

July 7, 2020

The Honorable Ellen M. Lord  
Under Secretary of Defense for Acquisition and Sustainment  
3010 Defense Pentagon  
Washington, DC 20301-3010

Dear Secretary Lord:

Since early March, we have partnered with your office and the Service Acquisition Executives on critical measures in support of the defense industrial base and our national security mission during the COVID-19 crisis. These measures are working. They are allowing companies to continue to work safely; providing liquidity to the industrial base; and informing discussions on how to reimburse industry for the unprecedented costs it faces in dealing with the pandemic.

We share the concerns you outlined in your June 10 testimony before the House Armed Services Committee on the “Defense Department’s COVID-19 Response to Industrial Base Challenges,” specifically those related to pending COVID-19 related requests for equitable adjustment (REA) for the defense industrial base (DIB). As you reminded Congress in your testimony, while section 3610 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act allows the Department to reimburse contractors for payment associated with the preservation of workforces prevented from working due to COVID-19 facility closures or other restrictions, it did not appropriate the funds needed to make these reimbursements.

Your testimony appropriately points out that the Department may be able to use other appropriated funds to reimburse contractors, but the cost for 3610 expenses is well beyond the Department’s ability to fund without significantly jeopardizing ongoing modernization efforts required to fully implement the National Defense Strategy. You noted the estimated Section 3610 impacts for one prime and its associated supplier network were up to \$1.5 billion. Applying similar methodology, we have each calculated a rough order of magnitude (ROM) for our individual companies’ section 3610 costs, as well as the ROM impacts for our supply chains, in order to help inform your efforts to secure funding for these expenses in the stimulus. We anticipate submitting all of our ROMs to you and your team by the end of this week.

Section 3610 workforce costs are just one category of COVID-19 impacts on industry. Other COVID-19 costs resulted from travel restrictions, international and domestic facility closures, social distancing within facilities, the purchase of personal protective equipment (PPE), sterilization costs, and the financial impacts associated with manufacturing and supply chain disruptions. Defense industry prime contractors and their respective U.S.-based subcontractor supply chains are simply not able to absorb these significant costs. Without additional funding in the next stimulus package, the resolution of REA claims will need to be funded from existing DoD budget topline resources for FY20-22. This would cause significant reductions to DoD Procurement and Research, Development, Testing and Evaluation (RDTE) accounts and inadvertently curtail DoD modernization efforts, thwarting the Department’s ability to meet the challenges and threats associated with great power competition.

Therefore, we fully support Secretary Esper and the Department’s effort to secure the needed funding in the next stimulus bill to address this unique situation and appreciate your leadership in championing this funding request. Absent inclusion of this critical funding in the stimulus, the financial risk to the defense industry could be significant, leading to:

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- **Stalled defense job growth:** Without additional REA funds, defense sector jobs will be negatively impacted.
- **Pressure on DoD Investment Accounts:** Without additional REA funds, there could be a significant reduction in current and future defense investment accounts necessary for modernization.
- **Supply Chain Instability:** Without additional REA funds, prime contractors may be unable to fund critical and vulnerable suppliers in an efficient manner, which could lead to unintended production slippages, increased costs and the loss of critical suppliers.

We are unified in our desire to work in synchronicity with the Department and stand ready to provide any additional details necessary to support your efforts. As we all agree, securing the necessary REA funds in the next stimulus request -- coupled with a streamlined and accelerated claims-processing methodology -- is essential to addressing COVID-related impacts in a manner that minimizes risk to the Department's National Defense Strategy and DIB.

Sincerely,



Tom Arseneault, CEO, BAE Systems, Inc.



William Brown, CEO, L3Harris Technologies



Leanne Caret, CEO, Boeing Defense



Scott Donnelly, CEO, Textron Inc



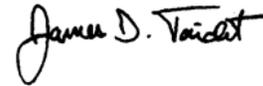
Greg Hayes, CEO, Raytheon Technologies



Phebe Novakovic, CEO, General Dynamics



Mike Petters, CEO, Huntington Ingalls Industries



James Taitlet, CEO, Lockheed Martin Corporation

cc:

The Honorable James F. Geurts  
Assistant Secretary of the Navy for Research, Development & Acquisition

The Honorable Dr. Bruce D. Jette  
Assistant Secretary for Acquisition, Logistics & Technology

The Honorable Dr. Will Roper  
Assistant Secretary of the Air Force for Acquisition, Technology and Logistics