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ASSURING VIABILITY OF THE SUSTAINMENT INDUSTRIAL BASE

HEARING

BEFORE THE

SUBCOMMITTEE ON READINESS

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

HEARING HELD
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ASSURING VIABILITY OF THE SUSTAINMENT INDUSTRIAL BASE

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON READINESS,
Washington, DC, Thursday, February 28, 2013.

The subcommittee met, pursuant to call, at 8:00 a.m., in room 2212, Rayburn House Office Building, Hon. Robert J. Wittman (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. ROBERT J. WITTMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, SUBCOMMITTEE ON READINESS

Mr. WITTMAN. I would like to call to order the House Armed Services Subcommittee on Readiness. I want to welcome you to this morning's hearing. And I would like to thank our panel experts for being here today to address the viability of the defense sustainment industrial base and the implications for mission readiness as we try to resolve the current budget crisis.

As we debate the way forward and try to resolve the continuing resolution and sequestration dilemmas, it is important not to lose sight on what is really at stake here, this country's ability to project power and to properly train and equip our warfighters, our men and women in uniform who, at this very moment, are fighting for us on the battlefields in Afghanistan and will continue to do so for the foreseeable future.

As the debates have raged on I have been struck by how starkly our military leaders have described the dilemma. As General Dempsey and the other service chiefs recently informed this committee, "the readiness of our armed forces is at a tipping point. We are on the brink of creating a hollow force." About the same time, we learned of the delayed deployment of the USS *Truman* carrier strike group to the central command AOR [Area of Responsibility], a region where our missions continue to grow rather than go away. Never in my lifetime did I imagine we would again be forced to confront the very real possibility of a hollow military force and the devastation it entails for our Nation and our men and women in uniform.

Make no mistake, our readiness crisis is real and it is important to understand exactly what is at risk. During this hearing, I would like you to share your perspective on this and help us answer some basic questions.

In terms of risk, what does it mean to our national security, particularly our sustainment industrial base to have ships moored to the pier, or sitting in dry dock, or waiting for depot maintenance.

What, in your views, are the implication of having airplanes grounded on ramps?

And finally, what is the impact on our warfighters when we delay or defer reset and retrograde of our equipment?

Joining us today are Mr. John Johns, the Deputy Assistant Secretary of Defense for Maintenance and Policy Programs; Mr. Pete Steffes, Vice President for Government Policy at the National Defense Industrial Association; Mr. Cord Sterling, Vice President for Legislative Affairs at the Aerospace Industries Association; and Dr. Nicholas Avdellas, Senior Consultant For Material Readiness and Sustainment at the Logistics Management Institute.

Gentlemen, thank you all very much for being here, and I appreciate your thoughtful statements, and particularly appreciated your views regarding the need for a detailed strategic planning for the future. Just as I have been an advocate for a 30-year shipbuilding plan and the benefits associated with determining strategy first and budgetary requirements second, I believe we need to similarly focus on strategic planning when it comes to the viability of the industrial base.

With that, I would like to wish a warm welcome to my new partner on the Readiness Subcommittee, Madeleine Bordallo, who I have worked with in the past and who I have the highest regard for. I am truly honored to have such a distinguished ranking member working with me as we address these weighty issues, Mrs. Bordallo.

[The prepared statement of Mr. Wittman can be found in the Appendix on page 39.]

STATEMENT OF HON. MADELEINE Z. BORDALLO, A DELEGATE FROM GUAM, RANKING MEMBER, SUBCOMMITTEE ON READINESS

Ms. BORDALLO. Why, thank you, Mr. Chairman, my sentiments are the same. I want to welcome our witnesses to the hearing today, we are discussing some important topics that touch on the second- and third-order effects of sequestration and its impact on readiness. I find this a helpful discussion to truly understand the impact of sequestration. I am, however, disappointed that we are not having a more robust discussion in Congress about how to solve sequestration. We all agree and understand that sequestration is catastrophic for the prospects of a full economic recovery in our country. Cuts to defense and other discretionary programs will have significant negative impacts on the long-term economic growth of the country.

I remain steadfast that the leadership of both parties must put everything on the table to find ways to avoid sequestration. And I hope that our discussion today and our hearing about viability of the sustainment industrial bases will encourage our Members of both parties to get leadership back to the table and address our debt and deficit issue in a more responsible manner.

Our Nation faces significant economic challenges over the coming years. This will undoubtedly have a significant and potentially negative impact on the sustainment and the industrial bases. History shows us that if we do not align strategy with the need for sustainment, we create a situation where we are negatively affect-

ing the readiness of our military forces. The sustainment industrial base provides the backbone for the military to respond to a variety of contingencies. As we face these difficult budget times, I hope today that our witnesses will touch on what efforts are under way to marry our military strategy with our sustainment requirements.

What steps are under way to look at the fundamental underpinnings of how we reset our equipment so that it is done in a most cost-effective and efficient manner and ready and available for training, and for battle? Moreover, how do we posture our sustainment industrial base in such a fashion to adapt to future challenges? We have learned many lessons from how we sustained equipment during the Iraq and Afghanistan wars, so how do we take these lessons learned and apply to our future anticipated sustainment needs?

In the near term, our most pressing issue is how we maintain the sustainment industrial base in the face of sequestration. Members of the committee need to better understand how we can find a balance between strategy and sustainment in that extremely fiscally constrained environment that does not allow for proper planning and supply lead times. So I hope that the witnesses can touch on the impact that sequestration would have on the timeline for reset of equipment that is retrograding from Afghanistan. I hope that all our witnesses can highlight the increase in cost that will occur when strategy and sustainment are not coordinated.

What is the additional cost that is borne by the Government in the long term with such a significant cut in the short term? Some accounts could face 40 to 50 percent cuts before the end of this fiscal year. So along these lines, I also hope that all our witnesses can discuss the reversibility of these cuts to the sustainment industrial base. At what point are these cuts irreversible? How long can sequestration endure before we gut core capabilities? For example, I am particularly concerned that thousands of shipyard employees will be laid off if sequestration is allowed to continue for some time into the future. These layoffs could decimate a critical capability both for the Government, as well as with private shipyards and ship repair facilities. So again, I want to thank you, Mr. Chairman, for this opportunity and I look forward to the testimony of our witnesses.

Mr. WITTMAN. Thank you, Mrs. Bordallo.

We now go to the testimony from our witnesses, and begin with Mr. Johns.

STATEMENT OF JOHN JOHNS, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MAINTENANCE POLICY AND PROGRAMS, U.S. DEPARTMENT OF DEFENSE

Mr. JOHNS. Chairman Wittman, Ranking Member Bordallo, distinguished members of the subcommittee, thank you for the opportunity to appear before you to discuss the viability of the sustainment industrial base. I also thank you for your continued support and interest in a topic so critical to our ability to support readiness. Over the past several months, you have heard from the Department senior leadership on the potential devastating impacts of our developing fiscal situation and the bottom line effects on the strength of our Nation's military and the ability to support national

security strategy. It is in this context that I offer my comments. I am proud to be speaking to you today as the senior maintainer within the Department of Defense.

My prepared statement submitted for the record contains more detail than I can provide here in my opening remarks, so I will attempt to cover the major points and then welcome your questions later. To fully appreciate the future viability of the sustainment industrial base, I believe it is important to understand the basic fiscal and operational dynamics that govern our industrial base activities. First, it is important to understand that the Department's total requirement for sustainment industrial base funding, and in turn, its ability to generate readiness is directly dependent on appropriate resourcing of both our base program and OCO [Overseas Contingency Operations] requirements.

With respect to contingency funding, each military department is dependent on OCO funding levels to resource critical requirements associated with both operations in theater, as well as maintenance, repair and overhaul of military equipment returning from Iraq and Afghanistan. This latter activity, or reset of equipment, has for a decade been responsible for correcting damage induced by harsh environments and high OPTEMPOs [Operational Tempo], extending the useful life of valuable equipment, drastically reducing the need for acquisition and replacement equipment, and enabling force generation strategies of each military service.

With respect to operating under continuing resolution, there is not much more that I can add to what the Department senior leadership has already explained. So let me just emphasize that operating under restrictions of a continuing resolution with account-level funding that does not match our fiscal year 2013 requirements, has created an increased burden on the operation and maintenance accounts, effectively creating a funding shortfall in the accounts that resource our industrial based operation.

With respect to sequestration if implemented, the funding implications are far greater in operations and maintenance accounts than may appear at the surface. The President has exercised his authority to exempt military personnel accounts from sequestration in fiscal year 2013 so other accounts must accommodate the full reduction to the Department. Moreover, because of the need to protect programs directly supporting wartime operations, the reduction to most base-budget O&M [Operations and Maintenance] accounts will be significantly greater than the single-digit percentages currently being discussed. The impact of these reductions will then be effectively doubled by having to accommodate the full fiscal year 2013 reductions in the last 7 months of the fiscal year.

While each of these factors has significant negative impact in isolation, the combined effects must be considered to fully appreciate the impact on the national industrial base. And in turn, the impact on both near- and far-term readiness. The combined potential shortfalls and cuts are so large, we anticipate reductions, delays, and cancellation in work orders within our public depots and shipyards and on contract with the private sector. These actions will begin as early as March and continue throughout the fiscal year.

The military services will manage existing funded workload, resource the highest priority maintenance, and take all possible ac-

tions to mitigate harmful effects on readiness and on our sustainment industrial base capability and workforce. In addition, reversibility will play a key factor in prioritization of actions. However, given the magnitude of the combined concentrated reductions, even the most effective mitigation strategies will not be sufficient to protect the sustainment industrial base. As a result, third- and fourth-quarter inductions will be cancelled in many areas, gross financial and production inefficiencies will be generated, thousands of Government temporary and term employees and contractor personnel will be impacted immediately, hundreds of small businesses and businesses with strong military market dependency will be placed at risk and readiness of numerous major weapon systems and equipment and in turn each Service's ability to satisfy future mission requirements will be seriously degraded.

The damage may be so severe in some areas full recovery within our national industrial base both public and private sectors from just fiscal year 2013 reductions could take up to a decade.

Finally, from what I just highlighted, it may appear obvious that if sequestration is not reversed and outyear reductions occur, each Service's industrial base strategy is at risk. Adjustments in funded workload will exceed our ability to responsibly adjust workforce and evolve our industrial capability. As a result, critical skills will be lost, reduced investment levels will impact competitiveness and relevance, major inefficiencies will emerge, and key public-private partnerships will be unsupportable. The bottom line is, each Service's ability to support surge and sustained operations will be seriously damaged.

Thank you, Mr. Chairman, Ranking Member Bordallo, and distinguished members of the subcommittee for the opportunity to address these critical issues.

[The prepared statement of Mr. Johns can be found in the Appendix on page 41.]

Mr. WITTMAN. Mr. Steffes.

STATEMENT OF PETE STEFFES, VICE PRESIDENT, GOVERNMENT POLICY, NATIONAL DEFENSE INDUSTRIAL ASSOCIATION

Mr. STEFFES. Thank you, Mr. Chairman, Ranking Member Bordallo, and members of the subcommittee. On behalf of the 1,715 corporate members, and nearly 95,000 individual members of the National Defense Industrial Association, I am pleased to appear before the Subcommittee on Readiness concerning issues that are of great importance to the viability and sustainment of the industrial base, and therefore, national security.

I am also very pleased to be sitting on this side of the table after 20 years sitting on the other side of table as a staffer on the committee.

In trying to understand the immediate impacts of a continuing resolution and the impending Governmentwide sequestration, it is important to realize that many of the potential impacts of these actions are already occurring, especially for small business. Some examples of companies and communities these real life impacts include cuts to prime contractors such as the MRAP [Mine-Resistant Ambush Protected vehicle], which totals over 6 billion in con-

tracting will impact over 1.5 billion subcontracts performed by small businesses.

A company in Oregon that manufactures periscopes, vision blocks, ballistic windows, transparent armor, and specialty components for the past 35 years is shuttering their doors due to the uncertainty of potential budget cuts and a concern over the trends in defense procurement practices. The manufacturer of one-of-a-kind, high-tech, hot-press furnaces used to manufacture ceramic body-armor plates and the manufacture of carbon tooling, specialty foils, and other specialized products are close to going out of business. It would take 18 to 24 months to reconstitute these capabilities and at a larger cost to taxpayers. Some of these examples may not be directly attributable to sequestration or the impact of year-after-year continuing resolutions, but are the realities of a reduction in the defense budget and the uncertainties of a normal appropriations process.

Sequestration certainly will speed up the process of plant closures for many, but the real danger here is the forced closure of critical technology suppliers at a time when we must maintain a current level of readiness and be prepared to face inevitable challenges to national security in the future. Reconstituting these capabilities, not if, but when needed again, will take a lot of time and a lot of money and will have a significant impact on readiness. Managing these realities will be a challenge for all. Some of the big defense producers may be able to adjust to forced and unplanned changes that a sequestration and continuing resolutions will inevitably cause. However, the big businesses also heavily depend on second-, third-, and sometimes fourth-tier suppliers who will be most vulnerable to going out of business. Small business do not have the resources to weather the storm.

As concerned as we are about the ability for the defense industrial base to provide acceptable levels of support to sustain national security, it is also just as important to maintain an organic source of repair and maintenance in the Department of Defense. Since the 1940s the Nation's manufacturing depots, arsenals, and shipyards have been the cornerstone of our ability to not only fight but to overwhelmingly win any and all conflicts.

After significant downsizing during the last several BRAC [Base Closure and Realignment] rounds in a current future fiscal reality, the Nation's organic capabilities are feeling the same pressures as the private sector. One of the major contributors to these pressures is the declining workloads due to the scaling back of our war efforts, and that most of the work currently accomplished in our depots is on legacy systems. Fewer and fewer new weapons systems are being fielded and those that are do not require the heavy long-term maintenance that our depots system was originally designed.

The military depots are also heavily dependent upon the private sector for repair parts and equipment. Overshadowing these fact-of-life realities is the impact of a sequestration, continuing resolution, and an inevitable budget reduction. Sequestration will necessitate a cancellation of program work orders in the third and fourth quarter, as Mr. Johns has mentioned, in this fiscal year, an action that will not only impact our readiness and material and equipment, but it will also leave us with a workforce with not much to

do, an expensive proposition as the losses this year will be carried into next year's rates. Operating under a continuing resolution significantly restricts the Department's ability to transfer funding between accounts, a major hindrance in the proper management of the taxpayer funds.

The debate on the most efficient manner providing for maintenance and repair needs of the Department has been going on for decades. Over the past 30 years Congress taken special interest in public maintenance facilities by enacting legislation meant to ensure their continued viability, especially in times of national emergency. Some will say that parts of existing legislation inhibit DOD's [Department of Defense's] ability to economically and efficiently manage these needs.

Over the past 2 years, there have been good-faith efforts by Congress, the Department, and industry to find the solutions agreeable to all. Unfortunately to date, these efforts have not been successful. It clear that with a probable sequestration, continuing resolutions, and budget reductions irrespective of the sequestration, something must be done so that our world-class repair and overall capabilities, public and private, are not lost.

As budget constraints and force structure reductions make the management of effective public and private depot-level maintenance capabilities more challenging, the framework in chapter 146 of Title 10, the process of determining core logistics and minimum organic workload requirements should be reviewed by representatives of all stakeholders in a structured and open process that would serve well to inform future decisions by Congress and the Department of Defense on the efficient and affordable management support.

One way to achieve this much-needed review is for Congress to direct DOD to establish an all stakeholders panel to thoroughly review the applicable sections of chapter 146 Title 10 with the aim of updating current legislation to ensure viability and affordability of logistics support and depot-level maintenance and repair activities of the Department in the future.

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

A proven solution is partnering. Partnering has been discussed for many years and would appear to be an efficient way of utilizing public facilities capabilities along with industry. Legislation has been written by this committee over the years to incentivize and promote partnering. There have been very successful partnering ar-

rangements, including the tank upgrade program at Anniston Army Depot of engineering support and logistic services between GE [General Electric] and Corpus Christi Army Aviation Depot, and the operative communications capabilities at Tobyhanna Army Depot, just to name a few.

However, much more can and should be done. Further integration of the organic and private industrial bases will provide the additional flexibility demanded by an unstable and uncertain budget future.

Mr. Chairman, at a time when the Department of Defense and the defense industrial base must adapt inevitable budget restrictions, regardless how they come about, there must be a change in how we do business. Congress, the Department of Defense and industry must come together and find ways to provide a manageable and affordable sustainment industrial base. As America's leading defense industry, NDIA [National Defense Industrial Association] is committed to working with all stakeholders to ensure that we continue to provide cutting-edge technology and superior weapons and equipment, training, and support for our warfighters. Thank you, Mr. Chairman, Ranking Member Bordallo, and I will take any of your questions.

[The prepared statement of Mr. Steffes can be found in the Appendix on page 52.]

Mr. WITTMAN. Thank you, Mr. Steffes. Mr. Sterling.

STATEMENT OF CORD STERLING, VICE PRESIDENT, LEGISLATIVE AFFAIRS, AEROSPACE INDUSTRIES ASSOCIATION

Mr. STERLING. Chairman Wittman, Ranking Member Bordallo, other distinguished subcommittee members, thank you for the opportunity to appear today and discuss the negative consequences of the continuing resolution and sequestration on the U.S. aerospace and defense industrial base. AIA [Aerospace Industries Association] represents 380 U.S. manufacturing firms in the aerospace and defense industries, a sector of our economy with over 1 million dedicated and talented employees. Many of you have seen the studies we have made available which look at economic and industrial impact of the current budget situation. Most widely used is one conducted by George Mason economist Dr. Stephen Fuller that concludes sequestration will put at risk 2.1 million jobs nationwide. This figure includes 473,000 manufacturing workers. Many of these will be in the aerospace industry, including small suppliers. While the timing of these impacts will be spread over a couple of years and may be slightly diminished as a result of the small reduction in cuts made as part of the American Taxpayers Relief Act of 2012, they will still be large and devastating to families and communities across the country.

Defense manufacturers have been laying off workers and canceling future investments for many months because of this uncertainty. The process accelerated so significantly at the end of last year that our national economy actually shrunk in the fourth quarter of 2012. This was a shock to economists who attribute it largely to the decline in defense spending, and the process continues.

Last year we formed the Defense Industrial Base Task Force in partnership with the National Defense Industrial Association and

the Professional Services Council. As these private-sector executives looked at the initial impact of just the $487 billion in budget cuts already programmed, they determined these cuts could cripple certain defense sectors, resulting in an industrial base that is smaller, less innovative, and less responsive to urgent wartime needs. These impacts would most likely force industry to close production lines and lay off skilled full-time workers, letting go specialized manufacturing capacity and human capital that cannot be regenerated without great cost and significant time; reduce or eliminate investments and capabilities beyond those needed to meet existing contracts, and consolidate further, exit the defense sector altogether, or be divested by parent corporations.

Consequently, defense executives predicted an erosion of the continuum of goods and services provided by industry from R&D [research and development] and design, to advanced development, to production and then sustainment and upgrade that could result in critical gaps in military capability over time. And all of this is just based on the first $487 billion in defense cuts, not the additional $500 billion from sequestration.

Sequestration will cause us to lose the design teams, system integrators, skilled technicians and others that are critical for us to maintain our technological lead. The Department of Defense also has serious impacts operating under a long-term continuing resolution. We know that there is a $14 billion shortfall in the operations and maintenance accounts under the CR [Continuing Resolution]. This means that critical training and sustainment activities will not be performed unless a shortfall is corrected. For example, the Navy, which has a $4.5 billion O&M shortfall has reported that 23 ship availabilities will not by performed if increased funding is not provided.

Aircraft maintenance will be cancelled in the third and fourth quarters. And modernization programs will be deferred as we are forced to rely upon aging, antiquated systems that are less capable and more expensive to maintain.

Sustaining current readiness will be impossible with the Joint Chiefs reporting that we are on the brink of creating a hollow force with sequestration and the CR triggering a 20-percent cut in the operating budgets. With less funding available for maintaining the equipment, buying fuel and purchasing spare parts training on our equipment will not be possible at the levels deemed necessary by operational commanders.

The CR is also preventing a number of programs from moving forward as rules of the CR do not allow new starts. As a result, personnel and equipment stand idle waiting for the authority to begin work. This increases cost and creates program delays that will be felt for years. Impacts will not all be immediate, they will build over time as agencies grapple with implementing the order. Our analysis all concluded that most private sector job losses would occur within 6 to 18 months of the sequester order as contracts expire.

The sheer magnitude of these nationwide effects will not be evident in the first month. What we do know is that the cuts will be deep and unless quickly reversed, will result in the loss of critical industrial skills and capabilities. Some have suggested that addi-

tional flexibility will solve most of these problems. However, flexibility without additional resources may end up savaging the very accounts that warfighters depend on for advance equipment and long-term readiness. The investment accounts will lose billions of dollars which translate to significant equipment reductions. This magnitude of cuts in the investment accounts could result in fewer, older, and less capable tools for our young warfighters in harm's way. It would terminate promising R&D that would help us keep our technological advantage and future conflicts, and it would cause irreversible damage to a fragile defense industrial base. Mr. Chairman, thank you again for the opportunity to testify today on this important topic.

[The prepared statement of Mr. Sterling can be found in the Appendix on page 65.]

Mr. WITTMAN. Thank you, Mr. Sterling. Dr. Avdellas.

STATEMENT OF DR. NICHOLAS J. AVDELLAS, SENIOR CONSULTANT FOR MATERIEL READINESS AND SUSTAINMENT, LOGISTICS MANAGEMENT INSTITUTE

Dr. AVDELLAS. Chairman Wittman, Ranking Member Bordallo, and members of the committee. Thanks very much for the opportunity to provide a short opening statement on assuring the viability of the Department of Defense's sustainment industrial base in the context of a yearlong CR and sequester.

In the time allotted, I will offer a brief perspective on what assuring the viability of the sustainment industrial base entails given clear fiscal pressures, and then highlight a few key consideration for a feasible way ahead. There is no doubt that DOD is faced with both substantial and sudden resource decreases as well as longer-term fiscal challenges. The looming and flexible and across-the-board nature of the most impending of these difficulties will undoubtedly cause specific disruption in DOD's sustainment industrial base.

I would suggest that in that the near term, the challenges are primarily to what this base delivers, and in the longer term, to its shape and capabilities. Central issues then relate to the impact and strategies necessary to address reductions while reshaping what remains in that base to assure readiness capabilities for the future. In that regard DOD should work to define the right amount of sustainability to produce viable and responsive readiness. I believe the situation must prompt Congress and the DOD to critically deliberate the nature of the relationship of logistics or sustainment to our military strategy.

Discussions about tooth or tail, readiness or sustainment, maintenance or operations, equipment or personnel must be approached from a wide-ranging, inclusive perspective.

Viability of the industrial base should be considered in the context of force structure and operational needs, and what workloads and capabilities requirements those needs drive. In general, multiyear sequestration affects will logically reduce force structure and operational capabilities, and the industrial base will react to those reductions in what should be a balanced way. By "balanced," I mean shaping an industrial base so it is efficiently structured and funded to deliver what the forces need or require or ask for in

terms of readiness and capability. Overall, it is important to recognize that workload shifts or reductions will have a significant effect on the sustainment capabilities that support the force structure, and perhaps should have significant effects on shaping that force structure.

If CR's budget reduction and sequestration are focused disproportionately on one aspect of these equations—force structure, operations, a particular element of sustainment, or some part of the industrial base—imbalance will result. If we focus on the industrial base or sustainment without relation to force structure and our operations, then readiness and capability cannot be delivered over time and deferred maintenance will result. This sort of imbalance was a contributing cause of the hollow force of the late 1970s.

On the whole, the resource realities implicit in the CR and the sequestration signal a smaller workload over time that must be effectively positioned within our sustainment industrial base. These realities may require innovative approaches in addition to sound strategic thinking. In that regard, I offer several suggestions for considerations by the Department and the Congress.

First, emphasize the need for detailed planning, the kind of planing that reflects adjustments to the realities of force structure, operational requirements, and readiness needs. Here, a clear need is characterized current conditions and to identify requirements for new capabilities and modernization that extend through the decade, not just the Future Years Defense Program, or the FYDP. This should apply to both organic and contract providers and might include consideration for an integrated management arrangement.

Second, stress the integration of public and private sector sustainment efforts beyond primarily depot maintenance to achieve plan performance base support. Formulate and implement partnering approaches that could have some additional dimensions, including arrangements that leverage modernization that could be well provided by the private sector.

Third, further evolve the core capability determine process towards a strategic risk management framework. Utilize the Army's plan as a baseline to drive constructive public and private sector behavior and workload management and provide strategic oversight through OSD [Office of the Secretary of Defense] and the military service relationships.

Finally, rationalize centers of industrial and technical excellence or sites within a consistent framework across the Department to optimize the public sector industrial base and better integrate key private sector capabilities.

This concludes my opening statement. I would be pleased to respond to any questions you have.

[The prepared statement of Dr. Avdellas can be found in the Appendix on page 75.]

Mr. WITTMAN. Very good. Thank you, Dr. Avdellas, appreciate your testimony as well as that of the other panel members.

I want to begin with questioning. I want to remind the members we want to make sure we get to as many questions as we can, so I will be very brief with mine. We heard some common themes among our witnesses today, and essentially, they all boil down to this, and that is an erosion and degradation of capability, and that

is not just a short-term issue, but a long-term issue, and many of you spoke very eloquently about the long-term nature of that with sustainability, what happens with personnel, what happens with equipment, what happens with our industrial base, I think all those things are extraordinarily important.

What I would like to get is just a brief comment from each of you about in the face of a resource-challenged environment. Let's face it, we know we have got the $100 billion reduction from Secretary Gates, the 2011 $487 billion on top of whatever ultimately makes its way out of the budgeting decision processes in front of us. Where does the scenario leave us to do the best that we can under that particular scenario in making sure that we not only meet the short-term needs, but make sure the long-term needs are met. Also, in a pretty challenging environment where we have drawdowns, we have yet-to-be-determined activities there in Afghanistan, challenges obviously will blossom in years to come, too. Just give me your perspective on how do we best meet that? Mr. Johns, we will start with you.

Mr. JOHNS. Thank you, Mr. Chairman. I guess this is sort of the essence of the basic problem. I would first say that it is very, very difficult to comment definitively. Given the uncertainty associated with what might happen in a week, and what might happen for fiscal year 2015 and beyond levels of funding. Actions that we may take in fiscal year 2013 should, in fact, be shaped by what we anticipate happening in 2014 and 2015. We want to be completely consistent with that to the degree possible. Very clearly, the situation that we are in right now, and the impacts associated with the potential reductions and shortfalls will cause us to stay within the top line and create some pretty significant impacts in our workforce, in our capability, in our ability to produce readiness.

To mitigate those issues we need to factor in a variety of different considerations. What is reversible, first of all? Are there actions that we can take that can be reversed if the fiscal situation changes over the next 6 months to a year? Very, very important. The other one is are we taking actions that are consistent with the long-term desired capability of the United States military? That relates back to protection of critical capabilities and the analysis associated with that and linking those critical capabilities to warfighting requirements, absolutely essential. That dominates back into the workforce. The workforce is the most critical element and probably the most perishable and longest to recover if damaged in that equation. So we need to be very careful about what we do with our workforce. And in fact in the near term, we may take fiscal risk to protect that workforce so that we can protect long-term capability and reduce long-term risk by protection of the workforce.

Mr. WITTMAN. Very good, thank you. Mr. Steffes.

Mr. STEFFES. Mr. Chairman, I totally agree with what Mr. Johns is saying, and part of the problem is what we do in the short term is going to have a very significant impact on how we should plan in the future years. No one knows really what the impact is going to be pretty much until it happens. The workforce is a perfect example, once you lose that talent, they are not going to sit there waiting for a call to come back. It is a very slippery slope, once you start making adjustments in the near term, there is a whole series

of things that may fall out in the long time that is really going to be bad. A perfect example from my Air Force time, I have seen airplanes parked for a time on a ramp and they will break all on their own; you don't have to touch them, they will break.

So if you don't do the things you need to do on a regular basis, it will cost you a lot more in the future. That falls into the reversible area because some of the stuff may not be reversible, you may get to the point where it is too expensive and you can't get there.

Mr. WITTMAN. Mr. Sterling.

Mr. STERLING. We know things will be broken, the cuts are just too steep, the magnitude is too large for there not to be a problem of some nature. What will be broken, it is too early to tell because that will be dependent upon decisions made over at the Pentagon. I think it is important to remember, and we talked about workforce. When we talked about the industrial base, we really are talking about the people. Plant and equipment is relatively easy to rebuild in a relatively short time, but you are not going to want to fly on a plane or sail on a ship that was designed by somebody who just graduated from engineering school or built by someone who just got out of trade school, a skilled technician, you want experience—experience matters.

We are going to lose a lot of that experience a lot of those people, whether it is through furloughs as people start to look for jobs elsewhere, temporary layoffs as some might portend this to be, the simple fact is people will look for stability, especially high-skilled people that are in our industry and our sector, and as a result, we will lose them to being able to provide what the warfighter needs.

Mr. WITTMAN. Thank you, Mr. Sterling. Dr. Avdellas.

Dr. AVDELLAS. Yes, I would harken back to Mr. Johns' comments about some of the uncertainty and kind of the immediacy of a lot of cuts that have been sort of hoisted upon the Department. I think the turning radius for the industrial base can and will be shaped and it will be moving forward. And I think the Department had been planning for resource reductions of certain levels, and as you mention, they were already going about a lot of sort of major efficiency initiatives. I think there are tools within the Department including, the core capability determination process where there is a work breakdown structure where, from an industrial base perspective, from a skill and a workload perspective, there is a starting point to really be able to understand the commodities within the industrial base that we really either are at risk or we really need to be paying attention to.

For example, as we are aware, and we talk about readiness of aircraft because of the engineering standards and things for them to fly, a lot of readiness issues we will—I would say in that commodity area, we would see probably quicker than some of the ground vehicles in other places.

So there is both a critical and core determination process and there are management tools within the Department that I think will just have to be used and applied.

Mr. WITTMAN. Very good. Thank you, Dr. Avdellas. Ms. Bordallo.

Ms. BORDALLO. Thank you, Mr. Chairman. My first question is for Secretary Johns. Can you comment on how the reductions in the operations and maintenance accounts will impact our rebalance

of forces to the Pacific. Naturally I am interested, since I represent the U.S. territory of Guam. And what impact will these reductions have in our ability to have equipment that is available for training with our partners in the region?

Mr. JOHNS. Responsible relationship of maintenance to what happens to the asset once we produce them really is up to the Department.

Ms. BORDALLO. Do you have your mic on?

Mr. JOHNS. I am sorry, ma'am. Staying within my lane, I am responsible for maintenance. I will attempt to comment on the production of assets that will then be used and employed by the Service and then allocated throughout the world. But to comment on the actual capabilities of the Navy throughout the world would be a little bit of a stretch for me. I will go up to where I think I am safe in doing that. What I can tell you is the impacts in the Navy, most of which you are aware of, has significant impact in the private yards, 70 percent of the ships maintenance in the private yards in the third and fourth quarter will be cancelled, that is 25 ship availabilities and potentially two carrier refuelings and complex overhauls.

On the aviation side, 320 airframes, approximately 10 percent of the fleet and over 1,200 engines and modules. This will result in bare firewalls and readiness problems in four air wings. There will be impacts on the industrial base in all three fleet readiness centers there as well as across the entire shipyard complex.

Very clearly, this level of impact is going to have an associated effect on the assets available for the Navy to deploy worldwide, there is no doubt about that. Whether the priorities as they are now favoring CENTCOM [U.S. Central Command] and the western Pacific are upheld and the resources allocated in a way to adequately support those areas of operation at the sacrifice of other areas in support of Africa and other theaters really is a decision that needs to be made by the senior military personnel responsibility for planning.

Ms. BORDALLO. Thank you, Mr. Johns. Mr. Avdellas, what other approaches or techniques that DOD should consider to protect reversibility of maintenance capabilities given budget pressures and uncertainty? Could you give us specifics?

Dr. AVDELLAS. Certainly. A couple of things that could be considered, particularly going back to the kinds of commodities that might be affected first, whether we are looking at airplanes or combat vehicles or ships and things is, some techniques that similar to a core capability process where either in the public sector or the private sector, we would keep parts of the industrial base warm, if you will. In other words, we may keep a very small amount of workload, or keep certain technicians, or certain skills that we know are critical moving forward should there be a certain surge requirement in these areas.

I know that has been tried in the past and I know some people call it "mothballing," certain things in terms of the equipment, but the whole idea is, and all of this is kind of hedging against risk and making sure that the whole system from the surge perspective is ready to respond if needed. So there are techniques, the one I mentioned is one of them, and others from a workforce perspective that

could be done. I think the key idea is kind of balancing uncertainty with some known factors about what is happening in the future and what we might anticipate coming and trying to keep at least a minimum sort of capability, whether it is from a workforce perspective, technical skills, certain elements or things that are part of the construction and I think that should be something that should be focused on.

Ms. BORDALLO. Thank you. One last question for Secretary Johns. What is the impact of the planned drawdown of military force levels on the required capability and capacity of the sustainment industrial base? And what is the general impact of these actions on the workforce?

Mr. JOHNS. Wonderful question. The complexity associated with that is understanding what is the difference between capability and capacity. Capability has to do with the basic ability of a particular service.

Ms. BORDALLO. I think your mic——

Mr. JOHNS. Yes, I will get this eventually. Capability has to do with the basic ability of a service or a maintenance enterprise to actually conduct an individual repair on a piece of equipment and the nature of that repair. Capacity has to do with how much equipment and the nature of the maintenance that has to be worked to actually execute that maintenance, so capability and capacity are actually two different things though they are interrelated. The bottom line is that capability will be adjusted based on the type of equipment in the inventory, and capacity will be adjusted based on how much equipment, the nature of the use of that equipment, the age of that equipment within the inventory.

So it is likely that in our situation, capability will actually increase with the induction of new weapon systems, the capacity will decrease with the decreased OPTEMPO, decreased force structures, and decreased inventories.

Ms. BORDALLO. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Mr. WITTMAN. Thank you, Ms. Bordallo. Mr. Bishop. Ms. Hartzler.

Mrs. HARTZLER. All right. Well, thank you, gentlemen. I appreciate you all being here and your testimony. Mr. Johns, I was just wondering what is the Department's overall industrial base sustainment strategy?

Mr. JOHNS. I got it right that time. The overall strategy really, and I will go back to the Army's strategy because we are doing a lot of work in using the Army's strategy as the basic foundation for what we are developing for the Department. So within the Army strategy, and we are sharing this across the Services, each Service has very similar strategies. Three major objectives: Retain critical capabilities, maintain efficient operations, and ensure regeneration of capabilities to maintain relevance.

We have four basic tenets that we are working towards: one is managing capacity to support operations; focusing resources to sustain core and critical capabilities; promoting public and private partnerships; and aligning decisionmaking at all levels to achieve common goals. From a departmental perspective, we have added to that our enterprise tenets of operation so that we can enable the

Services to work together to create enterprise, and the most efficient solutions across the entire industrial base.

Our vision in that sense includes words like "enterprise structured," and "resourced," and "operated," "integrated and synchronized," "collaborative global maintenance network," and the basic tenets support that. We have actually tested this recently to include the establishment of new capabilities in the organic sector with regard to unmanned aerial vehicles and it has worked very well. We have been able to identify single site sources of repair in the most efficient way across the entire Department, leveraging the critical capabilities and centers of excellence within each one of the Services to best allocate that workload across that entire Department.

Each Service has contributed in that following the basic tenets of that Department strategy. While that is yet to be formalized, we are very encouraged that the first test in application of that strategy has worked very well for us.

Mrs. HARTZLER. That is good. You have a very difficult task, and I am very concerned about the impact of sequestration on all of our national defense, and certainly on our industrial base.

Mr. Sterling, in your opinion, what critical skills in the industrial base need to be retained and what ones are at jeopardy if sequestration goes through?

Mr. STERLING. Which ones are in jeopardy is a little more difficult to outline because lot of decisions will be made in the Pentagon over the course of the next several months as they implement it and looking at the future budget. The ones that are most critical to maintain, you have to look, and I know Brett Lambert, Secretary Lambert over in the Pentagon has been doing sort a deep dive looking at this cross-industrial base. People like systems engineers, they can bring a weapon system together from all the various suppliers. You want to look at skills such as that, you want to look at some of your, what I will call low-density skills, that they are working on critical unique elements, whether it is in the area of chips, manufacturing of that nature, whether it is in nuclear work for shipyards because you have got relatively small number of units coming out. Those are the skills you have to really make sure you retain because adding them back in later—I know one of our CEOs [Chief Executive Officers] was often noted as talking about the fact that we don't have a new manned aircraft under design now within the Pentagon. And it is the first time in 100 years; we have the Joint Strike Fighter [F–35 Lightning II] coming on line, we have the F/A–18 E and F [Super Hornet fighter aircraft] that is out there. The F–22 [Raptor fighter aircraft], but a new one coming on line. That presents some unique challenges because the skills, the requirements you have on people to try to design a new system and bring that to through the various phases, you lose that skill. It atrophies, the people retire and so that is one of the challenges you have to look at.

Mrs. HARTZLER. What about the long-range strike fighter?

Mr. STERLING. You are just not at the phase where you have the design teams in the Department.

Mrs. HARTZLER. Very good. Thank you very much. I yield back.

Mr. WITTMAN. Thank you, Mrs. Hartzler. Now we can go to Mr. Loebsack.

Mr. LOEBSACK. Thank you, Mr. Chair. Thank you for having this hearing today, I think it is absolutely critical, especially given that we are a day away from no doubt what will be sequestration. I think it is really quite unfortunate, and at a time when we are also operating under a continuing resolution. And I was reading today that it may very well be the case that at least in this body, there will be another continuing resolution moving forward after March 27th that will actually build in sequestration cuts into the base.

So sequestration seems to be a reality, or at least that is the assumption at this point. So I think we have just got to move forward and be realistic in that sense. I am disappointed if, in fact, a continuing resolution after March 27th assumes sequestration as part of the base, I understand why that might be the case, but that is going to put even more pressure obviously on all the things that we are talking about, it seems to me today.

I was one of those who voted against sequestration in the Budget Control Act in the first place, because quite honestly, I said at the time, I thought we might very well get to this point because someone in my seventh year here in this body, I am probably as pessimistic about the chances that this place will somehow be run by rationality as the average citizen and that is really unfortunate, but that is where we are right now, and I represent the Rock Island Arsenal, I represent the Iowa Army Ammunition Plant, we have lots of folks who are doing great work at both of those places to make sure that our troops have what they need if they are called overseas. And as a military parent, that is really important to me on a personal level I have to say.

And clearly, our depots, our arsenals, our ammunition plants are doing a great job. I do have some questions; I guess I have a followup first more than anything for you, Mr. Johns, because when our chair was asking about what steps could be taken to protect the workforce, I guess you mentioned that some steps could be taken by DOD. What steps could those be, what steps could actually be taken to effectively manage workforce under sequestration, if you could offer some details?

Mr. JOHNS. Yes, Congressman, of course. Again, as we all had indicated, the workforce is the key element behind capability both in the short term and long term. And we would hesitate to do anything that would damage them unduly. We would be looking for some indication about what future requirements looked like and future funding levels looked like in fiscal year 2014 and beyond to try to create some certainty there. But in the absence of that, we will make some assumptions about what level of workforce and what skills are required to support future operations. We will protect, to the best of our ability, those capabilities and those workforce skills to ensure that as we enter 2014 and come out of this sort of crisis situation in 2013, that we have the workforce in place that can actually execute those requirements.

Mr. LOEBSACK. Are we talking about a red line here? Is that what we are talking about?

Mr. JOHNS. We would hope to not cross a red line, if I understand your question correctly.

Mr. LOEBSACK. Right.

Mr. JOHNS. Where that red line is, is obviously very, very difficult to predict, especially given what you just indicated.

Mr. LOEBSACK. I hope I am not correct and I hope what I was reading today is not correct. We will see.

Mr. JOHNS. Yes, Congressman. So in the meantime, our commanders and Services have latitude to adjust inductions, adjust funded workload to try to smooth out to the best of their ability the workload and the actual work that is being done within our industrial facilities, so that we can keep as many people and many skill sets actively employed and engaged to the maximum degree possible. The idea would be to be keeping warm production lines open as long as we possibly can, because once you shut down a production line, now you have effectively crossed a threshold that will require significant time to recover. As long as its warm and operating at even a marginal level, we will be protecting capability and ensuring reversibility.

Mr. LOEBSACK. That goes to Mr. Avdellas' comments about keeping the organic base warm. Again, that comes back to really protecting our national security in the event of another contingency or another conflict, we have to have that organic manufacturing base, it has to be there and it has to be ready to be ramped up again as it was previously. And the Rock Island Arsenal, uparmoring Humvees, it was very, very important, something the private sector couldn't do as quickly as the arsenal did. Thanks to all of you. I really appreciate it. Thank you, Mr. Chairman, I yield back.

Mr. WITTMAN. Thank you, Mr. Loebsack.

Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman.

I want to thank all four of you for being here today. I think, though, you do share some of the blame. If you had refused to testify at an 8 o'clock hearing, I wouldn't have to be here as well. It is not that I am opposed to mornings, it is just so dark. So thank you for that.

Mr. Johns, I have appreciated your efforts for many, many years at the Department of Defense.

Mr. Steffes, welcome back to HASC [House Armed Services Committee].

Mr. Sterling, I understand you cut your teeth at the Senate Armed Services Committee. I am sorry. And I hope you have had enough time to be away from the dysfunctional side of the Capitol to get your bearings back.

I do have six specific questions, so maybe there will be a second round, I hope.

Let me start first of all with, Mr. Johns, I don't want an entire historical dissertation, but let's face it, you know, when the stimulus bill was built, every element of Government was increased so they have some cushion against sequestration cuts, except for the military. If this was the first cut for the military, I wouldn't feel any kind of compassion for you, but this is basically the third cut you have faced, and which is significant.

I would like you just to give me historical perspective, because when the Soviet Union fell, the Berlin Wall came down, we had the

so-called Peace Dividend, in which the infrastructure of our military was basically decimated at the same time.

Is sequestration worse than that Peace Dividend, or is it similar to it, or is it every—it is going to be similar to it? And quickly, a simple answer.

Mr. JOHNS. Yes. First, I appreciate your comments with regard to us, the entire panel.

The simple answer to the question is while we expect a peace dividend, given the full-spectrum threat that we are facing, I am not sure that we should actually be seeking one.

Now, unfortunately, the fiscal situation that we are involved with right now is so drastic in such a short timeframe, the drawdown in the post-Cold War era is nowhere near the slope that we are looking at in fiscal year 2013.

Mr. BISHOP. Okay. Timeframe versus the amount of money we are talking about makes it more significant.

Mr. JOHNS. Timeframe and magnitude in that short amount of time.

Mr. BISHOP. All right. Let me go to one of the most significant questions. I have been hearing a great deal of talk about changing to the 50/50 program that we had in statute as a means of temporary relief. Is that a reality? And if it is, are we talking about permanent, temporary? If it is temporary, how do we replace the competency at depots, which may be lost by that kind of change?

Let me go back. Is there any legitimacy to an effort to change that 50/50 complex?

Mr. JOHNS. Well, the question is a little difficult as worded. Legitimacy, there has been discussion about potential impacts associated with 50/50.

Mr. BISHOP. Are we talking permanent or temporary changes to 50/50?

Mr. JOHNS. If we look at just fiscal year 2013, I would say that that may be temporary, but I am not even convinced at this point that we will have to execute a waiver. It is a very complex situation; multiple things have to be balanced, requirements for readiness, protection of critical capabilities in both the public and private sectors. There will be reductions on both sides, so if I give you a final answer on what that number might be, it is likely to change and is probably incorrect.

Mr. BISHOP. That is a fair enough answer. If we do come back with a temporary change to that, I would like to see a definite cause-effect relationship that would justify such a change ever taking place. Once we lose those competencies at our depot bases, it will be very hard to bring those competencies back in again, and I think all of you have said something similar to that.

Mr. Johns, let me try and get a couple more in on you, if I could. When we assess depot cost, are the force services similar or dissimilar in how they assess the costs of their depot? Does every Service take the same cost of overhead into coming up with their cost per unit?

Mr. JOHNS. The simple answer, Congressman, is no, they are not similar. In many cases, though, the differences are marginal and dependent on the use of lexicon, different lexicons across the De-

partment. They are probably more similar than they are dissimilar, but there are differences.

Mr. BISHOP. Okay. Thank you.

And I guess, how easy would it be to standardize that process of especially overhead costs from Service to Service? Are the core responsibilities so different, it becomes difficult to do that?

Mr. JOHNS. I would venture to say, Congressman, that the core processes are not the driver, but probably the long institutionally cultural differences between the Services have resulted in just simply different accounting and allocation structures. Those are adjustable, but we would be changing institutional processes.

Mr. BISHOP. Thank you. I appreciate that.

I am over time. I got four of the seven I wanted, though.

Mr. WITTMAN. You did great.

Mr. BISHOP. So I will be looking for a second round.

Mr. WITTMAN. Thank you, Mr. Bishop.

Mr. Courtney.

Mr. COURTNEY. Thank you, Mr. Chairman.

And thank you to the witnesses for evidence today that shows that this sort of—I wouldn't call it conventional wisdom, but sort of noise out there that while it is only $85 billion in terms of a, you know, Federal budget of $3 trillion, I mean, the fact is, as I think your testimony elicits today, is that when the sequestration was actually first designed in 1985, I mean, because that is really the formula that we are operating under, is the Gramm-Rudman-Hollings design, it was designed to hurt, and it was focused on one aspect of the Federal Government: discretionary spending. And this is, you know, the place that all of you are sort of stuck trying to deal with right now.

And I guess, Mr. Johns, you know, one sort of proposal that is floating out there is, well, we will add flexibility to the sequestration, and you know, that will allow the scalpel rather than the hatchet. And so if Admiral Greenert was given flexibility to sort of deal with his shortfall that he is going to have to deal with in the final 7 months of this fiscal year, I mean, would that change anything? I mean, is that going to mean that we will have repair work at the *Lincoln* [USS *Abraham Lincoln* nuclear-powered supercarrier] or at the *Providence* [USS *Providence* nuclear-powered attack submarine] or, you know, these other availabilities that he is already being forced to cancel, or has he really already used whatever flexibility he has got to come up with the plan that we are now seeing?

Mr. JOHNS. Yes, Congressman.

I believe that flexibility associated with elimination or reduction of the limitations associated with continuing resolution would provide some relief in some cases, more significant in others.

As General Odierno and Admiral Greenert have testified, I think probably the Army would see the best benefit behind increased flexibility and latitude to move money from investment accounts into operations and maintenance accounts, and probably the Navy is very closely behind them. There is no doubt that any increased flexibility would help alleviate, and obviously, that money would be placed against the most critical priorities.

I do believe that the two RCOHs [Refueling and Complex Overhaul], at least one refueling and complex overhaul is associated with continuing resolution-driven limitations. So, yeah, there is going to be some relief associated with that.

Mr. COURTNEY. But in terms of real savings, I mean, that is where I think, you know, holding off repair work is kind of like not getting your oil change in your car. I mean, at the end of the day, you are not really saving anything; you are just sort of deferring, and you are going to have to recal-—you know, you are going to sort of spend the money or getting these ships, you know, ready for their missions. Isn't that correct?

Mr. JOHNS. That is absolutely correct. Any kind of third and fourth quarter reductions and deferred maintenance is going to have a ripple effect in multiple ways throughout the system, not only schedules but also fiscally in the generation of losses inside the working capital fund that will ripple in multiple years in the future. So not only would we not spend a billion dollars in maintenance this year, the losses that are generated with that because of our inability to adjust rapidly enough our fixed costs will show up as rate increases in fiscal year 2015. That same loss in fiscal year 2013 will show up in decreased buying power in fiscal year 2015. So we are creating these every-other-year ripples.

The same thing could be seen in reduced OPTEMPO and training. That results in decreased depot-level orders from about 3 to 6 months in lag time from the decreased demand in the field. So when we reduce OPTEMPO and training in fiscal year 2013, we are creating a reduced demand within the depot for depot-level repairables in 2014, which will create losses in 2014, which will create rate increases in 2016, okay, not to mention the degradation in material condition, the reduced availability. We are creating a multiple significant fiscal and operational ripple effect with this deferred maintenance.

Mr. COURTNEY. And lastly, I mean, that maintenance work keeps folks like nuclear welders and electricians busy while other projects are making their way through the pipeline in terms of production. And, again, that is something that we are already seeing in Groton, is that, you know, that bridge that the work on the *Providence* and others was going to provide while the construction schedule reached the waterfront is now, that bridge is being definitely made shaky or eliminated.

So thank you, Mr. Chairman. I yield back.

Mr. WITTMAN. Thank you, Mr. Courtney.

Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman. And, gentlemen, thank you being here.

And it seems to me that in this room, we get the opportunity to have fact-based, rational decisionmakers testify before us, and maybe in another room right down the hallway, we don't get that sometimes, so thank you for your testimony. And you hit on a couple of things, Mr. Courtney and Mr. Bishop both hit on things that are important to me.

I will tell you, I think any rational business owner would look at our current fiscal situation and say, you can cut 3 percent out of the Federal budget. The problem is when you begin to exempt,

piece by piece, the vast majority of the budget, then it pushes significant, significant percentage reductions to areas that are extremely important to us, like depot maintenance.

And I represent Robins Air Force Base. We have a tremendous number of skilled, dedicated craftsmen and women there that are extremely concerned about what is going to happen, not only to their jobs but to the equipment that they are producing for the warfighters.

So a couple of things that you hit on, protecting our workforce, these skilled craftsmen are not going to sit around and do nothing. There are going to be jobs available for them. And I certainly think that we have to maintain core capabilities inside our depots. We have to be able to do that work. I am glad that we have the private sector participate with us, but some of it we have to do ourselves.

So when you talk about what is reversible and what is not reversible and when you talk about the fact that we can't shut down a line and expect to reopen it without significant additional costs, and I hear the leadership of the Air Force talking about the 50/50 rule and relief from the 50/50 rule, one of my concerns is that it implies that our depots are not as efficient as the private sector. We are not building widgets here. We are building weapons systems, and we have a lot of classified information. You can't just put this stuff out for a bid to the general public with the equipment systems that they are.

So why is the Air Force asking for relief and the Army and the Navy are suggesting that they don't need the relief? And I would ask that to you, Mr. Johns.

Mr. JOHNS. Congressman, if you would let me, I will answer your question directly, and then I would like to come back and talk about the Air Logistics Center at Robins as well, because I think it is important to recognize that as well as the workforce that contributed to superior performance there.

The Air Force is probably the one that has been most vocal about this issue about approaching 50/50, because historically and projecting into the future, they are closest to the boundary. So any perturbations in the public sector workload will push them that much closer to the boundary. They probably have some critical contracts that may cost a significant amount if they were to terminate them. So these are balancing issues that the Air Force is going to have to go through. I think that probably what they are issuing is a potential warning order that they are approaching that boundary and that they may need to execute a waiver.

At this point, I am not convinced that it has to happen. And again, as I answered Congressman Bishop, I believe that if we contain these impacts to fiscal year 2013, then this is a temporary measure, and as the statute allows, it is a year-to-year waiver, so waive for 1 year and then go back and revisit it for the next.

If these actions, however, continue beyond fiscal year 2013, then we are going to have to relook at the entire issue of the split between the two sectors.

Mr. SCOTT. Thank you.

Mr. JOHNS. So if I could comment.

I recently visited Warner Robins, the Air Logistics Center there, and just so you know, which you probably know, is that they were the winner of the Depot Maintenance of the Year Award.

Mr. SCOTT. Yes, sir.

Mr. JOHNS. Fabulous capability there. And I would hate to see, as well as many other exceptional maintenance activities across the Department, impacted by this.

Mr. SCOTT. Yes, sir. And we are proud of that base and the men and women there and what they do for the warfighter.

I know I am going to run over just a second here, Mr. Chairman, if you will bear with me, but thank you for coming down there and for those comments.

One thing I would like to, and you can put this in writing, but from the private sector, one of the things that hasn't been addressed is fixed cost versus variable cost, especially with regard to the areas that you are talking about. And the fixed cost is going to be there no matter how many weapons systems we repair. It is the variable costs that is the only thing that you can get to. And my concern is that we are going to have a tremendous amount of increase in the price per unit being repaired if we do this thing.

And, again, we can cut the Federal budget by 3 percent, but this is "penny-wise and pound-foolish" the way we are doing this.

So, thank you, gentlemen, for being here and testifying.

Mr. WITTMAN. Thank you, Mr. Scott.

Mrs. Noem.

Mrs. NOEM. Yes. Thank you.

And thank you all for being here.

Mr. Avdellas, I have a question for you regarding your testimony. It is on the bottom of page 3, but it is where you talk about because of the continuing resolutions that we face, the budget reductions and now the sequester, that we are seeing a pattern develop that much resembles what happened in the 1970s. And I am curious about that, because I would like to know if you see where we have some ability within what we are doing today to avoid what happened in the 1970s, if our hands are tied to that, if we have some mechanisms that we can utilize that will prevent something like that happening again. It was a thought process I had thought about a month or so ago, and the fact that you touched on it really brought it back to light again.

Dr. AVDELLAS. Certainly. And thanks for the opportunity to comment. I think there are a couple of similarities and a couple of differences. I think that, as has been mentioned today, the quickness of how this has been brought upon the Department is very drastic, particularly from an orientation over the past 10 years really that has been so much on a mission orientation and getting the job done and using very effective tools, like reset and other things, to do that.

So I think what you have heard initially from some of the military services, given a very short timeframe to kind of respond to all this and knowing the complexities of all of it is, you know, this could really be bad, this really has effects, because everything is based on the requirement. And we have been working so hard to try to meet those requirements over, as I say, the past decade.

I think from a hollow force perspective, one major difference that you have got on the industry side and maybe some other folks could comment on it, but a lot of consolidations were done on the industry side between, say, the 1970s and the period we are in now. We have one or two companies working on major weapons systems. We have single sourcing for efficiency reasons on the Government side. And I think a real risk that you could run and what is different is if these people get out of the business, so to speak, and they are seeing these signals, these very kind of clear signals over the past couple of months that, hey, there is a big change coming, it could really be quite substantial.

And I think on the Government side, what you have seen in good faith from the military perspective is just trying to warn of the real impacts that could be happening. I will say, as Mr. Johns has mentioned, that I think the Department is probably a little better equipped in terms of management structures, communication structures, to manage better, if you will, but I do think, as I mentioned, there is some serious risk on the private sector side and then as well on the public sector side that probably need to be considered.

Mrs. NOEM. Do you think that it is more difficult in today's day and age for the industrial base to recover in this type of a situation than maybe it was decades ago, back in the 1970s, when they were able to get their feet back under them, but it obviously took some time? But now with the technology developments that we have, the equity investment that has to happen, do you believe that it is more difficult to recover?

Dr. AVDELLAS. I would say that the longer this goes on with these sort of drastic hits to the system, that, yes, it would probably be more difficult.

Mrs. NOEM. Okay. Mr. Steffes, I had a question for you. You talked a little bit about DOD's nuclear procurement policy, known as the Better Buying Power 2.0, but also what was interesting was that you talked about even though DOD is advocating for more efficient contracting methods, that we have also seen a decrease in the percentage of military maintenance work that is performed under arrangements such as that. It looks like before, we were operating at much higher percentages, but now we are down to about 5 percent of the military's maintenance work is performed using a PBL. So I am wondering if could you explain to me a little bit why we have had a decrease in that when that has been proven to be more efficient?

Mr. STEFFES. Thank you. One of the main reasons I think the numbers have gone down is the contracting officers are getting very concerned about going forward with long-term contracts, you know, 4- or 5-year contracts, which to make a PBL work, it has to be long-term.

The whole acquisition workforce has changed significantly over the last 5, 6, 8 years, and there is a concern that they—I think at the contracting officer level, that they don't want to go down this road, because of the unknown. Irrespective of the fact that you could look at the record to see what the savings has been under PBLs, which is significant. I can't say every single one was significant, but a huge majority certainly was.

If you go back to a different way of just paying for it, you know, as you need it, there is no incentive by the contractor to make improvements, to do things that would give them more of a profit, and the customer, the military, more of a high level of readiness.

Mrs. NOEM. So the long-term efficiency of a PBL just isn't possible under the situation of continuing resolutions?

Mr. STEFFES. I don't know quite how the—well, continuing resolutions, as you would continue anything that was on the books in 2012, you can't write any new contracts; you can't go forward, until you get into a regular appropriations, so that is significantly going to hold them back.

Mrs. NOEM. Okay. Thank you very much. I appreciate it.

Mr. WITTMAN. Thank you, Mrs. Noem.

We are going to go into a second round of questioning, and I just want to follow up. You all have given us some great perspective, I think some pretty sobering assessments with where we are.

I want to ask this: You had talked all along about the importance of the people part of the organic industrial base, the talents and skills that rest there. And if we look at that and how important that is overall in our military sustainment, why wouldn't we want to have the same type of planning that takes place with shipbuilding and in our airframes as we would with our organic industrial base? And how would we go about achieving that? What sort of form should it take if we were going to go down the path of saying, let's do a strategic plan on the same scale as we do in other areas? And obviously, we do a lot of planning. We do the QDR [Quadrennial Defense Review]. We do the 30-year shipbuilding plan. And I want to get your perspective on how we could do something similar with the organic industrial base so we understand what our longer-term needs are and how we can lay out how we meet those needs.

Mr. Johns, I will begin with you.

Mr. JOHNS. Thank you, Mr. Chairman.

As we had indicated before, I think all of us are in unanimous agreement that the workforce and protection of the workforce are critical to us retaining capabilities for us in the future in the industrial base. And certainly protection of the workforce and the critical skills that we would identify in that analysis would be a centerpiece of our Department-level strategy.

And so we would be looking at, and I know the other witnesses had indicated several areas that would be areas that would be protected, but from a strategic perspective, we would be looking at protection of highly complex work associated with highly complex equipment, work associated with software maintenance, critical safety items and material requiring true artisans. These four areas can be extended, broadened to encompass a wide variety of skills.

These would be centerpieces of any national strategy, but what happens practically is these basic tenets or protections in these critical areas are flowed down within organizations, where commanders have the latitude to shape their workforce in that context to best satisfy the production requirements that are laid on them, and that is in fact what happened. So they do their workforce shaping in that strategic context.

Mr. WITTMAN. Very good.

Mr. Steffes.

Mr. STEFFES. Yeah. I think to accomplish what you have mentioned, you have got to make sure you give the Department all the management tools that it needs to do this, and operating under a continuing resolution is pretty tough to do a strategic plan. You have a yearly appropriations, so it is a challenge to try to lay out in a long term what it is, where you want to go, but I think you need to give them all the tools that they need to do this with, and rather than a system where they just have to, you know, make it up as they go along, if you will, because of what is happening on a day-to-day basis.

Mr. WITTMAN. Very good.

Mr. Sterling.

Mr. STERLING. I think the planning aspect may be the simple approach. I mean, it is complex; there are things you got to do, but you mentioned for a shipbuilding plan, we have the QDR, we had the FYDP. On the private sector side, we look at what those programs are that are coming on line and we put together a workforce, plant and equipment to go along with it. And the Department could do the same thing.

However, Mr. Steffes noted the CR, you know, sequestration, all these elements. The plan is irrelevant if the funding profile changes on an annual or a monthly basis to where you can't execute that plan, and that is the challenge that we are all facing. It doesn't matter if it is the public side or the private side, it is when you have introduced that uncertainty.

When we do things, it is customer predictability. We need to know where that market is, and then we will invest in the plant and equipment and the people to do that. The Department's going to be much the same way. If they know that ship availability, that aircraft is coming into the depot, the Air Logistics Center, then they can put in the plant, the equipment, the people in an efficient and effective manner. They can make sure they have those skills.

But if you are operating under a continuing resolution, if the budget is going down like it is in this case by about 20 percent, then much of that is going to be absorbed in the O&M and in the investment accounts because personnel has been exempted, then you have a real unpredictable environment that it doesn't matter if you are a depot commander or if you are in the private side: you just can't do an effective plan that you can expect to maintain.

Mr. WITTMAN. Sure. I think that is a great point. I know I have been frustrated since I have been here. It seems that budgets drive strategy, not vice versa. And strategy needs to be coming first, and then we make decisions from there. And it seems like to me that if we have that strategy first, at least you can make the argument when you have got competition for resources. So that is why I was asking the question about, you know, making sure you had that basis.

I understand, and I completely agree with you. It is very complicated now in the way the process, decisionmaking process takes place.

Dr. Avdellas, I will just ask you in 15 seconds to give me your opinion.

Dr. AVDELLAS. I would say that the, as has been mentioned, the Army's industrial base plan does have a good component looking at workforce, again, related to capabilities and requirements. And as Mr. Johns noted, I think combining that with some sort of higher level diagnostics about those sorts of skills and things you would want to look at from a Department perspective would be important.

Mr. WITTMAN. Very good.

Ms. Bordallo.

Ms. BORDALLO. Thank you, Mr. Chairman.

I have just a followup clarification question for Secretary Johns. I want to be sure that I understand you. Are you saying that if a depot or arsenal has a funded workload, then it may not be required to furlough its Federal civilian employees up to 22 days?

Now, we have been told that all DOD activities have no flexibility in this regard, but you appear to be saying your depot and arsenal commanders may have choices.

Mr. JOHNS. Well, they have choices, Congresswoman, to allocate workload based on what has been funded. Given the situation, many of the third- and fourth-quarter inductions generally across the board will not happen, the budget cuts are so severe. So you could imagine no new inductions starting midyear. The workload that remains in the depot will ramp down to almost nothing, with potential production shutdowns by the end of the year.

So, as we are ramping down, the demand for the workforce actual touch labor in that workload that has been assigned is diminishing in effectively a linear fashion. So the furloughs in that context actually alleviate the fiscal problems and the generation of losses in that environment. So furloughs, among all other tools that the Department is using to try to stay within its top line, manage workload, protect critical skill capabilities, they fit in well into that overall spectrum of actions.

Ms. BORDALLO. Very good. Thank you.

Mr. Steffes and Mr. Sterling, could you please talk more about the potential impact on the supplies you represent? Who are put at risk by sequestration, and what level of potential loss are we facing in terms of the supply base?

I guess, Mr. Steffes, you first.

Mr. STEFFES. Yes. Well, the problem is, as I mentioned, the ability for the second- and third- and fourth-tier suppliers is very limited if they don't have work. You know, the big guys all need the smaller providers in the supply chain to make everything work. And once you start losing that capability and those people, they are gone. You are just not going to get them back.

And in some cases, as I mentioned, they could be one or only two of a kind in the Nation. So if we lose that capability, it is going to be very difficult and very expensive to get back to even to where we are now.

Mr. STERLING. I agree with Mr. Steffes.

When you look at the larger companies, they are going to have greater access to capital. It will hurt. They will have to shed workforce and operations, but when you get down to some of these small suppliers, a lot of people talk about, well, competition, you have got these large companies that can compete on various products. Oftentimes, what is lost is as they go down into the supply chain, they

may have a critical supplier that is common across each of those companies for some part, some piece.

The thing to remember is those small suppliers, they are small companies; they don't have nearly the access to capital that the larger ones have, so when they lose a contract, even if it is for maybe a 30-day or 60-day period, they don't necessarily have the ability to weather that. And when they are the critical supplier of a component of a piece, you lose that to the entire defense industrial supply chain, and that could have devastating impact across the board, one that will be very expensive to replicate in the future.

Ms. BORDALLO. Thank you.

Thank you, Mr. Chairman. I yield back.

Mr. WITTMAN. Thank you, Ms. Bordallo.

Mr. Bishop.

Mr. BISHOP. Thank you. Let me see if I can get the last three in here.

Mr. WITTMAN. I know you can do it.

Mr. BISHOP. Secretary Johns, if I could hit you up first. What strategies does—sequestration will probably hit. You are going to have 30 days before furloughs will be implemented. What strategies does DOD have, or do you have any flexibility to create such strategies, to ensure that when furloughs take place, you will not lose essential, skilled personnel from any of your complexes?

Mr. JOHNS. Excellent question, Congressman. I think the answer depends on the perception that a furlough has on the individual employee. And this is related to perceived value that the employee has and how the country is treating them, as well as the job satisfaction that they may continue to retain in their work.

Very clearly, the workforce that we are talking about in both the public and private sector are probably some of the most patriotic citizens that we have in the country. They have experienced the war through the equipment that they have had to refurbish that have bullet holes in them, that have IED [Improvised Explosive Device] damage, battle damage, sand and dust damage. They know and have contributed significantly to the success of the war.

A furlough is probably going to send a very strong signal to them of indiscriminate actions and lack of value associated with their contribution to the national defense. It is not going to be viewed very well. As well as the diminishing workload that they are going to be required to do and the uncertainty of future workload is not going to be a good signal to them.

Mr. BISHOP. Let me try and focus once again, because I appreciate the answer; it is a good answer. But do you have tactics that you can use, or can you come up with tactics you can use to make any kind of discrimination in the furloughs, or is there going to have to be a blanket approach?

Mr. JOHNS. I am not aware of any discrimination between various sectors or various skills that we are prepared to implement. Obviously, the Department will be relooking at that strategy. I don't know if there will be any areas that will be exempt or whether individual commanders will have——

Mr. BISHOP. Do you have the power to do that, or is it prohibited from you to do that?

Mr. JOHNS. I am certain that the Department has latitude to do that.

Mr. BISHOP. Okay. I don't know to whom to ask this question. Maybe Mr. Steffes, I will ask the same thing. I was talking to one of my subcontractors, who was obviously complaining, and I think you have all mentioned the same concept: the larger business, the better they will have a chance of weathering this. Some of the small business subcontractors will not have that flexibility.

He was arguing to me, and so I would like you just to assess the validity of this argument, that if he goes under, there are certain companies that are abroad, who are not involved in the system now, who will remain, and therefore, if we come past this concept and we start to ramp up again, that his subcontracting ability will not be there, but there will be foreign companies who can do the same thing.

Are we indeed, as he complains, setting ourselves up to be even more dependent and more reliant on foreign companies to provide services and goods than we are right now?

Mr. STEFFES. I believe that is a probability. I mean, in some very specialized areas where we have lost that capability, you know, within the United States, if the needs require items that are only produced overseas, we are almost going to be forced to do that.

Mr. BISHOP. Okay. As I said earlier, you know, if this was the first cut we were asking to you do, tough, but this is the third cut. We have already taken in the last 5 years a trillion and a half away from you, and now this is another roughly half-trillion dollars.

So gloom and doom from other sources, I am somewhat skeptical, but when you say it, I am somewhat convinced that it is actually hitting, because we are treating the military differently than we are treating every other segment of Federal Government, which means as—and one of you mentioned, we are not dealing with a new generation of aircraft for the first time in decades.

Acquisitions sometimes is much more sexy than maintenance becomes, but in the situation we are in, where the first two cuts basically took away our R&D, the amount of men we have to do the work, as well as weapon system, are we in a situation now where maintenance becomes even more critical than it was before? I guess, Secretary Johns, you are the logical person for that.

Mr. JOHNS. Congressman, I agree with you absolutely.

Mr. BISHOP. That was too easy on answer. I am sorry.

So I got 10 seconds left. I am giving it back to you.

Thank you. I appreciate your answers.

Mr. WITTMAN. Thank you, Mr. Bishop.

Mr. Loebsack.

Mr. LOEBSACK. Thanks again, Mr. Chairman.

I want to thank you for organizing this hearing, and also the ranking member.

And I think this is really important. We have really fleshed out a lot of issues, and we have gotten some answers. I think a lot of the things that we are talking about today, we really don't have any idea what the answer is because of the uncertainty, and if we have another CR, as I said, after March 27th, it is going to add even more uncertainty to this whole process.

I do want to address the public-private partnership issue, because we do know for a fact that public-private partnerships are really key to the workload and readiness of the organic industrial base. This is something that we have simply got to move forward on. I was happy in the NDAA [National Defense Authorization Act] of 2012, I was able to get a language in there that lifted a cap on those public-private partnerships. And there are folks around this country, at the Rock Island Arsenal and other places, where they are moving forward on that, and it is really critical, and Mr. Bishop brought up foreign manufacturing possibly taking the place of domestic manufacturing.

Public-private partnerships, as we all know, are very important, too, for foreign military sales. And that is something that we haven't even talked about here, but that is really critical for our balance of trade, for our economy, for a number of reasons.

I guess what I would like to ask all of you, but Mr. Johns, if you would start out, how are public-private partnerships going to be affected by sequestration and the CR? What kind of long-term effects are we talking about here?

Mr. JOHNS. Well, Congressman, I agree with you that public-private partnerships are absolutely critical to be able to protect the critical capabilities in both the public and private sector, now more than ever, as we are seeing significant downsizing.

The capacity within the national sustainment industrial base is going to be insufficient to retain the capabilities and capacities that we currently enjoy. So, as we downsize, we will need to be able to leverage those critical capabilities in both sectors.

So the impacts, however, will be dependent on the nature of the reductions in each one of the partners. So, typically, in a partnership agreement or in a contract that links two entities together, there are certain terms and conditions that must be met in that partnership for the greater good under that partnership. If we cross a threshold because of a reduction, either in the contractor side or on the organic side, then we put that partnership at risk. The level of reductions that we are looking at will do that in many cases.

Mr. LOEBSACK. Thank you.

Would any of the others like to comment on public-private partnerships?

Mr. STEFFES. Yes, sir.

To add to what Mr. Johns said, the instability of the budgets over the last few years has not led to a huge outpouring of public-private partnerships.

Mr. LOEBSACK. Right.

Mr. STEFFES. On the industry side, industry is very much interested in this, but unless they can get some assurances from their Government partner that they are going to be around and there is going to be workload for a period of time, they are very reluctant to make the investments that are needed to do these particular partnerships. And the CRs and sequestration stuff just adds to the instability and to the wariness on both sides of doing these partnerships.

Mr. LOEBSACK. Thank you.

Again, I would just add that, and really reiterate that these public-private partnerships go back to keeping our industrial organic base warm. This is another way that that can happen. It is another method for keeping that base warm and, therefore, ready in the event of another contingency down the road, so—thanks to all of you. And I have got time to yield back.

Thank you, Mr. Chair.

Mr. WITTMAN. Thank you, Mr. Loebsack.

Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

I want to follow up on Mr. Loebsack's line of questioning. In my district, in my home town, I have the Anderson army depot. And many of these folks and their families generationally have spent enormous amount of time committed to our Nation, volunteered to go to Iraq and Afghanistan to help in sustaining the troops over there.

I would like for you, Mr. Johns, to speak first to sequestration's effect on the workload that they may deal with toward the end of the year, and then, secondly, talk about the CR's effect.

Mr. JOHNS. Well, Congressman, it is actually very difficult for me to separate the effects associated with that. Clearly, continuing resolution is impacting our ability to move money from one account to another. The shortfalls associated with that within the operations and maintenance accounts affect the Army across the entire depot and arsenal system. There are impacts in multiple weapons system maintenance activities, at Anniston and across the board.

The split associated with that between sequestration, I believe General Odierno has estimated about 50/50; 50 percent of that impact associated with continuing resolution, 50 percent associated with sequestration. Effective——

Mr. ROGERS. Give me some examples of how that manifests itself in their daily lives and their workload.

Mr. JOHNS. Well, collectively, it impacts in reduction of third- and fourth-quarter orders, reduced workload for those employees that remain onboard. And certainly the impact to temporary employees, term personnel and contractor support in each one of our facilities. They will be directly affected, and very shortly, they will be affected.

So, under sequestration, that affect will take—that will take effect once we understand what the situation is very shortly. Under CR, that is going to happen anyway, unless we fix the problems associated with the restrictions under a continuing resolution, but collectively, they will have significant impacts on every one of our depots.

Mr. ROGERS. In which lines are you specifically worried about as an Army depot being affected most directly, their core capability?

Mr. JOHNS. Clearly, core capability associated with armored vehicles. I mean, that is one of your core capabilities, and so there will be a natural impact in that area.

Mr. ROGERS. Mr. Loebsack was talking about the importance of public-private partnerships, and I couldn't agree more. In fact, at this particular depot, it leads the Nation in public-private partnerships. Tell me how, in your view, sequestration and/or the CR

would affect companies like BAE, General Dynamics, Honeywell, all of whom, along with others, have a presence at the depot.

Mr. JOHNS. Certainly, the support contractors will feel the burden along with the temporary and term employees almost immediately. Any adjustments or reductions in addition to what we currently expect under CR and sequestration will have deeper cuts into that.

The exact magnitude and whether we cross a threshold with regard to viability of a contract has yet to be determined. There may be impacts that cross contractual thresholds, but I can't tell you that right now. I don't know those details.

Mr. ROGERS. Well, you seem to be grouping those kinds of companies in with the term and temps. In my questioning of General Odierno a couple weeks ago, as well as General Dempsey, they indicated at that particular installation, that because we have a lot of orders in the pipeline that have already been paid for, that the third and fourth quarter is the time when the core employees may actually experience some furloughs.

Why would the contractors be treated differently? I understand the term and temps may see an effect in the next 30 to 45 days. Why would the contractors be in that category?

Mr. JOHNS. Again, this will have to be a balance between retention of critical capabilities and skills. In some cases, we will need to protect critical capabilities and skills in workforce on the organic sector, and some cases, we will have to protect critical capabilities and skills in the contractor workforce.

The actual balance between those two will almost be line-by-line dependent, facility-by-facility dependent, so it is very difficult for me to comment on what the exact nature is going to be between impact to Government personnel other than temps and terms and impacts to contractor personnel.

Mr. ROGERS. I guess what I am getting at is, is it your opinion that, given that the core employees won't feel the effect until the third and fourth quarters, that may be the same case with the contract employees as well, or would they be impacted in the second quarter, adversely?

Mr. JOHNS. Yeah. My understanding is that there will be not be any impacts until the third quarter.

Mr. ROGERS. Okay.

Thank you, Mr. Chairman. I yield back.

Mr. WITTMAN. Thank you, Mr. Rogers.

I wanted to just ask one more question of Mr. Johns. In kind of putting this in perspective, understanding where we are right now, I know that originally OMB [Office of Management and Budget] came out and said plan as though sequestration is not going to happen, but I wanted to know within that context, when was the direction given to restrain operation and maintenance execution? And if that is the case, if it was restrained, wouldn't that have lessened the impact in the third and fourth quarters of the fiscal year so that you could lessen some of the impact of sequestration? I wanted to get your perspective on where those directives and how they might have occurred and then where we are now.

Mr. JOHNS. Yes, Mr. Chairman. Clearly, for a good portion of last year and into this fiscal year, we were assuming effectively across

the board that sequestration was not going to happen. That kind of conversation was occurring through all sectors of the Government, everybody anticipating that we were going to fix this problem one way or the other, and so the demand for planning associated with that seemed to be second priority in terms of getting to a level of detail.

Certainly, there were high-level thoughts that were being considered about what and where things might be impacted, but detailed planning and detailed analysis did not occur, start occurring until early this calendar year when it became apparent that this situation is likely not to be avoided.

Mr. WITTMAN. So, at that time, was any consideration given to the execution of operation and maintenance efforts within DOD? And if that is the case, at what point were those resources restrained, and wouldn't that have had an impact on the third and fourth quarters?

Mr. JOHNS. Yes. There was an immediate consideration about allocation of reductions. Certainly, with the President's authority to exempt military personnel, it became very apparent that the impacts in the other O&M accounts would be larger. And certainly with the priority to protect warfighting capabilities and those supporting capabilities directly related to wartime operations, the cuts in O&M accounts, especially those in the sustainment industrial base, grew.

Mr. WITTMAN. Thank you.

Do any other members have questions? Okay.

Panelists, thank you so much for joining us today. We appreciate your candid and in-depth testimony. It is very, very helpful to us. This gives us a great opportunity to put in perspective where we are and what we need to be doing ahead as we face these challenging times. So I thank you very much.

And with that, the House Armed Services Subcommittee on Readiness is adjourned.

[Whereupon, at 9:46 a.m., the subcommittee was adjourned.]

A P P E N D I X

February 28, 2013

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

FEBRUARY 28, 2013

Statement of Hon. Robert J. Wittman

Chairman, House Subcommittee on Readiness

Hearing on

Assuring Viability of the Sustainment Industrial Base

February 28, 2013

Welcome to this morning's hearing. I'd like to thank our panel of experts for being here today to address the viability of the Defense Sustainment Industrial Base and the implications for mission readiness as we try to resolve the budget crisis. As we debate the way forward and try to resolve the continuing resolution and sequestration dilemmas, it's important not to lose sight of what's really at stake here: this country's ability to project power and to properly train and equip our warfighters—our men and women in uniform who at this very moment are fighting for us on the battlefields in Afghanistan and will continue to do so for the foreseeable future.

As the debates have raged on, I've been struck by how starkly our military leaders have described the dilemma. As General Dempsey and the other service chiefs recently informed this committee: "the readiness of our Armed Forces is at a tipping point. We are on the brink of creating a hollow force." About this same time, we learned of the delayed deployment of the USS *Truman* Carrier Strike Group to the Central Command AOR—a region where our missions continue to grow rather than go away.

Never in my lifetime did I imagine we would again be forced to confront the very real possibility of a hollow military force and the devastation it entails for our Nation and our men and women in uniform. Make no mistake—our readiness crisis is real and it's important to understand exactly what's at risk. During this hearing, I'd like you to share your perspective on this and help us answer some basic questions:

- In terms of risk, what does it mean to our national security, particularly our sustainment industrial base, to have ships moored to the pier, or sitting in dry dock, waiting for depot maintenance?
- What, in your views, are the implications of having airplanes grounded on ramps?
- And finally, what's the impact on our warfighters when we delay or defer reset and retrograde of our equipment?

Joining us today are:

- Mr. John Johns, the Deputy Assistant Secretary of Defense for Maintenance Policy and Programs;
- Mr. Pete Steffes, Vice President for Government Policy at the National Defense Industrial Association;

- Mr. Cord Sterling, Vice President for Legislative Affairs at the Aerospace Industries Association; and
- Dr. Nicholas J. Avdellas, Senior Consultant for Materiel Readiness and Sustainment at the Logistics Management Institute.

Gentlemen, thank you all very much for being here. I appreciated your thoughtful statements and particularly appreciated your views regarding the need for detailed strategic planning for the future. Just as I've been an advocate of the 30-Year Shipbuilding Plan and the benefits associated with determining strategy first and budgetary requirements second, I believe we need to similarly focus on strategic planning when it comes to the viability of the industrial base.

HOLD UNTIL RELEASED BY THE
U.S. HOUSE OF REPRESENTATIVES

STATEMENT OF

MR. JOHN JOHNS
DEPUTY ASSISTANT SECRETARY OF DEFENSE
FOR MAINTENANCE POLICY AND PROGRAMS

BEFORE

HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITEE ON READINESS

ON

ASSURING THE VIABILITY OF THE SUSTAINMENT INDUSTRIAL BASE

FEBRUARY 28, 2013

HOLD UNTIL RELEASED BY THE
U.S. HOUSE OF REPRESENTATIVES

Chairman Wittman, Ranking Member Bordallo, and members of the Subcommittee, thank you for the opportunity to appear before you to discuss the viability of the Sustainment Industrial Base. I would also like to thank you for your continued support and interest in a topic so critical to the Department of Defense's ability to produce readiness.

SITUATION ASSESSMENT:

Over the past several months you have heard from the Department's senior leadership on the potential devastating impacts of the combined effects of operating under Continuing Resolution, implementation of sequestration, and shortfalls due to higher than expected costs in Overseas Contingency Operations (OCO). These assessments have clearly outlined the bottom-line effects on the strength and capabilities of our Nation's Military and the Department's ability to support our National Security Strategy. It is in this context that I offer my comments on the defense sustainment industrial base.

Before I get into the specific questions the Subcommittee has asked, I believe it is important to understand the basic fiscal and operational planning and dynamics that have governed our industrial base activities to fully appreciate the answers to your questions.

First, it is important to understand that the Department's total requirement for sustainment industrial base funding and, in turn, its ability to generate readiness is directly dependent on appropriate resourcing of both our Base Program and OCO requirements.

With respect to **contingency funding**, each Military Department had anticipated OCO funding levels sufficient to resource critical requirements associated with both operations in theater, as well as maintenance, repair and overhaul of military equipment returned from Iraq and Afghanistan. This later activity, or RESET of equipment, has for a decade been responsible for not only correcting damage induced by harsh environments and high OPTEMPOs, but also enabling extension of useful life of valuable equipment. Our success in RESET operations has drastically reduced the need for acquisition of replacement or new equipment. Equally important, it has enabled us to support the force

generation strategies of each Military Department that have been so critical in sustaining long-term operations in Iraq and Afghanistan.

With respect to operating under **Continuing Resolution**, there is not much I can add to what the Department's senior leadership has already explained. So let me just emphasize that operating under the restrictions of a Continuing Resolution, with an allocation of account-level funding that does not match our FY2013 requirements, has created an increased burden on the Operations and Maintenance accounts, effectively creating a shortfall in funding in the accounts that resource our industrial base operations.

With respect to **Sequestration**, if implemented, the funding implications are far greater in the O&M accounts than may appear at the surface. The President has exercised his authority to exempt Military Personnel accounts from sequestration in FY13, so other accounts must accommodate the full reduction to DoD. Moreover, the reduction to most base-budget O&M activities will be significantly greater than single-digit percentages being announced because of the need to protect OCO-funded programs directly supporting wartime operations. The impact of these reductions will then be effectively doubled by having to accommodate the full FY13 reductions in the last seven months of the fiscal year.

While each of these factors has significant negative impact in isolation, we must consider the combined effects to fully appreciate the impact on the National Industrial Base and, in turn, the impact on both near and far-term readiness. The combined potential shortfalls and cuts are so large, we anticipate reductions, delays and cancelations in work orders within our public depots and shipyards, and on contract with the private sector. These actions will begin as early as March and continue throughout the fiscal year. The Military Services will manage existing funded workload, resource the highest priority maintenance, and take all possible actions to mitigate the harmful effects on our sustainment industrial base capability, workforce and readiness. In addition, reversibility will play a key factor in prioritization of actions. However, given the magnitude of the combined, concentrated reductions, even the most effective mitigation efforts will not be sufficient to protect the sustainment industrial base. Both public and private sector

capability will sustain long-term damage and readiness will be seriously degraded. Full recovery, from just FY13 reductions, could take up to a decade. On top of that, current law requires additional reductions of approximately $55 billion to defense funding caps in each year from FY14 to FY21.

With that backdrop, I will address each of the questions you posed in an attempt to provide the underpinnings of the top-level situation assessment I just offered.

IMPACTS ON WORKLOAD TRENDS FOR DEPOTS AND ARSENALS:

For the last decade, as we engaged, surged, and then executed a drawdown in Iraq and Afghanistan, our sustainment industrial base responded to ensure both the readiness of deployed forces and the effective execution of each Service's force generation strategy. Sustainment requirements and workload in our industrial base have followed this basic trend. Sustainment industrial base requirements in support of in-theater operations have appropriately led force deployment levels to ensure readiness in theater; while sustainment requirements in support of RESET of retrograde equipment have appropriately lagged force deployment levels. This later point is critical in the understanding of the requirement to ensure proper and timely RESET of our equipment as we withdraw from Afghanistan. This is particularly critical for the Marine Corps and the Army that are depending on this funding to complete their RESET operations. While continually exploring ways to expedite repairs, increase efficiency, and reduce requirements, past estimates have indicated that RESET requirements would extend 2-3 years post-redeployment.

It is equally important to understand, while we have been strict in application of OCO funding in accordance with how it has been appropriated, our contingency sustainment operations include requirements that will endure beyond cessation of operations in Afghanistan.

In this context, the combined effect of operating under Continuing Resolution, potential reductions associated with sequestration, and emerging additional OCO costs, radically

impact FY13 sustainment industrial base funding levels. With effects concentrated in the last half of the fiscal year, unavoidable and immediate actions will result in maintenance production slowdowns, deferrals and cancellations within our public depots and shipyards. This situation will also result in reduction of contract orders and delayed new starts. Examples include:

For the Army:

Major workload reductions at:

- Tobyhanna Army Depot impacting Standardized Integrated Command Posts, Tactical Operations Centers, Electronic Shelters, and Firefinder Radar
- Letterkenny Army Depot impacting PATRIOT,
- Corpus Christi Army Depot impacting Army Aviation airframes, engines, and components,
- Anniston Army Depot impacting M1s, M88s, Howitzers, and Field Artillery Ammunition Support Vehicles, and
- Rock Island Arsenal impacting joint manufacturing capabilities.

The Army will need to release approximately 3100 temporary workers and term employees, and reduce contracted support across its depots and arsenals.

For the Navy:

Major workload reductions will result in cancellation of approximately 70% of ship's maintenance in private yards in the 3rd and 4th quarters of FY13, to include deferral of up to 25 ship availabilities impacting approximately 7000 contract employees, and work stoppage on refueling and overhaul of two carriers (Lincoln and Roosevelt). There are no current plans to cancel FY13 ship maintenance availabilities in public shipyards, but production will be impacted by the combined effect of hiring freezes, furloughs, and limits on overtime. The Government hiring freeze alone will result in a shortfall of required labor of approximately 2,100 personnel by the end of FY13.

On the aviation side, all aircraft maintenance inductions will be cancelled in the 3rd and 4th quarter affecting the maintenance of approximately 320 airframes and 1200 engines with major workload impacts at Fleet Readiness Centers at Jacksonville, San Diego, and

Cherry Point. As a result, diminished operational availability of these platforms will degrade Navy's ability to support future Fleet mission requirements.

For the Marine Corps:

The depot maintenance base program supporting ground systems will be reduced to below 30% of the baseline requirement. Major workload reductions will be required at both Albany and Barstow resulting in the release of over 800 term and contractor support personnel (approximately 1/3 of the workforce). These actions will substantively affect the maintenance of M1A1s, MRAP vehicles, AAVs, LAVs and a variety of tactical trucks, and delay RESET for 12 to 18 months.

Marine Aviation depot maintenance is resourced from Naval Aviation accounts and will, therefore, be directly affected by the reduction in Naval Aviation depot maintenance. Over 100 Marine aircraft will not be inducted as scheduled in FY13 and overall F/A-18 availability could drop to below 50%.

For the Air Force:

Reductions of approximately 30% of remaining workload will affect all three Air Logistics Centers and result in deferred programmed depot maintenance inductions of approximately 150 aircraft (the equivalent of 8 fighter squadrons) and 85 engine overhauls, as well as deferred sustaining engineering tasks, to include structural integrity programs, across all fleets. Additionally, contractor logistics support will be significantly impacted, with reductions of up to $750M, affecting numerous contractor sites and depot-industry partnerships. Collectively, these actions will push aircraft availability below standard on more than 30 weapon systems and degrade the Air Force's ability to support critical mission demands.

Department-wide:

These actions I just highlighted, across the Department, will degrade the condition of our military equipment, push substantial amounts of deferred maintenance and costs into the following years, and clearly impact our ability to execute future requirements. This is analogous to the effect a cancelled airline flight has on other scheduled flights – it creates

a ripple effect. Except the magnitude of the impact here is like the effect a major winter storm has on flights throughout the entire commercial airspace. In our case, the ripple effect will last for years and impact every part of our industrial base.

Further, the gross inefficiencies generated by these actions will also spill into future years. Financial losses generated within Working Capital Fund operations, as a result of reduced and cancelled 3rd and 4th quarter orders, will manifest themselves as substantial increases in rates, which will decrease the future buying power of the Services and defense agencies. As an illustration, a loss of $1B in FY13 must be accommodated, by statute and policy, as a rate increase in FY15 equivalent to that $1B. Those increased rates, then applied to FY15 workload, effectively reduce the amount of maintenance that can be purchased in FY15 by approximately that amount.

It is also important to understand the downstream effect reduced training and OPTEMPO have on sustainment industrial base requirements and operations. The anticipated operational reductions to accommodate the required funding reductions will, in turn, result in a reduction in spare parts demand. This reduction in spare parts demand has a downstream effect on the entire supply chain, to include depot workload associated with reparable parts. The lag time from a demand change in the field to the impact on depot orders is dependent on available inventory, but is typically between 3 and 9 months. With the magnitude of anticipated reductions in OPTEMPO for the remaining half of FY13, we should expect a significant decrease in funded depot and contract work orders for reparable parts in FY14, effectively creating another fiscal ripple that must be absorbed.

In the private sector, required actions will place a significant portion of our commercial industrial base capability in jeopardy. Large companies with diverse business bases will be able to absorb the impact; however, smaller companies and companies with strong Defense Department dependency will be at substantially more risk. Thousands of companies will be affected and hundreds will be placed at risk of bankruptcy. Any failures here will have direct impact on supply chain and maintenance operations and would likely take years to recover.

In the long-term, if sequestration is not reversed, the impacts on the sustainment industrial base will be severe. Our "Core" capabilities, or what we consider critical in support of our ability to support the national defense strategy, will be in jeopardy. Near-term measures to protect critical skills and capabilities will not be sustainable in the long-term. Future funding levels and associated workload reductions under sequestration and the associated out-year cap reductions will begin to drive industrial base capability below "Core" levels as early as FY14. And given our relatively fixed infrastructure and costs, work-hour rates will rise correspondingly, decreasing our efficiency and buying power.

IMPACTS ON FORWARD-DEPLOYED LOGISTICS:

In the near-term, there is no risk to forward-deployed logistics. The Department's clear priority is the protection of in-theater capabilities in support of military operations. As a result, sustainment industrial base activity and supporting maintenance and supply operations will be resourced to cover essential requirements. While necessary, resourcing these priorities will result in a higher percent reduction in funding in other accounts.

If sequestration and related out-year reductions endure beyond 2013, our ability to surge, deploy depot teams, or provide reach back capability in support of contingency operations and emerging threats will be impacted. The magnitude of this impact will be directly related to the duration and magnitude of the reductions.

IMPACTS ON NEW WEAPON SYSTEM MAINTENANCE:

Early in the process of fielding and operations, new weapon system maintenance is typically executed using contractor support and funded out of procurement accounts. As fielded quantities increase and operational capability matures, system maintenance transitions to a mix of public and private sector support and is resourced out of operations and maintenance accounts. With regard to impacts on new systems, there is nothing significantly unique that separates them from legacy weapon systems. They are all

subject to cuts under Sequestration with priorities going to systems that support current wartime operations.

IMPACTS ON THE ARMY'S NEW ORGANIC INDUSTRIAL BASE STRATEGY:

The Army's industrial base strategy is focused on three objectives: retain critical capabilities, maintain efficient operations, and ensure investment and regeneration. This strategy is founded on four basic tenets:

- manage capacity to satisfy sustained and surge operations as required,
- focus resources to meet operational requirements and sustain Depot "Core" and Arsenal critical manufacturing capabilities,
- promote public-private partnerships to leverage and protect critical capabilities in both sectors, and
- align decision-making at all levels to achieve common goals and continually improve efficiency and effectiveness.

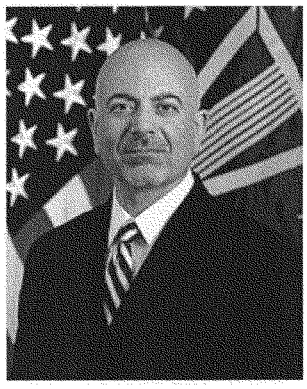
I've summarized the Army's strategic approach here, but it should be noted these objectives and basic strategic framework are shared across the Military Services. This structured approach to managing the industrial base is particularly important to the Army as it adjusts to post-Iraq and Afghanistan operations. More than any other Service, the Army will undergo the most significant adjustment in its industrial base because of the relative magnitude of the past growth required to support wartime operations and post-conflict RESET. Their strategy is appropriately structured to enable a synchronized and responsible drawdown and yield a stronger, more agile and efficient industrial base as a result.

If sequestration is not reversed and the out-year reductions occur, the Army's, and each Service's, industrial base strategy is at risk. Adjustments in funded workload will exceed the Department's ability to responsibly adjust its workforce and evolve its industrial capability. As a result, critical skills will be lost, reduced investment levels will impact competitiveness and relevance, major inefficiencies will emerge, and key public-private

partnerships will be unsupportable. The bottom-line is the Army's, and each Service's, ability to support surge and sustained operations will be seriously damaged.

Thank you Mr. Chairman, Ranking Member Bordallo, and distinguished members of the Subcommittee for the opportunity to address these critical issues.

Biography



John B Johns
Deputy Assistant Secretary of Defense for Maintenance Policy & Programs

Mr. Johns is Deputy Assistant Secretary of Defense for Maintenance. In this position, he is responsible for oversight of the Department's annual $90 billion maintenance program.

In 2010, Mr. Johns served in Iraq as Director, Training and Advisory Mission, Iraqi Ministry of Defense, and Director, Iraqi Security Forces Logistics where he was responsible for both the full range of advisory and training functions required to establish governance of Iraqi Defense operations, as well as, develop the logistics infrastructure and processes to maintain readiness of both conventional military forces and police forces.

In past assignments, Mr. Johns has served the Army and Navy in technology development, engineering, program management, and logistics positions. His assignments with the U.S. Army Aviation and Missile Command included Associate Director for Systems, Aviation Research, Development, and Engineering Center where he was responsible for the provision of engineering support to all Army Aviation systems, Principal Assistant Deputy for Systems Acquisition where he was responsible for lifecycle management of over 20 Army aviation, missile, and ground systems with an annual budget of approximately one billion dollars, and Deputy Commander for Systems Support where he managed overhaul and maintenance, or RESET, of all aviation and missile systems redeployed from Iraq and Afghanistan. He also served as Special Assistant to the Commanding General, U.S. Army Materiel Command from July 2004 to August 2005. In August 2005, he joined the Navy as a member of the Senior Executive Service as the Director of Industrial Operations, Naval Air Systems Command, and Deputy Commander of Fleet Readiness Centers, Naval Air Forces where he was responsible for naval aviation maintenance operations across six subordinate commands, with a workforce of over 14,000 personnel and an operating budget of approximately four billion dollars, and oversaw annual maintenance and repair of over 600 aircraft, 7500 engines and modules, and 500,000 components and support equipment.

Mr. Johns holds a Bachelor of Science in Aerospace Engineering from Penn State University and a Master's in Aeronautics and Astronautics from Purdue. He is also a graduate of the National Security Management Program, National Defense University.

Testimony

Of

Peter M. Steffes

Vice President, Government Policy

National Defense Industrial Association

Subcommittee on Readiness,

House Committee on Armed Services

February 28, 2013

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

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

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

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

Some of these examples may not be directly attributable to "sequestration" or the impact of year after year continuing resolutions, but are the realities of a reduction in the defense budget and the uncertainties of a normal appropriations process. Sequestration will certainly "speed" up the process of plant closures for many, but the real danger here is the forced closures of critical technology suppliers at a time when we must maintain current levels of readiness and be prepared to face inevitable challenges to national security in the future. Reconstituting these capabilities, not if, but when needed again, will take a lot of time and a lot of money and will have a significant impact on readiness. Managing these realities is and will be a challenge for all.

Some of the big defense producers may be able to adjust to forced and unplanned changes that a sequestration and continuing resolutions will inevitably cause. However, big businesses also heavily depend on second, third and sometimes forth tier suppliers, who will be the most vulnerable to going out of business. Small businesses do not have the resources to "weather the storm."

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

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

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

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

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

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

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

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

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

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

Thank you Mr. Chairman and members of the committee.

BIOGRAPHICAL SKETCH

PETER M. STEFFES
VICE PRESIDENT, GOVERNMENT POLICY

NATIONAL DEFENSE INDUSTRIAL ASSOCIATION

Peter M. Steffes joined the National Defense Industrial Association as Vice President, Government Policy on January 2nd, 2003. His responsibilities include directing the Government Policy activities of NDIA that include the Procurement Division, the Legislative Information Division and the Government Policy Advisory Division. Mr. Steffes acts as the primary NDIA interface with Congress and the relevant Executive Branch departments.

Prior to joining NDIA, Mr. Steffes was a Professional Staff Member on the House Committee on Armed Services, United States House of Representatives (1983-2003) and served as Lead Staff on the Military Readiness Subcommittee (1996-2002) where, in addition to directing the activities of the subcommittee concerning readiness and operation and maintenance account of the military services, he was also responsible for issues concerning maintenance and repair depots and shipyards, special operations forces, the Naval Petroleum Reserves, the Armed Forces Retirement Home, and the National Defense Stockpile of Critical and Strategic Materials. Prior to serving on the Military Readiness Subcommittee, Mr. Steffes served (1983-1995) on the Military Construction Subcommittee.

Prior to service with the House Committee on Armed Services, Mr. Steffes served in the United States Air Force, retiring in 1983 as a Chief Master Sergeant having served in North Dakota, England, Germany, Andrews AFB, MD, and the Pentagon. Primary duties in the Air Force included Air Traffic Control, Airlift/Aircraft Management, and Legislative Affairs.

Mr. Steffes and his wife, Barbara reside on Chincoteague Island, Virginia

DISCLOSURE FORM FOR WITNESSES

CONCERNING FEDERAL CONTRACT AND GRANT INFORMATION

INSTRUCTION TO WITNESSES: Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 113th Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants) received during the current and two previous fiscal years either by the witness or by an entity represented by the witness. This form is intended to assist witnesses appearing before the House Committee on Armed Services in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee.

Witness name: ____Peter M. Steffes_____ _____

Capacity in which appearing: (check one)

___Individual

_X__Representative

If appearing in a representative capacity, name of the company, association or other entity being represented: National Defense Industrial Association

FISCAL YEAR 2013

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

FISCAL YEAR 2012

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

FISCAL YEAR 2011

Federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
None			

Federal Contract Information: If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2013):_____None_____;
Fiscal year 2012:_____None_____;
Fiscal year 2011:_____ None_____.

Federal agencies with which federal contracts are held:

Current fiscal year (2013):_____None_____;
Fiscal year 2012:_____None_____;
Fiscal year 2011:_____None_____.

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2013):_____None_____;
Fiscal year 2012:_____None_____;
Fiscal year 2011:_____None_____.

Aggregate dollar value of federal contracts held:

Current fiscal year (2013):_____None_____;
Fiscal year 2012:_____None_____;
Fiscal year 2011:_____None_____.

Federal Grant Information: If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please provide the following information:

Number of grants (including subgrants) with the federal government:

Current fiscal year (2013):_____None_____;
Fiscal year 2012:_____None_____;
Fiscal year 2011:_____None_____.

Federal agencies with which federal grants are held:

Current fiscal year (2013):_____None_____;
Fiscal year 2012:_____None_____;
Fiscal year 2011:_____None_____.

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2013):_____None_____;
Fiscal year 2012:_____None_____;
Fiscal year 2011:_____None_____.

Aggregate dollar value of federal grants held:

Current fiscal year (2013):_____None_____;
Fiscal year 2012:_____ None_____;
Fiscal year 2011:_____None_____.

"THE IMPACTS OF SEQUESTRATION AND THE CONTINUING RESOLUTION ON DEFENSE INDUSTRIAL BASE ACTIVITIES"

Testimony of Cord A. Sterling

Vice President

Aerospace Industries Association of America

House Armed Services Committee—Subcommittee on Readiness

Washington, DC

Thursday, February 28, 2013

Chairman Wittman, Ranking Member Bordallo, other distinguished committee members, thank you for the opportunity to appear today and discuss the negative consequences of the continuing resolution and sequestration on the U. S. aerospace and defense industrial base and critical government programs that we support. My name is Cord Sterling and I am a Vice President at the Aerospace Industries Association (AIA). AIA represents 380 U. S. manufacturing firms in the aerospace and defense industry, a sector of our economy with over one million dedicated and talented employees.

The U. S. aerospace industry is one of the nation's most vibrant manufacturing sectors. The industry generated $324 billion in sales in 2010 and is the nation's largest net exporter. Aerospace and defense contributes 2.2 percent to the nation's GDP, including the payment of $38 billion in federal, state, and local taxes.

Economic Impacts of Sequestration

Many of you have seen some of the studies that we have made available which look at the economic and industrial impact of the current budget situation. Most widely used is the study conducted by George Mason economist Dr. Stephen Fuller that outlines the economic impact of the Budget Control Act. We estimate that sequestration will put at risk 2.1 million jobs nationwide. This includes 473,000 manufacturing workers and 510,000 federal employees. Many of these will be in the aerospace industry, which provides good, middle class wages and benefits for a highly skilled workforce. We estimate an additional 1.5 percent will be added to the nation's unemployment rate, which would put us back over 9 percent. While the timing of these impacts will be spread over a couple years and may be slightly diminished as a result of the small reduction in cuts made as part of the American Taxpayer Relief Act of 2012, they will still be large and devastating to families and communities across the country.

The economic impact of sequestration would be felt nationwide. No state would be immune from job losses and cutbacks in federal services. However, some states are hit especially hard. In fact, ten states would experience more than half of the job losses. When you add up the defense and non-defense cuts, Virginia, Maryland and Washington, DC would lose 450,000 combined jobs. California would lose 225,000 and Texas 159,000. The entire nation will face a tidal wave of job losses, just as we struggle to recover from the economic recession.

Mr. Chairman, these are not theoretical impacts or future projections. As you know, defense manufacturers have been laying off workers and canceling future plans for many months now because of this uncertainty. The process accelerated so significantly at the end of last year that our national economy actually shrunk in the fourth quarter of 2012. This was a shock to economists, who attributed it largely to the decline in defense spending. And this process continues. Just last week, the federal government reported that defense contract awards dropped by almost two-thirds in January, from $36 billion in December 2012 to only $12 billion in January 2013. This is forty percent below the amount experienced in the same month for the previous year.

Defense Impacts of Sequestration and the Continuing Resolution

Mr. Chairman, the impacts of sequestration on Department of Defense (DOD) programs are dangerous to both our national security and our economic revitalization. The fact is that DOD is being asked to bear a disproportionate amount of the cuts. Defense spending accounts for 20 percent of federal spending but must absorb 50 percent of the budget cuts. This comes on top of $487 billion reduction already imposed by the first round of the Budget Control Act.

Last year, we formed the Defense Industrial Base Task Force in partnership with the National Defense Industrial Association and the Professional Services Council. The task force worked with senior executives at manufacturing and service companies that support the U.S. military. As they looked at their business and the initial impact of the $480 billion in budget cuts projected over the next decade as part of the Budget Control Act, they determined these cuts could cripple certain defense sectors, resulting in an industrial base that is smaller, less innovative, and less responsive to urgent wartime needs. Impacts of major cuts would most likely include:

- Forcing firms to close production lines and lay off skilled full-time workers – beyond the thousands already let go in the wake of previous budget cuts and program cancellations– specialized manufacturing capacity and human capital that cannot be regenerated without great cost and significant time;
- Reducing or eliminating investments in capabilities beyond those needed to meet existing contracts; and
- Making defense companies and business units – manufacturing and service, up and down the supply chain – more likely to exit the sector altogether, consolidate further, or be divested by their parent corporation.

Consequently, defense executives predicted an erosion of the continuum of goods and services provided by industry – from R&D to advanced development and design, to production, and then sustainment and upgrade – that could result in critical gaps in military capability over time--and all of this is based just on the first $487 billion in defense cuts, not the $500 billion extra from sequestration.

We must also take into account that in the case of the Pentagon, Military Personnel, which constitutes 25 percent of defense spending, is exempt from sequestration, which means the other accounts such as Operations and Maintenance and Procurement, will have to absorb a larger portion of the cuts. This means the operating, training, and equipment maintenance accounts – and civilians supporting the DOD – must bear a heavier burden. Second, the BCA requires sequestration to "reach back" and cut not only FY13 accounts, but also prior year appropriations that remain unobligated.

Sequestration would severely undercut our long term national security efforts. The United States must invest in military capabilities to deny potential adversaries the ability to counter technological advantages that allow us to see battlefields with greater clarity and strike targets from greater distances with minimum collateral damage. We are already witnessing some of the world's major military powers making large strategic investments in anti-satellite weapons, cyberwarfare, advanced submarines, unmanned undersea vehicles, and other capabilities that could put our technological edge at risk. These investments are a potent reminder of the importance of maintaining robust defense procurement and research and development funding in the context of future budget decisions.

Mr. Chairman, amid all the discussion and debate about the negative impacts of sequestration, relatively little has been reported about the negative impacts of operating the Department of Defense under a long-term continuing resolution. However, we know that there is a $14 billion shortfall in the Operations and Maintenance accounts under the CR. This means that critical training and sustainment activities will not be performed unless this shortfall is corrected.

For example, the Navy, which has a $4.5 billion O&M shortfall, has reported that 23 ship availabilities will not be performed if increased funding is not provided in the next CR. Aircraft maintenance will be cancelled in the 3rd and 4th quarters, and modernization programs will be deferred as we are forced to rely upon aging, antiquated systems that are less capable and more expensive to maintain.

Sustaining current readiness will be impossible with the Joint Chiefs reporting that we are "on the brink of creating a hollow force" with sequestration coupled with the continuing resolution triggering a 20 percent cut in the operating budgets—grounding aircraft, idling ships, and parking combat vehicles. With less funding available for maintaining the equipment, buying fuel, and purchasing spare parts, training on our equipment will not be possible at the levels determined necessary by operational commanders.

The Continuing Resolution is also preventing a number of programs from moving forward as the rules of the CR do not allow "new starts." As a result, personnel and equipment stand idle, waiting for the authority to begin work. This increases costs, and creates programs delays, that will be felt for years.

Common Misperceptions of the Sequester

There are three common misperceptions about the sequester. All are dangerous, because they foster the impression that sequestration's impacts would not be as immediate or as bad as many have predicted.

The first misperception is that any agency should be able to find 7.2% in savings to its budget. This sounds plausible until you realize that the actual reduction is greater than that. Sequestration cancels a uniform percentage of each agency's annual appropriation on March 1, 2013. However, at this point in the fiscal year, agencies already have spent 40% or more of their appropriation. In reality then, DOD will have to cut its programs by at least a third more than this percentage suggests.

The second misperception we hear from some Congressional offices is that leaders can survey the damage after March 1 and restore funding to the hardest hit programs in the next CR. As you know, the sequester order is scheduled for March 1 and the current CR expires on March 27. Some have speculated that Congress could decide final funding levels for fiscal year 2013 in the next CR and selectively restore funds cut by the sequester.

The problem with this approach is that the impacts will not all be immediate. They will build over time, as agencies grapple with implementing the order. Our analyses all concluded that most private sector job losses would occur within 6-18 months of the sequester order as contracts expire. Furloughs of DOD civilians are not scheduled to begin until April 1. The sheer magnitude of these nationwide effects will not be evident in the first month.

Soon after these line-item cuts are announced- presumably this Friday -- individual programs will begin notifying industry of contract cutbacks and cancellations. Many of these changes include termination liabilities that will cost the agencies precious funding. And once the workers are gone, it will be difficult or impossible to get them back.

The final misperception is that increased flexibility can solve all of DOD's problems. While greater flexibility would undoubtedly aid the DOD in absorbing these huge reductions, it is not a panacea for providing an adequate budget. These cuts hit in the middle of the year, and as you know the Office of Management and Budget directed DOD and other agencies not to slow down obligation rates at the beginning of the year. Now in crisis mode, it is not surprising that DOD needs flexibility to address its near-term operating shortfalls.

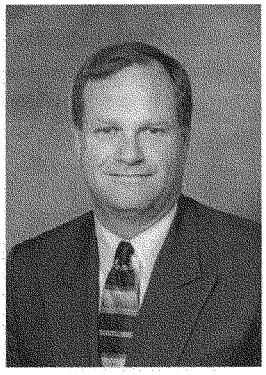
However, when you look more closely, flexibility without additional resources ends up savaging the very accounts that warfighters depend on for advanced equipment and long-term readiness. The investment accounts would lose billions of dollars which translate to significant equipment

reductions. Mr. Chairman, I would respectively submit that this committee did not overestimate the military's needs by $9 billion when you reviewed and authorized these programs for FY13. This magnitude of cuts in the investment accounts would result in fewer, older, and less capable tools for our young warfighters in harm's way. It would terminate promising R&D that would help us keep our technological advantage in future conflicts. And it would cause irreversible damage to a fragile defense industrial base. Mr. Chairman, the echoes of the old phrase "hollow Army" are ringing in our ears. We cannot let that happen again.

In conclusion, AIA supports approaches to our long-term fiscal situation that do not cause irreparable harm to our national security or to our defense industrial base. Thus far, our deficit reduction efforts have disproportionately targeted discretionary programs, which are a relatively small and decreasing share of the federal budget. Continuing to hold these programs hostage to a broader agreement has not worked for the past two years, and has brought us to the brink of disaster where we find ourselves today.

We also support reaching some resolution so that will end the use of long-term continuing resolutions that hinder the Department's, and industry's ability to operate efficiently and effectively starting new programs when they are ready and required, not when there is a political solution.

Mr. Chairman, thank you again for the opportunity to testify today on this important topic.



Cord A. Sterling

Vice President, AIA

As the Vice President for the Aerospace Industries Association, Cord is responsible for overseeing much of the external communication activities of the Association to the Congress, administering the staff, and establishing priorities at the direction of the President and the Executive Committee. Specific areas of legislative responsibility include defense budget including the impacts of sequestration, procurement policy, tax issues, and support of special projects such as campaign outreach. Cord supports the work and carries out the legislative agenda of the Executive Committee and the Procurement and Finance Council.

From 1992 to 1995 Cord worked for the U.S. General Accounting Office, National Security and International Affairs Division, where he performed independent research and participated in numerous evaluations of a variety of national defense issues.

From 1995-2001 Cord served as the Lead Professional Staff Member of the Readiness and Management Support Subcommittee of the Senate Armed Services Committee, responsible for keeping Senators advised on all issues involving the readiness of the U.S. Armed Forces and installations including oversight of the $88.3 billion budget request for military readiness accounts, depot maintenance, business operations, and other activities.

From 2002-2006 Cord served as the Military Legislative Assistant responsible for advising Senate Armed Services Committee Chairman John Warner on key national security matters and executing the Senator's decisions in relation to these matters.

Cord has been active and seen government from not just the federal, but also local

and state levels. In 2007 Cord was elected to the Stafford County Board of Supervisors which, as the executive/legislative body governing Stafford County, is responsible for enacting laws and setting policies, approving the Stafford County budget and appointing citizens to the several boards, commissions, and committees in Stafford County, Virginia. Cord serves as Chairman of the Finance and Budget Committee and the Infrastructure Committee.

In 2006 Cord was appointed by Governor Tim Kaine and confirmed by the Virginia General Assembly as one of 17 members of the Commonwealth Transportation Board which establishes the administrative policies for Virginia's transportation system and allocates funding to specific projects, awards contracts for those projects, locates routes and provides funding for airports, seaports, and public transportation systems. Cord was re-appointed in 2010 by Governor Robert McDonnell and works with localities, MPOs, and state transportation organizations in efforts to build and operate a more effective and efficient transportation system.

Cord was appointed by the Speaker of the Virginia House of Delegates, Bill Howell, in 2005 to the 17 member Virginia National Defense Industrial Authority which was created through an act of the 2005 Virginia General Assembly to continue the work of supporting future defense and military-related opportunities in the Commonwealth.

A former Marine, Cord has a Bachelors degree in economics and a Masters degree in National Security Studies, from California State University, San Bernardino.

DISCLOSURE FORM FOR WITNESSES
CONCERNING FEDERAL CONTRACT AND GRANT INFORMATION

INSTRUCTION TO WITNESSES: Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 113th Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants) received during the current and two previous fiscal years either by the witness or by an entity represented by the witness. This form is intended to assist witnesses appearing before the House Committee on Armed Services in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee.

Witness name: Cord Sterling

Capacity in which appearing: (check one)

___Individual

_X_Representative

If appearing in a representative capacity, name of the company, association or other entity being represented: Aerospace Industries Association

FISCAL YEAR 2013--NONE

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant

FISCAL YEAR 2012--NONE

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant

FISCAL YEAR 2011--NONE

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Number of contracts (including subcontracts) with the federal government: NONE

Current fiscal year (2013):_____;
Fiscal year 2012:_____;
Fiscal year 2011:_____.

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List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.): NONE

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Aggregate dollar value of federal grants held: NONE

Current fiscal year (2013):_____;
Fiscal year 2012:_____;
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DR. NICHOLAS J. AVDELLAS
PREPARED TESTIMONY
COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON READINESS
THURSDAY, FEBRUARY 28, 2013

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Office of Security Review
Department of Defense

FINAL VERSION OF TESTIMONY

DR. NICHOLAS J. AVDELLAS
PREPARED TESTIMONY
HOUSE ARMED SERVICES SUBCOMMITTEE ON READINESS
THURSDAY, FEBRUARY 28, 2013

Chairman Wittman, Ranking Member Bordallo, and Members of the Committee, thank you for the opportunity to provide testimony on assuring viability of the sustainment industrial base. The opinions and positions expressed by me today are my own and not those of LMI or the government.

This is an issue that is critically important for future force-projection capabilities. I sincerely appreciate the Committee's ongoing efforts to make sure that our troops are properly trained and their equipment is properly sustained so they can succeed in their missions, and that they have the facilities and services they will need when they return home.

As requested, I will address my sense of the immediate impacts of a Continuing Resolution and Sequestration on workload trends for depots and arsenals, forward-deployed logistics, new weapon system maintenance, and the Army's new Organic Industrial Base Strategy. I do not have visibility into all aspects of Department of Defense (DoD) or commercial provider activities in these areas, so some of my remarks are necessarily general in nature.

I would like to begin with a broad description of the sustainment situation that the Military Services, and particularly the ground forces, will face over the next few years, as American forces withdraw from Afghanistan and force structure adjustments occur. In addition to an ongoing troop reduction, the Services will also need to withdraw large amounts of combat and support equipment from Afghanistan. Much of this materiel has been in use in austere and often harsh environments for years, and will require refurbishment or overhaul before it can be re-issued to operating units. Our earlier research has shown that there is normally a two-year lag between withdraw of forces until their materiel is actually inducted into overhaul depots or commercial facilities for repair. This is a typical time interval, but the implication is that the depot maintenance repair sites will need to continue operating at some elevated level of effort after the troops come home if existing combat units are to recover their combat capabilities in the near term – assuming that a similar force structure is contemplated in the near-term.

The need for refurbishment of retrograde materiel implies a need for sustained funding levels at the very time we are discussing substantial resource reductions. This apparent contradiction serves as the backdrop for my testimony.

Given that backdrop, I would like to briefly address some key tenets about my sense of what assuring viability of the sustainment industrial base entails. While your subcommittee is now focusing on potentially damaging resource reductions, we must be cautious to examine these reductions in the context of readiness requirements and their related sustainment processes. There is no doubt that the DoD is faced with both

considerable and sudden resource decreases as well as longer term fiscal pressures. The looming, inflexible and "across the board" nature of these potential nearer term actions will undoubtedly cause some disruption in our sustainment industrial base. So the real issues relate to the extent of the impact, and the strategies necessary to cope with reductions while re-shaping what remains in that base to assure readiness capabilities for the future. DoD needs to define the right amount of sustainability to produce viable and responsive readiness. Ultimately, the process for doing so needs to be included in a new and forward-looking strategic planning effort that I will discuss further in these remarks.

I believe the situation must prompt Congress and the DoD to do some critical deliberating about the nature of the relationship of logistics, or sustainment, to our military strategy. Discussions about tooth or tail, readiness or sustainment, maintenance or operations, equipment or personnel must be approached from a wide-ranging, inclusive perspective. There is also a pressing need to discuss sustainment; it is expensive, accounting for as much as two thirds of weapon system life cycle costs.

The unity of sustainment and strategy must be stressed because this relationship is becoming more important, in fact it is necessary to view these two elements as critical aspects of U.S. military capability. I would propose that ***responsiveness*** is the link we must focus on and this is central to what sustainment viability means moving forward. In fact, in our system, the two (sustainment and strategy) must be mutually responsive. The sustainment industrial base is part of a larger set of activities that generates military capability, it underpins our fighting capability.

Viability of the industrial base, then, should be considered in the context of force structure and operational needs – and what workloads and capability requirements those needs drive. In general, multi-year sequestration effects will logically reduce force structure and operational capabilities, and the industrial base will react to those reductions – hopefully in a balanced way. By balance, we mean that what we must work towards is an industrial base that is efficiently structured and funded to deliver what the forces need, or require, or ask for in terms of readiness and capability. Workload reductions associated with the prospective end of overseas contingency operations, the budgetary effects of sequestration, and parallel efforts to reduce the Defense budget could have a significant combined effect on force structure itself, and the sustainment capabilities that support that force structure.

If Continuing Resolutions, budget reductions and Sequestration are focused disproportionately on one aspect of the equation – force structure, operations, an element of sustainment, or a particular part of the industrial base, imbalance will result. If we focus on the industrial base or sustainment without relation to force structure and/or operations, then readiness and capability cannot be delivered over time and deferred maintenance will result. This sort of imbalance was a contributing cause of the "hollow force" of the late 1970s.

In reality, decisions about potential hollow force issues may need to be shaped by logistics support realities, i.e., can or should logistics and sustainment affordability

influence force structure – in this case the question could become, should total life cycle costs and affordability shape the force? Is it better to have hardware that's not ready or capable or perhaps a smaller but balanced, ready capability? Or is there some alternative approach that can achieve both readiness and balanced hardware capability, albeit with lower resource expenditures?

Viability of the industrial base, then, should mean that it is responsive, capable, and efficient in the context of the future requirements for which it is established and maintained – not in reference to its past size, nature, strength or composition. Viability of our sustainment industrial base means to support a continuing state leading into the future – it is sustainment of a balanced set of force support requirements.

Overall, it appears that crafting this new balanced baseline is going to occur in an environment of continuously declining funding levels. Competition for available funding is going to increase. To the extent feasible, it will be essential to extract substantially improved productivity from a smaller and potentially shrinking sustainment base. For this reason, major management efforts must be tailored to improve productivity despite a declining workload. This is a daunting challenge; one that calls for effective strategic planning that starts with a comprehensive baseline of current capabilities. It also requires a considerable shift in thinking for a sustainment system that has not faced much in the way of declining resource levels over the past decade.

Impacts of a Continuing Resolution and Sequestration on Workload Trends for Depots and Arsenals

A Continuing Resolution and Sequestration will aggravate on-going actions that the depots and arsenals have underway to address Overseas Contingency Operations (OCO)-driven and related force structure adjustments. Overall organic workload is going to reduce after about two more years of catch-up with a concurrent reduction of overtime and non-career employees and contract workers, and a further reduction of career government hires towards a new baseline level comparable, in some respects, to 2003 levels. The actual level of costs should be somewhat higher than 2003, reflecting a decade of escalations for both labor and material.

There has already been a slight reduction in force structure, and related sustainment workload, which has been masked to some extent with modernization requirements for the remaining fleet. As this remaining fleet is modified, and the modification workload prospectively reduces, the declining workload associated with the remaining force structure will become more evident and public and private sector sustainment workloads will most likely decline again to some degree. That is, they will decline first for the return to a new baseline (less OCO) and again from programmed reductions in the peacetime workload. The potential replacement for that lost workload, defined as depot activations for new weapon system bed downs, is generally slipping to the right for most major systems, leaving a prospective "hole" in workload as we move towards the end of the decade. Both government and industry will be affected by this probable workload "hole," especially since the private sector has a substantial share of the modernization funding, which will be declining.

What is the nature of the DoD reaction going to be in the different force structure and related commodity areas? For example, will aviation see a lesser impact than, say, ground combat vehicles, especially in support of a new Pacific strategy? Given the potential for disproportionate force structure reductions, it is quite likely that depots, arsenals, and commercial providers responsible for supporting the declining portions of the force structure will also be drawn down more in relation to the overall sustainment base. It is reasonable to expect that there may be more serious issues for particular segments of the sustainment base as it accommodates these uneven force structure reductions. On the other hand, there will probably be other areas that can adjust workload mixes to maintain sustainment capabilities until the funding situation stabilizes (albeit at a new normal level) and new weapon systems are actually fielded.

Impacts of a Continuing Resolution and Sequestration on Workload Trends for Forward-Deployed Logistics

Operation Iraqi Freedom (OIF) required and benefitted from directed forward capabilities that were deployed from the sustainment maintenance establishment. It is not easy or quick to deploy a depot capability, because of the infrastructure and human resources required, and in that respect the length of OIF operations allowed establishment of longer-term capabilities. To the extent that forward deployment of sustainment capabilities offers a model for future engagements it will probably be evidenced in prepositioning of such capabilities at or near contingency locations. On the other hand, fiscal constraints will probably tend to constrain the amount of contingency infrastructure that can be built for the future.

It is interesting to note that there has been relatively less sustainment capability deployed into Afghanistan, reflecting the necessity of airlifting a great deal of day-to-day sustainment requirements at relatively higher cost; for that reason, forward deployment has not seemed to be as applicable in Afghanistan. Nevertheless, Iraq demonstrated that forward deployment can be both successfully done and beneficial, at least when related workload requirements are surging. It is a model we should consider as part of future viable sustainment and maintenance capabilities.

Impacts of a Continuing Resolution and Sequestration on New Weapon System Maintenance

New systems may not need as much maintenance as the systems they replace, especially if we achieve reliability and availability goals envisioned in system design. New systems also tend to be contract-supported while they are under development, and current trends indicate new systems may be in development status for protracted periods of time. A key example is the Marine Corps version of the Joint Strike Fighter, the F-35B, which now has a planned initial operational capability, or IOC, about fiscal year 2016. If depot maintenance capability must be established for that aircraft by IOC+4, then it will be established by fiscal year 2020 at the earliest. Since the Marine variant is the earliest planned IOC for the JSF, we can conclude that the JSF is not likely to replace other lost workload for the better part of the current decade. Further

slips in IOC may result from the funding impacts of continuing resolutions and sequestration, and could easily impact additional workload requirements.

Meanwhile, as already mentioned, planned retirements of existing force structure will inevitably change the workload requirements for the depots as older workloads decline and new technologies are introduced. To the extent the new capabilities reflect smaller force structures with higher reliability components; it is possible we will see the new requirements pushing workload trends down. In addition, to the extent that newer systems are being supported by an increasing proportion of Performance-Based Logistics (PBL) contracts, the majority of the logistics support requirement that has come back to the DoD thus far is the depot maintenance hands-on effort through partnerships. So far, we haven't seen much return of other logistics functions to the organic sustainment base, at least when compared to historical proportions that were largely organic. This is a matter under active review by Office of the Secretary of Defense (OSD) and the Military Services.

Impacts of a Continuing Resolution and Sequestration on the Army's Organic Industrial Base Strategy

The Army's recently released *Organic Industrial Base Strategy* includes some essential structure that could be applied analytically across the Military Services. It can have an impact on associated budget mechanisms by supporting holistic consideration of sustainment industrial base options and risks.

The Army's plan addresses the need to define future requirements, but only in terms of specific goals and objectives for core-supported Program Objective Memorandum (POM) funding levels. The POM focus could be extended to the end of the decade.

As outlined in the plan, new baseline workloads for certain weapon systems are projected to be as little as a third of peak OCO years; there is an implication that it could be time to single-up public sector organic sourcing (HWWMVs are a clear example). This implication requires thorough analysis and planning to make sure such workload shifts yield predictable consequences and cost-effective outcomes.

The Army's plan addresses the need for capital investment to establish repair capability for new technologies and workloads, and that investment is usually associated with the new weapon systems themselves as a part of the expense of establishing their capability. It suggests a second reason why the depots need modernization, and that relates to the existing infrastructure, worn from a decade of high-surge operations and now in need of productivity-enhancing investments that will lower the cost of their future operations.

Plans such as the Army's need to address sustained operational funding, modernization funding that can be offset through reduced cost of operations, and capital investment funding for new weapon system sustainment. The Military Services need to plan for what the related requirements will actually entail, and assess the impacts of a

lack of any category of the funding, in their long-term strategic planning. That kind of planning will give the Services better visibility into their long-term requirements, provide better justification for the funding itself, and provide a basis for exploring alternatives when funding constraints limit necessary capabilities.

Conclusions and Recommendations

Overall, the resource realities exacerbated by a Continuing Resolution and Sequestration suggest a smaller workload that must be effectively positioned within the sustainment industrial base. These realities may require innovative approaches in addition to sound strategic thinking. In that regard, I conclude that DoD and the Congress should consider moving to:

- Emphasize the need for detailed strategic planning for the future, characterizing current conditions, identifying requirements for new capabilities and modernization that extend through the decade, not just the Future Years Defense Program (FYDP). This should apply to both organic and contract providers and might include considerations for an integrated management arrangement.

- Contemplate longer-range proposals for sustainment concepts that embrace the broad programs with their many goals, agents, and stakeholders, including public and private sector actors. This kind of planning will require some resource investment and a rise in the level of visibility and comprehension for the areas in which the Services intend to improve. In this case, the Department could consider expanding on-going industrial base reviews to include greater sustainment understanding and scrutiny.

- Formulate and implement partnering approaches that could have some additional dimensions, including arrangements that leverage modernization that could be provided by the private sector. In general, we must support efforts in modernization and collaboration that achieve the best possible result from taxpayer investment, which should include both sectors. We must seek truly co-operative networks that increase responsiveness through flexibility.

- Review and potentially revise Centers of Industrial and Technical Excellence (CITE) designations in the midst of the draw-down. DoD may need to apply CITEs in a more structured manner to improve future depot capability.

- Apply the core capability determination process as a foundation for a new and powerful risk management process. Use the Army's plan as a baseline model to drive constructive public and private sector behavior and workload management. Devise more constructive OSD and Military Service relationships in this context and provide some degree of strategic

oversight.

- Consider experimental development of dual-use facilities that can economically support commercial workloads under public-private partnerships while also being able to quickly be converted to support contingency-driven requirements.

I recommend that DoD, industry and the Military Services establish strategic planning capabilities that can address the challenges of maintaining responsive sustainment capabilities in the face of declining resources, including the application of experiments or prototype arrangements that could substantially contribute to the objective.

That concludes my testimony, I would be pleased to respond to any questions you may have.

Dr. Nicholas J. Avdellas is a program manager at LMI. LMI is a government consulting firm committed to helping government leaders and managers reach decisions that make a difference. LMI draws on its 50 years of experience as a pioneer in logistics by applying an unmatched knowledge of people, processes, and assets to a variety of sectors, including defense, intelligence, healthcare, energy and environment, homeland security, and civil government.

Dr. Avdellas supported the congressionally mandated study on the future of the DoD depots in 2009-2011. He is a career logistician with extensive experience in Navy supply chain management, management consulting with the original PriceWaterhouseCoopers, and a variety of management studies at LMI.

Nicholas J. Avdellas

Address

609 Longfellow Drive, Leesburg, VA 20176

Professional Qualifications

Dr. Avdellas is a systems analyst and program manager with 26 years of experience as a federal civil servant and management consultant. He has developed Department of Defense (DoD) supply chain and maintenance management policies and programs, developed and implemented logistics information systems, analyzed and improved processes, and performed strategic planning. Dr. Avdellas has also published several articles about strategic and resource issues that face the federal government, and he has used his project management and consulting skills for all branches of DoD and many public institutions.

He currently supports analytical projects for the DoD in the areas of maintenance requirements, capability and workload analysis, maintenance planning and source-of-repair determination, industrial operations analysis, public-private sector integration, and maintenance management systems assessment and development. In this role, he has provided key resource and capability analyses focused on war-fighting capabilities, maintenance efficiencies and capacities, readiness requirements, and maintenance resource requirements.

During 2009-2011 he was a primary author of a congressionally directed report regarding the future capability of DoD maintenance depots. This report addressed the capability and efficiency of DoD's maintenance depots to help ensure that they can provide the logistics capabilities and capacity necessary for national defense. This independent study served as a foundational document for DoD and Congress as they work to improve this important area of defense logistics management. The study highlights key factors that will be critical in shaping the future of DoD maintenance depots.

Education

PhD, Public Administration and Policy, Virginia Polytechnic Institute and State University, 2005

MA, Public Administration and Policy, Virginia Polytechnic Institute and State University, 1995

BA, English, Dickinson College, 1987

Certifications and Licenses

Lean Six Sigma Black Belt Certification, January 2007

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Witness name: Nicholas John Avdellas

Capacity in which appearing: (check one)

✓ Individual

___Representative

If appearing in a representative capacity, name of the company, association or other entity being represented:

FISCAL YEAR 2013

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant

FISCAL YEAR 2012

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant

FISCAL YEAR 2011

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Fiscal year 2012:_____;
Fiscal year 2011:_____.

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

FEBRUARY 28, 2013

QUESTION SUBMITTED BY MS. SHEA-PORTER

Ms. SHEA-PORTER. The Portsmouth Naval Shipyard lies at the eastern edge of the district I represent, the First Congressional District of New Hampshire. Since the strength and efficiency of our shipyards is an essential factor in overall naval readiness, I am very concerned about the severe defense budget constraints, the uncertainty, and the indiscriminate sequester cuts that are taking an immediate toll on civilian workers and on shipyard readiness, with furloughs imminent and the attendant decline in productivity that will entail. While the immediate impacts of such resource pressures on several aspects of the sustainment industrial base were the primary focus of the hearing, can you discuss the longer-term strategic risks that Congress and the Department of Defense will face with regard to the sustainment industrial base, should these severe constraints continue? What processes exist to address such strategic risks?

Dr. AVDELLAS. The fiscal situation that the Department of Defense (DOD) finds itself in is unprecedented in many respects. I believe DOD will work to mitigate the long term organic sustainment risks of sequestration through implementation of core (10 USC § 2464). The core capabilities determination process identifies the capabilities and sustaining workloads necessary to help ensure a ready and controlled source of technical competence. The process also addresses the resources needed to respond to military mobilization, contingencies and other risks or emergencies. As the Military Services seek to minimize the operational impacts of sequester, there will be increased pressure on sustainment resources. DOD's logisticians will have to be vigilant to ensure core sustaining workloads are funded in order to retain strategic sustainment industrial base capabilities and competencies.

Additionally, I believe the DOD is addressing longer-term strategic risks in the sustainment industrial base by supporting the development of improvements to the core capability determination process. Aspects of it are being incorporated as part of an updated and improved depot maintenance source or repair decision process. These developments could help protect critical capabilities within the Nation's depots, shipyards, and arsenals should anticipated resource constraints continue.

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