

ASD(IBP) HON Taylor-Kale Remarks
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Good morning and thank you for the introduction. Also, thanks to Dr. David Santoro and the Pacific Forum International team for hosting us. I am delighted to be with you.

The timing of this event is excellent. As President Biden has noted, we are living in a decisive decade, with peer and near-peer threats to contend with. No one, I believe, understands this better than those of you in the Indo-Pacific region. You live daily with these threats that we back in Washington only read about.

Helping you meet those threats is why I am here today. I am the Department of Defense's first Senate-confirmed Assistant Secretary of Defense for Industrial Base Policy, and my organization is also relatively new, although parts of it have been in existence for some time.

The elevation of this role indicates the importance of industrial policy to the Department of Defense. And even though the DoD has been involved in industrial policy for about a hundred years, historically we have not shown up well in the US economic interagency. It has not been well understood by Department leadership just how defense budgets impact industry, or how industry can best be incentivized. My office of Industrial Base Policy is working to help DoD better understand industry perspectives while guiding the industrial base to better respond to global tensions.

One of my primary tasks was to create and implement the DoD's first-ever National Defense Industrial Strategy, or NDIS. The NDIS is nested in the National Defense Strategy and will contribute significantly to integrated deterrence, one of Secretary Austin's key actions that build enduring advantages for the United States and our allies and partners.

Additionally, the NDIS is initiating generational change to help build a more robust, resilient, and **modernized defense industrial base ecosystem**. This is the first time we have put pen to paper to map out a strategy and vision for the defense industry.

The Deputy Secretary of Defense Dr. Kathleen Hicks directed creation of the NDIS in March of last year. She recognized the need to modernize our industrial base and seized the opportunity to leverage work that had been done to support the Ukraine to create a vision for a modernized defense industrial ecosystem.

My team then began a crash program to research, write, staff, and finalize this Strategy. I'm very proud of them and their work. Not only did they create a visionary document, but they also helped to socialize it within the DoD, with industry, and across the other parts of the executive branch of the US government as well as with Congress. They incorporated and reconciled more than a thousand comments to create the final Strategy.

I'm very proud to announce that we published the NDIS last week, and I'd encourage you – if you haven't already – to go to our website at businessdefense.gov and download it.

I'm going to talk this morning about the NDIS, what it means for the Indo-Pacific region, and what a fully integrated modernized defense industrial ecosystem might look like.

We are implementing the National Defense Industrial Strategy now because as part of the effort to re-energize US manufacturing and build the kind of modernized defense industrial ecosystem we need to enable our National Defense Strategy to meet the global challenges our nation and our allies and partners will confront.

Many recent factors and events, to include the COVID pandemic, the war in Ukraine, and the sustained challenges the nation confronts in the Indo-Pacific region and around the world have

demonstrated that the industrial base we have built in peace must now be re-energized to meet the threats facing us today and for the future.

The NDIS will guide the Department's engagement, policy development, and investment in the industrial base over the next 3-5 years. The current state of the industrial base is the result of decades of policy decisions; it will not be changed in one or two years.

It is important to note that DoD cannot address every industrial base issue alone. Defense production and services are part of a vast, diverse ecosystem that draws from technology and manufacturing sectors. We need our partners, both inside and outside DoD and especially in the Indo-Pacific region, to work with us to create this modernized defense industrial ecosystem.

The NDIS lays out four strategic priorities to serve as guiding beacons for industrial action and resource prioritization in support of the development of a modern industrial ecosystem. Each of the four priorities has associated long-term actions that promote flexibility and dynamic capabilities as we build this ecosystem.

These four priorities are building **resilient supply chains**, improving **workforce readiness**, leveraging **flexible acquisition** strategies, and enabling **economic deterrence**.

This morning I'll discuss the first and last priorities, as I believe that while all are of interest to you, those two – resilient supply chains and economic deterrence – have special applicability here in the Indo-Pacific region.

The first strategic priority is to build **resilient supply chains** that can securely produce the products, services, and technologies needed now and in the future at speed, scale, and cost.

We learned during the COVID crisis that industrial supply chains are increasingly complex and global, resulting in dependencies on overseas vendors' products and strategic raw materials. Russia's invasion of Ukraine further highlighted the condition of our supply chains, based as they were on "just in time" delivery and weapon procurements that were driven by annual training requirements vice combat operations.

The NDIS articulates discrete actions we must take to build resilient supply chains. For example, we must properly incentivize industry to improve resiliency by investing in extra capacity. As my boss, Under Secretary of Defense for Acquisition and Sustainment Dr. Bill LaPlante has noted, industry rightfully remains reluctant to build additional capacity at risk, until they

have a clear, consistent demand signal or business case from the DoD.

(Pause, drink water)

One way DoD can incentivize industry is via contracts. For example, the war in Ukraine increased demand for 155mm artillery ammunition. In response, the DoD invested in expanding existing production facilities in Pennsylvania and broke ground on a new production facility in Texas to respond to the higher demand signal. In addition to these investments made in December 2022, the U.S. Army awarded contracts worth \$1.5 billion in September 2023 to meet its goal of delivering more than 80,000 projectiles per month by the end of FY2025. This represents a 200% increase of production capacity for this munition.

In short, when incentivized properly, industry steps up.

Another way to provide incentive is through investments made via programs like the Defense Production Act, or DPA. First enacted by Congress in 1950, the DPA authorizes the President to ensure the availability of industry for U.S. defense, essential civilian, and homeland security requirements. With DPA authorities, we can set priorities on Federal contracts and allocations of scarce materials. We can also provide incentives like loans, grants, and purchases to develop, maintain, modernize, and expand industrial production capacity.

My office manages the DPA, and in calendar year 2023 we made more than \$780 million of awards in key areas such as kinetic capabilities, microelectronics, and strategic and critical materials.

I'm very pleased to note that the US Congress worked with us on the DPA and just made Australia and the United Kingdom eligible for grants and loans, joining the United States and Canada under this program. This one action vastly increases the available

organizations that can bring needed capabilities to help create extra defense industrial base capacity.

Another action identified in the NDIS to build resilient supply chains is to engage allies and partners to expand global defense production. This is necessary because, for example, China has a commanding lead in mining and refining rare earth elements and critical minerals used in production of microelectronics, rare earth magnets, and other key defense systems.

But it's not an insurmountable lead. For example, we can work with countries in the Indo-Pacific region to either expand or modernize current processing facilities. By taking additional actions such as working to improve international collaboration mechanisms, providing financing, and improving permitting, we can improve mining capabilities as well as find new sources. These

actions taken together can significantly reduce the PRC's leverage in rare earth elements and critical minerals.

In the Indo-Pacific region, I think we can develop a networked cooperative framework that enhances defense industrial output by working with allies and partners to de-risk supply chains and advance our ability to engage in co-production, co-sustainment, maintenance, repair, and overhaul. A term that has been used to describe this activity is "friend shoring," wherein allies and partners build defense production facilities in partner nations. Both sides benefit from the enhanced collaboration, workforce improvements, innovation, and increased capacity realized from such arrangements.

The United States has a complex web of friend-shoring-suitable alliances and partnerships around the world; a partial list includes Australia, Canada, the European Union, India, Japan, Mexico,

South Korea, and the United Kingdom. The choice of which nations to continue or expand friend-shoring is predicated on a multitude of factors including history, shared values, public and political support, as well as security assurance, supply chain resilience, and industrial and technological capabilities.

This kind of co-production and friend shoring has been called **production diplomacy** by Under Secretary LaPlante - and we mention it the NDIS as well. We are actively engaged in production diplomacy in Europe, for example.

In the wake of the Russian Federation's unprovoked aggression towards Ukraine, the U.S. led the international community to rally to their defense, organizing recurring engagements of the heads of Ministries of Defense and National Armaments Directors to coordinate support efforts.

These engagements have jump-started initiatives to expand ammunition production, establish an international support fund, and organize the delivery and sustainment of critical capabilities.

The German defense company Rheinmetall recently announced an initiative to produce armored vehicles in Ukraine later this year.

Building off the global experience of the Ukraine conflict, there may be opportunities to similarly convene the leadership of allied and partner nations within the Indo-Pacific, to deepen multilateral collaboration on regional industrial base and manufacturing production challenges.

Rather than wait for emergency circumstances, investing in these relationships now will yield fruit, should we collectively face a crisis in coming years. This is the power of **production-oriented diplomacy.**

(Pause, drink water)

For example, Australia is working to produce Guided Multiple Launch Rockets as part of the AUKUS agreement. They are also engaged in building an integrated air and missile defense capability. This kind of activity could be expanded across the Indo-Pacific for all sorts of capabilities.

Imagine what our collective defense industrial ecosystems could become if four or five or even ten partners together were producing munitions or other capabilities. Think about how contested logistics could be managed if we invested in fuel transportation capabilities, repair facilities, or spare parts with any number of allies and partners.

The sky is literally the limit, but it may make sense to set our sights initially on lower hanging fruit. If we consider that, as I mentioned, that Australia is producing guided rockets and the Republic of Korea, 155mm artillery shells, I think we'll see that there is an abundance of opportunity here.

We could build upon these efforts now and set in motion efforts to produce more and different kinds of munitions or even components thereof – for example, solid rocket motors. In Europe, the Norwegian company Nammo is a leader of SRM design and development. We are leveraging their capability to design new hypersonic munitions. In the Indo-Pacific region, Japan developed solid rocket motors for their Epsilon launch vehicle. With the right engagement and investments, we could further develop this capability to expand the kinds of solid rocket motors we can develop in the Indo-Pacific region. There are many other potential examples to consider – and consider them we should.

(Take a break, sip water)

The next strategic priority I'll discuss is economic deterrence. This will promote fair and effective market mechanisms that support a

resilient defense industrial ecosystem among the U.S. and close international allies and partners and economic security and integrated deterrence. As a result of effective economic deterrence, fear of materially reduced access to U.S. markets, technologies, and innovations will sow doubt in the mind of potential aggressors.

Two specific actions we will undertake to support economic deterrence are, I think, of relevance to the Indo-Pacific region. The first is fortifying alliances to share science and technology. Science- and technology-sharing agreements are necessary to build the trade and security alliances that are critical for economic security.

One example is AUKUS, the trilateral security agreement between Australia, the UK, and the United States. A key component of AUKUS is a well-informed trilateral industrial base that is collaboratively solving operational problems and delivering

integrated capabilities at speed and scale. AUKUS allow us to jointly invest in much needed defense capabilities by leveraging the best of our respective industrial bases.

Another example is Security of Supply Arrangements, or SOSAs. These bilateral Arrangements help ensure the mutual supply of defense goods and services. They also allow the DoD to request priority delivery for DoD contracts, subcontracts, or orders from companies in these countries. Additionally, SOSAs can enable the signatory nations to request priority delivery for their contracts and orders with U.S. firms.

The United States currently has SOSAs with 17 nations around the world, to include the Republic of Korea, Japan, and Singapore. We are working on several other Arrangements with interested parties and will continue to look to expand partnerships in the Indo-Pacific region.

The second action we will work on to support economic deterrence is to strengthen enforcement against adversarial capital and cyberattacks. The mitigation of threats arising from foreign transactions must be balanced against the openness of the U.S. economy to foreign ideas, talent, and capital. The DoD must work with other federal executive departments of the US government as well as partners and allies to protect U.S. and allied assets from ownership by commercial entities controlled or influenced by adversarial nations, and from cyber-attacks against entities involved in the maintenance of our defense.

We are taking action now on adversarial capital with NATO, for example. We're conducting table-top exercises with partners and allies to test procedures and policies to identify areas needing improvement.

We must also educate our collective industry on the threats posed by foreign capital, adversarial ownership, and cyber-attacks and

help them to prepare to deter, mitigate, and deflect such threats by improving defenses and lowering risk profiles.

In closing, I will say that I am excited about this new Strategy and what it represents.

By building resilient supply chains, enabling workforce readiness, leveraging flexible acquisition, and creating economic deterrence, the NDIS lays out a vision for the future of a modernized defense industrial ecosystem for the United States.

And in the Ukraine, we have also learned about what is possible when we work together. The success of the National Armaments Directors work in coordinating supply and production issues in that conflict is a model we can build upon for the Indo-Pacific region.

But I think that ultimately, the NDIS provides us all an opportunity to work together to create a truly **global industrial ecosystem**. By drawing on our collective potential, innovation, and creativity, we can create a new, flexible framework that capitalizes on the best each partner brings to the table. This would bring prosperity to its participants, create myriad new opportunities, and deliver the potential to deter any potential adversary.

Thank you for your time and attention. I'll now take some questions.