

**SECRETARY OF DEFENSE LEON E. PANETTA
DEFENSE BUDGET REQUEST – WRITTEN SUBMITTED STATEMENT
SENATE APPROPRIATIONS COMMITTEE – DEFENSE
WEDNESDAY, JUNE 13, 2012**

Chairman Inouye, Senator Cochran, members of the committee. I appreciate the opportunity to appear before you to discuss the President's Fiscal Year 2013 (FY13) budget. I also want to address the looming problems associated with sequestration as well as our budgetary situation in fiscal 2012.

But let me begin by first thanking you for your support for our service members and our military families, including your responsiveness to the urgent needs of our men and women in the battlefield over the last decade of war. Our brave men and women, along with the Department's civilian professionals who support them, have done everything asked of them and more.

Defense Strategy Review

The FY13 budget request for the Department of Defense was the product of an intensive strategy review conducted by the senior military and civilian leaders of the Department with the advice and guidance of President Obama. The total request represents a \$614 billion investment in national defense – including a \$525.4 billion request for the Department's base budget, and \$88.5 billion in spending for overseas contingency operations.

The reasons for this review are clear: first, the United States is at a strategic turning point after a decade of war and substantial growth in defense budgets. Second, with the nation confronting very large debt and deficits, Congress passed the Budget Control Act of 2011, imposing limits that led to a reduction in the defense budget of \$487 billion over the next decade.

Deficit reduction is a critical national security priority in and of itself. We at the Department decided that this crisis presented us with the opportunity to establish a new strategy for the force of the future, and that strategy has guided us in making the budget choices contained in the President's budget. We are at an important turning point that would have required us to make a strategic shift under any circumstances. The U.S. military's mission in Iraq has ended. We still have a tough fight on our hands in Afghanistan, but over the past year we have begun a transition to Afghan-led responsibility for security– and we are on track to complete that transition by the end of 2014, in accordance with the commitments made at Lisbon and reaffirmed last month at the NATO summit in Chicago. Last year, the NATO effort in Libya also concluded with the fall of Qadhafi. And successful counterterrorism efforts have significantly weakened al-Qaeda and decimated its leadership.

But despite what we have been able to achieve, unlike past drawdowns when threats have receded, the United States still faces a complex array of security challenges across the globe: We are still a nation at war in Afghanistan; we still face threats from terrorism; there is dangerous proliferation of lethal weapons and materials; the behavior of Iran and North Korea threaten global stability; there is continuing turmoil and unrest in the Middle East and North Africa; rising powers in Asia are testing international relationships; and there are growing concerns about cyber intrusions and attacks. Our challenge is to meet these threats and at the same time, meet our responsibility to fiscal discipline. This is not an easy task.

To build the force we need for the future, we developed new strategic guidance that consists of these five key elements:

- First, the military will be smaller and leaner, but it will be agile, flexible, ready and technologically advanced.
- Second, we will rebalance our global posture and presence to emphasize Asia-Pacific and the Middle East.
- Third, we will build innovative partnerships and strengthen key alliances and partnerships elsewhere in the world.

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- Fourth, we will ensure that we can quickly confront and defeat aggression from any adversary – anytime, anywhere.
- Fifth, we will protect and prioritize key investments in technology and new capabilities, as well as our capacity to grow, adapt and mobilize as needed.

Strategy to FY13 Budget

We developed this new strategic guidance before any final budget decisions were made to ensure that the budget choices reflected the new defense strategy.

While shaping this strategy, we did not want to repeat the mistakes of the past. Our goals were: to maintain the strongest military in the world and to do our share of deficit reduction, recognizing that no country maintains its military might if its economy is weakened. We are determined to not break faith with troops and their families, to not “hollow out” the force, to take a balanced approach to budget cuts, and to put everything on the table. Throughout the review we made sure this was an inclusive process, and General Dempsey and I worked closely with the leadership of the Services and Combatant Commanders, and consulted regularly with members of Congress.

As a result of these efforts, the Department is strongly united behind the recommendations we have presented to Congress. Consistent with Title I of the Budget Control Act, this budget reflects \$259 billion in savings over the next five years and \$487 billion over the next ten years compared to the budget plan submitted to Congress last year. Under the five year budget plan, the base budget will rise from \$525 billion in FY13 to \$567 billion in FY17. When reduced war-related funding requirements are included, we expect total U.S. defense spending to drop by more than 20 percent over the next few years from its peak in 2010, after accounting for inflation.

This is a balanced and complete package that follows the key elements of the strategy and adheres to the guidelines we established. The savings come from three broad areas:

- First, efficiencies – we redoubled efforts to make more disciplined use of taxpayer dollars, yielding about one quarter of the target savings;
- Second, force structure and procurement adjustments – we made strategy-driven changes in force structure and procurement programs, achieving roughly half of the savings;
- Finally, compensation – we made modest but important adjustments in personnel costs to achieve some necessary cost savings in this area, which represents one third of the budget but accounted for a little more than 10 percent of the total reduction.

Changes in economic assumptions and other shifts account for the remainder of the \$259 billion in savings. Let me walk through these three areas, beginning with our efforts to discipline our use of defense dollars.

More Disciplined Use of Defense Dollars

If we are to tighten up the force, I felt we have to begin by tightening up the operations of the Department. This budget continues efforts to reduce excess overhead, eliminate waste, and improve business practices across the department. The more savings realized in this area, the less spending reductions required for modernization programs, force structure, and military compensation.

As you know, the FY12 budget proposed more than \$150 billion in efficiencies between FY 2012 and FY 2016, and we continue to implement those changes. This budget identifies about \$60 billion in additional savings over five years. Across the military services, new efficiency efforts over the next five years include:

- The Army proposes to save \$18.6 billion through measures such as streamlining support functions, consolidating IT enterprise services, and rephasing military construction projects;
- The Navy proposes to save \$5.7 billion by implementing strategic sourcing of commodities and services, consolidating inventory, and other measures;

- The Air Force proposes to save \$6.6 billion by reducing service support contractors and rephasing military construction projects.

Other proposed DoD-wide efficiency savings over the next five years total \$30.1 billion, including reductions in expenses in the Office of the Secretary of Defense and the Defense Agencies.

Additionally, we are continuing the initiative to improve the Department's buying power by seeking greater efficiency and productivity in the acquisition of goods and services. We are strengthening acquisition support to the warfighter, executing acquisitions more efficiently, preserving the industrial base, and strengthening the acquisition workforce. This budget assumes that these policies produce savings of \$5.3 billion over the next five years.

In terms of military infrastructure, we will need to ensure that our current basing and infrastructure requirements do not divert resources from badly needed capabilities.

As we reduce force structure, we have a responsibility to provide the most cost efficient support for the force. For that reason, the President is requesting that Congress authorize the Base Realignment and Closure process for 2013 and 2015. As someone who went through BRAC, I realize how controversial this process can be for members and constituencies. And yet, it is the only effective way to achieve infrastructure savings.

Achieving audit readiness is another key initiative that will help the Department achieve greater discipline in its use of defense dollars. The Department needs auditable financial statements to comply with the law, to strengthen its own internal processes, and to reassure the public that it continues to be a good steward of federal funds. In October 2011, I directed the Department to emphasize this initiative and accelerate efforts to achieve fully auditable financial statements. Among other specific goals, I directed the Department to achieve audit readiness of the Statement of Budgetary Resources for general funds by the end of calendar year 2014, and to meet the legal requirements to achieve full audit readiness for all Defense Department financial statements by 2017. We are also implementing a course-based certification program for defense financial managers in order to improve training in audit readiness and other areas, with pilot programs beginning this year. We now have a plan in place to meet these deadlines, including specific goals, financial resources, and a governance structure.

These are all critically important efforts to ensure the Department operates in the most efficient manner possible. Together, these initiatives will help ensure the Department can preserve funding for the force structure and modernization needed to support the missions of our force.

Strategy-driven Changes in Force Structure and Programs

It is obvious that we cannot achieve the overall savings targets through efficiencies alone. Budget reductions of this magnitude require significant adjustments to force structure and investments, but the choices we made reflected five key elements of the defense strategic guidance and vision for the military.

1. *Build a force that is smaller and leaner, but agile, flexible, ready and technologically advanced*

We knew that coming out of the wars, the military would be smaller. Our approach to accommodating these reductions, however, has been to take this as an opportunity – as tough as it is – to fashion the agile and flexible military we need for the future. That highly networked and capable joint force consists of:

- an adaptable and battle-tested Army that is our nation's force for decisive action, capable of defeating any adversary on land;
- a Navy that maintains forward presence and is able to penetrate enemy defenses;
- a Marine Corps that is a "middleweight" expeditionary force with reinvigorated amphibious capabilities;

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- an Air Force that dominates air and space and provides rapid mobility, global strike and persistent ISR, and;
- National Guard and Reserve components that continue to be ready and prepared for operations when needed.

To ensure an agile force, we made a conscious choice not to maintain more force structure than we could afford to properly train and equip. We are implementing force structure reductions consistent with the new strategic guidance for a total savings of about \$50 billion over the next five years.

These adjustments include:

- Gradually resizing the active Army to 490,000, eliminating a minimum of eight BCTs and developing a plan to update the Army's brigade structure;
- Gradually resizing the active Marine Corps to about 182,100, eliminating six combat battalions and four Tactical Air squadrons;
- Reducing and streamlining the Air Force's airlift fleet by retiring all 27 C-5As, 65 of the oldest C-130s and divesting all 38 C-27s. After retirements, the Air Force will maintain a fleet of 275 strategic airlifters, and 318 C-130s – a number that we have determined is sufficient to meet the airlift requirements of the new strategy, including the Air Force's commitment for direct support of the Army;
- Eliminating seven Air Force Tactical Air squadrons – including five A-10 squadrons, one F-16 squadron, and one F-15 training squadron. The Air Force will retain 54 combat-coded fighter squadrons, maintaining the capabilities and capacity needed to meet the new strategic guidance;
- Retiring seven lower priority Navy cruisers that have not been upgraded with ballistic missile defense capability or that would require significant repairs, as well as retiring two dock landing ships.

The strategy review recognized that a smaller, ready and agile force is preferable to a larger force that is poorly trained and ill-equipped. Therefore, we put a premium on retaining those capabilities that provide the most flexibility across a range of missions. We also emphasized readiness. For fiscal 2013, the Department is requesting \$209 billion in the base budget for Operation and Maintenance, the budget category that funds training and equipment maintenance among other aspects of operations. That represents an increase of six percent compared to the enacted level in 2012, even though the overall base budget will decline by one percent. Striking the right balance between force structure and readiness is critical to our efforts to avoid a hollow force, and we will continue to focus on this area to ensure that we make the right choices.

2. Rebalance global posture and presence to emphasize Asia-Pacific and the Middle East

The strategic guidance made clear that we must protect capabilities needed to project power in Asia-Pacific and the Middle East. To this end, this budget:

- Maintains the current bomber fleet;
- Maintains the aircraft carrier fleet at a long-term level of 11 ships and 10 air wings;
- Maintains the big-deck amphibious fleet;
- Restores Army and Marine Corps force structure in the Pacific after the drawdown from Iraq and as we drawdown in Afghanistan, while maintaining persistent presence in the Middle East.

The budget also makes selected new investments to ensure we develop new capabilities needed to maintain our military's continued freedom of action in face of new challenges that could restrict our ability to project power in key territories and domains. Across the Services, this budget plan requests \$1.8 billion for FY13, and a total of \$3.9 billion over the next five years, for enhancements to radars, sensors, and electronic warfare capabilities needed to operate in these environments.

Other key power projection investments in FY13 include:

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- \$300 million to fund the next generation Air Force bomber (and a total of \$6.3 billion over the next five years);
- \$1.8 billion to develop the new Air Force tanker;
- \$18.2 billion for the procurement of 10 new warships and associated equipment, including two Virginia-class submarines, two Aegis-class destroyers, four Littoral Combat Ships, one Joint High Speed Vessel, and one CVN-21-class aircraft carrier. We are also requesting \$100 million to develop the capability to increase cruise missile capacity of future Virginia-class submarines;
- \$2.2 billion in FY13 for the procurement of an additional 26 F/A-18E/F Super Hornet aircraft;
- \$1.0 billion in FY13 for the procurement of 12 EA-18G Growler aircraft, the Navy's new electronic warfare platform that replaces the EA-6B;
- \$38 million for design efforts to construct an Afloat Forward Staging Base planned for procurement in FY14. This base can provide mission support in areas where ground-based access is not available, such as counter-mine operations, Special Operations, and ISR.

3. Build innovative partnerships and strengthen key alliances and partnerships

The strategy makes clear that even though Asia-Pacific and the Middle East represent the areas of growing strategic priority, the United States will work to strengthen its key alliances, to build partnerships and to develop innovative ways to sustain U.S. presence elsewhere in the world.

To that end, this budget makes key investments in NATO and other partnership programs, including:

- \$200 million in FY13 and nearly \$900 million over the next five years in the NATO Alliance Ground Surveillance system. This system will enable the Alliance to perform persistent surveillance over wide areas in any weather or light condition;
- \$9.7 billion in FY13, and \$47.4 billion over the next five years, to develop and deploy missile defense capabilities that protect the U.S. homeland and strengthen regional missile defenses;
- \$800 million for the Combatant Commanders exercise and engagement program. Jointly with the State Department, we will also begin using the new Global Security Contingency fund that was established at our request in the FY12 legislation;
- \$401 million for the Medium Extended Air Defense System (MEADS). These funds are necessary to complete the Proof of Concept program that was agreed to between the U.S., Italy and Germany. Completing the Proof of Concept fulfills an important obligation to our international partners, lays the groundwork for strengthened NATO air defense, and will provide demonstrated technologies to enhance U.S. air defense capabilities in the future.

The new strategy also envisions a series of organizational changes that will boost efforts to partner with other militaries. These include:

- Allocating a U.S.-based brigade to the NATO Response Force and rotating U.S.-based units to Europe for training and exercises;
- Aligning an Army BCT with each regional Combatant Command to foster regional expertise;
- Increasing opportunities for Special Operations Forces to advise and assist partners in other regions, using additional capacity available due to the gradual drawdown from the post-9/11 wars.

4. Ensure that we can confront and defeat aggression from any adversary – anytime, anywhere

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The strategic guidance reaffirmed that the United States must have the capability to fight more than one conflict at the same time. Still, the strategic guidance recognizes that how we defeat the enemy may well vary across conflicts.

This budget invests in space, cyberspace, long range precision-strike and the continued growth of special operations forces to ensure that we can still confront and defeat multiple adversaries even with the force structure reductions outlined earlier. It also sustains the nuclear triad of bombers, missiles and submarines to ensure we continue to have a safe, reliable and effective nuclear deterrent.

Even with some adjustments to force structure, this budget sustains a military that is the strongest in the world, capable of quickly and decisively confronting aggression wherever and whenever necessary. After planned reductions, the FY17 joint force will consist of:

- An Army of more than one million active and reserve soldiers that remains flexible, agile, ready and lethal across the spectrum of conflict, with 18 Divisions, approximately 65 Brigade Combat Teams, 21 Combat Aviation Brigades and associated enablers;
- A Naval battle force of 285 ships – the same size force that we have today –that will remain the most powerful and flexible naval force on earth, able to prevail in any combat situation, including the most stressing anti-access environments. Our maritime forces will include 11 carriers, 9 large deck amphibious ships (although we should build to 10 such ships in FY18), 82 guided missile cruisers and destroyers, and 50 nuclear powered attack submarines;
- A Marine Corps that remains the nation’s expeditionary force in readiness, forward deployed and engaged, with 31 infantry battalions, 10 artillery battalions and 20 tactical air squadrons;
- An Air Force that will continue to ensure air dominance with 54 combat coded fighter squadrons and the current bomber fleet, with the Joint Strike Fighter in production and the next generation bomber in development. Our Air Force will also maintain a fleet of 275 strategic airlifters, 318 C-130s and a new aerial refueling tanker.

5. Protect and prioritize key investments, and the capacity to grow, adapt and mobilize

The force we are building will retain a decisive technological edge, leverage the lessons of recent conflicts and stay ahead of the most lethal and disruptive threats of the future.

To that end, the FY13 budget:

- Provides \$11.9 billion for science and technology to preserve our ability to leap ahead, including \$2.1 billion for basic research.
- Provides \$10.4 billion (base and OCO) to sustain the continued growth in Special Operations Forces;
- Provides \$3.8 billion for Unmanned Air Systems by funding trained personnel, infrastructure, and platforms to sustain 65 USAF MQ-1/9 combat air patrols with a surge capacity of 85 by FY16. We slowed the buy of the Reaper aircraft to allow us time to develop the personnel and training infrastructure necessary to make full use of these important aircraft. We also protected funding for the Army’s unmanned air system Gray Eagle;
- Invests \$3.4 billion in cyber activities, with several initiatives receiving increased funding relative to last year. The scale of cyber threats is increasing and we need to be prepared to defeat these threats, mitigate the potential damage, and provide the President with options to respond, if necessary. We are investing in full spectrum cyber operations capabilities to address the threats we see today and in the future. The Department strongly believes that Congressional action is needed on cyber legislation and is supportive of the bipartisan legislation introduced by Senators Lieberman, Collins and Rockefeller;

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- Provides \$1.5 billion to fund the Department’s Chemical and Biological Defense program.

At the same time, the strategic guidance recognizes the need to prioritize and distinguish urgent modernization needs from those that can be delayed – particularly in light of schedule and cost problems. Therefore this budget identifies about \$75 billion in savings over the FYDP resulting from canceled or restructured programs. Key modifications and associated savings over the FYDP include:

- \$15.1 billion in savings from restructuring the Joint Strike Fighter by delaying aircraft purchases to allow more time for development and testing;
- \$1.3 billion in savings from delaying development of the Army’s Ground Combat Vehicle due to contracting difficulties;
- \$2.2 billion in savings from curtailing the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System (JLENS) due to concerns about program cost and operational mobility;
- \$4.3 billion in savings from delaying the next generation of ballistic missile submarines by two years for affordability and management reasons;
- \$0.8 billion in savings from delaying selected Army aviation helicopter modernization for three to five years.

We will also terminate selected programs, including:

- The Block 30 version of Global Hawk, which has grown in cost to the point where it is no longer cost effective, resulting in savings of \$2.5 billion;
- Upgrades to High Mobility Multipurpose Wheeled Vehicles (HMMWVs); we will focus our modernization resources on the Joint Light Tactical Vehicle, resulting in savings of \$900 million; and
- The weather satellite program, because we can depend on existing satellites, resulting in savings of \$2.3 billion;

We have also invested in a balanced portfolio of capabilities that will enable our force to remain agile, flexible and technologically advanced enough to meet any threat. We will ensure that we can mobilize, surge, and adapt our force to meet the requirements of an uncertain future. To that end, ground forces will retain the key enablers and know-how to conduct long-term stability operations, and the Army will retain more mid-grade officers and NCOs. These steps will ensure we have the structure and experienced leaders necessary should we need to re-grow the force quickly.

Another key element is to maintain a capable and ready National Guard and Reserve. The Reserve Component has demonstrated its readiness and importance over the past ten years of war, and we must ensure that it remains available, trained, and equipped to serve in an operational capacity when necessary. We will maintain key combat support capabilities and ensure that combat service support capabilities like civil affairs are maintained at a high readiness level. We will also leverage the operational experience and institute a progressive readiness model in the National Guard and Reserves in order to sustain increased readiness prior to mobilization.

In keeping with the emphasis on a highly capable reserve, this budget makes only relatively modest reductions in the ground-force reserve components. Over the next five years, the Army Reserve will be sustained at 205,000 personnel, the Army National Guard will marginally decrease from 358,200 to 353,200 personnel, and the Marine Corps Reserve will sustain an end-strength level of 39,600 personnel. The Navy Reserve will decrease from 66,200 to 57,100 personnel over the next five years. Over the same span, the Air Force Reserve will decrease from 71,400 to 69,500 personnel, and the Air National Guard will decrease from 106,700 to 101,200 personnel.

Another key part of preserving our ability to quickly adapt and mobilize is a strong and flexible industrial base. This budget recognizes that industry is our partner in the defense acquisition enterprise. A healthy industrial base means a profitable industrial base, but it also means a lean, efficient base that provides good value for the taxpayers’ defense investments and increases in productivity over time.

Ensuring Quality of the All-Volunteer Force

Now to the most fundamental element of our strategy and our decision-making process: our people. This budget recognizes that they, far more than any weapons system or technology, are the great strength of our United States military. All told, the FY13 budget requests \$135.1 billion for the pay and allowances of military personnel and \$8.5 billion for family support programs vital to the well-being of service members and their families.

One of the guiding principles in our decision making process was that we must keep faith with our troops and their families. For that reason, we were determined to protect family assistance programs, and we were able to sustain these important investments in this budget and continue efforts to make programs more responsive to the needs of troops and their families. Yet in order to build the force needed to defend the country under existing budget constraints, the growth in costs of military pay and benefits must be put on a sustainable course. This is an area of the budget that has grown by nearly 90 percent since 2001, or about 30 percent above inflation – while end strength has only grown by three percent.

This budget contains a roadmap to address the costs of military pay, health care, and retirement in ways that are fair, transparent, and consistent with our fundamental commitments to our people.

On military pay, there are no pay cuts. We have created sufficient room to allow for full pay raises in 2013 and 2014 that keep pace with increases in the private sector. That means for 2013, we propose a pay increase of 1.7 percent for service members. However, we will provide more limited pay raises beginning in 2015 – giving troops and their families fair notice and lead time before changes take effect. Let me be clear: nobody's pay is cut in this budget nor will anyone's pay be cut in the future years of this proposal.

This budget devotes \$48.7 billion to health care – a cost that has more than doubled over the last decade. In order to continue to control the growth of these costs, we are recommending increases in health care fees, co-pays and deductibles to be phased in over four to five years. None of the fee proposals in the budget would apply to active duty service members, survivors of service members who died on active duty, or retirees who retired due to disability. Most of the changes will not affect the families of active-duty service members – there will be no increases in health care fees or deductibles for families of active duty service members. Those most affected will be retirees – with the greatest impact on working-age retirees under the age of 65 still likely to be employed in the civilian sector. Even with these changes, the costs borne by retirees will remain below levels in most comparable private sector plans – as they should be.

Proposed changes include:

- Further increasing enrollment fees for retirees under age 65 in the TRICARE Prime program, using a tiered approach based on retired pay that requires senior-grade retirees with higher retired pay to pay more and junior-grade retirees less;
- Establishing a new enrollment fee for the TRICARE Standard/Extra programs and increasing deductibles;
- Establishing a new enrollment fee for the TRICARE-for-Life program for retirees 65 and older, also using a tiered approach;
- Implementing additional increases in pharmacy co-pays in a manner that increases incentives for use of mail order and generic medicine;
- Indexing fees, deductibles, pharmacy co-pays, and catastrophic caps to reflect the growth in national health care costs.

These changes are important. I am therefore disappointed that the Authorization Committees did not support the proposed TRICARE fee initiatives that seek to control spiraling defense health care costs. We also feel that the fair way to address military retirement costs is to ask Congress to establish a commission with authority to conduct a comprehensive review of military retirement. But the President and the Department believe that the retirement benefits of those who currently serve should be protected by grandfathering their benefits. For those who serve today I will request there be no changes in retirement benefits.

Fully Supporting Deployed Warfighters

The costs of Overseas Contingency Operations (OCO) are funded separately from the base budget in a stand-alone FY13 request of \$88.5 billion. That funding level represents a decrease of \$26.6 billion from the FY12 enacted level.

This year's OCO request, which ensures that deployed troops have all the financial resources they need to conduct their challenging missions, primarily supports operations in Afghanistan but also requests relatively small sums for the Office of Security Cooperation in Iraq (OSC-I) and the repair or replacement of equipment redeploying from Iraq.

Our FY13 OCO request includes funding for added personnel pay and subsistence for deployed forces; communications; mobilizing Reserve Component units; transportation; supplies; deployment and redeployment of all combat and support forces; force sustainment; and sustainment and replenishment of war reserve stocks.

For FY13 we request \$5.7 billion in funding for the Afghan National Security forces (ANSF). It is critically important that we maintain sufficient financial support to ANSF so that they can ultimately assume full security responsibility across Afghanistan.

Much tough fighting lies ahead in Afghanistan, but the gradually improving situation permits the remainder of the U.S. surge force to redeploy by the end of September 2012, leaving 68,000 U.S. troops in Afghanistan at that time. The FY13 OCO request assumes a continued level of about 68,000 troops in Afghanistan. While future changes in troop levels may be implemented during FY13, those decisions will be based on advice from field commanders about conditions on the ground.

In Iraq, OCO funding supports continued security assistance and cooperation with Iraqi Security Forces through the OSC-I in the areas of common interest, including counterterrorism, counter-proliferation, maritime security, and air defense. This funding is critical for the U.S. to strengthen its long-term partnership with Iraq. Additionally, to ensure that U.S. forces redeployed from Iraq are ready and equipped for future operations, this funding replenishes equipment and stocks for these forces.

A Balanced Package

Members of the committee, the FY13 request is a carefully balanced package that keeps America safe and sustains U.S. leadership abroad. As you take a look at the individual parts of this plan, I encourage you to do what the Department has done: to bear in mind the strategic trade-offs inherent in any particular budget decision, and the need to balance competing strategic objectives in a resource-constrained environment.

As the FY 2013 budget request has worked its way through the relevant Committees, I am pleased to note that many of our changes have been sustained. In particular, most Committees have accepted a number of the investment changes we recommended, which are consistent with our new defense strategy and the budgetary limits imposed by the Budget Control Act.

However, some Committees of Congress have not supported certain choices that are critical to the long-term viability of a defense strategy that lives within the constrained resources of the Budget Control Act. For example, some committee bills are seeking to reverse decisions to eliminate aging and lower-priority ships and aircraft. If these decisions are totally reversed, it would be harder to invest in newer, multi-purpose, and higher-priority platforms for the future, and we would be burdening the services with excess force structure that would risk hollowing out the force.

There has also been opposition to the measured and gradual reductions in end strength we have proposed for the Army and Marine Corps. The Department has made it clear that we prefer a smaller, ready force to a larger force that lacks sufficient training and equipment to perform the mission assigned to it. If we are prevented from making the full planned reductions in the size of our ground forces, that's what we'll get.

Similarly, some bills would reverse our efforts to slow overhead costs, particularly by slowing the growth of military health care costs. By making it harder to get these costs under

control, Congress is making it more difficult to balance and maintain investments in readiness and equipment, which is essential to the overall health of the all-volunteer force.

In reversing difficult decisions and restoring funds to those areas that achieve necessary savings, Congress risks upending the careful balance we have sought to achieve in our strategy.

There is no free lunch here. Every low-priority program or overhead cost that is retained will have to be offset by cuts in higher priority investments in order to comply with the Budget Control Act.

I know that this Committee does not want to hollow out the force. Therefore, I would strongly urge the Congress to work with us to reach a consensus about our defense priorities, recognizing your concerns. Obviously, our job is to responsibly respond to what this Congress mandated, on a bi-partisan basis, with regard to reducing the defense budget. We need your partnership to do this in a manner that preserves the strongest military in the world. This will be a test of whether reducing the deficit is about talk or action.

Now that we have seen the sacrifice involved in reducing the defense budget by almost half a trillion dollars, I want to remind Congress of its important responsibility to make sure that we avoid sequestration. That would be a doubling of the cuts, another roughly \$500 billion in additional cuts that would be required to take place through a meat-axe approach, and that we are convinced could hollow out the force and inflict severe damage on our national defense. All of us recognize that sequester would be entirely unacceptable, and both sides and both chambers in Congress must work urgently to find a compromise that will allow us to head off this disaster.

I know that the members of this committee are committed to working together to stop sequester, and to ensuring that our men and women in uniform have the resources they need to perform the hard work of defending this country.

FY 2012 Budget Situation

On that note, let me close by pointing to some difficult budgeting problems for FY 2012 that will require your help and support to solve. Our FY 2012 budget was prepared several years ago. Changes in funding needs since then have resulted in shortfalls and excesses in particular areas.

To start, we have a significant shortfall in fuel funding for FY 2012. The situation will improve if fuel prices remain at current lower levels, but the shortfall will still be substantial.

There are also additional Army manpower costs due to greater Reserve mobilizations than expected, Navy OCO operating costs that are higher due to the need for more ships than planned for Afghanistan support, Air Force flying hours that exceeded projections, and Army OCO transportation costs that are higher due to closures of Ground Lines of Communications (GLOC) in Pakistan.

In terms of excesses, we know that our budgets for the Afghan Security Forces Fund (ASFF), both for FY 2011 and for FY 2012, are higher than are needed to provide full support to the Afghanistan National Security Forces.

We need the Congress to permit us to realign funds to meet our shortfalls. As a start, on June 1st we asked for authority to move a billion dollars from the category for ASFF funding to the defense working capital fund. This will enable us to maintain cash reserves while paying higher fuel costs.

Thank you for approving our request which represents a first step toward resolving our FY 2012 budgetary problems. Remaining issues will be addressed by an omnibus reprogramming request which we plan to submit for your review around the end of June.

As part of our efforts to confront fuel costs and also enhance our war-fighting capabilities, we are looking to make our installations and operations more fuel efficient and to diversify our energy sources, including with alternative fuels. I oppose efforts by Congress to limit the Department's options for using alternative fuels. These efforts could deprive commanders of the flexibility they need to meet tactical and operational needs and make us more exposed to potential supply disruptions and future price volatility of petroleum products.

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I will work closely with you to resolve these issues for the current fiscal year, and to do what the American people expect of their leaders: be fiscally responsible in developing the force for the future – a force that can defend the country, a force that supports our men and women in uniform, and a force that is, and always will be, the strongest military in the world.

Over the past two weeks, I had the opportunity to travel extensively throughout the Asia-Pacific region, where I consulted with key Allies and partners and explained our new defense strategy both publicly and privately. I was struck by the enthusiasm and the support for America's continued engagement in that region, and the reassurance that our Allies and partners felt by the strategy-based approach we are taking to our national security.

This trip has convinced me that we are on the right track, but I recognize that we are still at the very beginning of a long-term process that will unfold over the next decade and that we must continue in future budget requests.

With our fiscal 2013 budget, we have laid the groundwork to build the military we need for the future. But we need to work with Congress to execute this strategy, and that means implementing the proposals we have presented this year, and pushing ahead with the hard work of maintaining the strongest military in the world and meeting our fiscal responsibilities.

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