

Presenter: Ellen M. Lord, Undersecretary Of Defense For Acquisition And
Sustainment
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Undersecretary Of Defense (A&S) Ellen Lord Holds A Press Briefing On COVID-19
Response Efforts

STAFF: So good morning, ladies and gentlemen. Actually, good morning, milady and those that are dialing in and joining us virtually on defense.gov.

This morning, Undersecretary of Defense Ellen Lord is here to provide an update on how the department is supporting the interagency effort to partner with the defense industry to mitigate COVID-19 impacts. She will provide an opening statement, then we will go into Q&A using the list of reporters that have dialed in and those in the room.

Ma'am, over to you.

UNDERSECRETARY OF DEFENSE ELLEN M. LORD: Thank you, Mike.

And good morning, everyone. Thank you for joining us today for an update on the department's continued efforts to mitigate impacts from COVID-19.

I want to start by offering my sincerest condolences to the families of those who we have lost to COVID-19 in the department. We remain intensely focused on protecting our military members and their families, government civilians and the defense contractor force, especially our 50,000 service members -- which includes 4,000 doctors, nurses and other medical personnel across all components currently deployed across the United States working tirelessly to help protect the American people.

The department, particularly the Defense Logistics Agency, or DLA, remains closely coordinated with the military services to understand requirements and priorities. To best protect the force, DLA has provided over 1.8 million N95 respirator masks, 3.2 million non-medical and surgical masks, 54.8 million exam gloves, 8,000 ventilators, and 275,000 isolation and surgical gowns to our military services, combatant commands, and several federal agencies.

We have ordered face coverings for the workforce, 3 million active duty, Guard, Reserve, and government civilians, with deliveries starting this week. We expect 135,000 by the end of April and 580,000 by the end of May.

Last week, TRANSCOM was able to utilize the Defense Threat Reduction Agency, or DTRA, -developed Transport Isolation System, or TIS, to move three COVID-positive patients from Afghanistan to Germany. This marks the first operational use of the system that was developed for the 2014 Ebola crisis, but was never used until now.

The Joint Staff, TRANSCOM, and the Air Force continue to work to ensure that we can safely transport COVID-19 patients from overseas locations to the United States. We are absolutely committed to the safety of the air crew and medical support staff during these missions.

We just issued a memo that directs contracting officers to support a U.S. Forces-Afghanistan memo to redeploy at-risk contractor employees due to insufficient medical capability in-country. We project this number to be less than 1,000 but we are committed to taking care of them.

The department remains closely aligned with FEMA and HHS, contracting for over \$500 million in lifesaving supplies and equipment to service members and federal agencies in the nation's whole-of-government approach to the coronavirus pandemic. This support includes providing 60 decontamination systems that can sterilize up to 80,000 N95 masks per day. Each are on order, with several already in place.

We continue to carefully and methodically track the state of the defense industrial base through DCMA for prime companies, top 10 defense contractors, and DLA for vendors. Out of 10,509 major prime companies, 106 are closed, with 68 companies having closed and reopened. Out of 11,413 vendor-based companies, 427 are closed, with 147 having closed and reopened.

Domestically, we are seeing the greatest impacts in the aviation supply chain, ship-building, and small space launch. We are seeing impacts on the industrial base by several pockets of closure internationally. Particularly of note is Mexico, where we have a group of companies that are impacting many of our major primes.

Regarding Mexico, I spoke with our U.S. Ambassador to Mexico on Friday, and today, I am writing the Mexican Foreign Minister to ask for help to reopen international suppliers there. These companies are especially important for our U.S. airframe production.

I am very thankful to Jen Santos and our industrial policy team, who continue to lead three to four industry calls per week with 18 associations representing over 3 million companies.

I remain proud of the department's responsiveness in addressing defense industry concerns outlined during these calls.

Mr. Kim Harrington, director of Defense Pricing and Contracting, has issued 20 defense pricing and cost memos, aggressively responding to industry needs and impacts. Those memos include guidance for increased telecommuting, increased progress payment rates, acquisition timeline impacts, relief for those who cannot work, and more.

Vice Admiral David Lewis, Defense Contracting Management Agency or DCMA -- director, modified 1,500 contracts to help companies file invoices at the higher progress payment rate. And he also worked with the Defense Finance and Accounting Service for a seamless transition for invoices.

Based on submitted invoices, we expect payments at the higher progress payment rate to start this week, helping provide \$3 billion in increased cash flow to industry.

I commend Lockheed Martin and Boeing for both publicly committing to ensure this cash flow goes quickly down the supply chain to small businesses who need it most. We are hoping for similar public announcements from other major primes.

The Office of Small Business Programs continues to work closely with the services and Small Business Administration. We hosted a small business webinar with over 1,000 companies this month and both the Army and Navy have increased the rate of obligations to small-business concerns, obligating an additional

\$180 million per week above their normal spending since mid-February, which equates to a 26 percent increase from the previous year.

I remain very proud of DLA, DCMA, DTRA, the Joint Acquisition Task Force, and the entire department's efforts to support the whole-of-government and interagency battle against COVID-19.

The department has leveraged 5,500 contracting actions totaling over \$1.5 billion in response to COVID-19. The largest amount is almost \$700 million in medical construction for the mobile military medical hospitals. Medical equipment, lab equipment, and testing are all high priorities.

The \$1.5 billion number includes the \$415 million DOD contract in support of Health and Human Services for 60 Battelle Memorial Institute critical care decontamination systems, which will allow medical professionals to reuse masks up to 20 times, reducing the nation's need for new inventory.

Six units were delivered last week, including two to New York and one each to Columbus, Ohio; Boston, Massachusetts; Chicago, Illinois; and Tacoma, Washington, providing the ability to sterilize 3.4 million masks a week, reducing the need for new masks by the same number.

All 60 systems will be available by early May for prioritization and distribution by Health and Human Services and the Federal Emergency Management Agency. Once all are delivered, these 60 units will allow 4.8 million masks to be sterilized per day, almost 34 million per week.

We have delivered 10 million N95 masks to HHS and FEMA and are prepared to provide 10 million more from DOD stocks. Last week we announced our first Defense Production Act, DPA, Title III project, which will invest \$133 million to increase domestic production of N95 masks to over 39 million in the next 90 days, or 13 million per month. This will help ensure our government has the industrial capacity to meet the nation's needs.

While we have signed letters of intent early last week, we only just finalized the contracts late last week. Mike will send out the details today, but the three companies awarded contracts are 3M for \$76 million; O&M Halyard for \$29 million; and Honeywell for \$27.4 million.

The increased production will ensure the U.S. government gets dedicated long-term industrial capacity to meet the needs of the nation.

DLA has delivered 5,000 face shields to the Javits Center. 6,000 more have gone to FEMA to be distributed to New York City first responders this week.

I want to talk briefly about the scope of our DPA Title III efforts. The department's DPA Title III investment in response to COVID-19 is increasing manufacturing capacity and throughput for critical materials through a variety of means. One is facility conversion, another is equipment purchase, also enabling sub-tier suppliers and helping with long-lead material purchases. The objective is to eliminate reliance on the foreign supply chain.

DOD uses Title III traditionally for the defense industrial base resiliency and security, and now we are helping with medical and health care resources with HHS and FEMA coordination.

Understanding that our efforts will continue to evolve, the current DPA Title III medical and health resources priorities can be categorized in the following areas, not in any particular order: N95 masks, ventilators, active pharmaceutical ingredients, testing kits, suppliers and reagents, vaccines and delivery systems, and other emerging areas of personal protective equipment, or PPE.

For the defense industrial base, critical DPA Title III defense sector areas include machine tools and industrial controls, aircraft, supply chain illumination, chem/bio, directed energy, radar, munitions and missiles, space, shipbuilding, soldier systems, and ground systems.

From the CARES Act, we received \$1 billion for DPA Title III. We anticipate receiving blanket DPA Title III approval for health care and medical resources to shorten the interagency process, and we are working with our interagency partners to plan and obligate. We are prioritizing approximately \$750 million for medical resources and \$250 million for the defense industrial base.

In closing, I want to thank Congress, both the authorizers and appropriators, who have been responsive and supportive of our efforts. Last week I briefed both the SASC and HASC, and I'm speaking with SAC-D and HAC-D to ensure we stay updated. We are working as smartly and quickly as we can, in close coordination with the Hill, state governors, and the defense industrial base, to do everything we can to support our military members, their families, defense contractors, and our fellow citizens.

Thank you. And with that, I'll take questions.

STAFF: Go ahead.

Q: Hi. Thanks. Tara Copp with McClatchy.

You know, in the last couple weeks hospitals have reported having their orders seized or rerouted, and the FEMA administrator put out a letter last week saying that maybe it put DOD's -- or under the Defense Production Act it put those orders from DOD or other agencies at the front of the line. Can you speak to those hospitals and their concerns that maybe their orders were not filled?

And then I have two other questions, but maybe do this one first.

MS. LORD: Okay, so you are referring, firstly, to Defense Production Act, Title I, which can put D.O. ratings or D.X. ratings on orders. These are called DPAS ratings. D.O. ratings put a -- brings orders to the head of the line over all other commercial orders. D.X. ratings put orders above all other defense orders, as well.

Right now, in terms of using D.O. ratings, FEMA and HHS are prioritizing the supply chains in which they're ordering. The way that those goods are being distributed is being determined at HHS and FEMA. So what they are doing is working with medical distributors to make sure all the PPE and medical equipment goes to the right places. They, in turn, are asking hospitals and state governors to work with their local FEMA distributors. So we are working on both the demand side as well as the supply side.

And the way DOD enters into that is through Admiral Polowczyk, who is over spearheading the supply chain effort. So everything that we do at DOD is in coordination with FEMA and HHS.

Q: So for hospitals who had an order and then all of a sudden it's been moved or it has a higher priority with some other agency, what do they do?

MS. LORD: What they do is they talk to their local FEMA administrator and work through that system that way.

Q: Okay.

And then secondly, a bit ago you talked about the three major N95 contracts that are underway. Earlier this month, DLA issued an \$86 million contract to a Puerto Rico company for N95 masks with a delivery of December. Just wondering about that -- the size of that contract. How many masks can \$86 million actually produce? And, you know, with a December delivery, is this, like, in preparation for a future, you know, cycle of need?

MS. LORD: I will say that we continue to work with mask -- N95 mask suppliers above and beyond the three that I mentioned, and we anticipate a phase two DPA Title III award for N95 masks. We are working very hard with FEMA and HHS to determine overall demand, as well as demand within DOD.

So what I can do is look into how much the average cost or price is, and we can get back to you, but these things are moving around a bit so I don't know off the top of my head.

Q: Okay, just one quick clarifier: At the top of your remarks you said 1.8 million N95 masks have been distributed, and then later on to HHS, you said 10 million. I was just wondering...

MS. LORD: Okay, this is a difference -- initially, I was talking about DOD, and then later I was talking about the fact that out of DOD stocks, we have provided HHS and FEMA with 10 million N95 masks, and we are going to give another 10 million out of our stocks.

STAFF: Okay, we're going to go to the phones. Mike Stone, are you there?

Q: Yes, sir, right here. Thank you very much for doing this.

Can I ask, specifically, what has the White House directed the Pentagon to do in terms of anti-COVID measures? Has it been masks, ventilators? What's the line of effort that the White House has requested that you guys assist on?

MS. LORD: I'm not clear on your question. You're asking, what has the White House requested DOD to do in terms of supplying equipment to the nation?

Q: Both supplying, but also ordering. You bring a huge amount of power in terms of how you can maneuver the great ship of the Pentagon around, and so I'm asking, where have they asked you to -- to lend your efforts?

MS. LORD: Well, we work through the vice president's task force. Initially, we stood up our Joint Acquisition Task Force that Stacy Cummings leads out of A&S, and we have individuals from all the different services and agencies involved.

And what we have been doing is to work along with HHS and FEMA contracting individuals to help program-manage, if you will, many of the areas that they are buying. So, for instance, we have a ventilator team, we have a PPE team, we have a pharmaceutical team, and so forth that work with those.

We also are beginning to take on more contracting ourselves, particularly for the more complex and large orders. And then, if you recall, we have had a longstanding agreement between FEMA and the Defense Logistics Agency, which was typically utilized during national emergencies such as tornadoes, hurricanes, and so forth, where there's a memorandum of agreement where FEMA can very quickly order supplies through DLA. So we have continued to do that.

So we are embedded at the NRCC with HHS and FEMA. We take part in the daily V.P. task force meetings. And we are there to support the entire interagency with any contracting that they need done, as well as carrying out the DPA Title III contracting.

STAFF: Did you get that, Mike?

Q: Yeah, thank you.

MS. LORD: All set?

STAFF: Okay.

MS. LORD: Okay, thanks.

STAFF: All right, we're going to go to Tony Capaccio.

Q: Hi, Ms. Lord. Hi, can you hear me?

MS. LORD: Yes, I can, Tony.

Q: Hey, good. Hope you're -- hope you're doing well.

I've got a couple questions. One, when Kim Harrington announced the \$3 billion in progress payment increases a couple weeks ago, he said that the department has high expectations that primes are ensuring cash flow is moving to small companies in their respective supply chains as is needed.

Has A&S set up any system to actually track how the money is spent, so you're not just taking this on faith that the companies are doing that -- you know, and using for share buybacks in the next few months? You've heard that complaint.

MS. LORD: Okay, so let's stop right there.

What we have done is, we have asked each of the companies to ensure that they are flowing down funds. Lockheed, I think, has been the most forthcoming about that, publishing some of it. Boeing has said they will as well.

We have asked the industry associations to track that for us, but we did not, as we don't typically do, put a specific auditing function in review. However, as you well know, there are multiple levels of audits that go on on all of our major contracts, so that will be traced as we move forward.

Q: Can -- is DCAA going to be used to trace that, going forward, when they -- when the companies come in with their cost reports?

MS. LORD: DCAA is always auditing, and we have not had specific conversations with them relative to that, as we are moving fairly quickly. But I think as you know, there's an incredible amount of oversight that goes into the defense contracting arena.

Q: That's for sure. Okay, thank you, ma'am.

MS. LORD: Thank you.

STAFF: Tom Bowman?

Q: Hey, thanks for doing this.

As you know, President Trump said the DPA would be used for testing swabs. Could you give us a timetable on the number that are needed and when they'll be delivered?

And the same with testing kits. You mentioned both civilian and military officials say there's a great need for testing kits as well as machines. Numbers, timetable?

And then finally, General Milley said his goal is to do 60,000 tests by the end of May, early June. What does he need to make that happen?

MS. LORD: So I think as you know, for most of the systems, there is a swab and then there are a set of reagents to prepare the cassette, if you will, to go into the analyzer, and then there's an analyzer.

So what we are doing, we actually worked over the weekend with one key company on a specific type of swab, where we are working on a DPA Title III project right now that I anticipate being out in the next few days.

We have a demand signal from DOD that the Joint Staff continues to work, and then HHS and FEMA continue to look at the demand signal for the rest of the nation.

Because there are a variety of different test systems with different throughput and different levels of accuracy, the protocol, if you will, for testing continues to evolve. So I'm not going to talk about actual numbers right now.

We, here in the Pentagon, have put Major General Payne in charge of all test kits, so we have one individual within DHA who is pulling all of that together. He is working very, very carefully with the Joint Staff as well as the services, who continue to evolve their testing methodology.

In terms of what is the demand signal for the rest of the nation, I would ask that you talk to HHS and FEMA about that.

Thank you.

Q: And, again, what does General Milley need to make sure he can do 60,000 tests by the end of May, early June?

MS. LORD: He needs the entire testing chain in the right place at the right time. And that's what General Payne is working with each of the services on, so it's a focus of our daily task force meetings here in the Pentagon; a lot of people are working on that.

So exactly what the delta is, between what we have on hand right now and what is needed to complete those, I do not have that data right here. But that is being worked on and we are aggressively following up.

STAFF: We're going to go back in the room to Lucas...

(CROSSTALK)

Q: I'll let Tom Bowman finish that question.

STAFF: Well, that's his third.

Q: Yeah, can you mention that key company for the swabs?

MS. LORD: I'm not going to release any names until we have the contract in place, as that's pre-decisional.

STAFF: So, guys, I've got 15 reporters here. We can't each ask three questions.

Lucas, do you have a question you'd like to ask?

Q: Secretary Lord, are you seeing price-gouging when it comes to buying these N95 masks?

MS. LORD: I particularly am not following that, so I have not seen that and I have not heard reports from DLA on that.

Q: Because there's a lot of reports that these masks, the prices spike tremendously. You're saying you're not seeing any of that? You're getting a good price for this?

MS. LORD: I do not follow the actual prices.

What I will say is, I am particularly focused on creating capacity and throughput so that we do not have that situation. And that's what we've been aggressively doing, the last week, and we'll continue to do this week.

STAFF: Aaron Mehta? Aaron?

Q: Yeah, thanks for doing this, ma'am.

Wanted to, kind of, be specific here. So you mentioned there are a couple of issues with tracking throughout the supply chain. But are there any programs that you are now seeing or predicting delays for delivery or for specific milestones, that you're concerned about? And if so, which ones?

MS. LORD: All right, so we are following all the MDAPs particularly. We see a slowdown in the shipyards to an extent. Aviation is actually the most highly impacted sector we have right now. So the 20 different memos that Kim Harrington put out are really to make sure our cash flows, and we quickly get on-contract so we can keep going.

So, right now there isn't any specific COVID penalty that we see for a specific program, however, we do anticipate about a three-month slowdown at slower rates in terms of execution than we saw before. And we are just now looking at key milestones that might be impacted.

So, in short, I don't have anything right now, but we're watching closely.

Thank you.

Q: Thanks.

When you say a three-month slowdown, is that kind of a rule across all the MDAPs or is it -- are we talking specific programs and other programs are going to be okay?

MS. LORD: We believe there will be a three-month impact that we can see right now. So we're looking at schedule delays and inefficiencies and so forth. That isn't a particular program, that's MDAPs in general.

STAFF: Marcus?

Q: Yes, sorry. Just fumbled on the mute button.

Ms. Lord, last week Hondo Geurts and I believe Will Roper, they both talked about the need for the upcoming stimulus packages to help the industrial base in specific sectors. Where, I guess, are you looking for stimulus money across the industrial base?

As a quick follow, what have you learned about your visibility and the Pentagon's visibility...

MS. LORD: Marcus, hold on. Let me answer -- hold on.

So, for the first question, yes, we are talking about inefficiencies relative to contracting because of COVID. So we are looking for something in the next CARES Act package, which is headed towards OMB shortly from the Pentagon here, and we are in active conversations with members and staffers.

Q: And just as a quick follow, where are you -- what have you learned about your visibility or lack thereof into the supply chain? And what -- how would you like to change that, if at all?

MS. LORD: Well, what we are always concerned about is seeing down through all the different levels. So our team is focusing on supply chain illumination tools in the last couple of weeks.

I think one of the key things we have found out are some international dependencies. Mexico right now is somewhat problematical for us, but we're working through our Embassy and then there are pockets in India as well.

STAFF: Tony Bertuca?

Q: Hi, ma'am. Thank you.

In terms of the Section 3610 authorities that were put out, that would reimburse contractors for COVID-related delays or facility closures, do you need

new money from Congress to pay for that? And how much do you think something like that's going to cost the department ultimately, if you're looking at three-month delays on things?

MS. LORD: We believe it will cost us something and that what's part of our ask for this new package that we're talking about, the CARES Act 2. So we're talking billions and billions on that one.

Q: And, yes, how many billions would you say, I guess?

Thank you.

MS. LORD: I can't say. We're not through OMB yet.

Q: All right, thank you. Billions and billions, though, thanks.

STAFF: Okay, we're going to go to Jeff Schogol.

Q: Thank you.

Ms. Lord, you had mentioned you expect a slowdown at shipyards. What about the M1 Abrams tank factory at Lima, Ohio? Do you expect COVID will affect that, will slow down production at that plant?

MS. LORD: I have not followed that specific plant, although I know the Army is following that it closely.

What I will say is, when we look at specific sectors, we see aviation, we see shipbuilding, and we see small space launch as the three areas of greatest concern.

But, again, we follow very carefully where the highest number of cases are throughout the country, and we look at the defense industrial base, where they are located. So we try to anticipate the problems and work with the companies to keep going to the greatest degree possible.

Q: Well, thank you.

And Congress allocated the Defense Department \$1.45 billion for the supply chain. Can you talk how exactly is DOD going to allocate that money?

MS. LORD: I'm not sure which particular amount you are referring to there, so let me look into a \$1.5 billion that's -- we've gotten \$10.5 billion, but let me follow up on that. I'm not sure exactly what you're referring to there.

STAFF: Yeah, Jeff, shoot me a note and we'll connect.

Okay, we're going to go to Lee Hudson?

Q: Great, thank you.

Could you (inaudible) on if there are any additional supplier relief measures coming? And how you're working with Congress to support the aerospace industry during this uncertain time.

Thank you.

MS. LORD: Okay. So, Lee, you were breaking up during the first part of that. The second part that I got was, how are we working with AIA I think. And before that you were saying something about the supply chain?

Q: Can you hear me right now? Is that okay?

MS. LORD: That's better yes, thank you.

Q: Okay.

Could you talk about any additional supplier relief measures that are coming? And elaborate how you are working to support the aerospace industry during this uncertain time?

MS. LORD: Well, on the second part of the question, we are working with multiple industry associations, not just AIA. Typically, AIA, NDIA, PSC, we worked very closely with, but during the last four weeks or so, where we have held multiple telephone calls, webinars, different types of interactions during the week, we've been including the Small Business Administration, we've been including manufacturers' associations.

So we really use them to echo and amplify all the information that we are sending out. And we help them connect industry with us so that we can have listening sessions so we understand what impacts are.

So, again, we have had a great partnership with Congress, asking us what we need. At this point, we have most of the authorities we need. We are just working hard within our own authorities to implement those and come up with policies that, again, keep cash flowing and keep the speed of acquisition up. We're also working hard with the services to make sure we put as much on contract as quickly as possible.

We are hoping to see some incremental funds in CARE Act 2, both for Defense Production Act Title III, for both the defense industrial base as well as medical resources, as well as some funding to make up for inefficiencies in some of our programs.

STAFF: Doug, are you there?

Q: I am there. Or I'm here, rather.

(LAUGHTER)

Hi, Ellen. Thanks again for doing this. And everyone, stay safe.

Just going on the stimulus-related funding, you know, Congress earmarked \$17 billion in Payment Protection Plan money linked to -- to companies tied to national security. Now, while it's up to the companies to apply, what -- what is the Pentagon's role in your view, in -- in directing where these funds -- how these funds are actually allocated to industry?

MS. LORD: So, Doug, are you referring to the \$17 billion that Treasury has for national security?

Q: That Treasury has, yeah, sorry.

MS. LORD: Okay.

So it's great. Treasury actually reached out to us. We've worked back and forth at the undersecretary level putting together a guidance for how we think they should sort through the funds. We actually have ranked different sectors, as well.

So we set the criteria up. We're just now beginning to work with them on the choices. But that has been a very, very good interagency process because, obviously, we have a certain number of things we can do for the defense industrial base within the Department of Defense. However, we want to make sure we vector companies, if they're small, to the Small Business Administration, or whatever-size company to Treasury, so that they can take advantage of all the different relief efforts that the government has.

Q: And can you give us any guide on the rank -- or on the ranking process, either the number of sectors or, indeed, the number of companies?

MS. LORD: Well, I think there are two ways to look at it.

Obviously, our first priority in DOD relative to acquisition is the nuclear modernization process of the nuclear triad. We look at Missile Defense Agency. We look at those critical capabilities we have.

Then, as I said, we're looking where the greatest pain points are, and again, it's really aviation, shipbuilding, and small space launch.

Q: That's really useful. Thank you.

MS. LORD: Yeah.

STAFF: Okay, so unfortunately, we have run out of time.

But, ma'am, do you have any closing remarks?

MS. LORD: Just want to thank you all for coming out to try to get some of the facts. I will tell you that we are just beginning to really pick up momentum within the interagency, and are excited about what we can bring to bear from DOD to help the nation in terms of fighting COVID and all getting well again.

So thank you very much.

STAFF: Stay safe.

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