. And this committee, of course, played a key role in forcing this change. Supplemental appropriations are an appropriate vehicle for covering the cost of unanticipated emergencies, such as natural disasters or the initial phases of combat operations. However, when major military operations become long-term deployments likely to be sustained over a period of years, the use of supplemental appropriations is no longer appropriate. And it is a positive development that the administration is also finally showing a willingness to embrace the use of the annual defense appropriations act to cover at least some of the costs of ongoing military operations.

During the 1990's, the US military was involved in a variety of different operations, including deployments in Somalia, Haiti, Bosnia, Kosovo and southwest Asia (e.g., enforcing no-fly zones against Saddam Hussein's Iraq). However, in terms of troop levels and costs, these were relatively small operations. As a result, on average, during that decade funding for military operations accounted for well under 1 percent of annual funding for defense. By contrast, since the invasions of Afghanistan and, especially, Iraq, funding for military operations has come to account for a major share of DOD's annual budget. For FY 2006, funding for military operations is projected to account for about 20 percent DOD's overall budget.

DOD MAY BE USING WAR-RELATED APPROPRIATIONS TO COVER SOME PEACETIME COSTS

Although most of the funding included in war-related special appropriations is clearly needed to cover costs directly related to military operations (e.g., costs associated with activating reserve personnel, sustaining combat operations, overhauling equipment, and replacing destroyed or worn-out equipment), some of these funds are being used to cover essentially peacetime programs and activities of the Department of Defense.

Just how much of the funding designated for military operations is actually being used to cover normal peacetime force structure, readiness and modernization costs is difficult to estimate. However, the amount may be substantial. In early 2005, the Congressional Budget Office (CBO) projected that sustaining US forces in Iraq and Afghanistan at essentially today's level would require about \$85 billion in FY 2006. Even excluding \$6 billion in DOD funding included in the administration's latest supplemental request to help train and equip Iraqi and Afghan security forces, this suggests that the administration's projected funding total of \$120 billion for military operations in FY 2006 may be too high by as much as nearly \$30 billion.

Some of this extra funding may be needed to cover costs associated with repairing or replacing military equipment worn out or destroyed in Iraq and Afghanistan. But it seems unlikely that these costs would absorb all of this additional funding (in a March 2005 report, CBO estimated that DOD might have a \$13-18 billion backlog of equipment needing replacement or repair).

An example of one program that is currently being funded through supplemental appropriations but is clearly not directly related to the war is the Army's modularity

initiative. This initiative involves increasing the number of deployable combat brigades by reorganizing the Army's current force structure. Since the modularity initiative is central to the Army's current plans to transform its forces, and would presumably be carried out whether or not US forces were currently engaged in military operations, these costs should, rightly, be funded through the regular annual DOD appropriations act, not emergency war-related appropriations. DOD has, implicitly at least, conceded this point by stating that, in future years, funding for Army modularity will, indeed, be included in DOD's annual (i.e., peacetime) budget request.

The fact that some costs unrelated to the wars in Iraq and Afghanistan are being covered by funds designated as war-related should be a cause for concern. Among other things, it difficult to discern how seriously to take the topline projections for DOD's peacetime budget included in the latest Future Years Defense Program (FYDP). In particular it raises the possibility that the Services, if they believe they can rely on supplemental appropriations to cover such costs, will develop long-term plans that are far less realistic than they might otherwise be.

DOD FACES SUBSTANTIAL PLANS/FUNDING MISMATCH

Over the past 4 year years, the long-term fiscal picture for the Federal Government has dramatically deteriorated. In January 2001, the Congressional Budget Office projected Federal budget surpluses totaling about \$5.6 trillion over the FY 2002-11 period. By comparison, in its January 2006 report, CBO projects that the Federal Government will run deficits totaling some \$832 billion over the coming decade. Moreover, as CBO acknowledges, its "baseline" projection makes a number of assumptions that may be unrealistic; for example, that tax cuts currently set to expire over the coming decade will not be extended. Projections based on more realistic assumptions about tax cuts and other factors suggest that total deficits could total some \$3-4 trillion over the next 10 years.

It seems unlikely that Congress will cut the administration's defense budget request for FY 2007. However, over the longer term, once a decision is made to address seriously the ballooning Federal deficit, history strongly suggests that cuts in defense spending-or at a minimum slower rates of growth in defense spending-will be part of the solution adopted. The 12 percent real reduction in defense spending that occurred between FY 1985 and FY 1990, before the end of the Cold War, in large part reflected a bipartisan effort to begin reducing deficits.

Moreover, even if DOD were able to achieve the funding levels projected in the administration's new plan over the next 6 years and could sustain those funding levels in the face of growing Federal deficits, DOD would probably not be able to execute its very broad and costly modernization and other plans. If history is any guide, DOD's major weapons acquisition programs are unlikely to meet projected cost goals. Similarly, operations and support activities (e.g., military pay, health care, and a wide variety of operations and maintenance functions) are likely to cost more than anticipated.

Under the administration's new plan, funding for national defense is projected to reach \$526 billion in FY 2011, exclusive of war costs. However, estimates by CBO, CSBA and others suggest that executing existing plans could require substantially higher defense budget levels, perhaps an additional \$75 billion or more a year over the long term. DOD's plans are likely to become affordable only if and when decisions are made not only to invest in new forces and technologies, but to divest from more traditional forces and programs-decisions which the QDR and the FY 2007 defense budget request have largely deferred.

THE 2006 QDR INCLUDES AN IMPROVED DIAGNOSIS AND SOME WELCOME NEW INITIATIVES

In conjunction with the administration's submission of its FY 2007 defense budget request, it has also released the results of the 2006 QDR. The QDR includes a substantially revised diagnosis of the challenges facing the United States, and the US military in particular (compared to the 2001 QDR and earlier reviews). Among other things, it argues for placing a greater emphasis on irregular warfare and the dissuasion of major power competitors.

Consistent with these new priorities, the QDR also proposes a number of potentially important programmatic changes, including increasing the number of active duty Special Operations Forces (SOF) battalions by one-third and accelerating the fielding of a new long-range strike aircraft from 2037 to 2018. These are welcome changes. Given recent experience in Afghanistan and Iraq, and the suitability of SOF units for certain critical counter-terrorism and other missions, the need to expand our SOF units seems clear. Likewise, the administration's recommendation

that the acquisition and fielding of a new deep strike aircraft be moved up nearly 20 years appears to be appropriate. In both of our recent wars in the Middle East access to forward bases from which short-range fighters can operate effectively has been limited. And it is possible that in a future conflict, for political or military reasons (e.g., the proliferation of cruise and ballistic missiles), such access will be even more constrained. Nevertheless, the Services have, for too long, been focused on strengthening our short-range fighter capabilities—an area where we currently enjoy enormous superiority—and have neglected the need to improve and expand our long-range strike capabilities.

Unfortunately, there is good reason to question whether the funding required to implement these changes will be found, and thus, over the long run, whether these new initiatives will ever move from paper recommendations to reality.

2006 QDR AND FY 2007 BUDGET REQUEST WOULD DO LITTLE TO IMPROVE AFFORDABILITY OF DEFENSE PLANS

It seems, at best, questionable that many of the new initiatives proposed by the administration will ever reach fruition, because the QDR did very little to address DOD's long-standing plans/funding mismatch. It was especially disappointing in this regard in terms of major acquisition programs.

The QDR recommended scaling back or terminating a number of weapons programs, including the J-UCAS unmanned combat aircraft, the E-10 surveillance aircraft and the B-52H standoff jammer. But these are relatively small programs. The largest weapons programs, such as the F-22 and F-35 fighter programs, the Army's Future Combat System (FCS), and the Navy's DD(X) destroyer survived essentially untouched. Moreover, as noted earlier, under the latest plan some new acquisition programs would be started, including the development of a new (manned or unmanned) deep-strike aircraft nearly two decades earlier than previously projected.

Overall, under the new budget plan funding both for procurement and R&D would increase in FY 2007. Funding for procurement would rise from \$76 billion in FY 2006 to \$84 billion in FY 2007, while R&D funding would grow from \$71 billion to \$73.2 billion. Under the administration's latest plan, funding for procurement is projected to grow substantially over the FY 2008-11 period, while funding for R&D would begin to decline in real terms toward the end of the FYDP. In practice, however, it may be difficult for DOD to sustain a substantial increase in funding for procurement, given cost growth in military personnel, operations and maintenance, R&D and other areas of the defense budget.

The QDR has proposed some potentially significant reductions in end strength and force structure. In particular, the QDR recommends cutting about 40,000 full-time equivalent military personnel from the Air Force, reducing the number of B-52H bombers from 95 to 56, retiring 50 Minuteman ICBMs, and accelerating the retirement of the F-117 fighter and the U-2 reconnaissance aircraft. Whether these are the right areas of force structure to cut is debatable, but some such reductions are probably appropriate.

Historically, the US military has frequently cut end strength and force structure in order to find sufficient funding to pay for its modernization efforts. In many cases, the acquisition of new, much more capable (and typically far more costly) weapons systems mean that less than one-for-one replacement is necessary. This approach probably makes sense for the Air Force, as well as the Navy.

However, the personnel and force structure cuts included in the QDR are, by themselves, too modest to both substantially alleviate DOD's existing plans-funding mismatch and offset the additional costs associated with the new programs and initiatives included in the QDR.

CONCLUSION: HARD CHOICES ARE LEFT TO NEXT ADMINISTRATION

As noted at the outset of this testimony, the United States faces a variety of serious security challenges, as well as growing fiscal constraints. Effectively addressing both these security concerns and fiscal constraints will, among other things, require transforming the US military to make it both more capable and more cost-effective. Doing this will, in turn, require making some hard choices.

The good news is that the latest QDR and the FY 2007 defense budget request include some potentially significant and positive new programs and initiatives. The bad news is that they fail to recommend the level of divestment in more traditional areas that is likely to be necessary to make these new initiatives affordable over the long run.

In other words, transforming the US military to meet irregular, catastrophic and disruptive challenges to US security, as recommended in the QDR, is as much about divesting from traditional weapons programs and force structure as it is about in-

vesting in new technologies and forces. And unfortunately, the latest plan is largely silent on the question of divestment. As a result the hard decisions that should have been central to this QDR have been largely kicked down the road, where they will have to be made by a future administration.

Mr. RYUN. At this time, I would like to turn to Mr. Edwards for any questions he might have.

Mr. EDWARDS. Thank you, Mr. Chairman. Secretary, welcome to our committee. Few have said it is an enjoyable experience, but welcome here, and as someone who has known you and watched you for over two decades, I do want to personally thank you for your service to country, in the private sector, the Homeland Security Agency, as Secretary of the Navy and as Deputy Secretary of Defense. You truly have been a model of service to country and we should all be deeply grateful to you for that.

Admiral, thank you for being here, and Ms. Jonas, for your leadership as well.

Mr. Secretary, I am the ranking Democrat on the Appropriations Subcommittee that funds the DOD healthcare system and the VA healthcare system. So I will be somewhat involved in this debate about TRICARE Costs.

I would like to just put on the table honestly and openly for the purpose of letting us know what the challenges are going to be, and perhaps at the end of the day, we can find some solution, because I do think we have to deal with the serious question of highly, quickly escalating defense healthcare costs.

But so you know the debate, and some of this goes beyond your pay grade and my pay grade, but I think for many Democrats' perspectives, we will recognize the need to address the issue of Defense healthcare costs. I think where we are going to have a problem, at least many members in Congress, will be on the principle of shared sacrifice during time of war.

And in effect what the administration is asking for this year is for military retirees, men and women who have served our country over the last, well, over a period of 20 years or 30 years, to spend, I guess, close \$11.2 billion. That is the number that the Admiral quoted, \$11.2 billion more in the next 5 years, to help pay for Defense healthcare costs.

At the same time, Members of Congress are going to vote to continue tax cuts and extend tax cuts that give us tax breaks while, you know, 40,000 soldiers I used to represent at Fort Hood, have put their lives on the line in Iraq.

And I think the public debate has to address the issue of are we being fair to ask a thousand military retirees—I'm sorry—to ask 222 military retirees to pay 2 years from now an additional thousand dollars extra out-of-pocket expense to cover healthcare costs, when those 222 retirees' contribution will be necessary to pay for the tax cut for one American making a million dollars this year in dividend income.

I am not sure most Americans would think it passes the fairness test or the principle of shared sacrifice during time of war, an important American principle. Say 222 military retirees should pay an extra thousand dollars a year for their healthcare and that will, in effect, fund one person's tax cuts, person making million dollars a year in dividend income.

I realize your job isn't to handle tax policy, but I think as we try to seriously and honestly and openly debate this very important issue that you brought up, I think the administration needs to be aware. That's a genuine concern of not just many Democrats in Congress, but many military retirees and veterans and the American people as well.

Let me ask you on the issue of healthcare costs——

Mr. ENGLAND. Mr. Edwards, could——

Mr. EDWARDS. As long as it doesn't take from my time.

Mr. ENGLAND. No, that is all right. Go ahead. Sorry.

Mr. EDWARDS. Let me ask you this question, Mr. Secretary. Do we have an estimate of how many military retirees will drop their healthcare coverage because of the increased premiums?

And, secondly, is a bipartisan effort to try to look at reigning in costs. Has the Department of Defense looked at the public/private partnership in the housing program that has worked so well that I have strongly supported for over a decade now, and try to see whether we could replicate that public/private partnership in building new military hospitals to save taxpayers' money and provide even better quality here at a lower cost for our military servicemen and women and retirees?

Mr. ENGLAND. Mr. Edwards, if I could first maybe change the character of the debate on this TRICARE issue. Let me tell you the statement we are in. When people leave the military and before they are 65, so that category of people only, not active, and under 65, they typically go out and get other jobs.

What happens is if you take a job with some major employer in the United States, it turns out that major employer, some of them today will pay you not to take their health insurance, but rather to stay the DOD health insurance.

So and there are municipalities, there are cities that do not allow those retired people to take their health insurance or States to take their health insurance. They require them to take the DOD. So basically we find ourselves subsidizing American industry. We find ourselves subsidizing States and localities because our coverage is so good and our rates are so low.

So if we just had a rate compatible at an industry group or a State or a city, then people would indeed take other healthcare that is already offered to them, rather than coming and staying on DOD rolls. So this is not a question in most cases of people paying more. It is a question of who makes the payment. Do we do it in DOD, or does a State, a municipality or a company make the payment as they should do when the person works for them as opposed to coming back to DOD.

So if we could equalize this, it is a question of fairness and equity, except it is fairness and equity among DOD versus private industry, States and local. Otherwise, we are taking money away from, as Mr. Crenshaw said, in proving, you know, the effectiveness of our force in terms of other investments we need to make.

Now the specific question I think Tina Jonas can answer in terms of the number of people.

Ms. JONAS. Mr. Edwards, with respect to the number of people that might leave the rolls, I am told that it is about 144,000 in FY 2011. What the bulk of the savings, about \$4.7 billion of that,

would be associated with not attracting those in, as Secretary England has just said.

Mr. RYUN. The gentleman's time has expired. I need to move on to the next member and give them a—

Mr. EDWARDS. We want to talk about the public/private partnership at a later time. I will call you.

Mr. ENGLAND. Absolutely. We will meet on that. Thank you, sir.

Mr. RYUN. I want to encourage members if they have comments to keep them brief so they can get to their questions, give the panel an opportunity to respond. Mr. Wicker.

Mr. WICKER. Thank you, Mr. Chairman. It is unfortunate that we have the joint meeting, and our questions are going to have to be shortened. But I will just follow up on the last two questioners, Mr. Secretary and Admiral.

This is not the first time the Department has made such a suggestion with regard to additional fees in the last 11 years, is it?

Mr. ENGLAND. Tina, perhaps you can answer.

Ms. JONAS. I am not aware that we have proposed these type of fee structures for healthcare. I may be—we can correct that for the record if I am wrong.

Mr. WICKER. OK. Well, I do know that there has been a reluctance and probably will be a reluctance this year on a bipartisan basis to these fee increases.

Admiral, you graduated from the Naval Academy 36 years ago. What was your understanding then with regard to your medical benefits at the time? What is the understanding of active duty personnel now who make a decision to make this a career as compared to the information and the promise that the United States of America made to those people who are now currently retired and made that decision decades ago?

And if some of you could give us a full example of how these fees will work, and it just seems to me—I will make this brief comment and it will come out of my time—but I think the measure shouldn't so much be that the retiree was asked to pay 25 percent when the program first began. To me the more important figure that I don't know is: "What percentage of that person's income was he or she having to pay when the program first began as compared to what we are asking them to pay now?" I just would say I think it is going to a tough sell.

Admiral GIAMBASTIANI. To get to the first question, Mr. Wicker, 36 years ago, I would like to tell you that I was smart enough to think about what my lifetime healthcare was, but I was 18 going into Annapolis and, frankly, I never gave it a thought.

And to be honest with you, a number of our young people who come in, don't think about it at 18, 19, or 20. You start thinking—

Mr. WICKER. But assurances are made.

Admiral GIAMBASTIANI. But assurances are made, and you know you have superb healthcare and you know you have a superb healthcare system to take care of you.

I had a sailor once who left the Navy, went back to New Mexico. He was a nuclear electronics technician, and I can still remember him telling me this 20 years ago. He wrote me a letter about 2 or 3 months after he got out, and he said, you know—I was a captain

at the time—and he said, you know, Captain, I have to tell you that nobody out here takes care of me like you guys took care of me inside the service.

He said nobody worries about when I am going to get a dental exam. Nobody worries about when I am getting my physical and the rest of it. So there is an expectation that we will take care of our retirees, and I think that is important.

Now we Chiefs took a look at this, and when we looked at some of the premiums, we tried to make a program split out between officers, senior enlisted, and junior enlisted retirees under 65. And we said there has got to be a gradation just based on salary. So we tried to take some of that into consideration.

And finally when we looked at the overall premiums compared to what a healthcare program would cost on the outside, the State, local government or something else, this is still substantially and significantly lower than the average that you would pay almost anywhere else. So I just wanted to let you know.

Mr. WICKER. But that wasn't what I was told, and I speak to you as a retiree of the U.S. Air Force and Air Force Reserve myself. But that is not what I was told, that if I went the full 20 years and became eligible for retirement, that I would have a healthcare program as good as the private sector. Frankly, we were assured that we would have a better healthcare program.

Mr. ENGLAND. The program is a better program, we think, than literally any healthcare program in America, and we think it will retain it being the best program. That is what I would tell you.

I don't think you would see the Chiefs line up for this. You know if you think about it, heck, I could be retired tomorrow. I could be retired in the next couple of years and fall into the same category again. And what I would say to you is, is that, you know, if I wanted to just look at and focus on myself and what type of benefit, why would I think this would be a reasonable thing?

All of us Chiefs looked at this, frankly, from the long-term benefit for our members. My son just transitioned from the active force to the reserve. I think about him. I think about all of those children out there who are in service whose folks were in there. I think about widows, children, and the rest on this benefit, and it is important for us to continue to structure this to be the best healthcare program around, and I think it will be.

Mr. RYUN. Gentlemen, time has expired. Mrs. Capps.

Mrs. CAPPs. Thank you, Mr. Chairman, and thank you all for being here with us today. Secretary and Admiral, thank you for your testimony.

Secretary England, the administration requests only \$50 billion for the wars we are engaged in for 2007. Given the current rate of spending, this amount is clearly insufficient to finance war operations for the entire year. Is this amount the administration's best estimate of how much will be needed next year?

Mr. ENGLAND. My understanding this is an agreement between the OMB and the Appropriations Committee. And I believe it was based on the Congress's initiative last year to put \$50 billion in. So I believe it was a follow on to the Congressional initiative, put the \$50 billion in at the beginning of next year. We will not know—

we do not know what the cost will be next year to run the war. I mean that is something we—

Mrs. CAPPS. I understand.

Mr. ENGLAND. We still don't know today.

Mrs. CAPPS. But we are involved here in this committee in a budget process. Because the administration has not provided any estimates of the cost of our efforts in Iraq and Afghanistan, CBO has provided its own estimate for projecting the war's bottom line over 10 years so that we can do our work.

CBO assumes the total force level in support of war operations will remain at current levels through 2006, and beyond that CBO assumes the forces will reduce to 50,000 troops deployed in support of both Iraq and Afghanistan by 2010 and remain at that level throughout the remainder of the 10-year budget window. CBO estimates this scenario will cost an additional \$391 billion over 2007 through 2016.

Now are these force level assumptions at all plausible?

Mr. ENGLAND. I don't know, Ms. Capps. Again, it depends on the circumstances on the ground. I mean the report you heard today was very encouraging from Admiral Giambastiani, but, of course, the situation changes. So, again, it is as the situation develops on the ground will determine the force levels and the efforts and the expenditures. So I just can't comment on it. I mean it is very speculative to say what is going to be out in 10 years from now.

Mrs. CAPPS. I know.

Mr. ENGLAND. I mean that is really a stretch.

Mrs. CAPPS. I understand, but on the other hand, we are making 10-year predictions all the time here, and we have also funded this war through supplementals which is highly unusual, given our past history in Congress.

But let me address, because I want to stick to my time, the other side of our perhaps force reductions—it depends on the Iraqi Army. And you spoke about improvements in the Iraqi Army and security forces. I assume you are saying that the overall situation in Iraq is improving?

Mr. ENGLAND. Yes. We are getting more and more security, both army and I will let Admiral Giambastiani—

Mrs. CAPPS. Why don't—I am sorry—I should have directed that to—

Mr. ENGLAND. Yeah. OK.

Mrs. CAPPS [continuing]. The Admiral who is closer to this on the ground.

Mr. ENGLAND. Yes, thank you.

Admiral GIAMBASTIANI. The way I would describe it is this. We are very interested in building Iraqi security forces.

Mrs. CAPPS. I understand.

Admiral GIAMBASTIANI. We, the United States, because as they become more capable and their numbers increase, which is why we keep focusing on these number of battalions that can take over battle space—

Mrs. CAPPS. Right.

Admiral GIAMBASTIANI [continuing]. It is very important. And also the police side of this, and then we can slowly draw down. I

think it is significant that we have reduced the number of brigade combat teams from 17 down to 15, which is substantial.

We have a force with a prepare to deploy order, for example. It is in Kuwait. It is not in Iraq. These are significant changes, because the Iraqis are building up their forces, so what I would tell you is it is not the Chairman, I, or Secretary Rumsfeld, but the commanders on the field, who are the ones who are making these calls, which is why I thought it was important to let you know what the commanders in the field are saying.

Mrs. CAPPS. Well, yes, thank you. But then when do we see—expect to see—our troop presence in Iraq substantially diminish?

Admiral GIAMBASTIANI. What I would tell you is, again, it is condition-based, and we feel that we are making good progress with the Iraqi security forces, and you will see adjustments as the commanders make the calls and recommend them periodically to the Secretary of Defense and then up to the President.

Mrs. CAPPS. Well, let me ask of your comment on this. I believe it was Secretary Rumsfeld who said in December 04, that we would be out in 4 years. Is that still the schedule? And if so, will we see troop numbers going down this year, and to what degree? This is a part of our budget process.

Admiral GIAMBASTIANI. I can't tell you. I don't know what Secretary Rumsfeld said and in what context he said it with regard to 4 years or whatever number of years. I just know that we in the Armed Forces don't want to stay in Iraq forever. The United States does not want to stay in Iraq forever.

And the bottom line is, is that we would like to come down as quickly as we can come down. And that is why we are so focused on training these security forces and why we are now training the police and why we are embedding folks in that.

The important thing that you ought to watch is when we keep reporting all of the battle space that the Iraqis have the lead in, and it is substantial now across the country.

Just a month ago, we turned over an area the size of Kentucky to the Iraqi security forces, just a month ago. And we are doing this constantly. We are turning over bases. We used to have somewhere upwards of around 80 or so bases inside Iraq just a short time ago, and actually it was up to a hundred or so.

And it is now coming down substantially and probably at the end of this year, it is going to be at about half of what we started out at the beginning of the year. So this is all turnover to the Iraqi security forces. And you will see commensurate reductions, not only in Iraq, but in Afghanistan as we do these turnovers.

Mrs. CAPPS. And finally then, we should be able to base our budgeting on what you are saying.

Admiral GIAMBASTIANI. But remember again, from day-to-day, you know, one day we have got folks telling us we are in a civil war. Our folks on the ground tell us, look, it is a tense situation. We just had—

Mrs. CAPPS. Do you think we are?

Admiral GIAMBASTIANI. No, I don't.

Mr. RYUN. The lady's time has expired. At this point, as the Chair, I am going to make a ruling that the hearing is adjourned

so that members may proceed to the House chamber to receive the Prime Minister of Italy.

I also ask unanimous consent that members who are not allowed the opportunity to ask questions of the witnesses, will be allowed 7 days to submit questions for the record. Without objection, so ordered.

[Prepared statement of Mr. England follows:]

STATEMENT OF HON. GORDON ENGLAND, DEPUTY SECRETARY OF DEFENSE

Mr. Chairman, members of the committee, good morning.

Thank you for the invitation to meet with you to discuss the Department of Defense's 2007 budget request. This is the first time I've met with this committee, so I'm particularly pleased to have this opportunity, and I look forward to a constructive exchange.

With me today are with two of my close colleagues, Comptroller Tina Jonas and the Vice Chairman of the Joint Chiefs of Staff, Admiral Ed Giambastiani. The three of us have been deeply involved in the process of setting the Department's priorities for this budget request. Hopefully, we can fully inform you about the defense budget and answer your questions.

As you know, this is a critical time for America. We're a nation at war. This war is a daily reality for our men and women in uniform, who are stationed around the world or serving here at home, defending freedom and liberty along with our friends and allies.

America is fighting against dispersed networks of terrorist extremists. They know they can't succeed with conventional methods, so they use asymmetric means to challenge us and our allies. Their goal is to break our resolve and shatter our way of life. This struggle is not likely to end any time soon. The Cold War lasted for 40 years.

One of al-Qaeda's ringleaders, Ayman al-Zawahiri, said in 2001, "The need is to inflict the maximum casualties against the opponent...for this is the language understood by the west, no matter how much time and effort such operations take." This enemy is adaptable and relentless, and will continue the attack wherever he finds the opportunity. Though we didn't choose this fight, we don't have the option of walking away.

Victory in this Long War requires that our military continue to adopt unconventional, irregular, and indirect approaches to eliminate the enemy's ability to strike.

But the Long War is only part of the Nation's security challenge.

Hostile states or non-state actors could acquire and use weapons of mass destruction, to devastating effect. Guarding against this threat, and preparing for the possible consequences of a WMD event, require new technologies and skills, as well as enhanced counter-proliferation efforts.

The Nation also faces the possibility that a major or emerging power could choose a hostile course. China is the country with the greatest potential to compete with us militarily, and they are also on the rise as a scientific, technological and economic competitor.

Meeting these potential challenges requires fostering cooperation with China and other emerging powers, while hedging against possible surprise by maintaining our military superiority. Traditional, state-based threats are still a concern. They have been kept at bay precisely because our Nation has been so well prepared.

Of course, all of these challenges have a bearing on the security of our homeland. Detecting, deterring, and defeating threats far from our shores is the best and, likely, the only way, to keep America safe. But the Department of Defense is also prepared to defend America closer to home, and the Department continues to provide support to other agencies of the US Government for homeland security missions.

In short, our Nation faces far more diverse challenges, and far greater uncertainty about the future global security environment, than ever before. The only sure way to protect the American people is to make sure that the President has at his disposal as wide a range of options as possible.

The Department's portion of the President's 2007 budget request reflects the Nation's priorities and the Department's best responses to the security context I've just described. It provides essential resources to defend the American people, our homeland, and our way of life. This budget request lets our commanders prepare to meet both traditional and asymmetric threats. It maintains conventional military superiority while enhancing irregular warfare capabilities. It positions the Department to work closely with partner nations and to help them develop needed capabilities to

address the global threats we face together. This budget reflects the Nation's firm commitment to provide the proper quality of life for our service members and their families. Soldiers, sailors, airmen, and Marines who serve so selflessly are the heart and soul of our warfighting capacity and capability, and we owe it to them to take care of them and their families.

This budget request is the product of a year's hard work by our senior civilian and military leaders. It reflects the basic tenets of the long-term strategic vision in the 2006 Quadrennial Defense Review, which was submitted to Congress a few weeks ago. The full effects of the QDR will appear in future budget cycles, but this budget request does include some "leading edge" investments, that support the QDR's vision for the future.

I urge this committee to fully support the President's national defense request, including the \$50 billion allowance for FY 2007 war costs. The Department of Defense is asking you for \$439.3 billion this year. This is nearly a 7 percent increase over the budget that was enacted for 2006. Now, this may seem like a lot of money—and it is. But America is spending a much smaller percentage of GDP on defense now than it did in the past. This year's request is projected to be about 3.7 percent of GDP, but it was up to around 4.6 percent in 1991 during the Gulf War; 8.9 percent in 1968 during Vietnam; and 11.7 percent in 1953 at the height of our involvement in Korea. You have my personal commitment that with the budget you entrust us with, the Department will be diligent in ensuring that the funds are wisely spent.

The initiatives that are reflected in the '07 budget are part of a longer-term continuum of change and adaptation. The President charged the Department of Defense, in the wake of 9/11, to make the changes necessary to adapt to a more dynamic and less certain world. During the beginning of the long war these past 5 years, our military has been continually learning and adapting, and this budget request is an important milestone in that process of ongoing transformation.

You may wonder how the Department of Defense plans to meet a much broader array of challenges without doubling or even tripling the size of our force. The answer is that we have worked very hard to improve the flexibility of the force, by reorienting existing capabilities, eliminating unnecessary redundancy and improving our expeditionary capabilities to allow us to revise our global force posture. An important initiative has been helping partners and allies improve their own capacities and capabilities so they can better share the burden. The Department has also spent a substantial amount of time making organizations, structures and processes more efficient to better realize our strategic vision and to support our warfighters. Finally, a critical initiative for which we need explicit Budget Committee support is our proposed change to TRICARE fees—essential to sustaining our outstanding military health care program.

At his Inauguration in 1961, President Kennedy told the Nation, "In the long history of the world, only a few generations have been granted the role of defending freedom in its hour of maximum danger." In his own short life, he helped to lead one such generation. Our generation has been handed that mantle of responsibility.

We owe it to our men and women in uniform, to provide them with the resources and support they need, to get the job done. And we owe it to our Nation, to correctly assess the security challenges we face and to prepare appropriately to meet them. The proposed budget responds to these needs.

Meeting these goals will also require a strong, bipartisan consensus on national security, of the kind that defeated the communist threat. It will require unity of effort, and the sustained will of the American Congress and the American people. With that united will, and the hard work and sacrifices of our men and women in uniform, the Department of Defense will be able to provide the security so inseparable from the freedom we all enjoy.

Thank you for your commitment to this most profound endeavor.

[Question submitted by Mr. Crenshaw follows:]

QUESTION FOR THE RECORD FROM CONGRESSMAN CRENSHAW TO DEPUTY SECRETARY
ENGLISH

As a member very interested in the defense community, I have been following our need to have an electronic attack aircraft in the future. Recently, funding for the Air Forces future standoff jammer was eliminated in the budget request, and yet another Electronic Attack Study was directed.

The EA-6B remains the only electronic attack aircraft in the inventory, and it is being used by the Navy, the Air Force, and the Marine Corps in theater at this time. We could not operate in Iraq and Afghanistan today without our inventory of EA-6B's. The newest jamming suite (ICAP-III) for the EA-6B would ensure we have

the electronic attack capability in the future, but the Navy has not requested enough ICAP III kits in the budget to meet current requirements.

Would you support increasing the inventory of ICAP-III capable EA-6B's with the \$108 million that had been appropriated in FY06 for the B-52 standoff jammer while the future of Electronic Attack in the Services continues to be debated?

Answer: The Navy is planning to award a full-rate production contract in FY 2006 and has approximately \$52M available for 4 Improved Capability (ICAP) III kits. The cancellation of the B-52 SOJ program has made additional FY 2006 funding available for other purposes, and the Department will consider providing additional ICAP III kits for the EA-6B. However, there is no commitment at this time to do so, as other DoD priorities may require attention. The Department will keep Congress informed regarding the outcome of deliberations in this matter.

[Whereupon, at 10:56 a.m., the committee was adjourned.]

