THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

MAR 04 2013

Lt. Gen. Lawrence Farrell, USAF (Ret.)
President
National Defense Industrial Association
2111 Wilson Boulevard, Suite 400
Arlington, VA 22201

Please pass to your members.

Dear General Farrell:

The reality of sequestration is now upon us. Effective March 1, 2013, the Department of Defense (DoD) is obligated to reduce total defense spending in FY 2013 by nearly $41 billion relative to the amount provided in the Continuing Resolution (CR) currently funding the Federal Government. This reduction includes about $18 billion in our investment accounts, which fund research and development and production. Our sequestration problems are exacerbated by the allocations of funds under the current CR, which provides insufficient dollars in the operating accounts that fund the many service contracts that support readiness. Moreover, since the CR funds the DoD base budget at roughly the FY 2012 appropriations level, we face an additional reduction of $6 billion, effective March 27, 2013. This will bring the total reduction in available resources to $46 billion. Congress may still take any of several actions that could affect the DoD funding in FY 2013 and the Administration is doing everything it can to alleviate the situation.

In view of the enormous budgetary uncertainty, DoD senior acquisition leaders will continue open dialogue with industry to keep you informed about our plans and to understand your concerns. Now, more than ever, the Department and industry need to work together to identify courses of actions that will minimize the negative impacts that will inevitably result from sequestration and, wherever possible, to preserve options should sequestration be reversed or modified. While there is still a great deal of uncertainty as to how long sequestration will remain in effect, the Department has no choice but to act in accordance with current statutory guidance.

Given the uncertainty we face, the Department will take action in the near term to mitigate budget execution risk to the extent possible; however, damage to the Department and to industry is unfortunately unavoidable at this point. We will do our best to minimize the negative effects of the decisions we must take as we move forward, and we will delay some decisions where we can do so without unacceptable risk. Your member companies should anticipate that the automatic across-the-board cuts will cause the Department to reduce both the quantities of equipment and the levels of service that we acquire for the balance of this fiscal year and perhaps beyond. To the extent we can continue operations while delaying and deferring new obligations until the uncertainty is resolved, we will do so.

Funding reductions will affect the full range of the Department's planned contracts and grants and adversely affect the efficiency with which we acquire goods and services.

Unfortunately, our flexibility in how we will absorb these required reductions is very limited. Your member companies will be contacted by the appropriate management and contracting officials of the Department about specific decisions, if they have not been already. Companies are welcome to initiate dialogue with Government representatives to seek perspectives they desire on this mutually challenging situation.

Of course, we recognize that the current state of budget uncertainty adversely affects business planning. As we take steps to limit the damage being done to the Department of Defense, we are interested in your thoughts on how we can also minimize the damage to the industrial base.

Sincerely,

Frank Kendall