



# **DCMA Defense Industrial Base Critical Infrastructure Conference**

**September 1-3, 2009**

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Office of the Director  
(Industrial Policy)**



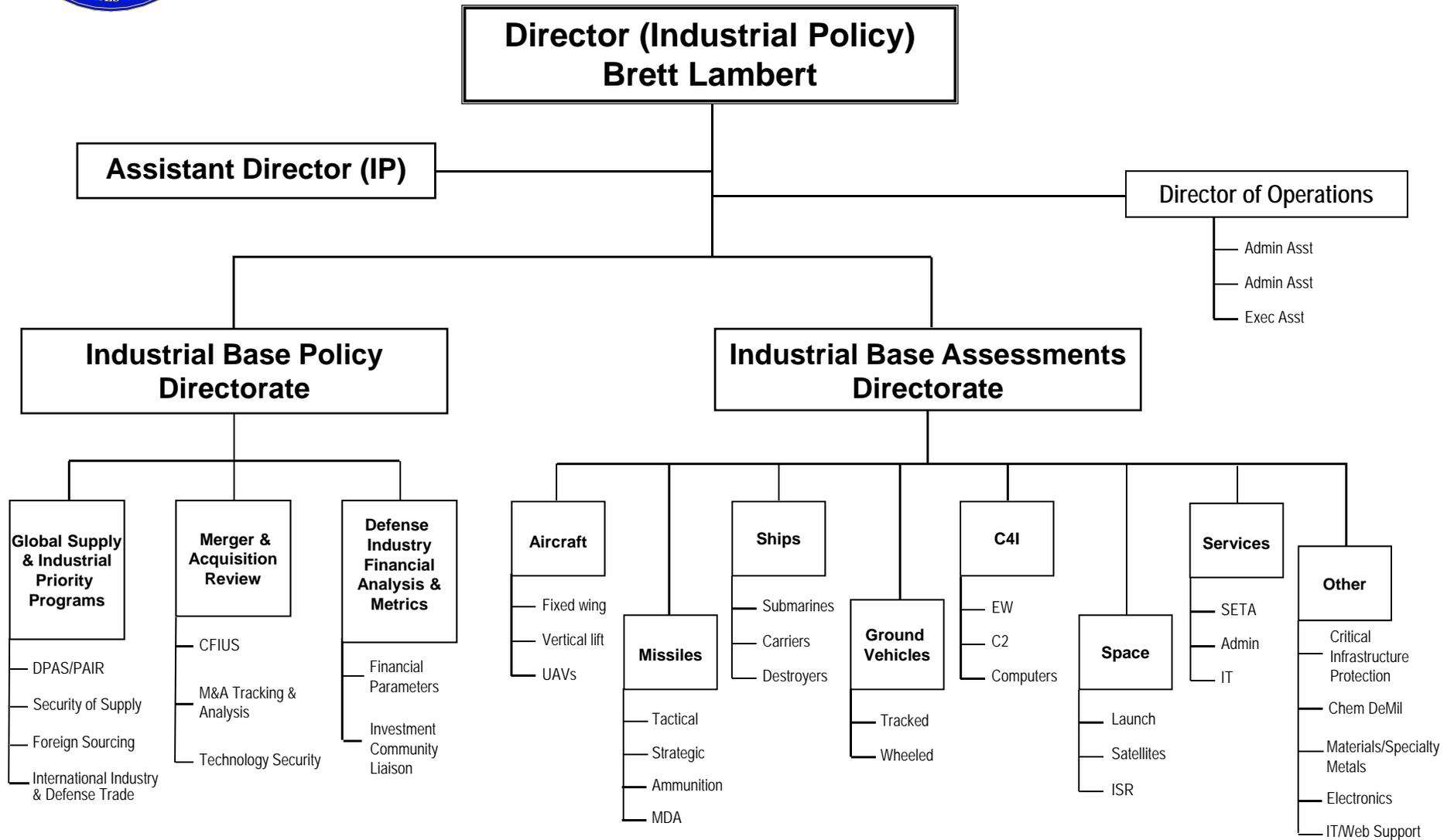
# Outline

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- Industrial Policy (IP)
  - Who we are
  - What we do
  - Relationship with DCMA/Industrial Analysis Center (IAC)
- Statutory/Regulatory Processes
- Sector Industrial Capabilities Assessments
- Emerging Defense Industrial Environment/Future Challenges



# Office of the Director (Industrial Policy)





# U.S. Defense Industrial Strategy

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- Rely on market forces to the maximum extent practicable to create, shape, and sustain those industrial and technological capabilities needed to provide for the nation's defense
- Intervene in the marketplace only when absolutely necessary to create and/or sustain competition, innovation, and/or essential industrial capabilities
- The Department of Defense can, and does, create market forces – most frequently within “defense-dominant” market segments – through its budget, acquisition, and logistics processes





# Promoting Civil-Military Integration (CMI)

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- CMI is the process of merging the defense industrial base and the larger commercial industrial base by using common technologies, processes, labor, equipment, material, and facilities to meet both defense and commercial needs.
- DoD promotes CMI as it leverages the commercial market to the benefit of defense programs.
- Emphasizing preference for commercial items (10 U.S.C. 2377)
- Discouraging defense-unique industrial capabilities and solutions unless commercial facilities and products are unacceptable



# IP Relationship with DCMA/IAC

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- Industrial Capability Assessments
  - Annually coordinates Department assessment needs
  - IP asks ICA to perform specified assessments
- Joint Industrial Base Working Group (JIBWG)
  - IP chartered JIBWG (held semi-annually)
  - IAC leads JIBWG activities
- Defense Industrial Base Critical Infrastructure Program (DIB CIP)
  - IAC is Executive Agent for DoD DIB CIP
  - IAC develops DIB CIP Critical Asset List (updated annually)
  - Provides Critical Asset List to IP who coordinates and gets AT&L signature before forwarding to ASD (HD&ASA)



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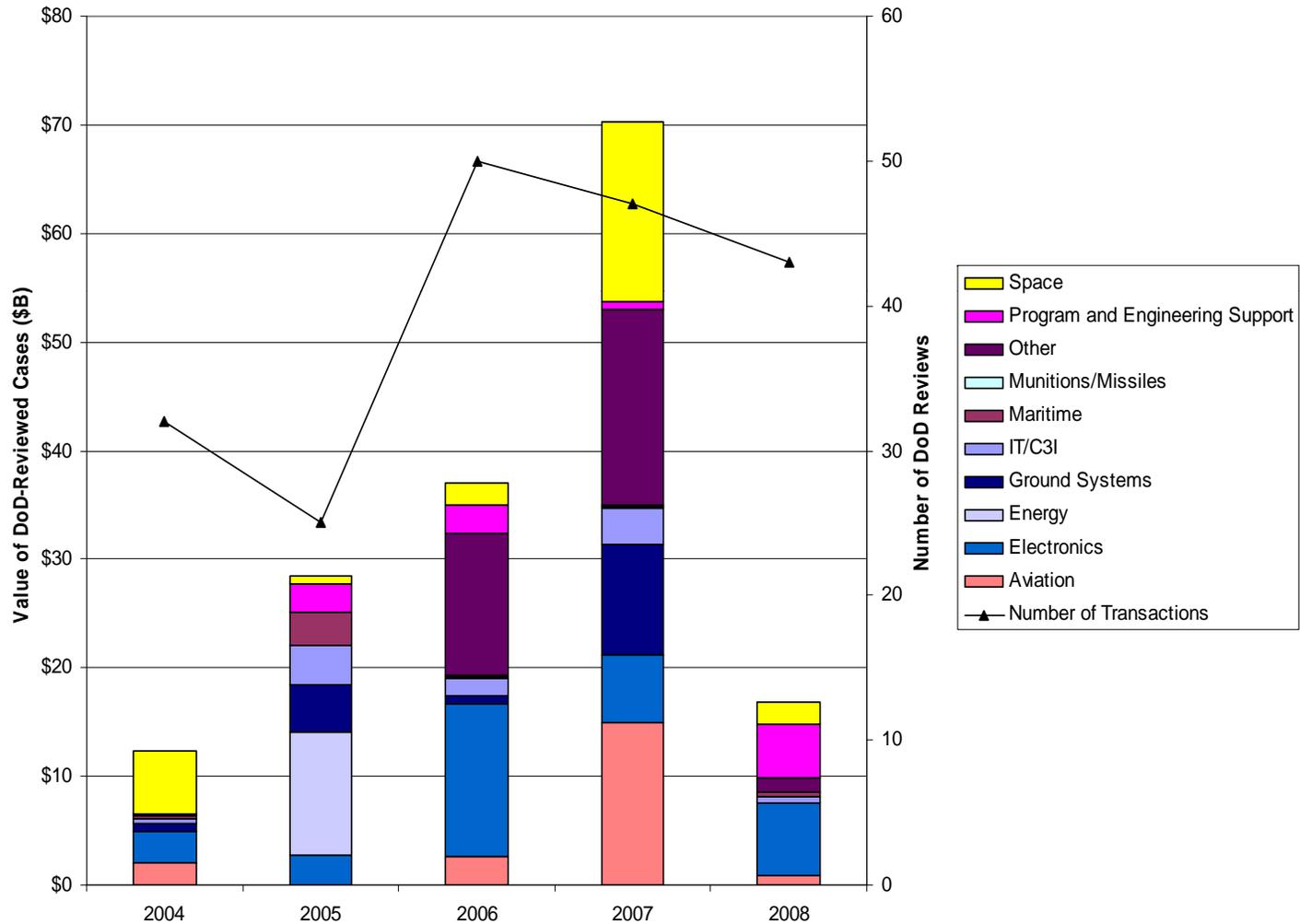
# DoD Merger and Acquisition Reviews

- AT&L and General Counsel conduct DoD evaluation and facilitate regulator's review\*
    - Interview parties, competitors, customers, and Department representatives
    - Develop judgments on:
      - Impact on current and future markets & programs
      - Effects on industrial capabilities and technology
      - Effects on DoD of business or technical risks
      - Competitive effects (vertical and horizontal)
      - Organizational conflicts of interest
      - Benefits and efficiencies
  - Neutral policy to allow mergers to achieve benefits of consolidation and block or modify mergers to maintain benefits of competition (case-by-case basis)
  - ~375 transactions reviewed since March 1994 -- \$740B
    - ~45 required some form of remedy
    - 8 transactions were not consummated due to antitrust agency and DoD concerns
- DoJ and FTC responsible for antitrust review of mergers
    - Hart-Scott-Rodino threshold of >\$65.2M
    - Regulators also review Joint Ventures
  - DoD works with DoJ and FTC
  - DoD selectively reviews transactions involving major defense suppliers with significant Defense investments that may have impact
    - Generally >\$65.2M, but may be smaller

\* DoD Directive 5000.62 of October 1996



# HSR Trends 2004 - 2008



Source: Industrial Policy Data



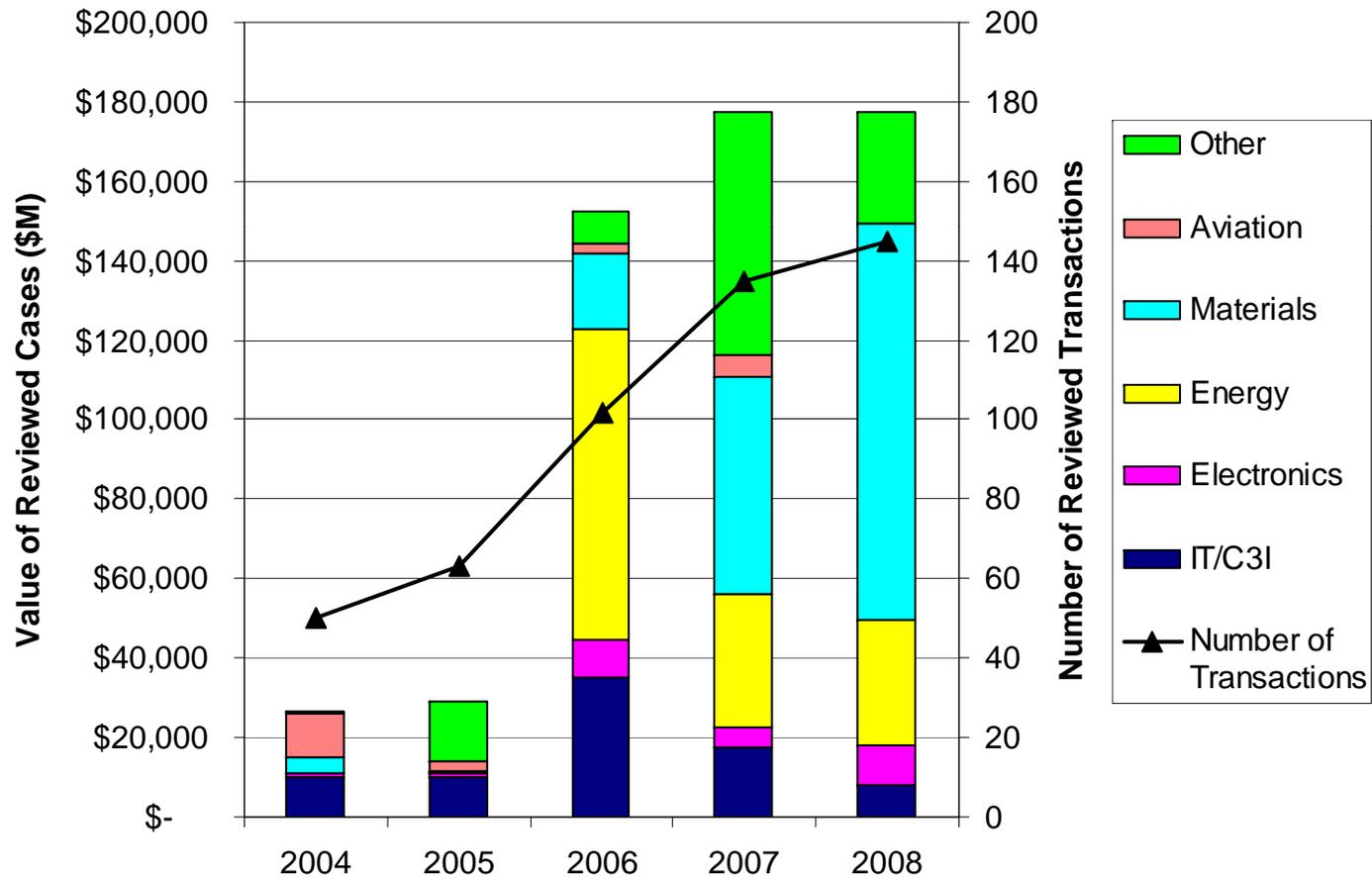
# DoD CFIUS Reviews

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- Sensitivity of U.S. firm being acquired
    - Presence of critical defense technology
    - Important to the defense industrial base
    - Classified contracts
  - Foreign Firm acquiring
    - Intelligence assessment of company & country
      - Compliance with export licensing regulations & international agreements
      - Sales activity with potential U.S. adversaries
      - Targeting of critical technology
      - Reliability as a supplier to DoD
    - Existence of foreign government ownership
  - Remedies
    - Corporate governance controls
      - Outside directors, Technology Control Plans
    - MOUs with the parties
    - Divestitures
    - Presidential Investigation
      - Potential block of the transaction
- CFIUS Organizational Roles
    - Treasury Dept chairs
    - USD(Policy) – DoD lead
    - USD(AT&L) – technology & industrial base analysis
  - CFIUS Notification Thresholds
    - Notification voluntary but CFIUS can initiate a review
    - No transaction value guidelines for filing
  - Statutory timing
    - Initial 30 day review conducted by CFIUS
    - Additional 45-day Investigation if national security threats exist and are unresolved
    - Presidential decision and report to Congress 15 days after Investigation



# CFIUS Trends 2004 - 2008



Source: Industrial Policy Data



# Title I of the Defense Production Act

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- Defense Priorities and Allocations System (DPAS) is a powerful tool that allows DoD to ensure industry provides priority support to urgent defense contracts
- DoD is the main DPAS user
- DoC has delegated DoD authorities to:
  - Apply ratings to contracts and orders supporting approved U.S. national defense programs
  - Sponsor to DoC requests to provide priority ratings for foreign nation defense orders in the U.S.
  - Request DoC provide Special Priorities Assistance to resolve conflicts for industrial resources among both rated and unrated (i.e., non-defense) orders
- DHS-FEMA approval needed for DoD to support Civil Emergencies (Stafford Act authority)



## Title III of the Defense Production Act

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- Allows DoD to address industrial base shortfalls that impact national security needs
- Provides domestic industry with a variety of incentives that reduce the risks associated with the capitalization and investments required to establish or preserve the needed production capacity
  - Purchases or purchase commitments
  - Purchase or lease of advanced manufacturing equipment which can be installed in government or privately owned facilities
  - Development of substitutes, and
  - Loans and loan guarantees (loans & loan guarantees are not presently used per agreement with OMB)
- In CY08, Title III had 28 projects underway



# Security of Supply

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- “*Security of Supply*” is a non-binding arrangement concluded by the U.S. Government with a foreign partner to provide reciprocal priorities support
- Formal Arrangements with:
  - Sweden
  - United Kingdom
  - Netherlands
  - Italy (MOA)
  - Canada (MOA)
- Security of Supply examples
  - DPAS assistance provided - night vision/thermal imaging equipment; ammunition; aircraft platforms, components, and spares; armored vehicles; satellite phones and radios; GPS navigation equipment
  - Assistance received from outside U.S. – ammunition, antennas, tires, armor plate, bearings



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# Desired Attributes

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## *Reliability, Cost-Effectiveness, and Sufficiency*

- **Supplier program performance. Deliver contracted products/ services**
  - On time
  - At or below cost targets
  - Per performance requirements
- **Supplier/segment business/economic performance**
  - New and innovative suppliers continuously enter the marketplace and compete for defense-related business
  - Stable or expanding business base, fair operating margins for owners, and investment in internal research and development and capital equipment
  - Adequate number of competitive suppliers in key and emerging technology areas
  - Suppliers participate in non-defense (dual-use) markets and export products overseas
  - Flexible suppliers react positively and quickly to changing requirements and priorities, particularly during times of conflict
  - Suppliers effectively manage requirements peaks and valleys while maintaining specialized skills

**DoD responsibility: stable, well-structured programs with optimized acquisition strategies**



# Assessing Desired Attributes

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Metric	Measure/Source
DoD Funding Level/Stability	Current/Projected DoD budgets
Delivery Performance	EVM data (e.g., schedule performance index)
Cost Performance	EVM data (e.g., cost performance index)
Technical Performance	Progress in meeting key performance parameters
Company Viability	Business base, return on investment, cash flow, market valuation, earnings-per-employee, IR&D, capital expenditures
Workforce	Employment/workforce data (to include hiring, retention, special skills, etc.)
Competitiveness	# of suppliers, non-defense (dual-use) sales, export sales, etc.
Problem Areas	Sick suppliers, capability gaps, capacity shortfalls (peacetime, surge)



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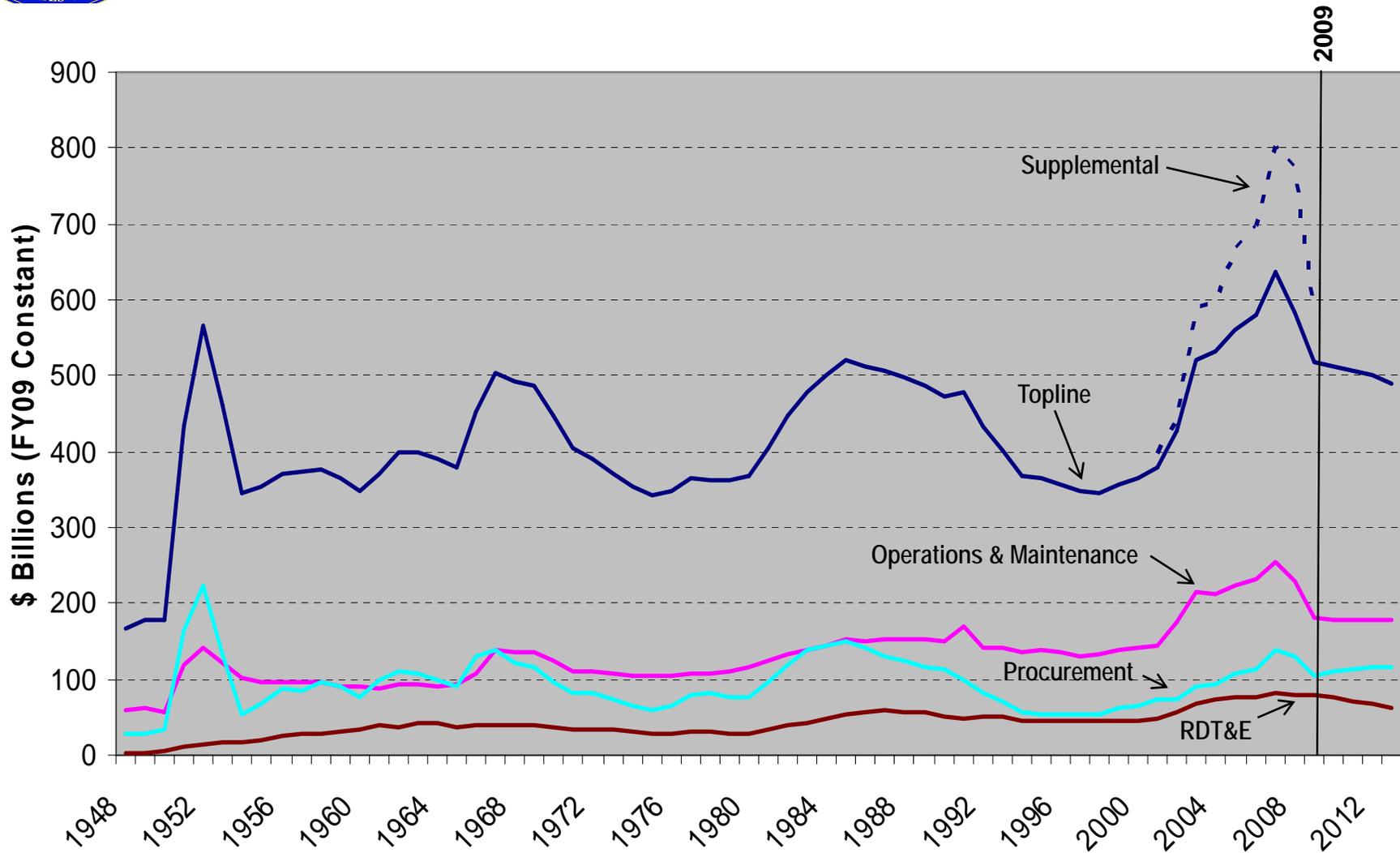
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# Defense Budget Trends

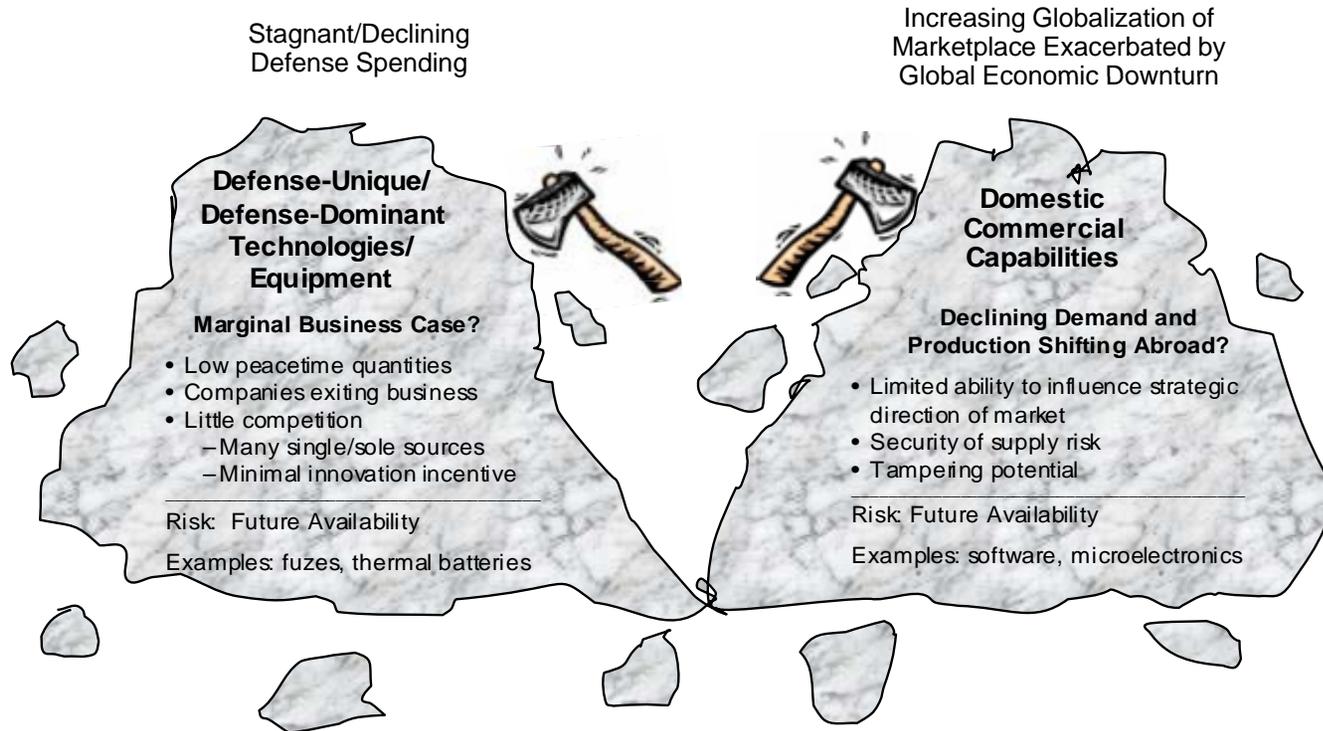
(DoD Budget Authority)



Source: USD (Comptroller) National Defense Budget Estimates for the FY 2009 Budget (Green Book)



# Navigating Emerging Industrial Environment



Stagnant/declining defense spending coupled with increasing globalization and further exacerbated by the global economic downturn lead to an emerging industrial environment that has significant defense implications.



# Foreign Sources of Supply

## Annual Report to Congress

### Summary of Awards to Foreign Entities

Fiscal Year	# of Competitive Contracts	Value of Competitive Contracts	# of Non-Competitive Contracts	Value of Non-Competitive Contracts	Total Number of Contracts	Total Value of Contracts
2003	1,079	\$ 450,663,875	1,218	\$ 564,908,551	2,297	\$ 1,015,572,426 (~1.5% of total)
2004	917	\$ 451,354,502	1,214	\$ 1,046,077,739	2,131	\$ 1,497,432,241 (~2.0% of total)
2005	1,120	\$ 445,145,252	1,347	\$ 1,445,638,152	2,467	\$ 1,890,783,404 (~2.4% of total)
2006	779	\$ 836,006,364	1,039	\$ 1,046,091,789	1,818	\$ 1,882,098,153 (~2.4% of total)
2007	708	\$ 563,070,430	571	\$ 1,007,405,453	1,279	\$ 1,570,475,883 (~1.5% of total)

U.K. and Canadian firms were prime recipients: ~62% of the total

Note: Prime contracts for defense articles and components only

Sources: *Foreign Sources of Supply: Assessment of the United States Defense Industrial Base*, November 2004, March 2005, April 2006, September 2007, and September 2008



# Foreign Sourcing Study

January 2004

Program	# Foreign Subcontractors	Value of Foreign Subcontracts (\$M)	Value of Foreign Subcontracts as a % of Total Subcontracts	Value of Foreign Subcontracts as a % of Prime Contract Value
JSLIST	8	\$35.0	62.5%	12.5%
PAC-3	25	\$23.1	12.3%	6.2%
F414	4	\$19.1	10.9%	4.6%
PREDATOR	5	\$1.0	14.5%	3.3%
WCMD	11	\$2.0	4.3%	3.2%
TACTICAL TOMAHAWK	3	\$6.8	5.5%	2.8%
SFW	4	\$2.9	7.8%	2.5%
GMLRS	3	\$2.6	6.1%	2.3%
SLAM-ER	5	\$1.0	3.3%	1.6%
ATACMS	3	\$2.2	3.8%	1.5%
PAVEWAY	1	\$0.7	0.4%	0.2%
JSOW	1	\$0.1	0.1%	0.1%
<b>Subtotal without JSLIST</b>	<b>65</b>	<b>\$61.5</b>	<b>6.6%</b>	<b>3.2%</b>
<b>Total</b>	<b>73</b>	<b>\$96.5</b>	<b>9.8%</b>	<b>4.3%</b>

Source: Study on Impact of Foreign Sourcing of Systems, January 2004



# New Administration's IB Priorities

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- Quadrennial Defense Review
  - Industrial base will be a “theme”
  - Active participation in Program Review Issue Teams
  - Industrial base section in QDR report
- Improve communication with industry
  - Work together in an open, non-antagonistic relationship
  - Align interests so DoD gets done what it needs to do for the warfighter and the taxpayer and industry gets done what they need for their business...Dr. Carter
  - Defense Business Board
- Improve Department's ability to assess industrial base impacts
  - Not a discussion about jobs – it's skills
  - Consider impact of individual program decisions on overall industrial base
  - New Weapon System Acquisition Reform Act (Sec. 301) requirement & new Defense Acquisition Guidance language