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COUNCIL ON FOREIGN RELATIONS MEETING;
SUBJECT: THE DEPARTMENT OF DEFENSE'S QUADRENNIAL DEFENSE REVIEW;
SPEAKER: MICHELE FLOURNOY, UNDERSECRETARY OF DEFENSE FOR POLICY;
PRESIDER: THOM SHANKER, PENTAGON AND NATIONAL SECURITY CORRESPONDENT, THE NEW YORK TIMES;
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MR. SHANKER: (In progress) -- for the New York Times, and on behalf of the Council on Foreign Relations, I would like to welcome you all to today's meeting on "Rebalancing and Reforming Defense: The Quadrennial Defense Review 2010."

In addition to this very large audience here at the council headquarters today, there are CFR members across the nation and around the world joining us via teleconference. We welcome them as well.

One important reminder today: All of the conversation we have today is on the record, which is terrific. So, thank you, Madame Secretary, for that.

Before we begin, though, may I ask everyone to completely turn off your cell phones, iPhones, Blackberries, pagers, et cetera, not just silence them because the wireless signal interferes with our microphone system here.

Our topic today is the QDR, but as I look around the very filled room today and see a lot of comrades and friends and colleagues, I think we might nickname the session QWR for the "quadrennial wonks reunion." (Laughter.) All of us got here so early this morning because we actually care about the QDR. And the QDR to me is like NATO policy, like nuclear deterrence theory -- as my son's would say, next wave ska music -- very important but all too often ignored and misunderstood by a larger audience.

So it's our very good fortune today that we have a scholar and public servant deeply invested in a strategy review to clear the fog off that distant mountain top of QDR -- Michele Flournoy, the undersecretary of Defense for Policy.

You have her biography in her folder. Many of you know here, have worked with her, have interviewed her, certainly read her very influential writings on the topic. So, rather than my spending any more time reintroducing her to you, please let's go straight to the vital content of our discussion today and join me in welcoming -- Secretary Flournoy, the floor is yours.

MS. FLOURNOY: Thank you, Thom. (Applause.)

Well, thank you for that very kind introduction, and welcome, everyone, to the "defense wonks reunion." It's actually great to see so many friends and colleagues here in the audience today.

Those of you who know me know that I have a fairly long history with QDRs, having participated in several of them in government and certainly providing advice on them while out of government. And despite my best efforts to avoid QDRs, they always seem to ensnare me, and this one, thankfully, it turns out, proved no exception.

These strategy and force-planning efforts are difficult to pull-off, particularly in a way that reflects our best judgment on a range of issues yet generates institutional buy-in from a broad range of stakeholders. I think the 2010 QDR succeeds in both areas.

I would note that the Departments of State, Homeland Security, the intel community all have either completed or are completing their own reviews, and DOD benefited greatly from soliciting their views on our review, and we also contributed to theirs. We also solicited views from our partners and allies around the world, and combined with the imminent release of the president's National Security Strategy, these reviews, we hope, will help reshape national security policy and really communicate the administration's new directions to audiences both at home and abroad.

Secretary Gates has taken a hands-on approach to the QDR, and his leadership in that regard was invaluable. The report advances his vision of a department that is institutionalizing the ongoing reform and reshaping of America's military; shifts that rebalance the urgent demands of today and the full range of challenges that we have to face in the future.

Our armed forces, as you know, remain engaged around the world, from wars in Afghanistan and Iraq to our humanitarian relief mission in Haiti. So this QDR was principally designed to be relevant to today's efforts and sets what the military likes to call "commander's intent" for the development of strategy and military capabilities that will promote America's interests into the future.

What I'd like to do today is place the QDR in a broader strategic context and talk about what it covers in terms of both defense strategy and force planning.

As you know, the QDR requirement originated during a period in which the United States was attempting to construct defense strategy for the post-Cold War era, one that was characterized by a rapidly changing international system, questions about America's role in the world, and the dangers of nuclear proliferation. The problem back then was trying to craft a defense strategy that was responsive to the complexities of a world without the Soviet Union while also trying to balance the bipartisan desire to bring defense spending to more sustainable levels.

QDRs are helpful with the most difficult part of strategic planning; that is, bringing into alignment what you want to accomplish -- your ends -- with the concepts and capabilities you have to do so -- your ways and means. This is a tough task for any organization, and more so for the Department of Defense in a time of war, yet it's vital to defending the American people and ensuring effective stewardship of taxpayer dollars.

We began our review by assessing the strategic environment and how it is likely to evolve. Understanding this evolution is important for the department, a department which must make decisions regarding weapons development and military posture that often take over a decade to implement.

In this QDR, we argue that the international system is being reshaped by a number of factors: rising powers, continued proliferation, uneven rates of development and integration, rising demand for resources, rapid urbanization, and other trends that can spark conflict or state failure. And globalization continues to lower barriers for a wider range of actors to acquire sophisticated technologies that in the last century would only have been available to a few.

These shifts carry implications for how our armed forces will operate in the world. America's continued dominance in large-scale force-on-force warfare provides powerful incentives for adversaries to employ asymmetric approaches designed to offset our strengths.

In Afghanistan and Iraq, we have seen smart adversaries employ effective, if unconventional, methods to target U.S. and allied troops and civilian populations. More broadly, we see the changing dynamics throughout the global commons -- the sea, air, space and cyberspace domains that constitute the connective tissue of the international system. This QDR argues that many future adversaries are likely to possess the ability to contest or deny our access to these commons.

Given this complex environment, Secretary Gates and President Obama feel strongly that the United States requires a portfolio of military capabilities with maximum versatility across the broadest possible range of conflict, and this QDR attempts to build on that vision.

Having taken stock of the security environment, we then stepped back to examine U.S. national interests and Department of Defense objectives. As the president's forthcoming National Security Strategy will outline, America's interests are deeply linked to the integrity and resiliency of the international system. Chief among these interests are security, prosperity, respect for universal values, and an international order that promotes cooperative action in pursuit of common interests.

It remains vital for the United States to promote an international system that enables liberty, freedom, and open access to markets and ideas. These common global goods and the pursuit of a just international system formed the basis for six decades of American grand strategy, and their pursuit remains vital today.

America's interests and role in the world require armed forces with unmatched capabilities and the willingness of the American people to employ them in defense of our interests and the common good. These strategic assets, both our capabilities and our will, combined with our values and interests, make the United States the security partner of choice around the world. And these partnerships are critical to our security and prosperity.

We always prefer peaceful solutions, yet as President Obama said in Oslo, "There will be times when nations, acting individually or in concert, will find the use of force not only necessary but morally justified." And when we ask our uniformed men and women to risk their lives in our defense, we are deeply obligated to give them a clear mission and a realistic, properly resourced plan to succeed.

Well, let me turn now to the defense strategy we outlined in the QDR. Defending America's interests in a complex world requires a defense strategy that conveys a clear sense of priorities while being agile enough to evolve over time. The QDR advances a strategic framework and argues that the department must balance resources and risk in four priority objectives.

First, prevailing in today's wars. This is a point of departure for this QDR. In Afghanistan, this has required additional troops -- the president has authorized more than 50,000 since taking office -- and a wide range of enabling capabilities, including fixed and rotary-wing lift, capabilities to counter IEDs, and unmanned aerial systems.

In the war against al Qaeda and its allies, this requires the right mix of special operations forces, effective military partnerships, and a global network of intelligence, surveillance, and reconnaissance capabilities. As the responsible drawdown of forces continues in Iraq, prevailing in this context requires an approach to security assistance that helps our military and civilian personnel build

security capacity, promote effective governance, and develop a sustainable long-term relationship with Iraq.

Second, our defense strategy focuses on the need to prevent and deter conflict. This requires a strong information and intelligence architecture, plus land, air, and naval forces capable of defeating aggression. Our forces need to be enabled by space and cyberspace capabilities, and enhanced through ballistic missile defense and counter-WMD capabilities. America's deterrence also rests, of course, on a safe, secure and effective nuclear arsenal.

Credibly underwriting U.S. defense commitments around the world requires tailored regional approaches that integrate all elements of national power, rest on a network of strong alliances, and build new partnerships to address common challenges.

Third, the strategy highlights that we must prepare to defeat adversaries and succeed in a wide range of contingencies. The wars we are fighting often bear little resemblance -- I'm sorry, the wars we are fighting bear little resemblance to the conventional contingencies that have tended to dominate our defense planning in the past. Throughout the 1990s and well into the wars in Iraq and Afghanistan, our defense planning remained affixed to largely conventional contingencies in which other types of operations were considered lesser-included cases.

We've learned at great cost that America's adversaries will not conform to our conventional ways of war. If we want to prevail against 21st century adversaries and challenges, we must include counter-WMD, homeland defense, humanitarian relief, counterinsurgency, stability, counterterrorism, and cyberspace operations more fully into our defense planning.

Fourth, we have to preserve and enhance America's all-volunteer force, our most precious military resource. Years of war have strained our military personnel and their families. While I'm constantly impressed by the professionalism and the morale and the effectiveness of those in the field, there are indicators that worry us, from post-traumatic stress to rising rates of divorce and suicide. For too long, the health of the all-volunteer force has been underemphasized in our planning. This QDR includes the need to preserve and enhance the force as a core component of our strategy as a strategic imperative.

Together, these four priority objectives are at once timely and enduring. They capture the essence of what the department must do to advance our interests, and they constitute the key planning priorities as we consider the overall size and shape of America's forces.

I'd like to turn now to the whole theme of rebalancing the force, which is front and center in the QDR.

During the QDR, we looked to match capability improvements to these four priority objectives. These efforts culminated in several dozen recommendations that are now detailed in the FY 2011 budget submission to Congress. In this way, the QDR ensured a strategy-driven approach to defense planning.

I don't have time, of course, to speak to the dozens of initiatives that the QDR recommends, but new changes can be broadly characterized by two interrelated themes: first, ensuring force agility, and, second, increasing key enablers.

By force agility I mean the ability of U.S. forces to respond to a wide range of plausible challenges. By enablers, I mean those supporting capabilities that seldom receive much attention: helicopters, UAVs, ISR, electronic warfare capabilities, communications networks, cyber defenses.

These are capabilities that have all too often been in short supply for today's wars and will remain critical over the longer term.

But defense strategy is more than articulating a framework and recommending ways to spend more money, although that's an enjoyable part of the exercise. Real strategy requires making difficult choices. Secretary Gates has consistently demanded that the department effectively manage risk as a means to rebalance and reform the military in favor of prevailing in today's wars.

During the FY -- Fiscal Year 2010 budget deliberations we recommended ending production of the F-22 fighter, restructuring the procurement of the DDG-1000 destroyer, and the Army's Future Combat System. Our 2011 budget submission includes recommendations to cancel the CG(X) cruiser, shut down production of the C-17 airlift aircraft, and delay the command ship replacement program, among others.

These choices may not be popular, but they are necessary in order for the department to redirect resources into those higher-priority areas the QDR describes. Defense strategy is never risk-free. The challenge is to move beyond the question of whether to take risk and determine how to manage risk over time in a way that favors success in today's wars and ensures we're adequately preparing for future challenges.

Critical to executing our strategy is a network of relationships with allies and partners around the world, as well as strong civilian partners at home. Operations in Afghanistan, Iraq, and elsewhere depend on substantial contributions from traditional allies with whom we share long histories of sacrifice, but also with new partners with whom we share common interests. People often forget that over 40,000 international troops are now serving alongside U.S. forces in Afghanistan, and more than 600 have paid the ultimate price.

America must increasingly integrate its efforts with others to help promote prosperity and security. And while America has always worked with others closely, I think we will find that the attention given to our network of alliances and partnerships will only have to increase over time.

For example, over the course of the last eight years, we've been reminded that our ability to project and sustain power abroad depends not only on technology but on regional allies and partners who provide access, regional expertise and intelligence. You simply can't surge trust in a contingency, and you can't quickly rebuild a partnership that you've neglected.

The QDR argues that we need to tailor our regional defense postures with the right mix of capabilities, agreements and relationships that are more responsive to the regional security environment. We also need to improve resiliency in our infrastructure, pursue more opportunities for combined training with other countries, build the security capacity of our partners, and craft ways to further support multilateral efforts to assure access to the global commons. These efforts will help us enhance regional deterrence architectures necessary for an increasingly complex environment.

We also need to emphasize cooperation more in everything we do, to think more deeply about what our allies and partners abroad and civilian partners at home can bring to the table. DOD is actually in a support role in much of what we do, and we need to continue working towards whole-of-government approaches to many of our challenges. In this regard, Secretary Gates has long been a champion, an advocate for improved civilian capacity and greater cooperation in all facets of our national security policy.

Although I've focused my remarks on the key themes of our strategy and force planning, the QDR also explores many other critical defense issues. Most importantly, it highlights issues involving the health of our personnel and their families. As I said before, it really elevates taking care of people to a strategic imperative. Our people are our most important pillar of America's defense, and the QDR outlines a range of efforts to ensure that their needs are met, from working to ensure a more sustainable deployment tempo for our troops, to enhancing mental and physical care for our wounded warriors, to ensuring that families are cared for as they make significant sacrifices.

We also explore a number of critical institutional issues that are priorities for the secretary: reforming security assistance, institutionalizing rapid acquisition, strengthening the industrial base, reforming the U.S. export control system, and crafting a more strategic approach to climate change and energy issues.

These issues are central to how the department will reform and how we will support our national strategy. For eight years we've asked our men and women on the front lines to innovate under fire. They've done so. The QDR argues that the department must do the same.

So, having given you a broad overview of the QDR, I should close by saying that no single document, whether it is the QDR report, the State Department's Quadrennial Diplomacy and Development Review, the National Security Strategy -- no single document constitutes a complete answer to the question of how the United States will exercise power and leadership in the world.

We as civilian policymakers should be judged on the decisions we make and the policies we pursue, but these documents make their greatest contributions by forcing debates and evaluating key issues. As President -- then-General Eisenhower said, "Plans are nothing; planning is everything." And as we look to a more complex future, the QDR will shape the debate over national security and defense strategy, and in so doing I hope further help to ensure that America's instruments of statecraft can ultimately protect and advance our interests in a very complex world.

Thank you, and I look forward to your questions. (Applause.)

MR. SHANKER: Thank you very much for that very thorough discussion of the QDR. Before I turn the floor over to audience questions, I would like to follow up on a couple of themes that you raised.

The QDR traditionally tries to balance budgets and strategy, and sometimes in the past it's been said this nation has had more strategy than it has budgets. So, is this document truly strategy driven or does it have to bow to the constraints of the economy; specifically whether enduring costs of legacy systems and other expenses like that limit your ability to really draft the strategy you would like?

MS. FLOURNOY: Well, I'd like to say that the QDR is both strategy driven resource informed. I think that the strategy part of the review was very much taking a blank sheet of paper, assessing the security environment, assessing our national interests, working through the department's role in supporting national strategy.

I think when it came to translating some of those strategic themes into program and budget, then we had to at least be informed by resources. And I don't mean that in an absolutist sort of way. We were never given, here is your budget target; live within it. It was that as we worked through alternatives for taking policy guidance and turning it into capability, one of the things we did, in looking at different contributions, is also consider their cost, so that the secretary could make informed

trade-offs about where to invest more and what that would mean in terms of having to balance elsewhere.

And so, again, it was very much a strategy-driven exercise, but once we got to program and budgeting, certainly it was informed by the resources picture.

MR. SHANKER: Thank you. You know, already in the first 24 hours the document has been very highly scrutinized and two criticisms have emerged, one from the notional left and one from the notional right. I would like to raise them both in the interest of a fair and balanced conversation, and fair and balanced in the real sense of those terms. (Laughter.)

MS. FLOURNOY: CFR is always fair and balanced.

MR. SHANKER: Right. From the notional left has come the question, since President Obama is freezing so much discretionary spending, why isn't more of the DOD budget being frozen to help the nation? And from the notional right has come the criticism that your metric for risks really do undervalue traditional state adversaries. They most often cite China and Iran. So how would you answer those two questions?

MS. FLOURNOY: Well, first, on the defense spending question, I think that certainly Secretary Gates takes very seriously his stewardship role in the department and the fact that part of our job is too provide the best capabilities in the world to men and women in uniform, but to do so in a way that's very responsible with American taxpayer dollars.

But when you look at the situation we confront, we are a nation at war. We have both Afghanistan, Iraq continuing, a broader war against al Qaeda and its allies, emergency relief missions in places like Haiti, and so the operational costs of the force are quite high.

In addition, you have personnel costs within the budget that are taking up a larger and larger share: health care, retirement, and so forth. And so the discretionary part of the defense budget is actually shrinking quite substantially over time.

So there are a number of factors that I think made it difficult to reduce the defense spending in real terms. That said, when you look at the sum total of the programs that the secretary decided to cancel last year and you add up all the costs of those programs had they been brought to fruition, it was something like \$330 billion. And so, you know, the department has been trying to be as responsible as possible, making some hard choices to make sure that we're good stewards of taxpayer dollars.

On the other side of the question, you know, I think Secretary Gates has been very clear that he's wanted to put an emphasis on winning the wars that we're in because he feels that that will have a pretty big impact on how the environment evolves in the future. But that's not to say the QDR ignores other types of threat in the future. In fact, one of the areas that we've put particular emphasis on is what we call high-end asymmetric threats. How could very powerful state adversaries, often rising regional powers, use their sophisticated technologies and forces to actually counter U.S. interests?

And so, along with investments in counterinsurgency and counterterrorism capabilities, for example, you'll see targeted investments in capabilities that are related to deterring and defeating aggression in anti-access environments -- so, for example, modernizing long-range strike capabilities.

We have some money in the budget for continued technology development as we conduct a longer study to sort of flesh out what portfolio of intelligence surveillance reconnaissance and strike assets we want for long-range precision strike; developing a joint air-sea battle concept that sort of - the new generation following on the land -- air/land battle concept back from the '70s; a lot of emphasis on underwater -- or undersea warfare; looking at our forward posture and basing infrastructure; investment in space and cyber to ensure our access to those global commons.

So, what I'm trying to say is if you actually look at the details, it's a very balanced approach that's taking into account not only the needs of today but the kinds of high-end challenges we're also going to face in the future.

MR. SHANKER: If I could draw you out a little more on the first part of your answer, the personnel costs. All of the QDRs, as they should, salute the incredible sacrifice of men and women in uniform and restate the nation's debt to their families as well. This one, though, strikes me as being far more detailed in the types of programs. So the QDR is taking on this mantle as opposed to just leaving it in the budget.

That being said, even Secretary Gates yesterday indicated that these rising personnel costs are very difficult to sustain, and he talked about perhaps adding more to what the families pay for TRICARE. How will DOD manage this incredible standing part of its budget that's only going to rise, the personnel costs?

MS. FLOURNOY: Well, I think the first priority is to do more for active-duty service members and reservists who are on active duty and their families in terms of making sure that they're appropriately compensated, making sure they have reliable and solid-quality health care, taking care of wounded warriors, but also investments in families.

And this is one of the insights from, you know, seeing a military that's been remarkably resilient over eight years of war, but a lot of that strain has also been translated to families, so making sure that families have counseling services, families have support for their own educational pursuits, support for other kinds of community-based initiatives and so forth to try to support the families who are also sacrificing.

That said, I think what we're going to need over time is some help from Congress. Secretary Gates noted yesterday an example that if you compare what a typical military family of three pays on TRICARE in terms of their annual copay, it's about \$1,200 a year. If you took the same family and put them on the Federal Employees Health Care Plan, they'd pay about \$3,300 a year.

And the incentive structure is such that even many retirees who have access to privately provided health care through their firms go back to TRICARE because it's -- you know, the incentive structure is such that that is a less-expensive option for them.

So I think we really need to sit down -- this is a very difficult issue. Everybody wants to give the best quality support and care to the members of our military and their families, but as we do this, unless we get some ability to control costs, in this area, we are going to gradually crowd out investment accounts for future capabilities, operations and maintenance accounts that keep our forces ready and able to operate effectively around the world.

MR. SHANKER: There's quite a bit of intention in the QDR to working across the interagency, but I guess I have to submit that although the standard line is we're a nation at war, it's mostly just a military at war and the intelligence community at war. And this is not just this administration but

the previous one; the civilian surges have often come up short. When I travel to Iraq and Afghanistan to visit the PRTs, so many of the civilian positions are still filled by men and women in uniform.

So, the QDR talks about sharing the burden across the interagency. I guess I would ask you, Madame Secretary, how do you force the burden across the interagency?

MS. FLOURNOY: Well, I think, to be fair, we have never resourced -- or at least not in a long time -- in recent years we have not resourced our civilian agencies to be expeditionary and to be prepared to accompany the military around the world or to go out in absence of the military to prevent and shape and build capacity without us.

And so, given that we haven't resourced or prepared them for that mission, I actually think they're doing remarkably well, taking an institution that's not been oriented on that mission and, in real time, making it respond to the challenges in places like Iraq and Afghanistan and elsewhere.

I think what it raises for a group like this is a larger question of do we want to invest differently in those civilian agencies? And again, my boss has been a big advocate of this. If we want an expeditionary State Department and USAID, we need to invest in it. We have to create the career paths, the incentive structures, the training, the people to get there. And so I think that's the kind of civilian capability we're going to need well into the future, and I think it's a good investment. But that's a conversation we need to have on Capitol Hill.

MR. SHANKER: Before I open the floor to questions, I would be remiss not to recall your very influential essay in the spring of '06.

MS. FLOURNOY: Uh-oh. (Laughs.)

MR. SHANKER: "Did the Pentagon Get the QDR Right?" by Michele A. Flournoy. Out there somewhere is the new Michele Flournoy, who will serve as Boswell to your Johnson. It would be unfair of me to ask you, did you get it right? Of course you did.

MS. FLOURNOY: Clearly. (Laughter.)

MR. SHANKER: But clearly, in your mind there must be some questions you would like to have worked on more, some unfinished business, some things that should be taken up next time. What are those areas to pursue?

MS. FLOURNOY: That's a great question. In every QDR, you run out of time. As much fun as they are, they have to end at some point. And you come out with a long list of things to do. One of the big things to do, in my view, is a global rethink of our defense posture around the world -- our forward stationing of forces, our training of rotational forces, our training sites, our bases, our relationships, and so forth.

We have begun that study on a region-by-region basis, and we are going to try to have the insights of that ready to inform the fiscal '12 budget. We have a lot of work to do in that area, and it's actually a very exciting area to try to get some further clarity on.

I think there are a number of places where we still have to flesh out the details of implementation. For example, the big theme of the last QDR and this QDR is building partner capacity, this notion that we have a stake in building up capable allies and partners who can either fight alongside us or take care of security problems so that we don't have to intervene.

But the mechanisms that we have to actually do that are highly antiquated, for the most part. They're inherited from the Cold War. They're not responsive to the kinds of needs and time lines that we experience today. We made some very fundamental reform in both the security-assistance and export-control domains. And that is a big agenda of work to follow on.

MR. SHANKER: Great. Thanks.

I would now like to invite audience members to join our discussion. I ask that you wait for the microphone. Please stand, state your name and affiliation, and please keep your question concise so that many others can join us today.

Yes, ma'am.

Q Hi. I'm Kathy Ward. Thanks for taking the time to meet with us all today.

I wanted to ask you a little bit more -- you mentioned that, as part of the QDR preparation process, you had also consulted with allies, with other countries around the world. And obviously you're sitting in a department that, rightly or wrongly, over recent years has come in for some criticism of being a little bit unilateralist or not consulting enough.

And I wanted to give you a chance to talk a little bit more about what went into that consultation process with other countries and what you got out of it and, you know, what you think it has brought to the table for you, both in terms of the planning for the Department of Defense and also the sense of what's security and what's important going forward.

MS. FLOURNOY: That's a great question.

The consultations have taken many forms. I think just about every bilateral discussion that we've had since this administration came in, we've talked about the QDR as it was underway and shared our thinking about the security environment, and we solicited input on that in particular. That's where some of the most useful insights really came. We talked about our emerging defense strategy and priorities, some of the tradeoffs we are contemplating and so forth.

You know, in the case of very close allies, they're extremely interested in this, because many of them are also going through defense reviews, and they're trying to figure out how to make their tradeoffs. And they view the building of their capabilities in a very complementary way with kind of where the U.S. military is going.

So the consultations ranged from, you know, multiple interactions over the last year in sort of diplomatic fora to actually having a number of allies embed officers on the QDR staff. We had British, I believe, Canadian and Australian officers with us in the QDR office working alongside. And the Brits will go back and they'll work on their defense review, which is just about to get started; so, you know, a range of consultations, but again, very beneficial from our perspective, and hopefully for them as well.

MR. SHANKER: Yes, sir.

Q Hi. Nick Dowling with IDS International.

First, let me just congratulate you, Michele, on a great first year, not only on the substance and thoughtfulness of the work coming out of policy, but the tone and the civility. It's great to see a first-year administration go about its business in such a civil and professional way without the egos and controversy that we sometimes see.

So, with that having said, let me introduce a little controversy. Afghanistan and Iraq, Bosnia and Kosovo -- the QDR speaks to the changes in the need to invest in these complex challenges. But at the same time, as someone who works on a daily basis with war fighters on the ground -- the brigades, battalions, PRTs -- we still see the resources very short. We see an army that's struggling with its resources on a daily base, manning levels -- that's training centers -- that are low, not being able to afford either equipment or training or other things; families that have to go or a husband that's just come back and then is going right back into the training (float ?), and also units that are just forming, even as they're getting ready to deploy.

So as you go into the stage of the QDR thinking about the controversies that maybe we're not investing enough in (big state ?) -- and we can't forget our Navy and our Air Force capabilities. I would ask you to address the question of are we still leaning hard enough forward for the force that is really struggling on a day-to-day basis compared to the relative unchallenged dominance we still have in the naval and in the air areas?

MS. FLOURNOY: I think that part of this -- when we say the focus on current conflicts, those are some of the issues that Secretary Gates was trying to shift attention to. We have a force that is performing remarkably well but is under enormous strain. And if you haven't seen it up close, it's hard to actually fathom what people are doing.

And so certainly the taking-care-of-people investments are part of that. But also we've set a very clear goal for ourselves in trying to bring down the operational tempo, meaning we increase the time at home between deployments over the next couple of years, because that also -- that gets to some of the issues you're talking about. It gets also to readiness and the chance for our troops to have time off at home and time off to train.

But in terms of the equipping piece, the focus from enablers, again, came from both what is critically short today, what do we still not have enough of -- for example, helicopters; every theater you can visit wants more helicopters. And actually, we have a lot of helicopters in the force. We didn't have enough crews. So we've dramatically increased the training and the development of crews; ISR. You can go through the list.

Those same enablers, though, are going to be extremely useful in the future. Many of these will work across the spectrum of conflict and play critical roles. So I do think these are the kinds of issues that the secretary was trying to address when he said, yes, we have to plan for the future; yes, we will do that. But we have to get it right today. And I think we succeeded somewhat in pulling this QDR in that direction.

Q Just a very quick follow-up. The secretary said, quite surprisingly, yesterday that ISR has all been drawn to Iraq and Afghanistan. There's not very much left anywhere else in the world. Will this increase in ISR all go to the current wars, or will the other combatant commanders get some eyes in the sky out of the new budget?

MS. FLOURNOY: I think we're trying to create more flex in the system to cover other critical areas. And in addition to Iraq and Afghanistan, when you look at where we're engaged in al Qaeda around the world, even in places like Haiti, we have Predators now over Haiti because we need some ISR to understand what's really going on there and to sort of help map the relief effort.

So this hopefully will provide more flex in the system to meet unmet demand from other CO-COMs as well.

MR. SHANKER: As more evidence that we're fair and balanced, I feel compelled to call on Secretary Feith.

Q Doug Feith, Hudson Institute. Thank you for that presentation.

When the term "building partnership capacity" was coined, one of the things that people had in mind was not only building the capacity of foreign partners, but also building the capacity for civilian partners within the U.S. government. And one of the problems you mentioned, that there was not a lot of funding for the building of civilian partnership capacity, and one of the things that we did was arrange to transfer Defense Department money to the State Department for things like the Global Peace Operations Initiative, the Civilian Response Corps, draw-down authority so that we could deploy the State Department. I mean, it didn't fit with the general theme of the Defense Department as unilateralist and all the rest of that stuff. But the fact is we pushed very hard and even gave DOD money for those purposes.

That became controversial, because then people said if DOD money is being used for that, you're militarizing foreign policy. And I'm just wondering, where do you stand on this question of tapping DOD resources to support the State Department, for example, in building up civilian capacity that can be used in partnership with the military?

MS. FLOURNOY: It's a great question, and it is the question that we're trying to answer in this interagency review of security assistance authorities and resources.

You know, I think ultimately you want to get to a situation where authority, responsibility and resources are aligned and that these kind of transfers aren't necessary. But the truth is, right now we find the Defense Department committees on the Hill much more willing to support this kind of work than some of the foreign-operations committees on the Hill, although that is changing, particularly with the experience of Afghanistan.

The 1207 transfer account that you all created -- we actually, as part of this review, decided to actually move that with top line to State for the first time this year. And we are going to help them push their own committees to say this is something that really should be coming to State proper, directly. And so this is sort of an experiment of can we actually move top-line authorities over, and can they sustain the funding on the State Department side?

We're also going to conduct a broader review that looks at a whole range of other possible authorities, both State, DOD, and some that are shared, like 1206, which I think has worked quite well to do global train-and-equip missions. So this is an area that is very much still a work in progress. I think the most work we have to do is really reaching a new consensus on Capitol Hill on the importance of these programs.

MR. SHANKER: Let's go to the back of the room. Anybody? Yes, sir. Further back. Thank you.

Q Thank you. John Hauge, Inter-American Development Bank.

In the actualization of any submitted budget, there's always a triage element at play where the president decides where he's going to go to the mat on certain issues. And the other end is certain secretaries do the best they can when they go up to Congress.

Given the size of the weapon systems that you've mentioned that Secretary Gates wants to cancel, and, on the other hand, the size of the deficit and the amount of spending currently involved in

the budget, what priority do you have indicated to you from the White House that the president or someone is really going to go to the mat on weapon-system savings so you can actually achieve the budget you've asked for?

MS. FLOURNOY: I don't want to speak for the White House on this issue, because I don't know exactly where that conversation stands. But what I can tell you is that Secretary Gates made very clear yesterday that he will go to the mat on programs that he feels are forcing the department to spend on capabilities where we don't have a need.

We just don't have that luxury. We have to make hard choices to make sure that we're putting the defense dollars to the highest possible use. And so C-17s -- you know, the department has met its requirement. Every mobility requirement study of the past several years has said we have enough of these. Congress keeps forcing us to buy them. The alternative engine for JSF -- in theory, something that could provoke competition, et cetera. When you actually look at the details and cost it out, the judgment was that it would cost more money than it would save over time.

So there's things like that that you'll see the secretary really draw a line, because, again, last year the amount saved was -- you know, had those programs all gone to fruition, \$330 billion. That's a lot of money to put towards important priorities like taking care of people, investing enablers, investing in future capability that we do need. So I think you can certainly count on Secretary Gates to go to the mat on some of those.

MR. SHANKER: Right side -- no. Yes, sir.

Q Hi, Michele. Mike McDevitt from CNA.

In your Q&A, you mentioned or you alluded to a new study that's underway for -- these are my words, not yours -- another posture review for FY '12. And given the fact that we're still in the midst of executing the posture review from the Bush administration, I'm sure ears around the world, particularly in Japan, will perk up based upon that.

Could you elaborate a little bit of what you have in mind in terms of building on the posture review that we're still tidying up around the world?

MS. FLOURNOY: Well, there were some issues that we did review in the QDR and sort of took a stand on. One of them is realignment in Japan, where we do believe that the plan that's frankly been across multiple administrations, that's enshrined in strategic agreements, that is the plan we should all be seeking to implement. And we're not going to change that. We're not going to fall off of that.

We do understand that the Japanese government is going through its own transition and review process, and we look forward to engaging them on the details when they're ready. But that is not a piece of this that is being fundamentally reconsidered.

That said, when we look at Asia, one of the things that we believe we could do better at is identifying combined training areas, for example, for Marines, for ground forces, for air forces, and so forth. So we're looking holistically across the Western Pacific for allies and partners that might offer -- might be interested in doing more joint and combined training with us.

In Europe, I think for the moment we've decided to keep the four brigades there. But we're going to look -- mainly because we didn't want to make that decision in isolation. We wanted to take a fresh look at our European posture as a whole, in light of a new NATO strategic concept, in light of

the ways in which we're working with our allies differently in places like Afghanistan, in light of the events of the last couple of years in Georgia, and so forth. So we are taking a fresh look there. And you can go region by region.

So it's going to be a mix of some things that get validated again as something we should continue, and others where we think we might tweak and maybe launch some new initiatives that will strengthen our position and posture.

MR. SHANKER: Yes, sir.

Q Charlie Stevenson, SAIS.

Besides approving the budget as submitted, what else do you need from the Congress in response to the QDR, including do you need any changes in the legislative mandate that tells you to do this?

MS. FLOURNOY: Ah, that's a good question.

Well, the department always goes up to the Hill with not only a budget, but also a number of legislative initiatives where we're looking for authorities or relief from requirements and so forth. I think, in general, we'd always like pure reporting requirements or consolidated reporting requirements. We write hundreds and hundreds of reports to Congress each year, which we understand is important for transparency and accountability, but we would like to see those requirements streamlined.

In terms of the QDR requirement itself, this is something I've asked the QDR staff, led by Kathleen Hicks, along with Sean Brumley (sp) and others -- who deserve, frankly, much of the credit today -- to look at this, because I think there's -- in general, we think the requirement to conduct a QDR is extremely important and extremely useful for the department, and we hope the Congress. But the legislation has evolved over time to be a sort of accumulation of added requirements.

And I think, again, a sort of fresh sit-down with staff to sort of say, "Are you actually getting the product you intended? Are you getting everything you need? Is there some way to sort of rationalize some of these things that have been added each iteration over time?" I think that's worth doing, and we'll look forward to doing that.

MR. SHANKER: Yes, sir.

Q Yes, John Verna (sp) with Covington & Burling.

You mentioned export-controls reform, and I was wondering if you could extrapolate a little bit on the deficiencies you see in the current regime and if there's any timetable to the reform effort.

MS. FLOURNOY: Well, this is, again, a priority interagency review that's ongoing.

I think there's hope to engage the Congress on this issue this year. The problem we see is, on the one hand, for the technologies that we really, really want to protect, the system isn't always as good on enforcement and pursuing violations as it should be.

For technologies that are -- you know, at the same time, we tend to undermine our own economic competitiveness and our ability to build partner capacity and work with allies by protecting all kinds of things that are really now freely available, or trying to protect things that are pretty much arguably freely available on the open market. I mean, the secretary likes to use the example

of having found some things on the protected-items list that, you know, you could go to Beijing -- to the Radio Shack in Beijing and buy.

So, you know, we really need a scrub of the whole system to build higher walls around the true crown jewels that we're trying to protect and create a more open and transparent and workable system for the rest. That's really what we're aiming for.

MR. SHANKER: What would be an example of partnership capacity- building that's been stalled by the lack of technology transfer?

MS. FLOURNOY: For example, right now we are in a really -- building, frankly, on the work of the last administration and that before, we are at a really critical and important point in our partnership with India. India is, you know, a country with whom we share many interests, many values. We are deepening our military cooperation.

And yet, as we try to sell them equipment that they're very interested in, we're getting hung up on these technology-transfer issues that are really a legacy of the Cold War and have nothing to do with our modern relationship with India and the kind of partnership we're trying to build there. And trying to explain this to them is very difficult when we don't have a lot of confidence in the system as it is today.

MR. SHANKER: That's fascinating. Thank you.

Yes, sir, on the aisle here. Yes.

Q Allan Wendt.

I have a follow-up question on the subject of export controls. What mechanisms do we have so that our allies in other countries around the world will also protect these strategic technologies? The U.S. hardly has a monopoly on them. And if we don't have means to work with our allies, techniques that really bite, as we used to with COCOM, we're fighting a losing battle.

MS. FLOURNOY: This is one of the issues I was referring to when I talked about inadequate enforcement. We need to have end-user agreements with more countries, and with regard to more systems and technologies that we do transfer. And then we need to be willing to hold partners accountable and allies accountable, even when it means, you know, creating a sore point in our broader relationship. But this is an important issue.

I think we have -- where we've done that, we've had some good results. But we need to do -- you know, the system needs to put more focus on that. And again, it's a lot easier to do when you have confidence that you're really protecting only the things that really need to be protected, as opposed to a lot of things that really arguably shouldn't be on the list.

MR. SHANKER: Thank you.

We've got eight minutes left until we adjourn. And just a reminder: This entire conversation today is on the record.

Yes, sir.

Q Jeff Bialiris (sp).

First of all, let me just congratulate you; excellent effort. And it's really hard to disagree with the main thrust of this.

I wanted to talk about force structure. I didn't see a lot of discussion about changes in force structure coming out of this QDR, and with a particular question relating to the role of the Army. You know, historically the Army obviously has focused on high-intensity conflict. Over the last seven years, that's shifted. And there's been an enormous change in training and equipment and what not, focusing on low intensity.

But the question is, what is being done? And does the QDR foresee any implications in terms of changes in Army structure to institutionalize change and to avoid the post-Vietnam experience, if you will? And are there changes contemplated in terms of the number of heavy units and the role of the Reserve that could not only institutionalize change but take some of the stresses off the system?

MS. FLOURNOY: Well, the secretary approved -- prior to the QDR, actually -- a temporary increase in Army end strength to try to take some of the stress off the force. But one of the follow-on pieces of work that we are going to do is to take a closer look at the mix of types of Army BCTs, the mix of heavy, light, Stryker, et cetera. And that is going to be ongoing work.

At the same time, there's been a continued emphasis -- again, this is an area of continuity -- of building up more Special Forces capability. The last QDR had built up the numbers of personnel. This year is really filling out that capability with organic enablers and other capability that they need to be effective, and moving it from the sort of supplemental funding into the base budget, so that the SOF community has sort of more of an institutional home. And -- whoops. I guess we're being sent a signal here.

So, no, both of the things that you highlighted are areas for continued work. And that's going to be informed by how the security environment evolves and what kind -- as we emerge from Iraq, as we reach a point of stabilization in Afghanistan, you know, we'll have a better sense of what those needs will look like in the midterm.

MR. SHANKER: As I said, the secretary is clearing the fog off the distant peak of QDR, and now we're not left in the dark as well. (Laughter.)

So we have five minutes left. I'll take sort of two questions together to wrap up.

Yes, sir.

Q Charles Battaglia with C.B. Grace & Company.

You talk about the need for doing more cost controlling to free up the discretionary spending here. The Defense Department still has an awful lot of infrastructure that it doesn't need. Has any thought been given to going to the (dentist ?) and laying the groundwork for another BRAC?

MR. SHANKER: Let's just tie that with one more. Is there one more question, sir? Did you have your hand up? Yes, please. This will be the last one.

Q Greg Thielmann, Arms Control Association.

Originally the QDR and the NPR were on the same track. And I wondered if you could just say one word about connecting the two. And I'm thinking particularly about the tactical-nuclear-weapons issue, because so much of what you talked about in terms of relations with partners being responsible regional conditions, it seems like you need to answer some of the big questions, which were, again, prompted yesterday by Swedish and Polish foreign ministers urging tactical nuclear weapons need to be taken away.

So I wondered if you could make a connection between these two processes on issues like that.

MS. FLOURNOY: On infrastructure, this is something that gets scrubbed every year in every budget. And I think that process will continue. I think the most interesting new dimension to this conversation has been not only numbers and places, but the whole question of energy efficiency.

The department is a huge energy consumer in the U.S. economy, and we believe we can be a market leader in terms of development of alternative fuels, facilities, efficiencies, et cetera. And that's a really exciting part of the QDR that actually Congress mandated us to look at, but it's really taken on a lot of momentum within the department and is very exciting.

On NPR and QDR, we expect to have the NPR completed March 1st. The reason for the delay is that there are a lot of issues with regard to nuclear weapons that really need to go to the president. These are -- this is an area of very strong presidential prerogative and domain. And so we're taking an extra month to make sure we get all of the key policy choices that will influence our future approach and get them to the highest levels, et cetera.

That said, you know, some of the budget items you see in this area are very much informed by the deliberations to date, although we are reserving the right to make some revisions as the president makes his final choices.

The issue of tactical nuclear weapons in Europe was actually not -- is not being addressed directly on the NPR, because we want to do that in an alliance context. And so that, we believe, should be part of the strategic-concept discussion at NATO and the follow-on discussions that come out of that. It's really not a unilateral U.S. decision. We certainly have views that we'll bring to the table. But that needs to be a NATO discussion, and we look forward to having that as part of the strategic concept review.

MR. SHANKER: Any concluding or wrap-up comments today?

MS. FLOURNOY: I just want to again -- the QDR is the work of many people in the department. I think this QDR was particularly informed not only by our Joint Staff brethren and our services, but also the combatant commanders. But most of all, I want to thank and share all the praise -- I'll take all the hits -- but with Kathleen Hicks, David Aukmanic (sp), Sean Brumley (sp) and their staff, who really were the engine room of this review and deserve great credit for all that's good herein. So thank you.

MR. SHANKER: Great. (Applause.) I thank you for sharing your time and your wisdom with us. I thank the Council for hosting the event.

I thank all of you for coming today.

MS. FLOURNOY: Thank you.

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