Defense Leaders Lay Out Aggressive Action Oriented Reform Agenda

Emphasizing that the nation's ability to provide US war-fighters with the tools required to meet growing international challenges was eroding, DoD and industry leaders today outlined a broad reform agenda aimed at realigning the Defense Department's acquisition and budgetary processes with 21st century requirements. Stressing the need for a renewed partnership between industry, the Congress, the administration and the Pentagon, conference participants outlined an action-oriented agenda designed to immediately revitalize this essential partnership.

The recommendations resulted from the AIAA Defense Reform 2001 Conference, held on the 14th & 15th of February in Washington, D.C. The conference was jointly organized by Mrs. Darleen Druyun -- the principal deputy assistant secretary of the Air Force for acquisition and management, the American Institute for Aeronautics and Astronautics, and five major aerospace companies -- BAE SYSTEMS, Boeing, Lockheed Martin, Northrop Grumman, Raytheon, and TRW.

Darleen Druyun, co-chair of the conference, emphasized the urgency of the reform agenda. "US security relies on our ability to provide sufficient numbers of superior weapons and equipment to the brave men and women that confront the nation's enemies." she said. "We must ensure that the means through which the Department acquires this equipment, and the industry which provides it, remain as effective in the 21st Century as they have been in the past." To accomplish this goal, she noted, "we must build greater stability into our defense investments, make it easier for the Defense Department to access the advanced technologies emerging from the commercial economy, and provide the incentives to industry to invest further in the nation's future."

Throughout the conference, speakers stressed the potential for immediate action. Brian Dailey, conference co-chair, stated that, "The new legislative session and DoD's newly initiated policy and budget reviews offer indispensable opportunities for implementing reforms over the next two hundred days, roughly the time left in the current fiscal year." He went on to note that with strong leadership from the Department and the support of the White House, the complete agenda could be accomplished within three years.

The final report of the conference, A Blueprint for Action, will be released in early March. In it, the conference organizers lay out the context and detailed implementation plans for key reforms in a number of critical areas. Among the major recommendations emanating from the Conference:

Acquisition Reforms

1. The Conference report specifies a wide variety of specific actions to slash the time required to develop new weapons and cut their cost. Many of these reforms could be demonstrated and evaluated immediately in pilot programs. The Conference called on the Congress to work with the Defense Department to encourage seven types of transformational pilot programs to streamline the acquisition process.

2. Instability in defense modernization programs drives up costs and prolongs development cycle times. Multi-year production and development contracts would save the government money and speed new equipment into the hands of US war-fighters. The Conference called on the Congress to authorize and appropriate funds for a much larger number of production contracts and to permit the Department to experiment with development contracts that cover full milestone periods, rather than single years.

3. Private companies clearly can provide certain logistical and support services more efficiently than the government can, but the Department's ability to contract for such services is restricted by legislation. The Conference called on the Congress to lift these limitations, particularly the limits on depot maintenance work.

Industry Reforms

4. Overall return on invested capital for defense companies has shown a decline, and their ability to attract market capital has diminished as a result. The conference called for revisions to DoD policy which would encourage higher return on investment capital on research and development work, the greater use of award fees for performance, and consideration of earning a return on invested capital tied to a firm's cost of capital and

performance.

5. Although defense companies have consolidated since the end of the Cold War, they have not combined development and manufacturing facilities to the degree suggested by the now much smaller size of defense investments. Nor do they have incentives to do so, as the methods typically used by the Defense Department to compensate contractors reward bloated infrastructures financially. The Conference called for changes in accounting procedures that would permit contractors to share the savings obtained from smaller infrastructures with the government.

6. The government typically pays defense contractors as they incur costs, but holds back a certain portion. This so-called progress payment rate is now only 75 percent, and has an adverse effect on company cash flows. The Conference called on the DoD to raise the rate immediately to 85 or 90 percent, and on the Congress to appropriate the necessary funds to meet this near-term increase in outlays. Ultimately, the Department should move away from payments based on cost reimbursements all together, in favor of a milestone payment system tied to performance.

Globalization

7. A variety of restrictions hamper the ability of US defense companies to participate in the global economy. Export and security restrictions make it tough for them to sell their products overseas and to work cooperatively with foreign companies on joint projects. This is harming the ability of US armed forces to operate with allied nations, as well as having adverse economic effects on US businesses. It is also causing political difficulties in the United States' relations with its allies. The Conference called on the executive branch and the Congress to immediately reform both the Dual-use Technology and Munitions Control processes, and for the Department to review security procedures which unnecessarily complicate cooperative projects with companies in allied states.

Civil-Military Integration

8. A variety of restrictions and special practices now discourage commercial companies from taking part in the defense sector. These include the Department's special accounting procedures, unique military requirements often specified for commonly available equipment, and the detailed oversight of manufacturing processes often insisted upon by DoD regulations. These restrictions are denying US war-fighters access to the advanced technologies now available commercially, especially in telecommunications and information technologies, as well as needlessly driving up costs. The Conference recommended a series of actions to facilitate the greater use of commercial products in defense weapons and equipment, and to encourage additional firms, including small and disadvantaged businesses, to enter the defense sector.

Budget Reforms

9. The excessive size of the Defense Department infrastructure relative to today's much smaller forces diverts resources from investment budgets and pressing modernization needs. The Conference urged the White House, DoD, and congressional leaders to forge an agreement this year on processes for reviewing DoD bases, laboratories, and other facilities for closure and realignment. The process should include greater latitude for DoD to make relatively small adjustments unilaterally.

10. In recent years, defense investment accounts have been cut repeatedly due to unexpected expenses for military operations. This practice has played havoc with the weapon development programs tagged to pay the bills. The Conference urged the Congress to erect firewalls between investment and operational accounts within the defense budget, and to create new contingency funds to handle any unexpected operational needs.

The full report of the AIAA Conference, A Blueprint for Action, will be available on or about March 6th. Please see the contact below for further information, or check out http://www.defensereform.org/ or http://www.aiaa.org/.

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