

Remarks by the Honorable Ray Mabus
Secretary of the Navy
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Dan Branch, thank you so much. I am honored to be here today. You only have to look at this crowd – the size of it, the caliber of it – to understand the importance of the Navy League.

I want to talk about the Navy League just for a minute because what you do, what you have done, what you do for the Navy and the Marine Corps around this country is invaluable. It has been my privilege to speak to quite a few Navy Leagues around this country and I hope to get to a lot more. But the enthusiasm, the dedication, the willingness to serve in sometimes pretty thankless jobs, in support of our Sailors and Marines, is really astounding. The importance that our country places on the Navy League and on this symposium, I think is evident by the caliber of speakers that you have had here this week – Secretary Gates, Under Secretary Carter and the service chiefs from all the maritime branches. Thank you for your tireless work - everybody in the Navy League across this country - on behalf of our Navy and our Marine Corps, thank you.

And before I start my remarks here, I want to again congratulate the winners of the safety awards. One of the things that you may not be aware of is that most of the folks here have come from deployment, received the awards and are heading back very soon to deployment. Making sure that people do the right thing, making sure they come home safely, either from work or from deployment, is critically important to the Navy

and Marine Corps. And I want to thank the winners for leading by example and for your incredible attention to safety. Thank you.

That's a good way into recognizing all our Sailors and Marines who are today defending freedom around the world - from the mountains of Afghanistan to the coasts of Africa. The Navy and Marine Corps are what we are because of the quality of the people that serve. And we could not have meetings like this, symposiums like this, where we are given the luxury to talk about naval policy and maritime policy without those thousands of Sailors and Marines making sacrifices every single day. Our nation is lucky to have them. We as a country produce people that nobody else does, and the quality, the skill, the commitment and the patriotism of our Sailors and Marines is one of the things that I am proudest of as Secretary, and this country ought to be proud of because they are absolutely the best.

I want to give you a short report on energy in the Navy. Last October, I set out five pretty ambitious goals for the Navy and Marine Corps to reach in energy. It's been a little over six months now since I set forth those goals and so I thought it was appropriate to ask where we are today. Are we on track to meet our goals? Are we meeting the internal objectives that we have set?

And the short answer is yes, we are on track. In the past six months, we have taken very significant steps towards meeting those goals. Two weeks ago, on Earth Day, I went down to Patuxent River Naval Air Station in Maryland and watched a supersonic test flight of the Green Hornet. Those of you of a certain age understand what the Green Hornet stands for. My children were clueless. But this Green Hornet, a regular production, off-the-shelf F/A-18 successfully went 1.2 mach flying on a 50-50 blend of

aviation gas and a biofuel made from camelina. Camelina is, and I learned this a couple of weeks ago, a member of the mustard family. It is a little seed, it's not edible and it doesn't take anything out of food production, but it makes a fuel and the Green Hornet doesn't know the difference between it and regular aviation gasoline. This is one more step, and a very tangible one, towards the Great Green Fleet that we're beginning to build.

One of the first steps was the launching of the USS MAKIN ISLAND, a big deck amphib with a revolutionary, hybrid-electric drive that I spoke about at that energy forum six months ago. Much more efficient than our traditional drives for ships; it saves both gas and money. In its first voyage from Pascagoula, Mississippi, where it was built, to San Diego, where it was going to be home ported, it saved about \$2 million in fuel costs. Over the lifetime of that ship, assuming that there's no increase in energy prices, it's going to save about a quarter of a billion dollars.

On shore, we've started working pretty aggressively to make sure that we meet our target of net-zero bases. Half our bases by 2020 will be net-zero in terms of energy that they use. They will make at least as much energy as they consume.

We started doing such things as a solar contract in the Southwest - part of it was Navy funds and part of it was funds from the stimulus program that this administration put forward last year. It's going to expand our solar capacity 1200 percent. It's going to add 60MW of electricity, or enough to power all the homes in Stafford County, Virginia.

I am also excited about our work with other government agencies. In January, I signed a Memorandum of Understanding with the Secretary of Agriculture, Tom Vilsack, where we promised to further biofuel research and development across the country. We

launched our first collaborative effort in Hawaii last month, and in coordination with Secretary of Energy, Steven Chu, and the state of Hawaii, this project has the potential to radically alter the way Hawaii produces and uses energy in the years to come.

One place that we have a potential to make a big, long-term impact in our energy goals is the commitment I made that we in the Navy would hold industry contractually accountable for meeting energy targets, that we are going to consider lifecycle energy costs and the fully burdened cost of fuel when making acquisition decisions and that we are going to consider, as an additional factor, the energy footprint of the companies themselves. By this summer, we are going to have the means to do this.

Now you've had a couple of interesting luncheon speeches, you may have noticed, in the last two days. I don't know if anybody remembers the speeches Monday and Tuesday, but on Monday the Secretary of Defense talked about how we have to closely examine every aspect of naval plans, naval programs and naval platforms, and how we have to examine and reexamine everything that we do. Yesterday, Ash Carter spoke on the same themes, focusing in on making our procurement plans cost-effective, efficient and realistic. And I want you to know how much I agree with both those speeches and both those ideas. We do have to reexamine everything that we do. Nothing can be taken for granted. We have to continually make sure that we have the right platforms to do the missions that we have been given. And we have to have the capability to explain, to defend and to tell the American people why we need what we are asking them to pay for.

And the main thing I'm going to talk about today is to tell you how we're going to apply what those two speakers talked about in the Navy and Marine Corps. Every year

the Department of the Navy executes over \$60 billion in development and procurement of ships, aircraft, facilities and weapons systems. We are responsible to the President, we're responsible to Congress, but most importantly, we're responsible to the American people for the effective management of these funds – both to meet the missions of today and prepare for the uncertain strategic environment of tomorrow, whatever comes over the horizon. How we go about doing this through the contracting and acquisition process is incredibly important.

Now, I can almost see and hear a collective shrug of the shoulders. Yeah, we've heard this before. We've heard this refrain about acquisition reform and acquisition excellence time and again, so why is now any different? Well, to put it about as bluntly as I can, the fiscal environment has changed, and we're going to have to be serious about improving the acquisition process because if we're not we're not going to be able to build the fleet that we in America need.

Our industry partners provide the Navy and the Marine Corps the most capable ships, the most capable aircraft and the most capable weapons systems the world has ever known. Whether you're building an aircraft carrier, or a ballistic missile submarine, or a fifth-generation tactical fighter – these are some of the most complex industrial tasks on the planet. But the issue is not the complexity, the issue is not the skill, the issue is affordability. What can we afford? As complexity has grown, so has the price. And it has grown at a rate faster than the top line that we have, a rate faster than inflation, a rate faster than anything, frankly. We have to do everything in our power to control those cost. And I'll repeat, if we don't do something now, we won't be able to build the fleet that we have to have in the future.

So in line with the goals I set out last October on energy, I want today to outline the five governing principles of Navy and Marine Corps acquisitions:

First, we have to clearly identify the requirements.

Second, we have to raise the bar on performance.

Third, we have to rebuild the acquisition workforce.

Fourth, we have to support the industrial base.

And finally, we have to make every single dollar count.

Now, I'm going to discuss each one of these, but you'll notice that I said "we have to" do each one of these. These are not goals, these are imperatives, these are have-to's. In order to meet the President and Secretary Gates' direction to reduce waste and efficiently allocate our resources, we have to do these things. In order to succeed in the difficult fiscal and economic environment that I and most people expect to be the norm over the next few years, we have to do these things. And in order to build the fleet that we need – the Navy, the Marine Corps and our industry partners – we have to do all these things.

Acquisition excellence means correctly identifying what the mission requires, how we can get there affordably and what, if any risk are we willing to accept along the way.

In the past, frankly we have not necessarily done the best job of defining requirements of what we need. We haven't done the best job of making realistic cost estimates of what a program is going to cost. I'll give you an example, the cancelled VH-71 Presidential Helicopter Program. As Secretary Gates has said previously, we probably don't need an aircraft in which you can cook a gourmet meal while fleeing a nuclear

blast. Probably not. Now had we built that helicopter it undoubtedly would have been the most advanced helicopter in the world, but at what cost to us and to other things we need to do? That program failed because the requirements for the helicopter, and as a result those requirements, the costs were driven way past what was needed to do the mission.

Sometimes, in another example, the situation changes and requirements change. The DDG-1000 is going to be a tremendously capable platform, but based on what we need today to confront today's security environment, it no longer made sense to build as many of these platforms as we initially conceived. So a conscious decision was made to truncate the class and to restart the *Arleigh Burke* DDG-51 line, which is one, more affordable and two, more suited to the missions that we've been given.

It is our responsibility to the taxpayer to always weigh cost versus capability and we are now doing that deliberately through a formal Gate Review Process before any contract gets awarded. In these Gate Reviews, we bring together our senior acquisition team - and it's composed of experts in fleet operations, cost estimating, budgeting, technical authority and program management - and after a discussion, they give us the information we need about whether we go forward or we don't.

We're going to be doing this analysis on everything. On programs like the future SSBN, the *Ohio* class replacement submarine, in order to make sure that we've identified the correct requirements, we've conducted the cost analysis of the technology needed to meet the requirements that we're given and then using that, make those decisions.

We have to raise the bar on performance by holding the Navy - Marine Corps acquisition team more accountable for what they do.

Improved performance starts also with industry meeting a couple of basic criteria. As the ships and aircraft are built quality has to improve, man hours have to come down, and budgets and milestones have to be met. That's the bar.

And while we look at, and I talk a lot about industry, it's not just your job. We've got to address performance issues within the Navy and the Marine Corps as well.

We've started by establishing a new aviation and shipbuilding change-order policy. One that puts curbs on change-orders by requiring senior-level review to ensure that both unit cost and total ownership costs are considered before a change-order is approved. By bringing senior-level attention to decisions that could spiral program costs out of control, we are going to be backing up our program managers and in the process hopefully, preventing that cost growth.

And we are going to give our program managers more responsibility for cost control and we are already keeping them in place longer so that they have more experience with one program. We are going to keep them for up to four years for ACAT I programs to gain the benefit of the experience of working with that single program. We also need to change the way we evaluate success as a program manager and reward them more for cost control.

Traditionally, what we've done is we have handed our program managers and their industry counterparts a set of specifications and we've said, here you go, go build this. There has not been much incentive to improve upon the requirements of the program by either side. We have evaluated success based on adherence to the requirements. But things change and strict adherence to the contract may not be the best

practice in terms of overall costs. We have to change that as an accepted way of doing business.

During the execution of our contracts, it is important that both our program managers and the industry constantly pursue cost reduction. By recommending changes to specifications, or to the scope of work, or to the overall acquisitions strategy and balancing that against key programmatic requirements, our managers ought to be able to effect a lot more cost control. To put it maybe in language I'll understand better, if a program manager comes in and says, "You know, if we take a 5 percent reduction in this line-item, we can get a 20 percent cost-savings." Anytime you hear that, I want us to take a hard look at it. It may be that we really need that extra 5 percent, that the mission can not be done without that extra 5 percent and if so, we ought to fund it. But if we really don't need that extra 5 percent, if it's not mission-critical, I want to reward program managers and industry for finding those things and then carrying them out.

We need additional people working in the Navy and the Marine Corps for this attack on cost. We need the best scientists and engineers, we need the best contracting experts and we need them to be peers of their counterparts in industry. We need people who understand fleet requirements in very technical terms; people who can provide solutions and people who can apply appropriate oversight to develop or buy those solutions.

I am very, very proud of our Naval Warfare Centers and Navy labs who have reached out to partner with local schools and universities to promote things like science, and technology and engineering. We need more of our young people, more of our students, more of the future of America to go into these fields. Some of the things we're

doing - this summer at Tuskegee, we will graduate the first class of 16 students with Masters Degrees in Systems Engineering aimed specifically at Naval Engineering, and in Los Angeles, the Office of Naval Research has partnered with the Iridescent Program to conduct Family Science Programs at 40 Los Angeles schools that includes 2,400 students and teachers.

There are literally scores of these programs all over the country supported by your Navy and Marine Corps team. Now since the earliest time since I've been in government, improving education has always been one of the core things that I've been interested in. And through these programs the Navy and Marine Corps are creating wonderful opportunities for the future of America, for those students, those young people that regardless of what they end up doing in their careers, will bring some very lasting benefits to our country.

So I'm going to challenge my acquisition team to give me a plan this year to double the Department of the Navy's science, technology and engineering outreach in the next five years.

Just as we need to reach out to students and to do some of these educational things, we also need to continue to reach out to the industrial base, because the stability of that base is absolutely central if we're going to be successful in acquisition excellence.

It's important to us because the health of the industrial base directly affects our national security and contributes to the overall health of our economy. The shipyards of America contribute almost \$40 billion every year to the Gross Domestic Product. They provide jobs for thousands and thousands of Americans, and they train and maintain a highly skilled and highly, uniquely technical workforce that we need to build the world's

most advanced ships and aircraft. The skills that these workers have are unique and they are perishable. So the health of the base has to be an important factor in our decision making process.

In February of this year, I invited leaders from all the main shipyards around the country to come meet with me in the Pentagon. Those who came had the opportunity to talk about the 30-year shipbuilding plan, what their concerns were about it and about the health of their shipyards. I want to continue and expand that dialogue, and so we are establishing an Industrial Base Council later this year, which will be an opportunity for us to be more informed about industry concerns and to get more industry input regarding our plans.

Industry has a right to expect reasonable profits, and industry has a right to expect certain things from the Navy and Marine Corps. Specifically, that we have stable designs before we start to build things and that we not change those designs in midcourse. That we stick to our shipbuilding intentions and we give visibility several years down the road. That we have mature technology before we ask you to put it on one of our ships. I think we have done this so far in my tenure and I think we're getting better at it. We remain committed to building an average of 10 ships a year over the Future Years Defense Program, over the FYDP.

In return, I have certain expectations - the Navy and Marine Corps have certain expectations of industry. Those include, given the stability of our intentions that industry will make the necessary investments in infrastructure and that they will train the workforce to continue to operate very efficiently. And that you will take a look, one of the things that you need to look at is how you get and use energy. I also expect, the Navy

expects, to receive the benefit of learning curves. So for each successive ship or batch of aircraft or missiles that are produced, the learning curve goes up, the hours go down and the cost goes down. Some programs are meeting this today, they are meeting it in spades, some are not.

Now some of the ones that are, I want to recognize: the P-8 *Poseidon*, the *Virginia* Class submarines and the *Lewis and Clark* class T-AKEs.

The *Poseidon* has been a good program and a successful program because it is built on the same commercial product line as the 737. It has received the benefit of all the testing and experience of that aircraft, meaning that through integrated testing and modeling, we've been able to cut about 1,100 hours from the test program, and because production is integrated, we think the savings will be about \$20 million per aircraft.

The *Virginia* and the T-AKEs have exhibited an amazing learning curve. Each successive ship has come in cheaper and faster than the one before it. The last T-AKE that was delivered to us came in at an overall 50 percent reduction in man hours compared to the very first ship in the class. That is progress. That is raising the bar.

Let me be clear about something. On budget and on time is baseline – that is a standard, it's not a target from which we deviate. If we can't get together on price and if we can't get together to make it on budget and on time the standard, I am not going to hesitate in this job to down-select or to cancel ineffective or increasingly expensive programs.

Every dollar we spend has to count. Every dollar we spend has to be used efficiently and effectively. And we have to do this partly by streamlining and rationalizing the contracting process.

And this starts by going through every contract. And it's hard and it's boring and it's time consuming and it's one of the reasons I quite being a lawyer. Going through these contracts line-by-line to make sure that the terms of those contracts make sense for what it is meant to do, and that it is fair to both the contractor and the government. I am looking forward to working with Administrator Martha Johnson and the General Services Administration, who buy so much stuff for our government and who have incredible contracting experience, on how to take advantage of their expertise as we continue to pursue our acquisition excellence.

Making every dollar count continues by increasingly using fixed-price contracts. Including when the circumstances are appropriate, incentives based on cost control. We will use cost-plus contracts only for high risk, first-of-class ships and high-risk systems because cost-plus arrangements just expose the taxpayer to too much of a significant cost-risk.

I've had the opportunity to review a lot of the contracts that we've entered into, and I don't think we've always done what I've been talking about in terms of making sure the contracts are fair. Some of the contracts I've looked at have just been downright unfair to the customer, that's us, the government. I'll give you an example:

Under some of our cost-reimbursement contracts, we get to pay to correct defective work that somebody else does, unless it's a result of fraud or habitual carelessness. Sometimes, we've paid two or even three times to reweld sections of hulls because there was a design error in the drawings or because the workforce was inexperienced or because the contractor didn't use the right tools. As the Secretary of the Navy and as a taxpayer, I don't think we ought to have to pay for those mistakes. Now as

I've said, I have a lot of respect for the industry that we partner with because you absolutely make the best ships and the best aircraft in the world, but when things go wrong, it shouldn't be just the government left to make things right.

I'll give you one more example and this one really is egregious. The Navy entered into a contract to purchase a product – an indeterminate number over a period of time. Now the contract said that the Navy had to submit those orders by mail – put a stamp on it and drop it in the mailbox. Over time, technology changed and the Navy began to send some orders by e-mail. Now these were quicker, they were more efficient and they didn't cost the price of a stamp. They were acknowledged by the contractor and they were acted on – we got the stuff that we ordered by e-mail. It never was a problem until the contract starting coming to a close. In the very last order that we sent them, the company said, not only are we not going to honor this batch of orders because it came by e-mail, but they claimed that they were owed tens of millions of dollars beyond the contract price because we hadn't sent the orders my mail. That's not fair. That's nutty. It's not fair to the Navy, it's not fair to the taxpayers and it's not fair to our Sailors and Marines because if we end up paying those tens of millions of dollars in additional money, that's going to come out of something that Sailors and Marines need to do the job that they have to do.

I don't think anybody will argue that we need to make some changes to our contracting processes. And I want to make sure that little things like, you have to send it by mail or by some other way that is reasonably the same, don't happen and that we make these contracts fair and sensible.

Next, we have to do more to make sure we almost enshrine competition. Only about half of our contracts today are awarded after competition between more than one vendor. The effect of this is that we do not take advantage of one of the most fundamental principles of free market economics - competition is good and it creates a more efficient allocation of our resources. That's not true in every case, there are some cases where it just doesn't make sense, but in the main it does. We ought to improve on the numbers of contracts that we competitively award. We ought to be striving to award up to two-thirds of our contracts in a competitive nature and not just half. We'll be able to do this by changing some of the way our contracts are written, by increasing open architecture, by increasing use of multiple award contracts and by securing data rights for follow-on competition.

In addition, we are going to have to expect prime contractors to apply competition in their supply chain, wherever that is possible.

And finally, for those companies that consistently provide superior performance, we are going to invite you to join our Preferred Provider Program, which I expect to put out for comment in the Federal Register in the next couple of weeks. Through this program, we are going to reward contractors with favorable contract terms and conditions and favorable payment schedules in return for consistent and exemplary contract performance. And I want to specifically mention that one of the criteria we plan to use for entry in this program is how energy is used both in the product, and throughout the manufacturing process.

The Navy and the Marine Corps are the most formidable expeditionary fighting force the world has ever known. There has never been a force like the fleet we put to sea

and the Marines that ride with that fleet and fight ashore. We have the best Sailors and the best Marines by a long shot of anybody. We owe them. We owe them the best ships. We owe them the best aircraft. We owe them the best tactical vehicles. But we have to recognize the fiscal conditions under which we operate and we have to do everything in our power to control costs. They're doing their job; it's up to us to do ours. It's because we also owe the people that pay the taxes the promise of fiscal responsibility.

These principles that I've outlined today, I think will allow us to make good on these promises. Building an effective partnership between industry and the Navy will reduce costs and will lead us to the fleet that we need. Because ultimately we all believe in the very same thing, that service is not about doing what's right just for yourself, it's about doing what's best for our country and our future as a nation. We owe that to America and we owe that to the generations that will follow us.

Thank you so much. Let's go do great things.