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Written Testimony**

**Before the Subcommittee on Defense, Committee on Appropriations,  
U.S. Senate  
Hearing on Sequestration and the Defense Industrial Base  
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On behalf of the Aerospace Industries Association, our 380 companies and over one million employees, I thank you for this opportunity to submit testimony 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.

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