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# Senate Hearings

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## SSN-688-Class Submarine Procurement

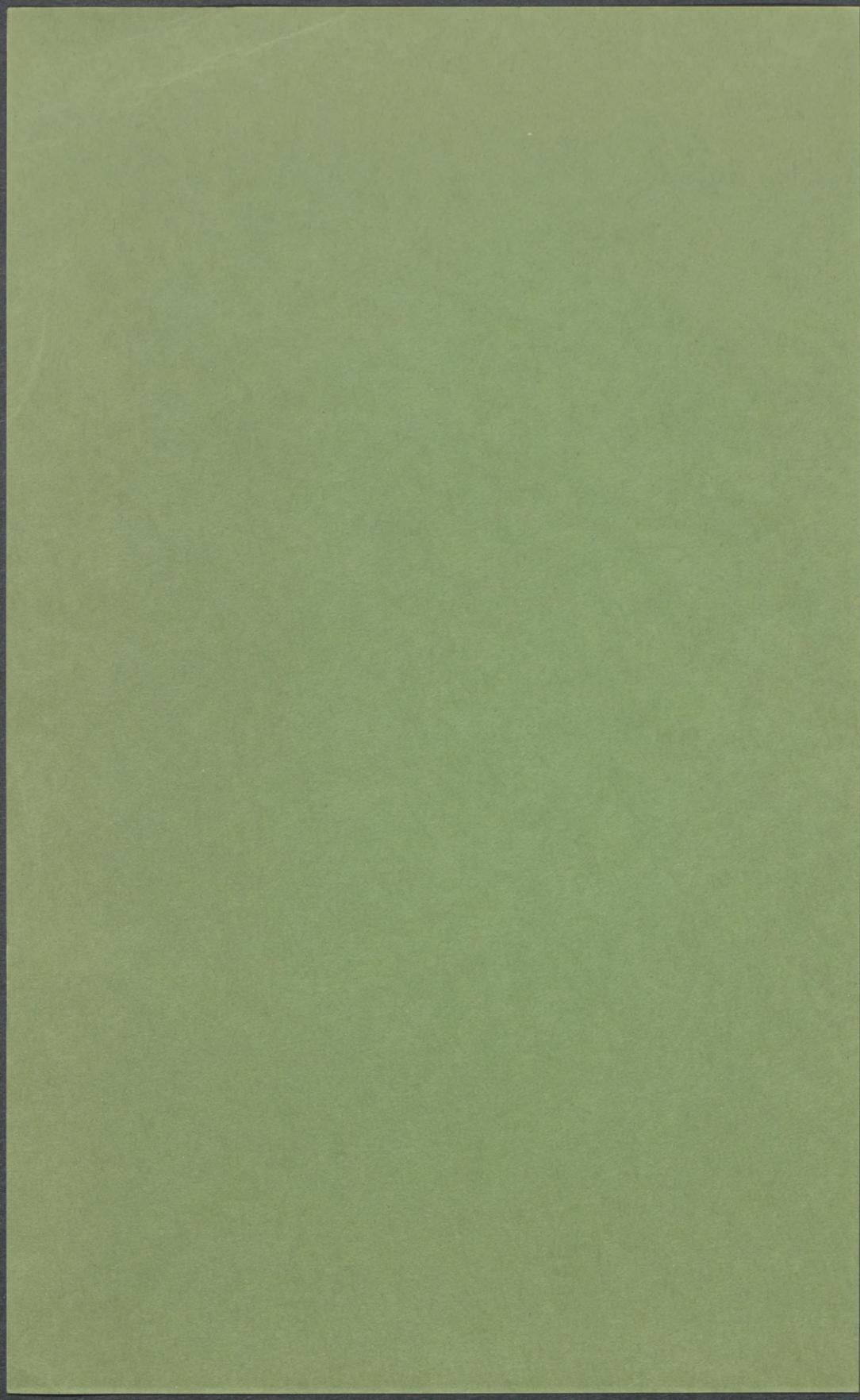
*Fiscal Year 1982*



97<sup>th</sup> CONGRESS, FIRST SESSION

### SPECIAL HEARING

Congressional and Nondepartmental Witnesses  
Department of Defense—Navy



# SSN-688-CLASS SUBMARINE PROCUREMENT

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HEARING  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON APPROPRIATIONS  
UNITED STATES SENATE  
NINETY-SEVENTH CONGRESS  
FIRST SESSION

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SPECIAL HEARING  
Congressional and Nondepartmental Witnesses  
Department of Defense—Navy

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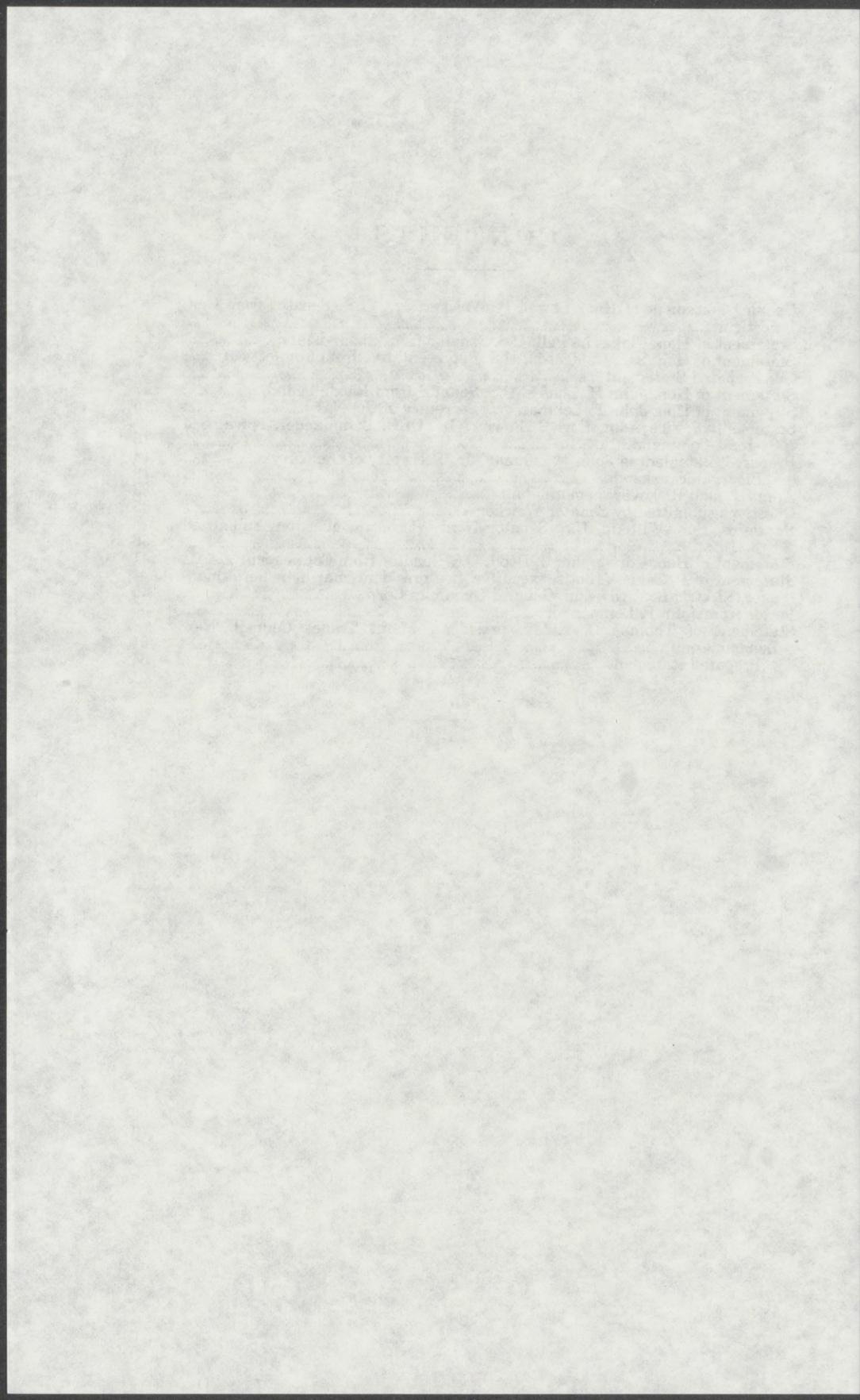
FREDERICK W. RHODES

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# SSN-688-CLASS SUBMARINE PROCUREMENT

THURSDAY, APRIL 9, 1981

U.S. SENATE,  
SUBCOMMITTEE ON THE DEPARTMENT OF DEFENSE,  
COMMITTEE ON APPROPRIATIONS,  
*Washington, D.C.*

The subcommittee met at 11 a.m., in room 424, Richard Brevard Russell Senate Office Building, Hon. Lowell P. Weicker, Jr., presiding.

Present: Senators Weicker, Stevens, Rudman, and Proxmire.

## CONGRESSIONAL AND NONDEPARTMENTAL WITNESSES

### NAVY CANCELLATION OF COMPETITIVE BIDDING

Senator WEICKER. This meeting of the Defense Appropriations Subcommittee will come to order.

I have called this special hearing in the wake of the March 17 announcement by the Department of the Navy that competitive procurement of the fiscal years 1980 and 1981 SSN-688-class submarines has been canceled. This action appears to have taken place without regard to the results of the competitive bidding.

The Navy awarded on a sole-source basis the contract for construction of 3 SSN-688-class submarines to Newport News Shipbuilding & Drydock Co. The Navy's justification for this action was our long-term national defense interest in seeing that Newport News remains a supplier of SSN-688-class submarines and that this type of construction has been diminishing there.

The decision concerning a fourth SSN, which has been authorized, is being held in abeyance.

These decisions came hard on the heels of some devastating and highly publicized testimony before the Congress by Admiral Fowler of the Naval Sea Systems Command. Without recounting that testimony, may I just say that it left an impression with the American people that the General Dynamics Corp.—the Electric Boat Co., in particular—was totally inept, incapable of accomplishing basic structural welds, recognizing nonconforming steel or even applying paint. Public hostility of this kind has of late also emanated from both the Secretary of Defense and the Secretary of the Navy. We intend to examine in this hearing the factual basis for this rhetorical excess.

It is the joint responsibility of the Congress and the Department of Defense to insure the procurement of cost-effective, mission-capable systems to strengthen our national defense. The special oversight responsibility of this committee requires that we get on

record for ourselves and the people of this country the pertinent facts and considerations underlying this situation.

Subsequent to the Navy's cancellation decision, the contractor was allowed to present his side of the story in public hearings and although it could have no effect on the decision, it did contain some enlightening information.

Today we will hear from both the Navy and the contractors, as well as from the president of the Metal Trades Council of New London County, representing the largest union involved in the program.

Although the hearing is convened in reference to SSN-688 matters, any pertinent matters regarding the Trident program will also be heard.

#### FOREIGN PROCUREMENT OF NUCLEAR SUBS

Last, the subcommittee needs to hear more about foreign procurement of our nuclear submarines. It is nice to keep one's options open but pronouncements of such drastic proportions deserve the most detailed examination. In the absence of some startling information heretofore unreleased, I would not lend my support in whole or in part to the offshore procurement of submarines. More importantly, even the talk of such action tends to further divide those who must now work together.

We will be proceeding in open session. Should it become necessary to close because of security considerations, the room will be cleared of all persons except those holding proper clearance and having a need to know.

I note that we have Senator Pell with us.

Senator, why don't you proceed with whatever statement you have?

#### STATEMENT OF HON. CLAIBORNE PELL, U.S. SENATOR FROM RHODE ISLAND

##### EXPANSION OF U.S. SHIPBUILDING PROGRAM

Senator PELL. Thank you very much for letting me share my concerns with you this morning, and I am particularly pleased that you and your subcommittee have taken the opportunity to scrutinize this shipbuilding program.

I think we all share the view that there is no single issue more important to our key national defense than the expansion of our nuclear-powered submarine fleet; they are the real capital ships of the future; they are critical to our national security, but I think even from the civilian viewpoint they have tremendous appeal.

You are probably familiar with the old triplet that says, "put the weapons out to sea, where they fall away from you and me, and the real estate is free." I think that this thought permeates many of us at this time.

The Reagan administration has placed a very high priority here, and I applaud them and support the administration's goal of expanding the U.S. shipbuilding program for many of our surface ships as well as the concern of stepping up production schedules to get more nuclear-powered submarines into the water.

## CONCERN OVER CONTRACT AWARDS

I am deeply concerned, though, by recent actions taken by the Navy with regard to contract awards. As you know, last month the Navy terminated the normal competitive bidding process and directed an award to Newport News Shipbuilding Co. for three of the four SSN-688-class submarines authorized in the 1980 and 1981 programs. This action was taken 12 months after both Newport News and Electric Boat had submitted competitive proposals for these ships, the direct reversal of the much vaunted course of this administration to go more into the sector of private business, competition and the like.

This situation has called into question the future relationship between Electric Boat and the Navy and created the impression that the Navy was seeking to penalize Electric Boat for problems that have delayed production on both the Trident and the 688-class submarines, and those concerns are intensified when the Navy allowed an option with Electric Boat to expire for the construction of the ninth Trident submarine.

I believe your hearings, Mr. Chairman, will fully explore the reasons for these actions and shed much light on the relationship between Electric Boat and the Navy. In my view, the Navy's chief procurement concern should be in getting the maximum amount of security for each tax dollar spent on its programs. I don't believe the Navy's decision last month is consistent with that goal, and I trust your committee will ascertain whether the Navy intends to return to competitive bidding in awarding a contract for the fourth 688 attack submarine later on this year, and also whether they will carry out their present intention to make sure that competitive bidding is required for the hull section.

## CAPABILITY OF QUONSET POINT SHIPYARD

I know you share my concern that the Navy's abrupt decision last month does not signal a general policy of allocating contracts in the absence of a competitive process. Recently, in the last few weeks, I have made two separate visits to the Quonset Point shipyard of Electric Boat. These visits have bolstered my conviction that we have a first-class shipyard, manned by very experienced and professional shipbuilders, very young in age, and we can compete anywhere in the Nation as long as we are permitted to compete.

At Quonset Point, Electric Boat has invested one-third of a billion dollars for advanced technology to reduce the manhours and the cost of building submarine hull cylinders. This facility is without parallel in this country and I believe in any country, and it is the Nation's and the Navy's most efficient source of hull sections for nuclear-powered submarines.

It would cost the Navy or another shipbuilder—God forbid—in this country at least \$800 million at today's cost to duplicate that technology.

I am proud of the men and women who work at Quonset Point and at Groton and the role they are playing in the Nation's defense. Wide fluctuations in employment levels have brought to Quonset Point devastating consequences for the lives of the men

and women working in this program. These fluctuations hurt the productivity of the shipyards and the ability to stay on delivery schedules expected by the Navy.

Electric Boat has had its share of problems in the past and the Navy's concern with production capacity and delivery schedules is understandable. No contractor, though, should be penalized for problems which are already been confronted head on by the shipbuilder which are capable of resolution and where there is good will. Let us put these problems behind us and get on with the important work of building truly capital ships—the submarines.

Thank you.

Senator WEICKER. Congressman Gejdenson is here, from the Second District of Connecticut.

Congressman, we are pleased to hear whatever you have to say.

STATEMENT OF HON. SAM GEJDENSON, U.S. REPRESENTATIVE FROM CONNECTICUT

#### QUALIFICATIONS OF ELECTRIC BOAT FACILITY

Mr. GEJDENSON. Thank you, Senator, for giving me this opportunity to appear before your subcommittee, and also it is a pleasure to appear before one of my most distinguished constituents in representing the Senator's hometown. I also have the privilege of representing Connecticut's other Senator, Senator Dodd.

I am going to briefly go over my testimony, since Senator Pell has covered many of the areas that I had planned to discuss, and just highlight some of the things that I believe to be important.

I am not here simply as the Congressman from the Second District and the 25,000 men and women who work at Electric Boat, but also as a member of a concerned Congress, who share that responsibility, which is to see that we have a first-class defense capability and a first-class defense industry that is able to supply us with the needed equipment.

The administration in the last 10 weeks has raised several questions, one concerning Electric Boat's ability to deliver a quality ship in a timely manner, and it has circumvented the competitive bidding procedure and has discussed Government-run shipyards as another option, and also the possibility of building our submarines overseas.

The Navy has sent no clear signals to Electric Boat, to the 25,000 workers there, or to the men and women of this Congress, as to what their plans are to date. I am hopeful of recent actions by the Secretary of the Navy in visiting Electric Boat's Quonset Point facilities and talking with working men and women at Electric Boat to deal with any of the remaining problems. I would hope that the Navy would realistically focus on the options that are before us and consider if they truly serve this Nation's interest.

#### CAUSES OF PRODUCTION DELAYS

First, I would like to discuss some of the delays.

Without any question, Electric Boat shares in the blame. Some of the problems were clearly the management of Electric Boat, but without any question it is not simply Electric Boat that caused the delay in the Trident program or delays in the 688 program.

There were 25,000 change orders on the Trident alone. Some of the equipment furnished by the Government was defective and had to be replaced, causing a long-term delay in the shipbuilding procedures. There were changes in the technologies from when the program was first instituted to when completion of the sub actually began, and all of those things led to the delay.

I think the most apparent example would be if you went to a contractor and asked him to build you a 4-bedroom house, and during the course of the contract you recognized the need for additional rooms and decided you needed a 10-bedroom house. To expect Electric Boat to deliver that product on the same time schedule, when you consider the changes, I believe, is unrealistic.

The overseas option is one that I think we can dispense with quickly. I don't believe there is a Member of Congress who is concerned about America's defense that would realistically look to going to overseas yards for building our submarines—one of the most important links of the Triad system.

The public yards' record speaks for itself. The last two submarines built at public yards are now sitting at the bottom of the ocean. The public yards have not been producing or building submarines in the last 10 years. Their record of overhaul is not one that would indicate they could build submarines either for less money nor in a more timely fashion than Electric Boat has done.

The final aspect of what has happened here is the breaking of the bidding procedure.

I would hope that the last submarine of the 688 class would be brought back into the bidding process. This administration has had two clear signals to the American people and the Congress that many of us applaud, that is, making the Government more efficient, and that is, furthermore, seeing that it is not the Government that goes into the private sector, that Government doesn't start doing things that the private sector does much better and where it is traditionally done.

#### PUBLIC VERSUS PRIVATE SHIPYARDS

Newport News and Electric Boat are the places where shipbuilding ought to be done. We should build our submarines in our private yards and not look to making the tremendous investment of capital, hundreds of millions of dollars, to start public yards building submarines; and, furthermore, the 5,000 to 8,000 additional Federal employees that we would need to be able to undertake this kind of program.

I think if you look at other Government programs, whether it was the first 688 out of Newport News some 26 months late, or one of the amphibious assault vehicles built by Litton Industries, 36 months late. The record of Government dealing with industries, where there have been problems, has been to work with them and not simply constantly point out the problems and aggravate the situation.

I hope that we are reaching that point now and I see our sitting down and trying to address any of the remaining problems, and that is the way we should be approaching this problem.

The Secretary of the Navy has indicated to us that he will respond by the middle of next week to our letters asking about the

hull sections being put out to competitive bid, and that the final 688 be put out to bid.

What we need is the kind of consistency in our defense program that will let Electric Boat and other defense contractors utilize the manpower that they have developed over the last 5 to 6 years, having a work force in place. It is now important that we have a steady flow of work so that it is not disrupted.

PREPARED STATEMENT

I thank you for this opportunity to appear before your subcommittee, Senator, and I will be happy to answer any questions. I offer my prepared statement for insertion in the record.

[The statement follows:]

PREPARED STATEMENT OF SAM GEJDENSON  
U.S. REPRESENTATIVE FROM CONNECTICUT

Senator Weicker, Members of the Subcommittee, I want to thank you for providing me with the opportunity to testify here today. It is my hope that this hearing can help to clear the air on some of the controversy that has existed during the last two and a half months about the role of the Electric Boat shipyard in our country's submarine shipbuilding program.

I appear before you today not only as a representative of the residents of Eastern Connecticut and the 25,000 men and women who work at Electric Boat, but also as a member of Congress concerned, as I believe all of us are, about our nation's defense capabilities and our nation's economy.

Since January of this year when the new Administration came into office there have been a series of action from the Navy that question the ability of the private sector in the United States to meet the building requirements of the U.S. Navy. Specifically the Administration has:

- severely criticized the quality and speed of work at the Electric Boat shipyard;
- circumvented the competitive bidding process for the construction of fast attack subs;
- suggested that a government run sub building shipyard is an option worth seriously considering; and
- openly discussed the possibility of building the Trident submarine, a crucial part of our defense triad, overseas.

What we have seen in recent months is a legitimate concern on the part of the Administration about the progress of the nation's sub building program.

What we have also seen is an Administration that is sending few clear signals about where this country's sub building program is heading. This has been, consequently, a period of great uncertainty for Electric Boat. The

controversy surrounding the criticism of the shipyard disturbs me greatly for one key reason. It has done nothing to benefit anyone in this country. The controversy has done nothing to strengthen our defense, it has done nothing to help Electric Boat do its job better and it has done nothing to improve the lives of the men and women who work at Electric Boat. What this controversy has done, I am afraid, is to create a climate that makes it difficult for EB and other defense contractors to engage in long term planning for investment and manpower. If the controversy continues, it will seriously harm the industrial defense base of this nation.

I am hopeful that the climate can be improved for defense contractors and EB in particular. The Navy Secretary's statement on Tuesday of this week in Rhode Island suggests that he is willing to look to the future and do what he can to work closely with Electric Boat to address whatever problems may currently exist at the yard.

I would like to do what I can today to aid in further improving the situation. What is needed is a greater degree of certainty and direction for the country's sub building program. To accomplish this we need to focus our attention on those things worth discussing, and not far fetched alternatives that make headlines but are so unrealistic that privately defense department officials reject them without hesitation.

I would like to address three areas in detail - the concern about delays in delivery, alternatives that have been proposed to the Trident and proposals for the opening of a Navy shipyard.

A key concern of Congress and the Administration has been the delay in the delivery of subs from Electric Boat . I am not here today to defend EB's delivery schedule but I do want to provide a perspective on what I believe has been

a very one sided discussion about EB's ability to deliver boats on time.

Deliveries have, to be sure, been delayed and in some cases for considerable periods of time. EB is not free of blame for some of these delays. But neither is the U.S. government given the 25,000 design changes, the provision of faulty equipment and the rapid changes in technology that have occurred during the design and construction of the first Trident.

A comparison of the record of other shipyards with the record of Electric Boat shows that while the over two year delay in the Trident, caused both by EB and the Navy, is disturbing it is not unprecedented. When the Navy contracted for the fast attack sub with Newport News, the first delivery was 26 months late. When the government contracted with Litton Industries for the amphibious assault craft, it was delivered 38 months late.

In the past when we have had construction delays in defense equipment our reaction has not been to turn our back on the private sector but work with them in dealing with the problems they are experiencing. If the critical defense needs of this nation are to be met, government and industry must work together as partners and not consider each other adversaries.

I would now like to turn to a discussion of the alternatives that have been proposed by the Navy to our current reliance on the private sector in the United States for sub construction - the use of overseas facilities or a Navy shipyard.

Both proposals have shocked many members of Congress. Does anyone seriously believe that a foreign shipyard or a government run shipyard can, starting from ground zero, outperform an operating company in the private sector with skilled employees in place?

Those that hold this belief must have a very pessimistic view of the quality of the American worker, the quality of American business and the economic capabilities of our nation. The Reagan administration is the last place I would expect to find people holding those views. Surprisingly enough, that is exactly where these proposals are coming from.

A discussion of the overseas option can be short and to the point. Building the Trident outside the United States, in addition to being a real slap in the face to American industry and American workers, would present security problems of monumental proportions. Additionally, there is little evidence that any other country, with the exception of the Soviet Union, has the ability today to construct a Trident. This option should be rejected and rejected quickly by the Administration. I do not believe there is a single member of Congress who is truly concerned with the security and defense of our nation who would support the overseas alternative. Nothing can be gained by continued discussion of this issue. Let's put it to rest as soon as possible.

This nation has invested hundreds of millions of dollars and years of planning and hard work in the Trident program. It is a crucial part of our defense plans. The program is well underway. We will have the first Trident as part of our fleet by the end of this year. We should not be considering turning our back on the Trident program just as we are beginning to get a return on our substantial investment.

The Navy, eight days ago, signaled its intention to award the contract for the ninth Trident to Electric Boat. Contract negotiations, the Navy said, are expected to be completed by September 30. Let's move ahead and work out a contract, before September 30 if possible, that will minimize problems between builder and customer and can serve as a model for contracts to come.

We are left with one remaining option that the Navy has proposed. It is the option of building submarines at Navy shipyards. It is an option I strongly oppose but I expect it to be one of the major issues in the entire 1981 debate over the nation's sub building program.

I am heartened by Secretary Lehman's comments made at Electric Boat earlier in the week that though he is considering the idea of a public shipyard, it is not one that he has any great fondness for.

A Navy shipyard for submarine construction may have been needed many years ago but it does not make sense today. I believe Congress and the American public will find it very difficult to support any proposal to hire and train five to eight thousand more government employees and spend several hundred million dollars to improve a Navy shipyard so that it can construct submarines again -- especially since a public yard would produce submarines at a cost that would far exceed the cost the private sector would charge for the same product.

The record of the work completed at Navy shipyards during the 1960's strongly suggests that the nation's defense interests will not be well served by putting the government back in the sub building business. One need only look at the record of Navy yards in overhauling subs during the 1970's to see that a Navy yard would cost more and do an inferior job when compared with the private sector.

I have a basic faith in the ability of the private sector to meet the construction needs of the U.S. Navy. I do not believe government has any business getting involved again in the construction of submarines.

Let's focus our discussion on courses of action that make sense to pursue. Let's set a course that will provide the stability that will give Electric Boat the chance to plan for the future and improve its productivity and performance in the years to come.

Secretary Lehman deserves credit for his statements in recent days that we should not dwell on the problems of the past. The joint Navy - General Dynamics performance audit of Electric Boat is scheduled to be completed in mid-April. Undoubtedly problems will be found, problems that we should begin to address in a constructive fashion. No shipyard the size of Electric Boat will ever be problem free but great improvements have been made in the last few years and more improvements can come in the future.

On March 20 of this year after the Navy's decision to take three of the four 688 Class submarines out of the competitive bidding process, the entire House delegations of Connecticut and Rhode Island joined with Senators from our respective states and urged the Navy Secretary to keep the fourth 688 Class sub in the competitive bidding process and to establish a competitive procurement process for the hull cylinders for the 3 subs awarded to Newport News. I am pleased that the Navy has favorably received the suggestion for competitive bidding on the hulls. The Secretary's office has indicated that he will formally reply to our letter late next week. We eagerly await his reply.

Thank you very much for your invitation and your actions encouraging testimony from a wide range of witnesses.

**STATEMENT OF HON. JOHN H. CHAFEE, U.S. SENATOR FROM RHODE ISLAND**

**STATISTICS ON LATE DELIVERIES**

Senator WEICKER. Thank you very much. I don't think that there are any questions.

I will be up at Mystic on Saturday and I have a few complaints about the Postal Service, and I will talk with you.

Senator CHAFEE. I wonder if the Congressman could give us those statistics that he had on late deliveries in some other classes? What were those that you mentioned?

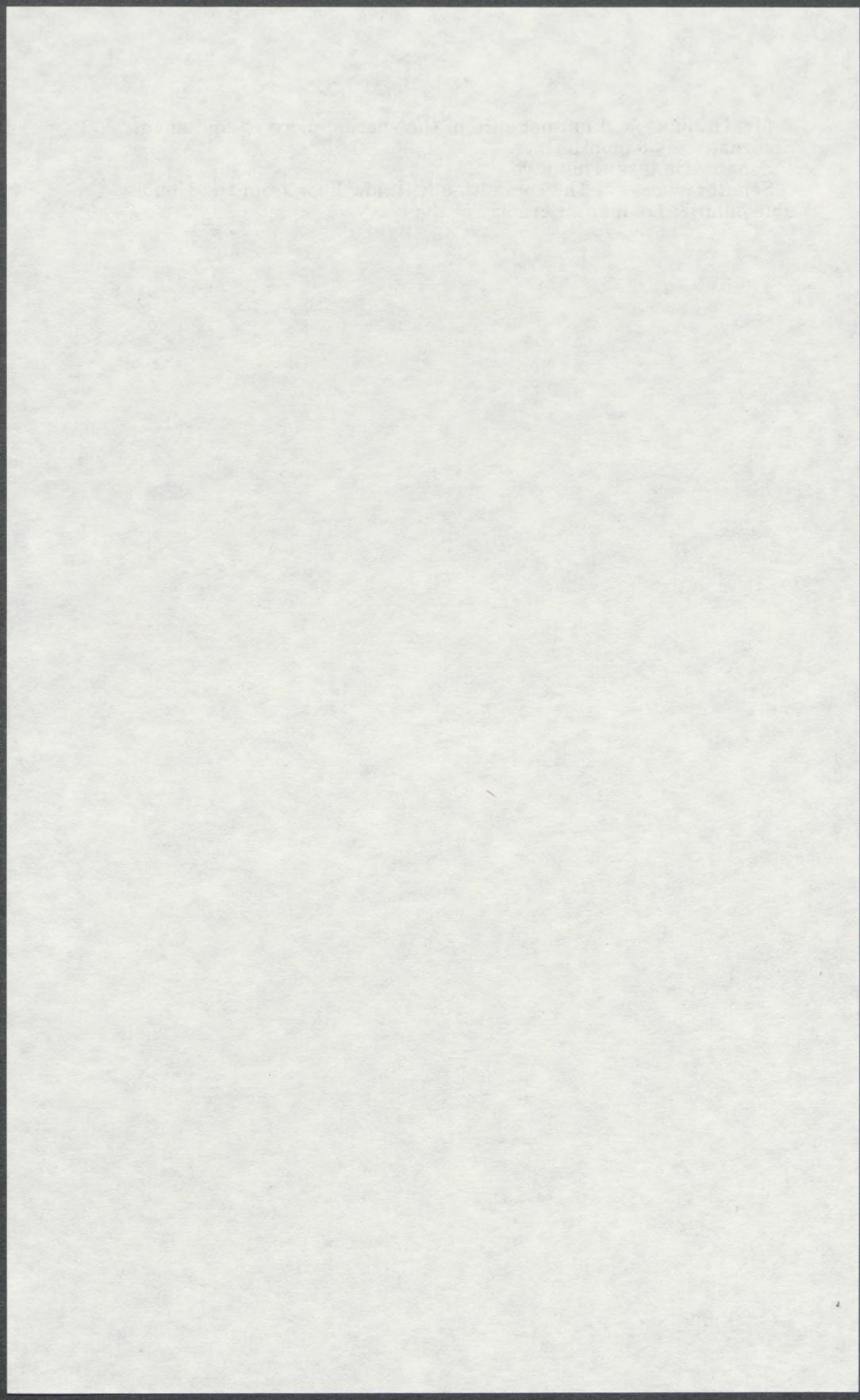
Mr. GEJDENSON. The first 688 out of Newport News was 26 months late, and the first ship Litton Industries made was an amphibious assault vehicle.

Senator CHAFEE. That must have been the LHA.

Mr. GEJDENSON. I am not sure of the specific piece of equipment; and that was 36 months late.

Senator CHAFEE. Thank you.

Senator WEICKER. The committee will now hear from the Honorable John F. Lehman, Secretary of the Navy.



## DEPARTMENT OF DEFENSE

### DEPARTMENT OF THE NAVY

STATEMENT OF HON. JOHN F. LEHMAN, SECRETARY OF THE NAVY  
ACCOMPANIED BY VICE ADM. EARL B. FOWLER, JR., USN, COMMANDER,  
NAVAL SEA SYSTEMS COMMAND

#### REMARKS BY SECRETARY OF THE NAVY

Senator WEICKER. Mr. Secretary, it is nice to have you with us.

Secretary LEHMAN. It is a pleasure to be here. I have asked Vice Admiral Earl Fowler, the Commander of the Naval Sea Systems Command, to accompany me and assist in answering questions of the subcommittee.

I have submitted for the record a brief statement outlining the Navy's position. It is pretty well known, from the actions taken in recent weeks, so I don't see any need to recapitulate the details of that statement.

#### ADMINISTRATION CONCERNS OVER SHIPBUILDING DELAYS

Let me instead say that the President and the Secretary of Defense are deeply concerned about the balance that now exists in strategic weapons and in naval forces. Indeed, the only major strategic modernization program that we have today is the Trident program. Because of delays in other strategic programs it therefore carries a heavier burden in maintaining a stable deterrent and in beginning to close the gaps in counterforce and overall war-fighting capability that are the foundations of strategic deterrence.

That heightens the President's concern about the health of the Trident submarine program.

The nuclear attack submarine program is perhaps the most valuable element of our war-at-sea, war-fighting capability. There the imbalance has grown and is equally disturbing.

Last year the Soviet Union delivered some 13 or 14 submarines. We delivered one. They are building nuclear submarines at a steady rate on the order of 10 per year. The current balance in attack submarines is more than 3 to 1 against us. This is a situation that we as an island power simply cannot accept, and we can't wait to begin to change it. We have to move out at once. The budget that we have submitted this year reflects an effort to close the gaps and to increase the nuclear attack submarine program to a steady rate of about three to four a year, possibly more in the out years.

We need an industrial base that is reliable and efficient in producing those submarines. Those requirements are not any longer flexible. We have let the urgency languish for too many years. We don't have the luxury of deferring action on these issues and awaiting a clearer picture to proceed.

Therefore, the President has an obligation of the highest order to see that we do produce Trident submarines and SSN-688's at a rate that will avoid a disastrous imbalance from being upon us in the very near future.

#### ALTERNATIVES TO BUILDING SUBMARINES IN PRIVATE YARDS

It is my intention, and it is the orientation of this administration, that those ships be built in private yards. But they must be built and they must be built at rates that will maintain that balance. We therefore must look to alternatives in the event that we find that the current producing private yards' structure cannot produce submarines at the rate we must have them; and we are doing this.

But, at the same time, our highest priority is to work with the private yards to see that every possibility and every effort is made to enable them to meet the requirements that I have just stated. We are doing that now.

#### NAVY/INDUSTRY COMMITTEE TO SOLVE PROBLEMS

I don't want to dwell on the problems of the past. They have been adequately aired by all parties before Congress this year.

What we want to do is learn the appropriate lessons from those disputes and those difficulties of the past without dwelling overly long on "who is to blame" and "where the fault is." We want to use that experience to correct such dysfunctions as may now exist, and we are making the fullest effort to do that at this time.

It was announced almost two weeks ago that General Dynamics and the Navy have appointed a committee of six—not two committees of three, but one committee of six with three representatives from each side—to work in examining what the difficulties are and what the real facts are, and to see what procedures might be ascertained as to the correction of problems that still may exist. It will then identify measures by which you, I and the Secretary of Defense can judge whether the problems are being solved, or have been solved, and provide us the basis to make a decision, before the end of this year, for the long-term to meet the separate requirements that I have outlined.

I think that working group has been a success so far. They have been working very hard. Both sides have been fully forthcoming.

All information and data that they have asked for have been provided by both sides and they report to me that they feel they are making real headway. We hope to have a final set of recommendations from that group by the 15th of this month. We will be sharing those recommendations with you and outlining to you the steps that both sides are going to be taking to carry out those recommendations.

#### AWARD OF FOURTH FISCAL YEAR 1981 SSN-688

I hope to have a basis in the near term after that to decide the way in which we will contract for the fourth remaining 1981 SSN-688, and we will proceed on that basis in the 688 program. In no way do I believe that decision should delay the final delivery date of that 688, nor that of the two 688s in the 1982 budget.

## DISSATISFACTION WITH PAST TRIDENT CONTRACTS

On the Trident program—I am personally not satisfied with the way we have been contracting in the past on the Trident submarines.

The Trident submarine is being built in only 1 yard. Therefore I believe we have to take special care in the way we contract so that there is a strong incentive to produce on schedule and on cost, and have adequate sanctions for failure to produce in that manner.

Different dynamics apply to monopoly situations than to competitive situations. That is a truism. I have to be convinced that the Nation's interest, in so crucial a strategic program as the Trident program, can be fully served by monopoly. I have an open mind, but I believe in competition, and that has to be balanced in the case of the Trident against the sheer magnitude of the task of building those submarines. Therefore, we are looking at alternative ship designs and alternative places to build that class. Any alternative will involve additional cost. Therefore, that is a deterrent to proceeding on that basis. We want General Dynamics to adequately convince us in the Navy, and convince you in the Congress, that the traditional problems of monopoly can be adequately dealt with in contracting. That is what we are looking at as we reexamine the ninth Trident boat that has been appropriated.

## FUNDING FOR FISCAL YEAR 1982 TRIDENT

I fully support, and urge you to proceed to appropriate, what I hope will be authorized as the 10th Trident boat in the 1982 budget, because no matter what happens, a year's delay by Congress will be a full year's delay in delivery of the 10th boat, wherever that boat is built.

I see no problem in Congress providing the kind of fencing needed to fully satisfy this committee, and the Congress itself, that we have a firm and realizable program to proceed with that boat before any monies are spent. But if it is not appropriated this year, it will be a full year later before we can start negotiating a contract for that 10th boat, whether it is at Electric Boat or somewhere else.

## CURRENT ASSESSMENT OF PROBLEMS AT ELECTRIC BOAT

Let me close by saying that I am personally optimistic that we can resolve our problems with Electric Boat and that we can satisfy ourselves and help Electric Boat to meet its pledge that it can build up to two Trident submarines a year and three of the 688's.

We are a long way from being out of the woods and there is much more to do. My current assessment is that I am hopeful that we are going to be able to resolve this before too much longer.

Thank you very much.

## PREPARED STATEMENT

Senator WEICKER. Thank you very much. Your prepared statement will appear at this point in the record.

[The statement follows:]

## PREPARED STATEMENT OF HON. JOHN F. LEHMAN, JR.

## SECRETARY OF THE NAVY

Mr. Chairman and members of the Committee, it is a pleasure to appear here before you today. I welcome this opportunity to discuss the Navy's TRIDENT ballistic missile submarine and SSN 688 Class attack submarine shipbuilding programs and to answer any questions you may have regarding the direction we are taking and the rationale in support of recent decisions in this regard. I have with me today Vice Admiral Earl B. Fowler, Commander, Naval Sea Systems Command who will assist me in addressing any questions you may have on these programs.

On the 17th of March, I advised the Congress of my decision to cancel the ongoing competitive procurement of the Fiscal Year 1980 and 1981 SSN 688 Class submarines and of my plan to award three of these submarines to Newport News Shipbuilding and Dry Dock Company.

The basis for this action is my fully considered determination that the award of the submarines to Newport News is necessary in the interest of national defense so as to have Newport News available as a supplier of SSN 688 Class submarines at a level necessary in the case of national emergency and for the increased submarine construction program required to maintain the desired SSN force levels.

Since no award had been made to Newport News for nuclear submarine construction since September 1977, a decline in employment of specially trained submarine structural tradesmen had begun this year. With no new submarine construction work commitments, a decline in other submarine trades would have followed. Award of three FY 80/81 submarines will halt this decline and sustain the SSN construction capability at Newport News.

On March 31st a decision was made not to exercise the option for the ninth TRIDENT submarine (SSBN 734) that had been negotiated with Electric Boat as part of the contract for the eighth TRIDENT. This action was taken because of serious concern for the TRIDENT submarine construction program at Electric Boat. I consider it prudent to defer negotiation of that contract for the ninth TRIDENT submarine until the completion of a thorough review of our entire submarine construction program at Electric Boat.

To that end, and with the wholehearted cooperation of Mr. David S. Lewis, Chairman of the Board of General Dynamics Corporation, senior representatives of General Dynamics have been, and at this moment are, meeting with my personal representatives to ascertain what the current conditions are at Electric Boat, what new procedures or actions may be warranted, and to advise me as to how EB can achieve the delivery dates and target costs which it is now projecting for all SSN 688 and TRIDENT Class submarines under contract. This committee will also identify milestones by which to measure performance over the coming months.

I am optimistic that the actions we are taking will lead us to a prompt solution to our current difficulties.

BIOGRAPHICAL SKETCH

JOHN F. LEHMAN, JR.  
SECRETARY OF THE NAVY

On January 23, 1981, President Reagan announced the selection of John F. Lehman, Jr., to be Secretary of the Navy. He was confirmed by the Senate on January 29 and took the oath of office on February 5, becoming the 65th Secretary of the Navy.

Mr. Lehman is a businessman, a scholar, an author, a Naval Reserve Lieutenant Commander and Flight Officer and is one of the youngest men to be appointed Secretary of the Navy.

Prior to this appointment, Mr. Lehman was President of Abington Corp., a Washington, D. C.-based management firm that specializes in defense matters.

Mr. Lehman has been involved intimately in defense and foreign affairs since the late 1960's, when he was a staff member of the Foreign Policy Research Institute from 1967 to 1969 at the University of Pennsylvania. From 1969 to 1974 he served as Special Counsel and Senior Staff Member to Dr. Henry Kissinger on the National Security Council, and from 1974 to 1975 was a Delegate to the Mutual Balanced Force Reduction Negotiations in Vienna. He became Deputy Director of the U. S. Arms Control and Disarmament Agency in 1975, holding that position until 1977. Since 1977 he has also served as Chairman of the Republican National Committee's Defense Advisory Committee.

Upon graduating from the La Salle College High School, Mr. Lehman enrolled in St Joseph's College, where he earned a B.S. in International Relations in 1964. That same year, Mr. Lehman enlisted in the Pennsylvania National Guard. In November 1966 he transferred to the Air Force Reserve. He continued his education at Cambridge University in England as an Earhart Fellow and graduated in 1967, receiving a B.A. with Honours Law and an M.A. in International Law and Diplomacy. He left the Air Force Reserve and accepted a direct appointment in the rank of Ensign in the Naval Reserve in January 1968. He since has been promoted to Lieutenant Commander and designated a Naval Flight Officer (bombardier-navigator) with the Naval Air Reserve Unit, assigned to Medium Attack Wing One, Naval Air Station, Oceana, Virginia. In 1974 he earned his Ph.D in International Relations from the University of Pennsylvania and was a Visiting Fellow at Johns Hopkins School of Advanced International Studies in Washington, D. C.

Mr. Lehman has authored or co-authored several publications on national and international defense and foreign affairs subjects. They include: The Prospects for Arms Control, ed. by J. E. Dougherty and J. F. Lehman, Jr. (McFadden: New York, 1965); Arms Control for the Late Sixties, ed. by J. E. Dougherty and J. F. Lehman, Jr. (Van Nostrand: Princeton, 1967); The Executive, Congress and Foreign Policy, by John Lehman, Praeger (New York, 1976); and Aircraft Carriers: The Real Choices, by John Lehman (Sage, 1978).

## BASIS FOR AWARD OF FISCAL YEAR 1980-81 SSN-688'S

Senator WEICKER. I know you have another meeting you have to go to, Mr. Chairman, and why don't you proceed first.

Senator STEVENS. Thank you very much.

We appreciate your cooperating with these hearings and the scheduling of them. It is a matter of deep concern to all of us, I think, the ongoing procurement program.

I want to ask you a specific question, in view of what you just said, the statement you made in your prepared statement, "On the 17th of March I advised Congress of my decision to cancel the ongoing competitive procurement of the fiscal year 1980 and 1981 SSN-688-class submarines, and of my plan to award three of these submarines to Newport News Shipbuilding & Drydock Co."

Now my question is, what was the basis for your award of these three submarines to Newport News?

Secretary LEHMAN. The basis of the award was a desire to maintain the capability at Newport News to build 688's efficiently and at a rate of a minimum of two per year. Because of the difficulties we have gotten into in the past at that yard, and the difficulties we have had at Electric Boat, at Pascagoula and other yards in the past, by allowing trained, skilled work forces and teams with special shipbuilding skills to disperse to other tasks, and conditioned by the concern I have that slipping into monopoly supplier situations is an inherently bad principle in the shipbuilding industry, I made the determination that we were about to face a dissipation of critical skills because Newport News has not won a contract for 688's since 1977. Thus it would be necessary to get work into that yard expeditiously.

I determined that three ships were the right number, to avoid having that dissipation and to maintain a sound, competitive situation between the two producing yards.

Senator STEVENS. The three were under prior contract to the other yard; is that right?

Secretary LEHMAN. No, they were not under contract. A competition had been conducted a year ago, one that I didn't participate in in any way. The previous administration did, and under that competition Electric Boat had come in with what the committee believed to be the better bid. But I felt that mobilization base requirements overrode the hoped-for benefit that the committee saw in the performance promised by Electric Boat in the other bid.

I felt we had to keep Newport News in a healthy, efficient, producing situation. If I did not do that they would lose critical skills to other tasks, such as commercial work, which are not recoverable.

## FINANCIAL BASIS FOR AWARD OF SUBMARINES TO NEWPORT NEWS

Senator STEVENS. On what financial basis did you award the three new submarines to Newport News?

Secretary LEHMAN. I authorized Naval Sea Systems Command to begin negotiation of the contracts. It is not technically the award of a contract. It is an authorization to begin negotiations for contracts to build those boats. We are confident that these negotiations will proceed successfully and expeditiously.

## COMPETITION IN AWARD OF SSN-688'S

Senator STEVENS. Had Newport News bid in the prior competitive award process?

Secretary LEHMAN. Yes, they had.

Senator STEVENS. Had you come to the conclusion that that process was not truly competitive?

Secretary LEHMAN. I made no judgment as to the fairness or unfairness of that competition. I didn't get into it, because I felt that the mobilization base requirements overrode the inherent desirability of competition.

As you know, under title X, I have the authority to do that.

Senator STEVENS. You do, but I am disturbed that we may be getting away from the concept of competitive procurements.

Secretary LEHMAN. In the shipbuilding industry, which is really sui generis among industries, we must not allow an unthinking following of pure competition to bring us to a single-source monopolistic situation that in the long run, I believe, will cost a lot more money and undermine the industrial base. So it is not competition when you are dealing with only two, rather it is a classic economic case of oligopoly, bordering on a dual monopoly. The classic free market competitive flow does not always pertain.

Senator STEVENS. How many entities participated in the award process at the time they were awarded the previous contract?

Secretary LEHMAN. There were two bidders.

Senator STEVENS. Well, we will look forward to the report of Senator Weicker and the members of the subcommittee. I am sorry.

I do have a competing conference and a press conference as a matter of fact. Thank you very much.

## MONOPOLISTIC NEGOTIATIONS

Senator WEICKER. Let me just pursue what Senator Stevens was talking about relative to the negotiating which you are now involved in with Newport News.

In effect, you are now in a monopolistic negotiation; am I correct?

Secretary LEHMAN. The same monopolistic situation we would have been in had we competed the bids under the competition. All that does is begin a negotiation; it is not an award of a contract as such.

Senator WEICKER. I understand that, but it seems to me that the chips are all on one side of the table as far as Newport News is concerned. You have burned your bridges on these three submarines insofar as Electric Boat is concerned, and you have done this rather publicly, both you and Admiral Fowler, so what is there to negotiate between yourselves and them?

Secretary LEHMAN. In the course of bidding and in the process of building the ships, in both of these yards, we have many auditors and many people participating with the yards. We know what their costs are, we know what their man-hours are, and we know the basis of their bids.

To a certain extent, what you are negotiating about are terms and conditions, rather than price. Newport News is well aware that

if we can't reach agreement on a contract—and there is no automaticity in that—if we find their terms don't meet our requirements, that they are trying to take advantage of a monopolistic situation, they know that this will increase the attractiveness of delaying further and going to a third yard, qualifying another Government yard or another private yard.

Senator WEICKER. Realistically speaking, I don't think that they look upon that as much of a danger. I am just concerned because of the abandonment of the bid process, that indeed you are in the very situation which you are seeking to avoid insofar as the Trident program is concerned, or insofar as the entire submarine program is concerned.

Secretary LEHMAN. We know what their bid was, and we expect them to come in certainly no worse than that, and perhaps a little better.

Senator WEICKER. I am just suggesting to you that these public demonstrations, I don't think, serve anybody's interest, and I will get to that in a moment; but certainly right now, to use the colloquial expression, I think they have "got you by the shorts" on this negotiation.

Secretary LEHMAN. It is more so in the Trident.

#### FOREIGN CONSTRUCTION OF SUBMARINES

Senator WEICKER. We will get to that.

I and many of my colleagues, and Senator Warner, I know, would share in this questioning, have been alarmed by reports and testimony that indicate that either you or persons under your authority are seriously considering contracting with the British or Canadians for the construction in whole or in part of nuclear submarines. Whether that capability exists in the United Kingdom I am not aware of, but is the situation at Electric Boat and Newport News such as to justify such an outrageous policy? I wonder if you would want to take this time to comment on this aspect of the situation?

Secretary LEHMAN. Certainly, Senator. I don't think it is as outrageous as some of the press have suggested. We are already building hull sections, and have been for a long time, in Canada. They do participate in our submarine program. We are, and have been for a long time, doing offshore procurement in the submarine program. There are a number of European countries that build submarines and build them quite well.

Great Britain builds both nuclear missile submarines and nuclear attack submarines, and there are other countries in Asia that also have substantial and efficient shipbuilding businesses.

Because of the concern we have for maintaining an industrial base in this country, going offshore is not the desired option to fulfill, but it is certainly not unthinkable. As you know, we procure many different kinds of weapons, and this U.S. Government and Congress have repeatedly expressed their support of the two-way street with regard to weapon procurement. Submarines or parts for submarines may or may not be different than AWACS and may or may not be different than 120mm guns. If so, the difference is a matter of degree; offshore participation is certainly not unthinkable.

There are a lot of different ways that offshore participation is conceivable, either in cooperation and design of a new class of Tridents, participation in the construction of various parts, or variants of those options.

My preferred option would be that we continue to build our submarines principally in this country, as we are doing now, with some subcontracting offshore, or maybe less than we have now. But if we can't resolve the problems that are the subject of this hearing, that has to be an option we continue to assess, along with opening a Government yard or even qualifying another private contractor to get into the business.

#### FOREIGN PROCUREMENT AND COMPETITION

Senator WEICKER. In the letter that you wrote to Mr. Lewis on March 17, you stated, in justifying the cancellation of the three 688's, you said:

While competitive procurement is generally to be preferred, I have concluded that it is essential in this instance to award these three submarines to Newport News Shipbuilding and Dry Dock Co. without regard to the results of the building competition. The basis for this action is my fully considered determination that the award of these submarines to Newport News is necessary in the interest of national defense so as to have Newport News available as a supplier of SSN-688-class submarines at a level necessary in the case of national emergency and to meet the requirements of industrial mobilization in the case of such emergency. I am satisfied that the award of these three submarines will significantly improve the ability of Newport News to supply SSN-688-class submarines and to maintain a properly balanced source of supply.

How would offshore procurement relate to the basis for your decision to cancel the three SSN-688's?

Secretary LEHMAN. In the competition, three is better than two, and four is better than three, and so forth. We don't want to see Electric Boat go out of the business of submarine building by any means. They have 21 submarines under construction. The only thing at issue up there is really whether they can handle as much as they have, or whether we need other suppliers to help take up the load. That is the issue. And then the sub-issue is, are there alternatives offshore in part, not necessarily prime or complete building, but in subcontracting, that can provide an increase in competition and a better deal for the taxpayers and faster delivery of the submarines? That is the question.

Senator WEICKER. Well, there is obviously the question of the matter of national defense, as to whether or not we want to be depending upon offshore suppliers. That is a rather dicey game at best.

Secretary LEHMAN. With some suppliers perhaps, but we have some pretty close and fairly tested and reliable relationships with some of our allies that have stood up pretty well over the years.

#### EFFECT OF LOSING CONTRACTS ON ELECTRIC BOAT

Senator WEICKER. You say it is just a matter of Electric Boat handling what they have got, and yet what would be your evaluation of the outcome of the following scenario, that Electric Boat loses both the 9th and 10th Tridents and does not pick up the remaining 688's, where do you think that leads as far as Electric Boat's future is concerned?

Secretary LEHMAN. What they have to do then is redirect their attention, their assets and their workforce to get the remaining 21 submarines that they have back onto their original schedules. That would be the simple answer to it.

It would obviously make it a bit more difficult for their long-lead planning, but if you get into a situation where you have bitten off more than you can chew, you want to resolve that before you take on more work. I am not saying that that is the situation at Electric Boat, but I am saying that we want to satisfy ourselves that they can efficiently produce what they have pledged to produce and are planning to produce.

#### NEED FOR CONTINUATION OF TRIDENT PROGRAM

Senator WEICKER. Now, two last questions and then I will defer to Senator Chafee, and then Senator Rudman, to try to limit this roughly to 10 minutes.

Let me just pinpoint the Trident program for a minute.

It was my understanding from your testimony that you very much want the 10th boat authorized and sums appropriated; is that correct?

Secretary LEHMAN. That is quite correct. I feel very strongly about that. All that will do, if it is not done, on top of these other difficulties, no matter how we resolve them, is add a full year's delay, no matter how you splice it, to the 10th boat. That would be most unfortunate.

Senator WEICKER. Because of the question mark raised in the cancellation of the option, and also statements vis-a-vis the 10th boat, aside from what has been said here this morning, the actions have led to a questioning of the entire Trident program, as to whether or not the Navy intends to continue down that path with the Trident.

Would you care to address yourself to that?

Secretary LEHMAN. Yes. We are definitely going to continue down the path with the Trident I and later on the Trident II missile. But the pace at which we are able to take advantage of what we have invested in that missile, and the future of the Trident II missile, will depend upon the pace at which we can get the boats we need to utilize them at sea. We are committed, in the long term, to the Trident as the modernization of our sea-based leg. Whether we stick with the current Trident-class submarine beyond the boats in question is what we have to look at and that will be part of the decision we make.

If we have to conclude that Electric Boat will not be in a position to meet what it says it can do—at least 1.5 Tridents a year, in addition to the 688 load, at an efficient cost—then probably we face two choices of type. We will stick with a Trident-capable submarine, but we will either go to a different yard to build the current Trident class, or we may go to a smaller submarine that is still capable of carrying those Trident missiles.

#### EXCELLENT QUALITY OF SUBMARINES

I want to say that in some of the commentaries of the press there seems to have been confusion that somehow we are suggest-

ing that in the boats at issue there is a problem with quality. That is not the case. Electric Boat has always produced a top quality product and they are still producing a top quality submarine.

The issue is, it is taking us a little longer and a little more difficulty to achieve the quality, but the subs going to sea out of Electric Boat are absolutely the top quality submarines in the world.

That is, to put it in context, we are, and have been paying such a premium, in our nuclear submarine program, for the superb quality that we in the Navy require, and that Admiral Rickover has done such a great national service, a historic service, in establishing. Our nuclear submarines are better and safer than any ships in the world. They are certainly much better and safer than anything the Soviets produce. We pay a price for this. However, the contractors that have been building these boats are no strangers to Admiral Rickover. They are no strangers to his quality control, and it is not as if suddenly there is a new attitude toward quality control from the Navy. That is given in the way we build submarines. I would just like to clear that up. This is not an issue of quality. It is an issue of schedule and costs involved in getting that quality.

Senator CHAFEE. Than you very much, Mr. Chairman.

I want to thank you for permitting me to participate at these hearings, while not a member of the committee.

First, Mr. Secretary, I want to thank you very much for coming to Quonset Point last Tuesday, the day before yesterday, and taking the time to make that tour there, and I hope it was fruitful to you. Certainly all of us involved there feel it was helpful to us.

Secretary LEHMAN. I want to thank you for having me up there. It was a very useful visit on my part.

Senator CHAFEE. Well, I much appreciate your taking the time to come and see firsthand. Also, I want to commend you on the quality of this committee that you have appointed, headed by Mr. Goodrich. Anybody who knows anything about the shipbuilding business knows that there is nobody with finer credentials, who has produced, and who is more knowledgeable of the shipbuilding business, than Mr. James Goodrich. While it is true he has not been in submarines, he has produced quality contracts in Bath for many, many years, and I think you should be congratulated in getting him to head that task force that you have assembled. I think it is splendid that he is there and your group is working.

Secretary LEHMAN. Thank you.

#### NEED TO AUTHORIZE 10TH TRIDENT

Senator CHAFEE. Now, Mr. Secretary, I want to repeat, or have you repeat, again, because we are having some difficulties on the authorization, as you know, for this 10th Trident, and I share your views that it is absolutely essential to get on with the authorization and the appropriation for it. That is your position, as I understand your answer to Senator Weicker?

Secretary LEHMAN. Absolutely.

Senator CHAFEE. And I would hope that your department would do all they could with the Armed Services Committee to get on in doing everything we can to get that 10th Trident authorized.

Secretary LEHMAN. We are very actively working to see that everyone understands that with the delays that have taken place over the last 5 years, in this and in the other legs of modernization of the Triad, we simply cannot afford to have Congress, for whatever reason, add another full year of delay to the only program we have going on now that is actually putting modernized warheads to sea.

#### LONG LEAD MATERIAL FOR TRIDENT

Senator CHAFEE. And there seems to be some confusion that long-lead items are equivalent to authorization. The authorization of long-lead items is not similar to having the ship authorized.

Secretary LEHMAN. If we proceed with authorized and appropriated full monies for the 10th Trident, we can begin negotiations at the time the final appropriations bill is passed, whether that is September or whenever. It is not well to have to wait until the following September to begin those very negotiations from square one if the funds are appropriated a year later. That is the long and the short of it.

Senator CHAFEE. I just hope that point can continually be made. Sometimes people believe that long-lead items dealing with powerplants or whatever it is are the equivalent to keeping your base, the hot base; but it just isn't.

Secretary LEHMAN. We will continue on, as did my distinguished predecessor in this job, who helped to articulate that reality of the world.

#### CONTRACTING FOR SUBMARINE HULL SECTIONS

Senator CHAFEE. I will do all I can, and also my successors in the post you and I both held, or hold, is one of the essential players in this drama.

Mr. Secretary, you have indicated publicly—and it would be helpful if we could repeat it because I am not sure that the Navy as a whole understands it—that your position is that the hull sections for the 688's that will go to Newport News will go out to public bid to the extent it is possible. I appreciate they have some fabricating ability for some hull sections, but it is your position that those hull sections that can go out will go out to bid?

Secretary LEHMAN. Yes, I am very firm in that intention. I have to make sure that we maintain the mobilization base down at Newport News with sufficient work on those hull sections and that they can hold on to the necessary workforce to do it. But I would see on the order of a third of the hull sections certainly being available for open bidding.

I am hopeful that the Electric Boat facility at Quonset will bid on that subcontract.

Senator CHAFEE. As we pointed out to you, the hull sections at Electric Boat at Quonset, if you just get the hull sections, it is a very minor part; as you yourself saw, the hull sections are but a small part of the total picture?

Secretary LEHMAN. Yes.

## SOLE-SOURCE PROCUREMENT IN SHIPBUILDING

Senator CHAFEE. Mr. Secretary, you gave considerable testimony about sole-source procurement and your concerns, and, of course, sole-source procurement for Navy ships is nothing unique; all of your CVN program is sole source?

Secretary LEHMAN. Particularly in recent years, as the shipbuilding program has shrunk to such low levels.

Senator CHAFEE. But there is no other bidder on a nuclear-powered aircraft carrier or for any type of aircraft carrier, is there?

Secretary LEHMAN. No, that is a function of the precipitous decline in shipbuilding over all, which has gotten us into this terrible shape we are in, of having lost our naval superiority.

Senator CHAFEE. But even going back, I don't think there is a slip; no CVN has been built by anybody but Newport News since the introduction of the program; isn't that right, Admiral Fowler?

Admiral FOWLER. Yes.

## FLOW OF WORK TO BUILDING YARDS

Senator CHAFEE. Mr. Secretary, the problem that bothers me is the steadiness of the workflow. You have testified eloquently here about Newport News and keeping the base going, but what bothers me is, here is a shipyard, Newport News, that hasn't received a 688 contract since 1977, and suddenly 4 years later they got not one, not two, but three, at the same time as we have had testimony by Mr. Veliotis in the House on the fact that Electric Boat doesn't get one of these submarines, and the indefiniteness about the fourth, plus the failure to pick up the option on the Trident, puts these yards, or puts Newport News, in a feast or famine situation, and currently a feast, and raises grave problems with Electric Boat about the steadiness of their work force.

As you saw on Tuesday, in the charts shown there, and through your tour and from your vast experience, you know the necessity of a steadiness in order to achieve maximum effective production.

Could you respond to that, the effect of saying to Electric Boat, "Well, get on with producing what you have got?" As you know from your shipbuilding experience you can only get so many people inside the Ohio to finish it. Meanwhile, the force that is producing the hull sections or doing the original work is dissipated unless more work comes along.

Secretary LEHMAN. That is true, but one of the workers at the Groton yard described the situation up there as being akin to "gridlock" in New York City. If you have a "gridlock" situation you don't want to keep feeding cars through the Holland Tunnel until you are sure they can get out the other end. So we want to make sure that they have that situation under control before we feed anything more in at the top.

I am fully aware, however, to the concerns you raise. That has been the bane of the shipbuilding industry, the peaks and valleys and the uncertainties of when the next ship is going to come down the line.

We hope we can smooth that out, which is the whole objective of this exercise that we are going through, so we have at least two

steady, reliable suppliers of these boats, who can then plan an optimum workload for the long term.

If there is any thing that is clear, it is that efficient yards are going to have all of the work they can efficiently handle for the indefinite future as we get our Navy back on its feet.

#### AWARD OF FOURTH FISCAL YEAR 1981 SSN-688

Senator CHAFEE. As you went through the yard the other day in Quonset Point, you saw the last pieces being fed through that mammoth roller for the 688, I think. Time really is of the essence on this fourth contract and, of course, the 1982 boats; but here is the fourth one plus the Trident. How do you see things? I know you have mentioned that for the end of the year, that is your outside limit, but before the end of the calendar year, that I really don't think will solve the problem. Your task force is reporting by the 15th of this month, and then you hope to proceed as rapidly as possible after that?

Secretary LEHMAN. Yes. As you already understand, but I want to say it for the record—this is not a window-dressing effort. This group represents a serious effort to come up with real, not just surface, indicators of the program.

I will have to see just what measures the group comes up with before I can tell you how soon that will provide us an audit trail, that will let us confidently say, "Yes; this yard is ready for more substantial business."

Senator CHAFEE. Thank you, Mr. Chairman.

The point I really want to leave—and could we have another round here?—is that time is of the essence on these other ships and other boats. Thank you.

#### COMPLEXITY OF SSN-688 MISJUDGED

Senator RUDMAN. Thank you very much, Mr. Chairman.

Mr. Secretary, in 1978 then-Secretary Graham Claytor said—and I will quote him—that "significant misjudgments were made by the Navy in assigning the task of constructing the 688 to Electric Boat" because there was a complete misunderstanding or, I should say, an incomplete understanding, to use his words, of the problems associated with construction of this particular class of submarine, which is quite markedly different than the 637.

Do you agree with his assessment at that time? I think that requires a fairly simple answer.

Secretary LEHMAN. That is probably a fair assessment.

Senator RUDMAN. Let me go on, pursuing that answer. Electric Boat has claimed rather consistently that much of the problem that they have had has been due to incomplete design specs prepared by Newport News. Do you think that is a fair statement?

Secretary LEHMAN. I would have to defer on that one. I could provide that for the record.

Senator RUDMAN. Let me put it to you more generally: Would it be fair to state that this procurement program was, from its inception, vastly misjudged by the Navy—and possibly by the contractor—in terms of the complexity of building this very sophisticated new kind of submarine? Is that an accurate statement?

Secretary LEHMAN. I would go along with the "misjudged" but the adjective, I don't know whether I would use that.

Senator RUDMAN. Which adjective?

Secretary LEHMAN. "Vastly." It was misjudged. How much is a relative question.

Senator RUDMAN. I don't know what you call "vastly," Mr. Secretary, but I call the multimillion dollar settlement the Navy had to make with Electric Boat.

Secretary LEHMAN. I call that "vast."

Senator RUDMAN. I also call "vast" the fact that, with all of the predesign work done by Newport News, there were 2,900 design spec changes made at Electric Boat since January of 1980. Wouldn't you call this "vast" as well?

Secretary LEHMAN. No, I wouldn't call that "vast."

Senator RUDMAN. That is normal?

Secretary LEHMAN. Design changes in a military ship are the standard rather than the exception. They include changing a handle here or a handle there on a drawer, that kind of thing.

#### BUILDING SUBMARINES IN FOREIGN YARDS

Senator RUDMAN. Of course, Mr. Secretary, you are in a unique position because nobody can assign any of the responsibility for this to you; you weren't there.

Secretary LEHMAN. I appreciate that.

Senator RUDMAN. Some of the people in the Navy were there, and many of them are no longer in the positions they held at the time. New people are in these procurement positions and we have had them, including Admiral Fowler, before our committee.

The reason I ask you those questions is that I continue to be disturbed by your testimony before our subcommittee yesterday concerning the proposed idea that we might be able to assign the construction of entire warships to foreign yards.

With all the problems experienced by Electric Boat, a yard with an excellent reputation for producing boats before the Trident, haven't you considered the complexity of the learning process which those foreign yards would have to undergo, yards with less experience than Electric Boat or Portsmouth or Mare Island?

The very idea of assigning American warships to foreign shipyards, in addition to having some potentially serious economic and industrial overtones, has a potential for problems that would dwarf those you are presently having with Electric Boat.

Secretary LEHMAN. Senator, I think far too much attention has been given to what we are seriously looking at, which is the potential for offshore participation in our submarine programs.

Senator RUDMAN. So you are not looking at it seriously; is that your testimony?

Secretary LEHMAN. That is not what I said. We are looking at it seriously; however, some commentators have established this as somehow being unthinkable and that we are heading toward full-scale procurement of entire submarines offshore. I don't think that it warrants the high profile it has been getting, first, because offshore procurement is not new. We are doing it today in the submarine program, and we have done it in the past on major programs in the Army, in the Air Force and in the Navy. We will

continue to do so in the future, because the U.S. Government is pledged to do so in NATO. It is a question of degree, a matter of how much and when, and not whether and how it fits into the submarine picture.

We are well aware of the implications and the peculiarities of building nuclear submarines and how participation by foreign yards can add complications that could offset the advantages that could be derived from it.

#### PRECEDENTS FOR FOREIGN PROCUREMENT

Senator RUDMAN. Mr. Secretary, you are not saying in your testimony this morning that the type of foreign military procurement this Government has engaged in, in all of the services—and I am familiar with many of those items—bears even the slightest comparison to the building of a major nuclear submarine in the yards of Great Britain or West Germany? Can you give me one example that would be even slightly similar?

Secretary LEHMAN. We bought about 120 AV-8's, which were built in Britain and they are still flying. The British will be participating with us in the AV-8B. I could provide for the committee a whole list of the "two-way street" items that have come out of the LTDP of the Carter administration. There is the German 120-millimeter gun that is going on our main battle tank, a very complex system, which is heavy industry and highly dependent on supplies by Rhine Metal, and so forth. The British are buying things from us and we are buying the Rapiers missile system from them. There are many systems. While, clearly, nuclear submarines are in a class by themselves, they are not such an isolated class that some participation is not possible. De facto, the British are participating, and have participated, in the Poseidon program.

I don't want to leave the impression that we are charging forward to build our submarines abroad. I am saying it would be a disservice to the country and to the taxpayers to exclude looking at such participation. For instance, the Vickers Co. in Canada is now, and has been, participating in our nuclear submarine program. So, I disagree with your premise that this is unthinkable and has never been done before.

#### EXPANDING DOMESTIC INDUSTRIAL CAPACITY

Senator RUDMAN. Mr. Chairman, I have about 2 more minutes. Let me say to you that I don't think there is any valid comparison between those aircraft and the 120-millimeter guns and other items procured abroad with the construction of a nuclear submarine of the type we are talking about. That is No. 1.

No. 2, in a discussion with Admiral Fowler yesterday—and I had a good dialog with the admiral at our subcommittee hearing—he reiterated what every surface chief who has come before our committee has said concerning the great difficulty in military procurement in this country, stemming from the lack of industrial capacity and technology to do the kinds of things we need.

Mr. Secretary, we will not be building that capacity for the future if we move major procurement contracts overseas. I am not talking about the kind of things we have been doing; I understand

those and I agree with them. I asked Admiral Fowler yesterday if the Navy was looking seriously at expanding some of the present yards by inaugurating an innovative, forward-looking program designed to help move some of the thousands of high-skilled unemployed Americans across the country, who unfortunately may live in Michigan instead of Connecticut into areas like shipbuilding to do the kind of things needed to increase employment and raise productivity.

Admiral Fowler said that was a consideration of the Navy. I think that should be a major consideration before we ask the American people to approve a record-high budget for national defense, and then turn around and send some of our major shipbuilding contracts overseas. I think it is wrong and we have a basic disagreement, and you are going to have a lot of bodies to climb over before you ever get that kind of procurement program approved as far as I am concerned.

Secretary LEHMAN. I fully agree with your concerns, the desirability of procurement in this country, and the need to maintain our mobilization base as a top priority; however, if what you are suggesting is that we must not in this case look at any alternatives overseas, we must cancel our arrangements with Vickers of Canada today, and we must somehow exclude the submarine program from all considerations, I don't agree with that.

I would be interested if you wanted to offer an amendment to prevent us from looking at that, which is all I am saying.

Senator RUDMAN. It might be an excellent idea.

Secretary LEHMAN. It might be a useful thing.

Senator RUDMAN. It might be very useful.

#### CURRENT STATUS AT ELECTRIC BOAT

Senator WEICKER. I might suggest, Mr. Secretary, that your idea of competition is not a bad one. Obviously, you want to hit even competitive aspects in the actions you took on the 688 situation, as between Newport News and Electric Boat, and you further tried to enhance it in suggesting reactivation of Mare Island.

Now we have another element to further enhance the concept of competition, with the idea of offshore shipbuilding. I think maybe with this last idea, to use Winston Churchill's words, since we are talking about the British, "You have overegged your pudding."

I notice you have Admiral Fowler with you, and how long have you been associated with these programs of the Trident and the 688?

Admiral FOWLER. One year and about nine days.

Senator WEICKER. I think one of the concerns—I can direct a question either to the Secretary or to yourself—is that many of the problems which you have articulated in the press and before the committees were problems that, quite frankly, confronted Electric Boat and, most specifically, Mr. Veliotis when he took over as manager of that facility.

What I am saying is that they were problems which were clearly there 2 years ago and were recognized as such, and were met head on. I suppose what leaves me a little nonplussed is why all of this wild rhetoric now, when indeed most of the participants in the drama had felt that the rough days were behind and that a good

working relationship had been established between Electric Boat and the Department of the Navy?

I wonder why—and I wonder if you would like to explain why—there wasn't anything that you discovered. The Secretary came aboard and these facts came to his attention recently, but they are not new to the Department of the Navy. Indeed, much of what has been discussed has been corrected or the procedures put into place to be corrected.

What does this achieve, all of this rhetoric that we have heard?

Admiral FOWLER. I detect two questions there. One is why, and the other is, what does it achieve? Let me break those down and take the first one.

I testified last year only before one committee, because my predecessor covered the rest of the testimony. Frankly, we were in a period of time when we had problems with steel, and we had problems with welding, and we had problems with quality control, and we were looking for delivery of the *Ohio* in February of this year. We were unable to really explain in hindsight what all of those problems were all about, and where we were headed. So when I first testified this year on March 12 before Chairman Bennett's Sea Power Subcommittee, I was in a position to look back at the steel problem, the welding problem, the general quality control problem, and put that in perspective.

I put forward what I believed to be a very candid and a thorough discussion of that, and said that those problems are now behind us and we can look to the future with optimism.

Now, from that point forward things kind of took off. As a matter of fact, I read in the *Star* on the way over to the hearing my testimony that I was going to give that morning, and I don't know how that got in the paper, but nevertheless it caught a lot of interest.

What has been achieved yet? Well, I can't say that we have achieved anything so far. The Secretary has put in motion some actions and he has set some dates for those actions to be complete, and I believe those dates will be generally met.

There are some very tough things that need to be done, and the shipbuilding business in this country is a tough business, and we have to take some hard looks at some tough facts and make some decisions on it.

I still am optimistic, and I suppose hope springs eternal in the human breast, but nevertheless I have a high degree of optimism as to the future.

I think we can move ahead in the submarine shipbuilding program.

#### CORRECTIVE ACTIONS AT ELECTRIC BOAT

Senator WEICKER. I would hope so, because—and let me say this—almost the identical words and criticisms were articulated by Mr. Veliotis when he took over the yard, for which he was reviled by the people who work there, by the Senators like myself, and so forth, and it was a tough role for him to play. It wasn't easy for him to say what had to be done. He said it, and it was a pretty gutsy move, and he was right, and I was wrong. That was 2 years ago.

To have it all just thrown back in his face at this time, I think, is unfair. I really and truly do. It is not, as I said, that the problems didn't exist, for they did, and maybe some still do exist, but certainly, Mr. Secretary, if the end to be achieved is as you have now said, that is, to have at least a dual capability in this country, minimal dual capability, then I don't think you want to, either de facto or de jure, and I emphasize the de facto, because this kind of talk continues, and who is going to want to stick around Groton, Conn., without a yard; not many people.

I think it is important to point out that you very much want that boatyard there and having it go at top speed. That is fine. Nobody is sitting here trying to go ahead and cut down Newport News. I am not. I think you are entirely correct in that perception, but, really, the thing has gotten to the excessive point now, where people are wondering whether there is going to be any boatyard left, and I hope you address that subject.

Secretary LEHMAN. Yes, Senator, I want to repeat that my intention and hope is that we can work with Electric Boat to bring Electric Boat to fulfillment of what it had repeatedly stated it can do—produce one point five or two Tridents a year, and three of the 688's. That is our intention.

We don't want to go to other alternatives, but it remains to be seen. We have to see performance. We want to bend over backward and make every effort to work with them, to see that they can achieve that. The business is there if they produce.

#### CHARGES AND COUNTERCHARGES

Senator CHAFEE. Mr. Secretary, I just have one or two brief questions.

I am deeply disturbed over what seems to be shot and shell going back and forth between the parties. This has adverse effects on both the private industry, as you know, and Electric Boat, a subsidiary of General Dynamics. They have to go to their directors who are representing their stockholders and get major investments made. I would hope that this was toned down.

I picked up a paper and found Admiral Rickover has told the FBI to investigate Electric Boat. Now, does Admiral Rickover check with you before he undertakes such actions? I suspect I know the answer. Could you give me the answer?

Secretary LEHMAN. I would be happy to provide that for the record, Senator.

[The information follows:]

#### ADMIRAL RICKOVER MEMORANDUM

I assume you are referring to a Justice Department investigation that was initiated several years ago and I understand is still in progress.

On December 10, 1977, Admiral Rickover sent a memorandum to the Inspector General of the Naval Sea Systems Command and the Assistant Secretary of the Navy (Manpower, Reserve Affairs and Logistics) delineating items contained in Electric Boat's SSN-688 Class shipbuilding claims which he felt might indicate a pattern of misrepresentation and omission of material facts. A copy of this memorandum was also provided to the Secretary of the Navy at that time. He recommended that the Navy forward these items to the Justice Department for investigation of possible violations of Federal fraud or false claim statutes. The Navy subsequently forwarded Admiral Rickover's memorandum to the Department of Justice.

Senator CHAFEE. I suspect the answer is a very brief one, and it is a two-letter word and not a three-letter word.

But it seems to me that this is extremely damaging. Manpower is taken up from Electric Boat. Imagine having the FBI sicked on anybody. Here we have Mr. Veliotis in the room now, spending time in Washington, when I wish he could be back in Groton and building submarines. So I would hope that there could be—and I know you share this—if there were lowering of the voices in us, and trying to get on solving the problems and getting the Goodrich committee's report, and moving as quickly as possible for the awarding of the contract—that is my hope, Mr. Secretary.

Secretary LEHMAN. I share that hope, Senator. We are attempting to be entirely prospective, looking only to the past to derive the lessons on both sides that ought to be learned. I think General Dynamics has shared this attitude. I can assure you that will continue to be the Department of the Navy's position.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator RUDMAN. I have no further questions, and I am going to have to leave the hearing.

Senator WEICKER. I thank you very much, Mr. Secretary, for taking time to share your thoughts with this committee.

#### SUBMITTED QUESTIONS

I would appreciate your answers, and there will be several questions posed to you for response in the record.

Otherwise, let us hope that our next get-together will be under happier circumstances, at least I hope so.

Secretary LEHMAN. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR WEICKER

## SOLE-SOURCE NEGOTIATION FOR SSNs

Senator Weicker: Mr Secretary, isn't it true that you will spend substantially more for the three 688 submarines awarded to Newport News on a sole source basis than you would had you gone to the lowest bidder? You have awarded the contract through a cancellation of competition. This seems to open the gate for Newport News to renegotiate a contract favorable to them. Please explain what these extra costs have brought us.

Secretary Lehman: It is anticipated that a marginal increase in cost will result due to the break in production at Newport News between the FY 77 and FY 80/81 ships. A proposal and final pricing for the three FY 80/81 ships have not yet been received from Newport News and therefore cost has not been negotiated. The basis for the decision to negotiate sole-source with Newport News for these ships was the determination that it is necessary to have Newport News available as a supplier of SSN 688 Class submarines at a level necessary to meet the requirements of industrial mobilization in the case of national emergency. Furthermore, a potential long-term outcome of strict adherence to competitive procurement of nuclear submarines, recognizing that only two private shipbuilders are presently capable of building nuclear attack submarines, could be the complete loss of this capability at one of the shipyards and result in a monopoly situation for all future submarine acquisition programs.

## TRIDENT CONSTRUCTION

Senator Weicker: Mr. Secretary, you have quite properly pointed out the need to expand your submarine shipbuilding base. Has the Navy done a study of the impact on the two existing bases of the cancellation of competition for 688 construction? The ninth TRIDENT also affects the outcome of such a study.

Secretary Lehman: Prior to deciding to negotiate on a sole source basis with Newport News for three FY 80-81 SSNs, the effect of this decision on both Newport News and Electric Boat was studied. Electric Boat does have a backlog of work during the time period. Newport News needs the work to avoid an extended interruption in SSN production. Competition for future SSNs has not been foreclosed. Three SSNs were directed to Newport News, but this does not establish a precedent for the future. Award of the fourth FY 80-81 SSN and of later year ships will be considered on a case basis.

## OHIO DELIVERY DATE

Senator Weicker: Mr. Secretary, I understand the Navy has operational control of the OHIO (SSBN 726), and Electric Boat finished basic construction work with the submarine. Isn't delivery date of the boat more in your hands than in the Shipyard? If so, what can be done to speed up the process?

Secretary Lehman: The delivery date of the OHIO is not in the Navy's hands. Although operational control of individual systems and spaces in the OHIO will soon be turned over to the Navy to support the contractor's remaining events, that does not mean the contractor's work in OHIO is completed nor that the ship is operational. The work Electric Boat must still accomplish before delivery of the ship to the Navy consists of completion of remaining construction work, cleaning, painting, testing, sea trials and correction of any deficiencies that may arise. The final sequence of events leading to delivery will require extensive effort by both the Navy and Electric Boat. These events generally fall in a fixed sequence and have been scheduled to occur as soon as practicable.

#### SSN CONTRACT AWARD

Senator Weicker: Mr. Secretary, why were 3 boats awarded to Newport News under the non-competitive process. Why not 4, or 2? Let me have your rationale on that point.

Secretary Lehman: As I have stated, my decision to cancel the competitive bidding process in favor of sole source procurement of three of the four FY 80/81 SSN 688 Class submarines was made after careful consideration of all the facts. At present the Navy only has two shipbuilders with the requisite capability to produce nuclear submarines; one of these two builders has not had a contract award since 1977 and is presently experiencing a real loss of trade skills. If this loss of learning were allowed to continue, this shipbuilder would be out of the submarine construction business in the near future. And, more importantly, the Navy would no longer have the ability to competitively bid these submarines.

Once my decision was made to protect our nuclear submarine construction base, the only judgment that remained was to determine the proper quantity. While a two-ship award would have had some effect, it was my conclusion, based upon all the information I reviewed, that an award of three ships was necessary to sustain the shipbuilder and stabilize his structural trades. An award of four ships to maintain that construction base was not warranted.

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#### QUESTIONS SUBMITTED BY SENATOR PROXMIRE

##### TRIDENT COSTS

Senator Proxmire: Mr. Secretary, I understand that despite all of the problems and delays on the TRIDENT ships, Electric Boat is not yet overrunning the ceiling price of its contract. Isn't this the result of the escalation problems and generous cost sharing provisions of the contract?

Secretary Lehman: It is correct that Electric Boat's costs are still within the incentive range on all TRIDENT submarine contracts. Escalation payments are excluded from the cost sharing arrangement; however, the escalation provisions have partially protected the contractor from additional costs which have been incurred as a result of the problems and delays on the TRIDENT ships. The cost-sharing provisions of those prior year contracts are generous indeed.

##### INSURANCE CLAIMS - FAULTY WORKMANSHIP

Senator Proxmire: Mr. Secretary, aren't insurance claims for faulty workmanship an attempt by the shipbuilders to have guaranteed

profits regardless of performance? If the Navy were to cover faulty workmanship in addition to escalation coverage and cost overrun sharing, what risk would the shipbuilders face? How can the Navy justify paying fixed price profits for what amounts to cost type contracts?

Secretary Lehman: I agree that if the Navy were to insure a contractor against his own faulty workmanship as well as provide escalation protection and cost overrun sharing, there would be a significant reduction in the risks normally associated with fixed price contracting. The Navy has always maintained that its builder's risk insurance coverage does not provide a guarantee of satisfactory performance by the shipbuilder. Recent commercial insurance claim settlements have been interpreted by some to cover defective materials and workmanship. Some shipbuilders apparently have viewed these settlements as a new basis of claims which would reduce their cost risks under shipbuilding contracts. The Navy does not agree with this interpretation.

#### Shipbuilding Insurance Claims

Senator Proxmire: Mr. Secretary, I understand that the Navy's insurance provisions have remained, for the most part, unchanged since World War II. I don't recall any past instances where the Navy has faced massive insurance claims. How many insurance claims does the Navy typically receive in a year?

Secretary Lehman: A quick survey of SUPSHIPS Bath, Newport News, New Orleans, Pascagoula, San Diego, and Seattle indicate an estimate of between 350 and 400 shipbuilding insurance claims for these offices, as close an approximation as possible in the time permitted for response.

Senator Proxmire: What is the dollar value of these claims on an annual basis?

Secretary Lehman: The above shipbuilding insurance claims would approximate between four and five million dollars.

Senator Proxmire: What is the largest insurance claim paid by the Navy in each of the past 10 years?

Secretary Lehman: In each of the last ten years, the largest claims paid for the offices listed above were:

1971	\$ 63,210
1972	235,000
1973	22,498
1974	119,000
1975	805,000
1976	1,047,000
1977	438,000
1978	131,616
1979	122,000
1980	1,000,000

Senator Proxmire: Has the Navy ever knowingly paid for faulty workmanship under its insurance provisions?

Secretary Lehman: No, the Navy has not knowingly paid for faulty workmanship under its insurance provisions.

#### Large After-the-Fact Claims

Senator Proxmire: Mr. Secretary, I understand that during the earlier competitive negotiations for these attack submarines, Newport News refused to agree to any terms and conditions which

would reduce the Navy's vulnerability to large after-the-fact claims. May we have your personal assurance that any ensuing contract with Newport News will contain the provisions necessary to preclude the submission of claims years after the fact?

Secretary Lehman: The Navy's Request for Proposal for the SSN 688 Class Submarines contains clauses entitled "Notification of Changes" and "Drawings and Other Data". The purpose of these clauses is to insure that the contractor promptly identifies any claims he may have so that the contracts can be kept current. Under the clauses the shipbuilder has approximately one year in which to identify and submit to the Navy any items which he believes entitle him to a contract adjustment; he provides a release for any items not so identified. In this way the Navy can avoid the situation in which a shipbuilder might submit a claim for events allegedly arising years earlier.

#### Negotiation of Terms and Conditions with Newport News

Senator Proxmire: Mr. Secretary, you stated that the major area of negotiations with Newport News would be terms and conditions. Do you have the assurance of senior Newport News management that they will negotiate in good faith with Navy personnel and not exploit the sole source situation? What steps are you prepared to take if Newport News does not accept the Navy's terms? Would you be willing to award these ships to a naval shipyard?

Secretary Lehman: I have no prior agreements with senior Newport News management to terms and conditions. These are being negotiated between the Naval Sea Systems Command and Newport News. I trust that the company will negotiate in good faith and not attempt to exploit its sole source situation. It would be premature to identify what steps I would take if the Navy and Newport News cannot come to agreement on acceptable terms and conditions. I do not at this time wish to foreclose any option, including those involving naval shipyards.

#### SSN-688/TRIDENT COST BREAKDOWN

Senator Proxmire: Please provide a breakdown showing:

- (a) The Navy's cost estimate to complete the entire 688 program;
- (b) The Navy's estimate to complete the 688's that were subject to the 1978 PL85-804 agreement with Electric Boat;
- (c) The Navy's estimate to complete the 688's awarded to Electric Boat since the 1978 agreement;
- (d) The Navy's estimate to complete the TRIDENT contracts awarded to date; and
- (e) A comparison of the estimates in (b), (c), and (d) with the respective ceiling prices.

Secretary Lehman: The breakdown follows:

- (a) The Navy's cost estimate to complete the entire 688 program (44 ships) is \$14,567.2 million.
- (b) The P.L. 85-804 agreement established a total estimated cost to completion of \$2.7 billion. The agreement called for Electric Boat and the Navy to share cost overruns on a 50/50 basis up to a total of \$100 million over the established base. It is estimated that the contractor will exceed the base by at least \$100 million. The Navy is to pay all extraordinary escalation

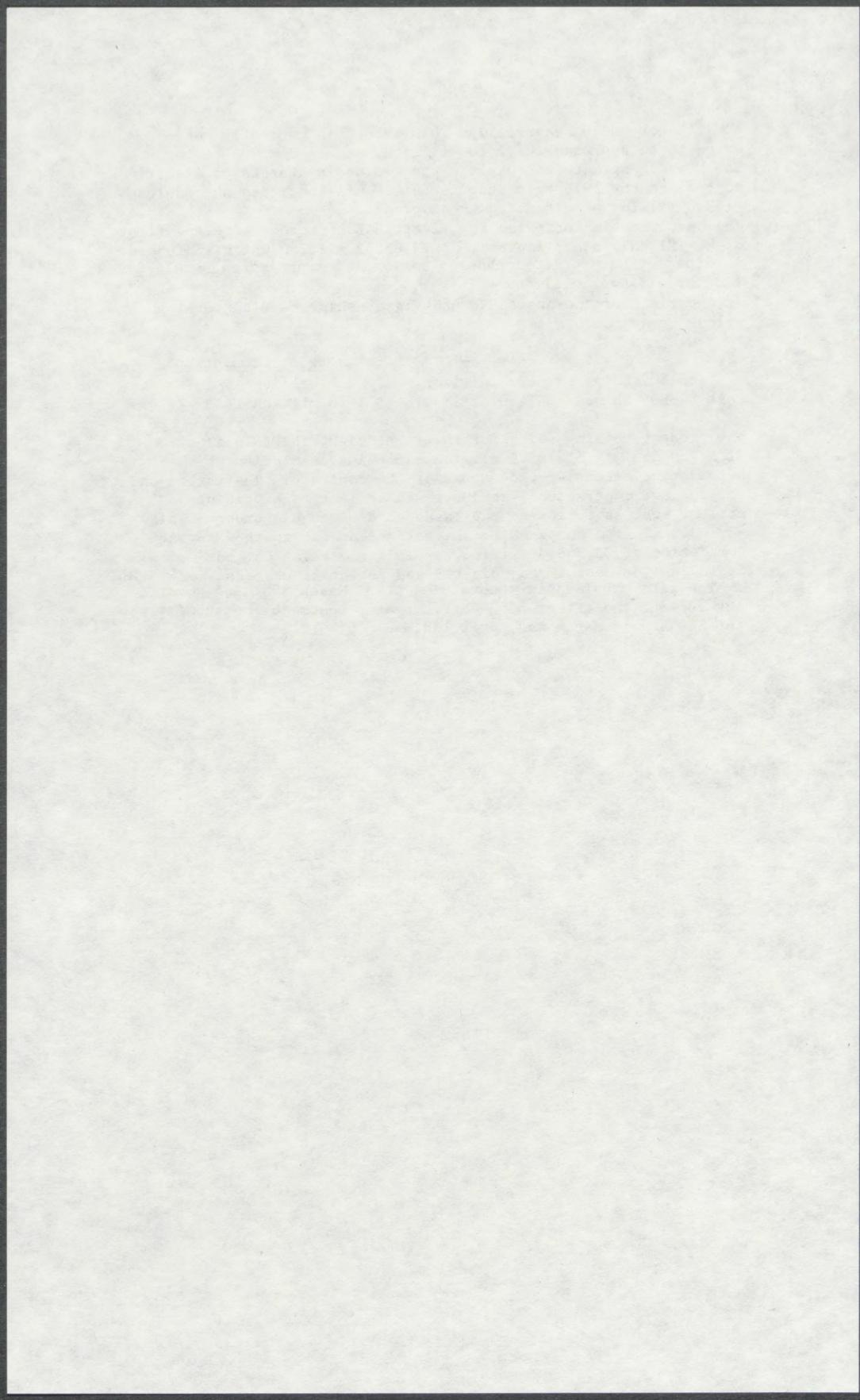
(>7% labor and 6% material). This amount is currently estimated to be approximately \$104 million.

- (c) The Navy's estimate to complete the two 688's awarded to Electric Boat since the 1978 agreement is \$314.0 million (does not include \$143.0 million of estimated escalation).
- (d) The Navy's estimated price for Electric Boat to complete the first eight TRIDENTS under contract is \$3,068.3 million which includes the cost of Navy ordered changes but excludes projected escalation of \$1,404.7 million.
- (e) A comparison of the above SSN 688 Class estimates with ceiling prices is as follows:

	<u>Ceiling</u>	<u>Estimate At Completion</u>
85-804 Ships	\$2.7 billion	2.8 billion
Post 85-804 Ships	\$314.0 million	\$314.0 million

The present ceiling price for the first eight TRIDENTS as of 31 March 1981 is \$3,163.3 million excluding escalation which is outside the incentive provisions of the contract. The target and ceiling are contractually adjusted to reflect each pricing action, such as following the issuance of a change order. This \$3,163.3 million compares to the estimated cost to the Navy at completion of \$3,068.3 million, excluding escalation, but including the cost of adjudicated and potential changes.

The data provided is accurate as of 31 March 1981 and does not reflect the effect of Electric Boat's rescheduling submitted to the Navy in March and April 1981.



## CONGRESSIONAL AND NONDEPARTMENTAL WITNESSES

### STATEMENT OF HON. CHRISTOPHER J. DODD, U.S. SENATOR FROM CONNECTICUT

#### STATUS OF SUBMARINE CONSTRUCTION PROGRAMS

Senator WEICKER. Our next witness is my colleague, Senator Dodd, who holds the position I did of junior Senator from Connecticut.

Senator DODD. Mr. Chairman, I am pleased to appear before the Subcommittee on Defense today to testify on the Trident and SSN-688 submarine construction programs, and the status of construction at the Electric Boat Co. located in Groton, Conn., and at Quonset Point, R.I.

Mr. Chairman, let me say I wish in a way that the testimony we heard this morning, the tone of it had been the quality of it given before the House committee. It was a vastly different Navy speaking this morning than what we heard speaking before that House subcommittee. With all due respect, I realize it is a new administration and a new beginning and it takes a little time to get one's sea legs as we start out, but this has not been an auspicious beginning in terms of trying to get ourselves on track in terms of our overall needs, specifically with regard to the Navy.

I think we all recognize, those of us including obviously yourself, that there is enough blame to go around here. Trying to suggest that somehow all of the responsibility for everything which has happened to the 688 program and the Trident program belongs at the feet of Electric Boat is just blatantly false. For those of us who watched and observed over the last several years what has gone on, starting with the 688 width design contract and the lead ship going to Newport News and followed what happened with the follow-on ship actually being further advanced than the lead ship and the tremendous problems in terms of the design at Newport News, as well as the whole claims issue a few years ago which you remember just took forever to resolve and finally did to the tune of some \$359 million which was the largest single claim ever paid to any contractor by the U.S. Government.

While it was a settlement, there certainly is implicit in that settlement an acceptance of the responsibility of some of the problems. The Navy in effect was accepting some \$359 million worth of problems in that particular case. So this morning's testimony by the Secretary was certainly more balanced. While I would take exception to some of his proposals, certainly the words and the tone were more judicious than the testimony of a couple of weeks back.

As you know I represented eastern Connecticut for 6 years in the House, and I believe that I have a certain amount of familiarity having lived through some of these problems as you did, including of course the settlement problem, and we had some strikes up

there that dominated our attention. It is precisely, Mr. Chairman, in a sense of perspective which I believe is lacking in discussion of the status of the Trident and 668 program in Electric Boat, regardless of the difficulties now being experienced. We must not lose sight of the fact that Electric Boat has been building submarines for the U.S. Navy since 1900, and has delivered some 271 submarines to the Navy since that time.

#### ACCOMPLISHMENTS OF ELECTRIC BOAT

Electric Boat has served our national defense and our country very well over these past 80 years. I am therefore saddened, frankly, to see the U.S. Navy and one of this Nation's premier shipbuilders locked in a acrimonious public debate. I will not attempt to assign blame to either party for the delays in these two submarine programs. I have enough experience in these matters to know that neither party is ever solely responsible for the situation.

However one might try to apportion the blame for delays in Trident and 688 deliveries, I find it alarming that the Navy has taken a seemingly punitive attitude towards Electric Boat. This committee should examine how we can best get on with the job of providing quality submarines to the U.S. Navy, and whether recent Navy actions have helped or hindered that goal.

If we are to build the submarines this country needs, it is important that a cooperative relationship exist between the Navy and one of its major shipbuilders. Unfortunately, I believe the Navy has taken an unnecessarily confrontational view of its relationship with Electric Boat. For example, only 6 weeks into the new administration, the Navy delivered exceptionally critical testimony on the construction program at Electric Boat before a congressional subcommittee.

Electric Boat officials were scheduled to testify in response 2 weeks later, but before they were given that opportunity, the Navy announced the suspension of competitive bidding on three 688 contracts and awarded the submarines to Newport News without consulting or informing Electric Boat in advance.

Obviously, those of us in New England have an interest in seeing our constituents remain at work, but whether you were from New England or Connecticut or eastern Connecticut is really irrelevant. The fact is the fundamental notion of fairness. If you appear before a congressional committee and attack the credibility of an individual or in this case a contractor, and not give them a chance to come back and at least give the committee an opportunity to hear the other side of the story, and then go over and make a decision without having the benefit of that kind of testimony I feel is irresponsible.

On the last day of March, the Navy's option to award the ninth Trident to Electric Boat expired, and we waited as you know, several days, before we even got an answer to that one. For the past month we have heard many statements from the Department of Defense and the Navy on building Trident's overseas and on-building 688's at Navy yards. Unfortunately, these statements have sounded more like threats against Electric Boat than sober policy options.

I think your questions and the questions of Senators Chafee and Stevens and Senator Rudman certainly reflect my views. Again I would like to hear what they have to say and I would have some deep reservations about it, but I think before you go off and sort of dangle this out there, it would be worthwhile to come before committees such as this and discuss it with Members of Congress, and discuss it with the people who will be most directly involved.

In sum, Mr. Chairman, the cooperative and constructive relationship which should exist between the Navy and the shipbuilder has been consistently damaged over the past 6 weeks.

I hope this committee will seek ways to redevelop some degree of cooperation between the Navy and Electric Boat and examine how we can best get the submarines we need delivered.

#### RECOMMENDATIONS TO SUBCOMMITTEE

Specifically, I would recommend that this committee examine five fundamental questions.

First, what is the Navy's 5-year shipbuilding plan? If shipbuilders are to efficiently plan their long term material purchases and labor needs, they need to have some idea of the Navy's mid- and long-range plans. Time and again, Navy witnesses have emphasized the importance of allowing shipbuilders to realistically plan for future contract awards. However, the Congress has yet to receive a 5-year plan from the Navy. The Navy's recent decision not to award the contract for the ninth Trident submarine, and current uncertainties over whether the 10th Trident will be authorized and appropriated will not help Electric Boat build submarines more efficiently. In fact, these uncertainties can only serve to reduce productivity at Electric Boat.

I was glad to hear the Secretary say he wanted that authorized but we note there are serious problems in the Armed Services Committee and I think it is due to some confused signals over where the Navy stood on this subject.

Second, was the Navy's decision to suspend competitive bidding on three of the fiscal years 1980 and 1981 688 submarines appropriate, and will it set a bad precedent for the future? I am sure you are aware, Mr. Chairman, of recent discussions of building a 700-800 ship Navy, and the suspension of free market forces which would be required to achieve that goal. When the Navy suspended competitive bidding and awarded the three 688 submarines to Newport News, I assumed that this was an exception to the rule of relying on the free market. However, Secretary Weinberger's letter to Senator Tower reportedly suggests that competitive bidding be scrapped in favor of an allocation process for naval ship procurement. A policy shift of this magnitude should receive careful scrutiny by this committee.

Third, is building Trident submarines at a different American yard or overseas cost effective or practical? As you know, high level consideration in the Defense Department is being given to constructing Trident submarines at a different yard than Electric Boat. The possibility of building Tridents overseas has even received serious consideration. Yet to my knowledge, the Navy has not informed Congress of what this option would cost or of the security implications of building the most important component of our stra-

tegic nuclear modernization program in a foreign country. Again, this issue must receive greater examination before these proposals take on a life of their own.

You have examined that issue very well this morning and my hope would be that before any decision of that nature that there would be serious discussions. Even with this 10th Trident, I think it might be worthwhile to include language that would insist that the 10th Trident if it is going to be built, be built here in the United States. If we are going to award a contract for the 10th Trident, I think we would like to know, given the statements by the Secretary this morning, that it was going to be built here.

Fourth, is opening a public shipyard to build 688 submarines cost effective or practical? In the late 1960's and early 1970's, the Navy decided not to continue new ship construction at naval shipyards, largely because they were less efficient than private yards. Yet suddenly we are hearing proposals to reopen a public yard to build 688 submarines. I believe this committee should carefully examine this proposal in light of the administration's strong position on relying on the private sector. The issues of where the Navy intends to obtain the skilled workers necessary and historical cost differences between public and private yards should also be examined in depth.

Again, I am not opposed to examining this issue but again I think before we sort of takeoff on this course, these sorts of things ought to be discussed in depth with people who are involved directly here in the Congress.

Fifth, can the competitive bidding process be maintained for the submarine cylinders for the three 688's assigned to Newport News? While I was personally disappointed that the Navy suspended competitive bidding for these three submarines, I do not believe that free market forces have to be totally scrapped. It is my understanding that the Quonset Point facility is perfectly capable of constructing the submarine cylinders for these three submarines. Secretary Lehman has said that, " \* \* \* competitive bidding is generally to be preferred \* \* \* ". If this is so, competitive bidding should be maintained on the three submarine cylinder contracts.

So, Mr. Chairman, I am not suggesting that there are easy solutions to these problems. It is a complicated matter, but my only hope would be that we would get back on track again.

I don't believe that you ought to indict too early but this has been a little sloppy from day one. While I think it is important to examine different alternatives, and to not be bound by past practices, I think if you are going to chart or head off into new water, you ought to at least begin that process in such a manner so as to achieve the kind of rational discussion that will allow for a lengthy debate on these matters. I really believe that the last several weeks of just attacking in a way Electric Boat as a way of dealing with this problem has not been constructive and it has not been helpful and I don't think it is going to lead us in the direction that all of us would like to see us go.

Senator WEICKER. Thank you very much, Senator.

The committee will now hear Mr. P. Takis Veliotis, executive vice president—marine general manager, Electric Boat Division, General Dynamics.

You may proceed.

GENERAL DYNAMICS—ELECTRIC BOAT DIVISION

STATEMENT OF P. TAKIS VELIOTIS, EXECUTIVE VICE PRESIDENT—  
MARINE GENERAL MANAGER, ELECTRIC BOAT DIVISION, GENERAL DYNAMICS

RESPONSE TO CRITICISM AGAINST ELECTRIC BOAT

Mr. VELIOTIS. I am P. T. Veliotis, general manager of the Electric Boat Division and executive vice president for marine operations of General Dynamics Corp. In addition, I am on the General Dynamics board of directors. I would like to thank Senator Weicker for inviting me to speak to you today.

As you know, I appeared 2 weeks ago before the Seapower Subcommittee of the House Armed Services Committee in response to criticisms made against our company. It was a welcome opportunity to set the record straight. It is not my intention today to repeat my earlier testimony. I have brought copies with me for your information and I would ask that it be made a part of the record of today's hearing.

I will reaffirm what I said in my concluding remarks to the Seapower Subcommittee: We have solved the problems the Navy keeps talking about. We have put those problems behind us. We now have the best and most efficient submarine shipyard in the free world. Today, I would like to tell you what we—Electric Boat, the Navy, and the Congress—must do to keep it that way.

Three weeks ago the Secretary of the Navy decided to negotiate a contract with Newport News for three of the four SSN688 class submarines authorized in the fiscal year 1980 and 1981 programs. He justified his waiver of the competitive bidding process by citing the need to maintain a strong industrial base for the building of nuclear submarines.

INDUSTRIAL BASE OF ELECTRIC BOAT DIVISION

When Admiral Fowler appeared before the House Seapower Committee on March 12, he too talked about the industrial base and described the decline in the number of shipyards building for the Navy from 1970 to the present. I would like to address myself to this same subject—the adequacy of our industrial base and how to protect it for the future. The industrial base, of course, refers to the physical capability—management, manpower, and facilities—to build ships.

While there are fewer shipyards today, the depth of our current industrial base compensates for its lack of breadth. This is particularly true in the case of Electric Boat. By virtue of the modernization of our facilities and the training of our work force, Electric Boat now has the capability of producing nuclear submarines at the rate of three 688-class submarines plus two Tridents each year. With a second shipbuilding facility—Newport News—available to produce an additional two 688's per year, the Navy has at the present time the industrial base needed to attain their stated goal of 130 attack submarines in the required time and to correct the present strategic imbalance.

Historically, the greatest obstacle to building and maintaining an adequate industrial base has been the "boom or bust" nature of Navy shipbuilding. Figure 1 illustrates Electric Boat's workload since 1959, with the annual submarine authorization across the top. You can easily see our response to the Polaris program, the SSN-637 program, and the SSN-688 program. However, when you look more closely, you can see there is always a gap of several years between efforts. It is this gap which creates the problem—and which is the major source of the difficulties which we have experienced at different times.

Instead of moving steadily along on an even grade, we have been on a roller coaster—expending our work force and capacity at one point, and contracting it at another. The impact of these oscillations on costs, morale, and the overall quality of our effort has on occasion been extremely severe. Let us look more closely at the gap between the 637 and 688 programs, from the late 1960's to 1971. During this period, our shipyard work force of skilled trades people fell from over 9,000 to a low of 4,000—by more than one-half.

If I had but one message for you today, it would be this: What is clearly needed is more stability in our building programs, and a steady rate of authorizations.

Despite the handicap of fluctuating volume, Electric Boat has worked long and hard to build its present capacity. We now have in place the capacity to build three SSN's and two Tridents per year. In figure 1, you can see our firm workload, and the serious decline we are now confronted with. A major portion of this country's industrial base for submarine construction is going to erode at a time when the Nation's requirement for submarines has never been greater. We were ready for three ships in fiscal year 1981, two of the four SSN's and one Trident. As you know, three SSN's went directly to Newport News, the fourth has not been awarded, and the Trident option was allowed to lapse.

Serious damage has already been done, and it is now time to act immediately if we are to minimize future damage. To protect its industrial base, the Navy must do several things, very quickly. The remaining fiscal year 1981 SSN-688 should be awarded to Electric Boat at once, and the ninth Trident (SSBN-734) should be awarded as quickly as possible. To that end we would exert all our efforts to reduce any time involved in negotiations.

#### SUBMARINE PROCUREMENT RATE

Beyond that, and as important, the submarine procurement rate must be accelerated beginning this fiscal year, to a rate which can support awards to Electric Boat of three SSN's and two Tridents a year beginning in early calendar year 1982. On figure 1, the top line reflects our workload if that can be brought about. As you can see, our roller coaster ride cannot be avoided altogether; it can be mitigated by the actions I have discussed.

It then becomes a matter of critical importance to sustain the submarine rate in the out-years. The price of tickets on our roller coaster is not a trivial matter. For example, by allowing the fiscal year 1981 Trident option to expire, the Navy has added many millions of dollars to the price of the ship—even if they award it tomorrow. It cannot be otherwise. We will incur increased over-

head and material costs. As an example, where before we planned on buying two shipsets of material at once, now we have split and spread the orders. Where we had options with subcontractors for material or components these have also lapsed and must be renegotiated—almost surely at higher cost.

I am told that there is consideration being given to deferring the 10th Trident to fiscal year 1983. If it happens, the impact versus that of the option expiring will be much greater because such an action would seriously break production. We may be able to absorb the schedule impact of the option not being exercised, we could not absorb a 1-year deferral of the 10th Trident without a serious delay in its delivery. That would be a very serious and expensive action.

It is particularly disturbing that these events and proposed actions are occurring just as we finally have established our work force and facilities—the industrial base—for that higher production rate. Let me give you some background.

#### RESULTS OF ELECTRIC BOAT EXPANSION

Looking forward from 1972, we undertook the greatest facilities expansion in Electric Boat's history. We foresaw a major role for us in the 688 class program—and an even more important role in the emerging Trident program.

It was clear that if we were to play our part effectively, we would have to commit to a major expansion of our facilities. In the years that followed, we accomplished the following:

We designed and built a new and unique land-level construction facility for Trident.

We added a number of direct support facilities in the shipyard, and modified our North Yard building ways and fabrication area to greatly improve and increase SSN construction activity.

We created an additional manufacturing facility at Quonset Point, R.I.

We designed and began work on eight Tridents—and built a fully operating land-based prototype engine room and reactor compartment.

We began the SSN-688-class program and have received awards for 20 ships to date.

We designed and built a new automated frame and cylinder manufacturing facility at Quonset.

Our expansion was expensive. We committed over \$300 million to new facilities. Our commitment to the development of our human resources has been equally great. Our training expenditures alone have totaled almost \$50 million from 1972. Special efforts were made to maintain our skill mix and to strengthen our frontline supervision. At the same time, we have made continuous—and successful—efforts to computerize our operations and to reduce our overhead and support costs. These cost reductions have averaged \$126 million a year since 1977.

As we have worked to build and improve our own portion of the industrial base, I think it is important to understand several key points.

These were private investments. Private capital. At General Dynamics, the importance of the submarine programs to our national defense has been so apparent that we were ready and willing to

make these tremendous financial commitments in anticipation of expected workloads. I would submit that there is no evidence that any other company in the Nation has been willing to take such risks.

Increased productivity through the application of new technology has been a basic consideration in all of our expansion programs.

We have built and expanded our base in the midst of—and in full support of—ongoing submarine construction programs.

The problems which we encountered last year should not obscure the great underlying progress we have made. They were temporary problems and they have been resolved. We will demonstrate this very simply: By delivering submarines. We delivered U.S.S. *Bremerton* on February 13. We delivered U.S.S. *Jacksonville* last week. SSN-700 *Dallas* begins sea trials on April 19. With the full support and cooperation of the Navy we will deliver six 688 class fast attack submarines in 1981.

In addition, the lead Trident, U.S.S. *Ohio*, will begin sea trials in June of this year and we are determined to deliver U.S.S. *Ohio* in 1981. The second Trident has been launched. The third will be launched shortly. We now have eight Tridents in various stages on construction.

#### ELECTRIC BOAT CONSTRUCTION SCHEDULE

I repeat: we have the present capacity to build three 688 class submarines plus two Tridents each year. It is in the best interest of the Navy and of the Nation that this capacity be fully utilized and protected. How do we accomplish this?

First, there must be cooperation and coordination between the Navy and Electric Boat. We cannot afford to be adversaries. We cannot afford to have either party spending precious time and energy trying to blame the other for problems that inevitably arise. We must use that same time and energy to work together in finding prompt and practical solutions.

I would like you to know that we moved quickly in response to Secretary Lehman's suggestion that teams from Electric Boat and from the Navy meet to resolve our differences and improve communications. Senior executives of Electric Boat have been meeting in Washington, Groton and Quonset during the past week with their Navy counterparts to establish mutually agreed upon milestone schedules.

As Mr. David Lewis, chairman of General Dynamics, wrote to Secretary Lehman on March 25, and I quote: "We are willing to commit to demanding milestones and as we meet them we believe that you, too, will be satisfied that Electric Boat is a reliable supplier of high-quality submarines to the U.S. Navy."

This concept of mutual agreement and mutual commitment on the part of the Navy and Electric Boat is an important one. We hope that it is a significant indication of renewed cooperation and coordination of activities for the future.

We need to recognize that we and the Navy share a responsibility to the Nation to build the best submarines at the lowest possible cost. It is time to join hands in order to achieve this goal.

But above all, we must have a steady and predictable flow of contracts for submarines of both the 688 and the Trident class.

That is why the recent actions taken by the Navy have been so frustrating and so difficult to understand. Indeed, by awarding three 688 class submarines to Newport News without competitive bidding, by failing to exercise its option for the ninth Trident, and by renewed consideration of activating a naval shipbuilding facility—the Navy is doing itself a great disservice that will seriously erode the industrial base which it is trying to protect. Furthermore, none of these actions will have any bearing on accelerating submarine deliveries by Electric Boat. Let me explain.

#### NUCLEAR SUBMARINE CONSTRUCTION

Construction of a nuclear submarine is a lengthy process, involving approximately 5 years. The process can be separated into several distinct stages—each involving different types of work and a different mix of skilled trades people. The principal stages are: (1) hull fabrication and erection, (2) installation and outfitting, and (3) final outfitting and test.

Hull fabrication and erection is the construction of frames and cylinders, major tanks and structural assemblies. This initial stage basically involves the steel trades and generally takes place in the first few years of the construction process.

Installation and outfitting includes the installation of major equipment and machinery, piping, electronics and other components. This stage involves shipfitters, pipefitters, electricians, and similar skilled workers and takes place during the second, third and fourth years of construction.

Final outfitting and test generally peaks during the last year. With the submarine essentially complete, this involves living facilities and the rigorous testing of all systems and components. This final stage involves painters, carpenters, sheetmetal workers and test technicians.

#### SUBMARINE BACKLOG AT ELECTRIC BOAT

Bearing this in mind, let us take a look at the backlog of 21 submarines now under construction at Electric Boat. In some quarters, this large volume of work has been cited as a major cause of the problems we had last year. They obviously do not understand the process which I have just outlined for you. Seven of these submarines have been launched and are in the final stages of outfitting and testing. Seven more are in the later stages of hull fabrication and installation. The remaining seven are rapidly nearing the end of the first stage—with basic steel fabrication nearly complete.

What this means is obvious. Withholding and delaying additional awards will not speed completion of the submarines we are now finishing. It only means that we will soon run out of work in the early stages of construction. Our facilities will operate at less than capacity, and we will begin to lose the skilled trades people involved in those first stages.

#### EMPLOYEE RECRUITING COSTS FOR ELECTRIC BOAT

You should know that it costs Electric Boat more than \$17,000 to recruit, hire and train one first class shipbuilder, qualified with the

exacting skills needed in building nuclear submarines. And when one of those skilled workers walks out of the shipyard—there goes a significant part of the Navy's industrial base. To get the equivalent of that skilled worker back on line we've got to start all over again. First, we've got to hire three people to end up with one—and then we have to train that worker for 6 to 9 months to make him truly productive.

The decision to suspend competitive bidding and award those three 688 class submarines to Newport News really does not make very good sense—particularly if the intent is to maintain the industrial base. It makes no sense to starve one yard to feed another.

It should also be noted that Newport News has an established building rate of two 688 class submarines a year. It would be difficult to suddenly increase that rate without the kind of disruption shipbuilders have experienced in the past. Electric Boat, however, does have the capacity at the front end of our production cycle to build additional 688's at a substantially earlier date and a significantly lower cost.

As I mentioned, the inescapable effect of the Navy's announced decision is that Electric Boat's facilities and skills used in the early stages of submarine construction will be seriously underutilized. Layoffs will be an inevitable consequence later this year. Once again, we will commence a downward plunge on the roller coaster.

It is certainly hard to see that this action—together with the further postponement of the ninth Trident—can have any productive or constructive effect whatsoever on the industrial base. Quite the opposite.

#### NAVY REQUEST FOR CONSTRUCTION OF NEW SUBS

Underlying this whole situation is the plain fact that the Navy has not requested enough submarines in the past few years to meet today's needs. And while Congress has added to the Navy's requests, the additions have not been enough either. Authorization levels have steadily declined from the early 1970's. The capacity of the two existing submarine yards has not even been tested, much less exceeded. And yet some Navy officials persist in advocating the reopening of a naval shipyard for submarine construction. Again, this would only weaken rather than maintain or strengthen the industrial base.

Although we understand that the Navy has increased its force level goals to require building attack submarines at the rate of three per year, that is still two short of the combined capacity which is already in place at Newport News and Electric Boat.

As I said earlier, the one partial remedy that is available is to immediately award the ninth Trident and the fourth of the fiscal year 1980-81 SSN-688's to Electric Boat, and to accelerate the award of the two fiscal year 1982 SSN-688's. Then, submarine procurement should be increased to the rate of five attack submarines and two Tridents a year. This will achieve Secretary Lehman's goal of keeping both Electric Boat and Newport News operating at capacity in terms of submarine construction.

In this way, the Navy's goal of 130 ships can be met—its submarines will be delivered in a timely manner—and with steady in-

creases in production efficiency as we eliminate the roller coaster ups and downs of erratic procurement.

Immediate action is needed to avoid the destructive effects of future layoffs at Electric Boat—both at Groton and at Quonset Point. In my statement to the Seapower Subcommittee and here today, you can see charts demonstrating the devastation which will result from the continued withholding or deferral of new contracts. You have also seen what has happened historically during the “boom or bust” periods of naval shipbuilding in the past.

Just last week, we delivered the second SSN-688 class submarine—the *Jacksonville*—in 1981. With this visible reassurance, and the progress toward establishment of achievable, mutually agreed upon milestones, I believe the Navy should proceed without any further hesitation to award Electric Boat the fourth of the fiscal year 1980-81 SSN-688's, accelerate the award of two fiscal year 1982 SSN-688's and award the ninth Trident contract.

Let me close by saying once again that yes, we did indeed have problems at Electric Boat last year. Some were of our own making. Others were not. The important thing is we have solved our problems and we are moving ahead. If it is the Navy's desire to punish Electric Boat for these past problems, I can only point out that—in the long run—the Navy will only penalize itself by knowingly weakening a vital part of the industrial base on which it depends.

A strong and healthy Navy needs the support of strong and healthy private shipbuilders. They go hand in hand. And we must work hand in hand to make it happen.

Thank you very much.

Senator WEICKER. Thank you very much, Mr. Veliotis. Let me ask you a few questions before yielding to my valued colleague, Senator Proxmire.

#### PERSONEL EMPLOYED AT ELECTRIC BOAT

How many people are employed in Groton and Quonset Point and what will happen to that employment if you receive no new contracts for submarines before the end of the year?

Mr. VELIOTIS. We employ right now, sir, some 25,000 people at Electric Boat, Groton, Conn., and Quonset Point, R.I. If we don't receive additional orders, specifically the fourth of the 688's for fiscal year 1980 and 1981, and the ninth Trident, we are going to have to make layoffs. We anticipate by the end of the year we will be laying off a total of about 3,000 people.

#### DELIVERIES OF FUTURE TRIDENTS

Senator WEICKER. How soon after the delivery of the first Trident submarine do you expect the second, third, and fourth Trident to be delivered?

Mr. VELIOTIS. We expect to deliver the second Trident some 11 months after the first one, and the third Trident again 11 months after the second one, and then going down to a rate of 8 months per ship, which would give us a rate of 1½ Tridents per year.

## FOREIGN VENDOR CONTRACTING

Senator WEICKER. What percentage of your subcontracting on both Trident submarines and the 688 submarines is done with foreign vendors?

Mr. VELIOTIS. None, sir, I would say practically none.

Senator WEICKER. Have you ever contracted to foreign vendors?

Mr. VELIOTIS. We contracted in the past with Canadian Vickers, some bow sections and stern sections, but nothing to do with the pressure hull of the submarine. We have no more work overseas.

## CHANGING DESIGNS OF SSN-688

Senator WEICKER. Has the basic design of the 688 contributed to any of your delays in the construction?

Mr. VELIOTIS. Yes, sir, that's what happened. Construction of the 688's, which was designed by Newport News, had turned the Division into a turmoil in 1975, 1976, and 1977, because of the constantly changing design. That is correct, sir.

Senator WEICKER. The productivity of your shipyards has been criticized based on the comparisons of the first 688's with another yard. That history is for better or worse but in general what has changed to convince you that you can in the future build two Tridents and three of the 688's per year?

Mr. VELIOTIS. Mr. Chairman, we always talk about those first five ships. As I said when I was questioned at the last hearing of the Seapower Subcommittee with Chairman Bennett, I don't have access to the books or records of Newport News. I don't know how that difference came about. I have my doubts about what has happened. This is very simple because if I take their sixth ship and our sixth ship, their price of \$98 million goes up to some \$149 million and our price stays at \$148 million. What happened to Newport News between the fifth and the sixth ship to go up \$50 million and be equal to our costs? I don't have access to their books, or their records, and I don't know. I can only speculate and say there is a different way of charging costs, and different overhead rates than at Electric Boat. So this is all I can offer. The rest will be speculation.

But the fact remains, on the sixth ship, the costs are about the same. That is, within \$1 million.

Senator WEICKER. What contact did you have with the Navy prior to their decision to award the 688 to Newport News and forego the option of the Trident?

Mr. VELIOTIS. I had no contacts at all. Your refer to the decision to take the three of the 688's and give them to Newport News? I had not contacts, but I read about it. Admiral Fowler testified on March 12. I was supposed to have a luncheon before the 17th of March, with Admiral Whittle, who is the Chief of the Naval Material Command, with the CNO, and the Secretary of the Navy. It was postponed before the 17th of March.

On the 17th of March Mr. Lewis was invited to Washington and was told that in order to protect the industrial base they would award three submarines to Newport News. I had no other contact. I was not contacted and I never met or talked to the Secretary of the Navy before that.

## CONTRACT PROBLEMS WITH NAVY

Senator WEICKER. If there were problems, which apparently by your admission existed, and which you met with the Navy on, was it your impression that these problems had been ironed out? What was the chronology of that scenario?

Mr. VILLOTIS. I came into the yard in 1977, and in January of 1978 I submitted to the Navy a schedule and costs and budgets for the remaining 688's and Tridents. Mr. Chairman, for two years, or about two years, from January of 1978 to the end of 1979, not only were we meeting all of the schedules and the milestones that we had given the Navy, but on some ships we were ahead of schedule. We were predicting at that time that the Trident would be delivered a month ahead of schedule. On every ship we delivered, the three 688's we delivered at that time, not only did we meet the date we said we were going to meet but we were ahead of schedule. Also the cost was some \$6.8 million under the budget for those ships.

Then the problems started. We discovered the problems with discrepant steel. The discrepant steel was bought by the shipyard during the period of 1970 and 1977. We also discovered some welding that was not performed properly and was less than satisfactory. That also was traced back to 1975 and 1976. We discovered this, we faced it and we proposed how we were going to solve it.

Having the problems of the steel and the welding, it necessarily follows that there were some shortcomings of quality control. The quality control program was not a program devised by us, it was a program which was modeled after the navy specifications. Our quality control program was submitted to the Navy and it was approved in 1971, 1973, 1974, 1975, and 1979. It was audited and under continued surveillance. Yes, we had problems and we worked very hard and we solved the problems. We solved the problems on the steel. Admiral Fowler said that there could have been 126,000 possible places where discrepant materials could have been used. We looked at every location. The net result on the *Ohio* was the replacement of 41 pieces of steel weighing 50 pounds. This problem is behind us.

But what is reassuring is that we discovered the problems. Of course we had quality shortcomings, but all of those problems are behind us now. The proof that the problems are behind us is that we have started delivering submarines. On February 13 we delivered the 698, and in March we delivered the 699, and the 700 is going on sea trials on the 19th of April. This year, with the full cooperation and support of the Navy, we are going to deliver six 688's plus one Trident.

So there is the proof that the problems are behind us and there is nothing like performance. We are performing.

## NAVY/ELECTRIC BOAT COMMITTEE

Senator WEICKER. Are you satisfied with this committee arrangement that the Secretary referred to, of three representatives of Electric Boat and three from the Navy?

Mr. VILLOTIS. Yes, I am satisfied.

Senator WEICKER. If there were no problems, why would you have to have this committee?

Mr. VELIOTIS. The purpose of the committee is not to solve the problems. The committee is to establish milestones so they can measure our performance. The committee is to address the problem of communications and how we can communicate better, but the committee's function is not to come to the yard and solve those problems. We don't have those problems any more.

#### FUNCTION OF COMMITTEE

Senator WEICKER. Then I don't know, will you please repeat to me, I don't know what the function of the committee is?

Mr. VELIOTIS. It is my understanding that the committee's function is to establish meaningful milestones regarding how we are going to do our work. If we state that by a particular date we will have progressed work to a certain point or that a ship will go on sea trials, they will be able to monitor us to determine whether we are performing. It is a function of monitoring our performance. That is what our chairman, David Lewis, wrote in his letter to Secretary Lehman.

#### CAPABILITY OF FOREIGN SHIPYARDS

Senator WEICKER. How confident are you that you are going to be able to get the fourth 688 and the ninth Trident?

Mr. VELIOTIS. I am not confident at all. I don't know. I am greatly upset when I hear that they want to go overseas to build submarines. Let me share some of my experiences with you. I was in Canada, and I have been in shipbuilding all of my life. Canadian Steamship Lines, the company I worked for, owned 50 percent of the shipyards in Canada, and we built 60 percent of all of the tonnage in Canada. That is military or commercial and I was president and general manager of the shipyard. There is no adequate facility in Canada.

Don't even think of building nuclear submarines in Canada or any other sophisticated combatant ship. Canadian Vickers, does have a facility to build cylinders, but the cylinders we are sending over there are not the engine room cylinders, just some of the pressure hulls, plus the bow and stern.

I have traveled all over the world, and I have visited all of the shipbuilding centers, and I have been in the United States and I know our capacity here. I have been to the Soviet Union for that matter.

They didn't let me see their shipyards in the Soviet Union but I spoke to their Minister of Shipbuilding. In Great Britain, they do have a capacity to build nuclear submarines, but they themselves came down to Groton recently and they asked us what do we think of their proposed new plant for submarines. They visited our facilities because they wanted to build the same thing. We spoke to them two weeks ago, and they said if they get approval to go ahead with the facilities, their facilities will be ready by 1987, and they expect to have their nuclear submarine, the first one in the new facility ready by 1995.

Believe me, sir, there is no other place where nuclear submarines of the sophistication of the 688 and Tridents can be built, except in the Soviet Union.

Senator WEICKER. Why do you feel that all of this being the case, with problems behind you and the capacity to go ahead and deliver in the future, why do you think the Secretary of the Navy and those under his authority decided to choose this as a time to do a rain dance on you and the Electric Boat Co.?

Mr. VELIOTIS. I have asked myself that many times. I don't have a satisfactory answer. I can only speculate. Is it because the Navy wants to open their own shipyards or is it for another reason? I don't know. I don't have any answers and I ask that question all of the time.

Senator PROXMIRE. Mr. Veliotis, I have seen a lot of reports by committees in the last 20 years or so, but I have never seen a report that is more elaborate or more beautiful than you have presented to us this morning in your testimony. I counted seven different colors in this beautiful presentation and I understand you were asked to testify only a short time ago. How much did this cost?

Mr. VELIOTIS. I don't have the figure. I can supply it for the record.

Senator PROXMIRE. It is very impressive. I think it is fine to have presentations like this but I just wonder if it would have to be as expensive and costly as this is. I recognize that we are dealing with hundreds of millions of dollars and indeed billions of dollars, and this is a relatively modest sum, but still it is a very elaborate and expensive and beautiful presentation.

Along the line that the chairman was asking you about, didn't you say that all of the problems were behind us in 1978 when you appeared before and didn't you indicate at that time that the problems were behind us, and since then have there been new delays?

Mr. VELIOTIS. I did not appear in 1978.

Senator PROXMIRE. Didn't you say that?

Mr. VELIOTIS. What statement and where?

Senator PROXMIRE. The statement you just made before us this morning?

Mr. VELIOTIS. I made the statement before you this morning, and I made it on the 25th of March this year.

Senator PROXMIRE. You haven't made a similar statement in the past?

Mr. VELIOTIS. I haven't had the opportunity to make a similar statement anywhere else.

#### TRANSFER OF CONTRACTS TO NEWPORT NEWS

Senator PROXMIRE. Let me follow up on what the chairman has just asked about the reason why the Navy, after all this is a hard-nosed business administration, this administration that believes in defense and recognizes how important it is for us to have the submarines that are by far our best deterrent in my judgment and in the judgment of most people, and yet they took the extraordinary step, as I understand it, of canceling and shifting the production to Newport News.

It would seem to me that that indicates that an administration that is prodefense and probusiness would only take that kind of drastic action under general provocation and feeling you are not doing a job.

Mr. VELIOTIS. I don't think so.

Senator PROXMIRE. Why do they do it?

Mr. VELIOTIS. Well, if you will allow me I will try to explain. Secretary Lehman wrote to Mr. Lewis on March 17, I believe, and you have that in the record. Secretary Lehman makes it very, very clear in the first paragraph, that the reason the three 688's were awarded to Newport News, was because he wanted to protect and preserve the industrial base. This is the reason that he cited in making the award to Newport News.

Senator, we have what we call in the Navy, a very elaborate system, the preaward survey. The preaward survey was conducted at Electric Boat prior to allowing us to submit a price and prior to allowing us to negotiate the contract with the Navy on three of the 688's. That preaward survey was submitted and that survey said, "Yes, Electric Boat, has the capability and can do the job and they can do what they way, and at the time they say."

#### CORRESPONDENCE FROM SECRETARY LEHMAN

It was not a question at all of any bad performance or sloppy workmanship of the past. Secretary Lehman makes it entirely clear that the reason was because he wanted to preserve the industrial base. I have the letter here, sir, and if you wish I will read it for the record.

This is the letter. May I read that paragraph?

Senator WEICKER. You certainly may.

Mr. VELIOTIS. March 17, Secretary of the Navy, to Dr. David S. Lewis, Dear Mr. Lewis.

I am writing to advise you that, because of existing conditions and circumstances which have come to my attention, I have cancelled the competitive procurement of the Fiscal Year 1980 and 1981 SSN 688 class submarines. While competitive procurement is generally to be preferred, I have concluded that it is essential in this instance to award these three submarines to Newport News Shipbuilding and Dry Dock Company without regard to the results of the bidding competition. The basis for this action is my fully considered determination that the award of these submarines to Newport News is necessary in the interest of national defense so as to have Newport News available as a supplier of SSN 688 class submarines at a level necessary in the case of national emergency and to meet the requirements of industrial mobilization in the case of such emergency. I am satisfied that the award of these three submarines will significantly improve the ability of Newport News to supply SSN 688 class submarines and to maintain a properly balanced source of supply.

Having made this determination, based upon the above criteria I now look forward to working together with you to resolve the very serious problems in the delivery schedules of the twenty-one submarines now under construction in your Yard. In the past, the Electric Boat Division has done great service to our Nation by providing submarines of a quality that has never been surpassed. Indeed, the quality of the submarines now at issue will not, I am confident, be compromised. There is no doubt in my mind that the *Ohio* will be the finest fleet ballistic missile submarine that has ever put to sea.

Without sacrificing that quality, however, the Nation's defense requires a building rate of no less than one and a-half Tridents a year and from three to four, and possibly more, 688's per year. Electric Boat has recently stated that it is capable of delivering up to two Tridents per year and three 688's per year. If such performance can be realized, in conjunction with optimum performance from Newport News, our

force objectives could be realized between the two yards. Unfortunately, performance to date by Electric Boat does not support such a claim.

The Naval Sea Systems Command has estimated that in the past year alone, the delay and projected delay of these submarine deliveries at Electric Boat has cost the Navy and Nation many submarine years of protection. I am told, moreover, that the lead Trident class strategic submarine, *Ohio*, already two years late, may not even deliver in 1981. Equally disturbing, I find that the average return cost to Electric Boat for construction of the first five submarines of the 688 class by Electric Boat is some 50 percent higher than the first five submarines of the same class delivered by Newport News. As I am sure you are aware, there are some highly qualified officials who have concluded from the current situation at Electric Boat that it will be some considerable time before it would be prudent for Electric Boat to take on any new work. I believe it is essential for us, working together, to address those aspects of Electric Boat's performance that have generated such concern.

You are no doubt aware that President Reagan has sent to Congress an ambitious expansion of our Naval Shipbuilding program as part of a national strategy to regain the naval superiority so essential to our future security. The Trident SSBN program and the 688 SSN program are two of the most essential elements of our ability to restore stability to the strategic balance and to attain conventional naval superiority. Doubts about our ability to meet minimum force objectives in these programs, therefore, raises concerns at the highest level of national security.

This Nation cannot base its national security on optimistic hopes and good intentions. If the facts lead us to the conclusion that our minimum submarine force objectives cannot be met by the yards now in production, then we shall be constrained to consider two alternatives. On the one hand, it may be necessary to begin construction of 688 class submarines at a government yard, and on the other it may be necessary to consider alternatives to the Trident class submarine for meeting the modernization requirements of the sea-based leg of our deterrent. I have set December 1981 as the latest possible date for making such decisions for implementation beginning in fiscal year 1982.

In light of the above, I should like to request that, on behalf of the Board of Directors of General Dynamics Corporation and the management of Electric Boat Division, you appoint representatives to meet with my personal representatives here in the Department of the Navy to agree upon a program of major steps to rectify the substantial performance problems at Electric Boat Division, and to review milestones by which to measure performance over the coming months. I should like to request completion of this joint effort no later than 15 April 1981. I shall review the entire situation later in the spring in determining how to procure the fourth and last remaining 80-81 SSN 688 class submarine.

I look forward to your reponse at your earliest convenience. I am hopeful that the action I have taken in authorizing the award of the three submarines to Newport News, combined with the actions that we, together, can take to improve Electric Boat's performance on contracts previously awarded to it, will provide the Nation with the quantity and quality of submarines both now and in the future that our national security requires.

I have taken the liberty of sending copies of this letter to the Chairmen of the House and the Senate Armed Services Committees.

Sincerely,

JOHN LEHMAN.

#### SUB CONSTRUCTION IN FOREIGN YARDS

Mr. VELIOTIS. That was the reason and that was the industrial base.

Senator PROXMIRE. Do you feel this had nothing to do with delays or cost overruns? Isn't it true that the Secretary of Defense indicated that he was so distressed at the failure of our shipbuilders to provide the ships on time and at a cost that he is considering going to a foreign yard?

Mr. VELIOTIS. I don't know what basis he has for that. I would question that decision. What guarantee do we have if we go to a foreign yard where they have never before built any nuclear submarines of that complexity and that type that we are going to get a better price and we are going to get them on time? What guarantee do we have?

Senator PROXMIRE. I am simply saying that this was his expression, and he indicated he was so concerned about the inability of our shipbuilders to meet our needs that he was considering the drastic action of going to a foreign yard. I would agree that our industrial base is of the greatest importance and we have to do all we can to nourish it and encourage it in every way we can, but it is also a matter of getting equipment we have to have for a strong defense.

Mr. VELIOTIS. But we have the industrial base. Electric Boat now has the capacity to build three 688's and two Tridents per year. I can tell you anything I may wish to tell you, but there is nothing like performance. This year we are going to deliver six 688's and the first Trident. We have already delivered two 688's.

#### INSURANCE CLAIMS BY ELECTRIC BOAT

Senator PROXMIRE. Let me simply ask you this. Before the House Armed Services Committee you testified that the total amount that Electric Boat would be claiming in their insurance claims would not exceed \$100 million. Will you confirm that \$100 million is the maximum claim that Electric Boat will be submitting either for insurance or any other reason on the SSN 688 class submarine and Trident contracts?

Mr. VELIOTIS. I can't give you a "yes" or "no" answer. I will have to elaborate, and please bear with me. First of all I have no claims, and I have no people working on claims. I elaborated on that in my testimony before Chairman Bennett. What I am asking the Navy is to reimburse me for defects, and for anything that happened, as my insurance company, not as my customer.

Sir, let me put it this way to you. Up to 1942, I as a shipbuilder used to go out and buy insurance, which we call builders risk insurance. In 1942 the Navy decided to become the underwriters. The Navy decided to go in competition with free enterprise and become an insurance company, and be the risk-taker. They said to me, "Do not buy insurance outside, I will provide the insurance," and they also prohibited us at that time from buying insurance outside. What I am claiming, is not a claim in the sense that you perceive it, sir. This is a claim to reimburse me because they have become the insurance company.

Senator PROXMIRE. Could you tell us how much?

Mr. VELIOTIS. I have said it would be less than \$100 million. I don't have the exact figure. We will be submitting the figure on each ship we deliver. I believe the 698 request for reimbursement will be submitted some time in the next 2 or 3 weeks, but I don't foresee it to be more than \$100 million.

Senator PROXMIRE. Then I take it that you are confirming what you said before. You testified in the House, as I take it, that the total amount that Electric Boat will be claiming will not exceed \$100 million and I understood you to say that again now?

Mr. VELIOTIS. Yes, I am saying that.

Senator PROXMIRE. That is fine.

Mr. VELIOTIS. But you said other "claims." I have no other claims, sir. Other claims are being settled on an on-going basis.

Senator PROXMIRE. Now as part of the 1978 settlement, General Dynamics agreed to absorb \$359 million loss in return for the Navy

paying \$359 million in extra contractual relief. I understand that you sent a letter to the Navy which states that the General Dynamics might try to recover all or part of this \$359 million loss through insurance claims. It seems to me that would violate the spirit of the settlement. What did your letter say?

Mr. VELIOTIS. I don't believe your understanding is correct. I did not send such a letter to the Navy. I testified once and I will testify again, I sent a letter to Admiral Eustace referring to an earlier conversation, in which I was asked if it is our intention to look into the settlement of \$359 million where the insurance claims were involved. A reimbursement request is not against the spirit of the settlement to begin with, because the settlement specifically excludes the insurance items. My answer to that, sir, was that we have been looking into that, and we have not made up our minds if we are going to come and claim reimbursement on events to the date of the settlement or not; so it will not be right for you people to conclude that we would do so.

And after that letter I wrote to Admiral Fowler, I believe it was the 21st of February, or he wrote to me rather, confirming a discussion I had with him on the 20th of February, that we do not intend to pursue it. So I never told him or the Navy that I intended to go back, and reopen the settlement. I said we are looking into that and we haven't made up our minds one way or the other. And then I said we are going to pursue it, and this is our position right now.

Senator PROXMIRE. I want to make sure I understand what you just told me. Do I then have your unequivocal assurance that Electric Boat will not seek recovery of any portion of the \$359 million loss they previously agreed to absorb on the SSN 688 class submarine contracts?

Mr. VELIOTIS. The settlement speaks for itself, and you have my assurance I don't intend to pursue it. This is all I can give you.

Senator PROXMIRE. Would you be willing to give that assurance in writing?

Mr. VELIOTIS. Of course. I have said so to Admiral Fowler, and he can confirm it with a letter. I have no objection to putting it in writing and signing it.

#### CLAIMS FOR FAULTY WORKMANSHIP

Senator PROXMIRE. Now, you first asserted in November of 1979 that the Navy is liable for the cost of faulty workmanship. Why haven't you submitted your claims and doesn't the 1978 settlement call for submission of all requests for contract adjustments within 120 days of the event giving rise to the request and hasn't it been more than 120 days since the steel and welding problems were identified?

Mr. VELIOTIS. Again, you have to differentiate between a claim and an insurance reimbursement request. The Navy is wearing two hats. One hat is that of the customer and the other hat is that of the underwriter. The Navy is my insurance company. The insurance policies which I have say that I have to advise them as soon as I discover that an insured event occurred. Then, when I accumulate my costs, pass them over to them. So what you say does not

apply. The 120 days is for other types of claims, and in those cases I have to give them notice.

Senator PROXMIRE. You think there was no limit to the time in which you can submit the precise claim, that is the amount?

Mr. VELIOTIS. You are talking about insurance, aren't you?

Senator PROXMIRE. 120 days does not limit that? Is that your interpretation?

Mr. VELIOTIS. About insurance, you are saying, sir?

Senator PROXMIRE. Yes.

Mr. VELIOTIS. About insurance.

Senator PROXMIRE. For claims. Claims on faulty workmanship.

Mr. VELIOTIS. We have a differentiation on a claim. A claim can be because of omissions actions or inactions of the government. If I have a claim because of design changes, or, a claim because of government furnished equipment arriving late or not functioning properly then I have to do that within a certain period of time.

Senator PROXMIRE. I am talking about specific claims in November 1979 dealing with steel and welding problems.

Mr. VELIOTIS. Those are insurance reimbursement claims, yes, and we have advised the Navy. I have advised them verbally and I will advise them in writing that we have a situation and we are going to be claiming for reimbursement under our insurance policy, and when the cost is computed we will send it to you.

Senator PROXMIRE. It may be a semantic game, calling a claim insurance and vice versa. This seems to me rather clear, that the request for contract adjustment has to be submitted within 120 days.

Mr. VELIOTIS. Yes, I agree with you but I can only tell you what the cost will be after I finish the work. The cost is not an estimate. We don't settle on an estimate. The cost is something actual, something that happens. I will only know the cost after the work is complete and it is computed. What we do in business, and the Navy agrees, and has approved, is that I will give you notice that I am going to claim for this and that. If you want a ball park estimate I can give you that. When the actual cost is computed, I can submit it, and then we negotiate.

Senator PROXMIRE. Will you give us a ball park estimate?

Mr. VELIOTIS. It will be less than \$100 million and if you ask me how much on the first ship, it will be about \$20 million. I have given that figure.

Senator WEICKER. Thank you very much.

[Witness excused.]

Senator WEICKER. The last witness to appear before the committee will be Mr. Thomas Kiddy, president of the Metal Trades Council of New London, Conn.

Welcome to the committee. You are the fellow who represents the people who are sort of caught between the rock and the hard place here, and so you go right ahead and we will have your statement.

## METAL TRADES COUNCIL, NEW LONDON, CONN.

## STATEMENT OF THOMAS D. KIDDY, PRESIDENT, METAL TRADES COUNCIL, NEW LONDON, CONN.

## MAKEUP OF COUNCIL

Mr. KIDDY. That is correct. I want to thank you for inviting me. I see why you have scheduled me to speak at this point, as you believe in the old saying, save the best for last.

I am the president of the Metal Trades Council and I do represent approximately 12,000 people. The Metal Trades Council is made up of 10 local unions represented by the following internationals: United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry; International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths, Forgers and Helpers; United Brotherhood of Carpenters and Joiners; International Brotherhood of Electrical Workers; Laborers' International Union; International Association of Machinists and Aerospace Workers; International Molders' and Allied Workers Union; Office and Professional Employees International Union; International Brotherhood of Painters and Allied Trades; and the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America.

I also have a prepared statement that I am just going to refer to and it can be read into the record.

## WORK WITH BLUEPRINTS

I have heard of lot of testimony this morning and I would like to comment on some of the questions that were asked that perhaps I can answer. That was on the blueprints from Newport News. I didn't see anyone here who ever worked on a submarine that has ever installed a piece of equipment and I have. I went to work in 1957 as an apprentice pipefitter at Electric Boat and I have been there for 24 years. I have never been laid off and I have never had any time off from work for any reason, other than vacation and sickness and I worked with Electric Boat blueprints for many years.

I will explain a few things about the blueprints. One is that it always has a reference on it and it always refers you to another plan to continue. I guess you could compare it if you went to the library and walked and you wanted to look at a book and you asked the librarian, and she said "I am sorry, we don't know where those books are and you will have to search the library until you find them."

That was an Electric Boat blueprint there. As a pipefitter I belt details. It was a special plan that showed a pipe with a flange connected and the angle of the bend and any considerable bends that it might have, and I belt that. Another craftsman would take that piece of pipe and put it in the boat. There were no details plans from Newport News. You had to scale with a ruler the measurements on the pipe. You had to go on the boat and physically find out how the flange holes fit, whereas on an Electric Boat blueprint accurate measurements were given on details.

And if you had to rotate a flange 45 degrees, it showed you that and the holes on the flange.

#### USE OF ANGLE IRONS

Also, one of the unusual things about a Newport News blueprint was the angle iron. These didn't use angle irons. They had you put two pieces of steel together to make an angle iron. I had never seen anything like that in my life. Electric Boat also uses angle irons. It is much more efficient and much faster. I can go on and on about the problems we had with the blueprints. I guess you could compare it, if you asked Electric Boat today to design an aircraft carrier they would run into the same problems that Newport News did trying to design a submarine.

That happened in the early seventies. In my statement I have said that I believe Admiral Rickover influenced the Navy Department to award those contracts and I believe they were duped, and I believe there was a serious mistake. I would hate to think that right now we are being duped into the same mistake with the three awards of the 688 to Newport News. I think the Secretary of the Navy said he wanted to keep their manpower there so they wouldn't be lost. But with the amount of contracts they have, with submarines and surface crafts I don't see them losing their manpower.

We only build submarines and I think we have to hire 100 people to keep 10. That is how skilled and how highly professional the building of a submarine is. It is not like building a surface craft but the people at Newport News have built submarines and they are still building surface craft and I guess it is like riding a bicycle. You might not ride one for years, but it doesn't take you long to learn how to do it. I don't question their ability to build aircraft carriers, but I think Senator Chafee also said they are the only shipyard in the country that builds aircraft carriers.

I haven't heard any concern about them being the sole provider of aircraft carriers. All I have heard is that they are afraid that Electric Boat as the sole provider of the nuclear Tridents is going to hold them up or blackmail them or whatever. He said, I believe in response to your question, that when you asked if they have got you in the same place or by the shorts, I think, he didn't seem to agree. Yet he is concerned that we as the only builders of Tridents have them by the shorts. The 1979 contract was the first contract that I was involved in, in any negotiations as far as being the chief spokesman for Electric Boat. I have been involved in two others, it was a long extension and in 1975 there was a long strike. I believe recognizing the need, that we needed to continue building submarines, and also being responsible for the needs my people had, we negotiated for the first time in 26 years without an extension and without a strike.

It was a fair and I believe it was the best contract that we have ever negotiated. I think that proves that the people and the union at Electric Boat are responsible and are being responsive to the needs not only of my people but of the needs of the people of the United States in providing defense.

## STATUS OF EMPLOYEES AT ELECTRIC BOAT

I tell you, I wish somebody would come down to Electric Boat and ask some of the people what they think. It is a sad situation when people are not sure how long they are going to work. It really is. You find out that people already are looking for jobs, just in case. It may never happen but they don't know that. If they have a chance to take another job they certainly are going to take it. I don't blame them. The only way to overcome that is to have assurance that there are going to be some jobs in the future. If my people are in trouble, I am in trouble. I am not going to talk about overseas. I had written something about it, that in my opinion it is not feasible.

It has been discussed today. I think the sooner we dismiss something like that the better off we are. I think it is an obvious plan just to add another worrisome problem to a problem that is already big enough without expanding on it. But I know my people work hard. Building a submarine is not like building a car. It is not like building a watch which is complex also, but it is a very, very complex product. I wish you all could see one and I am sure I can't invite you, because I did invite some people and they didn't appreciate that. I remember the Senator making a speech at a launching back in the early 1970's. I believe he dedicated it to his two children. He wanted them to see a safe and strong America. Well, the people there do, too.

I would hope that the Members of Congress would take a long hard look at the problems we have. Certainly the Metal Trades Council is willing to work with anyone to insure the livelihood of our people. I want to thank you today for inviting me and if I can answer any questions I would be glad to.

[The statement follows:]

PREPARED STATEMENT OF THOMAS D. KIDDY, PRESIDENT  
METAL TRADES COUNCIL

MY NAME IS THOMAS D. KIDDY, PRESIDENT OF THE METAL TRADES COUNCIL AND I REPRESENT APPROXIMATELY 12,000 MEN AND WOMEN WHO ARE PRODUCTION WORKERS AT ELECTRIC BOAT DIVISION OF GENERAL DYNAMICS. THE METAL TRADES COUNCIL IS MADE UP OF TEN LOCAL UNIONS REPRESENTED BY THE FOLLOWING INTERNATIONALS: UNITED ASSOCIATION OF JOURNEYMEN AND APPRENTICES OF THE PLUMBING AND PIPE FITTING INDUSTRY; INTERNATIONAL BROTHERHOOD OF BOILERMAKERS, IRON SHIPBUILDERS, BLACKSMITHS, FORGERS AND HELPERS; UNITED BROTHERHOOD OF CARPENTERS AND JOINERS; INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS; LABORERS' INTERNATIONAL UNION; INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS; INTERNATIONAL MOLDERS' AND ALLIED WORKERS UNION; OFFICE AND PROFESSIONAL EMPLOYEES INTERNATIONAL UNION; INTERNATIONAL BROTHERHOOD OF PAINTERS AND ALLIED TRADES; AND THE INTERNATIONAL BROTHERHOOD OF TEAMSTERS, CHAUFFEURS, WAREHOUSEMEN AND HELPERS OF AMERICA.

I APPRECIATE THE OPPORTUNITY TO APPEAR HERE BECAUSE THE PEOPLE I REPRESENT HAVE BEEN UNDULY CRITICIZED IN THE PAST FEW WEEKS AND I AM HERE TO HELP SET THE RECORD STRAIGHT.

TO BEGIN WITH, I FAIL TO SEE THE LOGIC IN BUILDING THE 3 NEW 688'S IN NEWPORT NEWS.

IN THE EARLY SEVENTIES, ADMIRAL RICKOVER INFLUENCED THE NAVY DEPARTMENT TO AWARD CONTRACTS TO THE NEWPORT NEWS SHIPYARD FOR THE DESIGN AND CONSTRUCTION OF THIS NEWEST CLASS OF ATTACK SUBMARINE. ELECTRIC BOAT RECEIVED SOME OF THE 688 CONTRACTS BUT NEWPORT NEWS WAS MADE THE CONTRACTOR FOR THE FIRST SHIP. IN OUR VIEW THE DECISION MAKERS WERE DUPED INTO FOLLOWING A STRATEGY THAT DISREGARDED ELECTRIC BOAT'S EXCELLENT REPUTATION AND PROVEN SUCCESS IN BOTH THE DESIGN AND PRODUCTION OF SUBMARINES. IT APPEARS THAT A PERSONAL VENDETTA AGAINST ELECTRIC BOAT OVERCAME LOGIC. AND WHAT WAS THE RESULT OF THIS "STROKE OF GENIUS"? THE 688'S WERE DELAYED BY NUMEROUS AND SERIOUS PROBLEMS WHICH CAUSED LONG DELAYS AND BURDENSOME ADDITIONAL

COSTS. FOR EXAMPLE, NEWPORT'S BLUEPRINTS WERE POORLY REFERENCED AND EXTREMELY DIFFICULT TO WORK FROM. IN MANY CASES WE HAD TO WAIT FOR NEWPORT NEWS TO RESOLVE DESIGN PROBLEMS THAT ELECTRIC BOAT CRAFTSMEN IDENTIFIED DURING PRODUCTION. AS A RESULT WERE THE SUBS BUILT CHEAPER? WERE THEY BUILT FASTER? WERE THEY BUILT BETTER? THE ANSWER IS AN EMPHATICALLY NO. ON ALL THREE COUNTS.

WE DO NOT QUESTION NEWPORT'S ABILITY TO BUILD AIRCRAFT CARRIERS. HOWEVER, THERE IS A BIG DIFFERENCE BETWEEN AN AIRCRAFT CARRIER AND A SUBMARINE. THERE IS A BIG DIFFERENCE IN THE CALIBER OF CRAFTSMANSHIP AND EXPERTISE INVOLVED. FOR EXAMPLE, YOU WOULD NOT HAVE A SHIPYARD WORKER COMMAND A NUCLEAR SUBMARINE ANYMORE THAN YOU WOULD WANT AN ADMIRAL TO BUILD ONE.

AT A TIME WHEN PRESIDENT REAGAN HAS EMPHASIZED OUR NEED FOR A STRONG DEFENSE AND FOR REDUCING WASTEFUL SPENDING, THE METAL TRADES COUNCIL FINDS IT DIFFICULT TO UNDERSTAND THE AWARDING OF THREE 688 CONTRACTS TO NEWPORT NEWS, IGNORING THE LOWER BIDS OF ELECTRIC BOAT. THE METAL TRADES COUNCIL AND ITS MEMBERS RESENT THE IMPLICATION THAT NEWPORT NEWS IS A BETTER SHIPYARD THAN ELECTRIC BOAT. UNDER THE CIRCUMSTANCES IMPOSED ON US BY THE POOR DESIGN ON THE 688 CLASS SUBMARINES OUR PEOPLE DID A SUPER-HUMAN JOB. FURTHERMORE, ON THE TRIDENTS, WHICH ARE EXTREMELY COMPLEX SHIPS, I DO NOT BELIEVE THERE IS A SHIPYARD IN THE WORLD THAT COULD MATCH OUR PERFORMANCE.

I HAVE NO WISH TO DOWNGRADE NEWPORT NEWS BUT I WILL STATE CATEGORICALLY THAT WE BUILD THE BEST SUBMARINES IN THE WORLD. WE ALWAYS HAVE AND ALWAYS WILL. A PRODUCT SPEAKS FOR ITSELF. THE JACKSONVILLE SEA TRIALS WERE THE MOST SUCCESSFUL EVER FOR A 688 CLASS SUBMARINE --- A GRAPHIC TESTIMONIAL TO OUR OUTSTANDING CAPABILITIES.

I AM ALSO UPSET ABOUT A REPORT THAT ONE OF OUR NATIONAL LEADERS INSINUATED THAT THE TRIDENTS BE BUILT OVERSEAS. FOR ANY MEMBER OF OUR GOVERNMENT TO EVEN SUGGEST THAT THIS BE CONSIDERED IS AN INSULT TO THE AMERICAN WORKER AND TAXPAYER. MANY OF THE PEOPLE I REPRESENT ARE VETERANS WHO HAVE RISKED THEIR LIVES FOR OUR GREAT NATION AND SHOULD NOT BE DEPRIVED -- FOR POLITICAL EXPEDIENCY -- OF THE RIGHT

TO FULL EMPLOYMENT IN THE VERY INDUSTRY WHICH SEEKS TO GUARANTEE AND SAFEGUARD THE SECURITY OF OUR GREAT COUNTRY. I SPEAK OUT FOR THEM AND ALL MY MEMBERS WHEN I SAY WE ARE OUTRAGED AT THIS REPORT. WE HAVE THE FACILITIES, MANPOWER, AND EXPERTISE TO BUILD THREE 688 CLASS SUBMARINES PLUS TWO TRIDENTS EACH YEAR. NO OTHER SHIPYARD, INCLUDING NEWPORT NEWS, CAN MATCH OUR CAPABILITIES. IN ORDER TO MAINTAIN THIS EXPERIENCED AND HIGHLY SKILLED WORK FORCE, ELECTRIC BOAT NEEDS A PREDICTABLE FLOW OF SUBMARINES TO ENSURE SOME DEGREE OF JOB SECURITY FOR OUR MEMBERS AND THEIR FAMILIES.

IN 1979, RECOGNIZING THE DEFENSE NEEDS OF THIS NATION WHILE STILL PROTECTING THE NEEDS AND RIGHTS OF OUR MEMBERSHIP, THE METAL TRADES COUNCIL NEGOTIATED A CONTRACT WITH ELECTRIC BOAT PRIOR TO THE JULY 1 CONTRACT EXPIRATION DEADLINE. IT WAS THE FIRST TIME IN 26 YEARS A CONTRACT WAS SETTLED WITHOUT AN EXTENSION OR A STRIKE AND EVIDENCED THE UNION'S COMMITMENT TO WORK COOPERATIVELY WITH THE MANAGEMENT OF ELECTRIC BOAT TO ENSURE THAT CRUCIAL DEFENSE PRODUCTION REMAINED ON SCHEDULE.

TODAY MY MEMBERSHIP AND I ARE TROUBLED. WE KNOW HOW HARD WE WORK. WE KNOW HOW MUCH PRIDE WE HAVE IN OUR PRODUCT AND WE KNOW THAT OUR PRIDE SHOWS IN OUR WORK. WHAT WE DO NOT KNOW IS THIS -- IN A TIME WHEN SUBMARINES LIKE THE 688 CLASS AND THE TRIDENTS ARE SO IMPORTANT TO THIS NATION'S DEFENSE, HOW CAN WE BE FACING LAYOFFS AT THE COUNTRY'S BEST AND MOST EFFICIENT SUBMARINE SHIPYARD?

I WOULD ASK YOU MEMBERS OF CONGRESS TO TAKE WHATEVER ACTION IS NECESSARY TO REVERSE THIS SITUATION.

I WANT TO THANK SENATOR WEICKER FOR INVITING ME HERE TODAY AND WILL TRY TO ANSWER ANY QUESTIONS YOU MAY HAVE. THANK YOU.

## QUALITY OF WORKMANSHIP

Senator WEICKER. I would like to let you respond. There has been a lot of talk about the quality of workmanship, and I think you have every right in the world to respond to that. There were remarks in the press and you might want to indicate if indeed there is an apprenticeship program or you pick someone off the street and tell them to go to work.

Mr. KIDDY. There is an apprenticeship program and you don't just get picked off the street to be an apprentice. We hire people in at learner steps and the better people that are hired in as learners are promoting the apprenticeship program. You have to have a high school diploma, you have to have certain attendance records and in other words you wouldn't pick someone who missed a lot of time to go into the apprenticeship program. That is to get into the apprentice program.

Senator WEICKER. How do you equate—I never really got an answer to this myself today—the statements of the Secretary that there is no debate as to quality, as you say here, while at the same time in earlier testimony Admiral Fowler obviously challenged the quality. That gets to be a little bit confusing.

Mr. KIDDY. I didn't understand that a lot of the things that the Secretary said. There were things that didn't make sense to me but where it made sense for Newport. He said they would get something at Newport, while we would lose it at Electric Boat. Admiral Fowler has had a pop gun after this started.

Senator WEICKER. In this type of a ship where the possibility is held out that work is going to come to an end and that possibility is held out, don't a lot of your people move to the other facilities? Doesn't it already start to erode the dual capacity which the Secretary is trying to achieve?

Mr. KIDDY. It certainly does. You think some people, even with a hint that there is not going to be work, they leave if they have an opportunity. Shipbuilders, believe me, are pretty specialized people and there is always work available if you are willing to move. Unfortunately a lot of our people have been there for a long time and they have settled down and raised their families and it is really sad when you have to think about someone like that moving.

I have been in Electric Boat when they have been down and we have lost some very, very good people when they were down that never came back. If we had some of that skill today we would be even better off than we are.

Senator WEICKER. Mr. Kiddy, thank you very much for your testimony. We appreciate it.

## SUBCOMMITTEE RECESS

The subcommittee will recess.

[Whereupon, at 1:40 p.m., Thursday, April 9, the subcommittee was recessed, to reconvene at the call of the Chair.]



