



United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-260338

February 13, 1995

The Honorable William J. Perry  
Secretary of Defense

Dear Mr. Secretary:

In December 1994, members of my staff briefed Department of Defense (DOD) and Navy officials on our analysis of the RAND Corporation's Submarine Production Base Study.<sup>1</sup> Some DOD and Navy officials have apparently interpreted our briefing as supporting the construction of the third Seawolf submarine. We think it is important to clarify our position. This letter discusses our position on the study and our prior work addressing the Seawolf and other interrelated nuclear submarine force structure and industrial base issues.

BACKGROUND

In January 1993, DOD asked RAND's National Defense Research Institute, a federally funded research and development center, to compare the practicality and cost of two approaches to future submarine production. The approaches were (1) allowing production to shut down as currently programmed submarines are finished, then restarting production when more submarines are needed, and (2) continuing low-rate production. In September 1994, RAND released an analysis of cost, schedule, and risk for selected submarine force structures.

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<sup>1</sup>The U.S. Submarine Production Base: An Analysis of Cost, Schedule, and Risk for Selected Force Structures, RAND (Santa Monica, Calif., 1994).

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Using DOD's Bottom-Up Review decision to retain two nuclear-capable shipyards, RAND recommended that construction of the third Seawolf submarine be started in 1996 and that the Navy proceed with plans for beginning a new class of nuclear submarines in the late 1990s. Also, RAND examined other scenarios, including the consolidation of nuclear carrier and submarine construction into one shipyard.

RESULTS IN BRIEF

During our December briefing we told DOD and Navy officials that given DOD's decision to retain two nuclear-capable shipyards, which RAND used for its study, RAND's recommendations appeared appropriate. We also told the DOD and Navy officials, however, that there were unresolved issues about the two-shipyard decision that RAND used. Our previous work on submarine force structure and industrial base issues raised several concerns, as the following examples illustrate.

- Until DOD provides the rationale for its assertions concerning "loss of competition" and the need to protect the "long term defense industrial base and national security," the basis for its decision in the Bottom-Up Review<sup>2</sup> to maintain two nuclear-capable shipyards is not clear.
- In view of the affordability problems facing the Navy, we believe DOD needs to give further consideration to alternative acquisition strategies, including those discussed in our October 1994 report.<sup>3</sup>
- Issues about the future threat environment for attack submarines need to be studied and resolved.

We believe these issues need to be addressed and resolved in reaching a decision on construction of the third Seawolf submarine. Thus, any interpretation of our briefing as supporting construction of the third Seawolf submarine is incorrect.

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<sup>2</sup>Report on the Bottom-Up Review, Department of Defense (Washington, D.C., Oct. 1993).

<sup>3</sup>Attack Submarines: Alternatives for a More Affordable SSN Force Structure (GAO/NSIAD-95-16, Oct. 13, 1994).

DOD'S JUSTIFICATION FOR CONSTRUCTING THE THIRD SEAWOLF SUBMARINE NEEDS FURTHER CLARIFICATION

DOD's Bottom-Up Review addressed several issues with respect to the future size and shape of the U.S. nuclear attack submarine force. A key issue involved the need to preserve a long-term ability to build nuclear attack submarines. DOD's Bottom-Up Review identified a problem in maintaining industrial capabilities to construct nuclear submarines as the U.S. submarine force is drawn down in response to the demise of the Soviet threat. Specifically, the Bottom-Up Review raised concerns about the "gap" in construction between the second Seawolf submarine and a new class of attack submarines.

In its Bottom-Up Review, DOD considered several options to avoid the potential consequences of a gap in submarine construction. A key consideration was whether to consolidate all carrier and submarine construction into one shipyard. Under one consolidation scenario, DOD reported that \$1.8 billion would be saved from fiscal years 1995 through 1999 if all nuclear construction were done at one shipyard. DOD said it rejected this consolidation scenario because it was concerned about the resulting loss of competition as well as other long-term defense industrial base and national security needs.

In April 1994 hearings before the Subcommittee on Military Acquisition, House Committee on Armed Services, we pointed out that DOD had not provided the basis for its position.<sup>4</sup> Thus, it was not clear what DOD meant by "loss of competition." For example, only one shipyard currently builds nuclear aircraft carriers and DOD has directed future nuclear submarine work to be done at the other nuclear-capable shipyard. Furthermore, it is also not clear why DOD determined that two nuclear-capable shipyards were needed to protect "the long term defense industrial base and national security."

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<sup>4</sup>Navy Modernization: Alternatives for Achieving a More Affordable Force (GAO/T-NSIAD-94-171, Apr. 26, 1994).

ALTERNATIVE SUBMARINE ACQUISITION  
STRATEGY AVAILABLE TO THE NAVY

In October 1994, we identified alternative acquisition strategies for satisfying the Navy's nuclear submarine force structure requirements. These alternatives would allow the Navy to free up money and still maintain the required minimum force structure of 45 SSNs identified in the Bottom-Up Review. In one example, our analysis shows that if the Navy deferred construction of new SSNs until 2003, approximately \$9 billion could be saved through 2014. While we have not computed the magnitude of the reconstitution costs, some studies, including RAND's, have shown that the estimated costs to restart submarine construction are considerably less than the potential \$9 billion savings. Thus, we believe a deferral strategy is worth further study, especially in today's budget constrained environment.

LACK OF CONSENSUS ON FUTURE THREAT

In commenting on our deferral acquisition strategy, DOD stated that postponing submarine construction until 2003 would not adequately address the threat. However, this strategy would come within 2 years of meeting the Joint Chiefs' requirement for more capable submarines by 2012.

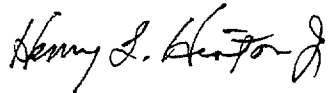
In a 1993 classified report, we addressed U.S. attack submarine missions and operational effectiveness and presented the Navy's assessment of U.S. attack submarine capabilities against potential future threats. We are now studying the Navy's and others' threat analyses to further examine this issue. While details of the threat have been classified, our recent work has disclosed that a consensus does not exist within the executive branch about the nature of the future submarine threat.

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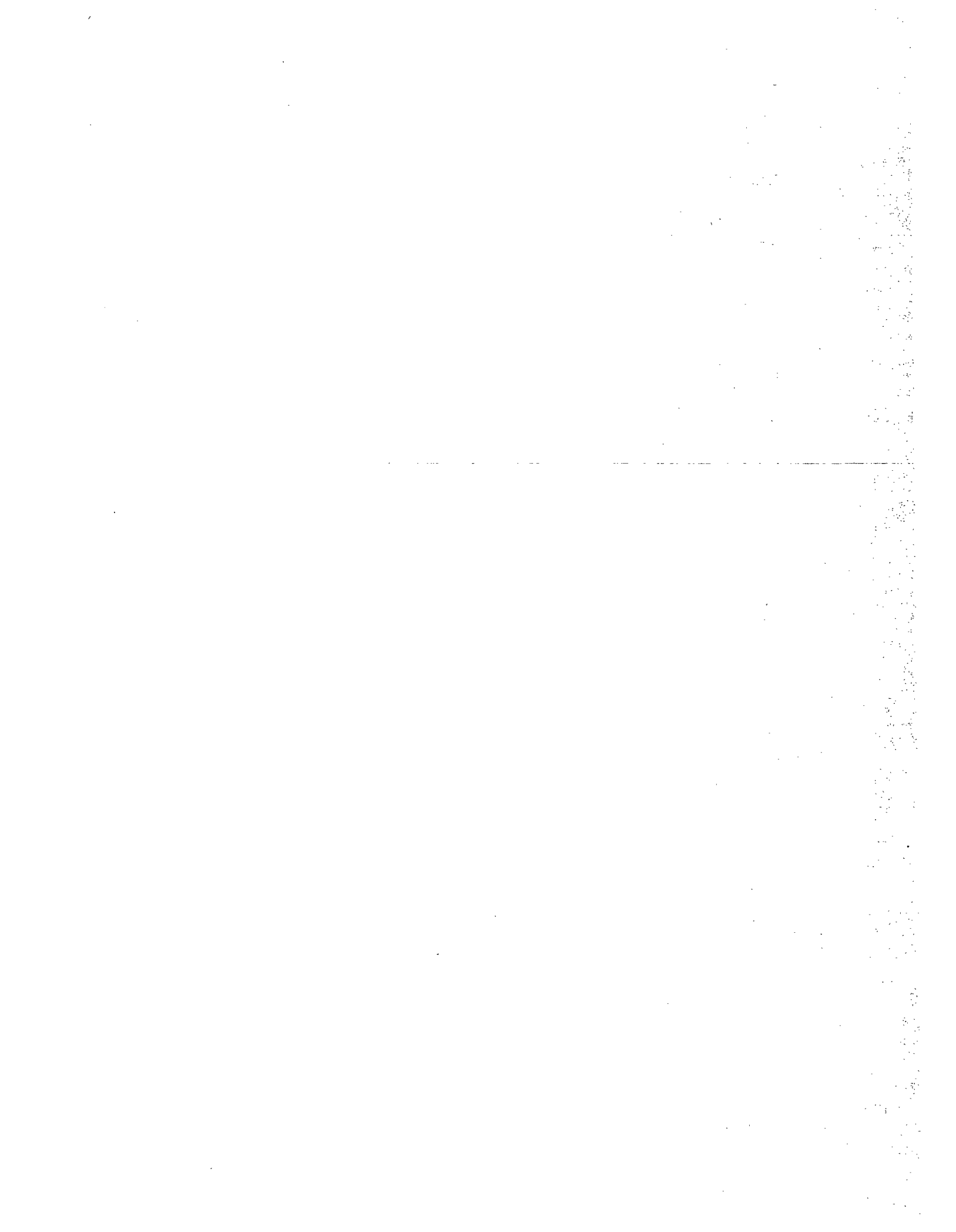
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We trust this letter clarifies our position. We will provide copies of this letter to interested congressional committees and to the congressional delegations expressing interest in this issue. Other copies will be available to interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry L. Hinton, Jr." with a stylized flourish at the end.

Henry L. Hinton, Jr.  
Assistant Comptroller General



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