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A Litton Ship Systems Company - MARAD Speech – April 5, 2000**

"Marketing of U.S. Shipbuilding Strengths & Expertise"

Ladies and gentlemen, I have just a few words to offer concerning the Marketing of US Shipbuilding Strengths & Expertise. I would like to make some observations that will hopefully fall on the open minds and ears in this room, including the Administration and members of industry who have shown their interest in this subject by attending this session today.

I will first address what I consider to be some of our strengths and weaknesses, and then I would like to address some of the processes that I think we should concentrate on to improve our situation.

One of the strengths of the U.S. shipbuilding industry is our ability to recognize and harness the latest technological advances in the industry and our ability to build high quality ships.

U.S. Shipbuilding is done in a high tech environment. No longer are drafting tables out in the yard. No longer do we guess at the length of a piece of pipe or wiring. Each step, each part, is calculated, modeled, and assembled on a computer screen before one piece of steel is ever cut.

Litton Ship Systems, as well as some other U.S. shipyards, uses advanced 3D modeling and design software and the latest communications equipment. Most of us have a team of in-house personnel searching for better ways to improve our processes and techniques. Improving processes and techniques is important to achieve increased competitiveness. Everyone, including foreign shipbuilders and both domestic and foreign operators, should recognize that the defense of the free world depends on this precision.

The defense of the free world – a statement that is simple to say but that cuts to the very core of the U.S. shipbuilding industry's mission. It's what we do. It's our business, our mission, and our patriotic duty. But that clearly doesn't limit us to destroyers, combatants and amphibious assault ships. It also means cargo ships, container vessels, crude oil carriers, product carriers, and chemical carriers. The specialized high value added class of vessels. These ships provide the U.S. with a self-sufficient, economic and capable marine industry. An industry that includes operators and owners, shipbuilders, ship repairers, and vendors. This is our contribution to the international shipping industry. To keep the shipping lanes open for free and fair trade. We must all realize that a good, strong, cost-efficient shipbuilding industry compliments the U.S. Navy's shipbuilding programs by providing a low overhead structure and a stable workforce.

A strength that we at Litton Ship Systems pride ourselves on is our commitment to the owners. We make it a high priority to regularly communicate with the owners and work in a teaming fashion. We also maintain contact with the owners even when they do not have a shipbuilding program and even when the yard is full. This practice would be best adopted by other yards.

Too often companies cut overhead by laying off the Marketing Dept. They see Marketing's primary function is to keep the yard full, and, once that is done, they no longer see a need to maintain the marketing task until it is absolutely necessary again. Then they are out of the market and forgotten.

When the company does run out of work, more time and money is spent reintroducing the company with new personnel – people who are unfamiliar with your history, facilities and capabilities. In these prosperous times, Marketing Departments can be a good benchmark check for those personnel concerned with executing the current backlog and are unable to visit other shipyards to see alternative ways of accomplishing similar tasks.

Marketing personnel can, and should, be the hub of many activities apart from filling the yard: market research, benchmarking, and facilities analysis are just a few areas that should be among the responsibilities of shipyard marketing groups.

What are our weaknesses? First and foremost, our lack of experience in the domestic and international commercial markets has caused us to lag behind in the world-wide shipbuilding arena. Shipyards have to be willing to change and they must recognize that change is not easy but it is necessary to improve competitiveness. Unless we begin to recognize the enormous opportunities that exist, and make the necessary changes to increase our competitiveness, we will always limit ourselves to only those owners who can go nowhere else.

This weakness leads us right into our next weakness: we spend too much time with our one customer, the Navy, and very little time on attracting alternative business, which in the long run would support our primary customer. This is not said to diminish the importance that we place on our primary customer. However, there are tremendous opportunities that are right here, today, in the U.S. for commercial shipbuilding projects that we often overlook. The problem arises when we end up with an inconsistent or uneven workload in the yard, thereby causing swings in employment and inefficient production techniques and performance.

How do we solve these problems? What can we do at this point? First, we need to be proactive. It's time to stop waiting for things to change, and to go out there and change them. Go out and get to know your customer and develop relationships that will last for a long time.

As I said earlier, during the last decade, with very few exceptions, the U.S. shipyards have not been actively searching the international or domestic market for commercial contracts. There are several reasons for this. Clearly, we have both a competitive problem in the international arena and, after Newport News withdrew from commercial shipbuilding, a credibility problem in the eyes of the world.

Collectively, I believe we need to work together towards becoming more competitive in the high tech niche markets - as no one would suggest that the US could ever compete with the Far East tanker and bulk carrier market. As far as credibility is concerned, we need to take a good hard look at re-amalgamating our industry as a whole to speak with a common and proactive voice on maritime affairs both in the domestic and international market. Such cohesive action would provide a new focus on our industry, both from within and without.

We should support realistic Maritech ASE programs that would encourage technical innovations in the shipyards. Sharing of new technologies through this government program would assist the entire industry. The clear result would be increased productivity, thus greater competition and a better value for the US taxpayers. You see, our industry is too small for each yard to duplicate this work. And we need to drastically improve our competitive positions to support the shipbuilding capacity needed over the next two decades.

Once we are more competitive, let's use the embassies and trade commissions overseas to foster and support U.S. shipbuilding programs. I have personally experienced this offer of help. Although the assistance is often offered from inexperienced embassy staff, they are willing, and empowered, to help. Why don't we channel their willingness into genuine help – they can open doors were we have no opportunity of reaching. Just don't expect them to do your selling for you, you have to focus their energies.

Government agencies can also help us – if we only ask. Don't write off the influence of State, Marad, Energy, and Defense Departments. Don't underestimate their ability to exert some influence on the country or foreign agency involved. But again don't expect them to do your selling for you, you will need a well thought out strategy and a detailed plan. I believe that foreign aid should be DIRECTLY tied to SPENDING the aid in the US. I would like to see a percentage of every dollar of foreign aid earmarked for spending back in the US. Other countries do, how can we make it happen here?

A mention of material costs. The Millennium Class 140,000 dwt tanker that is currently under construction at Avondale has a cost for material that is more than it costs to build a VLCC in Korea. We should concentrate on and work together toward reducing material costs.

Litton Ship Systems and Alabama Shipyards have looked at and succeeded in higher value added ship types: Complex chemical and product tankers, crude carriers with fully redundant propulsion, and now cruise ships - probably the most value added product in our industry. These are the niche markets that we should spend our energies on.

In conclusion, let's remember our strengths:

- Continue to use technology as a tool for continuous improvement
- Be firm in our commitment to owners
- Be flexible in the prosperous times
- Continually concentrate on productivity improvements

If we focus on correcting our weaknesses by getting experience in the commercial markets, and not limiting our customer focus to just government work, our success story will tell itself. In addition, we will be assisting our primary customer, the Navy, by providing more cost effective military vessels.

Litton Ship Systems' slogan is: Building Freedom, One Great Ship at a Time. It applies to us all. Freedom from military oppression, freedom from restricted trade, freedom from pricing ourselves out of the world market.

Thank you.