



REAGAN NATIONAL DEFENSE FORUM

PEACE THROUGH STRENGTH IN AN ERA OF COMPETITION

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PANEL 2

SECURITY COOPERATION & INTERNATIONAL ARMS SALES: IS THE U.S. WINNING THE COMPETITION?

Panelists:

- Ms. Leanne Caret, President and CEO of Defense, Space and Security, The Boeing Company
- The Honorable Michèle Flournoy, Former Under Secretary of Defense for Policy
- Congresswoman Kay Granger, U.S. House of Representatives, Texas
- The Honorable Andrea Thompson, Under Secretary of State for Arms Control and International Security

Moderator: Mr. Josh Rogin, *The Washington Post*

Video:

https://www.youtube.com/watch?v=6n8OAc5QgUo&list=PLHNOi2zcxo7sBxM7HfhmB_tf6QXeQj48K&index=3

Rogin: Alright. Welcome everybody to Panel Two of the Reagan National Defense Forum. My name is Josh Rogin. I'm with the Washington Post and it's my pleasure and honor to be your moderator today. This forum goes by many names -- we heard this morning called the Davos of Defense. I know that's the one Roger's pushing. I've also heard the Military Industrial Complex [inaudible 00:00:26]. You guys heard of that one? My favorite is Deep State on a Mountain. That's my favorite.

Rogin: This is essentially where we all take time out of our schedules to fly three thousand miles to chat with the people we're too busy to schedule lunch with back in Washington. But seriously folks, the value of these kinds of forums, especially this forum, is that we have a rare opportunity to hear directly from some of the leading thinkers in our government, industry, and legislature and I'm really proud to have such a distinguished panel here today.

Rogin: Let me just quickly introduce them. Immediately to my right, we have the Honorable Congresswoman, Kay Granger, from the great state of Texas, who Thursday, was elected the ranking minority member on the House Appropriations Committee. Thank you very much. (applause)

Granger: Thank you.

Rogin: To her right, we have Under Secretary of State for Arms Control and International Security, Andrea Thompson. Who also, served as the National Security Advisor to Vice President Mike Pence. Also, decorated war veteran. Also, worked on the professional staff of the House of Foreign Affairs Committee and House Homeland Security Committee. Feel free to clap for that. (applause)

Rogin: To her right, Mrs. Leanne Caret. Did I say that right?

Caret: It's good enough.

Rogin: Okay. President and CEO of Defense, Space & Security for the Boeing Company. And to her right, the Honorable Michele Flourno, former Under Secretary of Defense for Policy and CEO of WestExec Advisors. Got that plug in. It doesn't go without notice that we have an all woman panel to start off our conference, and I think that's just a reflection of the fact that female leaders in National Security are now more of a norm than an exception. I think we should give a round of applause for that as well. (applause)

Rogin: So we are on a very strict, minute-by-minute schedule here. So, we will begin with short opening statements based on the following question: Is the United States winning in the international competition over arms sales? What does winning mean? And if so, does that winning come at the expense of our values?

Rogin: I'd like to start with Under Secretary Thompson.

Thompson: [crosstalk 00:02:56] Two minutes. Thanks Josh. And thanks to the ladies on the panel to Michele, Leanne, and to Kay. It's a great honor it's my first time here at the Reagan National Defense Forum and I appreciate the opportunity. I think it's appropriate to maybe reflect on what words of President Reagan. He said that our national interests are inexplicably tied to the security- development of our friends and allies. I see this every day in the State Department at our security cooperation and with our arms sales.

Thompson: I've worked with industry here. I've worked with partners and allies and many in this room to move ahead the President's agenda on the commercial arms transfer policy, which probably talk about this morning. And to answer the question, we talk about, "Are we winning globally?" and as you look at the numbers, the numbers obviously reflect that we are winning internationally. It's the best equipment in the world and I tell folks that both as the soldier and now as a statesman. I've used the equipment and now responsible for getting the equipment out to partners and allies. I have faith and confidence in our equipment and continue to do so in this capacity.

Thompson: Perhaps the question- you look at the numbers as say, "We're winning internationally." As we look, are we winning locally? Are we having those relationships with partners and allies as the Chinese and Russians try to fill that gap? What do we need to build that partnership and cooperation? Whether it's Indo-Pacific or over in Europe with our NATO allies, that this equipment is compatible. How do we make sure that they're getting what they need and to look at when we don't have our systems in place there -- is it cause the Chinese and Russians- is it because they have cheaper equipment? Is it because they don't have the controls and oversight the United States does? What's preventing us from having our equipment there?

Thompson: So I hope we can have that discussion today. It's something that we looked at with the Administration. The President gave very clear guidance on our new CAT policy, the Secretary even more detailed guidance, so we puttin' that in place again, I've worked with many in the room as we rolled it out this summer. We continue to engage with industry, with partners and allies, getting feedback on that policy, to make sure it is for the best for the American people and we've seen that work. So, thank you for the opportunity. I'll look forward to the questions.

Rogin: Excellent, thank you. Congresswoman Granger

Granger: Well if you talk about winning traditionally, we're winning. We've got the best and we've got the most. But I think we should be very, very serious about, do we keep that best? And do keep that most? It's not the equipment, it's the processes, it's the Congress, it's the slowness, it's, you know, all those hoops that we jump over that our competition doesn't have to and I think we should pay very close attention that. But, the other part of your question, I thought was the most interesting. Is it to the detriment of our values? And I'd say absolutely not. As we spread our equipment, let's talk about airplanes and as we say, "We'll sell those airplanes to another country." We oftentimes also train their pilots -- we deal with their people, so we're saying, "Yes, here's our equipment, here's our friendship, here's our relationship."

Granger: So, I think that's one of the most important things that we do and we had that foreign military assistance is what we're trying to do. And I go back to something that was in my time -- it was Egypt and we had sold F16s to them forever and Mubarak, when that fell, Egypt says, "You have a responsibility." They closed off all communications except, we had sold them F16s and we trained their pilots, so that military to military, Egypt, United States continued when there were no other communications and that goes on all the time and I think we just should never lose sight of being able to spread our values in that sort of situation.

Rogin: Thank you very much. Michele.

Flournoy: So, I think the question of "Are we winning?"- you have to ask what is winning? What are the strategic objectives that should be driving our arms sales around the world? And I go back to first principles.

Flournoy: Number one, as we use this as an instrument to build the capacity of key allies and partners to defend themselves and to be more capable partners when we work together in operations to reduce the burden on U.S. forces.

Flournoy: Second, we use them to cement strategic relationships. When we sell a fighter jet to a country, that's basically putting in place a twenty or thirty year close cooperation between our air forces.

Flournoy: And third, are we limiting the dependency of our closest friends on our adversaries? Are we preventing countries like China and Russia from making inroads to critical regions, so are we advancing these objectives consistent with our interests and values and I think, frankly, the record is more mixed across multiple administration. I don't see the level of the strategy-driven approach that I'd like to see. For example, if we're worried about Russian threat to the Baltics, shouldn't we be using security cooperation [inaudible

00:08:10] and arms sales in particular, to make the Baltics look like little porcupines that are indigestible to the Russian bear, to borrow a phrase that Tony Thomas used.

Flournoy: Shouldn't we be working with each of our Southeast Asian partners and allies on plans that would enable them to defend their own territorial waters, to be very difficult to attack by China. Again, I think we have a more bottom-up approach, a more platform, shiny object forgive me sort of approach where- but, we don't necessarily have a top-down strategy driven- how are we trying to transform Vietnam's defense? How are we trying to transform Taiwan's defense? How are we trying to transform the Baltic situation?

Flournoy: There's several challenges to this that we might want to get into whether it's how we do tech transfer evaluation, whether it's the lack of a clear competitive strategy. Why would we allow it to get to the point where India had to turn to Russia for S400s? Why would we allow the UAE to have to turn to China for UAVs?

Flournoy: I mean, these are the kinds of questions that I think we need to raise because it's not enough just to have the biggest market share or the highest revenue figure. We have to get to the question of, "Why are we doing this and are we meeting our strategic objectives?"

Rogin: Thank you very much. Mrs. Caret?

Caret: Well, first, thank you so much for being on the panel today and Chairman Granger, we are also thrilled for your ranking membership. I think it was very appropriate this morning when we gave the moment of pause for President Bush because I think so many of us have grown up in that generation, watching the restoration of how America brings this great presence to the globe and how we can participate. From an industry lens, it is our duty and our honor to follow the U.S. government in its policies and so when you ask, "Are we winning?" that means somebody's losing and from a U.S. perspective, the U.S. wins when we can find ways to bring interoperability, when we can find ways to work together.

Caret: And we can bring value back to the U.S. government through many of these opportunities and so, as we work with Congress, as we work with the State Department, it is about making certain we understand if a certain ally wants a product how do we then not only fold it in to the overall profile of the program, but how do we bring it back in such a way that the U.S. gets specific benefit to it, not just from the operational aspect, but also from a value perspective in terms of: Can you bring back value from money? Can you make it more worthwhile for the U.S. to extend their alliance and do this? And so, we look forward to continue to work together.

Rogin: Excellent, thank you very much. I think that was a great overview and now we're gonna drill down into some of the details. I'm going to attempt to bring up my first slide. There we go. Oh! Technical diffi- There we go.

Rogin: Alright, so this is a product of the Ronald Reagan Presidential Foundation and Institute's newly released 2018 National Defense Survey. Right? So one of the things they're trying to do this weekend is find out whether or not we're bringing the American people along with our national defense strategy and the first slide is pretty straightforward. Nearly nine in ten oppose arms sales to authoritarian countries that are not strong allies. Fairly

straightforward question, fairly straightforward answer. Here's where it gets interesting: when you look at what are the countries that Americans think are our allies.

Rogin: And if you can't read it from where you are, I'll bring out a couple. Turkey -- fifty percent say they are an ally, thirty five percent enemy. Saudi Arabia -- thirty eight percent ally, fifty three percent enemy. That's almost the exact same as China -- thirty eight percent of Americans see China as an ally, fifty five percent as an enemy. Afghanistan -- twenty one percent see it as an ally and not as an enemy. We're gonna use this next round of questioning to examine the Saudi Arabia example because, as you know, it's in the news.

Rogin: Let me start with Under Secretary Thompson, you mentioned in your- and we all know the context here, the debate over the efficacy and wisdom of selling arms to Saudi Arabia is under new scrutiny following the killing of Jamal Khashoggi, but not only the killing of Jamal Khashoggi -- it's going on in Congress, et cetera.

Rogin: You talked about numbers, metrics, right? What's difficult for a lot of us is that confidence in the numbers is not what it used to be. In other words, the President of the United States said we have four hundred and fifty billion dollars coming from Saudi Arabia, five hundred thousand jobs. Are those approved inter-agency numbers? Where did those come from? And if those aren't the real numbers, what are the real numbers?

Thompson: Thanks Josh. I'd like to address when you talk about the timing of the polling, obviously skews the results of the polling, but with that said, specifically, if you want to address Saudi Arabia, to remind folks to not look in the day and weeks, but look in the years and decades. We've been partners with the Kingdom of Saudi Arabia for over four decades, over seven administrations. That's a telling indicator on the importance of that partnership in the region. Particularly now, with Iran's malign activity when we are negotiating providing defensive equipment and some offensive equipment as well. It protects national interests of United States citizens transiting the area, protects our military service men and women in the region, it pushes back against the spread of Iran's activity, so, yeah, it is important to this administration, but more importantly, it's important to the American people. And again, just look at the relationship when it comes to the arms sales and that defense cooperation. I went to a dinner last night. When you work with the United States of America and our arms sales, that's a long-term relationship.

Thompson: When you commit to using the United States' equipment, it comes with training, the maintenance, the exercising with our military members. This isn't a one year or a five year commitment, this is a generational, a multi-generational relationship. So, it's important to recognize that, again, that metric of four decades and seven administrations.

Rogin: Let me impress you again on the numbers. The President of the United States says it all the time -- the reason that we, I mean this is the President's argument, essentially -- the reason that we need to, sort of, not overreact to what he would say to Saudi Arabia's atrocities or abuses separate, is because they promised a hundred and ten billion of arms purchases, four hundred and fifty billion of investment in the U.S. economy, and five hundred thousand U.S. jobs. Are those numbers based in any evidence or fact at all?

Thompson: The numbers speak volumes about our relationship [crosstalk 00:15:20].

Rogin: Are the numbers accurate?

Thompson: I would say yes and. When you talk about notifications to Congress, we have made discussions with the Kingdom of Saudi Arabia, we have- working with our industry partners that have been held up in Congress for over a year. So, you can look at the numbers different ways. The numbers of actual equipment in theater, numbers of equipment that's been discussed, but the numbers are moving along, but again, we've gotten incredible amount of equipment to our partners that are being held up in Congress.

Rogin: Thank you. Congresswoman Granger, can I ask you what is the current congressional attitude on arms sales to Saudi Arabia? What action do you anticipate not only in Appropriations Committee that you help lead, but in Congr-

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Rogin: Not only in appropriations committee that you help lead, but an Congressor at Large, what is it going to look like in the next session?

Granger: The congress is really reflecting what the United States people said, that was a horrendous situation, horrendous. And I think what we have to look at, and I completely agree, it has to be a long term. We're not talking about relationships for four years or five years, it's a long term relationship. Always remember though, what we sell is different from one country to another, so the equipment, the security equipment for instance, is different when we're selling. And so we look at that relationship, but there's a moral obligation too, and I think that's what the American people are reflecting, and that we will have to say if there's a country that is a semi ally, let's say, but they thumb their nose at us, it does change the relationship.

Rogin: And what do you think, specifically, Congress will do in the next session?

Granger: Well, we've already started on the next Bill, we're going to hopefully do what we've done for the last two Bills, I'm really proud of those last two Bills, because it wants a significant increase and the Congress for the first time in nine years did its work on time. But also, had a huge vote for Defense. So we're starting on that, and we look at big numbers before we look at specifics like that particular sale, or...

Rogin: Do you personally support reducing, or cutting off, US Army sales to Saudi Arabia? Especially the weapons and systems they're using for the war in Yemen?

Granger: I think it's hard to say yes until we have the full picture of it, but if we have the full picture already, I'd say no we should not sell.

Rogin: Interesting, thank you. Let me go to Michele now.

Rogin: You brought up the fact that maybe numbers aren't the most important thing, maybe there are risks in arms sales. I want to ask you to expand on that, and I guess my question is, over the long term, as you look over the course of the relationship since we're talking about a long term alliance, we've been supplying a lot of these countries with a ton of weapons and arms. Has that made us safer? Is there a risk that, actually

when you supply countries like Saudi Arabia with all of these weapons, they actually use them for things that are not in our interests?

Flournoy: There definitely are risks that need to be managed, and we need to go in with a clear eyed perspective. One of the risks is what we've been experiencing in Yemen, where we've provided precision guided munitions kits to the Saudis and for a variety of reasons, they have been used in ways that we know have killed Yemeni civilians. That's a risk for the United States, that reverberates back to us in terms of how things are perceived.

Flournoy: There's risk of misuse, there have been cases in the past where US Military supplied equipment has been used against the population of a country by its government.

Flournoy: Then there are risks of regime change, look at Iran. Iran has F16s because once upon a time, we were allies with Iran and then the regime changes and they still have US equipment and know-how.

Flournoy: So, there are these risks that have to be managed, and again, I think what we have to do is put some strategies for managing those in place for something like the F16s, we managed to make it very hard to get spare parts to keep those planes flying and to use them. But these are the kinds of things that we have to think through when we go through any sale with a country that is not a solidly democratic, like a NATO ally. But, even now, we're seeing in NATOs, some authoritarian trends that should give us pause.

Rogin: Like Turkey?

Flournoy: In terms of... yes, certain countries like Turkey.

Rogin: Interesting. Leanne, let me ask you. Since we're talking about numbers and jobs, you said something that I thought was very interesting, which is that industry's job is to follow policy. So, is it true that, first of all, do you think the President's numbers are right? 500,000 jobs, 450,000,000,000, 110... from the industry, is that what industry sees? Are you as enthusiastic about this Saudi arms package as the President is?

Rogin: And, secondly, how do you believe that these considerations, jobs, dollars for the United States should be balanced against the concerns that Michele brought up? Human rights, long term stability, et cetera?

Caret: I'm not going to speak to the numbers that are quoted because we don't get the access to any of that. But what I will share, and I think it's really important to know, from an industry perspective, it is our obligation to follow the strategy of the US Government, and in no way, shape or form does anything become more important than following that strategy. My company, other companies, you don't see us out advocating for the overturn of a strategic policy with regard to a specific country or nation and advocate for a sale through the lens of jobs or anything else. That would be wholly inappropriate.

Caret: Rather, we look at the different strategic reviews that have been done from a Defense perspective. We try to stay very close in our conversations to make certain we can anticipate and understand, as Chairman Granger said. Also, the type of equipment that is provided is many times different, depending on country, and so, there may be some

capability that is desired. And yet, there are certain features and capabilities within that piece of equipment that are backed away so that theirs still preserves the US advantage.

Caret: What we want to make certain is that any US serviceman or woman who is out there putting their life on the line 24/7 has the equipment that they need to fight the fight and come home to their families, and if that means that there's an allied structure out there that needs to be supported, and there's an inter-op ability need, from a defense industrial base, that's how we will support.

Rogin: Excellent.

Granger: Can I?

Rogin: Oh, please.

Granger: Something, I think, that's important, regimes change, administrations change, that's true. But, one of the things that we need to remember particularly about when we're talking about equipment like we are, is when we sell that equipment and help another country that way and train their pilot, you're working with people in government, their governments, that will move up often times through those decades and could be world leaders, could be leaders of their countries, and we've got a relationship there. So, that's something to keep in mind, it's not just the equipment, it's the relationships. And those relationships could go from when one regime to another changes.

Rogin: Seems to me that some of the Military exchange and training programs are cut in the administration's budget. Will congress robustly fund those?

Granger: If I'm in charge, they will.

Rogin: Excellent. Okay, let's go to the... okay, so we've been talking mostly about plant forms that we've all been dealing with for decades. Let's take a look at this new slide provided to us by our friends at the International Institute for Strategic Studies, which deals with armed drone sales, the future. Again, if you can't see it, what's pretty clear is that the armed drone sales that are coming from the United States are only a couple arrows, and the ones coming from China are lots of arrows. Those arrows point not only to countries that are mired in instability and war, but also countries that are US allies, including, by the way, Saudi Arabia.

Rogin: So, I guess I want to start with Under Secretary Thompson, why is it that when we look at this chart, that the Chinese government seems to be so far ahead of us in this area of arms sales and arms exports?

Thompson: Thanks, Josh. That is a telling slide. We recognize that early in the administration, that some of our mechanisms and processes needed to evolve to keep up with the current requirements. We've heard it, again, from partners and allies, we heard it from our industry partners, and we heard it from our military leaders as well, and this is a reflection of that. We looked at what are we doing versus what are some of our adversaries doing? The President and the NSC and the team that took approach with our new UAS policy. Another policy that we engaged hand in glove with our industry partners, looking at the processes, how do we get these systems to our allies to be able to counter the Chinese push? And we've started to implement that, working through

the empty CR, and there's a myriad of other export controls, et cetera that will now allow us to get certain types of UAS to partners and allies to help mitigate what you see from the Chinese threat.

Rogin: Sure, just to follow up on that, not only of the new UAS policy, but also the new CAT policy...

Thompson: Correct.

Rogin: All were produced by this administration, yet in the months since we've had these new policies, we haven't really seen an uptick in sales or deals. Is that because... why is that? Is that because there's a log jam somewhere in the system? Is that log jam at the State department, perhaps? Is it in congress? We've fixed the policy, but we didn't fix the problem, it seems.

Thompson: I would actually counter that with a number of metrics, again using fact-based and data-driven decision making. The CAT policy rolled out this summer, so when you compare trendlines that really got put into place in about August, it's now November. As you know, we have discussions with partners and allies that take years to actually come to fruition. When you look at the dollar amount, when you look at the last fiscal year to the end of this past fiscal year, our overall arms sales were up 13%, but another telling indicator is our foreign military sales were up 33% in one fiscal year. I've set the bar and the team has set the bar very high for this next FY, but again, numbers are up.

Thompson: I think, another telling indicator that's harder to measure, but we're getting that feedback mechanism, is the efficiencies in place with our new CAT policy and the UAS policy. We're hearing from industry, we're hearing from partners that the transparency has increased, feedback has increased, and when you talk about the log jam at the state department come a couple of data points. The secretary has delegated to me the authority to sign these packets that had been withheld at the secretary level. It seems like a small decision, it carves weeks and months out of that process.

Thompson: I've told my industry partners and allies, when a foreign military sale packet gets in my inbox, it does not spend the night there, and I guarantee you that. When it comes into my inbox, it is out that day. The rigor has done it, every level of analysis, when it gets to my level, I'll ask a couple additional questions, but it will not linger for days, weeks and months. That's the importance that this administration places on that.

Rogin: Interesting, and when was that delegated?

Thompson: That was delegated... I'll have to check my math. I want to say May, June, but let me get back on that.

Rogin: Interesting.

Flournoy: Yeah, it was an early...

Rogin: I'll come to you in a second, Michele. Under Secretary, since you mentioned the MTCR, let me explain briefly for anyone... you guys know what it is? Maybe on the internet people don't know what it is. The missile technology control regime, which still treats

armed UAVs, under which armed UAVs are regulated, is that an accurate sort of, portrayal of it?

Thompson: It is.

Rogin: Okay, so my sources tell me that at the upcoming December MTCR group meeting in Iceland, the Trump administration will ask for an agreement to modify it to support some of our objectives in this space. Is that true? And then, follow up is, it seems unlikely that they are going to agree to those modifications, what would you do next?

Thompson: I'm not going to get ahead of...

Rogin: Is that a non-denial?

Thompson: That is a... I'm not going to confirm or deny. There's the intel officer in me coming out. I'm not going to address things that we're going to work with partners and allies next month, but know that we're looking at how the evolution of the MTCR, what needs to be done within that regime to reflect the current situation.

Rogin: So, you're looking at it.

Thompson: I am.

Rogin: Okay, excellent. Sorry, Michele, you wanted to say something.

Flournoy: I just wanted to say that the UAV sales case is a perfect example of where we're not doing things as best we could, in the sense that my experience when the technology release check, if you will, on a sale is always the last, it sort of comes at the end of the process.

Flournoy: So, here you've been negotiating with a country for months, and you've working out all the details and all the details, and they're getting buy in and excitement, and then, boom, you hit the technology release question on a particular sale to a particular country. First of all, it takes forever, and second of all, often the answer is no based on very narrow grounds.

Flournoy: What I would like to see is going a different way, which is to say, from a US strategy and interest perspective, if we're looking at the Middle East, what countries do we want to see have what capabilities to assist us in counter-terrorism operations, in pushing back on Iran, in whatever the case may be. Let's look at their individual and collective proliferation records, their ability to protect that technology, all of these things. But to do it from a strategy based regional perspective that says this is what's going to serve US interests, this is what we're comfortable with, and do it up front, and then pursue a much more strategic approach because we're missing the boat. Part of this is our processes take so much time. Chinese come in and say, hey we have no constraints, we're cheaper, we're faster, here you go, you can have anything you want in the candy store and that's not in our interests long term.

Rogin: I understand. We're going to have time for a couple of questions at the end. It's my responsibility to just let you know that the live audience may submit questions via the

RNDF app, www.RNDF2018.org, or you can submit your questions on Twitter #RNDF. Do that now and they'll queue them up for later.

Rogin: Let me ask Congresswoman... I'm sorry, let me ask Leanne first, we're talking about industry competition with the Chinese government or the Chinese state controlled companies. That must be a big issue for you guys when it comes to the drone space, and Michele was talking about it. How should we compete? Can we compete? And do you see government doing enough to help US Defense Industry compete right now, if not, what more should they do?

Caret: I've raised it up, Josh, a bit in terms of the conversation about how can we be more effective competing, regardless of what the product or the service is on global scale. Because we're not necessarily just competing US industry to US industry, we're competing against Russia, we're competing against France, it just depends on what the weapon system, the product or the service is. There has been significant improvements here in the last few years. We've seen it through congress, with the advocacy, we've seen it with Andrea and her team, we've seen it, if you think about what both DISTA and DSCA have done, whether that's General Hooper, or Admiral Morley, even Heidi Grant, if you think about what she was doing from a Air Force perspective as she moves over to her new role. And what you see is more about this corporation, again, industry is going to follow the US government. What we ask is that as these conversations are happening, we understand what the tech release process is, how fast that that is occurring, what insight is needed...

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Caret: Processes, how fast that that this occurring, what insight is needed from us, from an industry perspective in terms of is there compartmentalization that needs to occur. If you have to take certain systems out of a weapon system, what is involved in doing that? Is it an opportunity where you can actually provide a product internationally and then have a residual value back to the U.S. government. And a great example of this is the Chinook. So when you think of a Chinook, a great humanitarian aircraft. It's one of those vehicles that people kind of get a warm fuzzy about. It doesn't cause a lot of angst in the big scheme of things. The Canadians wanted a more advanced model of it about a decade ago. We worked with them. We developed this. The U.S. government, the U.S. Army saw what the features were that the Canadian government had paid for and fielded and said, "We'd like some of that back in the U.S. Army." As a result, the U.S. Army actually saved money by taking advantage of that investment scheme. The entire opportunity there was for us to work together, and, again, it is country by country. It's product by product. And tying it to a strategy where we all understand where that's going really speeds up the process.

Rogin: Excellent. Let me now turn to Congressman Granger. We're talking about this competition. As you saw from the graph, some of those countries may not be countries that we're going to be able or want to sell armed drones to. Is there a risk, and, again, because I thought our point was excellent, which is that the Congress reflects the will of the American people. Is there a risk that as in the hunt for competition that it becomes a race to the bottom that we begin to loosen our standards in order to gain the market share and make sure that the Chinese and the Russians don't end up arming everybody for?

- Granger: Let's use the example you were just talking about with China. In that situation, I think the administrations been responsive. We said, "Here's a problem. Changes are going to be made so we can be in the game." I'm more concerned about long term and what we're doing with existing programs, and we are not fast about that. We test and we retest. But we also change our mind. It takes us months and months to make decisions. And there's too much competition out there can go and say, "Well, y'all are dithering about this." Not the one you're talking about. Dithering. They can come in and take the market. So there are things that takes the Congress forever and you saw what sort of response people have to the Congress. But we've got to change some of our systematic responses and be faster because our allies will say, "You can't get it done, someone else can get it done." The competition is more than I think we've ever had.
- Rogin: Excellent. I just want to point the same question to Michele. Is there a risk that in the search for competition we end up changing our calculus of risks short term, long term risk versus short term rewards?
- Flournoy: Well, I think we have to ... We always have to ensure that our values are taken into account. If we were to try in the Saudi case, for example, to ignore the CIA assessment, to pretend that we can just look the other way, business as usual, first of all, I don't think that's in our interest. But it's also a betrayal of our values and it damages U.S. credibility in the eyes of others. By the same token, we shouldn't be breaking off that relationship. It's too important. So the question is what are the incentives and levers that we can use to try to engage that leadership to move in a different direction and behave differently in the future. Arm sales is one. I personally would draw a distinction between offensive weapons being used in Yemen and defensive systems that the Saudis need to protect their cities from Iranian missiles coming across their borders, which we've seen. But also other levers.
- Flournoy: The most important thing that we can be providing, and we have to take kind of a whole government whole of nation approach, is our foreign direct investment, our business expertise, our entrepreneurs who are actually have been trying to work to support liberalization and a move towards market economy and real reform in the kingdom. That is, I think at some point the Saudi leadership has to understand they cannot get to their goals, they cannot maintain stability without that, and they can't do it without us. And if their behavior poses too much of a reputational risk to U.S. actors to stick with them, they have created their own problem. And so I think that's the way we need to be thinking about it. A whole of government, a whole of nation approach, and not extreme of let's pretend it didn't happen or let's cut off all relations, but how do we navigate this using all of the levers and all of the investment that we have.
- Granger: One other thing I think is extremely important, the world watches what we do, and if we have equipment that we want to sell to our allies, we've got ... They're saying, "Are we building the best for our military?" And if we are, we can sell to other countries. If we have a situation, the F35 I think about, it was designed to be sold internationally. But the world watches, and if we have a pause or raise an eyebrow about I'm not sure we're going to buy that ourselves, let me tell you, those sales, it effects every sale we're making internationally.
- Rogin: Excellent. We're going to go to questions in just a second. Beforehand, I'd like to just ask a bunch of questions that have nothing to do with the topic. No, I'm just kidding. They do have something to do with the topic. But, Michele, I have to give you the

opportunity, earlier this morning we heard criticism of the Obama administration, that during the Obama administration, the defense industrial base was hollowed out. I thought it's only fair to give you a chance to respond to that.

Flournoy: I appreciated Senator King's response, which to go and remind people of the history. That the Obama administration had actually proposed a fairly robust level of defense spending when we had a crisis in the Congress that lead to the BCA and dramatic cutting of that defense budget. So this was not a deliberate policy of the Obama administration. I think it was really a situation where the Congress directed the administration to take half a trillion dollars out of the defense budget, and I was there. We had to go rewrite the strategy to live with that new research constraint. So certainly not a policy, a preferred policy that was pursued proactively. I think everybody understand the incredible damage that was going to be done when this occurred.

Rogin: Thank you. Thank you. Leanne, do you think that the defense industrial base has become too consolidated?

Caret: I'm not going to say it's become too consolidated. I think that as it is with any industry, there's going to be companies that are going to look where they can best leverage one another and if there's a fit and if there's an opportunity, perhaps the company has aspirations to be larger, to move into a new series of markets. Something that perhaps wasn't part of their core capabilities. And sometimes you have distressed companies that are ... they have great talents, they have great people, great capabilities, and as an industry, you would lose a lot of capability. And so I think that's not a yes or no question. I think it's a case by case situation that needs to be examined, and specific to the defense industry, all consolidation efforts are examined by the Department of Defense and the federal government to make certain that there isn't some over sense of consolidation that's going to harm both policy as well as the economics.

Rogin: Thank you. Under Secretary Thompson, the intermediate nuclear forces treaty. Is the United States trying to renegotiate it to preserve it or is the Trump administration intent on withdrawing the United States from it? What's the goal here?

Thompson: Well, the goal is Under Secretary for Arms Control, International Security, it's to ensure that we abide by our arm's control agreements. The U.S. is continuing to do that. Russia has failed to do that for about five and a half years now. So as you remind the American people, as we continue to abide by that, they've researched, developed, built, and deployed the SSE8, have battalions of them out in the field. So it's not an arm's control agreement or regime if only one parties adhering to that. So you've all seen the announcement from the president October 20th. We've been in consultation with partners and allies over the past weeks, getting their input. I spoke at the NATO WMD Conference a few weeks ago up in Reykjavik and said, "Is there something that we haven't tried that we should've done? Anyone? Any idea? I'm willing to do it." And no one could raise that. The president is engaged to President Putin. Secretaries engaged with Foreign Minister Lavrov. Ivan Gates is my counterpart. Our technical experts continue to meet through the regime, and they continue to develop the missile system. So as Under Secretary and more so as an American, I would not want to stay in that deal.

Rogin: Understood. So you don't want to stay in the deal, but you're continuing to meet with the Russians, which means that there are discussions about how the deal could be preserved, is that right?

Thompson: The doors always open. The balls in Russia's court. We've told them we're willing to discuss, but when you don't even recognize or acknowledge the intelligence and information that we've provided that you're violating it, it's hard to come with terms with that.

Rogin: Are there things that the Trump administration is willing to put on the table that the Russians have asked for in the context of these negotiations?

Thompson: Well, we've put on the table is abide by the agreement that we both signed up for.

Rogin: Clear enough. Thank you very much. Thank you very much. Okay. This is a question that was handed to be on this iPad, and the question is, how does industry support FMS sales in line with U.S. foreign policy? Specifically, is it state, DOD, or the Hill? With many stakeholders, some with diverging interest, who leads? I anticipate we might have something of a dispute over this. Let me start with the Congresswoman.

Granger: When you say who leads, industry leads or Congress leads?

Rogin: Or the Hill leads.

Granger: The Hill leads. Industry leads. The Congress has to say we're looking at the future, and here's the type of government we have to have, here's the type of weapons we have to have. But it's industry that develops those weapons with our help and says, "All right. For the future, we're doing this," and keeps us ... I'm saying that I trust that. They're going to do that. They have the employees. They have the know how. The Congress has to be better at responding and government has to be better at responding and saying, "Yes, that's helping us. That's where we're leading."

Rogin: Same question, Under Secretary Thompson.

Thompson: Yeah, no. I would say it is an inter agency process, and, again, as a former soldier and now as a statesman, we've got one person that sets that direction and guidance, that's the Commander-in-chief. He develops the national strategies with his national security counsel to set the priorities. We in turn work with partners and allies on what are the requirements to meet that strategy, and give the R&D requirements or the requirements to industry. Either it's an existing system or we need to build that system. Space, cyber, artificial intelligence, other emerging capabilities. And then work with our congressional oversight and appropriators to make sure that we get the money and the oversight to put those into place. So, again, it starts at the top.

Rogin: Thank you. And, Leanna, this will also be our closing remarks. So anything else you think is important to say.

Caret: No, I just really appreciate the partnership we have. It is, again, it is not something that industry can do alone or should do alone. It is with working together and making sure that we're staying in line to the U.S. interest.

Rogin: Excellent. Michele, closing.

Flournoy: No, I would just sound like a broken record. Since Andrea doesn't have enough on her plate, I would really encourage the Under Secretary to sort of lead the charge in the inner agency process to really do a more strategy driven approach. I mean, I think there's a lot of bipartisan support for the national defense strategy. There's some very clear implications on which partners and which allies we need to be strengthening as a matter of priority, and to use that to drive some of this more top down so we get the right capabilities to the right countries in our interests in a reasonable time frame I think could be leverage that you could use to get a lot done.

Rogin: Under Secretary Thompson, do you accept that challenge?

Thompson: I always accept a challenge.

Rogin: There you go. All right. On that note, let's give our panelists a round of applause. Thank you very much. Enjoy your day. Thank you so much.

PART 3 OF 3 ENDS [00:45:06]