

## Budget Press Briefing (Arlington, VA)

As Prepared for Delivery by Secretary of Defense Robert M. Gates, Arlington, VA

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Today, I am announcing the key decisions I will recommend to the president with respect to the fiscal year 2010 defense budget. The president agreed to this unorthodox approach – announcing the department’s request before the White House submits a budget to the Congress – because of the scope and significance of the changes. In addition, the president and I believe that the American people deserve to learn of these recommendations fully and in context, as the proposed changes are interconnected and cannot be properly communicated or understood in isolation from one another. Collectively, they represent a budget crafted to reshape the priorities of America’s defense establishment. If approved, these recommendations will profoundly reform how this department does business.

In many ways, my recommendations represent the cumulative outcome of a lifetime spent in the national security arena and, above all, questions asked, experience gained, and lessons learned from over two years of leading this department – and, in particular, from our experience in Iraq and Afghanistan. I reached the final decisions after many hours of consultations with the military and civilian leadership of the department. I have also consulted closely with the president. But, I received no direction or guidance from outside this department on individual program decisions. The chairman and vice chairman of the Joint Chiefs of Staff are in complete accord with these recommendations. The chairman is traveling abroad but he has provided a statement that we will distribute at the end of the briefing.

My decisions have been almost exclusively influenced by factors other than simply finding a way to balance the books or fit under the “top line” – as is normally the case with most budget exercises. Instead, these recommendations are the product of a holistic assessment of capabilities, requirements, risks and needs for the purpose of shifting this department in a different strategic direction. Let me be clear: I would have made virtually all of the decisions and recommendations announced today regardless of the department’s top line budget number.

The decisions have three principal objectives:

- ▶ First, to reaffirm our commitment to take care of the all-volunteer force, which, in my view represents America’s greatest strategic asset;
- ▶ Second, we must rebalance this department’s programs in order to institutionalize and enhance our capabilities to fight the wars we are in today and the scenarios we are most likely to face in the years ahead, while at the same time providing a hedge against other risks and contingencies.

► Third, in order to do this, we must reform how and what we buy, meaning a fundamental overhaul of our approach to procurement, acquisition, and contracting.

## People

With regard to the troops and their families, I will recommend that we:

1. Fully protect and properly fund the growth in military end strength in the base budget. This means completing the growth in the Army and Marines while halting reductions in the Air Force and the Navy. Accomplishing this will require a nearly \$11 billion increase above the FY09 budget level.
2. Continue the steady growth in medical research and development by requesting \$400 million more than last year.
3. Recognize the critical and permanent nature of wounded, ill and injured, traumatic brain injury, and psychological health programs. This means institutionalizing and properly funding these efforts in the base budget and increasing overall spending by \$300 million. The department will spend over \$47 billion on healthcare in FY10.
4. Increase funding by \$200 million for improvements in child care, spousal support, lodging, and education. Many of these programs have been funded in the past by supplementals. We must move away from ad hoc funding of long-term commitments. Thus, we have added money to each of these areas and all will be permanently and properly carried in the base defense budget. Together they represent an increase in base budget funding of \$13 billion from last year.

## A Home for the Warfighter

As I told the Congress in January, our struggles to put the defense bureaucracies on a war footing these past few years have revealed underlying flaws in the priorities, cultural preferences, and reward structures of America's defense establishment – a set of institutions largely arranged to prepare for conflicts against other modern armies, navies, and air forces. Programs to directly support, protect, and care for the man or woman at the front have been developed ad hoc and funded outside the base budget. Put simply, until recently there has not been an institutional home in the Defense Department for today's warfighter. Our contemporary wartime needs must receive steady long-term funding and a bureaucratic constituency similar to conventional modernization programs. I intend to use the FY10 budget to begin this process.

1. First, we will increase intelligence, surveillance and reconnaissance (ISR) support for the warfighter in the base budget by some \$2 billion. This will include:

- Fielding and sustaining 50 Predator-class unmanned aerial vehicle orbits by FY11 and maximizing their production. This capability, which has been in such high demand in both Iraq and Afghanistan, will now be permanently funded in the base budget. It will

represent a 62 percent increase in capability over the current level and 127 percent from over a year ago.

- Increasing manned ISR capabilities such as the turbo-prop aircraft deployed so successfully as part of “Task Force Odin” in Iraq.
- Initiating research and development on a number of ISR enhancements and experimental platforms optimized for today’s battlefield.

2. We will also spend \$500 million more in the base budget than last year to increase our capacity to field and sustain more helicopters – a capability that is in urgent demand in Afghanistan. Today, the primary limitation on helicopter capacity is not airframes but shortages of maintenance crews and pilots. So our focus will be on recruiting and training more Army helicopter crews.

3. To boost global partnership capacity efforts, we will increase funding by \$500 million. These initiatives include training and equipping foreign militaries to undertake counter terrorism and stability operations.

4. To grow our special operations capabilities, we will increase personnel by more than 2,800 or five percent and will buy more special forces-optimized lift, mobility, and refueling aircraft.

We will increase the buy of Littoral Combat Ships (LCS) – a key capability for presence, stability, and counterinsurgency operations in coastal regions – from two to three ships in FY 2010. Our goal is to eventually acquire 55 of these ships.

5. To improve our inter-theater lift capacity, we will increase the charter of Joint High Speed Vessel (JHSV) ships from two to four until our own production program begins deliveries in 2011.

6. We will stop the growth of Army Brigade Combat Teams (BCT) at 45 versus 48 while maintaining the planned increase in end strength of 547,000. This will ensure that we have better-manned units ready to deploy, and help put an end to the routine use of stop loss. This step will also lower the risk of hollowing the force.

### Conventional and Strategic Modernization

Even as we begin to shift resources and institutional weight towards supporting the current wars and other potential irregular campaigns, the United States must still contend with the security challenges posed by the military forces of other countries – from those actively hostile to those at strategic crossroads. Last year’s National Defense Strategy concluded that although U.S. predominance in conventional warfare is not unchallenged, it is sustainable for the medium term given current trends. This year’s budget deliberations focused on what programs are necessary to deter aggression, project power when necessary, and protect our interests and allies around the globe. To

this end, I will recommend new or additional investments and shifts in several key areas:

1. To sustain U.S. air superiority, I am committed to building a fifth generation tactical fighter capability that can be produced in quantity at sustainable cost. Therefore, I will recommend increasing the buy of the F-35 Joint Strike Fighter from the 14 aircraft bought in FY09 to 30 in FY10, with corresponding funding increases from \$6.8 billion to \$11.2 billion. We would plan to buy 513 F-35s over the five-year defense plan, and, ultimately, plan to buy 2,443. For naval aviation, we will buy 31 FA-18s in FY10.
2. We will retire 250 of the oldest Air Force tactical fighter aircraft in FY10.
3. We will end production of the F-22 fighter at 187 – representing 183 planes plus four recommended for inclusion in the FY 2009 supplemental.
4. To better protect our forces and those of our allies in theater from ballistic missile attack, we will add \$700 million to field more of our most capable theater missile defense systems, specifically the terminal High Altitude Area Defense (THAAD) System and Standard Missile 3 (SM-3) programs.
5. We will also add \$200 million to fund conversion of six additional Aegis ships to provide ballistic missile defense capabilities.
6. To improve cyberspace capabilities, we will increase the number of cyber experts this department can train from 80 students per year to 250 per year by FY11.
7. To replace the Air Force's aging tanker fleet, we will maintain the KC-X aerial refueling tanker schedule and funding, with the intent to solicit bids this summer.
8. With regard to our nuclear and strategic forces:
  - In FY10, we will begin the replacement program for the Ohio class ballistic missile submarine program.
  - We will not pursue a development program for a follow-on Air Force bomber until we have a better understanding of the need, the requirement, and the technology.
  - We will examine all of our strategic requirements during the Quadrennial Defense Review, the Nuclear Posture Review, and in light of Post-START arms control negotiations.
9. The healthy margin of dominance at sea provided by America's existing battle fleet makes it possible and prudent to slow production of several major surface combatants and other maritime programs.

- We will shift the Navy Aircraft Carrier program to a five-year build cycle placing it on a more fiscally sustainable path. This will result in 10 carriers after 2040.
- We will delay the Navy CG-X next generation cruiser program to revisit both the requirements and acquisition strategy.
- We will delay amphibious ship and sea-basing programs such as the 11th Landing Platform Dock (LPD) ship and the Mobile Landing Platform (MLP) SHIP to FY11 in order to assess costs and analyze the amount of these capabilities the nation needs.

10. With regard to air lift, we will complete production of the C-17 airlifter program this fiscal year. Our analysis concludes that we have enough C-17s with the 205 already in the force and currently in production.

### Acquisition and Contracting Reform

In today's environment, maintaining our technological and conventional edge requires a dramatic change in the way we acquire military equipment. I believe this needed reform requires three fundamental steps.

First, this department must consistently demonstrate the commitment and leadership to stop programs that significantly exceed their budget or which spend limited tax dollars to buy more capability than the nation needs. Our conventional modernization goals should be tied to the actual and prospective capabilities of known future adversaries – not by what might be technologically feasible for a potential adversary given unlimited time and resources. I believe the decisions I am proposing accomplish this step.

Second, we must ensure that requirements are reasonable and technology is adequately mature to allow the department to successfully execute the programs. Again, my decisions act on this principle by terminating a number of programs where the requirements were truly in the “exquisite” category and the technologies required were not reasonably available to affordably meet the programs' cost or schedule goals.

Third, realistically estimate program costs, provide budget stability for the programs we initiate, adequately staff the government acquisition team, and provide disciplined and constant oversight.

We must constantly guard against so-called “requirements creep,” validate the maturity of technology at milestones, fund programs to independent cost estimates, and demand stricter contract terms and conditions. I am confident that if we stick to these steps, we will significantly improve the performance of our defense acquisition programs. But it takes more than mere pronouncements or fancy studies or reports. It takes acting on these principles by making tough decisions and sticking to them going forward.

I welcome the legislative initiative of Senators Levin and McCain to help address some of these issues and look forward to working with the Congress in this regard.

This budget will support these goals by increasing the size of defense acquisition workforce, converting 11,000 contractors and hiring an additional 9,000 government acquisition professionals by 2015 – beginning with 4,100 in FY10.

Fully reforming defense acquisition also requires recognizing the challenges of today's battlefield and constantly changing adversary. This requires an acquisition system that can perform with greater urgency and agility. We need greater funding flexibility and the ability to streamline our requirements and acquisition execution procedures.

The perennial procurement and contracting cycle – going back many decades – of adding layer upon layer of cost and complexity onto fewer and fewer platforms that take longer and longer to build must come to an end. There is broad agreement on the need for acquisition and contracting reform in the Department of Defense. There have been enough studies. Enough hand-wringing. Enough rhetoric. Now is the time for action.

First, I recommend that we terminate the VH-71 presidential helicopter:

- This program was originally designed to provide 23 helicopters to support the president at a cost of \$6.5 billion. Today, the program is estimated to cost over \$13 billion, has fallen six years behind schedule, and runs the risk of not delivering the requested capability.
- Some have suggested that we should adjust the program by buying only the lower capability “increment one” option. I believe this is neither advisable nor affordable. Increment One helicopters do not meet requirements and are estimated to have only a five- to 10-year useful life. This compares to the current VH-3 presidential helicopters that are 30 to 40 years old.
- We will promptly develop options for an FY11 follow-on program.

Second, we will terminate the Air Force Combat Search and Rescue X (CSAR-X) helicopter program. This program has a troubled acquisition history and raises the fundamental question of whether this important mission can only be accomplished by yet another single-service solution with single-purpose aircraft. We will take a fresh look at the requirement behind this program and develop a more sustainable approach.

Third, we will terminate the \$26 billion Transformational Satellite (TSAT) program, and instead will purchase two more Advanced Extremely High Frequency (AEHF) satellites as alternatives.

Fourth, in the area of missile defense:

- We will restructure the program to focus on the rogue state and theater missile threat.

- We will not increase the number of current ground-based interceptors in Alaska as had been planned. But we will continue to robustly fund continued research and development to improve the capability we already have to defend against long-range rogue missile threats – a threat North Korea’s missile launch this past weekend reminds us is real.
- We will cancel the second airborne laser (ABL) prototype aircraft. We will keep the existing aircraft and shift the program to an R&D effort. The ABL program has significant affordability and technology problems and the program’s proposed operational role is highly questionable.
- We will terminate the Multiple Kill Vehicle (MKV) program because of its significant technical challenges and the need to take a fresh look at the requirement.
- Overall, the Missile Defense Agency program will be reduced by \$1.4 billion.

Fifth, in this request, we will include funds to complete the buy of two navy destroyers in FY10. These plans depend on being able to work out contracts to allow the Navy to efficiently build all three DDG-1000 class ships at Bath Iron Works in Maine and to smoothly restart the DDG-51 Aegis Destroyer program at Northrop Grumman’s Ingalls shipyard in Mississippi. Even if these arrangements work out, the DDG-1000 program would end with the third ship and the DDG-51 would continue to be built in both yards.

If our efforts with industry are unsuccessful, the department will likely build only a single prototype DDG-1000 at Bath and then review our options for restarting production of the DDG-51. If the department is left to pursue this alternative, it would unfortunately reduce our overall procurement of ships and cut workload in both shipyards.

Sixth, and finally, we will significantly restructure the Army’s Future Combat Systems (FCS) program. We will retain and accelerate the initial increment of the program to spin out technology enhancements to all combat brigades. However, I have concluded that there are significant unanswered questions concerning the FCS vehicle design strategy. I am also concerned that, despite some adjustments, the FCS vehicles – where lower weight, higher fuel efficiency, and greater informational awareness are expected to compensate for less armor – do not adequately reflect the lessons of counterinsurgency and close quarters combat in Iraq and Afghanistan. The current vehicle program, developed nine years ago, does not include a role for our recent \$25 billion investment in the MRAP vehicles being used to good effect in today’s conflicts.

Further, I am troubled by the terms of the current contract, particularly its very unattractive fee structure that gives the government little leverage to promote cost efficiency. Because the vehicle part of the FCS program is currently estimated to cost over \$87 billion, I believe we must have more confidence in the program strategy, requirements, and maturity of the technologies before proceeding further.

Accordingly, I will recommend that we cancel the vehicle component of the current FCS program, re-evaluate the requirements, technology, and approach – and then re-launch the Army’s vehicle modernization program, including a competitive bidding process. An Army vehicle modernization program designed to meet the needs of the full spectrum of conflict is essential. But because of its size and importance, we must get the acquisition right, even at the cost of delay.

A final recommendation that will have a significant impact on how defense organizations are staffed and operated. Under this budget request, we will reduce the number of support service contractors from our current 39 percent of the workforce to the pre-2001 level of 26 percent and replace them with full-time government employees. Our goal is to hire as many as 13,000 new civil servants in FY10 to replace contractors and up to 30,000 new civil servants in place of contractors over the next five years.

So these are the principal recommendations I will make to the president. There are a number of others that I have not mentioned, including classified programs. This is a reform budget, reflecting lessons learned in Iraq and Afghanistan yet also addressing the range of other potential threats around the world, now and in the future. I know that in the coming weeks we will hear a great deal about threats, and risk and danger – to our country and to our men and women in uniform – associated with different budget choices. Some will say I am too focused on the wars we are in and not enough on future threats. The allocation of dollars in this budget definitely belies that claim. But, it is important to remember that every defense dollar spent to over-insure against a remote or diminishing risk – or, in effect, to “run up the score” in a capability where the United States is already dominant – is a dollar not available to take care of our people, reset the force, win the wars we are in, and improve capabilities in areas where we are underinvested and potentially vulnerable. That is a risk I will not take.

As I told the Congress in January, this budget presents an opportunity – one of those rare chances to match virtue to necessity; to critically and ruthlessly separate appetites from real requirements – those things that are desirable in a perfect world from those things that are truly needed in light of the threats America faces and the missions we are likely to undertake in the years ahead. An opportunity to truly reform the way we do business.

I will close by noting that it is one thing to speak generally about the need for budget discipline and acquisition and contract reform. It is quite another to make tough choices about specific systems and defense priorities based solely on the national interest and then stick to those decisions over time. To do this, the president and I look forward to working with the Congress, industry, and many others to accomplish what is in the best interest of our nation as a whole.

Thank you.

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