

Remarks by the Honorable Ray Mabus
Secretary of the Navy
Senate Armed Services Committee
Washington, DC
Tuesday, 14 December, 2010

Mr. Chairman, Senator McCain, and distinguished members of the Committee, thank you for this opportunity to appear before you to discuss the Navy's Littoral Combat Ship (LCS) program.

Following my comments, Admiral Roughead will give a short opening statement. The Navy's Assistant Secretary for Research, Development, and Acquisitions, Sean Stackley, is also here, and is prepared, with your permission, to briefly offer more specifics on the numbers involved with this proposal.

The LCS brings critically needed capabilities and numbers to our nation's fleet, which are necessary to give the Navy the force structure to meet the missions we have been given. For the future strength of our Navy, it is vitally important that we succeed in delivering this 55-ship class affordably, effectively, and quickly, while at the same time exercising sound judgment and solid oversight.

As Secretary, I take this process extraordinarily seriously. And I would not have made this recommendation if I did not firmly believe that giving us the authority to move forward with a dual award of 10 ships to each of two ship-builders, as we are requesting, is in the best interests of the taxpayer, our Navy, and our nation. This authority - which I emphasize requires no additional funding - will enable us to purchase more high-quality ships for less money and get them into service in less time. It will help preserve jobs in our industrial shipbuilding base and will create new employment opportunities in an economic sector that is critical to our nation's military and economic security.

We recognize that this proposal comes outside of the normal budget process. However, a key focus of this Department for the last two years has been to build as many ships for the Navy

as possible, as affordably as we can. As a result, I believe it was my duty to present Congress with this opportunity.

The timing of this request is the result of a very thorough analysis. Once we received the bids, we conducted two rounds of discussions with industry to assure ourselves that the bids were realistic and sustainable. That examination demonstrated that we achieved our goal, one we share with this Committee: driving down the cost of these ships.

We next needed to examine this proposal from a standpoint of naval operations, which was done by the CNO and the Navy Staff. And, as I know the CNO will explain in a moment, they concluded that a dual award created important operational flexibility. Finally, we met with Pentagon leadership for their review and concurrence with this proposal.

This process took some time, but I believe it was critical to ensuring that we were making an operationally sound and fiscally responsible proposal that meets Congressional guidelines, as well as the intent and spirit of the Weapons Systems Acquisition Reform Act of 2009.

As you are aware, both of the lead Littoral Combat Ships fully meet performance requirements. Both the lead ships of each variant are currently in service, and are already performing admirably while also conducting a comprehensive test and evaluation program.

LCS 1, the FREEDOM, demonstrated what we can expect of these ships during her maiden deployment earlier this year, a deployment done two years ahead of schedule. In less than three weeks of counternarcotics operations in the Caribbean, she made three major drug seizures and recovered more than three tons of cocaine. It was because of her capabilities that she was able to run down fast drug boats that otherwise would have escaped.

I recognize that this program has historically had problems. The program's early shortfalls and initially unrealistic cost expectations stretching back nearly a decade have been pointed out by members of this Committee and oversight organizations.

It was precisely because of this poor performance record that last year, with the concurrence of Congress, we made very significant changes to our LCS procurement strategy. The message from this Committee and Congress was unmistakably clear, the Navy needs more ships, but they have to be affordable.

We heard that message and established and enforced a strict policy to limit design changes and their debilitating impact on cost and schedule. We worked with industry to ensure the lessons learned building the lead ships were put in place for efficient construction of successive ships. And we put a talented, highly capable team in charge of this process.

In 2009, when bids for follow-on ships of both variants came in unacceptably high, we made the two industry teams compete against each other to get costs down. In this, we structured a highly competitive, fixed-price procurement strategy to award 10 ships of a single design over five years to a single builder, with an additional five ships to be built by a second builder after another round of competition, with the Navy owning the technical data package for construction of all ships.

In response to this down select, industry competitors restructured their respective teaming agreements to eliminate excess overhead and unnecessary cost. They leveraged the 10 ship plan to drive down material costs with their vendors, and they used the long-term nature of the contract to plan facility improvements to further reduce labor costs.

These bids, and the cost reductions we have seen demonstrated on LCS 3 and 4, will save the taxpayer approximately \$1.9 billion in FY11-FY16. More importantly, the fact that prices were so dramatically reduced presented an opportunity to save an additional \$1 billion – for a total of \$2.9 billion – through a dual award of a 10-ship contract to each bidder.

Each of the variants included in the two contracts will fall significantly below the cost cap established by Congress in 2010. If our request is approved, it would also enable purchase of an additional ship through realized savings. In short, we'll get 20 ships for the price of 19.

It is important to note that these will be block buys and not multi-year contracts. We will not be contractually required to buy any ships after the first year, and there are no termination or cancellation costs. Therefore both Congress and the Navy will have continuing supervision and the ability to ensure the program stays on track.

Senator Levin, Senator McCain, and members of this Committee, you have worked for years on behalf of our servicemen and women to provide them with what they need to protect our nation, while also ensuring proper oversight to protect the interests of taxpayers.

The LCS proposal you have before you is the fruit of those efforts. It delivers better value to the taxpayer and greater capability to our fleet. I believe we have arrived at an opportunity to realize significant, real savings within our shipbuilding program; and we have done so by following Congressional guidance. This is good for the Navy, good for taxpayers, good for industry, good for workers and good for our nation. Thank you and Godspeed.