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~~SECRET~~FY 77 NAVY SHIPBUILDING ISSUE

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Background

o The FY 77 Budget presented to the Congress by the President included for the first time a five year plan for naval shipbuilding. At the time of the budget submission, the importance of this subject was recognized and a major interagency review was initiated.

o This review is addressing the maritime threat, U.S. maritime interest, naval missions, U.S. and allied capabilities for achieving our objectives, and possible recommendations for the U.S. shipbuilding program.

o We timed this review so that a FY 77 Budget supplemental could be submitted if appropriate to set the future direction of the U.S. Navy in meeting our objectives.

o However, the House Armed Services Committee action on the President's FY 77 request and the pace of this year's legislation point to the desirability of the President making some near term decisions as to the preferred approach to take on Navy shipbuilding now as initial steps in what will be a more comprehensive program.

o Based on the current status of the interagency review, we can make certain judgements as to the desirability of the initial steps in the comprehensive program.

Overview

o The seas serve the U.S. both as barriers for defense and as avenues to extend our influence abroad. In peacetime we require the seas for commerce and for reassurances of our allies. In wartime, we need the seas to provide sea lines of communication to allies and as bases for projection of power ashore in areas not amenable to land based operations.

o The Soviet Union uses the seas for commerce, for influence of peripheral states and for sea lines of communication to its client states in peacetime. However, the Soviet Union would not be dependent on sea lines of communication for resupply in a conflict with the U.S. and our allies and could, therefore, concentrate its naval forces against sea lanes vital to the survival of our alliances.

o In view of these differing needs, the U.S. and USSR have developed different naval missions and naval force structures:

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-- The U.S. and our allies emphasize the wartime mission of sea control and projection of power ashore and the peacetime mission of naval presence to demonstrate our commitments, enhance our diplomatic influence and to help control crises.

-- By contrast the Soviet Navy and associated naval aviation emphasize a capability to deny sea control by the U.S. and defense against U.S. capability to project power, and more recently the Soviets have increased their use of peacetime naval presence for diplomatic influence of the developing nations. It is expected that as their influence would spread, the Soviet Union would become more dependent on worldwide sea lanes and their Navy would become similar to the U.S. Navy.

o Even through the U.S. Navy is strong and capable today, the U.S. cannot satisfy its maritime objectives in the future if the current rate of ship construction (about 12 ships per year) is followed into the future. The five year shipbuilding plan submitted to the Congress was an initial step to arrest the past trends. However, the most appropriate level, pace of construction, and the specific mix of ships have not been fully reviewed as yet and must await completion of the NSC study.

o There are, however, several directions for the future indicated thus far in the current review:

-- The current missions of the Navy -- defense of sea lines of communications, power projection, and peacetime presence -- will continue to exist into the 1990s.

-- Our allies have an important contribution to make to our collective security and must be relied upon for support of naval operations. In addition, interrelated forces such as long range Air Force aircraft, the U.S. Coast Guard, and "no-cost" diplomatic initiatives could have important contributions to make to the capabilities and cost of the U.S. Navy. These contributions will have a direct effect on the size and mix of Navy ships.

-- Rapidly advancing technology and needs for the future dictate that the future Navy and Navy shipbuilding must be flexible and able to adapt to changing conditions and threat environments. This will have a direct effect on the quality of Navy ships (especially aircraft carriers).

-- There will continue to be a role for aircraft carriers for sea lane defense and power projection into the 1990s, although the exact number has not been decided.

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-- Past and current emphasis on Anti-Submarine Warfare (ASW) coupled with the contribution of our allies has resulted in the President's budget, as presented, being properly balanced with regard to our near term efforts to improve the ASW function for our Navy.

-- Based on the projection of the Soviet naval aviation threat (Backfire and Air-to-Surface missiles) and the potential for proliferation of anti-ship cruise missiles, the budget appears to be inadequate for developing anti-air warfare (AAW) capability for the U.S. Navy.

#### House Armed Services Committee Actions

o The House Armed Services Committee recommendation, in addition to increases of 4 ships at a cost of \$2.24 billion, less \$1.16 billion deferred for ship cost growth payback, proposes significant changes to the mix of ships; in particular it emphasizes nuclear powered ships. The HASC proposes to:

- Add one Trident SSBN and one SSN-688 submarine.
- Accelerate the procurement of a nuclear carrier by one year.
- Delete the conventionally powered Aegis destroyer (DDG-47).
- Cut the guided missile frigate (FFG-7) from 8 ships to 4 ships.
- Add 4 conventionally powered destroyers (DD-963).
- Add long lead funds for 2 additional strike cruisers (CSGN) and funds for the Aegis conversion of the USS Long Beach.
- Add funds to repair the USS Belknap, and
- Add 3 additional support ships (a fleet oiler, a nuclear submarine tender, and a destroyer tender).

o The long range implications of the HASC proposal, if adopted, would be to substantially increase the dollar cost of the Navy to achieve force levels equal to or greater than the current active fleet. If these additional funds are not provided by the Congress, the HASC proposal would lead to continued reductions in force levels in the future.

Alternative 1. Hold to the President's FY 77 Budget Request + USS Belknap Conversion.

-- One could argue that the current FY 77 budget is properly balanced and is an adequate beginning to a modernized Navy.

-- It does not prejudice any of the decisions regarding our future Navy.

-- However, the FY 77 budget could be usefully modified to include the USS Belknap conversion (\$213 million) since we know this action will be required.

Alternative 2. Modify the President's FY 77 Budget by Requesting An Additional \$1 Billion.

-- Increase the number of ships procured from sixteen to twenty-one (21);

-- Request a FY 76/77 supplemental of \$213 million to repair the USS Belknap as soon as possible;

-- Request 4 additional FFG-7 frigates (for a total of 12) and funding to convert the USS Long Beach to an Aegis ship, thus further improving fleet air defense as well as ASW capability;

-- Add one fleet oiler to further improve our capability for extended forward operating periods;

-- Fund 25 ships in FY 78 at an additional cost of about \$1 billion.

Alternative 3. Same as Alternative 2 Except Add Long Lead Funds for a New Carrier (CVNX).

-- Request a FY 76/77 Supplemental of \$213 million to repair the USS Belknap as soon as possible.

-- As in Alternative 2, request funds for 4 additional FFG-7s, the USS Long Beach conversion, and one fleet oiler.

-- Proceed with long lead funding for an additional large nuclear powered aircraft carrier. There is economic rationale to proceed with at least one carrier as soon as possible if a force of greater than 12 carriers is assumed. Long lead funding in FY 77 would permit the start of construction in FY 78. However, peak funding for both the CVNX and strike cruiser would occur in FY 78.

-- Fund 26 ships in FY 78 at an additional cost of \$2.7 billion.

o More importantly, the HASC proposal in general moves the Navy in the wrong direction, given the status of our current review. It:

-- replaces less expensive ships with more expensive ships which do not possess needed mission capabilities (the DD-963 costs nearly twice as much as the FFG-7)

-- reduces the number of shipyards engaged in actively producing major combat ships to three, thus reducing competition and the U.S. production base

-- reduces the pace and level of improvements in fleet air defense capability (DDG-47 and FFG-7) with only a marginal improvement in ASW capability (DD-963)

-- could, depending on the intent of the Congress, require an additional \$5.4 billion in FY 78 to fully fund and continue those ships started in FY 77 (CVNX, 2 CSGNs, Long Beach conversion, 4 DD-963s, and the deferred cost pay-back).

#### Current Alternatives Regarding the FY 77 Budget

o Instead of the HASC proposal, three alternatives are presented for consideration.

o Each alternative presents opposition to aspects of the HASC proposal which would produce a significant shift away from the balanced mix of ships contained in the President's budget. In particular, we should:

-- resist the inclusion of another Trident and another attack submarine (SSN-688) pending further study of the life extension of Poseidon, finalization of SALT provisions, and shipyard capacity for producing nuclear submarines.

-- strongly support the restoration of the less expensive conventionally powered Aegis ships (DDG-47) and guided missile frigates (FFG-7s) in lieu of ASW destroyers (DD-963) and advanced funding for the strike cruiser (CSGN).

-- stand firm on restoration of the \$1.2 billion for ship cost-growth payback.

o Other aspects of the HASC proposal in which we concur are noted in the alternatives.

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Deferred Issues

o The Trident production rate issue is to be deferred pending further study on the life extension of Poseidon beyond 25 years and SALT finalization.

o The ultimate size of the carrier force is deferred. If the decision is to remain at a 12 carrier force level, no new construction need be started. If the decision is to build up to 14 carriers or more, the current five year plan (providing for two additional carriers starting in FY 78) is adequate to support that force level into the 1990's with Service Life Extension Programs (SLEP) on the current carrier force. However, carrier costs could be reduced by providing long lead funds in FY 77 vice FY 78. If the SLEPs result in only 10 year life extension, the decision on an additional carrier beyond those two in the current plan need not be made until FY 87.

o The pace of building and ultimate force levels of Navy ships need not be decided now. We will return to the Congress at a later date with a definitive plan for our Navy and our shipbuilding efforts.

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FY 77 SHIPBUILDING PROGRAM OPTIONS

(Numbers show -- Quantity of Ships Procured/Costs in Millions)

<u>Ships</u>	<u>President's Budget</u>	<u>HASC Action</u>	<u>Alternative 1 Changes from Pres. Budget</u>	<u>Alternative 2 Changes from Pres. Budget</u>	<u>Alternative 3 Changes from Pres. Budget</u>
Trident	1/\$792	2/\$1520	-	-	-
SSN-688	3/\$959	4/\$1316	-	-	-
Carrier (CVNX)	-	0/\$350	-	-	+0/\$350
Strike Cruiser (CSGN)	0/\$170	0/\$302	-	-	-
Aegis Destroyer (DDG-47)	1/\$859	-	-	-	-
USS Long Beach/Aegis	-	0/\$371	-	+ 0/\$371	+0/\$371
DD-963	-	4/\$940	-	-	-
Frigate (FFG-7)	8/\$1180	4/\$590	-	+ 4/\$521	+4/\$521
Support Ships	3/\$637	6/\$1235	-	+ 1/\$103	+1/\$103
USS Belknap	-	0/\$213	0/\$213	FY76/7T	FY76/7T
Claims/Cost Growth	\$1694	\$541	-	-	-
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Total Ships	16	20	16	21	21
Total SCN Costs (\$ Millions)	\$6,290	\$7,378	\$6,503	\$7,285	\$7,635
Changes from President's FY 77 Budget (\$ Millions)		+\$1,088	+\$213	+\$995	+\$1,345

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