

There will be no significant additional obligations made under the shipbuilding contract during the next twelve months since the contract is fully funded in the amount of \$3.143 billion. But the shipbuilder will commit funds to subcontractors beyond the \$550 million already subcontracted. The shipbuilder estimates that an additional \$50 million in subcontracts will be committed during the next few months. There will be additional million of dollars subcontracted by the shipbuilder beyond the middle of 1983 but there is no time related estimate for these subcontracts at this time.

Over the next twelve months the Navy estimates that \$400 million will be obligated for GFE in addition to the \$1.4 billion already obligated.

In summary, more than \$4.5 billion of the approximately \$7 billion authorized and appropriated for the CVN 72/CVN 73 program has been contractually obligated as of March 1983. These contractual commitments and liabilities involve hundreds of companies across the nation.

As it does with any shipbuilding contract, the Navy entered into the CVN 72/CVN 73 contract with the aim of obtaining these ships at or below the contract target price and on or ahead of the contract delivery schedule. The contract contains no special provisions for cancellation of either of the carriers. It does include the standard Defense Acquisition Regulation (DAR) provision providing for termination for convenience of the Government, if it is in the best interest of the Government to do so.

The cost to cancel one or both of these carriers is impossible to determine. As evidenced by the hundreds of contracts and subcontracts already awarded under the program, the ripple effect of cancellation in terms of material commitments, employment, capital investment and opportunity costs would be felt by companies in almost every state in the nation.

The impact and contingent liability from cancelling one or both of the CVN's under contract would be substantial. Compounding the problem of trying to estimate cancellation costs is the fact that the order of magnitude of all of these costs is directly related to the timing of the cancellation decision. Even if the decision was made now, the cost to terminate would run in the hundreds of millions of dollars and result in years of claim and counter-claim litigation, "poisoning the well" with regard to future business relationships between the Navy and an important shipyard and component vendors, as claims and counter-claims grind on endlessly through the courts for the next decade.

A summary of the most serious effects that cancellation would have falls into the following key areas:

Delay in achieving the national commitment to a 15-carrier battle group Navy.—Loss of early delivery of remaining CVN. Excellent progress on *Theodore Roosevelt* (CVN 71) will be negated by the expected stretch-out of CVN 71 work due to cancellation of the two additional carriers, leading to a 12 to 14 month delay of CVN 71 delivery and loss of projected savings due to that early delivery.

Permanent loss of substantial multiship construction dollar savings.—In addition to the cost impact suggested above, cancellation of the two fiscal year 1983 CVN's would eliminate the \$750 million savings associated with the series construction plan approved by Congress, negating: improved planning and use of NNS manpower and facilities; reduced non-recurring engineering, planning and grouping costs; economies of scale in material procurements; reduced production gaps and improved productivity achieved through construction continuity; reduced escalation resulting from earlier delivery.

Potential higher costs of other Navy work.—Cancellation of the two CVNs would potentially place substantial additional financial burden on remaining work at Newport News Shipbuilding other than CVNs.

Adverse impact on the marine industrial base nationwide and on Navy/Industry relationships.—Cancellation would have a catastrophic effect on Navy business relations with its largest, most diversified shipbuilder and with major vendors. Just as important, cancellation would be taken by the business community at-large and the shipbuilding industry, in particular, as a lack of resolve by the Government in achieving a 600 ship Navy and in fostering the stability necessary for efficient program execution. This also would result in a serious deterioration of the ship construction and repair industrial base and seriously impact economic recovery in currently depressed industries. The impact on contingent liabilities would be substantial.

The Navy needs these aircraft carriers to regain and maintain maritime superiority. The requirement has not changed; it has not diminished. If anything, the need has increased in view of our understanding today of the threat to our nation's security. The Navy did not award the construction contract for CVN 72 and CVN 73 in anticipation of cancelling the contract at some future time. On the contrary, all