



Pentagon Increases Efforts to Protect Defense Industrial Base

By [Kris Osborn](#) - September 12th, 2013

The Pentagon is stepping up efforts to sustain and preserve the health of the U.S. industrial base in the event sequestration continues into 2014 by assessing vendor capabilities, watching for mergers and acquisitions, and analyzing the supply chain as it relates to producing critical capabilities.

Fewer acquisition dollars available in fiscal year 2014 and beyond could translate into a situation where vendors building key components and technologies for the Department of Defense might not have the ability to sustain operations.

“We are now entering the second year where we are likely to face sequestration. The health of the industrial base is a question that is near and dear to the department’s leadership interests,” said Elana Broitman, acting deputy assistant Secretary of Defense, Manufacturing and Industrial Base Policy, told Military.com in an interview.

Broitman explained that the Pentagon’s policy office is focused on looking at vendors’ production capacity as well as the need to preserve or maintain a highly skilled, technical competent workforce.

“In order to equip the warfighter, we depend upon a healthy industrial base that continues to innovate,” she added. “The assessments of the industrial base that we do are an important tool in understanding how the industrial base will fare during this down turn.”

Industrial base considerations have informed the calculus regarding a handful of major acquisition programs.

For example, the Navy decided several years back that it would expedite development and production of the Virginia-class submarine. The Navy chose to have one half of each Virginia-class boat built at Newport News Shipbuilding owned by Huntington Ingalls Industries in Newport News, Virginia, and another section built by Electric Boat, a division of General Dynamics based in Groton, Conn.

This strategy was done, in part, to preserve the highly specialized, technically-skilled workforce that works on submarines. However, others say the industrial base has received too much consideration and that the free-market can address most issues.

It’s not always the services who go out of their way to try and protect the industrial base. Congress often works to keep production open on parts and vehicles open even after service leaders have said they

don't need them. For example, Congress wants the Army to continue building Abrams tanks even though the Army said it has enough and asked to use the money elsewhere.

The Pentagon's industrial base policy office relies upon a couple strategies to maintain the industrial base. One of them is by drawing upon an existing data repository created by a Pentagon-led multi-year industrial base study called Sector-by-Sector, Tier-by-Tier, or S2T2.

While still somewhat of an ongoing project, the majority of the work has been completed, Broitman explained. S2T2 is a carefully compiled data base of vendor capability, supply chain issues and manufacturing details regarding the production of critical components, platforms and technologies. Although all of the vendor-specific information is kept in strict confidence, and is therefore not publically available, Broitman did describe the S2T2 effort as an invaluable resource.

"With S2T2, we really delve deep into each tier of the supply chain in order to be accurate whether a particular company is critical, meaning if it goes away no other company could fill its spot so the entire supply chain is at risk," she said. "We're weaving the S2T2 analysis throughout."

The S2T2 data repository, which also includes a detailed examination of relationships between second and third tier suppliers, continues to greatly inform the calculus regarding industrial base issues, Broitman said.

"Single points of failure" is another key phrase in the lexicon of Pentagon industrial base personnel, meaning they look for instances wherein the ability to produce a certain product could potentially go away.

"On single points of failure we look at the fragility and criticality of the supply chain," she added.

Broitman said identifying these single points of failure tend to be more common among products or technologies that are solely manufactured for the Defense Department, meaning there is no alternative commercial use or market for the product.

One analyst agreed, explaining that industries with a large commercial industry are likely to be more stable regarding what they can provide DoD during a downturn.

"For example, you have a commercial airliner industry that is going really well. Companies without diversification elsewhere (beyond DoD) will have a much harder time," said Richard Aboulafia, vice president of analysis at the Teal Group, a Va.-based consultancy.

Aboulafia also added that the Pentagon might want to emphasize examination of individual companies on a case-by-case basis instead of a sector-by-sector approach, adding that there is significant diversity within sectors. One company in a given sector might be diversified with commercial products or multiple defense programs, whereas another may not, he added.

At the same time, in other cases, an industrial base issue could emerge regarding product that is available in parts of the world but the U.S. would like to ensure that it is produced domestically, Broitman said.

Another analyst wondered if single points of failure might, in reality, wind up merely meaning market prices increase for a particular product.

“A single point of failure may become a price increase because there is almost always someone who will make something if the price is right,” said Benjamin Friedman, senior fellow, defense and homeland security studies, CATO Institute, a Washington D.C.-based think tank.

Friedman said globalization and the “netting” together of markets is likely to make DoD less dependent upon one particular source of supply. He emphasized that the free-market would, in most cases, be well suited to address industrial base issues.

“The more technically difficult or complex it is to produce something, the more we should worry about an ability to make it at low cost,” he added.

Mitigation strategies also are a large part of the equation, circumstances wherein a particular strategy is employed to foster competition, sustain production or identify key areas of needed investment.

In still other instances, mitigation strategies may involve DoD investment in a particular product or area in order to preserve the supply chain and critical core capabilities.

“We’re not looking to invest forever. When we do this it is a temporary solution. We need to know if, at the end, there is a way forward for the company without us. These are not long-term investments,” Broitman said.

At the same time, DoD is careful to analyze the market for certain areas so as to ensure that any investment will prove both relevant and worthwhile. In short, it is important to keep pace with market changes and technological progress, Broitman added.

“We don’t want to spend money if a particular product will be moving to the next generation by the time there is an exit strategy,” she explained.

Over the last several years, there have been some instances wherein DoD has invested in order to preserve critical capabilities. These examples include investments in lightweight materials, GPS-related technologies, rocket components and battery items, Broitman explained.

There are various funding avenues through which the Pentagon can invest in these “mitigation strategies,” to include use of the Defense Production Act and a DoD technology funding program called ManTech, among others, Broitman said.

“We try to do small, flexible, nimble investments,” she said.