

Remarks by the Honorable Ray Mabus
Secretary of the Navy
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Thank you Philip Dunmire and thank you all for being here today. I always look forward to this opportunity to speak to some of the Navy's most ardent supporters, and to thank you for all the hard work you do for the Navy and Marine Corps that we all love, and for the Sailors, Marines and their families.

I also want to congratulate, one more time, the winners of the safety awards that we just met. What these commands and individuals have accomplished, from the war front of Afghanistan to the home front, goes beyond the award itself. Their efforts extend readiness and preserve our force. Their success comes from actively doing what is needed and brings life to the military maxim that says, "Safety lies forward."

This is my third year speaking here at Sea Air Space and I have spoken to a whole lot of Navy League groups around the country, so chances are, this may not be the first time you have sat in room while I'm at the podium. As I said, I look forward to these opportunities because the people here and in Navy Leagues across the country are knowledgeable, you're passionate, and you're vocal. While we may not always agree on every method or every program, we do always agree on the importance of the Navy and the Marine Corps and on how much we care for the men and women who serve our country. The one percent of our population who wear our nation's uniform, and those who support them – their families and the civilian defense workforce – have been my top priority since I assumed this office.

Today, though, I want to talk about two of my other priorities, and those involve platforms and policies. Specifically, I want to talk about the size of our fleet and how and where we get and use energy, and I want to do this in the context of the world in which we operate in today.

As you all know, we live in a dynamic global security environment where the challenges, both actual and potential, are varied and complex, ranging from conventional war and irregular warfare to cyber to piracy to humanitarian aid and disaster relief.

We are transitioning out of more than a decade of two ground wars which required a comprehensive, new look at our entire defense strategy. This new strategy, announced by the President in January, was the product of intensive study, intensive discussions and the full participation of the Secretary of Defense, the entire Joint Chiefs, the Combat Commanders and the Service Secretaries. One result of this new strategy - with its increased focus on the Western Pacific and the Arabian Gulf region and its emphasis on innovative, small-footprint, low cost engagements elsewhere – is that it clearly puts additional responsibilities on the Navy and Marine Corps.

The defense budget offered in February grew out of that strategic review and not the other way around. But, we do now operate under the restrictions of the Budget Control Act passed by Congress, which requires Defense to reduce expenditures by \$487 billion over the next 10 years with some of those larger cuts coming early.

All of these factors required the leadership of the Navy and the Marine Corps, uniform and civilian alike, to rethink what we do and how we do it. They demanded that we not remain locked into current practices because it's "the way we do things" or it's "the way it's always been done."

These factors did reinforce decisions already made and directions already taken on the two issues that I'm focused on: the need to have a fleet which has enough of the right kinds of ships to do the missions assigned and the need to change the way we get and use energy.

The decisions in these two areas have been criticized by some folks. And I think that a lot of this criticism is based on either incomplete, inaccurate or outdated information, or a failure to see beyond the short-term, or a willingness to protect the status quo in spite of a changing world, in spite of overwhelming evidence to the contrary. For anytime you change, no matter how necessary, or

vital, or inevitable, change is always opposed by some. And, most of the time, those opposing these types of changes are caught on the wrong side of history.

First: Fleet size.

And speaking of history, history is important here. On September 11th, 2001, our fleet stood at 316 ships and we had more than 377,000 Sailors. Yet, when I was sworn in as Secretary less than eight years later, those numbers had declined by 33 ships and almost 49,000 Sailors. So during the time of one of the largest defense buildups in our nation's history, our fleet got smaller and we lost Sailors. And the numbers were headed in the wrong direction. In 2008, for example, the Navy built only three ships.

At the start of this Administration, I made shipbuilding a priority and, now, in spite of a much tougher fiscal environment, in spite of having to defer some ships or decommission some early in order to meet the numbers of the Budget Control Act, the fleet-size numbers are moving in the right direction. I want to give you two facts, two numbers that are very important. At the end of this five-year budget, this FYDP, we will have at least as many ships in the fleet as we do today. But that fleet of 2017 will have many more, more capable ships.

And we are on track, as the 30-year shipbuilding plan we submitted to Congress recently shows, to reach a fleet of 300 ships by 2019 and keep it there. Given the circumstances, both current and historic, these two facts that I've just given you were considered improbable, at best, just a short time ago.

Getting to these numbers has not been easy, and some other factors made getting to this point harder still. When I took office, too many of our shipbuilding programs were, and there is no other way to put this, a mess. Ships were being designed while they were being built and the costs of too many of our ships were out of control. Let me give you some examples of what was the case and what has been done to correct the situation.

First, the LCS program in the early summer of 2009 had two ships in the water and two were being built. The first ships were still being designed while they were being built. And that is no way to build a ship.

When we bid out three more that summer, the bids came back astoundingly and unsustainably high. I made the decision to get the builders of the two variants to compete in a down-select to only one variant based mainly on price. This was in spite of the fact that the Navy wanted and had uses for both variants. The resulting competition came in almost 40 percent below the initial bids. And I want to brag on the two shipbuilders that did that.

So instead of buying 10 from the winner and then nine of the same type from the second shipyard we went back to Congress, we got permission to buy 10 of each variant. So, the Navy gets 20 ships instead of 19 and the Navy saves \$2.9 billion in addition. Today, they're being built under fixed price contracts, and the 10th ship of each class, is going to cost significantly less than the first ship.

Next, the restart of the DDG 51 line. We have only two shipyards building these ships and we need them both, but we also needed competition in this class of ships or we wouldn't be able to afford the ones we needed. When we bid out the next three ships of these destroyers last year, the solicitation said that each yard would get one ship but the low bidder would get the third ship and the difference between the low bid and the high bid would be weighed against the high bidder's fee. We got the three ships we needed and we saved \$300 million in that solicitation.

Finally, the new carrier, CVN 78. It's a program that is still giving us some issues, but here, one more time, history is important. Or, put another way, as I said in my last round of budget hearings in Congress, I used the punch line of an old joke, that bed was already on fire when I got in.

When the Navy first started in the late '90s to plan a new carrier to follow the Nimitz class, the technology for this ship was to be phased in over three ships. But in 2002, the then-Secretary of Defense decided to put it all on one, which sent the risk absolutely through the roof.

It's a brand new ship. It has all new interior arrangements, a new island, a new arresting gear, new launch system, new propulsion system, new electrical system, new combat system. It's a brand new ship. When the contract was signed in 2008, and it had been delayed by two years, the ship was only 30 percent designed. That is no way to build a ship. It has created cost overruns that continue to this day.

We've taken action to get it back on course. We've recouped fee from the shipbuilder and capped the amount we are going to pay so it's not an open checkbook. The biggest thing we can do, though, is to make sure we capture the lessons learned from this ship and apply them to CVN 79, to make sure it comes in on budget.

So, we've stabilized our shipbuilding program and we've stabilized the fleet and we will grow the fleet to 300 by 2019. Since December 2010, we have placed an additional 38 ships, soon to be 40, under contract - most of these competed, all of these fixed price contracts. This compares to the three ships built in the year before I took office. I'm not sure this qualifies as a miracle, but I know it is a significant accomplishment for the Navy.

We have all heard the point that this is the smallest fleet the Navy's had since 1917. But comparing our fleet today to the one in 1917 is like comparing the telegraph to the smart phone. They're just not comparable. The technology that we have today, the ability to use our fleet today is astoundingly different from what it was 100 years ago, but also what it was 20 years ago.

We're also using our fleet differently, we're forward-deploying four LCS's to Singapore and homeporting four DDG's in Rota, Spain.

The bottom line, and the thing that I want you to take away from here, of all these numbers and all these facts is that we will have the right number of the right kind of ships to meet all our missions under the new defense strategy. And I think that is something remarkable.

Next: Energy

Now most of you have heard me speak before and I doubt that you've ever heard me speak without mentioning energy. And I'm going to continue to do that because I think it's such a vulnerability. We buy too much fossil fuel from potentially or actually volatile places on earth. We would never let the country we buy fuel from build our ships or planes, but we give them a say in whether those ships sail or those airplanes fly because we are dependent on them for fuel.

One of the most popular responses to this, which is a well recognized problem, is to develop fossil-fuel sources here at home. And we're doing that. Today, the U.S. imports only 45 percent of its oil, down from 57 percent in 2008 and down a million barrels a day from last year. But only part of the reason for this is the increase in domestic oil production. We have also increased efficiencies and the economic crisis tamped down demand for oil.

We can and we ought to pursue domestic sources of fuel that are legally compliant and that increase our energy security, but drilling alone will never solve our national security concerns over foreign oil. Even if we could supply all our energy with domestic fossil fuels, oil would still be a global commodity and we would still be subject to price shocks.

As I've said, I've repeated this over and over again. And I'm doing it because it's a military vulnerability. I'm doing it because it's an issue of national security and it's a matter of energy independence. I have said this repeatedly and believe it, as do many others, more strongly today than when we began the push to increase our energy security by changing where and what kinds of fuels we buy.

There are those who offer the absolutely false choice of investing in ships and planes or investing in more secure means of powering those platforms. There are those who question why the Navy is leading in new sources and types of energy. And there are those who say that any new form of energy will cost more than existing types and, for that reason alone, nothing should be changed.

Okay, let's take a look at these arguments. First, it would be completely irresponsible to see a military vulnerability and not act to try to lessen it.

If we develop domestic fuel sources that increase the security of our supply (and the strength of our economy) and reduce our vulnerability to price shocks, we will be able to afford more of the ships and planes we need.

Lack of action comes at our peril. Oil often trades on fear and rumor. For every dollar rise in the price of a barrel of oil the Navy's fuel bill rises by over \$30 million. Last year when the situation in Libya started, the price of oil increased by \$38 a barrel or a one billion dollar increase to the Navy. Iran only had to threaten to close the Strait of Hormuz to cause the price to spike again.

This year, right now, the Navy is facing nearly a billion dollars additional in fuel costs simply because the price has risen faster than was estimated when the budget was passed. Now, we only have two places to go for this extra money. One is operations which means we will fly less, steam less and train less. And the other is procurement, so we would buy fewer ships and airplanes. That's the reason it's a completely false choice.

Second, the Navy is leading in this because it is one of our absolute core competencies and a critical part of our history. We moved from sail to coal in the 1850s, from coal to oil in the early 20th century and we pioneered nuclear in the 1950s. Every time there were doubters and naysayers. Every time. They said that it was more expensive, they said, you're trading one form of known energy for another that's unknown. And every single time they were wrong and they will be again this time.

The United States military time and time again has led in the introduction of new technologies. Look at things we use every day: the Internet, GPS, flat-screen televisions. We're not changing energy sources because it's a fad. We're not doing it because it's the flavor of the day. We're doing it to make us better warfighters. We're doing it to better protect and defend this nation.

Finally, the argument that we should stick to existing sources and types of energy solely because alternative energy costs more today just makes no sense. Of course it costs more today. It's a new technology. There isn't the demand yet. But if this argument had carried the day we would still be using sails. We would have never built nuclear submarines and we would not be building them today because they are still a lot more expensive than conventional submarines. We would still be using typewriters instead of computers because computers cost more than the typewriters they replaced. And if cost were the only factor, we wouldn't have cell phones - only land lines.

Now in addition to this, today the prices for a lot of renewable fuels are competitive with traditional energy sources, and in many cases are going to produce substantial cost savings for the Navy and Marine Corps. We currently have three power purchase agreements in place in three of our installations in California they're going to save us \$20 million over the 20-year contract. Prices for alternative energy, for example biofuels, are coming down dramatically just from the test amounts we've been buying. We can help bring the market. We can bring the demand side of the equation.

Since I've been talking about history a lot, let me do one more piece of history before I close. In the late 1880's, the U.S. Navy was buying steel to make our ships from Europe, mainly from England and from Germany, for about \$150 a ton. The Navy leadership at the time decided this was too big a vulnerability and so they sought out domestic suppliers. They offered \$200 a ton and got no takers. They offered \$250, \$300 and \$400, still no one willing to make the steel at those prices. Finally domestic steel producers agreed to supply the steel at \$462 a ton. More than three times what we could have bought it for in Europe.

Two decades later on the eve of World War I, U.S. Navy ships were being built completely from domestic steel, and the United States had the greatest steel industry in the world and the prices were absolutely competitive.

We have to be and we will be relentless in our pursuit of energy goals that will continue to make us a more effective fighting force and our military and our nation more energy independent. Our Navy and our nation can afford no less. Inaction is too expensive in too many ways.

For 236 years, the Navy and Marine Corps have projected our power and protected our nation. The Navy and Marine Corps have helped those in need or those struck by disaster. The Navy and Marine Corps have deterred when possible and fought and won when necessary. In the coming years, we will continue to uphold that proud heritage. And make no mistake about it: we will continue to prevail.

Thank you all very much.