National Defense Industrial Association

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NDIA Policy Update
Vital Signs 2024 Briefing

NDIA Policy Priorities

- Budget stability and sufficiency
- DoD digital modernization
- Foreign military sales and technology cooperation modernization
- Restored industrial readiness, capacity, and infrastructure
- Resilient supply chains

Highlights of NDIA Policy Efforts

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- Budget Efforts
- Tax R&D Amortization
- IP and Data Rights
- PECSEA
- AUKUS
- FY25 NDAA Cycle

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Similar to applying simultaneous and equal pressure to a vehicle's brakes and accelerator, for the U.S. DIB, the pressure to accelerate is being met with equal pressure to reduce speed.

VITAL SIGNS 2024

Posture of the DIB: Mismatch

Current DIB shaped by bipartisan policies and planning assumptions for the 1990s and early 2000s.

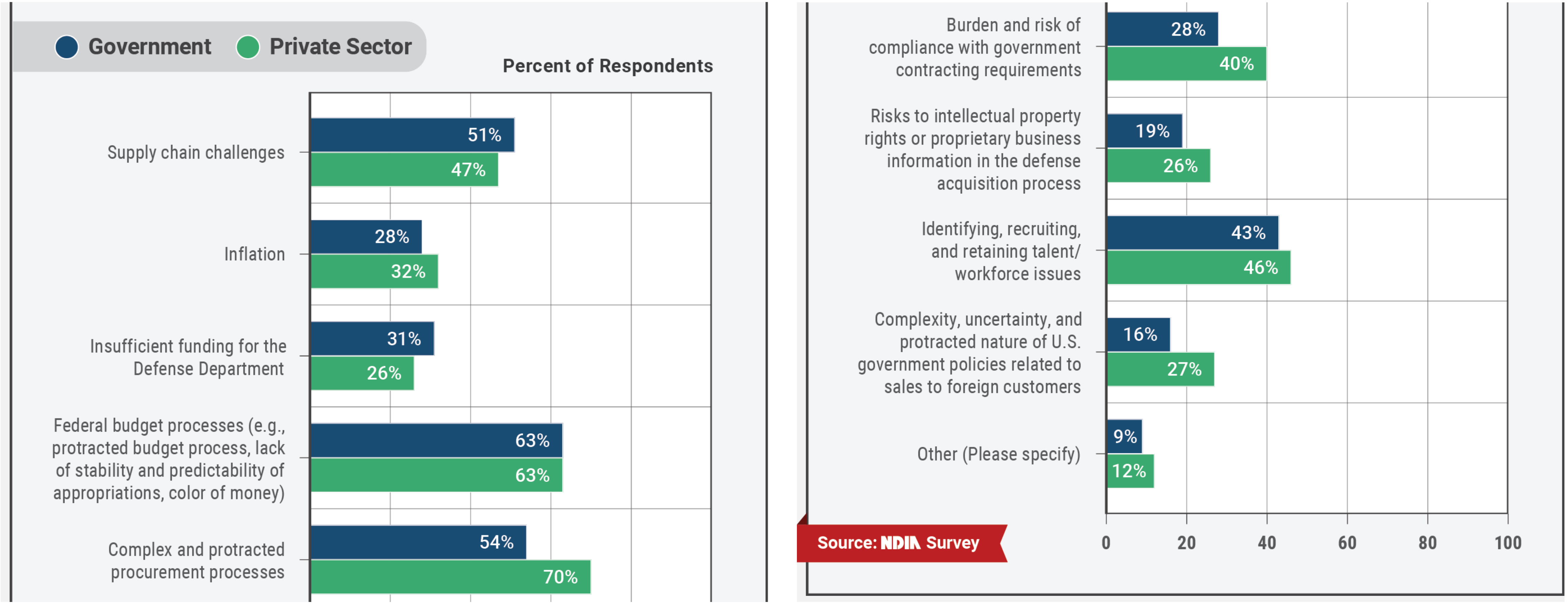
- **That environment no longer exists**

It will take time, financial investment, and changes in systemic behavior patterns to reshape DIB.

- Capacity to grow its output
- Fulfill a surge in military demands
- Reconstitute during a major conflict

Source: Department of the Air Force; Department of the Navy; OUSD (Comptroller)

Most Pressing Issues Facing DIB



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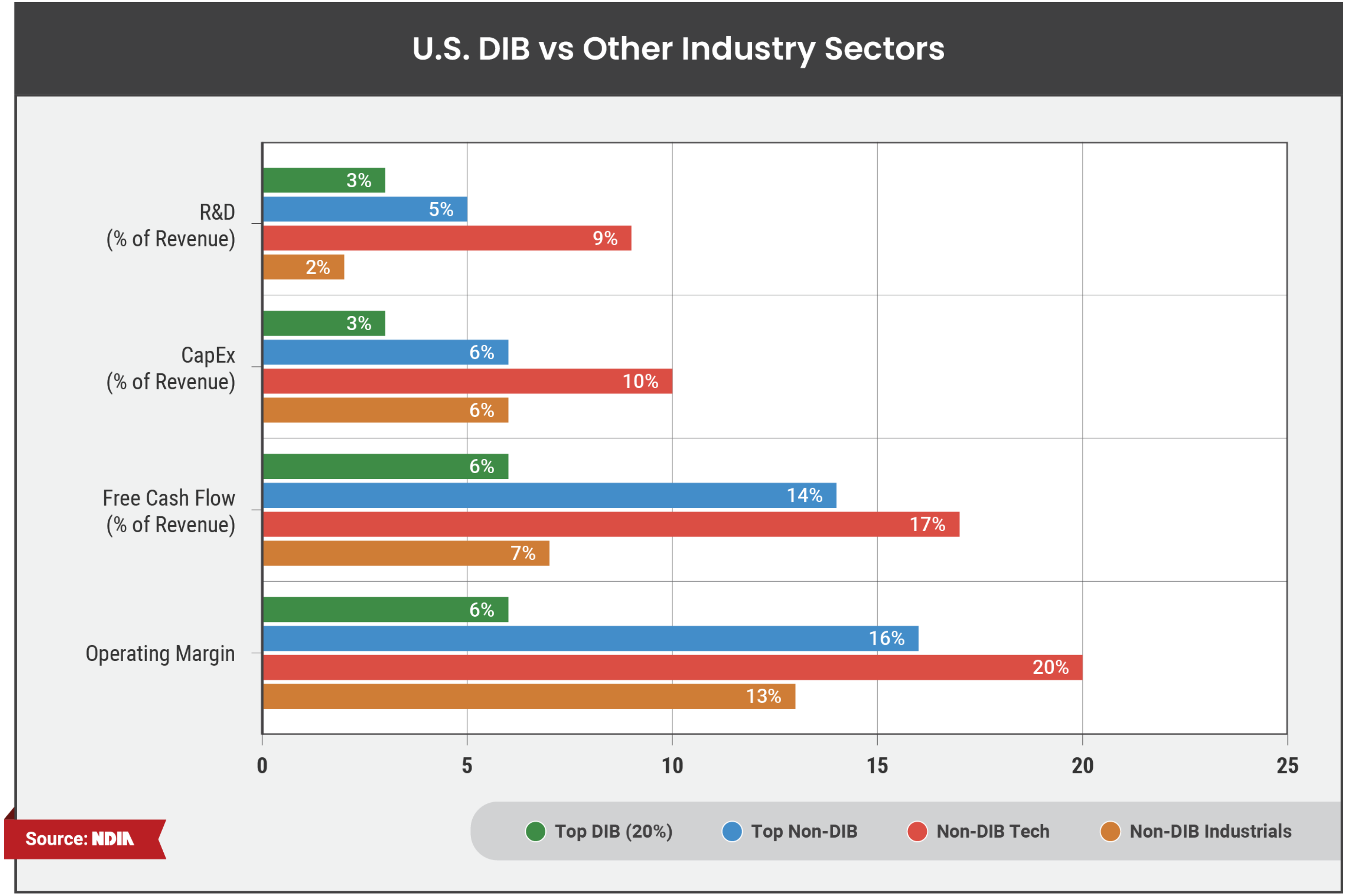
Policy Objectives: Struggling to Balance Shared Risk

- Increased scrutiny vs. competition for capital.
- Attract small and nontraditionals vs. barriers to entry.
- Innovative tech strategies vs. Cold War-era frameworks.
- Expect to expand production before contract vehicles justify business case.
- Demand supply chain changes without incentives or consistency in acquisition strategies.

Competition for Capitol: Commercial and Global



Don't forget…..

- Political division
- Budget instability
- High inflation rates
- Tightening credit
- Credit downgrading

Source: Bloomberg Government's Historical Spending Database, Corporate Annual Financial Reports retrieved from The Wall Street Journal

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Small and Nontraditional: Attract and Retain

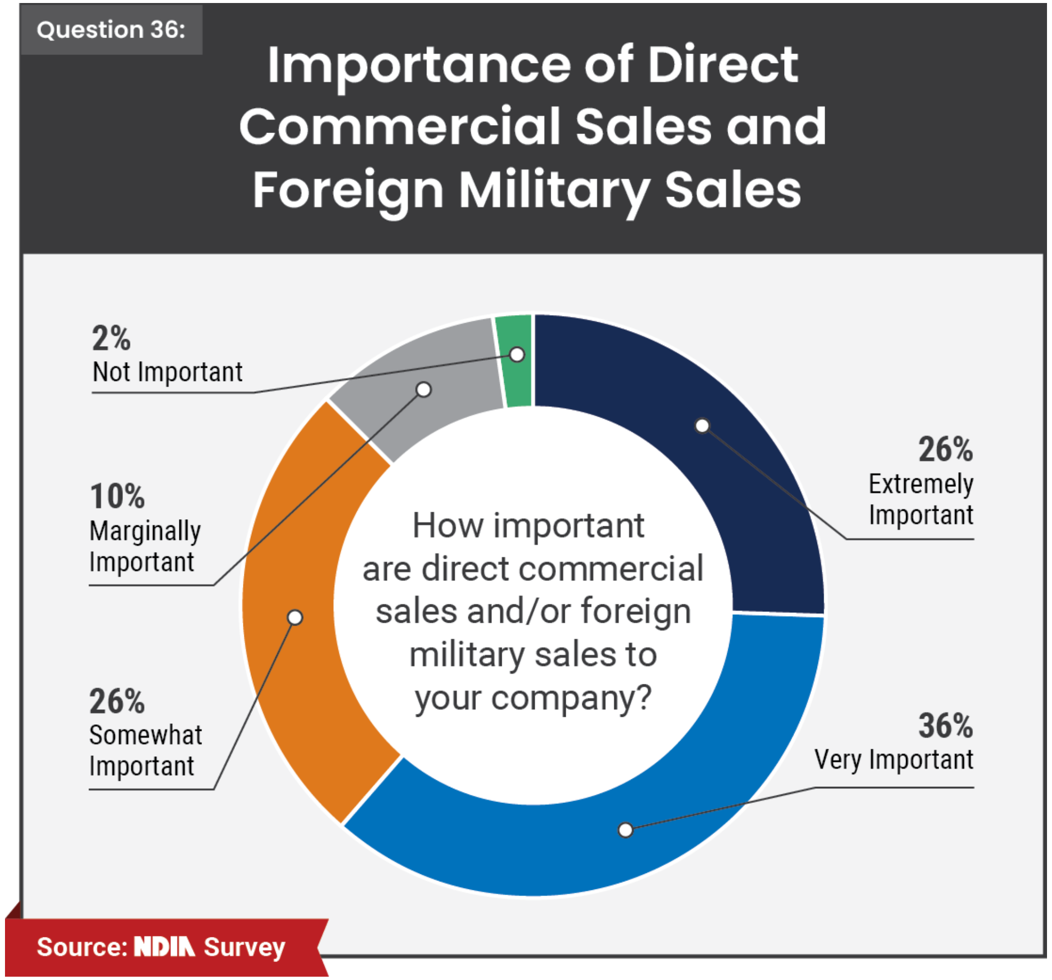
Significant Difficulties:

- Complex and protracted procurement processes (66%)
- Federal budget processes (51%)
- Lack of institutional support from the customer for small businesses (47%)
- Burden and risk of compliance with government contracting requirements (45%)
- Competition with larger firms (43%)

Examples of Barriers to Entry:

- Fear (or reality) of losing intellectual property and data rights – “crown jewels”
  - Risk future commercial loss
  - Size of government purchase not worth it
- Costs of contracting across requirements not transparent – even to DoD
  - Ex. CMMC assessment vs. cyber standards in NIST SP 800-171
  - Cost estimates for assessment but not underlying cyber standards

FMS Modernization and Technology Cooperation



*Due to rounding, the sum of the figures may not equal 100%

Direct commercial sales and foreign military sales vital to keep production lines operating.

Need to deepen our technological cooperation and integration with our closest allies and partners.

- AUKUS implementation
- New approach for dual-use export controls

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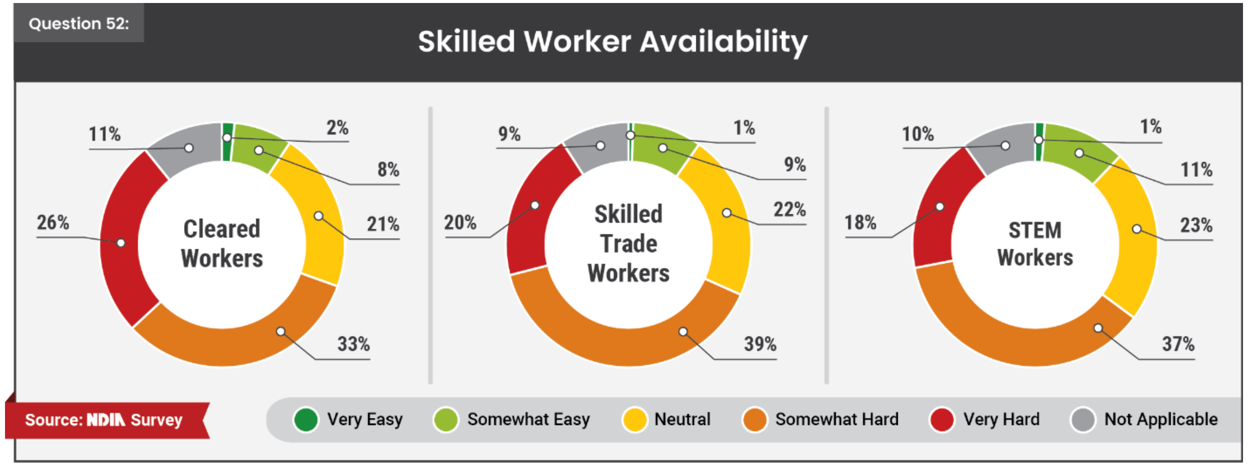
Restoring Industrial Readiness

Top issues impacting industry's ability to expand production:

- No contract vehicle to justify expansion (57%)
- DoD's current acquisition strategy does not justify expansion (46%)
- The company has challenges to expand the number of skilled or cleared workers (45%)



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8/12/2024

Resilient Supply Chains

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Government (51%) and industry (47%) cited supply challenges as the third most pressing issue facing the DIB.

- Unpredictable and inconsistent demand signal from the U.S. government customer (32%)
- Inflation levels make cost estimation unpredictable (15%)
- U.S. government regulation and compliance burden (13%)
- Not enough skilled workers (11%)

Industry respondents reported losing 26% of critical suppliers during the last three years and 23% of single or sole source domestic suppliers.

Download online:

www.ndia.org/policy/publications/vital-signs

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