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**Talking points submitted in lieu of an opening statement for 22 OCT 15 Open Meeting**

- GENERAL HAM, MEMBERS OF THE COMMISSION, I ECHO LTG MURRAY IN THANKING YOU FOR THE OPPORTUNITY TO DISCUSS THE STATE OF OUR INDUSTRIAL BASE AND ADDRESS YOUR QUESTIONS ON OUR MODERNIZATION PROGRAMS.
- The Defense Industrial Base is the Department of Defense (DoD), government, and private sector worldwide industrial complex with capabilities to perform research and development; and, design, produce, and maintain military weapon systems. The Army addresses the industrial base in terms of both organic capabilities (depot and arsenals owned by the government that are either government or contractor operated) and the Defense Industrial Base.
- The Army Industrial Base is transitioning from supporting wartime requirements to supporting regionally-aligned rotational operations and generating surge forces for decisive operations, and the Army has been proactive during the past five years to ensure Army Organic Industrial Base capacity and capabilities are sized commensurate with the drawdown of combat operations. As LTG Murry mentioned, this transition is taking place within an environment characterized by constrained resources.
- The Army is taking several actions to reshape the organic industrial base to support the Army of 2025. We're assessing the organic industrial base capabilities and capacities and effectively aligning and shaping them to planned workloads. We are not sustaining aging systems that are planned for divestiture within the next five years, and we are continuing to Reset and sustain our modernized platforms. This strategy will enable the Army to sustain and modernize our most modern fleets, while accomplishing our Title 10 requirements to sustain core depot and critical manufacturing capabilities necessary to fight and win.
- For the Organic Industrial Base, we remain most concerned with maintaining sufficient workload at our manufacturing arsenals to sustain critical skill sets. We have taken a strategic approach to maintenance and arsenal manufacturing capabilities in a post-OCO environment and thus, we continually study depot and arsenal operations to ensure they are flexible and meet the evolving nature of joint support.
- Significant reductions in the defense budget affect both the Organic and Defense Industrial Base sectors across all portfolios. We are responding by aligning the capacity, workforces and facilities of the organic industrial base depots and arsenals to sustain their core depot and critical manufacturing capabilities, respectively. Major defense firms are responding by reducing excess capacity, streamlining

processes, and revamping supplier relationships, while some smaller suppliers are exiting or dramatically reducing their investment in the defense industry.

- The Army's greatest concerns in the private sector are directly related to the ability of the Defense Industrial Base to support the engineering, development, and production of weapon systems. The impacts of sequestration and reduced investment will be significant as companies may view other non-defense sectors as more attractive and direct their own modernization, research, and production capacity away from the defense sector. Perceived uncertainty in future modernization will also discourage potential vendors. Early actions needed to compete for major programs may be seen as too costly to offset long-term benefits. Longer-term reductions in funding will threaten the Army's future modernization efforts and place major acquisition programs at risk. Mitigation of adverse impacts is being addressed through extended production in certain programs, investment in key suppliers on a case-by-case basis, and advocacy for Foreign Military Sales (FMS). Additionally, the Army initiated studies to take an independent look at specific portfolios within the industrial base to assess their health, identify critical capabilities, assess potential supplier risk, and recommend strategies to mitigate these risks in a cost-effective manner. Based on the results to date, the Army is making investments in specific portfolios to mitigate risk. In the aviation portfolio, multi-year contracts for Black Hawk and Chinook helicopters provide stability and predictability to the industrial base while achieving significant cost savings for the Army. In the combat vehicle portfolio, new production of PIM and AMPV, as well as incremental upgrades to Abrams, Bradley, and Stryker help to ensure that a sufficient workload will sustain critical workforce skills and suppliers.
- In the end, with the possible return of sequestration in FY16, the Army's equipment modernization and Defense Industrial Base each face significant risks. These risks include fewer mitigation options, aging fleets, challenges to overmatch, higher sustainment costs, eroding organic and inorganic industrial bases, longer timelines to regenerate battle lost equipment, and higher costs, which will leave our Soldiers less prepared for future conflicts.
- I look forward to your questions regarding our industrial base and programs of record.