

Opening Statement (As Prepared) Ranking Member Adam Smith
House Armed Services Committee Hearing:
“The Pressing Threat of the Chinese Communist Party to U.S. National Defense”
February 7, 2023

Thank you, Mr. Chairman.

I want to thank the witnesses for being here today. The three of you represent the major sectors of the defense industrial base, and I look forward to hearing your perspectives.

One only needs to look to Ukraine to see that it doesn't take a lot to stress our industrial base's capacity. Over the last 30 years, we have seen the number of "prime" defense contractors dwindle to just a handful. Sub-tier suppliers have also dwindled at a commensurate rate if not at a higher rate. This has consequences on the government's ability to compete work to ensure fair pricing, surge capacity when needed and retain critical skills and capabilities within the U.S. industrial base. The recent COVID-19 pandemic, supply chain shortages and inflation have been the most recent stressors on industry.

This committee has a long history of overseeing and legislating authorities that help improve the acquisition process within the Pentagon to help provide a more stable market for industry. Just this past year in the most recent NDAA, the committee authorized the highest number of multi-year procurement authorities in a single year. These authorities help provide long-term projections of work that incentivize industry to make their own investments and thus provide better pricing to the government. That single provision will allow the Pentagon to re-stock critical munitions being consumed in Ukraine, allow us to re-stock munitions stockpiles of allies as well as increase U.S. stockpiles of munitions that might be needed in other future conflicts. But there is more that can be done within industry, the Pentagon and Congress. Too often I have seen the relationship between an industry partner and the Pentagon erode into an adversarial one with Congress left in the middle. There is no doubt that the government must be a good steward of taxpayer dollars and ensure that any contract that is agreed to is in the best interest of the government, but the relationship must be treated as a partnership. That is true for both the government and the contractors.

One sector of the industrial base that is too often overlooked is that of the sub-tier suppliers. They are the backbone of the industrial base and arguably the most fragile. They are oftentimes operating on razor thin profit margins which leave them very vulnerable. We often hear from the Pentagon that they have very few mechanisms to help sub-tier suppliers since most of them are on contract directly with the prime. There are exceptions, however. For several years now, Congress has been authorizing and appropriating additional funds for the submarine supplier industrial base to ensure an on-time delivery of the lead Columbia class submarine that the Department has deemed their top priority. Through intrusive leadership by the submarine acquisition community and in partnership with industry, the Navy has successfully steered those

funds to assist the most vulnerable suppliers. We must look to expand these types of initiatives throughout the rest of the industrial base.

Further complicating the state of the industrial base, countries like China attempt to exploit free market economies to their advantage. The world's market of rare earth minerals, for example, is almost exclusively dependent on them for our advanced weapon systems that rely on those rare earth minerals. It is imperative that we consider unique authorities that enable U.S. companies to once again produce those minerals as well as authorities that enable us to access them from partners and allies outside the U.S.

Lastly, we need to reform our export system to allow our industry partners to better access international markets while still protecting our sensitive technologies. On the acquisition side, that means making the decision to develop an exportable version of a weapon system much earlier in the acquisition process. Once a system has entered production, it becomes very costly and technologically difficult to modify it into such a version. We have seen that play out firsthand in Ukraine where we have been unable to transfer certain weapons due to technology transfer issues. The new AUKUS agreement will be the first opportunity to address many of the needed reforms and I will personally push for bold steps in this area.

I want to thank the Chairman for having this hearing and I look forward to the witnesses' testimony. Thank you and I yield back.

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