

Oral Summary

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Chairman **Durbin**, Ranking Member **Cochran**, members of the committee: On behalf of the Aerospace Industries Association, our **380 companies** and over **one million employees**, let me thank you for the opportunity to testify today on the critical issue of sequestration and the health of our defense industrial base.

Many people have **heard about the sequester**, but they **don't know** that those are **not** the only cuts facing our **military**. The **Budget Control Act** started with a reduction of **\$487 billion** over **ten years** starting in fiscal year 2012. It then imposed **additional** cuts that were **never** supposed to happen. Unless changed, the sequester will **reduce defense spending** by an additional **\$500 billion** by fiscal year **2021**. Together, these cuts **represent a nearly \$1 trillion cut** to the defense budget over **ten years**.

When the sequester hit this past March, the **procurement account** was decreased by **\$9.8 billion**. The **R&D** account was cut **\$6 billion**. Together, these accounts

were cut **nearly nine percent**. These cuts represented **more than 40 percent** of the total reductions to the defense budget.

And these reductions would have been **worse** if the military hadn't been able to **mitigate the impacts** with the use of **unobligated funds**. Moving forward, however, they **won't have that option**. Furthermore, **in 2014** we will have a full **12 months** of sequester cuts – **some \$52 billion** -- as opposed to the **pro-rated amount** this year. DOD has indicated the modernization accounts could go down by as much as **20 percent**, a cut of **\$26 - 33 billion**. In fact, **Bloomberg** just reported that Pentagon **contracts fell 66%** in October.

In its recent report, the **Bipartisan Policy Center** determined that the **impact of the defense sequester** on spending is likely to **double in fiscal year 2014** and **triple in FY 15**. They estimate that, if not changed, the sequester will **erode force readiness, stall modernization**, and reduce our fighting forces by **at least 50% by 2021**.

If DOD continues to allocate its sequester reductions the way it has so far, the **total reduction in modernization spending** over the **next five years** could be as

high as **\$147 billion**. Ultimately, **slashing procurement and R&D** will threaten our industry's ability to **deliver these capabilities** in the future.

It is also likely that **postponing production of these systems** will cause the **loss of technical expertise and manufacturing facilities**. Defense companies will be **forced to cut costs**, which really means **facilities and people**. As Deputy Defense Secretary **Carter** said in 2011, "**we cannot assume that the defense industrial base will always be there.**"

The **effects** will get worse over time, but they are **already being felt**. We see **reductions in staffing** at the largest firms **averaging about 6%**, with at least **one company** reducing staff by **over 16%**. As more **contracts come up for renewal**, we expect to **see these numbers increase**.

However, the **more significant concern** is at the **supplier level**. While the **public may think** of the defense industry as a **half-dozen large companies**, our industrial base is, in reality, mostly **small and mid-sized companies**. They provide **unique and specialized products** that are **not typically found in the commercial sector**. Up to **three-quarters of every dollar** awarded to a **prime contractor** is ultimately spent **for subcontracted goods and services** at lower tiers of the

industry – **smaller companies** with **less capacity to absorb big drops** in funding. During this entire budget debate, **defense supplier companies** have been **largely forgotten**. Two of our suppliers -- **BRS Aerospace and Seal Science** – are on the panel today, and will cover these concerns in more detail.

Last July, **Secretary Hagel** said the sequester could force a **fundamental choice** between a **technologically advanced military**, and **one near its current size but deploying few or no new capabilities**. He described this scenario as “**a decade-long modernization holiday**.” America’s defense industrial base **will not survive** another **modernization holiday** in its current form. We would likely **lose many suppliers**, and **many of the capabilities** needed to **guarantee** U.S. military **technological superiority** in the future.

In closing, AIA believes Congress must end the sequester. Failure to do so will **severely damage the defense industrial base**, and **cripple our ability** to deliver when the **next crisis** develops.

That completes my statement, and I am happy to answer any questions you may have.