Remarks by the Honorably Ray Mabus
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Well, I appreciate the opportunity to be with you all this morning. And I'm going to talk a little bit about the new defense strategy and what it means to the Navy and Marine Corps and talk about some of our specific programs and then be happy to take your questions and comments.

I'm going to start out by saying that whatever is asked of the Navy and Marine Corps by the American people through their commander in chief, they can get it done. They answer the call. They get the mission done, whether that's high-end combat or humanitarian assistance, disaster relief; whether it's bringing Osama bin Laden to ultimate justice or rescuing hostages held by pirates or terrorists, wherever they are in the globe. Our job is to make sure that our Sailors and Marines are resilient; can meet whatever challenges come before them; that, after a decade of war, they are ready for whatever comes next. The people in this room are making sure that they receive the best equipment and tools that they need to do that job.

The new defense strategy that was developed and announced by the president - developed over the course of several months with the full input from all the service chiefs, all the service secretaries, both the secretary of defense and the personal involvement of the president - requires a Navy and Marine Corps that is fast, agile, and has a light footprint. The new strategy pretty much is a definition of the United States Navy and Marine Corps, able to meet a variety of missions, able to do so without taking up anybody's sovereign territory, able to get places fast, able to stay and able to do whatever is necessary when they get there, whether it's a partnership engagement, whether it's responding to a disaster, whether it's deterring war or whether it's winning a war when necessary.

As we begin to reposition after two long ground wars, it is absolutely essential to take a new look at our strategy. This would have been necessary whether there was a budget crunch or not. We needed to see where we go from here after a decade of ground warfare in the Middle East.

This new strategy has an understandable focus on the Western Pacific and the Arabian Gulf region. And it also requires that we maintain a presence not only in those two areas, but also around the globe, around Africa, around South America, in the South Pacific to do the things that we have been doing: building partnerships, having engagements, making sure that we are ready for whatever comes next.

And I'm going to talk about the Navy and Marine Corps a little bit here now. The impact on our Navy of a decade of two ground wars is unmistakable. Our fleet, on 9/11, 2001, stood at 316 ships and and we had 377,000 Sailors. Eight years later, when I took over as secretary of the Navy, the fleet had declined to 283 ships and nearly 47,000 Sailors were gone. We have made it

a priority to rebuild the fleet, to make sure that we have the right types of ships and to make sure we have sufficient numbers of ships, because even though the ships of today are far more capable than previous ships, at some point quantity becomes quality all its own.

I've seen comparisons that this is the smallest fleet since 1917, which in sheer numbers may be true. But it's also a little bit like saying that we don't have enough smartphones because we had fewer than we had telegraphs in 1917. You simply can't compare the two fleets in terms of capacity or capability.

We went into this strategy and into the budget that the strategy informed looking for ways to make our fleet be able to meet the new strategy with the right kind of ships in the right places able to do the right kind of things. Even with the budget cuts mandated by the Budget Control Act passed by the Congress, even with the fact that we are retiring seven cruisers early, four for structural reasons – or that have structural issues – and three because of they just needed modernizing – even with the fact that we're putting two small amphibs in a reserve status, even with the fact that we have deferred building 16 ships that we had planned to build – even with all that, by the end of this five-year budget, the FYDP, we will have at least as many ships at the end of that FYDP as we do today. And then we will have more capable ships at the end of the FYDP.

We've presented one five-year budget to Congress, one FYDP. This is not a one-FYDP issue, particularly not for the Navy. We have, right now, in the second FYDP a plan to make sure that we get to 300 ships no later than 2019. While in one of the great defense buildups this country has known, the Navy shrank in terms of platforms and people, we have first stabilized that and are beginning to rebuild the fleet. We are building toward, as the strategy says, the force of 2020.

To reach 300 ships by 2019, we have to take some really aggressive action and have taken aggressive action in the acquisition process, and we have to make sure that the ships we are buying are affordable. And I want to talk mainly about ships, but it goes for everything else. It goes for weapons systems; it goes for aircraft. We have to make sure that we can get the platforms we need within the budget constraints that we have.

I grew up in a town of a thousand people in north Mississippi. My father owned a hardware store. He was maybe the cheapest person God has ever seen. One of the stories I tell, I was the first person and still the only person in my county every to go to an Ivy League school. My name when I was governor of Mississippi was Harvard-educated Ray Mabus. Even though I went to Ole Miss undergraduate, I couldn't get into Ole Miss law school, so I went to Harvard.

But he came to visit me one time in Boston, and he loved the fact I was there. He loved the fact I was going to school there. And there was a chain in Massachusetts called Friendly's. At that point they had a 99-cent lunch special, and he would take me to lunch just about every day. He stayed for a week. And he always wanted to go to Friendly's because they had that 99-cent lunch special because it was in 1975. And when we would finish, he would ask for separate checks because there was no sales tax on food purchases of under a dollar, and he was going to save that 3 cents.

I say all that to say that I am my father's son. My first elected job was as state auditor of Mississippi. So in spite of the fact that I'm an English major, in spite of the fact that I had never had an accounting course when I got elected state auditor - luckily that was not a requirement, you only had to get more votes than the other guy - I know how to read a balance sheet. I know how to read a P&L.

And I also have been in industry. And I think we owe industry certain things. I think we owe stable plans. We shouldn't start building ships before we know what they're supposed to look like. I think we owe industry mature technology. If technology improves while you're building the platforms, put it on the next one. Don't let the perfect be the enemy of the good.

And I think we owe as much transparency as is possible in terms of what platforms we're going to build over the next five years or 10 years, so that industry can make infrastructure investment, so they can invest in training for the people that are going to be building these platforms.

But in return, industry owes us some stuff. Number one, that they make those investments in infrastructure and training.

Number two, that if we do have stable designs and we build the types of ships or aircraft or whatever that we build forward, that we're not changing a whole lot. Every ship of the same class ought to take fewer man hours and ought to cost less than the one that came before. There ought to be a positive learning curve in this thing.

Last year, over the last year, we now have 36 ships under contract, and they're all fixed price contracts. They're incentive fixed-price contract, most of them. Twenty are littoral combat ships that are part of the dual-block buy that happened in December of '10, two Virginia class submarines, two DDG-1000s, Zumwalt class, four DDG-51s, three mobile landing platforms, one LSD, two joint high-speed vessels and two research ships, oceanographic research ships.

What these contracts do is provide some stability to the industrial base that is fragile, and some certainty toward our economy moving forward. But I want to talk about some of those programs in a little detail and what we've done on those programs.

When I got there in May of '09, into this job, the LCS program was in a lot of trouble. We had two ships in the water and two ships being built, one of each variant, one being built in Marinette, Wisconsin, and one in Mobile. Both the lead ships had come in very high in terms of cost. And soon after I got there, we bid out three more. And the bids came back as unsustainable. We could not afford it.

So I made the decision that even though we wanted both variants, even though they gave us different things and we had uses for both, that each one of those variants met all our requirements. And so they were going to have to compete against each other. And price was going to be the major determining factor in which one we chose.

Over the course of the next year – and one of the things I've learned in the Pentagon and in this job is that I always thought that bids were like, you know, you say we need a bid, and it comes in $12.95 and that's about it. Shipbuilding and weapons bids seem to be a little more complex and a little longer - But over the course of the next year, as we negotiated the bid price with the two manufacturers, the cost came down 40 percent. It came down 40 percent for both variants. And I still don't know who won, I didn't want that information, but they were both very close.

And our plan had been to award 10 ships over five years to the winner, get a technical package of engineering drawings and then the next year bid out nine ships to a second yard, so that we could keep competition in the program.

With the new prices, I went back to Congress and asked for permission to buy 10 of each variant. So we got 20 ships instead of 19, and we saved $2.9 billion getting those ships. They're being built today. And the last ship, the 10th ship of each one, is going to cost significantly less than the first ship. There is a learning curve, and they're all on a fixed-price contract.

And they're fair contracts for the manufacturers. If they do their job, which they are, they're going to make money on this. But the American taxpayer is also going to save money on the same contract.

We tried to do something similar on the DDG-51 restart. Secretary Gates, a month before I took office, announced that the Zumwalt, the DDG-1000, was going to be truncated to three ships, but that the DDG-51 – which is one of the backbones of our fleet, but the line had ended – was going to be reopened.

Two shipyards, Bath in Maine, Pascagoula in my home state of Mississippi, build the DDG-51s. It's hard to get competition into a program where there are two shipyards and you need both for the industrial base.

But the way we did it was we bid out three DDG-51s. Each shipyard was guaranteed to get one ship, but the low bid got the third ship. And whatever the difference was in the high bid and the low bid, that difference came out of the high bid's fee. So you were still going to get a ship, but you weren't going to make as much money on it, and you weren't going to get the extra ship.

We did it and it reintroduced competition into the DDG-51 program. And we're going to be able to build DDG-51s at a sustainable rate now and get them out to the fleet, so we have enough large surface combatants.

I can talk about all sorts of programs: the Virginia class submarine coming in ahead of schedule, under budget; two subs a year, on average. One of our most stable programs.

Mobile landing platform, one of its first designs – was this going to be too expensive? And so it went to a different design. It didn't have as many bells and whistles, but it got all the

jobs the Marines needed done for an MLP. We got 80 percent of the capacity and the capability for about 40 percent of the cost.

And the shipyard that's building the MLPs just finished building our T-AKEs. We built 14 T-AKEs for the class. The last one took 40 percent of the man hours that the first one took. That's the kind of thing we're looking for.

The last one I'm going to talk about is the one program that we still have some issues with. We've got the PEO of carriers right here. I got a question about this at one of my hearings recently. You know, those hearing are pretty formal, and I used the phrase, that this reminded me of the punch line of an old joke: That bed was already on fire when I got in it.

But a new carrier, the Ford, CVN 78 – when the Navy first started thinking about building a carrier, a different carrier, in the late '90s, the plan was to put all the new technology – because it was a completely new ship, put the technology on three successive ships to lower the risk, basically a third of the new technology on the first ship, two-thirds of the new technology on the second ship, and finally, all the new technology would be put on the third ship.

In 2002 DoD leadership decided, no, we're going to put it all on one, which sent the risk through the roof. This ship has a new hull, new arresting gear, new launch system, new propulsion system, new electrical system. It is a brand-new ship. The contract was supposed to be signed for this ship in 2006. Because of all the complexity that suddenly got added to it, it wasn't signed until 2008. And when the contract was signed, the ship was about 30 percent designed. That is not the way to build a ship. It's not the way to build a weapon system, it's not the way to build anything. So you have had, understandably, cost overruns with this.

Now we've taken a lot of action. We've taken action with the shipbuilder and have, with agreement from them, gotten back most of the fee that they had earned. But we've also done it with some government-furnished equipment, some other contractors. Capping the amount that we were going to pay to them so that it's not an open checkbook. If we're going to bet our ship on your technology; you're going to bet your contract on it too.

And I think the most important thing that we're trying to do, because this is the first ship of a new class that's going to have a lot of carriers in it over the next 30 years, is to take the lessons learned from this ship and make sure they're applied to CVN 79, the John Kennedy, so that we don't have these cost overruns, so that there is an absolutely stable budget that we can budget to in this carrier.

Those are some of the things that we're doing. We're trying to build faster, more effectively, but fairer. Industry should make a fair return. But the American taxpayer should also not pay more than it needs particularly in today's budget environment.

I'm going to finish by talking about one specific area that I talk about all the time. We're doing a lot to control the costs. We're trying to get the most technologically advanced platforms and systems we can. But in order for those systems to operate, in order for us to do what we need to do as war fighters, we have to change the way we get and the way we use energy. The

only reason we're doing this – the only reason – is to make us better fighters. If you are in a military organization, as many of you have been, one of the things you do is you look at potential vulnerabilities for your adversaries or your potential adversaries. You'd better do the same thing with yourself. You'd better look at what your vulnerabilities are.

And when you look at the Navy and Marine Corps, one of our huge vulnerabilities is energy. We would never let some of the countries we buy fossil fuels from build our ships, our aircraft or our ground vehicles. But we give them a say in whether those ships sail, whether those aircraft fly, whether those ground vehicles operate because we buy the energy from them.

The Marines have embraced this more quickly and more enthusiastically than, I think, any other service. And I don't think the first thing anyone thinks about when they think about Marines is ardent environmentalists. For every 50 convoys of fuel, every 50 convoys we bring in – we bring in more fuel and water into Afghanistan than anything else – for every 50 convoys we bring in, we lose a Marine, killed or wounded. That's too high a price to pay.

So the Marines, in terms of expeditionary energy, have begun doing a lot of things. The first unit they sent in – it was in the middle of a tough fight in Sanguin, 3rd Battalion, 5th Marines - they dropped 700 pounds of batteries from their packs just by passing out solar blankets to power GPS, radios, things like that, and you didn't have to resupply them. It took convoys off the road.

They dropped their energy requirements at their bigger outposts from 25 percent and some of the combat outposts, by over 90 percent, just by using stuff like solar panels to get their fuel. The Marines now have two expeditionary Forward Operating Bases – one down at Quantico, one at Twentynine Palms – where they are experimenting on all sorts of alternative energy to make them better warfighters in theater.

The Navy is also doing a lot of things in this because energy has always been – or at least in recent history – a source of conflict. You look at Japan's move into the Southeast Asia right before World War II and early in World War II; Germany's move into Russia in the South Caucasus during World War II; Iraq's move into Kuwait. You can give example after example of where energy was the reason people went in places which either started or caused wars to become bigger.

And the president's got an "all of the above" strategy, and we're increasing domestic production of oil and gas, which is a good thing. But we still use 25 percent of the world's oil, and we only have 2 percent of the world's reserves. And even if we produce enough, could produce enough domestically, oil is a global commodity, and I know it's going to come as a surprise to some of the investors here, but sometimes it is traded on fear and rumor. Every time the price of a barrel of oil goes up a dollar, it costs the United States Navy $31 million in additional fuel costs.

So part of it is supply shock and supply stability, and part of it is price shock and price stability. I'll give you a couple of examples. When the Libyan crisis started almost a year ago, Libya is a producer of oil and gas, but in the global scheme of things not that big of a one. But

the price of a barrel of oil went up $38 a barrel. That translates into a $1.1billion additional bill to the Navy.

I have one place to go to get that money, one place: operations. So we steamed less, we flew less, and we trained less, and that is not acceptable. If we're going to build the number of ships we need, we're going to have to change the energy. It's not a choice between alternative energy and more ships. It's a choice between enough ships or not, because we're not changing our energy use.

We have done a lot of things. We've flown every single aircraft in the Navy on 50-50 blend of biofuels and avgas. We're certifying all our surface ships on the same blend of diesel and biofuels.

In July at the RIMPAC, Rim of the Pacific exercise, the biggest maritime exercise in the world every two years, we're going to demonstrate the "Great Green Fleet," where our carrier strike group is going to be nuclear and biofuel, all ships and all the aircraft.

On shore, we are a seagoing service, but we have 3.3 million acres of land, 720,500 buildings. So we're doing some stuff like solar and wind. We're doing geothermal, hydrothermal. We're doing wave. We're doing microgrids, so that if something happens to the grid, we can still do our military functions.

We're doing efficiency things too, everything from hull coatings to stern flaps to building hybrid ships.

The USS Makin Island, the first hybrid ship, a big deck amphibious ship, which is now in the Middle East doing operations. Makin Island was built in Pascagoula; on its first voyage, around South America to its home port in San Diego – it's got two drives. One is an electrical drive for use at speeds under 12 knots and one is a gas turbine, normal propulsion, for speeds of over 12 knots - it saved $2 million on that first voyage. And in 2010 oil prices and gas prices, it was forecast that it would save a quarter of a billion dollars in fuel just by doing that.

So right now we've improved the concept for our DDGs to put these hybrid drives on them.

Finally, the president directed the Navy, Department of Energy, Department of Agriculture to come up with a nationwide competitively priced biofuel industry, and we signed an MOU last August on this.

The Navy can bring some things to something like this. Number one, we can bring a market. DoD is by far the largest user of fossil fuels in the United States. We use almost 2 percent of all fossil fuel used in the United States.

And Defense has a history of being in the lead in terms of new technologies. All you have to do is look at the Internet, GPS or even flat-screen TVs. Those were all Defense projects when they started.

In the Navy in particular, we went from sail to coal in the 1850s; we went from coal to oil in the early part of the 20th century; we went from oil to nuclear – we pioneered nuclear in the 1950s.

And every single time, every single time, people were saying this is a big mistake, this is awful. One of my predecessors, the secretary of the Navy in 1840, said, and I'm quoting here, "I will never turn our fleet into fire-belching monsters." Plus there was a little thing – wind is free. You're going to have to pay for coal. What is the matter with you?

When we went from coal to oil, we had all these coaling stations set up around the world. What is the matter with you? We've got this big infrastructure investment. Are you nuts?

When we went to nuclear in the 1950s – this will never work. Nobody could ever make a nuclear power plant small enough to fit on a submarine, and even if they did, it's way too dangerous to do it.

We've got the same sort of naysayers today, and they're going to be just as wrong as the ones were before. It is a core Navy competence to change the way we use energy. It's one of the things we are really, really good at it. And it's something that the Navy can lead this country in doing.

For the last 236 years in what I was talking about – sail, to steam, to nuclear – from the USS Constitution, still on active duty after more than 200 years, to the USS Carl Vinson, from Tripoli to Tripoli, our Navy and Marine Corps have protected our nation, projected our power and kept the sea lanes open for the economies of the world.

In the coming years, this new strategy and our plans to execute this strategy will make sure that this naval heritage not only perseveres but that the Navy and Marine Corps continue to prevail.

Thank you very much.