

## Holland & Knight Defense Situation Report: December 2024

### A monthly roundup of defense policy news

Welcome back to Holland & Knight's monthly defense news update. We are pleased to bring you the latest in defense policy, regulatory updates and other significant developments. If you would like additional information on anything in this report, please reach out to the authors or members of Holland & Knight's [National Security, Defense and Intelligence Team](#).

### LEGISLATIVE UPDATES

#### NDAAs Updates

As covered in the [November 2024 Holland & Knight Defense Situation Report](#), on Dec. 7, 2024, House Speaker Mike Johnson (R-La.) announced a bipartisan compromise for the fiscal year (FY) 2025 National Defense Authorization Act (NDAA) negotiated by congressional leadership and all four corners of the House and Senate Armed Services committees (HASC, SASC). The legislation was filed as a Senate amendment to the already-passed legislative vehicle of [H.R. 5009](#), the Servicemember Quality of Life Improvement and National Defense Authorization Act for Fiscal Year 2025.

Notably, the topline funding level included in the compromise FY 2025 NDAA for the U.S. Department of Defense (DOD) is \$883.7 billion. With additional national defense authorizations outside of HASC and SASC jurisdiction and other adjustments, the total topline authorization level is \$895 billion. This is in line with the 1 percent increase limits set by the Fiscal Responsibility Act (FRA) and equals the levels authorized under the House-passed version of the FY 2025 NDAA. Negotiators instead rejected the SASC's topline funding level of \$923.2 billion, which would have exceeded the FRA caps by \$28 billion.

The House passed the final [FY 2025 NDAA](#) on Dec. 11, 2024, by a vote of 281-140. The following week, on Dec. 18, the Senate [passed the bill](#) by a vote of 85-14. President Joe Biden signed the bill into law on Dec. 23, becoming Public Law No. 118-159.

The FY 2025 NDAA follows similar themes from recent years, placing emphasis on the further development of software and innovative technologies, creating supply chain resilience, modernizing the country's domestic industrial base and putting quality of life for servicemembers and their families at the center of the legislation. An overview of the text is included in the [November 2024 Holland & Knight Defense Situation Report](#).

Though it's always a feat to pass the annual NDAA, members of Congress will soon turn their attention toward the FY 2026 NDAA. The HASC is expected to announce that it will begin accepting requests from HASC committee members in the next couple of months and will likely close its internal request process before the first quarter of 2025 ends. As such, HASC members will soon begin soliciting requests from stakeholders who want to influence the FY 2026 bill.

Should you or your organization have any questions on FY 2026 NDAA requests, please reach out to your *Holland & Knight Defense Situation Report* authors.

## Appropriations Updates

The House and Senate have yet to reconcile differences between their two proposed spending bills. The House Appropriations Committee approved a topline of \$833 billion for only DOD programs, in line with the FRA's 1 percent increase limit, while the Senate Appropriations Committee approved \$852 billion for the DOD.

In September 2024, Congress passed a continuing resolution (CR), which extended the current year's funding through Dec. 20, 2024. Before the end of the year, Congress had to pass another CR or risk a government shutdown. After various proposals, both chambers of congress passed a second CR of FY 2024 funding ([H.R. 10545](#)), which will expire on March 14, 2025.

Because Congress has yet to pass the final appropriations bills for FY 2025, which delays and interferes with the government's ability to start new contracts and turnover internal projects, U.S. Defense Secretary Lloyd Austin released a statement expressing frustration over the modern practice of passing CRs. Secretary Austin noted, "Cumulatively, the Department has operated under a Continuing Resolution for just under five of the past 15 years – which means that we have spent a third of that period waiting on appropriations rather than moving forward with critical new projects." He added that "being forced to rely on stopgap, temporary funding measures hamstrings the Department's ability to plan for the future, bolster our ranks with new recruits, and tackle new challenges to American security."

Expect legislators to wait until after the Jan. 20, 2025, inauguration of President-Elect Donald Trump and further instruction from him before attempting to renegotiate the FY 2025 spending bills. Also adding to the uncertainty is that the debt limit deal – the aforementioned FRA, negotiated by President Biden and former House Speaker Kevin McCarthy (R-Calif.) – expired on Jan. 1, 2025. The U.S. Department of the Treasury may take "extraordinary measures," but President-Elect Trump and congressional leaders must negotiate to lift the debt ceiling. As a reminder, in 2016, then-President-Elect Trump urged congressional leaders to wait until he took office to lift the debt ceiling, which did not occur until March 2017. Congress also passed its final FY 2017 bills in May 2017, less than four months before FY 2017 was set to expire.

## China Select Committee Hearing on Strengthening Defense Industrial Base and Workforce

On Dec, 5, 2024, the House Select Committee on China (SCC) held a hearing titled "Rebuilding the Arsenal of Democracy" that focused on the urgent need to strengthen America's defense industrial base and workforce to deter and win a potential conflict with the People's Republic of China (PRC). Witnesses highlighted critical vulnerabilities, including a lack of production capacity for key munitions (potentially lasting less than a week in a conflict), overreliance on the PRC for essential components and materials (exemplified by recent Chinese export bans on some critical minerals) and an antiquated acquisition system hindering innovation and timely production. The hearing emphasized the historical pattern of post-conflict industrial base weakening, arguing that this current weakness invites aggression. The hearing acknowledged a significant workforce shortage in the defense industrial base, particularly in specialized manufacturing and technology roles.

Witnesses proposed solutions including increased and sustained defense spending, incentivizing private sector investment through advance purchase agreements, indemnification and streamlined regulations, along with a fundamental shift in military system design to prioritize mass producibility and affordability. A proposal for a congressionally mandated panel to study industrial base gaps and

recommend improvements was also suggested. No formal decisions were made during the hearing, but the discussion strongly implied the need for immediate and significant policy changes to address these vulnerabilities. [View the full hearing.](#)

## EXECUTIVE AND DEPARTMENTAL UPDATES

### President-Elect Trump Nominates DOD Personnel for Senate Confirmation

Under the Constitution, one of the tasks President-Elect Trump must undertake during his transition is nominating members of his cabinet and other senior officials to serve in the administration, filled through appointment "by and with the Advice and Consent of the Senate." These posts include most of the approximately two dozen that form the president's cabinet and others within each department, agency and sub-agency.

The appointment process for cabinet and other advice and consent positions is generally considered to have three stages. In the first stage, the president-elect selects a prospective appointee. In the second stage, the Senate initially relies on its committees to consider each nominee and conduct hearings before taking up and deciding whether to approve the nomination. The Senate has historically confirmed most cabinet nominations. In the final stage of the appointment process, the confirmed nominee is given a commission signed by the president.

President-Elect Trump has made various nominations to the DOD and the military services, including:

- Pete Hegseth, Defense Secretary
- Stephen Feinberg, Deputy Defense Secretary
- Michael Duffey, Under Secretary of Defense for Acquisition and Sustainment
- Keith Bass, Assistant Secretary of Defense for Health Affairs
- Elbridge Colby, Under Secretary of Defense for Policy
- Emil Michael, Under Secretary of Defense for Research and Engineering
- Daniel Driscoll, U.S. Army Secretary
- John Phelan, U.S. Navy Secretary

### DOD Announces Updates to List of Chinese Military Companies

On Jan. 7, 2025, the DOD released an update to the names of "Chinese military companies" operating directly or indirectly in the U.S. in accordance with the statutory requirement of Section 1260H of the NDAA for FY 2021.

Updating the Section 1260H list of Chinese military companies is an important continuing effort in highlighting and countering the PRC's Military-Civil Fusion strategy. The strategy supports the modernization goals of the People's Liberation Army (PLA) by ensuring it can acquire advanced technologies and expertise developed by PRC companies, universities and research programs that appear to be civilian entities. Section 1260H directs the DOD to begin identifying, among other things, Military-Civil Fusion contributors operating directly or indirectly in the U.S.

The DOD will [update the list](#) with additional entities as appropriate. The U.S. government reserves the right to take additional actions on these entities under authorities other than Section 1260H.

## U.S. Announces Nearly \$2.5 Billion Assistance Package for Ukraine

On Dec. 30, 2024, President Biden announced nearly \$2.5 billion in security assistance for Ukraine. This includes the authorization of a presidential drawdown authority (PDA) package, which has an estimated value of \$1.25 billion, to provide Ukraine additional capabilities to meet its most urgent needs, including missiles for air defense, munitions for rocket systems and artillery, and anti-tank weapons. In addition, the DOD [announced](#) an approximately \$1.22 billion Ukraine Security Assistance Initiative (USAI) package to provide Ukraine additional air defense, air-to-ground, unmanned aerial systems and other capabilities to fight Russian aggression. This is the Biden Administration's 23rd USAI package, which allows military equipment to be procured from the defense industry and partners and sent to Ukraine, and represents the 73rd tranche of equipment to be provided from DOD inventories for Ukraine since August 2021.

The USAI package means that the Biden Administration has effectively allocated all remaining USAI funds appropriated by Congress. In a statement, President Biden said that he directed his administration to continue surging as much assistance to Ukraine as quickly as possible, which includes the drawdown of DOD equipment. This is likely due to uncertainty about the incoming administration's stance on continuing to aid Ukraine.

On the same day, Treasury Secretary Janet Yellen separately [announced](#) a package worth \$3.4 billion in assistance in coordination with the U.S. Agency for International Development and the U.S. Department of State. This disbursement follows U.S. execution of the \$50 billion G7 Extraordinary Revenue Acceleration loan initiative for Ukraine, paid for by the windfall proceeds earned from Russia's own immobilized assets.

## DOD Strategy for Countering Unmanned Systems

On Dec. 2, 2024, Defense Secretary Austin signed a classified Strategy for Countering Unmanned Systems – view an unclassified [fact sheet](#). The strategy unifies the DOD's approach to countering these systems that looks across domains, characteristics and time frames. The strategy builds on other major DOD initiatives, including the standup of the Joint Counter-Small UAS Office, establishment of a Warfighter Senior Integration Group to meet urgent operational needs and launch of the Replicator 2 initiative to defend against the threats of small aerial systems at critical installations and force concentrations. The recent designation of the commanders of NORTHCOM and INDOPACOM as the lead synchronizers for operations to counter UAS in the homeland also ensures a cohesive approach to this challenge.

In the unclassified report and press release, the DOD said that unmanned systems pose both an urgent and enduring threat to U.S. personnel, facilities and assets overseas. Unmanned aerial systems, most commonly known as drones, pose the most significant threat at this time and increasingly in the U.S. homeland. These threats are changing how wars are fought. By producing a singular Strategy for Countering Unmanned Systems, Defense Secretary Austin and the DOD are orienting around a common understanding of the challenge and a shared approach to addressing it.

## DOD Launches Rapid Capability Cell, Frontier AI Pilots to Speed Adoption of Cutting-Edge Tech

On Dec. 12, 2024, the Pentagon's Chief Digital and Artificial Intelligence Office (CDAO), in partnership with the Defense Innovation Unit (DIU), announced a new initiative, the Artificial Intelligence Rapid Capabilities Cell (AI RCC), created to spearhead the adoption of cutting-edge AI-enabled tools and



next-generation AI advancement, including generative AI, across the DOD. The AI RCC will be managed by the CDAO and executed in partnership with DIU.

The AI RCC will initially be resourced with approximately \$100 million in FY 2024 and FY 2025 funding for pilot efforts that apply generative AI models to priority use cases and investments in foundational AI infrastructure and tools. In partnership with other parts of the DOD, industry and academia, CDAO and DIU will take an "experimentation-based approach" to the AI pilots, consistent with the CDAO and DIU's Open DAGIR construct and use all available agile acquisition approaches.

This announcement comes as the CDAO sunsets [Task Force Lima](#), the DOD's initiative focused on generative AI. The AI RCC will accelerate and scale generative AI tools across 15 warfighting and enterprise management use cases ranging from command and control and decision support to software development and cybersecurity, based on findings from Task Force Lima, which Deputy Defense Secretary Kathleen Hicks established in August 2023 to develop, evaluate, recommend and monitor generative AI capabilities across the DOD.

The Frontier AI pilots will tackle four of those use cases – two focused on warfighting and two focused on enterprise management – to demonstrate the impact of generative AI in defense applications. As part of the pilots, CDAO will partner with combatant commands and DOD stakeholders to conduct experiments utilizing the capabilities in development. AI RCC will also oversee investments in underlying infrastructure needed to accelerate AI adoption across the department, including the establishment of digital "sandboxes" to enable AI testing and experimentation on government networks. AI RCC will also invest in rapid, user-centric experimentation using CDAO's Global Information Dominance Experiment series to allow warfighters across combatant commands to test frontier AI models and provide real-time feedback to developers.

## **Office of Strategic Capital Releases FY 2025 Investment Strategy**

On Jan. 2, 2025, the Office of Strategic Capital (OSC) released its [FY 2025 Investment Strategy](#), which details how OSC will prioritize investments through credit-based financial products for critical technologies, assets and their supply chains. The FY 2025 Investment Strategy incorporates the authorities to issue loans and loan guarantees to eligible companies working in 31 covered technology categories (CTCs). The strategy also defines arenas of strategic competition, develops a framework to optimize capital allocations and identifies industry segments of particular interest for OSC investments.

The FY 2025 Investment Strategy highlights the industry segments of particular interest for the OSC credit program, which are a subset of the 31 CTCs, to include advanced bulk materials, advanced manufacturing, autonomous mobile robots, battery storage, biochemicals, bioenergetics, biomass and hydrogen generation and storage, as well as microelectronics assembly, testing and packaging, microelectronics manufacturing equipment, microelectronics materials, nanomaterials and metamaterials, sensor hardware, spacecraft and synthetic biology.

Concurrent with the release of the FY 2025 Investment Strategy, OSC is opening the application window for its first credit product, focused on equipment finance, which was covered in the [October 2024 Holland & Knight Defense Situation Report](#). Under its federal credit authorities, OSC launched the equipment finance Notice of Funding Availability on Sept. 30, 2024, to issue direct loans to companies in the critical technologies value chain that have capital investment needs. The "Application Part 1" window for equipment finance loans opened on Jan. 2, 2025, and closes on Feb. 3, 2025.

Additional details on the loan program are provided in a previous Holland & Knight alert, "[Department of Defense Announces New Loan Program for Critical Technology Projects](#)," Oct. 4, 2024.

## DIU Solicitations

In the past month, DIU listed two new solicitations.

The first solicitation, Family of Advanced Standard Batteries for Unmanned Systems (FASTBAT-U), seeks reliable battery solutions compatible with small unmanned aerial systems (sUAS) in Group 1 and 2. The batteries must be fully commercialized, rechargeable and manufactured domestically, and the DOD prefers solutions proven at a TRL 7+ or MRL 7+ level. The solicitation acknowledges the country's inefficient battery supply chain and aims to strengthen the industrial base through this contract opportunity. Responses were due by Jan. 9, 2025.

The second solicitation, Finance First 2.0, focuses on improving business operations related to designing, generating and distributing energy across the DOD. In order for the DOD to meet its goal of effective and efficient energy management, it will need the help of industry to leverage best business practices and private capital. Solutions must meet the resiliency needs of installations, fill production gaps, and deliver innovative, long-term energy utility. Finance First is seeking industry solutions that will deliver completed projects in a two- to three-year timeline. Responses were due by Jan. 9, 2025.

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