Center for Strategic and International Studies (CSIS)

Smart Defense: How Defense Industry and Defense Exports Can Contribute

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JOHN HAMRE: OK, folks, could I ask you to come on up here? Let's – and with any – can I plead with people to stop being Methodists and please move up to the front pews? I mean, we don't need to – we don't need to be hiding way in the back.

Mr. Howarth – you know, please come on up here.

MR. : I'll put you in –

MR. HAMRE: Good afternoon, everybody. Welcome. I'm delighted you're here. And I want to say very special words of welcome to Minister Howarth for joining us. I've been looking forward to – I don't know what he's going to say, but I'm looking forward to hearing it, because he's tapped in and thought more deeply about an issue that I've been trying to explore in my own thinking, and so I'm really quite interested to hear what he's going to share with us today.

I think we're entering a period when all of us have to have new ideas and think smarter about defense. And so this idea, this term "smart defense" may sound like it's just kind of a throwaway bumper sticker, but it's actually an exceptionally important thing.

We're at a time when, you know, the dangers in the world are wider and more complex, but the resources are more constrained, and the globe is not getting any smaller, and so we have to figure new ways of dealing with this problem. And I think it inextricably drives us to, I think, two design principles. One is that we're going to have to find truly a much deeper form of collaboration with allies. It's absolutely unavoidable that for us going forward, we're going to have to collaborate in a federated way. I use the term "federated" because I think it's easier, in terms of explaining to politicians, that you're not losing sovereignty, but you are joining with other countries in shared tasks and shared burdens. And of course, we have a – we have a partnership with the United Kingdom that really is unlike any other – any other country. We've found ways to work with each other in a much deeper, much more sophisticated way. But we're just really on the front of what I think needs to even be a much more profound collaboration. I think we're going to explore that today.

The second design principle – first design principle, we're going to have to work much more closely with allies. And I think the second design principles is that we're going to have to find a much deeper and much more sophisticated partnership with industry. We still tend to treat industry as a hothouse, captive industry supporting parochial national needs. We certainly do here. I'm not speaking for the United Kingdom, but I'm speaking for us. We tend to have that outlook and that approach, and I think we're at a stage where if we're going to develop this new federated approach to security that's wider and more interdependent with each other that there's going to have to be a new thought about how we work with industry.

I think that means we're going to have to take – be a little bit more mature when it comes to technology release and industrial security procedures, things of this nature. We've – of course, we've pioneered some of this with the U.K, but it drives me absolutely crazy that a quarter of all the export licenses that we push through the security apparatus are going to our strongest ally. We put them through the same process that we put through, you know,

questionable allies. That doesn't make any sense. You know, so we've – we really do have to rethink this in a fairly large way. So I think the idea of smart defense is an idea that we all need to – need to pursue, and I certainly am looking forward to listening and hearing you, Minister.

Guy, you're going to get this started for real. You'll introduce the minister, and I will get out of the stage. But I want to say thank you all for coming, and I look forward to hearing these really interesting ideas.

Thank you.

Guy – (off mic).

GUY BEN-ARI: Thanks, everybody, for coming this afternoon. My name is Guy Ben-Ari. I am a senior fellow here and deputy director of the Defense-Industrial Initiatives Group at CSIS. And it's a great pleasure to have this afternoon with us Mr. Gerald Howarth, who is the minister for international security strategy at the British Ministry of Defense. In this capacity, Mr. Howarth is responsible for international defense strategy and relations, defense diplomacy, international defense institutions and defense exports. Mr. Howarth is a graduate of the University of Southampton, where he also served as – with the University Air Squadron. From 1971 to 1983 he worked in international banking and from 1983 to '92 was the member of Parliament for Cannock and Burntwood. In – since 1997 he serves as the MP for Aldershot and has served on the Home Affairs Select Committee and the Defense Select Committee. From 2002 to 2010 he served as a shadow defense minister with responsibility for defense procurement and the Royal Air Force.

So Mr. Howarth, thank you again for being with us this afternoon. I'm looking forward to your comment.

MINISTER GERALD HOWARTH: Well, Guy, thanks very much indeed.

And good afternoon, ladies and gentlemen. Thank you for turning out this day. I don't know whether you've kind of tried to escape from the heat of Washington, but I think I brought the rain from London, which, mixed with the unseasonably high conditions you had a few days ago, has produced the perfect blend. And now have – just have glorious weather. I can tell you I'm looking forward to staying as long as possible – (chuckles) – before going back to rain-sodden Britain. We introduced a hosepipe ban in March, since when it has not stopped raining. (Laughter.)

So thank you very much too, Guy, for – and to John for inviting me here to harangue you this afternoon. I'm looking forward to the pleasure of that. And it's great to be back here in Washington. I think it's such a wonderful city. I think the architecture and the sense of space you get here is really quite remarkable, and also I think the quality of the debate that goes on here in Washington through your think tanks I think is something which we in the United Kingdom look at with great respect. We have our own institutions, of course, but the CSIS is a great place. I'm delighted to be here.

Thank you also for mentioning my past. It's true I was an international banker. I worked for a small bank called Bank of America. That's where I started my commercial career. But these days bankers are really not very popular, so my line is that I used to be an international banker, but I'm now going straight; I'm a politician. (Laughter.) And that doesn't entirely go down well either, but there we are. It still leaves my wife saying, when am I going to get a proper job?

Mark Twain once said of Winston Churchill, by his father he is English, by his mother he is an American – to my mind, the blend which makes a perfect man. Now, I make no claims to perfection, tempting though that may be. But it is the blend of an Englishwoman and an American man which helped to form my own politics: Margaret Thatcher and Ronald Reagan. I had the honor of serving as Margaret Thatcher's parliamentary private secretary in that very difficult period immediately after she was knifed by the pygmies in my own party – (laughter) – and ceased to be prime minister. But she has remained an inspiration to me, and I'm completely, utterly and irredeemably devoted to her. In fact, I had a call this morning from one of my friends saying, would I be free to have lunch with her today. I explained that since Concorde is no longer available, that wouldn't be possible. (Laughter.)

I never met Ronald Reagan, but his philosophy is fundamental to my politics, his unswerving belief in the free society and in the free market. He and Mrs. Thatcher, I can tell you, were complete kindred spirits. And it was their united vision, it was their unwavering resolution which brought the Cold War to a successful and victorious end, and, let us not forget, without a shot being fired.

I was delighted and privileged to attend the unveiling of Ronald Reagan's statue in London's Grosvenor Square outside the U.S. Embassy last year. And I was reminded of how much we miss his straight talking. So I'm going to try and emulate, in a small way, that straight-talking style. Besides, I'm an old dog, and it's very difficult to teach old dogs new tricks.

You have explained, Guy, what my ministerial responsibilities at the Ministry of Defense are, so you have an understanding, and it carries with it this marvelously exotic and very important-sounding title. We have a sort of rule in the United Kingdom: The longer your title is, the less important you are. (Laughter.) Prime minister, you see, is only two words.

But let me provide you with an update on the progress we're making to transform British defense based on the blueprint of our Strategic Defense and Security Review, which we carried out as soon as we took office in 2010, but perhaps in particular concentrate on how this relates to the challenge of keeping our alliance firm. I'll then go on to explain how we're working with the defense industry to incentivize them to provide the equipment we need on time and at a price we can afford, including by factoring exportability into our acquisition process from the outset and in partnership with industry.

But first let me put all this a bit in context by talking about the evolving security environment, which John described so eloquently and concisely. In his address at the Pentagon in January, President Obama talked about turning a page on a decade of war. For the United Kingdom as well as for the United States, this will mean bringing to an end more than a decade

of enduring operations in the wake of 9/11 as we transition from a combat role in Afghanistan in the period ahead. Our commitment to the NATO-led campaign will remain undiminished. We shall not be deviating from the all-in, all-out position, unlike some. The success of this mission is a national security imperative, preventing Afghanistan from once again becoming a safe haven for international terrorists to operate with impunity. And I put it to you that we do owe it to all those who have given so much, whether in the form of life-changing injuries or in making the ultimate sacrifice over the decades since operations began, to make sure that as we do draw down in concert, we do so achieving that central aim.

But even as this combat mission ends, it will be a brave man who would bet on a new decade of military inactivity. So how do we approach an evolving and unpredictable security environment where threats may be diverse and solutions far from obvious? First, it is clear that no single country can protect all aspects of its national security acting alone. Second, we need to meet threats as they evolve, upstream and at distance, rather than waiting for them to come to us. And in recognizing this, we should not forget the central lesson of the Cold War, that economic power both commands respect and underpins the ability to project military power and that defense must be built on firm foundations.

In the face of these realities, the United Kingdom has embarked on a process of defense transformation. The goal is formidable, agile and flexible armed forces, connected, high-tech, expeditionary, structured to enable rapid deployment and with global reach, all supported by the fourth-largest defense budget in the world. But this future force has to be sustainable if it is to be realized. We are building to ensure that we can have the confidence that we can deliver the equipment and capabilities in the defense program on time and at a cost the taxpayer can bear. And to achieve this, after 18 months of tough and finely balanced decisions, we have now realigned the U.K. defense program and balanced the defense budget. And this is the first time this has been done in a long time, and it's not just simply the predecessor administration; it's many administrations which have found great difficulty in managing the MOD's budget.

We will have, going forward, a program of 152 billion pounds of investment in equipment and support, plus – revolutionary – we're going to have an 8 billion pound contingency reserve. And this will build our future force 2020, which will confirm the United Kingdom as America's most capable military ally well into the future.

If you take the Army first, it will be able to conduct the full spectrum of operations, deploying and sustaining a brigade-sized force indefinitely, or a division-size force on a one-off basis.

Our Royal Air Force, which will operate fleets of multirole Typhoon and ground-attack Tornado aircraft before the introduction of the Joint Strike Fighter and, importantly, be supported by the unique A400M transport aircraft and Voyager air transporter and tanker as well as a full suite of what I am required by the chief of the Air Staff to call not unmanned vehicles, but remotely piloted air systems – because we found out actually, it takes more – a larger number of personnel to operate a Reaper than it does to operate an F-16, so the idea these are unmanned is not accurate.

The Royal Navy will operate the hugely impressive Type 45 anti-aircraft destroyer, Astute attack submarines and, with work advancing on our new Type 26 global combat ship, the new family of frigates, which will provide us with a general purpose patrolling capability. Buying the STOVL Joint Strike Fighter will allow us quickly to recover and regenerate a potent strike capability from our next-generation 65,000-ton aircraft carriers, which are being assembled in Scotland as I speak. These are the largest airships ever to enter service with the Royal Navy.

Add in our nuclear deterrent, on which we have just announced a 1 billion investment in long-lead – 1 million (sic) pound investment in long-lead items, our world-class special forces and our cyber capabilities, and we will have the most modern and capable armed forces outside America.

All this comprises a major reinvestment program, possibly unmatched outside the United States itself – new Chinook and Wildcat helicopters, additional C-17 strategic transport, new naval tankers, new surface combatant vessels, new and upgraded armored vehicles and a vast range of other enhancements. So I ask you, is this a program characteristic of a government which doesn't take defense seriously? No, clearly, it is a defense program of a nation which recognizes its international obligations and intends to live up to them and which wishes to help shape the world in which we find ourselves and not simply be shaped by it.

The next piece of the puzzle is transforming the process by which we procure equipment and support to ensure that we do not repeat the mistakes of the past, redrawing the relationship between government and defense and security companies and maximizing the national investment in defense capability through exportability.

But before I turn to that, let me touch on how this transformation impacts upon our partners and our allies. Just like the United States, the armed forces to which we are transitioning will inevitably be smaller. But we assess our future force will be potent enough to protect our interests, large enough to command coalition operations and technologically advanced enough to operate alongside the United States anywhere in the world. We will remain a reliable partner of considerable weight, with world-class technology, providing hard-edged capabilities, which we are prepared to use.

NATO remains the cornerstone of our national security. It remains the most powerful alliance in the world and the most successful tool for collective defense ever invented. If you want evidence for that, I would point to Libya, which proved that when it came to implementing a United Nations resolution, who was going to – who was going to implement it? The United Nations don't have an army. What happened? Anders Fogh Rasmussen, secretary-general of NATO, within six days put together a coalition under the NATO banner, excluded one major European NATO member who didn't want to participate, included one major European country which was not a member of NATO and three Arab countries – all done in six days. I think that was a fantastic achievement, and I think NATO has not made sufficient claim to the expertise which it was able to produce in such short time.

However, it's not all rosy. As our own defense secretary, my colleague Philip Hammond, said here in Washington in January, the alliance as a whole and the contribution of some of its members falls short of what our collective defense requires in terms of capability, in terms of the balance of contribution and in terms of the will to deploy.

The smart defense initiative agreed at the Chicago summit last month is the most credible option for maintaining European allies' defense capabilities at a time of budgetary pressures. But it must be more than a process of prioritization, specialization and cooperation on a number of identified projects. It has to be a mindset driving how we plan and shape our capabilities as an alliance for the future: better coordinated planning; agreeing what NATO's core capabilities are and how they can be protected; developing a training and exercising program for post-ISAF – for a post-ISAF alliance; driving the implementation of NATO standards by all allies, which should be the DNA of smart defense.

We don't have to do everything together at 28, as Libya proved last year. Smart defense will work best through smaller groupings of like-minded nations, bilaterally, trilaterally or in other formats to support alliance objectives. And speaking to General Stéphane Abrial, who is the supreme allied commander transformation, in Norfolk yesterday, he is actively working on a whole series of programs where not all the nations are involved, but those who believe they have a contribution to make either leading or participating or observing those programs, which proves the point that I've just made. And we see no reason why this could not include non-NATO partners, building on the Libya and, indeed, Afghanistan experience.

Afghanistan was the starting point of the effort to ensure NATO's continuing relevance, and I think Chicago provides us with the next impetus. This also means thinking very hard about how we maintain a strong defense industry in Europe as well as here in the United States which can provide us with the technology and platforms we need to make sure we can operate together and which, for each member of the alliance, brings added value, producing rather than just consuming collective defense.

As part of an integrated approach to delivering the requirements of our Strategic Defense and Security Review, the British government is supporting a competitive and viable defense industry in Britain. Industry can expect to deal with a more financially aware and intelligent customer who will set clearer requirements and will be more proactively support the export of defense equipment. In return, we have told the U.K. defense industry that we expect them to improve productivity to ensure our scarce resources, taxpayers' money, deliver the maximum possible effect. We have focused on working together to shape a lean and globally competitive defense industry.

And the defense technology white paper we published last year protects our investment in science and technology, and we must never forget the importance of science and technology. It was Guy Gibson, who led the famous Dambusters raid in 1943 over the dams of the Ruhr Valley, who pointed out in his book "Enemy Coast Ahead" that if you do not maintain a technological advantage, you'll be – you will not be well-placed to defeat the enemy. So we understand the importance of ensuring that we protect investment in science and technology.

That white paper sets out how we intend to help businesses large and small win contracts which incentivize cost-effective solutions and how we intend to act in those areas of sovereign requirement. And that is about protection of the nation's vital interests, not just plain old protectionism, because protection-poor productivity in defense in the long run helps no one. It certainly doesn't help our defense effort, and it doesn't deliver a globally competitive defense industry. Rather, we're working towards a model which provides increased stability for industry and greater capability for our armed forces, with cutting-edge technology effectively integrated and a supply chain which taps into the extensive innovative capacity of Britain's myriad small and medium-sized enterprises. And as I go around the country, I'm constantly surprised and taken aback by the sheer extent of the technology that is to be found in small enterprises in people's back gardens in tiny little incubator units. It is truly exciting.

Alliances and partnerships will remain a fundamental part of our approach to defense and security. The importance of the U.K.-U.S. bilateral trade relationship is borne out by the recent Defense Trade Cooperation Treaty, which came into force two months ago. I hope it will now be easier for the United States and British governments and industry to work together, particularly at the early stages of projects, which in time should save industry time and money and speed up delivery of equipment to the front line. And as John said earlier, this obviously is the way ahead, and when two close allies like the United States and United Kingdom should find so many obstacles placed in their path, that is not really helpful at a time when we face so many challenges. It provides a license-free environment for companies within a preapproved community, providing an exemption to United States ITAR regulations for certain technologies destined for U.S. or U.K. government end use.

I said earlier that our understanding with the British defense industry was that we would promote their products where they have world-beating solutions to offer, and I'd like just to detain you, if I may, to discuss four examples. And they are but examples and by no means exhaustive.

The first one was one of the great success stories of the Libya campaign. MBDA, a missile-producing company – they are four-nation-owned, Britain and France, Germany and Italy – and they produce the Brimstone Dual Mode missile, which is a mature technology proven by U.K. forces on operations. It is a superb precision weapon which was highly effective and which minimized collateral damage. And today, as politicians, we are required, because the public believes you can, to deliver kinetic effect without inflicting collateral damage, because people think it's somehow kind of an extension of a computer game. And the truth is we have invested so much money in this capability that there is an element of truth that we can deliver that. And so it is battle-proven; it is off-the-shelf technology which has proven its versatility but continues to offer a path for future development. We believe that it meets a clear and present shortfall.

The second is the Hawk trainer aircraft, another mature technology which has been in service for many years with the Royal Air Force, with the Saudis, the Australians, the Finns and many others. Something like a thousand aircraft are in service or have been around the world. And BAE Systems have built on that success story with the Hawk Advanced Jet Training System, which combines a proven airframe with the integration of the very latest live and

synthetic and ground-based elements. And this package has been tailored to meet the needs of the United States Air Force. And furthermore, at the risk of kind of upsetting the Air Force, it would complement the 200 plus T-45 Goshawks operated for 20 years by the U.S. Navy. And we judge that this is another very strong candidate to meet a requirement which we expect to be formalized soon, and of course BAE Systems would be in partnership with Northrop Grumman to deliver this capability from United States factories.

The third example is the Airbus A400M advanced tactical turboprop transporter, which offers an unrivaled and unique solution to complement the United States C-130 tactical and C-17 strategic lift. The United Kingdom and seven other nations will be taking delivery of these aircraft starting next year. I know that the United States Air Force and the other U.S. services do not have an immediate requirement for such an aircraft, but I do believe, having been one of its most fierce critics and now having had the opportunity of flying it as an aviator myself, that I think that this is a stunning bit of (kitsch ?). And for example, it can take twice the load of a C-17 over the same distance, or the same load as a C – sorry, not a C-17, a C-130 – or the same load as a C-130 over twice the distance. So there is real – there is real additional capability from this aircraft, and it would provide a low-risk solution to future airlift requirements.

My fourth example is something called Foxhound. We have named all our mine-resistant vehicles after dogs, for some obscure reason. But this is a brand-new, high-blast-resistant light-protected patrol vehicle designed to replace the Land Rover, with which many of you will be familiar. It was produced as a result of an urgent operational requirement and a very swift competition run by the previous government in what I think was an absolute superb procurement process. It was produced by Force Protection Europe, whose sister company in the United States developed the highly successful Mastiff, or, in American-speak, the Cougar. As I say, we call all ours after dogs.

And I was talking to a guy last week, when I was driving the Foxhound – that he was in a Mastiff when it was hit by 50 kilos of explosive, thrown 25 feet in the air, landed on its side, and they all walked away uninjured. Absolutely stunning.

So this agile vehicle is designed to be able to maneuver along tight streets and over narrow bridges. And its V-shaped hull and its unique armor combine the best of British advanced technology. And I think this is a good example where the United Kingdom's niche technology can help to save the United States having to invest heavily in research and development, by building on what is already on offer.

So, ladies and gentlemen, these are four very different examples of high-quality products produced by the British defense industry which we believe can meet current and future United States defense needs. Well, I've had the pleasure of discussing these and other platforms and weapons with U.S. colleagues here in Washington and in Norfolk. If the DOD were to pursue these projects and others, it would clearly be good for British industry, but is would also be good for smart defense in action. In an era of declining defense expenditure across the alliance, it is vital that every dollar, pound or euro is spent wisely. That means aligning requirements more closely where it is sensible to do so, and avoiding duplication in R&D for new systems when others have already made the investment and produced solutions.

Modern battle-winning equipment and weapons have become extraordinarily expensive, so there is merit in cooperating more fully on programs like the F-35, and be prepared to buy off-the-shelf solutions where they meet known and future requirements. This approach can make a very important contribution to smart defense.

There will, of course, be political and industrial impediments. I promised you some straight-talking, so let me end with a frank message about the obstacles which could be placed in the way of this interpretation of smart defense – namely, the protection of national defense industries at the expense of the production of the equipment we need at prices we can afford. As this pressure on resources for defense grows, so will the pressure to buy national products, even when they are not the most cost-effective solutions available.

We have turned our backs on that approach. For instance, the contract to build a new generation of Royal Fleet Auxiliary refueling tankers has been awarded to South Korea's Daewoo Shipbuilding & Marine Engineering as the best option for defense and the Royal Navy, and the best value for money for the British taxpayer. And of course, U.K. companies will benefit from the associated build and customization contracts worth in total up to about 150 million pounds. But the competition for the contract sought to engage shipbuilders from across the globe.

We've done the same with the C-17. We bought eight C-17s; we bought another 22 CH-47 Chinook aircraft. We bought them straight off the production line in the United States. We didn't ask for offsets. We didn't put conditions on them; we didn't say, you've got to build them in the United Kingdom. We bought them straight from the U.S. because that was the most cost-effective way of doing it. So we're not asking others to do what we've not already done. We are encouraging allies to follow the example we hope we have already set.

Now, I understand the workings of the United States system well enough to know that the pressure to protect your defense industrial base will become acute in the years ahead. But your politicians are not unique. We face the same pressures – I have the headquarters of a small company called BAE Systems; I have the headquarters of a small company called Kinetic; I have the headquarters of a small company called Computer Sciences Corporation; or in my own constituency. So I am very much alive to all these political – potential political pressures.

So – but my message today is that solutions to meeting defense equipment or weapons requirements should be considered on a case-by-case basis and on the merits of systems, including their cost or opportunity costs.

Smart defense is, after all, about partnerships – partnerships in NATO, partnerships in smaller groups, partnerships between longstanding friends and allies like the United States of America and the United Kingdom. Our two countries need to build on what we already do together and ensure that we remain ready and able to face 21st-century challenges together.

We must also (show/share ?) lead to other countries. After all, no two countries how a real partnership should work in defense like you and we do. The alliance between the United

States and the United Kingdom is the world's most natural partnership, forged by history and a set of common values. But we should remember that Churchill's vision of a special relationship was not one of warm words, motherhood and apple pie. This was a man hardened by the harsh realities of world war. His vision of a special relationship was distinctly military – one of common doctrines and interoperability. And as I say, underpinned by common values.

My friends, these are difficult times. But difficult times call for faith in tried-and-tested partnership. When it comes to protecting liberty, there can be no better lynchpin than the fraternal relationship between the people of the United States of America and those of Her Majesty's realm of the United Kingdom. Thank you very much. (Applause.)

MR. BEN-ARI: (Off mic) – taking questions from --

MIN. HOWARTH: Yeah. Then I'll – then I'll do up here.

MR. BEN-ARI: All right.

MIN. HOWARTH: I can see people better from up here.

MR. BEN-ARI: Good. So we'll open it up to Q-and-A at this point. May I just remind you, as was stated in the invitation. this conversation and the Q-and-A session are all on the record. And I would also ask that when you're called upon to ask your question, you identify yourself and your affiliation. The microphone will be brought to you. Please use that, primarily for the benefit of our online audience, who won't be able to hear the question otherwise.

So let's kick it off. Yes, Chip (ph), all the way in the back.

Q: Testing – one, two, three. Can you hear me?

My name's George Pickett (sp). I have no affiliation. I want to ask you a question that has to do with comparative advantage – not competitive advantage, but comparative advantage. You gave a couple of examples in – with fighters and elsewhere where – where the U.K. has some very interesting products. I think you can also see in long-range aviation, transports, a difference between the U.S. building (three ?) heavy aircraft and not building much lighter-weight aircraft.

My question goes to the underlying technologies, the laboratories, the facilities, the capabilities that you need in order to, say, build the next-generation fighter planes, next-generation submarines. Given that the budgets are coming down, it's not just making choices about what airplanes we buy or where we get the tanks – it's also a choice about where we decide we want to invest our money in terms of research facilities, building the underlying technologies, things like that.

From your point of view, where in the U.K., if you were looking to 2020, would you like to see the U.K. have maintained a very core technological capability in research, manufacturing and facilities?

MIN. HOWARTH: (Off mic.) An interesting question, thank you. And not one that is easy to answer comprehensively.

We have some key technologies which we developed through the minister of defense's own Defense Scientific (sic; Science) and Technology Laboratories (sic; Laboratory). That was a part of kinetic that was not put out to the private sector; that was retained in-house. And obviously CBRN capability is absolutely critical to maintain the research into that. But we're increasingly looking to the private sector also to come up with innovative solutions through companies like Kinetic, BAE Systems, Rolls-Royce and others.

I think that the – I suspect, looking at your – the state of your hair, sir, you and I probably come from the same sort of era. So we're sort of Cold War-warrior types. And I'm fond of saying that we should exchange the certainties of the Cold War for a very, very uncertain world. In the Cold War era there was this balance of terror between the Warsaw Pact and the NATO forces, and so we all knew where to – where we needed to emphasize the investment.

Today, it is much more difficult. And we don't just have potential state adversaries, but we also now have a growing potential amongst non-state actors to harness technology, to leverage very substantial damage to us.

And we just had a situation in the United Kingdom the last few days where one of our banks was introducing some new software which didn't kind of work out, and people weren't able to get money out, and somehow I was, but others didn't seem to be able to do so. I suppose it was because I was a member of Parliament. They knew that, so they gave me the money. (Laughter.) But – well, I like to think that anyway.

But, you know, just think what damage could be done if our banking system was – whole banking system was paralyzed for 24 hours. You know, these are very serious – cyber, for us, is another – what my previous secretary of state, Liam Fox, used to describe as an up arrow. When we were doing our defense – strategic defense and security review, cyber was an up arrow, and perhaps heavy armor was a down arrow.

So I think that in today's market, it is a question of keeping as many options open in terms of developing your technology and your research space and constantly updating it in order to understand and be able to respond to the changes in the strategic threat.

Q: Colonel Stephen Padgett. I'm General Abrial's representative to the joint staff in the Pentagon.

I listened to what you were talking about, smart defense, and you mentioned a number of areas, most of which seemed to be in the sort of kinetic effect area. I also listened with interest to some of what was being said two weeks ago now about army 2020 and the sort of developments of the future. And in both cases, the expression about upstream influence came through. Perhaps you could say a little more about what you mean in a smart defense context for how we plan and what we plan to do in terms of upstream influence.

MIN. HOWARTH: Colonel, wow, I'm so glad I mentioned General Abrial in your presence. (Laughter.)

Q: I'll tell him.

MIN. HOWARTH: Do give a – do say how much I enjoyed my time with him yesterday. I've gotten to know him quite well over the last couple of years.

But I do want to say that it is not confined to kinetic effect. We specifically went through yesterday some of the programs that are currently under way. And for example, medical facilities are one of those which are under consideration; things like counter IED and so on. So I don't – wouldn't like people here to get the impression that this is just about smart defense and kinetic effect. It's not. It's about a whole range of activities indeed, and some of those which aren't kinetic effect. I think there is possibly a greater likelihood of being able to achieve the NATO objective than would be the case with some of the more sensitive kinetic effect programs.

Upstream influence: Yeah, it really follows on from my – from the last question, which I was asked, which – to which I responded about the nature of the challenge we face today, that the unpredictability, the fact that none of us – nobody predicted the Arab Spring. And your boss, the – General Peter Wall said, when I – when it all happened in Egypt, he said, I didn't know any of the Egyptian generals. You know, we just didn't have that – we didn't have that knowledge.

Now, what we are – what I am doing as the minister for international security strategy is working on a defense engagement strategy which we are about to consider as a joint Foreign Office/Ministry of Defense program, which we're going to discuss with my colleague, the secretary of state for defense, Philip Hammond. And that is looking at precisely that problem that you – to which you refer.

I think we'll do it as Will and I were discussing yesterday. In, you know, the immediate – you know, what are the – where do we see the immediate potential threats, but also further out. And having a good network of, for example, defense attaches embedded in our embassies, able to understand and pick up what is happening in the field of defense and military development I think is very important. And I think it's – you won't be surprised to hear me say this – an area where I think we should – we should be investing more. But don't tell the secretary of state that yet until I've told him myself.

But I do think that for a very modest amount of investment, you can leverage quite a lot in terms of delivering what you've just been just talking about, which is upstream influence. And by upstream influence, I think we mean both pre-empting what might happen, understanding what might happen and thereby being able to avoid military action if we can. It won't always be possible, but in some cases I'm certain it will be.

Harlan, I thought you were going.

Q: No, you were too good.

MIN. HOWARTH: That's what I – did you hear that, to all those of you online? He said I was too good, so he couldn't leave. (Laughter.)

Q: I'm Harlan Ullman, former Royal Navy person.

Gerald, your remarks were compelling. I wonder if you could comment a little bit about Joint Forces Command, and what role you see it as an enabler, supporter, helper for the things that you're trying to do not only with the procurement issues, but you talked about partnerships and expanded use of attaches and so forth on the defense engagement side. How do you see Joint Forces Command assisting you in your job?

MIN. HOWARTH: OK, well, for those of you who don't know, we have just created and just stood up a new Joint Forces Command, so we have the three services, the Royal Navy, the Army and the Royal Air Force, and we now have Joint Force Command. And into that, we've put the – those military operations which don't fit necessarily into one of the services or which straddle a number of services. So things like Joint Helicopter Command, the cyber special forces and things like that are going into the – into the Joint Forces Command.

It's very early days. It's only been stood up a couple of months. But I was talking to the officer we put in charge, who is a guy called Air Chief Marshal Sir Stuart Peach who was our chief of joint operations until recently, so he has real experience of actually managing operations in theater, both in Afghanistan and Libya. So he is very well-versed and very well-placed to be able to do this.

We think that it's the best way of doing – we looked at this; in our position, it's not just been written on the back of a fag packet. Is fag an expression in the United States for cigarette? Sorry, we meant a cigarette packet. Perhaps it means something else here; I'm sorry. (Laughter.) What I mean is – you see, it's a – it's two nations divided by a common language. Cigarette packet. And we did not write it on the back of a cigarette packet; we thought about it carefully, and we've implemented it in government. But obviously, you know, we'll have to see how it goes. But I think that it will be a way in which we can better manage some of those areas which straddles three services.

MR. BEN-ARI: Minister, let me throw in a question, if I may, and then we'll go back to the audience. But I'm struck by the fact that we've been talking amongst other things about smart defense and transformation of acquisition processes, and we haven't yet once mentioned pooling and sharing, the sort of buzzwords that almost automatically these days go with smart defense. So I'd like to ask your opinion on sort of these notions – obviously, they mean a lot of different things to a lot of different people, but what you understand under that concept and how you see it unfolding in the coming year or two.

MIN. HOWARTH: Well, Guy, of course, pooling and sharing is what the EU does. That is the technical expression that the EU gives to their aspects of smart defense. In NATO, we call it smart defense; in the EU, they call it pooling and sharing. Smart defense is actually pooling and sharing.

And it really feeds into what I've been saying earlier about some of those less kinetic exercises, which I was setting out in response to the colonel's question. And those are areas where national sovereignty doesn't really apply. And I think we'd have to be realistic about this. The prime minister has said that we – he wants to see smart defense as part of our DNA. And that is the way forward, but it will be a rocky road.

And the kind of thing that I'd like to try to point out is that what – by way of illustration of what is the problem, is let's say the United Kingdom and France decided to share an aircraft carrier. That is to say that we have two aircraft carriers. They have one. We have one. So when ours is in refit, theirs is the one which is on station.

And say we had a problem in the South Atlantic collection of islands which are owned by the United Kingdom and where the self-determination of the population there is paramount, as the United Nations advised a couple of weeks ago.

And so we said to the French, right, off we go, and the French said, well, actually that's not quite part of our, you know, game plan; we don't quite see it the same way as you do. What's going to happen then?

And if – you know, by the same token, if our aircraft carrier were on standby, and the French were requiring us – were requiring the use of the aircraft carrier for some exercise where we had a national reservation, you can see, I mean, one just has to be practical about this, and there's no point in being starry-eyed about it. But what I was discussing with General Abrial yesterday was how we can get some of the projects which he's already identified, where work is under way – how we can get those in hand, taking effect, and illustrating, you know, actually it can deliver smart defense, pooling and sharing, if you like.

And as a byproduct of this – the point you raised, Guy – pooling and sharing, as I say, is an EU expression, and one of the things that we in the United Kingdom have been very concerned to ensure is that there is no duplication between the EU and NATO. And one of the things which it is – and General Abrial and his opposite number at the European Defense Agency, Madame Claude-France Arnould –they talk regularly to make sure this is not happening. I think there is a great acceptance in the EU that we must not engage in duplication. For one thing, we just don't have the money. It would defeat the whole object.

So one of the things, for example, where the EU is going to promote pooling and sharing is in tanker – to our refueling tanker capacity. Because why? Well, in Libya, there were 42 tankers available, and that's the number you have to have to sustain that kind of operation, of which 27 were provided by the United States of America, and the remaining 15 were provided by a collection of European NATO members. So that is a case where it's clearly in the interests of both European members of NATO and the United States that that capability shortfall should be met in Europe. So that is what some – that's what's happening.

George – is it George over there, is it? You want another go?

Q: Second question, sir.

MIN. HOWARTH: Yeah, go on.

Q: There are people who believe – I'm one of them – that when the Russians decided to go bankrupt, the U.S. government basically took a hand – took its hands off the wheels and let the industry in this country contract in a way that, by the end of the 1990s, they didn't like the answer. You had a fair number of monopolies, some duopolies, some very different structural aspects to the industry. When you look at the contractions that may take place in this country over the next five or six years as we go through this process with the budget, what outcomes worry you the most?

MIN. HOWARTH: Well, can I challenge you first? The Soviets didn't actually decide to go bankrupt. It was their system which was inevitably going to lead to their going bankrupt, because, unlike them, we believe in the market economy. And it was a – sorry, this is a bit of a deviation – but I mean, it was a – it was a contest of philosophies, the difference being that ours was for voluntary export; theirs was for mandatory export. And furthermore, everywhere that it was exported, it failed, and it failed at home. But it was – it wasn't they decided to go bankrupt; it was just inherent in their system.

But of course the point that I and many of my colleagues make is that they had effectively to sue for peace – and Gorbachev should never be left out of the equation – they had to sue for peace because they ceased to be an economically powerful country. That is why the budget deficits that so many of us are having to wrestle with are themselves a threat to our national security and why we have the imperative, as we do in the United Kingdom, of trying to restore our economy into shape again so that we can once more become the prosperous nation that we were.

The contractions in the defense industry – yeah, I mean, we faced it before the United States did. Basically if you look at the heritage of BAE Systems, they go back to a myriad of companies like A.V. Roe, like Hawker Siddeley, like the English Electric Company, the Hawker Company, all these – the Supermarine company, the Folland company – they all came in – down into one company, and we're doing this – a similar thing with our shipbuilding industry. And it does mean you do not have the competitive choice you had before, and we've had to develop quite tricky systems to be able to ensure that we aren't taken for a ride by a monopoly supplier. It is not easy, but we have – I think maybe we have something that we can offer the United States by way of example on how to do this. But you have to be eternally vigilant.

And furthermore, you have to have an intelligent customer. You know, one of the things that Bernard Gray, who is our chief of defense materiel – one of the things that Bernard has said is that in the Ministry of Defense have not been the commercially smart guys to be able to negotiate with these industries who pay their counsel and their negotiators shedloads of money to try to get the best of – I'm phrasing myself carefully here – to try to get the best deal with the – with the government, which of course is acting on behalf of the taxpayer. So getting an intelligent customer is, I think, a very important component.

What worries me most? What worries me most is the contraction in capability, reduction in research and research work. That is the – those are areas which particularly worry me. We are, as I said, protecting our research base. But we've seen a contraction over the last – over the – several years. It's been a process which is going on, and I believe in the adage that today's kit is the result of the investment in technology; tomorrow's kit will be the result of today's investment in research. So I think we all need to look at that, and that's why, you know, where you have close allies, we have to do more and why the treaty arrangement will help the flow of information, which hopefully will mean that we can capitalize on the best technology that we've each got.

MR. BEN-ARI: There's another question in the middle.

Q: Hi, thank you. Raymond Barrett with PaRR. A small question about the treaty.

MR. : Come over here.

Q: Is it true that any, say, things that are developed as part of the, say, Defense Cooperation Treaty will only be available between the U.K. and the U.S. and in that way does that limit Britain's ability to, say, export these goods around the world and in any way does that sort of, say, limit the British industrial base from, say, growing and being, say, more export-driven outside of that? Or how do you find the treaty will work there?

MIN. HOWARTH: Well, that is by definition the case. Yeah, it's an exchange of information between two countries, and it works both ways. It's us passing technology to the United States as well as the United States passing technology to us. And clearly if either wishes then to re-export that technology to a third country, the same provisions would apply as apply today: that, you know, you have to – you have to negotiate with the partner country concerned, whether it's Britain or the U.S., to agree that, yeah, that's fine; that can be done.

And that of itself – I mean, you've put your finger on quite a – quite an interesting point because as companies become multinational in character, they may be registered – the head office may be registered in one place, but you find they've got subsidiaries all over the – all over the world. And you find in the United Kingdom that this is – there's no place in the – as the United Kingdom to see this in evidence where we have people like Lockheed Martin, Northrop Grumman, Boeing and many others, from L-3 from the United States; you have Finmeccanica from Italy; and EADS from Germany, France and Spain. You have a whole host of companies operating in the United Kingdom. And inevitably, they take components from all sorts of different countries. So it is in the nature of the development of the defense industry that has thrown up yet a further challenge. But we are sovereign nation-states, and therefore we do want to have a say on how advanced technology can be exported to other countries. So yeah, it's difficult.

Q: I'll have another go, if I may as well, Minister, if you've got another few minutes to –

MIN. HOWARTH: Well, George had two goes, so I don't see why you shouldn't.

Q: (Laughs.) I mean, it actually – it goes back to the budget question. And while – when you look at European defense spending overall in the last decade or so, it's been a pretty steady downward spiral pretty much across the board, country by country and certainly at the – sort of European level. But interestingly, the equipment budgets have been relatively stable, both for the major buyers nationally but across Europe as well. And so I'm curious as to what your thought are, whether that's sustainable either in the U.K. and Europe-wide, whether you will be able to maintain this sort of steady investment, if you will, even in these times of austerity, as has been the case in the past.

MIN. HOWARTH: Well, I can't speak for other European countries, but what I can say is to repeat what I've mentioned to you, which is that we have specifically addressed this issue of the unfunded commitments that we had in the United Kingdom. That's what Bernard Gray, the chief of – today's chief of defense materiel, when he did a report three years ago for the previous labor government; he identified 38 billion pounds – so that's sort of $60 billion – of unfunded commitments.

Now, in the natural course of events some of those would be – come into the program and would be funded. But it was a growing number and was getting out of control. And so we sought to tackle that, and we have just now done it. And what we have – we have done – and it will depend upon a cultural change in the Ministry of Defense; it will depend on not being blown off course; it will depend on the overall budget, the strength of the British economy, the rate of recovery from the difficulties we face with the budget deficit and so on.

But we – what we have done is we have, as I said, set out a path which would – which shows a commitment of 150 (billion pounds), 160 billion pounds over the next eight years or so. And we have decided that that which is not affordable will not be on the program, and only – will only come into the program when it is affordable. So we've done it now. Whether our European counterparts – our continental counterparts will do the same, I can't speak for them. What I can say is that they are completely and utterly consumed, as indeed they need to be, by the crisis in the eurozone.

And if I am allowed by my team here to declare a political view – I am, after all, an elected politician – I used to walk around not with an F-35 badge in my lapel, but I used to walk around with a pound sign. And I got ridiculed for it. And I got ridiculed particularly by smart alecks in the financial times who thought Britain should join the euro. We didn't. And the reason we did not want to join the euro was because we understood, as did Dietrich, the German economics minister, that you can't have a single currency without a single monetary policy administered by a single monetary institution, effectively run by a single government.

And we thought it was, from the United Kingdom's point of view, abject folly. My personal view is that I think that the euro was a deceit and I think the people of Europe are paying a very high price, as indeed is the United Kingdom. And we are caught in the backwash. We do – a huge amount of our trade is with our European partners, our continental friends. And the prime minister has been absolutely right in urging on our continental friends in the eurozone to get a grip of this problem as quickly as they can. It's serious business.

MR. BEN-ARI: On that very happy note – (laughter) – if there's any other questions? Oh, please; here up front. Do we have time for another, Minister?

MIN. HOWARTH: Yeah, I'll go –

MR. BEN-ARI: All right.

Q: Thank you very much. My name is Alex El-Fakir; I'm a student at Princeton University, interning here at the summer for the American Enterprise Institute. My question regards your discussion of how the – or the U.K.'s progress of retooling its tactical military capabilities to not only meet financial constraints but also still meeting upcoming security needs. How has – how has the United States' self-described pivot to Asia influenced this process of smart defense procurement and the U.K.'s strategic outlook on future mission sets and – as well as areas of future security concerns? And what are those mission sets, in your view, and where are the security concerns?

MIN. HOWARTH: Thanks for another straightforward, short question. (Laughter.) Much appreciate it – this is quite a long question and raises quite a lot of issues. Let me just pick up the point you make about the pivot to Asia, the sort of 60-40 split. We understand, and as minister for international security and strategy, I have visited 24 countries since I was appointed two years ago. Some of those I visited three times.

When you go to the Far East, it is – concerns are tangible. You go to the Middle East, fear is tangible. So there are concerns. And I understand the United States is both a Pacific and Atlantic – and an Atlantic nation. And I think that the United States paying that attention to the Pacific is important. Its presence made it absolutely clear – this is not a withdrawal from interest in Europe. NATO remains, and the United States firmly engaged in NATO. So I don't see it as any kind of a contradiction at all. I think it's a kind of both/and, not an either/or as far as we're concerned.

I don't think it makes a huge difference because, as I said in my speech, what we're trying to do is to create a future force 2020, which is capable of delivering expeditionary power projection, principally through our two aircraft carriers but also with our airlifting capability, with very agile land forces and a capable royal navy. So I don't see it as a – as changing our own policy in any way at all. But you know, we'll have to see.

But it does illustrate what I was saying before that, you know, we've exchanged the certainties of – which people like me and George over there grew up with – and you and Guy, you see him growing up with a much less certain world. You know, just because you got a bit of gray hair, I still think you're probably more his age than mine. (Laughter.) And so you've, I think, got – you know, you've grown up with this very unstable, very unpredictable world. And it does raise very, very difficult challenges for policymakers in the field of defense. But I've tried to illustrate, you know, just how I see – and we, as the British government – see the way forward.

MR. BEN-ARI: Thank you very much, Minister. We really will let you go now. And you've been very generous with your time. I appreciate it. Thanks. (Applause.)

(END)