



OUSD(A&S)/Industrial Policy



April 13, 2021
NDIA Procurement Division

Kim Herrington, Principal Director, Office of Industrial Policy



Mission Statement

Ensure **robust, secure, resilient, and innovative** industrial capabilities upon which the Department of Defense can rely in an era of **great power competition** to fulfill current and future Warfighter requirements.



“A healthy defense industrial base is a critical element of U.S. power and the National Security Innovation Base. The ability of the military to surge in response to an emergency depends on our Nation’s ability to produce needed parts and systems, healthy and secure supply chains, and a skilled U.S. workforce.”

2017 National Security Strategy



The Herrington Theorem

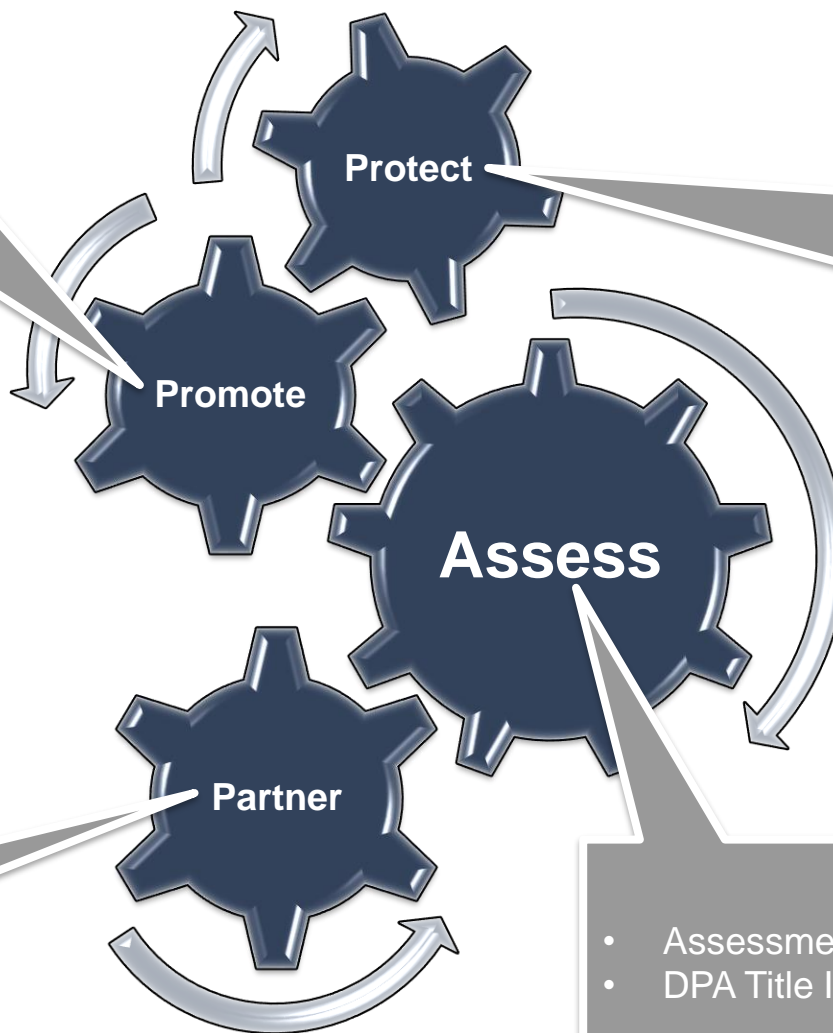
Everything works
until it doesn't



Implementation: Four Action Areas

- Industrial Base Analysis and Sustainment (IBAS)
- Defense Production Act (DPA) Title III
- Small Business Programs (OSBP)

- Foreign Investment Review (FIR)
- Cybersecurity (DIB)
- Cybersecurity (Weapons)



- Industry and International Engagement

- Assessments
- DPA Title I



Assessments Core Mission & Lines of Effort



Core mission: analyze the health of, and create strategies to address weaknesses in, the DIB and supply chain.

Collaborative Effort across DoD

Assessments and Strategy Development

LOE 1: Industrial Base Assessments

- 1) Assess vulnerabilities in DoD Supply Chain for investment
- 2) Analysis for potential investments
- 3) Propose investments
- 4) Assist w/ monitoring progress on existing investments

LOE 2: Strategy Development / Risk Mitigation

- 1) CARES Act Funding
- 2) NTIB Strategy
- 3) Continuous Improvement

LOE 3: DPA Title I / Defense Priorities and Allocation System (DPAS)

- 1) Education
- 2) Support to Military Defense Acquisition Programs
- 3) Support to the Department of Health and Human Services implementation of Health Resource Priority and Allocations (HRPAS)

Reporting / Strategic Communications

Industrial Capabilities Report
10 USC 2504

National Security Strategy for the National Technology and Industrial Base
10 USC 2502(a)

Unfunded Priorities List for the NTIB

Focus Areas

1. All Military Defense Acquisition Programs
2. Sectors:
 - Microelectronics
 - Strategic Materials and Rare Earth Elements
 - Critical Energetics
 - Missiles and Munitions
3. Strategy Development
 - Overarching (Materials/Rare Earths)
 - Specific (Neodymium)
4. EO 13806 Implementation / Risk Mitigation
5. E.O. 14017 Build Back Better
6. Communication through Congressional Reporting
7. Leverage Ally / partner capabilities (NTIB)



Exponentially Increasing Demand for Defense Industrial Base Information



As policy makers dedicate attention and resources to the resiliency of the Defense Industrial Base, the importance of complete and detailed assessments in the vulnerabilities of the DIB have never been higher.

Legislative

- Congressional Reporting Requirements
- Questions for Record (QFR) / Requests for Information (RFI)
- Review of pending legislation
- Informal requests
- Briefings, official and *ad hoc*
- Testimony Support

White House and Interagency

- Industrial Base review all CFIUS cases (>200 in 2020)
- Spearhead Section 232 investigations (10 since 2017)
- Implement/respond to existing Executive Orders (E.O.s)
 - E.O. 14017-America's Supply Chains
 - E.O. 14005-Buy American
 - E.O. 14008-Climate Change



Internal DoD

- Inform investment strategies for DPA Title III and IBAS Programs
 - Assess vulnerabilities in DoD Supply Chain for investment
 - Analysis for potential investments
 - Propose investments
 - Assist w/ monitoring progress on existing investments
 - Coordinate with DIB stakeholders across interagency
- Lead DPA Title I / Defense Priority and Allocation System (DPAS) Program for DoD
- Program Review Issue Team Support
 - Buy American, Climate Change
- Review/Approve determination and findings (D&F) for MilCon projects at Government owned/contractor operated (GOCO) and Government owned/government Operated (GOGO) facilities

Foreign Engagement

- Liaise with National Technology and Industrial Base (NTIB) partners
- Bilateral engagements
- Foreign company engagements / support to International Cooperation and Policy & Outreach



Industrial Base Analysis and Sustainment (IBAS) Program



Building the “Next Generation of the Arsenal of Democracy”

Statutorily Based

10 U.S. Code § 2508. Industrial Base Fund

1. to support the monitoring and assessment of the industrial base
2. to address critical issues in the industrial base relating to urgent operational needs;
3. to support efforts to expand the industrial base; and
4. to address supply chain vulnerabilities.

Strategically Aligned

“We will ensure that our supply chains for critical national security technologies and medical supplies are secure.”

2021 Interim National Security Strategic Guidance

Efficient and Impactful Execution

Target and coordinate industrial base investments to give program managers Time + Capacity + Capability + Resilience to deliver and sustain defense capabilities



Mission: Strengthen the competitive posture of the U.S. Defense Industrial Base (DIB) in the era of great powers and global competition

Vision: A modern industrial base that fortifies traditional DIB capabilities and forges emerging sectors to respond at will to national security requirements

Priorities:

- **Ready the modern DIB** - Advance and sustain traditional defense manufacturing sectors
- **Prepare for the future** - Identify, attract, and cultivate emerging defense sectors
- **Assess and shape the risk** - Mitigate supply chain vulnerabilities within the global DIB
- **Build and strengthen partnerships** - Across the Global DIB



Skilled Workforce is on the Critical Path

Threatens Build Back and Defense Readiness

#1 REPORTED
ISSUE

55+

AVERAGE
AGE

<20%

35 OR
YOUNGER

\$43K

MEDIAN PAY

375k

DEMAND BY 2023

Fierce labor competition for decades
Delayed resourcing, costs increases, schedule delays
Lost revenue, loss of market entrants
- Welders, metrologists, machinists, non-destructive techs



National Imperative for Industrial Skills

Promote, Accelerate, Elevate U.S. Manufacturing



Aspirational Goals

- **Promote** the prestige of manufacturing and industrial careers
- **Accelerate** training development pipelines
- **Elevate** U.S. manufacturing to world-leading status

Target lines of effort to greatest DoD needs

- Expand recruitment
- Establish/evolve training curricula, processes, and capacity
- Partner beyond DoD and traditional training community
- Grow data-driven program approach

LEGEND

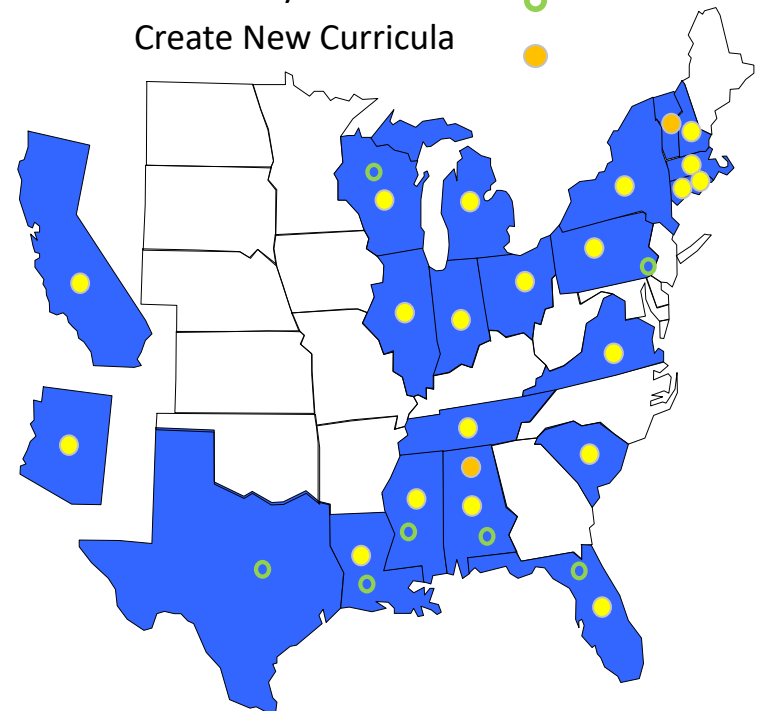
Expand / Recruit



Data Analytics



Create New Curricula



Executing 11 National Imperative projects
totaling \$35M in FY20 funding

Per Dec 2020 IBC: A \$1B/year investment can reverse skills decline and energize economic growth



Overview: Defense Production Act (DPA)

- The Defense Production Act (DPA), enacted in 1950 and last renewed in 2018, **provides the President a broad set of authorities to ensure the timely availability** of domestic industrial resources **essential to national defense**.
- The DPA is a Title 50 authority under the **jurisdiction** of the **House Committee on Financial Services** and the **Senate Committee on Banking, Housing, and Urban Affairs**.

DPA Title III Authorities

Loan Guarantees (50 U.S.C. §4531) // (§301)	Loans (50 U.S.C. §4532) // (§302)	Purchase Commitments (50 U.S.C. §4533) // (§303)	Purchases (50 U.S.C. §4533) // (§303)
<ul style="list-style-type: none">• May be extended when credit is not available to the loan applicant under reasonable terms and conditions sufficient to finance the activity• Prospective earning power of the loan applicant and the character and value of the security pledged provide a reasonable assurance of repayment of the loan to be guaranteed	<ul style="list-style-type: none">• May be extended when private financing is beyond the risk of the commercial market• Projected earnings following the loan is sufficient to cover repayment plan	<ul style="list-style-type: none">• Create a guaranteed demand to reduce risks for industry to make their own investments	<ul style="list-style-type: none">• Provide direct subsidies to companies to assist in establishing production capabilities, including:<ul style="list-style-type: none">• Purchase and installation of production equipment in privately owned or Government owned facilities• Engineering support to improve quality and yield of production facilities• Sample quantities for process validation and customer qualification testing

Priority Areas

Sustain Critical Production	Commercialize Research and Development Efforts	Scale Emerging Technologies
“To create, maintain, protect, expand, or restore domestic industrial base capabilities essential for National Defense”	“From Government sponsored research and development to commercial applications,” and “from commercial research and development to National Defense”	“For the increased use of emerging technologies in security program applications and the rapid transition of emerging technologies”

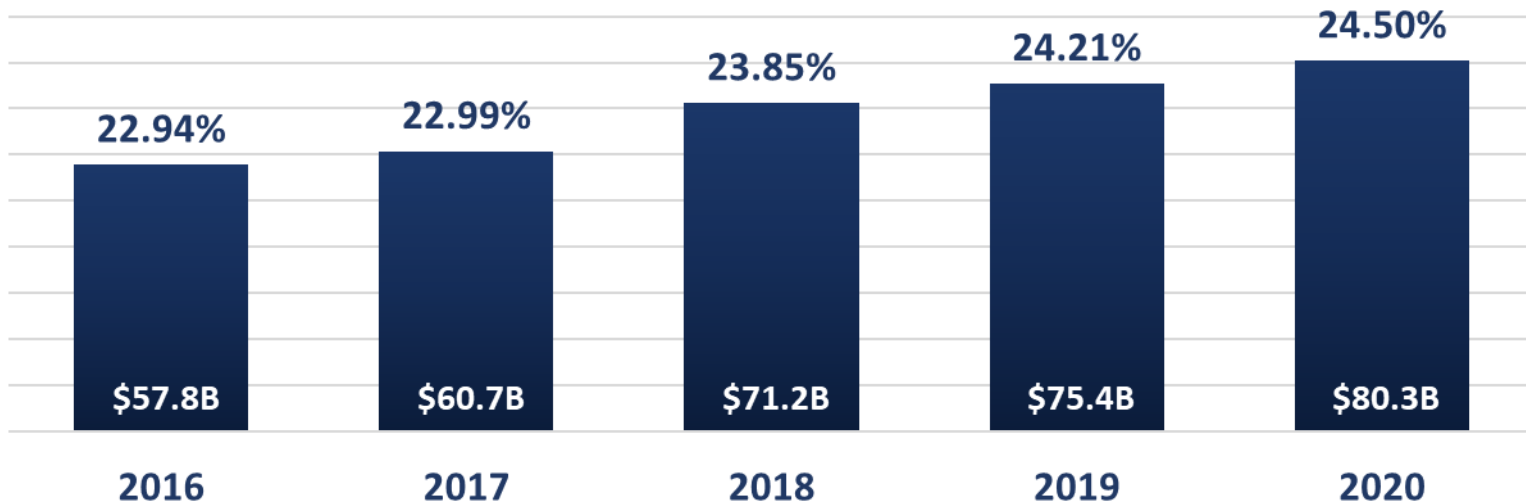


DOD Small Business Mission and Performance



Mission:

OSBP maximizes opportunities for small businesses to contribute to national security by providing combat power for our troops and economic power for our nation.



	2016	2017	2018	2019	2020
Total DoD \$	\$252.0B	\$264.1B	\$298.4B	\$312.2B	\$328.0B
DoD Small Business \$	\$57.8B	\$60.7B	\$71.2B	\$75.4B	\$80.3B
DoD Small Business %	22.94%	22.99%	23.85%	24.21%	24.50%
Goal	21.26%	22.00%	22.00%	21.80%	22.05%

Data Source: 2016 – 2019 FPDS official reports, 2020 – beta.sam, includes approx. \$3.7 billion in double credit for awards in Disaster Areas and Local Area Set-Asides



Project Spectrum

Purpose: Educate, train and equip the defense industrial base and universities with the tools for strengthening cybersecurity resilience across the small manufacturer supply chain (Section 1644, FY19 NDAA).

- Cybersecurity readiness self assessment tool and personalized dashboard
- Advisory compliance guidance for DoD requirements
- Supply chain risk management community and information sharing

Pilot Program:

Enroll Manufacturing, Research and Development, Knowledge-based services, MPP and other select companies.

Participating Companies:

- Show measurable increase in compliance, cyber incident reporting and hygiene.
- Increase NIST SP 800-171 compliance and CMMC accreditation readiness

Best practices shared among DoD small business community.

Continuous engagement with DoD small businesses for valued services.

Impacts	April 2020 to Date
Training Engagements	15,000
Page Views	500,000
Live Advisor Responses	1,500
Ecosystem Partners	<ul style="list-style-type: none">• Small Business Innovation Research/Small Business Technology Transfer• National Security Innovation Network• Manufacturing Technology Program• Manufacturing Extension Program• Defense Counterintelligence and Security Agency



Foreign Investment Review

DoD's CFIUS Office



Sustained Strategic Economic Competition is the New Reality

- The United States is in strategic economic and technological competition with China
- Adversarial capital undermines the U.S. economic and technological advantage

FIRRMA Got It Right

- Data, Infrastructure, Technology integral to national security

Export Controls are Insufficient

- ECRA delays impact CFIUS protections of Critical Technologies
- “Presumption of denial” warranted

Engagement with Allies and Partners

- The supply chain is global – so is the threat
- Foster cooperation to achieve economic and security goals

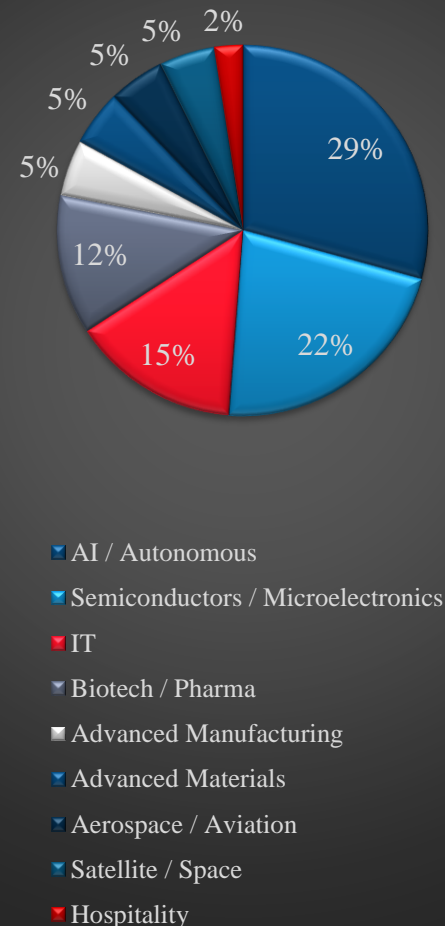


FIRRMA Got It Right

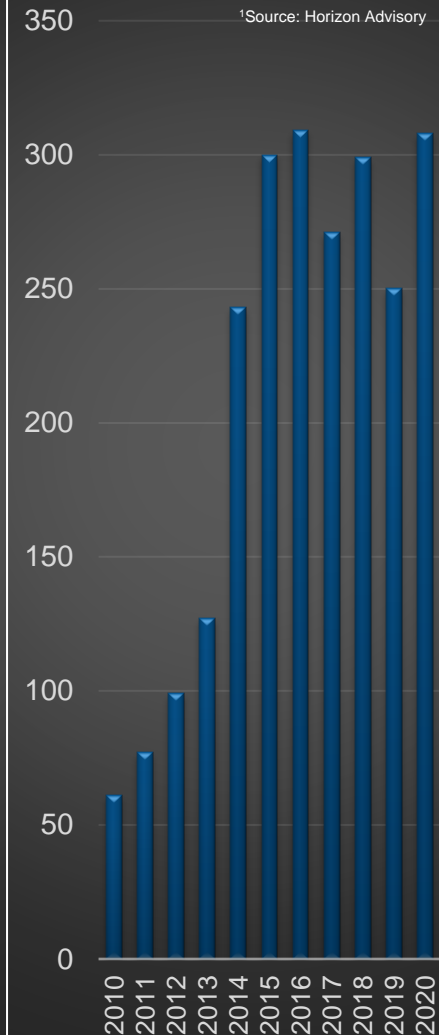
FIRRMA – Foreign Investment Risk Review Modernization Act

- Expanded CFIUS jurisdiction to **real estate, critical technology, critical infrastructure, and personal data**
- Integral to national security
- Data is the national resource that will drive us to the future
- Technological innovation drives economic prosperity and national security
- Critical infrastructure and real estate instruments that feed everything else

2020 Chinese Transactions Identified by DoD (by Sector)



Chinese VC Deals with US Companies





Chief Information Security Office for Acquisition and Sustainment (CISO A&S)



Responsible for cyber and information security efforts within the entire OUSD(A&S) portfolio, as security is foundational to all A & S.

CISO A&S

Weapon Systems and Defense Critical Infrastructure

Support Services and Combatant Commands by identifying cybersecurity risks

Supply Chain Risk Management (SCRM)

Lead DoD efforts to identify, assess, and prioritize risks within the DIB and across Federal Agencies

Cybersecurity Maturity Model Certification (CMMC)

DoD's primary program for supporting DIB cyber-resilience through model that clearly articulates and enforces cyber requirements

Trusted Capital

Incentivizing vetted and trusted venture capital to the DIB to combat adversarial venture capital



Questions?