

NATIONAL PRESS CLUB NEWSMAKER LUNCHEON WITH CHARLES HOLLIDAY,
CEO OF DUPONT
AND CHAIRMAN OF THE COUNCIL ON COMPETITIVENESS

TOPIC: THE CRITICAL NEED FOR ECONOMIC RESILIENCY

MODERATOR: JERRY ZREMSKI, PRESIDENT OF THE NATIONAL PRESS CLUB

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MR. ZREMSKI: Good afternoon, and welcome to the National Press
Club. My name is Jerry Zremski, and I'm president of the National
Press Club and Washington bureau chief for the Buffalo News.

I would like to welcome our club members and their guests who are
here today, as well as the audience that's watching on C-SPAN.

We're looking forward to today's speech, and afterwards I will
ask as many questions from the audience as time permits.

Please hold your applause during the speech, so that we have as
much time for questions as possible. For our broadcast audience, I'd

like to note that if you hear applause, it may be from the guests and
members of the general public who attend our luncheons, and not
necessarily from the working press. (Laughter.)

(Chuckles.) I'd now like to introduce our head table guests and
ask them to stand briefly when their names are called.

From your right, Bill McCloskey, who's retired from the
Associated Press and BellSouth, and a board member of the D.C. chapter

of the Society of Professional Journalists; Jay Hamilton, of Hamilton Productions; Marilyn Geewax of Cox Newspapers; James Quigley, CEO of Deloitte Touche Tohmatsu and a member of the Council of (sic) Competitiveness and a guest of the speaker; Keith Hill with BNA, the vice chair of the National Press Club Board of Governors; Dr. Jared Cohon, president of Carnegie Mellon University and a guest of the speaker.

Skipping over the podium, John Hughes of Bloomberg News, former chair of the National Press Club Speakers Committee.

Skipping over our speaker, Debra Silimeo, senior vice president at Hager Sharp and the Speakers Committee member who organized today's luncheon; Deborah Wince-Smith, president of the Council on Competitiveness; Steve O'Hearn, chair of the National Press Club New Media Committee; Tim Almond (sp) of Reuters; and Neil Roland of Bloomberg News. (Applause.)

Terrorism, computer viruses, global warming, cookies at the National Press Club that say "risk" -- (laughter) -- these are just some of the risks that companies face today and will face for years to come. Not surprisingly, then, today's speaker DuPont Chairman and CEO Chad Holliday says, "Risk is the new four-letter word for American business," and he says, "Resilience is the new key to corporate success and economic security." He defines resilience as the ability to recover from and better prepare for a range of emerging threats, threats that extend beyond terrorist attacks and Category 5 hurricanes. The pages of newspapers are filled with examples of natural and man-made disasters that threaten people and businesses and possibly the U.S. economy.

Holliday has one of the country's corporate giants, a company with a product line that spans the globe. DuPont may not be a household name, but its products certainly are -- products such as Teflon, STAINMASTER and Corian. And resilience is nothing new to Chad Holliday. When he was in college, he fully intended to graduate and go into his father's industrial supply business, but when he was a junior, his dad told him he sold the business. So Holliday applied for a summer job at DuPont and turned it into a 37-year career.

From an engineering post in Tennessee to head of DuPont's Asian-Pacific operations, his rise was fast and relatively quiet. In 1998, when DuPont announced that Holliday would take over the post of president and was slated to become CEO, the Wall Street Journal wrote that analysts were anxiously asking, "Who's Chad?" Nobody asks that anymore. Holliday has served on or headed numerous business organizations, including the business roundtable, Catalyst, and the World Business Council for Sustainable Development. He's testified before Congress and co-authored a book, "Walking the Talk," about sustainable development and corporate responsibility.

Now he serves as chairman of the Council on Competitiveness, a nonprofit and nonpartisan organization that brings together corporate CEOs, labor leaders and university presidents to promote America's place in the globalized business world and develop policy agendas that promote a rising standard of living. Today, council members are in Washington for Resilience Day, a chance to meet with lawmakers to

discuss the link between corporate resilience and homeland security policies, and Chad Holliday joins us today to tell us all about it.

Ladies and gentlemen, please join me in welcoming Chad Holliday to the National Press Club. (Applause.)

MR. HOLLIDAY: Thank you. That was very nice.

Before we start, could every panel member from this morning or this afternoon or council staff who's here, please stand up. I want to thank you for all your work to make today possible. (Applause.)

It's a great honor to be with you today. A word about the council and then a word about our topic, and my colleagues here on the podium and at their seats would love to take your questions, I hope.

The council is 20 years old.

We were formed with one purpose in mind: to make the United States of America competitive on the world scene. And if I look at where we've gone in the last 20 years, (it's a rousing ?) success.

But we were focused at that time on one country -- Japan -- and one set of threats to our competitiveness. Our topic today shows that's changed greatly.

I only have one request for the members of the press that are here today -- that I understand won't applaud, so I'm prepared for that -- (laughter) -- is read our report. And if you don't like to read it, then next week get wherever you can access it, and before you do a piece of work on this subject, read the report then.

And I mean that very seriously because I think after you do that, you'll ask different questions. You'll probe different things. You'll get out of that standard checklist that the council was in before we started this work, and I believe you'll have better reporting and you'll serve your readers better as we go forward.

After September 11th, after we concluded the world was a more dangerous place, we started a fundamental study. We said if the U.S. was going to have more challenges than some of our other industrial competing partners, how can we find a way to be secure and still be competitive?

So we started out with the idea -- Jerry and I co-chaired this work -- how do you build a better wall? How do you get people through a security line quicker? We didn't find a magical answer, and we certainly didn't find a magical answer that others could not repeat. The new work Jim and Deloitte's done looked at, you know, fundamentally, what is risk, and got a better understanding of risk overall.

And what we saw very quickly from that work is that checking the boxes will not work. Just imagine if you had a wall protecting this facility and every guy got their individual piece right, but the total wall fell in. And that's the mistake you make, and that was, quite frankly, how we started out on the subject, is: How do you do it

piece by piece?

We looked at the industries, including financial services, petroleum, chemicals, electrical power and pharmaceuticals, in great depth. And we studied suppliers to those industries; we studied

individual executives, professionals; we looked at it from an environmental and all types of points we could; and we did not walk away with a great "A-ha!" about how to build that stronger wall. What we did walk away was what today talks about, his resilience.

And we found that resilience is baked into the DNA of a company, a university or a governmental organization. And when you bake that in with fundamentally solid, powerful processes, training of your people and systems that can respond, you are indeed putting together what you need for whatever kind of security threat we have. And that's why it is about resilience.

I can say from my experience inside my own company, DuPont, we've trained every year at least three times on some kind of security issue. Not one of those has ever happened. What we find, though, is we build those fundamental skills and we put in processes that do happen and we do apply regularly.

So our message today is quite simple. What you should be looking for in an organization are those fundamental processes that serve it every day to help it be more competitive. And as they work, they will indeed deal with security issues.

We think, as lawmakers take the actions they need to take, it is important they keep that in mind. So it's very difficult to write a law that says have good quality, have reliable systems, but somehow that's what should be encouraged.

Let me give you just a bit of data. Ninety-three percent of companies that lost their data center for 10 days or more were bankrupt within a year. Fundamental strength. It doesn't matter whether you lost your data center from a hurricane, a terrorist attack, or operating error; there's still the same fundamentals that you must put in place.

Let me share just a few examples from DuPont around this fundamental finding that we have.

The first step in a resilient organization is understand that they're involved in turbulent change. It's the frog in the boiling water story. You must have systems in place to be sure that you know that there's an issue.

Inside DuPont we have certain designated people that aren't necessarily in the line of fire that look every day at what might be potentially an issue and flag it because we find the line operators always think they can manage whatever's coming up. And so you've got to have systems to bring that out.

Inside our company we have three reports every day on external events from different perspectives that could impact our company, and

a group of people sit down every morning at 8:15 East Coast time and say, "Which one of those do we have to pay attention to and do something about it?" We can't respond to every one, but having those kind of resilient systems inside your organization -- again, whether it's a university, a state agency -- are very critical.

The other thing we found from our work is that what you do in the first 48 hours is critical from a communications standpoint in making sure everybody is onboard. Our experience in the process industry is the first six hours is the most critical of the 48.

The second piece that we found and the most -- most companies that win -- and Wal-Mart's one of our examples here -- are when there is a hazard, look for the opportunity, because everything has its flip side.

And if you do have those resilient systems, there can be opportunities for every company, every university, every government agency that's involved.

As we have seen companies evolve, I don't want to suggest for a minute that they're doing exactly the same things today as they were 10 years ago, they're just doing them better. They have, indeed, changed. They have recognized the nature of risks are different.

We see a number of companies that now have plans for avian flu. They have processes in place that could deal with that.

In our own company -- in DuPont, every time I visit a site -- and we have 200 major sites in the world -- the first thing we do is tour the fence line. And I will assure you before this decade I rarely toured the fence line at a site. But sending that message and making sure people know that it's very important -- and the examples you'll find in our report are company after company that has made those kind of steps.

Let me summarize and then turn to your questions. Our country can be competitive even in light of potentially more threats for us than others, be them weather threats or terrorist threats. We believe there is a mechanism to do that. Our report describes that. And although it's different details by industry, every industry we studied, it was the same thing: It's fundamentally strong, resilient systems and an operating mechanism that knows how to work effectively when you're in a time of terror. And it's, third, sticking with those all the time, and don't become complacent when you go for years without incident, and learning.

Thank you very much. (Applause.)

MR. ZREMSKI: Thank you very much. We have a lot of questions.

First of all, the old way of protecting ourselves has sometimes been referred to as gates, guards and guns. Do you have a similar way to describe the new approach that you're advocating?

MR. HOLLIDAY: I'm going to start that, then I'm going to ask my colleague, Jim Quigley from Deloitte, to add to it because he led this

work to --

(To Mr. Quigley.) If this is okay --

MR. ZREMSKI: Yeah, sure. But people have to come to the podium.

MR. HOLLIDAY: Okay, good.

Yes. Yeah, that was the way we described it. You could have called that checking the box, and Jim's work has found it quite differently.

Jim?

JIM QUIGLEY (CEO, Deloitte Touche Tohmatsu): What we've done with our research is just tried to look at the universe of risk much more broadly than just those that could be a physical interruption of a supply chain or an operation. And the risk-intelligent organization then can see uncertainty. They look at uncertainty and then manage that uncertainty, and can find competitive advantage.

As Chad said, each change -- each uncertainty has two dimensions. One is a risk or a threat, and another is an opportunity. And we believe risk-intelligent organizations can look at that total universe of risk and then be able to see opportunity, identify strategic options, and actually find competitive advantage through this process.

The other important finding was many companies do risk management in a siloed kind of way. There are many people inside the organization looking at a(n) individual dimension of risk.

And we believe the risk-intelligent organization actually comes together and looks at risk much more holistically and looks at the interdependencies that are available there. And so I think it is much more than just simply the physical risk that is the source of competitive advantage today.

MR. ZREMSKI: How do you create a resilient enterprise from the corporate suite?

MR. HOLLIDAY: Walk the talk. It's fundamentally what you spend time reviewing. It's the metrics you have in the organization. It's what you reinforce. It's how you spend your time. I spend a -- or send a letter to our employees about every two weeks, and I will start every one of those letters with some core value around security or safety. And so you just don't talk about it when the issue is there; you have it all the time, and you are indeed resilient in what you're doing. And you don't tolerate any leaders in the organization that don't value that.

MR. ZREMSKI: Many corporations rely on subcontractors or vendors to carry out key functions; for example, transporting hazard materials, security guards, et cetera. What does the council advise to ensure that subcontractors are taking appropriate measures?

MR. HOLLIDAY: What we've seen from our work is we need to look at our subcontractors are extensions of our company. And as we have

improved perimeter security at a site, that means we are checking vehicles before they come in. We are looking for things we were not looking at before. Plus understanding from our subcontractors how do they screen their employees and what do they go through. It's all part -- depending on the industry, it varies on how intense, but those are things that just weren't done seven years ago.

Q You're here in Washington to talk with policymakers. Are you concerned that our current environment -- or I'm sorry, economic and homeland security policies or policies that are being proposed are either inadequate or just plain wrong-headed? (Laughter.)

MR. HOLLIDAY: I wouldn't say Washington is inadequate or wrong-headed. No, I think -- and Tom Ridge, the first secretary of Homeland Security, is very active in the council and one of our key advisers as we've done this work over several years.

I think they've done an extremely good job. I think they've taken a number of steps. A number of steps they have to take are absolutely better for our security and some are to assure people that they've taken steps. Now I would not underestimate the need to take certain steps to psychologically make people feel better about what's going on. I think they've made great progress.

But I think as we look at the multitude of threats now, not just terrorist threats, but to weather threats that might be more prevalent because of climate change, we do have to think about it in a much more holistic way.

MR. ZREMSKI: What is the number one biggest risk today for most businesses? Would it be weather, oil price volatility, terrorism?

MR. HOLLIDAY: When you read our report, you'll get the answer to that question. (Laughter.)

MR. ZREMSKI: (Off mike.)

MR. HOLLIDAY: (Laughs.) But it does vary by industry, but we asked mayors the same question. And it was bio of chemical hazards attacks were number one on mayors. And if I was theorizing, I might have come to a different conclusion, but that's what our study shows. It said in the insurance industry, obviously, weather, but if you look in process industry and traditional industry, reliability of computer systems is very high on the list.

MR. ZREMSKI: Some crisis management consultants say, quote, unquote, "smoldering crises are the most dangerous." How does the council address those issues in your report?

MR. HOLLIDAY: Well, I agree with that very much, and that's what I'm referring to in my comment, that you have to be sure that you have a way for people to recognize the issue early, and in our DuPont company, we have people that are assigned to that job. And I think it's also very important that people know that when they report something through whatever system a company has, they know how it's going to be handled because an organization sometimes can be very worried about getting too much help too fast. And so I think to know that --

the information should come out and be handled appropriately and not an overreaction is very important.

MR. ZREMSKI: What about the development of, quote, unquote, "risk centers" around the country that would act as alternate locations or archives sites for businesses in times of crisis?

MR. HOLLIDAY: Would any of my colleagues like to take that question, risk centers -- Jerry, do you recall any, any studies we've done there?

JARED COHON (executive committee, Council on Competitiveness, Carnegie Mellon University): Yes. I'm Jared Cohon, and I'm co-chair of this effort with Chad at the council.

Well, it's become commonplace, especially in the financial services sector, to have another site to provide for -- to allow business to continue. We're seeing increasing use of that in other sectors.

One clear message from this morning's panel was it's great to have them, but make sure you test them, because if they're not up and ready to go when you need them, they're not doing you any good at all.

MR. ZREMSKI: Can you give us a real-life example of a company that does manage risk well and what it does, what lessons it can give to other companies?

MR. HOLLIDAY: An the example from the panel this morning that Jerry led was about Wal-Mart. And I think as you go through the hurricanes we had this year, if their fundamental quality of their supply chain, their supply systems, how they could respond, how they care for their employees, and how they did the fundamental training of their employees, so when you could not describe Katrina in some kind of a manual, their people knew what it took to make the on-the-spot decisions to come through it very well.

MR. ZREMSKI: Conversely, any examples of companies that have not managed risk well? (Laughter.)

MR. HOLLIDAY: No examples! (Laughter.) No, but I think category-wise, it's related to one of the earlier questions. It's not seeing it was a hazard, not understanding this could be catastrophic, particularly reputational risk that we've seen a lot of lately.

MR. ZREMSKI: How many threats does DuPont face at any given time?

MR. HOLLIDAY: Besides all the members of the press that are here today? (Laughter.)

We started this work well before the council did. We decided we were going to put together one chart on one piece of paper that talked about all of the risk. And we called it the "eyeball chart" because you had to have something else to be able to read it. And that was the "aha" to us. There are just hundreds of different types of risks we could have. And I think every organization represented by the

council's work could say the same thing. And so it's about building that robust capability, it's not about kind of identifying each one. And I think that's the biggest lesson now. And that would be my advice to boards of directors, and audit committees, be it in the university setting or in the company setting, is don't try to make a list of everything; making sure you have that robust system.

MR. ZREMSKI: What would be the biggest risk that DuPont would be facing?

MR. HOLLIDAY: The data would say that a major failure in our systems, which we are redundant in multiple ways, would probably be the most serious risk to us. And I feel very comfortable about that piece.

The second thing we've taken as a member of the process industry and having 200 major plants around the world, our security at our plants. And I feel very comfortable we've taken all the reasonable steps. But obviously, if somebody wants to fly an airplane into a plant, it's very hard to guard against that.

MR. ZREMSKI: Looking beyond DuPont, how secure are America's chemical plants from terrorist attacks? And what role has federal policy played in making them safer?

MR. HOLLIDAY: For the three years following 9/11, the Organization of Chemical Manufacturers took on a major task of identifying what were those steps that were necessary to better secure sites, qualify people coming on and off of the plant, and also educate government leaders about what was critical.

What we found around September 11th is many government leaders did not fully understand the processing plants in their own community, and so they would jump to conclusions about what the right thing to do was. And so there's been a number of steps to educate government leaders, from law enforcement to literally the governors of states, so they understand what those sites are. And I think we've taken really strong steps, and I think our plants are as secure as any plants anywhere in the world.

MR. ZREMSKI: How much risk results from America's reliance on imported oil?

MR. HOLLIDAY: I think -- and it's been well-said that this is a concern. It's a concern because of all the uncertainty, and that's why the council report says -- and I'd say from my own personal experience -- that we need to diversify our energy sources. And everybody would like a very simple answer; there's just one new thing, you come in and have a balance -- that's not the way it's going to be. We believe biofuels will be an important part of the answer, we believe solar will be an important part of the answer, wind will be a part and fundamental energy conservation will be critical. We put all those together, I think we can do a good job in the next 10 years of really changing that risk.

MR. ZREMSKI: And how about climate change? How much risk does that pose?

MR. HOLLIDAY: Climate change has taken a major shift in the last two years in this country. I think there is an understanding of what it is, understanding that it is all the subecosystems that are in danger; it's not one big thing that's going to happen one day, and we're already starting to see those impacts. I think we've moved on beyond trying to quantify it, debate it -- the numbers, and I think the great, great majority see that we must take some actions, and I think there's some opportunities before our government here that can do the right thing to keep this country competitive and do the right thing to make sure we have a good system for the next generation a couple hundred years from now.

MR. ZREMSKI: How does globalization affect your ability to take on risk and manage it effectively?

MR. HOLLIDAY: And this came out from the work Jared was leading this morning in the panel discussion, and we have a fundamental report -- globalization can be a plus, because it can move risk out to different places. I think when you look at the report, you'll see that a number of companies, where they used to just export from the United States -- now a great majority, two-thirds of their international business comes from wholly-owned subsidiaries in those countries where they are fully sufficiently operating, so I think fundamentally it helps companies be much more resilient by diversifying and having multiple sources of supply.

But it's very critical as we saw from, you know, the dog food issues and so forth just in the last few weeks that one must really understand the source of that supply, what the processes are to make it and be sure that you have backup systems.

MR. ZREMSKI: How serious is the threat of a massive regional blackout, similar to what happened in the Northeast in 2004? And has the council addressed this issue?

MR. HOLLIDAY: Would any of my colleagues like to address that specifically? Deborah, do you remember whether we had that? Or go ahead.

MS. DEBORAH WINCE-SMITH: Well, we certainly addressed, in both the energy and IT sections of our study, the interconnectivity of these infrastructures, and that the telecom bases and all of this really had an impact on our energy supply. And that's work we're going to continue in our new initiative in energy security and sustainability. So it's -- part of the whole interconnectivity is the infrastructure.

MR. ZREMSKI: You gave the example of the impact that computer system failure can cause. Are you satisfied that the telecommunications systems in this country are sufficiently resilient?

MR. HOLLIDAY: We did not identify anything in our study that would say that is a particular concern, but it was not one of the areas we particularly focused on. But -- so I think, as we evolve as a country and become much more connected than we ever were before, I think it's important that we keep that one in mind, too.

MR. ZREMSKI: Investing in risk management may not be something that will help a company in its next quarterly earnings statement. Is there some problem entailed in that? Do some companies get too caught up in the short term and ignore this whole resilience concept, because there's such a short-term focus on the bottom line?

MR. HOLLIDAY: Well, that's certainly a concern, and it came up a couple times in our sessions this morning, that if you're too much focused on the next 90 days, will you be putting in the steps you know you're going to need in the future? In the case of DuPont, we're 205 years old. I think the answer to that question is, we're going to have the right balance. And I think the companies that were a part of this work and the institutions like Carnegie Mellon, you know, certainly are thinking about it in longer term, but I think that is a concern. And speaking for the chemical industry, we focus very much on those smaller operators that may not have the longer-term view, and they can't be a member of the industry association unless they step up to those changes.

MR. ZREMSKI: Just elaborate on that and tell us how you can get smaller companies that don't have a lot money to invest to pay attention to these things.

MR. HOLLIDAY: One of the steps we use in the chemical industry is the buddy system. So where DuPont has a major installation and we know there are some smaller chemical operations in that geographic vicinity, we have our plant managers reach out and offer to share process knowledge and in some cases backup equipment, in case of an emergency, so we can support each other.

MR. ZREMSKI: Any concern that the focus on risk would steal funds from R&D efforts?

MR. HOLLIDAY: As I mentioned in my comments, every time there is a hazard, there's also an opportunity. And so we look at the need for energy security -- tremendous opportunity for R&D and a market that you could fundamentally focus on. The need for quality in the food chain -- a tremendous opportunity to use biotech capability for testing in much more fundamental ways than we've done before. So I think the net of this will be increased R&D.

MR. ZREMSKI: Do we have a significant number of trained professionals to design, build, maintain and restore our technological infrastructure and the industrial complexes have created if there is a terrorist attack or another disaster?

MR. HOLLIDAY: The answer to that question was studied by a group from the National Academies. It was titled "Beyond the Gathering Storm." It wasn't dealing with that specific question. It was dealing with the overall question: Do we have the science/engineering capability for the long term in this country?

The answer is, today we have it. Today we're very competitive. But as we see the increases that are being made in other countries -- China and India, for two examples -- it gives you a great pause whether 20 years from now you can say that question.

And so we believe actions should be taken both for funding for research universities, so we can bringing people through, attracting the best students around the world, and making the visa system so they can stay here and apply their talents in this country.

MR. ZREMSKI: You mentioned the visa system. Could you comment on the Senate immigration debate and the impact that it will have on American competitiveness -- immigration reform?

MR. HOLLIDAY: There's no ground rule about staying on the subject when you -- (laughter) --

Q Segue.

MR. ZREMSKI: It was a segue.

MR. HOLLIDAY: It was a segue, huh?

MR. ZREMSKI: Visa, immigration.

MR. HOLLIDAY: It was (words on that card ?). (Laughs.)

No, as --

MR. ZREMSKI: (Just later, actually ?) --

MR. HOLLIDAY: (Laughs.) Naah, that's good.

I think -- and this is a personal thought, because this was not directly a part of the council's work, but obviously if we can get some much better order, without saying what the answer is, talking about the immigration issue, so we can get the talented people we need at all different levels of work -- construction work all the way to the best Ph.D. scientists -- will be a step forward for our country. And I hope out of this work we can make some real progress.

MR. ZREMSKI: Back to the issue of risk and resilience. What role do unions play in all of this?

MR. HOLLIDAY: A great question. The council is very unique. And one reason I personally decided about eight years ago to put a great bit of time in it is because it's made up of businesses, universities and labor unions. And so every time we come out with a report, we have all three perspectives. And you can see in the report the labor unions that were involved in this. And I think that makes us much stronger, because what I personally find in these sessions is I learn something every time I hear different points of view.

MR. ZREMSKI: What are the roles of nongovernment organizations, communities, religious groups and individuals in preparing to respond to these sorts of threats?

MR. HOLLIDAY: Let me answer that, then I'll ask any of my colleagues on the stage who would like to try. I mean, of course the council is a nongovernmental organization. I think we fit that category. So we do think we are more of an honest broker and can

bring out the ideas, but every time we have one of our sessions, such as the one today, we purposely invite nongovernmental organizations that have a very particular point of view because we think understanding that very loud, very clear, you know, one point of view makes us a lot better.

But Deborah, do you have anything to add to that? (No comment.)

MR. ZREMSKI: Do you think we have been focusing our national security policies effectively? And if not, what should we do differently?

MR. HOLLIDAY: That was beyond the scope of -- (laughter) -- of our work. We were much more focused on individual institutions. We've made such tremendous progress, and I think that sometimes is overlooked, the progress we've made. And what I like about our country -- and again, DuPont does business in 70 countries -- there's no other country in the world that can learn so quickly. We're so much better today, if indeed we have another hurricane this season, than we were after Katrina and Rita. So I don't think there are many other countries that can learn that fast. And we've done the same thing after the 9/11 situation. So I give us high marks for learning, but we can never be satisfied.

MR. ZREMSKI: Given what's happened with Hurricane Katrina and the current issues regarding passports, how resilient has the Department of Homeland Security been since its creation?

MR. HOLLIDAY: The Department of Homeland Security -- and we learned very much from Tom Ridge being our adviser in this work -- has a tremendous challenge, but they've made such good progress.

And I'd just point out the work of the Coast Guard and what a difference it makes. You know, they're out -- just speaking for DuPont, they're out testing the security of our sites. And multiple times a year we'll have a Coast Guard incursion trying to see if it holds up. And you can't believe how proud our people are that they've never found a problem in what's going on.

And so I think they -- we forget, because it's taken place over several years, really how much progress we've made and how much more professional so many of these agencies are, and how much better coordinated they are. But of course we can do more.

MR. ZREMSKI: Will we be prepared for the next Katrina or 9/11 or major disaster of any type? And if not, what more needs to be done?

MR. HOLLIDAY: Well, that's fundamentally what we were addressing in the report. And the idea of being able to list everything that could happen, and be prepared for each one, is just not practical. What is practical is to make sure we have the communication systems that are in place. At the time of some of these early events, the communication systems to connect heads of major companies were extremely weak. They are much, much better today. And so no matter what the next situation is, I am sure we can rally the private infrastructure much better today than we could five years ago. But we must keep improving.

MR. ZREMSKI: The Department of Homeland Security established funding to state and local governments to identify and protect critical infrastructure. Most of this funding has not been used. Does the council advocate support for state and local governments?

MR. HOLLIDAY: Absolutely. We think -- and that's where I was referring to it in my comments earlier -- we think it's very important that state and local governments get involved in what those issues are, and they need funding for it. I won't get into the debate of where it should come from, but clearly they have to have funding and it must be a priority.

MR. ZREMSKI: Ninety percent of infrastructure is privately held. Should government provide incentives to companies to become more secure?

MR. HOLLIDAY: I think what government should focus on is not putting up barriers to organizations being more secure.

An example, after 9/11, in one state here in the U.S. where DuPont does business, we had a governor that decided that a particular facility in that state was of high risk, and dispatched armed guards to come on our sites. And we don't use armed guards on our site because we don't like people with loaded weapons around our site. That's not very safe. So -- (laughter) -- and I mean it very sincerely, because we've got big vessels, and you shoot one, you don't like the answer.

So what we found is, you know, it's the education, but you need to rely on the operators to do that, and we need to have mechanisms of inspecting those, but be sure with people that are well-trained and really understand the hazards that are going on.

MR. ZREMSKI: What are the council's efforts to make our system of ports and intermodal supply chains more resilient?

MR. HOLLIDAY: That was a fundamental part of the study that we had, because we recognized our dependence on global trade more than ever before. We did not find anything in the study that says that there's a fundamental difference there than overall robust systems, particularly information systems.

MR. ZREMSKI: You say that the first 48 hours are the most important, yet the federal, state, local response to all recent events has failed in those first 48 hours. Is the federal, state, local system in the U.S. flawed? And how should it be changed?

MR. HOLLIDAY: Our individual -- that recommendation was focused more on a university -- on an individual company, and obviously when you're dealing with that smaller mechanism, you can respond much faster.

I still think the first 48 hours is critical, and we must have that goal from our national institutions to be able to respond to, and I think they're making great progress.

MR. ZREMSKI: How do you design resilience in processes rather than a bolt on approach?

MR. HOLLIDAY: And that was, you know, the fundamental recommendation from our report, and it goes back to training of employees so they know not just a simple rule to follow but they understand why we're doing it so if there is an interruption, they can make the right decision, and that's employees at all levels. It goes to having backup systems, particularly for your computer systems. And think about things that could happen.

For example, in -- we found that many companies in September 11 did not think about the kind of events that occurred and no airplanes could fly at the same time; you know, they never put those two potential things together. So it's thinking about those things that could cascade and make that a part of your systems.

MR. ZREMSKI: In light of the recent scares with food and chemical products from China, what are you advising firms to rely on ingredients, other imports from China?

MR. HOLLIDAY: Well, if you'll allow me, DuPont has a lot of really good ingredients that are made right here -- (laughs, laughter) -- and I was just last week advising a lot of firms to buy our material. (Laughter.)

But in all seriousness, what we have learned -- and our company sources from a lot of different places -- you can't just ask the specs. You've got to understand the process that's used to make the product, not the end spec.

And I think that is a tremendous learning over a period of time, and that's what I would advise every company that's sourcing materials. From sources you're not as comfortable with, be sure you understand the process and their raw material input, not just the final specification of the product.

MR. ZREMSKI: We also have many questions about competitiveness a little bit more generally, and this is one.

Please comment on some of the risks and benefits of doing business in China. What type of economic relationship should the U.S. have with China?

MR. HOLLIDAY: Well, China is a major power, and we need to understand that and see them as an ally. There are still intellectual property issues in China, and so I would caution any organization doing business there, to be sure you take steps to protect your intellectual property. We think that's extremely important.

And also, just urge to build a local organization. You're not going to send in expat -- (word inaudible) -- and translators to be street smart in Shanghai, and so I think it's very critical that you build an organization, just as you would in any country of the world.

MR. ZREMSKI: Are you still comfortable with our trade policies with China?

MR. HOLLIDAY: I think we've made tremendous progress on our trade policies with China. It's important that we do keep a good relationship there. My guess is they will need to evolve over time, though.

MR. ZREMSKI: Any particular way that they ought to evolve over time?

MR. HOLLIDAY: Well, if you just look at exchange levels today -- and they're obviously not as free-floating as they could be, and I think understanding how exchange will ultimately be managed in China, and I think that will be ultimately be better for China as a country and companies that do business there, as well as more predictability.

MR. ZREMSKI: More generally, can you discuss the benefits of joint ventures in foreign countries in terms of improving U.S. corporate competitiveness and resilience?

MR. HOLLIDAY: Just speaking from our DuPont experience, we had the first-ever 50-50 joint venture manufacturing, JV, in Japan. We now have 14 JVs, and they've been very, very successful for us. So a JV is a mechanism to get in early when you don't have all the capability yourself. My advice would be do it 100 percent yourself if you can; if not, pick your partner wisely.

MR. ZREMSKI: We keep hearing that our schools are not doing an adequate job to provide American firms with tomorrow's workers. What do you think?

MR. HOLLIDAY: More important, what does Jerry think?
(Laughter.)

MR. COHON: I'm not the only university president in the audience. I just happen to be the one sitting at the table.
(Laughter.)

The American system of higher education is the envy of the world. It consists of something like 3,500 or 4,000 institutions that vary from trade schools and community colleges to Ph.D. -- (inaudible) -- research universities, and every part of that system contributes to the success of this country.

I know Chad will agree with me when I say that the success of this nation over the last 50 years -- arguably the last century -- economically, in terms of national security and every other way, we owe to our university system to a very large extent. And the future will be based on that, too.

But let me echo something that Chad said before in response to another question. Whereas we think we're in pretty good shape right now, we cannot be complacent. Visa issues, whether we can continue to get the best and brightest; university systems in other countries are becoming much better and much more competitive with the U.S. system. But what we have is something to be proud of, but it's something to be sustained, as well.

MR. ZREMSKI: Do you think U.S. laws that encourage frivolous lawsuits are hampering U.S. creativity, risk-taking and competitiveness?

MR. HOLLIDAY: Yes. (Laughter.) If I had to say what the biggest threat is to our competitiveness, it's our greatest strength, which is our legal system, because fundamentally our country is founded on a strong legal system and it's critical, but if things continue the way they are, it's very discouraging. And I think when I see such a common understanding of how companies are having to take so many resources to protect themselves against frivolous lawsuits, it's a real shock.

If I had to urge anything about overall competitiveness, not around security, necessarily, but competitiveness of our country, it would be for our lawmakers to take a really serious action there. And I think there's a number of other countries that have legal systems that work quite well we could learn from.

MR. ZREMSKI: How can regions of the country that have suffered the most from the decline of heavy industry, such as the upper Midwest and upstate New York, improve their competitiveness?

MR. HOLLIDAY: Oh, thank you. One of our people must have sent in that question. (Laughter.) One of the major thrusts of the council is exactly that, is going into individual regions and doing an analysis of how they can improve. And I'm quite proud, in Wilmington, Delaware, our home, I was fortunate enough to be able to lead that work for our community.

And what we found, there were two major flaws that we had no idea they existed. What we found is new companies -- entrepreneurial companies wanted to come in, our universities were not talking to each other and they were both competing in what was going on. And so we were able to fix that.

And second, although we had tremendous amount of venture capital right in our town, they weren't connected to the entrepreneurs. We put in a system to do that, and we've made a lot of progress since then. We would not have done either one of those two things without the council's regional workshop, and now we've done -- Deborah, how many have we completed now, regional workshops?

MS. WINCE-SMITH: Oh, about 20 across the country.

MR. HOLLIDAY: About 20, and so, I would say, that's a really -- a real asset and a real plus for our country.

MR. ZREMSKI: Another question that just came up about China -- would you say that a transparent democratic system with a free press and religious freedom -- would that sort of a transparent system lower the risks for U.S. companies investing in China?

MR. HOLLIDAY: One knows not to talk too much about how China should manage itself. Let me just give you a story.

I was at a Chinese University about two years ago. And our

company gives environmental awards to leaders, so I was there with the minister of the environment, and we were in front of a group of students. And he took more penetrating questions and direct questions and comments than I think Steve Johnson at the EPA has probably had to deal with here.

So I'd say, some places in China there is -- are pretty open forums for questions to come out. And so I believe China will need to keep opening itself up to make sure those 1.3 billion people have what they feel need, because the internet is alive and well in China, too. So I don't think it should be our focus as a country to tell China how to manage China, but we do need to talk about the output requirements we need from that.

MR. ZREMSKI: Okay, a couple questions about DuPont -- what has DuPont learned as a result of the C8 issue?

MR. HOLLIDAY: C8 is a surfactant that's used in the manufacture of fluoropolymers, for those who aren't familiar with it, and there's been some questions raised about potential health impacts. What we've seen from very extensive studies both in this country and others over a 50-year period of time is that we can find no human health impacts of that product. So if I'd say, what have we learned, dealing with your question, is, being scientifically right's not enough. And if the public has a concern about something, you've got to deal with it, and just knowing you're scientifically right is, again, repeat, not enough. And so that was our big learning from that issue, and I hope others maybe can take away the same lesson.

MR. ZREMSKI: Critics allege that the government banned R-12 and other freon-related products as a result of lobbying and think tanks funded by DuPont just when the patents on those products were expiring. Government-mandated replacement products just happened to be DuPont products. Your response to these critics?

MR. HOLLIDAY: Well, some people are misinformed. (Laughter.)

No, and -- let me just talk about CFCs in general, which is -- that's the family of products that you're talking about, and this is the ozone layer issue. And I think there are real lessons from that, because as the scientific data became available that the ozone layer was indeed being destroyed by CFC products, DuPont, without any government intervention, gave a five-year time frame to get out. And I'm quite proud -- it was before my tenure as CEO -- of what our company did there.

And I think, if we also look at this as the so-called Montreal Protocol, that was a time when all the countries of the world did come together and take major environmental action very successfully. So I think there could be a model in how that worked to maybe deal with some of the other climate change issues that we have.

MR. ZREMSKI: Back to risk and resilience here, is it possible to quantify or certify a company's risk management skill level and establish a report card to measure progress?

MR. HOLLIDAY: We studied that as a part of our work and

concluded that it varies so much across industry and that if we put that in place, we were very much afraid we could get in what Jim described is the wrong thing to do, which is check the boxes. I checked all the boxes, so I can go to sleep now. And so I wouldn't rule out that there could be some measures in the future, but I think it would be much more about their processes, not a check-the-box kind of thing.

MR. ZREMSKI: Someone from one of the companies in our audience writes, how can you prioritize from this very notorious list of green, quality, risk management and diversity? Help me with resource allocation.

MR. HOLLIDAY: That is very much what our study showed, is that it's impossible to prioritize, that you must have a resilient system that takes all those into account and is also very much aware of a changing environment. And so the way I would suggest you deal with that is be sure you have a very open management process while you are listening to outside perspectives.

In DuPont, we have a biotechnology advisory board, you know, people from India, China, Mexico, Italy advising us on how to use this very new technology. We have a health advisory board, eight pre-eminent physicians that come in with various different perspectives, and every time we launch a new product, we go out and get views from people that might be a different point of view. I think that would be the best way you could think about risk.

MR. ZREMSKI: What needs to be done for the next 50 years to ensure the resiliency and competitiveness of our transportation network?

MR. HOLLIDAY: Debra, you want to do that one? (Laughs.) I don't -- Jared, I don't recall anything specific around transportation in the work.

MR. COHON: No, not covered -- (off mike).

MR. HOLLIDAY: Yeah. So I think that's study number two. (Laughter.)

MR. ZREMSKI: Okay. We're almost out of time, but before I ask the last question, I just have a couple of important matters to take care of.

First of all, let me remind our members of future speakers. On June 26th, tomorrow, Lou Dobbs, the anchor and managing editor of CNN's "Lou Dobbs Tonight" will discuss politics and the economy; on July 18th, John Snow, the chairman of Cerberus Capital Management and the former Treasury secretary will be joining us; and on July 24th, Admiral William Fallon, the commander of U.S. Central Command, will be here.

Second, we have traditions at the National Press Club. One is that every speaker goes away with a certificate. And because coffee keeps us resilient in the morning -- (laughter) -- the National Press Club's coffee mug.

MR. HOLLIDAY: Sure.

MR. ZREMSKI: And I have to tell you, our last question is often a little different in tone than our earlier questions. This one is really almost kind of existential in nature. It's from someone here who asks, if nothing sticks to Teflon, how does Teflon stick to the pan? (Laughter, applause.)

MR. HOLLIDAY: It's a miracle of science for DuPont. (Laughter.)

Thank you so much. Speaking for the council, I could just -- (laughter) -- no, Teflon.

The -- look, this is some good work. And when we started this work three or four years ago, I wasn't sure if we were going to find a pony in there or not. (Laughter.) And in this idea of resilience is -- are the answers to a lot of these questions.

And so I really, sincerely urge everyone here to take a look at this piece of work, because I think it can make a difference for our country.

Thanks very much. (Applause.)

MR. ZREMSKI: Thank you.

I'd like to thank you all for coming today. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booze and Howard Rothman for organizing today's lunch. Also, thanks to the National Press Club library for its research.

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Thank you very much. We're adjourned.

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