

June 23, 2023

The Honorable Lloyd J. Austin III
Secretary of Defense
U.S. Department of Defense
1000 Defense Pentagon
Washington, D.C. 20301-1000

Dear Secretary Austin:

We represent technology companies and investors who believe that our warfighters must be equipped with the latest technologies to ensure the security of our democracy. Unfortunately, antiquated methods for developing requirements and selecting technologies have drastically limited the Department of Defense's (DoD or "the Department") access to the best commercial innovation. This must change.

To this end, we strongly endorse the recommendations of the bipartisan Atlantic Council Commission on Defense Innovation Adoption (full report [here](#)). These recommendations have been formulated by a group of distinguished Commissioners led by the former Secretary of Defense Mark Esper and the former Secretary of the Air Force Deborah James, with decades of service in government, the private sector, and capital markets between them. The core thesis of the commission is that the United States does not have an innovation problem, it has an innovation adoption problem.

While most critical technologies being developed today reside in the commercial sector, they are not being leveraged at the speed and scale required for us to maintain advantage relative to our competitors. The time required to develop critical technologies to meet the threat later this decade is no longer the obstacle; it is our inability to scale already-developed commercial technologies into production, iterate upon them, and sustain them in the hands of the warfighter. Our window to act decisively is closing every day.

The Commission's Interim Report offers a clear guide to address this challenge. It provides concrete and actionable recommendations to reform acquisition, overcome barriers to innovation, and revise specific Planning, Programming, Budgeting, and Execution (PPBE) structures. All of the Commission's recommendations are worthy of implementation; here we highlight four (4) that will enable America's most innovative organizations to step up support for DoD:

Modernize the DoD to align with the 21st century industrial base

The DoD has already taken an important step by making the Defense Innovation Unit (DIU) a direct report to the Secretary of Defense. The Department should build on this foundation by providing DIU with the necessary staffing and resources to engage the nontraditional defense industrial

base, as well as acquisition organizations, science and technology organizations, and combatant commands. This will help align defense capability requirements with leading technologies. DIU should also work with the Under Secretary of Defense for Acquisition and Sustainment (USD (A&S)) and across the department to reinforce “buy before build” commercial practices, develop mechanisms for rapid military needs validation, and design rapid funding tools and approaches.

Strengthen the alignment of capital markets to DoD outcomes

The DoD should leverage US capital markets to support defense innovation and mission outcomes. The Small Business Innovation Research (SBIR) grants program should be enhanced to generate direct-to-Phase III SBIR grants, enable flexible contract vehicles, and remove existing barriers for small businesses with backing by venture capitalists or publicly traded companies to compete for SBIR grants. The SBIR offices of the Army, Navy, and Marine Corps should pilot a Strategic Funding Increase (STRATFI) program, which includes matched funding from customers and private funding. The Office of Strategic Capital (OSC) should develop tools to leverage external capital market funding for pilot projects and receive expanded authorities to access capital markets.

Incentivize tech companies to do business with the DoD

The DoD should increase incentives and decrease barriers for technology companies to engage with the DoD. The DoD and Congress should rebalance the ratio of Research, Development, Test, and Evaluation (RDT&E) and procurement funding to historical norms over the past thirty years to provide more than \$20 billion in additional procurement funds to acquire production quantities faster and leverage commercial research and development (R&D). Congress should raise the cost accounting standards (CAS) threshold to at least \$100 million and revise the commercial item exemption in 48 CFR 9903.201-1(b)(6) to reduce compliance costs. Other measures include investing in modernizing SAM.gov and improving user design, streamlining security clearance processes, and establishing a team to map and improve processes to scale successful research and prototypes into new or existing acquisition programs.

Establish a bridge fund for demonstrated technologies

The DoD should tie the results of experimental exercises to acquisition outcomes, helping to scale and accelerate successful demonstrations. For example, Congress can pilot providing \$250 million to scale relevant technologies demonstrated at operational exercises that address the preeminent challenges posed by our competitors. The funds will facilitate the acceleration and scaling of novel capabilities into the hands of the warfighter, help vendors cross the infamous “Valley of Death,” and incentivize new nontraditional companies to work with DoD.

We believe that the implementation of these recommendations, as well as the other six recommendations in the Commission’s Interim Report, will dramatically improve the ability of Silicon Valley to deliver the world’s best technologies to the warfighter.

They will rapidly address the DoD's critical technology gaps through the most promising emerging technologies, and they will construct agile funding structures that make it far more probable that the best commercial innovation can be integrated into the DoD's systems at scale.

Conversely, if these recommendations are neglected, then DoD will have missed a unique opportunity for genuine reform in the "decisive decade." Our competitors will continue to gain ground on the technological battlefield, and we will squander the advantages that accrue from the freest and most innovative marketplace on earth.

We stand ready to serve and to work together with the Defense Industrial Base. We strongly urge DoD and congressional leaders to act now in support.

Sincerely,

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