

# **Center for Strategic and International Studies**

## **Maritime Security Dialogue**

**A Conversation with Hon. Richard V. Spencer, Secretary of the Navy**

**Featuring:**

**The Honorable Richard V. Spencer,  
76th Secretary of the Navy**

**Introduction and Moderator:**

**John J. Hamre,  
President and CEO,  
CSIS**

**Introductory Remarks:**

**Vice Admiral Peter Daly, USN (Ret.),  
Chief Executive Officer,  
U.S. Naval Institute**

**Location: CSIS Headquarters, Washington, D.C.**

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JOHN J. HAMRE: Welcome to all of you. We're delighted to have you here. And this is going to be a lot of fun, because I know some of the things that the secretary's been working on. We have a lot to learn from him today and we look forward to hearing him very shortly.

Just a word of safety announcement. When we have events here I'm responsible for everybody, so follow me. We're going to go right out – we're going to take a left, because that's the fastest way to get out to the street. We're going to take two left-hand turns and then we're going to take a right-hand turn. We're going to go after to National Geographic. And I'm going to pay for everybody's tickets to see the titanium show. Do you know the story?

SECRETARY RICHARD V. SPENCER: I'm buying beers across the street at the bar, but – (laughter).

MR. HAMRE: You know the story about the titanium – or the Titanic? Excuse me. The Titanic was a cover story for the Navy because they were looking for the Scorpion. And so they developed all this underwater technology to find the Scorpion and they used the discovery of the Titanic as a cover story. It's a fabulous story and it's a great show. If we don't have an emergency, you can buy your own damn ticket, OK? We'll do that. (Laughter.)

Let me call up Pete here just to say a word on behalf of the Navy Institute. Please, Pete.

VICE ADMIRAL PETER DALY (RET.): Oh, thank you, sir.

Well, I just want to welcome our audience and thank CSIS. It's been a terrific partnership. This represents the last in our 2018 series. And I want to thank Secretary Spencer for agreeing to be our fifth in the series. And of course, one last thing is I want to say is this wouldn't be possible without the sponsorship of Huntington Ingalls Industries. So on behalf of the Naval Institute, we and CSIS are looking forward to this event. Thank you.

SEC. SPENCER: Thanks, Pete.

MR. HAMRE: Thank you, Pete. Yeah, and Huntington Ingalls has been great to help us do this. We're great to have this partnership with the U.S. Navy Institute.

This is going to be a dialogue. I told the secretary he didn't have to prepare a speech, but we're going to make this much more interactive. I'm going to get us started. I think that there are cards. I think that we've arranged for people to fill out cards. And I'll make sure that only the good questions get asked. But I get the privilege of kind of getting things started. And, again, Secretary, first of all, before we begin, I think we should all say our condolence to you on behalf of the Navy and Marine Corps family. You had a loss last night. It was – this happens. It's always painful. And I know that you and the Navy family are grieving today.

SEC. SPENCER: Freedom is not free, John. Thank you. And if everyone could keep in their hearts and prayers. We lost one Marine that we know of and we have one that's in the hospital, but we're missing five also.

MR. HAMRE: Yeah.

SEC. SPENCER: A C-130 and F-18, and keep them in your thoughts and prayers, please.

MR. HAMRE: It is a risky business that we ask these people to undertake every day, so we're grateful for them, especially this season of the year.

Secretary, we're going to explore widely –

SEC. SPENCER: Excellent thought.

MR. HAMRE: – things today. Let me just – let me just begin. I will be slightly provocative. You know, I think that I was told by a retired Navy admiral friend of mine that, you know, China has 220 ships that can shoot something – a missile or a gun – and we've got low double-digits force presence in Asia. Have we already lost the competition?

SEC. SPENCER: One, John, I would not expect anything but provocation from you, so thank you very much.

It's a great question, and it's one that is played out in the professional papers on a regular basis, but if we're going to do ship count, we actually have 147 over there – not all can shoot. But here is something that I want to open up on that started with the National Defense Strategy, which is underpinning the National Security Strategy. We have the 3rd and 7th Fleets over there with many more than 20 – the low double digits that are quoted now and then – but the second line of effort from the secretary of Defense is a robust constellation of allies and friends.

And people asked me from the day that I started, what is the biggest surprise, and besides what I've always said, which is the biggest surprise I had was that I thought I had a good handle on our readiness issue. I was completely gob smacked on how wide and how deep the readiness issue was. We've come to level ground on that, and we can get into that later.

But the second biggest surprise is how much work the Navy does in embracing our allies, and I think it goes back to the history of large, gray ships sitting in people's harbors with the American flag flying off the back, like other countries. But we have really done some yeoman's work and moved the needle, plowed the field – whatever analogy you want to use – in enhancing our relationships with our allies. So when we talk about areas of the theater around the world, yes, there is the Navy count, but you have to factor in also our allied count.

We are doing more coordinated efforts with some of the uniforms I see in the room right now than we have in the last 20 years, and I'm talking about meaningful exercises – Malabar, Trident Juncture, they go on and on – but that is how we should really look at the world going forward – not that we're abandoning 355, it's law, I get it – but it's a portfolio management, and what I like to use as a footnote to 355 is we also want to look at the global armada of allies and friends.

MR. HAMRE: Yes, thank you. That's a splendid answer, and I really was in a conference the other day, and a very senior Chinese vice minister said, you know, we just don't have allies like you, you know, and that is a huge asset for us.

You know, one of the great myths in public policy is that the military services don't plan for the future, they plan for the past, that they get ready for fighting last year's war. That's really not true. If you think about the Navy's history, you know, in the late 1920s, early 1930s, the Navy did really

remarkable strategic planning, you know, about World War II. We're looking forward. Where are you doing that kind of strategic planning now, Secretary?

SEC. SPENCER: You are referring to the Solariums and the efforts like that that the Navy did, and I truly believe Enterprise Navy is a naturally intellectually curious organization. When we went into the VEO mode, fighting violent extremist organizations, I will say that we – in retrospect, I think we did atrophy a bit. We now have the great power competition that we're facing, and it's an interesting time – I'm going to be very, very candid here. I just referenced the size and depth of the readiness hole, which at the end of day, my priorities are to fill my requirements right now, today. That's my most immediate charge, and strategy is that – photo finish to second, don't get me wrong, but as we all know, you can get involved with the battle right in front of you.

Balancing this has been a challenging effort, to be very frank with you, because the calls of readiness have been quite loud. We are doing it.

I was just up at the Naval War College in the Halsey Group. There's some fascinating thinking, challenging conversations going on. One of the things that I started after my – if August was my anniversary, we'll call it the second year – is to have, quote/unquote, "the conversation." And the conversation goes to absolutely every platform, tactic, strategy that the Navy has. We've talked about where does the carrier go in the future, a subject that, if the Navy has a third-rail topic, that might be one of them internally; dynamic-force employment; TACAIR mix.

These are conversations that are emotionally loaded. And sometimes – I will say in the past 10 to 15 years – the conversations have not been that terribly productive. We're saying, OK, check your emotion at the door. Bring a data-centric, data-informed argument to the table. We are having these.

If I could share with you what we've gone through in the TACAIR mix with the Marine Corps, we might not end up anywhere differently than where we are right now, but I will guarantee you the conversation along the way has produced seven different aspects on how we address the TACAIR issue within the naval forces. And that right there is worth everything.

So when you talk about strategic thinking, it's not just the CNO and I and the commandant and I having a solarium and talking about validating what China is going to be in 2040, which we are doing. But it's also how we are thinking at the tactical level and how we are thinking at the asset-deployment level and how we are thinking at the asset-management level.

We are trying – and believe it or not, this is – a lot of you, this will sound like a brilliant flash of the obvious, but if you go back to the '40s – oh, I was going to go further; I'll say '50s, '60s, and '70s – the Pentagon was probably held at the highest arc of one of the best risk managers in the business. We have wandered so far away from that. We've tried to get risk mitigation rather than risk management.

And coming from the financial world, where I was always brought up, risk is actually your friend if you understand it and manage it. It's not a friend in the building, but we have to understand and manage it in order to get our basic best effect with the resources that we have.

The most expensive solution is zero-risk. In fact, I will tell you, we can't afford bringing risk down to zero. We can if the answer is just don't do it. That's not an option. We have to get back on track to understand the risks that we have so we can go in with the 80 to 85 percent solution, be a

quick-learning organization, and correct ourselves quickly as we go down the path. It's taking too long and too much money to get risk down to 90 percent or 95 percent.

MR. HAMRE: Secretary, you said that getting readiness, getting the ops up to snuff, is the highest priority. I fully understand and support that.

You know, back in the '30s, when the Navy was doing this remarkable strategic planning, it had real consequences. Down in Norfolk, they built what was at that time the world's largest drydock. And this was 10, eight years before the war. OK, we anticipated what we were going to need; strategic investment.

What are the strategic investments that the Navy needs to make now? Probably it may not be physical. You know, it may be psychological. It may be cyber. I don't know. What are the strategic investments you are having the Navy make?

SEC. SPENCER: I'm going to answer that in twofold, because you bring up the drydock, which we still have and has not been touched at all fundamentally.

We talked about this in the hallway, John. And I'm going to get to your question, but I want everyone to understand where we really – what we're really looking at right now. We are at an inflection point as we shift from using F-22s with Zuni rockets to shoot one person off a bicycle in a VEO environment to the great competition, great-power competition. And we are – I referred earlier that we had a little atrophy, muscle atrophy, in that area. We are building the reps and we are getting back to it on the operational side.

But to support that, we had to put a construct together on where we're going to go in this inflection point. And basically there are three bins that we work in, in the most simplistic sense – our legacy platforms, modernizing our legacy platforms, and force 2.0 is what we call it, which is your future warfighting capabilities.

You read that China puts 40 percent of their budget, arguably, plus or minus 20, 30 percent, into force 2.0. When it comes to Navy, it's a very different situation. One, we have a tremendous installed base of large capital assets. Two, we also have this mission called world order, world peace, which also costs something.

To support that, we have to balance this portfolio that I talked about. Everyone wants to put money into hypersonics, into AI, into machine learning, which we are. On a corporate basis, we're probably somewhere around 15 percent R&D, which fits the corporate model, not that that is the perfect model. But do we feel comfortable there? In many ways, we're at industrial capacity for investment. In other places, we can do more. But I argue – because there's a natural torque in the organization right now because the deputy's leading our inflection point – that I need to turn around and spend \$400 million for every dry dock to get it up from 1930 flow control, which back then was almost nonexistent, to industrial model flow control best practices now, and that's \$400 million of dry dock. And this is an organization – and I'm not blaming fault anywhere – this is an organization that funded infrastructure at 70 percent.

I sat down and talked with Boeing, I sat down and talked with BP and I said, infrastructure funding, 70 percent, and they both looked at me with their jaws on the ground going, you're kidding me. Those are your machines, those are your flow controls that give you the force to go forward; how

can you make them bill payers? We're changing that dialogue right now. We're actually doing this. We're looking at our dry dock systems around the world and making improvements. And it's happening. I can give you other examples of what we're doing on the aviation side, where we're rethinking exactly how we go about getting readiness up.

When I arrived August of '17 and I looked at my aviation readiness at 41 percent – if I was a CEO of an airline I'd be fired instantaneously and probably sued for malfeasance, with a readiness number like that. So we went after this. And what did we do? We do look outside. One of the drums that I beat is look outside the building. Not all the answers are there and they're not 100 percent mirror answers, but I'll tell you what: Within 30 percent, 20 percent, they have some sort of solution for you. We brought in a fellow who used to run Southwest Airlines maintenance, to turn around our F-18 line. In 10 ½ weeks, he's increased throughput by 40 percent, and he's just started. And what's fascinating is this is in the depot area, and without getting too much in the weeds, everyone always criticizes the depots as being the slower leg of the maintenance chain because you can outsource your maintenance, you have depot maintenance, and then you have squadron organic maintenance, and depots always kind of were the third child. We are turning this around where they are actually going to be the lead child.

But more importantly, when we set up this program called the Navy Sustainment System – because it's not just aviation; this model will go across all maintenance – the employees got the message, saw the first iteration and came in over the weekend to do the painting, to do the cleaning, to do the re-establishment, the physical re-establishment of how the flow would work. And the reason I bring this up is, we have an amazing workforce and you just have to provide them guidance. You have to provide them the long-term goal that they're going to reach to, and also tell them that, you know what? We want to get to 341 F-18s up by October of '19. And rest assured, I always stand up and finish the sentence for the admiral; that goal will change to 410 on the next day, because we're going to get better. And this is the continual learning, continued process drive that we're under. We're in the nascent stages of it, but the initial feed is working.

We're also investing in people. You'll hear the Navy roll out Sailor 2025. Our biggest expense, because they are of the greatest worth and value to us, are our people. We have to get the systems in place to make sure that we are operating in the most efficient level to keep them engaged, challenged, have a career to stay in the Navy and Marine Corps after we train them.

Besides that, John, we're doing all that you would expect AI, directed energy, what I call Force 2.0. They're not only physical investments, they're strategic investments to go forward.

MR. HAMRE: Secretary, your answer stimulated an idea that I was – always been troubled by and let me ask you, because you had a career in finance: You know, one of the great problems we have is we've got this very rigid public financing of the Defense Department. You cannot – you can't lease. You know, you've got to full-fund. I mean, you had tools, financing tools, in the private sector. We deny ourselves. We've got to break through that. Is this something that you're willing to take on there?

SEC. SPENCER: We're going to have to. I'm going to give you two answers. John Lehman did, I think, the last big commercial ship buy – used ship buy when he was secretary of the Navy. And he put it together, interestingly enough, with Wall Street on five-year leases. And then Congress immediately took away five-year leases.

MR. HAMRE: It's called the Metzenbaum Amendment. You all remember that?

SEC. SPENCER: Yes. Exactly. We have to tackle this. But here's why I have hop in tackling it. As I look at what we have done inside the building we kind of go up in erratic sparks of arguments. We have to go up with a complete business case. And let me give you an example: We've been working with industry. We've changed the dialogue with industry. And that's what we did day one, after looking at how it had been working. We really had been driving the concept of the best money can buy from the lowest bidder. We have too many problems at hand to sit there and just contract for a requirement we come up with. And we turn around and say: This requirement is carved in stone.

I actually – and I say this half-jokingly – would love to change the requirement term to the guideline term, because the fact of the matter is you're asking an amazing organization, our suppliers, who have great gray matter, to help solve a problem that we have. Why wouldn't you provide the latitude for the solution – in a perfect world' don't get me wrong, we have some issues – on the first leg to spitball and say, you know, you're asking for a jet that flies to replace the P-3. If we want to do commercial off the shelf, we have a 737. We can load that up, and we can get you at this price. And we turn around and go nope, it has to carry this torpedo. Make it 10 feet longer.

Are you kidding me? Are you kidding me? And we do stuff like this. And Boeing now – we had to redo this conversation because we want to make sure that while we have to be a responsible client, they have to be a responsible provider. My conversations with them are: Sit with us and go, hey, before we do this, you knuckleheads, do you know what this is going to cost you? Now, that's counter to their order pad being out, which traditionally they love the change order. That's where they make the money. We have to have this long-term understanding. And we haven't really had it. We've had contract by contract.

We have to be able to have that discussion so when we go to the Hill we have a business case to present. We've been working with Huntington Ingalls side-by-side on this two-carrier buy. We'll see what happens here. There are some very good numbers. That's just the beginning of what the discussion is. The discussion is possibly: Let's do a two-carrier buy. And you know what? We're going to get the Joint Chiefs. We're going to get Navy and NAVSEA. We're going to get industry. And we're going to sit down in January and go: What does the next carrier possibly look like, eight years out? And have that discussion in concert with what we just did. So these aren't single muscle movements. These are span movements that we're doing in an organized, concerted manner, that you can sell as a business plan on the Hill.

MR. HAMRE: Secretary, let me spin the globe. Let's go over to the South China Sea. I remember –

SEC. SPENCER: Anything going on over there?

MR. HAMRE: (Laughs.) Yeah. We had President Xi rather solemnly promise President Obama that he would not militarize these islands they built. Well, that wasn't true. What does this mean for the Navy?

SEC. SPENCER: It was very interesting. Yesterday I was with an old lunch partner of mine, Dick Cheney, who also lives out in my hometown. And we have lunch every Wednesday. There's a group of us. And it was great to catch up at the cathedral at George Herbert Walker Bush's service. But he said, you know, Richard, God it was much easier when I had it. We had the Cold War with an

enemy that we didn't trade with. You have someone you're trading with, and the economy relies on it. It's a little more complicated.

Yes, it is. And my approach here is we have to work – the reason the Navy is here, and the reason your whole Department of Defense is here is to prevent, by year, month, day, any sort of hostilities sparking up so the rest of the whole of government can provide a solution that is non-kinetic. And that's exactly how we're looking at it, at the DOD. We have to use every single effort we can to see how we can come to a copacetic living arrangement with China, where they acknowledge that there's a rule-based society. And you should walk in their feet. I'm not defending them, but everyone should walk in the enemy's feet or the competitor's feet to understand what they're thinking. They're saying: Hey, I wasn't around when you guys developed these laws. They mean nothing to me. Well, you know, everyone wasn't, at one point in life. We have to be able to see how we can come together on a rules-based, long-term, copacetic environment.

Now, to your question, John, what is the Navy doing? We have a clear charter that you all know. We use FONOPs, freedom of navigation operations. We will exercise those on a continual basis for many reasons: to prove the fact that these are open waters as defined by the international community, that is our primary mission there; it's to support the free trade that is 80 percent of the global trade that goes across the maritime channels; and peace through presence – or, as the secretary continually corrects me, Richard, is deterrence through presence.

That being said, we have to be able to deliver the fight tonight if needed. And I don't say that lightly because, as you know, the U.S. Navy is your forward-deployed maneuver force. It is challenging. It is the most challenge that the Navy's probably had I would say since back in the '40s because the tyranny of distance lives in the Pacific. The National Defense Strategy, as you've heard it, you know, China – I beg your pardon, Russia is kind of a – is a menacing threat. It's China that is the pacing threat, and that is where we're focusing.

We have our work cut out for us in the U.S. Navy. Assets that – to face off with that risk, you all know them. They are heavy capital-intensive assets. I feel guilty, to be very frank with you, when I sit down with my three other service secretaries, because if I was to bring my wish list – my true wish list – on what we need to do to get the United States Navy topped up to where we're going to be in 2025, 2027, it dwarfs the other three services.

MR. HAMRE: Mr. Secretary, we had an episode maybe six weeks ago, had a rather reckless Chinese commander maneuvering dangerously. I mean, was he just – did he just take too much Cialis that morning or was – (laughter) – was this under orders, do you think? What do you – what's going on?

SEC. SPENCER: I know a lot of people in this room understand this, but just to make the record clear – to set the record clear – and it's a surprise to some people who don't understand this. We are in communications with a lot of our competitors on a professional basis, each service. We talk to Russia on a regular basis in the Bering Straits for the safety of traffic. We have had conversations and channels of conversation – and we still do, although the volume varies from time to time – with our counterparts in China. We have to make sure that we continue those and enhance those when we can, the professional communications, to prevent the errant one captain from causing the international crisis. That is the overarching comment.

MR. HAMRE: And there's a – and you feel there's a consciousness of that risk on the Chinese side, that they're open to that communication?

SEC. SPENCER: I truly do believe they are. We've had conversations. There is an understanding. There's head-nodding. We have to make sure that that stays open because what goes on at the political level, I would hope we could keep professional military communications open to prevent situations that could blossom into something else.

MR. HAMRE: OK. Enough of the easy questions. Let me go to a really hard one here. We had – the president said he would like to create a fifth service, a space service. Each of the services has – it impacts, of course, the Air Force much more intensively, but each of the services has important equities in space. Where are we?

SEC. SPENCER: You've all read the president's intent, which as you know with the chain of command we salute and march out smartly. Where we are, to be very frank with you, on a fundamental basis I would say that – and I don't want to put words in Dr. Esper or Dr. Wilson's mouth – but we fundamentally agree that there should be a common – some sort of common receptacle for space assets, space technologies, space acquisitions, space strategy.

I am a firm believer that I know what my mission – what requirements I have to fill for the Navy mission. In some cases I do want to develop them; in many cases I probably do not. In cyber, I want to go up to the cyber locker and check out my cyber tools. I don't really want to be developing cyber tools from the ground up; check out the tool and meld it to the Navy and/or Marine Corps mission. In this case space is – we do need to put the assets against it. The structure we'll have to wait and see how the Congress actually vets it out, along with the president's ideas. But on a fundamental basis, whether it's a SOCOM model, whether it's its own command, I definitely support the concept that we do need a center of excellence for space.

MR. HAMRE: This is my comment here, and I've abused my privilege being the host. But, you know, I talk to my friends that are interested in this independent space service and they say, well, they need more money. The last thing you want to do is to make it a separate service. When did you see resource-shares move across service lines? This is a dumb idea if you're trying to get more money into space. OK, I feel better. I got over that. (Laughter.)

Secretary, let me – let me just ask, you talked about some of the innovation. You know, it was – it was a naval architect by the name of Ericsson who had to go to Abraham Lincoln to get screw propellers on Navy ships. We'd still have paddleboats, probably. You're doing the same thing. You're pushing real hard. Where are the – where are the edges? This is what civilian leadership is about. Where are the edges where you need to really push to get new thinking going on with the Navy?

SEC. SPENCER: John, it's a great question. So I can – I can give about seven vignettes. But rather than go into each one, I'll tell you that I came onboard and my concept that I've always been raised with is don't give a man a fish; teach a man or a woman how to fish and they can feed themselves. And I kind of went in with that concept and was really pushing in certain areas to say, you know, look outside your cubicle, you know, drive outside, call up industry; they are dying to help. And I'm going to put a footnote in here: both traditional, which you'd expect, but more importantly nontraditional corporate America, you pick up the phone and call them, and by God it is stunning what they are ready to do for the Department of Defense. Barring a couple – (laughs) – but it's stunning what the majority are willing to do.

It's an iterative process. And where I'm getting is, at the end of the day on seven of these vignettes that I'm talking about, we reached a frustration level. I keep going, you know, did you call X, did you call Y, did you – and, you know, no, no, and we're getting there. And finally, one of my favorite leaders, the commandant, slammed the table and said, Mr. Secretary, please just tell us what to do. And I said, OK, it's iterative, I get it. We will. We'll walk down this experiment together. And then the – after doing the reps we'll get fishing down perfectly.

It is difficult. If you look at the OTA – other transactions authority – which, having been on the Defense Business Board for 10 years, I said, wow, this is just – this is – this is – this is the panacea. We're not short-circuiting Instruction 5000; we're augmenting it with the ability to be quick. We couldn't get a lot of people to adopt it because it was considered too risky. And this goes back to my concept about discussing risk and what the overall goal is.

We are getting there through innovation. If you look at the Navy Sustainment System, I'd love for all of you who have an intrigue here you can follow up with us what we're doing out there. But here's an example. This fellow came from Southwest, and one of the problems we have in the F-18 is a rudder actuator that has breakdownable components that can be rebuilt. And it's a – it's a critical part and it's a gating event, and it was one of the reasons that I had such horrible availability in the F-18 world. He's going through the process of how this part gets fixed and distributed to the fleet. One, there was, on both coasts, a quonset hut with all these parts kind of skewed around, with no RFI tag on them or anything. And this is no joke: there was one person in each area who knew exactly where each one was. If that person was out sick, the part didn't get retrieved. We fixed that. We turned the lights on in there and put some system in there.

But we had one stage where there's a – and I don't want to get too much in the weeds, but I want to use this as an example because this really – I've been credited with innovation, but this to me is common sense. It went to a – if it had certain deviances of standards, it went to what was called a Beyond Economic Repair Board, a part did – a board. When was the last time you saw a board being set up in the Department of Defense that was fast and agile? Seventy-nine days was the average turn time for this part to go through the – whether they decided to rebuild it or not rebuild it. We cut that down to two days – two days. That is almost 30 percent of the 40 percent increase I'm talking about, are steps like that.

Is that innovative? The Navy's saying it's wildly innovative, which is fine. I don't get hung up on syntax. But the fact of the matter is this has been going – the process has been going on outside for years.

We are – excuse me – we are – that's OK, I can keep talking, not a problem; Irish. (Laughter.)

These are the kind of things that we're doing, bringing in the outside processes, because what happened inside the building – again I'll hit this drum – is we were the pinnacle. I truly believe the Department of Defense in the '60s and '70s was the pinnacle of industrial production and industrial through-put. But we atrophied.

We are now bringing that – thank you very much. We're now accommodating and adopting some of these best practices. The innovation will come, ladies and gentlemen, when this will be the standard, not the exception. And that's when you'll see the innovation curve or new-idea curve come forward.

A plug for CSIS, because I actually underwrote one of the processes you did for the joint – the junior officer program. And this was a program that was brilliant, where you brought junior officers in to answer questions from senior flag officers; i.e., let's find out what's really going on in the deck plates – brilliant. I love that concept. And I was invited in to the first meeting, and there were – all these hard-charging captains, majors, commanders were introducing themselves.

And this one captain from the Army – I beg your pardon – a major from the Army introduces himself; said, you know, here I am. I said, why are you here? And he turned around and said, well, he goes, my – I work for a one-star, and my one-star had gotten Ash Carter's memo that we have to adopt and embrace innovation. And I was told to come up to Washington and get a slice. (Laughter.)

I said, you know, what, that frames the issue we have right now. (Laughter.) We're getting there. You'll see we're just beginning.

And one message I want to make sure everyone understands, we are just beginning. Thank God that the Congress gave us the RAA in '17. They gave us, you know – I like to remind them they gave us a full budget in '18 but only seven months to spend it, and a full budget in '19.

This is helping dramatically. But, boy, when I go up and testify, my line is all the arrows are pointed in the right direction. Please do not be disappointed with the percentage increases, because we are just starting.

MR. HAMRE: OK. You just opened up a big issue. OMB is talking about cutting 5 percent. OK, I'm – my old comptroller blood starts flowing here. You know, it's 5 percent, but we're one quarter of the way through the fiscal year. OK, so that's 7 percent. And, of course, you're not going to save any money cutting people in a fiscal year. That's going to cost you money. So you don't cut people. OK, so now it's 14 percent. And you're not going to touch contracts or multiyear contracts, so you're now up to 80. You're talking about big cuts.

What's happening right now? I know that we're in arm-wrestling time with the White House. Where are we?

SEC. SPENCER: Well, you know, I'm a tad bit limited on what I can say. It is the president's budget, and the top line hasn't been presented to us yet. I will tell you that we are working various scenarios, and two things to say there. Some of the scenarios will make your eyes water with what we might have to do if the numbers are certain numbers.

The other comment I'll make is we have such great tailwind right now, and we've laid the foundation and spent this money to get us going in the right direction. The bicycle is up. We are pedaling. Please don't knock us over. The waste would be absolutely stunning.

MR. HAMRE: I think that's a message everybody in this room has to take to their circles, OK. I mean, this isn't – this is not somebody else's responsibility to talk the truth. We have to do that. We've got to start talking about this.

Secretary, let me ask, we've – we're up against some pretty capable opponents in cyberspace. Can we operate confidently in cyberspace?

SEC. SPENCER: It's very interesting, John. In my previous job – and for those of you who don't know, as an electronic-based trading company, that we were kind of one of the first ones out of the gate, and then we brought it to scale – we would have people come in and – sell us a strong word, but go, you know, Mr. Spencer, we can do this, this, and this for you out in the cyber world. And I said, what do you mean? They said, well, you'd be buying protection, not in a hostage basis, but if someone went after you, here's how you can retaliate.

And I literally remember – and he said, we'll do – and I said, this is beyond me. I can't believe you can do this. And he says, OK, Tuesday at 12 noon, watch what happens to one exchange. And we forgot about it. And the following week we had our afternoon wrap-up, and it was Tuesday. And someone said, did you see the XYZ exchange went down for denial of service for one minute at noon? And I went, OK, I think I get this, and where am I going with this.

We've been given some new authorities, but one of the things that I learned then, and anyone who is in the cyber world knows, you have to be offensive and defensive. You simply can't be defensive because to hone the skills to be good defense, you have to be out there in the offensive theater.

We've been given some authorities to do that. We are in the right direction for addressing it. My question is where are we going to continually source the talent because the talent is changing faster than we can manage with our own folks, so this is truly going to be a public-private partnership going forward.

MR. HAMRE: I suppose – people are just also writing questions, and I'm coming toward the end of my list – hold up if you've got questions. We'll pick them up. Let's just get around and pick them up, and then bring them up to me so I can – while we're waiting to get that –

SEC. SPENCER: Wow, look at all those questions!

MR. HAMRE: Yeah, there's all kinds of stuff here.

SEC. SPENCER: Geez!

MR. HAMRE: While we're – while I'm waiting on that, Secretary, I know that – because I asked to look at it and I don't want to get in front of you, but this – you are looking at a major review of professional military education.

SEC. SPENCER: Yes.

MR. HAMRE: And I realize you haven't yet released anything – you are not yet in a position to do that. Can you tell us kind of your concerns, philosophy, sense of direction here?

SEC. SPENCER: So one of the things that I learned early on in my life is when you have a problem, don't just address the problem; see what the root cause of the problem is, and spend your resources addressing the root cause. And the problem will then go away, either over time or you can do resources or both.

When I look at some of our issues that we are addressing going forward and some of our challenges, I look at education – professional military education within the Navy first, and then I look

at it for my fellow services and all of government. We have four major institutions under the Navy-Marine Corps team umbrella. We have the Naval Academy. We have the Naval War College. We have the Naval Post-Graduate School and we have the Marine Corps University – all accredited institutions.

Are we teaching the right thing on a fundamental basis? How are we teaching the right thing? Are we resourcing these institutions correctly? Are they aligned correctly?

Here's an example. For whatever reason, I don't like to go through life as Marshall McLuhan said, you know, driving through the rear-view mirror. The fact of the matter was, in a previous iteration, someone wrapped barbed wire around the Naval Post-Graduate School because of the – an indiscretion. We've unwrapped that barbed wire, and what is the Naval Post-Graduate School going to be going forward besides one of our premier professional education institutions for our naval officers and others in the government? It's going to be a research crucible, and here is what I was getting at. When I go out to speak to some of my old venture capital friends from my previous career, they say two things. They say, one, could you please stop the venture capital tourism. Admirals and generals sitting in bean bag chairs of my portfolio companies, thinking they're innovating, does not do anything for me or for them. So please stop that.

Two, we have to figure out how we're going to have a relationship going forward. We've – DIU, we've dropped the X now, it's institutionalized. DIU is out there. In-Q-tel is out there. We have a whole bunch of examples – DARPA – but I sat back and said, OK – and this was one of those things that pops into your head while you are taking a shower – I said, wow, what better way to really start to cement relationships than to research together, and research together with the concept of having an SRI model – a Stanford Research Institute model, and this is what you – talk about putting together a whole business plan, John, we're going to have to get legislative approval for this – where you can actually benefit from the intellectual property. Those authors of it, both inside government – the private side has no problem, but inside government could actually be compensated in some form or another for the work that they do.

I ran this by seven primary technology providers on the West Coast – major technology providers. Every single one of them to a T said, we are in. In fact, Microsoft CEO turned around and sent us a message, and said, you give me three research projects right now. I will resource them with the people that I have and resources that we have. Let's get them going. This is how we're going to have a relationship with the technology world – one way – going forward, but I used that under the educational banner to tell you what we're doing.

Alignment of courses provided, alignment of instruction – again, sounds like a brilliant flash of the obvious, but how about going to the client of the schools and going, do you like the product you are getting? We are starting to do that, and we are getting some interesting answers. So, yes, education is a key pillar of how we're getting after the challenges going forward.

MR. HAMRE: That's very impressive. We look forward to seeing the report.

Interesting questions. Thank you all. This is fascinating. This is the first one I want to just ask you. Amazon's going to become your neighbor. And they're going to pay a lot of money. How are you going to hold on to your staff? And how will our industry hold on to staff?

SEC. SPENCER: (Laughs.) So that's a great question. I earlier said that my most expensive asset, because they're my most valued assets, are my people. We are going to have to compete. And it's a well-used statement by the secretary, but I think we can afford freedom. We're going to have to – but where the onus lies – falls on our shoulder are two places. One, developing the business cases – data-informed business cases to sell to our board of directors, those people up on the Hill that really have to get behind it. And two, we have to continue our reformation actions inside the building. And whether – it doesn't depend upon what topline we get, although if it's – if it's off of a number that everyone's talking about – the 733 number – it provides more of a cathartic event. We're going to have to get after reform issues that people are very uncomfortable talking about, both on the Hill and in the building. And that's another – a whole 'nother topic.

But to compete with Amazon, I don't view it's going to be a competition. We're going to have to live with them in a simpatico manner. So DOPMA has now been reformed where possibly I can bring people in from Amazon as a major for compensation levels, or whatever the case they did, like we did in World War II, and say: Here is your charge for the next two or three years. And maybe cycle people in and off. Have the ability to have on and off ramps to work with our partners and not just view them as contractors.

MR. HAMRE: That's very, very interesting. Thank you.

Again, questions. I have some questions. I'll rephrase it just slightly. China has moved into be the operator of an awful lot of sea ports, you know, in the Middle East and Mediterranean, et cetera. What does this mean for the Navy operationally and security-wise?

SEC. SPENCER: It obviously adds another layer of complexity to one of the missions, which is global peace and the – keeping our maritime lanes of communication and trade open. This is a – the one thing that studying China has done to me is realized – and this is another brilliant flash of the obvious because you've heard this over and over again. They have a much longer-term point of view than we do. I think we have to start adopting that. And when I do that, and I look at what's going on, this hasn't played out yet. This is chapter one of – originally, I think, up in the Halifax Conference I called it the weaponization of capital, where they're going in and they're not giving aid to anyone. They're going in and saying: We'll build you a harbor, but we own the assets. And when you don't pay the coupon, we now own the asset. We're taking it from security to actual ownership.

Sri Lanka. Keep an eye on Sri Lanka. That's stage two. They actually claimed it. Now you're hearing, you know, will there be nationalization. It's going to be very interesting to see how this plays out. This is not a slam dunk, done and over. But if I look at Djibouti, a tremendous concern. Djibouti is – rightly so, it's a free world – they're out there selling to the highest bidder. We are going to have to learn how to manage this and learn how to work within a confine of international order.

MR. HAMRE: OK. Secretary, can you update the progress on the FFG(X) and what's being considered to ensure interoperability with allies?

SEC. SPENCER: Yes. This actually is a fascinating project, which started, obviously, before I got there. But as most of you know in the room here, probably all of you, we're using existing platforms when we look at the future frigate. Two big drivers, from my point of view as an executive manager of assets, is the topline number of what the goal is to bring this per ship cost at, and the interoperability, not only within the Navy, within the DOD, and then within our allies networks. The biggest concern there, for the last one, is actually cost and standards. We're working on standards right

now. Cost is incremental, but it's one of the things that we have to factor in. But if we look at the progress that we have made and that we are very, very pleased in our increase of allied and friend activity in interoperability, we will make that investment.

MR. HAMRE: Last week Vice Admiral Woody Lewis, who's the new second fleet commander, spoke at a forum. And I'm told that he said that the Navy now needs to be focusing more on Russian naval activity. We made a decision, President Obama made a decision to, you know, give preferential priority to the Pacific. You know, kind of a 60/40 split. Is that in reconsideration now?

SEC. SPENCER: Admiral Lewis is one of our great warfighters, as is Admiral Davidson. If both of them get together and have Admiral Davidson said that Russia's now our number one that we should focus on, I'm all for it. I say that jokingly. But, no, I think that the takeout here is the Pacific is our weighted exposure right now and our weighted focus. But the fact of the matter is I am – the CNO and I are in lockstep on this when we stood up the second fleet. There is a definite threat in the North Atlantic. And NATO, when we – when focused on the VEO threat and prosecution, we – NATO kind of let what is now the second fleet theater become just a wing of a theater. It is a direct, focused theater. Make no mistake about it. The North Atlantic is its own theater. It is a major threat. And that's why we stood up the second fleet.

MR. HAMRE: If I could just use that as a jump off for kind of an audible, we just had one of the largest naval exercises we've had in the last 20 years. It was kind of choppy. You know, what are we learning from this?

SEC. SPENCER: It was. That was – that was one of our largest exercises. Forty-one allies. Think about that, folks. Forty-one allies and friends – I'll sweep in a lot of people in that. One can only expect that it will be choppy. In fact, I'm kind of glad it was. If it went smooth, something – we weren't pushing it hard enough. We pushed it hard. We stretched some muscles. But we learned a tremendous amount. And I think if you ask our allies, ask some of our uniformed members here in the crowd who knew about Trident Juncture, I think they will tell you that they also learned quite a bit. The bottom line is, we need to do more of them.

MR. HAMRE: This questioner asked a very focused and somewhat narrow question about the northwest passage. But let me ask broadly about Arctic. How is this opening up of the Arctic waters – how are you thinking about this in the Navy?

SEC. SPENCER: So fascinating question, because it actually is a – Senator Sullivan and I, and Murkowski, get together and have our Arctic pow-wows. And they're quite energized, to say the least. But one of the first trips I made out of the country as SecNav was up to Reykjavik for the Arctic convivium. And I was sitting across from the ambassador at large for the Arctic from Russia, Barbin – Ambassador Barbin. And he was – for me, to be very frank with you, being the accidental secretary. This was my first international state exposure. He was being Boris from Rocky and Boris. He was right out of central casting – (laughter) – denying absolutely everything, misunderstanding by the West, smearing us.

And at lunch we take a break. And the Swedish ambassador – the Swedish minister of defense comes up to me and he goes: You're thinking about leaving? I said, well, we're talking about flowers growing up there and how we're all going to work together and hold hands and sing Kumbaya. I said, this is – if the second half is like this, I'm really not that tremendously interested, unless we can do something meaningful. He goes, screw on your wig. Wait to you see how we open up the second half.

At which point, after the lunch was done, Peter opens up and says: Mr. Ambassador, you've repaved and lit up five strategic air bases in the Arctic. You have 10,000 Spetsnaz operating up there right now. And you say nothing is going on? I call you a liar. (Laughter.) And that's how the afternoon started.

It was a fascinating conversation, because you saw the alignment going up about the threat. And the threat is back on. The Arctic is an area, ladies and gentlemen, that we must focus on. And, again, you talk about – I'll go back to where I feel guilty, because it is in my wish list. We need to have a strategic Arctic port up in Alaska. We need to be doing FONOPs in the northwest – in the northern passage. We need to be monitoring it. We have cruise ships going up there. You know, the secretary was just telling me, what keeps you up at night. One of the things is, can you imagine a Carnival line cruise ship having a problem, and the Russians do the search and – do the extraction?

You know, we could be doing this. We need to focus on this. But it's resource management, and I understand that. But we need to sell the business plan to our representatives so they fund it appropriately. Everyone's up there but us. I mean, we're under the water. Don't get me wrong. We've been under the water since the '60s. But peace through presence with a submarine is a little tough.

MR. HAMRE: OK, I'm going to adapt to another one of these questions a little bit. But, you know, the Navy is a global force. Cyber is seamless, no boundaries, and yet we have chop lines and AORs. How do you integrate this?

SEC. SPENCER: (Laughs.) It was great. I – when I – when you spool up to in this case become the secretary of the Navy – I think I was delayed two and a half, three months, so they get you smart, smart, smart, smart, smart, and they go, oh, your confirmation date's been set. Now we have to get you dumb, dumb, dumb, dumb so you don't answer all the questions. (Laughter.)

But I asked – I said, why are there these fleets? And the answer was actually very interesting to me, because we had five admirals back in World War II that really couldn't get along. So they gave them all a sandbox.

We – the fleets are becoming obviously more interoperable amongst themselves. And while that might sound kind of shocking, it's the truth of the matter is the theaters were very separate and chopped. The coordination that's going on now across all fleets is shy of stunning, not that it wasn't there before. This is just the depth and volume of coordination that's going on within the theaters.

So I would say is there room to move further? Oh, yes. Are we – have we admitted it, one? Yes. And are we correcting it? We are.

MR. HAMRE: I got a nice question that was not on this little card, but it was on the National Maritime Historical Society pad. And, of course, it's about naval history. Three hundred and sixty-eight military sealift transport service vessels were used during the Korean War. Tell us about sealift support today.

SEC. SPENCER: (Laughs.) Geez, I thought I could get through the whole day without that one.

MR. HAMRE: (Laughs.)

SEC. SPENCER: Again, on the wish list. So the last major recapitalization that we did in our sealift was John Lehman's, as I call it, sweeping out of used ships that were on the global market.

Technically, we can fill the 15 million square-foot requirement for the lift – technically. How to put this? Can we do it better? Can we do it more efficiency? Do we need to recapitalize? Yes, yes, and yes. Again, it's a resource issue. I'm dealing with – when I look at our ready reserve – I can't remember the count, so I won't state it, but we have a whole slew that are steam plants. We're losing expertise in steam plants.

One of the things we're looking at is can you pull the ship up, carve a hole in the size, pull the steam plant out, and put diesel electric in? Yeah, that's one idea. But, boy, if I could go out into the used market globally and buy any ship out there, I could get much more performance.

Now, in complete honesty, Congress has given us that authority. But I have to buy X new before I can go out and buy Y old. I'd love to be able to go out and be in the commercial market right now buying used to augment our need for lift.

MR. HAMRE: OK, we've come to the end of our time when we could have the secretary with us.

I do – I did get one card that says, "Go Army, beat Navy."

SEC. SPENCER: Oh, I was going to close out with that. I was going to say –

MR. HAMRE: Whoa.

SEC. SPENCER: So my line – hang on, John – my line that I gave in the meeting with the secretary the other day is I said Iwo Jima, Okinawa, Inchon; I said battles where the Navy – the probability of the Navy winning were far, far against us, but we prevailed. And we're going to add Philadelphia to that list. (Laughter.)

MR. HAMRE: Listen, thank the secretary. This was fabulous. (Applause.)

SEC. SPENCER: Thank you. Thank you very much.

MR. HAMRE: And we're going to let the secretary get out, so please just sit where you are. He can shake a few hands on the way out.

Richard, thank you for a –

SEC. SPENCER: John, thank you very much.

MR. HAMRE: – splendid session.

SEC. SPENCER: Outstanding. Thank you.

(END)