

Dr. Robert Hormats
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DR. ROBERT HORMATS: Good morning, and thank you all for coming. Let me just say at the outset that I'm a proud graduate of the Fletcher School and therefore particularly privileged to have been invited to join this distinguished group and participate on such an expert panel. I would like to divide my remarks into two sections; one, to talk a little bit about the commercial and security issues that relate to the broader subject we're talking about. And then to follow up the CNO's point on budgetary constraints that are going to be faced by not only the Navy, but also by the military in general over the next decade or so in pursuing the objectives that are discussed this morning.

First, the resource issue. This was discussed in the earlier panel, but let me make a few very quick remarks. First of all, it's increasingly the case that oil is located in a few strategic parts of the world, and the markets for that oil are more and more widespread around the world. So getting the oil from where it's produced to where it's needed is an even more formidable task than it was a decade ago because you have a number of contenders for that oil, a number of people participating in the market who want that oil. And therefore you're going to have, as you already see, countries like China in particular, and India, pursuing resource diplomacy. A good portion of the Chinese diplomacy is focused on oil, in particular, and other commodities.

And the Chinese also fear that oil could be used as a strategic weapon against them. If you talk to Chinese planners, they're worried that if there is a confrontation with the United States, given the fact that we have a blue water navy, and a very formidable one at that, oil could be used, or the threat of an interdiction in the supply of oil by us could be used against them. And one of the reasons they're developing their own capacity is to protect those sea lanes in the event there is a confrontation with the United States. And

therefore, it's going to be particularly important, I think, over the next decade or so, sooner rather than later, to reach some kind of energy understanding with the Chinese so that they don't feel that that is going to be a threat to them, and that there's some kind of process between the United States and China to avoid misunderstandings, which can lead to confrontational issues between the US and China.

It is an issue that our diplomats and our military and theirs are going to have to work out one way or another.

The second point is that in a global world, there's such a thing as a ricochet effect. It's not just that oil is coming to the United States and we have to protect that oil. But if there is to be a disruption of oil to a country like China or Western Europe or Japan, it would nonetheless have an effect on the United States. It doesn't have to be a disruption in the supply of oil coming to this country, as serious as that would be. It could be a disruption elsewhere. If the other economy slows down, or many other world economies slow down, that would nonetheless affect the United States in a very dramatic way because of this interdependent world economy.

The third point that was made by Steve Flynn this morning is that in this era of high efficiency, with respect to just in time inventories or just in time deliveries, that imposes a very high degree of risk if there is an interruption of supplies. Because if there is disruption of the sea lanes or disruption in a major harbor like Long Beach, New York, Hoboken, Newark, you would find a lot of disruption in oil, of raw materials, food, and many other things. And I think this is going to be a big issue for the United States going forward because if you did not have reliable supplies of oil, or a lot of other things, factories would close and many parts of this country would simply, as Steve put it, run out of gas. But they could also run out of food and run out of other items as well.

So these are some broad issues that I think relate to the way we have to deal with the question of sea lanes. We need good diplomacy with the Chinese, we need to avoid misunderstandings, and we need to try to reassure the Chinese so that they don't feel they

have to expand the navy to points that might trouble us to deal with the threats that perhaps won't occur. Diplomacy on energy is critically important.

And we also have to explain to the American people where this oil comes from and the role the Navy, in particular, plays in protecting it. One thing I suspect Americans don't realize is we get as much oil from West Africa today as we do the Middle East. The world gets more oil from the Middle East, but if you look at direct deliveries, a lot of US oil comes from West Africa. There are far fewer ships protecting that area, which is a very volatile area, as well as the Middle East, and we have to try to figure out how we're going to reallocate our protection to make sure that that increasingly important supply of oil to the United States is not disrupted. It also involves a reallocation of naval resources and a variety of other things.

Let me now turn to the budget issue, because I think this is going to be particularly troublesome going forward. The fact is that after every major war, particularly wars that turn out as badly as this one, there is a negative reaction. And the reaction is to cut the defense budget. And in this country we have a seriously flawed process of resource allocation, of budgetary resource allocation, and the military is going to face perhaps the most challenging environment for obtaining resources, budget resources, that it has had in the last hundred years, with the possible exception of the isolationist period just before World War II, when it was also very difficult to obtain military resources and left us flat-footed right before Pearl Harbor.

But the current environment is going to be very difficult. If you look at the way resources are allocated in this country, it is a politicized process. Now, it's always been a politicized process, but if you look at the way homeland security resources are allocated, or have been in the past, need and risk have, in many cases, taken a back seat to the power of individual members of Congress or individual groups who try to get resources earmarked for their constituency. You would have thought that after 2001, earmarking would have decreased, particularly when we were at war against terrorists, and also after

2003 when we were at war in Iraq. In fact, earmarking across the board has increased, and earmarking in the defense budget has increased.

So the fact is we do not have a very good process for setting priorities in the budget. And as a result, and I'll make this point as clearly as I can, in no other wartime in the past have we had the following set of circumstances. We have had a tax cut, we've had increases in domestic spending, we've been financing the war largely through budget "supplementals", and the borrowing has come largely from foreigners. In every war in the past, we've had tax increases to pay for the war; we've had cuts in non-security programs. Even during World War II, Roosevelt cut back a lot of the programs that he had proposed, a lot of New Deal programs. Even during Vietnam, only about a fifth of that war was financed by supplementals. We had a normal budget process for most of the war after 1968. We don't even have that yet in Iraq, and it's very disconcerting. It creates a lot of uncertainty about military funding. And who's paying for it? Sixty percent of the Treasury bills that are sold are sold to foreigners. And the fact is Americans have not been engaged in the process of paying for this war.

And this leaves a very poor legacy for the future because it means Americans have been led to believe that we can get our security on the cheap and we don't have to suffer any inconvenience at all. For the average American, who's sacrificing? The military, the military's families, many of whom have to go on welfare, the National Guard, the average citizen not at all. There's no sense of engagement. This is a very bad precedent for the future, and I think the way to deal with this, and I'll just close on these three points, I'm probably almost out of time. One, if we're looking to the future, we need to recognize, first of all, the demands on the budget are going to grow dramatically because of the cost of entitlement programs. Social Security, Medicare, and Medicaid, are going to grow dramatically in the next decade. And when people look at the post-Iraq period when they look for money in the budget to avoid big tax increases or avoid big borrowing to pay for these expanded programs, there's a high risk they'll look at the national security budget.

So to deal with it, first of all, we need an educational program so Americans understand the role of the military. What role it plays in the world; the role of the Navy, the role of every other aspect to the military. Second, they need to know that it's going to cost money, that it's not for free. It can't be done with supplementals, it can't be done on the cheap. That's not to say we shouldn't scour the budget, the military budget, to get the most efficiency we can. Obviously, we need to do that and we need to do it in a very effective way. But still, demands for homeland security, national security abroad, the military, national intelligence and national diplomacy are going to become more important over a period of time, or at least as important as they are today and that's going to cost money.

And the third is we have to figure out where the military, where the national security priority fits in with respect to all these other national priorities, which are to make sure our elderly are taken care of through Social Security and Medicare, make sure poor people have in the Medicaid program enough money to deal with their medical needs. But somehow, we need a system of prioritizing all these demands on the budget. We've not done that in the past, we've not talked about these issues as a country, and we've not had a national conversation. And my worry is if we don't do that, and don't do that soon, the risk is largely in the area of cuts in the defense budget. Perhaps some are justified, but many may not be, and as a result of a lack of a national dialogue, we may make cuts, as we did after Vietnam that were greater than were necessary and were also so great that they harmed the security of the United States for the decade in the future. Thank you very much. [applause]

Q&A for the Entire Panel

DR. MARTEL: We have plenty of time for questions. I guess the following rules; keep the questions brief rather than longer. We can do more short questions than long questions. Second, please tell us who you are and where you're from. And I mention to the panel as well, use their judgment, but not everybody has to respond to every question. With that, we're open to questions. Yes, sir, in the back? And please wait for the microphone, thank you.

AUDIENCE: My name is Jadon Beans (?) of General Logistics. I was trying to get this question in earlier on some of the previous panels. Considering that we acknowledge the importance of the Malacca Straits for the international trade, and the panel had referred to the A. Q. Khan network which had used Malaysia as a platform, any comments on the importance of the Malaysian navy, considering their absence in the recent multilateral exercises in the Indian Ocean where you had the Australian navy, Indian navy, Japanese navy, and the U.S. navy and the Singapore navy? Thank you.

DR. MARTEL: Whoever would like to take that question, please?

___: Okay. [laughter] You know, I think the importance to recognize the Malaysian navy makes significant contributes to security in the Malacca Straits region, they've been working very, very closely with Indonesia and Singapore in order to work that problem. I don't think the measure of effectiveness or the value of the contribution should be does every single force participate in every single opportunity to participate? They're going to figure out where they can leverage best their capabilities, what their resources are, and then they're going to make decisions that are based, as all countries do, on what their interests are and where they can get the most return on the interests.

So I think that we recognize the value, and Admiral Mullen specifically recognized the utility there, and I think it's—What we're looking for, I think, in the development of this new maritime strategy, these global maritime partnerships, is to create the venues where every country that has maritime forces to contribute, and whether we call them navies, whether we call them Coast Guard, whether we call them anything else, the forces that have the ability to go where the security challenges are, whether those are very, very close into shore, out in economic zones or whether it's on the blue waters is really immaterial. It's creating the venues, the personal relationships, creating the trust and then the ability to operate together in a professional manner that's the importance piece.

DR. MARTEL: Yes, sir?

AUDIENCE: Hello, Eric Kulisch, *American Shipper* magazine. Wanted to get back to Mr. Oxford's point about the protection—I guess he countered Mr. Flynn's point on protection of the Navy, using Coast Guard or homeland security assets to protect the Navy. You seem to suggest that you didn't agree with that. Wouldn't it be potentially better, or couldn't there be an argument that DOD should use some of its larger resources than what DHS has to provide that protection? And maybe Mr. Hormats wants to comment on prioritization here. And I guess the counter to that is if the Defense Department is protecting military assets here domestically and feel that's important, maybe we need more resources. Do we need more resources to protect critical private infrastructure as well?

MR. OXFORD: Let me address kind of two concerns, and Eric, I'd ask you to address one of those specific questions to either Admiral Salerno, who will speak later, or Admiral Eilan (?) when he talks about how well their assets are able to do these multiple jobs and how far stretched they are.

My point was we are looking at port security in a more holistic way. In this case, the ability to deal with the small vessel threat, we looked at the strategic value of San Diego and the Puget Sound as very critical areas, and we need to bring in the extended capacity that comes with the air and maritime security committees and the local law enforcement agencies that have marine operational capability so we're not drawing only on the Coast Guard assets, we get expanded capacity to do the detection and interdiction method. It isn't just a federal issue, we're not just protecting the naval port, we're protecting the key civilian assets in those locations as well.

I think Steve was suggesting that maybe we're ignoring L.A./Long Beach, but there are other assets in L. A./Long Beach as well that are looking at port security more broadly there. Plus, he was trying to bring up some infrastructure protection issues that I think maybe go beyond the maritime.

DR. HORMATS: I'll just follow that up, the other part of the question. I think the issue in substantial measure is we're probably doing what we need to do with respect to the military. But a substantial portion of the funding required for dealing with the domestic infrastructure issues that Steve raised today, and has raised for the last several years, effectively so in my judgment, a lot of that money simply has not been forthcoming, as you doubtless know, because you follow these things. And therefore, I do think hardening the infrastructure, protecting parts of the infrastructure that don't necessarily relate to the Navy or the Coast Guard is important.

I mean, if you live in New York, the corridors you go up, the New Jersey turnpike right outside New York, you see all those chemical plants. Jon Corzine, who was a former colleague at Goldman, now governor, constantly makes the point that there are lots of vulnerabilities there. I mean, they're right off the highway, chemical plants, places to store fuel, very vulnerable. There are a lot of parts of this country that are still very vulnerable and do not get the kind of protection that's needed.

And the second point is the broader point, and the point I was trying to make earlier, that we have many common interests with other countries that are building their naval capability. This is really on the blue water side. And it strikes me that partnerships with countries like China and India and Japan who have a very keen interest in keeping the sea lanes open and avoiding disruption of energy supplies, partnerships with them would, first of all, avoid misunderstandings with them. And second, enhance our multilateral capability to deal with some of these issues. Because they have as much of an interest in avoiding disruptions in the sea lane as we do. Lots of countries want to make sure that there are enhanced capabilities of keeping these sea lanes open. So those kinds of partnerships will enable us to utilize more of our resources, perhaps, closer to home if we can cooperate with them more broadly. Because the interests are very similar. We all have an interest in open sea lanes, and they're going to put more of their resources into it, we probably are as well. So we could get a lot more effectiveness if we worked more closely with them.

MR. OXFORD: Let me add one thing to that. One of the reasons we chose both San Diego and the Puget Sound area was because of their proximity to both the Canadian border and the Mexican border. We looked at the number of small vessels that are cleared by U.S. customs on an annual basis. The Puget Sound area, sail Tacoma, they cleared—That's the number one port for clearing small vessels coming into that—Into any U.S. port, and San Diego is number six. So there's practical reason why we would worry about a threat coming through the small vessel channel and the number of small vessels that come into those ports on an annual basis as well.

DR. MARTEL: Yes, sir? And we'll work our way back here, great.

AUDIENCE: Good morning. I'm Captain Matt Feely from the Defense Logistics Agency. It seems to me that when we've been talking about deterrence, we've been using the term in the context of days past when the enemy was an identifiable state actor who could be held account. Now, of course, we see non-state actors emerging as a potential enemy, and I think that Rear Admiral Tidd mentioned that it is perhaps possible to deter those non-state actors through probing and perhaps attacking or addressing somehow the supply chains that may allow for a non-state actor to deliver some kind of weapon of mass destruction. I wonder if any of the panel members might want to expound upon the strategies that could be used to deter non-state actors? It seems to me that what Rear Admiral Tidd had suggested may be more disruption, appropriately termed disruption rather than deterrence. So I'd be interested to hear in any more detail of what we could do for non-state actors? Thank you.

ADMIRAL TIDD: I'll start off, and then I think everybody else may have something to contribute as well. Disruption is a separate—It's a different phase. What I'm talking about is dissuading all of those sorts of intermediaries involved in the supply chain; the gray marketer, the scientist who might be tempted to contribute his technical expertise, obviously a potential state supporter or facilitator who might be interested in turning a blind eye to the transshipment of goods, those sorts of things. So each one of them may

be amenable to a particular dissuasion method or dissuasion message or a deterrence message.

Do I think that the guy at the far end who's actually got his finger on the button can be dissuaded from pressing that button if he has that opportunity? I think that's a different series of problems, and that's typically what we have focused on up to this point, is the apocalyptic actor, and can you deter him? Maybe not, but he's got to get his finger onto a button in the first place, and you've got to tackle every single element along the way to minimize his opportunity to ever get to that point of getting his finger on the button.

___: Let me add that our defensive strategy that is very much a layered strategy, starts with doing everything we can to secure nuclear and radiological material, both overseas and domestically. So every layer that we enhance our protection value to will also serve as a deterrent. And we finished that with things like if you go to any of our southern border crossings right now, our ports of entry or our seaports where you see officers with canines, with guns, you see radiation portal systems, that layer is pretty well becoming secure. So there's a deterrent value to every one of those steps.

On top of that, the interagency has recently come together and we're moving out aggressively in what we call nuclear forensics and attribution, the ability to essentially fingerprint nuclear materials, both domestically and around the world, so that if it's ever used, we can quickly lay claim to where it came from and who the potential prosecutor of that potential attack. So the ability to defend and also attribute the attack, we think adds to an overall deterrence strategy that is much different than the ones we used in the past.

___: If I could just comment on the deterrent piece as well, part of what I talked about was the proliferation of dual use technology, where it's very difficult to understand what the difference is between a baby milk factory or a biological weapons facility. That's becoming increasingly more challenging to determine. So the value of intelligence can't be overstated, as well as understanding intent. And the deterrence piece, almost all these facilities, even those used by terrorists, have to be aided and abetted, for lack of a better

word, by a state actor. And so can you deter a terrorist? Well, perhaps that's a subject of debate. But there is a much greater opportunity to deter a state actor that would have to facilitate the transfer or production of those dual use facilities than a terrorist would.

And if I could, everybody seems to focus on nuclear and I certainly would not wish to demean the importance of the nuclear threat. However, chemical is still a very real issue and the one that truly scares me is the biological piece because we're addressing the issue, but that is one that is truly beyond the imagination as to the possible consequences of a biological event. Thank you.

DR. MARTEL: We have time for a couple more questions. Back left, please?

AUDIENCE: Commander Carl Forkner, I'm faculty at the Air War College. Looking at the topics here on interdependence of world markets and economies, threats and so forth, we've heard a lot of discussion about some of the most pervasive threats and the most important ones that we perceive and the most important economies with whom we deal. But much like the post Vietnam era, it seems the discussion, as we look at a global maritime strategy, seems virtually mute on Central and South America and we limit ourselves in the security strategy realm to thinking of the hemisphere only in terms of ourselves, Mexico and Canada. Over the last 15 years, some of the South American navy has added to their riverine and littoral expertise by demonstrating back blue water competency, or giving us blue water aspirations.

We have dissonant groups, non-state actors that have been pervasive within South America, we have a number of economic concerns that we are—With South America in terms of agriculture, energy, textiles and other things. Hugo Chavez not only has been more of an influence within South America, but has reached out globally to other leaders with likeminded ideologies and ideas of where they want to go in a non-supportive role as far as American and western values. And I just wonder why we continue to be somewhat mute on the hemispheric maritime security that should include Central and South America?

DR. MARTEL: Thank you. Maybe none of us what to upstage Admiral Deviates (?) when he comes, but I think nobody is ignoring what's going on down there, and I would just observe the deployment of *U.S.S. Comfort* and the deployment of *H.S.V. Swift* as a prototype doing some experimental work, testing out this notion of global fleet stations in order to bring capacity building tools to be able to work closely and create those personal relationships with the various and sundry navies down there and to work the maritime security issues to better understand what their concerns are so that we can work together.

And I think that's just the beginning of what will be a process of working more closely together with them. At the same time, we've got a long history of working together in the whole UNITAS series of exercises. So I don't think there's been an ignoring as much as perhaps just difficult to get space above the fold.

___: Can I just add one comment? The point about the *Comfort*, which reminds me— Governor Thompson, I think, has referred to, has talked about medical diplomacy. And it strikes me that one of the objectives of whoever's going to be President next is going to have to be to improve America's image in the world. Our reputation has suffered over the last several years, and I don't want to fix blame for that, it's bipartisan. But the fact is, we're going to need to do something about it, and probably one of the best ways of doing it is what Governor Thompson's called medical diplomacy, and the Navy has a wonderful capability with the *Hope* and the *Comfort* and their other ships. And we could do it with other parts of our armed services, as well as the civilian parts of our government.

This could be an enormously powerful initiative, dealing with all sorts of diseases, waterborne diseases, viral diseases, infectious diseases around the world. This could be a very powerful thing for our national security and helping in Latin America and Africa, which is another area that could benefit, and which we're increasingly dependent on, also, for oil and for natural resources. So this could be a very powerful new initiative, and the Navy really could be at the forefront of this initiative.

DR. MARTEL: We have time for one more question. Yes, sir?

AUDIENCE: I'm Michael Mendelson, Intelsat. Thank you, gentlemen, for a very interesting panel this morning. It sounds to me, from what I've been hearing, that both the armed services and the federal agencies are not only being asked to do more with less from a budgetary perspective, but also to step outside of some of their traditional roles and look at new, creative ways to counter threats and to address force projection. So going back to something that was mentioned in the first panel, I'd like to know the extent to which you are, and extent to which the current legal environment allows you to, explore some creative public/private partnerships outside of the traditional defense industry? Thank you.

___: We're looking for the lawyer and we can't find one. [laughter]

___: Remember that next time for the next panel.

DR. MARTEL: I think that'll do it. I'd like all of you to join me in saying thank you very much to the panel this morning. [applause] I think this is the time to adjourn for lunch, and then we'll see you after lunch as well. Again, thank you.