

Meetings were then held between the Assistant Secretary of the Navy and a vice president of the firm during June, July, and August of 1967.

As a result of these negotiations, the firm finally agreed to proceed with the work and to use their best efforts to provide the equipment in time to meet the Navy requirements. However, the firm then insisted on special contract arrangements which would limit the normal rights of the Government in areas of inspection, quality control, and equipment variation.

I advised the Assistant Secretary of the Navy that he should not agree to these limitations, and again requested that he obtain a directive in accordance with the provisions of the Defense Production Act. I was told there would be no directive and that the Navy would have to negotiate whatever agreement could be reached with the firm.

Because the Department of Commerce refused to issue the necessary directive, the Navy was forced to accept less than its normal rights in the production of equipment needed for national defense. This is contrary to the provision of the Defense Production Act that Mrs. Sullivan read a few minutes ago.

Mrs. SULLIVAN. Admiral, where does this matter stand at the present time? Are you getting the equipment you need?

Admiral RICKOVER. Preliminary design and development work finally started in August 1967. However, this work is proceeding at the Government's risk without a negotiated price and delivery schedule. The firm involved has agreed to design and manufacture this equipment but they have special contract provisions I previously mentioned that limit the normal rights of the Government with regard to inspection, quality control, and rejection of equipment variations. In order to get on with this urgent defense program, the Navy was forced to accept these special provisions.

Mrs. SULLIVAN. You said that you wrote the Assistant Secretary of the Navy recommending against accepting less than its normal rights?

Admiral RICKOVER. Yes, ma'am. I will quote the pertinent paragraphs from my memorandum.

The supplier states that the basis of his insistence that the Government's standard requirements for interpretation of specifications, inspection, quality control and equipment variations are not acceptable for turbine procurements is that the contractor's obligation is "open-ended" under these standard requirements. The supplier insists that the Government's standard rights be restricted, so that it is assured it will be adequately compensated for its efforts. However, acceptance by the Navy in the contract of the supplier's proposed limitations on the standard rights of the Government would permit the supplier to establish an undesirable precedent in procurement of Navy equipment.

I, therefore, recommend that the contract include the Navy's existing standard requirements for interpretation of specifications, inspection, quality control and equipment variations which the supplier has accepted in the past. It should be recognized that the Navy has always been willing to pay for the protection afforded by these provisions; this is one of the major reasons that Naval equipment costs more than commercial equipment.

I realize the difficulty in obtaining agreement with the supplier on this matter and appreciate your earnest efforts. However, I cannot look with equanimity on having a contract for naval equipment for which I have technical responsibility be used as a medium for derogating Navy equipment. The equipment under consideration is for a military submarine where the importance of maximum reliability and safety is obvious. A submarine by its very nature requires maximum reliability and safety. The consequences of failure of propulsion equipment in a combatant ship in time of crisis cannot be compared with the consequences of failure of commercial equipment. It would be, therefore, unconscionable for me to acquiesce in the proposed agreement; and would also constitute a shirking of my responsibility to the United States and to the officers and men who will serve in this submarine.