

**STATEMENT TO THE PANEL ON DEFENSE ACQUISITION
REFORM**

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The Defense acquisition system is complex with a large body of laws, regulations, policies, and procedures. As the Business Executives for National Security (BENS) noted in their report, "Getting to Best: Reforming the Defense Acquisition Enterprise," July 2009, defense acquisition revolves around 15-year programs, 5-year plans, 3-year management, 2-year Congresses, 18-month technologies, 1-year budgets, and thousands of pages of regulations. There has been substantial expansion of acquisition-related legislation in the national defense authorization acts passed during the past 10 years. Since the late 1990s, the number of acquisition provisions put in place by Congress has increased by three-to-four fold. In the past two years alone, the number has approached 100.

At the same time, there has been growth in the defense budget along with a dramatic reduction in the acquisition workforce-making it almost impossible for acquisition officials to perform their jobs efficiently and in compliance with all rules and laws. Moreover, there is a commensurate cost of compliance on the part of the defense industry included in the prices of goods and services.

The Aerospace Industries Association (AIA) believes that now is the time to recalculate the imbalances in the defense acquisition system and take action for positive reform to ensure that the policies and processes that govern it are fair, reasonable and flexible.

AIA appreciates the work that this Panel and Congress as a whole has done by enacting the Weapons System Acquisition Reform Act of 2009, (Pub. L. 111-023). That Act included provisions that addressed several issues of concern to industry – the need for well-defined requirements, the establishment of stable procurement plans, realistic cost estimating and budgeting, and the creation of a well-trained and experienced acquisition workforce. However, there is more to be done.

PROMOTE STABILITY AND FAIRNESS IN CONTRACTING AND FINANCIAL POLICY

Fair acquisition policies are needed to maintain a competitive defense acquisition environment for the Government and a healthy defense and aerospace industrial base. In order to maintain a competitive industrial base that effectively supports the warfighter and the nation, the Government should develop policies that reinforce the supportive role that contractors provide the Government as well as promote contracting and financial policies that encourage and reward good performance, promote fairness and stability, and establish balanced and equitable risk-management relationships.

To achieve this goal, AIA proposes a series of reforms related to 1) commercial item reform, 2) financial and contractual policy reforms, and 3) workforce stability and fairness in contracting and financial policy.

Commercial Item Reform

The U.S. Government acquires goods and services to support the enormous variety of missions of agencies ranging from the Departments of Defense and Homeland Security, the Veterans Administration, the Federal Aviation Administration, and the General Services Administration. Most of these goods and services are not unique to Government needs but can meet Government requirements with only minor modifications. They are readily available from commercial companies, and buying them commercially provides significant savings of time and money and often the very best available capability.

Congress recognized the opportunities commercial items provided to the Government and that procurement statutes were not well-suited to acquiring these items from commercial companies. As a result, it enacted several statutes beginning in 1994 to help the federal acquisition system more readily incorporate commercial items whenever and wherever practicable to meet the Government's needs:

- The Federal Acquisition Streamlining Act (FASA) (P. L. 355, 103rd Congress, 2nd Session, 1994).
- The Federal Acquisition Reform Act (FARA) of 1996, Division D; National Defense Authorization Act for FY 1996, (P. L. 106, 104th Congress, 2nd Session, 1996).
- The Services Acquisition Reform Act of 2003 (SARA) (P. L. 136, 108th Congress, 2nd Session, 2004).

Passage of this legislation was a recognition that policies were written to address the Government's unique needs and that more streamlined policies were necessary to draw commercial companies into the Government supply base and to take full advantage of the commercial marketplace. Commercial companies that do a relatively small percentage of their business with the federal Government find it very difficult to meet Government-unique procurement policies and practices while still competing globally and responding to competitive pressures.

The benefits of employing commercial item acquisition processes are many and widely recognized. The DoD Inspector General's office identified the benefits of commercial acquisition in its audit report D-2006-115, Commercial Contracting for the Acquisition of Defense Systems, September 29, 2006. The report lists the importance and benefits of commercial item acquisition to DoD, including:

- Access to state-of-the-art technology and products.
- Savings on limited financial resources for research and development.
- Establishment of a market price as a price analysis tool.

- Integration of the defense and commercial industrial bases to benefit the nation's security and economy.
- Reduced economic risk associated with developing new items.
- More rapid deployment of state-of-the-art technologies and terms.
- Access to proven technological capabilities.
- Increased competition.

While complex products, such as weapon systems, frequently take a decade or more to field, technologies from the commercial marketplace can be rapidly applied and fielded. This is particularly the case in the electronics industry whereupon much of the defense and aerospace industry depends. Acquiring existing commercial technologies enables DoD to maintain the technological superiority necessary to address new challenges. Because the United States needs rapid, unimpeded access to these commercial technologies, it must be able to quickly and simply purchase commercial and other state-of-the-art products and technology from commercial suppliers.

Considerable progress in adapting the acquisition process to the commercial marketplace was made in the first decade after these statutes were enacted and implemented. In more recent years, however, there has been a disturbing retreat when acquiring commercial items toward the use of Government-unique procedures and intrusive Government oversight more appropriate to products where the U.S. Government is the only buyer. Commercial companies have become concerned that excessively unique, costly and burdensome requirements will reemerge and lead to the Government's inability to access the best commercial technology.

The availability of commercial, item-appropriate acquisition procedures in Federal Acquisition Regulation (FAR) Part 12 has enabled the Government to obtain high-technology products. When using FAR Part 12, the Government receives state-of-the-art technology without the delays attendant to its own development process and at a market-tested price that compensates producers for their own investments, the costs of which are spread over a considerably larger customer base.

Commercial acquisition policies have attracted commercial companies and given DoD and other agencies the benefit of shorter time spans to field capabilities and logistics support using commercial distribution systems and increased competition. Recent changes in policies and legislation, however, require commercial item suppliers and manufacturers to establish a Government-unique business infrastructure with increased requirements for cost and pricing data and disclosure of business-sensitive information -- constraints unparalleled in the commercial marketplace and exposing commercial companies to increased risk.

Should current trends continue, we risk significantly limiting the ability of the Government to access cutting-edge commercial technologies. If manufacturers are forced to segregate production of commercial and Government items -- where a single

commercial production line is now in use -- and establish a Government-unique cost accounting system, the costs could be prohibitive for the Government. Commercial companies cannot afford to jeopardize their survival in intense, globally competitive marketplaces by taking on the burden of compliance with procurement policies more appropriate to Government-unique procurements. Like “requirements creep” in a development program, “regulatory creep” in the form of a growing list of Government-unique clauses that can be imposed on FAR Part 12 procurements has a negative effect on the desired outcome. Too many Government-unique requirements that are being added to commercial item acquisitions will again chase commercial companies from the Government marketplace.

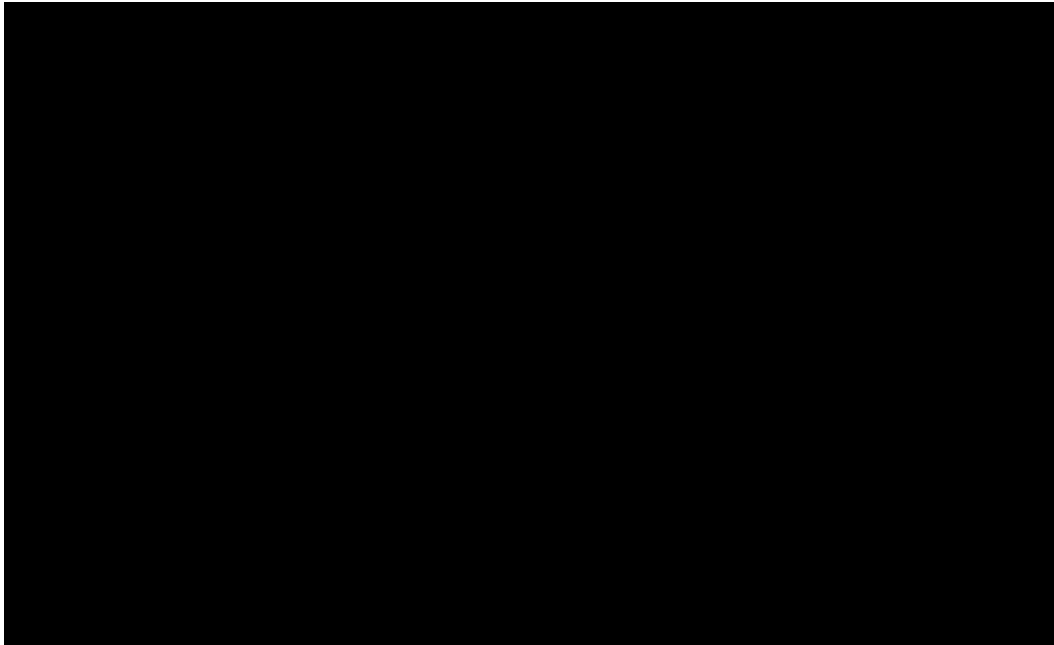
AIA is concerned that there has been a steady erosion of the streamlined approach to commercial item acquisition — an approach that adopted an appropriate and carefully crafted balance between commercial item acquisition and more detailed procedures for acquiring Government-unique goods and services. These unique requirements will force commercial companies to decide whether their business with the U.S. Government has become too difficult, risky and costly to continue. This will hurt the U.S. Government both by increasing costs enormously and by depriving it of what in many cases is the latest technology. Therefore, AIA supports industry-wide efforts to preserve the flexibility needed for commercial item acquisition.

Financial and Contractual Policy Reform

The aerospace and defense industry is considered a relatively volatile market with comparatively low returns, given the high levels of risk. Returns are sometimes lower than the cost of capital, with the lowest returns historically on large development contracts. Additionally, most, but not all, major aerospace and defense contractors are largely dependent on U.S. Government sales and foreign military sales for sustaining and expanding their business bases. Hence, the Government must recognize its responsibilities as a monopsonist procurer because there simply is no alternative domestic market for most of the aerospace and defense systems it buys. And, because many of today’s large development programs are not followed by long, predictable and profitable production runs, development contracts must be capable of generating reasonable returns, independent of any projected production.

The following 20-year review of the defense and aerospace industry’s margins, developed by the Center for Strategic and International Studies (CSIS) (Figure1), indicates that the industry historically has been among the lowest sectors in return on sales (ROS).

FIGURE 1



DoD incentive policies must reward good performance and enable contractors to earn a fair return on research and development contracts. With fair returns for good performance, companies are more likely to invest in independent R&D and make capital expenditures. Unstable Government financial policies will impede industry's ability to earn fair returns.

Some recent Government policy changes impacting industry's ability to earn fair returns include:

- Reducing contract incentives and award fees.
- Renegotiating prices to adjust for excessive pass-through charges consisting of normal overhead.
- Preventing the net cost impact of simultaneous contractor cost accounting changes.
- Disallowing costs for pension contributions required by law.

The following actions would assist in stabilizing DoD financial policies and controlling cost growth:

1. Appropriate Contract Type. The Presidential Memorandum on Government Contracting issued on March 4, 2009 states, with respect to contract type, "there shall be a preference for fixed-price type contracts; cost-reimbursement contracts shall be used only when circumstances do not allow the agency to define its requirements sufficiently to allow for a fixed-price type contract." These policy statements are consistent with the long-standing preference in the Federal Acquisition Regulation (FAR) for fixed-price type contracts (note FAR 16.301-2, "cost-reimbursement contracts

are suitable for use only when uncertainties involved in contract performance do not permit costs to be established with sufficient accuracy to permit any kind of fixed-price contract”). However, AIA is concerned that the pendulum may be swinging back towards the use of fixed-price contracts for complex research and development projects.

Past experience has demonstrated that the very nature of advanced development is risky. Selection of the appropriate contract type in development can also do much to limit delays to the warfighter and cost growth on major weapons systems programs. Misalignment of contract type and performance risk often results not only in delays but also leads to disputes, cost overruns and failures that further damage the credibility of the procurement process. Fixed-price contracts are suitable for acquiring supplies when there is a stable design based on validated requirements and specifications so that the Government and the contractor can establish reasonable prices early on. A fixed-price contract, however, is generally not suitable for high risk, such as the development of major weapon systems with ambitious performance requirements. Cost-reimbursable contracts are more appropriate in those instances. AIA urges caution in the application of fixed-price contracting for development contracts unless this contract type can be closely tied to what could reasonably be considered a low level of technological risk in the proposed development program. Fixed-price contracting is most appropriate in the context of mature production programs. This most likely would be the case with those programs being considered for multiyear contracts.

Some in the acquisition community believe that fixed-price development contracts improve cost credibility. They do not. Use of fixed-price development for major systems drove companies close to bankruptcy and deprived programs of the contract flexibility to deal with normal research and development risks, such as the need for redesign or retesting. When contractors lose substantial amounts of money performing defense contracts, the Department of Defense is harmed as well. Program managers are prevented from managing these programs effectively because time must be spent arguing over small and frequent changes and claims as contractors try to obtain additional money to permit continued program performance.

AIA concurs with the long-standing preference for fixed-price contracts in Government contracting. However, it is critical that contracting officers retain the flexibility to select the appropriate contract type based on factors including the complexity of the requirement, the maturity of the technology, and the stability of the design. Therefore, AIA urges the Administration and Congress to encourage the use of contract types that are appropriate to the circumstances of the acquisition. In particular, the initial development phase of a program should be accomplished on a cost-type contract and only when risk has been appropriately reduced if the program transitions to a fixed-price contract.

2. Incentive Fee Reforms. The U.S. aerospace and defense industry must be able to earn a fair and reasonable profit in the defense marketplace in order to attract capital

and skilled employees and provide competitive returns to investors. Government policies should reward good industry performance and offer industry the opportunity for fair and reasonable margins and cash flow in the performance of Government contracts. Important reforms in the area of incentive fees include providing fair opportunities to secure reasonable returns by moving toward objective incentives; permitting rollover of the unearned incentive fee-pool into subsequent opportunities to earn the incentive; funding and awarding cost-reimbursable development contracts at the Government's estimate; and increasing the emphasis on cost realism in source selections.

3. Award Fees. Where award fees are still appropriate, the Administration and Congress can take several actions. These actions include promoting reasonable and flexible implementation of the April 24, 2007, memorandum *Proper Use of Award Fee Contracts and Award Fee Provisions* from the Director of Defense Procurement and Acquisition Policy (DPAP). Industry will assist in the dialogue with DPAP on implementation issues, including implications for industry pricing policies.; providing base fees and higher available award fees; permitting award fee rollover in appropriate circumstances; encouraging use of provisional award fee payments to enhance cash flow; and encouraging alignment of award fee pool payments with overall program expenditure levels.

4. Ethics/Disclosure. It is the policy of all aerospace and defense companies to conduct business affairs fairly, impartially, and in an ethical and proper manner. The highest possible standards of ethical and business conduct are expected. The Government should consider industry comments on proposed changes to the Contractor Code of Business Ethics and Conduct rule regarding mandatory reporting of ethics violations of federal law to the inspector general rather than voluntary disclosure. Consideration should be given to the negative effect of mandatory reporting and the positive benefit of voluntary reporting. The development of new ethics rules should include consideration of investigative time and probable cause. Company management should have opportunities to remedy contracting problems or negotiate rectification with contracting officers, thus avoiding immediate, mandatory disclosures to the DoD Inspector General of any violation of Government rules.

5. Intellectual Property. New Government rules designed to aid sustainment of Government systems could discourage private investment in technology innovation and create a barrier to commercial technologies by requiring commercial contractors to justify proprietary data rights to privately developed intellectual property as a condition of doing business.

Obtaining greater rights in data alone will not solve most logistics support problems. Excessive Government demands for data in requests for proposal are counterproductive. A policy priority should protect the private sector's intellectual property rights, especially those necessary to encourage private investment and innovation.

6. Sensitive but Unclassified Information. The Government should work to ensure a workable approach to preventing inappropriate access to unclassified sensitive information. In particular, draft Government rules on protecting unclassified information on contractor networks do not define clearly the information to be protected, threaten to disseminate network vulnerabilities, do not consider the costs of developing systems to protect such information and are unclear in the penalties for failure to protect such information.

The Government information assurance implementation group should take account of the industry position on protecting sensitive unclassified information and work toward a single memorandum of understanding for companies to sign on voluntary disclosure of inappropriate network incursions.

Workforce Stability and the Role of Federal Contractors

A significant challenge for the Government is addressing the loss of talent and expertise in its defense acquisition workforce. This decade-long development has led to an increasing dependence on contractors for key acquisition functions. A smaller and much weaker defense acquisition workforce can ultimately impair both necessary Government oversight and the timely acquisition of military capabilities by DoD.

Successful defense program management requires a professional federal workforce with expertise in the subject area. Since the early 1990s there has been a conscious national effort to reduce the size of the federal workforce, and the Final Report of the Defense Acquisition Performance Assessment (DAPA) Panel, January 2006, determined that the reduction brought with it a corresponding reduction in the size of the Government acquisition workforce. Personnel losses have been significant and the workforce is understaffed and overworked. As a result, the Government workforce has become “increasingly overburdened as the demands have increased with the nature and complexity of the acquisition system.”

As DAPA noted:

- No single organization is accountable for acquisition workforce career development; gaps in leadership and management continuity contribute to a lack of direction and leadership in the acquisition workforce.
- DoD acquisition personnel responsible for requirements, budget and acquisition do not have sufficient experience, tenure and training to meet current challenges; personnel stability is not sufficient to maintain adequate understanding of programs and program issues.
- Importantly, system engineering capability within DoD is insufficient in many areas, such as development of joint architectures and interfaces, definition of interdependencies of program activities and management of large scale integration efforts. Core competencies gravitate to the private sector as the

Government is deemed less a desirable employer.

Rebuilding the Government acquisition workforce and stabilizing its leadership will take time. This should be measured in years, not months. Legislation mandating transition of functions outsourced to the private sector back to the Government with a specific time period might not only be unrealistic but also counterproductive to the Government's current set of needs and requirements. Against this backdrop of workforce challenges, the Government is at severe risk of losing additional technical expertise if acquisition and systems engineering expertise is mandated to be brought back "in-house."

It is important that decisions to in-source functions be based on a sound business case analysis. Industry is concerned that, rather than performing the analysis to make the best decision for the Department and the taxpayer, an arbitrary goal will be established to in-source a set number of positions. For example, according to an internal working memo, the Navy alone proposes to in-source approximately 9800 jobs over the next 6 years and assumes that the government can perform the work for 60% of the industry cost. While the memo does not go into any level of detail regarding how 40% savings can be achieved, we are concerned that they will do so by hiring fewer people or hiring personnel with more limited experience. Alternatively, if the personnel savings are not achieved, the accompanying budget reductions will result in cuts to system development.

PROMOTE REFORM OF MAJOR ELEMENTS OF THE ACQUISITION SYSTEM

Defense acquisition reform has become an omnipresent issue -- each new Administration arriving in Washington works to propose reforms to streamline a system that is seen as too large, too bureaucratic, too cumbersome and too slow in getting needed goods and services to our warfighters. Government policies should foster the development and support of innovative and affordable products and services that continually adapt and remain relevant to an ever-changing global security environment.

AIA is prepared to work with the Administration and Congress in a positive way to address these challenges and make the acquisition system more transparent and accountable. But industry also knows that a key to achieving long-lasting reforms is an in-depth understanding of not only those reforms that the Government must make but also the factors that drive industry decision making. Integrating industry considerations into the process is critical to ensuring that both Government and industry achieve their acquisition objectives.

An important element in this effort will be development of a cooperative and positive working relationship with the Department of Defense. While the DoD-industry relationship has improved recently, we believe that this partnership can be strengthened further through increased personal contact with DoD leadership.

A sound Government-industry relationship is vital to our nation's future -- industry

stands ready to serve and support in any way we can. Reestablishing regular meetings among the Secretary or Deputy Secretary and aerospace and defense CEOs would do much to facilitate better communication and dialogue.

Budget/Program/Requirements Stability and Logistics Reform

AIA recommends that the Government move to stabilize program requirements, budgets and system configuration -- arguably the largest contributors to program cost growth, schedule delay, and performance challenges. Many former high-level DoD acquisition officials have noted that the requirements and budget process "is broken," and yet it is the most critical part of the acquisition process because validated requirements and baseline budgets are the foundation from which future growth and performance are measured.

1. Budget Stability. Multiyear budgeting and support for funding strategies, such as advance appropriations and capital investment funds, should be considered because they would introduce additional stability into the defense acquisition system. Unfunded mandates should not be levied on existing programs. Alternatively, unfunded mandates, such as recent statutory requirements regarding pension funding, should be legislated as allowable costs and considered as below-the-line adjustments that have no impact on a program's cost baseline. Annual inflation/escalation requirements should be appropriately estimated and fully funded. Program budgets should be based on realistic estimates that reflect no lower than an 80 percent probability for success. Require the Defense Department to budget programs at no lower than an 80 percent probability of success. Where justifiable, management reserves should be funded and fenced. Industry should be able to take full advantage of current DFARS guidelines that allow added profit for cost efficiency and technology/manufacturing incentives.

2. Program Stability. DoD should increase investment in maturing technologies in order to reduce program risk. Each Service Acquisition Executive should have direct control of a capital fund (notionally several percent of the Service's procurement topline) to address emergent and unanticipated program challenges.

3. Requirements Stability. Requirements need to be clearly defined and stabilized before the design and development of systems and platforms. Cost and schedule should be better integrated into the requirements process. Requirements changes after a program baseline is established should be fully funded by the respective military service before implementation by the acquisition agent as a configuration change to the system or platform. There also will be a greater need to think in terms of subsystems of systems and open architecture to accommodate the needs of multiservice and multinational customers.

4. Logistics Reform. In order to achieve additional savings, DoD should aggressively reform its logistics and sustainment function to improve readiness, enhance warfighter

support and address the major force modernization and recapitalization needs that the United States faces today. Logistics reforms will ensure measurable improvements in systems performance and maximum efficiency in resource allocation to meet this national defense imperative. Performance improvements will be evidenced in enhanced availability, reliability and maintainability of DoD assets.

To achieve improved performance and resource allocation efficiency, the department must:

- Transform product support to a performance-based model across all DoD platforms.
- Rapidly expand commercial supply chains for commercial commodities.
- Right-size and modernize DoD mobility capabilities.
- Increase reliance on commercially provided in-theater logistics support.
- Implement modern logistics information systems through a managed service model.
- Modernize force training.

An integrated logistics reform agenda from the new administration that addresses the six areas above will help strengthen the force modernization program our nation needs for the 21st century.

Multiyear Procurement Authority Reform

At the national level, AIA has spoken to the need for increased resources for our country's defense modernization effort (see AIA's report, "U.S. Defense Modernization: Readiness Now and For the Future, April 2008"). It is becoming increasingly apparent in the aftermath of our extended presence in Iraq that the reset and recapitalization requirements are large and across-the-board and the list of unfunded service procurement requirements continues to grow every year. In addition, the Services are faced with extensive modernization and recapitalization bills caused by deferred post-Cold War investment spending. There currently is a growing requirement throughout the defense establishment for modernization and recapitalization of defense equipment -- some have estimated the bill to be as high as \$100 billion.

In this emerging defense environment, multiyear contracting authority offers DoD and the defense industrial base an important tool for addressing broad and continuing defense acquisition requirements. As noted by the RAND Corporation, "such contracts afford contractors the opportunity to buy materials in more economical quantities, schedule workers and facilities efficiently, and reduce the burden of preparing multiple proposals. The U.S. Government also benefits from a reduced workload."

There are also strong and compelling programmatic arguments for expanding multiyear and block-buy contracting authority. Multiyear procurement authority is an integral element of a broader defense-wide effort to achieve greater program and funding stability. Expanded use of multiyear authority will enable the Government to achieve maximum savings on individual programs and retain the flexibility it needs to reinvest the accrued savings intelligently on other defense activities, including defense procurement.

If planned and managed properly, multiyear procurements can be especially important tools in helping baseline and stabilize defense budgets and programs. In addition, properly structured multiyear contracts can provide increased incentives for design stability and technological maturity in our weapons procurement process. Multiyear contracts can also be of importance in such areas as energy, reduction of critical readiness shortfalls and performance-based logistics.

A House proposal considered during the fiscal 2008 National Defense Authorization Act would have provided new authority for the secretary of a military department to enter into a multiyear procurement provided the contract addressed a critical readiness requirement as designated by the new Defense Readiness Production Board (DRPB).

For example, the authority would have applied to procurements that had previous multiyear contracts, such as those that have been in full-rate production for three years or were non-developmental commercial items. DoD supported the House proposal, but in choosing to stand up the DRPB, Congress did not provide the multiyear authority for critical readiness items. This is an area AIA believes deserves reconsideration by the next administration and the next Congress.

One additional area in which multiyear authority should be considered for expansion is performance-based logistics (PBL) where DoD contracts for supplies or support over a period of time and not on a level of effort. Shorter-term contracts limit the contractor's ability to make necessary trade-offs to meet or exceed PBL threshold performance outcomes. Yet, objective evidence has clearly established cost savings averaging 20 percent relative to organic support through longer-term PBL contracts.

Nunn-McCurdy Reform

Section 802 of the Fiscal Year 2006 National Defense Authorization Act significantly changed the Nunn-McCurdy Act (10 USC 2433) governing reporting of major defense acquisition program (MDAP) cost breaches. The new requirements replaced the two previous categories of cost growth with four new thresholds that would trigger congressional notifications.

MDAP cost-reporting requirements were extended to include reports on cost growth above both current and original program baselines with a subdivision of cost

growth into “significant” and “critical” categories. This revision increased the number of thresholds for Nunn-McCurdy breaches from two to four. Significant breaches have an increase of 15 percent over a program’s current baseline or 30 percent over its original baseline. Critical breaches involve an increase of 25 percent over a program’s current baseline or 50 percent over its original baseline.

The Fiscal Year 2006 update applied to MDAPs for which an original baseline estimate is established on or before the date of enactment. An exception was made, however, for MDAPs already having exceeded their original baseline by more than 50 percent. For these programs the current baseline for the program at the date of enactment was deemed its original baseline.

Congress addressed changes to the Nunn-McCurdy reporting requirements in the Weapons System Acquisition Reform Act of 2009. However, cost growth documented by the SAR process often occurs for several valid reasons aside from program performance, such as quantity, mission, and scheduling adjustments. AIA believes that DoD should be allowed to reset the baselines for programs that have exceeded their program acquisition unit costs/procurement unit costs by 50 percent when MDAPs experience mid-program quantity reductions or budget cuts as directed by Congress or the Department, experience fact-of-life increases (i.e., commodity prices, foreign currency fluctuations), or an individual program’s scope to expand in the development phase due to configuration changes to accommodate validated emergent mission requirements without that counting against the cost baseline of the original program.

PROMOTE THE COMPETITIVENESS AND EFFICIENCY OF THE AEROSPACE AND DEFENSE INDUSTRY

The benefits of globalization in the defense market are critical to both U.S. security and the U.S. aerospace and defense industry. Globalization helps the U.S. achieve its overarching national security strategy objectives while also enhancing the competitiveness and vitality of U.S. aerospace and defense exporters.

AIA has been at the forefront of national efforts to support U.S. defense trade and modernize our nation’s export control system. Technology trade and cooperation play a central role in support of the aerospace industry’s 645,600 jobs. Aerospace companies posted a \$61 billion surplus in 2006 even while the U.S. trade deficit was nearly \$800 billion. Such efforts are essential to build greater interoperability and defense cooperation between the United States and its friends and allies.

In addition to supporting reforms in the areas of defense trade and export control, AIA advocates reforms to America’s tax, financial, and industrial base policies. Reforms in these areas will strengthen the economy, ensure DoD access to the best sources in the global supplier base and make the United States more competitive in the global defense marketplace.

Advocate Tax and Financial Reforms to Strengthen America's Economy and Global Competitiveness

AIA strongly recommends the repeal of the arbitrary 3 percent tax withholding on every Government payment to contractors. The new withholding penalizes tax-paying contractors, especially smaller companies whose financing costs are higher. Just to administer the law, DoD's costs will be \$17 billion, not considering the inevitable price increases that will result from contractors' recoupment of their costs.

CONCLUSION

Government and industry need to return to basics. The requirements for our national security have not changed – the threats from many sources remain along with the need to modernize, recapitalize, and reset our equipment. In order to maintain a competitive industrial base that effectively supports the warfighter and the nation, the government must promote balanced, stable, and fair contracting and financial policies that offer the opportunity for reasonable returns and cash flow in the industry's performance of government contracts. Industry acknowledges that such reforms should be based on good performance. In today's resource-strapped environment, industry takes its role to be a responsible acquisition partner seriously.