

Secretary of the Navy Richard V. Spencer  
Discussion at the Center for a New American Security (CNAS)  
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**VICTORIA NULAND:** Good morning, everybody. Welcome to the Center for a New American Security. I am Victoria Nuland, the CEO here.

We are so honored this morning to host Secretary of the Navy Richard Spencer. He – we’re going to have an on-the-record discussion today about the Navy’s approach to this new era of strategic competition, and all the challenges that it poses for readiness and for acquisition. We are very honored to have you with us here today, Mr. Secretary. I think you all know that Secretary Spencer was sworn in as the 76th secretary of the Navy on August 3rd, 2017. He’s a graduate of Rollins College. He joined the Marine Corps thereafter and served as an H-46 pilot before decamping to Wall Street, where he had a very successful career in investment banking and strategic advice, culminating in a long period as managing director of Fall Creek Management. He’s also a great friend of CNAS and a former member of our board of advisors.

The secretary is going to give some opening remarks, and then he is going to be interrogated by our very own senior fellow in the defense program, Susanna Blume. So without further ado, Mr. Secretary, thanks for being here.

**SECRETARY RICHARD V. SPENCER:** I really appreciate that. (Off mic) – were here and came down over the hallway, it’s great to see some familiar faces. And – Michele, how are you? Good to see you. Harlan, good to see you. I’m looking out here. I must say, it’s old home weekend. Even Bridge, even though he’s grown his beard, he’s still noticeable. I can tell you that. (Laughter.)

Today Susanna asked me to come and give an overview, as you were just presented. And I really want to make it more of a conversation, because I think that’s how we probably get more information out there. But just as kind of an opener, some thoughts and observations. As we kind of look at the landscape now, whether the South China Sea to the Arctic Circle – as we say, from AI to IP, from cyberspace to outer space, all the norms that we used to enjoy as a country, as a Department of Defense, and as the Navy are now being changed, whether through inside forces or internal forces. We are changing.

We’ve been given funds, as you well know, in ’17 and ’18 which filled a readiness hole that, to be very frank with you – people ask me as secretary of the Navy what was one of the biggest surprises that you had when you took the helm? I thought I had a handle on the readiness issue. I did not. It was much deeper and wider than I’d imagined. We’re rectifying that. I think we’ve done a very good job, and we can get into this later. I know Susanna has some questions on it, but – or after that. But now that the foundation has been laid and we have our funding for ’19 and we look for ’20, we really have to get after some of these concepts that we’ll talk about during the conversation, the change concepts.

There seems to be a great constant vibration from outside the building – which is good – saying: What are you doing differently, and how are you doing it, and what can you show us? We can go into that, and I plan to go into that during our question and answer period. But the biggest thing – message we have inside the Navy is: It's no more business as usual. We cannot do this as business as usual. I think you might have heard my three priorities which are: people, capabilities and process. They found fairly generic, but when it comes to people they are our most expensive asset because they are our most valuable asset.

As you all well know, we can have all the submarines, tanks, armament in the world. But without people they really don't have the effectiveness that we need. We are changing the way we actually, quote/unquote, "look" at people. Education, you've heard of – you'll hear about our sea power for education, where we're going for that. E4S, Education for Seapower – excuse me. In every single case what we're looking at when we look at change is where can we go to a root cause change algorithm? How can we change things at the lowest level, so we can get a leverageable effect out into the fleet itself?

I'd be remiss if I didn't bring up with you all right now, when it comes to people, that we're going to be facing a – some pretty good headwinds when it comes to recruiting. We're addressing that now. As you've followed the numbers, for those of you that do, the Navy and Marine Corps have made their numbers. But our leading indicator, which is our pools, are getting smaller. We used to start the year with a year pool and advance. That's getting down to nine months. That's alarming to me. We're starting to work on that now. But all services are fishing out of the same pool.

And you've heard some of the numbers, that 30 percent of the applicants – 30 percent of the pool is qualified. So we've already narrowed down the numbers that we're all fishing from. We all have to have a story. We all have to have a shtick. And let's remember, this is not a volunteer service, ladies and gentlemen. This is a 100 percent recruited service. We are out there, just as high school coaches, college coaches, NFL, whatever analogy you might want to use – we are out there recruiting specific people for the jobs that we need. And that's one of the topics that we really want to make sure everyone understands.

If you look at the lines of effort that both Secretary Mattis and now Secretary Shanahan are working under, our line of effort number one, you know, build a more lethal force. What I'd like to address today – and I think we will in some of the questions, and if we don't please feel free to ask later on – is what does that mean, as we get after lethality and readiness? One of the things that I want to make sure everyone understands is that we're doing this in a holistic manner.

Readiness doesn't mean 355 ships. Readiness doesn't mean the chicklet board being all green for a deployment. Readiness doesn't mean the interservice exercises that we've done. It means all of it. It's everything. That's what we mean by getting after our lethality and readiness. We have to take this in a holistic manner – in true, what I call, portfolio management. Because we have risk to analyze and to manage, and we have resources to apply to those risk across a whole portfolio.

Line of effort number two: relationships. As the – as Secretary Mattis used to say, a robust constellation of friends and allies around the world. A very interesting time, ladies and gentlemen. One of the things that we operate under the three service secretaries that – as we get together every two weeks and compare notes at breakfast that we don't allow staff to come to – which scares the building tremendously – we talk about reverberating some of the comments of Secretary Mattis and now Secretary Shanahan, which is eyes in the boat. We have to do the job that we are assigned to do. And one of the jobs is our relationships with our allies and partners.

I just came off a pre-Christmas trip with both the troops and getting out and seeing, on this tour, Spain, Bahrain, Egypt, and India. And in all cases, every single case, we were welcomed as the Navy at the highest levels imaginable. I mean, ministers of defense in India. We actually had a good 45-minute meeting with the national security advisor. The relationships amongst the services with our allies and friends are critical, because they are the bedrock of the relationship and the consistency of the relationship.

Capabilities. We can talk about the Navy, which I'm not going to say we're different. We just have different weightings than the other services. When you look at our capabilities and you look at how we look at the portfolio we have – and I'm going to use my corporate overview – we have our installed base, we have our modernization programs, and we have what I call, and we've all called, force 2.0, which are those technologies and those efforts that are on development, either coming in the intermediate or the far-intermediate term.

The stress here that I'd like to make, the underscore that I'd like to make, is when it comes to capabilities and it comes to the installed base and the modernization issues, I just had a briefing, a year-end review. One of the comments that I make when it comes to people is that we have the smartest and the brightest out there from deck plate on up, fighting our behalf. But they're using systems that are intimate with. And what better problem-solvers than those facing the problems themselves. It's taken a frustrating amount of time, to be very frank with you, to get this message out there. But we're now seeing some fascinating things coming back.

The P-8 community developing their own software which is iterateable every two weeks, which is enhancing their abilities, at the squadron level now germinating out to the whole wing level. We have additive manufacturing efforts in the Marine Corps that are now actually impacting the fleet in a positive manner due to the – obviously the deployed nature of the Marine Corps and the dollar-out asset allocation basis of the Marine Corps. They are making the dollar stretch. They're making their own parts. Time and resources. It's across the board. We're starting to see our sailors and Marines innovating amongst themselves with the problems that they see. That is increasing capability right there.

That we have to make sure is a message spread throughout the whole enterprise, under the banner of urgency. If I had one other frustration, internal, in the Pentagon, in the Navy, it's – I got to make sure that the whole system understands urgency. We have the dollars we finally need. We have the resources. Time is something that we can't buy. And we have to have everyone focus on that.

I'll close out by saying obviously in my mind, coming over from a corporate point of view, my board of directors is, in fact, my overseers. And I'm attentive to their needs, their inputs. I think right now we are at a high-water mark in speaking to our overseers as far as – I'd say, in the last 10 to 15 years, as far as transparency and trust. I think we've done a pretty job of being very open with them. They have done an absolutely fantastic job. We are funded right now. We're not closed, which is a pretty amazing thing in today's world. But my ultimate shareholder is the ultimate person that I have a bond with that I cannot afford to corrupt in any way, and that is the American taxpayer, who gives their treasure in order to expect, as they should, security. And we will work to make sure that is done. And that is the Title 10 hat that I wear.

And with that, Susanna, let's get down to some questions. (Applause.)

**SUSANNA V. BLUME:** Well, thank you very much for those opening remarks. We all really appreciate it. I'm going to pick up, actually, right where you left off, talking a little bit about Congress. And it was, shall we say, an unusually eventful holiday season – (laughter) – here in Washington. Both with the departure of Secretary Mattis as well as, you know, a brand-new Congress sworn in just last week, and a new Democratic House. And I wonder how the divided Congress is going to impact the Navy, how you're kind of thinking about continuing that track record of a very strong relationship with your congressional overseers, and what that looks like in this new environment.

**SEC. SPENCER:** It is a new environment. It's fascinating. I've called on some people in this room to give me some of their points of view as to what they witnessed when the House split, what to expect. We have also – myself and Mark Esper and Heather Wilson – have been communicating with some of our new folks, and with some of our folks that we're going to come back and work with, as to expectation levels. The nice thing that I see, Susanna, is – and, again, I'm a fairly new person at this, only around the hoop for 10 years on the periphery – is that when it comes to the House Armed Services Committee, the Senate Armed Services Committee, the Appropriations Committees, there has been, to date, the rule that seems to be check your politics at the door and let's see what we can do about national security.

That will change in the House, but I have to admit I had a long conversation with Congressman Adam Smith. And it's a working relationship. In some ways I applaud now – just we haven't begun yet – the standards that he wants to hold us to, because I don't think they're unreasonable in many ways. There are some topics that we disagree on, but fundamentally the ground rules are pretty fair. We need to get after reform, which obviously is one of his issues. No one in the building will disagree with you. It's the speed at which we do it and the depth at which we do it. In light of what we've heard at the end of the year, and after having worked with Secretary Shanahan as deputy, I can tell you that I believe that reform issues are going to put out front as we go forward.

**MS. BLUME:** So, sticking with the Congress for another question here, it may be premature to start talking about the 2020 budget when a good chunk of the government is not yet funded for 2019, but we'll go for it. You know, what's your expectation of how those negotiations are going to shake out, you know, particularly because while the defense committee is certainly very important voices in those conversations, it's really the leadership that makes the deal in the end?

**SEC. SPENCER:** I'd be naïve if I was going to say it's going to be a walk in the park, put it that way. It's going to be challenging. I think we are going to have to bring everything down to a business case. And that business case is going to have to be scrubbed with a Jesuit-level of analysis. We owe it to our overseers. They're going to demand it. That's the way that we're approaching it in Navy, that everyone should have their business cases buttoned up tight.

**MS. BLUME:** OK. And is that going to be enough, do you think, to get the resources that the Navy needs?

**SEC. SPENCER:** Well, then you add in politics and it becomes a whole different game. But we have to manage the hands that we're dealt.

**MS. BLUME:** Yeah. So the other big news over the holiday, Secretary Mattis' departure. You mentioned in your opening remarks, you know, the importance of alliances and partnerships. And I think it's not totally unfair to say that the administration is stressing some of those alliances in ways that we haven't seen in recent years. And I kind of wonder what you think about managing those critical defense relationships following the secretary's –

**SEC. SPENCER:** That's a great question. And it's something I do want to underscore, because having been at it only for, what, 18 months now, I look at the mil-to-mil relationships with our allies and friends. And that really is, I believe, one of the enduring foundations of the relationship. There will be political intonations that will be going at 30,000 feet, which might stress things. And I think the consistency of mil-to-mil, delivering the ability to do human assistance disaster relief exercises. I mean, just at the end of the year, for those of you who might not have been paying attention, we had an Indian helicopter land on a U.S. Navy ship.

I bought two companies in India in the early 2000s. And it took me roughly 19 months to buy the first one and 22 months to buy the second one. I thought I was fairly understanding of the British bureaucracy, which is a system. It is a culture. When I sat in Admiral Lanba's meeting for the first time, and he was addressing COMCASA in October of last year, I wrote back in my report saying: In two years we should have COMCASA signed. And if we get it signed in two years, we ought to be really proud. We had it signed in April. The landscape is changing dramatically. The message that's out there is changing dramatically.

We had the – I had the Vietnamese defense ministerial team onboard Navy last October. And again, this is when we were really starting to stress the message of a robust constellation of friends and allies. And we just transferred to them the Morgenthau, a used Coast Guard cutter. And we had the MOD. We had the CHOD, we had Navy and Air Force. And I started giving my preamble about the robust constellations of friends and allies, and the fact that the U.S. wants to be right alongside you. We are not going to land with two big boots in your backyard and say: Follow me. We're going to look to you and go: You're the expert in the region. What is the best way we can do this together?

And all of a sudden the translator turned to the MOD and they went on about a one-minute conversation. And I was kind of going: I'm here. (Laughter.) And finally the translator came back and said: I'm terribly sorry, Mr. Secretary.

The minister doesn't understand that you are actually putting that position forward for the U.S. Is that a fact? And I said, that is a fact. The conversation and the mood changed dramatically after that point.

I bring these examples up – Egypt. We are in Egypt. Their chief of naval operations is a forward-thinking, forward-leaning admiral who he will see us doing more with Egypt on many ways. Education all the way through operations. They're out there, in many cases, hungry for a message, but hungry for stability. And the mil-to-mil is your stability platform for that.

**MS. BLUME:** Thank you, sincerely. I think we're all relieved to hear that there is a great stabilizing force kind of underwriting some of those critical alliances and partnerships. So sticking with the strategy for a moment, you know, alliance is a core piece of that document. But the big news in the strategy, of course, was the, you know, increased emphasis or prime – you know, prioritization of strategic competition with China and Russia. And I was wondering if we could dig a little deeper for a moment into what does that mean for the Navy? What does that mean in implementation and in practice?

**SEC. SPENCER:** So if you look back to the last past 16 years or so, with the VEO battles, et cetera – and I don't want to make it trivial at all – but the example being, you know, shooting someone on a bicycle, you know, with a \$110,000 weapon. It was a bit of a different scenario. We're now in a great power competition. And I push back on people who say this – we're going back to Cold War two. No, it's not like that at all, in many cases. It is – it is a true power competition where China is our primary competitor in this regard. It was very interesting sitting with Henry Kissinger and at dinner. This was probably last October. And we were talking back and forth. And he goes – and he goes: Richard – he goes, you're very lucky, he said. We didn't trade with Russia. (Laughter.) And I went, yeah, that does kind of put a different spin on it. And one of our biggest competitors is our biggest trade partners.

What does it mean for the Navy? We have to start flexing muscles that were atrophied because of the different fight scenarios that we were in. We are going back to a power competition. Our knowledge is a Cold War scenario, but I think it's much different than that in many ways. And what I mean by that is that there is a deterrence – peace through deterrence aspect to this, but the battlefield has changed so dramatically with technology that the muscles that we need to build up through sets and reps – if I carry the analogy – are hung on the same body, but they're different muscles. And we really need to get after them, like we're doing now, whether it's war gaming, whether it's the application of these technologies, adoption of OpsDev and things like that, which we are well underway.

And opening up the aperture. One of the things that – those of you who have heard me speak when I first landed in the job – we had some competition going on with our primes on various different platforms where literally the negotiations had become fairly acerbic between both parties. And everyone was doing the job they had to do. The prime was doing the best for their shareholder and our folks were doing the best for the taxpayer and for requirements. And when I said: stop. Everybody go to corners. And we had a little convivium with all the CEOs and said: Look, we have a whole new threat vector here – vectors. I need you all as partners. I don't have all the solutions.

And if I could do one thing right now – this was back in October – I would kill the term requirements and make it guidelines because in some ways we're our own worst enemy with requirements that are so rigid and brittle when you have technologies that change that quickly. I need to sit down and spitball with my people who are providing me solutions, because they have to have the flexibility to evolve also in their solutions. It's a – I won't say it's a new world, but I think if you ask industry we really are trying to open up the aperture to say: You are our partner. You do have to help us. This is a whole new horizon that we're looking at for the Navy. I could go on and on, Susanna. I mean, war gaming. We've done it for years. We have some experts in it. Many of you know that in many of the war games, the outcome has not been, shall we say, satisfactory. And we have to start looking at all avenues, all aspects of how we're going to adopt, adapt, and change with urgency.

**MS. BLUME:** Yeah. It's interesting that you mentioned war gaming because we here at CNAS have also identified that as a critical means to figure out –

**SEC. SPENCER:** It's a softball answer.

**MS. BLUME:** (Laughs.) To figure out, you know, what this new generation, this new era of warfare is going to look like. We're launching a new program along those lines. Just had to get that plug in there.

But to stick with this question and talk about – you know, we talked about acquisition, we talked about war gaming, but there are a couple other aspects to this question. And one of them is training. So, for example, you know, the Army has undergone a major shift over the past few years in terms of training very specifically to send, you know, BCTs into the Middle East to fight those kind of counterterrorism/counterinsurgency campaigns. And they've undergone this shift where they're now sending units at volume back through the National Training Center to do high-end training. And I wonder if there's an analogy in the Navy, if you've also, you know, changed the way or the types of training that the Navy is going through in response to this change in prioritization.

**SEC. SPENCER:** We have. And it's – I don't want to use the word wholesale across the board, but it's fairly in-depth, emanating mainly from our weapons tactics institutes on how we're going about – would adapt and take on a challenge. If I was to be more granular, it goes across the board from the Marine Corps – which if you look at the Pacific threat, they would be charged with sea lane control from land. Playing into their sweet spot, which is amphibious emplacement on the first island chain to support free – you know, from land – transport channel flow.

They're also now training up in Norway – cold-weather training. Marine Corps has done it sporadically. But now there's a commitment that we have that exposure up in that flank. And we're up there in Norway, as you know, with 600 Marines cold-weather training. The commandant and I have focused on that. You look at – you look at the Navy, what they're going to do – where is Ben? What they're going to do in the Arctic. And we can talk about that in just a second. But we're going to start flexing in different areas that we haven't operated in, because we need to have the ability to understand – do an exercise, and understand, and learn.

**MS. BLUME:** Mmm hmm. Yeah. The other – another component that the Army’s been looking at, which is pretty interesting, is also redesigning some of their big bilateral, multilateral exercises as well, to kind of move them out of the counterinsurgency or humanitarian assistance realm and, again, into that higher-end realm. I wonder, you know, should we expect to see some of the big naval exercises change along those lines? Are you thinking about that?

**SEC. SPENCER:** Yeah. I mean, I don’t know about change, because we’ve always had them out there. I mean, Trident Juncture this year, our largest by far. And I will say that it was very successful in the learning curve. It was the first time in a long time the Navy has gone north of the Arctic Circle. You read about some of the things that happened. Rough seas, ice. Wow, we had to put the learning cap on to do the iterations. But the size of that Trident Juncture and who it involved across the board really speaks to how we’re thinking about that in the North Atlantic. The same goes in the Pacific. RIMPAC this year was the largest, if I’m not mistaken. But more importantly, it was the depth and the complexity of the exercises. This isn’t just ships from other countries following trail and saying, yep, we cruised together. This is cross-decking. This is communications. This is leading a sub-strike. This is our allies and friends meaningfully participating in these exercises.

**MS. BLUME:** So the final aspect of this question about strategic competition that I want to hit on is what does it mean in terms of what you’re buying, and in terms of the programming meaning the, you know, future years defense program.

**SEC. SPENCER:** It’s a – it’s a great question because while I have 500-plus on the Hill who, are my overseers and I have a couple of million taxpayers who are my shareholders, I have a plethora of people who tell me what I should be doing when it comes to buying things. And they’re not shy about it, which I do – I appreciate it. Don’t get me wrong at all. One of the things that’s interesting about the Navy is the size of the capital assets. They’re not insignificant. And the way that I view it – and we can get into the carrier, we can get into the DDG – is we do have an installed base. And that’s one subset of what we have. So that’s the hand you’re dealt. And that deals into modernization. So you have the platforms you have and the ability to modernize them to adapt to the great power competition. And we can sub-define that in many ways.

Then we have what I call the second drawer, which is what are we moving to? How are we going to apply AI? And I love to tell the story that over at a competitive house I had funded – co-funded a program called the junior officers – JSID – junior officer – well, it was a program where four-stars could ask junior officers questions and they would respond. And the first question was from then-Chairman Dempsey who said: How are you contributing to – what is your overview of innovation and how are you contributing? And it was 30 young officers from O3s to O4s, I think. That was the band. And I went around the room just saying, well, where are you, who are you from, why are you here?

And we came to a great Army major who gave his bona fides and very intelligent person. Was sent there by his one-star commander. And he said: we read Secretary Carter’s piece on innovation. And my CO told me to go up to Washington and get me a slice. (Laughter.) And I laughed, but then I went, wow. There is some truth to that.

And as we look at AI, this is a feathering question into AI. And I want to use it so you understand how we're looking at all these technologies. They are not block technologies. AI is much like nuclear power. Rickover was not the father of nuclear power. He was the father of nuclear propulsion, harnessing nuclear power. So when we look at AI, the Navy's not into AI. The Navy's into: Where can we apply AI? This might sound like an obvious statement, but it really is the grounds for how we understand it. And I wanted to share that with you.

**MS. BLUME:** Yeah. Let's stick with AI for a minute, because I did have a couple questions for you about that. Can you elaborate a little bit on what it means for the Navy to harness AI?

**SEC. SPENCER:** Yeah. Find, fix, and finish. So a natural application for artificial intelligence with additive machine learning would be targeting solutions. That is one of the largest time consumers in the – in the kill chain. There is a natural application for data analysis inbound at all times to get you a probability factor of a targeting solution very quickly. We have – we're using it right now on the decks of ships coming out of the RROC, which is the readiness overview committee that we have that was set up after last summer's events over in the Pacific, out of the Strategic Readiness Review and the Comprehensive Review.

On an active radar system on the bridge where Lieutenant Spencer can come up and actually, while live up there in a quieter setting – as you're steaming, possibly – has live targets up there, but can also overlay a training episode for you. You can either do it offline or online. And what that does – and this is not rocket science – but it finds your weakness and it tailors the following lessons to your weakness, rather than constantly going through a portfolio exercise that just spreads the butter across the bread evenly. These are applications of AI that we see going forward that's going to help us, both in training and in actual deployment.

**MS. BLUME:** Yeah. I mean, those are really exciting, you know, very practical applications of AI. I also wonder about how the changing nature of the innovation environment has impacted the Navy's ability to access those new technologies, right? So in a previous era, you know, you really have the Department of Defense at the cutting edge, leading a lot of the development in these new technologies, like GPS or even the internet. But, you know, DOD has actually not really been the frontrunner in terms of artificial intelligence. So how are you – how is the Navy tapping in and accessing those technologies that are being developed outside of the government?

**SEC. SPENCER:** Susanna, that's a great question, because one of the other – I'm going to answer it in two ways. One of the other things that I'm trying to get everyone to think about – you hear me talk about business case analysis. And what I usually say right in hip with that is risk analysis. Back in the '50s and '60s, I will say that between NASA and the Pentagon, they owned risk management in the government. Whatever happened, over time, the DOD has lost that beautiful science and art compilation called risk management. They are now into risk amelioration. And that is a cost curve that goes like this. I can get you down to 90 percent removed risk, but you can't afford it. Or, I can get you to 100 percent risk amelioration. That's don't do the mission. We have to get back to risk management. What I know, I know. And I understand the risk. I know the risk, and I can work with that risk as a continual learning organization.

I kind of fold that into what you just said about a previous statement, in that when it comes to innovation – and, by the way, the Pentagon used to be one of the best innovators – DARPA, et cetera. Can we get back there? Yes, we have to instill the ability to get back. There's a gap right now. So I'm almost – one of my lines in the Navy is: Don't bang your head against the wall trying to innovate. Look outside your cubical. Find a best practice or an innovation outside the building. It's what we call R&D – Pat and I jokingly call R&D – rip off and deploy it. (Laughter.) Steal it. You know, I say that legally. To break – you know, break glass not rules or laws. But that's what we have to do in the immediate term. We can't be innovators overnight. But you know what we do know? We know our problem set.

And I will tell you that almost 90 percent of the problems – 95 percent of the problems, someone outside the building has either solved that problem or has an algorithm to solve the problem that you could apply to yourself. We have to start looking outside the building. I give an example of – and I'll try to keep it as amorphous as possible. We are buying – we are charged to buy two assets. And these assets have a comparable commercial product. And the bid-ask spread was seller 81 million, U.S. Navy buyer 76 million. Went in and said, wow, I don't know anything about the asset class, but have we gone out – has anyone gotten on the internet and even pulsed what the market is for this asset? Can't do that, sir. Illegal. Really? OK, well, let me break the law then. (Laughter.) And we got out there. And we found out that market was somewhere around \$47 million. Said, OK, can we rethink this? Yep.

This is an example of just what I call common sense, just find the market. We have to exercise that muscle again. We were innovative. Let's get innovative, even if innovative is finding out what's out there on the commercial side. To answer your question directly, Susanna, no. Right now we have to completely interface with my partners in the private sector. And that's why I truly call them partners. Is it a rocky road? You all know the history. Some want to cooperate; some don't. We've kind of reinvigorated – not kind of – we have reinvigorated the Naval Postgraduate School. And one of – the vision that I have for the Naval Postgraduate School, after speaking to people on both the Defense Innovation Board and out in whether Silicon Valley, the Gulch, Boston, Austin – whatever you want to call the centers.

The answers have come up the same from the CEOs of the company when I said: You know, we try to buy from you. We have a spotty record from that. We try to innovate – take your innovation. We're getting better at that – when I say take, buy it. Incorporate it. Inculcate it. I said, how about if we research together? I would think that would be the best foundation for us to grow together. And they all said, yep. And I said, well, how about if we do it down at the Naval Postgraduate School. The concept: Come down and build and break stuff with us. We've had two corporations that have already said: Game on. Let's go down and do it. We want to spread that whole theme.

I would love to set up – one of the things I'd like to push is have an environment down at the Naval Postgraduate School on the structure of SRI – Stanford Research Institute – where, in fact, the teams that are building things, if there's a commercial value, you can share in that value. Give them the incentive. I mean, I tell you what, we have the smartest people in the world. We don't have the exact incentive structure that the private sector does, for various reasons. But we can nibble around the edge and incent some people who are really benefitting us.

**MS. BLUME:** Yeah. So do you have the authorities that you need – the legal authorities that you need to implement some of these changes that you just kind of walked us through? Are there –

**SEC. SPENCER:** Eighty percent.

**MS. BLUME:** Is there another round of acquisition reform that's required to get there?

**SEC. SPENCER:** They have – the Congress has given us an amazing latitude. We are 804s. I mean, I have no complaints with what Congress has given us. In fact, what I'd like to say right now is halt for a second, let us digest what you've given us, because we really are exploring OTAs, 804s. We are working at it. Can we work at it faster? Yes, we can. Urgency, again. I can't thump that enough. We have some – probably some tweaking to do. I mean, what I've – as I said, would I love to get an SRI model at Naval Postgraduate School? Yes. But that's going to take a ledge prop. And that's going to take a business case. But I actually look forward to going up to the SASC and the HASC and the Appropriations and go: Here is the business case that we can give you to say why this should work.

**MS. BLUME:** Yeah. In your opening remarks you referenced a couple of really great examples of innovation occurring at, like, the squadron level – very low levels. And between that and some of these developmental or experimental programs that are ongoing, I wonder if you have thought at all about how you're going to scale those efforts, right? How to get through the infamous, you know, acquisition valley of death, from good idea developmental program to into something that is in full-rate production?

**SEC. SPENCER:** That is a great question, because one of the things I want to stress, when it comes to the examples that I gave you there with additive manufacturing, with DevOps at the P-8 level that does not need the acquisition structure behind it. That is developmental within the assets we have already given them. And that's the beauty. That's the beauty of speed, to get the asset out into the fleet, and say: Here's your lump of clay, or here's your hammer, or however you want to use the analogy. Start building with it. Start moving it around. And get away from the concept – and the best one I hear is, you know, here is your NATOPS manual. It has to be flown exactly like this. Well, the whole reason we started WTIs, weapons training squadrons, was to say: OK, how do we really press the edges of this? And all of a sudden they started pressing the edges and they said: You know what? We can move the edges of this, because we found safe or risk-manageable ways to increase the capability of this platform. That's the stress right there that I want to underscore.

**MS. BLUME:** So but presumably if one of those P-8 squadrons comes up with a really clever bit of software, you want all of the P-8 squadrons in the Navy to have that. How do you do that?

**SEC. SPENCER:** So in Naval Institute, I believe, there's an article called – and it's a Navy Kessel Run. It's a whole story that came out four days ago about software that was developed at the P-8 squadron level by junior officers. And it's migrated from an Excel spreadsheet into Java. It is now being disseminated throughout the whole squadron, through the wings. And there's no acquisition involved, per se.

This is developmental operations on just a \$60,000, 12,000-line-to-date development. Now, that is out on the curve here, but it's an example of the mindset that we're trying to instill in people with the various platforms.

To answer your question, when it does actually come from let's go do some ready, relevant research – let's say, at the Naval Postgrad School – on unmanned aerial platforms – light unmanned aerial platforms. And it does take the acquisition system to do it. I mean, OTAs. We have the tools that we need. We really do have the flexibility. That's why I'm saying: It's time for us to really go out and now practice with what we have and exercise what we have in the ability for quick an agile acquisition.

**MS. BLUME:** On this same topic, there's a cautionary tale that Paul Scharre, who runs our technology and national security program here uses. And I mention it to you, because it's actually from the finance world. A company called Knight Capital ran a routine update – you know what I'm talking about – ran a routine update to their trading algorithms, which basically went into a loop of buying high and selling low, ultimately bankrupting the company over the matter of a day, two days. And I wonder if you kind of think about those scenarios and, you know, applied to a military context, a Navy context, you know, how do you – how do you present that kind of thing from happening? How do you think about kind of testing things in advance? I mean, there's a real balance between wanting to be agile and fast and failing quickly in development, and the really grave consequences that can happen in a military context when some of those things don't work out.

**SEC. SPENCER:** So it's another – that's a great question, because if you look at intercontinental exchange, which the last company I came from, when we started and had nothing basically. For those of you who don't know, it was an electronic commodities trading platform where prior to that men and women – primarily men because it was due to bulk size and strength – would go out onto a floor and scream and yell. Think “Trading Places.” That hadn't changed since the Romans' era of trading grain. So we said, you know, why not throw this up on a website? Well, we got some pretty good backers that said that they'd put volume up – the likes of Goldman Sachs, Morgan Stanley, Shell, BP, those types.

We were deathly afraid of anything going wrong. And as I look back on how we did it, we'd bring in 42 people over a weekend with a new change and they'd all trade and try to overload the actual addendum that we were putting out there, try to break it. I bring it up in that, yeah, we have to do our testing. And we have to do our ability to roll out things in a safe, secure manner. But we have to understand the risk. So you crawl-walk-run. You don't crawl, walk, run. You crawl-walk-run. You really have to do it with control, but with speed.

**MS. BLUME:** That's the trick.

**SEC. SPENCER:** That's the trick. And we try to avoid the Knight analogy.

**MS. BLUME:** (Laughs.) We have, I think about five minutes left for you and I to chat, and then we'll throw it open to the audience for their questions. But I do want to talk a little bit about – a little more about the budget, because it's my favorite thing. (Laughs.)

You know, you mentioned in your opening remarks you have now three years of consistent growth in the Defense budget. And I wonder if you could talk a little more about the impact and kind of what that's meant and what path the Navy is on now in light of those additional resources.

**SEC. SPENCER:** So it's interesting. I can give you – I'll give you one of the more fascinating examples of what we've done, because this kind of speaks to a program that we've launched that we call the Navy Sustainment System. And it happens to address the F-18. But it is truly the Navy Sustainment System, because it has applications across of all of our platforms. When I arrived as secretary of the Navy, if I was the CEO of an airline I'd probably been fired and sued for malfeasance, having a readiness of 49 percent with my tactical aircraft in the Navy and Marine Corps. Pretty stunning. And we tried to get – we got after it. If you remember, we had the '17 RAA.

**MS. BLUME:** Yeah, I was still there for that one. (Laughs.)

**SEC. SPENCER:** There you go. Exactly. And that was – that was manna from heaven. I mean, that was the lubricant we needed. And the reason I use the word “lubricant,” is that we tried to – I love the term that I've heard – mandrolic it. We just tried to push everything through the system. Well, the system didn't have the pipes to take the pressure – or whatever you want to carry the analogy on. So we stepped back. With the help of a fellow that ran Southwest Airline's maintenance program, he came in and he's a consultant, but he's also – he's a floor-walking mechanic. And he said: OK, you've got to give me free rein here to really tell you how flow control goes with parts and with manufacturing.

And we started in Lemoore. And he started with the hydraulic shop. There was one part that was a 90-day turn part that was keeping the majority of F-18s down. In a matter of a week and a half, he took 55 days off that part. And I can go into granular detail, but that's not the point. He did – it was just fascinating. It was so commonsensical. Ripped apart the building that the hydraulic area was basically in, where parts were stuck in bags in shelves. Brought in new lighting. Painted a while floor. Put the boards up with your maintenance charge expectations, flow charts, et cetera, like that. The next weekend – or, the two weekends after, he went to another part. The depot civilian folks came in on the weekend on their own accord to help him assemble that layer of the shop. That has simply – that has subsequently transpired and moved down the line. Our throughput on F-18s has increased 35 percent.

**MS. BLUME:** Wow.

**SEC. SPENCER:** This is the kind of – I mean, it's going back to industrial process. I'm addressing maintenance right now, but it's just a different way of thinking. So when we started that, he came back with one – he came back with a great explanation. He said: Is this really the org chart for nav air? And I looked at it and I went, it says so down at the bottom. (Laughter.) So I guess it is. He goes, this confirms to me – he never wore a uniform – he goes: This confirms to me the Navy is one of the most intelligent organizations in the world. This is an absolutely elegant obfuscation of accountability and responsibility. (Laughter.) And he meant it more as: This is what we have to change.

And what the issue was – and we had gone out to Delta and spent two days with Delta. We had gone out to companies that have gone through maintenance transitions. And one of the big themes was: You have to own the issue. We got one belly button – the air boss is now responsible for readiness. So all of a sudden we had to redo all the C2. And not to be taken lightly in the Navy, when you start moving cheese around and lines around. You know, antenna go up and antibodies come out. But we all had everyone focused on the mission. So we got the C2 in order. And then they go, wait a minute, Secretary, to get the parts here the funding doesn't work. Well, we've redone the way we fund the allocation for acquiring parts.

And they go, OK, wait a minute, the parts aren't coming in. Every single iteration step we'd make, there'd be a new problem. It was like peeling back an onion, but you just keep peeling it back, peeling it back. And you're going to – you're going to move some cheese, you're going to change some things. We're going to have to go to – we're going to have to do some ledge props, we're getting to that point now, to really get the system to work. But this is exactly what we're after, because we're not going to have more money. We got to be smarter with what we have. I mean, I hope we do, don't get me wrong. But the attitude I want to place with the United States Navy and Marine Corps team is: You got to use every single dollar to the – to its best advantage.

Everyone's been saying that for years. But now you say: Here's how we're going to do it. Here's an example of how we're going to do it. Read about it. Watch it. Apply it to your area. We have to – we have to really inoculate the energy to do it. And it's not just by beating people over the head saying: Save money. Be safe. Be efficient. It's by giving business cases and example of what they can do and giving them the latitude they can do. In surface ship repairs, and some of this is low-hanging fruit I get really excited about because I'm an industrial geek but bear with me.

We found – we're going through just why is it taking so long to get a ship through availabilities? And there's a multitude of reasons. But one of the things we saw was your basic nav sea person who had the authority to allocate dollars to a problem had been limited to \$5,000. There he is looking at the issue, and he has to go up doop, doop, doop, paperwork, and his limit's \$5,000. We increased his limit to \$25,000. And that increased his area throughput by about 25 percent. So I said, OK. So let's increase it to \$100,000. Yes, someone's going to fall off the bike.

Someone is going to go out and buy four cases of beer and pizza with all the best intention in the world and violate a law. I understand that. But you know what? We've had a conversation with our overseers going: If you want me to peddle fast, I'm going to come in front of you with some skinned knees. And you want me to that, because if I'm not, I'm not peddling fast enough.

**MS. BLUME:** So fantastic examples of the progress you've been able to make with the additional resources that are coming over the last three years. This is my last question. What happens if the, you know, negotiations between the divided Congress and the White House come in for 2020 at some substantially lower resource level? What's on the chopping block?

**SEC. SPENCER:** Yeah. It's – I'm just thinking of how to posit the answer. There is reform that we can do. Everyone knows that. And we're going to – we're going to – we're going to get – we are going to get after that, because that's our extra dollars.

If in fact the number comes in lower, or God forbid we hit sequestration numbers – \$26 billion to us – we’re going to – again, you’re dealt the hand you’re dealt. You got to deal with it. It’s going to be – it’s going to knock us off the bike, and we’re going to have to get back on again. And that’s some – sequestration is a huge cut.

You know, down 10 percent, we can deal with that. I mean, it’s – you know, we have some great things going. We can keep a lot of it going. You’re going to have to do portfolio management. I mean, everyone says, you know, where’s your 300 – what’s it going to do to your 355 ships? And my first answer is: 355 ships is law. I totally get it. Right now 2035 is when we’re going to get there. But that’s one of the portfolios that I oversee. And, oh, by the way, I really don’t want to give you 29-30 new ships in one year, because in 25 years you’re going to have to service them, and then 50 years they’re all going to fall off the cliff together. How about we do this in a balanced approach?

But a cut’s going to hurt. But if we instill – and which I think we’re starting to do – this concept of let’s increase capacity and – increase capability of what we have, that’s going to be a buffer for that.

**MS. BLUME:** And it’s great to hear you talking about – thinking about it in terms of balance, which is something that –

**SEC. SPENCER:** Read your hard number article. Exactly.

**MS. BLUME:** Thank you.

**SEC. SPENCER:** That’s so true. I mean, it’s not simple numbers. It is true portfolio.

**MS. BLUME:** Thanks for the plug.

**SEC. SPENCER:** Yeah.

**MS. BLUME:** On that note, I’ll open it up to the audience. We do – Max, the tall gentleman in the back with the microphone, please wait for him. Right here on the aisle in the orange-y coat.

**Q:** Thank you. Thank you, Patrick Tucker from Defense One. Thank you for doing this, Mr. Secretary.

Just before – I guess, actually, just after Thanksgiving The Wall Street Journal published a big story on Navy contractors that have been compromised by Chinese actors. It was a big sort of splashy story. Just before Christmas, there was also a Department of Justice indictment looking at two Chinese hackers that were affiliated with the Ministry of State Security Services. And one of the things that those Chinese hackers had compromised, according to the indictment, they had possibly exposed – and it’s hard to say when it happened because the indictment goes back to their activities since 2014 – but they had possibly exposed personal information on U.S. military personnel, and particularly U.S. Navy personnel, in the 100,000 or so personnel that maybe had Social Security numbers and personal information exposed.

So I know that the Navy's been embarked on an education for cyber hygiene for servicemembers going back years. This problem clearly is beyond that. This is clearly a much bigger problem. Is this a systemic problem? Does this get worse before it gets better? And what are you doing about it? Thanks.

**SEC. SPENCER:** Wow. Softball question.

So, first of all, is this systemic? Yes, it is. Anyone who doesn't say it is, is fooling themselves. I want to make one statement, though, to frame this answer, which is at 30,000 feet. We talk about our cyber defenses, and our ability to protect, and our capability to protect. One of the – one of the things that I learned early on, again, back at ICE when we were developing our platform, is you can't be on one side in that equation. You have to be offensive to be defensive. And you have to be defensive to be offensive. You have to live in both environments, if not equally, to hone your skills. So when we talk about the fact that we need to increase our cyber defenses, we need – we've had some new authorities. But we need to get authorities to be offensive. I'm not going to postulate on how that rolls out politically, but that's – I truly believe that is a fact of life when it comes to balancing offensive and defensive cyber capabilities.

When it comes to the Navy and our contractors, one of the first things I did – and I almost – this sounds trite. Of course, I'd set up a blue-ribbon committee. That's what everyone does. But this really was a neat committee of folks that we put together. Some brilliant people both on the corporate side, from government. To help us truly understand the gravity and the systemic nature of the problem. And they are working at the 30,000-foot level from governance on down to hygiene. And what I mean by hygiene – and this is fascinating – and those of you who live in the corporate world might know this. It came as a kind of a big shock to the building. But corporate hygiene.

So you're surfing on your website. And up comes the little sign: This is an unprotected website do you want to proceed? We're going to launch that in the Navy. We're going to phish on our own people. We're going to give them training. We're going to tell them what they can and can't do. And then you test them. And, OK, you hit that one time, you're in for remedial training. You hit that twice, you might be out the door. That's the way JPMorgan does it. And up and down the ladder, by the way, all the way to the C-suites. And this is – this is the stern nature we have to have for the hygiene. There is no gray area. You're either hygienic or you're not. And you have to have a standard that you have to hold yourselves to.

When it comes to the contracting side, this is where we have to have partners. And we scale the whole branch. We have people who go: I can't afford when Uncle Sam comes in with his two big boots to go to that standard. We're going to work with the smaller industries to see what we can do to put a prophylactic solution in there for them. And then we have other companies that come, sure, we can come down to your standards. No problem at all. (Laughs.) well, maybe that's a best practice we should be following.

I could – I could go on. I mean, when it came to the fall breach, it was fascinating. There were pockets of information that were not classified, but when you add them all together it became classified. That was all of a sudden, OK, wow, got to rethink that algorithm.

And for those of us that don't think that China and some of our other adversaries are in our systems – I know everyone in the room understands it, but we've got to get that message out. There is an organization inside DOD that the Air Force and Navy has been funding called OCEA, the Office of Commercial and Economic Activity, and they have – they have been beating the drum for quite some time telling us to pay attention.

We have a tendency when we do contracting to go, OK, we're buying Part A from Company B, let's look at its ownership. And we drill down one layer and ownership is, you know, Acme Manufacturing and the holding company is Bellows Holding LLC, well, then you drill down five or six layers and it's China, Inc. We have to have that diligence.

And oh, by the way, corporate America, we would love to get into the boardroom and say to you, can you think in national security strategy context. We don't want to control your business at all; just want you to understand the risk of what you are doing, where and how because it's affecting us. That quarter, that next five cents of earnings you are getting from sales to certain people, could you just think that through? You might decide to go ahead – I'm not here to say yay or nay – just want to educate you on the risk that it transposes on DOD.

**MS. BLUME:** Tony, down in front here.

**MR.** : Let's wait for the mic.

**Q:** I don't need a mic. Tony Capaccio with Bloomberg News.

**SEC. SPENCER:** Hi, Tony. Yep.

**Q:** A couple of things on the two-carrier buy that the Navy hasn't released any details on this. To what extent will the contract mechanism protect the taxpayer in terms of – and still putting a greater share line responsibility on Huntington Ingalls if in fact the two vessels go over – overrun? And two, what leverage does the Navy have right now on Huntington Ingalls to make sure that the advanced weapons elevators on the Ford are installed and operating by the end of PSA in July, or is it basically going to go on faith that they are going to do it?

**SEC. SPENCER:** You're going to get facts on the contract. It's up on the Hill now, and you will get those for the share line. It is competitive; it is as competitive as we can get it, but I want to be perfectly honest. This is where we have to go in partnership – when we don't have a robust competitive world. It's the ability to come – how are we going to do this together, and you will see that in the facts.

The elevator – we'll see if I'm here after August. During the football game – the Army-Navy football game – I spent some time with the president, and we talked about EMALS, and he said, you know, why shouldn't we go back to steam, and I said, well, you know, Mr. President, we've got to really look at what we're looking at. EMALS – we got the bugs out, but what you really have to understand is the aperture of EMALS. We can launch a very light piece of aviation gear and right behind it we can launch the heaviest piece of gear we have. Steam can't do that. And by the way, parts, manpower, space – it's all to our advantage.

The elevators – asked him to stick his hand out. He stuck his hand out. I said, let’s do this like corporate America. I shook his hand and said, the elevators will be ready to go when she pulls out or you can fire me.

**Q:** You said that to the president?

**SEC. SPENCER:** Yes. We’ve got to get it done. We’re all talking about accountability here. How else are you – you know, we’re going to get it done. I know I’m going to get it done. I haven’t been fired yet by anyone. Being fired by the president isn’t really top on my list. (Laughter.)

**Q:** I didn’t get your commitment on what kind of contract data. The letter to the Hill was FOUO –

**SEC. SPENCER:** Yeah.

**Q:** – which is, you know, widely abused. Can we get a commitment from you that you will give as much as you can on the share line to show that the taxpayers’ equity is being protected here?

**SEC. SPENCER:** Yeah.

**Q:** Yeah that you’re going to give out as much as you can?

**SEC. SPENCER:** As much as I can.

**Q:** OK, thanks.

**SEC. SPENCER:** We’re all in it together. But one thing I’m going to ask everybody who is here in the news world, read the whole thing. Don’t read the headline and take the story from the headline, please.

There’s going to be some very complex stories coming out in the next two months from Navy, LeJeune water. It’s a very complex situation. Please read the whole thing. If you have questions, we will be available. I just ask you – these are going to be tough, complex issues. Work with us to understand it before you print, please.

**Q:** Don’t overclassify it. Don’t – (inaudible) – if you (can’t push back on that topic ?).

**MS. BLUME:** Sure.

**SEC. SPENCER:** Fine. Bring it. You know, it’s a two-way street. I know, I –

**MS. BLUME:** Thank you, Tony.

**SEC. SPENCER:** I’m totally – Tony, as clear as we can be, we will.

**Q:** Sure. Thanks.

**MS. BLUME:** Next question, right here in the red.

**Q:** So a very powerful, very motivating discussion today. Thank you.

Barbara Hoffman from Samsung. Was in Department of Navy for 32 years, so a little bit familiar with some of the stuff you've been doing.

Can you share – is 5G, and I know you said AI, and putting decision making to the end user to make mission decisions – is 5G part of that strategy to allow the machine-to-machine learning, and putting that AI out there so that those folks that are out on the front lines can make those decisions based on the data that they have at hand rather than sending it all the way back trying to process it, and lag time, and slowness?

**SEC. SPENCER:** It is, and I could be really cheap and just leave it right there. (Laughter.)

Therein lies one of the issues of innovation. I mean, if you look at what DARPA did for coms on the first internet com network, we weren't – we aren't there for 5G. We really do have to look to industry now, and as you know, on the North American situation, I mean, we have – our providers are going, fine, you write us the check; we'll be more than happy to participate in enhancing 5G.

This is an issue that we're going to have to come face front and center. I don't have an immediate answer for you. Yes, we need a communication backbone. That is an option – probably one of the best options, but we have to be very careful on what the basis of that is.

**MS. BLUME:** The gentleman with the beard in back. Thanks, Max.

**SEC. SPENCER:** I know he wants to talk about the tropics.

**Q:** Ben Kesling with The Wall Street Journal.

Secretary, I've got a question about the Arctic for you.

**SEC. SPENCER:** (Laughs.)

**Q:** You spoke a little bit about the Arctic. Simply put, has the U.S. adequately addressed the Arctic threat in response to both the threat up there and responsibilities? If not, what's the – what has prevented us from focusing adequately on that – and that's both the Navy, the Pentagon, folks on the Hill, the way that the U.S. operates within Coast Guard, Navy, Marine Corps, Army – what's the nature of the threat? Is it being addressed properly?

**SEC. SPENCER:** So the answer I'd give you from Navy is yes, we are fulfilling our requirements up there. We've been up there since the '60s, and I can go on and on. And people go, you really have?

Well, we've been up there underwater, undersea with great regularity. We've been there in the air with great regularity, but as you know, the environment has changed up there. We now have blue water, we have three trans-Arctic routes possibly available. We have resources up there.

I think you are seeing the discussions change dramatically in the last two years. We had the Navy's roadmap. We are adjusting that – is the best phrase I can do – and there's more to come on that probably this summer. But as an example, this summer the CNO and I have talked about having some ships make the transit in the Arctic. It's going to be a multi-service task; I think you will see the Coast Guard involved. We're just fleshing it out right now.

But what is the purpose of that? We have to learn what it's like to operate in that environment. I mean, if you look at, I think – I believe the Ticonderoga-class ship was the last one to have steam wands to remove surface ice on the ships. We don't have that capability. We don't have ice-hardened ships.

If you read the GAO report, yes, we fulfill our requirements as the Joint Chiefs need it, but is it – is that requirement a full requirement? I think we can do more. We're starting to do more in the Navy as we flesh it out.

A strategic port up in the Berings area is being explored. But that would be, again, a whole-of-government approach because that will be Coast Guard, Navy, Commerce, whatever the case may be in that regard. But it's an area that we have to focus on most definitely. You are hearing more and more conversations. I think Senator Murkowski and Senator Sullivan have, you know, talked about it being our northern border, which is true. And if you look at the players that are up there – and I've said this before – one of my first trips out as secretary of the Navy was up to Reykjavik to the Arctic Conference, and there was Russia lighting up, you know, five Cold War runways with 10,000 Spetsnaz for search and rescue. Well, I guess we should be up there looking for search and rescue, too. And I say that tongue in cheek.

But, no, you know, freedom of navigation should be applied up there. We're going to try to do it, and we're going to learn our way into it.

**Q:** And what's the partnership role with the Coast Guard and the Navy in the Arctic? Will there be greater coordination, greater partnerships in the future, both on ships, manning and budgetary issues as well?

**SEC. SPENCER:** Well, you know, right now we have quite a close relationship with them. When we go do our Southern Command exercises in the Gulf for anti-drug, we bring on both DEA and Coast Guard people because they have the titled responsibility to do that. We do not have a policing responsibility in our 50s.

When it comes to heading up to the Arctic, it truly is a joint in that they want to be up there also. I mean, that is a natural place for them. Icebreaking, which some people don't realize that that is a Coast Guard mission. That is not a Navy mission, nor do we have the equipment. But we have been on-lending our talents to help the Coast Guard develop their cutter program.

For those of you who follow the budget closely it was 150 million (dollars) I think – last line item to help them. So there is a close relationship with the Coast Guard in that regard. But I think the Arctic is going to be a fine example of a whole-of-government approach.

**MS. BLUME:** Just here on the aisle, Max, the pink tie.

**Q:** Good morning, Mr. Secretary. My name is Bryan McGrath. I'm here from the Hudson Center for American Seapower.

Thank you for mentioning the taxpayer at the end of your remarks. I was wondering if you could summarize what your team's approach is to the education, reeducation and immersion of the American people in the importance of sea power to their security and prosperity.

**SEC. SPENCER:** A terrific question. This is when, you know, you wish you had an unlimited budget.

We try to get out there as much as we can, and I don't think it's nearly as strong as we need to to really immerse the American shareholder, taxpayer in the value of what goes across the high seas, and what the Navy does to keep the high seas open. And it goes up and down the ladder of understanding because if we look at what China is doing right now, it's fascinating. They are riding on our back for ocean security. I mean, we're sitting there providing them security for their economic benefit and don't get that they're – we're not sending them a bill to date for that service.

We need the American folks to understand, and I'm not just saying this to beat the drum to say that the DOD needs more money; that's not it. We need to have a fundamental understanding of the values provided by your naval services so there is a true understanding. It's not cheap at the end of the day, but we need to have a fundamental understanding.

We're trying to get that out with – both the CNO and I have talked about that in our speeches, but we need to go deeper, stronger, better. I truly – you hit a nail on the head on a topic that needs to be discussed.

If I could have a once-a-month op-ed that says, America, comma, please pay attention that would be one of the first ones because the value you are getting out of your Navy is probably sitting right in front of you as you are either eating or watching television.

**MS. BLUME:** Admiral Haney?

**Q:** Now, Mr. Secretary, first off I want to thank you for your service to our country –

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

**Q:** – at this critical time. As you talked about the National Defense Strategy and there was also a Nuclear Posture Review, and as you look at the resources – conventional and strategic – could you give a few comments on are we going to get there with the replacement for the Ohio SSBNs in time to provide our nation the deterrence it needs?

**SEC. SPENCER:** So I'm sure all of you – or the majority of you, just looking around the room – know what the graph looks like with submarines coming off commission and then the replacements coming on commission. We have a little valley of death there – or a valley of concern – pardon me.

You talk about managing portfolios for consistency. I wish we had back in the '90s. We decided we had a peace dividend and no one had to build anything. We suffered on two fronts: one, our readiness right now for availability; and two, workforce, supply chain, which is one of the things that we're really focusing on that I didn't have a chance to harp on. But one of the things we're focusing on in Navy acquisition is how do we actually monitor and manage – manage our supply chain because it's so critical.

Columbia class, Virginia payload extension – Columbia class is my number one acquisition focus, bar none. We are – we don't have a lot of margin, to be very frank with you, so we are managing this acutely. We do have supply chain concerns just due to the fact that there aren't that many competitors in the marketplace supplying parts, so we really have to go into partnership mode. Will it be out there in the time that we say it will? Yes. Is that in the time that we need it? In my eyes that's a photo finish.

**MS. BLUME:** I am afraid that was our last question. And, Secretary, I want to thank you very much again for joining us here today –

**SEC. SPENCER:** Thank you all.

**MS. BLUME:** – and on behalf of everybody and on behalf of us here at CNAS.

**SEC. SPENCER:** Susanna, thank you.

**MS. BLUME:** It's been a pleasure.

**SEC. SPENCER:** This was great. Anytime. Thank you. Thank you, folks. (Applause.)

**(END)**