

CQ FINANCIAL TRANSCRIPTS

Federal Agency

March 4, 2014

Undersecretary of Defense and Comptroller Robert F. Hale and  
Other Defense Department Officials Hold News Briefing on  
President Obama's Proposed Fiscal 2015 Budget Request for the  
Defense Department

LIST OF SPEAKERS

---

KIRBY:

Afternoon, everybody. Thank you all for coming.

In a moment, you will hear from three senior leaders, that have spent a great deal of time and effort over the last several months preparing the fiscal year 2015 budget, and the 2014 Quadrennial Defense Review, Undersecretary of Defense and Comptroller, Bob Hale, who you all know very well -- and I am -- I want to remind you that at the end of this, I think Mr. Hale would like to have a couple of minutes with you after the briefing is over -- the deputy undersecretary of defense for strategy, plans and force development, Christine Wormuth, and from the joint staff, the J8 and director, force structure, resources and assessment, Lieutenant General Mark Ramsay.

KIRBY:

Following their briefings, leaders from the Army, Navy, Air Force and the Missile Defense Agency will provide further information on their respective elements of the larger budget submission.

Last week, you heard Secretary Hagel and Chairman Dempsey preview some of the key decisions contained within the documents we are releasing today. Secretary Hagel firmly believes that the QDR represents the right strategy to defend the United States and secure our interests during this historic transition for our military.

Secretary Hagel directed that the QDR team define our goals in a fiscally informed manner that enables -- that enabled us to build a budget that fully supports our strategy. The analysis you will hear today demonstrates how the president's budget submission enables the Department of Defense to meet the strategic interests of the United States now and into the future.

The QDR also makes clear that sequestration is an unacceptable path for the Department of Defense as we reposition our force to face an increasingly perilous world. You can expect to hear these themes from Secretary Hagel tomorrow when he and the chairman testify before the Senate Armed Services Committee, and on Thursday at the House Armed Services Committee.

Secretary Hagel looks forward to discussing our updated defense strategy and our budget as we grapple with tough fiscal and strategic realities.

And with that, I'll turn it over to Ms. Wormuth to brief the details of the Quadrennial Defense Review.

**WORMUTH:**

Good afternoon, everyone. Thank you all for coming.

You know, we do the Quadrennial Defense Review every four years and deliver it with the president's budget. So I'm happy to have the opportunity this afternoon to talk through some of the highlights with you all and take your questions before we also go and obviously talk about the -- the defense part of the budget.

Before I start, I just want to take a minute to thank the leadership here in the department and the staffs of OSD, the joint staff, the services, the combatant commanders. Really, this was a team effort and the entire department put in a tremendous amount of work on this QDR. So I just want to thank everyone in the building who participated. It was a very collaborative, inclusive process. We also worked closely with the National Security Council and our counterparts in the interagencies, so very much appreciate all the hard work that's gone in in the last several months.

In terms of the main points of the QDR report, which I think should be available to you all on the department's website at this point, we have three sort of primary themes. The first is to provide an updated defense strategy in the QDR report that puts forward a vision for protecting and advancing U.S. interests, and a strategy that will sustain U.S. global leadership.

The QDR report also will talk about how we intend to rebalance the joint force to adjust to the changing strategic and -- and fiscal environment. And several of the high points of these rebalancing adjustments the secretary outlined next week or, excuse me, last week. But I'd also like to talk a little bit about some of the investments we're making in key capability areas that -- that support where we think our joint force needs to go.

The third main theme in the report is talking about how the department itself needs to rebalance and reform to put additional continued emphasis on being more efficient, being more effective, and in particular controlling internal cost growth, particularly in the area of compensation, while at the same time maintaining our commitment to preserve the health of the all-volunteer force.

So those are sort of the three primary themes in the document.

The report will also talk at some length about what we see as the implications or the risks that are posed by prolonged sequestration- level cuts to the defense strategy and to the ability of the department to execute that strategy. So that's, I think, a very important part of the report.

I would characterize this updated defense strategy and this overall QDR as an evolution of our strategy. It's continuing the transitions from the wars of the last decade in Iraq and Afghanistan, to looking at future threats and looking at what our joint force needs to -- needs to be able to do in the next 10 to 20 years. It builds on and incorporates many of the priorities that were outlined in the defense strategic guidance in 2012.

We talk, as you would imagine, about how we see the security environment in some detail. I think it's fair to say we see the strategic environment we're facing as continuing to be complex. It's rapidly changing. We see a continued importance of focusing on the Asia-Pacific region. We see multiple friction points in the Middle East. Obviously, there are a range of challenging problems there. We see Sunni-Shia tensions. That is an area, obviously, of continuing importance and focus for the department.

#### **WORMUTH:**

The security environment will also talk about how we see developments in the cyber and space domain. These are obviously vital to our security, but are also under considerable challenge by nation-states in various places in the world.

An important piece of the security environment is how we see the terrorist threat. It's metastasizing, it's spreading. I think it's fair to say that while perhaps the -- the direct threat to the homeland is not as strong as it was immediately after the 9/11 attacks, we certainly see Al Qaida continuing to morph, and it's a -- it's a major focal point of our -- of our strategy, which I'll talk about in a little bit more.

We also talk, in the report, about how we see technology changing and influencing the strategic environment. On the one hand, it's very much enabling unprecedented cooperation with allies and partners, but it obviously

poses a variety of threats for our military: in particular, the ability to counter anti-access and area denial threats, for example.

In the updated strategy, there are really three pieces, and let me walk through those quickly. First of all, and I -- I want to say up front that these three pillars of the strategy, if you will, are inter-related. They -- they complement each other, they work together, they are not sort of stand alone, so it's important to sort of think of them in a comprehensive way.

The first pillar is really to protect the homeland, to ensure that we can deter threats against the United States and defeat threats if necessary. That also, under protecting the homeland, we also are focused on continuing to be able to provide support to civil authorities when called upon to deal with natural disasters and things of that sort.

A second pillar for the strategy is building security globally. This is really looking at our forward presence, our building partnership capacity efforts, our mil-to-mil engagements and exercises around the world. And the -- the purpose behind building security globally is really to deter threats wherever we can, as far away from our shores as possible, and to work together with our allies and partners in dealing with common security challenges.

The last piece of our strategy is sort of, arguably, the more kinetic pillar of the strategy, and that's -- we've called it projecting power, and winning decisively, and here, we see the ability of the joint force to project power around the world as sort of a signature of our U.S. military. It's one of our core strengths. It's essential to protect that, particularly in an environment that we see becoming less permissive, where we see A-to-AD (ph) threats growing.

Here is primarily where we would talk about the ability to conduct counter-terrorism operations, for example, and in the report, we will talk about, while we will certainly continue to make investments to ensure that we have the ability to conduct direct action operations against terrorist groups, we also are going to be putting greater emphasis on building partnership capacity with other countries around the world to enable those security forces to take on more of their own -- to take on more share of the burden in terms of dealing with terrorist threats in countries around the world, so we're going to be rebalancing a little bit in that mission space.

In the strategy, again, particularly in terms of building security globally, we restate and reemphasize our commitment to the rebalance to Asia-Pacific, to sustaining our focus in the Middle East. We have 35,000 forces,

approximately, in and around the Gulf, which I think is indicative of -- of how seriously we take that part of the world.

And we also will continue to work very, very closely with our European allies and partners, to ensure not only that we have -- that we're focused on providing Euro-Atlantic stability, but also on working with them to deal with common challenges. Again, partnering with our European friends to deal with terrorist threats, to deal with new, normal threats in places like north Africa, for example.

An underpinning across all three pillars of this strategy is a real focus on innovation and adaptability. And I think it's important to say that we are not trying to say that we can close the gap in -- in an era of fiscal constraint solely through innovation. But, we think it's very important in a fiscally austere environment, to really put a renewed focus on trying to be as creative and forward-thinking as we can in the department.

So, for example we are looking, we spent a lot of time in the QDR looking at things like, how can we provide forward presence in new ways to get more bang from the buck? So, if we're looking at, for example, potentially looking at joint training ranges, at perhaps deploying elements of our carrier strike groups in different ways than we have in the past to, again, try and get more bang from the buck.

#### **WORMUTH:**

We also are trying to work with particularly close allies, like the Brits for example, to harmonize how we do security cooperation activities, to really make sure that we are maximizing our effort and pursuing complementary objectives and activities so that -- so that we're all getting as much possible out of our more scarce defense resources.

At the president's budget level, we believe we can execute this defense strategy with increased risk in some areas, we can continue at this budget level and with this updated defense strategy to defeat an adversary and deny the objectives of a second adversary as well as being able to do the other elements of our Force Planning Construct.

You know, frankly, the -- the Force Planning Construct tends to get boiled down to the two war bumper sticker, and I think it's important, and we certainly try to articulate in the QDR report that we see a much broader range of activities that the joint force needs to be capable of doing at any given time.

It's --- it's not just denying -- it's not just defeating an adversary and denying the objectives of a second, it is protecting the homeland, it is deterring and assuring in multiple regions in peace time, it is being able to conduct persistent C.T. operations.

And then if deterrence fails, be (ph) defeat and deny. So I just wanted to take a moment to sort of foot-stomp on the comprehensive Force Planning Construct.

Again, I think you all are very familiar with the major announcement that the secretary made last week in terms of sort of how we're rebalancing the force on a service by service basis.

I'll just say briefly here then in addition to the rebalancing that we're doing in the specific services, we are also trying to protect key investments in key capability areas, like cyber, like space, like special operations, continuing to grow special operations, for example, to almost 70,000 forces.

But also continuing investments in missile defense and other important areas that -- in the nuclear triad for example, pieces of our force that we think are essential and aligned to the important parts of our strategy.

Another sort of -- before I come briefly to the implications of sequestration for our strategy, I want to say that an important part of our vision, going forward, is the need to rebalance the department.

We -- we've asked Congress for BRAC authority for example. We are continuing to work on acquisition reform. We are looking at how we can consolidate our infrastructure in Europe in an efficient way, for example.

And we are of course looking at a series of proposals to try to slow the growth of our compensation packages here, because we think that's part of what we have to responsibly do to maintain a balanced force. And the QDR report will talk about that in some detail. But I know that Mr. Hale and General Ramsay will also speak to that in just a minute.

So let me close by saying the final piece of the report talks in some length about the implications of returning to sequester level cuts for the joint force. And while we firmly believe at the president's budget level we can execute this strategy, I think it's fair to say that we believe that if we return to sequester level cuts in '16, that we will be facing a significantly higher level of risk.

The secretary has characterized that as -- as posing unacceptable risks to our ability to provide national security and to do our part in providing -- providing national security for the nation.

And in particular, where we see those risks manifesting, for example, we obviously would be seeing the force get even smaller than the reductions that the secretary outlined last week. Cut's to modernization would go even deeper, which we think would put at risk our ability to keep pace with technologically advanced adversaries.

Readiness would be a serious problem. It's been a serious challenge for us in the last couple of years, we would not be able, I think, to recover the readiness levels that we need which would negatively impact, not -- not only our ability to be out and present in the world, to do that, build security globally piece of our strategy, but also to be able to respond promptly to a crisis.

So I think our view is that the combined effects to capacity, capability and readiness that we would experience under prolonged sequestration would significantly raise the risks of our ability to execute this defense strategy which we think is the right one for what our nation needs going forward. That's why the president has asked for about \$115 billion more than the sequester level caps and -- and we believe that the strategy we've outlined in QDR 2014 is the -- is the right one for us, given what we need to do and given our responsibilities as a global leader.

So I will close there and I think turn over the podium to Mr. Hale, but look forward to your questions at the end.

HALE:

Thanks, Christine.

All right, good afternoon. So, our job is to give you an overview of the fiscal '15 budget. And we're aware you heard Secretary Hagel's speech a week ago Monday, so you know the score. We're kind of the post-game show. We'll try to give you some commentary. And I'm joined by Lieutenant General Mark Ramsay to do that, our J8 in the joint staffs. Let me ask Mark if you've got any introductory thoughts?

RAMSAY:

No, just to -- to piggyback on what Ms. Wormuth said. This was a -- a very concentrated effort on the part of the department in the last half of last year to work through the (inaudible) review and also to inform the president's budget, which we are going to talk about in the next few minutes. It was a collaborative

effort across the department, and a lot of hard work ensued. It's a -- a -- kind of a two-way street here. The strategy informed the resources we're going to talk about. And obviously the resources also informed the strategy.

HALE:

OK, next slide?

So, you've heard the strategy from Christine. I'm not going to spend any time on this, other than I spent probably a couple dozen budget meetings and almost every one of them had strategic discussion in it. The strategy did inform this budget.

Next slide? Let me get into lay, more comfortable for a comptroller, which is the dollars. This goes back to 2001, up through '14 and projected '15 through '19 under our plan. Large growth after 9/11, peaked at 2010, has come down. Focus on fiscal '15. And go to the top bar, that light blue one. There's a place holder of \$79 billion for the overseas contingency operations, or OCO fund in this budget.

There is no substantive detail behind it until conditions allow the president to make an enduring present decision -- president's decision in Afghanistan, we can't provide an OCO budget. Once that happens, as soon as possible, we will provide a formal budget amendment on OCO. So, I'm not going to say any more about OCO in the rest of this briefing. Focus on the dark blue bar, which is the base budget. We're asking for \$495.6 billion in budget authority, call it \$496 billion. It grows sharply between '15 and '16 and gradually afterwards. About 3 percent growth per year over this five year period. Next slide?

Let me put this in context for you. The top line in this slide shows last year's plan for these years; PB '14. And we think that's relevant because in our view, it fully funded the defense strategy. The red line at the bottom are the sequester level cuts. It's the caps as adjusted by the two law changes last year, and the dashed green line, or what we are submitting in terms of PB '15. The goal will focus on fiscal '15. We're asking for \$496 billion in budget authority. That is consistent with the caps, the current caps. And -- and it is a standalone budget meeting our highest priorities.

It is \$45 billion less than what we thought we needed last year to fully fund the strategy. So, you will hear us throughout, talking about more risks, problems - - some problems with near-term readiness. When you go beyond fiscal '15, the dashed green line is above the red one, the sequester cap levels. We are budgeting at levels higher than the sequester caps in '16, for example, asking for \$535 billion in budget authority to cap these 500. A total over this period,

16 to 19, we are above the caps by \$115 billion. So, I'm going to focus on the dashed green line now, that PB '15 top line. Next slide?

What are we trying to accomplish with this budget? The main thing is balance. We're trying to balance readiness, our technological capability and our size, capacity and capability, and -- and -- and throughout we'll be talking about things we don't particularly want to do, but we have to in order, in our view, to achieve a balanced budget. And then a number of other themes; institutional reform, readiness problems that you'll hear us say more about as we go along. Let me turn to some of the key initiatives. Next slide?

So, if you're going to ask the public for a half a trillion dollars of their money, you owe it to them to do everything you can to squeeze out efficiencies. And efficiencies here are short-hand really for, getting rid of lower priority programs, which is what we are doing. A total of \$93 billion to \$94 billion over the next five years in efficiencies. A 20% cut in headquarters operating budget. You've heard about that before from Secretary Hagel. It's about five billion, it's not a lot of money, but very important we believe, both symbolically and in practical terms. The money comes in things like, making judicious cuts in our contract funding, by eliminating lower priority contracts. Restructuring our civilian workforce, some health care savings other than the compensation related ones that we're going to talk about in a few minutes.

We're working -- we need another round of BRAC. We've got at least 25 percent unneeded infrastructure in this department. And if we can't get Congress to allow us to close it, then we're simply going to waste the taxpayer's money, frankly. And we won't have that money to invest in other things like readiness and reducing the numbers of force cuts that are required. So, efficiencies were the first thing we looked at, an important part of our efforts.

**HALE:**

Next slide? Also need to slow the growth in military compensation, and I'm going to ask General Ramsay if he'll brief this slide.

**RAMSAY:**

As we went through the various reviews last year, one of the things that became very obvious was the need to go look at our total military paying compensation package. And it goes back to what we've said here several times today, which is we have to keep a balance across the force.

So at any budget level, we know they're coming down. And we are looking to try to balance the -- what the force costs in terms of people against the capability, the capacity and readiness of that force. So as the force comes down

in size, we also took a look at the compensation of those who are coming in the force in the future, those who are serving today and those who have served with us in the past.

We were guided by the principles of we were not looking at cutting anybody's pay. We're looking at slowing the growth of pay and allowances and we want to make sure we are able to recruit and retain the best all-volunteer professional force in the world.

So we worked very hard all last fall with the Joint Chiefs of Staff and the senior enlisted leaders of the services to look at proposing a package of major initiatives that you see spelled out at the bottom of this slide.

And very briefly, it's a -- we're requesting a 1 percent basic pay raise in F.Y. '15 with the general officer and flag officer pay freeze in F.Y. '15. We're going to slow the growth of basic allowance for housing until we reach about 5 percent out-of-pocket for the members over about a three-year period. And we're going to eliminate renters' insurance from the computation. So that will bring about 6 percent.

We're going to reduce the commissary subsidy -- I know there's been a lot of publicity about this. We are not asking our telling the commissaries to close. This is about reducing the appropriated fund subsidy to have the commissaries become more efficient than they already are and also operate more like a business.

On the TRICARE, we're going to remove the proposal that was put in the president's budget '14 and we have taken a very clean sheet look at this with health affairs leading the -- leading the discussion on this. And we're going to submit a single simplified TRICARE plan with a series of fees to incentive not only the best care but the most inexpensive care to the taxpayer.

And we are also going to resubmit from the president's budget 2014 that TRICARE for life proposals for those who are not already in TRICARE for life are 65 and olders and also the -- that the pharmacy proposals for copayments from last year.

And that represents our package for the president's budget 2015.

**HALE:**

I'll just add if Congress chooses to turn down all of these as some have threatened, they'll create a \$2.1 billion hole in our fiscal '15 budget and about a \$30 billion hole over the FYDP.

Next slide?

We have a substantial but targeted and sidelines modernization package. Some of it addresses the points Christine Wormuth made that there are some high-priority programs, cyber, for example, where we asked for \$5.1 billion (ph) for cyber activities, not on here; probably should have been special ops commands allows for \$7.7 million (ph) for them, up about 10 percent.

In a number of cases like the joint strike fighter, the P-8 and others, we're still going forward with the programs. Sometimes it grows, but less than we anticipated a year ago, largely because of affordability.

In a few cases, we have made specific cutbacks, for example, we accepted the Army's recommendation to terminate the ground combat vehicle; was getting really too heavy for the kinds of wars the Army envisions fighting. They will invest in technology and, within a year or this year, hope to have another plan up for modernizing ground combat vehicles.

So a substantial but streamlined and targeted modernization program.

Next slide?

We also need to gradually restore the readiness of this force. Again, let me ask Mark Ramsay if he would brief this slide.

**RAMSAY:**

So as Mr. Hale and I stood before you about 11 months ago, we had just been sequestered in F.Y. '13 for about a month. And that took about \$37 billion from our budget. That on top of the initial round of Budget Control Act cuts totaling \$487 billion across the FYDP, we found ourselves really hitting the brakes on our readiness recovery from over a decade at war. In fact, the F.Y. '13 shortfalls, it's going to take us a while to recover from those and, in some cases, we just simply don't know the effects of those over the long term.

The president's budget for F.Y. '15 that we're submitting, the key phrase here is it puts the joint force back on a footing to give back to full spectrum readiness. There's about a 3.1 percent growth rate in O&M, which is one of our primary ways of funding readiness. It's a 1.2 percent increase from F.Y. '14 to '15. And you see some of the examples there across the services, which I'm sure they will discuss with you later. It also grows our cyber mission force and funds, SOF readiness as well.

**HALE:**

Next slide?

So we've been after efficiencies, after slowing the growth in compensation and targeted modernization, we got to get smaller or if we don't, we won't have the funds to adequately provide for training and maintenance.

**HALE:**

This slide shows you our reductions between the end of '14 and our -- and our goals without sequester in the absence of sequester for 2019. About a 6 percent overall growth in active duty -- reduction, I should say, in active duty forces. It's proportionally smaller, but a reduction in Guard and Reserve forces. And about a 5 percent reduction in our civilian full-time equivalents.

Next slide? And with those come some force structure cuts. In the absence of sequestration, the Air Force will cut out almost 300 aircraft, retiring all the A-10s. The Warthog is a venerable platform, and I might add a neat name, but it is getting old. It is a single-mission aircraft. There are other planes that especially equipped with precision munitions, can accomplish the task, so reluctantly, and because of affordability, we'll retire the A-10s.

Also, the U-2s. That's a change from last year. Last year, we were going to keep the U-2s and retire or shrink wrap the Global Hawk Block 50 30s, I should say. And the operating costs on the Global Hawk Block 30 have come down. It was always a close call. Now it comes down in favor of the Global Hawk. We'll keep them and gradually retire the U-2s.

And I'm not going to go through these others. The services can go through them with you, or if you want to, come back and ask us questions.

Next slide. So I want to address a particular aspect of this budget, and that is the service goals versus our FYDP. Let me describe this to you in connection with the Army active in strength at the top of this chart. The end of '14 we expect the Army to be about 510,000 in terms of active in strength. Our goal is to draw them down to about 440,000 -- 450,000 by fiscal year 2009 (sic) in the absence of sequestration.

And we talk about risks. We are thinking of a 440,000 -- 450,000 size Army. If sequestration is prolonged or continues, we'll have to draw the Army down further to 420,000, and you can see that there. The point I want to make is the asterisk on this chart. That 420,000 is in the five year plan that we are submitting to Congress.

And you might say, "well, wait a minute. You budgeted above the sequester cap levels." Remember the dashed green line. So, why is the Army at sequester levels? And the answer is, we don't know what Congress is going to do.

Sequestration is the law, and -- and so we can't be sure where we're going to end up. It takes time to plan for these major force changes like the one on this slide, and so we have put this plan in our five year plan for these major items at the sequester level. If the Congress gives us an indication they will budget at the P.B. '15 level, the dashed green line in my chart, then we will end the Army drawdown at about fiscal '17 and leave them at 440,000 -- 450,000.

And let me address it with regard to carriers. Right now there are 10. And when the Ford comes in in 2016, we'll go back up to 11. Without sequester, we would like to stay at that level. With sequester, we'll have to go back to 10 by decommissioning the George Washington. Our five year plan has the 10 in there because we have to plan for a major force cut. But if Congress indicates that they will budget at the P.B. '15 levels, we will not decommission the George Washington and leave the carrier fleet at 11.

Next slide. so, this would normally be the wrap-up, Miller time, questions, what y'all want, but, there are special features to this budget in some fairly unusual times, and I want to address two of them.

Next slide. The first one is the opportunity growth and security initiative. Focus on the red portion of this chart. I sure did the chart before. Focus on the red part and in fiscal '15, there is a government-wide initiative called OGSF to add discretionary funding fully offset by cuts in mandatory spending and increases in taxes associated with closing tax loopholes.

For DOD, that would amount to a \$26 billion increase in our budget. Again, the 496 is a stand-alone budget. That is what we have described to you in the words to date. That's what will be in our detailed budget documents, but the president's budget will ask for those \$26 billion of additional funding, and let me tell you what's in that \$26 billion.

Next slide. About 40 percent of it would go for direct readiness enhancements. Higher Army operating tempo so they can train more, more training and range support in the Air Force, and the others things that you can see on the slide.

About 40 percent of it would go for modernization improvements. We would spend more on helicopters in the Army, both Black Hawk and Apache. We would buy eight more P-8 aircraft in the Navy, two more F-35s, and a number of the items that are there.

And the final 10 percent goes for installations supporting creasments -- increases, sustainment, and also military construction, both of which have

been cut quite a bit in -- in recent years. It's our judgment that we don't have -- we have shortfalls in training and maintenance in fiscal year '15 that lead to some readiness risks: near-term risks, as Secretary Hagel has characterized them.

HALE:

If we were to get this added appropriation, it would significantly mitigate those risks.

And next slide, the last special feature is what happens if we go to sequestration-level budgets. And again, focus on the red part of the slide. I've been talking to you about the dash-green line, the PB '15 request. But in order to realize that request in the years beyond '15, Congress is going to have to change the caps -- the law, and raise the discretionary caps.

What if they don't do that? What happens to our forces? And let me give you an idea on the next slide. We would see reduced capability in a variety of ways. Our end-strength cuts would be below our pre-sequester goals. That's an Army to 420,000. It's a Marine Corps, instead of staying at 182,000, 175,000; a smaller guard and reserve in the Army.

We'd have 10 aircraft carriers and nine wings, instead of the 11 carries and 10 wings that we would prefer to keep. Same proposals in military compensation in terms of slowing the growth, although they're probably more important. We'd have to go to further force cuts beyond what I've already described -- retiring the entire -- retiring the entire KC-10 fleet; retiring the fleet of Global Hawk Block 40s; fewer Predators and Reapers.

We would have less recovery and readiness, although a lot of things influence readiness. The operation and maintenance budget is important, grows at 3 percent a year under the president's budget; less than 2 percent at sequester-level budget. It will hamper the recover in readiness. Less growth in procurement in a variety of ways, and I've just give you two examples.

Overall, what Secretary Hagel has said is, as Christine Wormuth said before me, prolonged sequestration would significantly increase the risks, significantly increase the chances we could not carry out the strategy. And as the secretary said in his speech, if we accept prolonged sequestration, we are gambling that our military will not have to engage in simultaneous military contingencies.

Next slide.

So let me summarize with the dollars, in the words that Secretary Hagel has used to describe the risks in this budget. The budget at \$496 billion is at the cap levels in fiscal '15; grows beyond that in -- beyond the years fiscal '16 and beyond. Near-term gaps in training and maintenance pose risks to readiness. The Opportunity, Growth and Security Initiative would mitigate those; longer-term risks as well, especially with regard to simultaneous -- multiple simultaneous contingencies, and much higher risks if we end up going to prolonged sequestration.

And my last slide, as I always promise in these, is if you can't sleep, then you can go to our website. There's lots online shown in detail on there about our budget.

And with that, I'm going to stop. And I believe, Christine, you're going to join us. And we will try to jointly take questions.

(CROSSTALK)

**KIRBY:**

(inaudible) moderate, so please identify who you are and who you are with before you ask your question. We have a few minutes for questions, but want to keep the briefings on schedule. So I'm going to end it right at 2:30.

**QUESTION:**

Tony Cappacio (ph) with Bloomberg News.

I have a QDR question, and then a budget question.

People are going to look at the QDR. They're going to read through it and wonder, and look at it through the template of what's going on with Russia and the Ukraine right now. Obviously, you couldn't have predicted that. To what extent does the QDR provide a framework for looking at a situation like Russia's incursion in to the Ukraine? And will that force any kind of re-look of the strategy over the next month or two?

**WORMUTH:**

I think...

(CROSSTALK)

**WORMUTH:**

... what I would say is our -- this is a strategy that presents a broad framework. You want, obviously, to craft a strategy that has the flexibility to address -- to address real-world -- real- world challenges as they come up. And I think, you

know, this strategy particularly in the -- in the two pieces on building security globally -- that's where we talk about really partnering with our European allies; working with NATO to focus on Euro-Atlantic stability; to again be able to address a range of common threats, whether it's terrorism threats, for example, which probably we were very focused on; and now to deal with a different kind of threat that we're seeing in Europe itself.

And then, of course, the third piece of the strategy that looks at the ability to project power and win decisively. We feel like under that strategic approach, we have the kinds of capabilities we would need to be able to provide a range of military options for a range of situation. So I think I would argue this strategy is flexible enough to -- to address the kinds of challenges we're seeing.

And again, I think in terms of the situation right now, we're focused primarily on, again, looking at partnering with our allies and partners and really complementing the diplomatic and economic options that the administration is working on.

**QUESTION:**

The \$420 billion figure, you've seen a drumbeat of media coverage in the last week saying that would bring the United States to the lowest level since 1940. Is that a relevant metric at all, given...

**HALE:**

I think it's basically strategically meaningless. I mean, we need to look at the size of the Army along with the rest of the joint force against the threats that we face today, not on World War II when we didn't have an Air Force, at least as a separate Air Force.

So I mean, maybe it provides some perspective but I think in -- from a strategy standpoint, it is meaningless.

**QUESTION:**

Coming from a gutting of Defense standpoint, that's where the narratives -- the Republicans are saying this is going to gut defense, bring us down to (inaudible).

**(CROSSTALK)**

**HALE:**

Well we're spending half a trillion dollars on defense. You know, as Bob Gates used to say to me, "Come on, Bob, you can get something for half a billion, can't ya?" and I think he's right.

I mean, we should be able to provide a reasonable level of defense and I believe we can, though there will be some more risks in certain missions.

QUESTION:

Yes, thank you. Dan Mammoth (ph) with Foreign Policy.

Your budget overview refers to -- refers to a -- a reduction in select SOF capacity, and at the same time, you're referring to a budget increase for special operations and a potential force growth to 70,000. Can you kind of like provide some (inaudible).

(CROSSTALK)

HALE:

You all have to look at that quote there, but I can tell you what happen with the SOF forces, they're going from about 66,000 troops today to 69,700. So they're definitely growing over the next couple of years.

And between '14 and '15, the budget grows from \$6.6 billion to \$7.7 billion. So there's considerable growth in SOF. I'm gonna have to look at the overview book in terms of the quote.

QUESTION:

What's (ph) the capacity for readiness, no -- no real sense for that?

HALE:

In terms of the readiness of the SOF forces? No, I think we'll -- they'll -- they have also been hurt but they will gradually recover. Sound reasonable to you, Mark?

RAMSAY:

Correct, yeah. They're on the same recovery path as (ph) the services (ph).

QUESTION:

Julian Barnes (ph), Wall Street Journal. A QDR question. As you talked about the homeland defense but you also mention that the direct terror threats to the United States was a little bit lower than it was after 9-11. What are the -- the homeland defense threats that you see?

And you also talked about new ideas for forward positioning, is this placing another carrier in Asia? What is the forward presence kind of ideas? Can you flesh that out?

WORMUTH:

Yes, happy to talk about all of those.

In terms of the threats to the homeland, I -- you know, I think we see a range of threats. We're obviously concerned about ballistic missile threats from countries like North Korea, for example, which is -- you know, goes to the importance of our national missile defense system, while I think we would take the position that threats from terrorists to the homeland have again declines, direct threats to the homeland -- there are certainly groups still out there with the intent and the desire to strike the homeland like AQA -- AP, for example.

And then we also have, you know, again the potential for natural disasters or industrial accidents, things of that nature.

So those are really the types of things that we're talking about when we think about protecting the homeland.

Going to your question about presence. Here what we're looking at, again, is perhaps different ways of deploying forces overseas to get more bang for the buck.

So for example, instead of just sending out a carrier strike group as one large entity, perhaps splitting off a surface action group to go and do exercises or building partnership capacity activities, potentially even in a different ALR, under a different combatant commander, again, I think, you know, in -- in the real world we have sometimes pursued those types of deployments.

They haven't sort of been codified as our standard operating procedure and we're exploring with the services whether there is the potential to do that on a more routine basis. Those are just a couple of examples, but the -- the report actually provides a few more.

(UNKNOWN)

Yes, hello (ph).

QUESTION:

Hi, it's Megan (ph) (inaudible) Defense Sailing (ph). You spoke a little bit about this opportunity growth and security initiative and I -- I realize it's a one-year funding that you're requesting.

So is (ph) some of the procurement and readiness and things, what would that do (inaudible) funding over the rest of the FYDP? Would it require anything additional, like (ph) personnel?

HALE:

Yeah. I mean we all can speak to them as tails (ph) to the dollar, there aren't a lot here. We're increasing specific procurements in fiscal year '15. Readiness would get better quicker but we're already funding enough to sustain at the president's budget level.

Remember we go above the caps in the out years. So I -- I think that with the \$26 billion, we'll be better off in readiness and -- and a little bit better off in modernization in '15 and i don't think it would interfere at all, in fact it would support our program in the out years.

QUESTION:

Collin Park (ph), (inaudible) Defense. A lot of your critics over the last 18 months have said you cried wolf sequestration and that there is actually an enormous that can be cut without endangering strategy.

Given your discussion today about sequestration, how do you answer those critics?

HALE:

Well, I'd sure say we didn't cry wolf. I mean, we shut down for there months, 12 combat coded (ph) Air Force squadrons and stopped them from flying. And it will take us probably a year or more to recover from that.

We stopped many Army units from going through the combat training centers. Seven rotations were canceled. That's a culminating training event that gets them ready for contingency operations.

The Army stopped most of its training above squad level. I mean, we did bad things. We furloughed 650,000 people, delayed depot work -- had a number of other adverse effects, not to mention seriously I think damaging the morale of our work force -- our civilian work force.

So I don't think we cried wolf. It was a serious problem, and we'll have more time to plan now -- and we are planning much more carefully -- for sequestration if we have to go through it, but it still is going to damage or reduce the ability to grow military capability in ways that add to risk when we've already said there are near term risks under the president's budget, they're gonna get significantly worse under sequestration.

QUESTION:

I'm Marcus Weiss (ph) with Defense News.

Industrial base question.

Last week you spoke of this engine program, \$1 billion in high performance engines. Are there any other industrial base sectors that are being...

HALE:

You probably better to have Frank here -- Frank Kendall.

I'm not gonna be able to give you other specific examples. I suspect there are. I mean, I'll say in general, we're not trying to pick companies. We're trying to pick capabilities, but there are others -- either of you two have thoughts here?

WORMUTH:

Not off the top of my head.

RAMSAY:

I'd just say a lot of this is A2-AD type of environment, but Mr. Kendall can provide a lot more detail.

HALE:

Yeah, let's get back to you and do better. I'm sorry.

QUESTION:

Question on military compensation.

You said, I think, if -- if Congress rejected the package and -- that it would create a \$2.4 billion...

HALE:

\$2.1 billion.

QUESTION:

\$2.1 billion...

HALE:

In fiscal '15.

QUESTION:

... and \$30 billion (ph) over the -- the FYDP. Is that -- just to clarify, is that just for the TRICARE portion or the whole...

HALE:

No, that's everything. That's assuming they went back to higher pay raises, turn down the basic allowance for housing, turn down the commissary subsidy cutbacks and the TRICARE -- TRICARE actually starts -- the consolidation

starts in fiscal '16 -- it doesn't start in '15 -- because we need a year to do all the contracting changes.

So it actually doesn't play -- the consolidation doesn't play in fiscal '15.

**QUESTION:**

And just a quick follow up.

Have you -- in briefing this to the Hill they've always been reluctant particularly on the TRICARE end of this to make changes, to accept the proposals that the department has recommended.

Have you gotten any indication that the tide might be changing a bit?

**HALE:**

Oh, you know, I don't want to try to get inside their heads.

I think that many on the Hill realize that we need a balanced package here. We don't particularly want to do this either, at least some parts of it. But, if we're going to live with these caps and we don't want to go to either further force cuts, which we don't want, or degradation in readiness, which you don't -- definitely don't want.

We've got to do a variety of other things; get smaller, slow growth. I think there's a realization of that, but I understand. It's tough, and so I don't -- I think I need to let them speak for themselves.

**QUESTION:**

Mark (inaudible), Air Force Magazine.

Just so I'm clear, Ma'am, you mentioned something earlier I want to hear you elaborate on: Is the two-war planning construct for the Department of Defense now defunct? Is that no longer how you are planning -- organizing the armed forces to perform their missions?

**WORMUTH:**

I think I would -- it's not defunct. And I certainly don't want to have left you all with that -- with that impression. The way we think about the force planning construct inside the Department is much broader than the two-war strategy. So I think it tends to get boiled down to just the two war, can you still do it.

Our point is that it's not just two wars. There's a lot we that -- that are important and that require real capabilities and that -- that inform how we

size and shape the force. And that is, you know, again protecting the homeland, forward presence, C.T. operations.

So that's -- that's what I was trying to say with that. At the president's budget level, our ability -- we continue to have the ability to do the two wars, to defeat an adversary and deny the objectives of a second.

So I hope that clarifies.

**QUESTION:**

(OFF-MIKE) Stephanie (inaudible).

To clarify on that, I mean, that sounds to me like we don't have the ability to defeat two adversaries if there were two wars. We can only defeat one and deny the other. What's the difference there?

**WORMUTH:**

This was -- that's a great question.

The -- the defeat-deny formulation, you know, was part of our defense strategic guidance. And I think what we were trying to get at there is delineating between, there are -- obviously, we look at a range of different scenarios when we do this kind of strategic assessment.

**WORMUTH:**

But there may be some potential conflicts where we would be looking at regime change, for example. And that we -- we inside the department tend to call those types of scenarios, defeat scenarios. There are other situations where we may not necessarily be looking at defeating a regime, but we would be looking at a -- a full-scale combined arms, you know, major combat operation to deny the objectives an adversary might have; where we -- we may, you know, roll back whatever the aggression is, significantly degrade the military capabilities of that adversary, but not take down the regime.

So that's really what that's trying to articulate. Both of those types of operations are substantial, full-scale joint operations.

**QUESTION:**

Is it going to affect the operation of NORTHCOM and SOUTHCOM and perhaps some training for military forces for -- of some other countries, like Mexico? As well as military assistance to Latin American countries?

**WORMUTH:**

Sir, at the president's budget level, we again are -- remain committed to building security, to building partnership capacity with countries like Mexico to -- and we certainly would envision NORTHCOM and SOUTHCOM continuing to work with countries in the western hemisphere. I think our focus there in the western hemisphere is really working with countries that want to work with us, to go after transnational criminal organizations, and then also to work on institution building. So that's a lot of our focus in that part of the world.

Again, if we were to experience prolonged sequestration, I think we would be concerned about our ability to do all of that on the scale we do today. And I was going to -- sort of -- the question that I think was posed earlier about crying wolf, the -- sort of on the international side of the impacts that we had in '13, we did in some cases cancel exercises, or scale down exercises. We've -- we revisited some of the deployments that we had planned to do, and had to take some of those off of the board, as a result of sequestration in '13. So there are real impacts to that kind of activity.

(CROSSTALK)

QUESTION:

Rob Gentry, TV Asahi. I wanted to ask about one of the priorities that's been identified for the budget, which is the rebalanced Asia Pacific. Either in your FYDP or in the sequestration possible scenario, how are you revisiting, or reconsidering the rebalanced Asia Pacific.

WORMUTH:

Do you want me to take...

HALE:

I -- well I'll take a shot and then why don't -- in -- in terms of forces, I don't think -- we're reconsidering. I mean, we are going forward with a variety of issues that aren't primarily financial. Rotational presence in Australia, some discussions with the Singapore. We've made some breakthroughs finally in getting the Marines off of Okinawa and into Guam. I think these are not primarily financial decisions. We have a fairly robust ship building program, averaging about nine per year, which in the long term will contribute.

So, I think the budget definitely supports the rebalance and we're not reconsidering it. You want to add to that?

WORMUTH:

I would agree. I would say, you know, as we went through the program budget review process, we were very much -- we -- we looked at investment choices through the lens of our strategy and the rebalanced Asia Pacific is a big part of that. So, we -- we protected investments for -- to go after A2/AD capabilities. Again, I -- I would affiliate myself with Mr. Hale's comments.

**KIRBY:**

OK, last one?

**QUESTION:**

Hi, Liz (Inaudible) from Defense Daily. I have a question about cyber funding. The \$5.1 billion figure that you gave, does that include any augmentations that the services make themselves to cyber operations? Or is that number going towards cyber...

**HALE:**

First off, it's fair to say that there's no -- really no set of program elements that lead to this number. Maybe there need to be, but there aren't at the moment. So we work with the CIO to come up with this number. And yes, it includes the -- the service contributions. A -- a large portion of it are cyber operations, defense and offense at CYBERCOM, but elsewhere as well. Another part of it is our overall information assurance, which will be going on in the service. Public key infrastructure. There are some R&D activities, DARPA, but others as well. So, we've tried to capture all, but I -- I would say there's a gray area here in exactly what counts as cyber. We're doing a lot of other things that contribute. Anybody want to add to that?

**KIRBY:**

OK, thanks everybody. We very much appreciate it.

**HALE:**

I have a brief statement that I'd like to make to all of you, and it's got to be off the record. So, is that fair?

(END OF AUDIO FEED)

CQ Transcriptions, March 4, 2014

---

List of Speakers

ROBERT F. HALE, UNDERSECRETARY OF DEFENSE (COMPTROLLER)

CHRISTINE E. WORMUTH, UNDERSECRETARY OF DEFENSE FOR  
POLICY

LIEUTENANT GENERAL MARK RAMSAY (USAF), DIRECTOR, FORCE  
STRUCTURE, RESOURCES AND ASSESSMENT, JOINT STAFF

REAR ADMIRAL JOHN KIRBY (USN), DEFENSE DEPARTMENT PRESS  
SECRETARY