

**STATEMENT OF  
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BEFORE THE  
HOUSE ARMED SERVICES COMMITTEE  
SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES  
ON  
24 JUNE 2004  
CONCERNING  
SMALL CALIBER AMMUNITION**

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Before the  
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**U.S. House of Representatives**  
**June 24, 2004**

Mr. Chairman and distinguished Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss small caliber ammunition production and operations at the U.S. Army's Lake City Army Ammunition Plant (Lake City).

I am Karen Davies, the president of Alliant Lake City Small Caliber Ammunition Company, a position I have held since April 2002. ATK (Alliant Techsystems) competed for and won the contract to supply the U.S. Armed Forces with all of its 5.56mm, 7.62mm, and .50 Caliber ammunition requirements beginning in April 2000. As a part of that award, ATK is responsible for operation of Lake City. Since we took over management of the plant, we have worked closely with the Army to bring production up to the levels we are now achieving. We are continuing to increase production at Lake City in order to meet additional requirements.

When ATK became the operator of Lake City a little over 4 years ago, the plant was producing approximately 350 million rounds of small caliber ammunition a year. Requirements and production had steadily declined following the end of the Cold War and downsizing of the military in the 1990's. Those reductions drove decisions to close buildings and mothball equipment to reduce operating costs. In the last four years, ATK has nearly quadrupled the plant's production, and in 2004, we will produce in excess of 1.2 billion rounds of small caliber ammunition at Lake City. This success is the result of the Army's late 1990's acquisition strategy focused on incentivizing industry through a long-term contract with the transfer of risk and return to the contractor, as well as ATK's commitment to meeting the Army's requirements. It is a model of government/industry

partnership that has reduced the price of each round of ammunition, saving the taxpayer \$300 million during the first five years of ATK's contract.

An excellent example of how ATK and the Army have worked together to increase deliveries while ensuring the highest quality ammunition for our troops is 5.56mm production. 5.56mm is the primary round for our soldiers and is used in the M16 and M4 rifles as well as other gun systems. The best available forecast at the time the contract was awarded in 2000 called for 370 million rounds a year. Today, we are producing more than 1 billion 5.56mm rounds per year, with capability to increase that quantity if needed.

We have achieved this growth through a strong partnership with the Army and support from Congress. Both the Army and ATK have invested capital and resources in Lake City to meet the military's growing needs. We have used modernization funding specifically designated for such purposes by this Subcommittee and Congress. We have reactivated buildings, brought equipment out of layaway, purchased new equipment, repaired and rebuilt the infrastructure of the plant, brought on new suppliers, revitalized preventative maintenance, established strong floor management tools, and most importantly, added and trained people to do the work.

When ATK began operating the plant in April 2000, the facility employed a total of 650 people. We have since hired more than 1300 people, bringing today's headcount to 1950. In addition to the people in the factory who are making and testing the ammunition and maintaining the equipment, we have hired skilled engineers and management professionals who are running the plant, documenting and improving the manufacturing and maintenance processes, and managing the supply base. We have

instituted both Six Sigma and lean manufacturing disciplines to improve the operation of the plant, and we have hired several manufacturing and maintenance consultants who have helped us implement best practices.

ATK manages 1800 suppliers who deliver materials to Lake City, working almost exclusively within the U.S. industrial base, to meet the increased need for ammunition. We have only four non-domestic suppliers, one of which is Canadian. We've successfully qualified 34 new suppliers to reduce risk and produce increased quantities. In other businesses within the corporation, ATK manufactures ammunition for law enforcement, homeland defense, and sport shooting enthusiasts. Together with our two sister commercial ammunition businesses (Federal Cartridge and CCI/Speer), we manage materials and supplies which are common to both commercial and military ammunition. Proactive management of the supply base is critical and requires constant attention, particularly with various capacity issues and current world economic conditions which impact availability of key raw materials such as steel, copper, and lead.

As the largest manufacturer of small caliber ammunition in the world, ATK is uniquely positioned to understand the entire landscape of the industrial base and manage it accordingly. One example was the near crisis in the supply of steel links used to belt ammunition for use in automatic weapons. Two suppliers manufactured links during the 1990's. The combination of reduced procurements and the inability to economically upgrade their aging operating equipment resulted in one supplier exiting the business in 2001 and the other announcing their intent to exit, leaving the small and medium caliber ammunition industry without a U.S. mil-spec link supplier.

The Army and ATK proactively worked toward a solution that resulted in ATK agreeing to purchase one supplier's business to prevent further shortages of this key component. The links manufacturing operation was relocated to Lake City under the ARMS (Armament Retooling and Manufacturing Support) program. ATK began operating the business in October 2001. Over the next year, ATK and the Army rebuilt the links supply base. This included reverse engineering of inadequately documented designs, redesign of poorly maintained and poorly controlled equipment, establishment of tool and die capability to support ongoing production, and hiring and training of a links manufacturing team. Our links operation is now healthy, and has the capability and capacity to support the expected requirement surge.

### **Lake City Capacity**

I would like to address what has been a misnomer in many of the national stories reporting on the "shortage of capacity" for small caliber ammunition. I suspect it is part of the reason we are here today, and I want to emphasize that ATK is ready, willing, and able to increase production at Lake City, or elsewhere, in support of emerging small caliber requirements.

ATK Lake City is currently producing at a rate of 1.2 billion rounds per year. The 1.2 billion is often incorrectly referred to as the capacity of Lake City. Actually, the 1.2 billion figure is a result of a pricing arrangement in the Army/ATK contract. The specific mix of rounds required by the Army also impacts the total quantity that can be produced. As our workforce gains experience and our investments in improved management controls and enhanced preventative maintenance mature, we continue to improve output

of the plant. We are confident that we can exceed the 1.2 billion round production rate in support of the Army's future requirements.

We can very quickly increase wartime output at Lake City from today's 1.2 billion round rate to 1.35 billion by staffing equipment already on the factory floor to a five-day-per-week, 24-hour operation. This is achievable within 6 to 12 months. In addition, we are working with the Army to execute relatively minor expansion activities that allow us to increase output within the basic footprint of the currently active operating buildings. This will provide full annual delivery capability of 1.5 billion rounds by March 2006. This provides very affordable surge capability.

ATK is aware of the Army's acquisition strategy for the next several years' potential surge to 2 billion rounds per year. We will respond to the Army's RFP for a system integrator who could provide up to 300 million rounds per year manufactured at locations other than Lake City. We will draw on other ATK-owned ammunition facilities, as well as other sources, to support this need. In addition, we are estimating the schedule and cost of bringing Lake City capability to 2 billion rounds per year for evaluation by the Army should they desire a backup to the current acquisition strategy.

These volumes are not without precedent. Lake City produced in excess of 2 billion rounds per year during World War II and Vietnam, and the plant produced 1.5 billion rounds a year during the Korean conflict. Although some of the equipment and one of the buildings used during those eras would need to be modernized and/or replaced to reach a full 2 billion rounds, the plant still has the basic infrastructure required to deliver to those rates.

## **Modernization**

Before I conclude, I would like to add some thoughts on the issue of modernization. Independent of the next few years increased need for ammunition, the equipment at Lake City is in need of modernization. The majority of equipment used to make 7.62mm and Cal. .50 originated in the 1940's. The process is heavily operator-dependent, and the equipment has little flexibility to shift between calibers. The primer factory is very labor intensive, with limited automation in either the manufacture or inspection of the primers. The 5.56mm equipment is somewhat newer and more automated. It was updated in the late 1970's, and it remains the workhorse of the plant in terms of volume. However, the equipment uses a 1980's vintage computer control system, and it is increasingly difficult to find spare electronic parts.

Modernization at Lake City is the most cost effective way to insure adequate supplies of mil-spec ammunition to our Armed Forces in the future. Were one to consider establishing a manufacturing location other than Lake City, we estimate that infrastructure alone would cost approximately \$400 million and would require several years to permit, prepare, design, and build. This is in addition to the cost of equipment and process improvement that must be accomplished regardless of the plant's location.

The help provided by Congress the past two years has allowed critical modernization efforts at Lake City to begin. Important steps to improve the quality and reliability of small caliber ammunition have already been accomplished. The action taken thus far by the defense oversight committees on the FY2005 defense budget recognizes the importance of continuing these efforts and helping to insure that Lake City

will be able to meet the small caliber ammunition requirements of the Armed Forces, not only now, but also in the future.

**Conclusion**

All of us at ATK are extremely proud to supply our Armed Forces with the advanced weapons and ammunition they need to fight the global war on terrorism. We are particularly proud to have partnered with the Army to play an instrumental role in restoring the small caliber industrial base. I want to assure this Subcommittee of our commitment to providing the nation's war fighters with the highest quality small caliber ammunition. I would be pleased to respond to any questions you may have.