

TRANSCRIPT

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Q: You've started, I think, a new study on aviation, so talk to us a little bit about what you see is the major issues of that study; what do you have to decide; what are the big decisions that have to be made over the next months as you go through that, I presume pointing toward the next budget cycle.

A: True. Let me talk about the aircraft that are wearing out. That means they are, it's a couple of factors: one is we're flying them at a higher rate than we normally do because of the level of operations and we've been doing that for a while, so even our new aircraft, F-18s in particular, are getting flying at a 30 percent higher rate than their expected service life than what we allocate for when we buy them. In addition, some of them are just old--P-3s, EP-3s, Prowlers; Prowlers are 24 years old, supposed to fly it for 20. The concern about, in particular, those aircraft is you bounce them pretty hard on and off carrier decks and so that impacts their service life, so they're due to be replaced. We're replacing them with the Growlers, the first one we rolled out this year and as far as I'm concerned we can't do that fast enough.

Secondly, the P-3s and EP-3s, the P-3s in particular, the MMA program, which is, IOC is supposed to be 2013 or so, is a really critical program to get the P-3s replaced. You know we've started a new program, restarted our program ACS, to get the P-3 replaced. What the aviation and there are two big procurement pieces for me in my overall budget; and one is shipbuilding, the other is aviation and they both run over. I mean shipbuilding is running about 14 billion this year in 07 dollars and aviation, depending on the year, 10, 11, 12 billion dollars. And so I want to not unlike what we did in shipbuilding, I crave

stability in this account so that we can have a plan. I have, the stability piece of the shipbuilding plan has been very, very significant so I am committed to, over the next several months, conduct a study that says what's the best way to stabilize aviation. All of that said, I also been doing money long enough to know you can't just lock yourself in and lock everything up and fence everything--there are just too many changes that occur over time and there's a balance there. And in aviation it's easier to move eaches around just because of numbers, and each airplane doesn't cost that much to stabilize, if you will, or to keep it stable.

So we're doing that, we're connecting that plan over the next several months. I am concerned about this; I testified to the strike fighter's shortfall. JSF did move to the right a couple of years for us. We're third; we get the airplane last. We're flying these jets at a higher rate. We're conducting a study on the F-18s to see if we can keep them flying for 10,000 hours rather than eight. Early indications from that are positive, but we're not done with the study yet as a way of extending it. And keeping the balance right for buying additional F-18s, but at the same time not buying myself out of my JSF. I've got to have JSF. I need it for the range, payload, stealth--all those things. And it's one of those things, the more F-18s I buy, the fewer JSF I buy. The fewer JSF I buy, the more expensive they are. The more expensive they are, the fewer I buy. So it's a real delicate balance out there towards the end of the FYP (?) right now to get that right. I've got to have enough airplanes to fly. We're flying them at a higher rate now and so it's a real balancing act to get this right for the future.

Q: Some of the things you've done with some of your new programs (inaudible) Navy global fleet station (inaudible). What can you find (inaudible) with the Navy when all the focus is on the ground, the Marines and the Army stretched to the limit? Does the Navy have an issue of being (inaudible) in the Global War on Terror?

A: No. I don't think so at all. I'm typically, 30 percent of the ships are deployed around the world. The heavy focus obviously is on CENTCOM but we're deployed around the world right now. We're 60 thousand sailors deployed, half of which are in the CENTCOM, but another 30 thousand which are deployed in other places around the world. And to tie that into the whole thousand-ship Navy view, it is about what the Navy and Marine Corps, and obviously the Marine Corps, isn't doing this now but it's the engagement piece which is so important. It was going on before the war, it's going on during the war, and it'll go on after the war. In fact, I believe that for the Navy and Marine Corps, the naval forces, after Iraq, and I do believe there will be an after Iraq, that we're going to have to make sure that our naval capability, Navy and Marine Corps, are out and about as we bring ground troops home.

And the thousand-ship Navy piece has been one that has taken great traction on the part of many navies, many leaders, and actually not just Navy leaders either throughout the

world. I was just with the (inaudible) from Singapore who was with me last week and spoke of it, and this happens to me around the world, and that's the engagement piece. So the global fleet station pilot, it's going on this year down in South America is an example of that. The one that will go on in Western Africa this year is an example of that. So it's not a relevance issue at all to me; it's what we do in addition to, because the ground forces are under so much pressure and have been for a while, trying to provide as much relief as we can on the ground in Iraq. And we're over five thousand sailors on the ground in Iraq and another 1,500 or so in Afghanistan, etcetera, to get to the about 13 thousand sailors who are short in that part of the world.

Q: Admiral, I have a question for you about Iran. Given the development of high tensions, I'm wondering whether Fifth Fleet has been given guidance to be extra cautious in their activities to avoid any unintended conflict or miscalculation on the Iranian side.

A: That kind of guidance is something very much on our mind wherever we operate, and it's the guidance to make sure we're not in a position that we miscalculate, and from that regard, I mean, we've had forces in that part of the world for decades, and I think you know that. The whole idea is to have forces that will reassure our friends, provide the kind of security that we need, and obviously participate in ongoing operations which is what's going on right now. I'm always concerned about whether we get all that right. I have ongoing discussions with the Fifth Fleet commanders who just--there was a change of command out there within the last two weeks--Admiral Pat Walsh was relieved by Admiral Kevin (inaudible), and so it's an area we focus heavily on all the time. If I were to characterize what's going on in Fifth Fleet now, more than anything else it is the engagement philosophy, it is working with our coalition friends, and obviously its focus on ongoing operations. A significant part of that engagement obviously is in and around the waters, which typically, which are off the coast of Iran. And we've always operated there with a thought to make sure we don't miscalculate.

Q: But no special extra guidance at this time as things have developed--?

A: Not that I'm aware. I'm not the operational commander so I wouldn't be given that kind of guidance, although I'm heavily, you know, I routinely engage with my component commanders on what's going on out there.

Q: Talking to some Navy officials about getting submarines down to (inaudible) two million a copy. That 200 million is going to be the toughest. What kind of (inaudible) is the Navy looking at both inside and working with industry (inaudible) erase that kind of get rid of that 200 million?

A: Well I think you know (inaudible) around 4 within 400 hundred or so and we think

that half of that gets picked up by the (inaudible) economic order quantity when we get to and then the other half are just considerable efforts internal to the program, some thirty or forty different initiatives which the program has put together with the ship (inaudible) I think the most significant change which occurred in my experience is the commitment on the part of everybody involved in this, the shipyard is clearly aboard, the program, the Navy is clearly aboard and obviously we've got strong congressional support and that's that kind of strategic relationship and in particular we've moved, if you've followed our program over the years we've moved that two a year to the right, I think I saw a piece that said it was as early as 2004 and now it's eight years later. We're not going to do that again, I mean, we're really, and I would never say never, but basically there is very, very strong commitment to make sure we keep it in 2012. That has really energized the shipyard to make the investments that will allow us to bring that cost down, not just the ship, the shipyards that are building these submarines. I'm really encouraged by that and they're on a curve right now which looks like they can get there. And I'm very enthusiastic about the ability to achieve that and I think, and it's a program that's really under way. Every program isn't like that --the fact that we're able to pick a good target cap, have everybody and to stretch ourselves a little bit, really get the juices flowing, that's allowed us to get in that direction, and I think we're really going to get there.

Q: Secretary Gates came in and said that he was going to consult more with his top uniformed officers. I wonder if you see the role of the Joint Chiefs of Staff (inaudible) under Gates and if he's been living up to his commitments, consult with you?

A: He meets with us routinely, and so we meet two or three times a week in the tank and he will typically come down and spend a half an hour, forty-five minutes with us at the beginning. The goal is first tank of the week, so typically Monday; that doesn't always work out schedule-wise but, so from the standpoint we've had very active engagement with him. He seeks our opinions, which I think is very valuable. And I don't consider that a change in the role of joint chiefs; I think that clearly the joint chiefs have had that responsibility and role for some time, but he's very open, he's very engaging. He listens, and he doesn't take all of our advice and (inaudible); it's a very active conversation that I think is very important to the overall role that not just he plays but what's going on right now in government, so I'm very encouraged by all of that.

Q: And not to get into specifics but is it more that you guys are doing what you are mandated, you know, check the homework off, or is he actually coming to you with the problems where he would say, would you guys take a look at this and give me some thoughts on x, y, z?

A: We're spending a lot more time on original thought, I guess is how I see it. It's not checking homework. I mean, we do certainly review plans that come in from the

combatant commanders, but it is my view the most significant part of our work is original thought tied to the best military advice chained to him as well as up to the President.

Q: (Inaudible)

A: Well, we're in a pretty tough spot right now. I mean, we're in the middle of a war, we're in the middle of two wars, and a lot of our time, energy, and effort is going into where are we, and what's the best way ahead; and it's not just Iraq and Afghanistan. It's the region and it's the world. It's the global peace that is as every bit as relevant as I think is anything else, and if you just look at outside the Middle East last year in combination with a number of events which occurred worldwide, we're mindful of all of that. So we are constantly assessing and reassessing where we are and what we should do and in particular the operations and the plans and the what-ifs and that kind of thing, and we have these very active discussions. I feel a huge responsibility as a member of the Joint Chiefs to understand all this and give my best military advice to him and to the President, so it's sort of in that sphere and that (inaudible) that there's a very, very active discussion going on constantly, and I'm very pleased with that. These are tough problems, tough times, and it deserves the time and energy of the best minds we have to bring together solutions which can move us ahead.

Q: To follow up on that, Admiral, can you tell us what the difference feels like with this new Secretary stylistically how that affects you? Can you also talk about the Navy's (inaudible) hospitals and are you guys reviewing anything and what steps you (inaudible) taking?

A: I feel a great, a large amount of support from the Secretary of Defense, previously with Secretary Rumsfeld, now with Gates, to run the Navy. They let me do that, and that's been a constant that their styles are different, and I don't want to spend a lot of time on this, that their styles are different are obvious. To certainly, and I try not to spend a lot of time on the way it was. My own personal experience with Secretary Rumsfeld was engaging, you listen. I saw him when he or I wasn't traveling I typically saw him weekly as well. It's a different style and I think you know that clearly just by the way both of them handle certain issues and engage the press, engage the public, etcetera. And the other thing I, just my (inaudible), this is a really tough job for anybody that's in it, and I admire those who raise their hand to come and do this, and I want to be as supportive as I can possibly be of the individual that's in this job. And what I'm most concerned about right now is where we are and how we move ahead, so I'm focused a lot on that and not so much on the way it was.

I've been to Bethesda a lot. I've been to Landstuhl. I've been to (inaudible), I've been to Walter Reed, although my visit to Walter Reed was just on one or two occasions, I think.

But I've been in and out of Bethesda with my wife many, many times since this war started. The way the Navy handles the post-rehabilitative care is much different than the Army. We have typically 50, 60, 70 sailors and marines who are in some kind of post-operative care but philosophically is what we do is as soon as they are ready to go we move them to their home, their home bases, or to a VA hospital for support, philosophically that's just different how we do it versus than obviously what's done at Walter Reed. We have, I visited a year or so ago the medical hold barracks that we have out at Bethesda. I mean I went through to see where they lived, what they were doing. It was clean, it was adequate, and there's actually, there are renovations going on out there, it's building for us, it's building 50 and it is an ADA compliant and we invested in that for the last couple of months. We've started a rehabilitation plan which makes it ADA compliant specifically.

That said, it's a big system. We're all concerned about getting this right. I'm appalled to know that somehow in our system we've let these military personnel down. And I want to make sure that I'm not missing, that they're not falling through the cracks in the Navy so we've initiated internal to Navy, we did this literally 24 hours of I think it was a (inaudible) whatever it was I think it was a second story, and put together, I had my IG go out that day, and say, go out and just tell me what you see. He came back and basically the report was very positive, not just the care in the hospital but also the after-care. But subsequent to that Don Winters we need to make sure we have this right everywhere, so we put together my IG, Jim Conway's IG, and Linda Davis, who's one of our, on the Secretary's staff, to make sure in depth we've got this right from beginning to end, not just here in Bethesda but also every other hospital. So we're on and about that, and I expect that will be much more in depth than, and I shouldn't say it that way, I want this to be in-depth coverage and to make sure we're OK with respect to that. And the goal is to account for, in my case, every sailor and to make sure we've got it right for their families; and we're focused an awful lot on making sure their families are OK.

Q: (inaudible).

A: Building 50 is where we have a med hold barracks at Bethesda ("It's called Building 50?") It's Building 50 ("And it's not ADA compliant?") Actually it's in rehab right now to do that. I think spring, summer. ADA mainly was elevator and wheelchair ramp, as I understand it.

Q: What are your observations and conclusions about the Iranian sea threat, and then the same question about the Chinese one?

A: I've watched the Iranians closely over the last, certainly over the last many years but in the last year or so, they're operating better than they have in the past. They have an asymmetry, which is of concern, and clearly as they have changed their Navy let's say

since Desert Storm, the last 15 years, and you combine that with a very clear rhetoric which comes from the government, it's a great concern to me. I don't expect, my view is, and it seems as though we're on a path, if I were to use the nuclear weapons resolution as an example to solve some of this stuff diplomatically, that needs to be the answer. We're not anxious to get into a fight and I don't sense the Iranians are either. But they clearly have evolved and are of concern. And they are, as I visit the area and I talk to our friends and allies over there, they're extremely concerned, the Gulf coast countries in particular with where Iran is going. And they've developed some fairly significant capabilities. Now, I don't call them 10 feet tall, they're not but they're a lot different than they were 15 years ago. They're a lot better Navy than they used to be from the standpoint of the capabilities they're developing, and they're obviously located in an incredibly important strategic position. So it's important that we keep our eye on them and be strong, and at the same time be strong to prevent any kind of outbreak of hostilities.

On the Chinese side, and I think, Adm. Fallon spoke to it very recently, Secretary Gates same thing, it's a transparency issue. They're building a big Navy; number of ships they're building a year, number of submarines they're commissioning a year, the amount of the investment, and sometimes we question, well, how much is it? It's enough to generate a lot of ships a year right now, and a lot of additional capability, and to me it's far beyond just being ready for a problem with Taiwan, if something goes wrong in Taiwan. Now, they're doing this; they've got a big economic engine, they've got 1.3 billion people--that a country would build a strong defense to ensure its security. That's not unusual and I think the increased number of engagements, the military to military engagements are important. We're working that very hard and at the same time we just need to understand more about why they're doing it. What are their intentions? And it's not just a concern we have. It's the same kind of concern our friends in that area have and stability in that part of the world is really critical.

Q: Admiral, can you talk about the consequences of the decision to (inaudible) aircraft carrier in the CENTCOM AOR? What does that mean operationally in terms of what you're able to do and what challenges does it pose in terms of your rotation, your deployments, and the length of deployments for your sailors?

A: We've had a docket over the past couple of years, and I think you're aware of this that's fleet response plan. And essentially we've invested heavily in the forces of today from a readiness standpoint, and so the high-level metric we use is six plus one. Six carriers can go within 30 days and an additional one in 90 days. So this is really a part of the return on that investment, so that (inaudible) actually started what was her routine deployment and it's now in a different place and it's a different length, but basically she was going at about that time. It's because of the depth of the resources in terms of the investment, not just in dollars but in readiness and training and all those things that

allows us to do this. And notionally, so it didn't have a huge impact per se; she originally was going to go to the Western Pacific because that was left open Kitty Hawks in a maintenance period. We took Reagan who was post-deployment, and she had made her deployment. But part of it is you're available for a certain period of time to surge afterwards and Reagan got under way and is out there for a period of time as well to cover the maintenance (inaudible) for Kitty Hawk. It's really the flexibility that is in the program, and it isn't just about CS-Gs. This isn't just about carriers; we're doing this with all our forces, all our ships and airplanes in a way that we just haven't done it in the past. So right now it isn't a huge impact on the rotations or on pressure whether or not we can execute this. Clearly, the more we send out, the more pressure that will be raised. But right now we're in very good shape; we've been able to do this and sustain it for a significant period of time.

Q: But in terms of operationally, having those two (inaudible) in the CENTCOM AOR (inaudible)--

A: Well, obviously if you are conducting flight operations from the, it gives you more capability on the engagement side that's clearly a lot more flexibility. On the combat side, it allows you, in its essence; it allows you to conduct flight operations for 24 hours a day and that is a significant capability. You can't with a single carrier; basically your, typically, your operations are about 12 hours. So it gives you that--there are two ongoing operations out there which require combat support both in Afghanistan and Iraq, so it gives us more flexibility. And it feeds the great strength of I think having that combat capability for the country. The other thing, back to sort of that struck me was, as (inaudible) got under way, the reaction, the international reaction was very focused on her even though she was a long way away. People knew she was coming, that's the kind of strength naval forces bring in terms of being able to send a message, although it isn't as sure somewhere and the President can make some decisions about, go, don't go, start, those kinds of things, all of which is a very powerful way to both send signals as well as take advantage of the kind of resources that we've invested in to make these carriers available, naval forces available.

Q: Do you see a strategic communications role in the Navy with respect to Iran, and if so, what if anything does that have to do with your interest in developing a global (inaudible)?

A: Clearly there was a strategic message that was meant to be sent in that regard for stability, for support of our friends, and for just general concern in that part of the world. And that was, that is immediately part of the overall strategic communication, I guess, is how I'd say it. It is part of what the, I'd go back to sort of the thousand-ship Navy piece, the idea that naval forces have inherent to them an ability to influence, and it's in many ways, it's about security, it's about making sure that commerce moves. That

then gets to standards of living, to improving economies if you have security, all those kinds of things. So it's a big part of that same kind of thing. I'm not sure beyond that. I think it's very important to have a strategic global influence capability in this country, and I mean that in the most positive way in the world that we're living in right now. And that's kind of, is there something else you're after on this?

Q: Well, I mean the second part is you developing the global influence plan. What do you want to (inaudible) to do better, I mean, influence things, to apply your engagement and (inaudible)?

A: I think the global aspect of it is from a standpoint of where we will be operating in the future; I believe will be different, in some ways I can't even predict where that is. If you look at the amount of operations off the Horn of Africa. If you look at where we are in the West coast of Africa. I think we'll be much more down there. I see us; I see signals that indicate there will be more operations down in South America. I mean, that part of the world, and the whole idea with respect to influence for me is the kind of engagement, relationship building, clear understanding of the security problems and how we can work together to solve them in that regard, it's a part of it. On the engagement side, we must never, I believe, never lose sight as a country of the high-end capability that the United States Navy brings and will need for the future. It goes back to what I said before; forces are going to come out of Iraq at some point. I believe the lead elements of the engagement and influence plan after that will be naval forces. I've talked to Gen. Conway at great length about this--my mantra to him is welcome back aboard, let's get under way with the Marine Corps, and he wants to do that and we've worked our way through a concept of operations for the future as well, which we're both pretty excited about, so from that standpoint I think we will be relying heavily on naval forces in the future.

Q: Admiral you were talking earlier about the fallout with Walter Reed. You mentioned Bethesda Naval Hospital several times. Some similar problems have been found at the San Diego Naval Hospital Balboa, and I'm wondering to what extent you have looked at those, what you can tell us about that, and what's being done to-- ("can you be a little more specific about similar problems?") Well, substandard rooms for example, patients with open wounds, having to wander across a courtyard to get to treatment, I could provide more examples later on--

A: I'd be very interested in the details. I mean, I've seen the one story and we actually have, I think this is what I would call the fruit flies story a couple of days ago, we in fact, Admiral Hunter, who's the CO out there at Balboa, has spoken with that mother about it and that she certainly had some concerns; there was a fuller piece to understand. I guess the way I say it is, each time, first of all, we're taking a very comprehensive look to make sure we don't have those kinds of problems, and then every time I see something like

that or become aware of something like that the direction to my people is, I want this run to the ground now, and I want to understand what happened, so it goes back to what I said earlier.

We've moved very quickly to put a group together to make sure we don't have problems like that. And if we do, to fix it rapidly. I'm very confident that clearly on the scale of the kinds of things that at least I'm reading about that we're not there. and I think Secretary Gates has said it, even in putting the commission together, this isn't about Bethesda, clearly we're including Bethesda in this. And all of us are concerned that we get it right, and it's not, I mean get it right for everybody. It's not acceptable that there's a problem for one individual who's in this type of situation and one family. So we're trying to get that; my goal is to get that to zero.

Q: It seems to me that the theme running through most of what you've said this morning is the (inaudible) to the amount of resources and time going into CENTCOM. It seems to me that part of what you're saying is the opportunity (inaudible). Could you talk a little bit about the impact that that has on your job and particularly the uncertainty of how long we're going to be there, exactly what the mission's going to be, and for example, the things that you want to do in Africa, how much more difficult is that because you got (inaudible) in Iraq--

A: Well, it isn't, as I indicated, I got 60 thousand sailors deployed right now and half of them are in CENTCOM. So the other half are doing lots of other things. Because of the investment five-six years ago on the readiness side, I'm able to do some other things. I want to watch the tempo obviously very carefully, and so I am comfortable we can sustain this for a significant period of time. That said, as is every service chief, I'm always concerned about resources and how we do this in the future. I think the number one issue for all of us who deal in defense, and I mean the cost of full spectrum, is how we're going to pay for our people in the future. The Navy's coming down roughly 10 thousand people a year, we're in a fourth year of that, so I will have taken out about 5 billion dollars out of my overall budget, and so far, I haven't bought anything with it. My personnel costs are still going up; now they're going up very gradually, one or two percent. But I'm going to level out here in the next, seeing the 08 budget if you look in the outyears. I'm going to level out here in the next two to three years between 320 and 325 thousand people. My (inaudible) costs are going to start going up.

In other words, the amount of money I'm going to have to put in is going to start going up just like everybody else's are now, and the Air Force is also coming down. And it's a concern I raise consistently with leadership, is how we're going to come to grips with ensuring we get it right in terms of the resources for our people. They're the best we've ever had. The Congress has done, lots of people, but in particular the Congress has done tremendously positive work in the last 10 years to get the overall compensation package

right, but how we deal with that in the long run is going to be a real challenge made more challenging we're going to bring in another 92 thousand now with respect to the Army and the Marine Corps, so the resource piece of it is certainly of concern. And from the Navy's concern, we've worked hard over the last five or six years to really understand the business end of what we do. I think one of the reasons that we're in pretty good shape right now is because we have worked extraordinarily hard to better focus our resources, make them more effective, and allow us to move ahead. We're continuing that effort right now, but I'm at about my limit in terms of what I'm able to take out and be the Navy we need to be for our country.

Q: You're aware of the costs and the challenges of resetting and modernizing the Marine Corps and the Army over the last few years. How concerned are you about some of the (inaudible) you mentioned earlier (inaudible) inter-service rivalry are going to re-emerge ("They believe it or they hope?" Laughter.)

A: Actually I don't see that. I mean we've been the four of us have worked exceptionally hard to make sure that doesn't happen because we think the downside of that is really pretty bad, and I think that's a story, I see it referred to occasionally, but I, as recently as 10 years ago, I mean, I grew up in that environment. One of my commitments is to not, as a chief, is to not relive it, but I am extremely concerned that we've got the resources right in the long run, not just for the Navy, but for all of us. And Peter Schoomaker has spoken to this very consistently that we have to obviously resource the military for the strategic appetite that this country has, as a leader and in the very dangerous world that we have. So I am extremely concerned about that, and specifically with respect to programs, the programs that often come up in those discussions are shipbuilding programs and actually, I'm always concerned sufficiently paranoid that it keeps the, it keeps my sweat pumps going to make sure I'm on point to ensure these programs, which I strongly believe in, are OK. I'm very encouraged by the support I've seen on the Hill this year to increase the number of ships, for instance, and Mr. Murtha has spoken very strongly about that; Mr. Taylor has spoken very strongly about it. There are others as well and I think that's a very important part of having a strong Navy. Navy isn't much without ships and submarines and airplanes so I think we need to do that. That said, we have built ourself down to a point where it's very difficult to say, in the case of, if you build five more ships what would they be, and (inaudible) is an easy answer because I've already built two and I can just make it three--that kind of thing. Back to your question, there's an awful lot of support, I've seen support on both sides of the aisle, so I'm not extremely concerned. I believe it goes back to what I said before in some degree, is after Iraq, we need a strong Navy and we're going to continue to need to be able to, resources to, be that strong Navy.

Q: Do you see that the process would be more competitive, less competitive with (inaudible), where he is as opposed to numbers?

A: No, we all got along pretty well before and I mean that's how I'd say. I mean we really have, I've had an exceptionally strong relationship with the other service chiefs since I been chief. And that was with Secretary Rumsfeld and that continues now.

Q: Along the lines of shipbuilding, some lawmakers have started talking about targeting other contracts besides shipbuilding in order to send the message to shipbuilders that they really have to get this right. Is this something that the Navy could encourage, discourage--("What do you mean by targeting other contracts?") Sending a message by targeting other programs that are high profit margins for contractors and putting conditions saying if you don't get this right in shipbuilding we're going to lower this over here?

A: Well I think we've got to get it right on shipbuilding. We're going through, as many of you know right now, a very thorough in-depth review of the LCS program, specifically, and understanding the cost implications of that program. And the message that I get from the Hill is the costs, you know, we've got to bound these costs and figure out a way to get it right. There's a lot of lessons coming out of that for us, and I also give my boss, Secretary Winter, a lot of credit, for pulling the string on this, for pulling it up short and very quickly to make sure we knew what we were spending our money on and we could figure out a way ahead.

And I expect we'll have that way ahead here in the next couple of weeks. The message that keeps coming loud and clear and it's not just the Navy it's to all service chiefs, we've got to get these costs under control. How we do that, and I've been doing shipbuilding now for, since the mid-90s, if it were simple, we would have figured it out. It's an enormously complex problem that we must continue to work very hard to get the costs right. I can't have program after program, you know, continuing to dramatically or significantly increase in cost and build a Navy of the future. It's real fundamental to me; that said, because of complexity and the ability to do it and get it done, it's going to take enormous focus, not just in ships, but in other programs as well, but certainly shipbuilding has my attention right now.

Q: I wanted to ask about the maritime security strategy that you've been working (inaudible). Are you satisfied that you're seeing some fresh thinking and fresh ideas coming into strategy, and can you tell us a little bit about what maybe some of the new things that (inaudible)?

A: Sort of two strategic thoughts with respect to the strategy: One is, we really haven't had one since the eighties and the deliberate process that we're going through right now is to make sure we get it right, and it is really that docket that creates the overall umbrella under which we figure operational concepts and really the guidance to go buy

the capabilities that we need for the future. And it's really those three pieces that are so important and right now that's missing. And so strategically it's really important that we do this, and when I came in CNO one of the things I said was, I'm going to listen, learn, and leave. And I'm really trying to listen, and listen in a different way than we have before.

The other option we have is take four O-6s, you know, put them in a room, lock them up, keep shoving pizza under the door until they come out with a strategy. And to me that's exceptional risk and I don't believe it's very inclusive in terms of the ideas that are out there, so I'm trying to gather all of that in. And I'm not at a point where I can say, look this is what it looks like, the strategy. We're looking at various alternatives, we've got to have four or five kinds of alternatives at this point, but we haven't decided. The other thing that I'm concerned about is that the country, and in my heart the United States Navy is funded by the taxpayers of this country. That's the system we live in, and I want the taxpayers to know what the United States Navy's about, so that's why we are out and about in these conversations with the country. We've had one in Phoenix, one in Atlanta, we're going to Seattle and San Francisco the next couple of weeks; we're going to do one in Nebraska, one in New York over the next couple of months. And it is to touch all the idea chambers, if you will, to tap all those ideas and bring them in as well as to engage them in what the United States Navy is all about or what we think we're about. So it's a strategic communication piece, and typically the country doesn't know the Navy very well. That's--historically, polls will show that and that is amplified by the fact that we're in a ground war right now with obvious heaviness on the Army and Marine Corps, so it's a lot of things, there's a lot of things that are going on right now with respect to that.

Q: What timeline are you looking at (inaudible)--?

A: Oh you mean, oh, the next twenty, thirty years.

Q: You mention the (inaudible) difficulty getting your personnel costs under control with the Navy's cuts and your costs (inaudible). Isn't part of the reason for that that your health care expenses keep going up, and we're not seeing the results perhaps penny-pinching in another service in trying to make health care run more efficient? I wonder if you could just talk a little bit about how difficult it is or will be to get that piece under control and still deliver the kind of quality care and still meet your budget?

A: Extraordinarily difficult and I think in the Navy alone and I can get you the exact numbers but 2001 my budget was about five and a half billion, 2006 it's 11 and a half and 2007 it's 15 I think. It's going upwards of 18 or 19 billion just in health care, active and retired, the benefits piece. So that's why we the service chiefs are sending a very strong message about, we need some balance here, which gets into the Tricare discussion which is not a non-emotional discussion as you know with respect to this.

The goal is to get it right and to make sure we are taking care of our people, and do so in a balanced way. There is certainly early discussion that part of the problem we're going through right now is because there haven't been enough resources, but I think the jury's out on that at this point, I just don't know. I don't have enough data to be able to say that's exactly what's happened.

And clearly I can't speak to the Army because I'm just not involved in that aspect of it. That said, I also as a service chief don't have the money. The money is controlled by OSD. It is not unlike acquisition in that sense. For me to be engaged, I have to actively insert myself, as opposed to be part of a natural process, I'm not. My surgeon general technically works for me, but believe me, he spends an awful lot of time working for David Chu and Dr. Winkenwerder because they have the resources, and I believe that more line involvement in that, in terms of getting this balance right, is critical. We're just not there right now, and the Department over the years has waxed and waned on that. There have been times when the military's been involved, more heavily involved and right now it just isn't. That doesn't mean I can't vote; that doesn't mean you know, can't get into it, but I have to sort of actively seek. It doesn't come to me naturally.

Q: And if I'm reading you right, you'd like to have--

A: You bet I would.

Q: I have two questions. One I was wondering if you could talk about the global fleet station, your vision for them, why you're (inaudible), and what are the next steps ahead with that. And then two, I'm just not too familiar with LCS--I understand there's a stop work order from LCS (inaudible). What's the next step with that?

A: The global fleet station, we're doing two pilots this year. If I were to, on a little larger scale, look at what the Mercy did this year out back revisiting Indonesia, Indonesia and then going to Bangladesh and the Philippines, which we will continue to do. In fact, the USNS Comfort, which is the hospital ship here in Baltimore and the East Coast is going to make a seven-month cruise down to South America this year with that same kind of thing. But the global fleet station piece is really a station ship located in a certain area, not necessarily in a specific area through which we can flow many kinds of capabilities--training capabilities, squads of marines, squads of special forces, NGOs, medical and probably other things we haven't even thought of. So the pilots that we're doing this year are designed to inform us better on that. More importantly it's designed to be a station that is in an area for a significant period of time and the pilot is just months but it could be there much longer and to have an engagement capability develop and strengthen relationships in whatever part of the world we're operating in, and in the long run take advantage of what naval forces are and be preventative to anything breaking out and should something break out, have a relationship that is longstanding as opposed to

trying to create one right off the top at outbreak.

Secondly, your LCS question is there is a stop work order on, there are two contractors, Lockheed and GD. Lockheed has LCS-1 and LCS-3. The stop work order is on LCS-3 because the costs on LCS-1 significantly exceeded what we expected. So we got to sort out where we are before we make a decision on whether or not we continue LCS-3. And the next step, as I indicated, in the next couple of weeks, Secretary Winter will make a decision on how to proceed with respect to the program including whether or not to continue that stop, whether to move to termination or to continue the program for LCS-3.

Q: Global fleet station really quick, those will take place, the pilots, later this year. ("Later this year.") So, could you (Inaudible).

A: One in Western Africa and one in South America.

Q: And the global fleet station locations, how are they sort of chosen?

A: They're chosen by Adm. Stavridis, (inaudible) combatant commander, and Gen. Craddock, who's the combatant commander in Europe.

Q: We've heard throughout this breakfast about a series of very serious concerns that you have beginning with the Middle East, you've talked about resources and strengths, you've talked about threats, you've talked about problems with shipbuilding. Let me ask you, four years ago before this country went to war in Iraq, you didn't have those kinds of problems. You weren't facing those resource constraints--you weren't facing the serious problems with shipbuilding. Can you say now looking in retrospect that the United States is in better strategic position today than it was four years ago? How serious should the American people view this country's strategic position in the world today four years after this country invaded another country based on intelligence that proved to be faulty (inaudible)?

A: Who do you work for again? (Laughter). Let me talk to the resource thing. When I arrived in the Pentagon on the fourth of September, a week later that plane flew into my office, I was a budget officer for the Navy. I was handed an eighty-three billion dollar budget, 03 budget; it was 83 billion dollars, and I was handed that budget by then-chief of naval operations Verne Orr, he said go downstairs and sell it. My budget in 08 right now that I'm defending on the Hill or proposing is 115 billion dollars. So from a resource standpoint, we're much better off than we were. We're much fuller; we've invested a lot as I said on the readiness side, and so we're much more ready and much deeper than we were some time ago.

That said, and this, not just as a service chief, but as much as a joint chief, I am very concerned. I'm concerned about the strategic, I'm not sure what the right word is, context or you know, exactly where we are right now because of what's going on in the Middle East. General Pace has spoken to his strategic risk assessment, I participated in that, I agree with it. He has upgraded it from moderate to significant, I agree with that and that to me answers the question that you're asking. That said, the Navy and the Air Force, and this is one of the reasons I think you have to be mindful of how we resource all the services. The Navy and the Air Force are the dominant part of the strategic reserve for this country and if something happens somewhere else clearly the Navy and the Air Force would be called on to lead that. It would take longer to win if we had to go to war somewhere else right now. It would be more challenging, but there's no doubt in my mind that we could win. It's one of the reasons I go back to, it's really important to have a really strong Navy and a strong Air Force as well. And in order to that, you've got to be able to resource.

Q: But do you think the United States strategic position in the world today has eroded over the last four years?

A: I'd leave that up for the--

Q: But you're one of the President's primary military advisers?

A: Correct, and I just gave you what I advise on which is military matters and from a strategic standpoint on the military side, I have just described it. I would let somebody senior to me who's not wearing uniform answer that question.

Q: There's a report recently that China plans to build an aircraft carrier (inaudible), do you know anything about these plans and are you fully comfortable with (inaudible)?

A: I don't know a lot about that. I mean, I saw a report this morning as well. It's not the first time I've seen anything on it. More importantly to me, and being in the aircraft carrier business not a simple task. And so I see this but I'd like to understand more about the realities of being able to do it. And there are lots of different kinds of aircraft carriers (inaudible), but clearly it's a significant statement of having a blue water Navy that wants to be able to provide the kind of capability we talked about earlier.

Clearly the plan right now is for us, Kennedy decommissions here in a couple of weeks, and then Enterprise decommissions in 2013 on the current plan right now.

And so for about a two-year period there we would be at 10 and I've looked at that very carefully from a risk management standpoint, and clearly the risk is up in terms of having 11 versus 10. That said, to me it's acceptable risk in managing the force and

certainly being able to respond to the kind of war plans that task me about providing capability that 10 is, it's doable and I don't mean it's exceptionally difficult, but basically, 10 can handle that kind of tasking. We're just going to have to manage the availability, the maintenance, the preparation for that period of time until the next carrier's commissioned, which is in 2015. But I'm comfortable we can do that.

Q: How seriously is termination being considered for LCS-3?

A: He really, we've got a lot of meetings on this. We're all options are on the table right now. But clearly the message by the stop work was pretty serious, but I honestly can't give you an answer. I couldn't tell you which way it's going to go at this point. I really don't know.

Q: (Inaudible) I never heard her say we're not sure if we're going to build LCS-3 at all (Inaudible).

A: I think all options are on the table, and I guess I'd end by saying, you know, we really haven't made that decision. I want to build ships. I mean there's no question. I got to build them. They got to be affordable and we got to contain the costs, and we understand a lot more about this than we did when we put a stop work on LCS-3.

END TEXT