

Remarks by
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Sea Air Space Exposition
Marriott Wardman Park Hotel
Washington, D.C.
Tuesday – April 4, 2006

Thank you, John, for that kind introduction. Distinguished guests, supporters of the United States Navy and Marine Corps, thank you for inviting me to speak to you today. It is an honor to be here addressing so many leaders and supporters across the U.S. Sea Services.

After three months in the job as Secretary, I have some observations regarding the relationship between the Navy and industry that I would like to focus on over the next few minutes.

There are some positive conclusions—but, at the same time, there are warning signs that the relationship between the Department of the Navy and industry, a relationship that won hot and cold wars, is beginning to fray under the tensions of the fiscal and security environments of today and tomorrow.

Our Navy, your Navy, is faced with a great challenge. In simple terms, the Navy must execute two great tasks simultaneously: fighting today's war—while positioning the force for an uncertain future.

At the highest levels, every single day, discussions take place in the context of this sobering reality: we are a nation at war. The range of Navy and Marine Corps operations in support of the war effort clearly shows our focus:

- Aviators over the skies of Iraq.
- Marines on the ground below.
- Seabees building roads, bridges, and schools.
- Maritime security operations at strategic choke points around the world.
- SEAL teams worldwide.

The Navy-Marine Corps team has stepped up to the plate in fighting the global war on terror, and they are making critical contributions everyday. They are also finding new ways to contribute.

The Navy has assumed responsibility for enemy combatant detainees at Guantanamo Bay, Cuba, and at facilities in Iraq. Navy officers will soon be heading six Provincial Reconstruction Teams in Afghanistan, and the Navy is taking command of Joint Task Force Horn of Africa. The tasks and missions Naval forces have been assigned underscore the pressing need to continue to transform the force.

Future operations will require a wide range of capabilities and an evolving focus. Changes to our Naval forces will include a shift in emphasis from blue water to green and brown water missions.

The plain truth is that there is no challenger to the United States in blue water today - and yet we must retain strong blue water capabilities to hedge against future competitors.

We also recognize that there is an increasing need for capabilities closer to the coasts of today's hotspots around the world. Indeed, already we have seen that Maritime Security Operations are increasingly critical to the war effort—not only by impeding the movement of terrorists and their weapons, but also in the intelligence that is collected.

Now - as you are all aware, transforming our forces is particularly problematic from a financial point of view. But it must be done, for our fundamental responsibility as leaders is to position the Navy and Marine Corps for the long term.

A cornerstone of this positioning is shipbuilding—with 313 ships as the goal, up from 281 ships today. An ambitious, comprehensive shipbuilding program is at the center of the transformation that is now underway. Although my focus today is on shipbuilding, this transformation applies in other areas of the Department of the Navy as well.

A steady course has been set, but there are storm clouds on the horizon and we need to alter course to stay clear. We need to arrive at better alignment between Navy and industry. This judgment is based on long experience from an industry point of view, and on recent observations from within the Department.

From where I sit today, I notice an emerging difference in perspective. In industry, the focus is on financial performance—and in particular, the near-term: quarterly earnings and monthly financial targets.

Business executives are forced by a number of factors to focus, almost exclusively, on short-term considerations. The power of the stock market to threaten business viability, the impact of missed earnings on Wall Street, and recent legislation such as Sarbanes-Oxley—all serve to focus business leaders on their fiduciary responsibilities and incline them towards a near-term perspective. In addition, the way compensation packages are typically structured often creates incentives to adopt a short-term mindset.

Thus, “making the numbers” is a constant, inescapable imperative for many of you here today. But an almost exclusive focus on the short-term may lead to an inadequate consideration of long-term, strategic issues that, although discounted today, are vital to a firm's long-term health and the health of the US Navy.

Delivering quality products in a timely manner, investing in processes and technology, and making capital plant improvements all impact the quarterly bottom line—but they are also elements of a long-term strategy that will position corporations for financial success in the years to come. I am not suggesting that business leaders should abandon their fiduciary responsibilities, but there must be a balance between short-term financial goals and long-term considerations.

The Navy has near-term/long-term issues to tackle too. The immediate imperative is to support ongoing operations - while there is also a clear need to position the force for an uncertain future.

The Navy contends with its own set of pressures and incentives. Our acquisition focus is on product quality, delivery schedules, and cost. Balancing short and long-term requirements is a necessary part of our job. Indeed, the nature of our planning forces us to look decades into the future on a regular basis. The normal budgetary cycle includes a recurring requirement for the Navy to submit a 30-year shipbuilding plan and take a position on other long-term challenges. A long-term perspective is thus, in a sense, embedded in the way we do business.

Aside from the divergence in time horizons between the Navy and industry, there is another area that seems to divide us as well. I just do not see the sense of urgency in industry reflective of the fact that we are a nation at war. The behavior of industry reflects, by and large, the general attitude of the public, where people have resumed a routine of normalcy in their lives in the wake of 9/11.

The images of that fateful day—with planes crashing into the World Trade Center and people jumping to their deaths to escape the flames—are becoming a less- pressing memory. But we *are* at war, and our terrorist enemies have not given up.

Given those conditions, an attitude of “business as usual” is not consistent with the needs of the nation. By contrast, during World War II, there was a remarkable sense of solidarity, a feeling that the whole country was in this together. Consider the astounding feat accomplished by industry during World War II, when it produced over 2,000 Liberty ships between ‘41 and ‘45—and another 2,000 Victory ships on top of those.

Industrialists such as Henry J. Kaiser, who had never before built ships, were eager to use mass-production methods in shipyards, and they stepped forward to meet the challenge. And they became national heroes for their leadership. It was the partnership between industry and the military that won that war—and both partners took enormous pride in their achievement.

Today, however, there is a difference between the atmosphere one often finds in corporate America and the atmosphere one finds in the military. With our troops in harm’s way, they are never far from our thoughts, and more importantly, our actions. We know that they must be supported in every possible way—today and in the future.

With ongoing combat operations, the value of capability—in the here and now—can be a matter of life and death. The effort to counter the threat of IED’s in Iraq is an obvious example of where near-term capabilities are paramount.

We are also looking to industry to make necessary adjustments in their operations to reflect changes in the long-term needs of the Navy. A responsive defense industry infrastructure is necessary if we are to continue the partnership that is vital to our national security.

The conditions that determine our shipbuilding program have changed. But the industrial infrastructure that supports shipbuilding is just beginning to face up to that reality.

The nexus between technology and resources is the driving factor behind the dramatic changes in our plans for new ships. The forces at work have, over time, brought the Department of the Navy to a challenging financial position. We are being pulled in two opposite directions.

On the one hand, the Navy exerts constant pressure on itself and on industry to increase the capabilities of our platforms through the application of advanced technology. This costs money. At the same time, the Navy is under pressure to control costs. The greater the capabilities, generally, the higher the costs—which means that the Navy can afford to buy fewer platforms. But that too drives up the cost per ship. Both factors—greater capability and lower numbers of ships—are pushing the cost of shipbuilding to prohibitive levels.

Given that the ships we buy today are much more capable than those that were purchased in the past, we need not go back to the Cold War fleet. But where we are

today is also unacceptable. The upshot is clear: technology has provided us with extraordinarily capable ships but we cannot afford to buy as many of them as we would like.

In the past, the Navy has had shipbuilding production plans that included 34 Spruance class destroyers, 30 Aegis Cruisers, 62 Arleigh Burke class destroyers, and 54 Oliver Hazard Perry class frigates – very large production runs over relatively short periods of time. Needless to say, those production rates are just not feasible with ships like DD(X), CG(X), CVN21, and Virginia class submarines. We need a new shipbuilding model that can cost-effectively provide significant increases in capability at low rates of production.

The end state I have in mind is not achievable just through the normal forces of competition. Competition is ordinarily pursued by cutting costs at the margin—all very good, but not adequate. While beneficial, competition to save a few percent on a product does not generate the capability, quality, or savings we desire.

What is really needed is a competition of ideas. When great minds focus on meeting requirements differently, truly innovative ideas can emerge.

The Navy's new Littoral Combat Ship is a good example of a ship that appears to be winning the competition of ideas. It is a capable, low-cost ship—with missions that include Mine Countermeasures, Anti-Submarine Warfare, and Surface Warfare. It is fast, flexible, and agile, and it meets our emerging green and brown water requirements today. And with modularity and Open Architecture, LCS can be rapidly adapted to meet the requirements of the future.

The competition of ideas to build LCS began several years ago, and the results are starting to come in. In fact, the second ship in the class is now entering a critical phase, and I would like to take this opportunity to officially announce that LCS-2 will be named . . . USS INDEPENDENCE!

USS INDEPENDENCE is named in recognition of one of the founding principles of our great nation, a principle so many Americans have fought and died to defend. INDEPENDENCE, along with LCS-1, USS FREEDOM, are going to be great 21st century ships, with capabilities almost beyond the imagination of what we thought possible just few years ago.

The question we now face is this: How should we approach procurement so as to fully capture the benefits that come from the competition of ideas that is bringing us ships like LCS?

Industry will have to evolve, but the Navy, for its part, also needs to re-think its side of the shipbuilding equation.

First, Congress and the Navy need to stabilize funding so that industry can conduct effective long-term planning. We are off to a good start with the analysis that underpins the Navy's 30-year shipbuilding plan to set the fleet at 313 ships. Now we need to work with Congress and our industry partners to execute that plan.

Second, the Navy needs to do a better job of stabilizing requirements. Scrubbing requirements at the beginning of a program is critical. But we also need to strictly control new requirements in existing programs.

Industry also needs to shoulder some of the burden as well. First, it needs to implement rigorous process improvements such as Lean Six Sigma. Second, it needs to

invest in capital improvements that support low rates of production of high capability systems. And third, industry needs to evolve its workforce to fit the new model.

I submit that industry will have to make some tough workforce decisions. It is a question of shaping the workforce to match the long-term needs of the Nation. This will require management of the demographics of the workforce, and changes in the composition of skill sets within the industry.

Yes, we will work with industry to preserve critical capability for the long-term so that when we need it in the future, it will be available to meet our needs. But we, as a Navy and a Nation, cannot maintain a workforce that is configured for a world that no longer exists.

To re-calibrate the workforce, various solutions must be pursued, to include knowledge transfer, skills retention, and re-training. It is a problem that needs to be recognized and addressed in an aggressive manner.

The Navy is also aggressively carrying out a similar re-shaping of our force. We are examining how we recruit, train, educate, and retain the best people our nation has to offer. We are aggressively shaping our workforce in terms of numbers, and the retention and development of critical skills is one of our highest priorities.

Our people are actually the key component of the Navy's transformation. With so much exciting new technology and improvements in capability coming into view, it is important to recognize that ships and aircraft are only a means towards our goals.

Our Sailors and Marines must—and do—come first. We need to get the right people—and then we need to provide people with the right equipment, the right aircraft, and the right ships. We need to continuously re-think how we train and invest in Sailors and Marines. Designing highly capable ships without the personnel with the knowledge and skills to operate them does not accomplish the goal. Thus, personnel considerations must be key to our plans at every step of the way.

Over the past three months, I have been visiting Sailors and Marines at home and overseas. I am always struck by the quality of our people—their motivation, their specialized knowledge, their patriotism. It is truly inspiring to see what they are doing to defend America's security interests and keep this country safe. We owe it to them to meet the challenges we confront with our shipbuilding and aircraft modernization programs. We owe it the warfighters to provide them with enough highly capable ships to win this nation's wars and preserve global peace.

I do not minimize the scale of the challenges we face. But despite all the challenges, make no mistake—the Navy has come a long way in the past few years, and great changes are underway. At the same time that we are fighting the global war on terror, we are in the middle of a dramatic transformation towards a 21st century Navy with awesome capabilities.

Many new ships and aircraft have entered the fleet or will soon come online. While the Navy has welcomed the addition of the Virginia class submarine and the LPD-17 amphibious ship to its inventory, pain and suffering have attended these births. We must do better. Especially when we consider the revolutionary platforms and weapons systems that are in the offing.

Indeed, there is much to anticipate. LCS, DD(X), CVN 21, MV22, and the Joint Strike Fighter are on the way. Keep in mind that this is a more dramatic expansion in

terms of new ship types and new aviation platforms than we ever saw during the Cold War.

This *is* the transformation of the military that Secretary Rumsfeld has been tirelessly promoting. It is a transformation unlike any I have seen in my lifetime—both in terms of the rate of change and the scope of fleet modernization. We are at an inflection point in shipbuilding and in the defense industry writ large.

It is, indeed, a critical time for our Nation, our Navy, and for our defense industry. We must be able to produce highly capable systems in relatively small numbers. We have all the right pieces, and we have completed the initial steps. We need to continue on a successful track.

I am very proud of the way the Navy and Marine Corps team has answered the call of duty in responding to 9/11, fighting the global war on terror, and transforming the fleet. Their superb performance reminds us that America is a great nation.

The Navy, the Marine Corps, Congress, and industry need to continue working as a team to provide the country with the greatest maritime force in the world. We must all do our part in defending America's position in a dangerous world.

Today, our freedoms are at stake, and we are being tested, insidiously, perhaps as never before. With your continued efforts, we will keep America strong and free. Thank you.