

Ship Clips: April 25 - 29

A compilation of
articles concerning the Shipbuilding Industry

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Navy Shipbuilding Goals Reachable Despite
Personnel Cuts, Reset Costs

Cuts Stall Defense Earnings

Huntington Ingalls Renews Its Focus on
Safety, Quality, Cost, Delivering Ships on Time

Pentagon to Limit Program Costs Up Front

Sen. Pushes For Shipyard Projects to Move
Forward

Lockheed, Austal's Littoral Ships to Cost At
Least \$37 Billion

Navy Suspends Command's Ship-Repair
Oversight

Navy Shipbuilding Goals Reachable Despite Personnel Cuts, Reset Costs

Proposed personnel cuts, as well as a looming equipment reset bill for the Marine Corps, will not force the Navy to make tradeoffs in its future shipbuilding plan, service secretary Ray Mabus said yesterday. "The shipbuilding plan we have put in is realistic, in today's budget situation," Mabus told reporters yesterday during a Defense Writers Group breakfast in Washington, adding the Navy was not in an "an either or" type of situation regarding the plan and other service priorities.

The sea service's longstanding shipbuilding plan has the Navy hitting a base fleet size of 313 ships over the next few years, with that number reaching closer to 325 in 2020, according to acquisition officials. That buildup will likely top out by the 2020 time frame, when at that time acquisition will taper off from that 325-ship high, due to scheduled retirements of legacy ships and the introduction of the SSBN(X) submarine program.

However, the service will need roughly \$14 billion in shipbuilding investments per year through 2020 to support that plan. While Mabus was adamant that the Navy would not cut corners on other service priorities to get that \$14 billion, it would have some room to maneuver to keep the books balanced. While hefty, that \$14 billion shipbuilding price tag is only 14 percent of the Navy's annual budget, Mabus said, noting the build rate in the shipbuilding plan is giving the Navy "more ships for [that] amount of money."

On Marine Corps reset, the service chief noted that "this bill has been out there" especially with the service bearing the brunt of the White House's troop surge into Afghanistan last year. But with the Marine Corps expected to shrink, in terms of manpower and equipment over the next few years, the service secretary said the final reset bill has yet to be set in stone, adding "you got to take a look at what equipment they need to reset."

The Marine Corps' recently-completed force posture review outlined a plan to drawdown the service by 15,000 in 2015, with the service looking to bolster its intelligence, cyberwarfare and special operations capabilities over the next several years as a way to compensate that cut.

Coupled with the pending troop withdrawals in Afghanistan and Iraq, "it is clear we do not need the same equipment that is being used up, or we do not need all of the same equipment" for the Marine Corps that was required for those combat operations, Mabus said.

While a possibly cheaper reset bill for the Marine Corps could be directed back into the Navy's shipbuilding fund, retaining the right number of sailors and Marines to operate those ships is another matter.

Mabus said the service plans to commence personnel boards scheduled this summer to look at mid-career officers and enlisted personnel, and "remove some of them" or reclass those officers or sailors into areas "that are undersubscribed" within the Navy.

But like concerns over balancing the sea service's books between ships and Marine Corps reset, Mabus said personnel reductions could take place without the shipbuilding roadmap falling off course.

Recent developments in automation and other technologies have dramatically driven down the size of ship crews required for the Navy's future fleet. The service's next-generation Littoral Combat Ship only needs a roughly 80-man crew to run the ship and its weapons systems, compared to the 300 required for the service's Arleigh Burke-class destroyers, Mabus said. Further, the new Ford-class carriers will also require 1,500 fewer sailors compared to the current Nimitz-class boats.

The service's ongoing efficiencies initiatives have also been consistently shifting sailors from "desk jobs" to pier-side billets or putting them out to sea, he added. "By rebalancing the force and changing the way sailors and Marines are used, you can have a larger amount of ships with the force we have today, or a somewhat smaller force," Mabus said

(DEFENSE DAILY 28 APR 11) ... Carlo Munoz

Cuts Stall Defense Earnings

Top defense contractors are expected to report relatively flat first-quarter earnings this week amid general uncertainty about the outlook for U.S. defense spending. But major U.S. weapons manufacturers may have some cause for optimism despite an expected downturn in Pentagon spending: Defense cuts may not go as deep as some feared, and the world is still a dangerous place.

Companies scheduled to release earnings this week include Northrop Grumman Corp., which builds pilotless aircraft including the Global Hawk; Raytheon Co., a major supplier of missiles; and General Dynamics Corp., which builds ships and armored vehicles. On April 13, President Barack Obama proposed cutting \$400 billion in projected U.S. security spending by 2023, part of a plan to rein in ballooning federal deficits. Secretary of Defense Robert Gates, a strong advocate for preserving the defense budget, is planning to leave office this year.

Adding to the gloom, Ashton Carter, the Pentagon's chief weapons buyer, predicted last week that "undoubtedly there will be more cancellations" to major weapons systems. Against that background, defense companies have been bracing for a leaner environment. Over the last 10 years, the defense industry has seen a "rising tide" of defense budgets, said Bruce Tanner, chief financial officer for jet fighter manufacturer Lockheed Martin Corp. "Now growth is going to depend on the portfolio of the company," he said, referring to efforts to focus on core businesses.

On Tuesday, Lockheed reported flat first-quarter profit of \$530 million, or \$1.50 a share, compared with \$533 million, or \$1.41 a share, a year earlier. Sales for the quarter increased to \$10.63 billion from \$10.34 billion, driven in part by increased sales of the C-130J transport aircraft.

Lockheed also makes the F-35 Joint Strike Fighter, the Pentagon's costliest weapons project. Mr. Tanner said the company was set to begin price negotiations with the government for a batch of 35 aircraft. Navy Vice Adm. David Venlet—who oversees the F-35 program for the Pentagon—recently told reporters that no weapons program is "above being looked at" in the current budget environment.

Andrew Koch, a defense industry consultant, said defense spending had reached a "plateau" in recent years. Many companies he added, "have continued to grow profitability by finding greater efficiency, but they can only do that for so long." The president unveiled his deficit-reduction plan following a protracted political standoff over the fiscal 2011 budget. While Washington avoided a government shutdown, the budget fight forced the government to operate under a continuing budget resolution that froze spending at 2010 budget levels, preventing new defense programs from starting and causing major uncertainty for the industry.

Meanwhile, the U.S. military has remained heavily engaged in Afghanistan and Iraq—and more recently became involved in responding to crises in both Libya and Japan. Still, additional defense-spending cuts are likely to be reflected in the fiscal 2013 budget request, which will not be released until early next year.

Loren Thompson, a defense analyst at the nonprofit Lexington

Institute and a consultant to industry, said the administration's deficit-reduction proposal "looks like more of a rhetorical flourish than a major cut."

The proposed \$400 billion reduction in security spending, he said, will be taken out of projected spending of \$10 trillion through 2023.

(WALL STREET JOURNAL 27 APR 11) ... Nathan Hodge

Huntington Ingalls Renews Its Focus On Safety,
Quality, Cost, Delivering Ships On Time

JACKSON COUNTY, Mississippi --
Defense contractor Huntington Ingalls Industries Inc. is focused this year on securing contracts that were held up by its spinoff from Northrop Grumman Corp., working through under-performing contracts and improving performance at its Gulf Coast yards. Newport News, Va.-based HII, which owns the 10,800-employee Pascagoula yard, was officially created last month.

Mike Petters, president and chief executive officer, lauded the spin off as a way to give the company more control over its destiny. HII - which employs 38,000 in Virginia, Mississippi, Louisiana and California - will be better able to focus on its Navy customer and more agile in responding to the marketplace, according to Petters. Completing negotiations on several Navy contracts, he said, is a key priority. "We're going to push on the things our customer cares about," he said. "Safety, quality, cost and schedule - we know that's what our customer cares about." Those have been major points of emphasis since a reorganization of Northrop's shipbuilding sector in 2008, he said.

On April 1, HII's Pascagoula yard was awarded a \$1.5 billion contract to build LPD 26, its 10th amphibious transport dock ship. HII now has \$18 billion in backlogged work that will carry the company into 2018. This year and next year, company Vice President and General Manager of Gulf Coast Operations Irwin Edenzon expects at least one more amphibious transport dock contract to come on line, as well as a continuation of the DDG 51 destroyer program beyond

the first two vessels.

The company could also see more Coast Guard cutter activity, he said, and will begin building the Hamilton (WMSL 753) this summer. Los Angeles-based Northrop announced a plan last July to close its Avondale, La., yard by 2013 and build all future ships in Pascagoula. Avondale is finishing LPDs Anchorage and Somerset, and some of those workers are expected to transfer to Pascagoula. Petters has not counted out additional layoffs in Pascagoula this year, however.

"We have ebbs and flows in our business as the workload changes," he said. "This is the nature of shipbuilding. Sometimes we have to let people go and at the same time we're hiring other crafts."

Petters said he does not expect that dynamic to change anytime soon. Similar to how Northrop's shipbuilding sector operated, HII is divided into Newport News and Gulf Coast segments and retains its key leadership. The Gulf Coast facilities, headed by Edenzon, construct non-nuclear ships for the Navy and Coast Guard, including amphibious assault ships, surface combatants and cutters.

Newport News operations, headed by Matthew Mulherin, maintains a core of nuclear contracts for building aircraft carriers and submarines. In Newport News, "we're not building a grandiose corporate headquarters," Petters said. "We're going to use facilities that are already in place ... and make this as affordable as we can."

(PASCAGOULA MISSISSIPPI PRESS 25 APR 11) ... April M. Havens

Pentagon To Limit Program Costs Up Front

The U.S. Defense Department will need to re-examine the affordability of its major acquisition programs in the wake of a White House-directed soup-to-nuts review of Pentagon roles and missions,

according to DoD's top weapon purchasers.

To that end, the Pentagon has instituted a new weapon-buying policy that puts a price tag on these major programs at the onset, Frank Kendall, principal deputy undersecretary of defense for acquisition, technology and logistics, said April 20. "There are consequences in the choices we're going to have to make," Kendall said at a breakfast with reporters in Washington. "We're just going to have to accept it."

Last week, during a major speech on deficit reduction, President Barack Obama noted that Defense Secretary Robert Gates has already cut about \$400 billion from national security coffers, which the president said can be done again over the next 12 years. The president also called for a major roles and missions review.

"The only thing that the president made clear was that he was speaking of the national security part of the budget, which is predominantly, but not exclusively, the defense budget," Pentagon acquisition executive Ashton Carter said during a presentation at the Heritage Foundation later in the morning. "Obviously, all parts are included."

To Kendall's knowledge, the White House still has not given the Pentagon specific guidance on how much it wants the DoD to cut. This comes as the Pentagon is preparing its 2013 budget proposal, a spending plan that will likely include some of the defense reductions Obama is looking to achieve, according to Kendall.

But no matter the figure, serious program choices are on the horizon.

"We have to take a very hard look at our missions and our capability to do those missions as we do this kind of a review," Kendall said. "This is not just a matter of a budget cut in trying to find money. We've already been through that exercise, essentially with everything we did since the secretary's speech a year or so ago. We put an enormous amount of effort in trying to find efficiencies and get rid of fat."

Over the past year, Gates has overseen a project to find greater efficiencies from within. The services have found \$178 billion in efficiencies. Of that, figure, Gates plans to reinvest \$100 billion, while the remainder would go toward deficit reduction.

This comes in addition to Gates' cancellation of several major programs since 2009, a trend that could continue, Carter acknowledged. "There will undoubtedly be more cancellations of that kind, but we're getting to the point where most programs we now have underway, or which are getting underway, are military capabilities we do need and do want," Carter said. "We need to get them for the money the country can afford to give us."

The upcoming roles and missions review will likely prompt the Pentagon to re-scrutinize existing programs, according to Kendall. "I think we are at a point where we've got to make tough decisions about risk we're going to accept and mission capabilities we're going to have less of to be able to do less in the world," he said. "That's a very complicated, large-scale equation that covers not just our global presence, but conflicts we're in, our future capabilities against future threats."

Program decisions would likely be made after re-examining the force structure, according to Kendall.

But Carter noted that discussion on how to achieve the White House-desired savings levels has to include more than major weapon programs, particularly the \$200 billion the Pentagon spends annually on the acquisition of services.

"We need to take a comprehensive look at our spending, including but not limited to acquisition programs," he said.

Capping the Topline

The Pentagon also has instituted a policy that limits a program's price tag when it is launched. This method was used on the Army's Ground Combat Vehicle, and acquisition officials plan to institute it on the Air Force's upcoming bomber program, according to Kendall. "We start a lot of programs we find out are unaffordable well after we spend a lot of money," he said, noting the slew of weapon programs Gates canceled in 2009.

At that time, Gates canceled the Air Force's Next-Generation Bomber and Combat Search-and-Rescue Helicopter programs, the Marine Corps' Presidential Helicopter program and most of the Army's Future Combat Systems. "Sometimes we kid ourselves about what things will really cost; our estimating isn't always as good as it could be," Kendall said. "But by and large, we should be making those judgments earlier and saying no to people up front."

While this is the future course of action for new programs, for efforts already in the pipeline, "you have to deal with [them] a little bit differently," Kendall said. Earlier this year, Gates told the House Armed Services Committee that the military services are facing numerous modernization

challenges late this decade and early next decade. Kendall noted the Navy's shipbuilding plan, which he called "more realistic now that it has been historically."

Particularly, he referenced the service's replacement for its Ohio-class ballistic missile submarine, the SSBN-X, which has been undergoing a requirements scrub to lower its cost from a projected \$7 billion to \$4.9 billion. The Navy has already chopped \$1 billion off the sub's cost. "We are going to have to make some trades if we're to execute the program as we have it right now," Kendall said. "We have not, I think, fully confronted what those trades are going to have to be. But they're looming.

"I think as we get through our planning processes, probably this year, and maybe take a re-look at the president's guidance, that'll be one of the things we'll have to take a look at," he continued. "Right now, it's not a dramatic bump ... out there a few years, but there is one and we've got to go figure out how we're going to pay for it. It means something else won't get done."

(DEFENSE NEWS 20 APR 11) ... Marcus Weisgerber

Sen. Pushes For Shipyard Projects To Move Forward

KITTERY, Maine - Due to the nation being in what U.S. Sen. Kelly Ayotte, R-N.H., called "a different climate," she advocated Tuesday for moving forward as soon as possible with maintenance and modernization projects at the Portsmouth Naval Shipyard.

Ayotte met with reporters at the gates to the shipyard after taking her "first real, substantive tour" of the naval yard since her election in November 2010. She had visited as a candidate, but on Tuesday was able to tour the USS Virginia submarine and discuss with leadership there some of her efforts on the Senate Armed Services Committee that would impact the shipyard.

"Other shipyards are learning from what goes on in Portsmouth," Ayotte said. "The shipyard is a leader on doing maintenance on the Virginia class of submarines; it's incredible the work that's being done here."

It's the quality of the work and workforce that has made the shipyard's maintenance and modernization projects a priority for Ayotte from her position on the Armed Services Committee. She has also concentrated on cost-savings involved with starting such projects sooner rather than later.

One such project is called P266. It would consolidate workshops on the naval yard, improving maintenance. The Navy included this project in its budget for 2015, but Ayotte said there would be financial benefits to funding it in the 2012 budget.

"If we move the project up and consolidate it, it will save \$8 million," Ayotte said. "As we look at the defense budget for 2012, we want to make sure this project is done sooner because it saves us more money."

The consolidation project would have three phases. Ayotte said she would be pushing for phases one and two to be funded in 2012.

"They have a plan ready and a solid proposal," she said. "They're ready to go forward with this project."

There is already \$100 million included in the 2012 Navy budget for efficiency upgrades, and Ayotte said her tour Tuesday demonstrated to her the importance of some of those items.

"Having seen their proposed energy projects, it's important to get those done because we'll see tremendous cost savings and upgraded efficiency for the capability of work that needs to be done here," she said. "Portsmouth was awarded this money because they were able to show the cost savings."

Ayotte is also a member of the Readiness Committee, and spoke on behalf of the committee's goals when advocating for other future funding and support initiatives for the shipyard.

"As we look at not just this year but the next decade, we want to be sure we have a sufficient number of submarines to maintain the force," she said. "My responsibility as a member of the Readiness Committee is to make sure we remain ready and that the shipyard continues to have what they need for the best maintenance and building of its submarine force."

She stressed these projects are not being funded as earmarks, adding there has been bipartisan agreement to not include any earmarks in the 2012 budget.

She said modernization projects are critical for the shipyard's continued success, especially in light of decreasing Marine Corps' Military Construction program funding.

"This is a different climate," she said. "I'm using my position on the Armed Services Committee to make sure maintenance and modernization are funded. We have to make sure these items get included in the budget for 2012 or beyond."

(FOSTER'S (NH) DAILY DEMOCRAT 20 APR 11) ... Jennifer Keefe

Lockheed, Austal's Littoral Ships to Cost At Least \$37 Billion

The U.S. Navy program to develop and build 55 vessels for close-to-shore operations will cost at least \$37.4 billion -- not including equipment required for a full range of missions, according to new Pentagon figures. Development of the Littoral Combat Ship is estimated at \$3.5 billion and construction of the fleet at \$33.7 billion in inflation-adjusted dollars, according to the estimate disclosed April 15 in an annual Selected Acquisition Report to Congress. Another \$236 million is included for construction of facilities to support the ships.

Prior to the April 15 report and summary, the Navy published only a development cost estimate. Pentagon officials April 8 approved moving the program into the engineering and manufacturing phase -- an act that requires a formal estimate of the procurement costs. Two teams led by Lockheed Martin Corp. (LMT) and Austal Ltd. (ASB) are designing and building respective LCS versions. The first two vessels have been commissioned into the Navy. Six others are under contract.

The 37-page report estimates the ships will cost about \$535 million apiece in fiscal 2010 dollars. It estimates

future-year costs of as much as \$636 million in inflation-adjusted dollars. Those estimates are for ship construction only and don't include money for as many as 64 so-called mission modules -- interchangeable systems on each vessel for mine-hunting, anti-submarine missions and surface warfare against small boats, according to the report obtained by Bloomberg News.

Total Cost Unknown

"More than nine years after the program was first announced and six years after the start of the sea frame procurement, there is still no official Pentagon estimate for the total cost of the LCS program," said Ronald O'Rourke, a naval analyst with the non-partisan Congressional Research Service.

"I'm not sure how many other Defense Department weapon procurement programs of comparable size have proceeded for that long into the procurement phase without an official estimate of total cost," he said in an e-mail.

The mission modules are being developed as a separate program, and there isn't yet a procurement cost estimate, the report to Congress said. The \$37.4 billion figure likely will elevate the LCS's profile as the White House and Congress look for ways to reduce the federal deficit. The White House last week directed the Pentagon to begin a "comprehensive review" to find \$400 billion in spending cuts as part of President Barack Obama's plan to reduce the debt.

Biggest Programs

One area for review is the \$14 billion average expenditure the Navy plans to spend annually on shipbuilding, including the LCS program. Another area is Lockheed Martin's F-35 fighter jet. The U.S. Government Accountability Office in a report said the F-35 is anticipated to require "unprecedented demands for funding," averaging about \$11 billion a year.

The LCS vessels are expected to last about 25 years and cost about \$36.6 million a year apiece to operate or support. That's about \$50 billion over the program's life, when calculated in 2010 dollars, or \$87 billion in inflation-adjusted dollars, according to the report.

Lockheed, based in Bethesda, Maryland, and Marinette Marine Corp. of Marinette, Wisconsin, are working together on one model, while the other is being developed by the Mobile, Alabama-based U.S. subsidiary of Australia's Austal and General Dynamics Corp. (GD) General Dynamics is providing combat systems designed at its Pittsfield, Massachusetts, facility for the Austal vessel.

(BLOOMBERG NEWS 19 APR 11) ... Tony Capaccio

Navy Suspends Command's Ship-Repair Oversight

The Navy has suspended the oversight authority of the local command responsible for supervising ship repairs done by private contractors. The command, called Norfolk Ship Support Activity, has headquarters at Norfolk Naval Station. Staffed by both sailors and civilians, it oversees all maintenance work done by private companies on Navy surface ships in the mid-Atlantic region.

By suspending the command's oversight authority - formally known as its "technical warrant" - the Navy essentially is saying it no longer trusts Norfolk Ship Support Activity to make sure work by contractors is being done properly. The decision follows the discovery of what the Navy has described as serious problems with reports submitted by the contractor who repaired the engines on the Norfolk-based ship San Antonio, which has suffered a string of major defects. The San Antonio was commissioned less than six years ago and already its engines have been overhauled.

The Virginian-Pilot reported last

week that the Navy had launched a new investigation into the San Antonio's repairs after recent audits uncovered the problems with documents related to the overhaul. The contractor that did the work is Earl Industries.

So far there is no indication that the latest repairs weren't done properly, or that more fixes are needed, according to the Navy. Instead, the issue is that the government can't tell, based on reports - reports that contractors are required to provide - which work was done and which wasn't. The Navy said some reports are missing, while others show inaccurate and inconsistent data.

At first, the command that oversees Norfolk Ship Support Activity, the Naval Sea Systems Command, said only that it was investigating the documentation problems and performing independent checks on the San Antonio's engines.

In response to further inquiries from The Pilot, the Naval Sea Systems Command said Tuesday that Norfolk Ship Support Activity's oversight authority had been suspended. A senior Naval Sea Systems Command officer has been sent to "perform technical authority oversight duties until confidence is restored," the Naval Sea Systems Command said in a written statement.

Although the Navy is still investigating and the extent of the problems with the overhaul reports isn't yet known, it's clear that the service believes the issue is serious and that it thinks Norfolk Ship Support Activity failed in its oversight responsibilities.

In addition to suspending the command's authority, the Navy has removed at least one top official. Thomas J. Murphy, who had been the command's civilian executive director since 2004, was replaced last week.

Sources outside the Navy said several other officials at the command were also removed; the Navy has declined to confirm that, saying it would violate privacy rights.

Officials at the Naval Sea Systems Command couldn't say what will be required of Norfolk Ship Support Activity to restore its oversight authority, or how long it might take; that won't be known until the investigation is completed.

Officials weren't aware of any other instances in recent history in which the Navy has suspended a command's maintenance oversight authority. In light of what's happening at the command, the Navy said, it is reviewing quality assurance practices and procedures at all regional maintenance centers. The San Antonio - a first-in-its-class, 700-foot-long amphibious transport dock - has deployed just once since it was commissioned in 2005. In the middle of the deployment, the ship had to stop in Bahrain for weeks of emergency engine repairs.

That was more than two years ago,
and work to overhaul the diesels was ongoing as recently as a few weeks ago.
Only in the past few months has the Navy become convinced that it has finally
gotten to the bottom of the engine problems.
The Navy said Tuesday that plans to send the San Antonio out to sea for
performance tests by the end of April are still on track.

(NORFOLK VIRGINIAN-PILOT 20 APR 11) ... Corinne Reilly