

Testimony of Matthew Paxton  
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Before the Subcommittee on Coast Guard and Maritime Transportation  
House Transportation and Infrastructure Committee

***“Examining the State of the U.S. Merchant Marine”***

9:30 a.m. on Wednesday, September 10, 2014  
2167 Rayburn House Office Building

On behalf of the Shipbuilders Council of America (SCA), I would like to thank Chairman Duncan D. Hunter and Ranking Member John Garamendi for the opportunity to provide an overview and status report on the domestic commercial shipyard industry.

SCA is the national trade association representing the shipyard industry. Members constitute the shipyard industrial base that builds, repairs, maintains and modernizes U.S. Navy ships and craft, U.S. Coast Guard vessels of all sizes, as well as vessels for other U.S. government agencies. In addition, SCA members build, repair and service America's fleet of approximately 40,000 commercial vessels. Members also include those companies comprising the critical supplier base by providing good and services to shipyards.

The shipyard industry is a vital component of any robust merchant marine capability, and today I am pleased to inform the committee that the state of America's commercial shipyard industry is the strongest it has been in decades. Today, the American shipyard industry represents a strong manufacturing sector contributing hundreds of thousands of jobs and billions of dollars to the economy. According to a recent report by the U.S. Maritime Administration, the shipyard industry supports 402,010 jobs in all 50 states, represents \$23.9 billion in labor income, and

contributes over \$36 billion to the GDP. In 2012, U.S. shipbuilders delivered 1,260 vessels of all types. In fact, it is important to point out that on average over the past 4 years; American shipyards deliver approximately 1,300 vessels per year.

Moreover, shipyards have a big impact on their local communities and the country at large. With over 300 facilities located in 27 states, and a supplier base that can be found in all 435 Congressional Districts, each direct job leads to another 2.7 jobs nationally. Each dollar of direct labor income leads to another \$2.03 in labor income in other parts of the economy, and each dollar of GDP leads to another \$2.66 in other GDP. The men and woman who are employed by the shipyard industry are highly skilled, and in 2011 the average labor income per job was approximately \$73,630 . That salary is 45% higher than the national average for the private sector economy (\$50,786).<sup>1</sup>

Shipyards are busy, competitive and have innovated in several markets, including the offshore oil and gas industry, to the point that several companies are building their vessels here for export. In fact, exports have strengthened in recent years, rising to \$539.1 million in 2012, and combined over the past ten years the industry has run a trade surplus of \$410 million.

Much of the growth in the commercial shipyard sectors has been a response to the country's shale oil and natural gas revolution. Vast domestic abundance, coupled with new extraction methods, has had major impacts on supporting transportation infrastructure. The result has been a boom for shipyards, who are currently building out 19 (options included) large petroleum product carriers representing billions of barrels new capacity for coastwise

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<sup>1</sup> *The Economic Importance of the U.S. Shipbuilding and Repairing Industry* Maritime Administration (MARAD) May 30, 2013

transportation. These vessels are both self-propelled and articulated tug/barge units; however the inland and coastal barge market is also strong, with 341 tank barges delivered in 2013, up over 250 in 2012. If this testimony were delivered just 3 short years ago, the picture would not be as rosy.

At the same time, due in large part to coming emissions control regulations, U.S. shipyards currently have seven (including options) containerships on order to serve the non-contiguous domestic trades. All of these vessels, and several of the petroleum product carriers, will be powered by liquefied natural gas (LNG) or will be LNG conversion ready. American shipyards are world leaders in this respect. The world's first LNG powered containerships (and thus the most environmentally friendly ships of this type) are currently constructed at General Dynamics NASSCO in San Diego, CA, with the first ship scheduled to be delivered early next year.

Both the construction affiliated with the domestic energy revolution and the recapitalization of the non-contiguous fleet are recent new markets. However, the continued boom of shipbuilding and ship repair associated with the offshore oil and gas sector in the Gulf of Mexico is equally important. With roughly 4,000 offshore oil and gas platforms in the Gulf of Mexico there has been steady shipbuilding and repair for all the supporting workboats. In 2013, shipyards entered into 111 contracts for offshore oil and gas support vessels. As a result of this strong order book, the U.S. is now a leader in innovative and complex dynamic positions workboat shipbuilding, so much so, we now build for international markets exporting these vessels to work worldwide. Additionally, the industry continues a steady stream of building

tugboats, ferries, patrol and fire boats, as well as other craft. All these vessels provide important merchant marine jobs which contribute the eyes and ears of the waterfront and waterways, a national security success.

Commercial vessel construction represents billions of dollars in investments each year, underscoring the importance of maintaining the Jones Act, a law SCA cares deeply about. The Jones Act ensures that vessels traveling from domestic point to point must be domestically built, as well as crewed and owned by Americans. Each dollar invested in new commercial vessel construction is done so with the understanding that the Jones Act is the law of the land, so it is absolutely critical that any attempts to undermine the law are not entertained, which includes unnecessary waivers.

The Navy and Defense Department strongly support the Jones Act because of its important national security benefit, and as recently as March, 2013, the GAO found that the Jones Act plays an important role in American national security, is a critical source of seafarers in times of crisis, and helps ensure an essential shipyard industrial base.<sup>2</sup> GAO said that the American fleet's contribution to maintaining a shipyard base is particularly important now because of budget reductions for military vessel construction. This point rings especially loud as many shipyards are highly diversified, building both commercially and for the government, utilizing a shared supplier base.

Providing the type of stability and certainty the Jones Act affords is important to an industry like shipbuilding and repair that is highly cyclical. While the current snapshot of the

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<sup>2</sup> <http://www.gao.gov/assets/660/653046.pdf>

commercial sector is positive, government shipbuilding and repair faces budget uncertainty and the reality of sequestration. Nevertheless, shipyards that build for the Navy, Coast Guard, NOAA, Army and other agencies maintain a stable skilled workforce and supplier base when building commercially.

Before closing, I do want to mention another challenge. The shipbuilding industry, like so many other manufacturing sectors, faces an aging workforce. Attracting a younger generation towards a career path inside the shipyard is increasingly difficult as more and more a 4-year college degree is the norm. SCA has recently set up a workforce development committee to begin to address the issue, and we look forward to discussing workforce development in any future national maritime strategy.

Today, the state of commercial shipbuilding is strong relative to the past decades; however SCA is looking ahead for new market opportunities. In conclusion, SCA certainly appreciates this committee's support of the Jones Act and efforts to grow the industry. SCA also appreciates this committee's efforts to raise the visibility of the domestic maritime industry as a whole by advancing the conversation for a national maritime policy. We look forward to continuing to work with you in these discussions.