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TRANSCRIPT

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**Building at Scale: Implementing the Defense Industrial
Base Reform Agenda**

DATE

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FEATURING

Honorable Michael P. Duffey

Under Secretary of War for Acquisition and Sustainment, U.S. Department of War

Representative Rob Wittman (R-VA)

Vice Chairman, House Armed Services Committee

John Baylouny

President and Chief Executive Officer, Leonardo DRS

Chris Power

Founder and Chief Executive Officer, Hadrian

Morgan Brennan

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CSIS EXPERTS

Jerry McGinn

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Transcript By
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Jerry McGinn:

Good morning. Welcome back, everyone. I'm Jerry McGinn, the director of the Center for the Industrial Base here at CSIS, and I'm honored to introduce this panel.

We created the Center for the Industrial Base last year to concentrate our research efforts on the critical issues facing governments and industry across the industrial base, from addressing specific challenges like surging production, assessing trends on how we measure innovation, to changing incentive structures to attract private capital investment and fostering international industrial collaboration like coproduction. There's certainly a great deal going on in these areas, and today's panel is just a great group to have this conversation.

From the Department of War's acquisition and transformation strategy that Undersecretary Duffey played a leading role in, to the SPEED Act that Congressman Wittman played a role in shepherding last year, as well as the FoRGED Act from the Senate, there's a tremendous amount of bipartisan support for changing how the U.S. government equips our warfighters with the capabilities needed for today's challenges. Fortunately, companies like Leonardo DRS and Hadrian have been tremendous partners in this transformative journey.

When he outlined the new strategy last year, Secretary Hegseth called for putting the United States industrial base on a wartime footing – that is, you know, being prepared for protracted conflict. How is it that things progressed in the intervening six months since the strategy?

Well, by initiating and incentivizing large-scale public and private investments, developing novel industrial policy tools, and undertaking significant defense acquisition reforms, the Department of War has made meaningful progress. The 27 budget request, if fully appropriated, would put defense at 4.6 percent of our gross domestic product, a level not seen since the 1980s. Meanwhile, roughly 10,000 new firms have entered the defense market in the last two years. And in this year – well, last year in fiscal year 2025, non-traditional companies received over \$120 billion in prime contracts, adding competition and innovation to the market.

Now, munitions contracts, as you all know, they've risen dramatically in the last several years, spurred on by this increased demand and depleted inventories. I think Undersecretary Duffey's arm is a little sore from all the long-term framework agreements that he's been signing between government and prime contractors and suppliers at historic scale.

In addition to developing this magazine depth, the department is actually looking to get magazine breadth. They're prioritizing an increased emphasis on equipping the joint force with a high-low mix of munitions, both exquisite

and affordable munitions and interceptors, such as the family of affordable mass munitions, the Drone Dominance Program, and LUCAS.

The Department of War plans to grow its inventories for low-cost munitions from half of the munitions bought in 2027 to over 70 percent in 2031. Now, munitions and other systems, however, require resilient supply chains of subcomponents and materials. At the bedrock of defense supply chains, for example, unprecedented commitments of public and private capital are focused on establishing a secure mine-to-magnet rare earth ecosystem outside of Chinese control. The scale of U.S. government investments in rare earth projects has dramatically increased by over 321 percent in the last 16 months, as opposed to the previous four years.

Finally, industrial collaboration between the United States and our close allies helped grow overall industrial capacity. In the past decade, over 340 percent increase in U.S. foreign military sales really shows the potential for a closer industrial collaboration.

Industrial plans, however, are not the same as results. The timescales needed to deliver critical munitions continue to lag to more than three years. Efforts to rebuild secure rare earth supply chains are in their early stages. And while new entrants promise advanced technologies at low cost and high volume, moving from innovations from concept to contract does not happen overnight.

Finally, there are some thorny issues that the congressman and undersecretary will deal with, as well as companies on issues like right to repair, balancing the need between government needs for operational control, as well as the firm's needs for intellectual property.

In short, getting on a wartime footing takes time. It must be built and maintained through strong and consistent budgetary demand signals, effective coordination mechanisms, and incentive structures between government and industry, and strong collaboration with U.S. allies and partners. And that's where our panel comes in.

So, I'm now going turn to Morgan Brennan and this amazing group of government officials and industry executives who are leading the implementation of this defense industrial base reform agenda today.

So, Morgan, over to you.

Morgan Brennan: All right. Dr. McGinn, thank you. I appreciate that.

I mean, 10,000 new companies, \$120 billion in defense dollars going to non-traditional companies as well. I mean, there are a lot of stats there that I'm

going to want to circle back with you on for my reporting on television, also give me some more questions here for this panel. So, we'll see if we can get into everything.

CSIS, thank you for the opportunity to be here, an honor and privilege. And I'm going to introduce our panel. We're going to get into it.

So, sitting next to me, the Honorable Michael Duffey, undersecretary of war for acquisition and sustainment. We've got John Baylouny, president and CEO of Leonardo DRS; Chris Power, Founder and CEO of Hadrian; and we've got Congressman Rob Wittman, vice chairman, House Armed Services Committee.

Gentlemen, it's great to have this conversation with you. That was a great introduction right there. This is how I'm going to frame this conversation, just get your opening remarks and then we'll dig right in, and that is, it's one thing to innovate and to create the technology, the new capability. It's another to produce at scale. And that's really what this conversation is about and it seems the moment we are in.

And so, Secretary Duffey, your thoughts?

The Honorable Michael P. Duffey: Yeah, well, thank you very much for the invitation and for all of you for being here to engage in this important discussion today.

It is all about scale. I mean, I think there's two converging forces that are creating the conditions for us to really drive change. The first, of course, is a volatile global environment and the speed and scale that our adversaries can bring to the fight and to their industrial base is frightening.

Secondly, we have this tremendous influx of capital into the defense industrial base, entrepreneurs, technologists, and financiers looking at this as an opportunity for growth. And I think we owe it to the warfighter and to our industry partners to create the conditions to fully leverage that.

And so I think we're doing that. The acquisition transformation strategy was designed around that to recognize technology and innovation is no longer founded inside the five walls of the Pentagon, but out in industry and all the creators that are the strength of our economic prosperity and how do we create pathways to really bring that into the department and help to maintain battlefield supremacy for our warfighter.

Ms. Brennan: OK.

And speaking of industry, what does that mean for Leonardo?

John Baylouny: Well, first, thanks for everybody being here. This is an incredible panel, and I feel blessed to be here.

Urgency is the name of the game. And so a lot of our industry talks about demand signals. If the highest request for defense budget in 27 isn't a demand signal, I don't know what is. It is the demand signal. We are investing heavily in the areas that we know are going to be a need going forward. We're investing in shipbuilding. We're investing in space. We're investing in sensing, making sense out of the battlefield. We're putting that money up in front in cases where we know there could be an award coming forward. We're putting materiel in place. We're putting purchase orders for materiel in place to get that into inventory to shorten that lead time. So, urgency is the name of the game. We're accelerating everything that we're doing.

Ms. Brennan: Before I go down the line here, I mean, how much of a business model shift is that to be making that up for an investment now?

Mr. Baylouny: Well, first of all, it's all about managing risk and reward. It's balancing that equation of risk and reward. And so this is just a continuation of doing that. You have to do it smartly and make sure that you're not taking on too much risk, but the reward is going to be there as well.

Ms. Brennan: What does this mean for Hadrian, which is really on the front lines of thinking about factories differently and producing differently?

Chris Power: No one has slept in the last six months. (Laughter.) I think it's a huge opportunity, but it's also like a massive responsibility. I think the FoRGED and SPEED and acquisition transformation last year were basically like, how do we speed the whole system up?

And to your point, the second tent in the pole now is, hey, we want to buy all this stuff, but can I actually get to the warfighter or on the Navy base or whatever it is? That's just a real generational challenge for everybody, because I think people like to point the fingers at the primes or the government.

You've got to remember, the how did we get here is in 86, we did two very silly things. One was we started offshoring 99 out of 100 commercial manufacturing jobs in factories. And through the last supper, we consolidated the primes. People forget that we also cut defense manufacturing jobs by 63 percent. So, now you've got 40 years of kind of causal sclerosis.

Ms. Brennan: That's a wild number, by the way, that number.

Mr. Power: And now you're asking all of the heritage American massive companies to operate like SpaceX overnight.

And the second problem is you've got a bunch of what I would call incredibly innovative companies that need to go to production scale like this. I just think it's a generational challenge.

For us, because we partner with all sides, the neo primes and the primes, it's the biggest opportunity we've ever had to do a good job for the warfighter and the government. But it's a huge responsibility. But the quantum of capital and the scaling is just enormous. But this is the way you've got to re-industrialize the country. And none of this makes any sense unless there's real accountability and you're actually producing at volume, at scale, flexibility to get it into the theater as fast as possible.

So, this is generational, it's a once-in-50-year kind of event, because functionally what the country is doing is reversing 40 decades (sic) of bad policy and CCP-driven offshoring in the commercial base. And unfortunately, the greatest, the worst thing about the peace dividend is we kind of put all the manufacturing and defense on life support for 40 years and now we're trying to re-fire every engine simultaneously over a three-year period. It's a huge opportunity, but it's also just a tough job that all sides, small businesses, startups, the government, and the large heritage manufacturing companies, in defense or commercial, all just got to team up and figure it out. Because there's so much opportunity, there's no need to compete, basically. It's just you've got to do it all together and figure it out for the betterment of the country, and more importantly, the American worker.

Ms. Brennan: There's a lot I want to get into there.

But first, Congressman, when we talk about this from a policy standpoint, especially since the House is very busy this week, I understand, crafting policy looking to next year and beyond around all of this, how do you see it?

Representative
Rob Wittman (R-
VA):

Yes, yes. Well, I think as we look at scale, you know, scale is that concept about how do we increase by orders of magnitude, but it's also doing that at the speed of relevance. You know, you can do scaling over a long period of time. We don't have time to do the scaling. We have to do it literally as of yesterday because our adversaries are already way out in front of us.

So, the challenge is, is how do we do that? And I think we've done some pretty incredible things in the National Defense Authorization Act to change how acquisition takes place, to go away from an antiquated requirement system to now more of a one-time authorization where small companies who are the innovators and creators can say, hey, listen, I've got a great idea. How do I get into do business with the Pentagon? And we have entities like the

Defense Innovation Unit, DIU, that goes out and says, hey, we find these technologies.

And then the challenge, too, is, is how do we scale those things? And not just scaling the new technology, but how do we scale the things that we have to do just by ordinary, everyday sustainment, like weapons systems, like what Secretary Feinberg is doing in executing these 12 contracts for critical weapons systems? And we have to do all that simultaneously, as Chris said.

The challenge is, is to get all these great things going in a way that has an orderly process for how we re-industrialize a defense industrial base. And there's lots of discussion about the DIB, as it's called, or even on the other side, the maritime industrial base. How do we get back in the business of not just building the large platform ships, but how do we get in the business of building those attritable platforms, those smaller ships that are going to give us a much wider reach?

If we look at how we close the gap with the Chinese from where they are on the magnitude and scale of what they're able to do to produce those weapon systems and then where we are, the quickest way to close that is through attritable and expendable systems. And we have the technology to be able to do that and the innovation to be able to do that.

What we are bridging right now is what Chris and John have said, and that is, how do we make sure that we get that into production at scale? How do we make sure we have the ships that are necessary, not just the big aircraft carriers, but also those smaller attritable platforms that can get out there and create real confusion and complexity for our adversaries where when Xi wakes up in the morning, instead of going, wow, look at what's happening in the U.S., they're pretty vulnerable; he wakes up in the morning and goes, oh, no, no, not today. Those are the things that we have to be doing. I am very bullish on the direction we're heading. But in the words of the immortal Jerry Reed, we have a long ways to go and a short time to get there.

Ms. Brennan: And just to be clear, NDAA on the House floor today, do you think this is moving forward as it stands right now?

Rep. Wittman: Yes, yeah, I think there are a few folks that are questioning whether they're going to vote on the rule, but I believe there are going to be some discussions there that we will get to passing the rule today, and when we do, I think we'll begin the process of getting the NDAA done. There are 1,300-plus amendments that have been filed. They'll probably – the Rules Committee has put, I think, 20 or 30 of them forward to be debated on the floor. So, I'm confident we'll get that debate done today and tomorrow for final passage at the end of the day tomorrow.

Ms. Brennan: And I realize we're starting to see some of these conversions around framework agreements, seven-year contracts or agreements towards contracts. Lockheed Martin, for example, a couple of them in the news last week. Are lawmakers on Board moving forward with some of these longer-term agreements?

Rep. Wittman: Absolutely.

And, you know, I get some feedback from saying, how are you all doing that? Because in the past, you know, appropriators are going, no, we can't do more than a year. We want to, you know, have that micromanaging sort of control on things. And I know that both authorizers and appropriators understand in the world we live in today – and we hear this from industry, from the Pentagon, and we hear it across the board – the single word that we hear is flexibility. We need flexibility, because technology changes, the threat changes, and you can't be static in how you manage things.

So, having flexibility means you have to have these longer-term contracts so that there's certainty for the industry but also within that contract the flexibility so that you can change based upon technology or based on the nature of the threat. Those are the way you build things in.

And you also are able to attract investment there. You know what we've been able to do here in the last several years to attract private investment is the scaling that we need. And we talk about, you know, approaching back now, getting to 5 percent of GDP. The way that we get to 5 percent plus is by leveraging their private investment. And when we do these long-term contracts where there's certainty, where folks know they're going to make the investment – and, listen, we don't have to sign the final contract. We just have to make sure the contract is in negotiation. And then I think folks that are part of that, that tier of companies that are there saying, hey, we get the demand signal, we're going to invest.

Ms. Brennan: Yeah, Secretary Duffey, I want to go back to you on this.

But first, I see you nodding your head, Chris Power. Your thoughts on that? (Laughter.)

Mr. Power: Well, I think there's two big things that have shifted from the secretary's leadership and also DepSecWar and certainly R&E side is, OK, on the venture capital side, you've got a bunch of new contracts, and I think Drone Dominance is a great example of this. So, it's like 20 companies compete and three are going to be winner picked, great. You've got a 10-to-one ratio of private capital innovation. Fantastic.

On the framework agreement side and what we've done with Navy is by creating these large demand offtake agreements, we've got four-, five-to-one private capital now able to underwrite government contracts, whether it's on the facility side or the capex side or getting ahead of spend. I just think those two things are huge to give the taxpayer a four-to-one ratio. Ten years ago, even a year ago, it was a one-to-one ratio. Everyone's getting handouts, everyone's getting facilities, and that's insane. And that's not actually the way it got built in the first place. It was all private finance years kind of backstopping the federal government. So, I think that's huge.

The third thing I don't think anyone talks about enough is that depending on the program, 50 to 90 percent of all materiel that goes into a jet or a missile is small businesses, and those businesses have traditionally been American patriots that are massively unbankable and massively unfunded. And it was only, I think, two weeks ago, to Kelly Loeffler's credit and the National Security Council, that now there's tons and tons of mechanisms where there's now a capital tap for small businesses that are in the prime supply chain. I think that's a huge sea change as well, because, you know, yes, there's the primes, yes, there's companies like us, there's all these small businesses in America that have kind of been on life support as well. And now it's just about, we've got the money, we've got the mechanisms, in my opinion, now it's just kind of getting after it – at great risk, but great opportunity.

Ms. Brennan: So, Secretary Duffey, I want to get your thoughts on all of this, since you've been very busy this year on the forefront of cutting all of these types of deals and moving this entire process forward.

Hon. Duffey: Well, I mean, it all started with engagement with industry. Last summer when I was first confirmed, Deputy Secretary Feinberg, myself, Secretary Hegseth, Chairman Caine brought industry together, specifically on the munitions and industrial base, and said, what do you need to move fast to get to the scale that we need? And that really – that was the start of a conversation that continues to this day, but I think what emerged from that was the acquisition transformation strategy, where we identified how can we build these long-term demand signals with industry, how can we invite more private capital, how can we reform and empower our acquisition workforce so that we put – you know, we created the portfolio acquisition executive. It's probably foreign to industry, but, you know, it was a distributed workforce where you had contracting officers that reported to a head of contracting and the program executive officers that preceded the PAEs didn't have the full attention of the contracting officer. So, by creating a single accountable official in the PAE, we sought to streamline how industry and the acquisition workforce and the leaders in our programs could communicate. And I think it's that communication that creates the

opportunity for what is it that we truly need, how can we create agreements, partnerships that lead to the kind of growth.

So, Chris talked about four-to-one, five-to-one investment. I think that's absolutely been a great outcome of some of these deals. I think just as impressive is these munitions deals that we entered into require no taxpayer money. We've got all the prime and some of the key suppliers within the munitions industrial base to commit to \$25 billion in investment over the next three years to triple the production of Patriots and quadruple the production of THAAD, which we signed that contract in the last couple of days, so to be able to kind of shift the mindset to a commercial marketplace and industrial base and provide industry with the confidence that that investment is going to return for their shareholders, but also, more importantly, for the warfighters.

And we're looking to take that model from the munitions portfolio, and thanks to the support of Congress, we're looking at multi-year procurement opportunities with F-15, F-35, and continue to expand how can we create this certainty of demand where we know there's certainty of need over time.

Ms. Brennan: This gets at the heart of something that I feel like has been, or has been for many years, a conversation within the Pentagon, especially when you think about red tape, acquisition, and now reform, and that is how do you assess risk? Because I would imagine it's a different assessment, it's a different methodology that you use to come to these types of deals.

Hon. Duffey: It's a great question. It's – you know, actually one of the sound bites from the secretary's speech I think really captures this transition, this transformation that we're trying to enable, which is we need to increase acquisition risk to decrease operational risk. I think for too long our acquisition system has been completely risk averse. So, we try to over-engineer the system. We make sure that we passed every test on the first go.

When you've got – you know, Chris mentioned SpaceX. There's nothing more inspiring than Elon Musk's story about how he failed the first three launches and the fourth launch. And so he learned something within each of those launches. I think we need to figure out how do we have a more risk tolerant, a smart risk tolerant acquisition workforce that is outcome based, results driven, and understands how to use their professional judgment. I mean, I think we have great patriots in our acquisition workforce, but they exist in a culture that hasn't really unleashed the potential. And I hope that's what it will be the outcome of our acquisition transformation.

Ms. Brennan: John, I see you're nodding your head.

Mr. Baylouny: Yeah, I want to get to this PAE discussion because I think it's important to understand that the nature of warfare has increased, the speed has increased so much. In Ukraine, we're seeing new capabilities almost every week.

You know, think about what the old system looked like. The Department of Defense had to put together a need statement, had to program money, had to go through an appropriations process, a program manager, get assigned to buy that thing three, four, five years later. The PAE now, together with some flexibility of the funding stream, the appropriations, has the ability to now buy solutions. Change requirements if necessary, get the 80 percent solution, that truncates this entire process and allows industry to now innovate and say, this is what I think the warfighter might need.

On the attritable, on the mass side, you know, **Deeross (ph) (23:10, I believe it is DRS)** is putting money up to create USVs, small USVs to do counter-UAS out in front of the destroyers to destroy drones in front of the ships. That's innovation. And you have to have that speed and that ability for the PAE to make decisions quickly, and I think that that in itself has created an innovation stream.

Ms. Brennan: Where does it make sense, from a Leonardo standpoint, from an industry standpoint, to lean in on commercial and leverage that versus not?

Mr. Baylouny: We've always leaned on commercial. I think it's important to understand that commercial technology moves so quickly, you have to use it, whether it's FPGAs and processors or computers or fans or whatever. And it's almost impossible for you to know where those components are coming from underneath, three or four layers down. We've always used commercial. You have to, otherwise you can't get the innovations that you need. We have to work at the application layer and stop worrying about the little bits and pieces. We have to take that from the commercial industry and bring it up into the application.

Ms. Brennan: Chris, you talked about everybody basically working together and coming together, especially given how big the opportunity is here. What does that mean at Hadrian and how you are building out all of these different facilities and partnering with industry and government?

Mr. Power: I think we're seeing, you know, I would say a rise of what Asia does, which is, you know, I would say highly advanced full system contract manufacturing, at least on our partnerships with some of the primes, and even to the point where - we'll announce this in a couple of months, but some of the primes are actually adopting our core software platform, Opus as well, that we use to power our factories, you know, because they've been stuck with no software engineering for 40 years. It makes sense.

For us, we're so big now that there's kind of a hundred big puzzle pieces of manufacturing, and we are three to four years ahead of the rest of the re-industrialized companies that have solved one really core piece of this, whether it's new innovative technology or maybe it's printed circuit boards or something like that. So, we are starting to partner very heavily and bringing those companies into large government programs, not as a supplier but as kind of an integrated system like you would do with an API with a large software company.

And then I think the third thing is we're seeing a lot of interesting international or design partnerships where I think we're getting asked a lot to say, hey, we've got this really innovative technology from Korea or Europe or Asia, but we want American manufacturing. How do we team up and go do that together in a way that's good for the American workforce and the warfighter?

And on the kind of neo prime side, there are a couple of players that are going to always vertically integrate, but most people are kind of moving to this model of like, I want to design the thing, but I don't necessarily want to worry about scale manufacturing, or frankly, the government is putting so much pressure on everybody to scale production, they might not have time to get there.

So, I think two years ago, the theme was maybe like, is reconciliation, one, going to happen? Is anyone going to break through? And now that the window's firmly open, it's basically, OK, how do we team up and solve this for the war fighter?

And then the last big one I will say is, the capital stack that everyone has access to now to help the government and the taxpayer do their jobs is 100 to one. I never thought I would see a company like JPMorgan publicly commit to invest a trillion dollars and focus on the American workforce and capex. Every large commercial bank has figured out that, hey, data centers are really important, but what has really interesting returns that no one's ever done before is like manufacturing facilities, facilitization. So, I think all of that's coming together very fast and more, hey, there's five different puzzle pieces here. How do we team up with one big solution for the government writ large and go really hard and fast at it? And I think that's a huge sea change from even nine months ago.

Ms. Brennan: Hardware's hot.

Mr. Power: Hardware's hot, yeah.

Ms. Brennan: You just mentioned reconciliation. Reconciliation three, supplementals. How are we looking here? I mean, the defense dollars certainly seem to be

moving. And I guess perhaps just as important is the realization from defense dollars to actual hardware and products.

Rep. Wittman:

Sure. It is, and it's really a three-step process. Everybody asks about what about supplemental, what about reconciliation 3.0. It's really about let's get the NDAA done first. That's kind of the foundation because you know what then will be in there, you know what that would fund subsequently with an appropriations bill.

And then, too, with the supplemental that came over, \$67 billion of that is for national defense. What we're looking at is to get a little more definition on that so we know what's in there so as we look at the things that we've gone through and determine our needs and deficiencies, how do we make sure we're matching that. I'm certain that there'll be some modifications or refinements made to it as it goes through Congress.

And then the next step should be, then, reconciliation. OK, now what is left? What are the things that we need to do? And the reconciliation number, you look at \$350 billion, let's be realistic about it. It's not going to be \$350 billion because you have to thread the needle. You have to put a lot of other different things in there in order to get enough votes to get that passed. But I do think it's a three-step process.

The good news is that I think people are much more aware than ever of the need for the United States to rebuild its industrial capacity and rebuild its national security apparatus so we have the ability to deter our adversaries and the change in mindset that's gone from a process-driven effort, as you've heard all these panelists talk about, to now one that's based on mission outcomes, to one where the culture in the Pentagon is changing. It's changing from a hardware-centric organization to a software-centric organization.

And now with concepts like MOSA, modular open system architecture, we're now looking at how do we take the dynamic acquisition of software and then build hardware around that? How do we take the massive amount of capability that's out there in the industry now, and then have them innovate? I mean, that's the neatest way to do that is to say, hey, I've got some software that can solve a really complex problem for you. I can apply AI in this case. I can put agentic AI here. Or I can build this software, and I think there's some companies out there that can build their hardware around our software to solve some pretty complex problems that otherwise, through the normal acquisition requirements process, would be a decade in the offing and then by the time you've got that fielded, the threat would have been far, far beyond what you actually put out there in the field.

So, I think that things are happening truly at the speed of relevance or closer to the speed of relevance now. And what we have to do in Congress is to make sure that we don't get too far out over our skis, get NDAA done first, and then do the supplemental. And I think that we'll have that discussion there. There'll be some refinement there, and then hopefully try to get a reconciliation bill done.

Ms. Brennan: OK.

And just to be clear, when I say hardware is hot, I'm talking about from a Wall Street and investor standpoint. I realize it's a little different when we start talking about military systems.

Rep. Wittman: Yes.

Ms. Brennan: But the point you make, I think, is really key, and it is this idea of software that's housed within hardware, which in of itself is sort of a shift. What does that mean in terms of, Secretary Duffey, when we talk about lessons learned, not only in Ukraine, but also with Epic Fury and what we've seen in Iran and what that mix needs to look like going forward?

Hon. Duffey: Between software and hardware?

Ms. Brennan: Yeah, yeah, and just sort of new technologies versus, you know, tried, tested, true exquisite ones.

Hon. Duffey: Well, we need all of the above. I think, you know, recently I went out to Dayton, Ohio, to visit Air Force Materiel Command and had a chance to visit the F-47 office, which I think is really at the cutting edge, not only of aircraft technology, but of how industry and government can collaborate. It's completely digitized. I sat there and watched the engineer type natural language into an AI system and that then popped out a module, a code module that would go in the F-47. So, I do think the Pentagon is figuring out how to get on the cutting edge of not only technology but production and design.

And so I think – and then what we produced in the F-47 was, or are in the midst of producing, which I think we'll get first flight by the time the president leaves office, is completely interchangeable to the congressman's point with modular open systems architecture and interchangeable. And it's basically a platform where all the mission systems can be with standard interfaces where you can compete throughout the lifecycle of the jet. So that brings tremendous competition even after the release of the first flight and an opportunity to make sure that we constantly leverage competition among cutting-edge firms to make sure the warfighter always has the latest technology at his fingertips.

Ms. Brennan: Before I go any further, I have gotten the iPad to work, and we have a whole bunch of questions, so I want to start to intersperse these into the discussion as well.

And let's see, Michael Losacco – I hope I say that right – from Boeing asks: As threats evolve more rapidly, what improvements are needed in the way industry receives, prioritizes, and integrates threat information into decision-making and product development?

And, Secretary Duffey, I'm going to start with you with that question, and then we're going to move down the panel from there.

Hon. Duffey: Well, I think there are two key reforms that I think will contribute to that.

First, it was mentioned earlier that we canceled the JCIDS process, which many of you are probably familiar with. It was a year-long or multiple year-long process to define a very highly specified requirement, have a 500-page technical document that says exactly what we need.

We're now in a place where we are stating what the operational need is from the warfighter. We're still working through the specifics of how that will take place. Of course, we have to have some set of parameters that are: required, range, speed, any number of things. But I think that offers a tremendous opportunity for the flexibility and the innovation of industry to bring unconventional solutions to the warfighter. And then we can have true competition about not just how fast can you produce, but how innovative is your design.

And then I think secondly, the PAE is not only designed to ensure that we bring all the disciplines of acquisition under a single accountable official, but we really, I think, are creating the conditions for that PAE to be the master of his domain both with industry and government. And so it's my hope that that will strengthen the partnership between industry and government and it will create a communication and dialogue that allows for that clear demand signal that may be intel informed or threat informed to say this is the latest and greatest information we have about what we're trying to build to respond to the threat.

And I think, again, I'll point back to the F-47. That's the kind of dialogue that I think that program was able to create with government and industry embedded together, with a digital environment communicating across I think creates a tremendous opportunity to accelerate.

Ms. Brennan: So, John, let's get the industry response to this.

Mr. Baylouny: Yeah, first of all, I would say that that's a huge step forward. Going for a capability-based procurement is huge. The modular open system architecture element of this is key as well to make sure that you can interface new technology with capabilities there.

I would offer, though, when we get past the PAE structure, which I think is a huge step forward, that I'd offer that maybe when we look at the way that contracts are lead, OTAs on one side, FAR-based contracts on the other, there's probably some middle ground. We tend to be bimodal here – right? – where there's a little bit of Wild West on one side and then overly regulatory on the other side. And there's probably some space in the middle that would allow us to move faster and have the protections that the FAR-based contracts have.

Ms. Brennan: We have some more great questions that are all sort of along these lines. So, I'm just going to start throwing them out to the panel here.

Haley Morton with Georgetown McCourt School asks: How do you plan to ensure that prototypes suit the needs of service members prior to producing at scale?

Chris, or Secretary Duffey, do you want to pick that up?

Hon. Duffey: Well, I think what we need, so one of the things that – one of the challenges that we confront is test capacity. So, I think we're really committed to how can we create more capacity on our test ranges, because not only do we want to test the big systems that we're acquiring like F-47 and F-35 and others. I can envision these test ranges being a place to try out the prototypes where we get our men and women in uniform who come back from battle, know exactly what they need from the theater, and being able to test out these prototypes and give feedback to industry. It's a two-way communication. Number one, it gives us an opportunity to truly put our hands on what innovation industry is offering, and if it's not quite right, there's an opportunity right there on the spot to provide that feedback. So, prototyping is – and we want multiple prototypes. Prototyping, I hope, is the medium by which we will compete in the future.

Ms. Brennan: OK.

Congressman, we'd love to get your thoughts on this from the legislative side.

Rep. Wittman: Yeah, listen, I think it needs to be a bottom-up process. We need to go out there to the warfighter, to the operators, and get from their standpoint what works and what doesn't work and make sure they were focusing on mission

outcomes. You know, what's the mission that they're tasked with? What was the mission that they faced? Because it's a dynamic environment. What happens when they're out there on the training ranges? What are they experiencing? How do we put the tools in their hands? How do we make sure we understand what it is that's going to make them successful?

And then two, how do we communicate that? How do we get that in the form of information to the industry to say, hey, here's the challenge that the Navy's facing, here's the challenge the Army's facing, here's what an 11 Bravo out in the field that's toting a rifle in a ruck, here's the challenge that they're facing.

What happens when we're putting a drone in their hands? Is the drone working? What happens, too, when we look at doing these uncrewed combat exercises? I mean, I think a great telling story of what's happening is the battlefield in Ukraine. I mean that's the ultimate laboratory, what's happening there.

About eight weeks ago something happened that was transformational. It didn't get a lot of headlines, and that is for the first time ever a force pursued a combined ground maneuver operation with all unmanned systems, with drones in the air, with robots on the ground. And they took ground against a human force and they held ground against a human force. That is a game changer.

Those are the types of things that we have to learn from. That's a tactical level learning experience there that we need to take that information, integrate that into what we're acquiring, because I can tell you our adversaries are watching that. And you look at the innovation that's taking place there, and even the things we learn in the operation in Iran and in Venezuela, that learning has to be integrated quickly in real time through mission outcomes and what we do, because I can tell you China's watching and China's learning from that also. So we have to learn at a higher rate because we have more the data that happens there than they do. They get an observational look. We get a data informed look. So those are things we need to do to make sure we're taking that quantum leap ahead of where we need to be with capability and capacity but also staying ahead of our adversaries.

Ms. Brennan: Yeah, well, that gets back at something we just touched on a few minutes ago on this panel, and that is sort of what does the mix look like moving forward, what are the priorities in terms of those defense dollars moving forward, and perhaps just as importantly, since I know it's come up and I've seen some reporting on it in recent days amid NDAA, is what does it mean in terms of guardrails around some of this new technology, AI, and autonomy.

Rep. Wittman: Yeah. That's a great question. We struggle now with how do you put guardrails on AI. I think AI can be used for a lot of fundamental aspects within the Pentagon.

I mean, there are simple things it can be used for. Instead of sitting down and spending days and days and days writing a contract, you should be able to go to AI and say, let's write a contract with AI. Let's put all the parameters in. Obviously, the human being is going to review it, but think about how fast you can make those processes. Those things that are very simple and fundamental, not operating a weapon system, not firing a weapon, but just basic elements where we can speed the process along. If we're able to do that, think about what a game-changing moment that is for the Pentagon in how we can efficiently now use time.

And the time that now is gained by that, that individual can be using that for something else that's even more critical to the warfighter. I think you just start there, you refine how it's used, and then you can get to the point of using agentic AI and other aspects of what is going to be needed in the future. But you have to get on the learning curve, and starting at the fundamental level is the first way to do that. And to me, it creates efficiencies within the Pentagon that release resources to get more directly to the warfighter.

Ms. Brennan: And of course, we know what it's doing on factory floors as well.

Chris, I want to get to another question here. Cari Ossenfort of Leonardo DRS – and I'm going to ask you this question, too, John – but: Where is the most urgent gap that industry is still underestimating?

Mr. Power I think it's producibility and manufacturing scale.

And I'll tell you what I think is on the munitions question and also drones, right? I think that with the budget flexibility and the level of capital that the government has now got, to meet a real credible threat – this is not like the Pentagon overspending – I think people are dramatically underestimating how dollars in different systems across attritable drones, exquisite systems are going to chop and change based on who can actually deliver.

I mean, the answer is at the end of the day, you want a high-low mix, you want carriers and a bunch of autonomous stuff. At the end of the day, if we're going to spend \$1.5 trillion and more over the next four years to counter a very real threat, what I think is going to happen is that maybe one of those sides has a slightly degraded product but is ultra-producible. Maybe there's exquisite systems that get very produceable very quickly. Ultimately, I think we're in such a crisis that the government is going to buy – and I don't know

this for a fact, so, I'm speaking off the cuff – is whatever's there in inventory at the time of need.

And I think people are massively underestimating the type of forward investment alongside the government you need to do that, because it takes time. It takes time to scale. And it also takes cap – you know, if you want a giga munitions factory in two years or a big drone factory, you're basically putting capex in the ground today. Some of these companies will work it out and be very successful, but I think the flexible acquisition approach that we're seeing, like in USVs and, frankly, in Drone Dominance, that, OK, does the product work, we'll test it with a warfighter – by the way, the federal government is now giving you a chance to iterate, which has never happened before. It's not a fail, it's a please try harder, come back, and then it's going to be scaled. And if you're not forward investing in that and making that bet, I think it's going to be really tough.

And I think the people are massively underestimating how much procurement is going to focus on, well, hey, this thing needs to be ready before the end of the president's term. And if it's not sitting there with 100 boats that you can pull off the shelf and buy, then I think the dollars are going to float around to producibility manufacturing scale. Complete guess, but that's my guess.

Hon. Duffey: Can I jump in? I think words of wisdom there, Chris.

But I also wanted to say in response to that, I think Chris is on the cutting edge and he mentioned it earlier in this kind of divergence of design and production. It's hard enough to design a competitive innovative weapon system. But then to scale it up, it's one of the challenges we're finding with our startup industrial base. Incredibly talented folks.

And we're even seeing partnerships like between Lockheed Martin and GM that was created, which is a recognition that there's inherent expertise in GM, and of course the intellectual capital that Lockheed has from the weapons systems they've developed. And so I think having companies like Hadrian and Divergent and others that are special, they're sort of design independent, but we're going to be experts at how do we scale production, I think is a new and very interesting way for the defense industry to be shaping.

Ms. Brennan: OK.

John, I want to get your thoughts on all of this.

Mr. Baylouny: Yeah, so I'm going to point to the supply chain. I'm going to go down into the supply chain.

We talk about needing commercial products. I mentioned it a little bit before, but it's very difficult to understand what's in that commercial product. When you dig down into the computer that you're buying off the shelf for a shipboard computing need or any other need that the military has, and you go down into the supply chain, you will not be surprised that there's Chinese parts down there. And there are parts – we learned a lesson with rare earths, we're going to learn a lesson 15 other times. Because down underneath there, there's a dependence on someone else. And we have to learn that. And it's not three, four, five; it's 10 layers down. It's all the way down. We don't have visibility into that. It's very difficult to know what's down there. So, to me, that's the blind spot.

Ms. Brennan: What are some of the other areas, then, that you see as potential blind spots within that supply chain?

Mr. Baylouny: Well, I think it goes into all of the core materials. We learned it with germanium. We learned it with the rare earths for magnets. We're going to learn it for all of the exquisite components.

And it's not just – I mean, the CHIPS Act was a phenomenal step forward, but we also have the packaging to deal with. The packaging's not done on shore either. So, we're going to learn all of these lessons.

Ms. Brennan: I'm not the one asking you this question, although I was going to ask you this question, Secretary Duffey. Tom Kay (sp) is asking this question: What can you say about the expenditure of missile defense interceptors, and what are we doing about it?

Hon. Duffey: Well, we started doing something about it last summer. We recognize that this is a tremendous growth opportunity, a need for us to build an industrial base that can support any threat that we face. And so, of course, we have the deals that we recently announced in advance of Operation Epic Fury as laying the groundwork to ensure that we can get an industrial base that can scale to the production capacity that we need.

And then we also rolled out deals with some of the new entrants. We talked about the high-low mix, and so we're looking to that high-low mix not just in our force, but in an industrial base that can offer affordable mass solutions, not just in munitions, but in drones and elsewhere.

Ms. Brennan: Yeah.

And another question along these lines, Byron Callan over at Capital-Alpha Partners asking, what efforts are underway to reduce production timelines of missile interceptors, ships, aircraft? Why does it take years to build these, and what specific efforts to this point are underway to reduce production

timelines? I realize we're talking about faster production timelines, but I'm still hearing the word years used on stage.

Hon. Duffey: Well, I'll defer to my industry partners on what the challenges are there. (Laughter.) But we're trying to create the conditions to accelerate in that conversation with industry partners.

Look, I think these are exquisite systems. And I think actually some of the innovative companies right now are saying that producibility as a primary characteristic of design, that's very appealing to me because we need resilient supply chains. We too often come across providers or suppliers who they're single customers somewhere down the defense supply chain and they don't always find it profitable to stay in business.

But if we're prioritizing seeking commercially sourced solutions, they've got a broader customer base, that's a much more resilient supply chain, will probably be more cost effective and be able to scale at much greater speed. So that's certainly, I think, a transition that we're trying to effect in order to accelerate timelines.

Ms. Brennan: OK, I want to hear from industry partners, but first, Congressman.

Rep Wittman: Yeah, no, listen, I think this is an incredibly important part of what we need to focus on. If you're going to get this right, you have to make sure that every new platform that we're working on is digitally designed.

The secretary talked about F-47. Digital design is the key. Testing, use digital twin to do the testing so, you're virtually testing that. You can cut testing time down by orders of magnitude.

And then when you're doing something as large scale as building ships, where we are at capacity at a really small number of shipyards, is we have to start to distribute that production capability. Go to places that are repairing ships. Go to places that are building parts for ships. Let them build there. Put those in areas that are very easy to transport those parts on a barge or some other mechanism to get them there. And then yards become more of an assembly place than they are a production place.

And guess what? You want to grow the industrial base quickly and send the demand signal? You distribute. That'll do the trick anyway.

Ms. Brennan: OK.

Industry partners?

Mr. Baylouny: I'll double click on the distribution. We put a lot of money into a new facility in Charleston, South Carolina, to get away from the prime shipbuilders because the labor is captive there. We moved down to South Carolina. We've got a big facility down there. We're going to start populating at the end of the year. That's going to get us the labor that we need to get past this capacity issue.

Ms. Brennan: I mean, we haven't even gotten to labor, so I do want to get into that a little bit more too here.

But first, Chris.

Mr. Power I'll maybe flip it on its head, which I think the big problems before acquisition transformation and FoRGED and SPEED were time was not a construct and there were barely any penalties for not doing a job correctly. So I think everyone's asking the government, oh, like, how does the government reduce makespan of a missile or whatever? I think they've already done the job, which is like, if you don't deliver on time, then you make a lot less money or we're going to kick you off the program and we're going to give you the time and money and resources to scale into that.

It's up to industry. The government has finally provided real teeth and accountability and the funding and the long-term agreements to do it. It's both an enormous carrot and also a pretty enormous stick. It's up to industry to figure out how to compress these makespans and do their jobs correctly. And I think the companies that will adapt to that will win a lot and the companies that can't adapt to that won't.

But I think the government's already done it. It's like now they're one of the best customers in the world and there's a carrot and a stick like any performance penalty or upside. And I think they've done their job and now it's about industry to figure out how to do that.

But I think the important point is before the legislation a year ago in acquisition transformation strategy, it didn't matter whether you were late. Now it really matters. It's up to industry to figure out how to move that production speed faster with their suppliers and themselves.

Ms. Brennan: OK.

There's so much to get to here. I'm going to see what we can do. I'm going to get to another question here along these lines, though, that I think is really, really great. There's so many questions, by the way. I'm apologizing in advance, because we're not going to get to all of them. I'm going to try.

Alexander MacDonald, a CSIS senior associate, non-resident, asks: Where are the biggest opportunities for allied nearshoring and codeveloped supply chains at scales, countries and/or systems, and materials areas?

I don't know who would like to take that one first. All right, Congressman.

Rep. Wittman: I'll take a shot at it.

Listen, I think the most fundamental effort of what we need to put forward for reindustrialization within the defense sector is starting with things like critical minerals and rare earth. I think you have to look at what the United States is doing to get back in the extraction business, back in the refining business, and back in the smelting business. We only have two smelters in the United States, so even the mines that are extracting and refining, send that material to China, and then we buy it back. If you talk about the weakest link in the supply chain, that's it. Reshore that.

Now, there's some things going on. Ex-Im Bank has done a great job with Project Vault. I have a bill called the Secure Minerals Act that's going to create some incentives there to essentially protect ourselves against unfair trade practices from China. If we do that, the basic elements that go into every defense system, the rare earth and the critical minerals are those base materials. Let's get that re-shored, let's re-industrialize that realm. If we do that, let me tell you, we will be self-sufficient in every aspect of the defense industrial base.

Ms. Brennan: Memory chips? Should we talk more about that on the defense side as well? We know it's a bottleneck on the AI infrastructure side, but I hear about it with things like interceptors now.

Rep. Wittman: AI chips and in some instances processing chips, too. So, we need to have the full scale there. And again, it goes back to source materials.

Ms. Brennan: OK.

I have to think shipbuilding, especially this idea of building out re-industrialization from a commercial shipbuilding standpoint, is a good example, potentially case study, ground zero, for this idea of a more resilient supply chain.

How do you see it, John?

Mr. Baylouny: Well, I think it's important to understand that the U.S. Navy has decades' worth of experiences, and so there's a hurdle that needs to be jumped here to get the specifications right, to get the reliability of those ships right. We can't just take a commercial shipbuilder and say, let's make it be a military ship.

We have to realize that those ships have to survive in adverse conditions. So, we have to realize that there are lessons learned. We can't just throw them away.

But that said, we can make use of that infrastructure for components and pieces of our ships, and we should be doing that. We should be doing more of that.

Ms. Brennan: OK, we've got a couple minutes left, so I'm going to see what we can get through here.

Chris, I'm going to go back to labor with you. Do we have enough workers? Do we have enough people who are skilled enough to be able to go in and start working on some of these projects? How does AI upskill a workforce?

Mr. Power: So, for us, we're about five to eight times more productive than anybody else in the country on labor hours, not labor costs, because we actually pay people more, because of our advanced technology, which allows us to do two things. One is we can distribute factories into areas where there's not a manufacturing workforce, and we can pool new talent that's never been a manufacturer before. And that is the model I think that has to happen here.

For companies that can't adopt technology fast enough or rely on highly skilled trades people, there isn't enough people in the country. And Honorable Cadenazzi, Secretary Hegseth, Secretary Duffey, Undersecretary Michael have all made this a national priority because it's simply that there aren't enough skilled tradespeople to even be hired.

And it's a really challenging problem especially in shipbuilding because the point here is you've got a welder getting paid X amount of dollars and they can get paid more at McDonald's and oh, by the way, the apartment building because you're in Rhode Island is \$4,000. That's a really tough problem that industry has to solve.

But no, I think we offshored all the jobs for the last 40 years. We're now trying to bring them all back. The good thing is most of them are AI protected. And I think folks like Mike Rowe, who's been singing this song for the better part of 20 to 40 years, we're finally having a swan song where everyone's come to realize that, hey, blue-collar industrial base is actually the foundation of America. And we killed the middle of the country through offshoring, and now we're going to rebuild it again. It's just going to take time, but I think the federal government is fully on Board with this from SBA through to the Pentagon, through to Treasury, through to Commerce, through to Congress. But right now, no.

But again, I think, you know, there's some national priorities like training, like advocacy from Secretary Hegseth and Honorable Cadenazzi that make people feel important. But ultimately, at the end of the day, if acquisition transformation strategy sticks and there are the right incentives to unleash industry, industry will figure it out. And maybe that creates some wage rises. Great. OK. Well, if there's a shortage of welders, how about we just start paying them more? Let government set the requirements, let governments set the incentives, and have a big carrot and a big stick and let industry kind of do the right thing.

But as of right now, we need millions and millions and millions of welders, machinists, shipbuilders, everything across the Board. But I think the American population will get there. We're making it cool to be in manufacturing again. The right incentives are there. And I think everyone's on Board with the mission. But it will take two to four years for this to stick. The submarine base alone, Admiral Rob Gaucher said this publicly, it's like a 50 million labor hour a year deficit. That's a hard thing to climb.

Our investment in Alabama was alongside the Navy, 2.4 billion. It will come online in the next 12 months. That whole production, even though we're automated, will be the equivalent of like 10 million labor hours. That's still a big gap, and that's just submarines. And then you've got shipbuilding, drones, munitions, everything. So, right now, no, but I think the government is spending the money, creating the right conditions for success, and everyone will figure it out.

Ms. Brennan: OK.

We're basically out of time. So, what I'm quickly going to do is if there's any final closing thoughts from our panelists, we'll do that and we'll wrap this up. And again, I apologize. We didn't get to all the questions. There's so many good questions. But I think folks know where to find you guys after we get off stage.

So, Secretary Duffey.

Mr. Duffey: Well, it's a great time to be serving in the department. We've got a great team both in Congress, in the department, in industry. Everybody's rowing in the same direction. I think we've got a common purpose here, which is to win without fighting. I think the Congressman said it right. We want to make sure that our adversary wakes up and doesn't say, today's the day. He says, today's not the day. And I think a strong defense industrial base can provide that deterrence that we need to make sure that we maintain the edge globally. So, there's a lot to be done, but a lot to come. So, thank you.

Ms. Brennan: Okay.

Mr. Baylouny: I would just thank the administration. I think that they're doing exactly the right thing, asking industry to invest, moving fast, accelerating procurement reform, all the right things, PAE structure, fantastic. Demand signal's there. We are moving out. We are investing heavily to make sure that we meet the demands.

Ms. Brennan: OK.

Mr. Power I'll just take a moment to repeat something that Secretary Hegseth, Treasury Secretary Bessent, and now Jamie Dimon have said very publicly. Everyone looks at the budget and the defense industrial base as kind of a cost. And actually in this kind of global stage – we've seen this in the Strait of Hormuz – is without this generational investment, you're really putting the reserve currency at risk, you're really putting the economic future of the country at risk, because without the deterrence, without the industrial base, without real American jobs, you don't get the reserve currency. You don't get the wealth that we've all – you know, America's had for the last 30 years because of the peace dividend. You've got to remember, it was because we won and it was because of the peace dividend that we've had 40 years of incredible economic progress and wealth.

And the administration is on the front foot of this because China for the last 40 years has always treated manufacturing and their industrial base as national security. And in the '80s, we made a very silly mistake and started treating it like on the economics. And the administration has done an incredible job of shifting that view back to reality, which is without resilience, you don't have the reserve.

And I think from a budget perspective, we're kind of locked in on this thing where it's like, well, we're spending too much money on defense or, you know, these key priorities. And the reality is, without doing that, you're putting the whole economy at risk because the world's more volatile. And that is the key thing that I think the administration's really landed on.

And it's not just me. It's also folks like Jamie Dimon who said this publicly, because we're in a new world. And without these generational investments and transformation, that there is a lot at risk and it's not just the warfighter, it's not just the military, it's not just their adversaries, it's actually the economy at the end of the day. And I think people need to keep that in mind, especially in the next six months as we're deciding how we deploy American taxpayer dollars into long-term success in deterrence.

Ms. Brennan: Yeah, the power of geoeconomics. But also, to your point, I mean, you are seeing it. You are seeing the reindustrialization movement and the defense

dollars show up from a macro standpoint in the economic data and the strength we're seeing despite arguments around sticky inflation right now, too.

Congressman, final thoughts.

Rep. Wittman:

Yes. Listen, I'm very excited about where the nation is and the resurgence of our capability to defend this nation. And it's based upon some pretty fundamental principles, and that is a partnership between Congress, the Pentagon, and the industry to say, let's enable those opportunities. Let's enable the most creative and innovative nation on the face of the earth to do the things that we know we can do. We have done them in the past. We are now getting back on track to do that.

The orders of magnitude change that have taken place in the last several years is mind-boggling, but we still have a ways to go. What we want to make sure is we continue to attract those investments from the sidelines, from private equity to venture capital. I think people are wanting to invest.

If you were to look at this picture five years ago and look at the amount of venture capital and private equity moved into the defense space, people would say, no, not interested. Today, they're lining up at the door.

So, the question is, is how do we keep this momentum going? We still have orders of magnitude process to make. I am more confident today than ever that we will indeed do that. We will recapitalize our industrial base in a way that lets us lead the world not just in economic capacity but in strategic and defense capacity.

Ms. Brennan:

All right. Well said. Thank you so much to our esteemed panelists. Appreciate the conversation. (Applause.)

(END.)