

Remarks by the Honorably Ray Mabus
Secretary of the Navy
Shipbuilders Council of America
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Thank you so much and thank you all for having me here. I want to thank the Shipbuilders Council of America, ship repair associations, and your industry partners and all those of you all who are here attending this really important and really timely conference. America has always been a maritime nation and the shipbuilding and ship repair have always been key components of our economy and ensuring the U.S. Navy is the most formidable expeditionary fighting force the world has ever known.

And you are rightfully proud of the 43 members of SCA that own and operate over 85 shipyards, on all three coasts of the continental United States, the Great Lakes, the inland waterways system, Alaska and Hawaii. We're all equally proud of the 86 partner members who provide goods and services to the industry. In all, your members hail from 29 states, and in a lot of cases, you represent the single largest employer in that state. As was said in my introduction, I was governor of a state where ship building was the single, largest employer. So I know what it means to have an industry that big, an industry with unique skills and industry where you cannot replace the skills if you lose them either quickly, easily or maybe at all. Your reach into America and into our economy is broad and your reach is deep into those states.

Now, the Navy is not a member of your association, but we very definitely are your partner. And I want to tell you for just a second about how big the Navy is. And you all have probably thought about this before, but if the Department of the Navy was a private company, we would be the second largest in the United States in terms of employees, we would be the third largest in the world in terms assets, and we would be the fifth largest in the world in terms of budget authority. The Department of the Navy is truly a global, complex, complicated but incredibly vital and necessary part of America and of our national defense.

So we depend on each other and neither one of us can be successful without the other. During my tenure as secretary, I've focused on four things and in this acronym obsessed town, we call them the four "P's:" People, Platforms, Power and Partnerships. And they're all interrelated. You've got to have enough platforms of the right type, and those platforms have to be ready to go to sea; they've got to be maintained. But you've also got to have the right people with the right training to operate those platforms, and people - our Sailors, our Marines and our civilians - have been my top priority. And if we don't have the power right, the energy to drive those ships and those airplanes, we have to park some of them because we just can't afford the fuel. And we need to build partnerships that are integral to our new defense strategy. And that means having enough gray hulls to put on the horizon to reassure allies or deter potential adversaries.

At the end of the day, our friends and our allies depend on us being there. And when a crisis develops, our regular presence in a region over months and years means that we

don't escalate when we send in ships, carrier strike group or amphibious ready group because we have been there all along. And maintaining that presence will not happen unless get all four of those "P's" right.

Now obviously you're focused on platforms and on maintaining those platforms, so that's what I will talk about for the rest of this talk.

And I want to give you some numbers. Some of you have heard these before and forgive me, but one of the things I learned when running for political office is, repetition is the key to, actually people remembering anything. And I'll tell you a quick story about that. I ran for governor for a year, actively ran for a year, and I said we needed to do three things in Mississippi. I said we needed to improve education, I said we needed to create jobs and I said we needed to protect our citizens. And I must have made, I don't know, 400-500 speeches all during the primaries. And after a while in the Democratic primary we were getting ready to go into the general, my field director came to my press secretary and said, we need a new speech. And he said, why? That one works. And she said, well, I'm sick of it. I've heard this speech over and over and over again and I'm sick of it. And he said, okay, tell me the three things he says we need to do. And she said, we need to improve education, uh, we need to improve education... I can't remember the other two. And I said, we're not changing the speech.

So anyway, here are some numbers. On 9/11/2001, the United States' Navy had 316 ships and 377,000 Sailors. By 2008, after one of the great military buildups in American history, the U.S. Navy was down to 278 ships and 49,000 fewer Sailors. In that same year, 2008, we only built three ships for the U.S. Navy, not enough to keep up with decommissionings, not enough to keep the fleet from continuing to decline and certainly not enough to keep our shipbuilding and our repair industry strong.

So, when I came in in 2009, a lot of our shipbuilding programs were – and this is a technical term I'm going to use, but you all will understand it, being from the industry – they were a mess. Ships were being designed while they were being built; costs were out of control, requirements were out of control, and a lot of our contracts were out of control. And we didn't have an ongoing plan to make sure that we got the life expectancy out of our ships that we needed to. We didn't have a maintenance plan, we didn't have a repair plan in for, particularly our surface combatants.

Now, on the building side, I'm going to give you one quick example: Littoral Combat Ship, the LCS. Two variants. When I got there, we had one of each variant in the water, they were experimental ships. They were built that way, they were contracted that way. But we also had one each variant, two more ships, being built. Right after I came in, we bid out three more ships. And the prices came back just too high. We couldn't afford it. And while we wanted both variants, while each one of them brought something unique, each of them could also meet all of the mission requirements.

So I made the decision to pull the RFP [Request for Proposal], to go back and say, "we're only going to buy one variant, and we're going to decide it based mainly on price, and the

winning bid will get 10 ships over five years. But they have to give us a technical package with all the drawings, all the engineering and we're going to bid it out to a second shipyard to keep competition going, and the second shipyard will get nine ships over that same five years."

Over the course of the negotiations over the price, the prices came down by around 40 percent for each one. And I still don't know who won; I purposely didn't want to know who won. But it was clear that both of our industry partners had made real, substantial important, dramatic efforts to reduce costs. And they were also willing to sign fixed-price contracts and do a block buy for 10 ships. So against the advice of just about everybody, I went back to Congress and said, "Can we buy both?" Congress said, "Okay," that we could. So, each shipyard got 10 ships over that five years. So we got 20 ships instead of 19, and we saved \$2.9 billion on the program. So everybody won: the shipyards got five years of building ships, the Navy got 20 ships instead of 19 and the American taxpayers saved \$2.9 billion, money that we have used to both build and repair more ships.

Now I said we built only three ships in 2008. Since December of 2010, we've put 43 ships under contract. And that's with the same amount, pretty much, of shipbuilding funds that was there previously. And we're now back to a 300-ship Navy before the end of this decade.

We've also done some things that you've heard about and will hear about in terms of maintenance and repair particularly on our surface combatants. Putting type engineering requirements in so that we've treated all ships of a type the same way, so that we knew when they were going in, so that we knew what the requirements were when they went into the yard or what the maintenance availability would be, so that we would get the lifespan out of those ships that we thought we were going to get when we put them in the water. Because that's the only way we're going to get and stay at the number of ships that we need.

And every time this has happened, every single time, we have done it with you all, we have done it as a partnership. What has made us stronger has made you stronger and it's made the country stronger. We got more and better ships. Taxpayers got better value, and industry, you received more stable and dependable work.

I think we owe industry three main things in terms of building ships and it goes pretty much for repair too:

- Mature and stable designs. Don't build a ship while you're designing the ship. We're not changing things on the fly;
- Mature technology, so that if you've got a new gee whiz piece of equipment, put it on the next block of ships. Retrofit the ones when the first available come in, but don't change halfway through;
- And third, is transparency and reliability in our plans so that you know what ships we're going to build, when we're going to build them, what

ships we're going to repair, when the availabilities are going to be and what we're going to be expecting over the next -- at least -- over the next five years .

And in return, industry has a right expect a fair return. You need a fair return for your efforts. And we have a right to expect certain things from industry:

- That there's a learning curve. That if we're building the same hulls, repairing the same hulls each one ought to be basically cheaper than the one before;
- And that industry makes the investments. If we're transparent and we say, "this is what we're going to do over the next five years," that you will make the investments in training and investments in infrastructure.

And I've got to say, you all have done that. You have made those investments, you all have made those investments over time. And that's how we start turning shipbuilding around.

But that was basically until now. And I understand that tomorrow, about 50 of you all will be heading to Capitol Hill.

Good timing.

A lot of the progress we have made together could now be at risk. And I sure don't have to explain to anyone here in this room what that risk is, but there are some people in Washington, around the country and in the media—who do not understand what's about to happen or choose not to.

For more than a year, the President, uniformed leaders of the American military and civilian leaders of the American military, and even some members of Congress, have been warning about the dangerous and mindless impacts that would come about if Congress failed to act on a responsible and balanced budget deal. And we've said that these impacts aren't going to be dramatic, they're not all going to happen in one day, but that doesn't make them less damaging.

Even before last Friday, March 1st before sequestration, we took some actions to slow the rate at which we were spending money. We did that because we're facing not just one, not just sequestration, but two arbitrary and self-imposed budget crises. Sequestration is one and that's better known because the media has a fixation on that one. But we've also got the Continuing Resolution. And if you want to, just in pure numbers from operations and maintenance, sequestration hits the Navy about \$4 billion over the last seven months of the fiscal year, CR will hit us \$4.6 billion over the last six months of the fiscal year. But beyond the size of those cuts is just the mindless way that they operate. Sequestration, you just take a percentage off of everything, the same percentage. And under the CR it's an arbitrary limit of new fund exactly at the level and exactly what you

were doing last year, without any regard to what may have happened or for new programs.

So when we put a ship into the yard or an availability, that's a new start. It's not allowed under the CR. I'll give you two CR examples right now down in Norfolk, Newport News, that are really visible. We've got the Roosevelt that pulled in in 2009 to do a complex overhaul and refueling. And it's about ready to come out, but because the amount of funds needed for that was an estimate when it went in, as it always is, we don't have the money to finish the Roosevelt even though it's only a few months from being done and out and back to sea. And we can't unless some sort of new budget is passed.

Then we've got the Lincoln that pulled in last fall into the Navy Yard there and we can't bring her over to the shipyard to start her RCOH because that's a new start. Now, Congress allowed us to reprogram \$96 million last fall so that we could do some preliminary work on Lincoln. Continuing Resolution means that from the first of October until now, Congress has not acted on a new budget. If this doesn't pass, the money for the Lincoln will run out about the first of May. And that means 2500 ship workers, some of who are nuclear trained, will have nothing to do, will go home. If you lose that sort of talent, if you lost that sort of skill, it's going to be really hard to get it back. And every day that the Lincoln was not in dry dock, the George Washington was right behind Lincoln; we have those carriers on a schedule to get refueled and the nation needs us to keep those carriers at sea. And we've got to do the refuel and the overhaul and we've got to do it on time.

These cuts are mindless, these cuts are automatic. Like sequestration they tend to go after everything with no strategy involved. I don't know, but it's really hard to build 90 percent of a ship. I don't know what part you leave out.

So Friday, Congress allowed the deadline to pass and sequestration started.

And on Saturday, we began to execute some of the actions in response.

And you know, I don't watch TV much. I mean I do, but not the news, that's too depressing. But when you do, you hear people say, "Well, these cuts aren't real, or they weren't hurt, or that's fine." But here are some of things that the CNO [Chief of Naval Operations] and I are being forced to do:

- We're going to shut down Carrier Air Wing Two (CVW-2) the beginning of next month. And if sequestration sticks, that's going to be followed by at least three more air wings, with two more put down on the tactical hard deck, which is the minimum safe flying levels, by the end of this fiscal year. Now if we do that, it will take several months, even up to a full year to get those squadrons back up to proficiency and it will cost two or three times as much as it would have if we had just kept them flying.
- We'll lay up four Combat Logistics Force (CLF) units in PACOM starting in April.

- We're going to return the Shoup (DDG 86) to homeport early and she won't go with Nimitz as an escort to CENTCOM.
- We'll return FFG 43, the Thach, early from SOUTHCOM
- We're not going to send USNS Comfort, the hospital ship, on a humanitarian mission to Central and South America. And if she doesn't go, her supporting ships won't, Seabees won't, and medical units won't go.

In addition, and this audience knows this in particular, the sequestration hits every, single line item. And basically, a rough rule of thumb is, every ship has its own line item. There will be impacts to every one of our Fiscal Year '13 bills. In some cases, we'll have to defer buying GFE [Government Furnished Equipment] like radars and radios, and in other cases we'll have to defer buying long lead time equipment which will result in schedule delays and cost increases to our programs.

All of this comes on top of the steps we had already taken to prepare for a CR. We've deferred repair work on the USS Miami which had the devastating fire. And we've delayed repair work on the USS Porter (DDG 78) that was involved in a collision. And we've delayed the deployment of the Truman and her escort, Gettysburg.

Now, some of those actions won't be felt immediately all over the country and won't be felt immediately by every sector, but you're already beginning to deal with the fall out. General Dynamics and BAE Systems Ship Repair notified employees last month of anticipated losses in Navy in-service, surface ship repair work, which will result in lay-offs of roughly 3,000 employees mainly in fleet concentration areas and an additional 4,600 subcontractors from local areas. Now, anybody can see how these changes will, if allowed to continue and over time, erode our readiness and really hurt our economy. And the next steps include beginning to furlough DoD [Department of Defense] civilians, which represents a potential 20 percent cut in their salaries. Now the perception of some folks is that, when you talk about DoD civilians, you're talking about people who work behind a desk and according to some folks don't work very hard and are overpaid. Well, number one, I don't know any of those people that I work with. But number two, we're also talking about shipyard workers at four public shipyards; we're talking about pipe fitters, we're talking about welders, we're talking about electricians, we're talking about people who have unique ship building and ship repair skills. We're talking about people who will have to endure pay cuts and a lot of them are living paycheck to paycheck. And those economic ripples will go out in those communities where they buy lunch, where they pay their mortgage, where they coach little league, whatever, it's going to be felt as time goes by further and further.

Now, what we are trying to preserve, as best we can and with the limits that the sequester imposes, support for forces stationed overseas or that are currently forward-deployed. Now as I said, on March 27, the current CR is set to expire. If it expires, everything shuts down or Congress could just extend it for the rest of the year and keep us under those arbitrary limits for the rest of the year. Neither one of those is a really good option.

These things are real. The impact on our people, on our readiness, on your business, on your jobs, and on our nation's economy are concrete. They're real. And I have to tell you, it is also not going unnoticed among allies, our partners around the world. And it's not going unnoticed by the folks who do not have our best interests at heart around the world.

So this is real. And while it may take a little while to feel the brunt of these impacts, if we keep going down this road without agreeing on a more rational, more balanced approach, the damage could take a whole lot of time to repair. As we say in the Navy, you can surge ships, you can surge people, but you cannot surge trust. So if we're not there, if those big, gray hulls aren't on the horizon, if they're not pulling into port, if they're not doing exercises around the world, if they're not deterring, and showing the American flag and doing the things that we do to build our partnership capacities, it takes a long time to get that back.

Now that's a lot of bad news, but I have every confidence that no matter what happens, we're going to make it through because of the American people, and particularly those who wear the uniform – Sailors and Marines that I'm honored to lead. We will continue to be the best at what we do by taking care of the best. Now, I've said that people are the top priority. And I don't think I have to convince anybody in this room just how skilled, just how talented, just how dedicated the people who serve in the Navy and Marine Corps are.

I make it a point try to go out and visit as many Sailors and Marines as I can where they are, where they're deployed - on ships, on land, around the world – because the Navy and Marine Corps, is in my description, “America's away team.” When we're doing our job, most people in the United States don't know what we're doing, we're a long way from home. And they don't know how good those Sailors and Marines are. They don't know how good the fleet is.

And they also don't know how much responsibility we push down in terms of age and in terms of rank. We're the only organization in the world that does that, the American military is, no other military does it the way we do it. We expect the most junior Sailors and the most junior Marines to take responsibility and to make decisions and we expect good decisions. And we get it on a day-to-day basis.

One story I tell is, right after the tsunami in Japan I went and visited the Reagan which had turned in about two hours from heading to the combat area over in Afghanistan. When the tsunami hit, the Regan turned and went to deliver help to the Japanese people. They used the same targeting techniques that they were going to use over in Afghanistan to make sure that the right things got on the right aircraft in the right order going to the right place with the right people. When I got briefed on it, on this whole big exercise, standing there on the Reagan surrounded by Admirals and Captains, my briefers were a Lieutenant JG [Junior Grade] and a Second Class Petty Officer who had come up with an operational scheme. That's the kind of responsibility we push down. And those are the kind of results we expect.

Back here at home, I think one of my main jobs and one of the main jobs of people in your industry, or people who work with the Navy and Marine Corps on a day-to-day basis, is to tell America, most of whom have no connection with military – to the 1 percent of the country who serves in uniform today - to remind them what the Navy and Marine Corps do for this country, to remind them how good they are, to remind them how much sacrifice they and their families make on a day-to-day basis, to remind them how high the operational tempo has been, and to remind them that they've answered every mission that the country has given them. And also remind them that we couldn't do any of this without the support, both inside and outside of the Navy and Marine Corps, of civilians – or a better way to say it is the non-uniformed members of the team.

So, I appreciate what you all do, I appreciate how you have been willing to work with us, I appreciate the fact that you've been willing to look at different solutions to the issues that we've faced. The fact that we are getting a better deal for the American taxpayer, but I think we're giving you more certainty and more transparency in the process. I appreciate your willingness to do the things that need to be done to keep this great fighting force that we have.

You have heard and you're going to hear from some of our incredible leaders, Vice Admiral Kevin McCoy and some others, about some of the specific programs that we've got underway and that we want to keep going.

So on behalf of the Department of the Navy and on behalf of the Sailors, and Marines, and civilians and their families who make up the Navy and Marine Corps team, I want to wish you all luck on the Hill tomorrow. We're counting on you all. We're counting on you who do the work on the waterfront, you who do the work to keep our ships at sea, you who do the work to make sure that we do have the greatest Navy and Marine Corps the world has ever know, afloat and ready. But no matter what, because of those young men and women who serve in uniform, because of civilians who work with them, America's away team will continue to do the job, we will answer every bell.