

Early Procurement Cuts Spare Industrial Base

By **ZACHARY FRYER-BIGGS**

Although procurement suffered disproportionately as part of the U.S. fiscal 2013 budget request, and will likely be on the hot seat for the next couple of years, protection of the industrial base is shaping program decisions and overall cuts will be balanced, a Defense Department official said.

The program decisions announced Feb. 13 left most of the base intact and future plans look promising, although further cuts could still pose risk, experts said.

"I think the shoes to fall are softer and smaller in the modernization accounts," said Steve Grundman of Grundman Advisory. "The depth of the reductions is modest. You start breaking the cookie jar at 20, 25 or 30 percent. You start breaking the china there."

Procurement accounts for 18 percent of the defense budget but 38 percent of cuts, according to numbers compiled by the Center for Strategic and International Studies (CSIS), so there will be a clear impact on contractors. Those numbers reflect the need to find immediate savings and will likely balance out as other cuts fill the \$487 billion in reductions mandated by the Budget Control Act, DoD industrial policy chief Brett Lambert said at a CSIS-hosted panel Feb. 15.

"Your numbers show a disproportionate share on the procurement side, but part of that is that's where the early savings can come from," Lambert said. "Other savings are longer-term savings."

Protecting key industrial base capabilities was part of the budget process and affected decisions on individual programs, Lambert said. "As we led up to the '13 budget, for the first time in the 20 years that I've been working in the sector, our office was truly engaged," he said. "We're not bailing out companies, we're talking about intervening when it's completely in our self interest in capabilities that we will need in programs in the future."

The effect of some of that careful maneuvering was that risk to the base had been minimized, Byron Callan of Capital Alpha Partners said as part of the same panel. "When I think about the risk to the industrial base, and the impact on the industrial base, there's really not a lot that jumps out at me," he said.

Sources with knowledge of the budget decision-making process said that while the impact on contractors was weighed, little attention was given to overall job numbers. Instead, decisions were based on protecting capabilities and specialized skills.

The Aerospace Industries Association has made the risk to jobs a key pillar of its public relations ef-

forts against cuts, often citing a study commissioned by the organization that found that 1 million jobs are in jeopardy. That number has been called into question by some, citing the conflict of interest in having a study funded by the organization.

Lambert pointed to a number of previous decisions as evidence of DoD's commitment to protecting capabilities, including the next-generation bomber program, which he said was critical for maintaining design knowledge.

A day before the panel, Frank

Kendall, acting undersecretary of defense for acquisition, technology and logistics, emphasized the role performance played and will play in program decisions.

"I've made a few decisions just in the past year about some of our programs where we've had to curtail

programs," he said at a Feb. 14 conference sponsored by Aviation Week. "There was a time in my life in the Cold War when the need was such that almost whatever you did, we were going to try keep you alive and get the product. We don't live in that world anymore. If you're not executing successfully, I think you're in trouble." □

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