

TRANSCRIPT

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DWG: Good morning, everybody, thank you for coming in. I appreciate our guest as well, Admiral Paul Zukunft is the Coast Guard Commandant. Sir, we do appreciate you making the time for us. You've had a busy couple of weeks, which I'm sure is just the norm for you.

Sir, I'll begin. I was reading [inaudible]'s very fine write-up of your presentation in National Harbor last week. The Coast Guard's budget situation has been tumultuous, to say the least. You've spent a lot of time over the recent years operating under Continuing Resolutions. You said that you feel that the Coast Guard's budget's been left behind compared to the other military services, and even other homeland security departments.

What's the prognosis at this point? How are you making due? And how does this uncertainty and flat line spending level affect your operations and your plans for the future?

Adm. Zukunft: With respect to the 14 percent reductions and recovering from that, the prognosis for 2018, while it looks good and it looks like it will restore funding, it still places the Coast Guard funded below the floor of the Budget Control Act in our operations and maintenance accounts. So ever since sequestration kicked in five years ago, each year we find ourselves funded below the floor of the Budget Control Act.

And you might ask, well why is that? Ninety-six percent of our budget is funded by non-defense discretionary funding. So you have the bipartisan budget agreement and it plussed up the defense, the other armed services, while because most of our budget, 96%, is non-defense discretionary, we were not the recipient of those funds.

The irony is, on any given day I'll have upwards of 20 ships serving in support of a combatant commander. The ship is bought by, maintained by, and crewed by non-defense discretionary funding yet we are an armed service.

So we find ourselves in this no man's land, if you will. So it's just the way our funding has been categorized. And obviously been in a Continuing Resolution for 40 percent of the time going back to 2010 which makes it very difficult if you're looking at new acquisition, modernizing, and it really does handcuff us. Not only that, but just the whole uncertainty of where is the budget going to settle out. Because I'm trying to project out five years, when we find ourselves annually having to discern what is the budget going to settle out at.

DWG: And what's the long-term impact of this below sequestration level funding? Can you do this forever? Or at some point do you reach a tipping point where you've got to give a funding plus-up?

Adm. Zukunft: We give our crews, the men and women of the Coast Guard, a lot of credit. We have ships right now that are over 70 years old, still in service today. And the reason they're in service is, a lot of that, I call it sweat equity, the work that our young men and women are doing, keep these old ships in service.

Now the good news is on the acquisition front, I'm extremely optimistic. We will be building out three classes of ships. We've got two hot product lines right now -- a national security cutter, fast response cutter, and we awarded the offshore patrol cutter back in September. And we look at starting another product line, and that will be the Petty Icebreaker. So the good news is we are modernizing the fleet, but it's that annual operating and maintenance account that you have to get very creative.

And where we're seeing the most pain is we defer a lot of our shore maintenance. So that backlog continues to grow. And it's not as exotic as christening a new ship. So we have a lot of our crews are out there, if they're not out doing operations, then they're fixing utilities, they're patching roofs. And we're not the SEABEES, but we find ourselves having to do a lot of self-preservation to keep some of our shore infrastructure up and running. So it's not sustainable for the long term.

DWG: Could you talk a little bit more about priorities right now for the U.S. Coast Guard of modernization versus readiness.

Adm. Zukunft: Modernization, first of all, it begins with the fleet. The national security cutter is a great example. That was going to be a program of record of eight ships, and we're in the middle of building our ninth ship. We're recapitalizing our near shore, what we call our fast response cutters. This is a fleet of 58. We awarded phase two to build a last tranche of those. The last four came off the production line with zero discrepancies, which it's very rare in shipbuilding to take delivery of a ship with no discrepancies.

Today we'll commission the John McCormick in Ketchikan, Alaska. So it's the first fast response cutter going there. Then we awarded to Eastern Shipbuilding Group the first nine of what will be a fleet of 25 off-shore patrol cutters, all that meet our requirements, all affordable, in an affordable range. There was no protest when we awarded that.

We clearly need to accelerate the delivery of heavy icebreakers. Our nation's only heavy icebreaker, the Polish Star, is in her 40th year of service, encountered very heavy ice conditions down in Antarctica this last season, and were she to suffer an engineering casualty in that ice, the United States has no self-rescue capability, which is a great concern of mine. We can get the crew off there, but just the fact that we have no self-rescue. So we're looking at building out a fleet of three heavy and three medium icebreakers.

To release the first phase of the funding, there is funding in '17 to move that project along. That's currently held up under a Continuing Resolution. So I am hopeful that we will see appropriation so that we can move that out because I need to have the first ship delivered, the first heavy icebreaker, by the year 2023.

DWG: Just to follow up with that, do you feel that modernization or readiness might be more of a challenge right now for the U.S. Coast Guard? Or do you feel things are par for the course? Or would you enjoy paying one more than the other?

Adm. Zukunft: I've got our priorities pretty well set. It's great that you're modernizing your capital plant, and many times you look at well what about your force structure? While we do need to grow our force structure, we are currently in a period where as an armed service we enjoy the highest retention rate of all of the armed services. Nearly 90 percent of our first term enlisted reenlist. Not only that, but many of these young men and women that voluntarily join our service come with great life skills, many with college degrees, to serve at the most junior levels of our organization, and they are absolutely thriving in our service. So we're doing a great job recruiting, training, but I can't take my eye off of the retention aspect because that's going to be a key part as you modernize your capital plant. You want to make sure that you're bringing your human capital along with that as well. So so far, we are keeping pace with all of that.

DWG: Thank you, I appreciate it.

DWG: Good morning, Admiral. How are you?

In your State of the Coast Guard you talked about 580 events that got a free pass because there weren't enough assets to intercept. Could you talk about that? What were those events that you were tracking? Was it drug smuggling or other activities? And obviously, how much does this worry you and what does this mean for U.S. security in the region?

Adm. Zukunft: This truly is a capacity issue. It's a number of planes, number of ships that you have. So what's happening is in the last year we've seen record high flows of

cocaine coming out of Colombia, destined for the number one consumer of cocaine, and that's the United States. But they don't ship it directly. It's shipped to several countries in Central America in bulk. In fact most of this moves by sea. And what concerns me is that when bulk cocaine arrives in countries like El Salvador, Guatemala, Honduras -- three of the most violent nations in the world today -- the root of much of that violence is this bulk shipment of drugs. And it brings with it corruption. Rule of law goes down, homicide rates go up, and when all of that happens then we see migration. People want to leave these violent countries and find safe haven within the United States.

So the partnerships that we have, being a member of the National Intelligence Community internationally, interagency -- this is not just Coast Guard, but all of our federal entities are involved with this -- has enhanced our ability to know where all this movement is.

So we have an awareness of over 80 percent of the maritime flow of drugs in the Eastern Pacific where most of it takes place, but also in the Caribbean. But last year, with all of that awareness, there were 580 events that we had at least one level of information on that we just did not have enough ships or enough planes to track those down and [act on it].

That being said, we had a record number of interdictions last year, over 200 metric tons. We caught 585 smugglers. These are members of transnational criminal organizations, back to the United States, extradited for prosecution here because in their home countries the prosecution rate is often in single digits, and it gets back to the whole corruption, rule of law challenge that they have in their host nations.

So the real victory is when you get a prosecution, which completes the loop of who's moving the drugs, where is it leaving from, and it feeds this whole information well, if you have, which is why we're able to have pretty good situational awareness of the drug flow to begin with.

But it disturbs me that 580 events, for all the vigilance, all the work that we do, you know, there's still more work to be done.

DWG: Thank you.

I'd like to know, how can you fill that gap you mentioned in your State of the Coast Guard, that the Coast Guard [interview] asked writ large cannot defeat the threat of criminal networks alone. So what partnerships do you want to see in the region to boost --

Adm. Zukunft: First of all, across the interagency we're setting the example. We have more than doubled the number of ships, the number of resources that we have devoted to this part of the world.

As the other armed services are pulled elsewhere, this theater, if you will, maritime wise is predominantly a U.S. Coast Guard theater. You will not see many Navy ships here because they've been pulled elsewhere and for good reason.

So we're working with Colombia. I met with President Santos a month ago, what can Colombia do to increase its at-sea enforcement? A week ago, I met with the CNO of the Mexican Navy, Admiral Soberon. What can Mexico do?

So I look at the bookends of this in two of the most capable nations -- Colombia and Mexico, to the south and to the north -- how we partner with them.

We're going to provide patrol boats to Costa Rica. I met with President Solis, and they'll take delivery of those boats because they want to increase their at-sea enforcement as well.

So we've made this region, and working multilaterally with these coast guards, these navies, to increase their at-sea enforcement capability as well. The United States cannot do it alone. The good news is, we do have willing partners.

DWG: You mentioned the Navy retired all of its frigates which was one of the prime assets they gave to you. What is the Navy providing to you now? If you don't have any ships down there, giving you air cover? What is Navy doing to support you now?

Adm. Zukunft: We are getting air coverage from the Navy. And we're also seeing a couple of the PC 179-foot class patrol boats down there, and on there we'll put Coast Guard law enforcement detachments.

The only downside of the PC-179s is that they don't have any endurance, but I'm not going to look a gift horse in the mouth. You know, they have certainly contributed to this effort, and I would in no way scrutinize what the Navy's providing because John Richardson's a dear friend of mine, and yeah, they were in the news. They were in the news in a big way just a few days ago with Syria. So if you look at it, all the challenges and the resources requirements that he is trying to fill, I really feel that our authorities and our resources make for an ideal fit in what we would call SOUTHCOM's area of responsibility.

We'll see what happens in the future as the Navy looks to build out its fleet. But right now, their mission requirements exceed their resources as well.

DWG: You said some air cover. P-3, P-8s?

Adm. Zukunft: P-3s, and we may see some P-8s as well. Every now and then we see JSTARS come into the mix. That is a very high demand, low density platform, but that is truly a game-changer whenever JSTARS can be brought into this theater as well.

DWG: What's your best assets against the semi-submersibles?

Adm. Zukunft: Well, the best asset is human intelligence. And then the other best asset is our relationship with the Colombia Navy, Colombia National Police, to actually detect these before they even leave the mangroves of Colombia.

DWG: Sir, you just had a previous successful Arctic [inaudible] meeting in Boston, several weeks ago. Every one of your counterparts showed up. You signed some documents. It looks like everybody's happy with that.

Adm. Zukunft: Yes.

DWG: I was hoping you could speak about your engagement with the Russians. Your counterpart, Admiral [Nyednejev] was there. Does the current political climate [inaudible] that engagement or not? That sort of thing.

Adm. Zukunft: Let me go back in time, about 18 months ago. As we, the United States chaired the Arctic Council, and the Arctic Council will sign a series of agreements. We have one for search and rescue, we have one that deals with marine environmental protection. But there's no operating mechanism to the Arctic Council.

So I reached out to our counterparts in the Department of State and said we need an Arctic Coast Guard fleet to bring all of this together. Because the issues that the Arctic Council is addressing fit what I'd say right in the wheel house of the Coast Guards of the eight Arctic Council nations. And in order to make this work I need all seven other Arctic Council principals from their Coast Guards here so we can stand up an Arctic Coast Guard Forum. And by that I specifically meant my Russian counterpart. And the answer was, absolutely.

So we've been able to accelerate from relatively strangers to we've had three meetings now, and what we signed in Boston were combined operating guidelines. And we're going to do a major search and rescue exercise, not a tabletop, but a field level exercise out of Iceland in September. We will probably send ships and planes to look at the human activity that we see up in the Arctic right now. We have cruise ships going up there. A lot of the Arctic is not charted to modern day standards because it was covered with ice for many centuries. So what if you have a Titanic event up there? So we want to work on that.

We handed over the chairmanship of the Arctic Coast Guard Forum to Finland, and they will build upon this scenario as well.

The good news is, everyone shows up and everyone is working together. It is not unlike the North Pacific Coast Guard Forum which has now been up and running for 18, 19 years now, where there again, every year we do a combined operation. Not an exercise, but a bonafide operation that goes after illegal, unregulated, underreported fisheries up in the Northwest Pacific, an area that's a key concern to Russia as well.

So we do an operation with Russia there. We shared information. Russia hosts an information exchange system in the North Pacific, and we're looking at doing something

similar, Russia has offered to host a similar information exchange so we can pass real-time information among all eight Arctic Coast Guard nations.

So I would categorize, we've had three meetings, in that we have advanced this relationship, the operating concept. We're probably a good five years ahead of where we were when we first stood up the North Pacific Coast Guard Forum.

DWG: And one follow-up, if I may. Admiral [Nyednejev] told one of my colleagues in New York, while flying back to Russia from Boston, that later this year they and you plan joint operations in that Northwest Pacific, in the Bering Sea. What was he referring to?

Adm. Zukunft: He was referring to our North Pacific Coast Guard Forum where we track, it's high sea drift net fishing. This is a very dirty fishery. But it's put fisheries in a strategic context across the world today, the world population is about 7.2 billion. Three billion of that population subsists primarily on fish as their only source of protein.

Now you take that out to 2050 and now you've got a world population of probably somewhere near 9 billion. And these fish stocks, many of them, are non-sustainable. So as you start looking at where you're seeing challenges in sovereignty and the like, a lot of these maritime skirmishes are now over fisheries matters. So it's important that we do have Coast Guards working together on these very same issues because any one of these distant water fleets will try to pick out the one nation who is not enforcing some of these, what are really UN sanctions against high sea drift net fishing; illegal, unreported fisheries, and the like.

So it's an area where everyone can rally around this one common cause.

DWG: So when you [inaudible] about, you know, you operate on a fly-weight budget but you're punching in middle weight class. What's a middle weight budget overall? What's a middle weight acquisition budget? Especially when you go back to the deep water system. I think they were hoping, sort of the idea was \$1.5 billion a year, which I don't know if you've ever [inaudible]. But now it's maybe 12 [inaudible] few years, and build out to '25 [inaudible], still continuing FRC, and [inaudible]. I'm not sure what you might be responsible with a heavy icebreaker. I think [inaudible] Navy budget [inaudible].

So maybe just outline what a middle weight budget is. If you have that firm in your head.

Adm. Zukunft: I do.

DWG: Including the acquisition side.

Adm. Zukunft: If you're going to move from fly weight to middle weight, you're not going to do it overnight because you're going to put on a lot of fat, you're not going to grow lean tissue along the way.

So for me, what that means is I need a baseline 2.0 billion acquisition budget. We had, in 2016 we had a favorable bump-up, but we need a predictable, reliable, so a \$2 billion acquisition budget. And within that, we need a 5 percent annual growth to our operations and maintenance account.

Now five percent, you know, you need to take two or three percent of that off the top just adjusted for inflation. So what it really gives you is maybe at best three percent growth when you back out of adjusting for inflation. But do that at a five percent. It puts you on a moderate, but it puts you on a positive glide slope so you can execute. So you can build the force. I project we need 5,000 more active duty members in the Coast Guard.

Right now we are resourced because no one will ever get sick, no one will ever, ever have to move from their job, no one will ever have to go to training, no one will ever get pregnant. I mean the list goes on and on and on, but it's not a huge ask for what we need in our active duty component. We need to bring back our 1100 reservists. They were offset as we went through the decremental budget cycles, so we need to bring -- you know, that is the only force in garrison I have. If we have another Deepwater Horizon, a mass migration, a Cascadia subduction zone event, a natural disaster or a terrorist event. That is my go-to team, if you will, to activate. And right now, I barely have enough in my reserve component, 7,000. Smallest we've been since the Korean War. And let's face it, I mean the world is a lot more complex today than it was back in 1950 when you look at manmade and natural disasters. This is what I need to bring along.

So that's the glide slope I'm looking at to go from fly weight to middle weight.

DWG: Just on your resource issue in terms of like having surged assets down to the Eastern Pacific and the Caribbean. So where are your gaps now? If you're putting more emphasis down there, where do you need, where are you like short?

Adm. Zukunft: One area is in our remote EEZs and unfortunately, fisheries. The good news in that is that the Navy is helping us in that regard. Every quarter we have a DDG with a Coast Guard law enforcement team on it enforcing fisheries in the Central and Western Pacific where our sovereignty goes out many miles and we have a number of bilateral agreements with many of the Pacific Island nations, and PACOM, PACFLEET, they understand. These are very fragile economies. Their only natural resource are the fisheries that are in their EEZ and they're ripe for plunder because these nations don't have a Coast Guard, they don't have a Navy, and so we're able to leverage the Navy in meeting those requirements which then allows me to move, sling more ships into the Eastern Pacific.

DWG: You said you needed two [inaudible] acquisition budget. What's your current acquisition?

Adm. Zukunft: That's a good question.

DWG: How about '16?

Adm. Zukunft: So '16, we were right at about 2.0. A big part of that was we added on a ninth national security cutter. So that was a big slug of that.

In '17, there was a one-billion-dollar mark that didn't show up in our budget, and it showed up in the Navy shipbuilding budget, and that was to build the first heavy icebreaker.

We've already stood up an integrated program office. Now with the Acting Secretary of the Navy, but with Sean Stackley and his team, our acquisition staff. We've already released industry studies to five shipyards to accelerate the scoping, the design work, to hopefully get us to awarding a contract over the course of the next year, and then start building out the first of what will be three heavy icebreakers, with the first one to arrive by 2023.

Now how that icebreaker gets funded in the future, I think is still to be determined. We have a very mature acquisition staff now, which we didn't have during the days of deep water. And I could actually not be more proud of our acquisition staff. All our major acquisitions, the on-time, on-budget delivery of all of our major projects is quite exemplary. Less than two percent growth. And it's by holding our requirements steady. Fixed price contracting, incentivizing the shipyards to produce an efficient, free, on-time delivery of a new asset. And that's what we're seeing coming off these what I call hot production lines right now, because we have two shipyards on a very good cycle right now, delivering ships on time and on budget.

DWG: One of the last things that President Obama did before he left office was to enter into the [inaudible] policy. And I was very curious if the Coast Guard had any influence on that decision and if you're already seeing changes to demands on the Coast Guard or the way you conduct operations in that region as a result of that policy change.

Adm. Zukunft: Well clearly, I'm not in the business of making policy. I am in the business of providing best military advice. It's a unique policy and certainly within that best military advice were a desperate means that we were seeing Cuban migrants undergo to try to get [deep, dry] status here in the United States. I'm talking self-mutilation, self-inflicted gunshot wounds, very desperate measures. So they would be evacuated to a hospital in the United States and then be declared [deep, dry] and then paroled in the United States.

It was putting our people at risk. We would have interdictions where they would threaten to drown a baby if we were to stop them. So very desperate measures.

I think it was about January 18th, it was about two days before the inauguration, the Obama administration, the [deep dry] policy was repealed. On an average day we were seeing over, well over 100 migrants a day, in fact over 10,000 in 2016. Since that time we've seen fewer than 100.

DWG: Since then?

Adm. Zukunft: Since that time. The flow has stopped. The flow has stopped.

We're keeping an eye on it. Does this now become a much more sophisticated smuggling regime because before it was marginally seaworthy vessels? The good news is, no one drowned. You didn't see like you see in the Mediterranean. This is just as much as safety of life at sea issue as it is a border security issue. But is it turning into a more sophisticated smuggling route to bypass the Florida Straits off Key West, and then maybe get in a fast boat in the Bahamas and make that short sprint across. So we're keeping an eye on does this become a more sophisticated smuggling regime than we saw in the past. But so far, very quiet on that front. We'll continue to monitor it because if it remains quiet that means I can swing that many more ships from doing migrant interdiction to getting after the drug interdiction and the challenges that we saw earlier of those 580 missed events. Maybe I can close that window a little bit more if we don't have to do as much migrant interdiction on the high seas.

DWG: How many ships are you talking about?

Adm. Zukunft: Well we were having, some days we had as many as five or six ships out there. We don't just directly repatriate Cuban migrants. They will go through an asylum screening to make sure that they don't have a bonafide request for asylum, but typically, it would take four to five days, on average, to go through that screening process, working with our counterparts in Colombia, to then repatriate. So it wouldn't be uncommon to see a lot of our ships filled with Cuban migrants [waved] for them. We became floating hotels, if you will. Not five star hotels, but floating hotels, nonetheless. So that may free up some of that.

Now we can't pull back completely. We're still seeing other nationalities, you know, trying to gain illegal entry by sea. If you build a wall, a terrestrial wall, well then I think that will make the maritime domain even more appealing. If you can't make your way across our southwest border, then it defaults to a maritime border as well. We haven't seen that shift yet, but it's one we're keeping a close eye on.

DWG: Thanks. I'm not a relationship counselor, but it seems that the Coast Guard has had a sort of rocky relationship with the anti-terrorism mission. The creation of the Deployable Operations Group, I may not have the dates right, but in 2006, and then six years later basically disbanded and scattered to the winds.

Given your budget challenges, manpower challenges, reserve challenges, all of that, do you think the Coast Guard still has an anti-terrorism mission and can afford to both from a money and a manpower standpoint, can afford to keep these highly specialized and/or under-used units funded, active, filled within the service?

Adm. Zukunft: Just last week I had three teams providing force protection for presence of the two largest nations in the world -- China and the United States -- down at Mar a Lago. That's what these teams do. If I ask our other [inaudible] Coast Guard, they might be providing force protection, but they won't be ready to do search and rescue. And we're seeing more and more of these nationally significant security events

in the maritime domain. So that's what these anti-terrorism teams do. They provide a much higher level, degree of sophistication. They work the interagency. With local law enforcement, federal, in support of Secret Service. So they're very well lashed up there, and then we have two counter-terrorism teams, one in San Diego, one in Chesapeake, Virginia. We have a full-up team right now deployed to the Mediterranean in support of CENTCOM. It's an advanced interdiction team in case there is a movement of a weapon of mass destruction.

So this is a team that, if necessary, forces itself on board a ship, either from a helicopter or they hook and climb, that they have all of the weapon skills of the Special Forces, but what they do is they have a Title 14 law enforcement authority.

So maybe it's not Title 10. Maybe you're not declaring a force hostile because you don't know. It's an ambiguous threat. But you can leverage law enforcement authorities, Coast Guard, using a counter-terrorism team to be able to access that. So you assume away that there will never be a maritime movement of a weapon of mass destruction, and then you know, you find out that that ship is now in a metropolitan port like New York or Los Angeles.

We have a number of bilateral agreements that allow us to board ships, if we have any reasonable suspicion. Not probable cause, but reasonable suspicion, that there's an anomaly in its cargo manifest. And it may be a dirty bomb, say for example. We don't have to wait for it to enter port. We can leap frog either with Coast Guard ships, Navy ships, Navy helicopters, and we have that counter-terrorism capability as well.

This is a team that they just don't, it's not sand lot ball. These are the pros that have very unique weapon skills, the training, and not everyone makes this team. So it's taken us the better part of nearly eight years to stand up two teams, one on the East Coast, one on the West Coast, develop a career path within the special team as well. So to turn the lights out, and then decide, whoa, we have this threat. It's going to take another eight years to reconstitute that, and in doing so, the assumption would be we will never have a terrorist threat directed against the United States ever again. I am not willing to make that assumption.

DWG: So you're bullish.

Adm. Zukunft: These teams are, if anything, probably over-employed right now in terms of their OpTempo, both on the anti-terrorism front and on the counter-terrorism front as well.

DWG: Thank you, Admiral.

Earlier you mentioned that five percent growth [inaudible]. If you don't get that, will the acquisition budget take a hit, or will that come out of O&M or both? How do you envision that playing out?

Adm. Zukunft: The two really aren't that fungible, so they're pretty discreet. Acquisition funding is multi-year carry-over, so it gives you a little bit more agility in terms of how you can do that. So the biggest challenge in what we've seen is five years running, being funded in our annualized operating and maintenance account, below the BCA floor. So we defer maintenance. And a lot of that deferral has been on our shore infrastructure. So we see that there's a lag [inaudible].

Every now and then you get lucky. Lucky in the sense that you get a hurricane, so you have Hurricane Sandy damaged our Coast Guard Academy. To finally address shore infrastructure funding that we couldn't get on budget, but now I get it through the disaster relief fund. That is no way to run a railroad. The hope that you have a natural disaster and then relief funding, you know, to bail you out after the fact.

So we will continue to work with, and I've been very pleased with the support that we've been getting from our authorizers, but especially our appropriators who fully now appreciate the [inaudible] proposition of why it's necessary to fund our ashore infrastructure. I don't have the luxury of just shutting down stations. That becomes very controversial if I can say no longer afford to sustain this piece. In fact many of them are historic landmarks so I don't even have that luxury either. But it is imperative that we get above there because, as I said earlier, it is not sustainable for us to continue to operate below the BCA floor in actually negative growth in real dollars adjusted for inflation to be able to meet all the requirements that we must fund.

DWG: And just a quick follow-up, in the FY18 skinny budget it sort of indicated that Coast Guard funding would remain constant. Was that relative to FY18 [inaudible] FY16? Or was that the '17 budget request?

And also, [if you have] a pre-decision memo, the idea was floated that the Coast Guard budget be cut by, I believe it was \$1.3 billion. It sounds like you avoided that at least for the near term, but are you concerned that that idea was even put out there? I mean how much is that worth?

Adm. Zukunft: Well, it is. To think that with all the front-line operations that we're doing, that you can just make a cut of that magnitude and not have an impact, and it impacts in a number of areas. Obviously it impacts front line operations. It impacts our industrial complex.

We would tell a number of shipyard workers in Pascagoula, it's time to pack up and go home. And then what message does that send to our military industrial complex if they're going to be doing work with the Coast Guard? And if your employment is based on a platform being built for the Coast Guard that may not be funded next year. So maybe you bought a house. Maybe you bought a truck. And you've got payments to make. It's based on, I have got steady employment. Then you find out that all of a sudden, you're no longer employed.

I'm also sensitive to the impact it has to our shipyard workers. These are very skilled technicians. I've spent time, I've got to know them, and this is another element that you

just can't hire these people off the street. A TIG welder. None of these ships have slab-sided hulls. It's bent steel. And then the command and control system is very sophisticated, state of the art. So it impacts them and it impacts their families as well. So it's not just the Coast Guard. There's a second order effect that we need to be mindful of here as well.

DWG: And the FY18 versus, you know, the funding remaining constant. Is it your understanding that's relative to the enacted FY16 budget or your FY17 budget request?

Adm. Zukunft: This is our '18 budget request. This is an unusual year because we're still working the '17 budget and we're still trying to resolve an '18 budget, and then we're addressing the '19 budget. We're going to do all of that over the next two to three months.

My greatest concern right now is a CR. As you all know, the CR expires on the 28th of April. Maybe we see a short extension of that. But if we don't have an appropriation in 2017, I will have to shut down operations. I have to fund a military pay raise. I don't have the luxury of saying I'm not going to pay you. But there's an \$85 million hole that that creates. And when you're trying to sweep up \$85 million with five months remaining in a fiscal year, your only variable expense is fuel. Then you have to look at what burns the most fuel? Ships and airplanes. So the only way to recoup that savings is you stop flying and you stop sailing, which means you immediately curtail operations. So that would be an immediate impact. And obviously, that would impact readiness because if planes aren't flying and ships aren't sailing, then Lord Nelson had a saying -- "Harbors rot ships and men." I won't say they rot, but they don't stay on top of the game. You know, they've been sidelined. And this is not the time to sideline any military service including the Coast Guard, but that's what a CR would do.

DWG: I'll keep it brief because of time. Admiral [inaudible] and Admiral [inaudible] talk a lot about how they've switched to a [inaudible] about one individual [inaudible]. More about the [inaudible] network and how [inaudible] the network [inaudible] to [inaudible] smuggling to small illegal fishing [inaudible]. How has that impacted [inaudible] with them? And do you have any interesting anecdotes [inaudible]?

Adm. Zukunft: I fully agree with Kurt Tidd. When you look at a cartel, you know, they are not modeled [inaudible] in terms of their business plan. They're also in the business of money laundering, extortion, undermining rule of law, corruption, violent crime, murder, which then, you know, affects confidence in the IMF and others in investing in these economies. So they are networked. They're not just in drugs alone.

I would say right now, today, illicit drugs is probably a primary commodity but not the only commodity. So I fully agree that we need to look multi-spectral at these threats and not just within the illicit drug trade. But our ability to target these networks, right now it is enhanced through our intelligence collection efforts. The fact that we have a safe house, a program where we bring smugglers into a program called Panama Express. It allows us to get after what I call the pocket litter of a smuggling event. Something as fundamental as where were you going to deliver it? Where did you take it from? This is

all run by the Department of Justice. And so it gives a smuggler the opportunity. Do you want to cooperate, or do you want to just plead out and serve 15 years in a U.S. prison, which many of them do not want to do. So it gives us great leverage. But not just to look at it from a drug threat, but from a networked threat as well.

But right now where we see the greatest exposure of these networks is in their movement of drugs because there's so much of that activity taking place right now.

The other thing you have to look at is who else is in the neighborhood? We know Hezbollah is in Admiral Tidd's neighborhood. So does Hezbollah benefit from the proceeds of illicit drug trafficking? Do other terrorist networks benefit from this as well? So we need to look at that next effect that's out there as well.

We know that there are al-Qaida aspirants in Trinidad and Tobago. Are they somehow benefited by illicit drugs as well?

So we always look for that conversion between what might be cartel and what might actually manifest itself to be a terrorist threat or enabling a terrorist network through these illicit proceeds.

DWG: You mentioned the [inaudible] Trinidad and Tobago. Have you seen any benefit to them? Any [inaudible]?

Adm. Zukunft: We have not, but my message is we're keeping an eye on you guys.

DWG: Okay.

DWG: You mentioned earlier how you [inaudible]. What impact does the budget have on this whole [inaudible], and what [inaudible]?

Adm. Zukunft: So the '17 budget really puts us in a good place as soon as we get out from a Continuing Resolution. It would immediately free up \$150 million which keeps industry in the game. We're also working with Navy shipbuilding to look at every potential offset to make sure that this heavy icebreaker is affordable as well. We've not built one in the United States in 40 years. This is very unique from building any ship that comes off the production line or the shipyards today, because it has to have an ice belt, reinforced steel, to be able to operate in these harsh operating environments.

So the '17 budget really puts us in a good place to be able to do that. We need to continue that in the '18 budget as well.

And so we would have a one, two-million-dollar mark in years past, and we would host Industry Days for shipyards to day are you interested in building a heavy icebreaker. And you might get three or four. And they were just scoping out, is the Coast Guard serious about this or not? We held Industry Days over a year ago and we had over 300 people show up and they said okay, game on. The Coast Guard is now serious about this

and now there's serious money, and so now they're making the investment of their time, their efforts, their technologies to accelerate this time line with us as well.

So right now, I am optimistic with the funding, with the mark that's been provided to move out, and with the response that we've seen from industry.

DWG: [Inaudible]. I'm wondering how [inaudible] deliver. And looking forward, is there any concern that maybe the '17 budget [inaudible] '18, '19, '20, into the future might not [inaudible]?

Adm. Zukunft: It's really up to me to carry that water, so I do spend a fair amount of time keeping our authorizers, our appropriators informed of why it's critical to have steady funding to build out this program of record, and they've been very supportive in that regard.

The first ship needs to be delivered by 2023. We are keeping our only heavy icebreaker on life support, and yet we probably ran it as hard as it's been run in the last 15 years. Over 70 miles of multi-year ice. I'm talking ice, you know, you're breaking up chunks of ice the size of a metro bus. It's the only platform in our nation's inventory that can do this kind of work. So the ship is headed off to, you know, they come off deployment and then they go over to a shipyard. That crew is going to be away from home over 300 days this year, between the maintenance to do the work, and then the time they're deployed. And what I look at is you know, the ensign that's on there today is going to be my future ice captain of tomorrow, but these crews get so burned out from being either deployed or in shipyards, they walk away. Then how does that predispose me as we build out this fleet, who's going to man it?

The good news is, I spend a lot of time talking to this crew. I call them up when they're coming out. So I've kind of taken them under my wing. Their esprit de corps is at an all-time high, but I need to be able to grow not just this fleet, but I need to make sure that I'm growing the mariners to man this fleet as well.

DWG: Sydney Freedberg, Breaking News.

Go back to one of the very first things you said. On any given day we have 20 ships out there waiting [inaudible] COCOMs. You touched on bits and pieces of that, anti-terrorism, but can you give us sort of an [inaudible] of that? A, what you're doing beyond sort of the classical, [inaudible] kind of mission in this hemisphere. And B, what are the missed opportunities given your resources? Saying we want to [inaudible] for this, and you say no, I can't. And C, are there missed opportunities rolled into [inaudible] Chinese [inaudible] foreign policy we cannot do?

Adm. Zukunft: Probably our biggest missed opportunity right now is in enforcing fisheries, you know, out to 200 miles and beyond. That would be one area. Some of the requests that have come in over the last year is can we send a flotilla of ships over to the Mediterranean and help the [EG]?

I met with the [Commandant] of the Italian Coast Guard, Admiral Melone, last week. And they've apprehended in the hundreds of thousands of migrants. Many of them leaving the north shore of Libya, and quite honestly, they don't have a repatriation scheme. They don't have a wet foot/dry foot policy. They have a huge problem on their hands. But sort of the emotional tipping point was when you saw that three-year-old Syrian boy, his body wash ashore in Turkey. So, the last administration there was, can we send more Coast Guard ships? U.S. Coast Guard. We said well, we'll show up with a bunch of migrants on our flight deck because we've got a migration over here as well.

Go to the East South China Sea. I do have a good working relationship with my Chinese counterpart. They took four out of five maritime entities to I would say kluge that to form a China Coast Guard. It's a conglomeration. And they're still going through some growing pains, but at the same time they're undergoing a major recapitalization effort. They're building more ships, large ships, and if we have a Navy, U.S. Navy contingent over there, in all likelihood their first encounter with China is going to be with China Coast Guard.

I offered up it might make a lot of sense if we have U.S. Coast Guard/China Coast Guard on the front lines over there. Which would mean, it would require steady, persistent presence of U.S. Coast Guard in the East South China Sea. That's an offer, you know, and it's still open to speculation so we have not seen a take on that yet. But if we were to do that, obviously I would have to pull from somewhere else. I'd have to pull from the Eastern Pacific.

So across the whole gambit, I look at where can I take risk? I don't have enough resources. But where must I over-resource? I can't just, I use the peanut butter analogy. In years past we would spread the peanut butter smooth and consistently across a piece of bread. Well, I'm stacking peanut butter right now in the Eastern Pacific. Because of the regional threat we see with illicit drug flow, murder rates, and what's happening in Central America. And the presidents of those nations have spoken to me and say we need more U.S. Coast Guard. And if you have any old ships, we would like those old ships so we can build a Coast Guard as well.

I met with the Commandant of the Italian Coast Guard. He said I'm honored that I'm here to speak with me. When I met with Admiral Soberon who's taking over port authority requirements much like our U.S. Coast Guard has, it almost sets the United States Coast Guard as the gold standard. Now I'm not saying this to beat my own drum, but many people look at the United States Coast Guard as the maritime model for all Coast Guards in the world. We happen to be a military service. At the same time, we have 60 bilateral agreements that allow us to enforce law on the high seas, but in the territorial seas of other nations. Up to and including deadly force. And those folks that we encounter, we can either turn them over to the host nation, but in many cases they say no, we would rather you prosecute them back here in the United States. So we are truly a global Coast Guard as we look at transnational threats.

The last thing, if you're in one of these organizations, the last thing you want to see is a ship that says U.S. Coast Guard on the side of its hull because in years past they would

run into the territorial sea of another nation and say you can't catch me now. We keep coming. We've leveled the playing field because of these unique authorities that we have. So truly global, which is why, you know, a month and a half ago you had U.S. Coast Guard off the coast of all seven continents in the world, the seventh being Antarctica.

But at the end of the day, we still have to stack peanut butter where we see the most persistent threat that is a threat to our national security.

Did I answer your question Sydney?

DWG: Yes, sir.

Adm. Zukunft: A long answer but hopefully you got what you needed out of that.

DWG: Tara [inaudible], Stars and Stripes.

When the President is in Mar a Lago is the Coast Guard always patrolling off-shore? And with that added responsibility, are you able to get a supplemental to cover that extra expense?

Adm. Zukunft: We are covering both coasts. There's an intercostal waterway to the west, and then the Atlantic Ocean to the east. So we have teams protecting the approaches to Mar a Lago on both coasts. We're also protecting in the air as well. We have a rotary wing air intercept helicopter detachment that goes down there as well, to look at any aircraft. Low, slow flyers. And we actually work this in conjunction with NORAD for any potential aviation threat to our Commander in Chief.

Is there a supplemental to support this? The answer is no.

DWG: Can you give me an estimate of about how much it costs? He's been down there a lot. I'm assuming it's put on added pressure.

Adm. Zukunft: We'll have a report that we submit to Congress on a regular basis, so we're still doing the tallying on that. So I'm going to defer to the report that we submit to Congress. We can probably give you the latest numbers but I can't give you what that current cost is right now. But we do have a congressional report that we submit every year in terms of what our force protection outlays were for protecting our Commander in Chief.

DWG: On a completely unrelated topic, you were talking about icebreakers earlier, climate change. Have you had to do any modifications to your current fleet for added wear and tear due to [inaudible] changes? Are you just seeing more wear and tear on your ships?

Adm. Zukunft: We're not. The good news is the fleet that we're building are built to operate in a much more harsh environment when it comes to the sea states, so we don't have to find a safe haven somewhere and not go out.

What we typically will do is take evasion techniques if there is a severe storm. If there's a vessel in distress, you may not have that luxury.

My last sea command was, we were serving up in the Bering Sea, and we had a hurricane, otherwise called a winter storm, and we had to come out of, behind St. Paul Island which is in the Pribilofs, because there was a ship breaking up at the far end, the western end of the Aleutian Chain, 1200 miles away. And as we were heading out, on the bridge of the ship you're standing 55 feet above the water, and we were watching the waves crash on us. These were 75 foot swells. That's the environment that we were operating in.

Obviously, you slow down, you proceed at a safe speed. But that was a white knuckle event.

Now the storm blew through, it had a happy ending, but it is a pretty harsh operating environment.

DWG: Seventy-five feet is still a swell.

Adm. Zukunft: Well, it's a long period, yeah. That's, I remember a crew member asking me, Captain, are we all going to die? [Laughter]. I kid you not.

DWG: I want to ask you a question about [inaudible]. [Inaudible] in response to questions that if there was a [inaudible] wall that goes up the migrants [inaudible] environment. Now the Border Patrol and the Department of Homeland Security already are saying that we have seen a drop in migrant flows across the southern border because of tougher enforcement. Are you already seeing a move for some of the smugglers to bring people to other parts of the coast using the maritime, using ships and boats and other transport [inaudible]?

Adm. Zukunft: We keep a very close eye on this and we have metrics, and we have not seen an anomaly. I'll say yet. But we have not seen any anomalies.

DWG: Has there been a past, in the history, where there's been a tightening of, for example, parts of the southern border wall went up in [inaudible]. Was there a spike in migrant boats, to ships and boats?

Adm. Zukunft: The biggest spike we saw was when the remittances going back to Cuba went up four-fold. And then there was a more liberal travel policy leaving Cuba. So now you had Cuban migrants with the economic means to leave Cuba and do one of two things. Hire a chug, get on a boat, and try to land safely, feet dry, on U.S. soil. Or, you head over to the isthmus and then you enter a port of entry in the United States. But as soon as you cross that port of entry, you are feet dry and you never had to get out

in the water to begin with. But I saw the remittances in a more liberal travel policy in Cuba, all working together.

We had a huge Diaspora of Haitian nationals doing construction work for the Summer Olympics in Brazil. And when their work ended and they had the economic means, they said well, we're not going back to Haiti. We are going to find our way, work our way across the northern tier of South America, across the isthmus. Huge challenges. Across the Darien Province that separates Panama and Colombia, through the jungles, destined for the United States. So that became another anomaly, I guess, if you will. But remittances, giving people the means. The drivers are always there. In many cases, the driver is economic, and it's not for what I would consider refugee, fear for their life of staying in their resident nation.

DWG: But given what you know, you know that once a physical land border is put up, then the smugglers do have the capacity and the means to bring people by sea to [inaudible].

Adm. Zukunft: That will clearly become the path of least resistance. We've seen that repeatedly in the counter-drug domain. We have increased the number of ships, and I'll just give you an example, off the Honduran rise, which is on the Pacific side of Honduras, back in 2014. The murder rate was 98 per 100,000 in Honduras in 2014. Today it's less than 60.

I met with President Hernandez two weeks ago, and I said well why did the murder rate drop? He goes well, when you put up the sea shield, this taking of ships, we either interdicted the drugs or eventually they went somewhere else. And where they went was Costa Rica. So we call it the balloon effect. You squeeze the balloon and then the pressure is released at the path of least resistance. So we see that maritime wise. I fully expect you would see the same if we make an impermeable barrier when, then you look for where it's permeable, and that's maritime.

DWG: Admiral, we are out of time, but if you could take one more from Dan?

DWG: Admiral, thank you.

I wanted to ask a follow-up to your conference in Boston. You've laid out some plans with the Russians. Obviously relations with Russia in general over Syria but also [inaudible] increasingly complicated. What do you consider practical and realistic at this point when it relates to that plan? And what's in jeopardy if anything?

Adm. Zukunft: First, it's not just Russia. This is clearly multilateral. And our other European partners, and we've got Canada, Denmark, Sweden, Norway, Finland and the like, there was a leadership vacuum to begin with. First of all, just creating this entity. Recognizing, you know, the most imminent threats up in the Arctic as sea ice retreats, as that vacuum is being filled with more and more human activity. Cruise shipping. We look within our sovereign interests in the Arctic. When you look at the oil and gas reserves in the Arctic writ large, 50 percent of that is actually in our EEZ or in our

extended continental shelf. We look at what Russia is doing, drilling in the Arctic. And then what safeguards have they put into place in the event you do have an oil spill? What other technologies are they looking at?

Norway is looking at growing up there as well.

So this is an opportunity to learn from one another, and don't do this in isolation. I think more importantly, what are the priorities of each nation as it pertains to the Arctic? Recognizing that I speak for the Coast Guard, but I also speak as a member of a military service. So I look across every aspect of what is going on up in the Arctic. Is this going to be a domain that is going to be hotly contested in the future? OR is this a domain where we can collaborate, work together, and look at what are the most likely scenarios?

What if sea temperatures rise and fish stocks move up into the Arctic domain? What's the enforcement mechanism for that? Because right now we have a moratorium. We don't have any ships to enforce this moratorium, but it is there. If the fish stocks move up there and go back to that three billion subsist on fish today, and in the future, the [inaudible] fishing fleets will go to where the fish are at. Plain and simple. So how do we approach that up there as well?

So this is a good coordinating mechanism for us to have a transparent dialogue, and it truly is transparent in the full sense. No hidden agenda in terms of what are our priorities as it pertains to the Arctic.

When you look at our national Arctic strategy, and the Coast Guard's Arctic strategy, this really falls on the shoulders of the United States Coast Guard when you look at all of the activity that takes place off the Arctic Ocean. So I see this as a great collaborating mechanism.

And the key part is, we're going to use search and rescue as a building block to nurture this relationship. Rather than through a freedom of navigation exercise.

If you want to create tension, then go after an issue that is going to cause sovereign hackles to rise. But let's use some building blocks and continue to do what I would say confidence building measures, to continue to grow this relationship. But we are off to a very good start.

Again, I would put us five years ahead of where we were with our North Pacific Coast Guard Forum which is the United States, Canada, Russia, China, Japan, South Korea.

In building a North Pacific Coast Guard Forum, you know, pick three of these countries. Let's pick Japan, South Korea and China. They're not always going to work together multilaterally. You bring the United States into this equation and they do.

We're flying Coast Guard airplanes out of Japan. Look back in history. We had a plane flying over Japan carrying a nuclear weapon. On our ships that are patrolling, we have a

Chinese ship [rider]. We're exchanging information with the Russian Border Service and they are sending ships out. And Canada's sending ships over as well.

So this is focused on a fisheries threat as a global threat, but you know, you've got that really cohesive element in the North Pacific, and we're looking to replicate that in the Arctic as well.

DWG: Admiral, it's been very informative. We appreciate it. Thanks for coming in.

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