The Defense Industrial Base: A View from Industry

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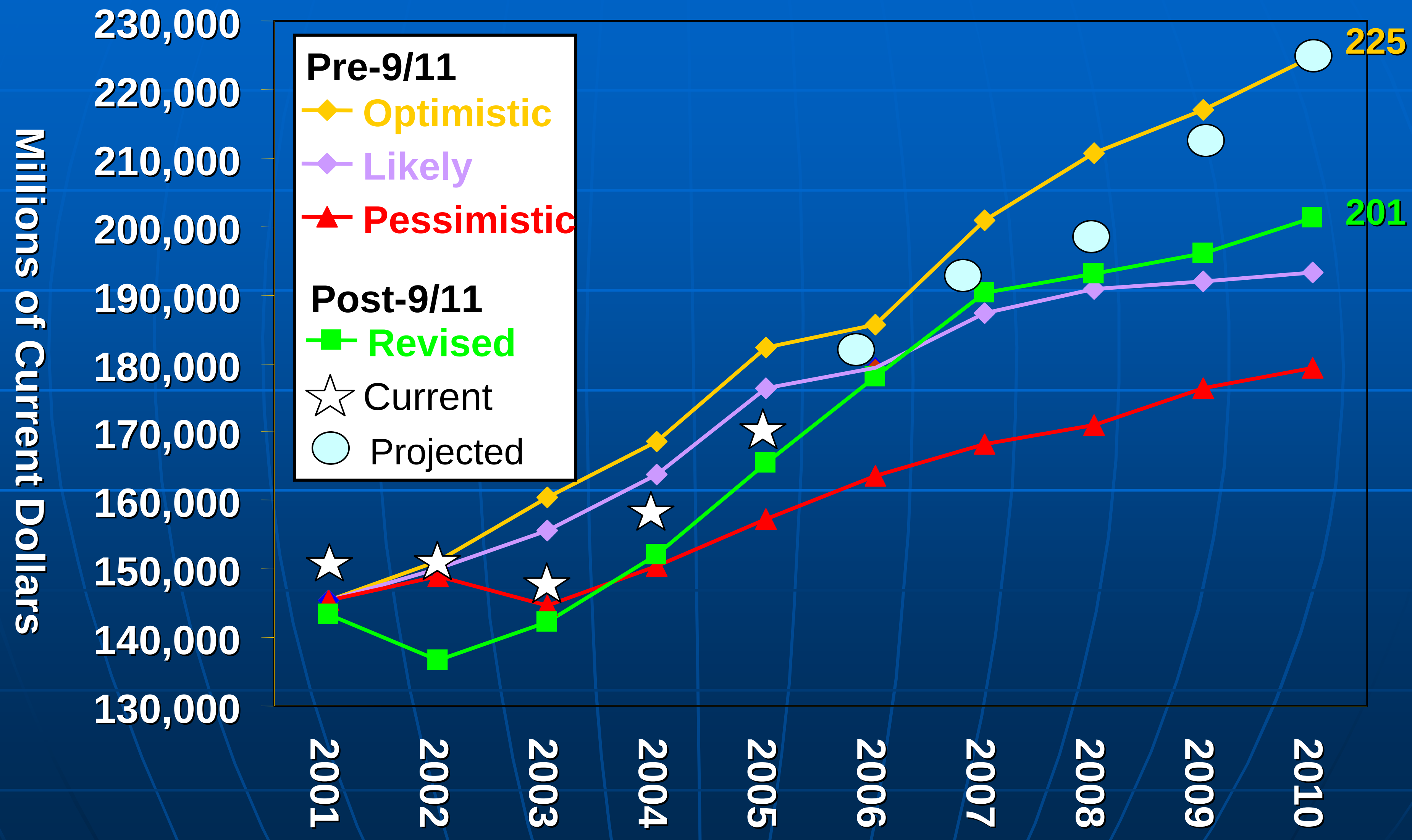
The Industry Through 2011

- Steady and robust
- 200-250B/yr
- Strong growth in commercial
- Military flat at best?
  - Even if overall DoD top line grows, procurement/R&D future uncertain
    - Pressure on new systems from Army ground forces recapitalization

Industry 2001 Sales Forecast
"Four" Scenarios



Industry Sales Forecast 2006-2011

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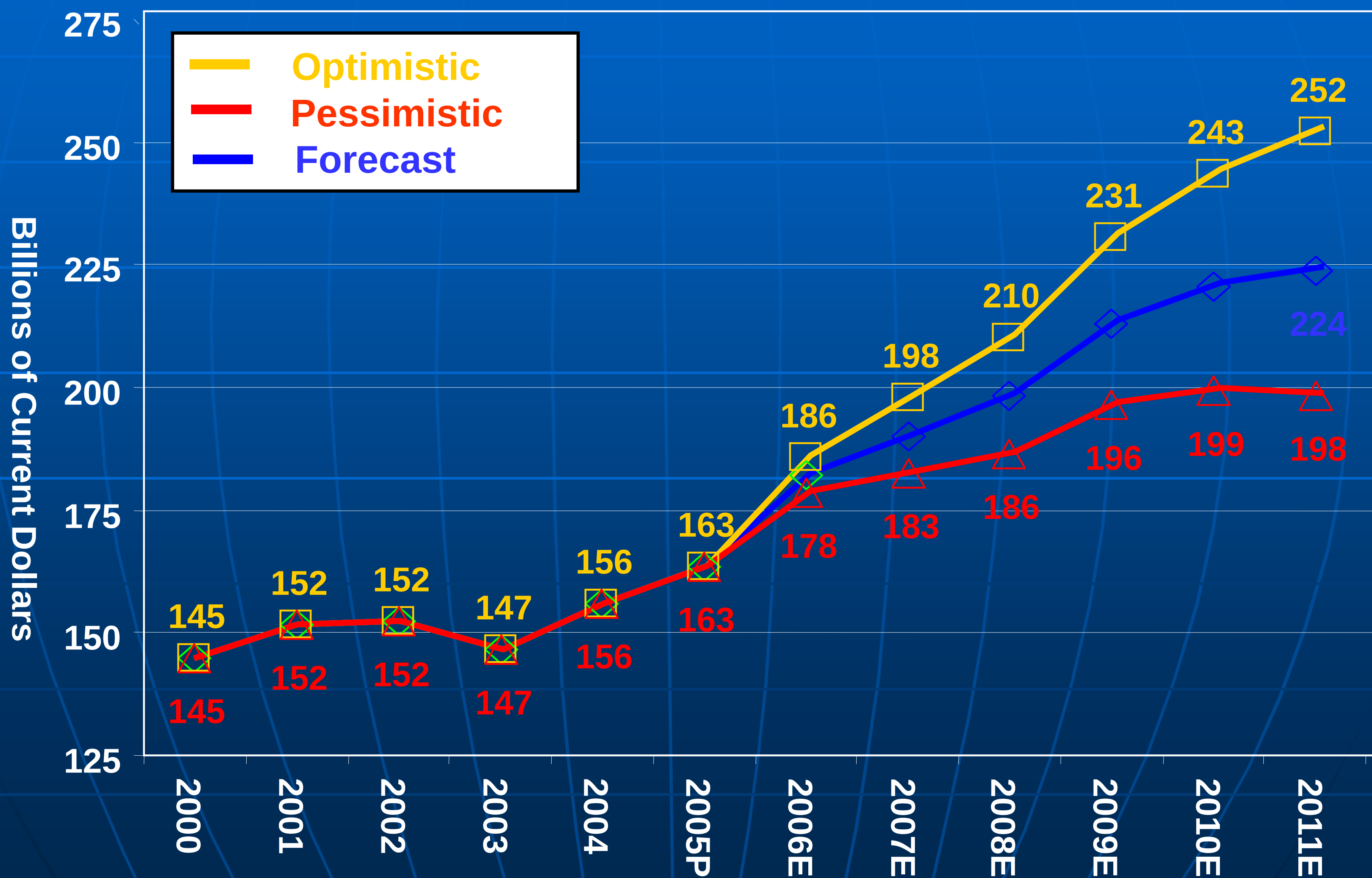

Civil-Military Integration

- Projected growth in commercial sector can be an engine for DoD savings IF regulatory impediments removed
  - R&D paid for by commercial clients can bootstrap DoD projects
  - Wider use of COTS technology
  - Commercial systems more flexible and current
  - Use global best sources

Civil-Military Integration

- Problems that prevent cross-fertilization:
  - TINA
  - Accounting rules
  - ITAR
  - Buy America
    - Berry example

Air Traffic Control, An Example of Benefits

Dep't of Defense

& Homeland Security

Network-Centric Technology

Low-Cost Systems

Civil Aviation Community

FAA, NASA, ATC contractors

- High-Risk Technology Development
- System of Systems Integration
- Anti-Tampering Technology

- High Volume Production
- High Degree of Contractor Development
- Low-Cost Refinement Technology
- Access to Global Sources of Technology

Structural Issues for Industrial Base

- Maintenance of strong R&D program
- Aging workforce
  - 25% of aerospace workers eligible to retire by 2008
  - A major AIA member company estimates it will need 90,000 new engineers over the next five years.
  - Dramatic decline in the 25 to 34 year old bracket — falling from 27 percent of the workforce in 1992 to a low of 12 percent in 2003
  - The good news: Employment is growing after falling to a 50-year low in February 2004. Since that point and through 2005, 47,100 workers have been added to the industry's workforce.
- Globalization
  - Reform Export Control Policies
  - Reform Export Control Law
  - Level Playing field
  - Market Access

Structural Issues for Industrial Base

- Looking back
  - Technology development driven by threat scenarios
- Looking forward (GWOT – a new paradigm?)
  - Matching strategies and plans
  - Intelligence, surveillance, reconnaissance capabilities
  - Countering IEDs
  - Nimble technology advances
- Sharing
  - Burdens vs. benefits
- Transformation

Structural Issues for Industrial Base

- Financial viability
  - Total capitalization for 10 of the largest aerospace and defense companies is $188 billion compared to $118 billion for Google or $240 billion for Wal-Mart.
  - Defense industry margins improved from 3% in 1990 to 8% in 2004 but profitability lags significantly behind other industrial peers.
  - Misperceptions about cost growth:
    - Growth in spending reported in SARs, 2001-2005:

      Programs appearing on the SAR for the first time: <u>56%</u>

      Engineering changes: <u>16%</u>

      Bad initial cost estimates: <u>16%</u>

      Schedule slips: <u>8%</u>

      (Remainder was inflation and other minor adjustments)

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